SAMCO MUTUAL FUND

Samco Dynamic Asset Allocation Fund

(An open-ended dynamic asset allocation fund)

Built on the **TRANSFORMER** model

NFO Opens on **07/12/23**

NFO Closes on **21/12/23**

Powered by Distinctive Pattern Strategies

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Table of Content

Indian investing landscape through Mutual Fund Lens

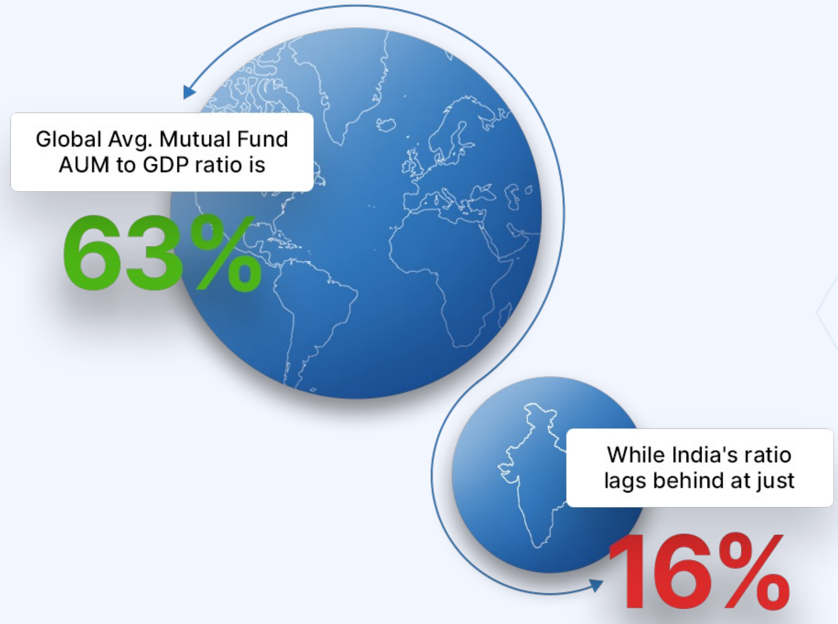
Mutual Fund AUM to GDP comparison

India's Mutual Fund industry saw a phenomenal growth in last decade.

The AUM of the Indian MF Industry has grown from Rs. 7.46 lakh crores as on September 30, 2013 to Rs. 46.58 lakh crores as on September 30, 2023 i.e. more than **6-fold increase** in a span of 10 years.

However, even with this growth, our MF AUM to GDP ratio stands at a meagre 16% vs. developed nations.

India being the fifth largest economy of the world, is still far behind World's average of MF AUM to GDP ratio which stands at 63%.



Source: World Bank, SamcoMF internal research.

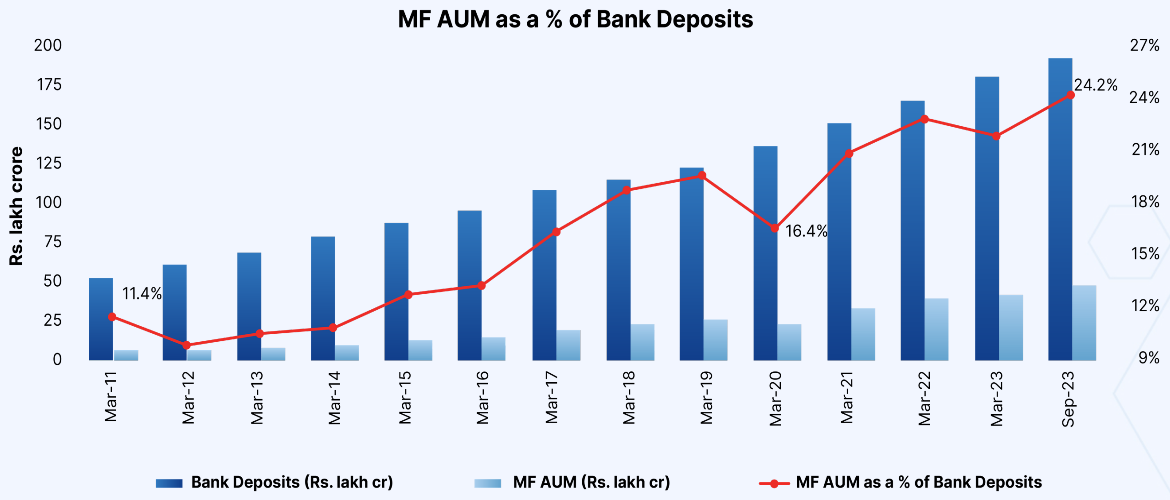
Bank Deposits have a lion's share

Even when we compare MF AUM as percentage of Bank deposits, it stands at ~24%.

To put it in context, total MF AUM is around Rs. 48 lakh crores whereas the deposits in bank weighs around Rs. 200 lakh crores.

This when compared to a developed countries is way lower where majority of investments are through mutual funds.

BANK DEPOSITS TAKES THE LION'S SHARE for majority of the Indian household.



Source: RBI for Bank Deposits, AMFI for AUM

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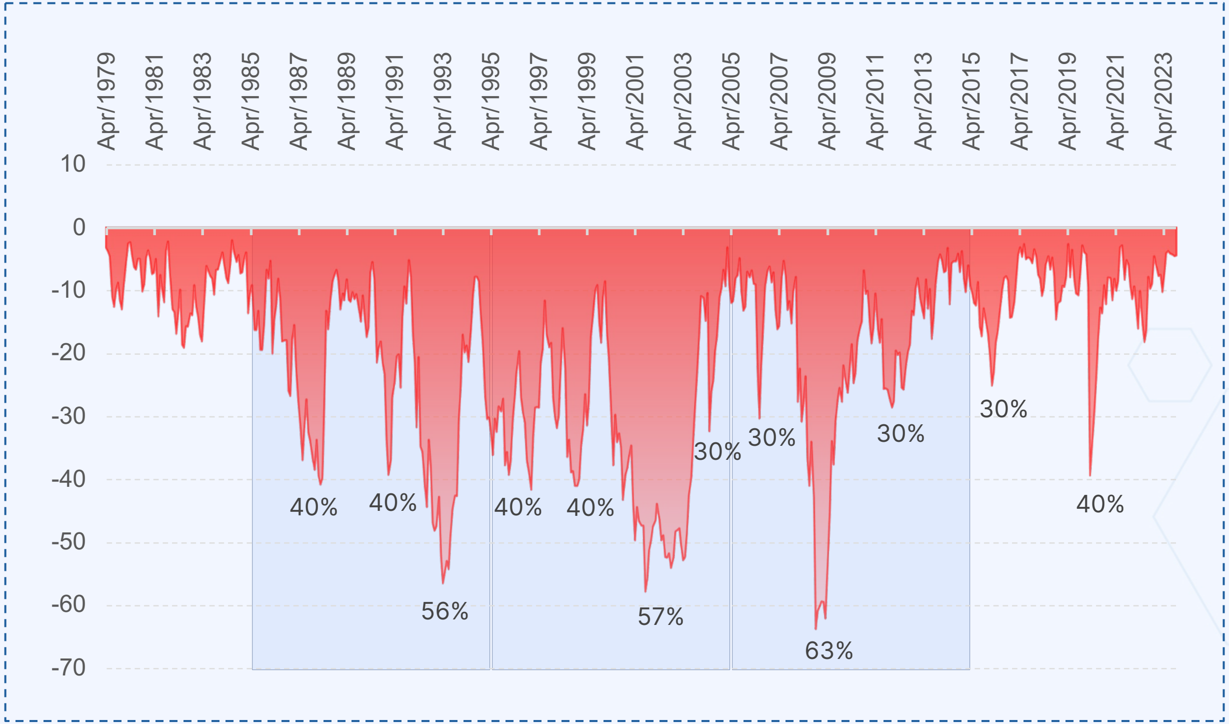
Why so?

Bank deposits are preferred way of investment for Indians households -- single reason being deep sense of safety and security about the money being available when the need arises, especially during bad times.

Fear Of Losing Money - Prime reason to NOT invest in mutual funds. 😱

Sensex – Drawdown of over 25% on an average every 3.5 years!

SENSEX, on an average, has declined around 25-30% in every 3.5-4 years and nearly 50% every decade.

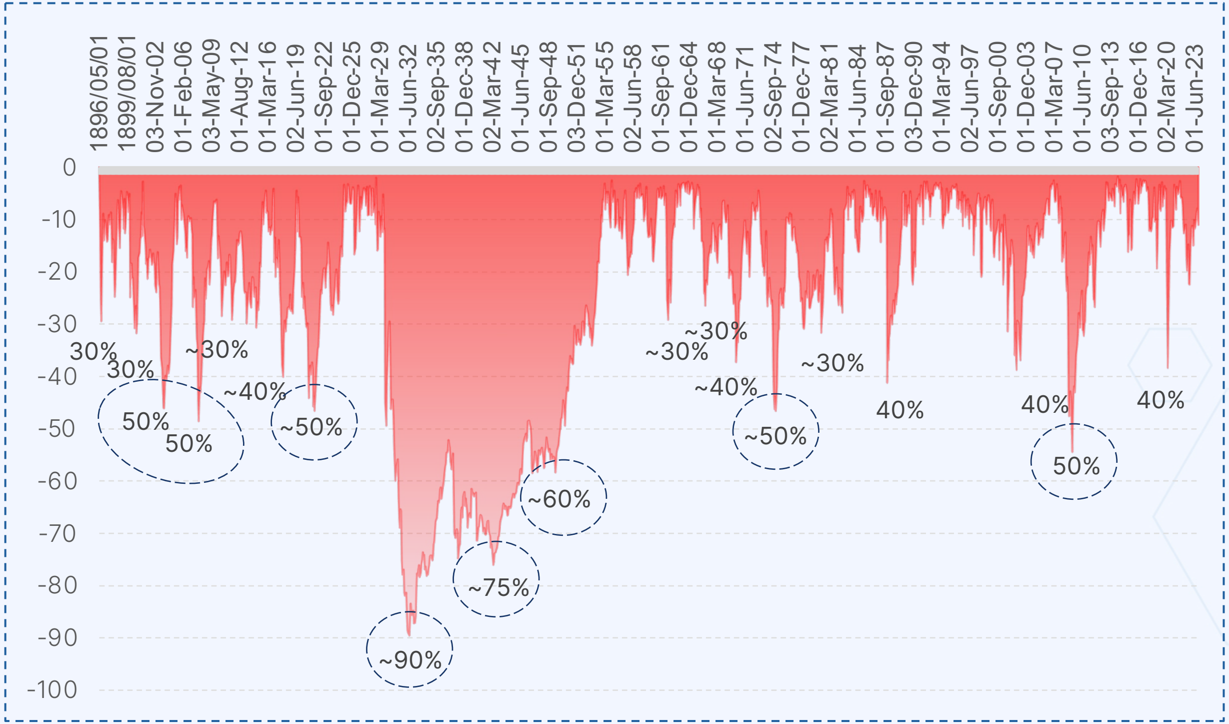


Source: TradingView. BSE Sensex drawdown for the period April 1979 to April 2023. Past performance may or may not sustained in the future.

Dow Jones Industrial Average (DJIA) - Drawdown of over 25% on an average every 6.7 years since 1896!

Even DJIA - one of the oldest and most followed equity indexes across the globe, also represents a similar trend.

Therefore, volatility is a feature of market that cannot be ignored but must be wisely managed.



Source: TradingView. DIJA drawdown for the period May 1896 to September 2023. Past performance may or may not sustained in the future.

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Birth of Hybrid Category in Mutual Fund & the NOW

Birth of Hybrid Category in Mutual Fund and the NOW

Mutual Fund industry tried to solved this problem

Investors' apprehension about equity was mitigated by the birth of Equity : Debt (hybrid) mutual fund category

Indian hybrid mutual fund products were designed by tweaking famous 60/40 (equity : debt) portfolio

Aggressive hybrid mutual fund designed the portfolio with ~65% equity and ~35% debt to provide equity taxation

However, the aggressive hybrid mutual fund category could not solve a fundamental problem

The fundamental problem!!

A portfolio with ~65% equity exposure would still wipe out 40% of the capital if the markets fall by ~60%.

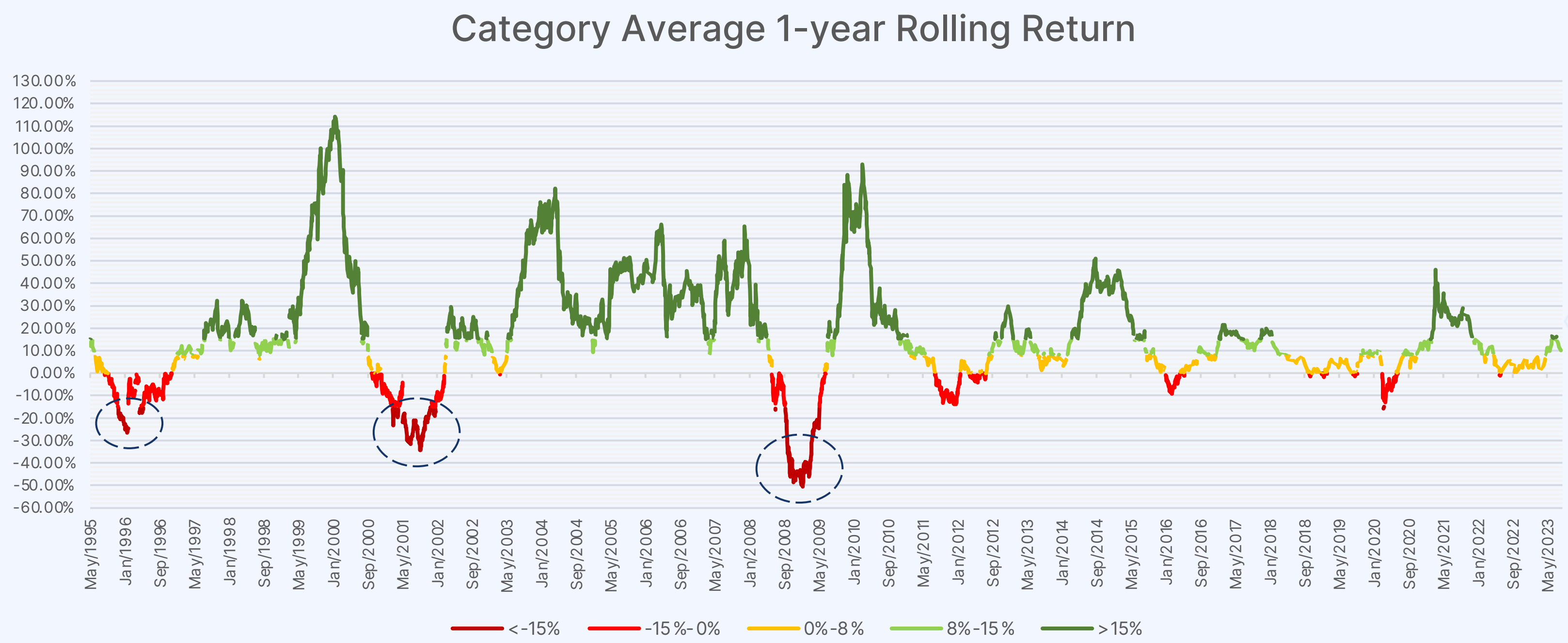
So the portfolio may fall as steep as 60% but will fall ~40% which would be sufficient to keep Indian households and investors at bay from investing via mutual funds.

60% multiplied with 0.6

36% Drawdown!

Over one-third of your capital is wiped off for now!

1-year rolling returns of category average – Exactly what *investors don't want*



Source: Morningstar. Data for the period May 1995 to September 2023. Past performance may or may not sustained in the future.

Core reason for category average return

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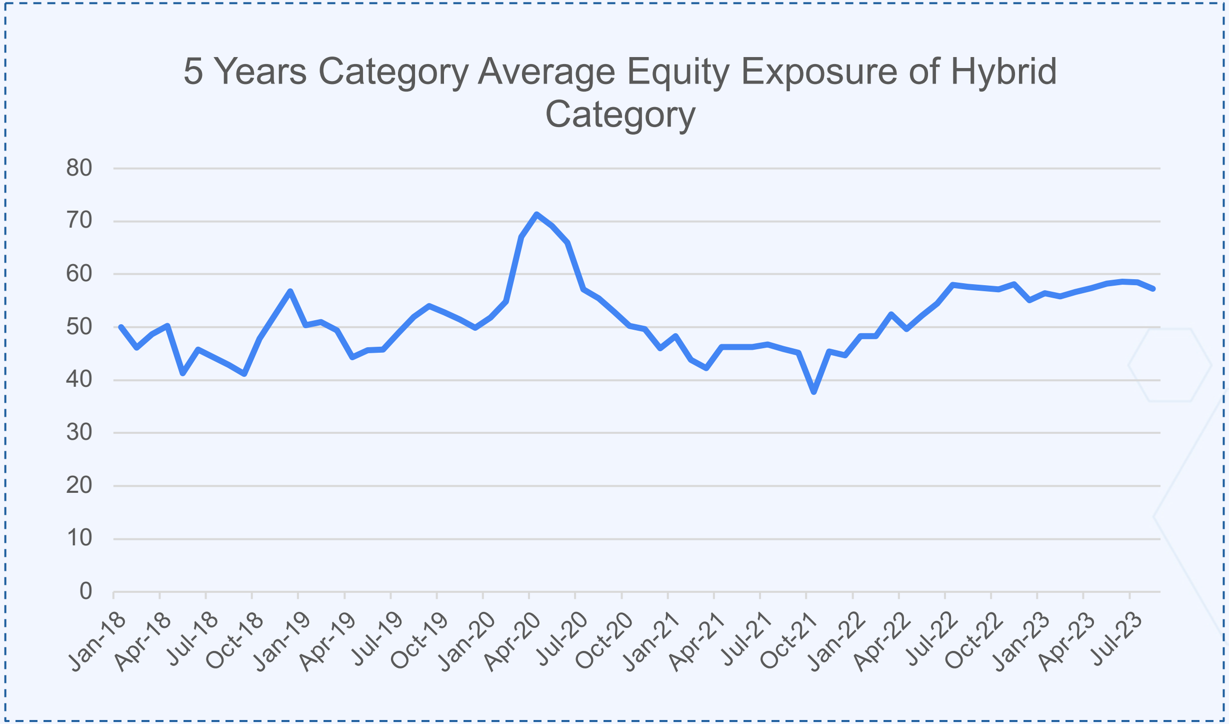
Equity allocation is mostly static between 50%-60%

The most important reason for a drawdowns in Hybrid Category is because of near static equity allocation.

Static allocation of equities in a fund of Hybrid Category gives it a color of any other equity managed fund.



Source: Morningstar

What do people expect from hybrid categories like BAF / DAAF?

Return

Higher return than debt instruments and traditional savings schemes.

Risk

Moderate Risk - Comparatively lower risk than investing directly in equity market.

Return of Capital

Should be able to redeem in times of need.

Understanding the mindset of investors investing in the hybrid category

Traditional Savings se thoda jyaada mil jaaye toh bhi theek hai

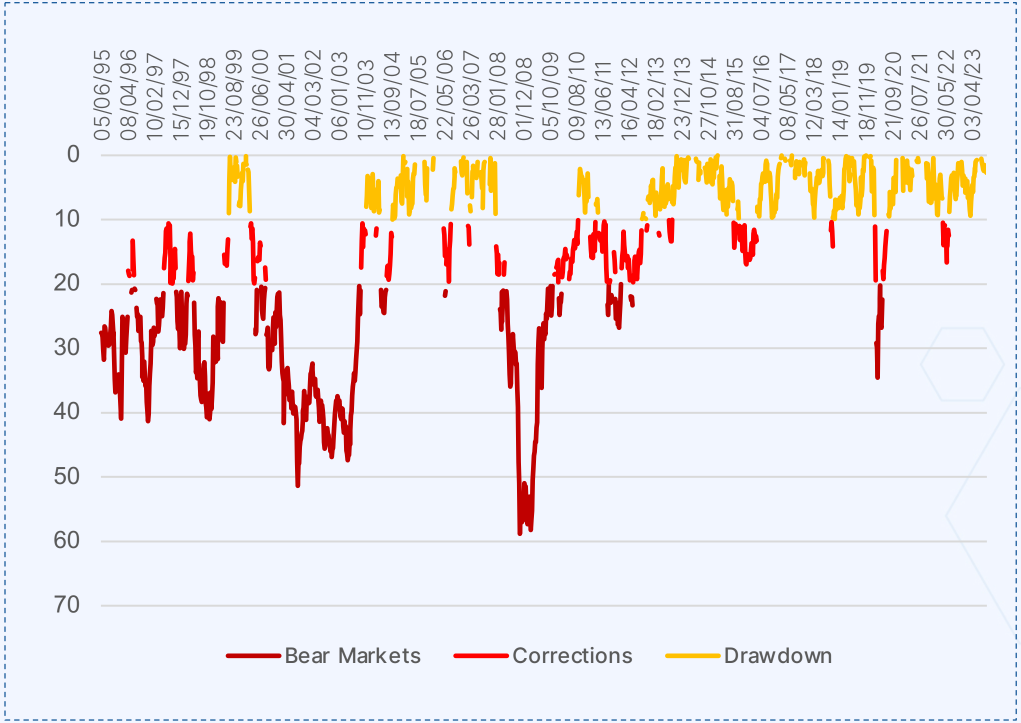
Higher Drawdown nahi jhel sakte hum

Therefore, categories like BAF / DAAF are recommended

But what really happens?

What actually happens?

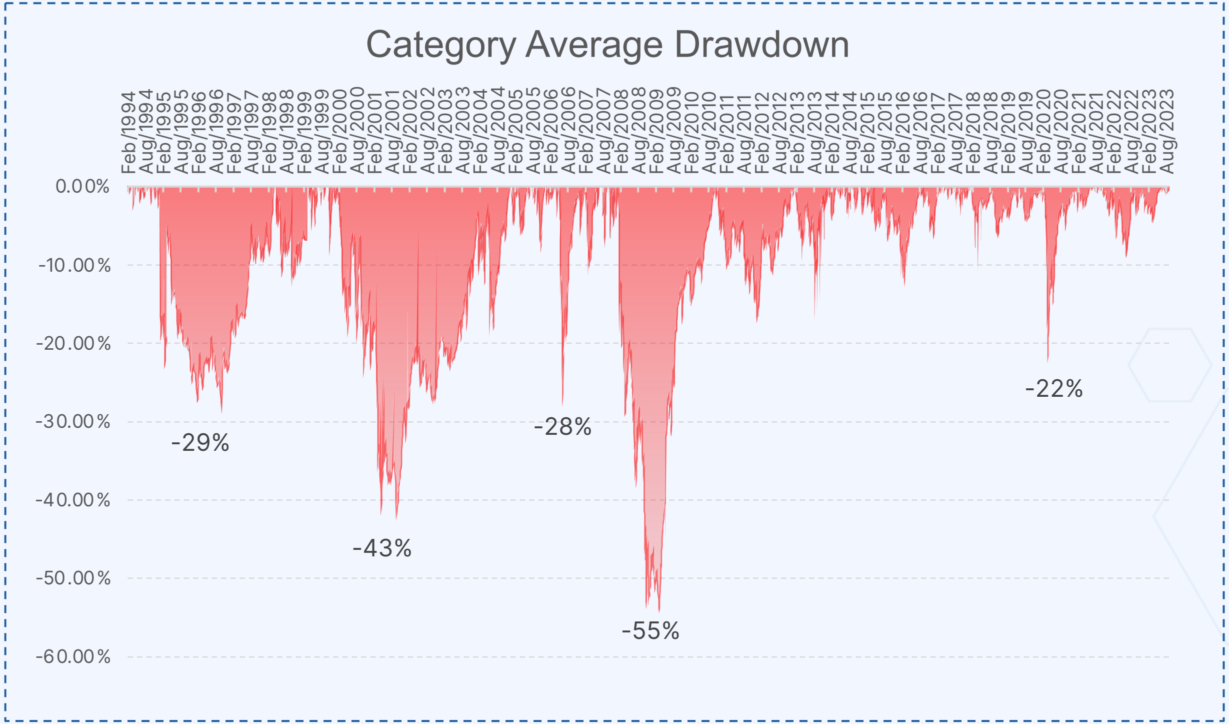
- Intended to increase equity allocation in falling markets (Valuation Model)
- Akin to catching falling knives
- All major drawdowns happen in falling markets and you never know how bad things can get and how low things can go!



Source: TradingView, BSE. Sensex drawdown for the period May 1995 to September 2023. Past performance may or may not sustained in the future.

And there are huge drawdowns as well

With static allocation in equities and adding more during falling markets is the root cause of sharp drawdowns which many times even mimic benchmark drawdowns.



Source: Morningstar. Data for the period February 1994 to September 2023. Past performance may or may not sustained in the future.

At SamcoMF

We are attempting to solve this unique problem

To achieve a reasonable return but with significantly low drawdowns so that people can have & use their money when they really want to.

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Introducing

Samco Dynamic Asset Allocation Fund

(An open-ended dynamic asset allocation fund)

Built on the **TRANSFORMER** model

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Samco Dynamic Asset Allocation Fund

During momentum & up-trending markets, this is a predominantly equity fund

Substantial equity exposure in trending markets aims to deliver capital appreciation

On escalation of risk, this transforms into a debt / arbitrage fund

Risk off mode protects downside

Introducing **Samco Dynamic Asset Allocation Fund**

A scheme that is designed for real time dynamic transformation based on market conditions.

Built using our proprietary TRANSFORMER model.

The Principle - Trend is your Friend. Sometimes there's no need to have equity exposure at all

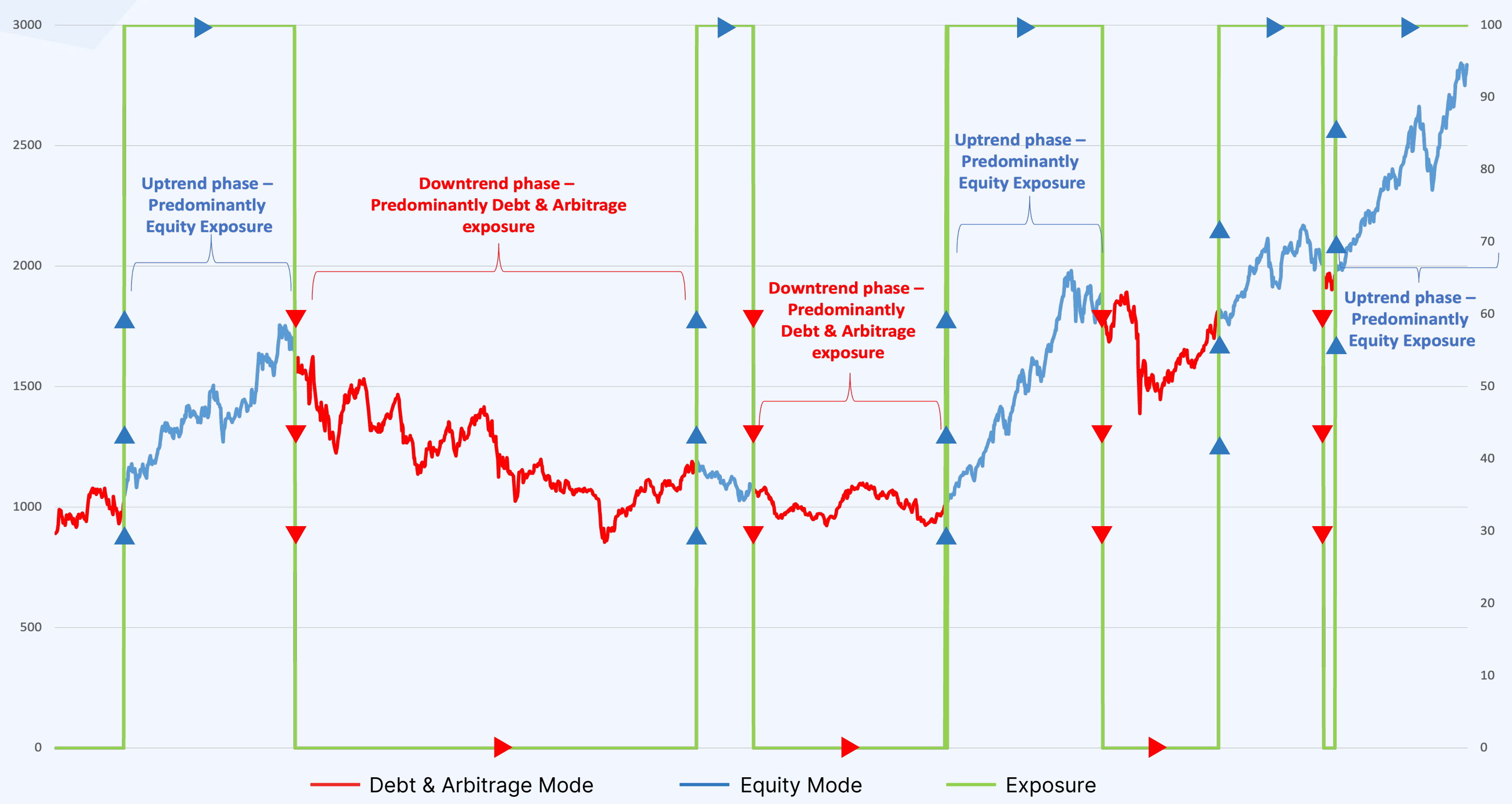
Holds Equity Allocation in Bull markets & uptrends

Completely transforms to a debt + arbitrage mode with no equity in bear markets to minimize downside.

MUTUAL FUND

EQUITY FUND IN UPTRENDS

DEBT & ARB IN DOWNTRENDS

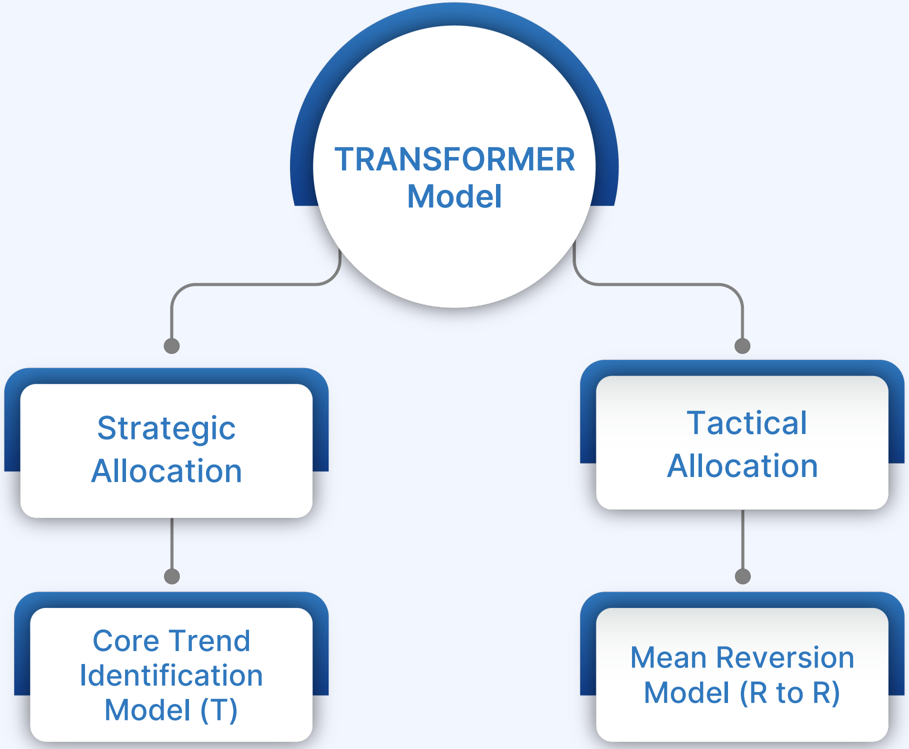


An illustration of how the TRANSFORMER model will move from Equity to Debt & Arbitrage Strategies

TRANSFORMER Model

- **T** – Trends in Equity Markets
- **R** – Rate Spread in Bond Yields
- **A** – Averages - SMA / EMA & deviation thereof
- **N** – Net new 52-week highs and lows
- **S** – Stock Price Breadth & Volumes
- **F** – Fed Funds Rates & Yield curve
- **O** – Options Volatility & VIX
- **R** – Relative Strength across Asset Classes & Securities
- **M** – Market Cap to GDP Valuations & Money Supply
- **E** – Equity Earnings Yields
- **R** – Rolling Returns on Trailing basis & Retail trading activity

TRANSFORMER Model



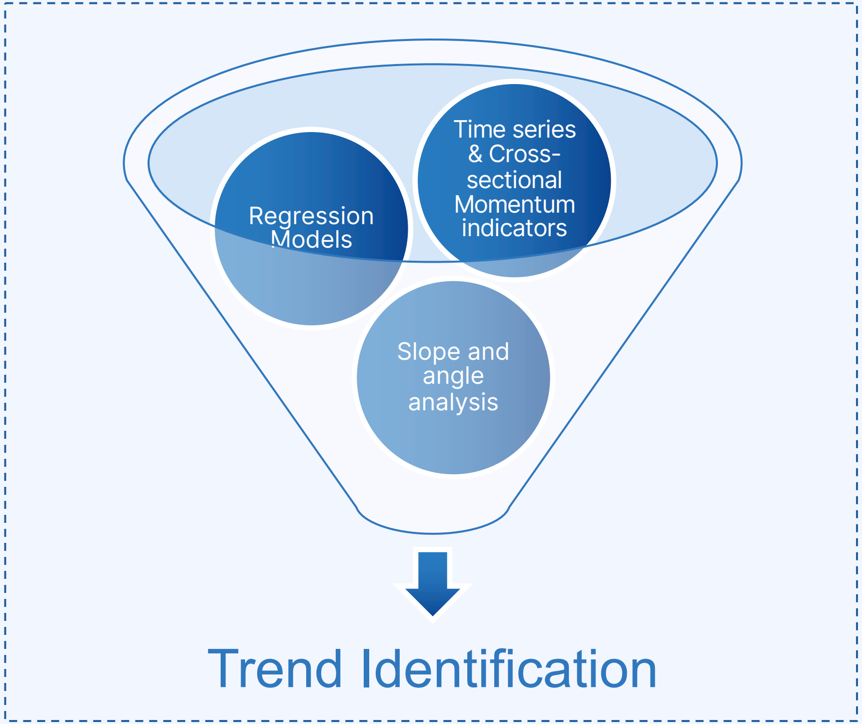
Deep dive into TRANSFORMER

Equities - Trend Model

Debt – EDMO Model

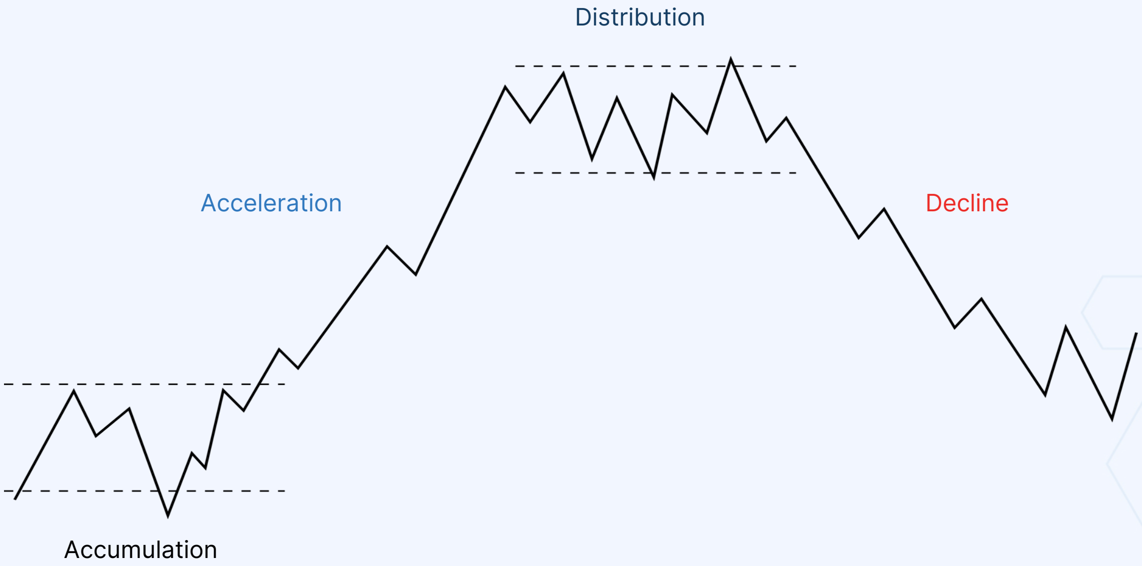
Debt Vs Arbitrage

Core trend identification model



Markets in 4 Phases

With market moving in phases, we would like to be in equities when there is a break-out from Accumulation Phase (Phase I) and be out of equities when Distribution Phase (Phase III) breaks down.



Illustrative Conditions on how model works and identifies stage of markets

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Accumulation

- Price is above both the 150-day & the 200-day MA.
- 150 MA > 200 MA.
- Slope of 200 MA starts moving up.
- A series of higher highs and higher lows has occurred.
- Large up weeks on volume spikes are contrasted by low-volume pullbacks.
- There are more up weeks on volume than down weeks on volume.

Uptrends

- 200MA Slope upwards
- Volume spikes on big up days and big up weeks are contrasted by volume contractions during normal price pullbacks.
- There are more up days and up weeks on above-average volume than down days and down weeks on above-average volume.

Distribution

- Price undercuts 200MA
- Slope of 200 MA flattens out
- Increase in underlying volatility with higher volatility on downsides
- Intercept of slope widens and trend becomes unhealthy
- Price increasingly rolls over to the downside.

Downtrends

- Price < 200 MA
- The 200 MA slope turns inverse
- Price is near or hitting 52-week new lows
- The stock price pattern is characterized as a series of lower lows and lower highs, stair-stepping downward.
- Volume spikes on big down days and big down weeks are contrasted by low-volume rallies.
- There are more down days and weeks on above-average volume than up days and up weeks on above-average volume

Trend Identification

It would be beneficial to enter markets during the break-out of the 'Second High' - suggesting an uptrend in the markets.

Whereas, it would be advisable to exit markets when the trend changes, i.e. when the markets failed to make 'Higher Highs' and registers a 'Lower Low' and breaks the trend.

This is an illustration post COVID-2020 fall.

Source: TradingView

Important Principles of Trend Following

Bhav Bhagwaan hai

Trend is your friend till it bends

Never about catching tops and bottoms

Strength and Health of each trend is different

Breadth - % of all NSE stocks above 40-week Exponential Moving Average (EMA)

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A real-life example of "R to R" being a mean reverting indicator.

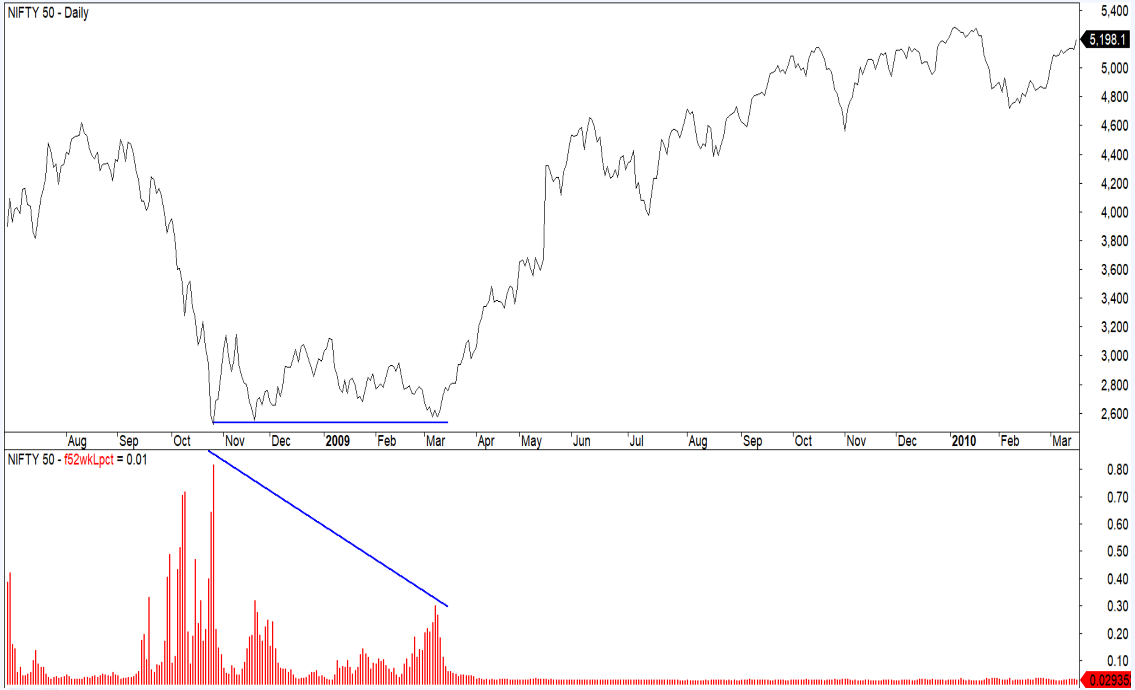
Breadth as % of all NSE stocks above 40-week exponential moving average during COVID fall hit nearly 4%.

Given the market were in downtrend, equity allocation were NIL.

However, given that breadth indicator is a mean reverting indicator -- suggested to start allocating to equities given the extreme.

Source: Chartink

New 52-week Highs & Lows – Nifty 2009 bottom with 52-week low divergence



Source: Amibroker, Samco research

Quite a similar mean reverting indicator.

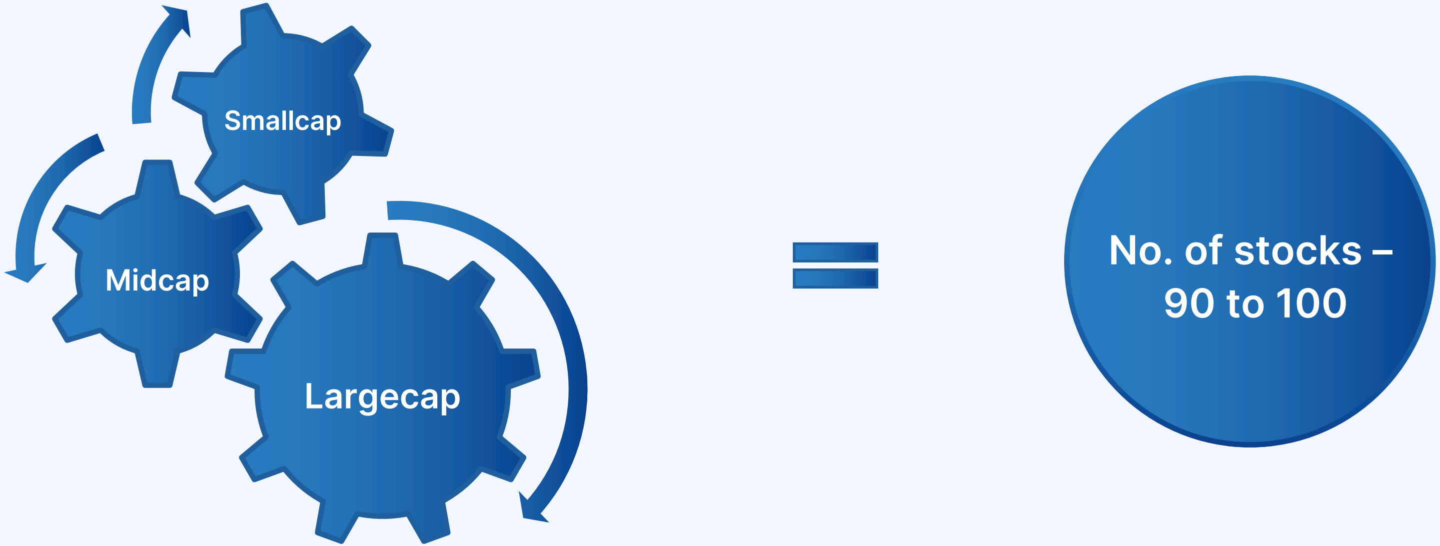
Nifty 2009 bottom with 52-week low divergence.

During Global Financial Crisis, equity allocation were NIL -- with number of companies registering new 52-week low highest.

In March 2009, when markets again made a closing low, there were lesser number of companies making new 52-week low.

This suggested to start allocating to equities given the positive divergence and emerging underlying strength.

Momentum equity selection



As far as equity portfolio is concerned, SAMCO DAAF would be managed as across market capitalization.

Deep dive into TRANSFORMER

Equities - Trend Model

Debt – EDMO Model

Debt Vs Arbitrage

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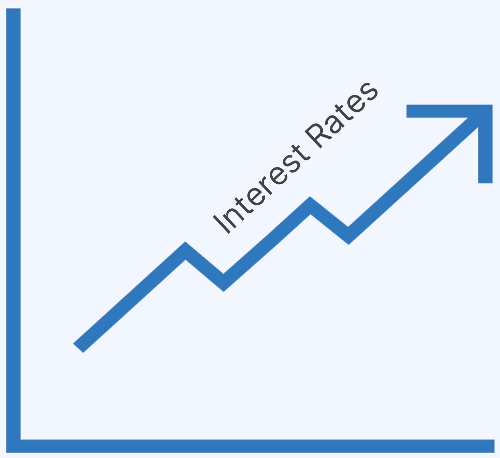
What is EDMO model?

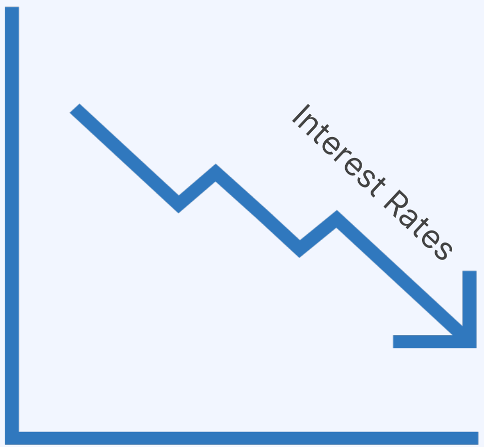
“

The EDMO model suggests that if a stock of a company is considered a good investment, then its debt is also worth considering. In certain instances, if a particular company's debt yields more, assuming other factors like its credit rating and the stock's fundamental soundness are equal, then this is an opportunity to invest in such instrument which has higher yields.

Active decision on optimal duration of Debt Portfolio



Rates bottom out signals a shift in duration stance with a range 0.5-1yrs



Rates peak out signals a shift in duration stance with a range 3-4.5yrs

Investment Strategy - Debt

- Debt investments to be made across spectrum i.e. Money Mkt/SLR/Non-SLR instruments
- Duration call to be actively managed giving due consideration to current market conditions & future potential impacts
- Credit quality & liquidity to be given paramount importance during portfolio construction
- Mix of AAA/AA+/AA /G-secs & SDLs also money market instruments like CDs & CPs
- Attractive valuation & mispriced opportunities to be sought using the proprietary Equity-Debt missed-price opportunities model (EDMO)

Deep dive into TRANSFORMER

Equities - Trend Model

Debt – EDMO Model

Debt Vs Arbitrage

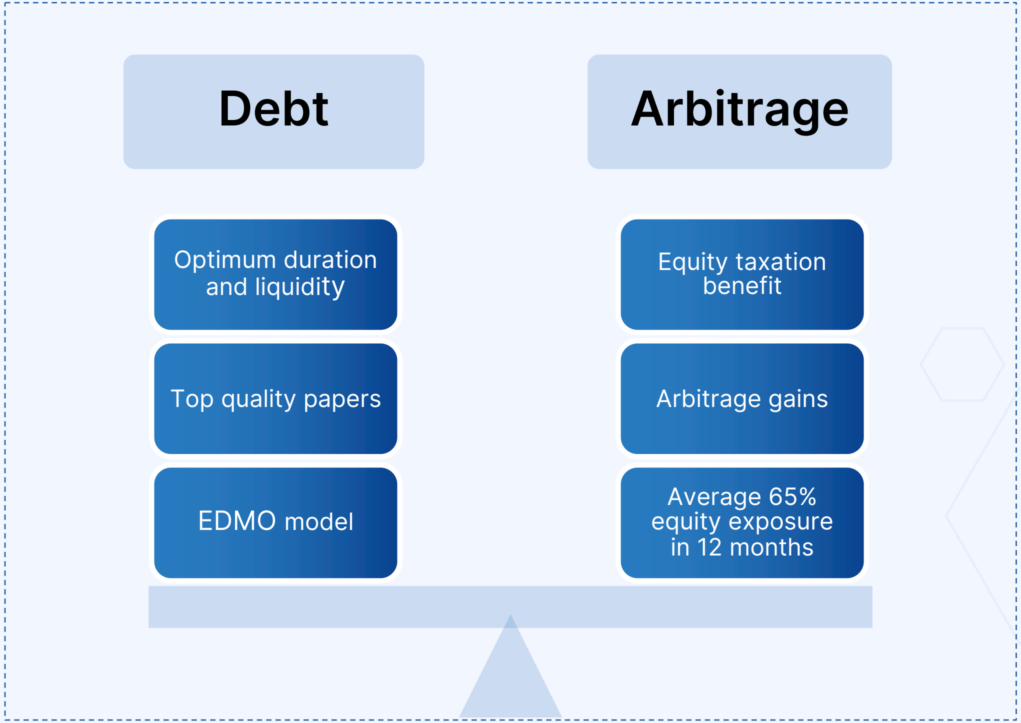
Decision framework of Debt vs. Arbitrage

In order to achieve Equity Taxation, average gross equity exposure in last 12 months should be 65%.

While moving out of equities in bear markets or market tops, equity taxation is at risk, decision would be to have mandated gross equity exposure by doing arbitrage.

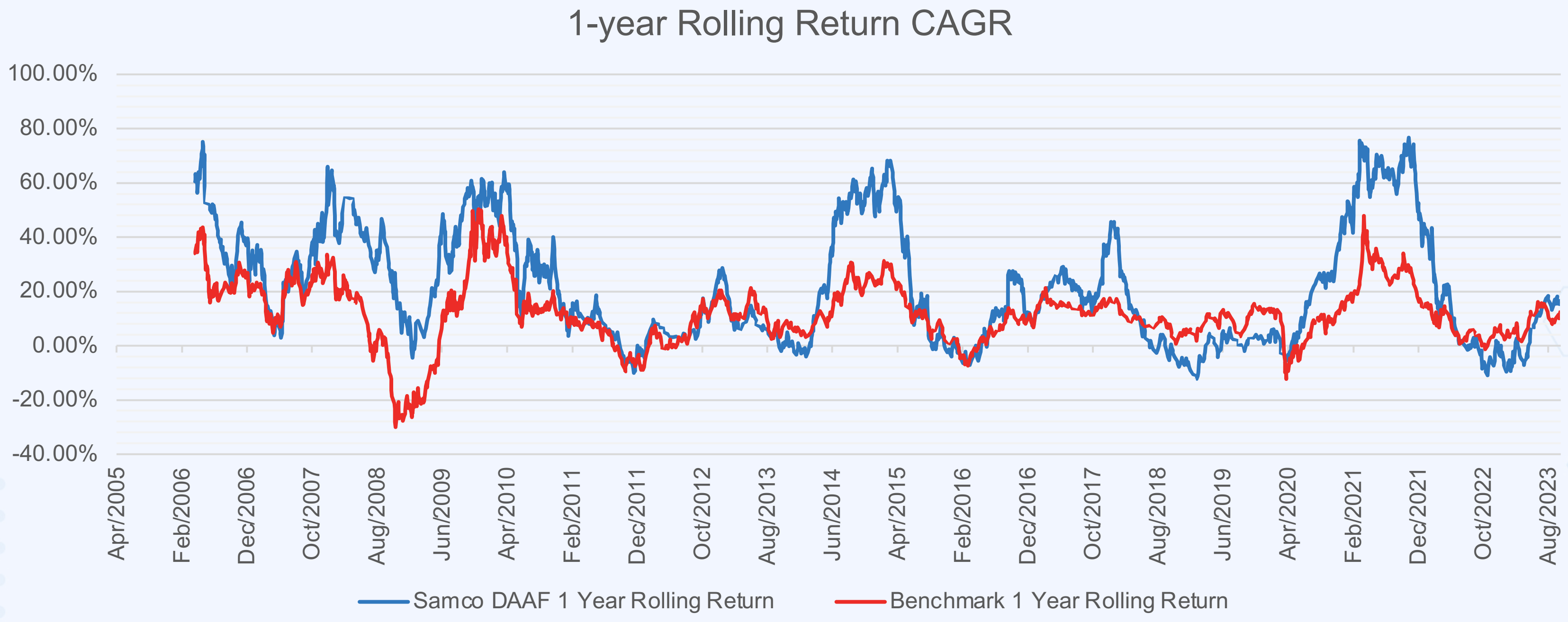
Once the mandated exposure in equities is taken care of, debt vs. arbitrage would be chosen basis the optimal yield.

Endeavour to achieve equity taxation and during other times optimise for debt or arbitrage depending on the risk and returns of the asset.



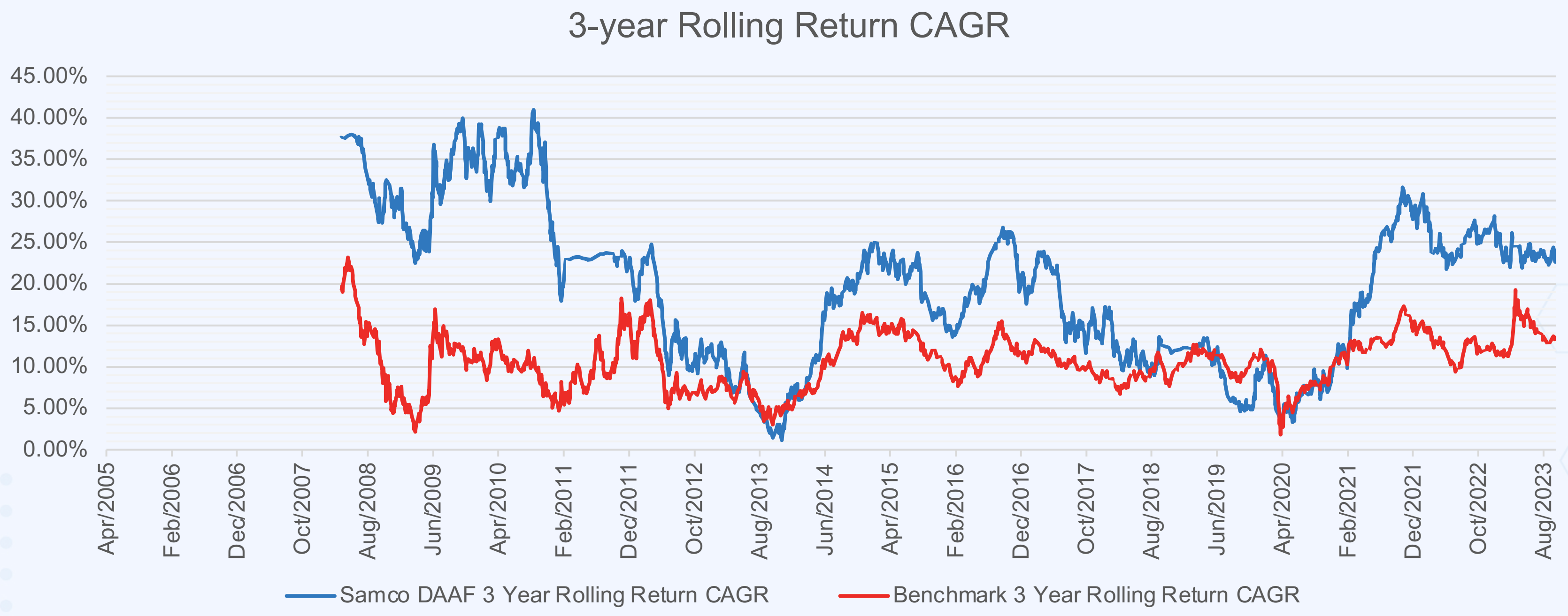
Power of "TRANSFORMER" model

Samco DAAF Model : back tested vs benchmark



Source: Internal Research. Data for the period April 2005 to September 2023. The above illustration is for understanding the working of Samco Mutual Fund's proprietary TRANSFORMER Model. The performance of the internal model does not represent the performance of the scheme. Actual allocation and investing experience may vary.

Samco DAAF Model : back tested vs benchmark



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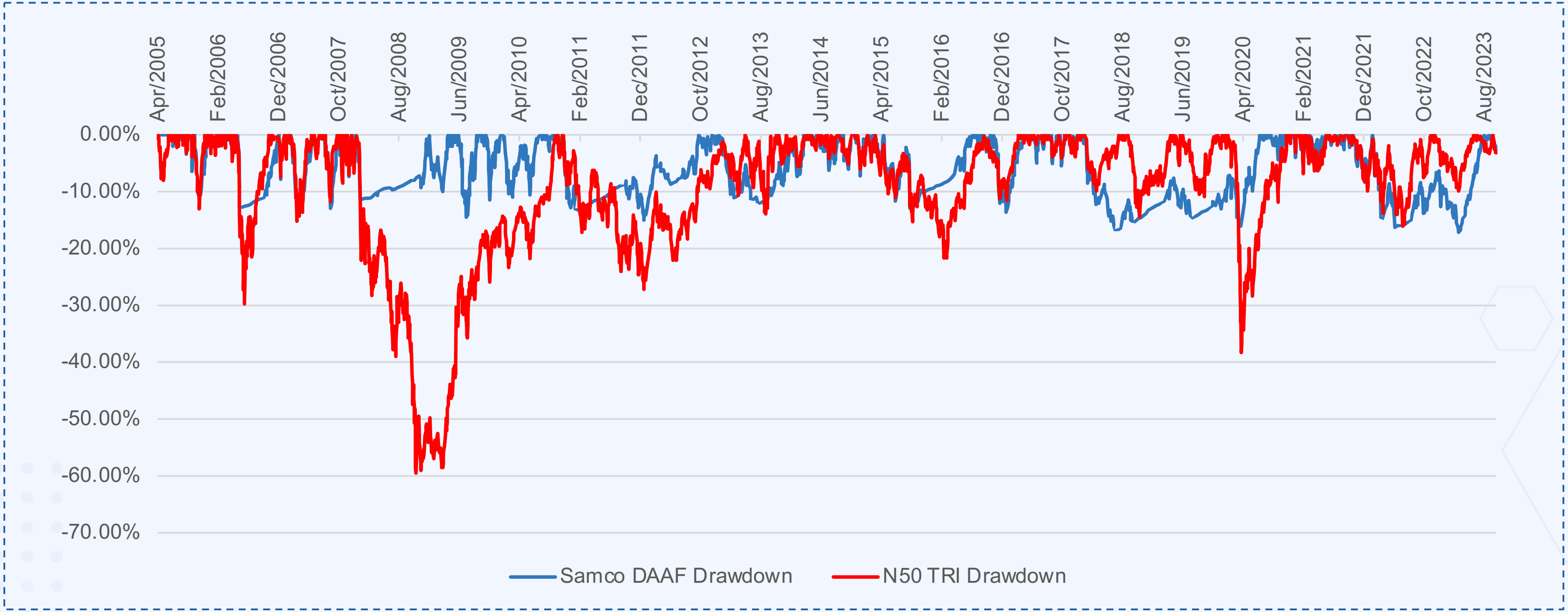
Drawdowns in Samco DAAF model much lower than NIFTY 50 TRI



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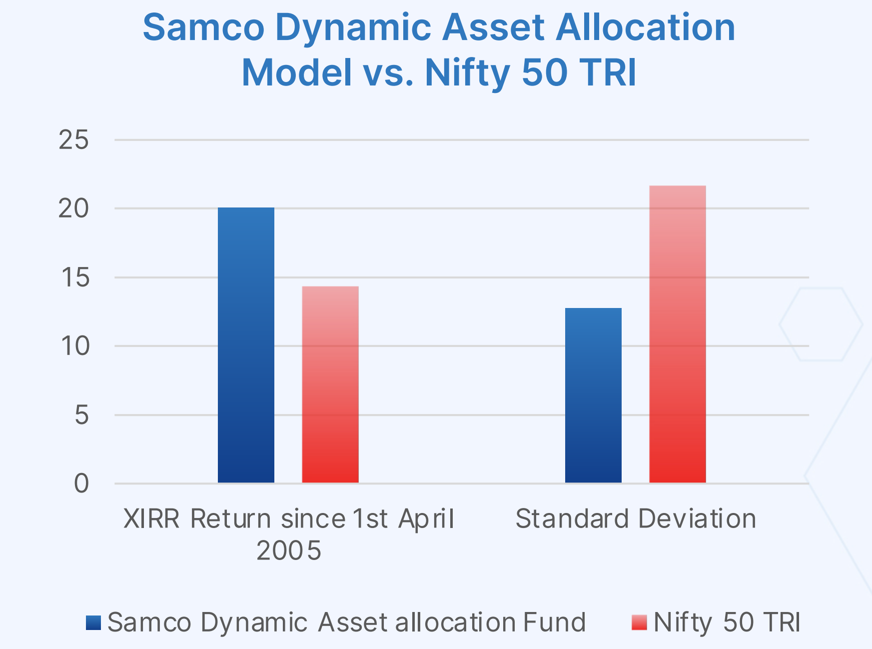
Much lesser volatility than NIFTY 50 TRI

	XIRR Return since 1st April 2005	Standard Deviation
Samco DAAF model	20.05%	12.74%
NIFTY 50 TRI	14.32%	~ 21.64%



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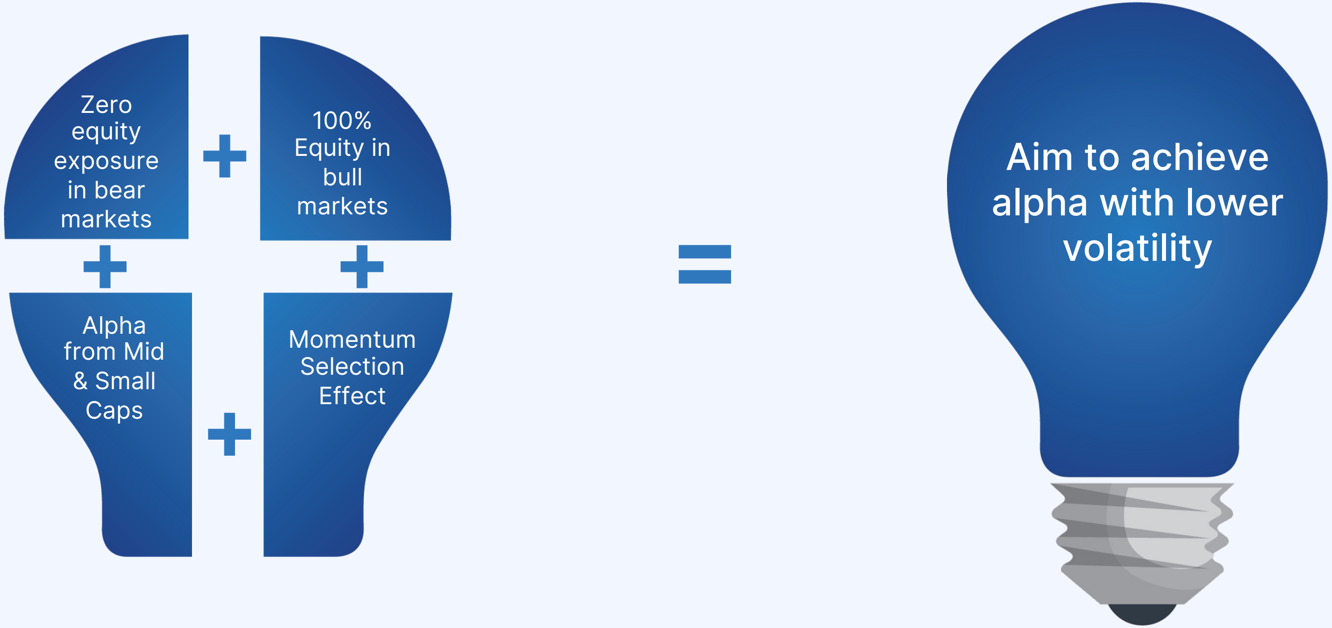
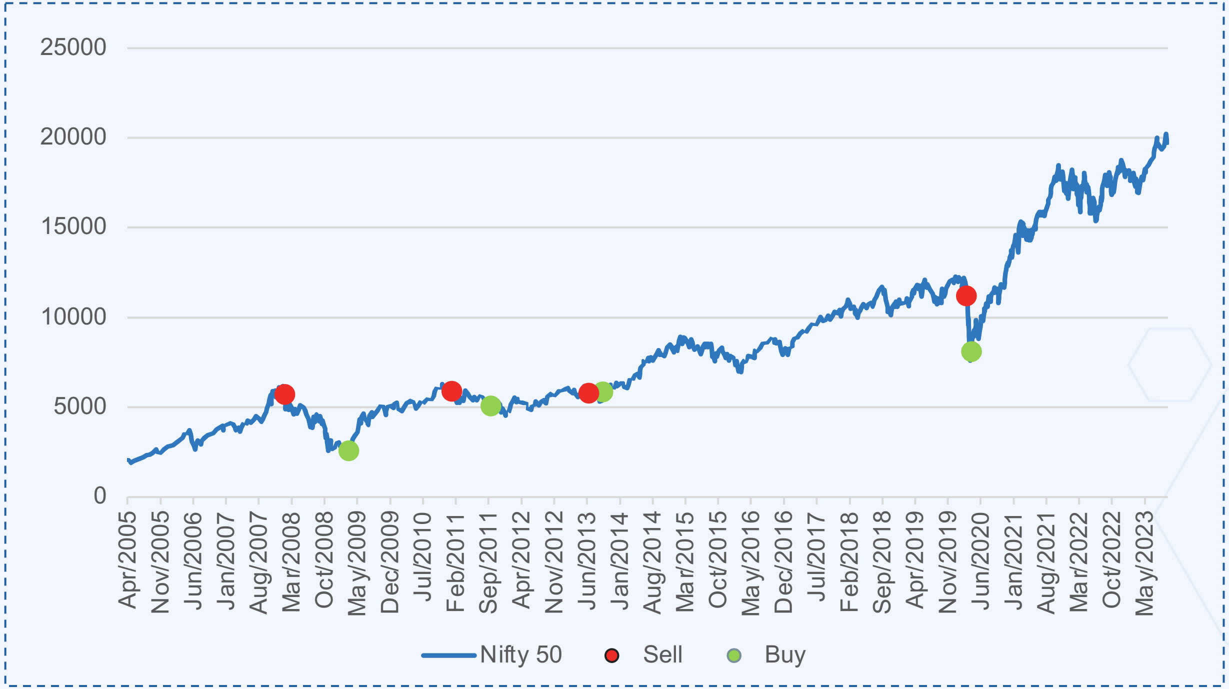
Drivers of Return



Zero equity in bear markets

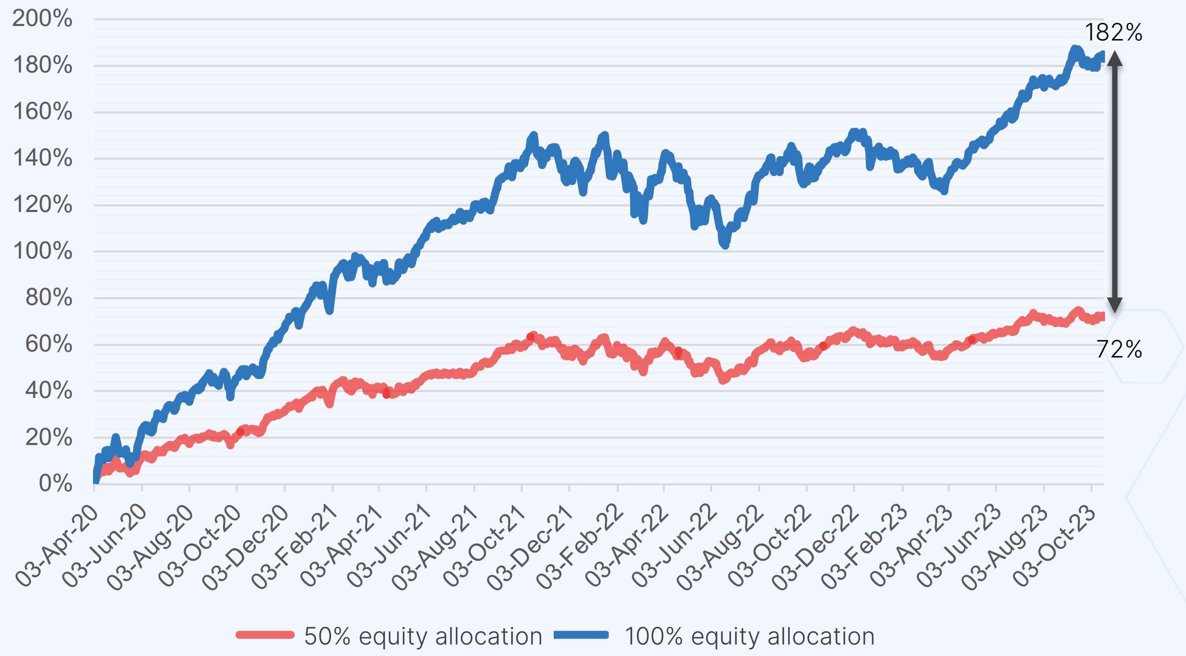
In order to protect the drawdowns, getting out of equities during breakdown of primary trend is an important feature for SAMCO DAAF.



Source: Internal Research. Data for the period April 2005 to September 2023. The above illustration is for understanding the working of Samco Mutual Fund's proprietary TRANSFORMER Model. The performance of the internal model does not represent the performance of the scheme. Actual allocation and investing experience may vary.

100% equity in bull markets

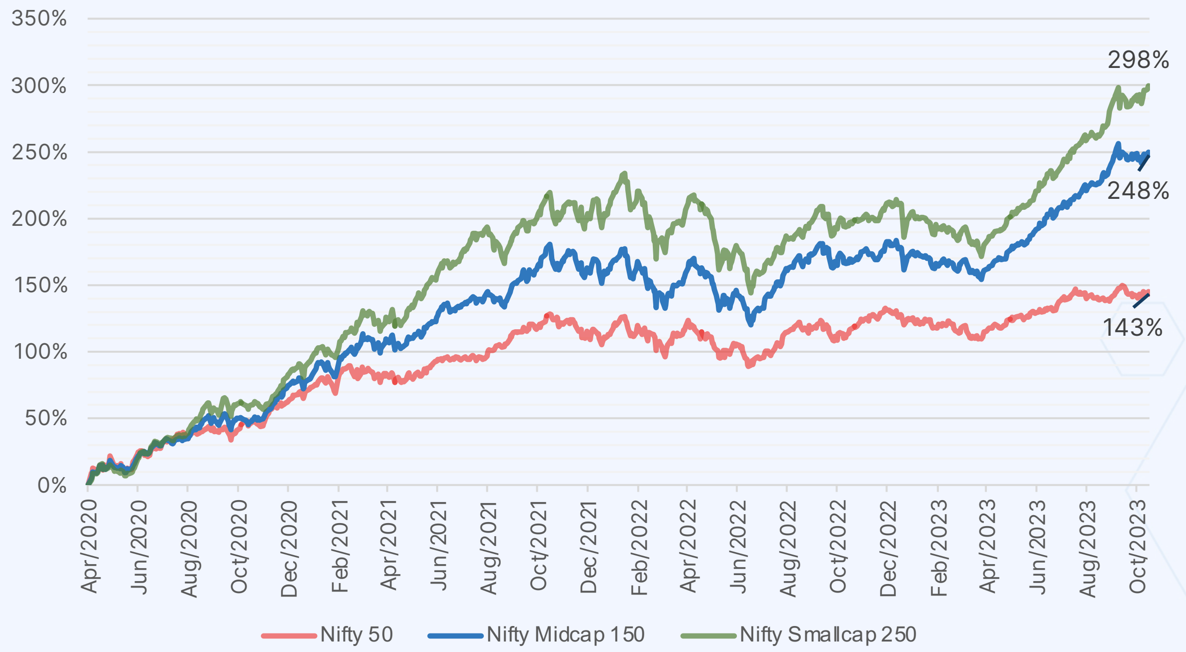
During primary uptrend, remaining aggressively invested in equities has the potential to deliver higher risk-adjusted returns in the long run.



Source: Internal Research. Data period April 2020 to October 2023.Note: The above illustration is for understanding the working of Samco Mutual Fund's proprietary TRANSFORMER Model. The performance of the internal model does not represent the performance of the scheme. Actual allocation and investing experience may vary.

Alpha from Mid and Small Exposure

Historically, Small and Mid caps have delivered higher returns when forms part of the overall portfolio which would serve the purpose for investor during bull markets.



Source: NSE, TradingView. Data for the period April 2020 to October 2023. Past performance may or may not sustained in the future.

Momentum Selection Effect

Historically, momentum strategy have delivered higher returns which would serve the purpose for investor during bull markets.

Indices	01-Apr-05	29-Sept-23	CAGR
Nifty50	2068	19638	12.94%
Nifty Midcap 150 Momentum 50	1000	42207	22.42%
Nifty 200 Momentum 30	1000	23231	18.53%

Source: Nifty Indices, Samco Research. Returns mentioned are CAGR returns from 1st April 2005 till 29th September 2023. Past performance may or may not sustained in the future.

Investment Strategy of Samco Dynamic Asset Allocation Fund

Determines Equity Allocation based on Primary Trend with adjustments based on mean reversion indicators.

- Net Equity Exposure 0-100%
  - Momentum Strategy based on Relative Strength across market capitalisation
- Debt / Arbitrage Exposure
  - EDMO – Equity-Debt Mispriced Credit Opportunities Model

Scheme Features

Benchmark

NIFTY Hybrid Composite Debt 50:50 Index

Minimum SIP Amount

Rs. 500

Options

Growth,
IDCW – Reinvestment,
IDCW – Payout, IDCW - Transfer

Minimum Application Amount

Rs. 5,000

Plans

Direct & Regular

Exit Load

No Exit load for up to 25% Units 1% for remaining units on or before 1 Year Nil after 1 Year

Fund Managers for the Scheme

CA Umeshkumar Mehta

Equity Selection

CA Paras Matalia

CA Dhawal G. Dhanani
(For Overseas Securities)

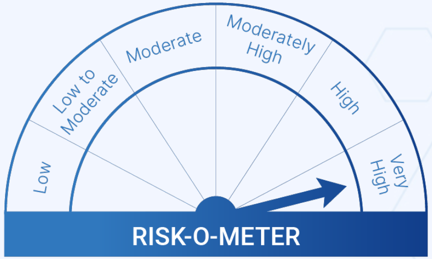
Debt

Abhiroop Mukherjee

Product Label & Risk-o-meter

Samco Dynamic Asset Allocation Fund

(An open-ended dynamic asset allocation fund)

This product is suitable for investors who are seeking* :	Risk-o-meter
• Capital Appreciation & Income Generation over medium to long term; • Investment in a dynamically managed portfolio of equity & equity related instruments and debt & money market securities *Investors should consult their financial advisers if in doubt about whether the product is suitable for them. (It may be noted that risk-o-meter of the Scheme specified above is based on the scheme characteristics and may vary post NFO, when the actual investments are made. The same shall be updated in accordance with provisions of SEBI circular dated October 5, 2020 on Product labelling in mutual fund schemes on ongoing basis)	 Investors understand that their principal will be at very high risk

Disclaimers

- MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.
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Why Samco DAAF?

M

Momentum Trend following system

Only stay in the equities when the markets are trending upside.

D

Drawdown Protection

Limited drawdown during bear markets.

D

Dynamic in nature

A hybrid fund that can transform in to 100% Net Equity & 0% Debt or 100% Debt & 0% Net Equity.

R

Real Time Allocation Model

Allows quick re-allocation to Debt from Equity Model doesn’t wait for quarterly rebalancing cycles.

S

Stop Loss Model

Quickly cuts equity exposure, risks and protects downside in tough times.

Thank You