Introducing

Bandhan Nifty Alpha Low Volatility 30 Index Fund

(An open - ended scheme tracking Nifty Alpha low volatility 30 Index)

Invest Now   NFO Opens: 8th January 2025   •   NFO Closes: 20th January 2025

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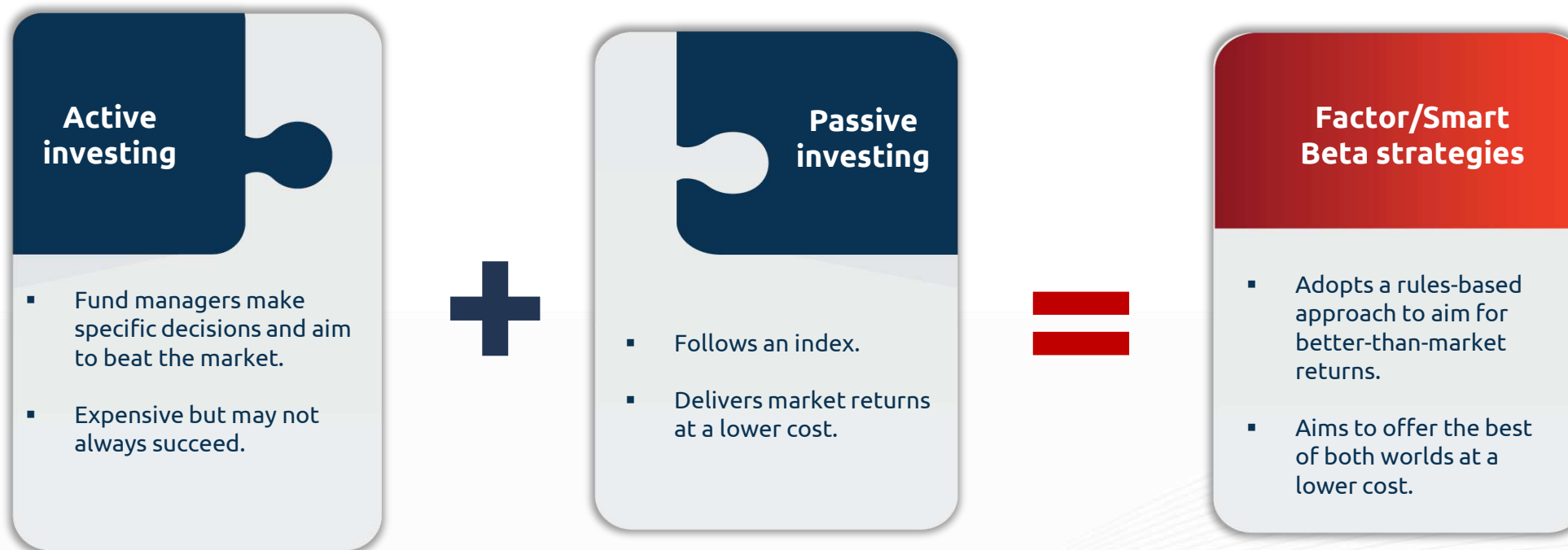
The core idea behind factor investing is to identify specific factors that influence why some investments perform better or worse than the broader market.

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

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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.

Active investing

- Fund managers make specific decisions and aim to beat the market.

- Expensive but may not always succeed.

+

Passive investing

- Follows an index.

- Delivers market returns at a lower cost.

=

Factor/Smart Beta strategies

- Adopts a rules-based approach to aim for better-than-market returns.

- Aims to offer the best of both worlds at a lower cost.

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The Five Most Common Style Factors

Each factor targets stocks with specific characteristics aiming for better returns.

Momentum/ Alpha	Low Volatility	Quality	Value	Size
Stocks that have shown recent strong performance	Stocks with stable prices and fewer fluctuations	Stocks with strong financial health and low debt	Stocks trading below their intrinsic value	Stocks with lower market capitalization

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Factor Investing: Benefits & Risks

Benefits

- Research-backed and evidence-based.

- Reduces human biases with a rule-based approach.

- Potential for enhanced returns and risk control.

- Better diversification.

Risks

- Factors may perform differently in varying market environments, leading to underperformance in specific scenarios

- Timing entry/exit into factors can be challenging

- Some factors may exhibit higher sector or style concentration.

Risks

Benefits

Disclaimer: The above-mentioned list is not exhaustive.

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Understanding Factor Behaviour in Market Cycles

- Single-factor portfolios reliably capture the desired exposure.

- Although each factor's long-term excess return is typically positive, it may not be consistently positive over the shorter time horizon.

- Factors move in and out of favor during different market phases.

- Allocating to individual factors typically requires strong investment beliefs.

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
V	M	V	M	Q	M	Q	M	V	V	V
M	LV	M	V	LV	Q	LV	V	LV	M	M
Q	Q	LV	LV	M	LV	M	Q	Q	LV	Q
LV	V	Q	Q	V	V	V	LV	M	Q	LV

Factor behavior under different market regimes:

- **Value:** Tends to outperform in recovery phases

- **Momentum:** Tends to excel in bull markets.

- **Low Volatility/Quality:** Tends to perform well in bear markets and demonstrates a counter-cyclical behavior.

Data Labels	Factor
V	Value
M	Momentum
LV	Low Volatility
Q	Quality

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How to Tackle the Challenge of Factor Cyclicality?

Mitigating Factor Cyclicality with Multi-Factor Investing

Multi-factor investing is designed to harness incremental returns while seeking to manage risks

What?

- Multi-factor investing combines factors like Momentum/Alpha, Low Volatility, Value, Quality, etc.

- By blending factors that perform differently in different market environments, the strategy aims to mitigate concentration risk and enhance overall portfolio stability.

- Can be implemented via Top-Down (Mixing) or Bottom-Up (Integrating) approaches.

Why?

- Mitigates the risk of relying too heavily on one factor, which may underperform in certain market conditions.

- May potentially offer higher risk-adjusted returns.

- Allows for customization, enabling investors to tailor their portfolios towards certain factors based on their goals and risk tolerance.
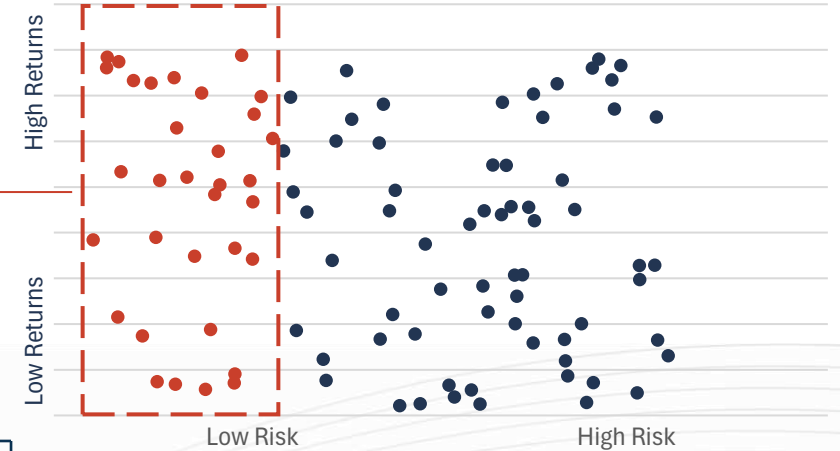
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Illustration 1- Top-Down Approach (Mixing)

Illustration of Alpha: Low Vol Portfolio

Alpha Strategy
(Selects top performing stocks)
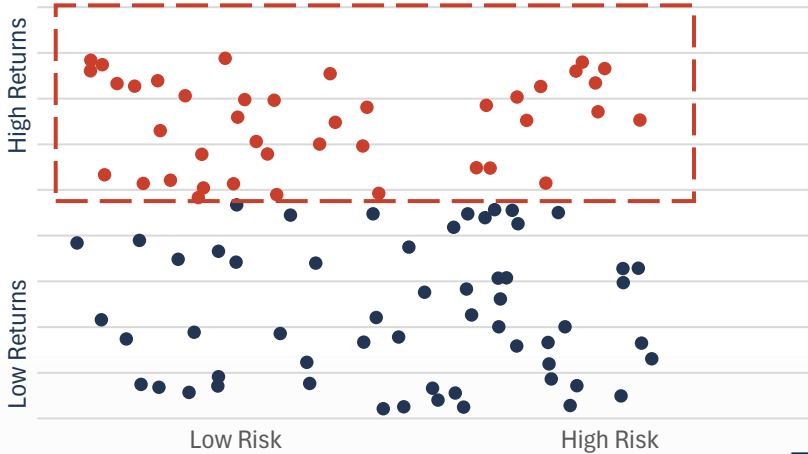
Low Vol Strategy
(Selects stocks with the lowest volatility)

Multi-Factor Portfolio

The scatterplot dots represent stocks across two dimensions: return and risk. In the top-down approach, you simply allocate 50% each to Alpha and Low Volatility strategy to build a multi-factor portfolio.

50%
Alpha Strategy

+

50%
Low Vol Strategy
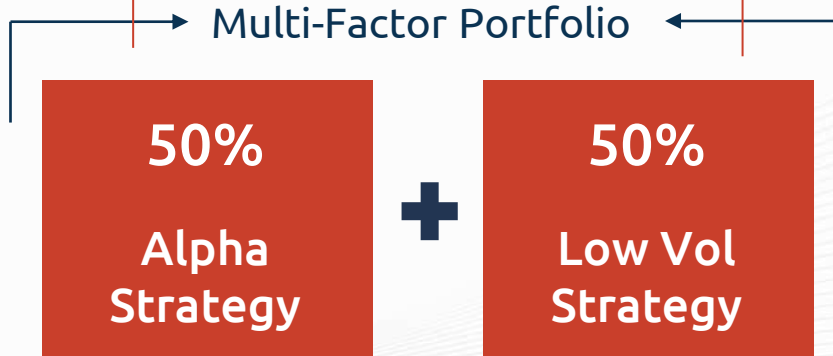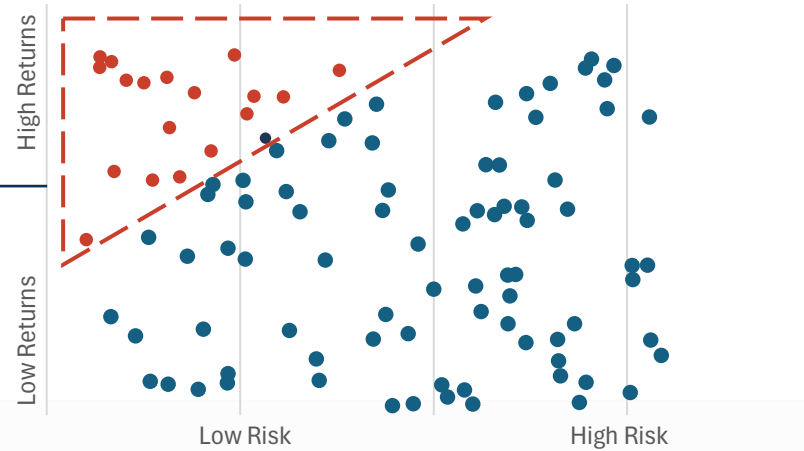
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Illustration 2- Bottom-Up approach (Integrated)

Illustration of Alpha: Low Vol Portfolio

The scatterplot dots represent stocks across two dimensions: return and risk. We select stocks that exhibit high performance and at the same time have lower volatility.

Multi-Factor Portfolio

Stocks that exhibit higher performance yet have lower volatility

Disclaimer: The above chart is for illustration only and should not used for the development or implementation of an investment strategy.

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Key considerations before deciding between the two approaches

Aspect	Top-Down (Mixing)	Bottom-Up (Integrated)
Approach	Blends two or more single-factor portfolios.	Stock-level selection based on desired factor.
Flexibility	More flexible in adjusting factors.	Less flexible, as factors are combined in stock selection.
Complexity	Simpler and easier to implement.	More complex, requiring advanced models.
Risk of Overlap	Potential for unintended overlaps.	Minimizes overlap by considering factors

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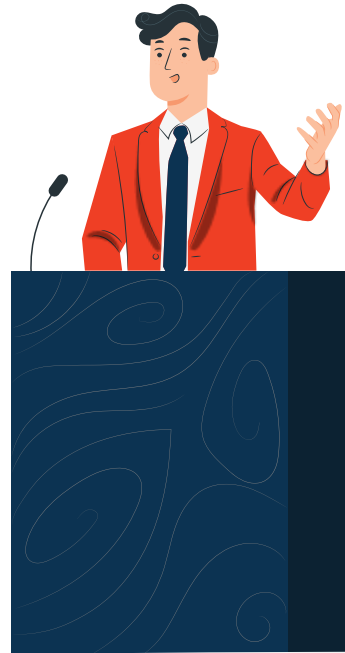
Introducing the
Nifty Alpha Low Volatility 30 Index

Index Methodology

The Nifty Alpha Low Volatility 30 Index is a Multi-factor index that takes a bottom-up (integrated) approach

1 **Universe**

Top 150 Stocks (Large & Mid Cap)

2 **Constituent selection criteria**

- Constituents Alpha score
- Constituents Low Volatility score

3 **Constituent selection**

Top 30 stocks based on highest composite score

4 **Weighting**

Capped at a lower of 5% or 5 times the weight of the stock in a Free float Market capitalization index
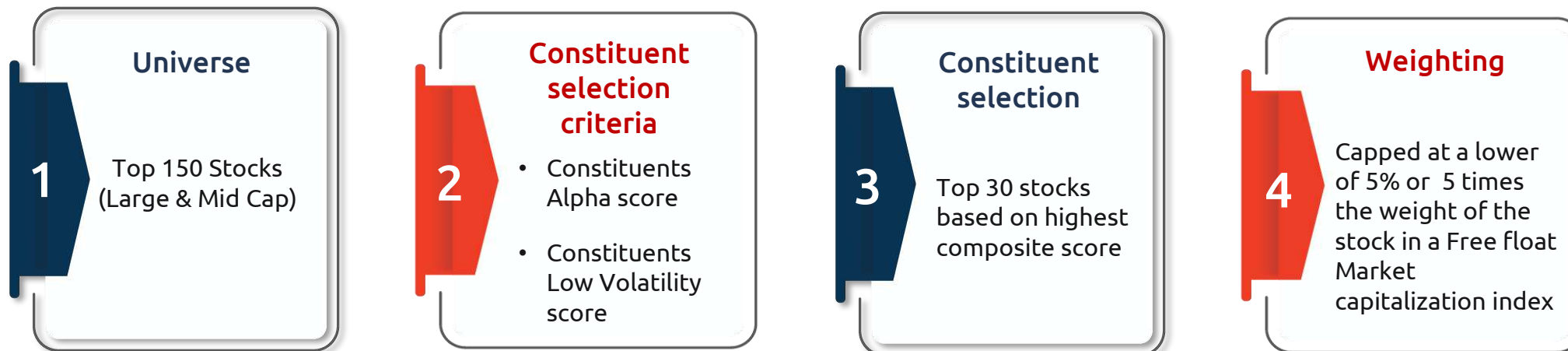
What is Alpha?

- Pro-cyclical factor
- Potential to drive excess return
- Potential Outperformance in up-cycle

What is Low Volatility?

- Defensive factor
- Potential to drive better risk adj. returns
- Potential outperforms in down-cycle

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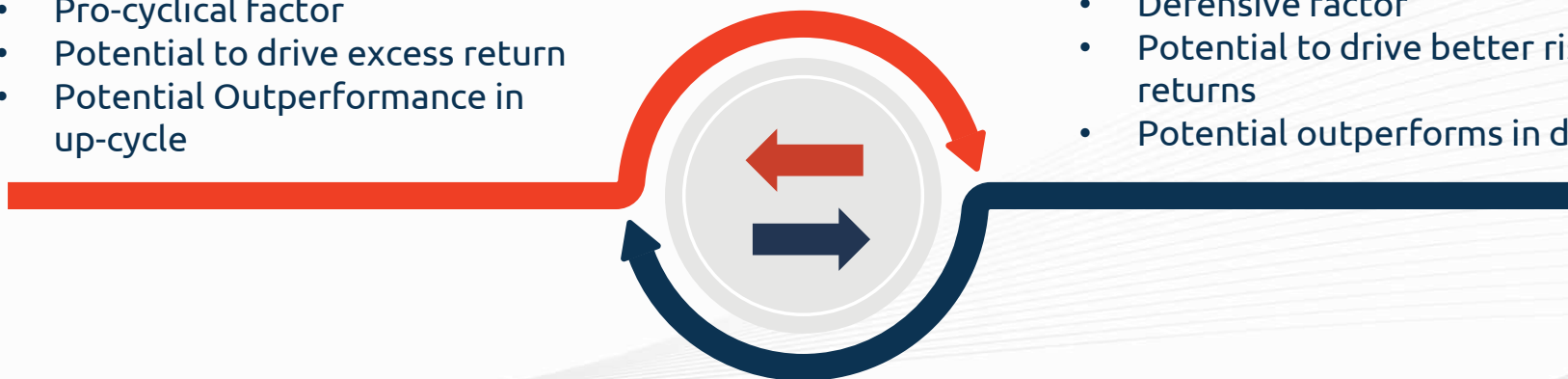
Historically outperformed broader indices with relatively lower volatility

Parameter	Periodicity	Nifty 100	Nifty Midcap 50	Alpha Low Vol 30
Annualized Returns	1 year	25.3%	29.3%	**30.7%**
	3 year	14.5%	25.3%	**19.3%**
	5 year	16.8%	28.4%	**19.8%**
	10 year	12.7%	18.2%	**17.1%**
Annualized Volatility	1 year	14.6%	19.2%	**14.0%**
	3 year	14.3%	18.0%	**13.6%**
	5 year	18.7%	22.4%	**16.9%**
	10 year	16.4%	21.6%	**14.9%**
Risk Adj. Return	1 year	1.74	1.53	**2.19**
	3 year	1.01	1.41	**1.42**
	5 year	0.90	1.27	**1.17**
	10 year	0.77	0.81	**1.15**

- Alpha- low volatility Strategy has outperformed broader indices across timeframes.

- Achieved the outperformance with similar or lower levels of volatility.

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Drives relatively superior risk-adjusted returns

Parameter	Periodicity	Alpha	Low Volatility	Alpha Low Vol 30
Annualized Returns	1 year	11.0%	23.0%	**30.7%**
	3 year	24.5%	16.0%	**19.3%**
	5 year	29.4%	18.7%	**19.8%**
	10 year	20.9%	14.3%	**17.1%**
Annualized Volatility	1 year	30.7%	11.5%	**14.0%**
	3 year	29.2%	12.0%	**13.6%**
	5 year	27.8%	15.6%	**16.9%**
	10 year	25.0%	14.0%	**14.9%**
Risk Adj. Return	1 year	0.36	1.99	**2.19**
	3 year	0.84	1.33	**1.42**
	5 year	1.06	1.20	**1.17**
	10 year	0.84	1.02	**1.15**

- Alpha- low volatility(the multi-factor) Strategy has outperformed single-factor indices across timeframes.

- It offers higher risk-adjusted returns, with relatively lower volatility.

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Historically, generated alpha with reasonable downside protection

3 Year Rolling Return	Nifty 100	Nifty Midcap 50	Alpha Low Vol 30
Average	12.9%	12.5%	17.5%
Minimum	-6.4%	-20.2%	-4.7%
Maximum	40.7%	43.2%	40.8%

5 Year Rolling Return	Nifty 100	Nifty Midcap 50	Alpha Low Vol 30
Average	12.7%	11.8%	17.9%
Minimum	-1.6%	-8.7%	3.9%
Maximum	23.5%	33.6%	27.8%

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How does it measure up against Active Large Cap funds?

Period	3 Year CAGR	5 Year CAGR
No. of Large Cap Funds	29	27
Alpha LowVol Index performance ranking	**7**	**10**
Number of funds underperforming the index*	22	17

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Index Sector & Stock Holdings

Sr. No	Stock Name	Macroeconomic Sector	Weight (%)
1	Sun Pharmaceutical Industries	Healthcare	5.4%
2	Bharti Airtel Ltd.	Telecommunication	5.3%
3	ICICI Bank Ltd.	Financial Services	4.9%
4	Lupin Ltd.	Healthcare	4.4%
5	ITC Ltd.	FMCG	4.2%
6	Bajaj Auto Ltd.	Consumer Discretionary	3.7%
7	UltraTech Cement Ltd.	Commodities	3.6%
8	Larsen & Toubro Ltd.	Industrials	3.6%
9	Colgate Palmolive (India) Ltd.	FMCG	3.4%
10	Britannia Industries Ltd.	FMCG	3.4%
Total			**41.8%**

Sr. No	Macroeconomic Sector	Weight (%)
1	Consumer Discretionary	20.7%
2	Healthcare	18.0%
3	Fast Moving Consumer Goods	16.6%
4	Financial Services	13.6%
5	Industrials	9.8%
6	Commodities	6.8%
7	Energy	5.8%
8	Telecommunication	5.3%
9	Utilities	3.3%
Total		**100.0%**

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Dynamic sector allocation

Macro-economic sector	Dec-2021	Jun-2022	Dec-2022	Jun-2023	Dec-2023	Jun-2024
Healthcare	12.5%	9.3%	10.6%	12.6%	17.7%	16.1%
Commodities	12.5%	9.5%	6.8%	10.3%	7.1%	7.0%
Consumer Discretionary	13.5%	12.1%	13.1%	12.8%	21.1%	21.7%
Fast Moving Consumer Goods	31.8%	31.1%	28.4%	29.3%	21.8%	17.0%
Information Technology	22.0%	10.0%	6.0%	0.0%	0.0%	0.0%
Financial Services	3.4%	6.9%	13.1%	13.8%	6.9%	13.4%
Industrials	2.5%	6.1%	8.6%	10.8%	8.6%	10.0%
Utilities	1.7%	7.7%	6.7%	3.0%	3.8%	3.5%
Telecommunication	0.0%	3.7%	3.8%	3.5%	3.7%	4.7%
Energy	0.0%	3.6%	2.9%	3.8%	9.3%	6.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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Market Capitalization Exposure

Market Capitalization	Dec-2021	Jun-2022	Dec-2022	Jun-2023	Dec-2023	Jun-2024
Large Cap	89.1%	92.8%	91.7%	83.7%	79.5%	84.8%
Mid Cap	10.9%	7.2%	8.3%	16.3%	20.5%	15.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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Key Takeaways

- Multi-factor investing blends multiple investment factors (Momentum, Low Vol, Value, Quality) to build a portfolio.

- By blending factors that perform differently in different market environments, this strategy reduces reliance on individual factor performance.

- Can be implemented via Top-Down or Bottom-Up approaches.

- The Nifty Alpha Low Volatility 30 Index adopts a bottom-up strategy, selecting the top 30 stocks that have generated alpha yet are less volatile.

- On a historical basis, the index has relatively outperformed broader indices and the underlying single factor indices.

- The index adjusts its composition to reflect changing market dynamics, with a greater tilt towards FMCG.
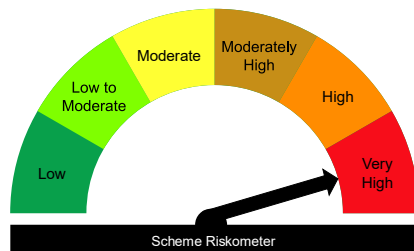
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Bandhan Nifty Alpha Low Volatility 30 Index Fund Details

Type of scheme	An open-ended scheme tracking the Nifty Alpha Low Volatility 30 Index
NFO Dates	08th January 2025 to 20th January 2025
Benchmark	Nifty Alpha Low Volatility 30 TRI
Exit Load	• 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 Alpha low volatility 30 Index by investing in securities of the Nifty Alpha Low Volatility 30 Index in the same proportion/weightage with an aim to provide returns before expenses that track the total return of the Nifty Alpha Low Volatility 30 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.
Minimum application amount	**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 installments] **SWP** - Rs. 200/- and any amount thereafter **STP** - Rs. 500/- and any amount thereafter

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Disclosure & Product Label

Nifty Alpha Low Volatility 30 Index
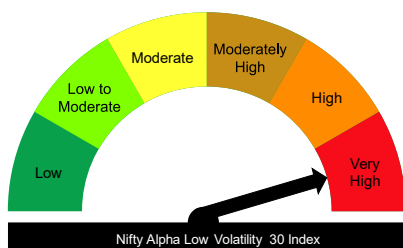
The risk of the benchmark is very high.

Scheme Riskometer

The risk of the scheme is very high.

Bandhan Nifty Alpha Low Volatility 30 Index Fund

(An open - ended scheme tracking Nifty Alpha low volatility 30 Index)

This product is suitable for investors who are seeking*:

- Create wealth over a long term.
- Investment in equity and equity related instruments forming part of Nifty Alpha Low Volatility 30 Index.

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

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

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