



A fund that aims to rally for **QUALITY**

Invest Now

NFO Opens: **18th November 2024**

NFO Closes: **29th November 2024**

Introducing

Bandhan Nifty 200 Quality 30 Index Fund

Factors & Factor Investing



A factor is a characteristic that can explain or predict a stock's behavior in the market

Ever noticed how some movies, even without a strong storyline, attract huge crowds just because of the star cast? That's the star's 'X-factor' at work!



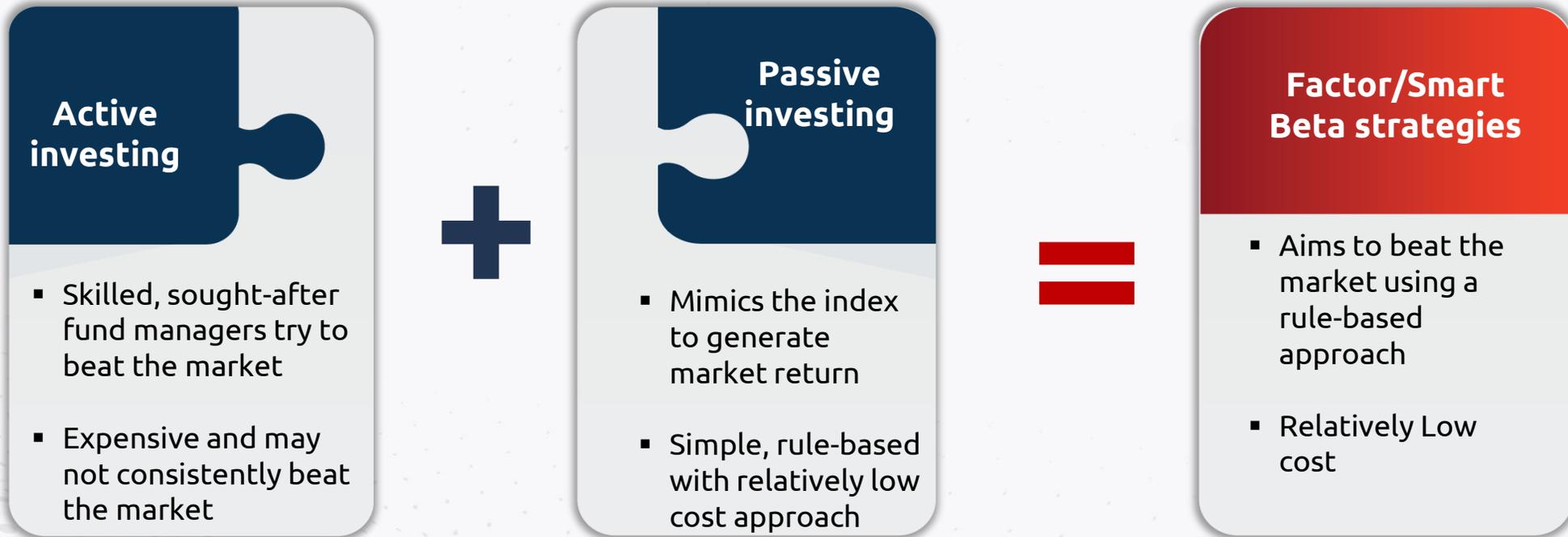
The core idea behind factor investing is to identify specific factors that influence why some investments perform better or worse than the broader market.

Think of two drivers in identical cars. Their performance varies not because of the car, but due to their unique driving strategies. It's not just about having the right vehicle - it's about how you drive it.

Picking stocks with specific factors can help investors build a portfolio that may produce relatively superior risk-adjusted returns compared to the market.

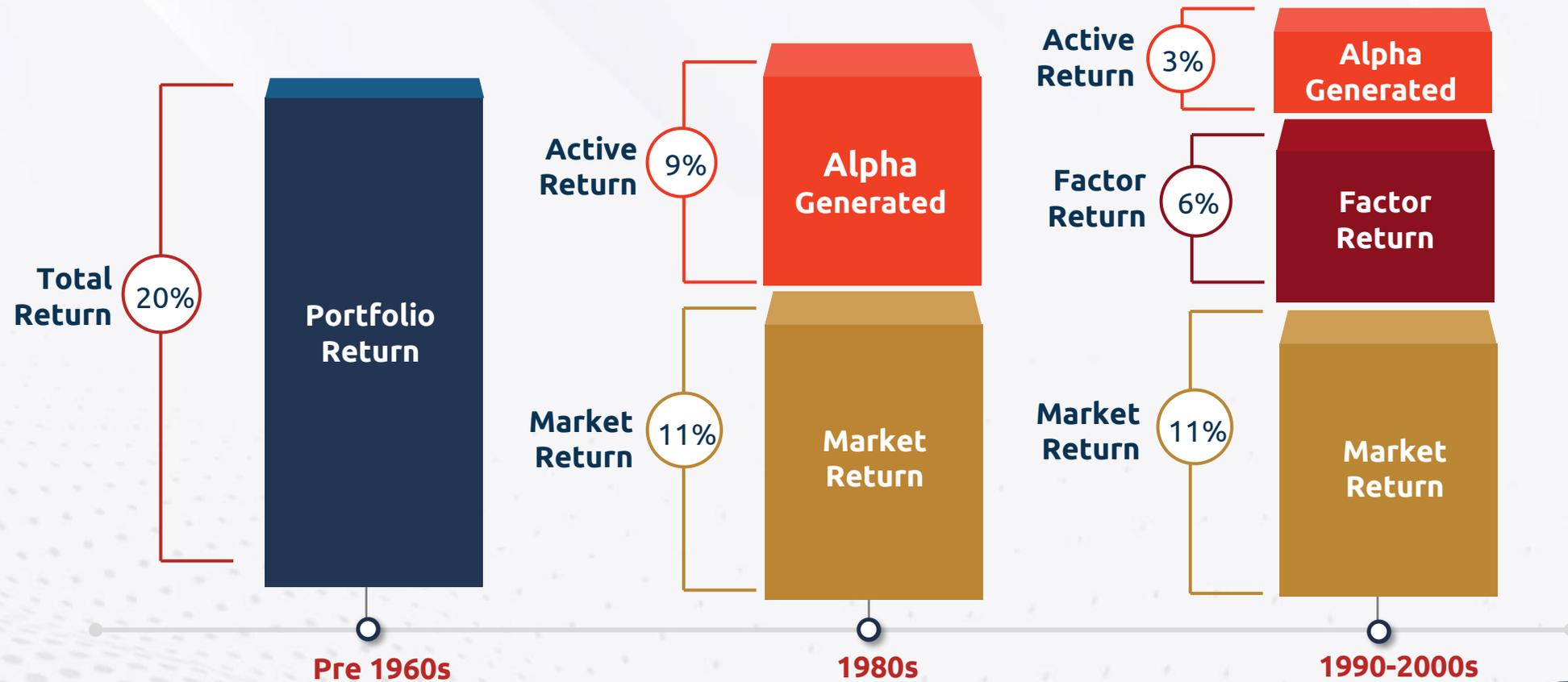
Bridging Active and Passive Investing

'Factors' might sound new, but the concept has been part of investing for years. Active fund managers have long used these factors to manage portfolios.



Demystifying Portfolio Return Drivers

An Illustration of how portfolio return was dissected over the years



The Five Most Common Style Factors

Each factor aims to capture excess return to stocks with the following characteristics



Understanding Factor Behaviour

Different factors can be used to create tailored strategies, each targeting specific stock behaviours



Factor investing- Benefits & Risks

Benefits

- Backed by research and evidence.
- It follows predefined rules and does not involve subjective investment decisions.
- Can help to improve portfolio returns or reduce risks.
- Increased diversification.

Risks

- Factors may perform differently depending on market conditions, leading to underperformance during certain market conditions.
- Timing factors can be difficult, as factors may exhibit mean-reverting or trending behavior.
- Some factors may exhibit high concentration in a certain sector or style.



Introducing The Nifty 200 Quality 30 Index



Understanding the Quality Factor: What it is & Why it works?

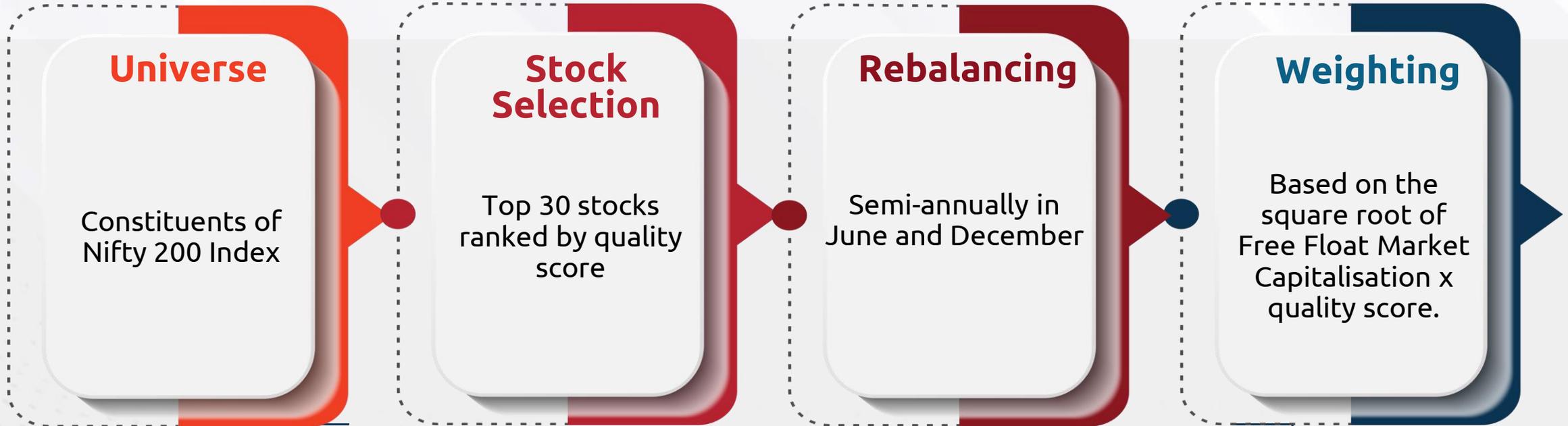
What is Quality Factor?

- Focuses on companies with lower debt, stable earnings, and other quality metrics.
- Defined by key elements such as profitability, earnings quality, and capital structure.
- Aims to capture the premium associated with high-quality stocks.
- Historical evidence suggests that financially strong companies exhibit superior returns with lower risk

Why does it work?

- The effectiveness of the Quality factor stems from mispricing.
- Investors often prioritize short-term performance, overlooking high-quality companies with consistent long-term results, leading to undervaluation.
- Overconfidence in chasing lesser-known opportunities can result in overpricing, while high-quality firms tend to outperform in the long term.

Index Methodology Explained



Quality score factors in return on equity, debt-to-equity ratio, and earnings variability. The debt-to-equity ratio is excluded for financial sector companies.

EPS Growth variability measures the extent to which a company's earnings per share fluctuate over the past year. It is not calculated for stocks with negative EPS in any of the previous 6 fiscal years.

Filtering for Quality: How It Works



Return on Equity (ROE)

- Reflects how efficiently a company uses shareholder equity to generate profit.
- High ROE indicates effective capital use and operational efficiency.



Debt-to-Equity (D/E)

- Evaluates a company's financial leverage; a lower ratio shows prudent risk management.
- Companies with strong balance sheets are better prepared to handle economic challenges.

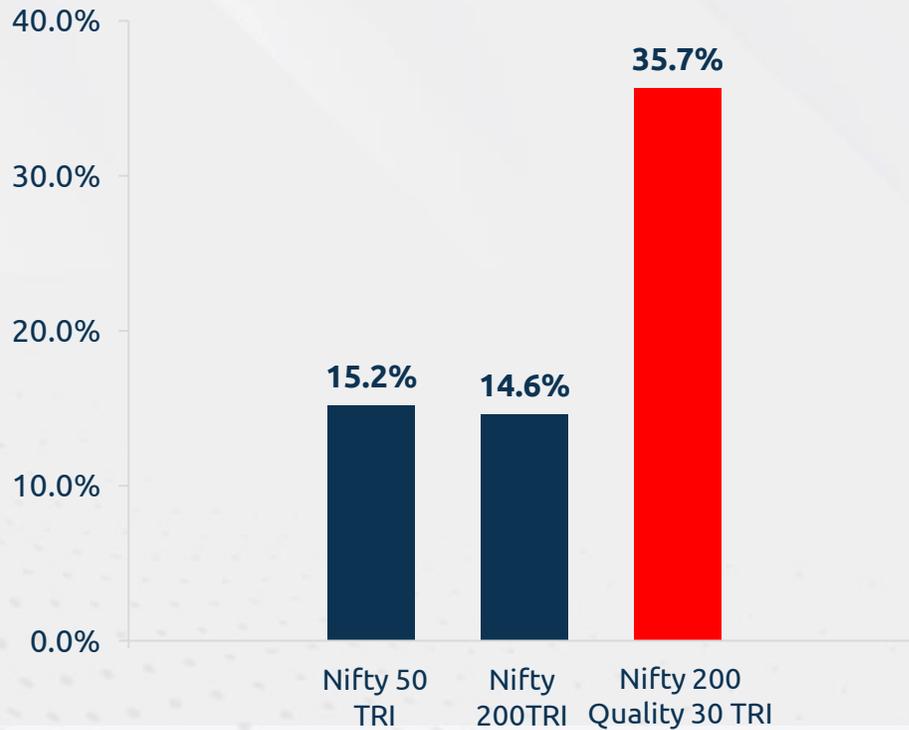


EPS Growth Variability

- Indicates the earnings quality; a consistent EPS growth demonstrates solid earning quality
- Companies with steady financial performance typically experience fewer price fluctuations, offering more stable returns.

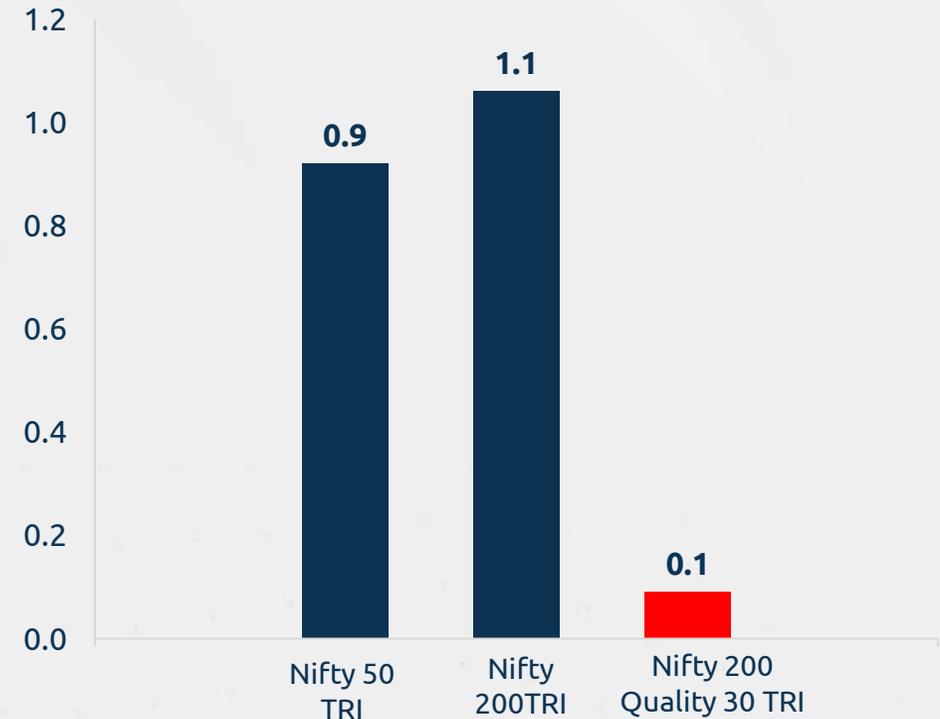
Relatively Efficient, Prudent, and Stable.

Return on Equity (%)



Higher ROE highlights efficient use of capital.

Debt to Equity (in times)



A lower D/E ratio underscores sound risk management.

Proven Outperformance Over Broader Indices

Parameter	Periodicity	Nifty 50 TRI	Nifty 200 TRI	Nifty 200 Quality 30 TRI
Annualized Returns	1 year	28.4%	34.9%	34.3%
	3 year	12.4%	14.6%	15.1%
	5 year	16.6%	18.5%	17.9%
	10 year	12.6%	13.7%	13.8%
Annualized Volatility	1 year	12.8%	13.7%	11.8%
	3 year	14.0%	14.3%	13.0%
	5 year	18.8%	18.5%	16.2%
	10 year	16.4%	16.4%	14.5%
Risk Adj. Return	1 year	2.2	2.5	3.65
	3 year	0.9	1.0	1.33
	5 year	0.9	1.0	1.30
	10 year	0.8	0.8	1.03

- The Quality strategy has surpassed broader indices over various timeframes.
- Provides higher risk-adjusted returns with lower volatility.

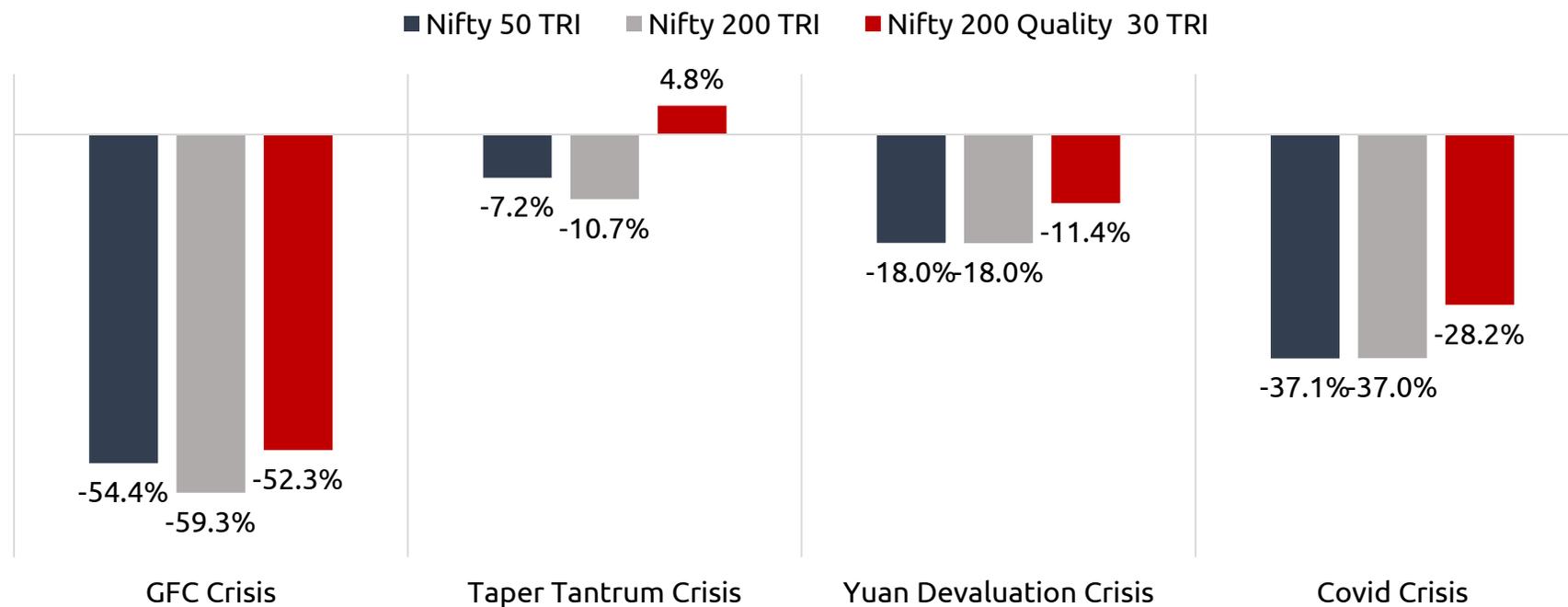
Outperformance on a Rolling Basis

3 Year Rolling Return	Nifty 50 TRI	Nifty 200 TRI	Nifty 200 Quality 30 TRI
Average	12.5%	12.6%	17.3%
Minimum	-5.0%	-7.9%	-7.0%
Maximum	41.9%	39.1%	50.5%

5 Year Rolling Return	Nifty 50 TRI	Nifty 200 TRI	Nifty 200 Quality 30 TRI
Average	12.2%	12.4%	17.5%
Minimum	-1.91%	-1.83%	1.1%
Maximum	23.3%	22.7%	36.6%

The Nifty 200 Quality 30 TRI has outpaced broader market indices across multiple periods.

Historically, Quality Index weathered Market Downturns

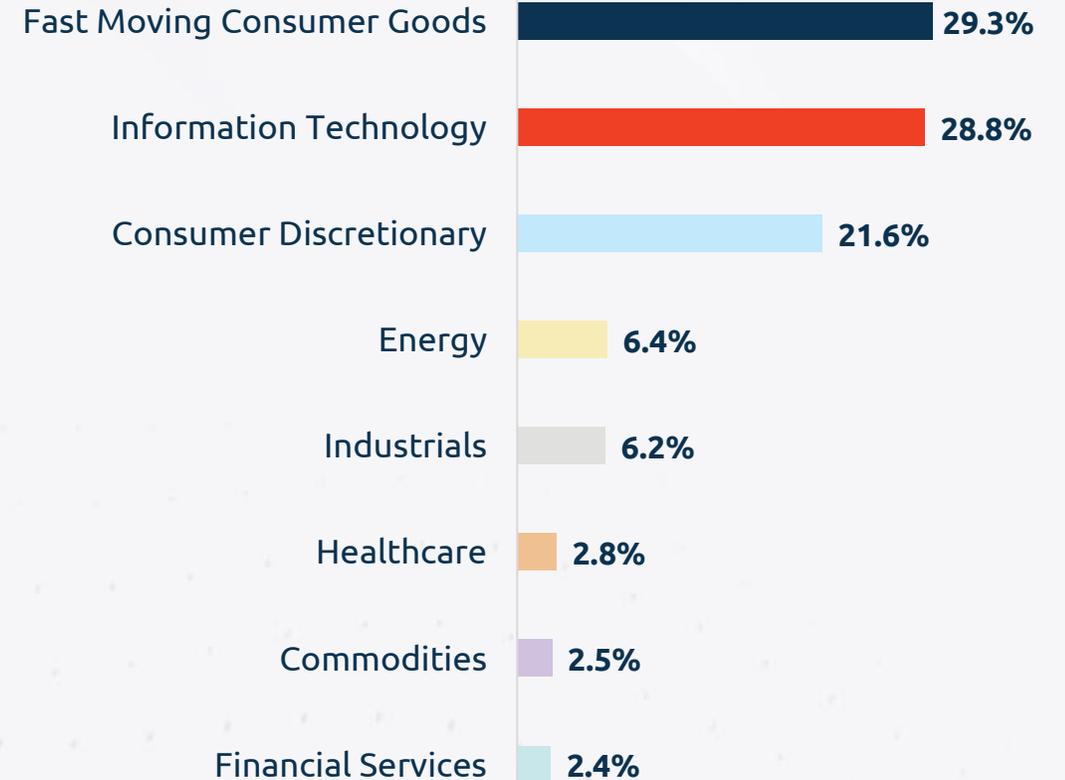


The Nifty 200 Quality 30 Index has demonstrated smaller declines during major global crises, offering downside protection.

Top 10 Stock Holdings & Sector Breakdown

TOP 10			
Sr. No	Stock Name	Macroeconomic Sector	Weight
1	HCL Technologies Ltd	IT	5.5%
2	ITC Ltd	FMCG	5.4%
3	Infosys Ltd	IT	5.4%
4	Hindustan Unilever Ltd	FMCG	5.4%
5	Asian Paints Ltd	Consumer Disc	5.0%
6	TCS Ltd	IT	4.9%
7	Coal India Ltd.	Energy	4.8%
8	Nestle India Ltd	FMCG	4.7%
9	Colgate Palmolive (India)	FMCG	4.7%
10	Bajaj Auto Ltd	Consumer Disc	4.6%
Total			50.2%

Macro Economic Sector Classification



Sector Leadership: Consumer Discretionary, FMCG and IT Lead the Way

Macro-economic sector	Jun-19	Dec-19	Jun-20	Jan-21	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24
Consumer Disc.	36.0%	35.5%	35.5%	34.7%	27.6%	23.3%	23.5%	20.9%	20.7%	21.9%	21.6%
FMCG	24.0%	31.0%	31.0%	30.3%	29.5%	29.5%	30.3%	29.6%	29.6%	29.2%	28.3%
Energy	8.2%	7.2%	7.2%	6.3%	8.2%	6.2%	5.8%	6.8%	6.8%	6.6%	6.6%
Healthcare	2.2%	2.5%	2.5%	3.4%	3.8%	6.1%	5.3%	7.3%	7.2%	2.7%	2.7%
IT	21.8%	19.4%	19.4%	20.1%	25.2%	28.0%	25.3%	26.2%	26.8%	26.1%	27.8%
Commodities	4.4%	2.5%	2.5%	2.9%	3.3%	4.8%	5.0%	5.1%	4.8%	4.5%	2.6%
Financial Services	3.3%	1.9%	1.9%	2.2%	2.4%	2.2%	4.7%	4.0%	4.1%	2.5%	2.5%
Industrials	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.6%	7.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Quality Factor consistently shows concentration in certain key sectors.

Market Capitalization Exposure

Market Capitalization	Jun-19	Dec-19	Jun-20	Jan-21	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24
Large Cap	88.5%	77.0%	77.0%	97.2%	86.8%	80.6%	78.8%	80.2%	76.5%	79.2%	75.9%
Mid Cap	11.5%	23.0%	23.0%	2.8%	11.8%	18.4%	21.2%	17.5%	22.1%	20.8%	23.1%
Small Cap	0.0%	0.0%	0.0%	0.0%	1.4%	1.0%	0.0%	2.3%	1.3%	0.0%	1.0%
Grand Total	100.0%										

The quality factor leans towards large-cap stocks, favouring stability and consistent performance.

Who Should Invest in the Quality Strategy?

Suitable for risk-averse investors

Ideal for long-term investors seeking relatively stable earnings and sustainable growth.

A defensive strategy for those wanting to add potential stability to their portfolio.



Limitations of the Quality Strategy

Focusing solely on financial metrics like profitability, leverage, and returns may not provide a full picture of a company's position.



Can lead to sector concentration and reduced diversification.



The concept of 'quality' as an investment style varies and lacks a single definition.



Key Takeaway

1



Quality investing targets companies with strong fundamentals such as high ROE, low debt, consistent earnings growth, and stable margins.

2



Exploits market inefficiencies where steady long-term performers are undervalued while short-term performance is overvalued.

3



The Nifty 200 Quality 30 Index selects the top 30 stocks based on the quality score calculated by ROE, D/E ratio, and EPS growth variability.

4



Historically, the index has shown a focus on sectors like Consumer Discretionary, FMCG, and IT, with a preference for large-cap stocks.

5

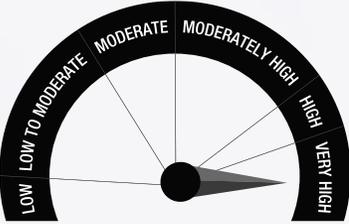
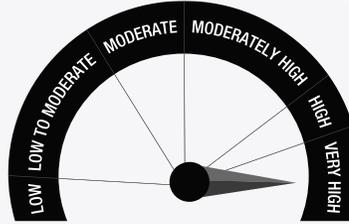


Demonstrates lower volatility and strong performance during downturns, leading to superior risk-adjusted returns over the long term.

Bandhan Nifty 200 Quality 30 Index Fund Details

	Type of scheme	An open-ended scheme tracking Nifty 200 Quality 30 Index
	NFO Dates	18th to 29th November 2024
	Benchmark	Nifty 200 Quality 30 TRI
	Exit Load	<ul style="list-style-type: none">• 0.25% - if redeemed on or before 15 days from the allotment date• Nil – if redeemed after 15 days from the allotment date
	Fund Manager	Mr. Nemish Sheth
	Investment Objective	The investment objective of the Scheme is to replicate the Nifty 200 Quality 30 Index by investing in securities of the Nifty 200 Quality 30 Index in the same proportion/weightage with an aim to provide returns before expenses that track the total return of the Nifty 200 Quality 30 Index, subject to tracking errors. However, there is no assurance or guarantee that the objectives of the scheme will be realised and the scheme does not assure or guarantee any returns.
	Minimum application amount	<p>Lumpsum purchase – Rs. 1000/- and in multiples of Re. 1/- thereafter Additional purchase – Rs. 1000/-and in multiples of Re. 1/- thereafter</p> <p>Repurchase/Redemption – Rs. 500/- or the account balance of the investor, whichever is less</p> <p>SIP - Rs. 100/- and in multiples of Re. 1 thereafter [Minimum 6 installments]</p> <p>SWP - Rs. 200/- and any amount thereafter STP - Rs. 500/- and any amount thereafter</p>

Disclosure & Product Label

Bandhan Nifty 200 Quality 30 Index Fund (An open - ended scheme tracking Nifty 200 Quality 30 Index)	Scheme Riskometer	Benchmark Riskometer
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Create wealth over a long term. • Investment in equity and equity related instruments forming part of Nifty 200 Quality 30 Index. <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p>	 <p>Investors understand that their principal will be at Very High risk</p>	 <p>Nifty 200 Quality 30 Index</p>

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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Thank You



Annexures



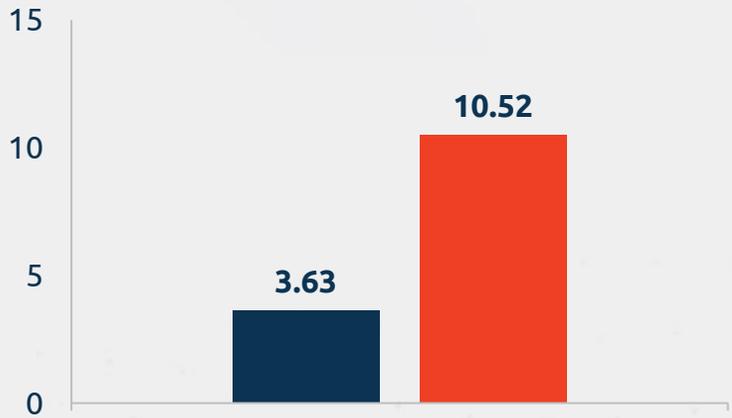
The Quality index exhibits stronger fundamentals

Price to Earnings (in times)



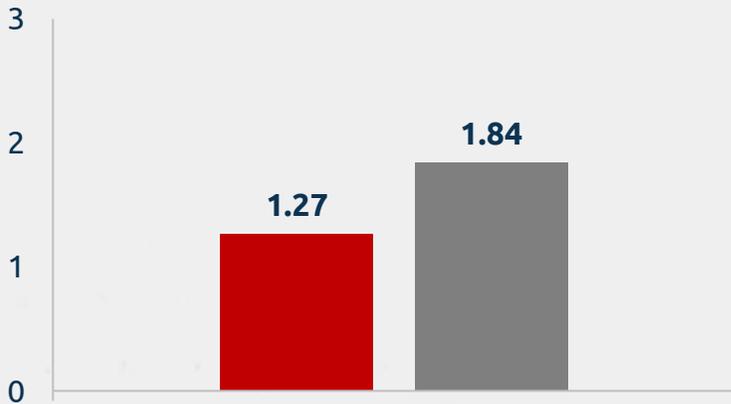
Nifty 200 TRI Nifty 200 Quality 30 TRI

Price to Book Value (in times)



Nifty 200 TRI Nifty 200 Quality 30 TRI

Dividend Yield (in times)



Nifty 200 TRI Nifty 200 Quality 30 TRI

Detailed Criteria for Selecting Top 30 Quality Stocks

1

Z-scores for each stock are calculated based on ROE, D/E, and EPS growth variability.

2

For Non-Financial Sectors: Weighted Z-score = $0.33 * Z \text{ score of ROE} + 0.33 * -(Z \text{ score of D/E}) + 0.33 * -(Z \text{ score of EPS growth variability})$.

3

For Financial Service Sectors: Weighted Z score = $0.5 * Z \text{ score of ROE} + 0.5 * -(Z \text{ score of EPS growth variability})$.

4

Quality score = $(1 + \text{Average Z score})$ if Average Z score > 0 $(1 - \text{Average Z score})^{-1}$ if Average Z-score < 0 .

5

Stock weight in the index = Square root of free float market capitalisation multiplied by the quality score.

6

Each stock's weight is capped at the lesser of 5% or 5 times its free float market capitalisation weight.