

Axis Short Term Fund

An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years. A relatively high interest rate risk and moderate credit risk.

Fund Manager: Devang Shah

Key Features & Benefits

High quality,
low risk
strategy

Combination of
short duration
& carry

Well diversified
portfolio

Axis Short Term Fund

- **High quality, low risk strategy:** The fund has an endeavor to generate stable returns without compromising on the quality of the portfolio. The fund has always maintained a high proportion of AAA, SOV & equivalent assets in the portfolio (85.34% including cash and MF units as per 30th June portfolio).
- **Combination of short duration & carry:** The fund tracks corporate bond vs money market instrument spreads closely while making its allocation. The Indian fixed income curve has massively flattened in the last two months. The current G-Sec yield curve post 4 years is trading flat with a 4X10 year spread materially below long term averages. The 2-year and 3-year segment seems to have priced in about 75-100 bps of future rate hikes by RBI, making this segment incrementally attractive. We remain neutral towards credits and do not intend to increase our allocation to non-AAA assets in the portfolio. However, the existing allocation acts as an ideal 'carry' solution in the current environment and we shall continue to hold a similar percentage.
- **Well diversified portfolio:** Along with a superior quality, it is also well diversified. It has a maximum exposure of 14.58% per group. We have an internal limit of 17.5% at a group level. The fund controls credit risk by having strict limits on issuer weighting based on rating. Also, the exposure per asset is not more than 10% of the total holdings.

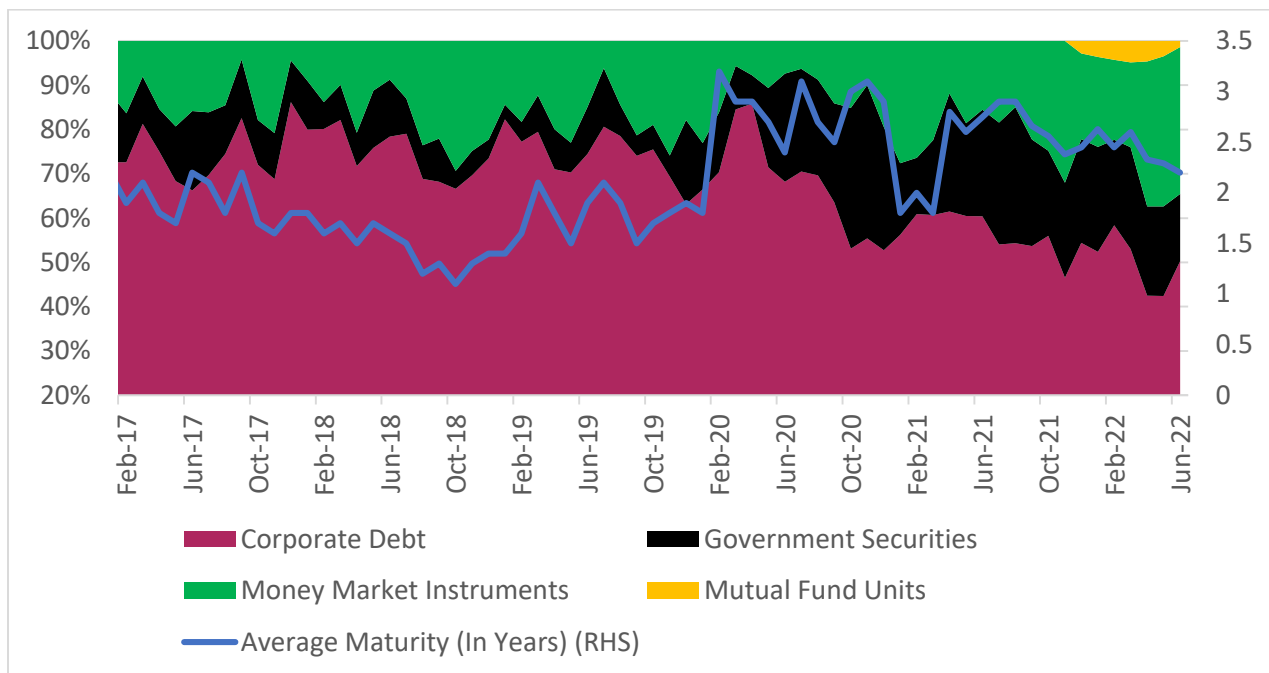
Why invest in Axis Short Term Fund now?

- The fund is a combination of short duration as well as carry that can help mitigate interest rate risk and deliver a balanced return over a long run. This portfolio mix helps us in a rising rate environment as it gives an opportunity to reinvest the shorter duration papers incrementally at higher yields. Over the last 1 year, the average maturity of the fund has been brought down from 2.9 to ~2.2 years.
- As the headline CPI inflation for June 2022 comes at 7.01% which is much lower than the RBI's expectation of 7.30% for the second quarter, it seems that a large part of the rate hikes has been priced in.
- Previously, we were following a barbell strategy in the fund – keeping cash and buying some long assets. However now, as RBI has already done 2 rate hikes and about 75-100 bps of rate hikes priced in, we are

now moving to the “belly of the yield curve”; which means that we are incrementally adding 2-4 year corporate bonds and G-secs where a sell-off of approximately 150-175 bps has already taken place.

- The incremental addition in G-secs has been done as a preventive measure to avoid MTM impact in the portfolio.

How the fund has played active duration strategy in different interest rate cycles?



Source: ACEMF. Allocation & maturity is based on the current market conditions and is subject to changes depending on the fund manager’s view of the markets. Please refer to Scheme Information Document (SID) for detailed asset allocation and investment strategy. Data as on 30th June 2022

Portfolio Quality

- The fund maintains about ~85% in AAA assets, SOV instruments & Cash.
- Remaining portfolio is invested in AA+ and AA- category. The non-AAA papers have been taken on account of a strong parentage and is mainly into floating rate notes. Also, the duration of these papers is lower. The fund does not allow investments below AA- rated papers.

Portfolio Facts

Portfolio Classification By Rating (%)	
AAA, SOV & Equivalent	85.34%
AA+	13.56%
AA-	1.11%

Disclaimer: Data as on 30th June 2022

Portfolio Classification By Asset Class (%)	
Corporate Bonds	60.72%
Govt. Bonds & Govt. Bond Strips	14.54%
Certificate of Deposit	10.87%
Commercial Paper	7.09%
T-Bills, MF units & Cash	6.79%

Disclaimer: Data as on 30th June 2022

Debt Quants

Average Maturity	Modified Duration	Macaulay Duration	YTM
2.2 years	1.69 years	1.78 years	6.99%

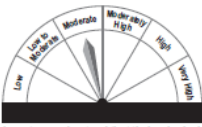
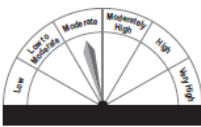
The yield to maturity should not be taken as an indication of the returns that may be generated by the fund and the securities bought by the fund may or may not be held till their respective maturities. Data as of 30th June 2022.

Conclusion

As inflation cools off with expectations of a good monsoon and the drop in commodity prices, it seems that worst of the interest rate hike has been priced in. Axis Short Term fund has been positioned in a way that will benefit investors who are looking at staggered investments in the next 2-3 months and is ideal from a medium term investment horizon.

The fund will benefit with a carry strategy with short duration maturity papers. It is an ideal solution for investors who are looking for a good quality portfolio and willing to take moderate level of risk.

Product Labelling & Disclaimers

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)																								
<p>Axis Short Term Fund</p> <p>(An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years. A relatively high interest rate risk and moderate credit risk.)</p> <p>Benchmark: NIFTY Short Duration Debt Index B-II</p>	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> Regular income while maintaining liquidity over short term Investment in debt and money market instruments <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p>	 <p>Investors understand that their principal will be at Moderate Risk</p>		<table border="1"> <thead> <tr> <th colspan="4">Potential Risk Class</th> </tr> <tr> <th>Credit Risk →</th> <th>Relatively Low (Class A)</th> <th>Moderate (Class B)</th> <th>Relatively High (Class C)</th> </tr> </thead> <tbody> <tr> <th>Interest Rate Risk ↓</th> <td></td> <td></td> <td></td> </tr> <tr> <th>Relatively Low (Class I)</th> <td></td> <td></td> <td></td> </tr> <tr> <th>Moderate (Class II)</th> <td></td> <td></td> <td></td> </tr> <tr> <th>Relatively High (Class III)</th> <td></td> <td>B-III</td> <td></td> </tr> </tbody> </table>	Potential Risk Class				Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓				Relatively Low (Class I)				Moderate (Class II)				Relatively High (Class III)		B-III	
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Disclaimer

Past performance may or may not be sustained in the future. Data updated as on June 30th 2022. 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 Ltd 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 Ltd nor Axis Asset Management Company Ltd, 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.