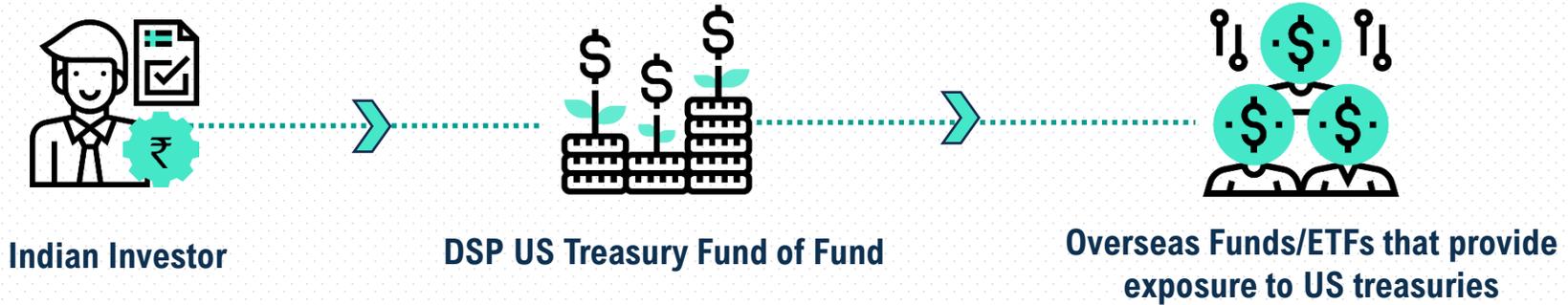




DSP US TREASURY FUND OF FUND

Opportunity to benefit from FED interest rate
policies by investing in US Treasuries

An open-ended fund of funds scheme investing in units of ETFs and/or Funds focused on US Treasury Bonds



WHERE WILL FUND INVEST?

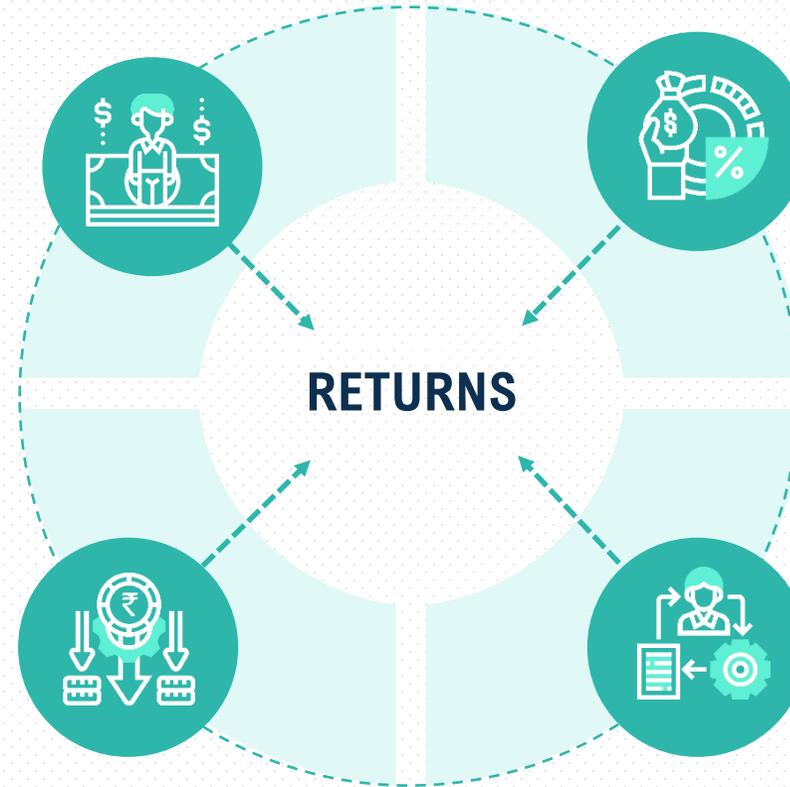
> 95% of the fund's asset will be invested in one or more of the below listed funds

| | | | | | | |
|---|--|---|--|---|--|---|
| <p>Money Market</p> <p>SPDR Bloomberg 1-3 Month T-Bill ETF</p> <hr/> <p>To protect portfolio during rising interest rate</p> | <p>Money Market</p> <p>Vanguard U.S. Treasury 0-1 Year Bond UCITS ETF</p> <hr/> <p>To protect portfolio during rising interest rate</p> | <p>Floating Rate</p> <p>iShares Treasury Floating Rate Bond ETF</p> <hr/> <p>To protect portfolio & earn returns during rising interest rate</p> | <p>Short Duration</p> <p>iShares \$ Treasury Bond 1-3yr UCITS ETF</p> <hr/> <p>To earn higher accrual during inverted yield curve</p> | <p>Short Duration</p> <p>iShares Short Treasury Bond ETF</p> <hr/> <p>To earn higher accrual during inverted yield curve</p> | <p>Medium Duration</p> <p>iShares \$ Treasury Bond 3-7yr UCITS ETF</p> <hr/> <p>To earn MTM gain during falling interest rate</p> | <p>Long Duration</p> <p>iShares \$ Treasury Bond 7-10yr UCITS ETF</p> <hr/> <p>To earn higher MTM during falling interest rate</p> |
|---|--|---|--|---|--|---|

Why DSP US Treasury Fund of Fund?

Potential High Yield (Interest Income)

Opportunity to potentially earn higher interest income from elevated US yields



Benefit from INR depreciation & Hedge US dollar risk with US Treasury

Rupee Depreciation Gain

Mark to Market Gain/ Loss

Opportunity to earn market to market gain from higher duration portfolio when yields fall

Active Management of duration can help investors to navigate US interest rate cycles & potentially earn better returns

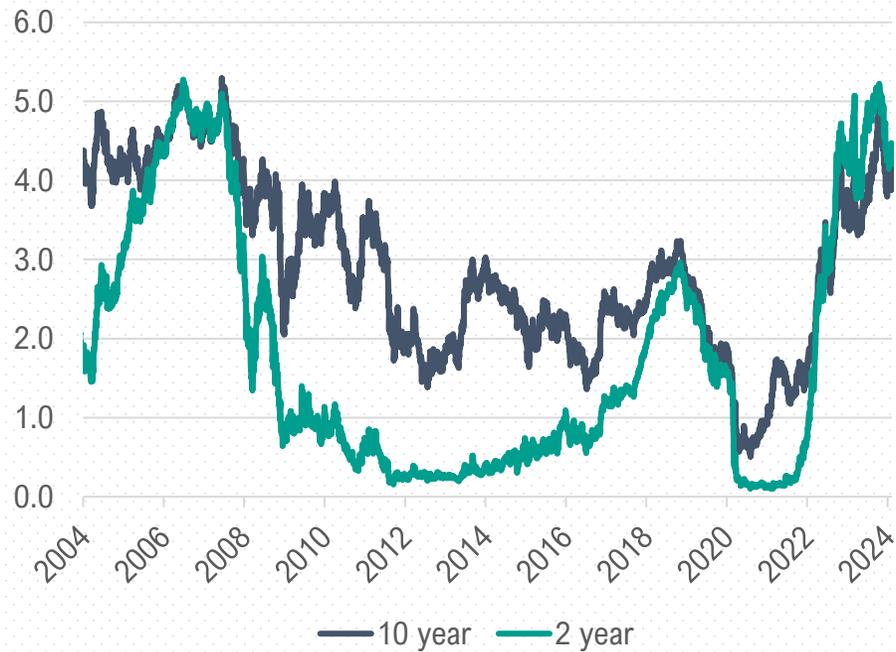
Active Management by Fund Manager



High Yield (Interest Income)

US Yields are at elevated level and are near 10 & 20 year high. Investor can have an opportunity to park money at higher interest rate

US Yields near 10 & 20 year high



| Duration | US 10 Year Yield (%) | US 2 Year Yield (%) |
|------------------|----------------------|---------------------|
| Current | 4.1 | 4.4 |
| 10 years average | 2.3 | 1.6 |
| 20 years average | 2.9 | 1.8 |
| Pre-Covid | 1.9 | 1.6 |



Mark to Market Gain/ Loss

Quantum of Rate hike in US have been higher as compared to India; accordingly, probability & quantum of decline in yields can be potentially higher in US compared to India

| | India | US |
|-------------------------------|-------------|--------------|
| Repo Rate Hike Quantum | | |
| Jan 2022 | 4.0% | 0.25% |
| Jan 2024 | 6.5% | 5.5% |
| Rate Hike % | 2.5% | 5.25% |

Higher Duration portfolios can provide significant MTM gains when yields fall

| Approximate MTM Gain/Loss | 3 year Duration | 5 year Duration | 10 year Duration |
|---------------------------|-----------------|-----------------|------------------|
| 0.5% fall in Yield | 1.5% | 2.5% | 5.0% |
| 1.0% fall in Yield | 3.0% | 5.0% | 10.0% |
| 1.5% fall in Yield | 4.5% | 7.5% | 15.0% |
| 2.0% fall in Yield | 6.0% | 10.0% | 20.0% |

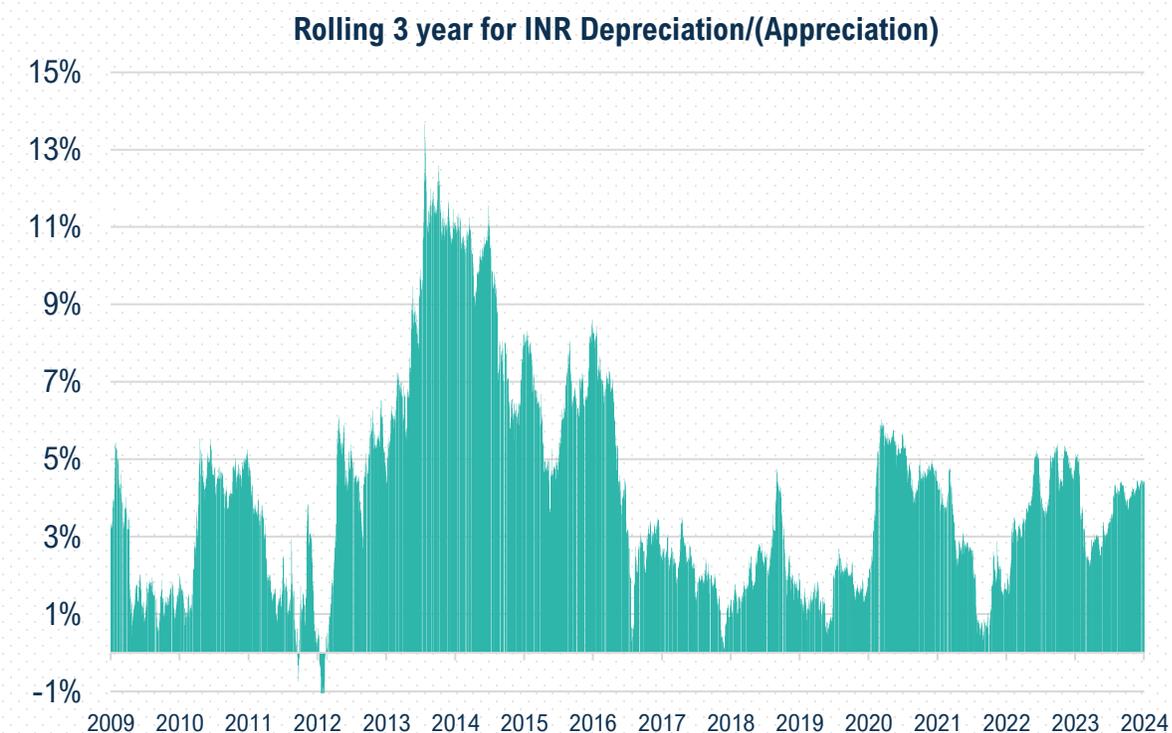
Source: Bloomberg. Data as on 31 Jan 2024



Rupee Depreciation

INR has depreciated vs USD over the years. Having exposure to USD can help investor earn from INR depreciation

Median 3 Year INR Depreciation is ~3.7% in the last 15 years





Active Management by Fund Manager

Performance of different bond categories varies with rate cycle. **Active Management** with **dynamic duration calls** can help investors to navigate US interest rate cycles & potentially earn better returns

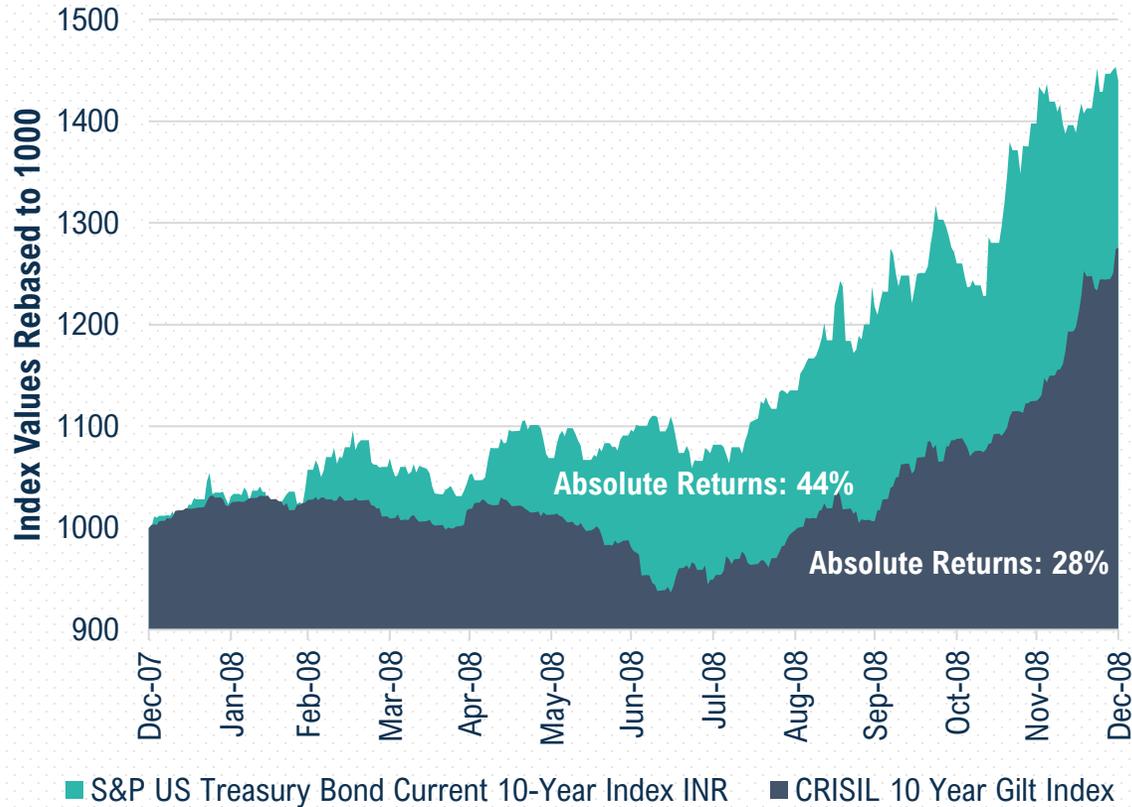
| Calendar Year | US Fed Funds Rate Change During Year | Money Market | Short Duration | Medium Duration | Long Duration | Inflation Linked | Floating Rate Bonds |
|---------------|--------------------------------------|--------------|----------------|-----------------|---------------|------------------|---------------------|
| 2015 | 0.25% → | 0.0% | 0.6% | 1.8% | 1.7% | -2.1% | 0.1% |
| 2016 | 0.25% → | 0.3% | 0.8% | 1.3% | 0.9% | 3.2% | 0.6% |
| 2017 | 0.75% ↑ | 0.8% | 0.4% | 1.3% | 2.7% | 0.8% | 1.1% |
| 2018 | 1.00% ↑ | 1.8% | 1.6% | 1.5% | 1.0% | -4.0% | 1.9% |
| 2019 | -0.75% ↓ | 2.2% | 3.6% | 5.9% | 8.4% | 6.4% | 2.2% |
| 2020 | -1.50% ↓ | 0.6% | 3.2% | 7.1% | 10.0% | 9.5% | 0.6% |
| 2021 | 0.00% → | 0.0% | -0.6% | -2.3% | -3.2% | 1.2% | 0.1% |
| 2022 | 4.25% ↑ | 1.5% | -3.8% | -9.4% | -15.1% | -17.6% | 2.1% |
| 2023 | 1.00% ↑ | 5.1% | 4.3% | 4.5% | 3.9% | 1.0% | 5.3% |

Source: Bloomberg, Internal. Returns in USD. The following indices / ETFs have been considered to represent different bond segments: Money Market - S&P U.S. Treasury Bill 0-3 Month Index Total Return, Short Duration - S&P U.S. Treasury Bond 1-3 Year Total Return Index, Medium Duration - Bloomberg Treasury 3-7 Year Total Return Index, Long Duration - S&P U.S. Treasury Bond 7-10 Year Total Return Index, Inflation Linked - iShares TIPS Bond ETF, Floating Rate Bonds - Bloomberg US Treasury Floating Rate Bond Index TR Index

Real life use case of **US Treasury**

with an example

2008 Global Financial Crisis



2020 Covid Crash



Increased demand for USD as well as US Treasuries during times of crisis often leads to outperformance



Cost for Higher Education in US – 2013 vs 2023

| | In USD terms | USD-INR Exchange Rate | In INR terms |
|------------------------------|--------------|-----------------------|--------------|
| 2013 | \$ 31,882 | 62 | ₹ 1,970,308 |
| 2023 | \$ 44,433 | 83 | ₹ 3,697,270 |
| % Change (Annualized) | 3% | 3% | 6% |



When planning for US-based expenses, you need to factor both **US Inflation** as well as **INR Depreciation**.

US Treasury Bonds could help you account for both!

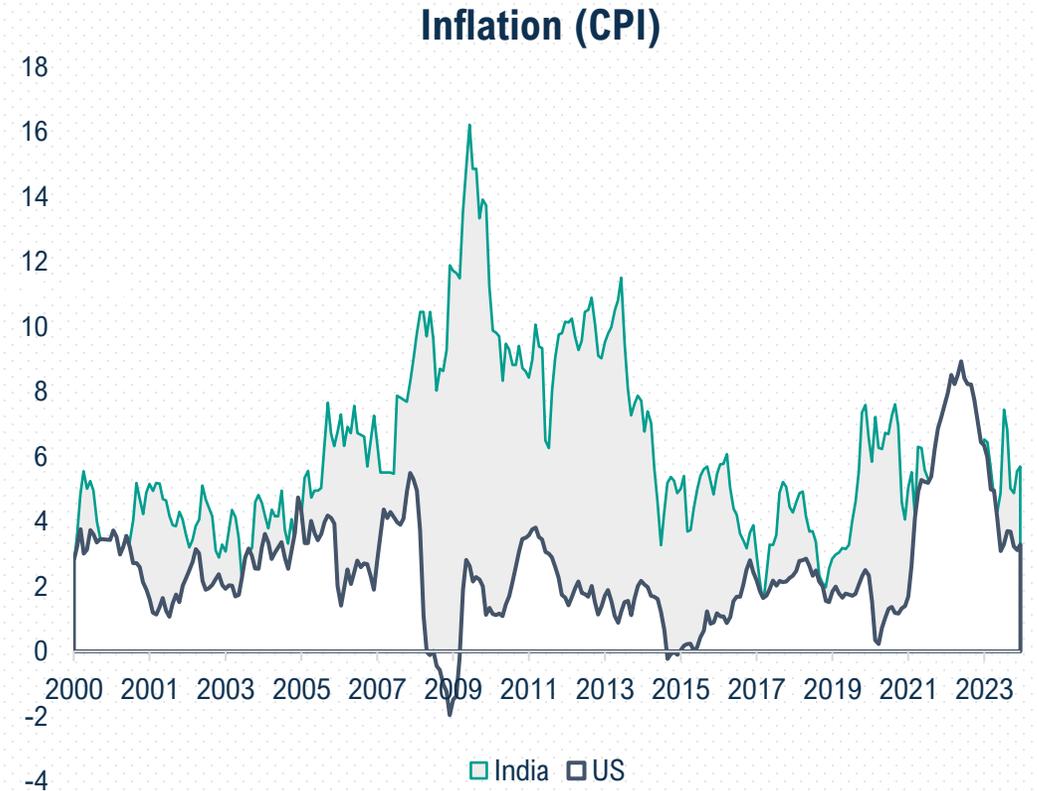
Source: US News & World Report, Bloomberg. Year-end exchange rates are considered. Above table is only for Illustration and does not guarantee returns.

**Is higher Indian interest rate more attractive than
US Interest rate?**

Historically, Indian G-Sec Yield is ~4.3% higher than US....

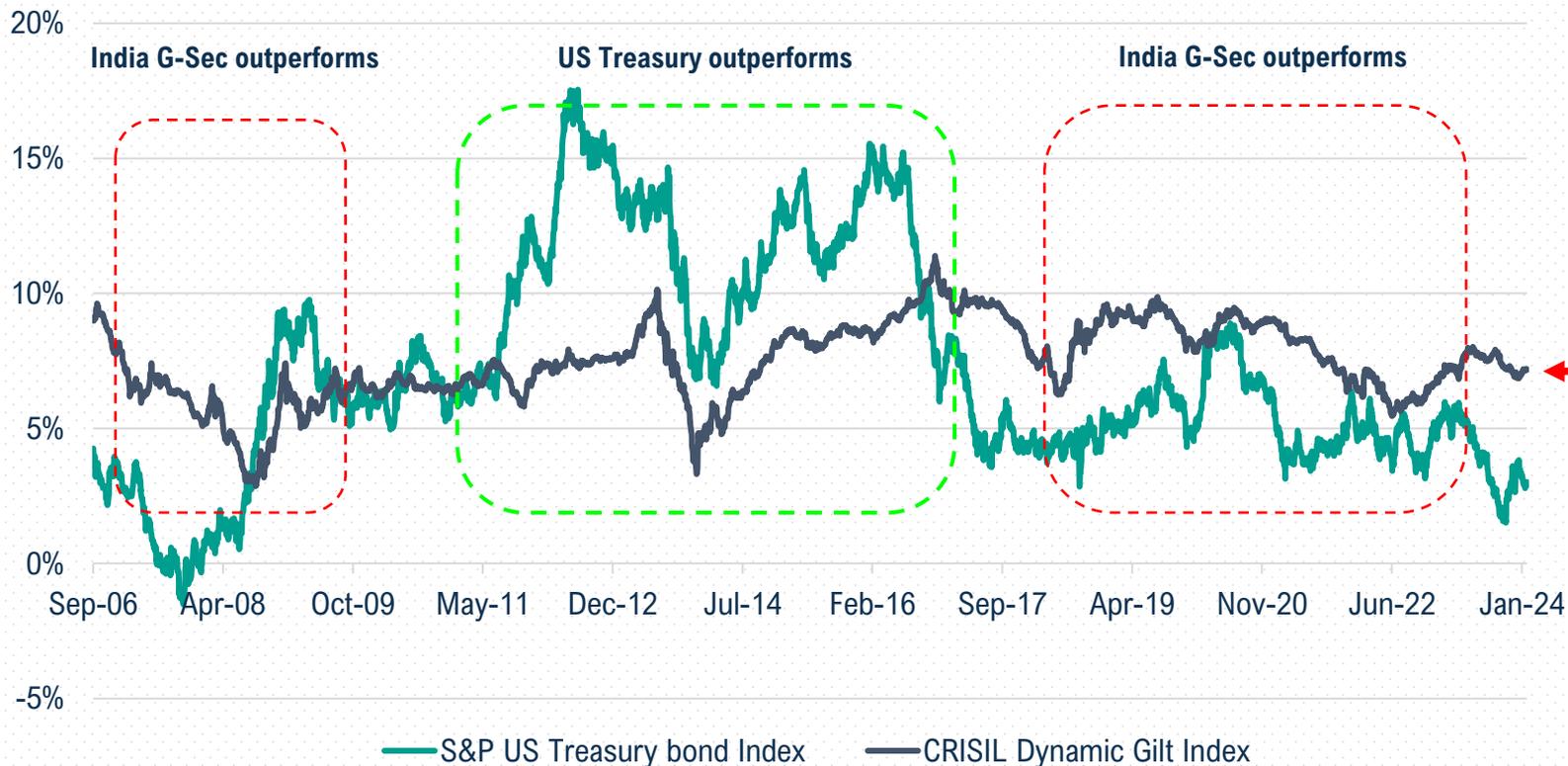


.....which is primarily attributed to higher rate of inflation (~3.6% higher) in India vs US



However, after accounting for INR depreciation, average long term returns of US Fixed Income is similar to Indian Fixed income with intermittent periods of underperformance / outperformance

5 Year Rolling Returns



Average 5 Year Rolling Returns

| | |
|----------------------------|------|
| S&P US Treasury Bond Index | 7.3% |
| Criril Dynamic Gilt Index | 7.2% |

Recent underperformance of US Treasuries stems from a sharp rise in interest rates by FED.

| Name of Fund | Inception | AUM (in USD mn) | Yield to Maturity (in USD terms) | Effective Duration (in Yrs) | Average Weighted Maturity (in Yrs) |
|--|-----------|--------------------|-------------------------------------|--------------------------------|---------------------------------------|
| SPDR Bloomberg 1-3 Month T-Bill UCITS ETF | 17-Jul-19 | 398 | 5.37% | 0.2 | 0.2 |
| Vanguard U.S. Treasury 0-1 Year Bond UCITS ETF | 02-Sep-20 | 2,595 | 5.22% | 0.4 | 0.4 |
| iShares Short Treasury Bond ETF * | 05-Jan-07 | 18,617 | 4.82% | 0.3 | 0.3 |
| iShares Treasury Floating Rate Bond ETF * | 03-Feb-14 | 10,338 | 4.97% | 0.0 | 0.9 |
| iShares \$ Treasury Bond 1-3yr UCITS ETF | 13-Apr-17 | 11,000 | 4.28% | 1.9 | 2.0 |
| iShares \$ Treasury Bond 3-7yr UCITS ETF | 03-Jun-09 | 6,850 | 3.92% | 4.4 | 4.8 |
| iShares \$ Treasury Bond 7-10yr UCITS ETF | 03-Jun-09 | 3,720 | 3.93% | 7.3 | 8.5 |

Source: Morningstar, Respective Funds Factsheet. Data as of 31 Jan 2024 (except those marked * Data as on 31 Dec 2023). The above 'Yield to Maturity' is based on the portfolio of the underlying fund which is dated and the same may or may not be relevant in future and should not be considered as the yield of the Scheme. The Scheme may or may not have exposure in all the underlying funds



Interest Rate Risk – While Sovereign securities carry minimal credit risk since they are issued by the Government, they do carry price risk depending upon the general level of interest rates prevailing from time to time. Generally, when interest rates rise, prices of fixed income securities fall and when interest rates decline, the prices of fixed income securities increase. The extent of fall or rise in the prices is a function of the coupon rate, days to maturity and the increase or decrease in the level of interest rates.



Reinvestment Risk - The investments made by the Scheme is subject to reinvestment risk. This risk refers to the interest rate levels at which cash flows received from the securities in the Scheme is reinvested. The additional income from reinvestment is the “interest on interest” component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed.



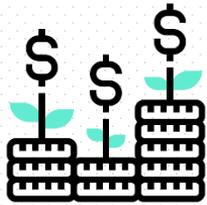
Currency Risk: The scheme may invest in overseas securities and the income from those securities may be quoted in currencies which are different from the scheme's base currency. The performance of the scheme may therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the schemes base currency and hence there can be the prospect of additional loss or gain for the Unit Holder than what may be normally derived from the assets in which the scheme invests.



Liquidity Risk - The liquidity of investments made in the Scheme may be restricted by trading volumes, settlement periods and transfer procedures. Although the investment universe constitutes securities which will have adequate market liquidity, there is a possibility that market liquidity could get impacted on account of company/sector/general market related events and there could be a price impact on account of portfolio rebalancing and/or liquidity demands on account of redemptions.



Country Risks: The value of the underlying ETF's/index funds assets may be affected by uncertainties such as changes in a country's government policies, taxation, restrictions on foreign investment, currency decisions, applicable laws and regulations, together with any natural disasters or political upheaval, which could weaken a country's securities markets



**DSP US Treasury
Fund of Fund**

| | |
|---|--|
| Name of scheme | DSP US Treasury Fund of Fund |
| Type of scheme | An open-ended fund of funds scheme investing in units of ETFs and/or Funds focused on US Treasury Bonds |
| Category | Fund of Fund (Overseas) |
| Investment Objectives | The investment objective of the scheme is to generate income & long-term capital appreciation by investing in units of ETFs and/or Funds focused on US Treasury Bonds. There is no assurance that the investment objective of the Scheme will be achieved. |
| Plans | <ul style="list-style-type: none"> - Regular - Direct |
| Options | <ul style="list-style-type: none"> - Growth Option - Income Distribution cum capital withdrawal (IDCW) – Payout & Reinvestment option |
| Minimum Application Amount (First and subsequent purchase) | Rs. 100/- and any amount thereafter |
| Exit Load | NIL |
| Fund Managers | Jay Kothari |
| Benchmark | S&P U.S. Treasury Bond Index |
| SIP/STP/SWP | Available |
| Minimum Installment Amount for SIP/SWP/STP | Rs. 100/- and any amount thereafter |
| Taxation | Debt taxation |

*Expense ratio includes underlying fund expense ratio & is subject to change in future depending on various factors. SIP – Systematic Investment Plan. STP – Systematic Transfer Plan. SWP – Systematic Withdrawal Plan.

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

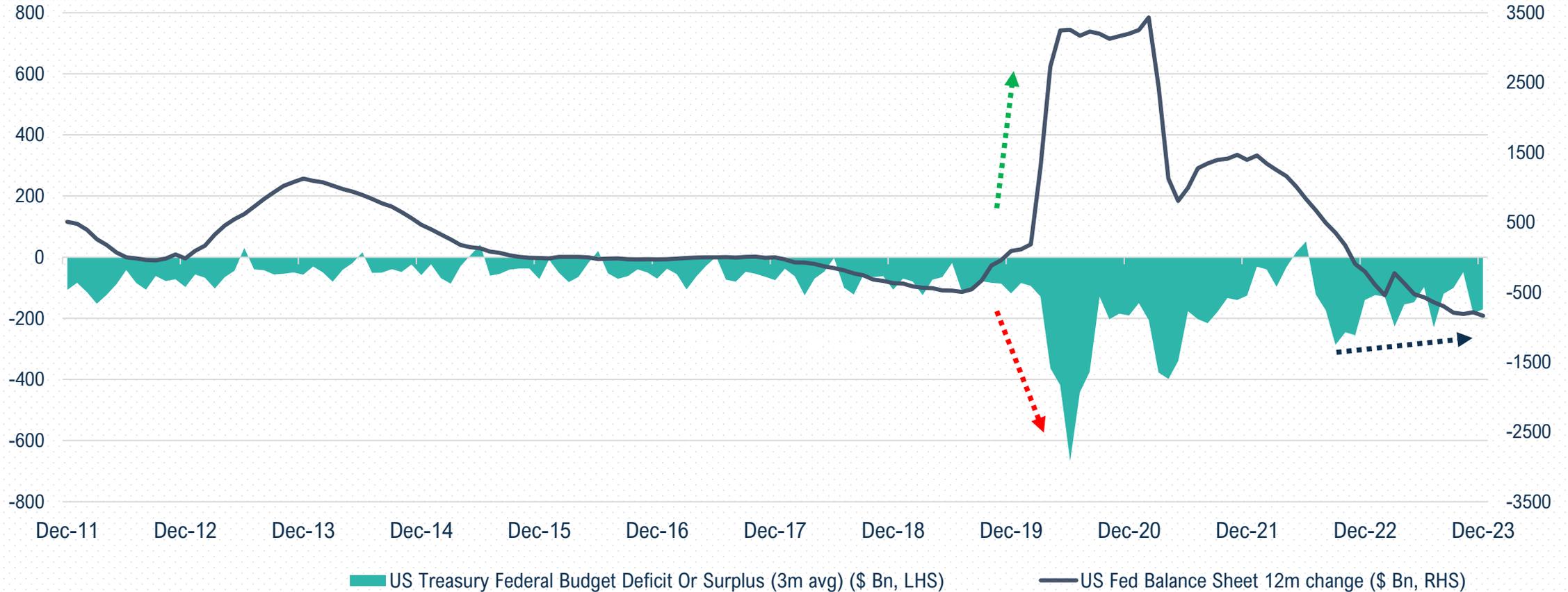
| | | | |
|---|--|---|---|
| <p>DSP US Treasury Fund of Fund</p> <p>(An open-ended fund of funds scheme investing in units of ETFs and/or Funds focused on US Treasury Bonds)</p> | <p>This scheme is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> •Long term capital appreciation •To generate income by investing in units of ETFs and/or Funds focused on US Treasury Bonds <p>* Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.</p> | <p>SCHEME RISKOMETER</p> <p>RISKOMETER</p> <p>INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p> | <p>BENCHMARK [S&P U.S. Treasury Bond Index] RISKOMETER</p> <p>RISKOMETER</p> <p>INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p> |
|---|--|---|---|

The product labelling assigned during the New Fund Offer ('NFO') is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.

Outlook on US Treasury

Q1 2025

Demand & supply for US Treasury likely to improve. Supply of US Treasury bonds to decline as US treasury borrows less. Demand to stabilize as Fed becomes less hawkish.

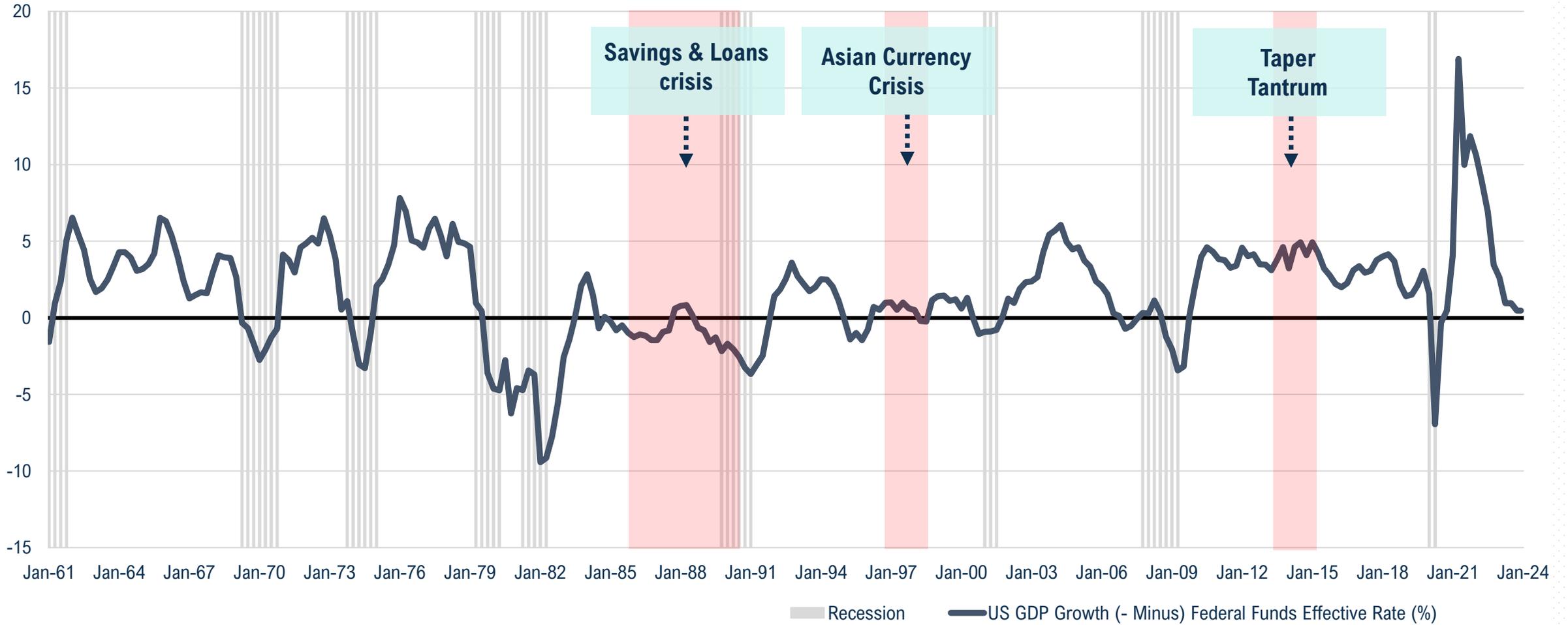


US fiscal deficit is likely to pull back from multi year highs. This will reduce the supply of US Treasury securities.

The Fed is also likely to ease its 'hawkish' stance and could end its quantitative tightening i.e. bond sales sometime during the year.

Source: Bloomberg, DSP. Data as on 31 Dec 2023

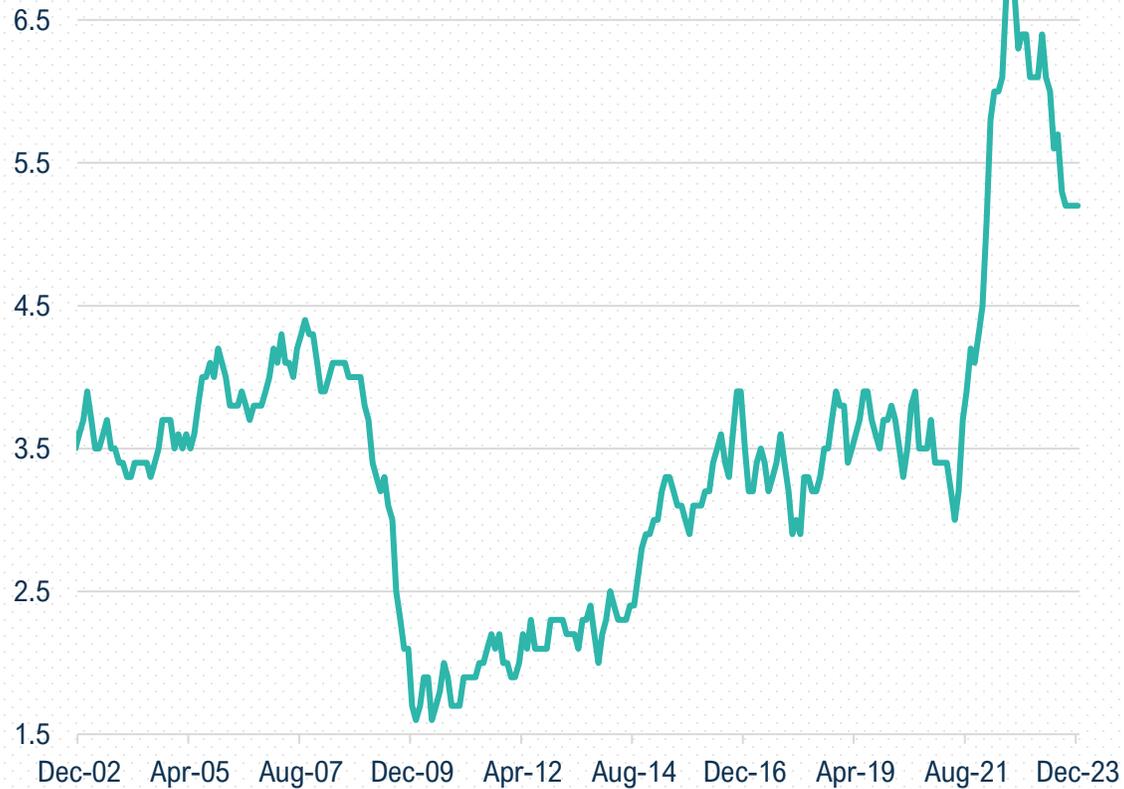
An economic slowdown can cause bond yield to fall and Fed to change its policy direction



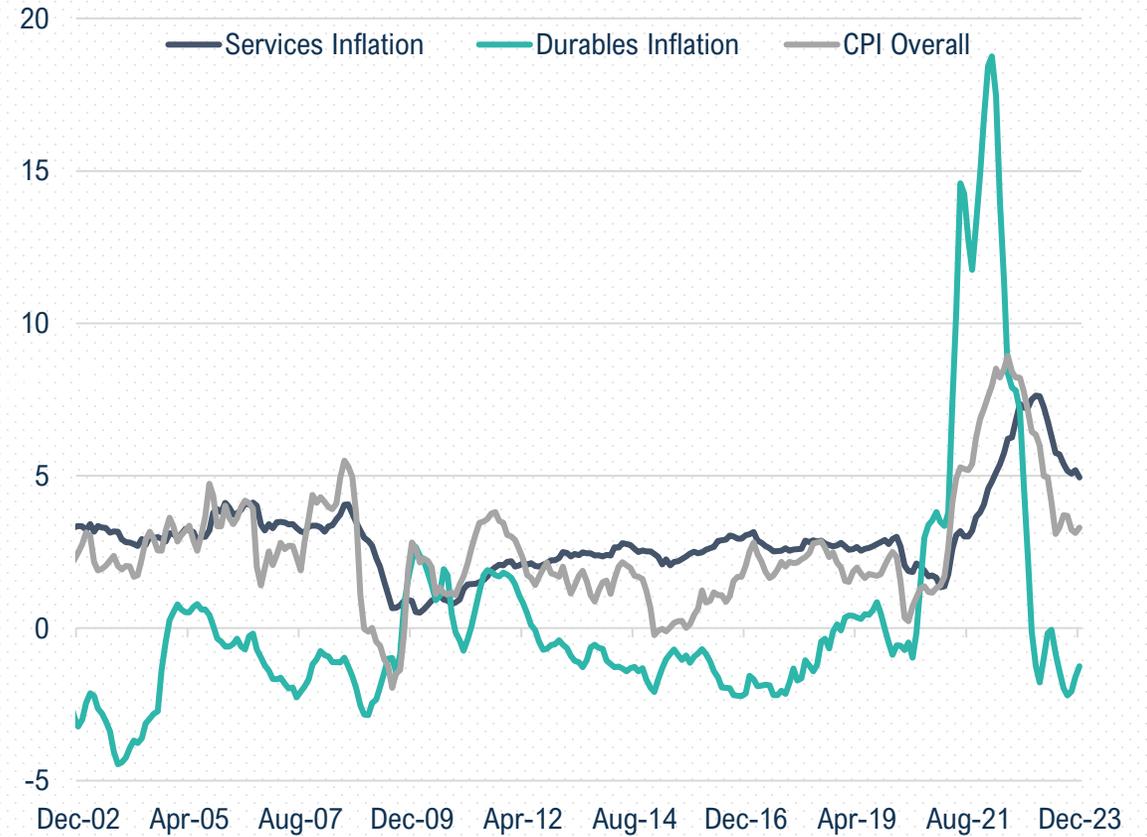
Historically, whenever the US Fed raises rates such that the Federal Funds effective rate is higher than the nominal GDP growth rates (yoy), a slowdown ensues. Slowing growth can necessitate rate cut ahead.

While the downtick in wage growth is indicative of a softening in the labor market..

Unweighted Median Hourly Wage Growth Overall (% change, YoY)



...the overall CPI, owed to a much-awaited fall in Services inflation, has managed to register a disinflationary trend



Cumulative Probabilities

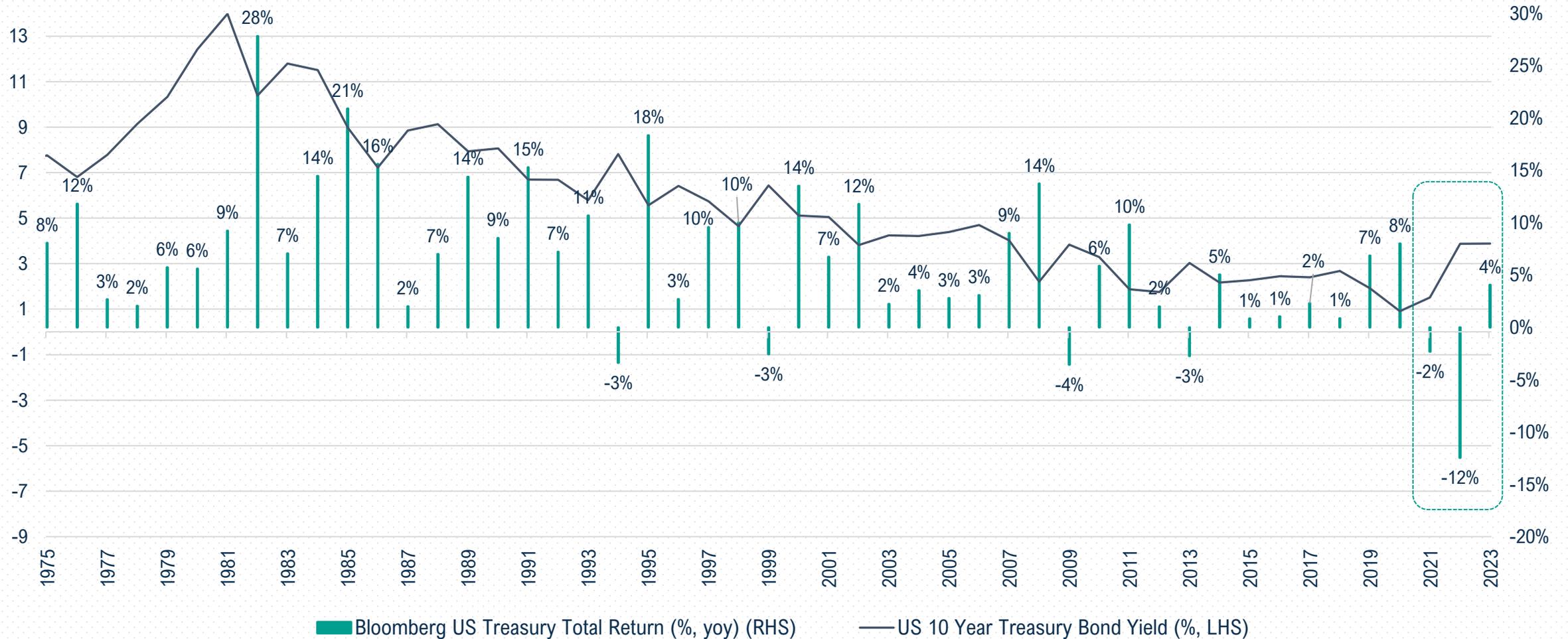
| Meeting Date | 400-425 and lower | 425-450 and lower | 450-475 and lower | 475-500 and lower | 500-525 and lower | 525-550 and lower |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1 May 24 | 0% | 0% | 0% | 3% | 35% | 100% |
| 31 Jul 24 | 0% | 1% | 14% | 54% | 90% | 100% |
| 18 Sep 24 | 1% | 11% | 44% | 81% | 97% | 100% |
| 18 Dec 24 | 20% | 50% | 80% | 95% | 99% | 100% |

Odds jump for Fed Rate to dip below 4.50%.
 The cumulative probability increases from nil to 50% by the end Of the year.

Fed seen likely (with a probability of 80%) to slash rates by a minimum of 75bps as 2024 winds down

Big chance of Fed lowering rates in second half of 2024

When interest rates peak and begin to descent, US Treasury Bonds offer lucrative opportunities



Source: Bloomberg, DSP. Data as on 31 Jan 2024. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** These figures pertain to performance of the index and do not in any manner indicate the returns/performance of this scheme.



DSP

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