PGIM INDIA DYNAMIC BOND FUND

An open ended dynamic debt scheme investing across duration.
A relatively high interest rate risk and relatively low credit risk scheme.

Rated AAAmfs by ICRA##

August 2024

Why invest in PGIM India Dynamic Bond Fund?

- PGIM India Dynamic Bond Fund is rated as [ICRA] AAAmfs, denoting the highest level of safety regarding timely receipt of payments from the investments the scheme has made.
- PGIM India Dynamic Bond Fund is an actively managed duration fund. The Fund seeks to generate Alpha by taking calls based on active duration / interest rates or on spreads between the curves (that is, the AAA and Government securities) or on the shape of the yield curve.

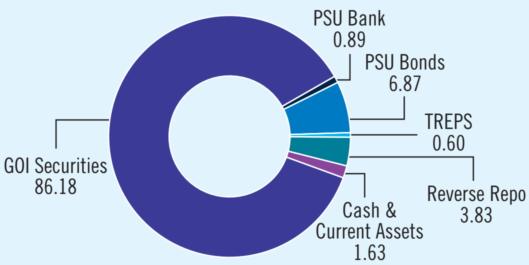
Portfolio Positioning*

- The Fund typically invests predominantly in Government Securities and AAA rated High Quality PSU / Corporate Bonds. The Fund is an actively managed duration fund.

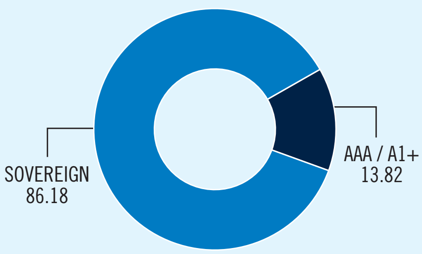
Who should invest?

PGIM India Dynamic Bond Fund is meant for investors who are averse to holding credit risk but who have an appetite to handle volatility arising from duration risk in the portfolio. Ideal for investors with a horizon of 18 months and longer.

Asset Allocation (% AUM)



Credit Quality Profile (% AUM)



All the above data are as on August 31, 2024.
** These are based on fund manager's current outlook & Subject to change.*

Fund Details

AUM as on August 31, 2024 (₹ in Crore):	110.13
For the Debt Portfolio	
Portfolio Yield (%)	7.08
Modified Duration (years)	9.04
Average Portfolio Maturity (years)	20.46
Macaulay Duration (years)	9.36

Portfolio Holdings

Issuer	% to Net Assets	Rating
7.18 GOI MAT 2033	19.92	SOV
7.25 GOI MAT 2063	17.06	SOV
7.30 GOI MAT 2053	16.03	SOV
7.09 GOI MAT 2054	15.41	SOV
7.18 G Sec MAT 2037	7.89	SOV
Rural Electrification Corporation Ltd.	5.50	CRISIL AAA
7.23 GOI MAT 2039	4.68	SOV
7.26 GOI MAT 2033	2.40	SOV
7.10 GOI MAT 2034	2.31	SOV
National Bank For Agriculture & Rural Development	1.37	CRISIL AAA

Please visit https://www.pgimindiamf.com/statutory-disclosure/monthlyportfolio for complete details on portfolio holding of the Scheme.
This scheme has exposure to floating rate instruments and / or interest rate derivatives. The duration of these instruments is linked to the interest rate reset period. The interest rate risk in a floating rate instrument or in a fixed rate instrument hedged with derivatives is likely to be lesser than that in an equivalent maturity fixed rate instrument. Under some market circumstances the volatility may be of an order greater than what may ordinarily be expected considering only its duration. Hence investors are recommended to consider the unadjusted portfolio maturity of the scheme as well and exercise adequate due diligence when deciding to make their investments

Fund Manager's View

- The positive undertone of the Indian bond markets continued as yields drifted lower, in August 2024, and were down 6-7 bps across the curve. The MPC meeting outcome was on expected lines, as the divergence of views between the MPC members from the RBI and the external MPC members continuing with members of RBI striking a cautious tone whereas two of the three external members voting for a rate cut. Further, the RBI governor sought to address the debate on whether to target 'core inflation' only, by strongly pushing back on suggestions of relooking at the monetary policy framework in context of the limited influence of monetary policy on food inflation which is mostly supply-driven. The Governor's statement mentioned that the MPC's target is the headline inflation, where the weight of food inflation is 46% and with such a high weight, food inflation cannot be ignored. Further the Governor's statement highlighted that "public at large understands inflation more in terms of food inflation than the other components of headline inflation". And further stated that "high food inflation adversely affects household inflation expectations, which have a significant impact on future trajectory of inflation. Household inflation expectations, after witnessing a moderating trend between May 2022 and September 2023, have edged up on the back of high food inflation since November 2023. Persistently high food inflation and unanchored inflation expectations – if they materialise – could lead to spillovers to core inflation through pick-up in wages on cost-of-living considerations. This, in turn, could be passed on by firms in the form of higher prices for services as well as goods, especially in a scenario of strong aggregate demand. Third, these behavioural changes can then result in overall inflation becoming sticky, even after food inflation recedes. The MPC may look through high food inflation if it is transitory; but in an environment of persisting high food inflation, as we are experiencing now, the MPC cannot afford to do so. It has to remain vigilant to prevent spillovers or second round effects from persistent food inflation and preserve the gains made so far in monetary policy credibility". RBI's inflation forecast for FY25 was upped marginally to 4.57% from 4.50% earlier while retaining its growth forecast for FY25 at 7.20%, assuming normal monsoons.
- CPI Inflation came in at 3.54%. This inflation print was aided by base effect which offset the higher momentum in food prices and higher telecom tariff. The increase in telecom tariff led to an increase in 'core inflation' to 3.35%, from 3.15% a month ago, though prices remained stable across other categories underscoring stable underlying inflation. Given this number, in all likelihood, CPI inflation is likely to undershoot RBI's forecast for inflation in Q3-FY25. RBI had forecasted CPI inflation to average at 4.4% for Q3-FY25 but the actual average inflation for Q3-FY25 is now likely to be around 4%. Overall, for FY25, against RBI projection of 4.5%, the actual inflation is likely to come in lower by 10 to 20 bps.
- Ahead of the state elections, the central government announced the new Unified Pension Scheme (UPS) which can have a potential negative impact on both the central and the states' fiscal deficit. The UPS is expected to benefit around 2.3 mn central government employees, and if the states adopt it then the beneficiaries can go up to 9 mn. There are different estimates of the impact on the fiscal with the government estimating the impact to be around INR 62.50 bn while some other estimates are talking about an impact of around INR 400-450 bn which can result in a fiscal impact of 15 bps (Macquarie report). The fear is that the states' fiscal deficit can also be adversely impacted which is already running above the threshold levels of 3%. Poll-bound Maharashtra has become the first state to adopt UPS. The GDP data for Q1-FY25 was released on the last working day of the month and it came in line with expectations at 6.70% (exp. 6.80%) but the GVA numbers surprised on the upside and came in at 6.8% which was higher than expectations of 6.4%. Overall, the growth numbers look good, though going forward, there is a possibility of both the inflation and growth numbers getting revised downwards.
- Monsoons progressed well and as of August-end nation-wide rainfall was 8% above the long period average (LPA), though the regional distribution remained skewed. In fact, India witnessed the wettest July-August period in 30 years. Reservoir levels were also good at 80% of their capacity (vs. the 2015-2023 average of 68.2%). The IMD forecast of excess rainfall in September is a risk as it can adversely impact crop harvesting.
- Banking sector liquidity eased on back of government spending though short-term money market yields remained elevated due to skewed distribution of liquidity, with 3-month maturity bank CD's trading at 7.2%.
- FPI inflows into debt remained stable with USD 2.14 bn coming in the month of August. Cumulatively, the CYTD24 FPI inflows into debt have crossed USD 13.08 bn. The OIS curve steepened with the 1 yr OIS ending the month at 6.49%, down 18 bps during August, while the 5 yr OIS was lower by 14 bps, and ended the month at 6.08%. The INR depreciated by 10 paise and closed at 83.87 per USD. Commodities were down during August, and brent ended the month below INR 80, at INR 78.80 per barrel.
- Global bond yields also cooled off with the benchmark US 10 yr bond yield down by 13 bps on back of dovish outlook given by the US Fed Chairman which cemented the start of the US rate cutting cycle from September onwards, and the US bond markets pricing in more than 100 bps of rate cuts in US over the next 6 months. The Reserve Bank of New Zealand also cut rates in a surprise move and more rate cuts are expected from ECB and BOE.
- Going forward, we believe that the RBI is likely to maintain status quo on policy rates till the end of CY25. The rate cutting cycle in the developed markets has started in the right earnest, though in the domestic context given the current growth-inflation dynamics and the continuing endeavour of RBI to narrow the wedge between the deposit and the credit growth rates, we believe that rate cuts in India are likely to start from Q1-CY25. Markets tend to react before the start of a rate cutting cycle and any retracement in yields from current levels offers a good opportunity to investors to increase their allocation to fixed income as real and nominal yields remain attractive with favourable demand-supply dynamics playing out in the G-Sec market. We expect the 10 yr benchmark bond yield to keep drifting lower gradually and converge with the policy repo rate before the start of the rate cutting cycle.

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 Asset Management is the full service investment manager of PGIM India Mutual Fund, offering a broad range of equity and fixed income solutions to retail and institutional investors throughout the country. We manage 23 open-ended funds operated by 13 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 more than 145-year legacy to build on its decade long history in India. Headquartered in Mumbai, PGIM India Mutual Fund has a presence in 29 cities across the country. PGIM India Mutual Fund brings a rich blend of global resources, intellectual acumen and local investment expertise and is committed to designing superior and meaningful, wealth building solutions for our investors. PGIM India provides unique training and educational programs for building exceptional capabilities and best business practices for its business associates.

Asset Allocation

Instruments	Indicative allocations (% of total Assets)		Risk Profile
	Minimum	Maximum	
Money market instruments & Debt Securities	0%	100%	Medium

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

Key Features

Benchmark index:
CRISIL Dynamic Bond Fund AIII Index@
(@w.e.f. April 01, 2022, the benchmark has been changed from CRISIL Composite Bond Fund Index to CRISIL Dynamic Bond Fund AIII Index.)

Fund Manager:
(w.e.f. December 13, 2017) Mr. Puneet Pal and
(w.e.f. September 13, 2022) Mr. Bhupesh Kalyani

Exit load: Nil

Potential Risk Class

Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

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.

##ICRA has assigned the "[ICRA] AAAmfs" (pronounced as ICRA triple A m f s) rating to the PGIM India Dynamic Bond Fund. Schemes with this rating are considered to have the highest degree of safety regarding timely receipt of payments from the investments that they have made. The ratings should, however, not be construed as an indication of the performance of the Mutual Fund scheme or of volatility in its returns For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications ICRA Credit Quality Rating Methodology for debt mutual fund schemes ICRA's mutual fund rating methodology is based on evaluating the inherent credit quality of the fund's portfolio. As a measure of the credit quality of a debt fund's assets, ICRA uses the concept of "credit scores". These scores are based on ICRA's estimates of credit risk associated with each exposure of the portfolio taking into account its maturity. To quantify the credit risk scores, ICRA uses its database of historical default rates for various rating categories for various maturity buckets. The credit risk ratings incorporate ICRA's assessment of a debt fund's published investment objectives and policies, its management characteristics, and the creditworthiness of its investment portfolio. ICRA reviews relevant fund information on an ongoing basis to support its published rating opinions. If the portfolio credit score meets the benchmark of the assigned rating during the review, the rating is retained. In an event that the benchmark credit score is breached, ICRA gives a month's time to the debt fund manager to bring the portfolio credit score within the benchmark credit score. If the debt fund manager is able to reduce the portfolio credit score within the benchmark credit score, the rating is retained. If the portfolio still continues to breach the benchmark credit score, the rating is revised to reflect the change in credit quality.

Riskometer

This product is suitable for investors who are seeking*:

- Regular income for short term
- To generate returns through active management of a portfolio of debt and money market instruments
- Degree of risk – MODERATE

*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 moderate risk