

# Update on Mirae Asset Nifty SDL Jun 2027 Index Fund

(An open-ended target maturity Index Fund investing in the constituents of Nifty SDL Jun 2027 Index. A scheme with relatively high interest rate risk and relatively low credit risk)

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## Executive Summary

- Target maturity funds aims to offer investors reasonable visibility of return based on yield at the time of investment, provided that they stay till maturity of the fund.
- While investor may be tempted to stick to shorter end of the curve during phase of aggressive rate hike, it continues to have a potential re-investment risk. Investor may mitigate this by investing in Target Maturity Funds.
- Based on prevalent market, we believe five-year target maturity product might be relatively attractive due to steepening. AAA rated securities as of now is not compensating for risk it carries and currently is trading at spread lower than the historical average and thus State Development Loans (SDLs) are relatively placed better for investment.
- Yields in the bond market are quick to reflect the market condition and compensate investor accordingly, whereas the interest rate on fixed deposit do not increase adequately. Further lack of tax-efficiency results in poor after tax return for investor such as Fixed Deposits .
- Mirae Asset Nifty SDL Jun 2027 Index Fund potentially may be used by investor to lock-in investment at the current yield. The fund is a target maturity product which intend to give investor an exposure to 5 Year segment right now.

## Introduction

In its fourth monetary policy of FY 2022- 2023, MPC (Monetary Policy Committee) adopted a proactive approach towards normalization. The MPC announced hike of another 50bps taking the repo rate to 5.40%. The committee also retained its stance as “focused on withdrawal of accommodation”. Since May 2022, RBI has made an effective rate of hike 140bps and this rate hikes may be expected to continue in future meeting as the MPC adopts the proactive approach i.e. frontloading of the rates, despite some relief that we might see in the inflation numbers. This is also more evident because the repo rate is now at pre-pandemic level of 5.15%, yet RBI has not changed its stance to “neutral” and echoed about continuation of “withdrawal of accommodation” stance.

The repo hike during the fourth monetary policy was not fully priced in by the market, as a result movement of 4bps – 14 bps across the G-Sec yield curve was observed. On July 27<sup>th</sup> 2022, the primary auction cut-off for 364 Days Treasury Bill came at 6.33%, three year high. Last time when T-Bill auction had crossed this level, RBI Repo rate stood at 6.50%. In fact, since 2014 (post Global Financial Crisis), whenever 364 Days T-Bill auction has come in at 6% or more, the RBI Repo Rate has been at least 6% or more. This gives us good gauge of where one can expect repo rate to land in order to adopt neutral stance by RBI. RBI is choosing to frontload its rate hike so it can restrict inflation trajectory more swiftly and cushion the domestic economy from international currents. The growth parameters are broader and this may provide RBI with more comfort and cushion to pursue its inflation targeting objective more freely. Proactive approach along with gradual withdrawal of liquidity may continue to push the short term and money market rates upwards. This may lead to relative flattening of the curve in the coming period.

## Which segment to lock-in the target maturity?

While investor would like to park their money at the shorter end of the curve whether liquid or in short-duration funds in order to navigate volatility. However, this may bring in re-investment risk. A target maturity fund can be good viable alternative for those investors intending to stay till maturity of the fund and mitigate this re-investment risk.

At the longer end of the curve 3-5-year maturity might look attractive due to sharp steepness in the curve vis-à-vis other longer dated maturity as depicted in the below table. “1X5 Yr.” continues to have reasonably positive slope vis-à-vis other where the spread is flattening at faster rate.

G-Sec Spread (in bps)				
Spread	12-Aug-2022	12-July-2022	12-May-2022	03-Jan-2022
1 X 5 Yr.	85	107	111	142
5 X 10 Yr.	33	22	12	67
10 X 14 Yr.	13	15	17	45
14 X 30 Yr.	23	13	14	16
14 X 30 Yr.	36	18	31	62

Source: Data as on 12<sup>th</sup> August 2022, Bloomberg, Indian Government Bond Generic Index for 1 Year, 5 Year, 10 Year, 14 Year and 30 Year.

Particular	Current Spread (in bps)	5 Yr. Average Spread (in bps)	10 Yr. Average Spread (in bps)
5 Yr. AAA PSU Bond	25 bps	48 bps	58 bps
5 Yr. AAA Bonds	42 bps	64 bps	71 bps
5 Yr. SDL	30 bps	45 bps	-

Source: Data as on 12<sup>th</sup> August 2022, Bloomberg FIMMDA 5 Yr. PSU Bond Yield Index, Bloomberg FIMMDA 5 Yr. AAA Corporate Bond Yield Index, Bloomberg India 5 Yr. Weighted Average Loan Index.

5 Year Statement Development Loans (SDL) seems to be trading near to its 5 Yr. Historical Average Spread over 5 Year G-Sec. AAA PSU Bonds are trading at almost half spread of their historical average. Among the possible investment avenue available, SDLs are compensating investor’s relatively higher than other mode of investment at this point in time.

## Tax-efficient vis-à-vis traditional fixed income avenue

For investor who is expected to remain invested till the maturity of fund, target maturity fund scores over other fixed income avenue due to indexation benefit. For instance, on retail domestic term deposits SBI is offering a return of 5.65% (Pre-Tax) and on bulk domestic term deposit the rate of interest offered in 5.0% (Pre-Tax). Even a five year 8.12% RECL Mar 2027 (tax-free) bond is trading at a yield of 5.99%.

Particular	Retail Fixed Term Deposit	Nifty SDL Jun 2027 Index	5 Y. Tax Free Bond
Investment Amount	1,00,000.00	1,00,000.00	1,00,000.00
Pre-Tax Return/Yield (Tentative)	5.65%	7.26%	5.13%
Investment Horizon	5.00	5.00	5.00
Indexation Period	NA	5.00	NA
Inflation		6%	
Value on Maturity	₹ 1,31,627.76	₹ 1,41,967.51	₹ 1,28,420.19
Indexed Cost	-	₹ 1,33,822.56	-
Taxable Capital Gain	₹ 31,627.76	₹ 8,144.95	-
Tax Rate	30%	20%	-
Tax	₹ 9,488.33	₹ 1,628.99	-
Post Tax Maturity Value	₹ 1,22,139.44	₹ 1,40,338.52	₹ 1,28,420.19
<b>Post Tax Return</b>	<b>4.08%</b>	<b>7.01%</b>	<b>5.13%</b>

*\*Data is as on 16<sup>th</sup> August 2022, Retail Fixed Term Deposit return is based on SBI term deposit of less than 2 Cr, Tax-free bond is based on 8.12% RECL March 2027 Inflation is assumed at 6% for next five year for indexation benefit. No surcharge, cess has been considered for computation of the taxes. The data is mere for only illustration purpose. Marginal tax-rate is assumed to be @ 30% for retail investor. Yield for tax free bond is based on Bloomberg estimate. The illustration does not take into cost of reinvestment or expenses. Returns are CAGR – Compounded Annualized Return. This is in no way a reflection of our expectation. Yield considered here are that of Nifty SDL June 2027 Index. The data shown above pertains to the Index and does not in manner indicate performance of any scheme of the Fund. Past performance may or may not sustain in future*

## About Mirae Asset Nifty SDL Jun 2027 Index Fund

*(An open-ended target maturity Index Fund investing in the constituents of Nifty SDL Jun 2027 Index. A scheme with relatively high interest rate risk and relatively low credit risk)*

Mirae Asset Nifty SDL Jun 2027 Index Fund tracks Nifty SDL Jun 2027 Index by investing in State Development Loans (SDL), maturing on or before June 15, 2027. The fund is a target maturity product which intend to give investor an exposure to 5 Year segment. The Scheme will follow Buy and Hold investment strategy in which existing SDLs will be held till maturity unless sold for meeting redemptions requirement.

Following is the portfolio as on 16<sup>th</sup> August 2022 for Mirae Asset Nifty SDL Jun 2027 Index Fund

ISIN	Name	Maturity Date	Weight
IN1320160170	7.78% Bihar SDL (MD 01/03/2027)	01/03/2027	7.09%
IN2820170057	7.25% Punjab SDL (MD 14/06/2027)	14/06/2027	5.35%
IN2220170020	7.51% Maharashtra SDL (MD 24/05/2027)	24/05/2027	5.28%
IN1920160125	7.59% Karnataka SDL (MD 29/03/2027)	29/03/2027	5.24%
IN3420160175	7.92% West Bengal SDL (MD 15/03/2027)	15/03/2027	5.10%
IN1620170010	7.53% Haryana SDL (MD 24/05/2027)	24/05/2027	5.02%
IN1220170014	7.55% Assam SDL (MD 24/05/2027)	24/05/2027	5.02%
IN3320170043	7.52% Uttar Pradesh SDL (MD 24/05/2027)	24/05/2027	5.01%
IN2020170030	7.2% Kerala SDL (MD 14/06/2027)	14/06/2027	4.96%
IN2120160105	7.76% Madhya Pradesh SDL (MD 01/03/2027)	01/03/2027	4.05%
IN3320160317	7.62% Uttar Pradesh SDL (MD 15/02/2027)	15/02/2027	4.03%
IN1520160194	7.59% Gujarat SDL (MD 15/02/2027)	15/02/2027	4.03%
IN1720170019	7.54% Himachal Pradesh SDL (MD 24/05/2027)	24/05/2027	4.02%
IN3620170024	7.21% Uttarakhand SDL (MD 14/06/2027)	14/06/2027	3.96%
IN2920200036	8.31% Rajasthan SDL (MD 08/04/2027)	08/04/2027	3.10%
IN2920160446	7.61% Rajasthan SDL (MD 29/03/2027)	29/03/2027	3.02%
IN3120170037	7.52% Tamil Nadu SDL (MD 24/05/2027)	24/05/2027	3.01%
IN1820160183	8.05% Jammu And Kashmir SDL (15/03/2027)	15/03/2027	2.05%
IN3720160065	7.94% Jharkhand SDL (MD 15/03/2027)	15/03/2027	2.04%
IN3720160057	7.8% Jharkhand SDL (MD 01/03/2027)	01/03/2027	2.03%
IN1320160188	7.85% Bihar SDL (MD 15/03/2027)	15/03/2027	2.03%
IN3420160167	7.78% West Bengal SDL (MD 01/03/2027)	01/03/2027	2.03%
IN1020160462	7.62% Andhra Pradesh SDL (MD 29/03/2027)	29/03/2027	2.02%
IN3120170045	7.23% Tamil Nadu SDL (MD 14/06/2027)	14/06/2027	1.99%
IN2920170023	7.23% Rajasthan SDL (MD 14/06/2027)	14/06/2027	1.98%
IN1520170045	7.52% Gujarat SDL (MD 24/05/2027)	24/05/2027	1.09%
IN4520190039	7.61% Telangana SDL (MD 12/06/2027)	12/06/2027	1.01%
IN3120161424	7.62% TamilNadu SDL (MD 29/03/2027)	29/03/2027	1.01%
IN3520160026	7.8% Chhattisgarh SDL (MD 01/03/2027)	01/03/2027	0.20%
IN3420160183	7.64% West Bengal SDL (MD 29/03/2027)	29/03/2027	0.10%
IN1020180098	8.34% Andhra Pradesh SDL (MD 30/05/2027)	30/05/2027	0.06%
IN3420160159	7.63% West Bengal SDL (MD 15/02/2027)	15/02/2027	0.04%
-	TREPS	-	1.15%
-	Cash and Cash Equivalent	-	1.88%
<b>Total</b>			<b>100.00%</b>

Portfolio attributes	Particulars
<i>Number of States</i>	20
<i>Number of Scrips</i>	32
<i>Average Maturity (in Yrs.)</i>	4.54
<i>Modified Duration (in Yrs.)</i>	3.70
<i>Macaulay Duration (in Yrs.)</i>	3.96
<i>Portfolio Yield to Maturity</i>	7.10%
<i>SDL Yield to Maturity</i>	7.26%
<i>Coupon (Weighted Average)</i>	7.37%

Data is as on 16<sup>th</sup> August 2022 and pertains to Mirae Asset Nifty SDL Jun 2027 Index Fund based on actual holdings and portfolio as on 10<sup>th</sup> June 2022.

Sources: NSE, RBI, CRISIL, Bloomberg, STCI. The views, facts and figures in this document are as on August 16<sup>th</sup> 2022, unless stated otherwise

#### Statutory Details:

Trustee: Mirae Asset Trustee Company Private Limited; Investment Manager: Mirae Asset Investment Managers (India) Private Limited (AMC); Sponsor: Mirae Asset Global Investments Company Limited.

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

For further information about other schemes (product labelling and performance of the fund) please visit the website of the AMC:

[www.miraeassetmf.co.in](http://www.miraeassetmf.co.in)

Please consult your financial advisor or Mutual Fund Distributor before investing

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

## PRODUCT LABELLING

Mirae Asset Nifty SDL Jun 2027 Index Fund is suitable for investors who are seeking\*

- Income over long term
- Open ended Target Maturity Index Fund that seeks to track Nifty SDL Jun 2027 Index

\*Investors should consult their financial advisors, if they are not clear about the suitability of the product.

