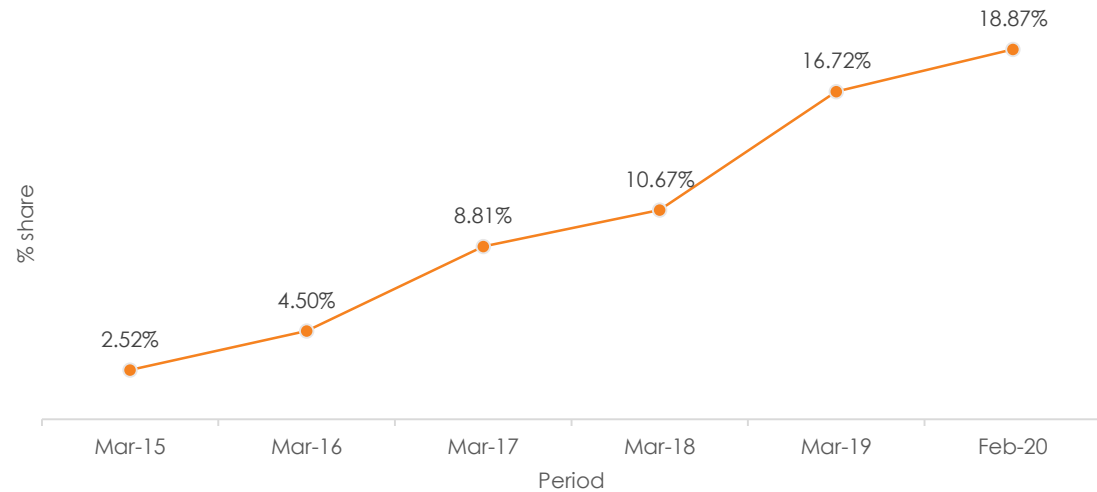


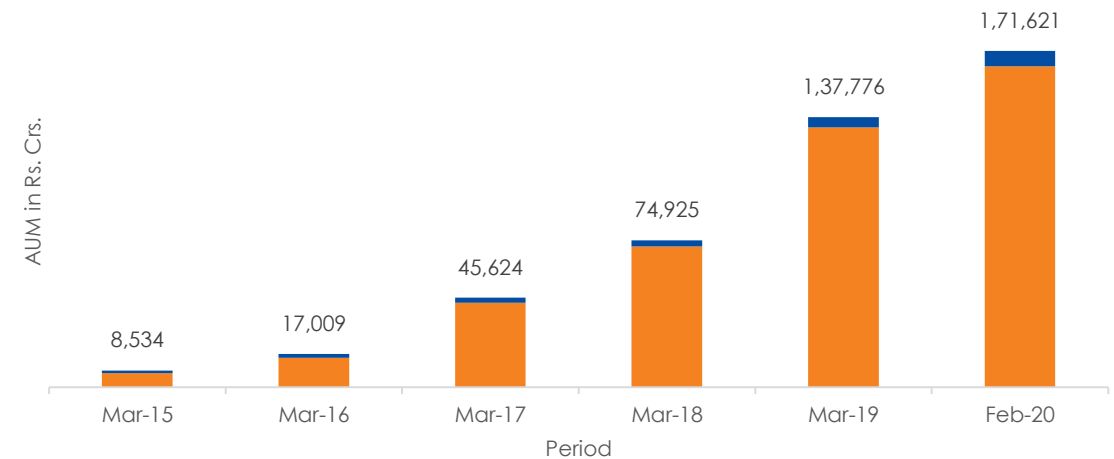


# Passive Funds: Exchange Traded Funds (ETFs) and Index Funds

# Growth of Equity ETFs and Index Funds in India



Equity ETFs and Index Funds AUM as % of Equity Mutual Fund AUM\*



Equity ETFs + Index Funds AUM\*

## Major Growth Enablers

- ✓ Retirement Funds are mandated to invest at least 5% of annual accretion in Equities. Many of them have opted Equity ETFs/Index Funds for equity investment.
- ✓ Categorization and Rationalization of Mutual Fund Schemes by SEBI\$
- ✓ Benchmarking of funds moved from Price Return Index (PRI) to Total Return Index (TRI).
- ✓ Challenges in generating alpha due to improving efficiency of equity market and reducing information asymmetry.

\* Month End Asset Under Management (AUM). Source: MFI Explorer. \$ with reference to circular number SEBI/HO/IMD/DF3/CIR/P/2017/114 SEBI - Securities and Exchange Board of India. TRI refers to index values which also account for dividends, where as in case of Price Return Index (PRI), dividends distributed by companies forming part of an index are not considered.

# What is an Equity Index?

## Rule Based

An Index is a rule based portfolio where, stocks/companies are selected based on pre-defined rules

## Representation

Indices represents certain characteristics of a market segment, like market capitalization, sectors, themes, factors etc.

## Indexing

Investing in a portfolio which is aligned to particular index. I.e. equity portfolio will hold same stocks and in same proportion as represented by an Index.

# Why Indexing?

Market is efficient



Movement in prices are based on new information and indices reflects the collective interpretation by the various market participants

Zero Sum Game



Positive alpha\* of one market participant has to come from negative alpha of another market participant

Easy to understand



It reduces the process of selection vis-à-vis an individual stock/fund

No Biases



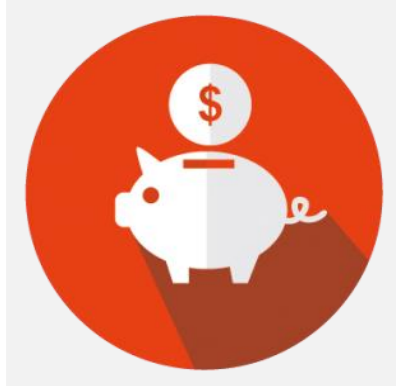
Elimination of individual's biases & subjective opinion while picking stocks/funds

Low Risk



Helps in reducing un-systematic risk and rewards for taking systematic risk.

Low Cost



Available at lower cost as compared to actively managed funds

\* Alpha is difference between returns generated by a scheme and its benchmark. When a scheme generate more returns as compared to its benchmark is called positive alpha. When scheme generate less returns as compared to its benchmark, is called negative alpha.

## S&P Indices versus Active Fund (SPIVA) India Scorecard

- SPIVA India scorecard compares the performance of actively managed Indian mutual funds with their respective benchmark indices over 1, 3, 5, and 10 year period.
- The comparison is done in a scientific way considering survivorship bias correction, style consistency, apple-to-apple comparison, asset weighted returns etc.
- This semi-annual report is called as SPIVA scorecard.
- Extract from the Mid-Year 2019 Report: **Majority of large-cap funds are underperforming the Index.**

### Report 1: Percentage of Funds Outperformed by the Index

FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Indian Equity Large-Cap	S&P BSE 100	76.67	82.93	65.71	61.34
Indian ELSS	S&P BSE 200	80.95	83.33	51.35	45.71
Indian Equity Mid-/Small-Cap	S&P BSE 400 MidSmallCap Index	18.92	47.83	26.98	48.84
Indian Government Bond	S&P BSE India Government Bond Index	76.92	73.17	84.62	87.72
Indian Composite Bond	S&P BSE India Bond Index	98.57	94.20	97.64	96.10

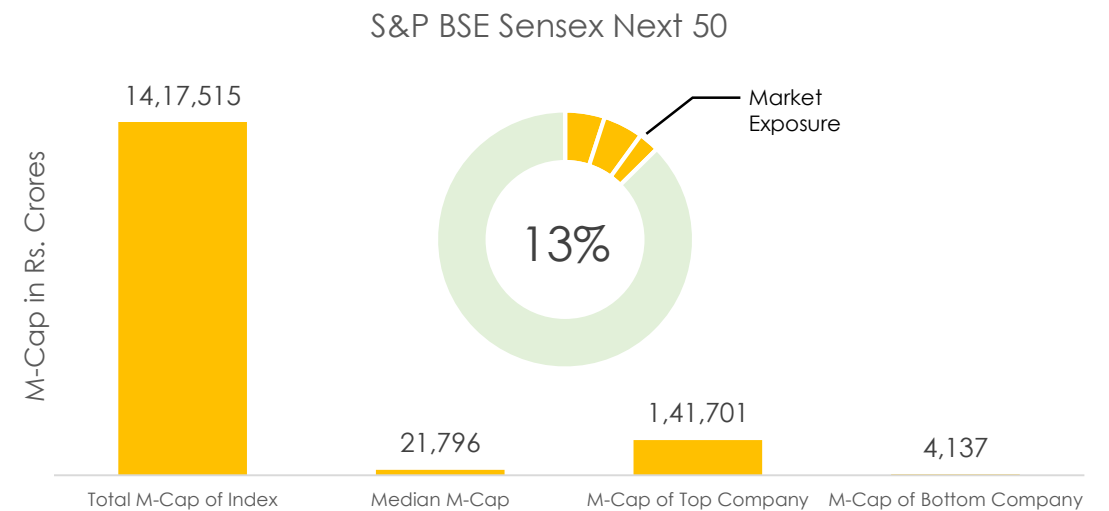
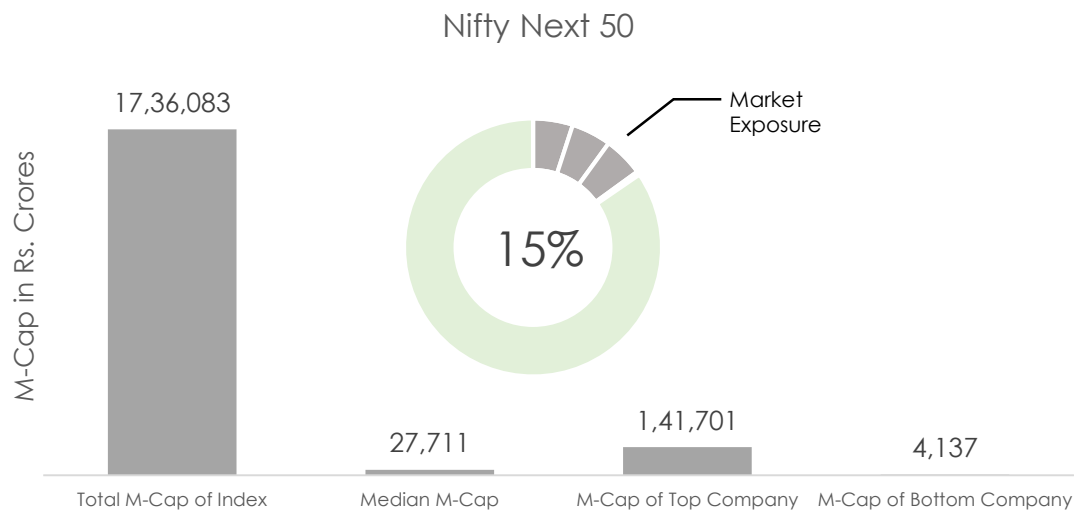
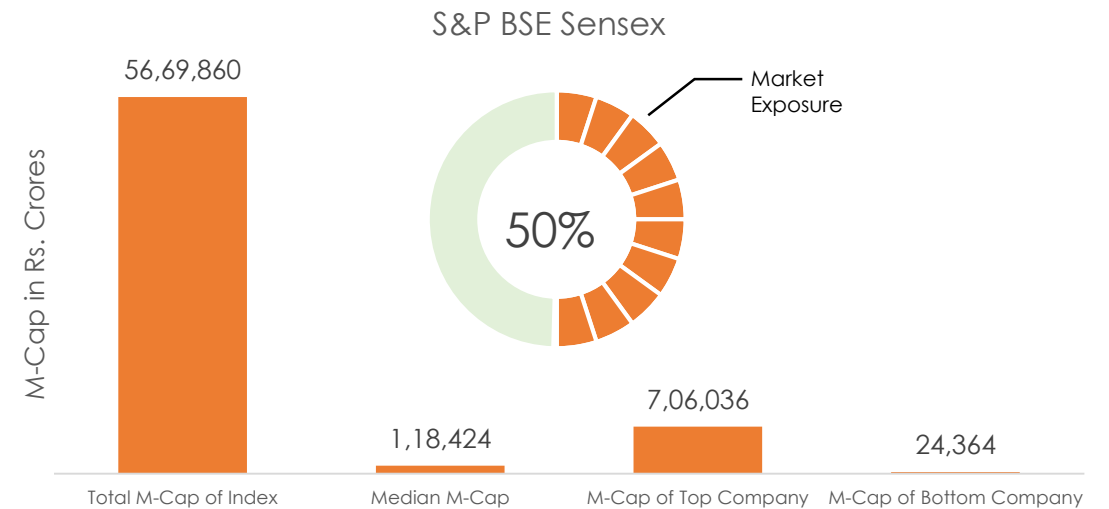
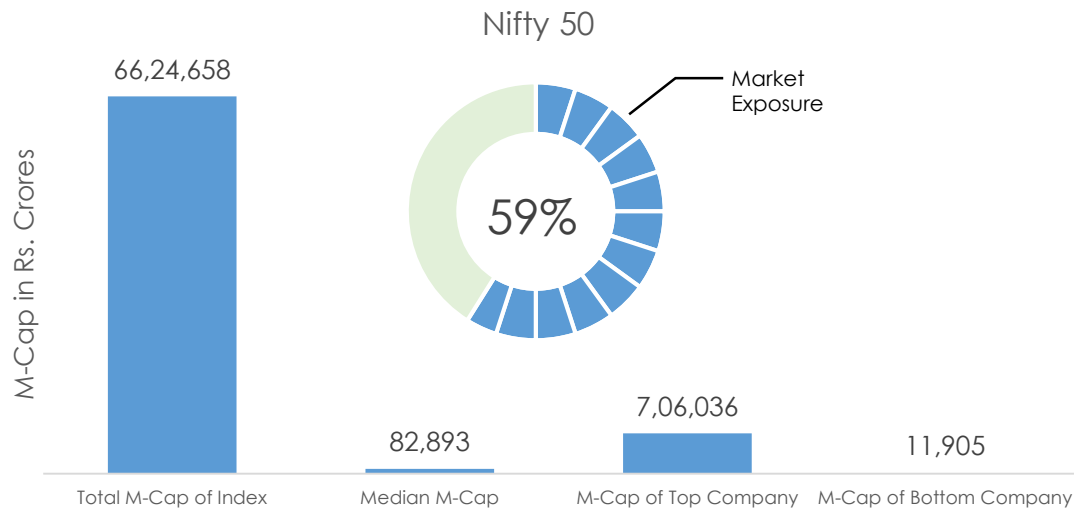
Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 28, 2019. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

# About Indices - Attributes

Index	Nifty 50	S&P BSE Sensex	Nifty Next 50	S&P BSE Sensex Next 50
Broad Selection Criteria*	Top 50 companies by free float market capitalization (M-Cap)	Top 30 companies by free float M-Cap	Next 50 companies by M-Cap after Nifty 50 Index	Next 50 companies by M-Cap after S&P BSE Sensex 50 Index
Number of Constituents	50	30	50	50
Launch Date Base Date	April 22, 1996 November 03, 1995	January 1, 1996 April 3, 1979	December 24, 1996 November 04, 1996	February 27, 2017 December 16, 2005
Re-balance	Semi-Annual (January and July)	Semi-Annual (June and December)	Semi-Annual (January and July)	Semi-Annual (June and December)
Index Provider	NSE Indices, subsidiary of National Stock Exchange of India (NSE) Limited	Asia Index Private Limited, joint venture between S&P Dow Jones Indices LLC & BSE Ltd	NSE Indices, subsidiary of National Stock Exchange of India (NSE) Limited	Asia Index Private Limited, joint venture between S&P Dow Jones Indices LLC & BSE Ltd

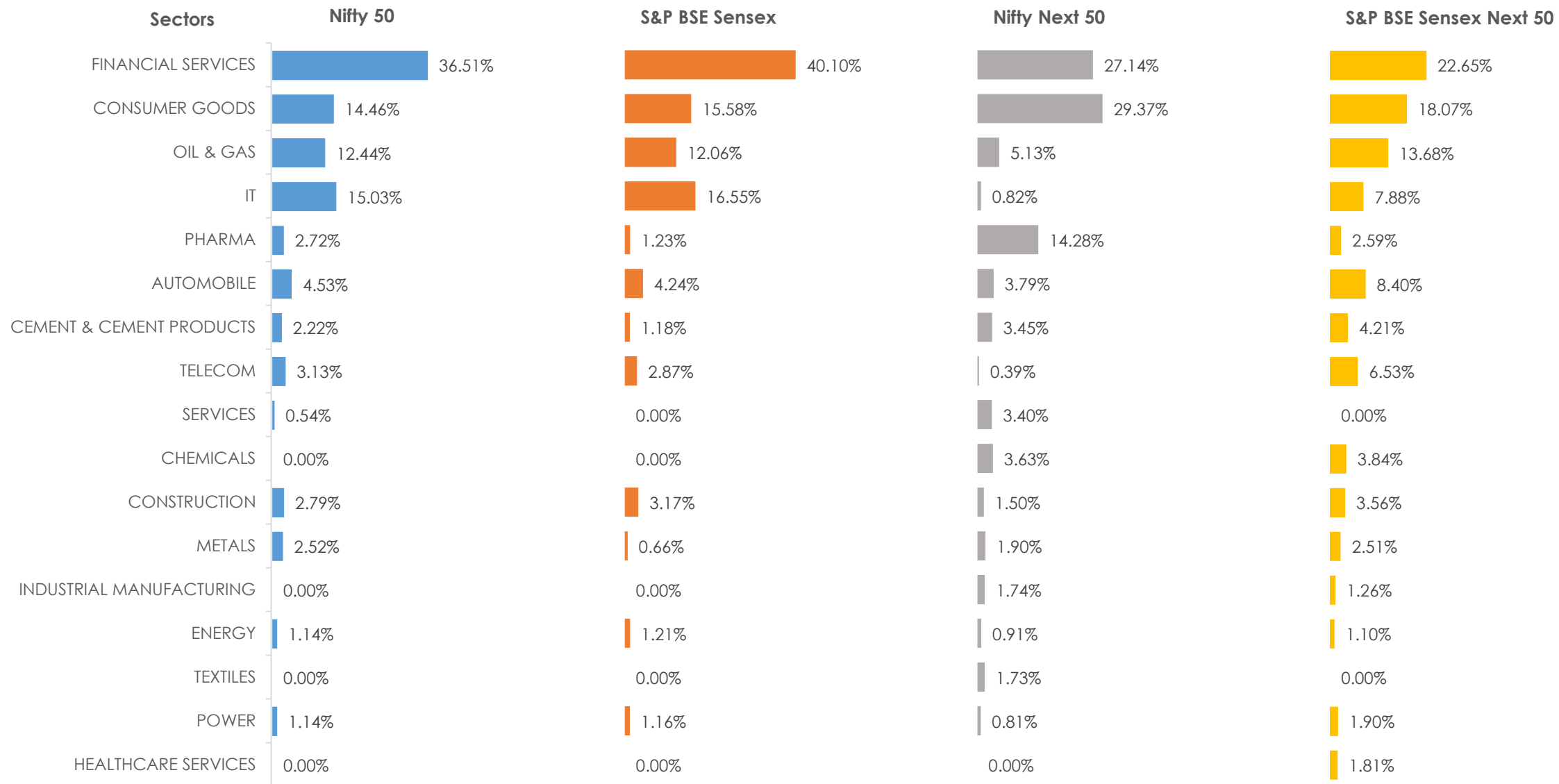
Source: [www.niftyindices.com](http://www.niftyindices.com), [www.asiaindex.co.in](http://www.asiaindex.co.in) \* - Subject to other selection criteria defined under index construction methodology.

# About Indices – Sector Weight



\$ - Data as on Mar 31, 2020. Source: [www.niftyindices.com](http://www.niftyindices.com), [www.asiaindex.co.in](http://www.asiaindex.co.in) Bloomberg. The Sectors referred in this literature are not an endorsement by the Mutual Fund and AMC of their soundness or a recommendation to buy or sell at any point of time. These are only for reference purpose.

# About Indices – Market Capitalization (M-Cap)

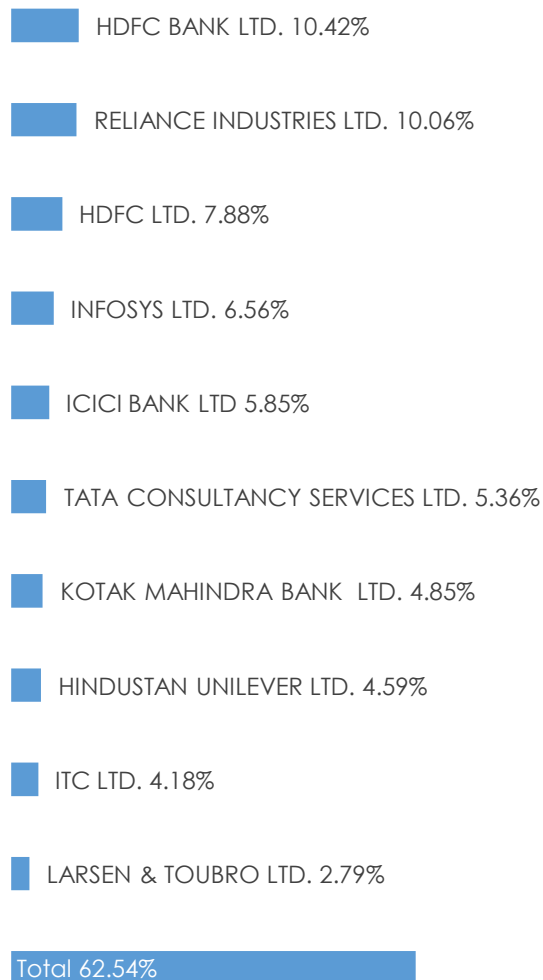


\$ - Data as on Mar 31, 2020. Source: Bloomberg. Data based on Total Market Capitalization of companies. As on Mar 31, 2020 in Nifty 50 and S&P BSE Sensex index, top and bottom companies are same. % Market Exposure = Total Market Cap of Index / Market cap of all listed companies in National Stock Exchange Limited (NSE)

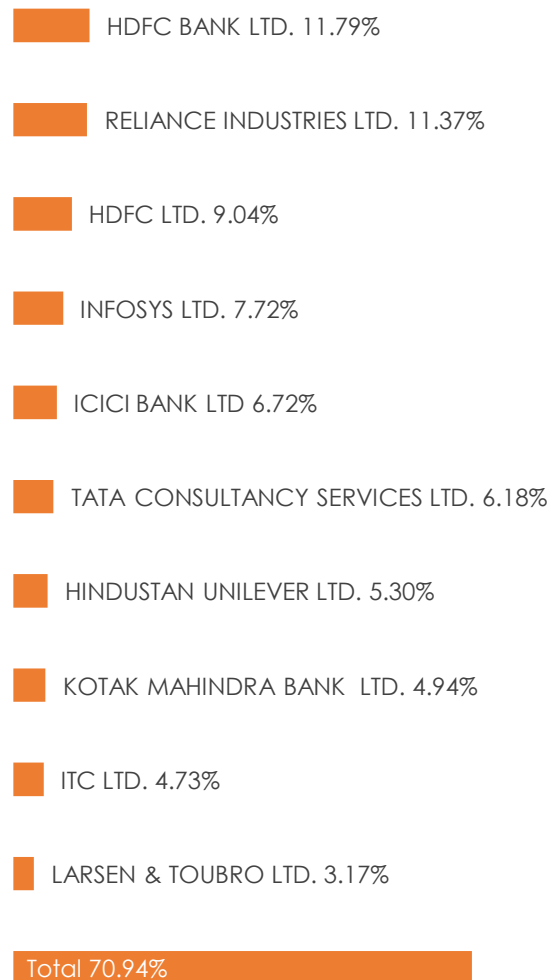


# About Indices – Top 10 Stock Weights

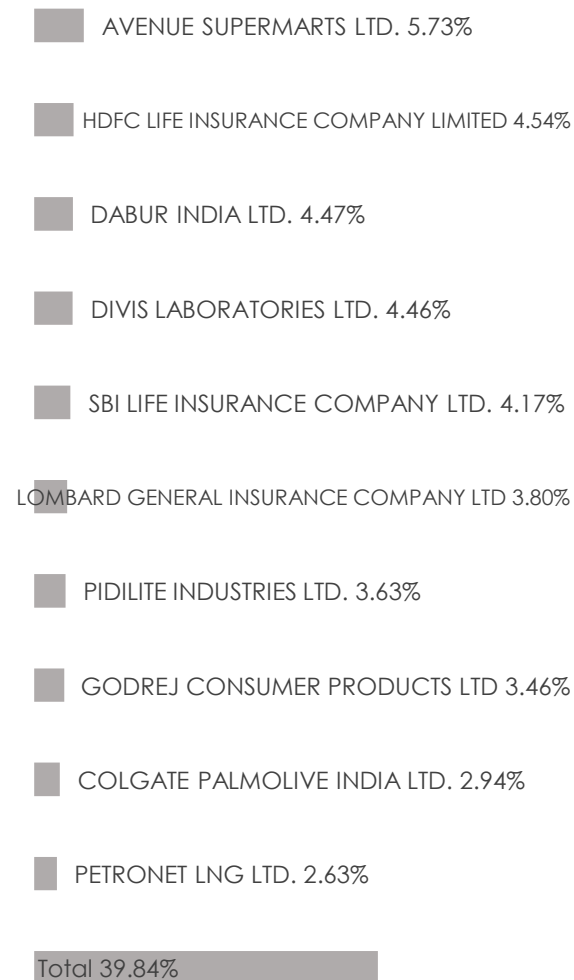
## Nifty 50



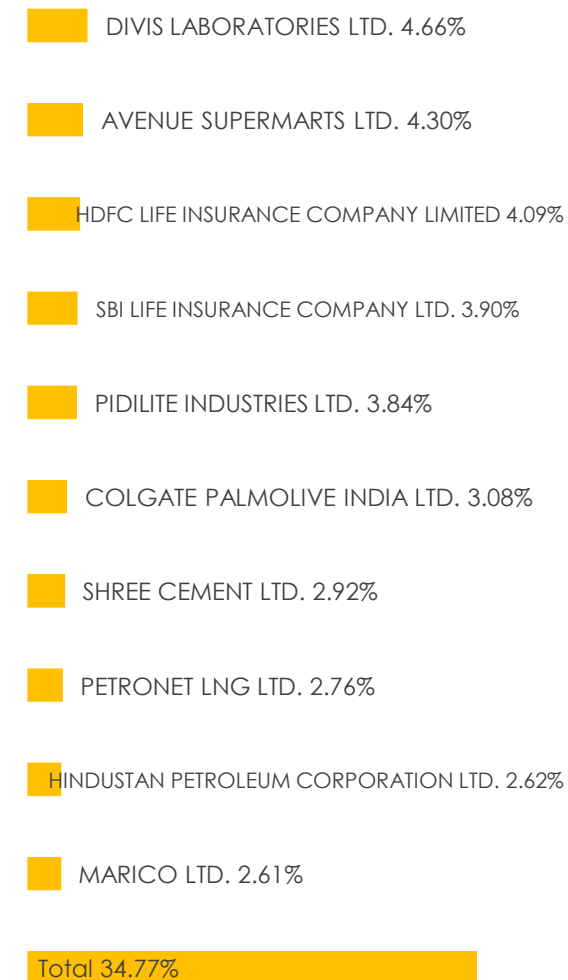
## S&P BSE Sensex



## Nifty Next 50



## S&P BSE Sensex Next 50

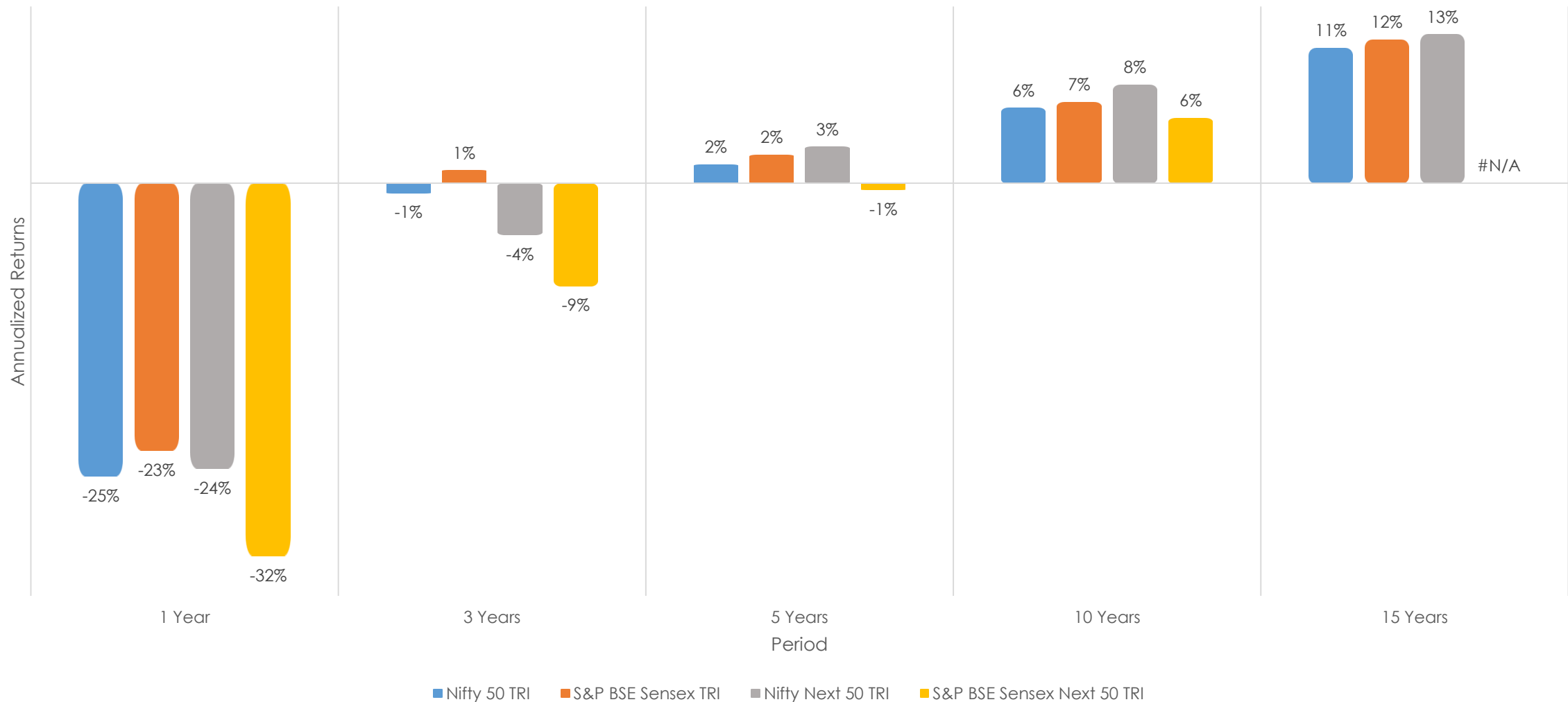


\$ - Data as on Mar 31, 2020. Source: [www.niftyindices.com](http://www.niftyindices.com), [www.asiaindex.co.in](http://www.asiaindex.co.in) Bloomberg. The Stocks referred in this literature are not an endorsement by the Mutual Fund and AMC of their soundness or a recommendation to buy or sell these stocks at any point of time. The name of companies are only for reference purpose.



Haq, ek behtar zindagi ka.

# Total Return Index Comparison – Annualized Returns

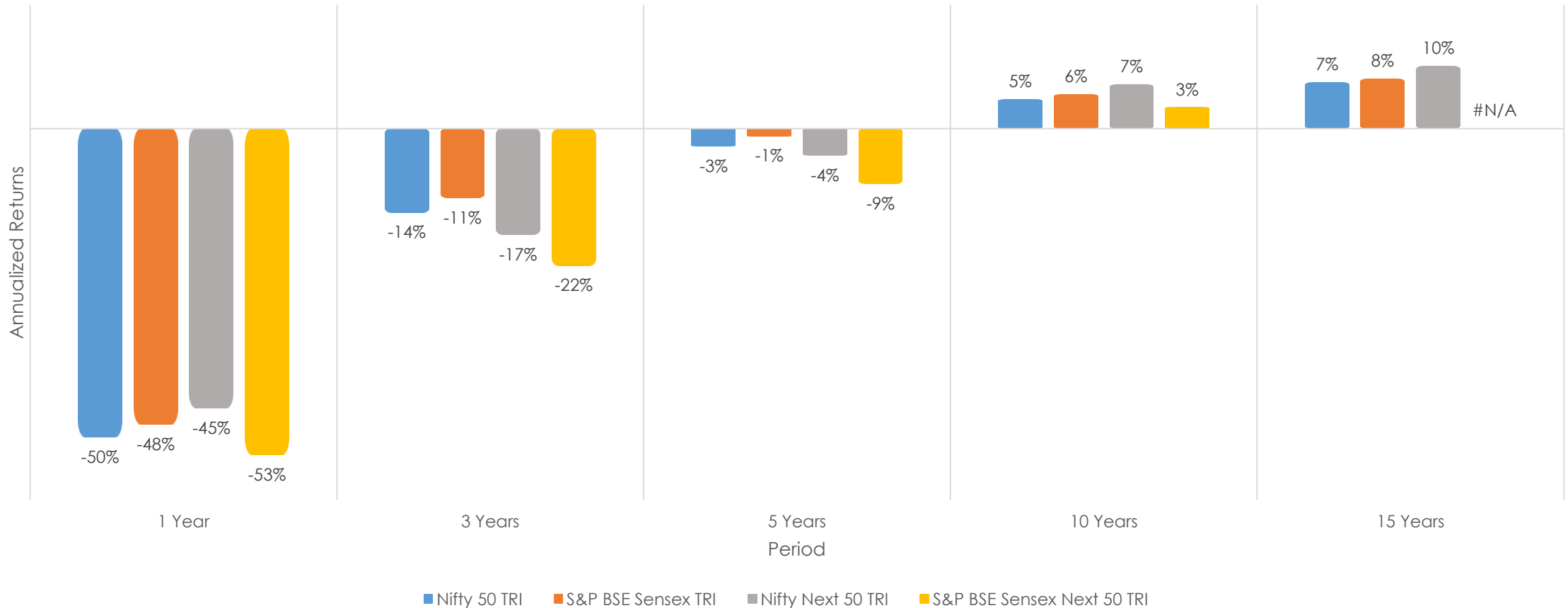


Data as on Mar 31, 2020. Total Return Index (TRI) consider the dividend issued by companies forming part of Index. TRI Value Source: [www.niftyindices.com](http://www.niftyindices.com). [www.asiaindex.co.in](http://www.asiaindex.co.in) Returns are calculated considering last working day of the month. Investors can not invest directly in to an index. However they can expect similar returns using ETF or Index Fund, subject to tracking error and cost. Returns over one year are of compounded annualized growth rate (CAGR). #N/A = Data not available for the period. Performance is based on the Base Date of Indices as mentioned in slide on Index Attributes.



Haq, ek behtar zindagi ka.

# Total Return Index Comparison – Monthly Investment Returns

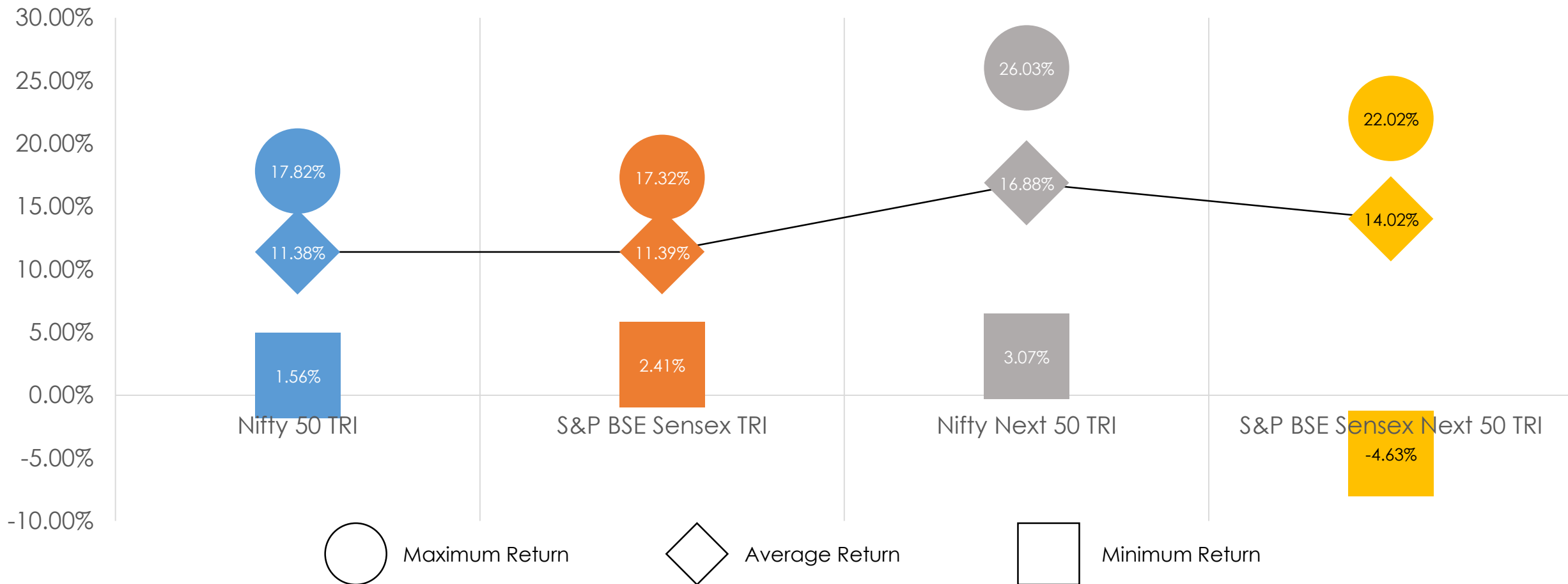


Data as on 31<sup>st</sup> March 2020. Returns are calculated considering last working day of the month. In case of monthly investment, we have assumed Rs.10,000 invested at month end closing price of total return index. Monthly return is calculated considering RATE() function in MsExcel. Such monthly return is annualized. Investors can not invest directly in to an index. However they can expect similar returns using ETF or Index Fund, subject to tracking error and cost. TRI Value Source: [www.niftyindices.com](http://www.niftyindices.com). [www.asiaindex.co.in](http://www.asiaindex.co.in). Performance is based on the Base Date of Indices as mentioned in slide on Index Attributes. Returns over one year are of compounded annualized growth rate (CAGR)

# Total Return Index Comparison – Rolling Returns

## 5 Years Annualized Return, Rolled Over on Monthly Basis

(60 Monthly Return Data Points)



Data as on Mar 31, 2020. Returns are calculated considering last working day of the month. First 5 Year Return is calculated from April 30, 2010 to April 30, 2015. Such returns are rolled over up to Mar 31, 2020. Average of these data points are mentioned in diamond. The maximum return out of these data points is mentioned in circle. The minimum return out of these data point is mentioned in square. Closing Value Source: [www.niftyindices.com](http://www.niftyindices.com) Performance is based on the Base Date of Indices as mentioned in slide on Index Attributes. Returns over one year are of compounded annualized growth rate (CAGR)

# ETFs vs Index Funds – Major Differences

- ETFs and Index Funds, both can be used for Investing in an Index.
- Both are very similar from fund management perspective.
- Major Differences:

Features	Exchange Traded Funds (ETFs)	Index Funds
Net Asset Value (NAV)	Real Time	End of the day
Liquidity Provider <sup>@</sup>	Authorised Participants (APs) on stock exchange + Fund itself	Only by Fund
Portfolio Disclosure	Daily	Monthly
Intraday Trading	Possible if investor has required inventory of units	Not possible
Cost effectiveness	Each investor bears their own transaction cost	Transaction costs are spread across the fund
Holding format	Compulsory in Demat form	Physical + Demat
Investment decision	Controlled by investor as investor can suggest the price/NAV at which they want to transact	Not applicable

<sup>@</sup> - In case of ETFs the Scheme offers units for subscription / redemption directly with the Mutual Fund in multiple of creation unit size to Authorized Participants / Large Investors only. Investor can buy/sell ETF units in cash segment on secondary market of exchanges where it is listed in multiple of 1 unit. AMC may appoint APs for providing liquidity on exchanges. Please read scheme related documents for "creation unit size"

# ETFs vs Index Funds – How to transact?



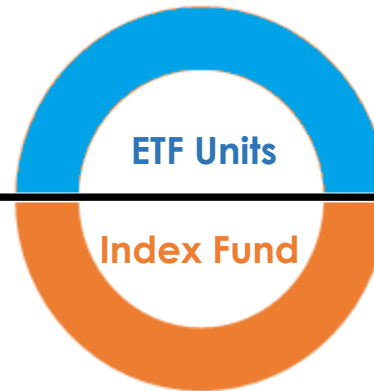
Investor can get in touch with their stock broker or sub-broker to buy/sell ETFs through their broking account, similar to transacting in a stock.



Stock Exchanges



ETF units can be held only in dematerialized (demat) form. The holding is reflected in demat statement available with demat participants where demat account is maintained



Investor can get in touch with AMC or IFA/RIA/Distributor etc., to buy/sell Index Fund similar to transacting in traditional open-ended mutual fund scheme

Index Fund units can be held in digital or dematerialized form. In case of digital holding, investor can get statement of account from AMC or its Registrar and Transfer Agent.



Fund House



Additionally ETFs can be bought/sold through Asset Management Companies (AMCs) in multiple of creation unit size.

# How ETF works?

Secondary Market

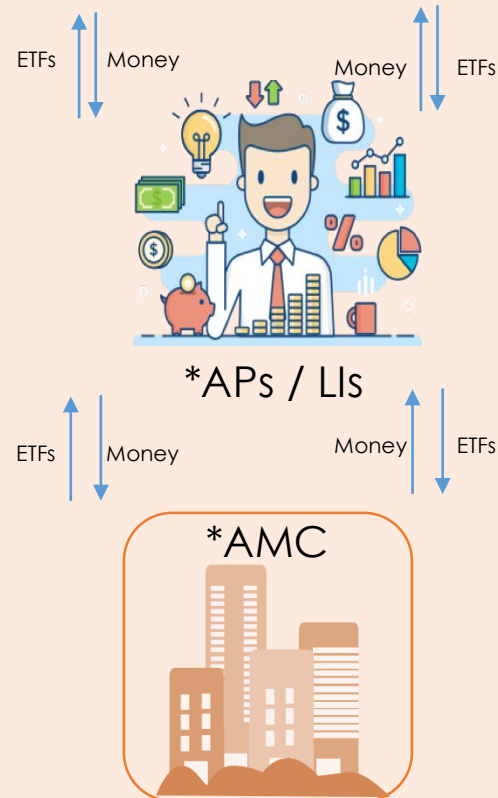


ETFs are traded on exchange just like a normal stock

Various investors, buying & selling ETF units on stock exchanges, creates natural liquidity.

Generally, all trading and settlement rules applicable to a stock, are also applicable to ETFs.

Primary Market



AMCs appoint Authorized Participants (APs) to provide additional liquidity.

When there is high demand of units on exchanges, APs create units from AMCs and sell these units on exchanges.

When there is high supply of units on exchanges, APs buy units on exchanges and redeem these units with AMCs.

\* AP – Authorized Participant. LIs – Large Investors. AMC – Asset Management Company

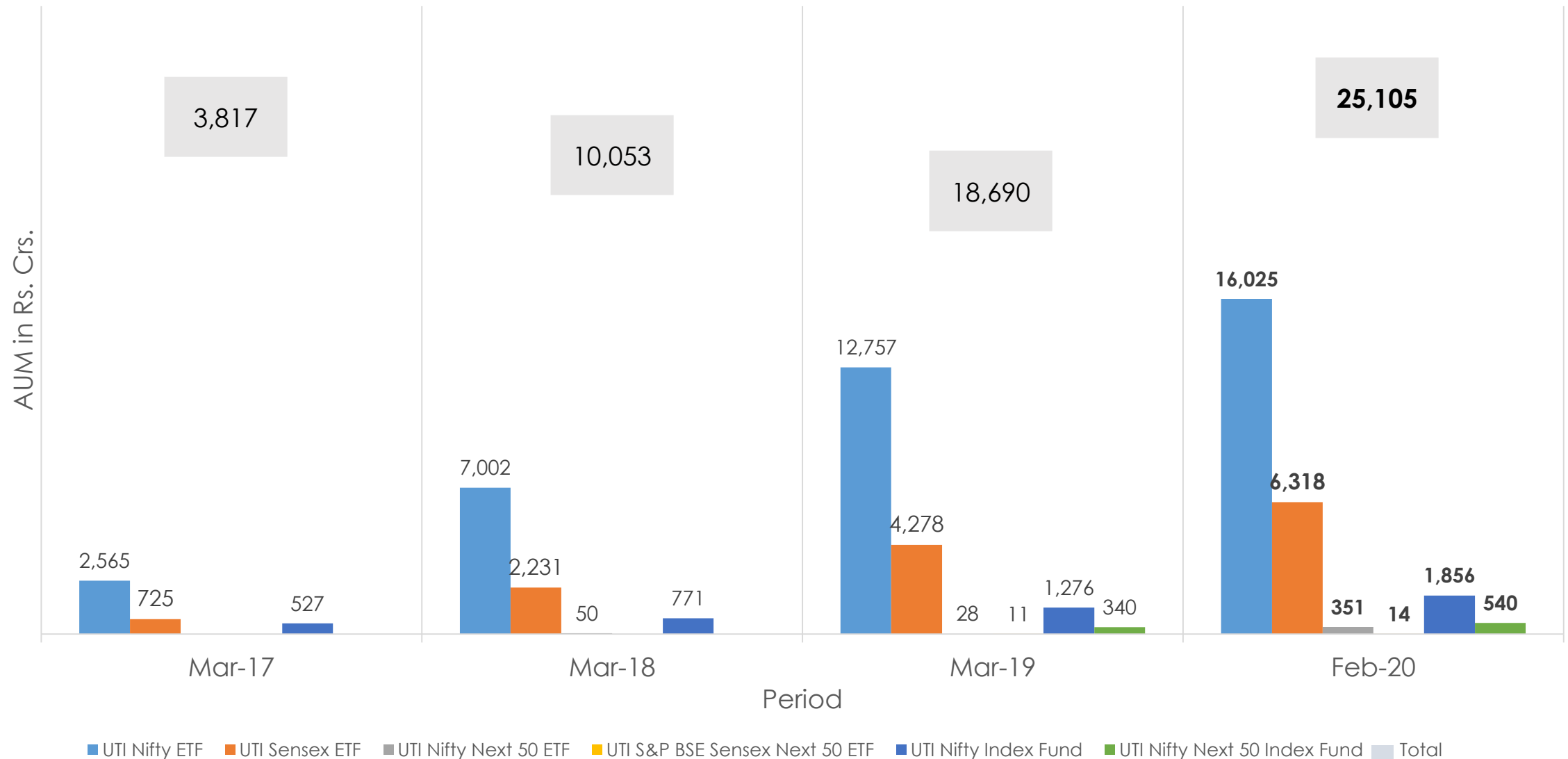
# UTI Offerings for Index Investment

Scheme	UTI Nifty ETF	UTI Sensex ETF	UTI Nifty Next 50 ETF	UTI S&P BSE Sensex Next 50 ETF	UTI Nifty Index Fund	UTI Nifty Next 50 Index Fund
Type	ETF	ETF	ETF	ETF	Index Fund	Index Fund
Underlying Index	Nifty 50	S&P BSE Sensex	Nifty Next 50	S&P BSE Sensex Next 50	Nifty 50	Nifty Next 50
Plans & Options Available <sup>@</sup>	NA	NA	NA	NA	Plans: Regular & Direct Options: Growth & Dividend	Plans: Regular & Direct Options: Growth
Annual Expense Ratio*	0.06%	0.06%	0.15%	0.21%	Direct: 0.10% Regular: 0.17%	Direct: 0.27% Regular: 0.86%
Unit Creation Size	5,000 Units	2,000 Units	10,000 Units	15,000 Units	NA	NA
Entry & Exit Load*	NIL	NIL	NIL	NIL	NIL	NIL

#Net asset value (NAV) in relation to index value may differ due to dividend & expense. \* As on Mar 31, 2020. @ Under UTI Nifty Index Fund & UTI Nifty Next 50 Index Fund in addition to regular, there is a direct plan. Under UTI Nifty Index Fund both Plan offers Growth, Dividend Payout and Dividend Reinvestment Options. Under UTI Nifty Next 50 Index Fund only Growth Option is available. For more details please read Scheme Information Document.



# Asset Under Management (AUM)



\* Month End Asset Under Management (AUM). Source: MFI Explorer.

# Tracking Error

Scheme (Inception Date)	1 Year	3 Years	5 Years	Since Inception
UTI Nifty ETF (01/09/2015)	0.19%	0.11%	NA	0.16%
UTI Sensex ETF (01/09/2015)	0.02%	0.04%	NA	0.13%
UTI Nifty Next 50 ETF (04/08/2017)	0.25%	NA	NA	0.22%
UTI S&P BSE Sensex Next 50 ETF (08/03/2019)	NA	NA	NA	1.13%
UTI Nifty Index Fund Direct Plan (01/01/2013)	0.19%	0.15%	0.17%	0.18%
UTI Nifty Index Fund Regular Plan (14/02/2000)	0.19%	0.15%	0.17%	1.64%
UTI Nifty Next 50 Index Fund Direct Plan (28/06/2018)	0.32%	NA	NA	0.27%
UTI Nifty Next 50 Index Fund Regular Plan (28/06/2018)	0.31%	NA	NA	0.27%

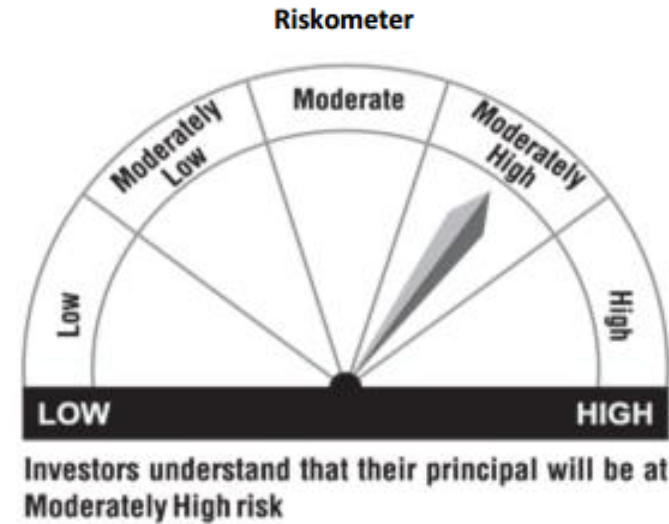
Data as on Mar 31, 2020. Under UTI Nifty Index Fund & UTI Nifty Next 50 Index Fund in addition to regular, there is a direct plan. Under UTI Nifty Index Fund both Plan offers Growth, Dividend Payout and Dividend Reinvestment Options. Under UTI Nifty Next 50 Index Fund only Growth Option is available. For more details please read Scheme Information Document. Tracking Error is calculated by considering standard deviation of daily difference between return of the scheme and its respective total return index. 250 days are assumed for annualizing tracking error. NA= Scheme has not completed the period.

# Product Label

## UTI Nifty ETF

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

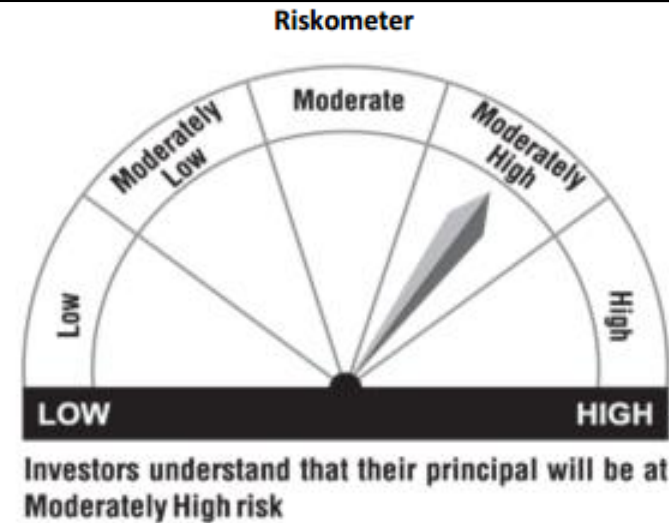
- long term investment
- Investment in securities covered by Nifty 50 Index



## UTI Sensex ETF

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

- long term investment
- Investment in securities covered by S&P BSE Sensex Index



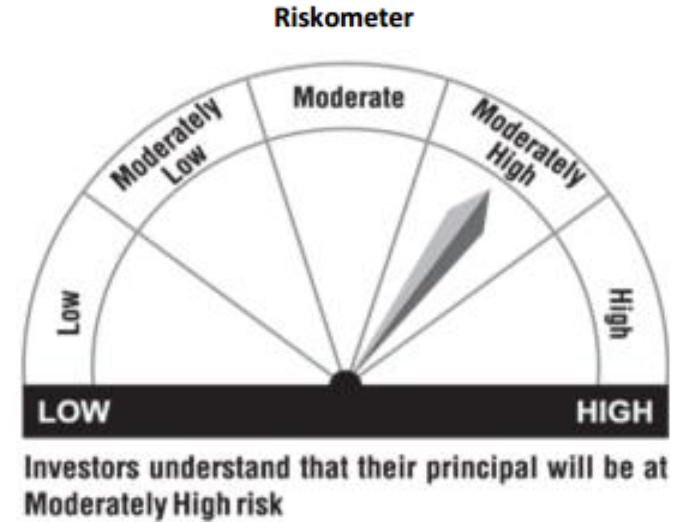
\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

# Product Label

## UTI Nifty Next 50 ETF

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

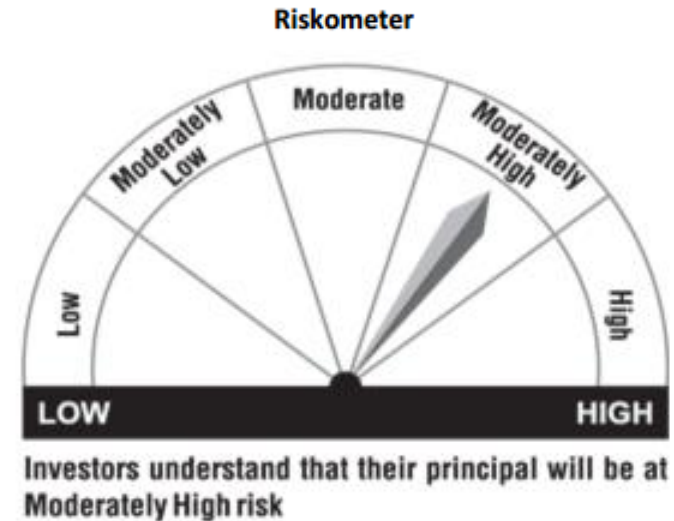
- long term investment
- Investment in securities covered by Nifty Next 50 Index



## UTI S&P BSE Sensex Next 50 ETF

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

- long term investment
- Investment in securities covered by S&P BSE Sensex Next 50 Index



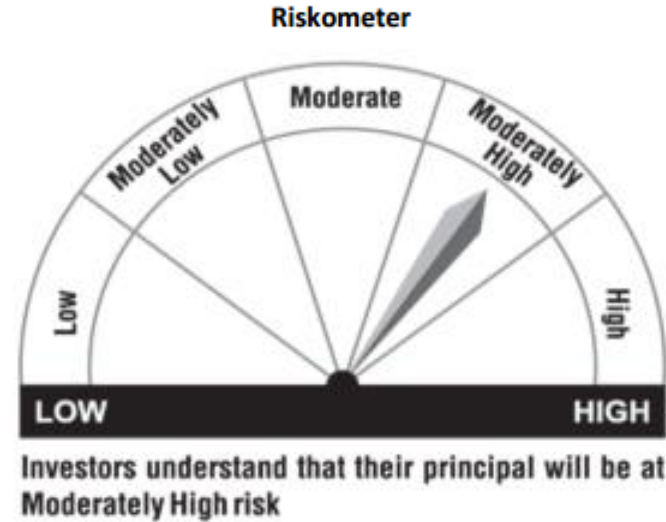
\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

# Product Label

## UTI Nifty Next 50 Index Fund

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

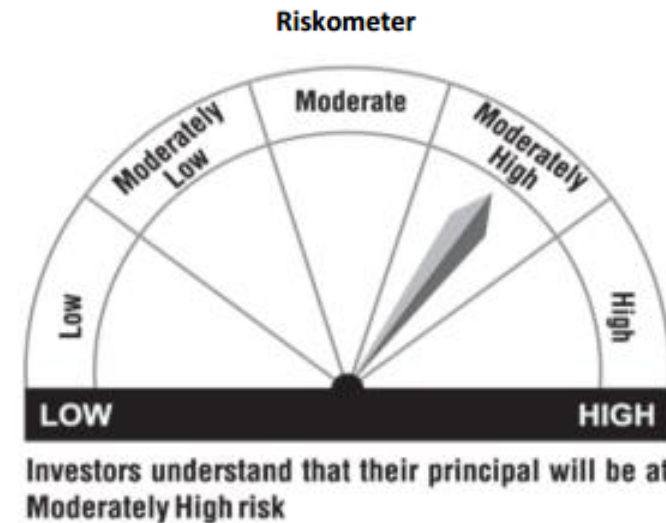
- Capital growth in tune with the index returns
- Passive investment in equity instruments comprised in Nifty Next 50 Index



## UTI Nifty Index Fund

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

- Capital growth in tune with the index returns
- Passive investment in equity instruments comprised in Nifty 50 Index



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

**REGISTERED OFFICE:** UTI Tower, 'GN' Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400051. Phone: 022 – 66786666. UTI Asset Management Company Ltd (Investment Manager for UTI Mutual Fund) Email: invest@uti.co.in . (CIN-U65991MH2002PLC137867). For more information, please contact the nearest UTI Financial Centre or your AMFI/NISM certified UTI Mutual Fund Independent Financial Advisor (IFA) for a copy of the Statement of Additional Information, Scheme Information Document and Key Information Memorandum cum Application Form.

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