



UTI Investment Process & Strategy

July 2020

About Our Equity Investment Team



Vetri Subramaniam
Head Equity &
Fund Manager



Swati Kulkarni, CFA
Fund Manager



Ajay Tyagi, CFA
Fund Manager



V Srivatsa
Fund Manager



Sanjay Dongre
Fund Manager



Rajeev Kumar Gupta
Fund Manager



Ankit Agarwal
Fund Manager

Collective Work
Experience of
Investment Team
Over 260 Years

Average Work
Experience of
Fund Managers
Over 21 Years

Average Work
Experience of
Analysts
Over 10 Years



Sachin Trivedi, CFA
Head of Research &
Fund Manager



Amit Premchandani, CFA
Fund Manager
Banks, NBFCs, Cement



Sharwan Goyal, CFA
Fund Manager



Kamal Gada, CFA
Fund Manager
Overseas Investment
Energy, Fertilizer, Media,
Chemicals, Pharma



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



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



Parag Chavan, CFA
Research Analyst
Metals & Mining, Utilities,
Building Materials, Sugar,
Healthcare, Hotels



Preethi R S
Research Analyst
Auto Ancillaries,
Insurance, HFC &
NBFCs



Deepesh Agarwal
Research Analyst
Capital Goods, Textiles
Infra - Construction



Akash Shah
Research Associate



Ayush Harbhajanka
Research Associate



Ayush Jain
Research Associate



Haq, ek behtar zindagi ka.

Assets Managed by the Equity Investment Team



UTI AMC Ltd. Group

₹ 9,93,084 Crores

\$ 1,31,487 Million



Equity Team

₹ 91,621 Crores

\$ 12,131 Million



UTI PMS & International (Equity)

₹ 7,693 Crores

\$ 1,019 Million



UTI MF (Equity)

₹ 64,055 Crores

\$ 8,481 Million



UTI MF (Hybrid)*

₹ 19,873 Crores

\$ 2,631 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

UTI MF's

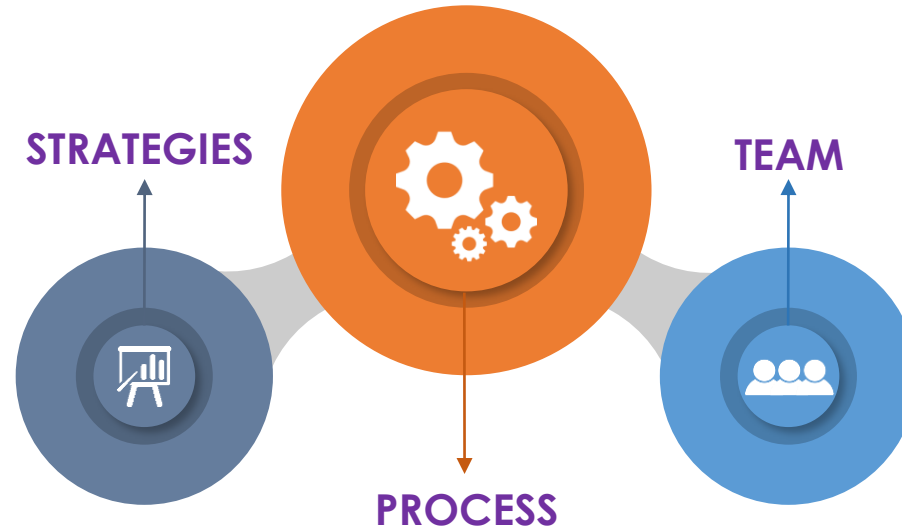
Score α

A rigorous and pragmatic approach to 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



Research Methodology

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 $\text{RoCE} > \text{Cost of Capital}$, 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>	 Company A	 Receivables of 30 Days 	Cumulative EBITDA ₹ 9,137	Equity ₹ 4,040
			Cumulative OCF ₹ 6,967	Net Borrowing ₹ 1,806
	 Company B	 Receivables of 120 Days 	Cumulative EBITDA ₹ 9,137	Equity ₹ 2,953
			Cumulative OCF ₹ 4,830	Net Borrowing ₹ 5,495

OCF is a Hygiene factor

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	
 <p>Capital Structure: Equity ₹ 1,000 Net Borrowing ₹ 1,000</p> <p>Year 1 Revenue: ₹ 3,000</p>	 Company A	 RoCE of 15% 	Equity ₹ 5,151	Equity Growth (CAGR) 17.8%
	 Company B	 RoCE of 8% 	Equity ₹ 1,777	
			Net Borrowing ₹ 2,429	
			Net Borrowing ₹ 5,803	

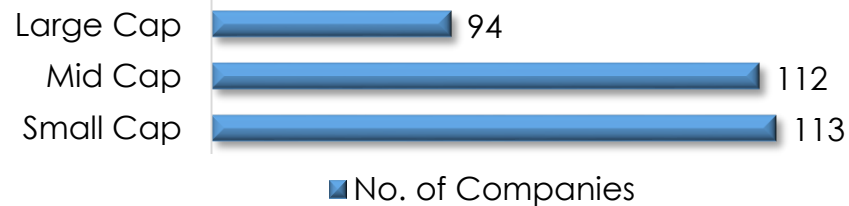
OCF is Hygiene, RoCE creates Wealth

Research Methodology – Rating System

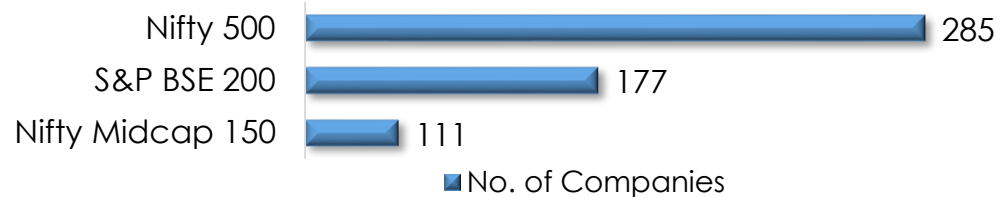
INVESTMENT UNIVERSE



Coverage based on Market cap



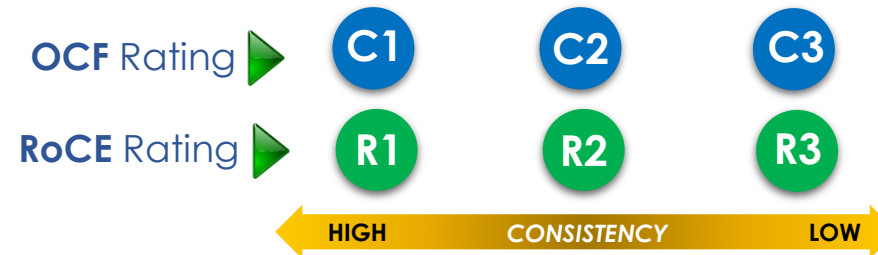
Coverage based on Indices



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 – 51 Companies)



RoCE Tiers



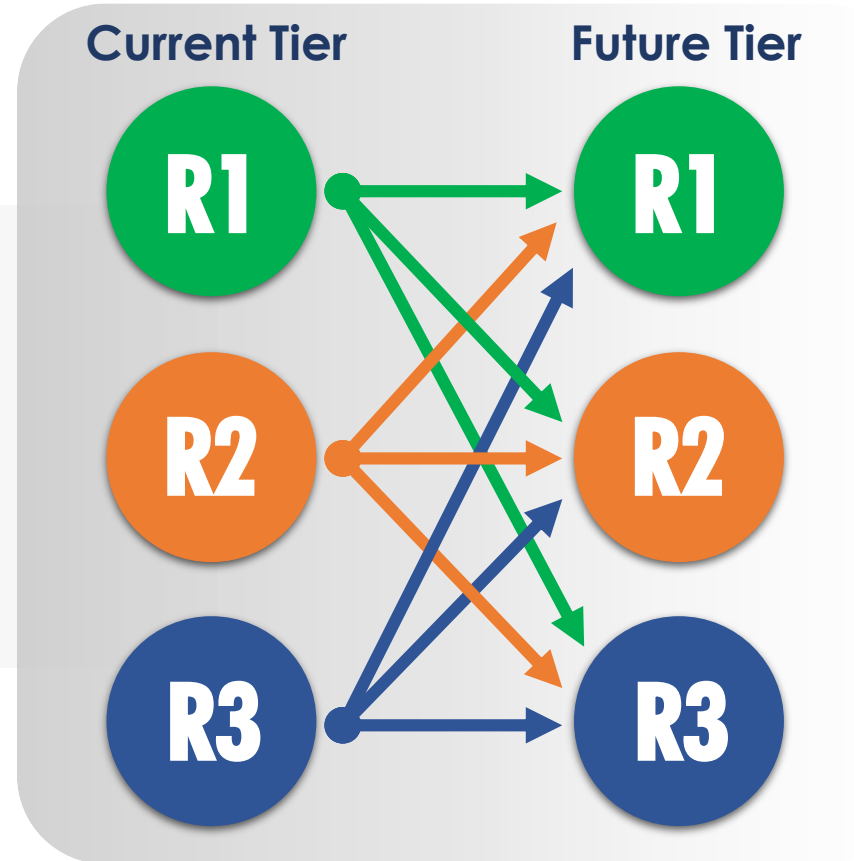
OCF – Operating Cash Flow; RoCE – Return on Capital Employed. OCF Tiers (C)- 3 Tiers based on the number of years in which they have generated positive operating cash flows in the previous 5 years (for manufacturing companies). RoCE/ Implied RoE Tiers (R) - 3 Tiers based on the previous 5 year average 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 June 30, 2020

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

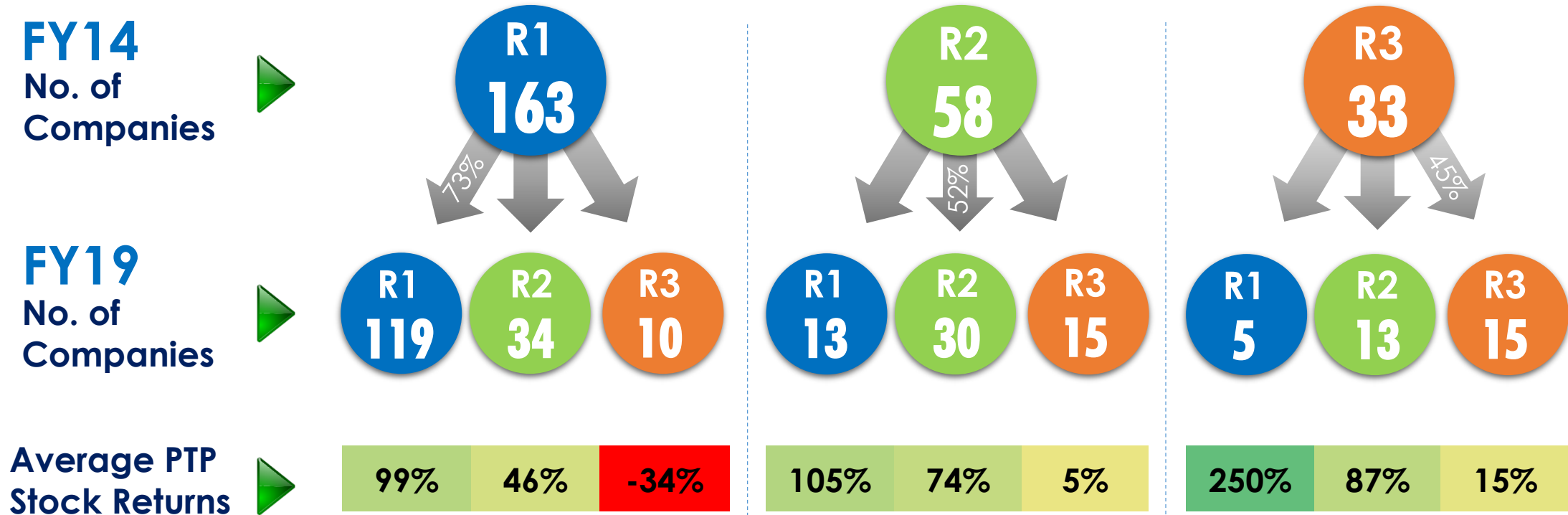


Potential migration across tiers underpins the investment argument

Example: Tier Migration (RoCE) from FY14 to FY19 & Price Returns

Probability of Migration v/s Returns

UTI INVESTMENT UNIVERSE



OCF is Hygiene, RoCE creates Wealth



Haq, ek behtar zindagi ka.

Data period considered for returns: Dec-14 to Dec-19, Nifty 50 TRI returns +57%; Average returns of UTI Universe +76%
 PTP – Point to Point

Score α

Portfolio Construction



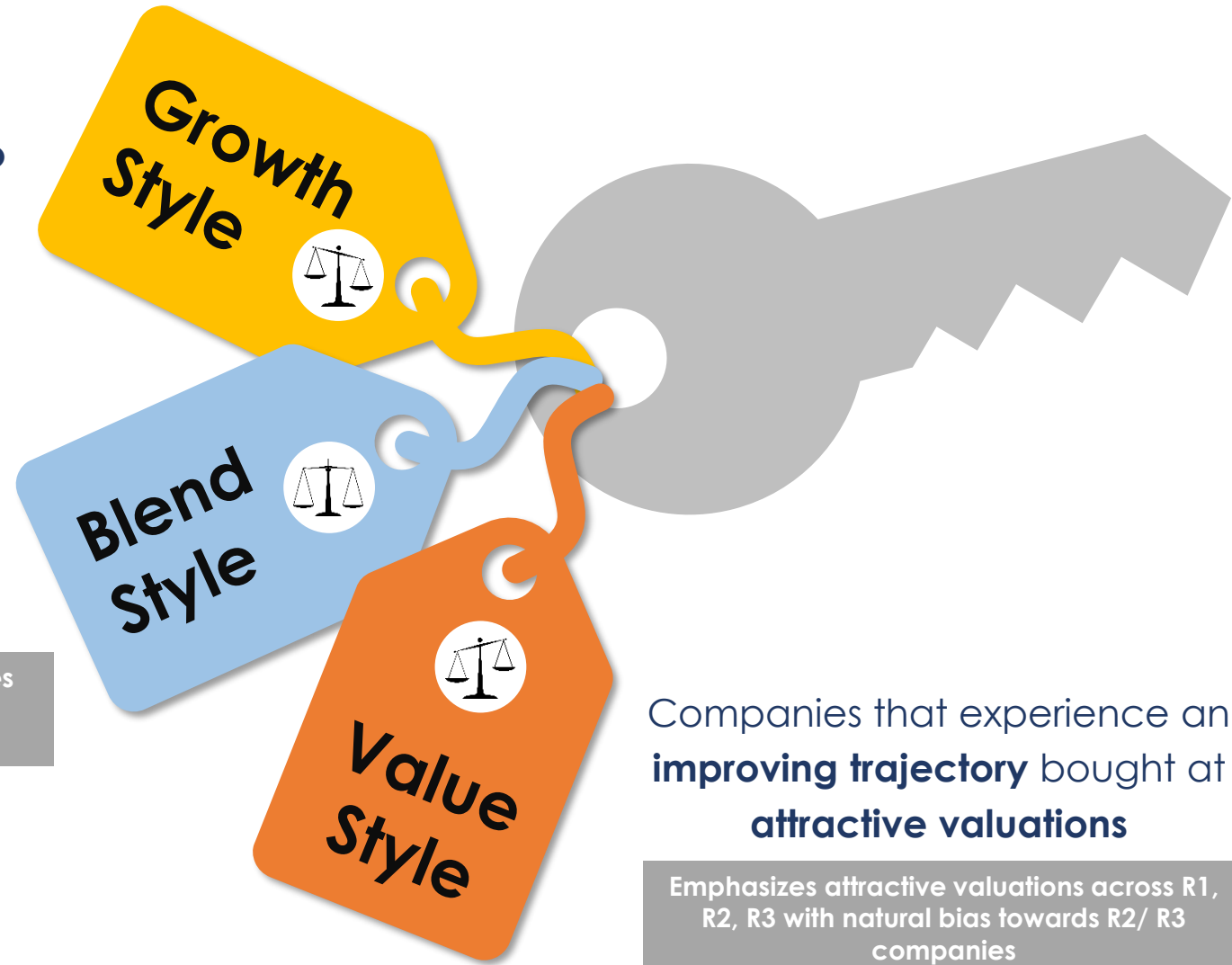
Portfolio Construction : Diversity & Discipline

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

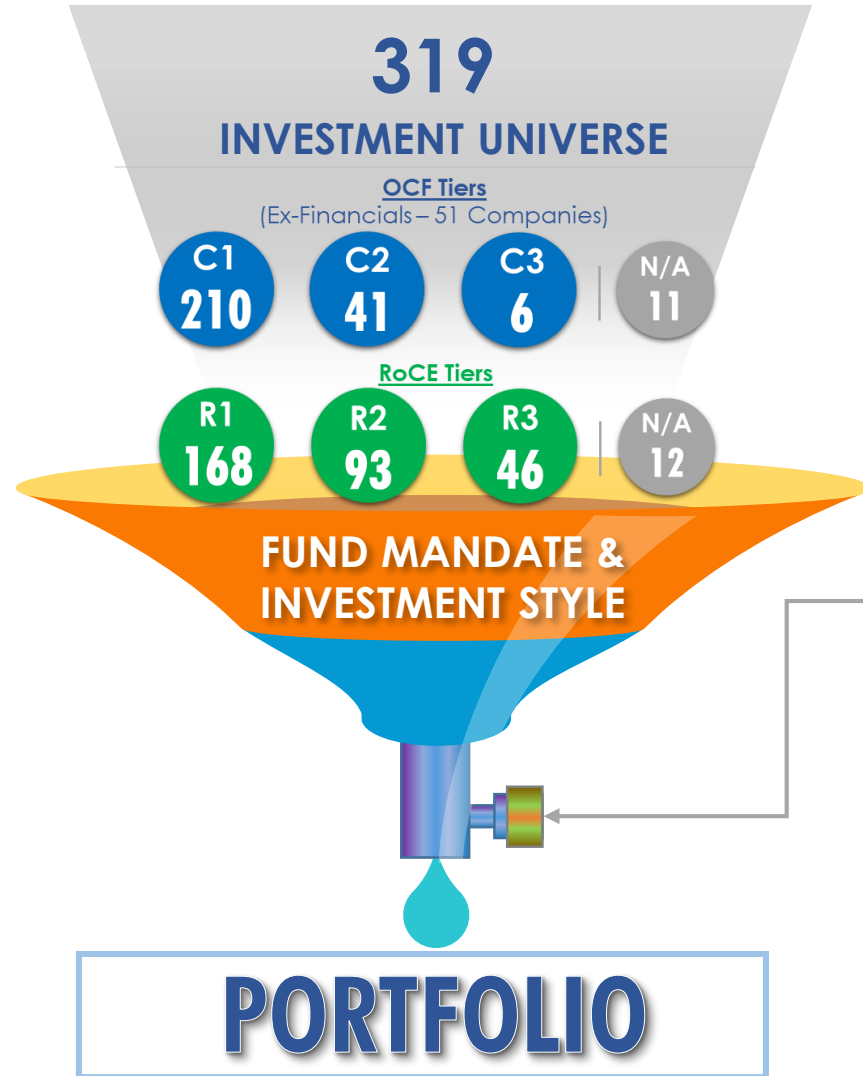
Built around a core of R1, C1 companies but also includes allocation to R2/ R3 companies



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

UTI Equity Schemes Spectrum (Select Funds)

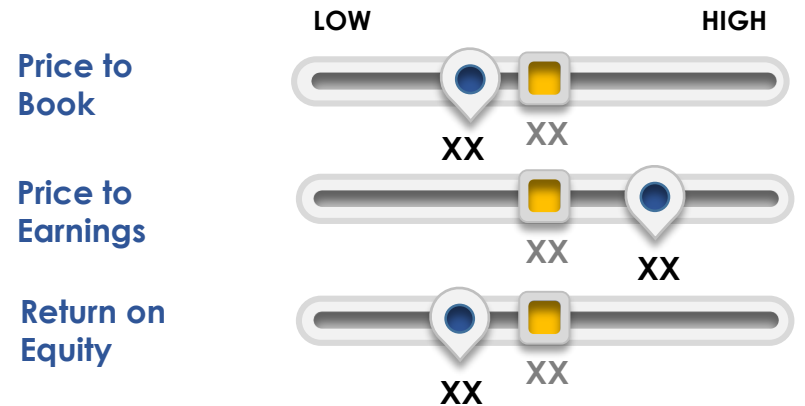
SCHEME	LOW	CONSISTENCY	HIGH	STYLE	
UTI EQUITY FUND Multi-cap Fund	RoCE	R1	91%	Quality, Growth & Cash flow	GROWTH ↑ ↓ VALUE
	OCF	C1	96%		
UTI MASTERSHARE UNIT SCHEME Large-cap Fund	RoCE	R1	64%	Competitive Franchise & GARP	
	OCF	C1	91%		
UTI MID CAP FUND Mid-cap Fund	RoCE	R1	63%	Blend – Growth Tilt	
	OCF	C1	78%		
UTI VALUE OPP. FUND Value Fund	RoCE	R1	56%	Barbell Approach	
	OCF	C1	85%		
UTI CORE EQUITY FUND Large & Mid-cap Fund	RoCE	R1	51%	Deep Value	
	OCF	C1	85%		

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

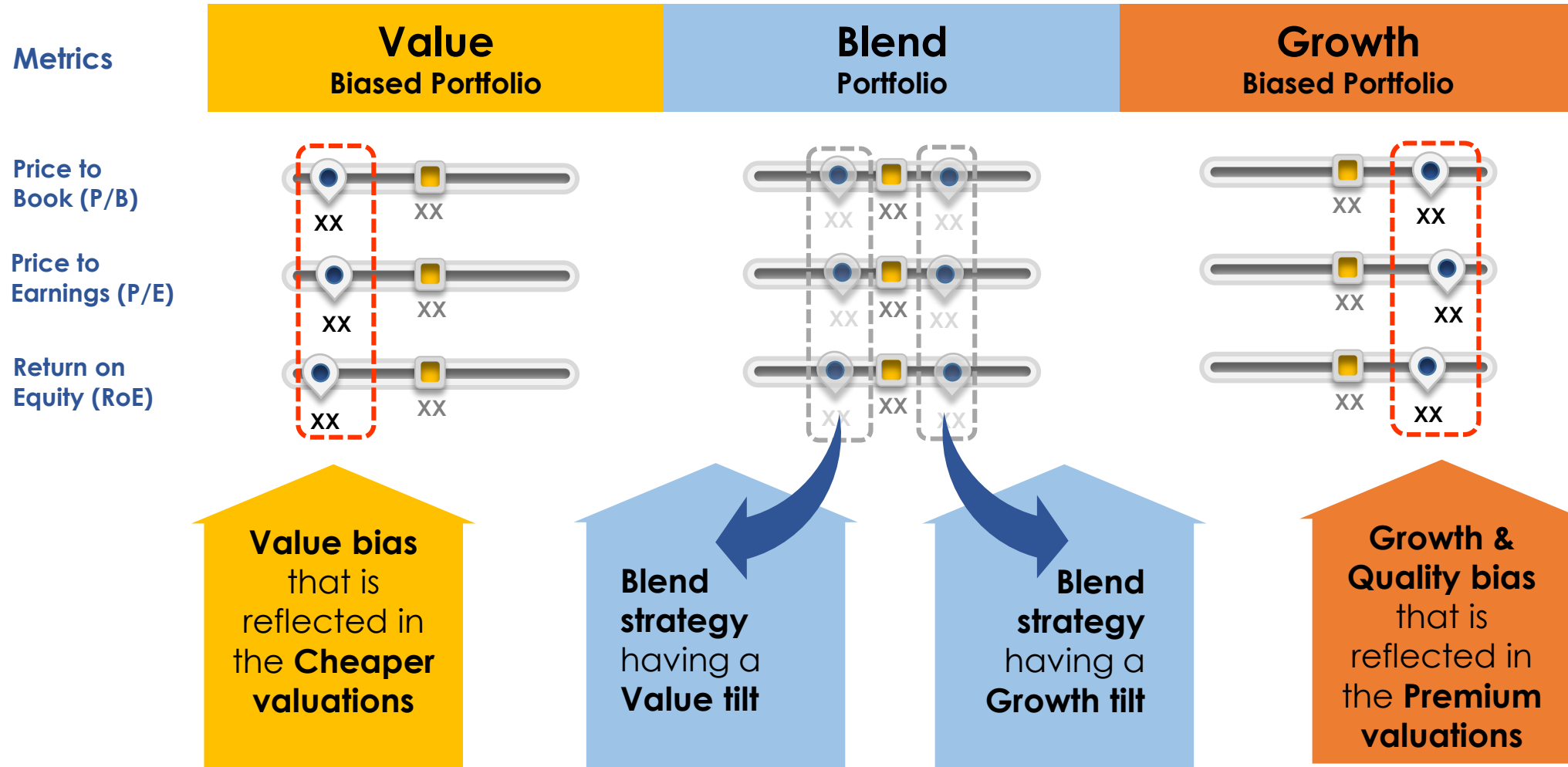
	Fund Value	Benchmark Value
Active Share	XX%	
Outside Benchmark		XX%

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

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 cos). ROCE/implied ROE Tiers (R) - 3 Tiers based on the previous 5 year average return on capital (for manufacturing cos) & consistency in implied ROE (RoA X Leverage) for financials over 5 years. Price to Book, Price to Earnings, Return on Equity, Market Cap values are arrived based on Weighted Average method. PE and PB is based on Trailing (TTM)

Portfolio Construction – Style Check



Fund Value
 Benchmark Value



Haq, ek behtar zindagi ka.

Portfolio Construction – Style Discipline

1

UTI Equity Fund
Multi Cap Fund

2

UTI Mastershare Unit Scheme
Large Cap Fund

3

UTI Value Opportunities Fund
Value Fund

Fund Manager

Ajay Tyagi

Swati Kulkarni

Vetri Subramanian,
Amit Premchandani

Portfolio Composition#	OCF		RoCE		OCF		RoCE		OCF		RoCE	
	C1	C2	R1	R2	C1	C2	R1	R2	C1	C2	R1	R2
	96%	4%	91%	7%	91%	6%	64%	26%	85%	15%	56%	33%
	0%		2%		3%		10%		0%		11%	

Benchmark

Nifty 500

S&P BSE 100

Nifty 500

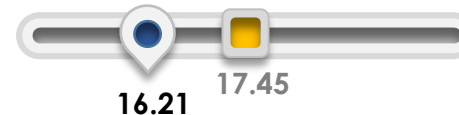
Price to Book (P/B)



Price to Earnings (P/E)



Return on Equity (RoE)



Market Cap.

Large 67 | Mid 27 | Small 6

Large 85 | Mid 12 | Small 3

Large 71 | Mid 24 | Small 5

Active Share

64%

39%

63%

Stock Count

52

47

53



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 June 30, 2020



Haq, ek behtar zindagi ka.

Portfolio Construction – Style Discipline (contd.)

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

V Srivatsa

Ankit Agarwal

Vetri Subramanian,
Vishal Chopda

Portfolio Composition#	OCF		RoCE		OCF		RoCE		OCF		RoCE	
	C1	C2	C3	R1	R2	R3	C1	C2	C3	R1	R2	R3
	85%	12%	3%	51%	31%	18%	78%	21%	1%	63%	26%	11%
										88%	31%	9%
										0%		

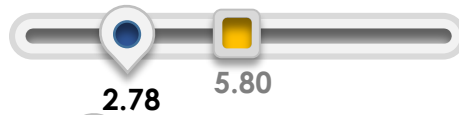
Benchmark

Nifty LargeMid Cap 250

Nifty Midcap 150

Nifty 500

Price to Book (P/B)



Price to Earnings (P/E)



Return on Equity (RoE)



Market Cap.

Large 52 | Mid 36 | Small 12

Large 13 | Mid 69 | Small 18

Large 63 | Mid 27 | Small 10

Active Share

71%

62%

59%

Stock Count

62

68

65



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 June 30, 2020



Haq, ek behtar zindagi ka.

Portfolio Construction – Style Discipline (contd.)

7

UTI Dividend Yield Fund
Dividend Yield

8

UTI Hybrid Equity Fund#
Aggressive Hybrid

9

UTI Multi Asset Fund#
Multi Asset

Fund Manager

Swati Kulkarni

V Srivatsa (Equity Portion)

Sanjay Dongre

Portfolio Composition#	OCF		RoCE		OCF		RoCE		OCF		RoCE	
	C1	C2	C3	R1	R2	R3	C1	C2	C3	R1	R2	R3
	98%	2%	0%	78%	13%	9%	88%	7%	5%	53%	30%	17%

Benchmark

Nifty Dividend Opp. 50

S&P BSE 200

Equity – S&P BSE 200

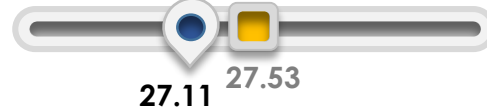
Price to Book (P/B)



Price to Earnings (P/E)



Return on Equity (RoE)



Market Cap.

Large 72 | Mid 22 | Small 6

Large 77 | Mid 17 | Small 7

Large 86 | Mid 12 | Small 2

Active Share

46%

54%

46%

Stock Count

47

56

46

#Equity Portion



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 June 30, 2020



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%	50%	50%
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

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 NBFCs	RoE	> 15% (5 year average)	> 10% - 15% (5 year average)	<=10% (5 year average)

Period of Analysis – 23 years
(FY 1997 to 2019)

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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