MUTUAL FUNDS Sahi Hai

PGIM India Mutual Fund

PGIM INDIA MONEY MARKET FUND

An open ended debt scheme investing in money market instruments

August 2020

Money Market Fund – An unconstrained option

A Money Market Fund can invest in Money Market instruments having a maturity of up to 1 year making it an unconstrained investment option. The fund manager can alter the maturity of the fund for any maturity up to 1 year in order to capture the opportunities in the market irrespective of the shape of the curve for such maturities.

Opportunity due to excess liquidity and stability in yields

- The recent steps by the RBI to raise Held To Maturity (HTM) limits, conduct special Open Market Operations (OMO's) and Term Repo operations pave way for medium term stability in the bond markets
- This stance by the RBI to ensure orderly market functioning is a highlight as it is a reaffirmation that RBI remains sensitive to any reversal in yields and would act with urgency if needed.
- In our view, further rate cuts are possible subject to political stability across borders and macroeconomic indicators.
- Therefore, excess liquidity with a stability in yields is an opportunity for investors to look at funds with a moderately shorter time frame of 3-4 months.

Why invest in PGIM India Money Market Fund?

The PGIM India Money Market fund is a moderately low volatility fund that seeks to deliver reasonable market related returns through investments in Money Market instruments.

Portfolio Positioning* and Strategy

- The fund will invest across a range of money market instruments including Commercial Papers (CPs), Certificates of Deposits (CDs), Treasury Bills, Cash Management Bills (CMBs) and other discounted instruments with tenors not exceeding 1 year. CP investments are restricted to high grade CPs (with long term ratings of AA+/AAA)
- Positioning along the money market curve, depends on steepness and the potential roll-down opportunities that may arise from time to time.
- The Fund will be positioned based on an analysis of liquidity conditions, the shape of the yield curve and other macro-economic indicators.
- Average maturity of the fund will mostly range in a band of 4-8 months.
- Currently, the mid segment of the money market curve looks more attractive. The fund is hence invested in the 4-9 month segment, given the existing steepness in this portion. Average maturity of the fund is hence closer to the lower end of the band.

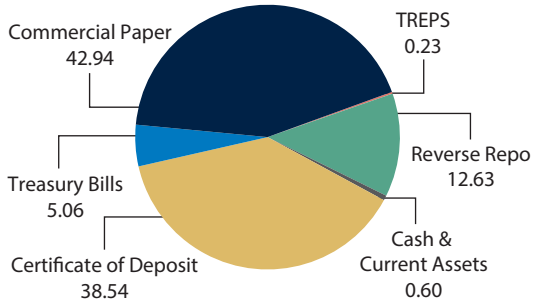
Portfolio Characteristics*

- Currently, the portfolio only comprises of AAA/A1+ rated securities and Sovereign Bonds.

Who should invest?

- PGIM India Money Market Fund is ideal for investors with the investment horizon of 3-4 Months.
- Investors looking for alternate investment avenues to park idle surplus funds for short term and higher liquidity options with relatively low return volatility

Asset Allocation (% AUM)



Credit Quality Profile (% AUM)

Fund Details#

Portfolio Yield (%)	3.56
Average Maturity	4.32 Months
Modified Duration	4.20 Months
Macaulay Duration	4.20 Months
Standard Deviation	0.08 Years
Sharpe Ratio	0.10 (R)/ 0.15(D)

Portfolio (Top Ten Holdings) as on August 31, 2020

Issuer	% to Net Assets	Rating
Reverse Repo	12.63	
L&T Infrastructure Finance Company Limited	8.96	ICRA A1+
Axis Bank Ltd.	8.95	CRISIL A1+
ICICI Bank Ltd.	8.95	ICRA A1+
Larsen & Toubro Ltd.	8.94	ICRA A1+
Union Bank Of India	8.88	CARE A1+
Bank Of Baroda	8.78	CRISIL A1+
National Bank For Agriculture & Rural Development	8.30	ICRA A1+
Tata Capital Financial Services Ltd	7.82	CRISIL A1+
Housing Development Finance Corporation Ltd.	5.92	CRISIL A1+

Standard Returns are not provided as the scheme has not completed one year of performance.

The above numbers are based on data from since inception of the fund to August 31, 2020

All the above data are as on August 31, 2020. * These are based on fund manager's current outlook & Subject to change.

Macro Review

- The July Consumer Price Index (CPI) inflation rate came in at 6.9%, higher than consensus expectation of 6.3%. Inflation has averaged 6.5% over the March to July and has remained over RBI's 6% upper end of the target for over seven months and over 4% for 10 consecutive months.
- Core inflation also inched up to 5.87% compared to 5.33% in June'20, despite weak demand conditions.
- The July inflation surprise came from all the key quarters. As expected, food inflation ticked higher, led by both a seasonal rise in vegetable prices as well as supply disruption in the transport of food items. Pump petrol and diesel prices rose too, given elevated taxes. Sustained rise in gold prices added another 50bp. Even after shaving off all of this, our measure of core inflation excluding gold, rose 0.4 % over the last month, driven by price pressures in most of the underlying items - education, personal and household items.
- Inflation is likely to face upward pressure in the near term but likely to ease eventually on lack of demand and favorable base effect in the latter part of the year.

Liquidity and Rates

- Liquidity conditions continued to remain in surplus mode in line with the RBI's accommodative stance and the pledge to improve transmission of past rate cuts.
- Average daily, Liquidity Adjustment Facility (LAF) balances for August stood at INR 3.68 trillion compared to INR 3.59 trillion in July. Currency leakage in the first 3 weeks of August was at approx. INR 16,000 crore compared to INR 12,000 crore for the month of July in line with seasonal trend and also on account of reducing risk aversion and cash hoarding as the economy has unlocked.
- The Rupee appreciated by 122 paise (1.63%) against the USD in June. Brent Crude oil continued to trade in the narrow range of USD 40/bbl to USD 45/ bbl in the month of August.
- The RBI kept the policy repo rate on hold at 4% on 6th Aug, after having cut it by a cumulative 115bps over the last two meetings.
- Consensus was evenly divided (52% expecting a cut, 48% expecting rates on hold, as per Bloomberg). All the six Monetary Policy Committee (MPC) members voted for a continuation in the accommodative stance as well as the pause on rates.
- The status quo reflects the near term uncertainty, while accommodative stance reflects the need to support a weak growth impulse once headline inflation stabilizes. There was assurance from the RBI that it has further space for policy rate cut and will use it judiciously as and when the situation warrants.
- On inflation, the RBI outlined a slew of uncertainties, ranging from a delayed fall in vegetable prices, the supply-demand mismatch in protein-based food items, the higher tax on oil resulting in elevated pump prices, and volatility in asset prices.
- On growth, while the RBI was positive on the rural economy, it highlighted that "extreme uncertainty" characterized the overall outlook. It mentioned that growth was likely to be negative in FY21, without attaching a number to it. However, in the recently released Financial Stability Report, it has pegged baseline growth at -4.4% y-o-y.

GDP for Q1-FY 2021

- The Central Statistical Organisation (CSO) yesterday released India's Q1 GDP data for the fiscal FY 2021. GDP numbers were on expected lines contracting by 23.9%, quarter on quarter (annualised). For comparison, the Q4 GDP in FY 20 grew by +3.1%. This contraction was the worst in seven decades but not unexpected given the pain and intensity of the lockdown.
- Gross Value Added (GVA) contracted by 22.8% for Q1. The plunge was led by severe decline in Construction (-50%), Trade, Hotels, Transport & Communications (-47%).
- Manufacturing overall fell by 38.1%, as against agriculture which grew by 3.4%. Services contracted by 20.6%.
- Given that the second quarter has continued to witness sporadic and localized lock-downs, the economy is yet to recover to full capacity. While operational activity and economic momentum has certainly picked up in Q2, it is likely that the quarter will witness a contraction, though a lesser one compared to Q1. Besides, with the virus infections yet to peak (daily numbers are still rising), it appears that the flattening and decline will only happen by Q3.
- Data collection and accuracy are an issue given the inability to get granular and timely data in the last five months. The silver lining for the year is likely to come from agriculture which should do well for the remainder of the fiscal. Sowing is markedly higher this year (the highest in the last 3 years) and rainfall for the country at the end of August stood at 109% of the long period average. Reservoir levels are also higher than the last 10-year average which should help the Rabi crop.
- Given that the slowdown should start tapering off, contraction for the full year (in Q1 the decline has been 6% absolute) should range in the 7-9%.

Recent RBI actions

- In a quasi-policy of sorts, RBI released a slew of measures on August 31, in a bid to try and cool the nervous bond markets, after long end yields rose almost 30-35 bps through the month. Key measures included the following.
- Special Open Market Operations (Also called Operation Twist) aggregating INR 200 billion for September. This was over and above the INR 200 billion that was already announced for August.
- Term repos of INR 1 trillion were announced for banks. This should mainly address the cash needs mid-month as September is an advance tax payout month.
- Limit for Held to Maturity (HTM) securities was raised to 22% from 19.5% at present, for all fresh purchases through primary auctions of G-secs starting September 1. This in our view is very meaningful and structural as this can potentially generate additional investment demand of INR 3.5 trillion (@ 2.5 % of Net Demand and Time Liabilities of INR 140 lakh crore) from banks. This move should help banks (and more specifically PSU banks) add more duration without fearing market losses, since the HTM is not marked to market.
- Option to reprice the existing Long Term Refinancing Operations (LTROs) at prevailing repo rates - This is a welcome step for banks to lower their cost as few of the LTROs were availed pre-March 27, when the first rate cut was announced. With this move, banks would be able to enhance the margin on the money already lent out on the LTROs by moving to the existing rate of 4%.
- To remain ready to conduct market operations as required through a variety of instruments to ensure orderly market functioning.

Outlook

- Recent measures reassures markets that the RBI remains comfortable on the inflation trajectory six months out. Further, it is also a reaffirmation that the RBI remains sensitive to any reversal in yields and would act with urgency if needed. This should help the bond markets since there is now comfort on the near-term cap on long yields.
- Our long end calls remain tactical and will leverage some of these short-term rallies in the market. On a structural basis though, the funds remain overweight on medium tenor bonds.
- As regards the short end, liquidity remains satisfactory and as such should help support yields. However, lack of an immediate rate action will also prevent any significant fall in yields along the money market curve. We expect yields to remain largely rangebound at the shorter end.

About Us

PGIM India Mutual Fund is a wholly owned business of PGIM, the global investment management business of the US based Prudential Financial, Inc. (PFI). PGIM India Mutual Fund offers a broad range of equity and fixed income solutions to retail and institutional investors throughout the country. We manage 20 open-ended funds operated by 14 investment professionals. In addition to managing our investors assets through domestic Mutual Funds, we also offer Offshore Funds and Portfolio Management Services. The fund house leverages the strength and stability of PGIM's 140-year legacy to build on its decade long history in India.

PGIM is the global investment management business of PFI, one of the top 10 investment managers* with over USD 1.3 trillion[1] in asset under management. PGIM offers a wide range of actively managed asset classes and investment styles including Equities, Fixed Income and Real Estate. PGIM employs over 1300+ investment professionals serving investors in 52 countries and follows a multi-manager model with strong capabilities beyond traditional assets.

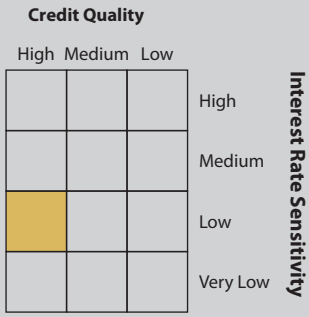
Source: pgim.com *Pensions & Investments Top Money Managers list, June 1, 2020; based on Prudential Financial, Inc. (PFI) total worldwide assets under management as of March 31, 2020. [1]All Information as of March 31, 2020.

Asset Allocation

Instruments	Indicative allocations (% of total Assets)		Risk Profile
	Minimum	Maximum	
Money Market instruments	0%	100%	Low

Please refer to the Scheme Information Document for more details on asset allocation.

Investment Style Box



Key Features

Benchmark index:
CRISIL Money Market Fund Index

Fund Manager:
Mr. Kumaresh Ramakrishnan and Kunal Jain

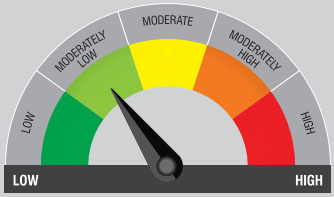
Exit load: Nil. No exit load will be charged for switches and STP between Schemes of PGIM India Mutual Fund except from PGIM India Insta Cash Fund.

Riskometer

This product is suitable for investors who are seeking*:

- Regular income for short term
- Investments in Money Market instruments
- Degree of risk – MODERATELY LOW

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



Investors understand that their principal will be at moderately low risk

Macaulay Duration: The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

The views of the Fund Manager should not be construed as an advice and investors must make their own investment decisions regarding suitability of the funds based on their specific investment objectives and financial positions and using such independent advisors as they believe necessary.

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