UTI Balanced Advantage Fund

(An open ended dynamic asset allocation fund)

Frequently Asked Questions (FAQs)

1. What is UTI Balanced Advantage Fund?

UTI Balanced Advantage Fund (UTI BAF) is a model guided asset allocation strategy that dynamically manages allocation between equity and fixed income. This approach brings in discipline and overcomes emotional biases associated with market volatility. The fund endeavors to deliver better risk-adjusted returns across market cycles to help investors achieve their financial goals over the medium to long-term.

2. Why should investors consider investing in UTI Balanced Advantage Fund?

Investors tend to invest largely based on the sentiments or biases. They generally invest more when the market levels are in rising trends and are expensive as they are driven by both greed and FOMO (fear of missing out) and invest less when the market valuations are going cheap in the downfall trends, as they have the fear of losing out. These emotions of greed and fear lead to investors earning less than what their actual investments would have earned. Carl Richards coined this gap in investment and investors' return as "The Behavior Gap" (Source: The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money). A study done by Morningstar India (Mind the Gap - Nov 2022) suggests that the investors have potentially lost 2.8% for 10 years investment because of the behavior gap. Which means an investment of Rs 1 crore could have been Rs 3.20 crore at 12.33% (CAGR), the investors earned only 9.53% (CAGR) and the investment value was Rs 2.49 crore (a potential gap of Rs 71 lacs) over the 10-year period.

A disciplined model driven approach based on valuations eliminates the investor biases and help investors manage their assets with dynamic rebalancing of the portfolio as per the market situations.

UTI Balanced Advantage Fund will be managing assets between equity (net long: 30%-90%) and fixed income (10-35%) driven by an in-house proprietary asset allocation model guided by fundamental and valuation-based factors that determines the net equity allocation for the fund. The fund will take exposure to arbitrage (long stock, short futures) to manage gross equity exposures at 65% of total portfolio. The balance portfolio will be invested in the fixed income securities.

3. What are the factors driving UTI BAF asset allocation model?

The UTI BAF Model assesses four factors that have been proven for having correlation with the market forward returns to determine the net equity allocation. These factors are:

- **Valuation based factors:** Have negative correlation with market forward returns
  - a) **1Y Forward Price to Earnings (PE) Ratio** – Higher the P/E ratios, lower the equity allocation
  - b) **TTM* Price to Book (PB) Ratio** – Higher the P/B ratios, lower the equity allocation
- **Yield based factors:** Have positive correlation with market forward returns
  - a) **TTM* Dividend Yield** – Higher the dividend yield, higher the equity allocation
  - b) **Yield Gap** – Yield gap is difference of Equity Yield (1/1 year Forward Nifty 50 P/E Ratio) and Bond Yield (10-year GSEC Yield). Higher the yield gap relative to history, higher the equity allocation

*TTM – Trailing 12 months

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

4. **What is the weightage given to each of the factors within the model?**

The weightages of these factors are dynamic in nature as we are using multiple statistical approaches to arrive at the final net equity allocation. The four factors in the model are interlinked with each other. The model takes into consideration correlation of each factor with market performance and thus model will implicitly use relatively higher weightages to factors having higher correlation with market performance. The model gets updated as new data points are generated. As a result, the model is dynamic in nature rather than static, which implies that weightages for each factor implicitly used by model will also keep changing over time.

5. **When will the model rebalance the allocation between equity & fixed income?**

On a weekly basis the in-house factor-based model evaluates the net equity allocation for UTI Balanced Advantage Fund for purpose of rebalancing. The rebalancing between equity & fixed income asset classes is undertaken if the difference between the current net equity allocation of the scheme and the equity allocation suggested by the model is more than +/- 7%.

Let us assume that the current scheme net equity allocation is 62%. Let us also assume that when the model is run next week it suggests a net equity allocation of 67%. Since, the indicative net equity allocation lies within the tolerance band of +/- 7% i.e., 69% (62% + 7%) and 55% (62% - 7%), there will be no rebalancing undertaken in this weekly review.

For the sake of understanding let us assume that in a subsequent week the model suggests an allocation of 71% and the scheme net allocation is at 62%. Now the difference is more than 7% and hence the scheme will raise its allocation to match the level of 71% suggested by the model.

Similar if the model were to suggest an allocation of 53% in that week, then the difference between the model and scheme (62%) would be more than 7% and hence the scheme will reduce net equity allocation to the model recommended level of 53%.

6. **What is the logic of having a tolerance band of +/- 7% for the purpose of rebalancing?**

Every transaction in the scheme will result in transaction cost and impact cost that is borne by the scheme. There is a need to balance between frequent asset allocation to changes and the cost associated with rebalancing. We have back tested multiple tolerance band ranges, and it was observed that the +/- 7% tolerance band for rebalancing was providing the most optimal returns for the portfolio after considering the likely costs towards churn like impact cost, transaction charges, etc.

This is similar to the range used for UTI Multi Asset Fund (UTI MAF) where the model has already been running for over a year.

7. **What is the difference between the model that runs in UTI BAF & UTI MAF?**

Both these schemes, employ the same in-house proprietary model to determine the net equity allocation based on factors related to valuation & yield.

In case of UTI BAF the asset allocation is determined between two asset classes (equity & fixed income) while in case of UTI MAF allocation is determined across three asset classes (equity, fixed income & gold). Accordingly, the net equity allocation range for UTI BAF is 30% to 90% and for UTI MAF is 40% to 80%. Gold has a 10-25% weight in UTI MAF whereas in UTI BAF-there is no allocation to gold.

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8. How is our model different from other models in the market?

We use a four-factor methodology vs many other models in the market which may use only one factor. Our model uses 3 separate factors linked to equity valuation – P/B, P/E and Dividend yield. This reduces the risk posed by use of only a single factor. Further our model uses an inter asset comparison factor – we compare equity earnings yield (1/PE ratio) vs 10-year G sec yield by taking a difference between the two yields. This use of four factors including an inter asset comparison factor makes our model unique.
We do not use technical factors such as momentum in our model. The model is guided only by valuation factors. The use of a tolerance band of +/-7% also balances between frequency of transactions and transaction/impact of trading frequently.

9. What is the investment strategy for equity and fixed income portfolios in UTI BAF?

While the factor-based model will determine the asset allocation between the two asset classes, the fund managers will actively manage the equity & fixed income portions of the portfolio.

The fund manager would employ a blend style of investment (growth & value) for construction of the equity portion of the portfolio. The fund manager will have the flexibility to invest in stocks which have a long runway for growth and participate in cyclical opportunities including turnaround companies. We have consciously chosen a blended approach as we feel it is better suited to the objective of this strategy.

The equity portfolio will have a large cap bias (80% or higher) to be able to efficiently manage change in asset allocation during the rebalancing activity.

The focus on the fixed income portion will be on construction of a 'Quality' and 'Liquid' portfolio. The fund manager will be predominantly investing in Sovereign/AAA & equivalent rated papers across the shorter to moderate end of the yield curve. The risk management for this strategy ensures that the strategy does not pick lower rated credits.

10. Will the fund manager use derivatives in construction of the portfolio?

If the target net equity allocation is below 65% the fund will maintain arbitrage positions (long stock-short futures) to maintain the gross equity allocation above 65% of the total portfolio. To illustrate, if the net equity allocation of the scheme is 45%, to gross up the equity exposure to 65% of the portfolio, the scheme will take an arbitrage exposure (long stock -short future) to the tune of 20%.

Arbitrage positions by the definition are fully hedged and hence such positions may also be taken in stocks which are not part of the UTI universe (not researched) based on the attractiveness of the arbitrage yield. The fund will take derivative/arbitrage positions within the framework of scheme information document as per the stated investment objective and asset allocation of the scheme.

11. Will we reduce equity allocation using Nifty futures or hedge stocks at security level?

We have consciously adopted a large cap bias in our equity portfolio. This enables us to reduce allocations by using individual stock futures quite efficiently with low transaction and impact cost. Futures on individual stocks are available currently in 188 companies within the Nifty 500 universe. These cover 86 stocks of the currently defined large cap companies and 77 mid cap companies. Futures are not typically available in most small cap stocks; this would require us to trade the positions via the cash market when we need to rebalance the portfolio, and this could potentially result in significantly higher impact cost.

We have the option to use Nifty 50 index futures to reduce or raise equity allocation. This could be exercised in unusual market conditions but would be a less preferred option under normal circumstances. Use of Nifty 50 index futures would open up basis risk in the portfolio whereby the performance of the stocks held in the portfolio could be very different from the index hedge.

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12. How soon will the fund manager deploy the funds as per asset allocation?

The fund manager will deploy minimum 30% of the portfolio in net equity within 30 days of the allotment of units. However, the endeavor will be to align net equity allocation of the scheme closer to the weight as determined by the model as soon as possible. This will be subject to liquidity in the underlying stocks.

13. Given that the scheme will allocate in both equity and fixed income assets dynamically, what will be the applicable taxation for the scheme?

Though the asset allocation in the scheme shall be managed dynamically, the endeavor will be to maintain at least 65% of the total portfolio of the fund in domestic equity & equity related instruments (based on annual average of the monthly averages of opening and closing figures) to attract equity taxation benefits as per prevailing tax laws.

14. What are the benefits of UTI Balanced Advantage Fund?

- **Portfolio Diversification** – Intends to invest 30-90% of the portfolio in net equity; 10-35% of the portfolio in fixed income
- **Disciplined approach** – Disciplined model-driven approach to dynamic asset allocation and portfolio rebalancing
- **Eliminates behavioral biases** – Model guided asset allocation based on valuations to eliminate biases
- **Professionally managed** – Managed by a team with vast experience in research & portfolio management
- **Tax efficient** – Endeavors to provide equity taxation*

15. Who should invest in UTI Balanced Advantage Fund?

- Investors looking for long term wealth creation
- Investors looking for a diversified portfolio of equity and fixed income
- Investors looking for a dynamic asset allocation solution to minimise risk of market volatility
- Investors seeking better risk adjusted and tax efficient reasonable returns

**Note: The asset allocation in the scheme shall be managed dynamically as per stated Investment objective, investment strategy, asset allocation in Scheme Information Document (SID), with an endeavor to maintain at least 65% of the total portfolio of the fund in domestic equity & equity related instruments (based on annual average of the monthly averages of opening and closing figures) to attract equity taxation benefits as per prevailing tax laws. The fund will take exposure to derivatives/ arbitrage to manage gross equity exposures at 65% of total portfolio.*

Fund Facts

Fund Manager	**Equity: Sachin Trivedi; Fixed Income: Anurag Mittal**
Benchmark	Nifty 50 Hybrid Composite Debt 50:50 Index
Plans & Options	**Plans:** Regular Plan & Direct Plan **Options (under both Plans):** Growth Option & Payout of IDCW Option
Exit Load	a) Redemption/ Switch-out within 12 months from the date of allotment: (i) up to 10% of the allotted Units – Nil (ii) beyond 10% of the allotted Units - 1.0% b) Nil thereafter
Minimum Application Amount	**Initial Purchase:** ₹5000 and in multiples of ₹1/- **Additional Purchase:** ₹1,000 and in multiples of ₹1/-

IDCW – Income Distribution cum Capital Withdrawal. For further details, please refer to the Scheme Information Document.

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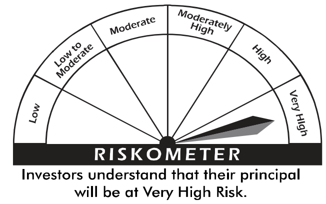
Product Label & Riskometer

Scheme Name	This product is suitable for investors who are seeking*:	Riskometer
UTI Balanced Advantage Fund	• Long term capital appreciation and income • Investment in a dynamically managed portfolio of equity and debt instruments	
UTI Multi Asset Fund	• Long term capital appreciation • Investment in equity, debt and Gold ETFs with a minimum allocation of 10% in each asset class	

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

UTI Balanced Advantage Fund: Product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.

Risk-o-meter for UTI Multi Asset Fund is based on the portfolio ending June 30, 2023. The Risk-o-meter of the fund/s is/are evaluated on monthly basis and any changes to Risk-o-meter are disclosed vide addendum on monthly basis, to view the latest addendum on Risk-o-meter, please visit addenda section on https://utimf.com/forms-and-downloads/

Disclaimers

The illustrations of in-house proprietary asset allocation model are for understanding the working of the model. The performance of the internal model does not represent the performance of the scheme. Actual allocation and investing experience may vary. Portfolio will be managed as per the stated investment objective, investment strategy, asset allocation in the scheme information document (SID) and is subject to the changes within the provisions of the SID of the scheme. Past performance may or may not sustain in future.

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