

# DSP

*#INVESTFORGOOD*

## DSP Nifty 50 ETF



| People | Processes | Performance |

NFO Presentation

# DSP Nifty 50 ETF - Explained

## DSP Nifty 50 ETF

- Invests in companies forming part of the Nifty 50 TRI index representing top 50 listed Indian companies by market capitalization.

## Significance of Nifty 50 Index



1. **History** of over 30 years starting from July 1990
2. **Diversified Index** with allocation to top 50 stocks and 13 sectors \*
3. Follows **free float market cap** weight methodology to weight constituents
4. **Rebalanced semi annually** to capture real trends in the economy

# Nifty 50 Index - Sectors & Top Stocks

Sector	Weights (%)
Financial Services	38.2
IT	16.7
Oil & Gas	12.4
Consumer Goods	10.5
Automobile	5.1
Pharma	3.5
Metals	3.3
Construction	2.8
Cement & Cement Products	2.5
Telecom	2.1
Power	1.6
Services	0.7
Fertilisers & Pesticides	0.5
<b>TOTAL</b>	<b>100.0</b>

Top 10 companies	Weights (%)
Reliance Industries Ltd.	10.7
HDFC Bank Ltd.	9.0
Infosys Ltd.	8.1
HDFC Ltd.	6.7
ICICI Bank Ltd.	7.3
Tata Consultancy Services Ltd.	4.6
Kotak Mahindra Bank Ltd.	3.9
Hindustan Unilever Ltd.	2.8
Larsen & Toubro Ltd.	2.8
Bajaj Finance	2.6
<b>TOTAL</b>	<b>58.6</b>

Source – NSE. Data as on Oct 29, 2021

The sector(s)/stock(s)/issuer(s) mentioned above do not constitute any research report/recommendation and the schemes of DSP mutual fund may or may not have any future position in these sector(s)/stock(s)/issuer(s).

The Nifty 50 Index is a well diversified index across sectors and stocks

# Nifty 50 Index - Historical Performance



Price Return Index (PRI) is considered for the above calculation. **Past performance may or may not sustain 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 the scheme. It is not possible to invest directly in an index. Source –NSE. Data from 03 July 1990 to 29 Oct 2021

Nifty 50 Index has grown ~63 times in the past 31 years

# Nifty 50 - Complimentary to Active Large Cap funds



# Alpha of active funds have shrunk in the last decade

Below table compares performance of actively managed large cap funds with Nifty 50 TRI into 2 phases below :

Phase 1: CY 2000 to 2009

Phase 2: CY 2010 to YTD 2021

3 year daily rolling	MF	Nifty 50 TRI	Alpha
2000 to 2009	25.8	21.3	4.5
2010 to YTD 2021	10.3	10.6	-0.4

5 year daily rolling	MF	Nifty 50 TRI	Alpha
2000 to 2009	28.5	23.6	4.9
2010 to YTD 2021	11.3	11.6	-0.3

**Phase 1 - CY 2000 to 2009**  
Good outperformance in the range of 4.4 to 4.9

**Phase 2 – CY 2010 to YTD 2021**  
Visible reduction in the outperformance

Source – MFIE. Active large-cap funds which have the same performance track record as the Nifty 50 TRI have been taken into consideration for the purpose of this exercise. MF stands for SEBI defined large cap funds. For MF SEBI defined large cap funds with daily rolling return have been taken into consideration. Data as on 29 Oct, 2021. **Past performance may or may not be sustained in the future and the same should not be used as a basis for comparison with other investments. The figures pertaining to performance of index do not in any manner indicate the returns/performance of any mutual fund scheme. It is not possible to invest directly in an index.**

## Alpha generating capability of active funds has been reducing in the last decade owing to

- Mandatory benchmarking to TRI Indices
- Re-categorization of funds based on market capitalization by SEBI which has confined the universe for active large cap fund managers

# Selecting well performing active funds is anyone's guess

We conducted a study to analyze the performance of the well performing large cap funds vs. a diversified index with the following assumptions:

- At the start of every calendar year, an investor would allocate equally amongst the top 5 ranked active large cap funds based on their past calendar year performance
- This exercise is repeated on an annual basis at the start of every calendar year

## Value of Rs. 100,000 invested since 2005

	Active Large Cap Funds	Nifty 50 TRI
Value (in lac)	11.39	10.48
CAGR	15.5%	15.0%

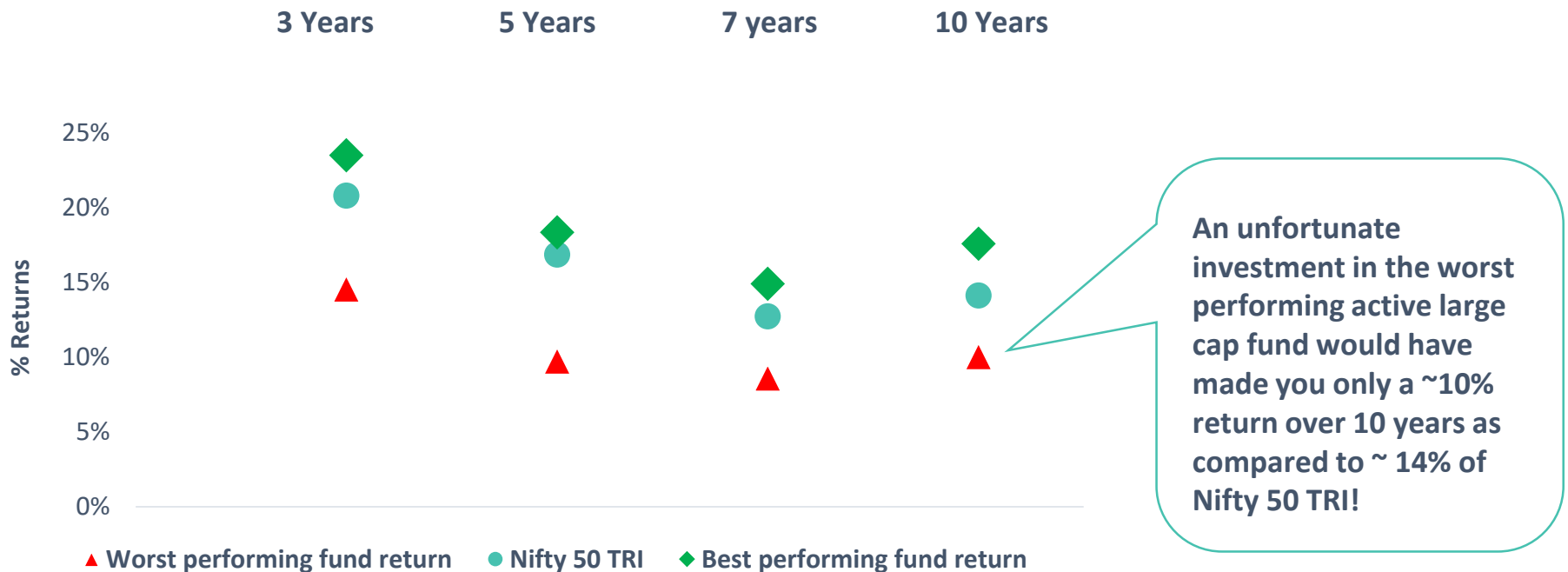
*Data till 29 Oct 2021 | Source – MFIE, Internal. SEBI defined large cap funds are taken into consideration for the purpose of this study. This study is conducted from the time at least 10 active large cap funds were in existence. Reason to start investment from 2005 is to have 1 year look back performance period to select funds.*

**Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.** The figures pertaining to performance of index do not in any manner indicate the returns/performance of any mutual fund scheme. It is not possible to invest directly in an index.

Selecting active funds based on high past returns is not a guarantee of future outperformance

# Divergence of returns very high amongst active largecap funds

- To better understand the risk of selecting an underperforming fund, we have plotted the minimum & maximum returns of active large cap funds as on Oct 29, 2021.
- Minimum return is for worst performing fund in the category while maximum return is for best performing fund in the category for the given tenure.



Source –MFIE, Internal. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. The figures pertaining to performance of index do not in any manner indicate the returns/performance of the Scheme. It is not possible to invest directly in an index.

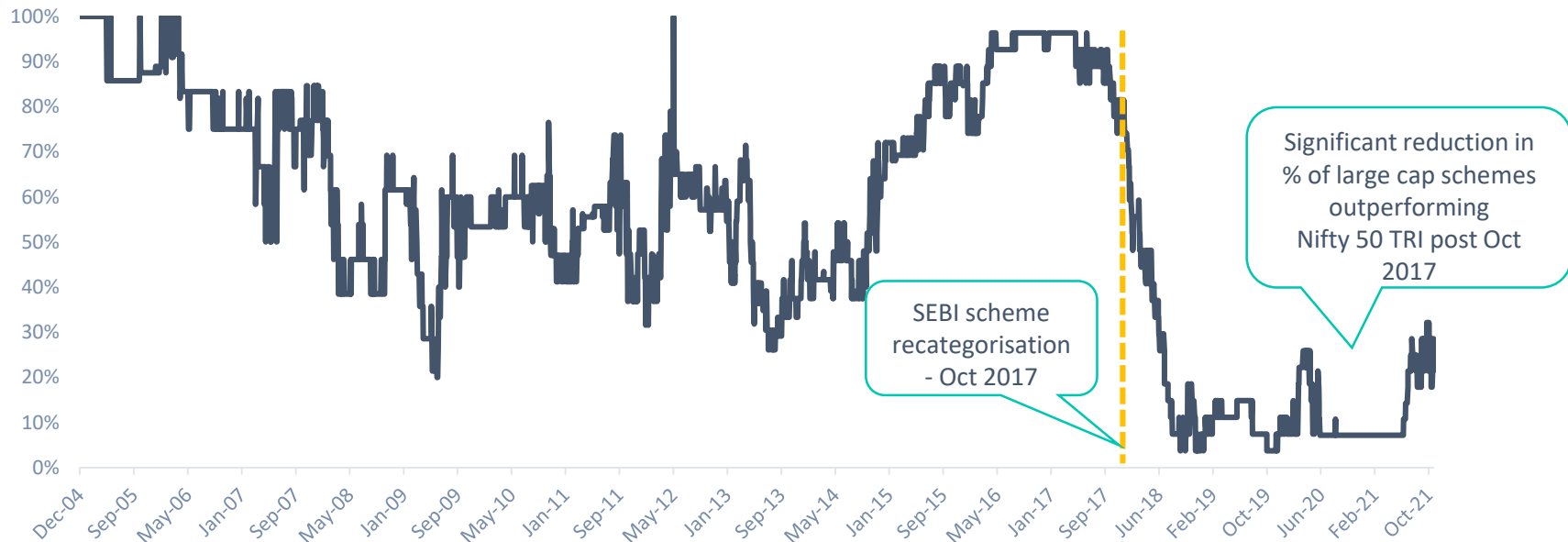


# Impact of SEBI recategorisation on large cap funds performance

## BACKGROUND

- ▶ SEBI issued a circular in Oct 2017 recategorising schemes into various categories and mandating investment universe for each categories.
- ▶ Accordingly, large cap category was created & investment universe was confined to top 100 companies by market capitalization.
- ▶ Inorder to understand impact of this circular on large cap funds, we have done an analysis by plotting % of large cap funds outperforming Nifty 50 TRI over the years.

% of large cap funds outperforming Nifty 50 TRI on 3 year rolling basis



Source : Internal ; Data till Oct 29, 2021

Though period post SEBI recategorisation is too short to arrive at any concrete conclusion, it may suggest a trend w.r.t performance of active large cap funds

# Are active largecap funds really ACTIVE in sector representation?

Sectors	Expense Ratio	Sectoral Weight (%)					
		Financials	IT	Energy	Materials	Consumer Staples	Cash holding
Active Large cap funds average (A)	2.3%	36.5	14.2	7.8	7.7	6.4	3.9%
Nifty 50 ETFs average (B)	0.1% <sup>2</sup>	38.1	16.7	12.8	7.9	7.4	~0.1% <sup>3</sup>
Difference (A-B)	2.2%	-1.6	-2.4	-5.0	-0.2 <sup>1</sup>	-1.0	3.8%

Source : Morningstar Direct, MFIE. Data till Oct 29, 2021. <<Expense Ratio is of Regular Plan for active large cap funds>>

1. Sector representation in active large cap funds does not significantly deviate from Nifty 50 Index
2. Investing in ETF can provide similar diversification at lower cost
3. Nifty 50 ETF ensures near full participation in equities

# Other Insights



# Why is Nifty 50 generally regarded as barometer of the economy ?

- ▶ The changes in sector composition of the Nifty 50 Index have always been in line with the changing economic trends.

Sector	2001	2007	2011	2021*
Financials	10%	12%	24%	38%
Energy	14%	24%	13%	12%
IT	13%	10%	16%	17%
Consumer Goods	33%	7%	19%	11%
<b>Total</b>	<b>69%</b>	<b>53%</b>	<b>72%</b>	<b>78%</b>

Source : NSE, Bloomberg\* Data till Oct 29, 2021

Sectoral weights in Nifty 50 Index get rebalanced periodically based on the changing economic trend in the country

## Hedging portfolio of Nifty 50 ETF

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- During market downturn, to protect equity portfolios from drawdown, an investor typically has 2 options
  - Liquidate the portfolio or
  - Hedge the portfolio by buying Nifty 50 index put options or by selling Nifty 50 index futures
- Hedging portfolio of actively managed funds may **not result in perfect hedge** as stocks in actively managed fund may be different as compared to Nifty 50 with different weights
- Hedging Nifty 50 ETF using put options/ futures can nearly result in **perfect hedge** as Nifty 50 ETF closely tracks Nifty 50 index.

# Use of ETFs for different investors



## Individual Investors

- Diversification of portfolio resulting in reduction of stock specific risk at low cost.
- Allows customization in investor's portfolio consistent with their financial needs, risk tolerance & investment horizon.



## FPIs, Institutions, PF, Insurance

- Allows easy & convenient asset allocation to broad segments of equity markets.
- Excellent hedging and liquidity management vehicle.
- Cash equitisation at low cost.



## Arbitrageurs

- Low impact cost to carry out arbitrage between the cash & futures market.
- Can be used to cover option strategies on the Index.

One stop solution to the various needs of investors

# Investment Team & Process

## Portfolio Management / Dealing / Analysis



**Anil Ghelani, CFA**  
**(20)**  
Head of Passive  
Investments &  
Products



**Diipesh Shah**  
**(19)**  
Vice President



**Neeti Shah**  
**(2)**  
Assistant Manager

## Passive Investments Process

### Pre - Trade Evaluation

Review Opening Portfolios  
and forecast Cash Flows

Track mandatory and  
elective Corporate Actions

Track Scheduled and  
Adhoc rebalances

### Investment Decision

Review market liquidity to  
manage impact costs

Strategy for stock level  
timing and pace of  
execution

Monitor  
real time market  
movement

Identify price movements  
and evaluate stock lending  
opportunities

### Post - Trade Analysis

Evaluate trade execution

Analyse Tracking Error

Ensure real time portfolio  
weights align with  
underlying index

In line with global best practices - dedicated passive investment desk to increase focus

# Scheme Features

<b>Benchmark</b>	Nifty 50 TRI
<b>Fund Manager</b>	Mr. Anil Ghelani & Mr. Diipesh Shah
<b>Asset Allocation</b>	<p>Under normal circumstances, it is anticipated that the asset allocation of the Scheme shall be as follows:</p> <p>A. Equity and equity related securities of companies constituting NIFTY 50 Index : 95% to 100%</p> <p>B. Cash and Cash Equivalents/Money market Instruments with residual maturity not exceeding 91 days: 0% to 5%</p>
<b>Minimum Application Amount (First purchase &amp; subsequent purchase)</b>	<p>During NFO period - Rs. 5,000 and in multiples of Re. 1/- thereof.</p> <ul style="list-style-type: none"><li>• On Continuous basis – Directly with Fund: Authorized Participants and Large Investors can directly purchase / redeem in blocks from the fund in “Creation unit size” on any business day.</li><li>• On the Exchange – The units of the Scheme can be purchased and sold in minimum lot of 1 unit and in multiples thereof.</li></ul>
<b>Creation Unit</b>	50,000 Units
<b>NFO Details</b>	NFO opens: 06 <sup>th</sup> December, 2021 NFO closes: 17 <sup>th</sup> December, 2021
<b>Allotment NAV and Units</b>	<p>The Allotment price for the NFO shall be approximately equal to 1/100 th of the value of Nifty 50 Index on the date of allotment.</p> <p>As the Stock Exchange(s) do not allow trading of fractional units, Units will be allotted only in integers by rounding off the Units allotted to the lower integer and the balance amount will be refunded to the investor.</p>



# Product Labelling, Suitability and Disclaimers

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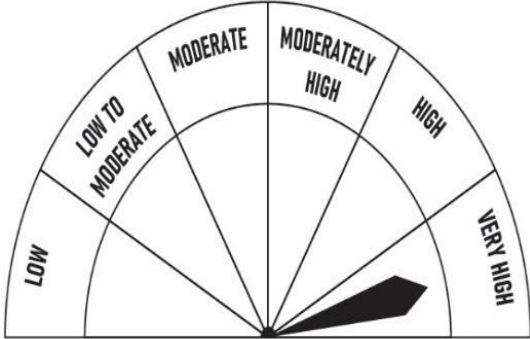
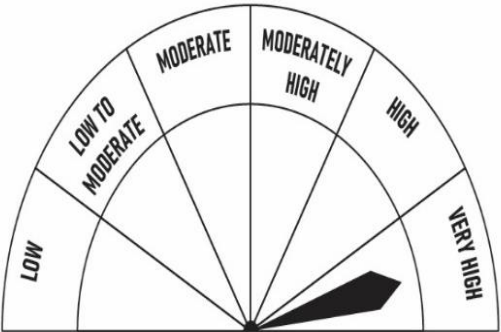
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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

# Product Labelling, Suitability and Disclaimers

<p><b>DSP Nifty 50 ETF</b> (An open-ended scheme replicating/ tracking Nifty 50 Index)</p> <p>This product is suitable for investor who are seeking*</p> <ul style="list-style-type: none"> <li>• Long-term capital growth</li> <li>• Investment in equity and equity related securities covered by Nifty 50 Index, subject to tracking error.</li> </ul>	<b>RISKOMETER</b>	
	<b>Scheme - DSP Nifty 50 ETF</b>	<b>Benchmark - Nifty 50 TRI</b>
	 <p style="text-align: center;"><b>RISKOMETER</b></p> <hr/> <p style="text-align: center;">INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p> <hr/>	 <p style="text-align: center;"><b>RISKOMETER</b></p> <hr/> <p style="text-align: center;">INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p> <hr/>

# DSP

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MUTUAL FUND

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