

You have **quality**, You just need the
right blend to give it a lift

• Presenting •

JM Corporate Bond Fund

(An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.)

NFO opens on: March 6, 2023

NFO closes on: March 20, 2023

1 Global and Domestic Interest rates - **Nearing a peak**

[Click here](#)



2 Goldilocks Scenario - Peaking Inflation and **Positive Real Interest Rates**

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3 Global Growth – mixed signals, Domestic growth - **Resilient**

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4 Significant shift in yield curve due to rate hikes- an **Opportunity**

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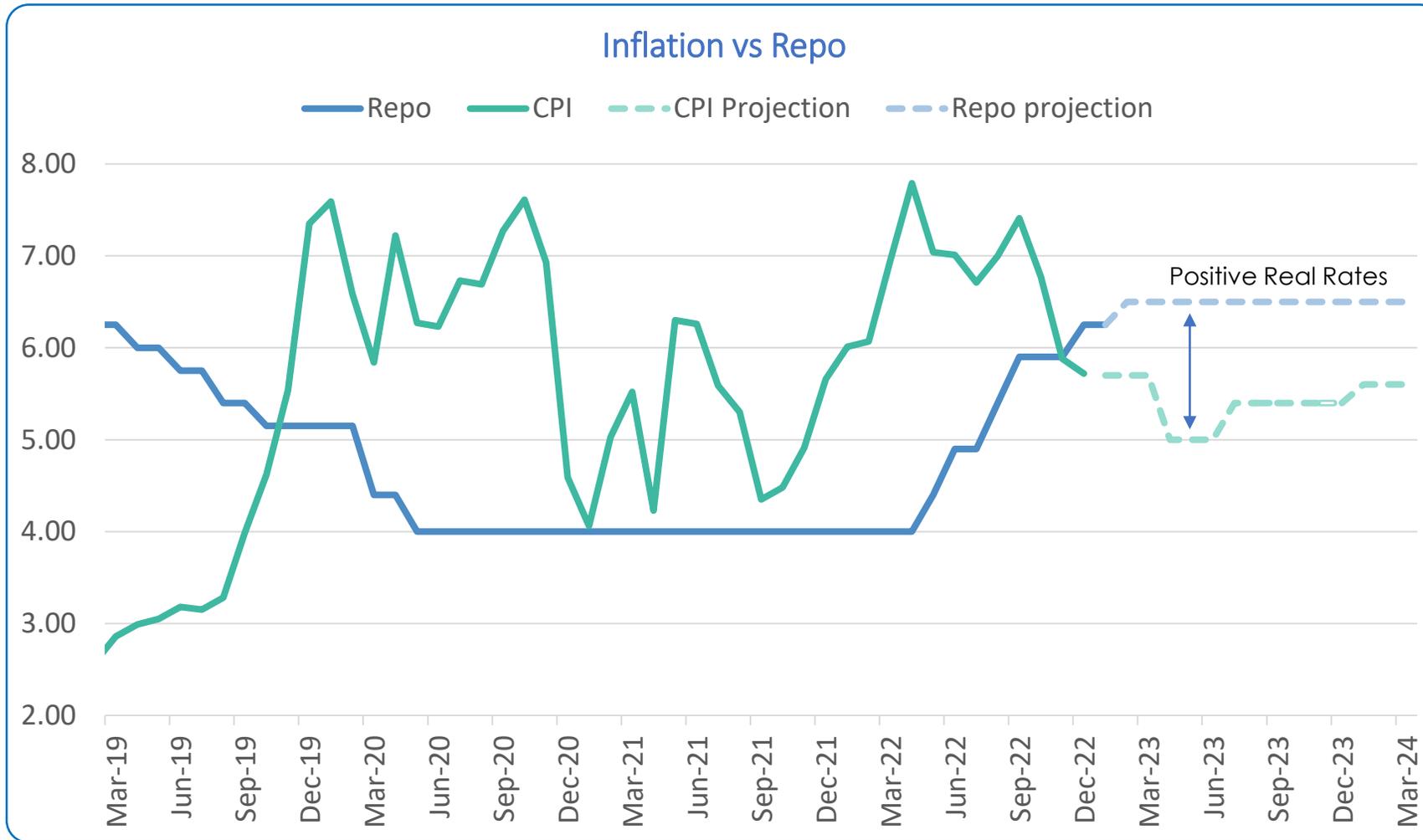


Interest Rate Outlook

	US Fed Rate	ECB Main Refinancing Rate	BoE Bank Rate	India Repo Rate
Current rate	4.50% - 4.75%	3.00%	4.00%	6.50%
Highest since	Jan 2008	Dec 2008	Nov 2008	Feb 2019
Rate at start of the rate hike cycle (15 Dec 2021)	0.00% - 0.25%	0.00%	0.10%	4.00%
Average Benchmark (over last 20 years)	1.25%	1.13%	1.75%	6.25%
Current Benchmark over average	3.25% - 3.50%	1.87%	2.25%	0.25%
Expected terminal rate	5.00%-5.25% (5.1% median projection by FOMC)	3.50 (Bloomberg estimate)	4.65 (Bloomberg estimate)	6.75% (Market expectation)

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Inflation vs Repo – Positive Real Rate



250 bps of rate hikes in FY 2023

Repo Rate at 6.50%

Inflation projection at 5.3% FY'24

Positive Real Interest Rate

Goldilocks Scenario:

Worst of inflation may be behind us however interest rates may be higher for longer.

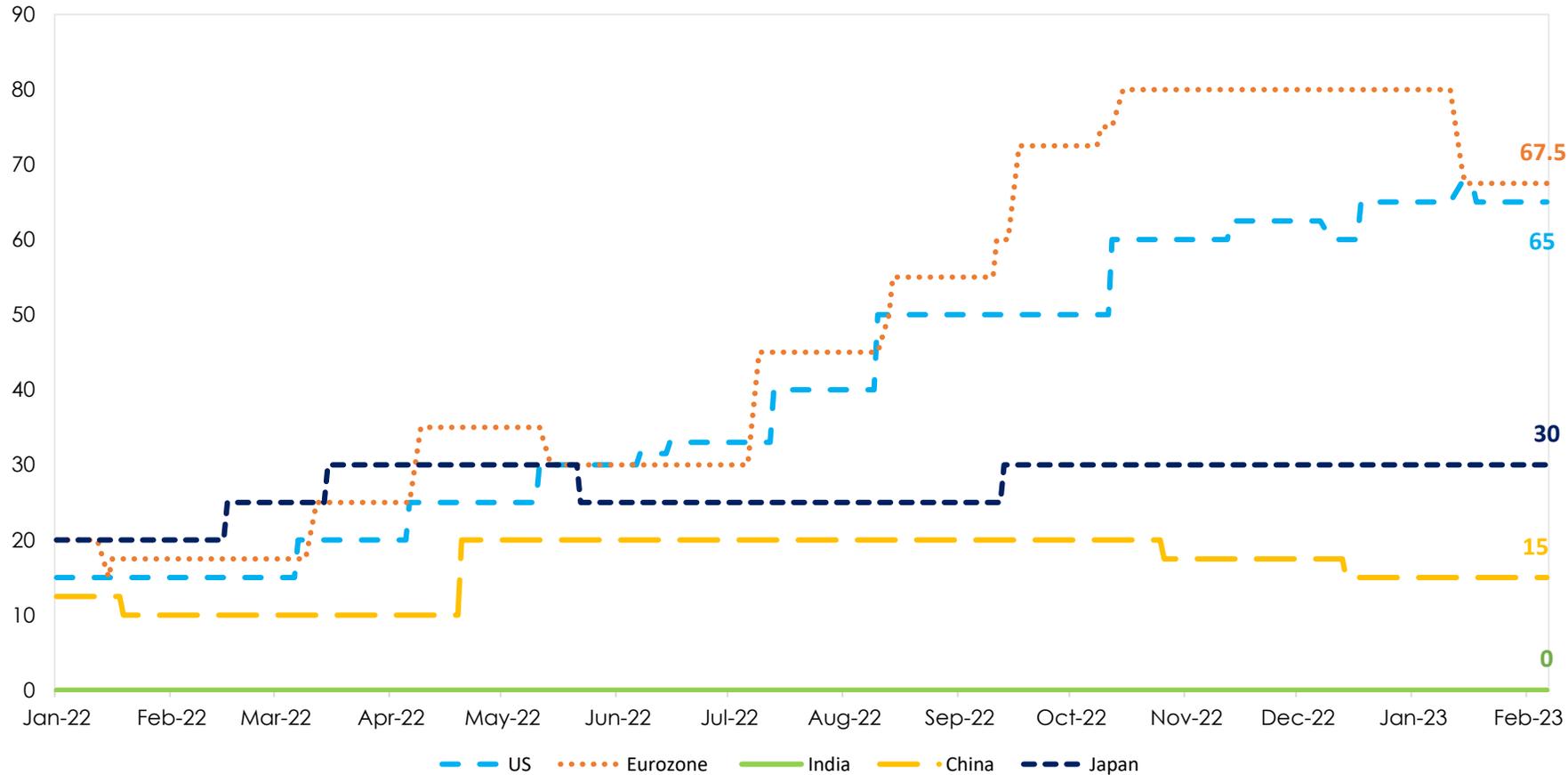
-  Attractive carry in medium term
-  Potential for capital appreciation in long term

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Source: Bloomberg, JM MF Research. Data from January 1, 2019 up to February 8, 2023, Projections taken as per RBI's forecast

Recession Risks

Recession Probability (%) in next 1 Year



Expected probability of recession in 1 year is 67.5% in Eurozone and 65% in US (as per Bloomberg)



India is a shining star among global peers however, exports could get affected with a probable global slowdown



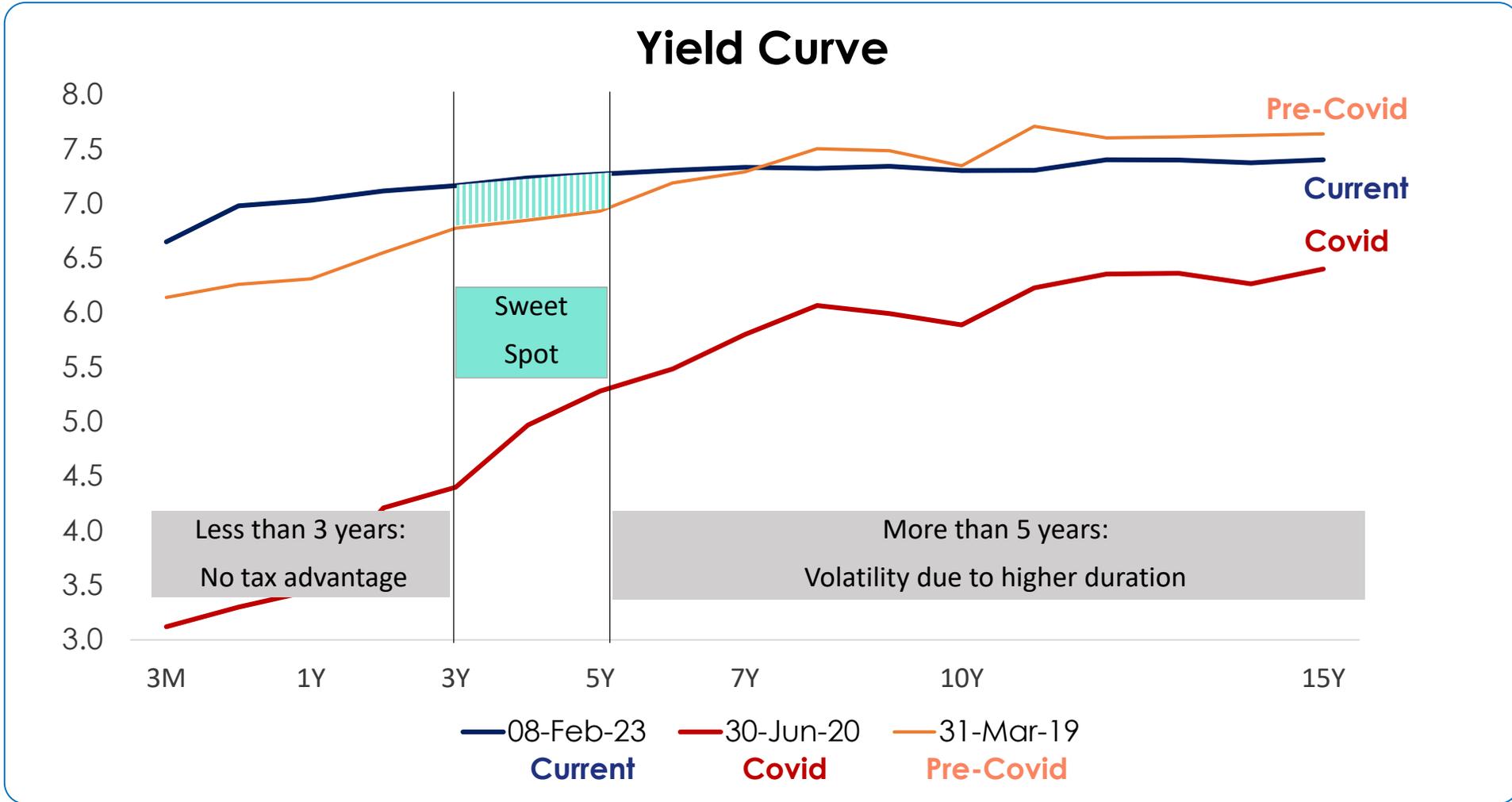
RBI resilient on growth – FY'24 projected at 6.4% (economist consensus below 6%)

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Source: Bloomberg, JM MF Research. Data from January 3, 2022 up to February 8, 2023

Yield Curve Movement



- 5Y – A balanced blend of carry and duration**
-  Attractive Accruals
 -  Roll Down Benefit
 -  Scope for Capital Appreciation post 3 years
 -  Residual 2 years – a reasonable proposition for a duration call

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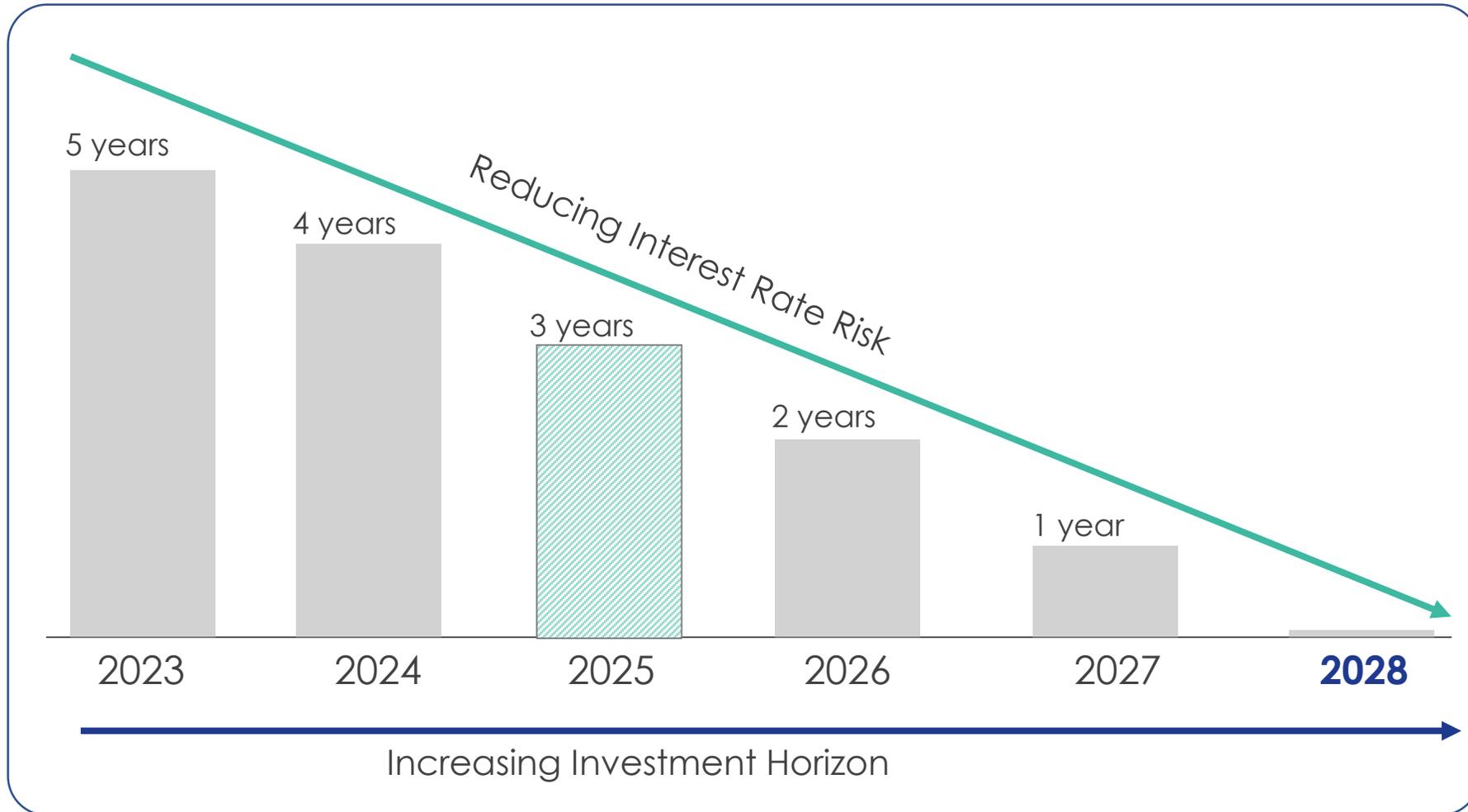
Source: Cogencis, JM MF Research. Data as on February 8, 2023



ROLL DOWN APPROACH

INFORMATION

Roll Down Approach – Natural Hedge

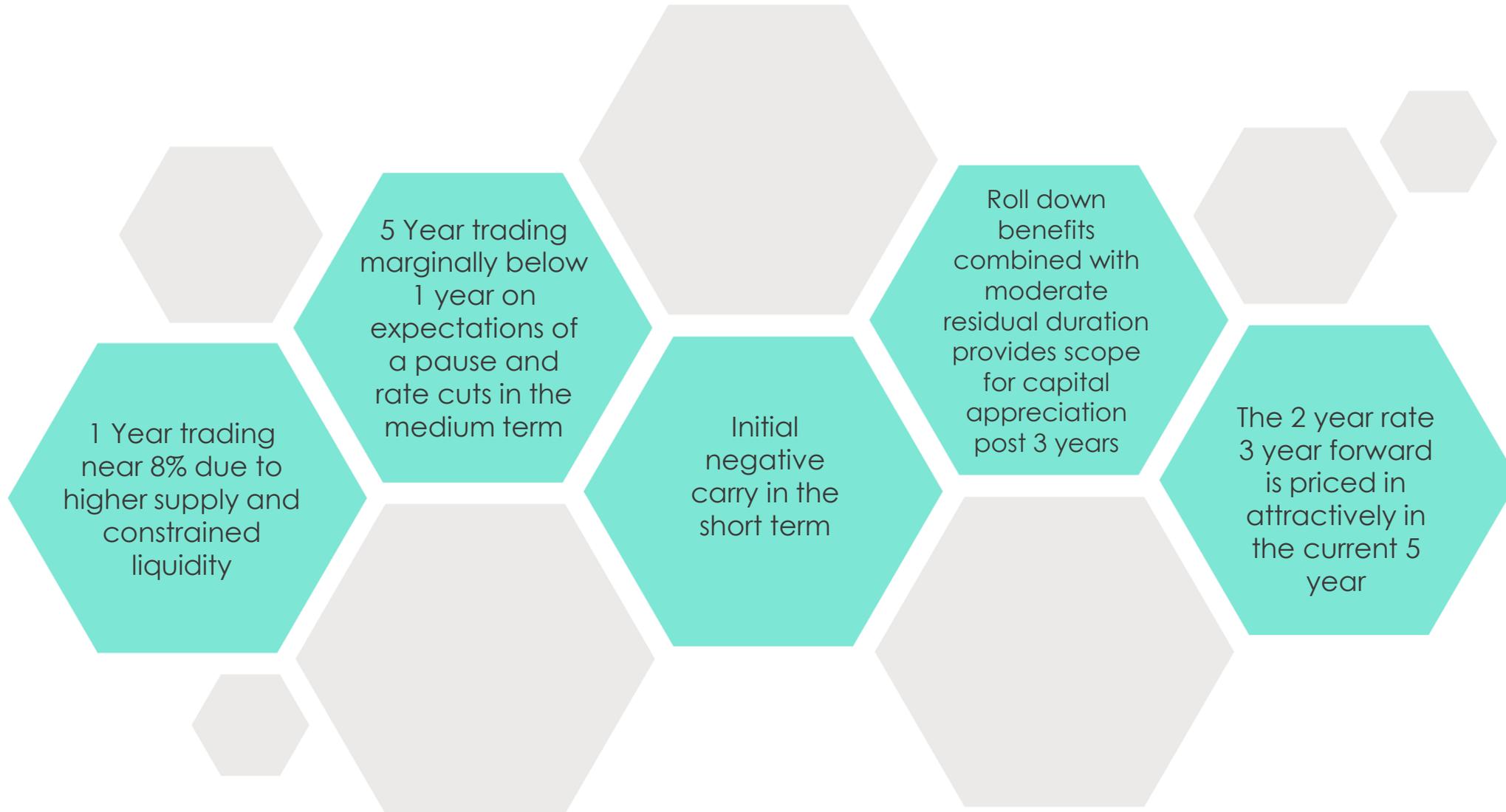


**Interest Rate Risk
decreases as holding
period increases**

Optimum blend of accruals broadly from passive strategy (~85% of the portfolio).

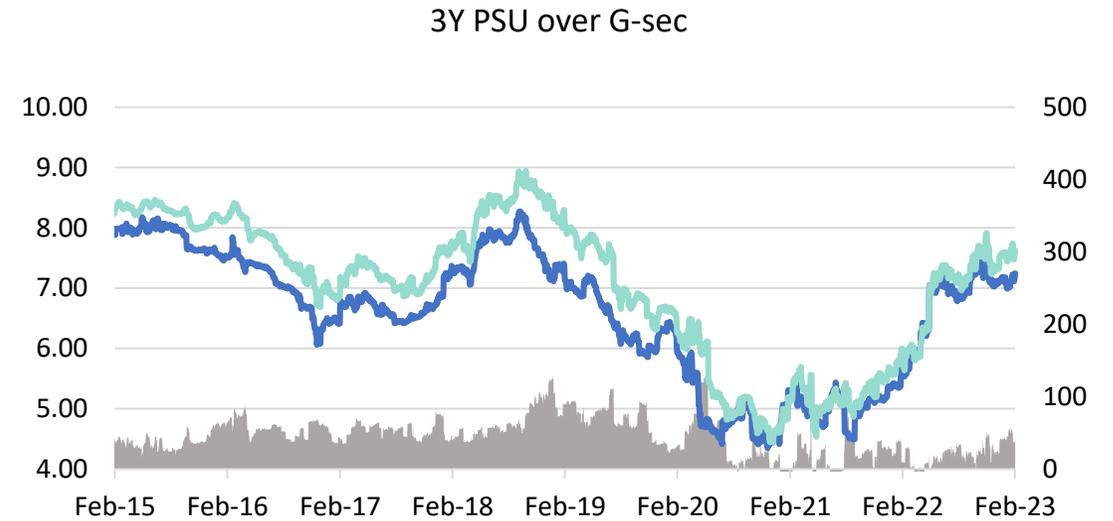
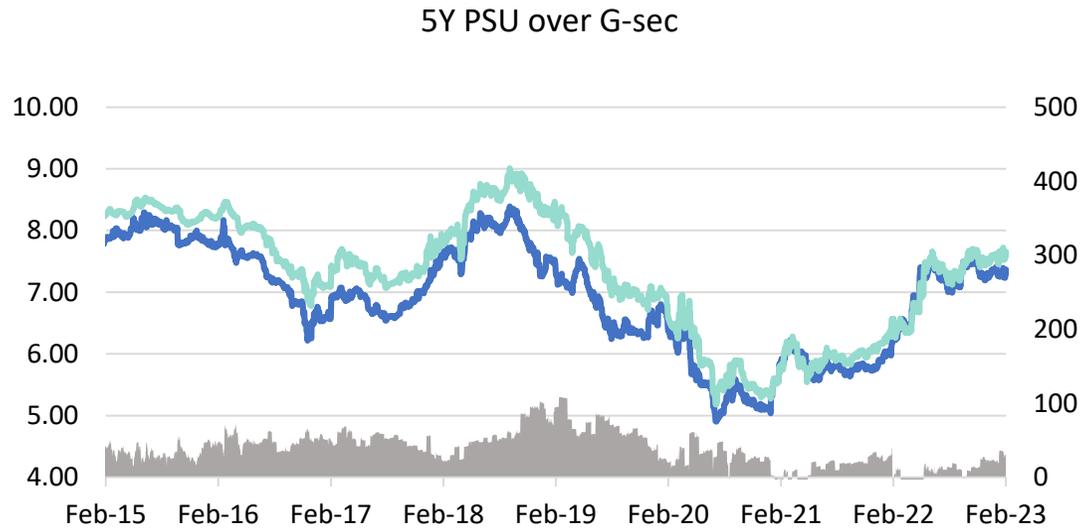
The following is a diagrammatic representation of the concept of reducing interest rate risk with increasing investment horizon.

Key Takeaways on the Yield Curve - Why 5 year



Why PSU /AAA Portfolio v/s G-Sec

PSU AAA 5Y vs G-sec and PSU AAA 3Y vs G-sec



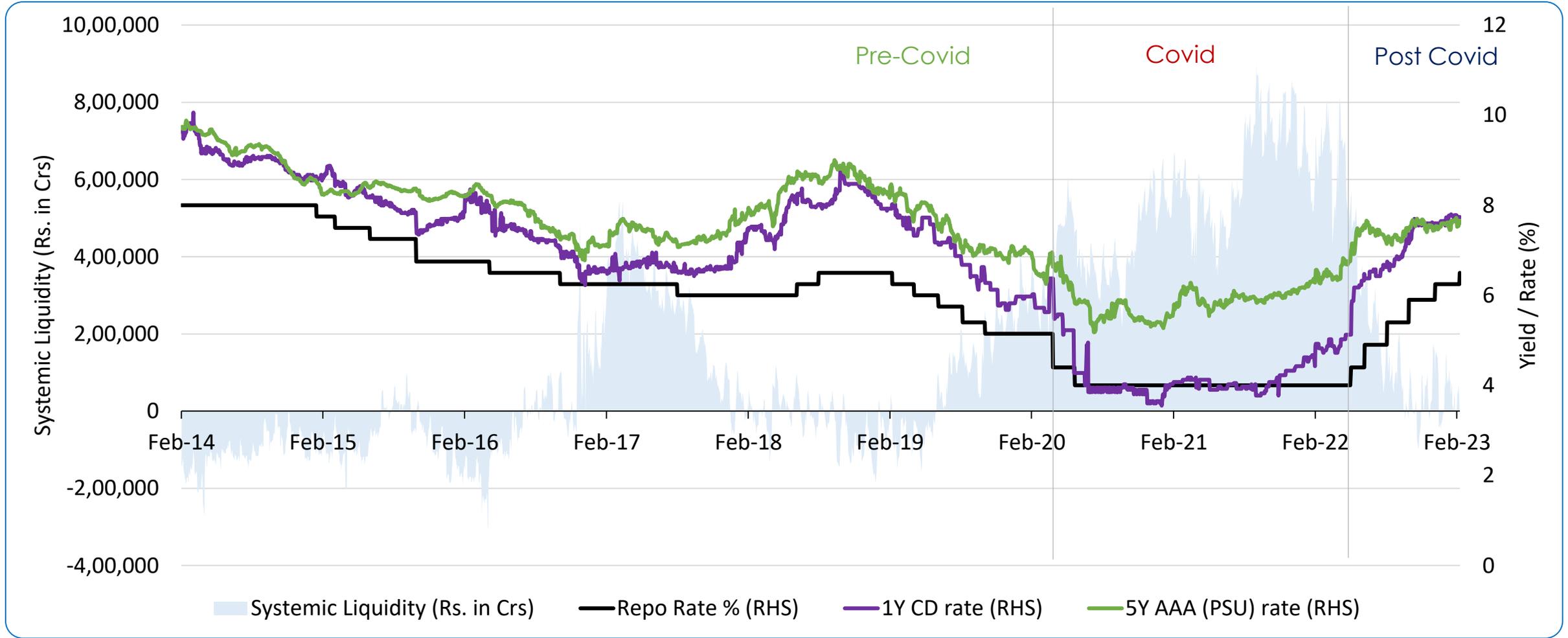
■ AAA 5Y (PSU) - 5 Y G-sec annualised spread (bps)
— 5 Y G-sec annualised
— AAA 5Y (PSU)

■ AAA 3Y (PSU) - 3 Y G-sec annualised spread (bps)
— 3 Y G-sec annualised
— AAA 3Y (PSU)

	Current	Average
AAA 5Y (PSU) - 5 Y G-sec annualised spread (bps)	29	39
AAA 3Y (PSU) - 3 Y G-sec annualised spread (bps)	38	45

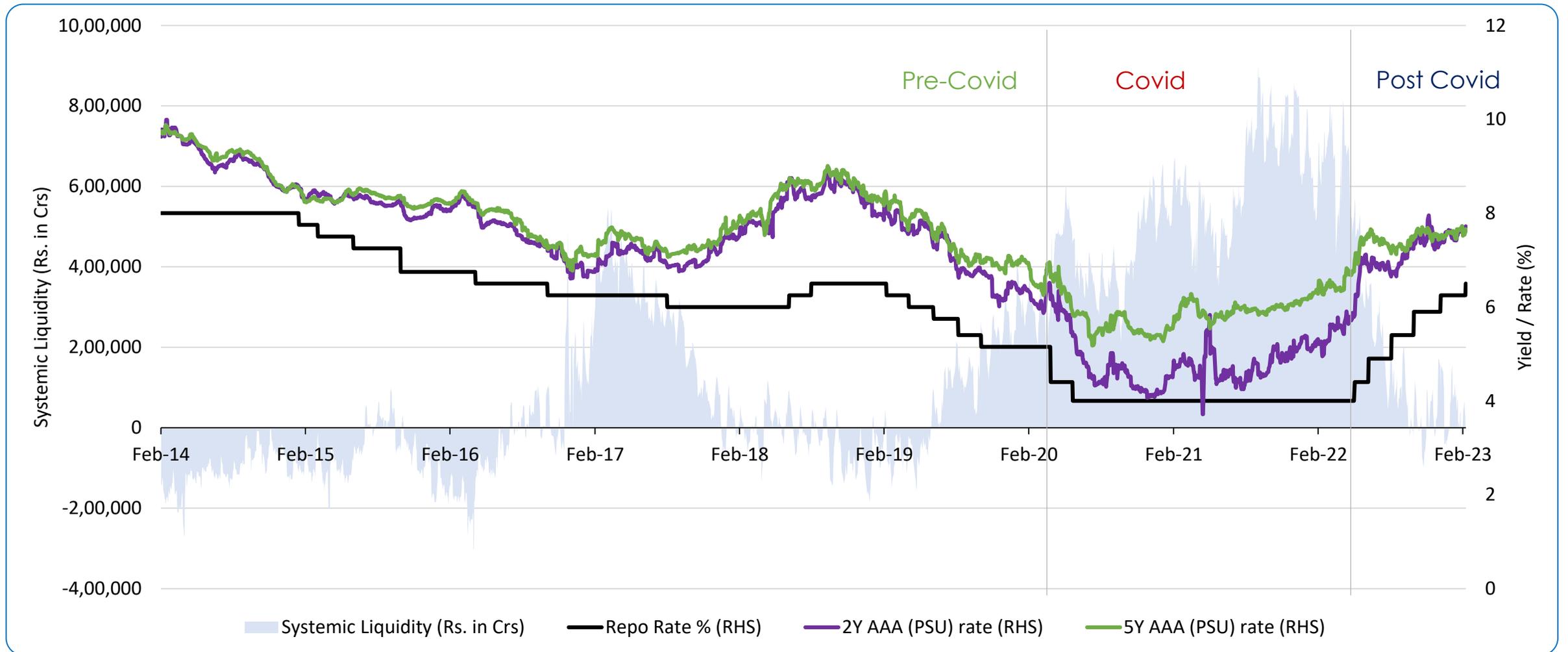
(Refer Advantages of JM Corporate Bond Fund slide)

Yield Curve Movement PSU AAA 1Y vs 5Y



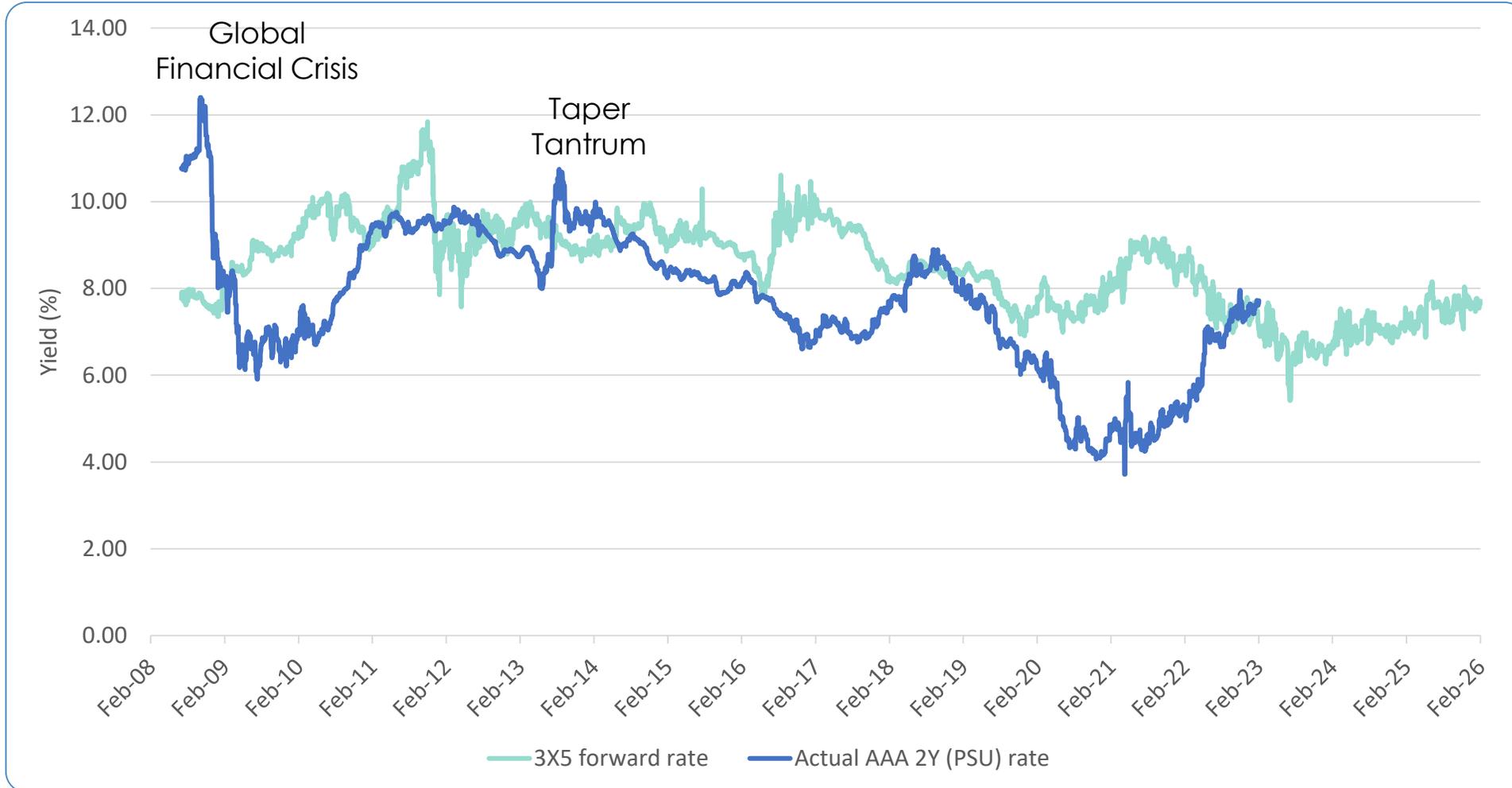
Source: Bloomberg, JM MF Research. Data from February 1, 2014 up to February 8, 2023

Yield Curve Movement PSU AAA 2Y vs 5Y



Source: Bloomberg, JM MF Research. Data from February 1, 2014 up to February 8, 2023

2Y Rate 3Y Forward at an Attractive Juncture



Historic data depicts:

- PSU AAA 2Y actual rate has broadly been below the projected 2Y rate 3Y forward in a normal market scenario
- 83% of the times, it was wiser to hold a 5Y instrument rather than buy a 3Y and then reinvest in the 2Y

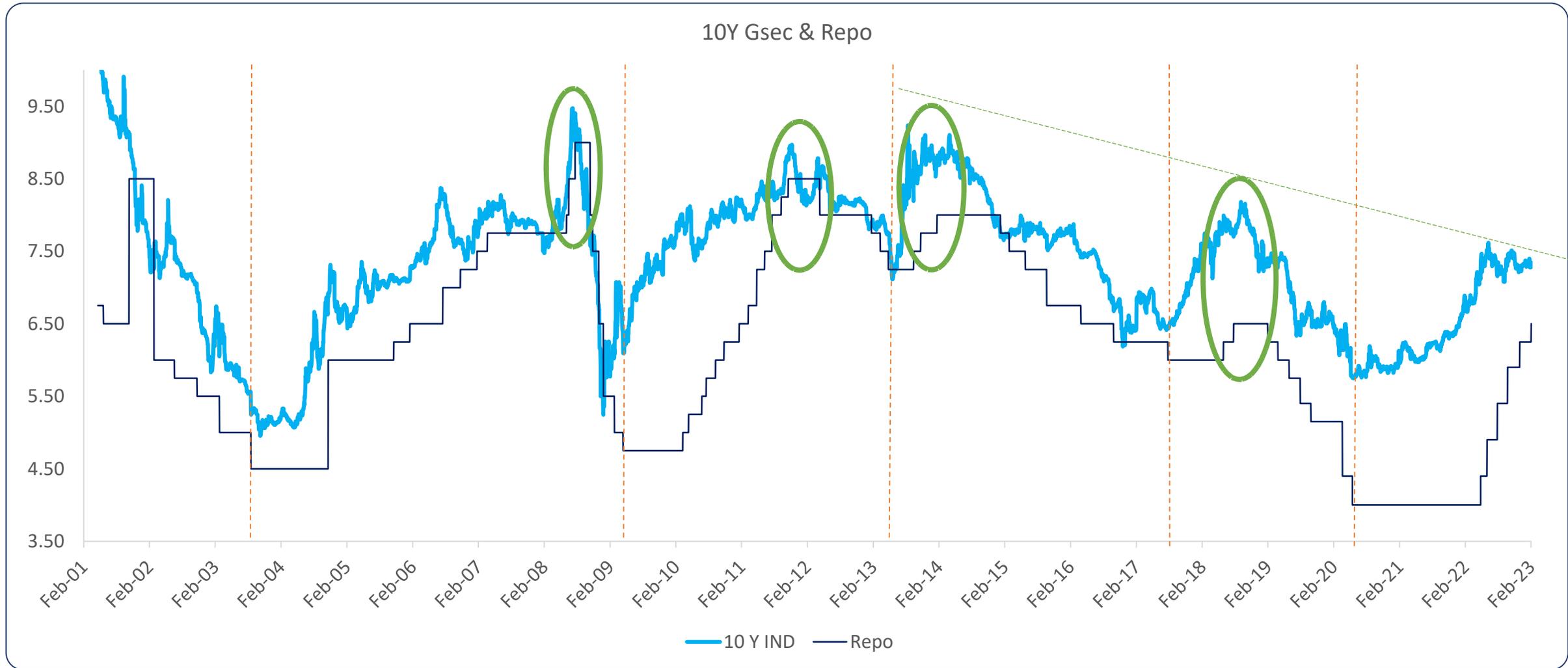
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ACTIVE DURATION MANAGEMENT

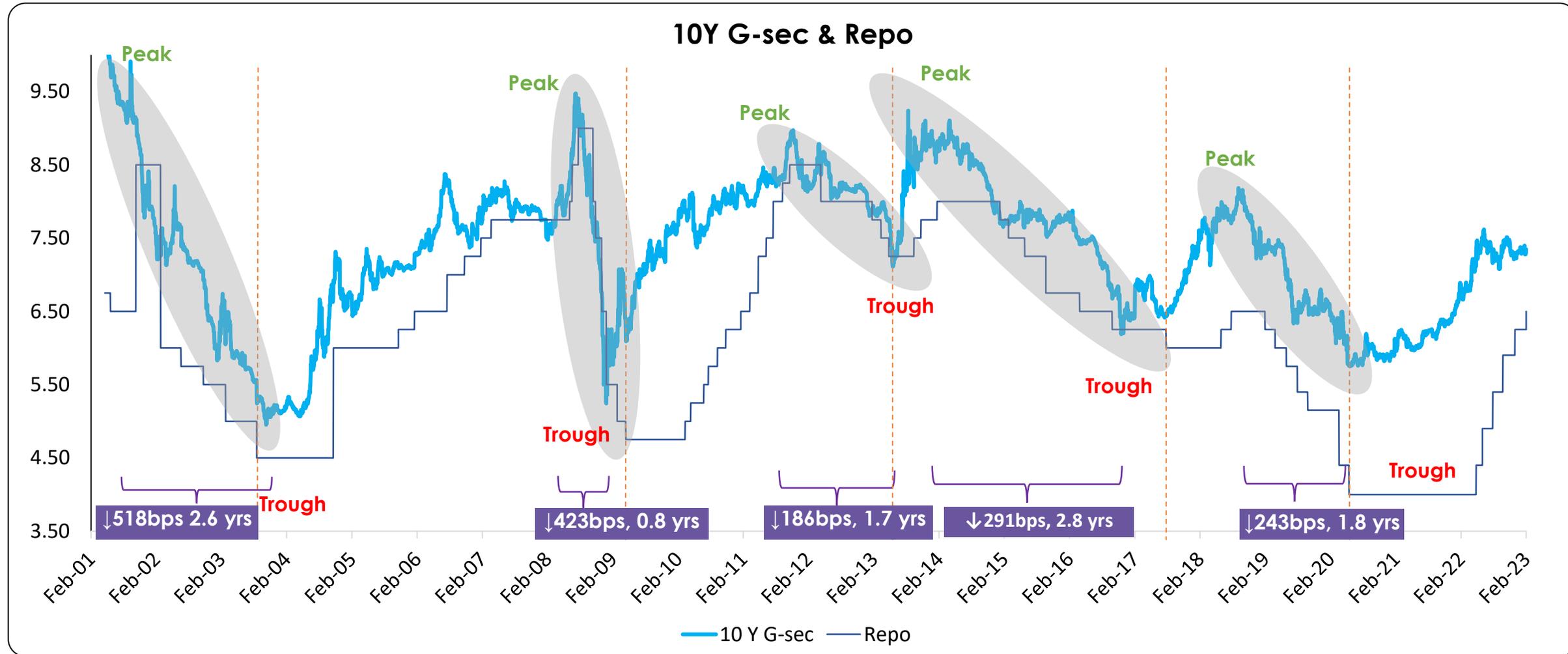
Interest Rate Cycles- Last 2 Decades



Historical data depicts a softening bias over 2 - 3 years once the rate hike cycle peaks. Empirical evidence shows potential for alpha creation. When repo peaks out, interest rates usually peak out.

Source: Bloomberg, JM MF Research. Data from May 24, 2001 up to February 8, 2023. Data not available for February 1, 2001 – May 24, 2001

Peak to Trough



On an average in the past 5 interest rate down cycles, 10Y G-sec has fallen by ~180-500 bps in ~1.9 years from its peak. As market anticipates repo rate peak, markets tend to rally at the peak / prior to the peak

Source: Bloomberg, JM MF Research. Data from May 24, 2001 up to February 8, 2023. Data not available for February 1, 2001 – May 24, 2001

🎈 Potential for capital appreciation from active duration management (~15% of the portfolio).

Why it makes sense in the current interest rate regime –

- 🎈 Currently interest rates are reasonably high
- 🎈 Historical data demonstrates a softening bias over 2 - 3 years once the rate hike cycle peaks
- 🎈 Capturing the above move could generate an alpha
- 🎈 Softening of 50 bps could add an annualised alpha of approx. 15 bps.

A	In case of softening in yields (bps)	50
B	Modified duration [#]	6
C=A*B	Capital gain on sale of instrument (bps)	300
D	Allocation of G-sec in portfolio ^{\$}	15%
E=C*D	Total Gain (bps)	45
Annualized Gain - assuming 3 years (bps)		15

Assumptions –

[#] Modified duration assumed as 6 - considering 10Y G-sec

^{\$} Active management on 15% of the portfolio



JM CORPORATE BOND FUND

Our Approach



The approach mentioned herein is internal and may change from time to time

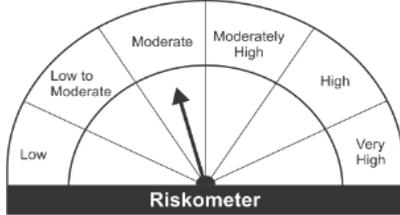
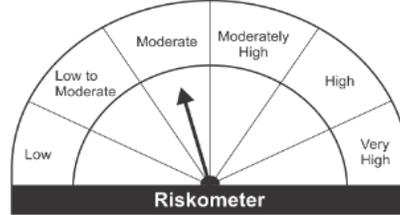
Advantages of JM Corporate Bond Fund

- 01 **Optimum blend** of accruals broadly from **passive strategy** (~85% of the portfolio) and potential for capital appreciation from **active duration management** (~15% of the portfolio).
- 02 **Visibility of returns** over defined investment horizon
- 03 **Attractive** absolute **yield**
- 04 Relatively **low credit risk**
- 05 Scope for **capital appreciation**
- 06 Relatively **High Liquidity**
- 07 **Tax efficiency** - Timing of initial investment can give additional 1 year indexation benefit.
 - *Protection of ~25bps against adverse interest rate movement*

Scheme Name	JM Corporate Bond Fund
Type of Scheme	An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.
Investment Objective	To generate income through investing predominantly in AA+ and above rated corporate bonds while maintaining the optimum balance of yield, safety and liquidity. Investors are required to read all the scheme related information set out in the offer documents carefully and also note that there can be no assurance that the investment objectives of the scheme will be realized. The scheme does not guarantee/ indicate any returns.
Investment Strategy	The Scheme aims to generate income by predominantly investing in AA+ and above rated bonds. The Scheme shall endeavour to develop a well – diversified portfolio of debt (including securitized debt) and other instruments. The Scheme may also invest in the schemes of Mutual Funds. The Scheme may also invest in the hybrid securities viz. units of REITS and InvITs for diversification and subject to necessary stipulations by SEBI from time to time. Though every endeavour will be made to achieve the objective of the Scheme, the AMC/Sponsors/Trustee do not guarantee that the investment objective of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme
Benchmark	CRISIL Corporate Bond Fund BIII Index
Minimum Application Amount	Rs. 5000/- per Plan/Option and in multiples of any amount thereafter.
Fund Managers	Primary Fund Manager: Mr. Gurvinder Singh Wasan Secondary Fund Manager: Ms. Shalini Tibrewala
NFO Period	Opens On: March 6, 2023 Closes On: March 20, 2023

Risk-o-Meter Of JM Corporate Bond Fund

This Product is suitable for investors who are seeking*

Scheme Name	Nature of the Scheme	Scheme Risk-o-meter [§]	Benchmark	Benchmark Risk-o-meter [§]
JM Corporate Bond Fund	<ul style="list-style-type: none"> Income over Short to Medium Term. To generate income/capital appreciation through investments predominantly in AA+ and above rated corporate bonds 	 <p>Investors understand that their principal will be at moderate risk</p>	CRISIL Corporate Bond Fund BIII Index	 <p>Investors understand that their principal will be at moderate risk</p>

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 (Class III)		B-III	

*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.

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