

April 27, 2020

Product Update April'20

Equity markets globally have corrected 25-35 % from their peak levels due to multiple reasons, including the outbreak of Coronavirus (COVID-19) & significant correction in crude oil prices. The Indian market is no exception & the Sensex tanked too amidst the virus concerns, fear about banking system and dashed hopes of economic recovery, which sparked a massive bout of selling. During such times, dynamic asset allocation funds are expected to perform better. Dynamic asset allocation funds invest in a mix of debt and equity, and increase / decrease their asset allocation depending on pre-defined market metrics such as the PE ratio, price to book value or any other in-house developed proprietary model. In sharp corrections such as now, a portfolio with a dynamic mix of debt and equity would face lower volatility than a pure equity fund portfolio. So, dynamic asset allocation funds are ideal for conservative, risk averse & first-time equity investors.

Baroda Dynamic Equity Fund (DEF)

Background

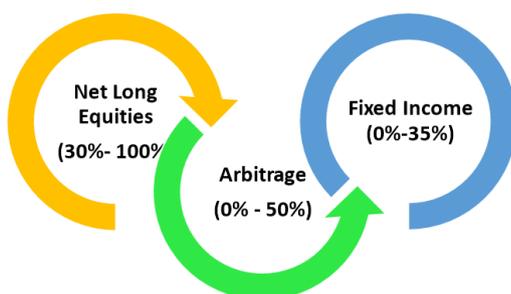
This fund is largely an equity-oriented fund which invests in a mix of debt and equity. The Fund Manager increases or decrease their allocation to equities depending on the Proprietary model's outcome. The primary objective of the fund is to generate capital appreciation & manage risk through active asset allocation. The fund follows a Multicap approach, which can prove to be a worthy long-term bet as investors can benefit from the stability of large caps as well as high growth potential of mid-caps and small caps. Launched in Nov'18, the fund is among the latest entrants in the dynamic asset allocation fund category managing an asset size of Rs 484 crores as on 31st March'20. The equity portion of the fund is managed by Mr. Sanjay Chawla & Dipak Acharya while Mr. Alok Sahoo manages the debt portion.

Suitability

DEF has performed exceptionally well and has rewarded investors with superior risk-adjusted returns. DEF maintains a well-diversified portfolio of stocks which has enabled it to reward investors at reasonable level of risk. The fund's investment in equities across market capitalization as well as debt instruments of varying maturity can help it take advantage of dynamic market conditions. The fund aims to maintain a large base of stocks to avoid concentration risk. This makes DEF suitable for investors with moderately high-risk appetite and investment horizon of at least 5 years.

Asset Allocation

The gross equity exposure will be maintained in the range of 65% to 100% while the net equity exposure will be maintained between 30% to 100%. The difference between gross and net variation would generally be invested in arbitrage or in arbitrage equity mutual funds. The exposure to Debt & Money Market Instruments including cash and cash equivalents will be maintained in the range of 0% to 35%.



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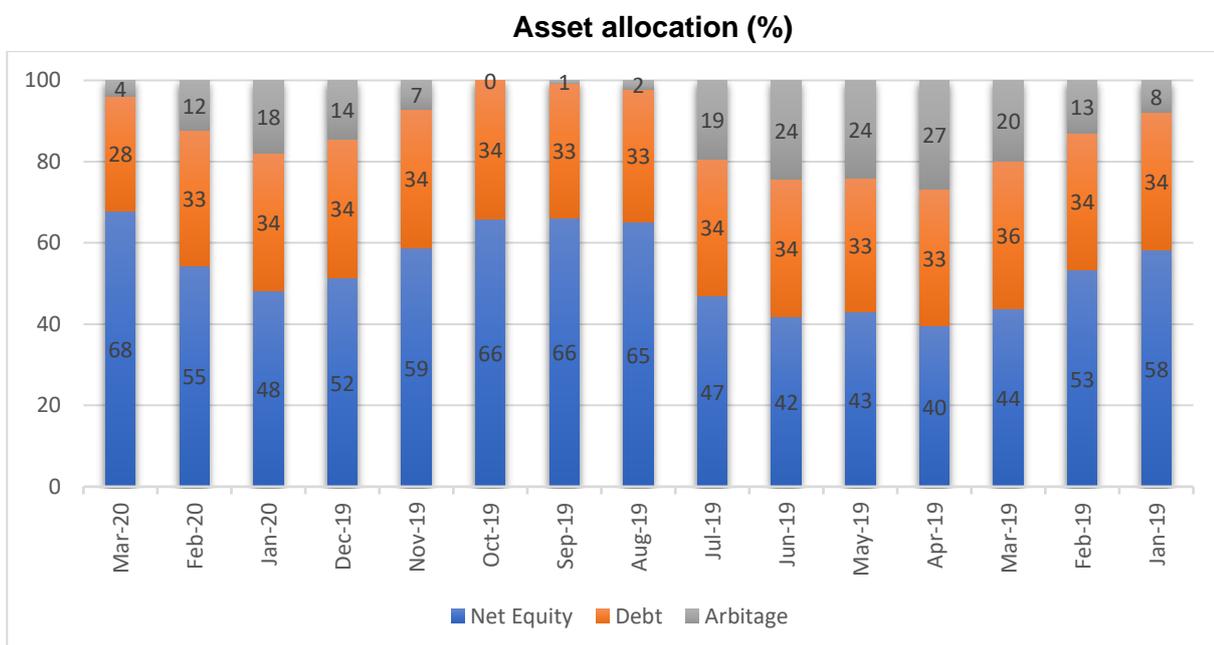
Investment Strategy

The fund manager aims to outperform the benchmark while undertaking risk that is lower than the benchmark. The fund selects stocks based on their ability to grow earnings on a sustainable basis from a medium-term perspective. DEF adopts pure bottom up stock picking approach focusing on fundamentals. The stocks are carefully selected to include companies having robust business models and enjoying sustainable competitive advantage as compared to their competitors.

Current Positioning (as on 31st March'20)

- Currently, the Fund holds 48 stocks in its portfolio while the category average is at 60 stocks. The fund has a Large cap bias with top 10 stocks constituting almost 32% of its portfolio. Banking and finance names like ICICI Bank, HDFC Ltd., Axis Bank are part of its top holdings with an allocation in the range of 3% - 4% each.
- The fund has exposure of 22% to Financials although this is lesser than the index weightage to the sector. This is followed by Consumption and Infotech, adding another 21% to its portfolio allocation. The remaining portfolio is diversified across Telecom Services, Petroleum Products, Auto, Cement, and Pharma.

Table 1: Asset allocation (%)



(Source: Factsheet – March'20)

- The fund's equity allocation is dynamically managed based on the Proprietary Model's allocation & is currently 68% in Equities, 4% in Arbitrage & 28% in Debt. There has been a significant jump in the equity allocation from the previous month & is at its highest level due to sharp correction in stock prices, which have made valuations attractive. A disciplined portfolio rebalancing is carried out on a monthly basis in order to maintain the asset allocation mix.

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Table 2: Top 10 Holdings

Top 10 Holdings

Company Name	Industry	% to AUM
Hindustan Unilever Ltd.	Consumer Non-Durables	4.27
ICICI Bank Ltd.	Banks	4.18
Bharti Airtel Ltd.	Telecom - Services	4.04
Reliance Industries Ltd.	Petroleum Products	3.45
Infosys Ltd.	Software	3.31
Housing Development Finance Corporation Ltd.	Finance	2.87
Axis Bank Ltd.	Banks	2.60
SBI Cards & Payment Services Ltd.	Finance	2.54
Tech Mahindra Ltd.	Software	2.33
Nestle India Ltd.	Consumer Non-Durables	2.02

(Source: Factsheet – March'20)

Table 3: What's In / What's Out

What's In / What's Out

What's In	What's Out
Atul Ltd.	Adani Enterprises Ltd.
Bata India Ltd.	ITC Ltd.
Crompton Greaves Consumer Electricals Ltd.	Tata Steel Ltd.
Dr. Reddy's Laboratories Ltd.	
IndusInd Bank Ltd.	
Power Grid Corporation of India Ltd.	

(Source: Factsheet – March'20)

DEF has managed a superior feat at a relatively lower risk as compared to the benchmark and category peers & its risk-adjusted returns, historically has been the best in the category. It is not just important to win big during phases of momentum alone; when markets are volatile, this fund helps in providing downside protection too. The Sensex has delivered negative returns of about 26.1% in last 12-month period, the fund is only down by 6.35%. Such downside protection abilities help reflect the capabilities of the investment philosophy & the efficacy of the Proprietary Model.

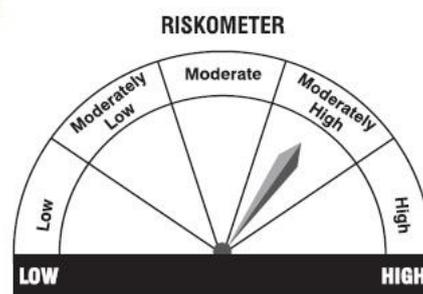
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Investors looking to gain from investment across the universe of stocks but at a lower risk can consider investing in this asset allocation fund that invests predominantly in equities along with meaningful exposure in debt instruments to reduce volatility.

Baroda Dynamic Equity Fund: This product is suitable for investors who are seeking~

- Capital appreciation over medium to long term.
- Investment in equity and equity linked securities as well as debt and money market instruments while managing risk through active asset allocation.

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



Investors understand that their principal will be at moderately high risk

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