



UTI Investment Process & Strategy

October 2021

About Our Equity Investment Team



Vetri Subramaniam
Chief Investment Officer



Ajay Tyagi, CFA
Head of Equity &
Fund Manager



Swati Kulkarni, CFA
Fund Manager



Sachin Trivedi
Head of Research &
Fund Manager



Suraj Purohit
ESG Analyst



Pradnya S. Ganar
Research Analyst
Cement, Sugar, Hotels



V Srivatsa
Fund Manager



Amit Premchandani
Fund Manager
Banks, NBFCs



Nitin Jain, CFA
Research Analyst
IT, Internet Sector,
Oil & Gas



Akash Shah
Investment Associate



Sanjay Dongre
Fund Manager



Sharwan Goyal, CFA
Fund Manager



Parag Chavan
Research Analyst
Metals & Mining, Building
Materials, Healthcare,
Consumer Durables



Ayush Harbhajanka
Investment Associate



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Fund Manager



Kamal Gada
Fund Manager
Overseas Investment
Pharma, Fertilizer,
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Preethi R S
Research Analyst
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Ayush Jain
Investment Associate



Ankit Agarwal
Fund Manager



Vishal Chopda, CFA
Fund Manager
FMCG, QSR, Retail,
Telecom



Deepesh Agarwal
Research Analyst
Capital Goods, Textiles
Infra – Construction, Utilities

Data as of September 30, 2021. Collective MF work experience of the team is **over 235 Years**. Average work experience of fund managers is **over 17 Years**. Average work experience of research analysts is **over 6 Years** (based total work experience in Mutual Fund Industry). Collective overall experience of the team is **over 315 years**. MF – Mutual Fund; FMCG – Fast-Moving Consumer Goods; QSR – Quick Service Restaurants; IT – Information Technology; HFC – Housing Finance Company; NBFC – Non-banking Finance Company



Haq, ek behtar zindagi ka.

Assets Managed by the Equity Investment Team



UTI AMC Ltd. Group
INR 12,62,546 Crores
USD 1,70,028 Million



Equity Team
INR 1,16,223 Crores
USD 15,652 Million



UTI PMS & International (Equity)
INR 13,719 Crores
USD 1,848 Million



UTI MF (Equity)
INR 1,16,223 Crores
USD 15,652 Million



UTI MF (Hybrid)*
INR 26,033 Crores
USD 3,506 Million

If you can't describe what you are doing as a process,
you don't know what you're doing.

- W. Edwards Deming

Investment Process



PRESENTING



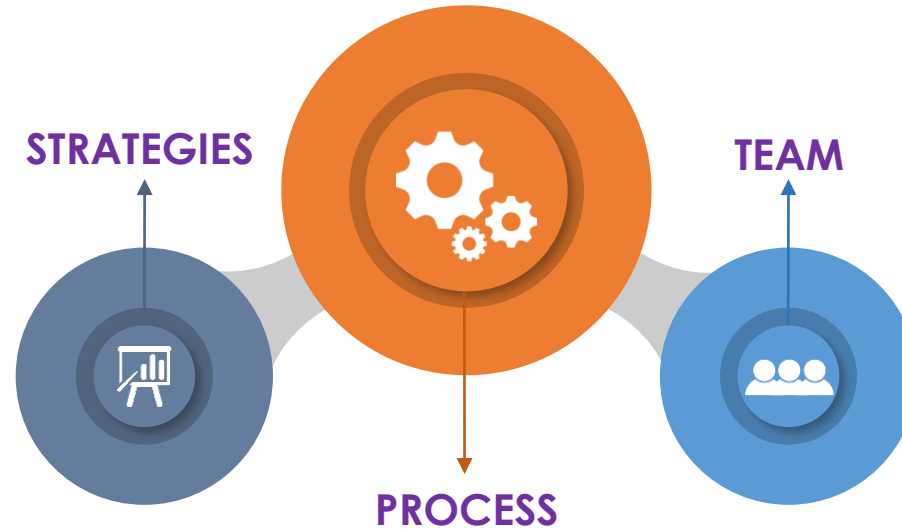
Score α TM

A Rigorous and Pragmatic Approach to Equity Investing



Investment Process

- Support diverse strategies
- Style discipline



- Team driven approach
- Discussion & Review

- Standardized research methodology
- Identifying good stocks, avoiding poor stocks
- Consistency over time

Research Methodology

Driven by **Research Analysts**

Portfolio Construction

Driven by **Fund Managers**

Responsibility Framework

Head of Equity

- Final approval of all companies in the UTI Universe along with Head of Research
- Monitoring and review of all strategies & funds
- Evaluation encompasses all funds and strategies including thematic & sector funds

Fund Managers

- Responsible for performance of the fund relative to its benchmark
- Decides on stock and sector allocations as well as trade decision for each fund subject to risk limits & strategy discipline
- Restricted from buying stocks outside the universe and also 'Not Rated' companies
- Evaluation covers 1, 3 & 5 years performance relative to benchmark as well as peer group

Research Analysts

- Responsible for company research, typically arranged by sectors
- Expected to regularly interact with companies and other sources
- Provide company ratings, relative to sector and also manage a model portfolio for their respective sector/s
- Scan their sector for new ideas
- Evaluated on the basis of ratings & model portfolio over a 1 year period



Score α

A Rigorous and Pragmatic Approach to Equity Investing



Research Methodology



Haq, ek behtar zindagi ka.

Factors

Why it matters?



Operating Cash Flow (OCF)

Profits are an opinion based on accounting principles, cash is a fact






Return on Capital/Equity (RoCE / RoE)

When $RoCE > Cost\ of\ Capital$, the business creates wealth

Operating Cash Flow (OCF) is the fuel for growth

- Profits could be distorted by accrual, amortization, non cash items & does not account for changes in working capital
- In the absence of OCF – a business has to reduce its growth plans or rely on fund raising - Equity / Debt




Today	Receivables Terms	10 Years Later	
 <p>Capital Structure: Equity ` 1,000 Net Borrowing ` 1,000</p> <p>Year 1 Revenue: ` 3,000</p> <p>Profit Margin: 15%</p>	 <p>Company A → Receivables of 30 Days →</p>	Cumulative EBITDA ` 9,137	Equity ` 4,040
		Cumulative OCF ` 6,967	Net Borrowing ` 1,806
	 <p>Company B → Receivables of 120 Days →</p>	Cumulative EBITDA ` 9,137	Equity ` 2,953
		Cumulative OCF ` 4,830	Net Borrowing ` 5,495

OCF is a Hygiene factor

Operating Profit = EBITDA,
EBITDA – Earnings before interest, tax, depreciation, and amortization; OCF – Operating Cash Flow
For assumptions considered on the above illustration, please refer to slide no. 28

Growth creates wealth, only if Return on Capital (RoCE) is healthy

- A business that has a healthy OCF has the ability to reinvest in its business
- When $RoCE > Cost\ of\ Capital$, the business creates wealth by reinvesting
- If a business cannot earn returns in excess of its cost of capital, it destroys value

Today	RoCE Ratio		10 Years Later	
 Capital Structure: Equity ` 1,000 Net Borrowing ` 1,000 Year 1 Revenue: ` 3,000	 Company A	RoCE of 15%	Equity ` 5,151	Equity Growth (CAGR) 17.8%
	 Company B	RoCE of 8%	Equity ` 1,777	Equity Growth (CAGR) 5.9%
			Net Borrowing ` 2,429	
			Net Borrowing ` 5,803	

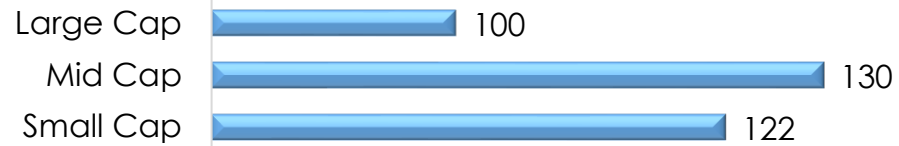
OCF is Hygiene, RoCE creates Wealth

Research Methodology – Rating System

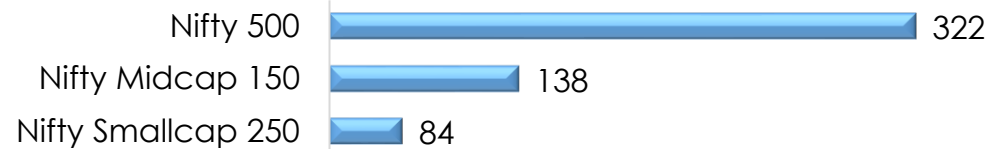
INVESTMENT UNIVERSE



Coverage based on Market cap



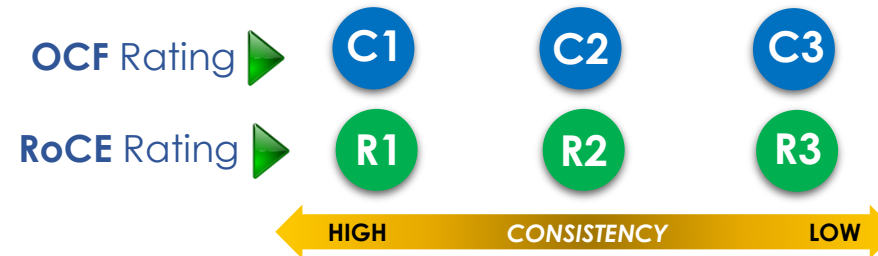
Coverage based on Indices



RATING PROCESS

Every company gets an **OCF & RoCE rating** based on its previous 5 years data

3 TIER RATING SYSTEM



BREAK-UP OF TIERS

OCF Tiers

(Ex-Financials – 62 Companies)



RoCE Tiers



OCF – Operating Cash Flow; RoCE – Return on Capital Employed. OCF Tiers (C)- 3 Tiers based on the number of years in which they have generated positive operating cash flows in the previous 5 years (for manufacturing companies). RoCE/ Implied RoE Tiers (R) - 3 Tiers based on the previous 5 year average return on capital (for manufacturing companies & non-lending non banking finance companies (NBFCs)) & based on the previous 5 year average return on asset for banks & NBFCs (including housing finance companies). All data are as of September 30, 2021



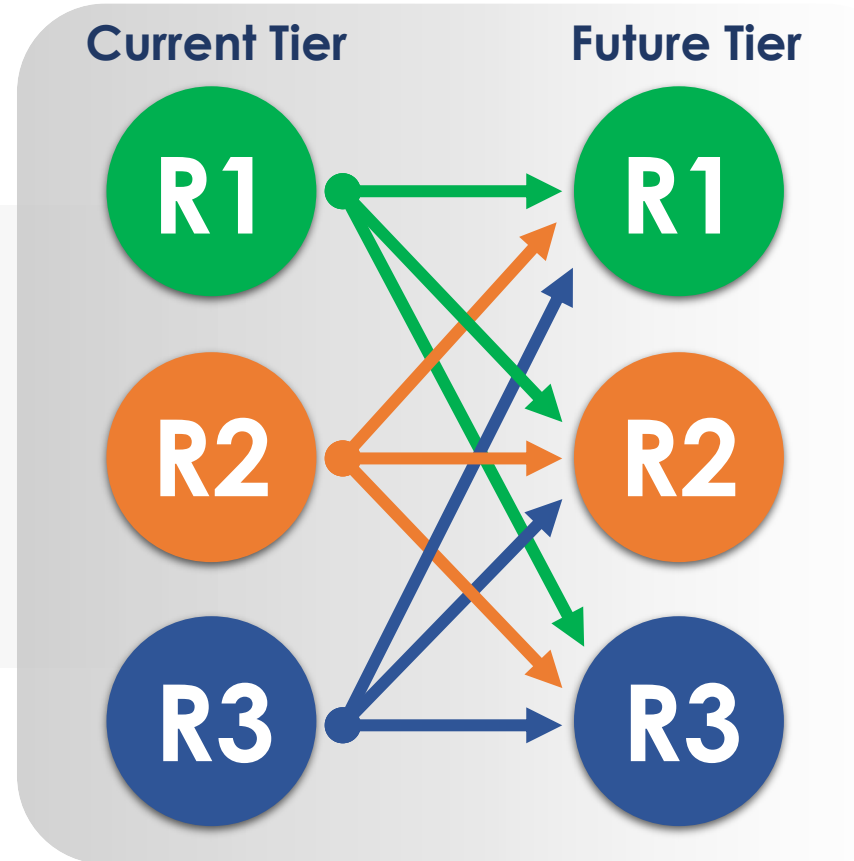
Haq, ek behtar zindagi ka.

Research Methodology – Investment Argument

- Detailed financial models for each company with 10-year history
- Checklist – Assumptions v/s History

Investment argument is built on the tiers

- Current & Past tier ranking of the company
 - Reasons why the company would in the future maintain its tier ranking
 - Reasons why the company might undergo an upgrade/ downgrade in tier rankings
- No investment in ‘Not Rated’ companies
 - Management quality
 - Growth prospects
 - Valuations

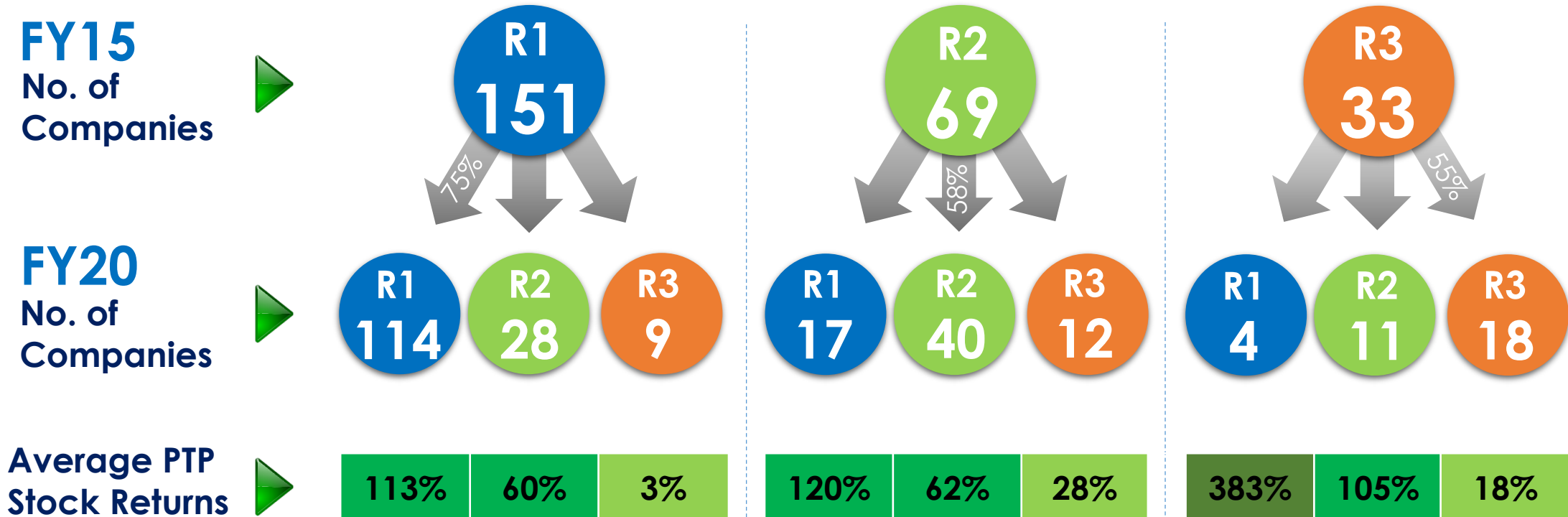


Potential migration across tiers underpins the investment argument

Example: Tier Migration (RoCE) from FY15 to FY20 & Price Returns

Probability of Migration v/s Returns

UTI INVESTMENT UNIVERSE



OCF is Hygiene, RoCE creates Wealth



Score α

A Rigorous and Pragmatic Approach to Equity Investing

Portfolio Construction



Haq, ek behtar zindagi ka.

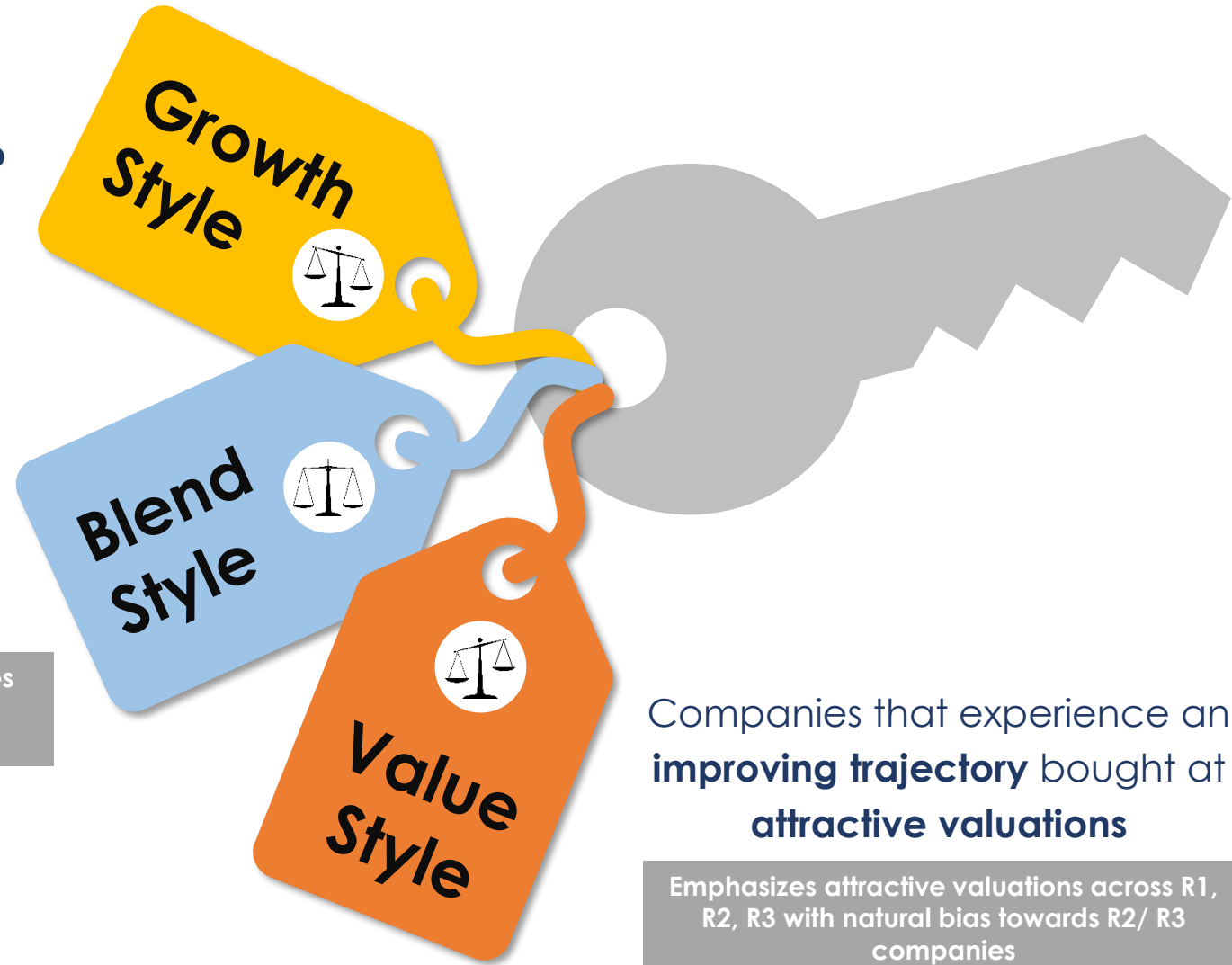
Portfolio Construction : Diversity & Discipline

Companies that can **self-sustain** their growth and have the **ability to invest** at high rates of return

Emphasizes R1, C1 Companies

Blend of Growth & Value in varying proportions

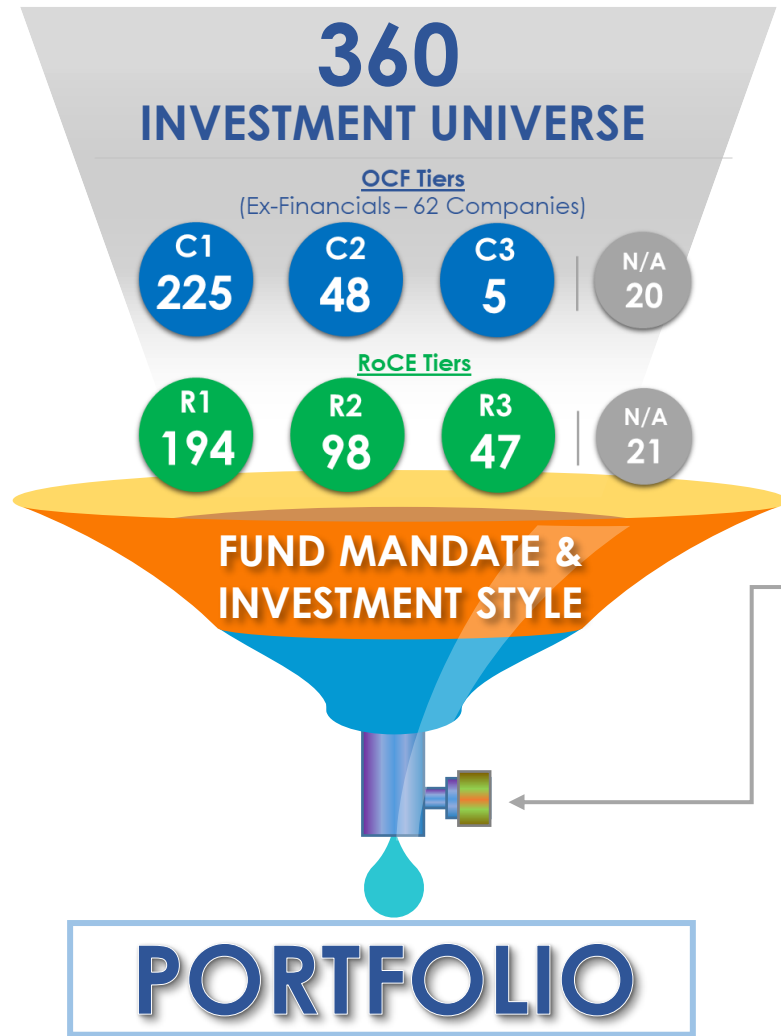
Built around a core of R1, C1 companies but also includes allocation to R2/ R3 companies



Companies that experience an **improving trajectory** bought at **attractive valuations**

Emphasizes attractive valuations across R1, R2, R3 with natural bias towards R2/ R3 companies

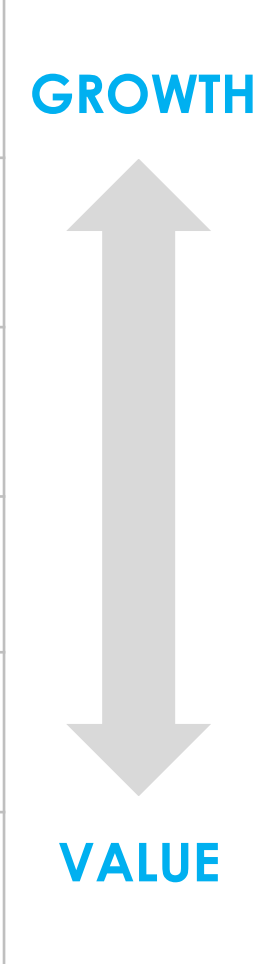
Portfolio Construction



Portfolio Construction driven by

- Investment Strategy as per SID
- Bottom-up / Top-down
- Stock selection – mandate & style drive choice of stocks across the OCF & RoCE tiers
- Sector view wherever applicable
- Market cap allocation
- Risk parameters – single stock/ sector/ concentration/ off benchmark

Diverse Strategies - Aims for higher active share

SCHEME	OCF / ROCE	ACTIVE SHARE	INVESTMENT STYLE	
UTI FLEXI CAP FUND Flexi-cap Fund	RoCE R1 93% OCF C1 95%	70%	Quality, Growth & Cash flow	
UTI FOCUSED EQUITY FUND Focused Fund	RoCE R1 69% OCF C1 95%	70%	Blend – Growth Tilt	
UTI MASTERSHARE UNIT SCHEME Large-cap Fund	RoCE R1 64% OCF C1 94%	37%	Competitive Franchise & GARP	
UTI MID CAP FUND Mid-cap Fund	RoCE R1 59% OCF C1 86%	66%	Blend – Growth Tilt	
UTI VALUE OPPORTUNITIES FUND Value Fund	RoCE R1 52% OCF C1 88%	67%	Barbell Approach	
UTI CORE EQUITY FUND Large & Mid-cap Fund	RoCE R1 49% OCF C1 80%	67%	Relative Value	

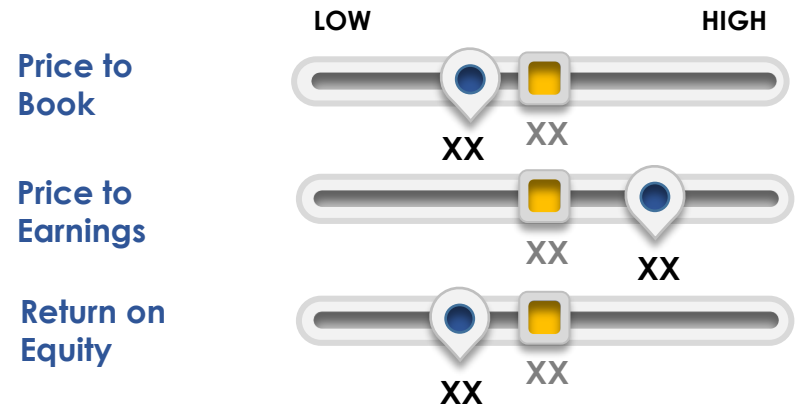
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Data as on September 30, 2021. GARP – Growth at Reasonable Price

Portfolio Construction – Monitoring Consistency & Style Discipline

All strategies have a bias towards C1 rated companies but allocation to C2/C3 companies could increase in value oriented strategies

Portfolio Composition#	OCF		ROCE	
	C1	XX%	R1	XX%
	C2	XX%	R2	XX%
	C3	XX%	R3	XX%

A portfolio with significant R1 share implies a growth preference and a portfolio with significant R2 / R3 companies is tilting towards value



Metrics Vis., P/B, P/E, RoE, lower to the Benchmark implies portfolio has a value bias and emphasizes attractive valuations; likewise metrics that are higher to the Benchmark implies portfolio has a growth & quality bias that is reflected in the premium valuations

Percentage of portfolio that is distinct from the Benchmark; higher active share implies greater portfolio uniqueness and potential for higher alpha generation

	Fund Value	Benchmark Value
Active Share	XX%	
Outside Benchmark		XX%

Percentage of portfolio that is not forming part of benchmark index; unique ideas picked outside benchmark matching investment philosophy

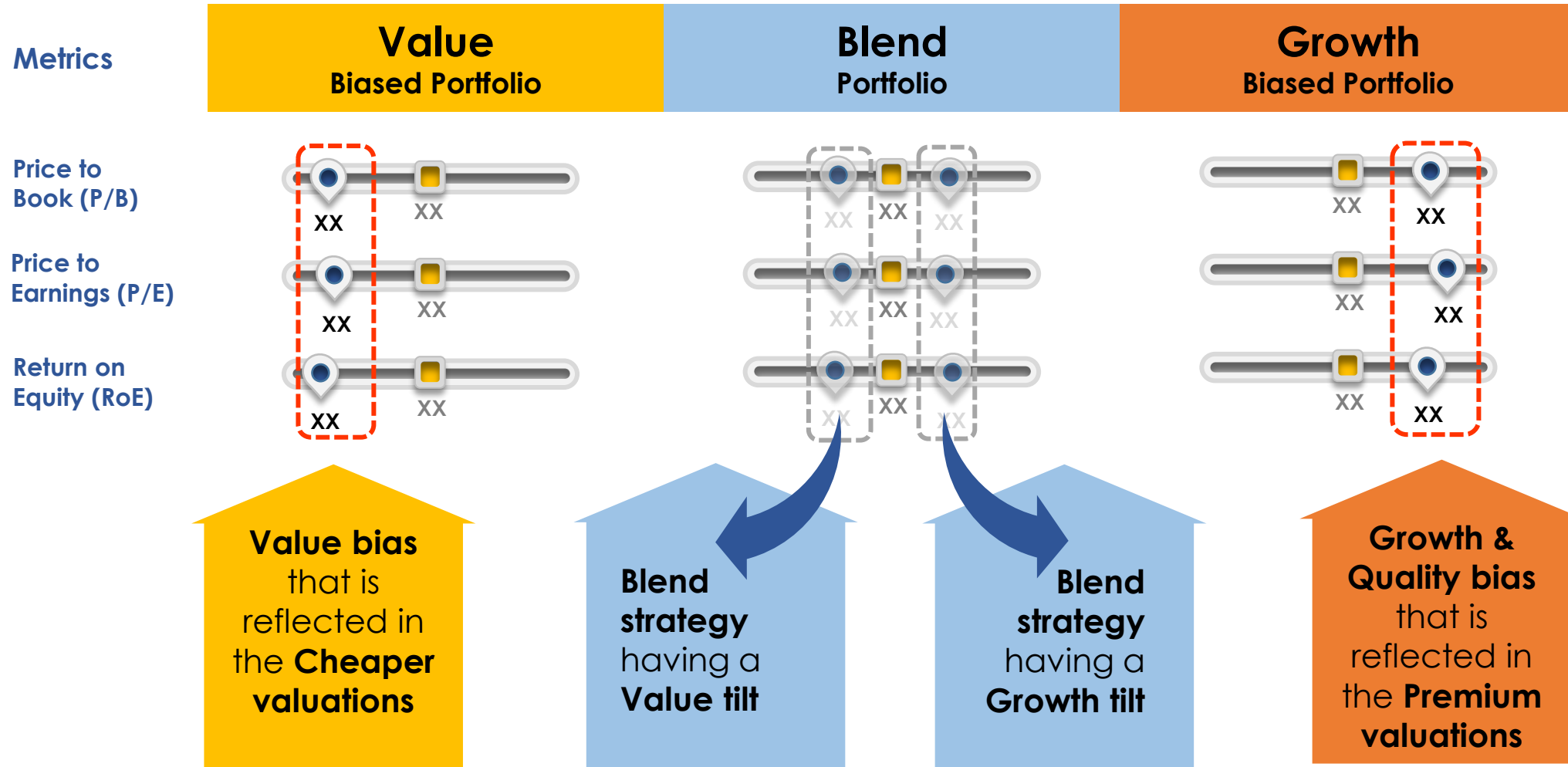
Style discipline measured through continuous monitoring of values vis-à-vis Benchmark



Haq, ek behtar zindagi ka.

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Portfolio Construction – Style Check



Fund Value
 Benchmark Value

Portfolio Construction – Style Discipline

1

UTI Flexi Cap Fund
Flexi Cap Fund

2

UTI Mastershare Unit Scheme
Large Cap Fund

3

UTI Value Opportunities Fund
Value Fund

Fund Manager/s	Ajay Tyagi		Swati Kulkarni		Vetri Subramanian, Amit Premchandani	
Benchmark	Nifty 500		S&P BSE 100		Nifty 500	
Large Cap	60	78	85	96	69	78
Mid Cap	31	15	6	4	20	15
Small Cap	9	7	9		11	7
C1	95	88	94	89	88	88
C2	5	9	3	7	12	9
C3		3	3	4		3
R1	93	60	64	58	52	60
R2	6	28	24	29	29	28
R3	1	12	12	13	19	12
Price to Book	8.07 13.18		7.84 9.01		6.48 8.07	
Price to Earnings	37.07 48.65		36.33 38.13		32.23 37.07	
Return on Equity	16.52 21.34		15.15 16.78		14.09 16.52	
Active Share	70%		39%		67%	
Stock Count	54		48		57	

■ Fund
 ■ Benchmark
 ● Fund
 ■ Benchmark

Operating Cash Flow Tiers (C)- 3 Tiers based on the number of years in which they have generated positive operating cash flows in the previous 5 years (for manufacturing companies).
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Portfolio Characteristics are calculated based on full market cap using weighted average methodology at aggregation.

All data as of September 30, 2021



Haq, ek behtar zindagi ka.

Portfolio Construction – Style Discipline

4

UTI Core Equity
Large & Mid Cap Fund

5

UTI Mid Cap Fund
Mid Cap Fund

6

UTI Long Term Equity Fund (TS)
ELSS

Fund Manager/s

V Srivatsa

Ankit Agarwal

Vetri Subramanian, Vishal Chopda

Benchmark

Nifty LargeMid Cap 250

Nifty Midcap 150

Nifty 500

Large Cap



Mid Cap



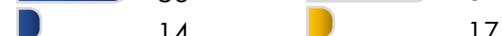
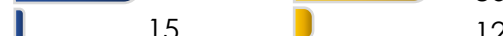
Small Cap



C1



C2



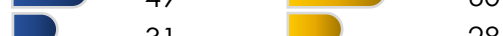
C3



R1



R2



R3



Price to Book



Price to Earnings



Return on Equity



Active Share

66%

66%

63%

Stock Count

61

68

69



Fund



Benchmark



Fund



Benchmark

Operating Cash Flow Tiers (C)- 3 Tiers based on the number of years in which they have generated positive operating cash flows in the previous 5 years (for manufacturing companies). RoCE/ Implied RoE Tiers (R) - 3 Tiers based on the previous 5 year average return on capital (for manufacturing companies & non-lending non banking finance companies (NBFCs)) & based on the previous 5 year average return on asset for banks & NBFCs (including housing finance companies).

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Portfolio Construction – Style Discipline

7

UTI Dividend Yield Fund
Dividend Yield

8

UTI Hybrid Equity Fund#
Aggressive Hybrid

9

UTI Multi Asset Fund#
Multi Asset

Fund Manager/s

Swati Kulkarni

V Srivatsa (Equity Portion)

Sanjay Dongre

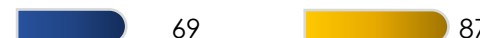
Benchmark

Nifty Dividend Opp. 50

Equity – S&P BSE 200

Equity – S&P BSE 200

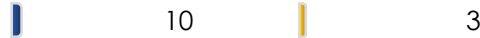
Large Cap



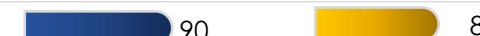
Mid Cap



Small Cap



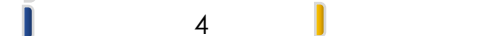
C1



C2



C3



R1



R2



R3



Price to Book



Price to Earnings



Return on Equity



Active Share

48%

46%

40%

Stock Count

47

63

53

#Equity Portion

Fund

Benchmark

Fund

Benchmark

Operating Cash Flow Tiers (C)- 3 Tiers based on the number of years in which they have generated positive operating cash flows in the previous 5 years (for manufacturing companies). RoCE/ Implied RoE Tiers (R) - 3 Tiers based on the previous 5 year average return on capital (for manufacturing companies & non-lending non banking finance companies (NBFCs)) & based on the previous 5 year average return on asset for banks & NBFCs (including housing finance companies). Portfolio Characteristics are calculated based on full market cap using weighted average methodology at aggregation.

All data as of September 30, 2021



Haq, ek behtar zindagi ka.



Risk Management Framework

Portfolio – Sector & Stock Limits

	Sector level	Stock level			
		Forming part of Benchmark (MAX)	Not forming part of Benchmark (MAX)	Top 10 holdings (MAX)	Minimum Benchmark Stocks (MIN)
Diversified	35% or BM plus 12% (Whichever is lower)	9.50%	5.00%	55%	50%
Mid Cap	35% or BM plus 12% (Whichever is lower)	6.00%	3.50%	35%	40%
Small Cap	35% or BM plus 12% (Whichever is lower)	5.50%	3.00%	30%	40%
Thematic	40% or BM plus 10%, (Whichever is higher)	9.50%	9.50%	60%	N/A
Sector	N/A	10% or BM Weight (Whichever is higher)	9.50%	N/A	N/A
SEBI prescribed	N/A	10% In case of Index/ Sector funds: Up to index weight			

Company Exposure: Not more than 7% of company's equity

Cash Limit: 10% of the portfolio

Note: Sectoral limits are not applicable to select closed ended fund following focused stock-selection strategy and above limits are internal prudential norms



Haq, ek behtar zindagi ka.

Risk Management – The Process

- **Stock specific risk**

- Quality of primary research
- OCF & RoCE emphasis

- **Selling discipline**

- Fundamentals deteriorate
- Better alternatives available
- Stock is 'Not rated'

- **Portfolio risk**

- Single stock/ sector/ concentration/ off benchmark limits
- Consistency in tier allocation
- Consistency in Portfolio positioning vs Benchmark

Risk Management – Review

- **Monthly risk report – from Risk management team**
- **Steering Committees, comprising of Head of Equity, Senior Fund Manager/s along with representative of strategic partner/s, formally oversee**
 - Investment (Funds & Research) strategy
 - HR policy & related issues in the team
 - Performance measurement metrics
 - Fund performance attribution
- **Periodic Review Meetings with Investment Committee /Managing Director**
- **Regular Reporting and Presentation to the Board of UTI Asset Management Company Limited and UTI Trustee Company Private Limited**

Reference Slide

Assumptions: Illustration on OCF & RoCE analysis (slide 10 & 11)

Common Assumptions

▪ Gross Block	-	₹ 2,000
▪ Gross Assets Turnover	-	1.5
▪ Interest Cost	-	10%
▪ Investment Income	-	8%
▪ Tax Rate	-	30%
▪ Revenue Growth	-	15%

Specific to OCF

▪ EBITDA Margin	-	15%
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Specific to RoCE

▪ Working Capital Days	-	90 days
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Rating Process (slide 12)

Sectors		C1	C2	C3
All companies (excluding Financials)	Positive OCF	In all previous 5 years	in 3 or 4 of the previous 5 years	In 2 or less of the previous 5 years
		R1	R2	R3
	RoCE	> 18% (5 year average)	10% - 18% (5 year average)	<=10% (5 year average)
		R1	R2	R3
Banks & HFCs	RoA	> 1.2% (5 year average)	0.8% - 1.2% (5 year average)	<=0.8% (5 year average)
NBFCs (excluding HFCs)	RoA	> 2.4% (5 year average)	1.8% - 2.4% (5 year average)	<=1.8% (5 year average)
Non-lending Financials	RoE	> 15% (5 year average)	> 10% - 15% (5 year average)	<=10% (5 year average)

Period of Analysis – 24 years
(FY 1997 to 2020)

Universe of companies analyzed
- **1280 companies** (includes MF industry holdings, S&P BSE 500 Index companies since 2002)

OCF – Operating Cash Flows

RoCE – Return on Capital Employed
(EBIT/Avg. capital employed)

RoA – Return on Asset

RoE – Return on Equity



Haq, ek behtar zindagi ka.

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