

April 27, 2020

Product Update April'20

Baroda Equity Savings Fund (ESF)

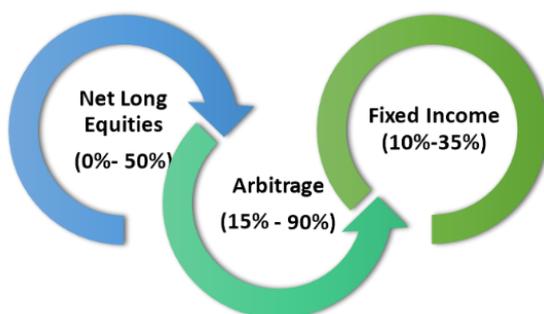
Background

ESFs are hybrid mutual fund schemes, which invest in both debt and equity securities. The main purpose of this fund is to balance the risk return characteristics of different asset classes by investing in equity, debt and derivatives. Usage of derivatives reduces equity exposure and consequently protects investors from volatility of returns. This fund is largely an equity-oriented funds which invests in a mix of debt and equity. The Fund Manager increases or decrease the allocation to equities depending on the outcome of the Proprietary model. The primary objective of the fund is to generate capital appreciation & manage risk through active asset allocation. Launched in July'19, the fund is among the latest entrants in the hybrid asset allocation fund category managing AUM of Rs 413 crores as on 31st March'20. The equity portion of the fund is managed by Mr. Dipak Acharya and Mr. Pratish Krishnan while Mr. Alok Sahoo manages the debt portion.

Suitability

The gross equity exposure of these funds is at a minimum of 65% & its debt exposure is restricted to 35%. Of the equity portion, the fund manager can invest a minimum of 15% in Arbitrage. Arbitrage profits on the hedged positions enable such funds to generate additional returns to investors. The fund has debt, arbitrage, and a little bit of equity & it enjoys equity taxation, this fund is a win-win situation for conservative investors.

Asset Allocation



The gross equity exposure will be maintained in the range of 65% to 90% while the net equity exposure will be maintained between 0% to 50%. 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 10% to 35%.

Investment Strategy

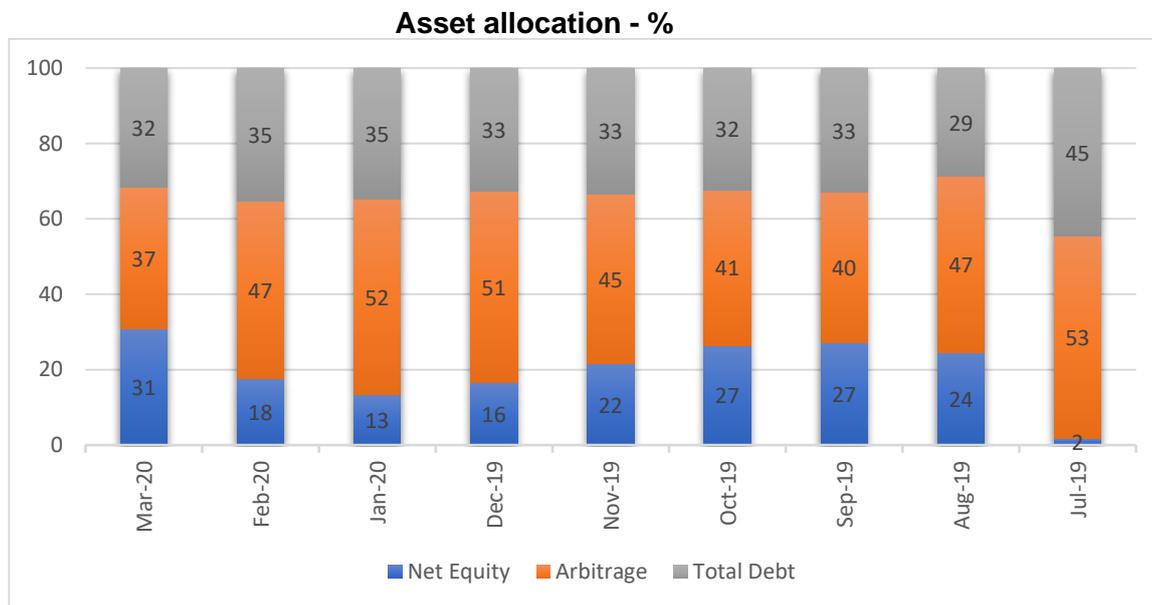
Based on the asset allocation determined by the proprietary model, the equity allocation would be primarily invested in Multi-cap companies. Stock selection is conducted on a bottom up approach combined with top down analysis to capture macro-economic trends. The model would follow the Matrix approach for Asset Allocation based on different parameters & would be rebalanced on a monthly basis. The fund would endeavor to capture the spread between cash equity market & derivatives market providing risk free returns with completely hedged arbitrage exposure. The fund would follow an Accrual based strategy & would endeavor to deliver better returns than other Fixed Income products.

April 27, 2020

Current Positioning (as on 31st March'20)

- Currently, the Fund holds 57 stocks in its portfolio while the category average is at 60 stocks. The fund has a Large cap bias & the top 10 stocks constitute around 35% of its portfolio. Banking and finance names like HDFC Ltd, ICICI Bank, HDFC Ltd., SBI form part of the top holdings with an allocation in the range of 2.5% - 3% each & HDFC Ltd at 6.4%.
- The fund is overweight on Financials with a total exposure of 25% although lesser than the index weightage. This is followed by Consumption and Pharma adding another 17% to its portfolio allocation.

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 31% in Equities, 38% in Arbitrage & 32% in Debt. As seen in the above table, there has been a significant jump in the equity allocation from the previous month & is at its highest level since inception due to the sharp correction in the stock prices, which has made valuations attractive. A disciplined portfolio rebalancing is carried out on a monthly basis in order to maintain the asset allocation mix.

Table 2: Top 10 Holdings

Company Name	Industry	% to AUM
Housing Development Finance Corporation Ltd.	Finance	6.40
Reliance Industries Ltd.	Petroleum Products	6.02
Bharti Airtel Ltd.	Telecom - Services	4.38
Hindustan Unilever Ltd.	Consumer Non-Durables	2.93
ICICI Bank Ltd.	Banks	2.78
HDFC Bank Ltd.	Banks	2.77
Axis Bank Ltd.	Banks	2.76
State Bank of India	Banks	2.72
Nestle India Ltd.	Consumer Non-Durables	2.57
Vedanta Ltd.	Non - Ferrous Metals	2.54

April 27, 2020

(Source: Factsheet – March'20)

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

What's In	What's Out
Bata India Ltd.	Adani Enterprises Ltd.
Divi's Laboratories Ltd.	Eicher Motors Ltd.
Dr. Lal Path labs Ltd.	Jindal Steel & Power Ltd.
Indraprastha Gas Ltd.	
IPCA Laboratories Ltd.	
Mahindra & Mahindra Ltd.	
NTPC Ltd.	
Power Grid Corporation of India Ltd.	
SBI Cards & Payment Services Ltd.	
Shree Cement Ltd.	
Tata Motors Ltd.	
Trent Ltd.	

(Source: Factsheet – March'20)

ESF has managed a superior feat at a relatively lower risk as compared to the benchmark and category peers & its risk-adjusted returns has been the best in the category. It is not just important to win big during phases of momentum alone; but when markets are volatile, this fund helps in providing downside protection too. The Sensex has delivered negative returns of about 25% in last 6-month period & the fund is down by 2.35%. Such downside protection abilities help reflect the capabilities of the investment philosophy & the efficacy of the Proprietary Model.

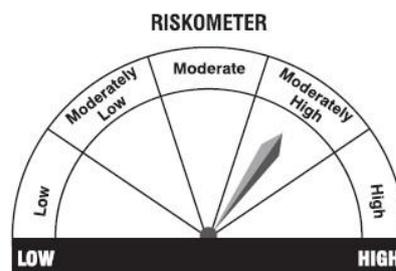
Conclusion

Asset allocation funds not only give investors exposure to equity and debt, but also help investors reap the benefits of equity investing by dynamically managing their exposure to the asset class. As a result, investments in such funds can help investors mitigate portfolio volatility and provide long-term portfolio returns.

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

- Long term capital appreciation and income generation.
- Investment in equity and equity related securities, arbitrage opportunities, and debt and money market instruments.

~ 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.