

## UTI POWER OF THREE

**UTI Power of Three** is an exercise where the stimulus is on building one's "CORE" equity portfolio by employing three distinct investment styles. The three funds which the UTI Power of Three is focusing on is **UTI Mastershare Unit Scheme**, Large Cap Fund – An open ended equity scheme predominantly investing in large cap stocks following the Growth at Reasonable Price (GARP) style of investment, also called as Blend style of investing. Second fund is **UTI Equity Fund**, Multi Cap Fund - An open ended equity scheme investing across large cap, mid cap, small cap stocks which follows the growth style of investment and the third one is **UTI Value Opportunities Fund**, Value Fund – An open ended equity scheme following a value investment strategy. A well balanced portfolio should have allocations into distinct investment styles, albeit the allocation would be dependent on the investor's risk profile or preference. UTI Power of Three which has three distinct styles could be a solution for one's equity allocation worries. Following are the key highlights of the three funds and details on their respective investment styles:

Scheme Name	UTI Mastershare Unit Scheme	UTI Equity Fund	UTI Value Opportunities Fund
Type of Scheme	An open ended equity scheme predominantly investing in large cap stocks	An open ended equity scheme investing across large cap, mid cap, small cap stocks	An open ended equity scheme following a value investment strategy
Fund Category	Large Cap Fund	Multicap Fund	Value Fund
Fund Manager	Ms. Swati Kulkarni, CFA	Mr. Ajay Tyagi, CFA	Mr. Vetri Subramaniam & Mr. Amit Premchandani
Launched on	15-Oct-1986	18-May-1992	20-Jul-2005
Closing AuM ₹	5,887 Crores	9,750 Crores	4,016 Crores
No. of Unit Holders	6,25,367	12,54,243	4,78,614
Management Style	Blend – Growth at a Reasonable Price (GARP)	Growth	Value
Benchmark	S&P BSE 100 TRI	Nifty 500 TRI	Nifty 500 TRI
Top 5 Over Weight	Shree Cement Ltd. Bharti Airtel Ltd. Sanofi India Ltd. ICICI Bank Ltd. SKF India Ltd.	Bajaj Finance Ltd. L & T Infotech Ltd. Info-Edge (India) Ltd. Astral Poly Technik Ltd. Shree Cement Ltd.	Infosys Ltd. ICICI Bank Ltd. Escorts Ltd. Bharti Airtel Ltd. Coromandel International
Top 5 Under Weight	Reliance Industries Ltd. ITC Ltd. HDFC Bank Ltd. Nestle India Ltd. HCL Technologies Ltd.	Reliance Industries Ltd. ICICI Bank Ltd. Hindustan Unilever Ltd. ITC Ltd. Larsen & Toubro Ltd.	Reliance Industries Ltd. HDFC Ltd. Tata Consultancy Services Kotak Mahindra Bank Ltd. Hindustan Unilever Ltd.

Data as of June 30, 2020

## DESCRIPTION ON INVESTMENT STYLES

### UTI Mastershare Unit Scheme

The Fund follows an investment style of Growth at Reasonable Price (GARP) for stock picking. The style of investment balances both growth as well as valuation; it buys into a given stock mindful of the price it is paying for the underlying growth of the company.

The Fund aims to invest in companies that are fundamentally strong with control on borrowings, consistent revenue growth, focus on profitability and higher return on capital (than cost of capital) and consistent operating cash-flows generation. Such companies may generate free cash flows for future expansion and avoid dilution of existing shares.

### KEY TENETS

#### Growth at Reasonable Price (GARP)



- Given the underlying growth in earnings of a company, how much is the reasonable price that one should pay to buy that stock in the portfolio.
- Provides a framework to buy companies having **future earnings growth** as well as **valuation comfort**.

#### Competitive Franchise



- Companies with competitive franchise have **benefits of pricing power or cost competitiveness** for long period of time.
- Tend to have strong fundamentals with low debt, profitability focus, consistent cash-flow and higher ROCE.

Owing to this combined approach of GARP plus Competitive Franchise, the Fund may invest in companies where,

- The market is underestimating the companies' ability to sustain growth over much longer phase.
- The growth trajectory is improving either as an industry wide phenomenon like favorable demand cycle, consolidation, clearances of regulatory hurdles or through the company specific factors like cost competitiveness, prudent capacity expansion.
- The business is capital intensive but the companies invest prudently and execute efficiently.
- The companies having opportunities to reinvest cash flows at high Return on Capital Employed (RoCE)
- The relative valuation within the sector is attractive.

This in turn gives the investors a long term wealth creation opportunity by owning a portfolio of quality companies.

## DESCRIPTION ON INVESTMENT STYLES

### UTI Equity Fund

The Fund's investment strategy is built around three key pillars namely, Quality, Growth & Valuation.

#### KEY TENETS OF THE FUND STRATEGY



#### QUALITY

“**Quality**” signifies the ability of a business to sustain high RoCE / RoE over a long period of time



#### GROWTH

“**Growth**” signifies long term secular growth for the business



#### VALUATION

“**Valuation**” is determined by consistency in cash flow generation

Quality signifies businesses that generate high return on capital through the cycle and as a result generate strong cash flows. These cash flows are the source of strong economic value creation by the businesses and this economic value in turn is the source of sustainable long term wealth for investors. Therefore the strategy is predicated on buying great businesses and staying invested in them for the long-term and letting their economic value compound.

After solving for quality and defining the universe sharply, the next filter is to identify businesses which would witness strong long term growth riding on India's consumption boom over the coming decades. Here the focus is to buy secular growth businesses rather than cyclicals leading to the portfolio being at the intersection of quality and growth.

Valuation is an important guiding pillar in this investment strategy and exposure to these businesses are patiently increased considering parameters like price to cash-flow multiple as well as price to earnings and price to book multiples.

Finally the strategy is bottom-up focused and is not driven by views on macro economy, geo-politics, sectoral turnarounds etc. The Fund invests across market capitalisation and lays emphasis on buying high quality mid and small caps which have long run-way of growth in the future.

## DESCRIPTION ON INVESTMENT STYLES

### UTI Value Opportunities Fund

The Fund looks for opportunities which is expressed in terms of intrinsic value of a given stock, which means following “Value” style of investment and across the market capitalization spectrum. The fund follows the philosophy of “Value”: buying things for less than their intrinsic value.

Intrinsic value is simply the current value of the cash flows that the company generates for its shareholders over a period of time. The fund follows Barbell approach for stock picking, as undervalued businesses can be found at two ends of the spectrum. At one end, the market may under appreciate the sustainability of competitive advantages and/or the length of the growth runway for the company. These companies defy the norm of cyclicality and reversion to mean. At the other end of the spectrum there are companies that may be experiencing challenges due to cyclical factors, changes in the environment or their own past actions. But if the core business is healthy and a path to a better future (cash flows, return ratios) is visible then their depressed valuations offer an attractive entry point. The opportunity in both cases is to buy something cheap relative to expectations.



### A BARBELL APPROACH



Market may under appreciate the sustainability of competitive advantages and/ or the length of the growth runway for the company

**These companies defy typical expectations of cyclicality**



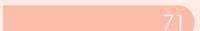
Companies that may be experiencing challenges due to cyclical factors, changes in the environment or their own past actions

**In these companies the market ignores the existence of cycles**

### BUYING WHAT THE MARKET UNDERESTIMATES

UTI Value Opportunities Fund would be focusing on companies available at less than their intrinsic value and ability to generate high cash flows over time. While the portfolio will have a large cap bias; the small and midcap exposure could vary more widely based on valuation differentials. The Fund also takes significant active bets in the portfolio relative to the benchmark.

## PORTFOLIO COMPOSITION

	UTI Mastershare Unit Scheme	UTI Equity Fund	UTI Value Opportunities Fund
No. of Stocks	49	53	53
MCap Category (%)	Large  85	Large  67	Large  71
	Mid  12	Mid  27	Mid  24
	Small  3	Small  6	Small  5
Active share (%)	40	64	64
Portfolio Turnover (%)	20	15	31
OCF (%)	C1  91	C1  96	C1  85
	C2  6	C2  4	C2  15
	C3  3	C3 0	C3 0
RoCE (%)	R1  64	R1  91	R1  56
	R2  26	R2  7	R2  33
	R3  10	R3  2	R3  11

OCF – Operating Cash Flow; ROCE – Return on Capital Employed #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).

## KEY METRICS#



#All the key metrics are weighted average of the overall portfolio.  
P/E – Price to Equity, P/B – Price to Book, RoE – Return on Equity

 Fund  Benchmark

From the above placed matrices at the fund level, it may be noted that the funds are distinctly positioned from each other. For instance, UTI Equity Fund follows the growth style of investing the key valuation metrics which is reflected by its weighted average of PB, PE and RoE, which are relatively higher than that of benchmark index (Nifty 500), likewise, UTI Value Opportunities Fund, which follows value style of investing has the said metrics relatively lower than that of benchmark index (Nifty 500). UTI Mastershare Unit scheme's investment approach of looking for businesses having growth potential, but available for reasonable valuations (a.k.a GARP) makes the fund's metrics to hover close to that of the benchmark index (S&P BSE 200).

Data as of June 30, 2020

# Why invest in UTI Power of Three?

In the current scenario, some of the concerns an investor might have would include, where to invest, which investment strategy to follow, which market cap to invest-in, how to earn consistent returns etc.

As a fund house with emphasis on managing investments with a well-defined investment philosophy and discipline in portfolio construction. UTI Power of Three provides such conundrums with an easy solution of investing in funds which follow distinct strategies, investing in well-researched stocks across sectors and across the market cap, without being highly concentrated at stock or sector level. Key highlights are mentioned below:

## Long Term Track Record

Each of these funds has long history of existence and have weathered market cycles. Incidentally, UTI Mastershare Unit Scheme is also India's first equity oriented scheme launched in 1986, UTI Equity Fund had the largest investor base at its launch in 1992 and UTI Value Opportunities Fund launched in 2005 has also generated healthy returns for its investors.

## Distinct Investment Approach

Funds follow distinct investment approaches from that of each other Vis., Growth, Value and GARP (Blend). Furthermore, funds are managed by industry experts having decades of experience are committed to the investment style that they pursue to build the portfolios and continuously thrive for alpha generation.

## Diversified Portfolio Allocation:

With differentiated investment styles and prudent allocations to the funds has a potential for wealth creation for medium to long-run. Allocation to these funds would also fits into one's core equity allocation.

### UTI Mastershare Unit Scheme

Large Cap Fund - An open ended equity scheme predominantly investing in large cap stocks

This product is suitable for investors who are seeking\*:

- Long term capital appreciation
- Investment predominantly in equity instruments of large cap companies

### UTI Equity Fund

Multi Cap Fund-An open ended equity scheme investing across large cap, mid cap, small cap stocks

This product is suitable for investors who are seeking\*:

- Long term capital appreciation
- Investment in equity instruments of companies with good growth prospects across the market capitalization spectrum

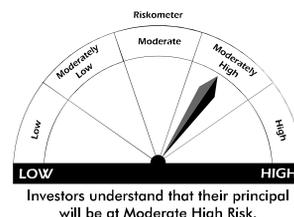
### UTI Value Opportunities Fund

An open ended equity scheme following a value investment strategy

This product is suitable for investors who are seeking\*:

- Long term capital appreciation
- Investment in equity instruments following a value investment strategy across the market capitalization spectrum

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



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