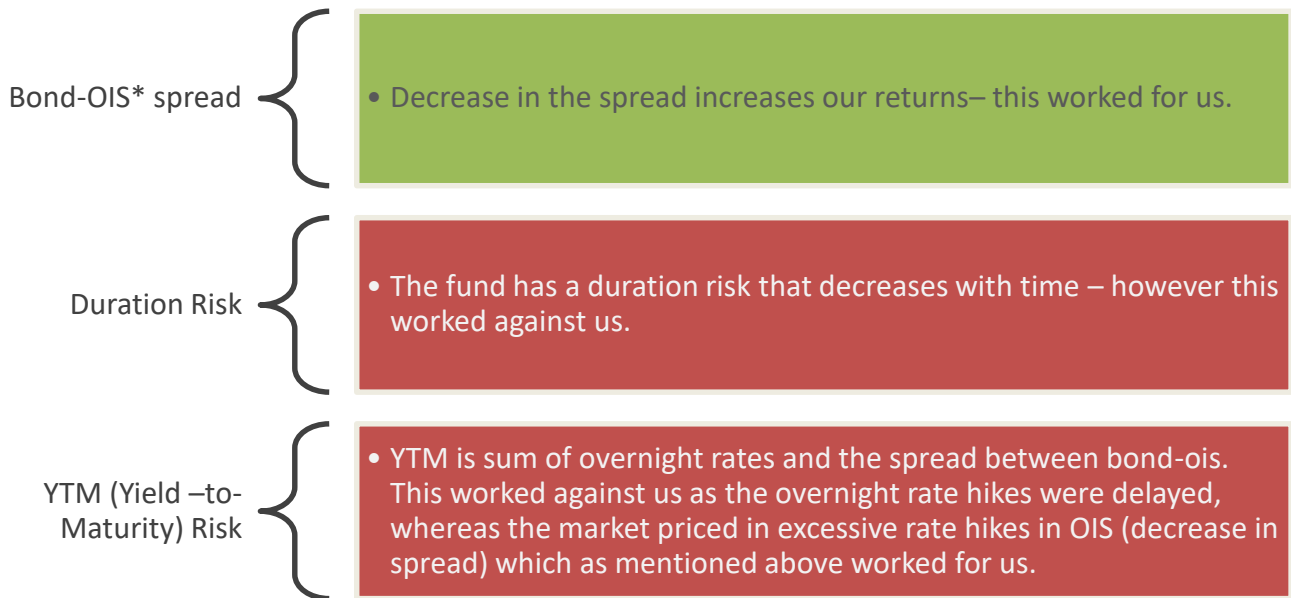
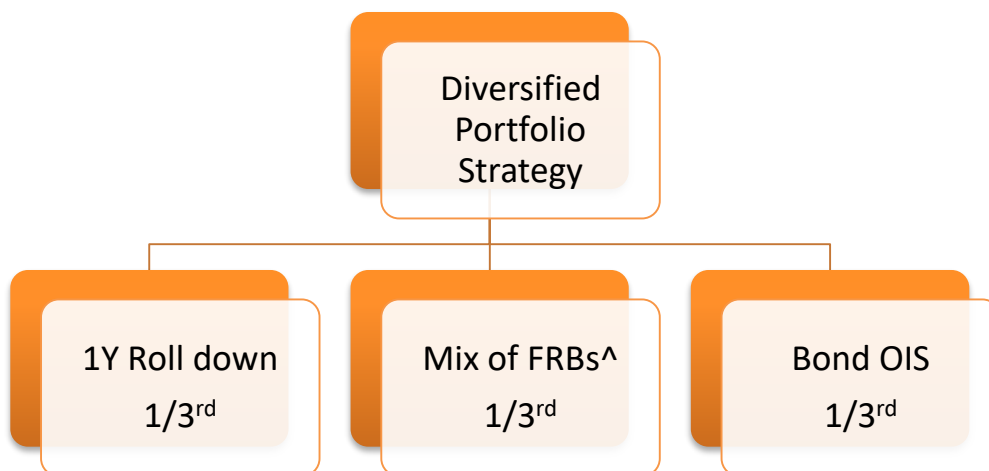


Why our DSP Floater fund underperformed?



What now?

We intend to diversify our fund positioning to reduce volatility through uncorrelated positions which may help overall fund perform well in case of rising rate scenario.

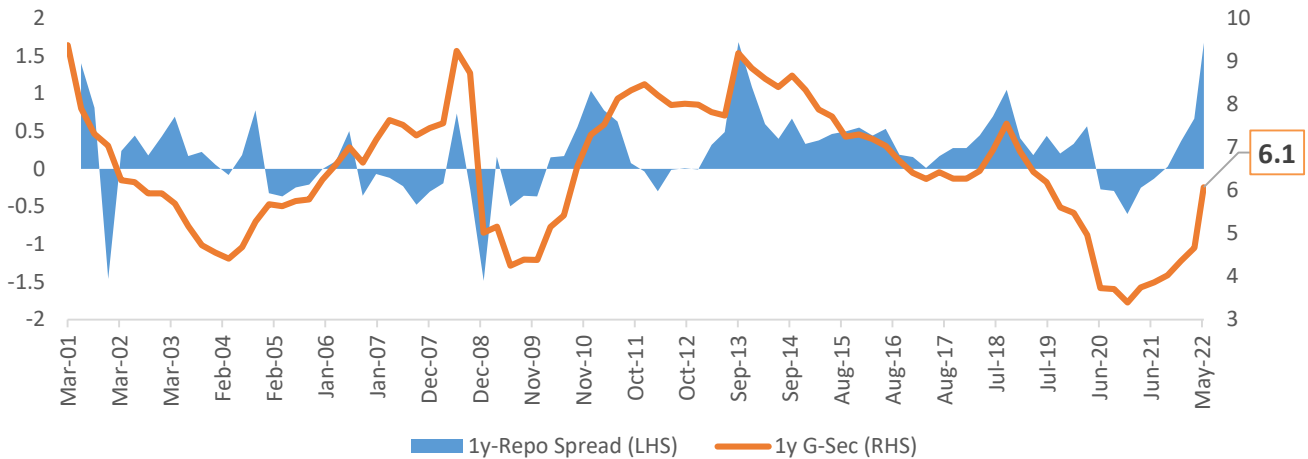


The investment approach / framework/ strategy / portfolio / other data mentioned herein are dated and currently followed by the scheme and the same may change in future depending on market conditions and other factors.

*^FRBs- Floating Rate Bonds ; *OIS – Overnight Index Swap*

❑ 1-year roll down assets:

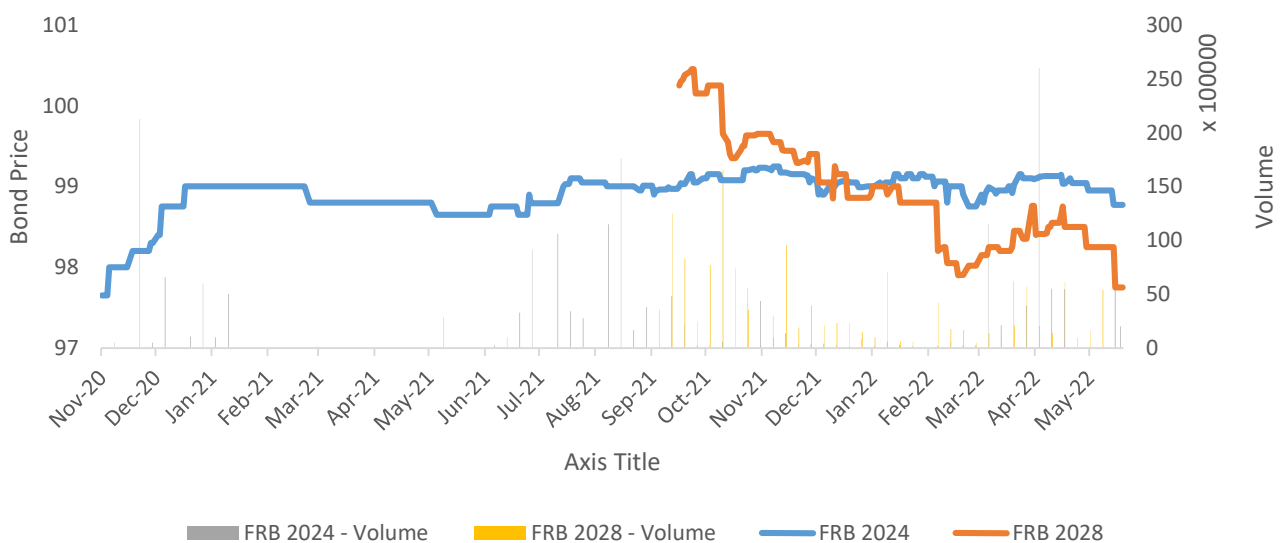
The fund intends to have the one-year bonds (1Y)/SDL/T-bill as part of strategy with the intention of running it through the maturity. This may likely provide a certain return to an extent, despite the rates being high. The chart below shows that the spread between 1-Year bond and Repo is at an extremely high level – illustrating that many rate hikes have been priced in. Thus future rate hikes are likely to not have meaningful impact on the holdings.



❑ FRB

We have generally had a negative view on FRB. We believe that FRB is a great product if held till maturity – but the illiquidity risk is a concern. However, as per the chart below

- **FRB 2024 is quite liquid and stable** compared to FRB 2028 which is less liquid.
- As per our view, the **recent price fall in FRB 2028** has largely compensated for the illiquidity and turned more lucrative



We believe that these FRBs are likely to have a further price reset in coming weeks. Our preference would be to give more weightage to FRB 2024 with time, though tactically as we move to FRBs, we may have slightly more in FRB 2028 to start with considering the price advantage.

❑ Bond OIS

We intend to have part of the original bond-OIS strategy continued in our current portfolio. However, the bond-ois spread is very low. This increases capital risk due to spread widening. To reduce this risk, and to increase the carry we intend to move the 2Y OIS to 1Y OIS. The spread between 2Y OIS and 1Y OIS is ~50 bps which is likely to increase the YTM of the product by ~50bps. However, this will reduce the protection.

The bond position (3Y) against this OIS is now a potentially lucrative asset according to us:

- (i) the curve up to 3-years has already priced in many rate hikes, and
- (ii) we have witnessed significant yield spike

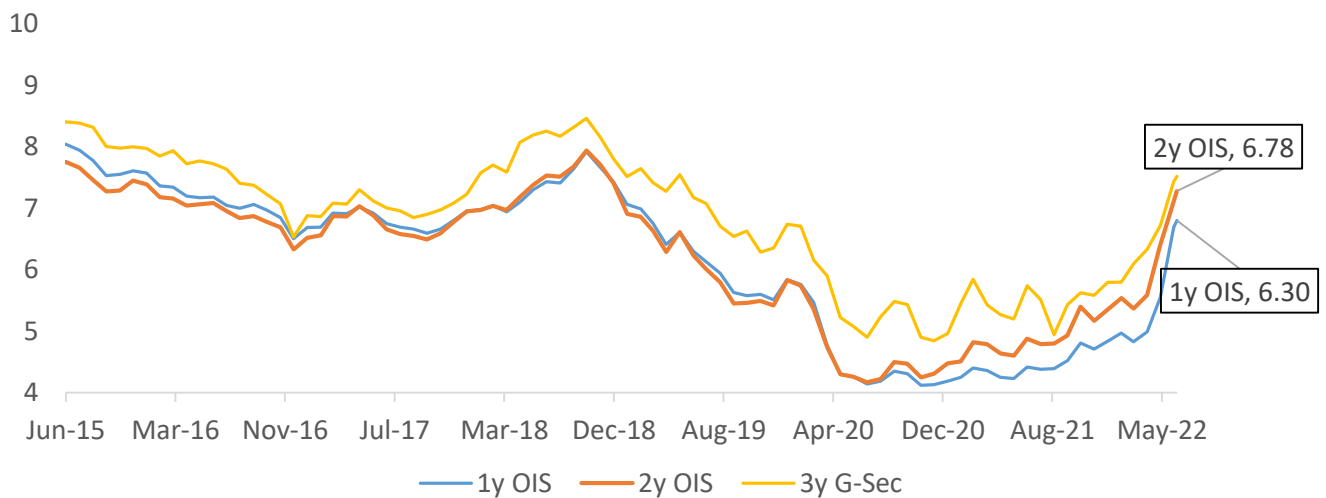


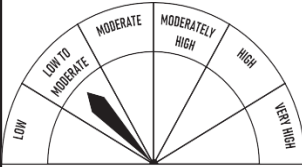
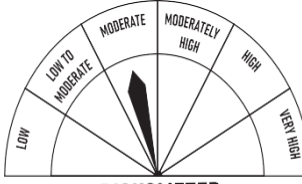
Illustration of YTM & Duration based on latest data*

| Sr.No | Strategy-Components | Weight | YTM | Duration | Break Up of Bond-OIS YTM & Duration | | |
|-------------------------|---------------------|--------|--------------|------------|-------------------------------------|--------------|------------|
| 1 | 1 Year-Roll down | 0.33 | 6.10% | 1.0 | | | |
| 2 | FRBs^ | 0.33 | 5.80% | 0.50 | | | |
| 3 | Bond- OIS | 0.33 | 5.58% | 1.70 | | | |
| ~YTM of strategy | | | 5.83% | 1.4 | | | |
| | | | | | | YTM | Duration |
| | | | | | 3 Y G-Sec | 7.00% | 2.4 |
| | | | | | Fixed Leg OIS | -6.22% | -0.7 |
| | | | | | Floating Leg OIS | 4.80% | |
| | | | | | Net YTM | 5.58% | 1.7 |

It must be noted in a rate hike scenario the YTM is likely to rise and moreover, the value of the FRB and the Bond-OIS component may not be adversely affected from here on.

Source: Bloomberg. *Data as on 8th June 2022. ^Calculated as per the prevailing market yield curve. The above data is a representation of the strategy to be adopted and does not represent the future indicative yield or portfolio of the Fund.

DISCLAIMERS

| Scheme | Product Suitability | SCHEME | BENCHMARK CRISIL Short Term Bond Fund Index |
|---|---|---|---|
| DSP Floater Fund (An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives. A relatively high interest rate risk and relatively low credit risk.) | This scheme is suitable for investors who are seeking* <ul style="list-style-type: none"> • Generate regular Income • Investment predominantly in floating rate instruments (including fixed rate instruments converted to floating rate exposures) |  <p>RISKOMETER INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT LOW TO MODERATE RISK</p> |  <p>RISKOMETER INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT MODERATE RISK</p> |

*Investors should consult their financial/tax advisors if in doubt about whether the scheme is suitable for them.

Potential Risk Class Matrix of the fund

Potential Risk Class Matrix: The potential risk class matrix of DSP Floater Fund based on interest rate risk and credit risk is as follows.

| Potential Risk Class | | | |
|-----------------------------|--------------------------|--------------------|---------------------------|
| Credit Risk → | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk ↓ | | | |
| Relatively Low (Class I) | - | - | - |
| Moderate (Class II) | - | - | - |
| Relatively High (Class III) | A-III | - | - |

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The portfolio of the scheme is subject to changes within the provisions of the Scheme Information document of the scheme. The investment approach / framework/ strategy mentioned herein is currently followed by the scheme and the same may change in future depending on market conditions and other factors.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.