

## Debt Index Funds

Debt Index Funds seem to be the new flavour of India’s debt markets, with investments tracking the listed debt indices of different target maturities and proportion of debt instruments.

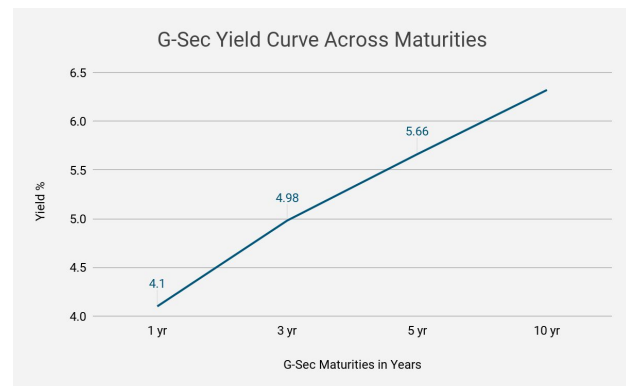
### About the product :

The debt index funds replicate indices reducing the intervention of fund managers which as a result reduces the cost of management of these funds. Currently all the debt index funds in the market are following different benchmark indices with highest rated PSU (public sector undertaking companies) bonds and SDLs (State development loans) with proportions and maturities as per the mandated index. As different debt index funds are following indexes with different target maturities and different proportions of bond categories it is not advisable to compare them. On maturity date of the underlying index the funds will get paid out to the investors as per the prevailing NAV.

For example, in case of Edelweiss Nifty PSU Bond Plus SDL Index fund April 2027 50:50 indicates that they are replicating an index listed on Nifty with investments maturing in April 2027 and has 50% investments in PSU bonds and 50% in state development loans.

### A case for investment :

- Investors aiming to invest money for a duration longer than three year can look at investing in these funds to get indexation benefits and maximize post tax returns.
- Investors targeting a buy & hold investment strategy and are fine holding the investment till maturity can optimize returns in such funds.
- Since the investor is taking an exposure in PSU it is interesting to see that if held to maturity these funds can give better post tax returns than tax free bonds (issued by some eligible PSUs) which are comparatively less liquid in nature due to longer lock-in periods and long maturities..
- These funds are targeting maturity profiles where yields are more attractive as compared to other maturity profiles on the yield curve. The chosen maturity profiles have become very attractive due to higher borrowing by state governments and the government of India making the yield curve steep. With inflation numbers cooling, investors’ real returns have gone up. A mix of SDLs and AAA PSU Bonds can provide reasonably better returns along with safety and liquidity of an open ended fund. A roll down strategy is being employed to take reasonable benefits of the yields.



### Available Debt Index Funds :

Scheme Name	Lock-in Period	Debt Ratio as on Sep 2021			Rating Wise Allocation as on Sep 2021			Remark	Scheme Maturity Date
		YTM (%)	Avg. Maturity (Years)	Modified Duration (Years)	AAA & Eq	Cash & Eq	SOV		
Aditya Birla SL Nifty SDL Plus PSU Bond Sep 2026 60:40 Index Fund-Reg(G)	30D	N.A	N.A	N.A	24	26.41	50.08	0.50% on or before 30D	30-Sep-2026
Edelweiss NIFTY PSU Bond Plus SDL Index Fund-2026-Reg(G)	30D	5.94	4.41	3.65	34	1.55	64.48	0.10% on or before 30D	30-Apr-2026
ICI Pru PSU Bond plus SDL 40:60 Index Fund - Sep 2027-Reg(G)	30D	5.46	4.35	3.49	25	26.77	48.33	0.15% on or before 30D	30-Sep-2027
IDFC Gilt 2027 Index Fund-Reg(G)	-	6.04	5.15	4.15	0	-1.24	101.24	Nil	30-Jun-2027
IDFC Gilt 2028 Index Fund-Reg(G)	-	5.92	5.74	4.55	0	7.14	92.86	Nil	5-Apr-2028

For more details or queries about the debt index funds please call your relationship managers or mail us at [hello@matasec.com](mailto:hello@matasec.com)