Bajaj Finserv Banking and PSU Fund

Fund Note

An open-ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds with relatively high interest rate risk and moderate credit risk.

NFO: October 25, 2023 - October 31, 2023

Scheme Asset Allocation

80%- 100%	Investment in high credit quality debt & money market instruments of Banks, PSU, PFIs and Municipal Bonds
0% - 20%	Investment in Debt and Money Market securities issued by entities other than Banks, PSU, PFIs etc.

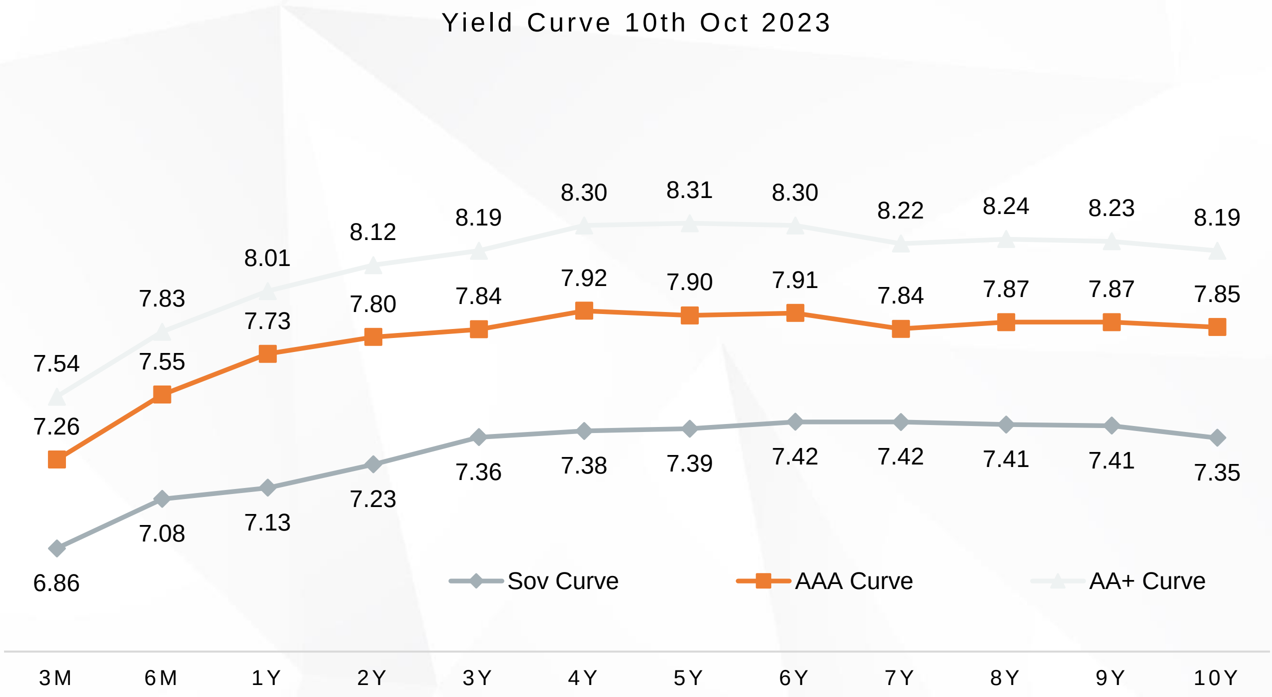
Fund Facts

Scheme Name	Bajaj Finserv Banking and PSU Fund
Scheme Category	Banking and PSU
Scheme Type	An open-ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds with relatively high interest rate risk and moderate credit risk.
Scheme Riskometer	Moderate
Scheme Potential Risk Class (PRC)	B-III – A Scheme with relatively high interest rate risk and moderate credit risk.
Benchmark	NIFTY Banking and PSU Debt Index
Fund Manager	Mr. Siddharth Chaudhary and Mr. Nimesh Chandan
Investment Objective	To generate income by predominantly investing in debt & money market securities issued by Banks, Public Sector Undertaking (PSUs), Public Financial Institutions (PFI), Municipal Bonds and Reverse repos in such securities, sovereign securities issued by the Central Government and State Governments, and / or any security unconditionally guaranteed by the Govt. of India. There is no assurance that or guarantee that the investment objective of the scheme will be
Loads	Entry load – Not applicable Exit load – Nil

Features of Bajaj Finserv Banking and PSU Fund

1. Invests at least 80% in debt and money market instruments of Banks, PSUs and Public Financial Institutions.
2. Investments in debt portfolio comprising high credit quality, high liquidity and seeking to provide attractive spread over sovereigns
3. Aims to utilize the opportunity in around the 5-year space of the corporate bond yield curve
4. Ideal for investors with 3-year plus investment horizon looking to take advantage of the potential MTM gain; while aiming to capture the high yields available in the corporate bond space.

Current Market Backdrop



In the present backdrop, we believe that the interest rate cycle may be close to the peak globally. While the oil price spike is a cause of concern, we believe that inflation is largely on a downward trajectory from here on. From our perspective, we believe that:

- RBI may continue with the present rate regime and may begin to consider downward rate revision by FY25.
- Inclusion of India in the emerging market bond index is likely boost demand and help reduce yields in the market over the medium-to-long term.
- The present inversion in the 10 year-5-year spread is a rarity and is likely to normalize soon.

All these factors together indicate higher probability of a decline in the 5-year yields from here, while the further upside risk seems limited.

In this background, the high quality Indian 5-year banking and PSU (Public Sector Undertakings) debt securities segment seems an attractive investment option, especially when combined with a riding the yield curve strategy.

This approach will allow the investor to lock-in the present available yields vis-a-vis the lower accruals that may occur in future. Additionally, it optimizes the MTM potential vis-à-vis the interest rate risk; while also capturing the relative spread available in high quality banking and PSU bonds over the sovereign curve. Thus, riding-the-curve in banking and PSU portfolio at present levels may be an attractive option for fixed income investors.

Duration & Spread Analysis

The following explanation further highlights how the present AAA corporate (PSU) bond yield curve at around 5 year maturity provides a low-risk and relatively higher reward tradeoff for the investor:

Particulars	In bps
5 year AAA YTM	7.90%
5 year AAA Sovereign	7.39%
Duration spread between 10 yr & 5 yr	- 0.04
Credit Spread between AAA & Sov	0.51

Source: Bloomberg as on 10th Oct 2023

One of the reasons to consider investing in Indian 5-year top rated banking and PSU bonds is the yield advantage they offer over sovereign in the present context. The present yield curve reveals that the 5-year AAA yields give an additional spread of around 51 bps over the commensurate sovereign.

This becomes especially interesting when we observe that the spread of a 10-year over a 5-year maturity is now trading in negative 3-4 bps (in both corporate bonds and in sovereigns). Thus, one can obtain a higher accrual at a 5-year high quality PSU security portfolio without having to take a longer duration risk for a largely similar yield.

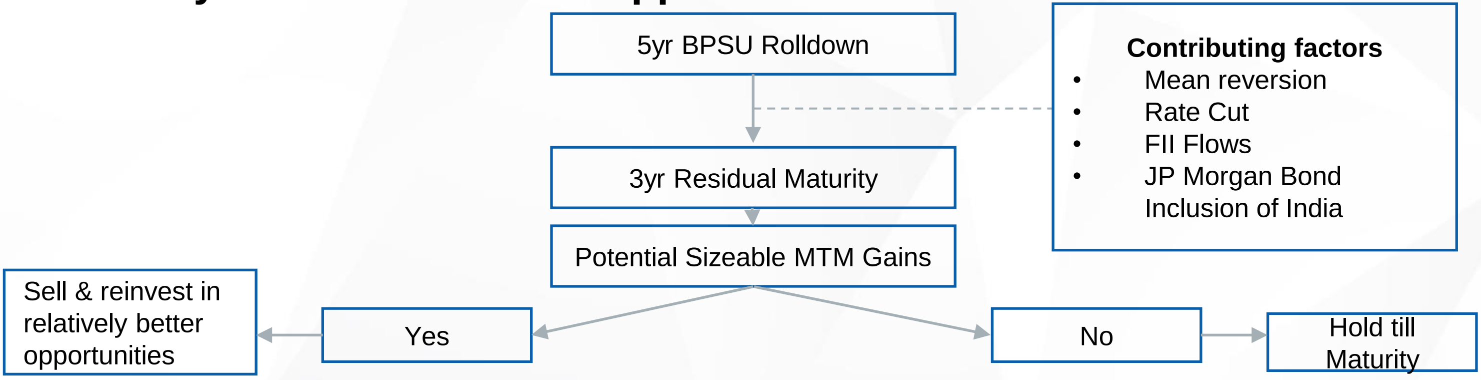
It is important to note that Banking and PSU debt securities in India enjoy high acceptance due to their robust credit profiles. Additionally, it is noteworthy that the banking and PSU sectors with AAA and AA+ ratings are known for their high liquidity and therefore provide additional comfort. This optimal risk-return trade-off in favour of the investors is central to our strategy in banking and PSU corporate bonds.

The following table highlights the scenario analysis of how in case of interest rate change over the coming year, an investor may expect a certain range of performance in 5-year banking and PSU debt.

Scenario Analysis in Case of Change in Rate with a 5-year AAA Corporate Bond Portfolio				
Interest Rate Change in bps during a year	Present YTM (in %)	Modified Duration (In days)	M-T-M Gain (in %)	Gross annualised Gain (%)
100	7.65	3.2	-3.20	4.45
75	7.65	3.2	-2.40	5.25
50	7.65	3.2	-1.60	6.05
25	7.65	3.2	-0.80	6.85
0	7.65	3.2	0.00	7.65
-25	7.65	3.2	0.80	8.45
-50	7.65	3.2	1.60	9.25
-75	7.65	3.2	2.40	10.05
-100	7.65	3.2	3.20	10.85

Note : This table is provided for illustrative purpose to explain the concept of MTM opportunity owing to changes in interest rates

Summary of Our Investment approach

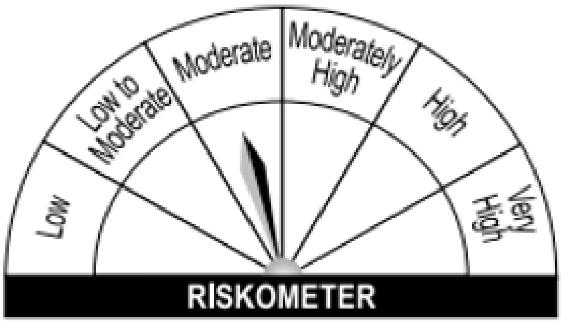


Note: The investment strategy is subject to disclosure in the Scheme Information Document. Investments would be undertaken based on market conditions and opportunities available at the time of investment

Summary

- Presently, the yield curve shape has largely flattened - indicating uncertainty in the market regarding allocation to the long duration of the curve.
- The 5-year yields are presently trading at a higher level than the 10-year duration maturity.
- Consequently, investing in a 10-year maturity is not sufficiently compensating for the underlying risk.
- Having said that, we believe that we are likely to see bull steepening in the curve going ahead.
- The inclusion of India in the emerging market bond Index, expectation of a rate cut in the medium term, and the mean reversion of yields are some of the likely triggers for the potential bond rally in the market in the future.
- This rally is likely to provide reasonable mark-to-market gains for the investor who holds a medium to long-term investing view.
- Even if the investment thesis were not to play out, the markets are presently offering a relatively high yield. Investors can lock-in the present yield levels and hold-to-maturity.

Riskometer and PRC

This product is suitable for investors who are seeking*: • income over short to medium term • investment primarily in securities issued by Scheduled Commercial Banks (SCBs), Public Sector undertakings (PSUs), Public Financial Institutions (PFIs), Municipal Corporations and such other bodies *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
Riskometer#	
Scheme	**Benchmark**
 Investors understand that their principal will be at moderate risk	 Nifty Banking and PSU Debt Index

#The product labelling assigned during the New Fund Offer is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.

Potential Risk Class (PRC) (Maximum risk the scheme can take)				
Credit Risk	→	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Rate Risk	↓			
Relatively Low (Class I)				
Moderate (Class II)				
Relatively High (Class III)			**B-III**	
B-III – A Scheme with relatively high interest rate risk and moderate credit risk.				

Disclaimers

The document/presentation may include statements/opinions which contain words or phrases such as "will" , "believe", "expect" and similar expressions or variations of such expressions, that are forward looking statements. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with the statements mentioned with respect to but not limited to exposure to market risks, general and exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and/or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc.

The information contained in this (document) is extracted from different public sources. All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication. This is for the information of the person to whom it is provided without any liability whatsoever on the part of Bajaj Finserv Asset Management Co Ltd or any associated companies or any employee thereof.

We are not soliciting any action based on this material and is for general information only. Investors should consult their financial advisors if in doubt about whether the product is suitable for them before investing. The views expressed in this presentation are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. These materials are not intended for distribution to or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions.

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