

Looking to invest for a Fixed Tenure?

**Plan it with Target Maturity Funds**



# What are Target Maturity Funds (TMFs)?



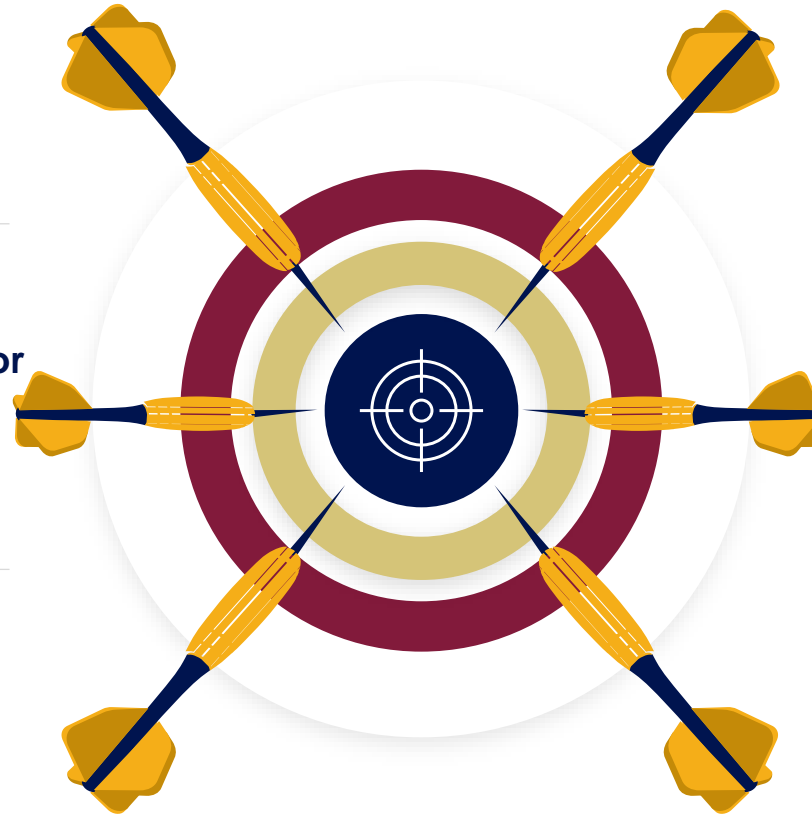
Passively managed debt funds with pre-defined maturity date



Invests in government bonds, public sector undertaking (PSUs) bonds, and state development loans (SDLs)



Buy and hold similar maturity bonds that are included in the underlying bond index



Roll-down maturity feature helps achieve risk-adjusted performance



Roll down strategy aims to negate any duration risk for investors who remain invested through the life of the fund

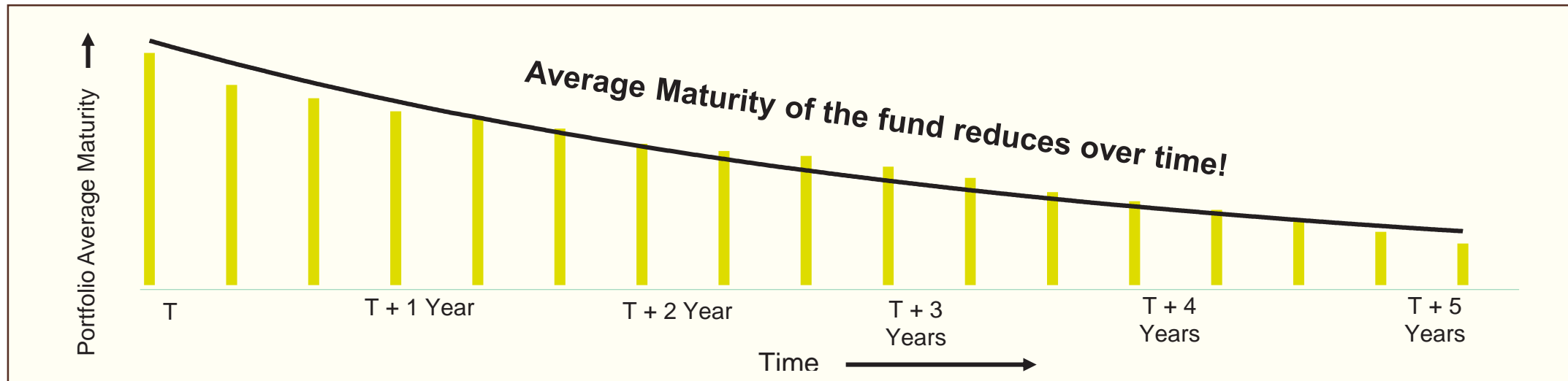


Carry comparatively lower interest rate risk and provide more predictive & stable returns



# TMFs follow Roll down Strategy

**TMFs follow roll-down investment strategy** where fund manager builds a portfolio of bonds of a certain tenure and then holds these bonds to maturity



**Residual Portfolio Maturity keeps Decreasing with Time!**

Source: Morningstar Direct

# Current Scenario - TMFs vs Actively Managed Debt MFs



Category	YTM (%)				Average Maturity (Yrs)	MOD (Yrs)	Avg. Credit Profile (Sept 22)
	Sep-22	Jun-22	Mar-22	Dec-21			
TMF	7.31	6.80	6.05	6.17	4.40	3.48	AAA
Floating Rate Fund	6.80	6.15	4.96	4.93	2.93	1.09	AAA/AA
Banking & PSU Debt Fund	7.03	6.35	5.35	5.22	2.79	1.90	AAA/AA
Corporate Bond Fund	7.12	6.58	5.54	5.33	2.52	1.72	AAA/AA
Short Duration	6.99	6.15	5.18	5.07	2.14	1.54	AAA/AA
Medium Duration	7.39	7.25	6.12	6.01	3.79	2.67	AAA/AA/A
Medium to Long Duration	7.13	6.86	6.02	5.87	6.02	3.92	AAA/AA

Source: Morningstar Direct. Data as on 30 September 2022

- ❑ **TMFs offer higher YTM compared to other funds** which follow accrual strategy or have short to medium duration portfolios at no credit risk
- ❑ Given the roll down strategy of the TMFs, though average maturity is currently higher than other funds, it falls with time



# Advantages of TMFs



No Lock in - Open ended structure provides liquidity



Roll Down Strategy to benefit from current rate scenario



Indexation benefit



Low credit risk



Predefined maturity and no duration risk at maturity



Low expense ratio



# TMF vs Other Debt Investment Options



Parameters	Target Maturity Fund (TMF)	Actively Managed Debt Mutual Funds	FMP (Fixed Maturity Plan)	NCD (Non Convertible Debenture)
Predictability of Return				
Liquidity				
Diversification				
Professional Management				
Defined Maturity				
Redemption/ Dividend Payout	At redemption/maturity	Depending upon plan	At maturity	Depending upon coupon payout option

# Taxation Impact: Debt MF vs Fixed Deposit

- Tax plays a vital role for making investment decisions, specifically for debt products
- Taxes are a big cost – perhaps the biggest for high-earners, but unfortunately, it's the least thought about
- Investors can avail indexation benefit if investment is held for more than 3 years

Details	Fixed Deposit	Debt MF
Investment Amount (Rs.)( Assumed )	1,00,000	1,00,000
Investment Date	01-Apr-18	01-Apr-18
Maturity Date	31-Mar-22	31-Mar-22
Tenure (yrs)	4	4
Assumed rate of return	7.00%	7.00%
Maturity Amount	1,31,080	1,31,080
Capital Gain	31,080	31,080
Indexation Cost	NA	14,535
Taxation	Income Tax slab rate - 30%	20% post indexation
Inflation indexed purchase value = original amount * (CII of the current year/CII of the purchasing year)	NA	1,16,544
Tax payable (Rs.)	9,324	2,907
Post Tax Income (Rs.)	1,21,756	1,28,173
Net return	5.04%	6.40%

Here, **Debt Funds** are more tax efficient for long term investment period than FD

This is for illustration purpose only. FD is taxed at 30% and Debt MF is taxed at 20% post indexation. Cess and surcharge are excluded. `

# Things to consider before investing in TMF



**01** Invest in TMF only if maturity of the portfolio matches with your investment horizon



**02** Being a passive fund, TMFs are subject to tracking error



**03** Investors may potentially earn lower returns, if units are redeemed before maturity when the interest rates are high





# Suitability



Investors with moderate risk profile with medium term investment horizon



Investors who want to benefit from low cost and low credit risk portfolio



Investors who are willing to hold the fund till maturity and ride the yield curve

**Thank You!**

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