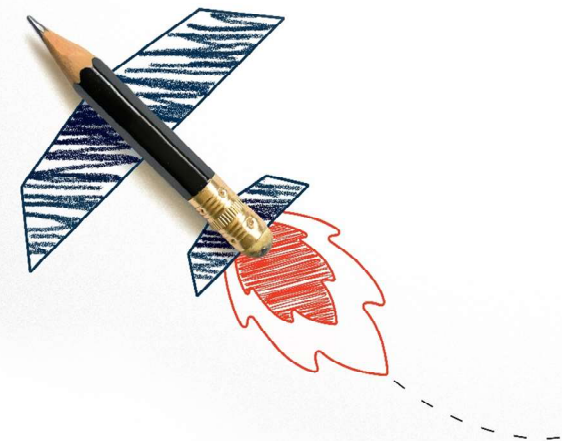# ADD **ALPHA** TO YOUR PORTFOLIO

Introducing the
Bandhan Nifty Alpha 50 Index Fund

An open-ended scheme tracking the Nifty Alpha 50 Index

NFO Opens: 25th October 2023
NFO Closes: 6th November 2023

A Primer on Factor Investing

What are factors, and what is factor investing?

A Factor helps to explain or identify characteristics that drive a stock's price in the market.

The core idea behind factor investing is to know which specific factors, beyond the overall market, make some investments perform better or worse.

Have you ever observed that certain movies, despite lacking a compelling plot, still draw a huge audience solely because of the star's presence? You may often term it the star's 'X-factor.'
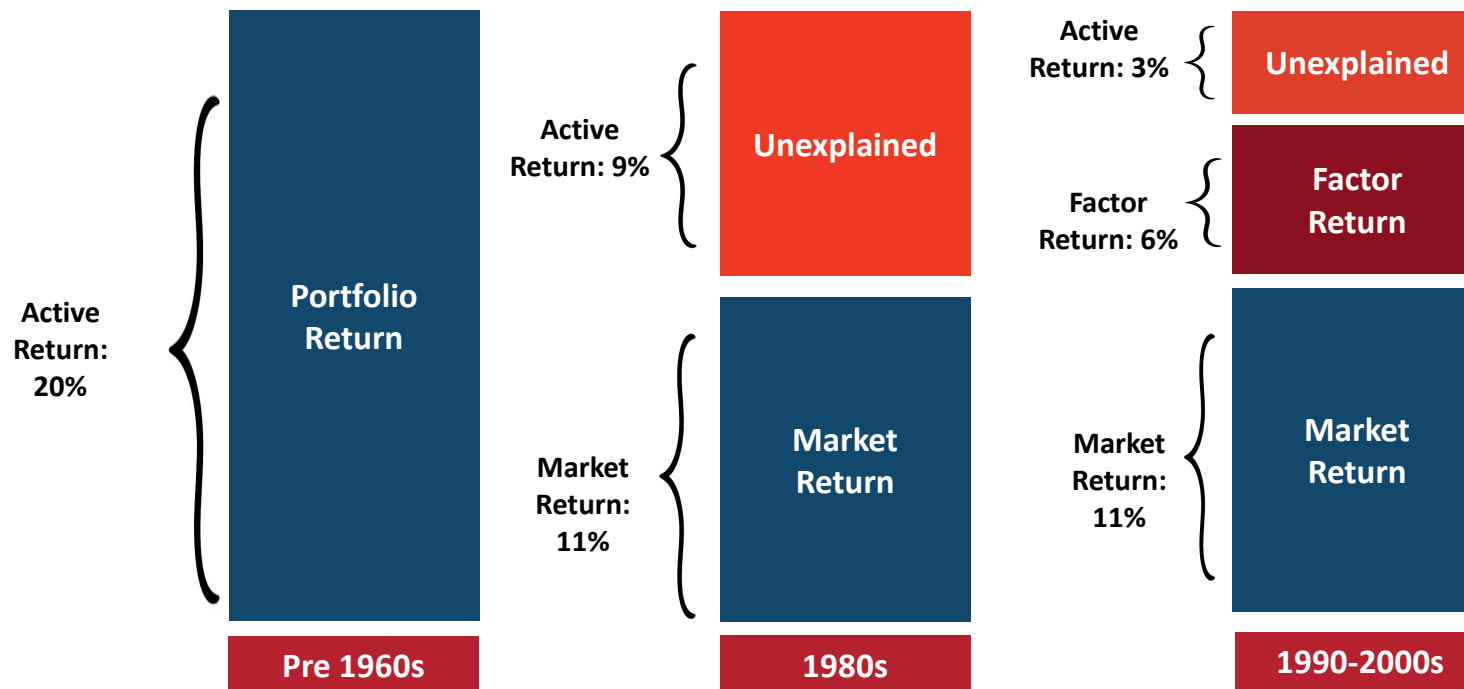
Consider two Formula 1 drivers who race identical cars but achieve different levels of success. This performance gap can be attributed to each driver's unique racing strategy. It's not solely about the car; it's the strategy that sets them apart.

Picking stocks with specific factors can help investors build a portfolio that produces ^potentially higher risk-adjusted returns than the market.

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Demystifying drivers of portfolio returns

An Illustration of how portfolio return was dissected over the years

Active
Return:
20%

**Portfolio
Return**

Pre 1960s

Active
Return: 9%

Unexplained

Market
Return:
11%

**Market
Return**

1980s

Active
Return: 3%

Unexplained

Factor
Return: 6%

**Factor
Return**

Market
Return:
11%

**Market
Return**

1990-2000s

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Active investing

Passive investing

- Skilled, active fund managers try to beat the market
- Expensive and may not consistently beat the market

Factor/
Smart Beta Strategies
- Aims to beat the broader market using a rule-based approach
- Low cost

- Involves mimicking a broad market index to generate returns commensurate with the market
- Simple and low-cost approach

Source: For illustration purpose only

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5

Widely used style factors

Each factor aims to capture excess returns generated by stocks with the following characteristics:

Momentum

Stocks with stronger past performance

Low Volatility

Stocks with lower-than-average volatility

Quality

Stocks with lower debt, stable earnings, and other quality metrics

Value

Stocks with low prices relative to their fundamental value

Size

Stocks with lower market capitalization

Factors: The term will be unfamiliar, but it isn't new.
Active managers have been using factors to manage portfolios.

Source: For illustration purpose only

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About Nifty Alpha 50 Index
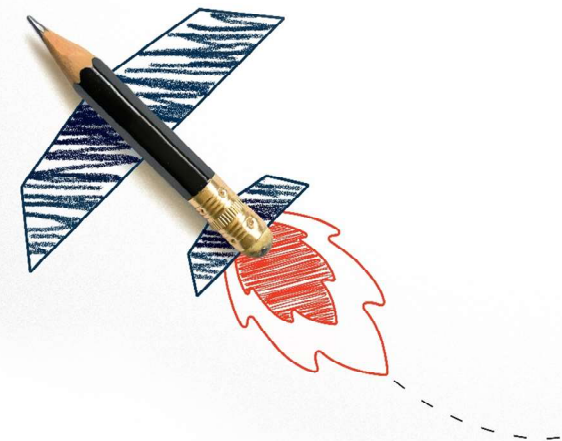
What is an 'Alpha' strategy?

In simple terms, ^Alpha is expressed as the excess returns in relation to the market, after adjusting for risk

Basic Premise

The alpha factor strategically invests in securities displaying significant alpha compared to the market, and it systematically exits those positions as its alpha diminishes.

Illustration
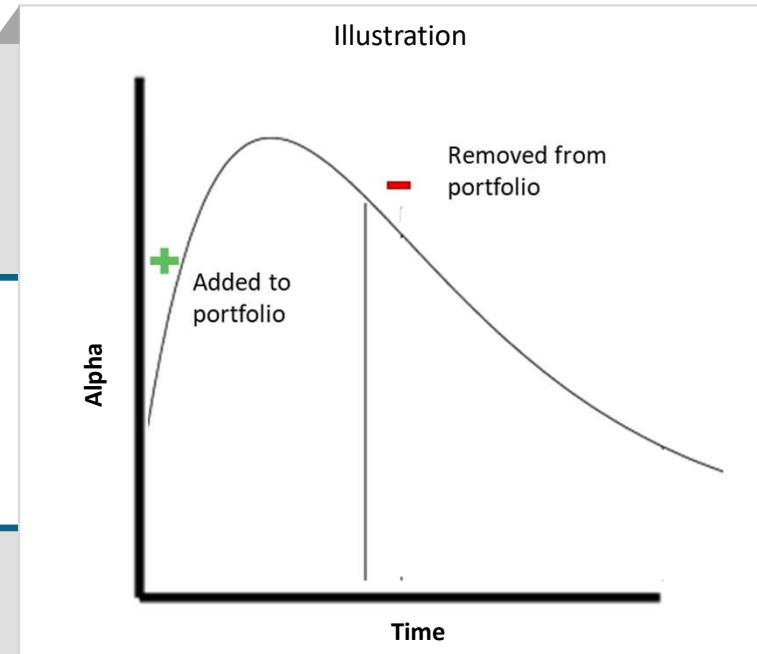
^Jenson's Alpha is the difference between the actual returns of a stock/portfolio and those that could have been earned on a benchmark portfolio with the same amount of risk

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Nifty Alpha 50 Index methodology

The Index is designed to be nimble, reflecting the evolving market condition.

Eligibility Criteria

Stock selection

Minimum listing history of 1 year

Top 300 stocks based on #M.cap

Top 50 companies with the highest *Alpha

Proportional to Alpha score

Stock Universe

Weightage

^Exercise repeated every 3 months – Mar, Jun, Sep, and Dec to determine entry and exit of stocks

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Why add exposure to the alpha factor?

1
Historical Return outperformance vs broader indices

2
The Alpha factor can be a proxy for Sector /Market capitalization rotation strategy

3
Adding Alpha to Beta in a rule-based manner may enhance portfolio returns

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The Index has historically delivered an average Alpha of ~5% over broad-based indices

3-Year Rolling Return

3-Year Rolling Return	Nifty 50 TRI	Nifty Next 50 TRI	Nifty 500 TRI	Nifty 200 TRI	Nifty Alpha 50 TRI
Average	12.3%	13.9%	12.3%	12.2%	17.4%
Minimum	-5.0%	-15.0%	-8.7%	-7.9%	-19.3%
Maximum	41.9%	44.3%	38.2%	39.1%	48.5%
Volatility	12.1%	16.6%	13.6%	13.0%	24.6%

5-Year Rolling Return

5-Year Rolling Return	Nifty 50 TRI	Nifty Next 50 TRI	Nifty 500 TRI	Nifty 200 TRI	Nifty Alpha 50 TRI
Average	11.9%	14.2%	12.0%	11.9%	16.9%
Minimum	-1.9%	-0.2%	-1.9%	-1.8%	-7.1%
Maximum	23.3%	30.0%	22.0%	22.0%	35.7%
Volatility	4.6%	6.1%	4.9%	4.8%	8.7%

Embracing a high-risk, high-reward approach, the strategy may experience short-term fluctuations. However, a more extended horizon showcases reduced volatility and significant alpha generation.

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Robust Performance during bull markets

1

Exhibits strong excess return during bull markets

From	To	Cycle	Nifty 50 TRI	Nifty Alpha 50 TRI	Excess Return
01-Apr-05	08-Jan-08	Bull	217.5%	363.9%	146.4%
06-Mar-14	03-Mar-15	Bull	42.2%	69.8%	27.6%
23-Feb-17	14-Jan-20	Bull	43.8%	36.0%	-7.8%
06-Nov-20	18-Oct-21	Bull	52.2%	96.4%	44.2%
09-Jan-08	27-Oct-08	Bear	-59.4%	-77.9%	-18.5%
08-Nov-10	19-Dec-11	Bear	-25.6%	-25.0%	0.6%
04-Mar-15	25-Feb-16	Bear	-21.1%	-11.8%	9.3%
15-Jan-20	23-Mar-20	Bear	-38.2%	-34.1%	4.1%

The Nifty Alpha 50 Index exhibits high excess returns during bull runs while being more volatile during the bear period.

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Market Capitalization rotation

The Alpha factor changes its market cap exposure based on the market cycle

Index allocation to Market Capitalization	Jan-21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Large Cap	27.3%	33.1%	26.6%	36.9%	33.3%	15.4%	12.1%	46.6%	41.4%	37.3%	31.4%	16.5%
Mid Cap	46.1%	42.9%	39.0%	40.8%	39.8%	32.8%	45.1%	40.7%	40.1%	56.3%	46.3%	50.0%
Small Cap	26.7%	24.0%	34.4%	22.4%	26.9%	51.8%	42.8%	12.7%	18.5%	6.4%	22.4%	33.6%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

During bull markets, the Mid and Small-cap segments tend to do well, while during bear markets, Large caps dominate. The Alpha strategy adapts the composition to reflect the changes.

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The Alpha factor changes its sector exposure basis market or business cycle.

Macro-economic sector	Jan-21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Financial Services	5.9%	3.6%	5.2%	5.0%	11.9%	14.7%	13.7%	14.3%	25.5%	37.5%	38.5%	41.2%
Industrials	5.5%	3.7%	11.6%	7.9%	7.8%	4.3%	11.1%	17.6%	20.2%	22.6%	24.8%	31.6%
Cons. Discretionary	18.7%	16.4%	10.0%	3.8%	3.8%	8.8%	18.7%	23.7%	13.9%	20.8%	13.1%	8.3%
IT	6.0%	23.3%	29.6%	23.8%	26.9%	31.3%	14.1%	7.3%	1.9%	2.2%	8.3%	8.0%
FMCG	2.6%	1.0%	2.3%	2.3%	2.7%	1.0%	3.2%	4.3%	5.3%	8.6%	7.3%	3.5%
Commodities	19.7%	13.9%	17.3%	22.9%	18.9%	12.2%	12.6%	9.2%	16.1%	3.0%	5.4%	1.5%
Healthcare	27.9%	14.4%	6.1%	11.5%	8.3%	5.0%	3.3%			1.3%	1.1%	5.0%
Utilities	7.7%	9.8%	9.1%	10.4%	9.8%	9.2%	6.8%	11.3%	11.3%	2.8%	0.9%	0.8%
Energy	4.7%	5.8%	5.4%	6.6%	5.0%	4.6%	5.7%	6.0%	5.7%	1.2%	0.7%	
Services		3.5%	3.3%	2.7%	1.9%	0.3%						
Telecommunication	1.2%	4.5%		3.1%	2.9%	8.8%	10.8%	6.4%				
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Different sectors do well during business cycles;
The Alpha strategy captures the sector rotation trend.

Bandhan Mutual Fund

2

Security Churn

- - Avg. no. of security churn

Chart — No. of securities chruned:

Jan-21	Apr-21	Jul-21	Oct-21	Jan-22	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Jul-23	
4	21	13	15	9	11	13	20	15	14	6	8
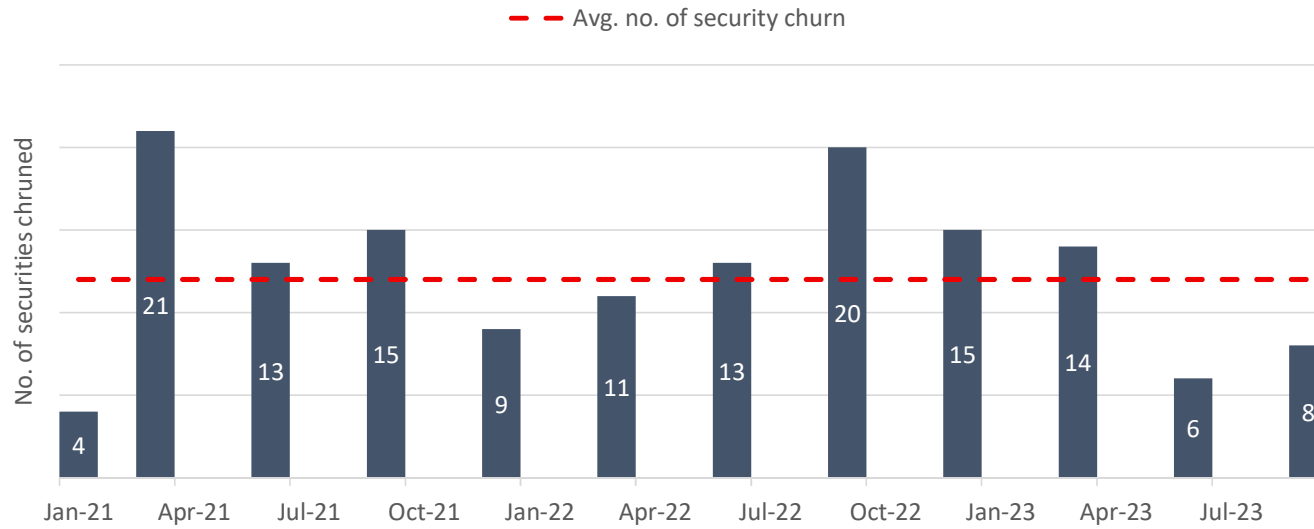
During each quarterly rebalancing, on average (avg.), 12 securities are replaced, and the avg. Churn (% weight) is 35%

Bandhan Mutual Fund

Sector & Stock Holding of the Index

Sr. No	Macro-economic Sector	Weight
1	Financial Services	41.2%
2	Industrials	31.6%
3	Consumer Discretionary	8.3%
4	Information Technology	8.0%
5	Healthcare	5.0%
6	Fast Moving Consumer Goods	3.5%
7	Commodities	1.5%
8	Utilities	0.8%
Total		**100.0%**

Sr. No	Stock Name	Macro-economic Sector	Weight
1	Karnataka Bank Ltd.	Financial Services	4.1%
2	Suzlon Energy Ltd.	Industrials	4.1%
3	Finolex Cables Ltd.	Industrials	3.4%
4	NCC Ltd.	Industrials	3.3%
5	Indian Railway Finance Corp Ltd.	Financial Services	3.3%
6	REC Ltd.	Financial Services	3.2%
7	PNB Housing Finance Ltd.	Financial Services	3.2%
8	Supreme Industries Ltd.	Industrials	3.1%
9	Glenmark Pharmaceuticals Ltd.	Healthcare	3.1%
10	Power Finance Corporation Ltd.	Financial Services	3.1%
Total			**33.8%**

Large Cap	Mid Cap	Small Cap
16.5%	50.0%	33.6%

Bandhan Mutual Fund

3

Illustration of growth of Rs. 1 Lac invested on 30th Sep 2013

Nifty 50 TRI — Nifty Alpha 50 TRI — Nifty 50:Nifty Alpha (70:30)
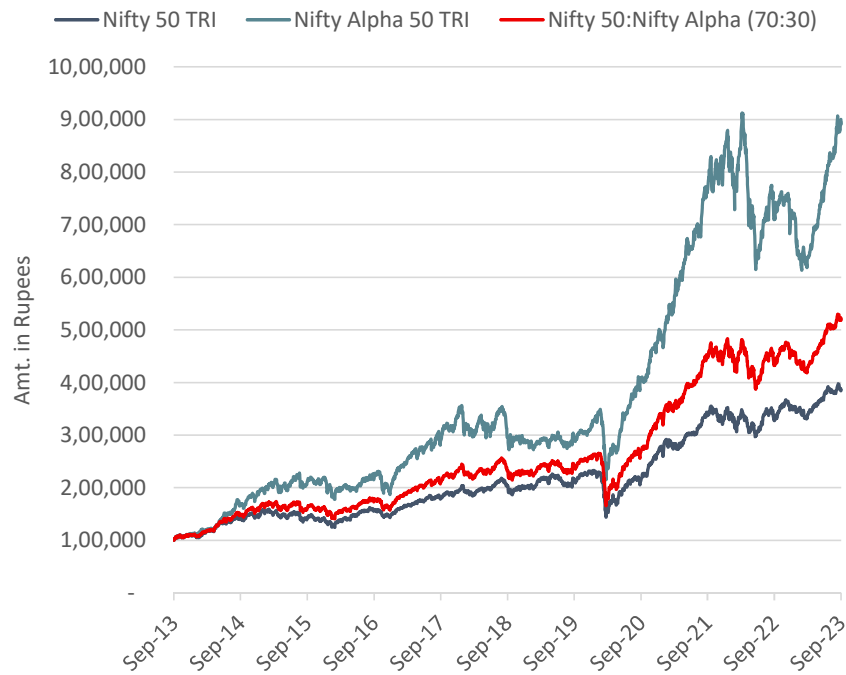
10 Year (CAGR)	Nifty 50 TRI	Nifty Alpha 50 TRI	Nifty 50:Nifty Alpha (70:30)
Return	14.5%	24.3%	17.9%
Volatility	16.5%	20.2%	16.6%
Risk Adjusted Return	0.88	1.21	1.08

Growth of Rs. 1,00,000 Invested	Nifty 50 TRI	Nifty Alpha 50 TRI	Nifty 50:Nifty Alpha (70:30)
Corpus (Approx.)	3,86,000	8,99,000	5,20,000

Bandhan Mutual Fund

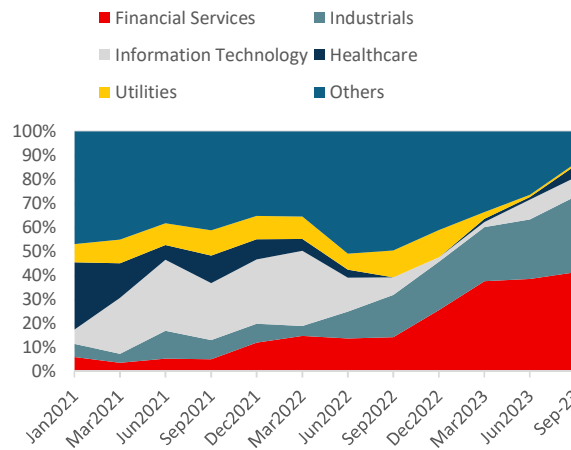# Why add exposure to the Alpha factor?

1 Historical return outperformance vs broader indices

Average Rolling Return	Nifty 50 TRI	Nifty Next 50 TRI	Nifty 500 TRI	Nifty 200 TRI	Nifty Alpha 50 TRI
3 year	12.3%	13.9%	12.3%	12.2%	17.4%
5 Year	11.9%	14.2%	12.0%	11.9%	16.9%

2 The Alpha factor can be a proxy for Sector/Market capitalisation rotation strategy

Legend:
- Financial Services
- Industrials
- Information Technology
- Healthcare
- Utilities
- Others

3 Adding Alpha to Beta in a rule-based manner may enhance portfolio returns

10 Year	Nifty 50 TRI	Nifty Alpha 50 TRI	Nifty 50:Nifty Alpha (70:30)
Return	14.5%	24.3%	17.9%
Volatility	16.5%	20.2%	16.6%
Risk Adjusted Return	0.88	1.21	1.08

Bandhan Mutual Fund

Adapts to changing market dynamics **with a lag**

May witness deeper and longer **drawdowns**

Alpha, just like other factors, is **cyclical**

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Who should invest?

Investors with a high-risk appetite

Investors exploring factor-based investing

Investors seeking to add aggressive strategy to their portfolio

Key Take Away

1 Factor investing is a rule-based strategy for selecting stocks with attributes linked to *potentially higher returns or lower risk.

2 The most common factors are Momentum, Low Volatility, Quality, Value, and Size.

3 The alpha factor strategically invests in securities displaying significant alpha compared to the market, and it systematically exits those positions as its alpha diminishes.

4 The Nifty Alpha 50 Index has historically delivered a 5% alpha over broad market indices on a 3 & 5-year rolling return basis, albeit with higher volatility.

5 The strategy can be used as a sector and Market Cap rotation proxy.

6 It can be a complementing strategy to a market exposure fund.

Bandhan Mutual Fund

About Bandhan Nifty Alpha 50 Index Fund

Investment in the Nifty Alpha 50 Index is possible through

Bandhan Nifty Alpha 50 Index Fund

Features of Bandhan Nifty Alpha 50 Index Fund

NFO Date

25th October to
06th November 2023

Fund Manager

Mr. Nemish Sheth

Benchmark

Nifty Alpha 50 TRI

Exit Load

Nil

Subscription

Lumpsum purchase - Rs. 1000/- and in multiples of Re. 1/- thereafter Additional purchase – Rs. 1000/- and in multiples of Re. 1/- thereafter Repurchase/Redemption - Rs. 500/- or the account balance of the investor, whichever is less SIP - Rs. 100/- and in multiples of Re. 1 thereafter [Minimum 6 instalments] SWP - Rs. 200/- and any amount thereafter
STP - Rs. 100/- and any amount thereafter

Investment Objective

The investment objective of the Scheme is to replicate the Nifty Alpha 50 index by investing in securities of the Nifty Alpha 50 Index in the same proportion / weightage with an aim to provide returns before expenses that closely correspond to the total return of Nifty Alpha 50 Index, subject to tracking errors. However, there is no assurance or guarantee that the objectives of the scheme will be realized, and the scheme does not assure or guarantee any returns

### Bandhan Nifty Alpha 50 Index Fund

(An open ended scheme tracking Nifty Alpha 50 Index)

This product is suitable for investors who are seeking*:
- To create wealth over a long term.
- Investment in equity and equity related instruments belonging to Nifty Alpha 50 Index
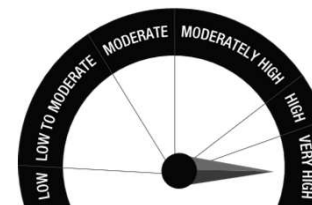
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Scheme Riskometer
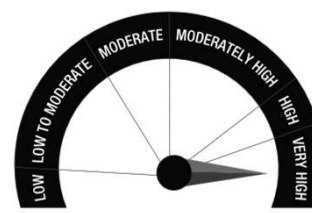
Investors understand that their principal will be at Very High risk

Benchmark Riskometer

Nifty Alpha 50 TRI

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

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Thank You

Annexures

Market Capitalization rotation

Illustration of the shift in Nifty Alpha 50 Index allocation between Large-cap and Small-cap

Market Capitalization	Jan2021	Mar2021	Jun2021	Sep2021	Dec2021	Mar2022	Jun2022	Sep2022	Dec2022	Mar2023	Jun2023	Sep-23
Large Cap	27.3%	33.1%	26.6%	36.9%	33.3%	15.4%	12.1%	46.6%	41.4%	37.3%	31.4%	16.5%
Small Cap	26.7%	24.0%	34.4%	22.4%	26.9%	51.8%	42.8%	12.7%	18.5%	6.4%	22.4%	33.6%

Rebased Index Values
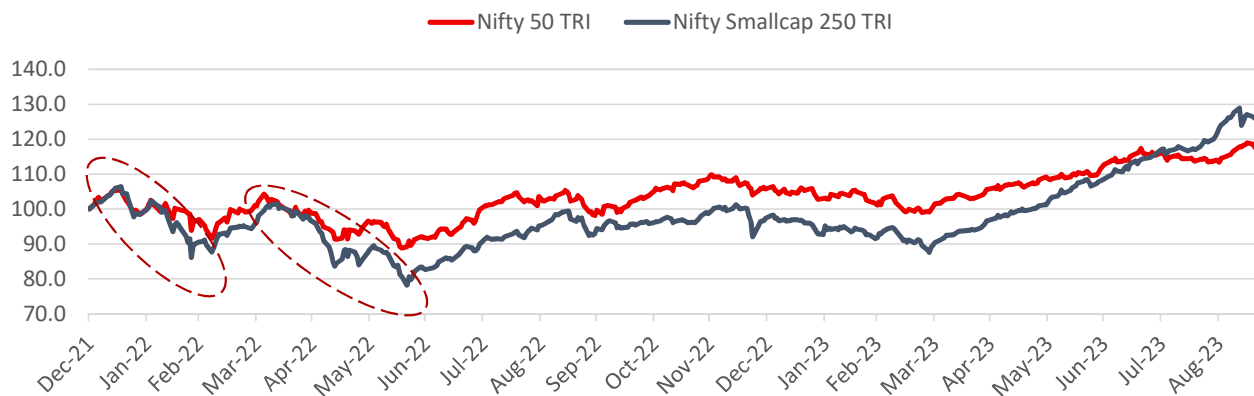
The Nifty Small Cap 250 TRI, after noting strong performance in 2021, saw relatively more downward movement between Jan-Feb 22 and Apr-Jun 22 compared to the Nifty 50 TRI. This may explain the change in allocation.
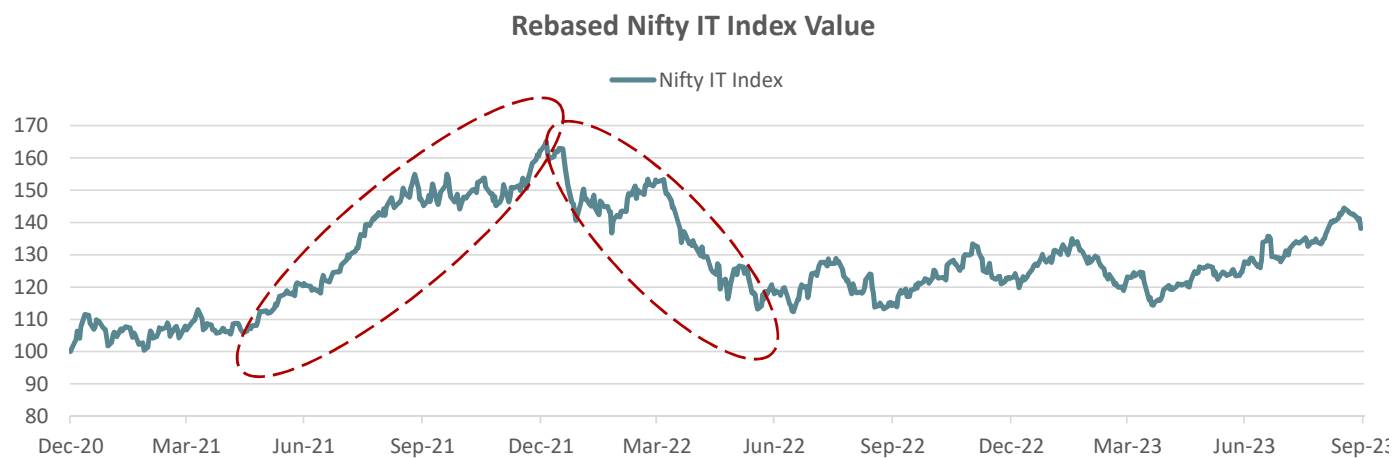
Illustration of the shift in Nifty Alpha 50 Index allocation to the IT sector

Macro-economic sector	Jan2021	Mar2021	Jun2021	Sep2021	Dec2021	Mar2022	Jun2022	Sep2022	Dec2022	Mar2023	Jun2023	Sep-23
Information Technology	6.0%	23.3%	29.6%	23.8%	26.9%	31.3%	14.1%	7.3%	1.9%	2.2%	8.3%	8.0%

Rebased Nifty IT Index Value

The Nifty IT index noted strong performance from Apr 21 to Jan 22, which may explain the higher allocation to the IT sector during the period. Similarly, as the IT sector's fortunes reversed, the allocation reduced dramatically Jun 22 onwards.

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