

IDFC Gilt 2027 Index Fund & IDFC Gilt 2028 Index Fund

NFO Opens: 12th March 2021
NFO Closes: 19th March 2021





IDFC Gilt 2027 Index Fund

An open-ended Target Maturity Index fund, investing in constituents of CRISIL Gilt 2027 Index.

IDFC Gilt 2028 Index Fund

An open-ended Target Maturity Index fund, investing in constituents of CRISIL Gilt 2028 Index.

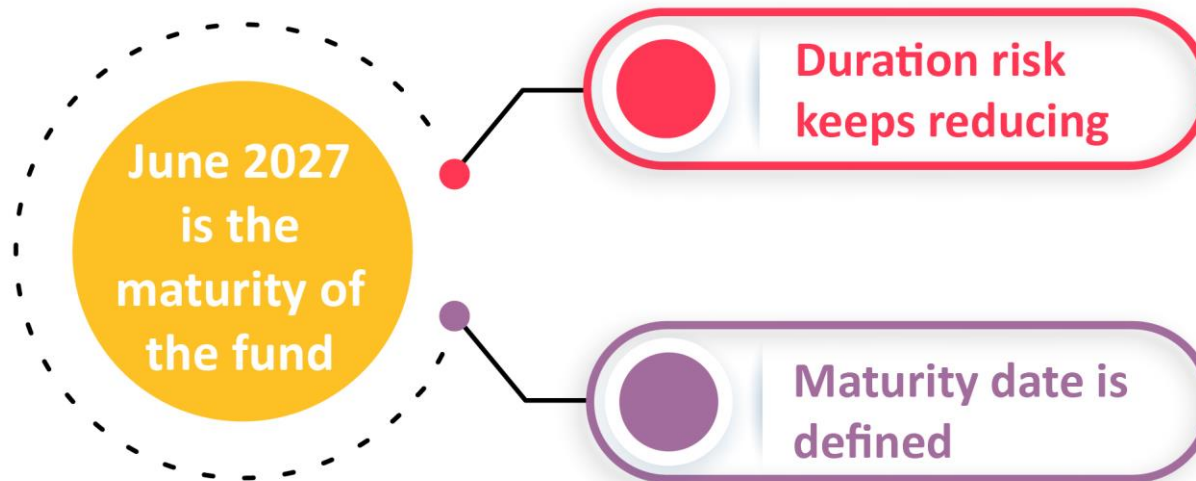




What is a Target Maturity Fund?

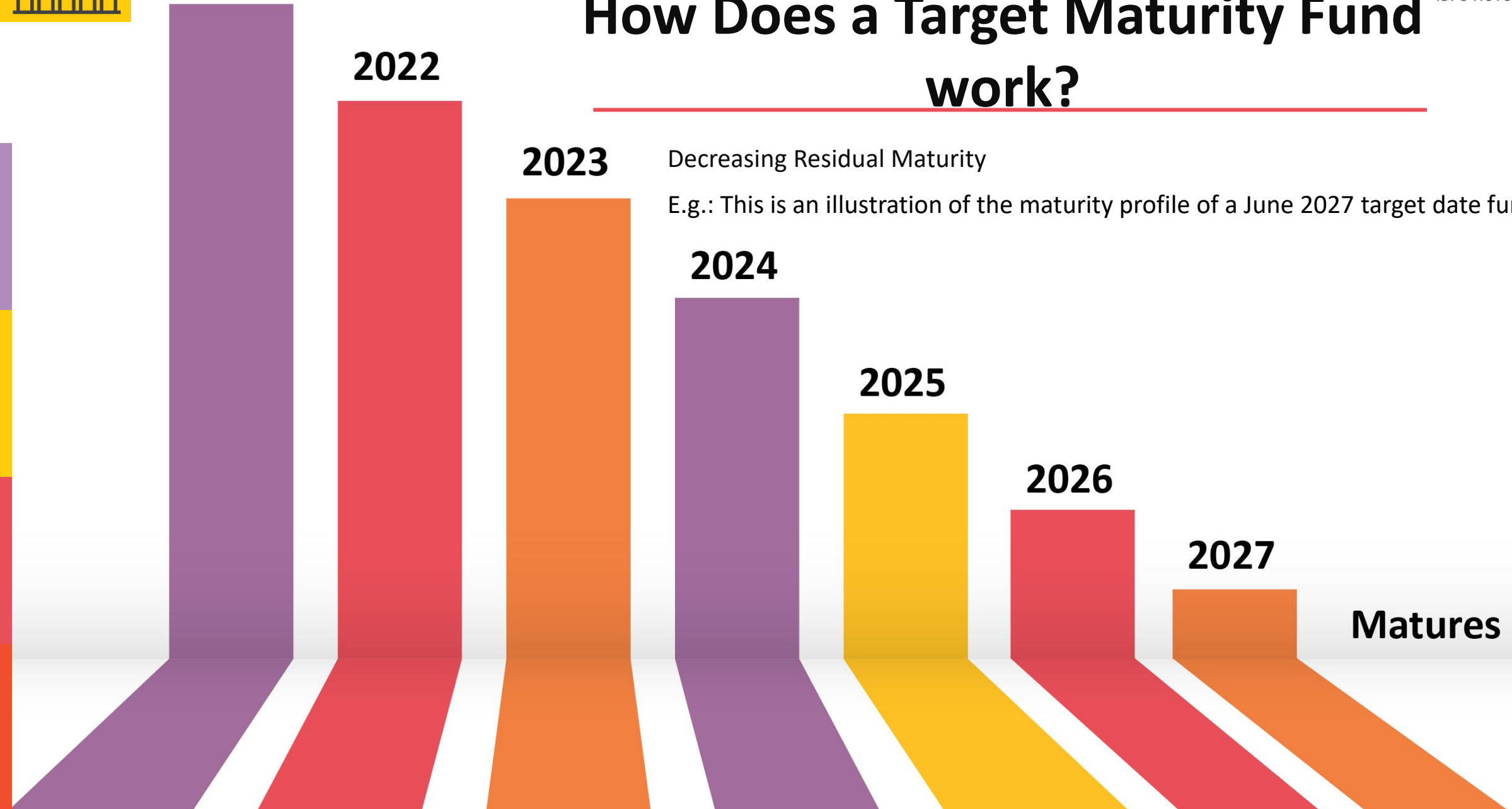
'**Target-maturity funds**' are a type of mutual fund/index fund/ETFs that have a fixed maturity date, unlike a traditional debt fund.

Key Factors





How Does a Target Maturity Fund work?





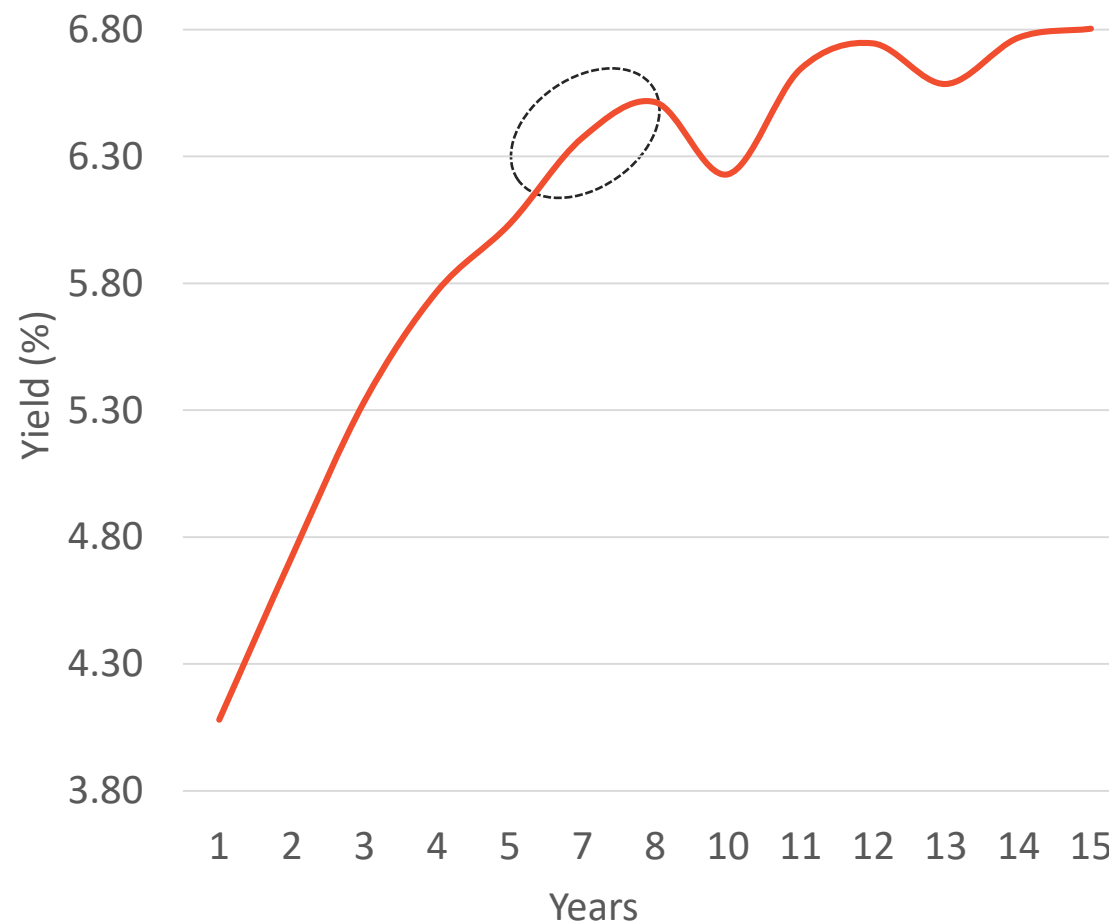
Why this Target Maturity Strategy?

We believe a very steep yield curve offers an investment opportunity in this space.

Given the steepness of the curve, the 'carry loss' (opportunity cost) embedded as the cost of waiting is quite meaningful.

Even if yields go up, these 6-9 year points on the curve compensates enough for a limited rise in yields so that the trade may still earn better than the rate on offer on (let's say) 1-year treasury bills today.

Sovereign Yield Curve



Data as on 28th February'21
Source: Bloomberg



Why this Target Maturity Strategy?

As seen from the previous chart, the 6-9 year segment in the government securities yield curve is very steep currently

Given the steepness of the curve, the cost of waiting is quite meaningful

	Current Yield	Duration	MTM of 50bps	Estimated return	Revised Yield
Overnight	~3.25			3.75	4.25%
5.09% G Sec 2022	4.08	0.96	-0.48	4.10	4.58%
7.17% G Sec 2028	6.37	5.36	-2.68	4.19	6.87%

Assuming 50bps rate hike at the beginning of the period. Overnight rates are at an average of 3.75% assuming a 100bps movement. This is only for illustration purposes

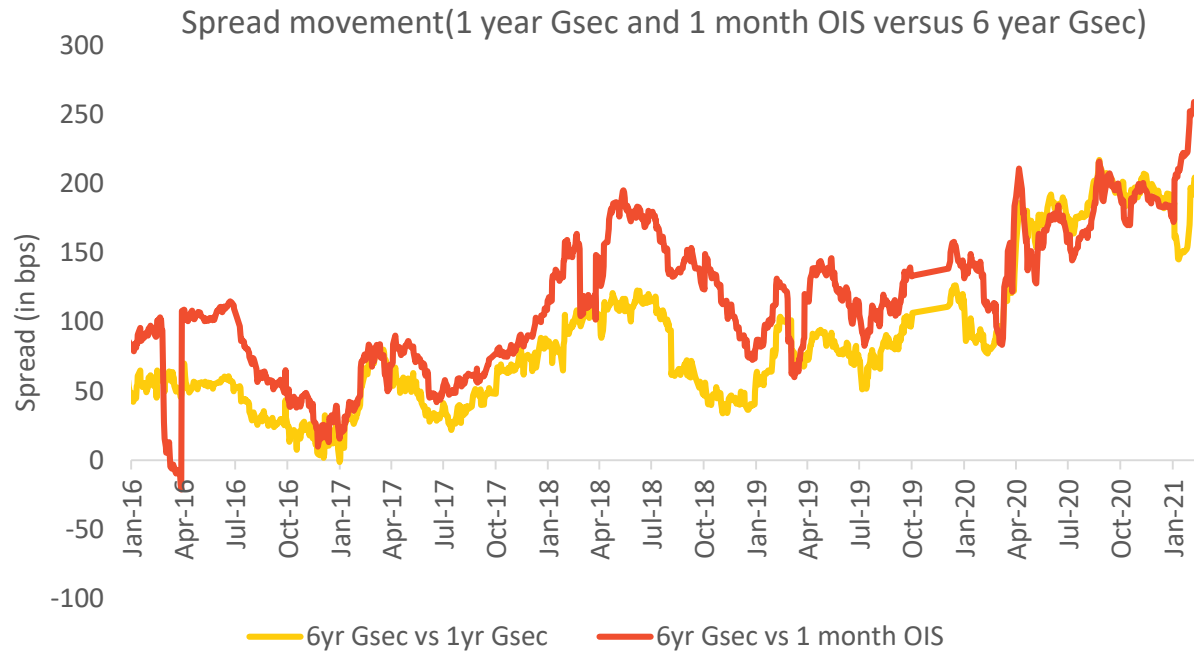
Since we believe that yields at the very front end may rise higher, one can look to benefit from the barbell opportunity; using the 6-9 year segment along with an extremely near ended strategy (e.g. such as Overnight Fund or a Fixed Deposit) to optimize portfolio performance.

An open ended index fund will need to replicate the index and also will have to manage inflows and redemptions accordingly. We believe that the GSec segment offers better management of cashflows owing to better liquidity leading to lower impact cost on account of buying/selling/rebalancing. Further, vis-à-vis SDLs (State Development Loans), GSec segment may witness comparatively lower pressure due to high supply of papers.

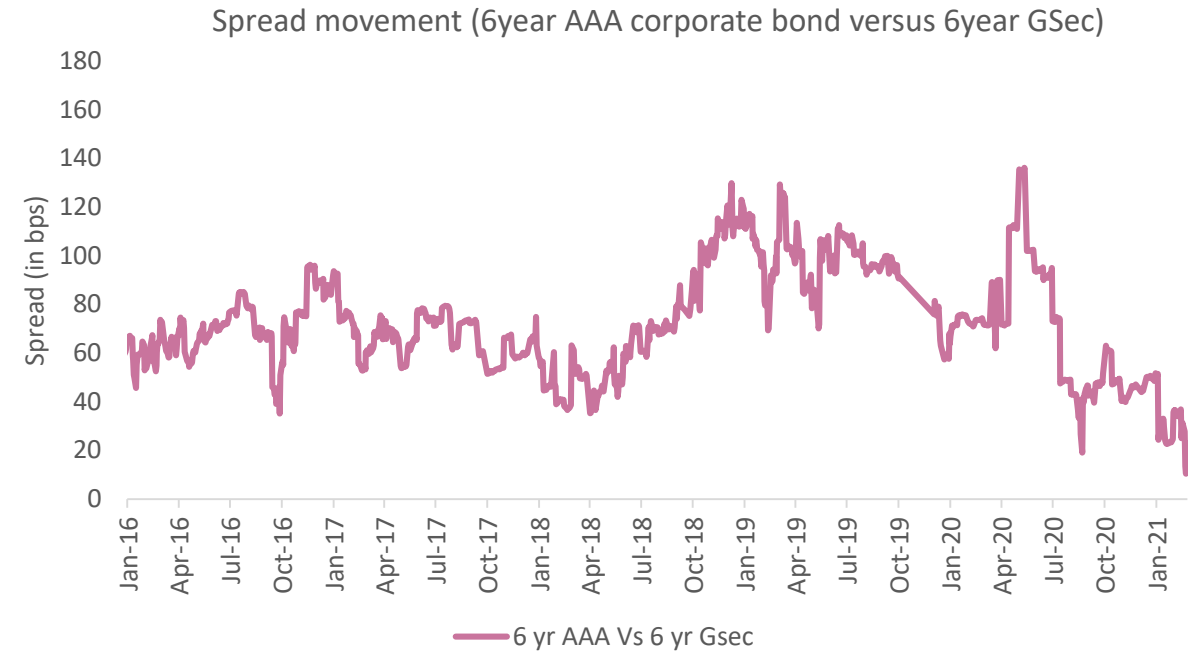


Current spreads favour 6-year GSec

Steep yield curve as seen from the higher spreads



6yr GSec attractive versus Corp Bonds as spreads have narrowed



(in bps)	Current Spread	5 year Average spread
6year Gsec v/s 1 month OIS	262	115
6year Gsec v/s 1 year Gsec	225	88
6 year AAA v/s 6 year Gsec	23	73



Why IDFC Gilt 2027/2028 Index Fund?





Who should invest?



Target-maturity funds offer a good opportunity for investors looking to invest for a similar horizon.



Investors seeking high quality investment (Invests in Government Securities and Treasury bills).



Investors looking for a low cost debt investment avenue.



Investors comfortable with intermittent volatility in the glide path with expectation of reasonable returns.



Illustration of Indexation benefit

Investors can avail indexation benefit if investment is held for more than 3 years

	Tax Free Bond ¹	Traditional Debt Investment	Crisil Gilt 2027 Index	Tax Free Bond ²	Traditional Debt Investment	Crisil Gilt 2028 Index
Tenure (in years)	5.91	6.34	6.34	7.66	7.10	7.10
Indexations Availed	N.A	N.A	7	N.A	N.A	8
Return	4.30%	6.17%	6.17%	4.61%	6.27%	6.27%
Amount Invested	100,000	100,000	100,000	100,000	100,000	100,000
Redemption Value	128,220	146,141	146,141	141,233	154,037	154,037
Gains	28,220	46,141	46,141	41,233	54,037	54,037
Indexed Cost	N.A	N.A	131,593	N.A	N.A	136,857
Gains (post indexation as applicable)	N.A	N.A	14,548	N.A	N.A	17,180
Tax applicable	N.A	30%	20%	N.A	30%	20%
Tax Payable	N.A	13,842	2,910	N.A	16,211	3,436
Post Tax Gains	N.A	32,299	43,232	N.A	37,826	50,601
Post Tax Redemption Value	128,220	132,299	143,232	141,233	137,826	150,601
Return (post tax)	4.30%	4.52%	5.83%	4.61%	4.62%	5.93%

This is for illustration purpose only

Data as on 28th February'21. Traditional investment is taxed at 30% and is assumed to be at the same rate as index (for illustration) and index fund is taxed at 20% post indexation. Cess and surcharge are excluded. Indexed cost arrived at assuming 4%p.a. growth rate in CII (Cost Inflation Index). Expenses, cost of reinvestment, impact of roll down have not been considered.

Tax Free Bond¹ : NHA1 8.30% 2027 Tax free bond

Tax Free Bond² : HUDCO 8.76% 2028 Tax free bond (Source: Bloomberg)



Illustration of Rate hike/fall

	Current Yield	Rate movement	Revised Yield	Modified Duration	MTM gain/loss	Accrual	Total return	3 year CAGR	Accrual	Total return	5 year CAGR
50bps up	6.27%	0.50%	6.77%	5.07	-2.5%	21.7%	19.2%	6.02%	38.8%	36.2%	6.38%
75bps up	6.27%	0.75%	7.02%	5.07	-3.8%	22.6%	18.8%	5.90%	40.4%	36.6%	6.43%
100bps up	6.27%	1.00%	7.27%	5.07	-5.1%	23.4%	18.4%	5.78%	42.0%	37.0%	6.49%
50bps down	6.27%	-0.50%	5.77%	5.07	2.5%	18.3%	20.9%	6.52%	32.4%	34.9%	6.17%
75bps down	6.27%	-0.75%	5.52%	5.07	3.8%	17.5%	21.3%	6.65%	30.8%	34.6%	6.13%
100bps down	6.27%	-1.00%	5.27%	5.07	5.1%	16.7%	21.7%	6.77%	29.3%	34.3%	6.08%

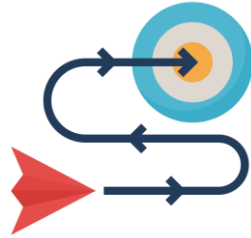
This is strictly for illustration only and based on assumptions of rate hike at the beginning of the period. The illustration does not take into consideration the benefit of roll down, or cost of reinvestment or expenses.

This is in no way a reflection of our expectation. Yield considered here are that of Crisil Gilt 2028 Index.

Data as on 28th Feb'21



Limitations of a Target Maturity Index Fund



Fixed strategy/universe:

Index funds offer less flexibility to fund manager- Investments are restricted to specific maturity and/or specific constituents, those that form part of Index.

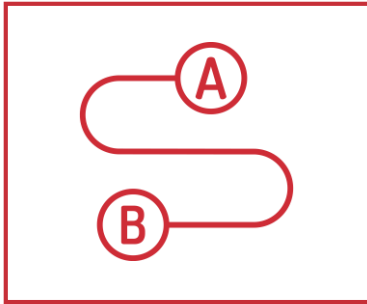


Likelihood of divergence in returns between fund & index:

Differences between the fund and the index could give rise to tracking error.



NFO Details



NFO Opens: 12th March 2021
NFO Closes: 19th March 2021



Fund Manager:
Mr. Anurag Mittal



**Minimum Application
Amount:** INR 5000 and in
multiples of Re. 1 thereafter



Exit Load: Nil



Benchmark:
Crisil Gilt 2027 Index
&
Crisil Gilt 2028 Index



About the benchmark (for IDFC Gilt 2027 Index)

CRISIL Gilt 2027 Index seeks to measure the performance of portfolio of Government Securities (GSecs) and Treasury Bills (Tbills) such that the index will terminate on June 30, 2027.

The weights assigned to the constituents are as follows: **Government securities- 98% and Treasury bills – 2%**

Methodology for Government securities Selection in the Index:

1. All Securities are selected on the basis of Amount Outstanding.
2. The Securities should have maturity date within the eligible period. (Eligible period: 1 December, 2026 to 30 June, 2027)
3. Minimum Amount Outstanding should be Rs. 25,000 crore.
4. Weights to individual securities will be calculated in the ratio of amount outstanding.
5. Index will be reviewed and rebalanced every 6 months.

Methodology for Treasury Bill Selection in the Index:

Three 91-Day TBills will be selected by rebalancing on a bi-monthly basis. This will consist of last 3 on-the-run 91-day TBills as on the bi-monthly rebalancing date.



About the benchmark (for IDFC Gilt 2028 Index)

CRISIL Gilt 2028 Index seeks to measure the performance of portfolio of Government Securities (GSecs) and Treasury Bills (Tbills) such that the index will terminate on April 05, 2028.

The weights assigned to the constituents are as follows: **Government securities- 98% and Treasury bills – 2%**

Methodology for Government securities Selection in the Index:

1. All Securities are selected on the basis of Amount Outstanding.
2. The Securities should have maturity date within the eligible period. (Eligible period: 6 September, 2027 to 05 April, 2028)
3. Minimum Amount Outstanding should be Rs. 25,000 crore.
4. Weights to individual securities will be calculated in the ratio of amount outstanding.
5. Index will be reviewed and rebalanced every 6 months.

Methodology for Treasury Bill Selection in the Index:

Three 91-Day TBills will be selected by rebalancing on a bi-monthly basis. This will consist of last 3 on-the-run 91-day TBills as on the bi-monthly rebalancing date.



Index Constituents

CRISIL Gilt 2027 Index	Instrument Name	Maturity	Weights
GSec	6.79% GS 2027	15-May-27	51.03%
	8.24% GS 2027	15-Feb-27	46.97%
T-bill	TB - 27/05/21 - 91D	27-May-21	0.67%
	TB - 20/05/21 - 91D	20-May-21	0.67%
	TB - 13/05/21 - 91D	13-May-21	0.67%

Statistics	
Yield	6.17%
Average Maturity (years)	5.97
Modified Duration	4.74
Macaulay Duration (years)	4.89

CRISIL Gilt 2028 Index	Instrument Name	Maturity	Weights
GSec	8.28% GS 2027	21-Sep-27	43.42%
	7.17% GS 2028	8-Jan-28	54.58%
T-bill	TB - 27/05/21 - 91D	27-May-21	0.67%
	TB - 20/05/21 - 91D	20-May-21	0.67%
	TB - 13/05/21 - 91D	13-May-21	0.67%

Statistics	
Yield	6.27%
Average Maturity (years)	6.60
Modified Duration	5.07
Macaulay Duration (years)	5.23

Data as on 28th Feb'21

Source: Crisil (<https://www.crisil.com/en/home/what-we-do/financial-products/indices.html>)



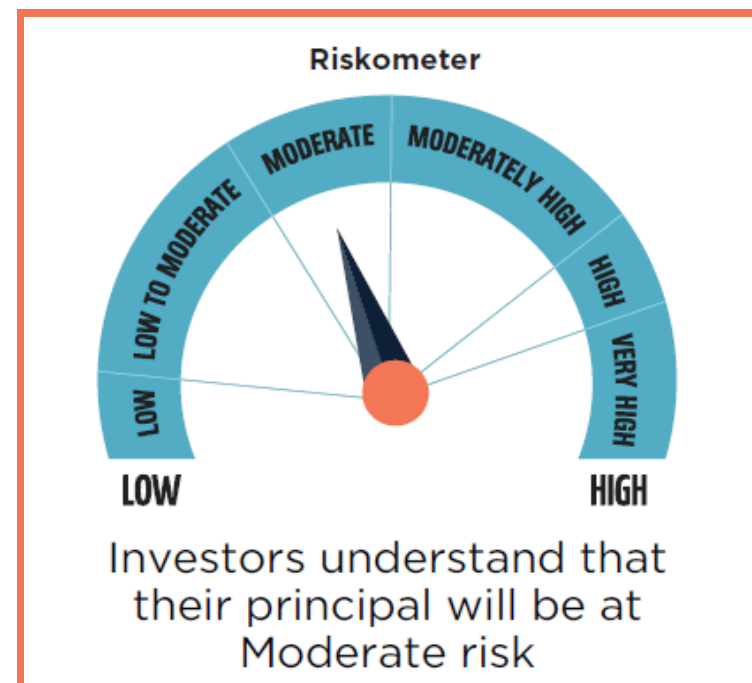
Product Label

IDFC Gilt 2027 Index Fund

(An open-ended Target Maturity Index fund investing in constituents of CRISIL Gilt 2027 Index)

This product is suitable for investors who are seeking*:

- Income over the target maturity period.
- Investment in constituents similar to the composition of CRISIL Gilt 2027 Index.



**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.*



Product Label

IDFC Gilt 2028 Index Fund

(An open-ended Target Maturity Index fund investing in constituents of CRISIL Gilt 2028 Index)

This product is suitable for investors who are seeking*:

- Income over the target maturity period.
- Investment in constituents similar to the composition of CRISIL Gilt 2028 Index.



**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.*



Disclaimer

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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THANK YOU

ANNEXURES



Post expense: Illustration of Rate hike/fall

Yield of Crisil Gilt 2028 Index is 6.27%. The yield in the table is post expense of 0.40%

	Current Yield (post expenses)	Rate movement	Revised Yield	Modified Duration	MTM gain/loss	Accrual	Total return	3 years CAGR	Accrual	Total return	5 year CAGR
50bps up	5.87%	0.50%	6.37%	5.07	-2.5%	20.4%	17.8%	5.62%	36.2%	33.6%	5.97%
75bps up	5.87%	0.75%	6.62%	5.07	-3.8%	21.2%	17.4%	5.49%	37.8%	34.0%	6.02%
100bps up	5.87%	1.00%	6.87%	5.07	-5.1%	22.1%	17.0%	5.37%	39.4%	34.3%	6.08%
50bps down	5.87%	-0.50%	5.37%	5.07	2.5%	17.0%	19.5%	6.13%	29.9%	32.4%	5.78%
75bps down	5.87%	-0.75%	5.12%	5.07	3.8%	16.2%	20.0%	6.25%	28.4%	32.2%	5.74%
100bps down	5.87%	-1.00%	4.87%	5.07	5.1%	15.3%	20.4%	6.38%	26.8%	31.9%	5.70%

Yield considered here are that of Crisil Gilt 2028 Index (6.27%) and after deducting expense of 0.40%

This is strictly for illustration only and based on assumptions of rate hike/fall at the beginning of the period. The illustration does not take into consideration the benefit of roll down, or cost of reinvestment.

This is in no way a reflection of our expectation.

Data as on 28th Feb'21



Post Expense: Illustration of Indexation benefit

Investors can avail indexation benefit if investment is held for more than 3 years

Yield of Crisil Gilt 2027 Index is **6.17%** and of Crisil Gilt 2028 Index is **6.27%**. The yield in the table is post expense of 0.40%

	Tax Free Bond ¹	Traditional Debt Investment	Crisil Gilt 2027 Index	Tax Free Bond ²	Traditional Debt Investment	Crisil Gilt 2028 Index
Tenure (in years)	5.91	6.34	6.34	7.66	7.10	7.10
Indexations Availed	N.A	N.A	7	N.A	N.A	8
Return	4.30%	5.77%	5.77%	4.61%	5.87%	5.87%
Amount Invested	100,000	100,000	100,000	100,000	100,000	100,000
Redemption Value	128,220	142,687	142,687	141,233	149,965	149,965
Gains	28,220	42,687	42,687	41,233	49,965	49,965
Indexation Cost	N.A	N.A	131,593	N.A	N.A	136,857
Gains (post indexation as applicable)	N.A	N.A	11,094	N.A	N.A	13,108
Tax applicable	N.A	30%	20%	N.A	30%	20%
Tax Payable	N.A	12,806	2,219	N.A	14,989	2,622
Post Tax Gains	N.A	29,881	40,468	N.A	34,975	47,343
Post Tax Redemption Value	128,220	129,881	140,468	141,233	134,975	147,343
Return (post tax)	4.30%	4.21%	5.51%	4.61%	4.31%	5.61%

This is for illustration purpose only

Data as on 28th February'21. Traditional investment is taxed at 30% and is assumed to be at the same rate as index (for illustration) and index fund is taxed at 20% post indexation. Cess and surcharge are excluded. Indexed cost arrived at assuming 4%p.a. growth rate in CII (Cost Inflation Index). Returns for Index considered post an expense of 0.40%. Expenses incurred in Tax free bonds not considered. Impact of reinvestment, roll down are not considered. Tax Free Bond¹: NHA 8.30% 2027 Tax free bond Tax Free Bond²: HUDCO 8.76% 2028 Tax free bond (Source: Bloomberg)