UTI Mutual Fund

Haq, ek behtar zindagi ka.

FAQs on UTI Small Cap Fund

What are Small-caps?

As defined by SEBI, companies ranked after 250th rank by full market capitalization are small caps. Relative to bigger companies, some small-cap companies have larger room for future growth. However, small-caps are under-covered and under-owed by institutions due its inherent attribute of low liquidity, vulnerable to business cycles etc., which prompts for a need of an expert in identifying the right small-cap company which can create long-term wealth.

What is a Small-cap Fund?

A small-cap fund invests a minimum of 65% of the fund's corpus in equity & equity related instruments of small-cap companies. Small-cap funds tend to benefit from opportunities as listed below:

- **Diverse opportunities across sectors:** Opportunities in small-caps are more as they have a much higher representation in a very diverse set of sectors when compared to large-caps.
- **Niche segments:** Small-caps have new and emerging business models which cater to a specialized segment of the markets.
- **Under-researched and Under-owned:** Very few small-cap stocks are tracked or followed by the sell-side analyst community at large. Therefore, it provides the fund managers an opportunity to identify high growth, quality stocks possibly available at mispriced valuation. Also, exposure to small-caps by institutional investors is lower relative to their exposure to bigger businesses, leading to some in-efficiencies in the market.

What is the Investment Strategy followed by UTI Small Cap Fund?

UTI Small Cap Fund will endeavor to invest in companies that have scalable business models, are run by seasoned management and generate high return on invested capital. The Fund would pursue a pure bottom-up approach for stock picking, therefore agnostic to sectors and would maintain a well-diversified portfolio.

The Fund primarily focus on 3 segments mentioned below for its portfolio construction:

- **Business Scalability:** Focuses on high and consistent growth companies with sustainable business models, long growth runway and run by seasoned managements.
- **Turnaround Strategy:** Invests in sound businesses going through a temporary weak operating business phase. Focus on undervalued opportunities that benefit from a potential mean reversion.
- **Transformational Change:** Invests in businesses undergoing a transformational change, hence becoming a potential re-rating candidate.

What is Scalability in a Business?

Scalability in a business means, its ability to grow with lower capital requirements, making them more efficient and compound wealth for its investors. These are the businesses which can generate high return on invested capital (RoIC) year after year and are also market leaders in their respective industries. Some of the other attributes of scalable businesses are leveraging outside resources, automate business operations, product innovation through extensive investment in research and development etc.

What is a Business Turnaround? What is Turnaround Strategy?

When a business that has experienced a period of poor performance and moves into a period of a financial recovery, it's called a turnaround. Turnaround strategy attempts to build a margin of safety by buying above average companies (in terms of past track record) at a weak phase in their operations which could potentially revert to long-term averages in terms of valuation or on the basis of operating metric. This strategy can also be called as picking businesses that are undervalued, but has high potential for earnings revival. However, such opportunities are generally limited and are exposed to higher risk or might take longer periods to play-out.

What is Transformational Change?

A shift in the internal business structures, processes and culture resulting from a change in the management or underlying business strategy as in the past. It occurs in response to or in anticipation of structural change in the business environment or technology or management and is enacted over a period of time.

What are the key risks associated to investing in Small-cap Funds?

While the upside of investing in a portfolio of small-cap companies is their growth potential, they are not free from certain unique risks. Placed are a few key risks associated to investing in small-cap funds.

- **Relative Volatility:**

Small-cap stocks are more susceptible to volatility due to their size. Usually, its price fluctuation in the short-term can be way higher than its peers in mid and large segment. While, downward market movement can be adverse for a small-cap fund, in upward market trend such funds may give the highest returns as compared to large-cap or mid-cap funds.

- **Lower Liquidity and Impact Cost:**
    - **Liquidity:** A stock's liquidity generally refers to how quickly shares of a stock can be bought or sold without substantially impacting the stock price. Given that small cap companies tend to issue fewer shares than larger companies, are often have less liquidity and are also more difficult to exit a position at the market price.
    - **Impact cost:** It is the cost that a buyer or seller of stocks incurs while executing a transaction due to the prevailing liquidity condition on the counter. In other words, this is a cost that the buyers/sellers incur due to lack of market liquidity. Impact cost does vary for different transaction sizes and are dynamic in nature and depends on the outstanding orders. Since, small-caps are less liquid, relative impact cost is higher for the stocks.

How is impact cost calculated:

An example: If a buyer wants to purchase 1,500 shares of XYZ stock and order book is as under

Order Book				
Buy Quantity	**Buy Price**		**Sell Quantity**	**Sell Price**
1000	98		1000	99
2000	97		1500	100
1000	96		1000	101

The ideal price for the deal : $(98+99)/2 = $ Rs. 98.50

But, actual buy price will be : $\frac{(1000 \times 99) + (500 \times 100)}{1500} = $ Rs. 99.33

Therefore, the impact cost is : $\frac{99.33 - 98.50}{98.50} \times 100 = 0.84\%$

Although lower liquidity and corresponding impact cost are common with small-cap funds, if one considers investing for their long-term potential then the risks associated with short-term liquidity and selling issues may decrease, particularly when investing through a diversified small-cap fund.

Business risks: Small-cap companies are more prone to business cycles. They generally have less access to capital and that makes it difficult for them to obtain the necessary financing to bridge gaps in cash flow, fund new market growth pursuits, or undertake large capital expenditures. Emerging new business models within Small-caps could also lack operational history and are potentially more vulnerable. Furthermore, small-caps tend to have much smaller customer bases, so their prospects are more uncertain and often tied to a specific geographical area.

However, small-caps companies tend to be nimbler, therefore they can take more chances and take advantage of events and trends. Moreover, since they are much early in their growth cycle, they have a much longer runway of growth ahead of them. Also, small-caps are under-owned among institutions, as they are under-researched, therefore with focused research efforts within the small-cap space one can find good quality businesses that are reasonably valued and hence, may have potential for sharp outperformance.

How are the underlying portfolio risks of investing in small-caps are mitigated in UTI Small Cap Fund?

Our 360º risk assessment framework enables the fund to mitigate the underlying risks and is aligned to gain from small cap companies and select mid cap companies having growth opportunities.

- **Research Framework:** In-house proprietary research process & methodology "ScoreAlpha" helps in identifying good stocks and avoiding poor stocks. The Fund would have blend of both growth and value investment style with a tilt towards growth.
- **Portfolio Concentration:** Maintain judicious portfolio diversification across stocks and sectors. The Fund would target for having 60-70 stocks across the sectors.
- **Position Sizing:** Based on the relative conviction, market depth and overall stock level risks. The Fund would have a cap of 5% allocation at stock level.
- **Portfolio Review:** Continuous evaluation and monitoring of risk parameters and companies in the portfolio. The Fund will pursue pure bottom-up approach and focus is on each company as individual businesses and how they are placed from a long-term perspective rather than looking at the short-term or broader sectoral plays.

How is UTI Small Cap Fund unique from its peers?

- **A true-to-label fund:** The Fund will endeavor to have zero exposure in large-caps names, however, a mid-cap growing to large cap may be part of the portfolio.
- **Judicious diversification:** The Fund with its diversified exposure aims to strike a balance risk and reward by following a patient approach towards companies in the portfolio and with right mix of companies with Return on Capital Employed (RoCE) and Cash flow profile. This is likely to aid in mitigating sharp return divergence and volatility of the portfolio.
- **Leverage of Experienced Team & ScoreAlpha Strategy:** UTI's rich experience in research and fund management, coupled with coverage of large cross section of companies in small-cap universe will help the Fund in picking quality stocks and also avoid the poor ones.
- **No size constraints:** Bigger funds in the category often have restrictions on inflows. Higher size and increasing inflows mean difficult to find quality opportunities in the small-cap space and also not easy to deploy money or exit stocks without incurring heavy impact cost. UTI Small Cap Fund being a new offer can fully benefit from exploring the opportunities without much limitations.

Who should invest in UTI Small Cap Fund?

- **Risk Allocation:** Investors looking to add a high risk strategy to balance an overall conservative portfolio construct.
- **Return Expectation:** Investors seeking to take advantage of higher growth potential relative to other diversified equity funds and willing to ride the underlying portfolio volatility.
- **Investment Route:** Investors looking for allocation either on lump sum or staggered route (SIP/STP).
- **Time Horizon:** Investors looking for investments over medium to long-term horizon.

Why invest in UTI Small Cap Fund?

Investing in UTI Small Cap Fund gives an edge owing to investment processes, experienced fund management and benefit from the growth opportunities of small-cap and select mid-caps in the long-run.

- **Growth Opportunity:** Aims to exploit ample growth opportunities of small caps and select mid-caps
- **Portfolio Diversification:** A well-diversified portfolio of scalable businesses with long growth runway
- **Risk Mitigation:** 360º risk assessment framework to identify good stocks and avoid poor stocks
- **Investment Approach:** Pursue bottom-up stock selection approach to pick businesses with healthy financials and potential for sustenance of margins over a period of time

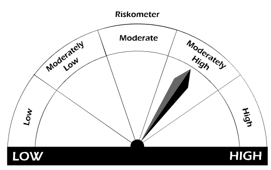
UTI Small Cap Fund

(Small Cap Fund - An open ended equity scheme predominantly investing in small cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital appreciation
- Investment predominantly in equity and equity related securities of small cap companies

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



Investors understand that their principal will be at Moderate High Risk.

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