

NFO  
Period

12<sup>th</sup> Dec 2023

19<sup>th</sup> Dec 2023

# AXIS US TREASURY DYNAMIC BOND ETF FUND OF FUND

(An open ended fund of fund investing in ETFs wherein the underlying investments comprise of US treasury securities across duration)

 **AXIS MUTUAL FUND**

## AXIS US TREASURY DYNAMIC BOND ETF FUND OF FUND

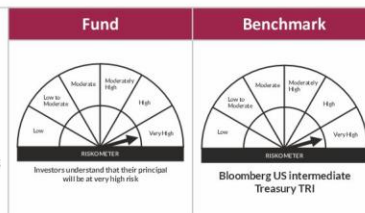
(An open-ended fund of fund investing in ETFs wherein the underlying investments comprise of US treasury securities across duration)

**Benchmark:** Bloomberg US intermediate Treasury TRI

This product is suitable for investors who are seeking\*

- Regular income over long term
- Invest in overseas ETFs wherein the underlying investment comprise of US treasury securities across duration

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



(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)

Investors will be bearing the recurring expenses of the scheme in addition to the expenses of other schemes in which fund of funds scheme makes investments.

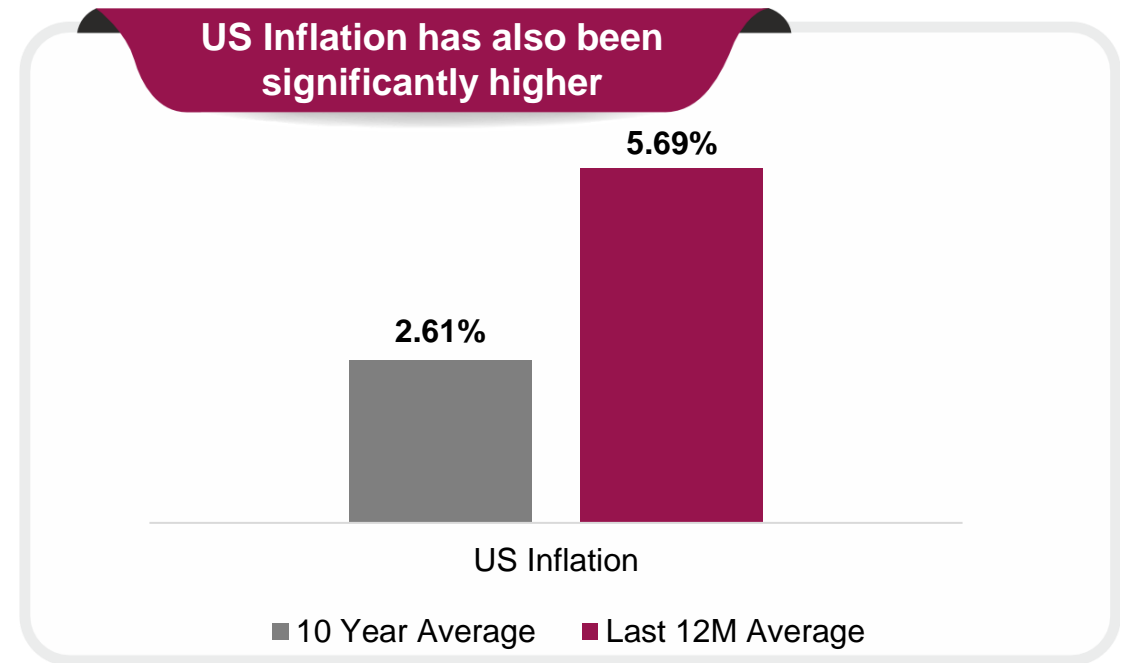
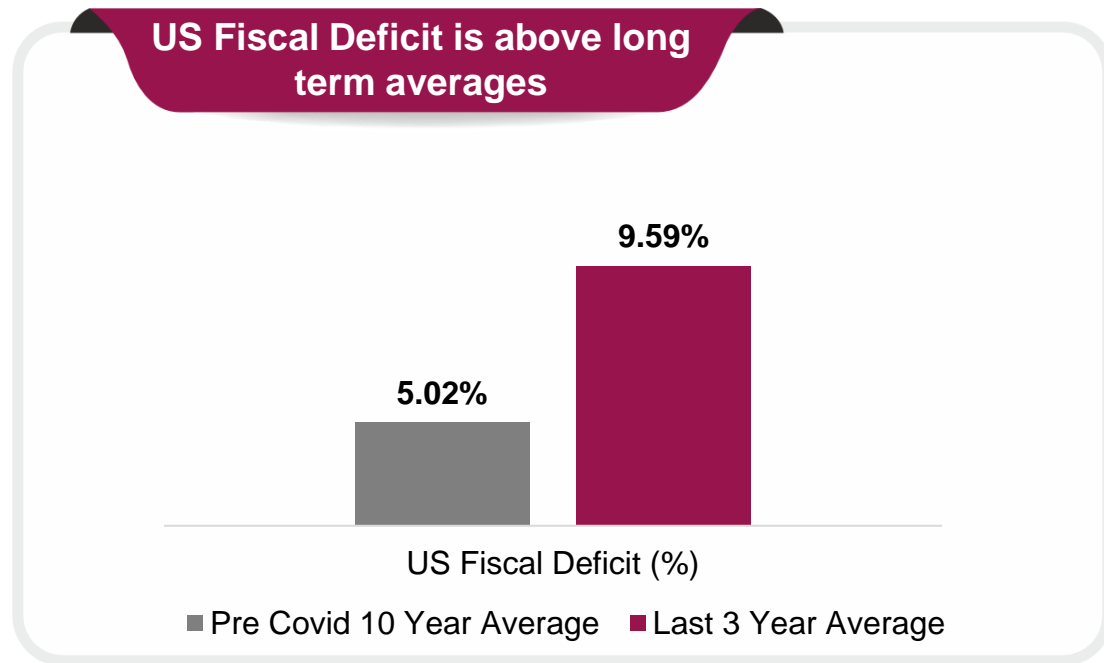
**Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to ₹ 1 Lakh). **Trustee:** Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC). **Risk Factors:** Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

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

# US Treasuries at historic highs – why?

## Primary reason for US interest rates spike

To combat the pandemic, the US government increased spending to unprecedented levels leading to wider fiscal deficits (from sub 3% to 8-10%), a significant expansion of the US Fed balance sheet from \$1-\$2 trillion and an easy monetary policy stance for 2.5 years.



# US Treasuries at historic highs – why?

Significant shift in market dynamics of the US bond markets

## End of Easy Monetary Policy

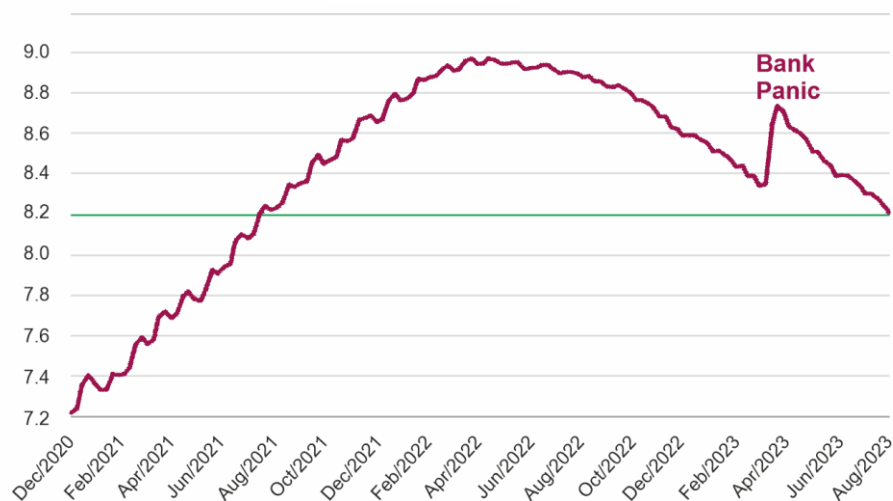
- Higher inflation has led to QT (US Fed reducing its balance sheet by \$95 billion per month)
- Traditional international buyers (China & Japan) are reducing their exposure to US Treasuries

## Large Bond supply

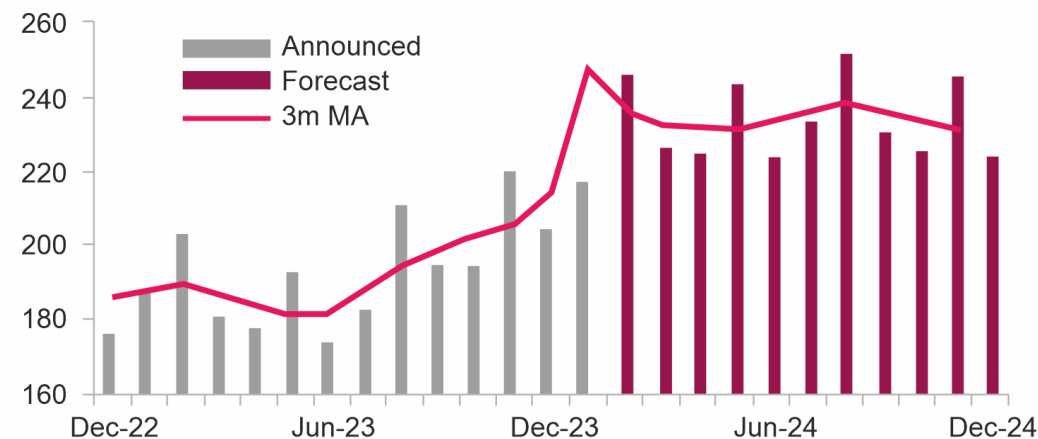
- US fiscal deficit has jumped 23% due to falling tax revenues, rising costs of social security & interest costs.
- To fund this gap, US treasury has issued record debt

### Total Assets, Fed Balance Sheet

Trillion \$, weekly, each grid line = \$200 billion



### US Treasury bond issuance calendar has created supply pressures on bond yields



# But... such opportunities don't last

Changes in real rates drive changes in market regimes

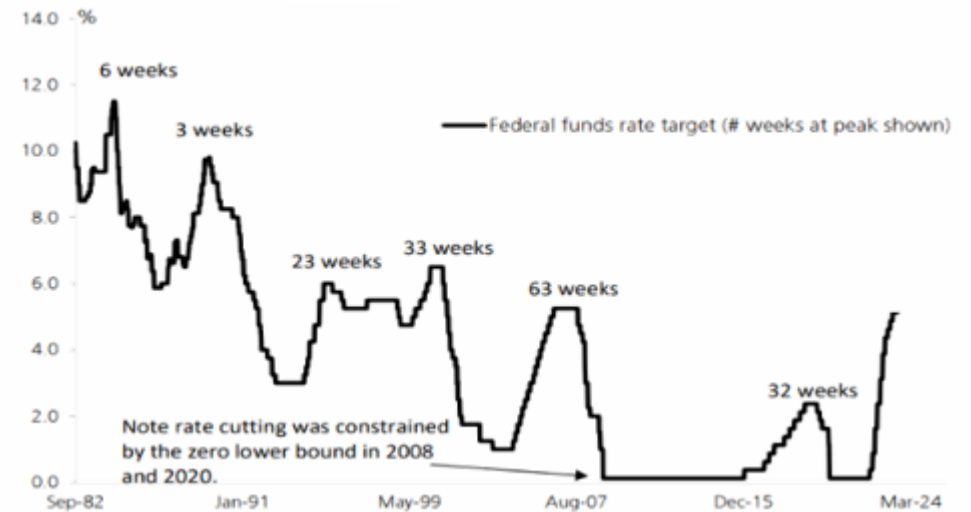
Real yield on US 10Y treasuries is now at 2.3%, the most positive it has ever been in 15 years.

However, such elevated rates often normalize rapidly as both inflation and interest rates cool rapidly due to resulting economic changes.

**US Real Rates are at decadal peaks**

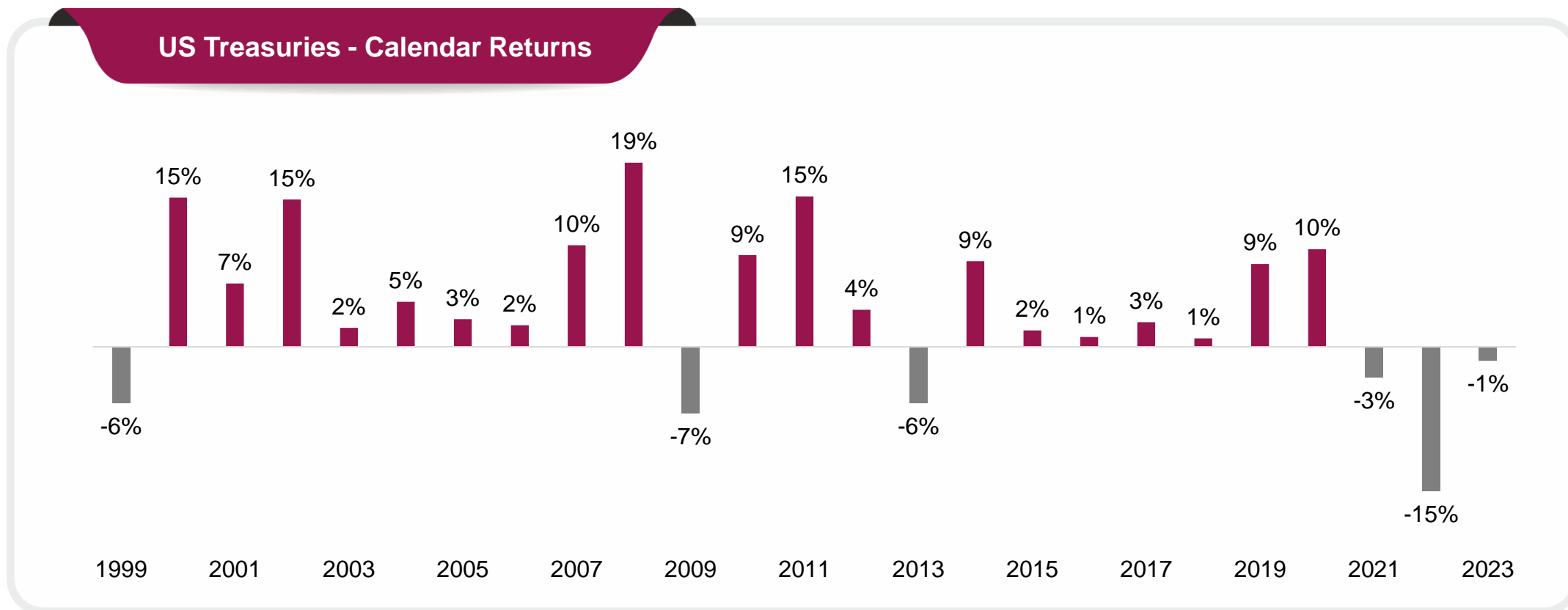


**History shows rates correct rapidly**



# US G-sec investors have suffered thus far

## Consecutive 3 Years of Negative Returns

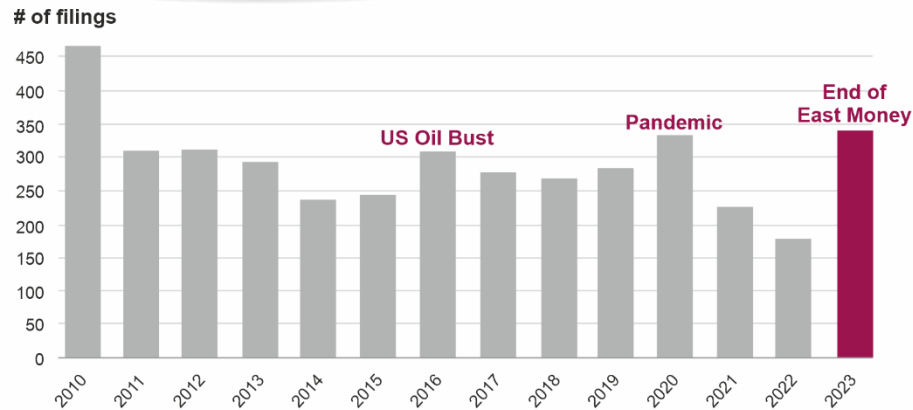


Source: Bloomberg, Axis MF Research. Data as of 15<sup>th</sup> November 2023. Past Performance may or may not sustain in future.

# Macro Trends

## Underlying Trouble?

**Bankruptcy filings above pre-pandemic levels**

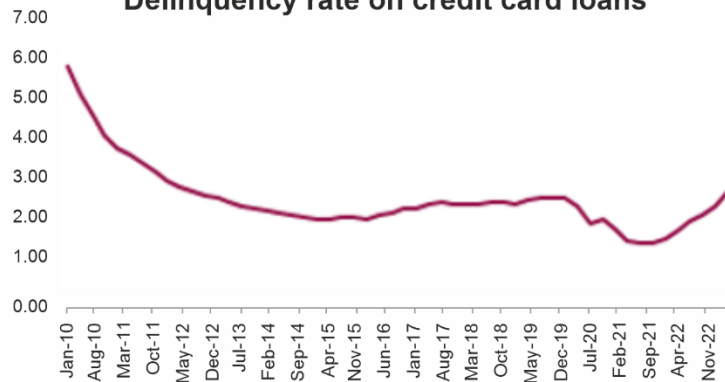


**MTM losses on bank portfolios spike**



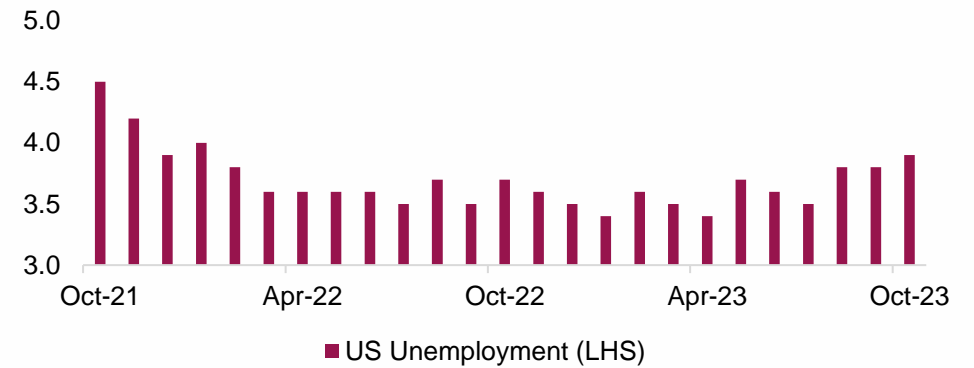
**Credit Card defaults see spikes across segments**

**Delinquency rate on credit card loans**



Businesses & individuals see pain as evident from high frequency indicators

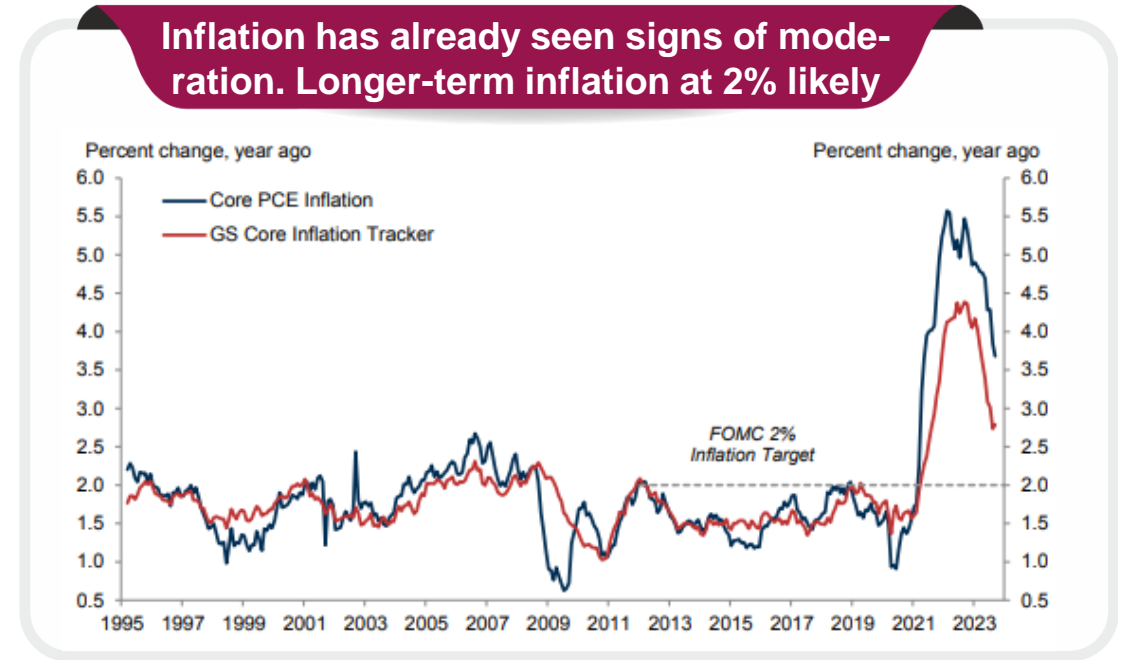
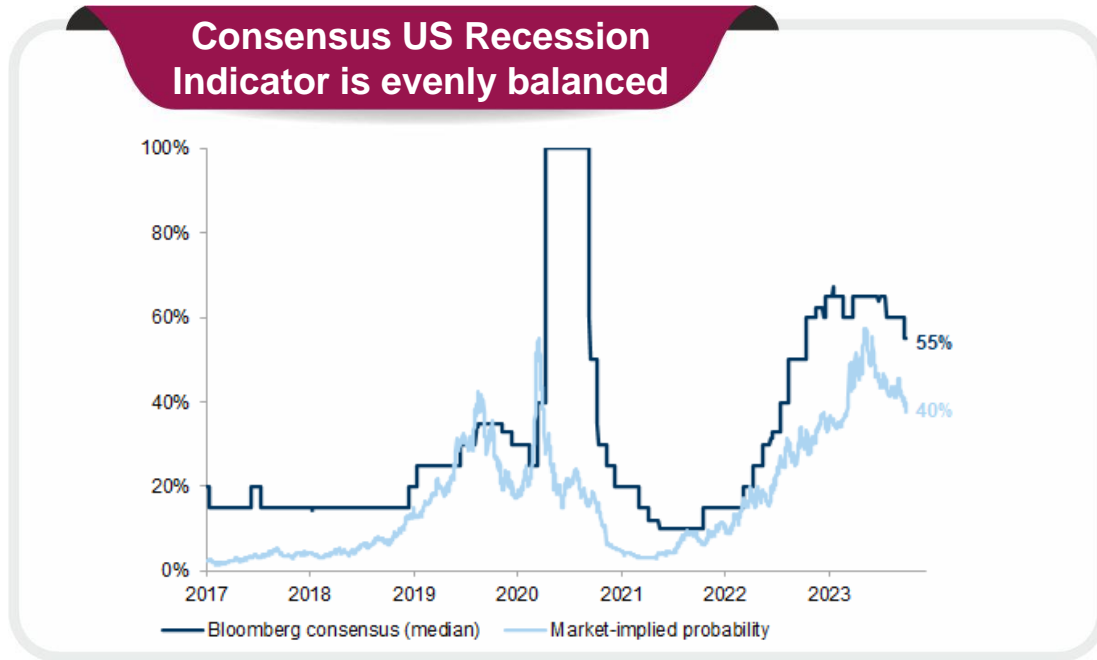
**Unemployment has begun to rise**



Source: Goldman Sachs, Data as of 15<sup>th</sup> November 2023.

# What are US Treasuries indicating?

## Medium Term View

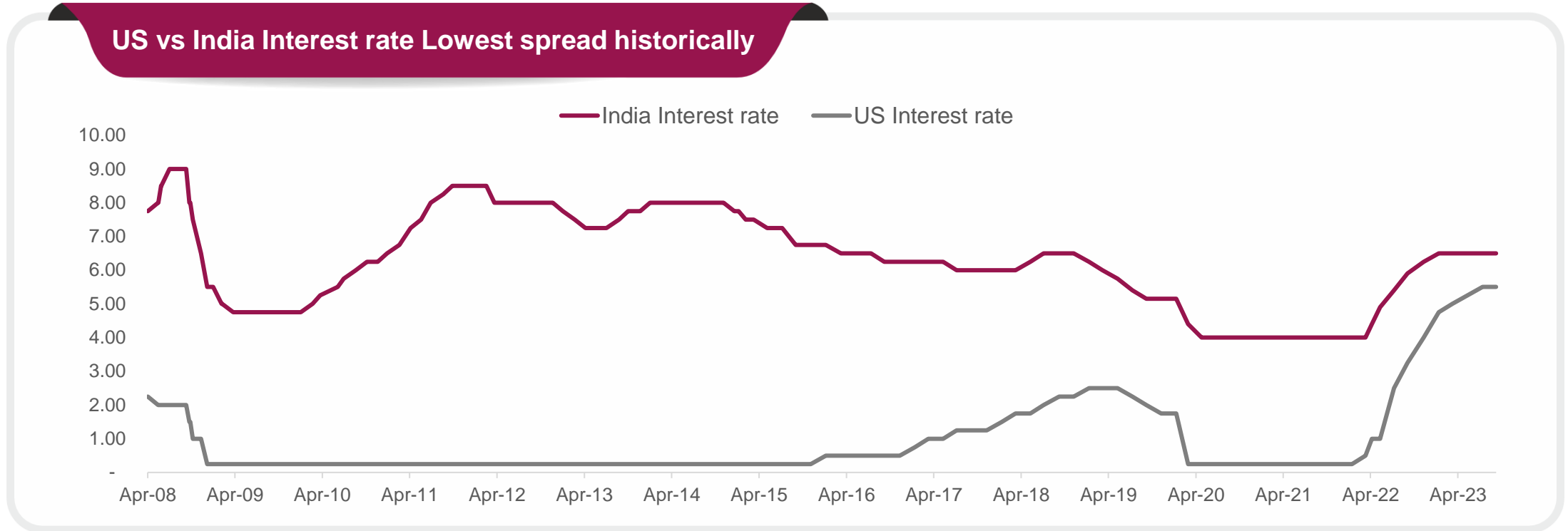


Based on this assessment, we believe the US G-Sec curve is likely to normalize to 3% levels over the medium term.

**This implies a 150bps capital appreciation opportunity over the medium term**

# Will the spread revert to high level?

## Narrowed Spread



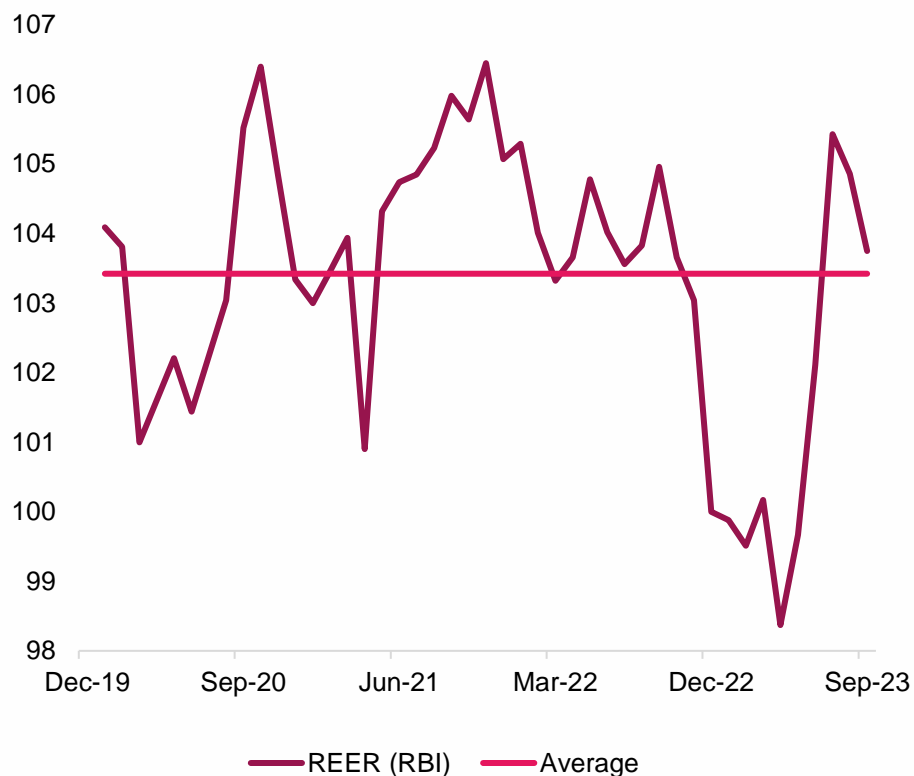
India's macros have shaped over the years and we stand stronger than earlier. Even though market expects interest rate spreads to widen in medium term but with new lower long term average.



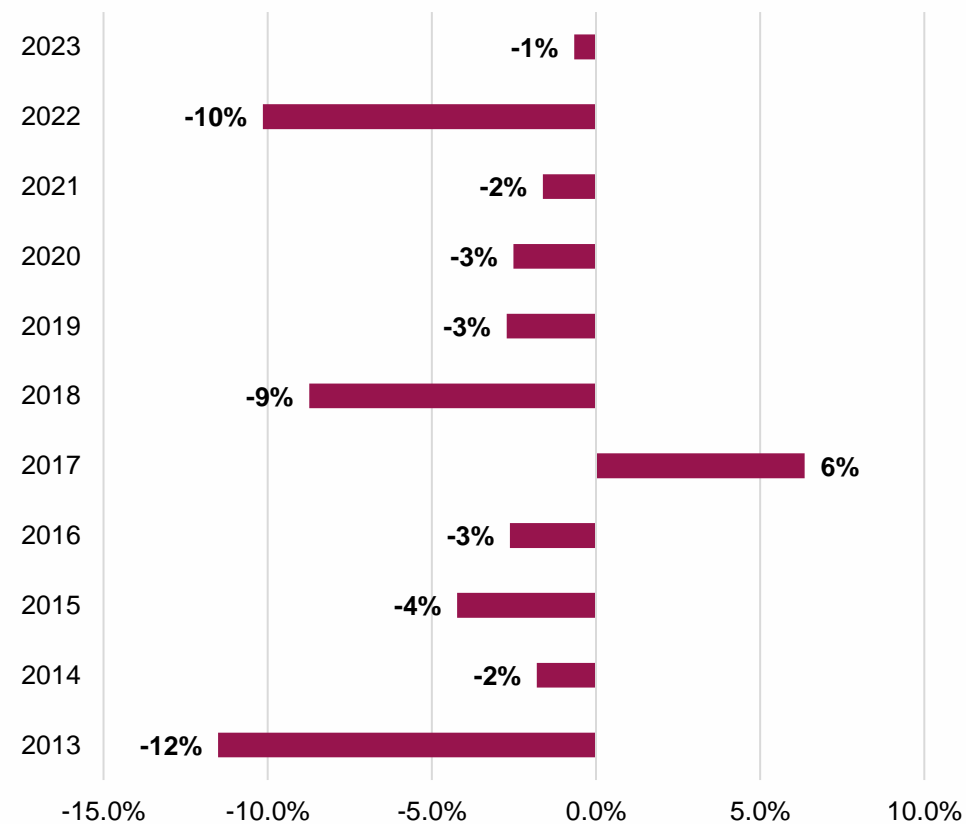
# Currency Depreciation

A Passive return generator

**INR marginally overvalued**



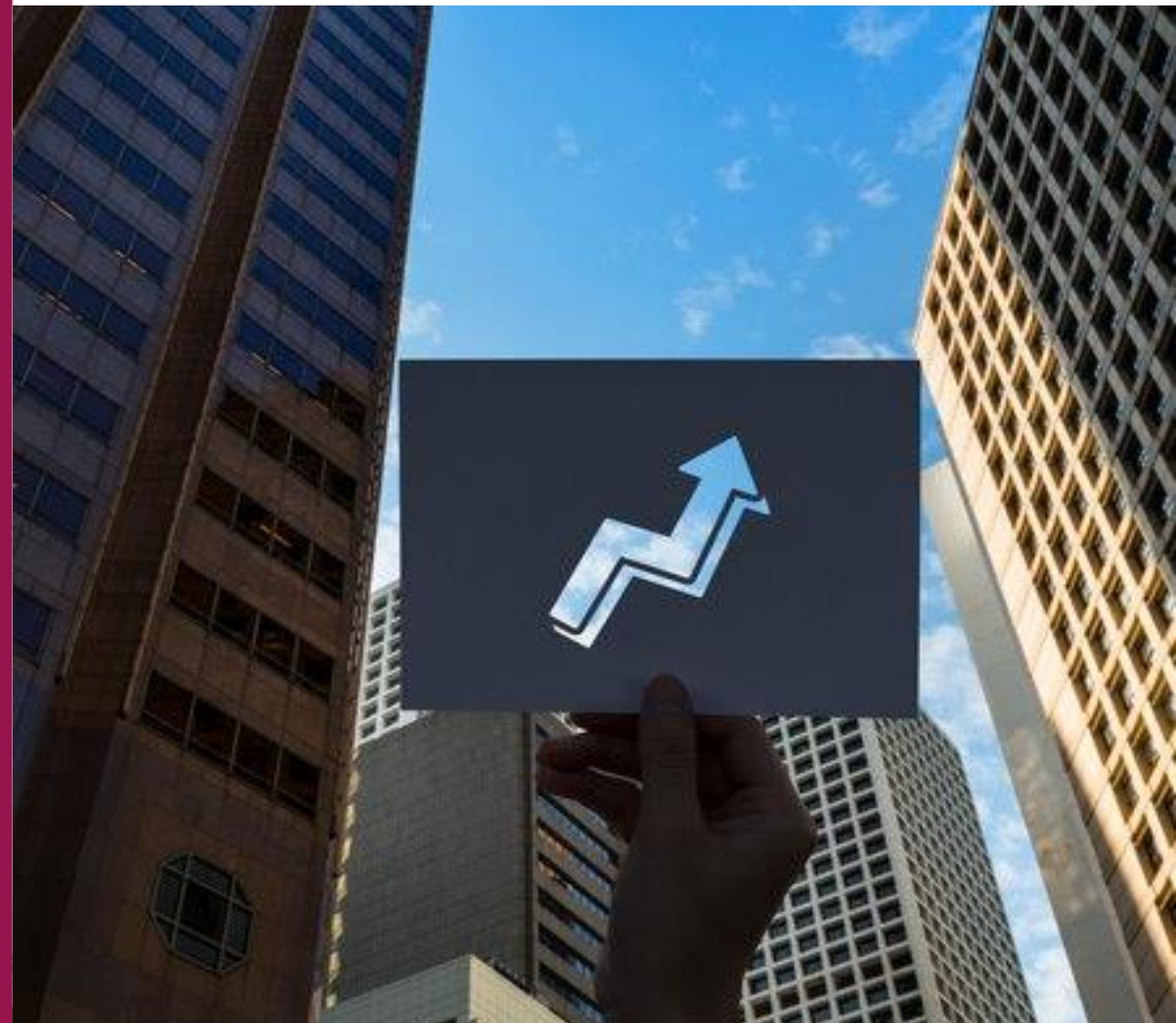
**INR has depreciated by ~3% p.a. over the last 30 Years**



*Introducing*

# Axis US Treasury Dynamic Bond ETF Fund of Fund

An open-ended fund of fund investing in ETFs wherein the underlying investments comprise of US treasury securities across duration



# Axis US Treasury Dynamic Bond ETF Fund of Fund

## Brief Overview

- An actively managed portfolio of ETFs capturing specific segments of the US treasury yield curve
- Portfolio duration will be managed dynamically based on macro assessments with an endeavour to blend capital appreciation and ‘carry’ opportunities
- The fund of fund may add additional ETFs as needed to fine-tune the overall investment direction of the fund depending on market conditions
- Maturity cap of the fund – upto 15 Years

Indicative List of ETFs	iShares Short Treasury Bond ETF	iShares 1-3 Year Treasury Bond ETF	SPDR® Bloomberg 1-10 TIPS ETF	iShares 7-10 Year Treasury Bond ETF
Instrument Range	< 1 Year	1-3 Year	1-10 Year Inflation Adjusted Treasuries	7-10 Years
AUM (US\$ Bn)	US\$ 20.7 Billion	US\$ 27.2 Billion	US\$ 1.3 Billion	US\$ 27.8 Billion
Average Liquidity	US\$ 389m	US\$ 596m	US\$ 0.7m	US\$ 1,268m

# Debt Quants

Indicative List of ETFs	iShares Short Treasury Bond ETF	iShares 1-3 Year Treasury Bond ETF	SPDR® Bloomberg 1-10 TIPS ETF	iShares 7-10 Year Treasury Bond ETF
Number of Holdings	4	80	41	15
Average Maturity	0.28 Years	1.89 Years	4.47 Years	8.26 Years
Effective Duration	0.28 Years	1.80 Years	4.24 Years	7.28 Years
YTM (%)	5.38%	4.99%	4.87%	4.52%

# Why Fund of Fund route

## Direct vs Fund of Fund

### Liberalised Remittance Scheme (LRS)

- Under the LRS, all resident individuals are allowed to freely remit up to USD 2,50,000 per financial year
- This include all current or capital account transaction. For instance, transaction of investments, travel or education
- This restricts the investors' ability to invest in the fund or make other investments
- Under the fund route, this limit is not applicable for investors. Leaving the entire limit free for Investors can invest for other transaction



### Dynamic Management

- Fund manager can take view on interest rate and can take active call and invest across the yield curve



# Why is a dynamic allocation warranted?

Different market cycles require curated positioning

Actively managed strategies pivot allocations with the intention to maximize the risk-return profile for investors.

**Axis US Treasury Dynamic Bond ETF Fund of Fund** endeavors to allocate across strategies depending on the prevailing market environment.

Current market conditions warrant allocation to duration assets.


The table below highlights the divergence in performances of different debt asset types during market conditions

Strategy V/s Market Conditions	Money Market	Duration Assets	Inflation Protected Bonds
Benign/low-interest rate regime (Sep-07 to Mar-09)	2.7%	12.8%	2.6%
Rising yield environment (May-13 to Oct-14)	0.3%	-0.6%	-2.4%
Falling Yield environment (Oct-18 to May-20)	2.2%	14.4%	8.0%
Uncertain Economic conditions (Feb-20 to Dec-20)	0.7%	7.0%	10.1%
High inflation environment (Dec-21 to Jun-23)	2.1%	-5.7%	2.3%


Source: Bloomberg, Axis MF Research, Data as of 31<sup>st</sup> October 2023.

Annualized returns in USD provided for each class of assets. Past performance may or may not be sustained in the future. The table is illustrative of the need for dynamic asset management and is not to be treated as the investment strategy of the fund. For complete details on the scheme investment strategy refer scheme information document.


# Key Fund Facts




**Scheme Name**  
Axis US Treasury Dynamic Bond ETF Fund of Fund




**Scheme Type**  
An open-ended fund of fund investing in ETFs wherein the underlying investments comprise of US treasury securities across duration




**Investment Objective**  
The primary investment objective of the Scheme is to provide regular income by investing in units of overseas ETFs where the investment mandate is to invest in US treasury securities across duration.  
However, there can be no assurance that the investment objective of the Scheme will be achieved.




**Benchmark**  
Bloomberg US Intermediate Treasury TRI




**Entry Load**  
Not Applicable



**Exit Load**  
If redeemed/ switched-out within 1 month from the date of allotment: 0.25%  
If redeemed/ switched-out after 1 month from the date of allotment: Nil



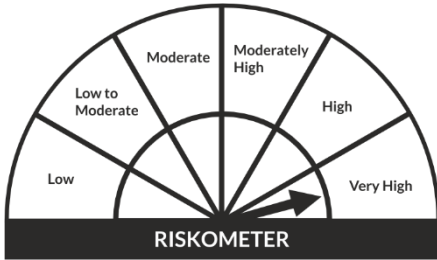
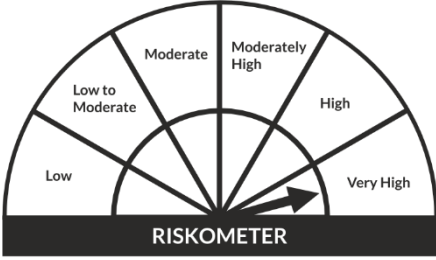
**Minimum Application Amount**  
Rs. 500 and in multiples of Re. 1/- thereafter



**Redemption Payout Cycle**  
T+5 Working Days

Note: Investors will be bearing the recurring expenses of the scheme in addition to the expenses of other schemes in which fund of funds scheme makes investments.

# Product Labelling

Fund Name & Benchmark	Product Labelling	Product Risk-o-meter	Benchmark Risk-o-meter
<p><b>AXIS US TREASURY DYNAMIC BOND ETF FUND OF FUND</b></p> <p>An open-ended fund of fund investing in ETFs wherein the underlying investments comprise of US treasury securities across duration</p> <p><b>Benchmark: Bloomberg US intermediate Treasury TRI</b></p>	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Regular income over long term</li> <li>• Invest in overseas ETFs wherein the underlying investment comprise of US treasury securities across duration</li> </ul>	 <p><b>RISKOMETER</b></p> <p>Investors understand that their principal will be at very high risk</p>	 <p><b>RISKOMETER</b></p> <p><b>Bloomberg US intermediate Treasury TRI</b></p>

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# Disclaimer and Risk Factors

**Disclaimer: Past performance may or may not be sustained in the future.** Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation.

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Vinayak Jayanath is also fund manager for Axis Bluechip fund, Axis Focused 25 Fund, Axis Growth Opportunities Fund, Axis Flexi Cap Fund, Axis Midcap Fund, Axis Special Situation Fund, Axis Small Cap fund, Axis Esg Equity Fund, Axis Quant Fund, Axis Value Fund, Axis Global Equity Alpha Fund Of Fund, Axis Greater China Equity Fund Of Fund, Axis Global Innovation Fund Of Fund, Axis Nasdaq 100 Fund Of Fund, Axis Retirement Savings Fund from 17<sup>th</sup> Jan 2023

Please click on link [https://www.axismf.com/cms/sites/default/files/Statutory/ALL\\_ANNEXXURE\\_Oct%2023.pdf](https://www.axismf.com/cms/sites/default/files/Statutory/ALL_ANNEXXURE_Oct%2023.pdf) to view the performance of other schemes currently managed by the fund manager. Note: In case you require physical copy of this document request you to kindly take the printout to review the fund managers performance of other schemes managed by him from the above link given.

**Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh).

**Trustee:** Axis Mutual Fund Trustee Ltd.

**Investment Manager:** Axis Asset Management Co. Ltd. (the AMC).

**Risk Factors:** Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme. This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

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

**Thank You**