

September 1, 2021

### Update on DSP Credit Risk Fund

DSP Credit Risk Fund ('Scheme') is an open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds).

As per the asset allocation as mentioned in the Scheme Information Document

*"The Scheme shall invest minimum 65% in corporate bonds which are AA and below rated instruments. In case of any deviation, the same has to be rebalanced within 30 days.*

*In the event of any deviations, the Investment Manager shall rebalance the portfolio within 30 days from the date of said deviation. Where the portfolio is not rebalanced within 30 Days, justification for the same shall be placed before the Investment Committee ('Committee') and reasons for the same shall be recorded in writing. The Investment Committee shall then decide on the course of action."*

As per the SEBI Circular SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/583 dated June 25, 2021, For asset allocation limits applicable for Credit Risk Fund, the base shall be considered as Net assets excluding the extent of minimum stipulated liquid assets i.e. 10%.

The exposure to below AA rated Corporate Bonds is below above stipulated limit since July 29, 2021.

There was a large maturity in end July (Nayara Energy Ltd), which accounted for 42.54% of the portfolio as at June 30, 2021. This was followed by upgrades in the ratings of Tata Steel and Hindalco Ltd, which accounted for 12.08% of the portfolio as at June 30, 2021 making it ineligible for classification under the AA category. We are in the process of re-investing the cash to meet the AA target and are looking for quality papers at the right valuations, in line with the Fund's investment philosophy. We are also extremely conscious of the large and rapid redemptions in the fund through 2019 and 2020, and hence are focusing on liquidity of such papers as well. Furthermore, the fund has instruments in default, that accounted for 24.65% of the fund as at June 30, 2021, which we are in the process of resolving.

Given the paucity of papers in the market which meet these investment norms, we sought the investment committee's approval via circulation for rebalancing our portfolio. Factoring in the interest of investors, the Committee had granted approval for extension of period for rebalancing of asset allocation i.e. dispensation from maintaining 65% in AA and below rated bonds till September 30, 2021.