



## DSP Quant Fund



| People | Processes | Performance |

### Investment Process

# Investment Process

BASED ON A QUANT MODEL

ELIMINATE STOCKS  
from the S&P BSE 200 Index



SELECT GOOD COMPANIES  
from the above shortlist



ASSIGN WEIGHTS  
to create the final portfolio



Exclude stocks which may destroy value

- ✗ High debt
- ✗ Excessive volatility in stock prices
- ✗ Inefficient capital allocators
- ✗ Poor quality of reported earnings



Select final list by ranking stocks based on average scores for:

- ✓ Quality
- ✓ Growth
- ✓ Value



Weights assigned to manage risks

- Single Stock exposure limits
- Single Sector exposure limits
- Exposure limits based on stock liquidity

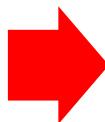
REVIEW & REBALANCE every six months (Mar & Sep)

**Model converts sound investing principles into a RULES BASED investment process**

# Stage 1 : Elimination process

**200 STOCKS**  
(Components of the S&P BSE 200 Index)

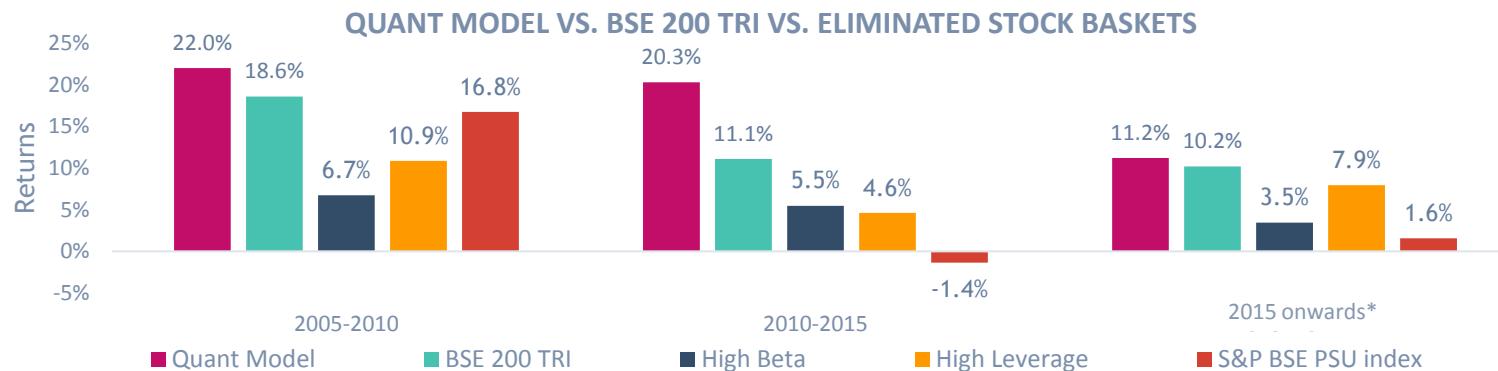
Identify characteristics that often lead to value destruction



Companies which display these characteristics are eliminated from the investable universe

**~ 100 STOCKS**  
(Shortlist for next stage)

## WHY ELIMINATION IS A CRITICAL PART OF THE PROCESS



*\*Note: The performance numbers are Total return series from 30-Sep-2005 to 31-Mar-2019. Eliminated stock portfolios created using BSE 200 constituents that meet the elimination criteria described in the previous slide at every rebalance. Weighting is proportional to their weights in BSE 200 index. The portfolios are rebalanced every March and September. Data Source: FactSet, MFIE. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. These figures pertain to performance of the model and do not in any manner indicate the returns/ performance of the Scheme. One cannot invest directly in an index.*

ENTIRE PERIOD	QUANT MODEL	S&P BSE 200 TRI	S&P BSE PSU INDEX	HIGH BETA BASKET	HIGH LEVERAGE BASKET
RETURNS	17.9%	13.1%	5.0%	5.2%	7.6%
STD. DEVIATION	18.7%	22.5%	24.2%	33.6%	28.8%
RETURN/RISK	0.96	0.58	0.21	0.16	0.26

Eliminating likely value destroyers is a principal consideration of the strategy

# Stage 1 : Criteria used for elimination

## HIGHLY LEVERAGED COMPANIES

- ✗ **High DEBT TO EQUITY**  
(applicable to all sectors  
ex financials)

Difficulty to service  
interest payments



Raises risk of defaults  
which further  
tightens liquidity



In case of defaults,  
creditors get  
preference over  
equity holders

## HIGHLY VOLATILE STOCKS

- ✗ **High BETA**

Typically highly  
cyclical businesses



Haven't added value  
to equity holders over  
the long term

Disproportionately  
high stock price  
volatility on a relative  
& absolute basis



Potential red flag

## NON-ALIGNMENT OF MANAGEMENT INCENTIVES

- ✗ **Ownership Criteria**

Shareholder wealth  
creation is not a  
primary goal



Business decisions  
maybe driven by  
other considerations



Minority shareholders  
get sub-optimal  
returns

## POOR QUALITY OF REPORTED EARNINGS

- ✗ **LOW reliability of earnings**
- ✗ **WEAK balance sheets**
- ✗ **POOR cash conversion**
- ✗ **Potential governance issues**

Forensic analysis of  
financials disclosures  
can throw up  
potential red flags



Accounting &  
Management issues  
can lead to severe  
value destruction

Extensive criteria to identify and eliminate potential value destroyers from the investible universe

## Details of Forensic Analysis

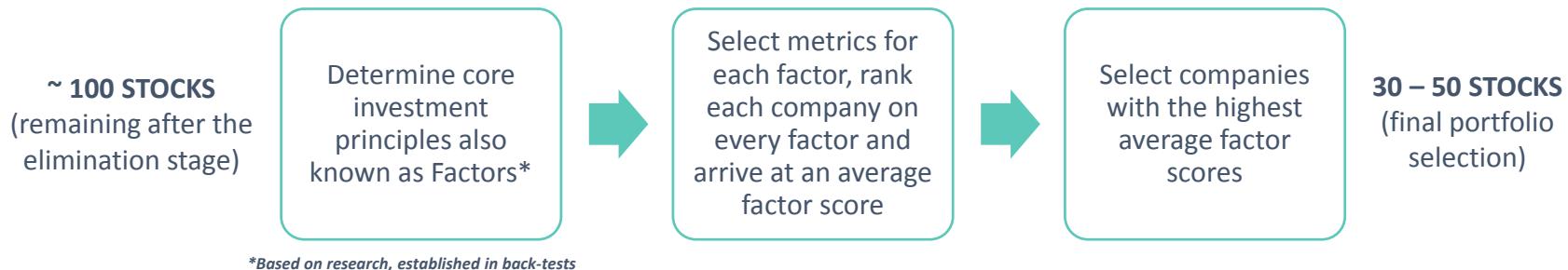
## PARAMETERS CONSIDERED IN THE FORENSIC OVERLAY



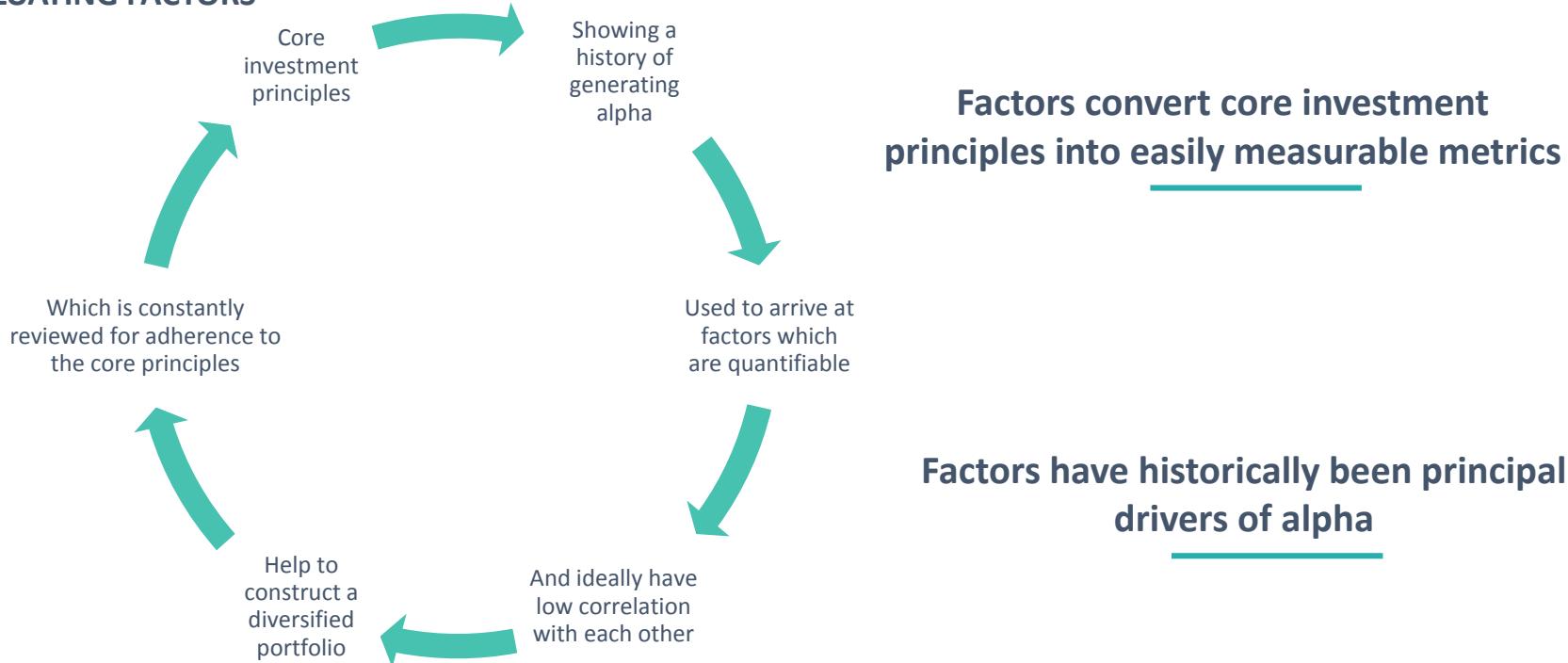
## Forensic analysis is a critical part of the elimination process

## Stage 2 : Selection process

### SELECTION PROCESS FLOW

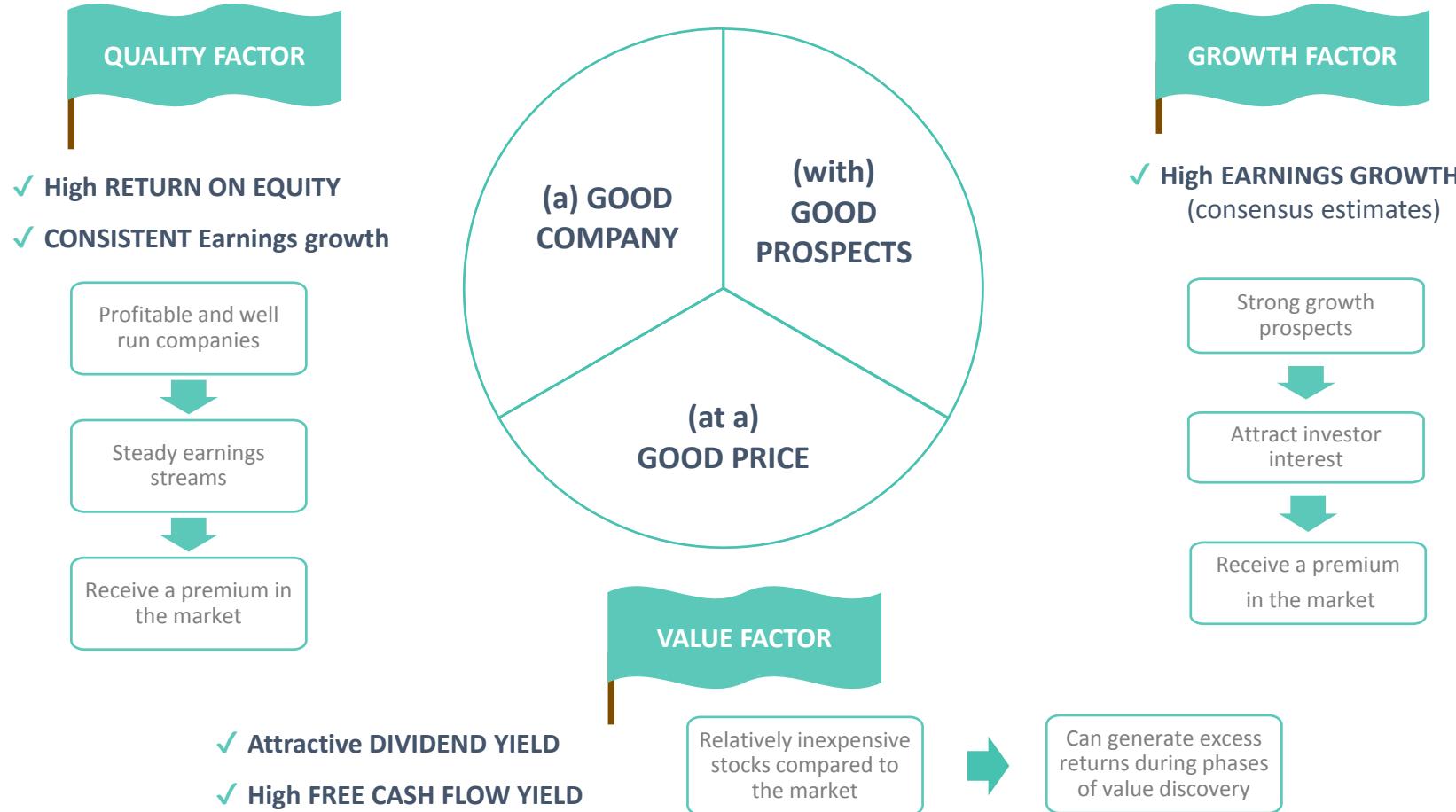


### EVALUATING FACTORS



## Stage 2 : Selection of good companies

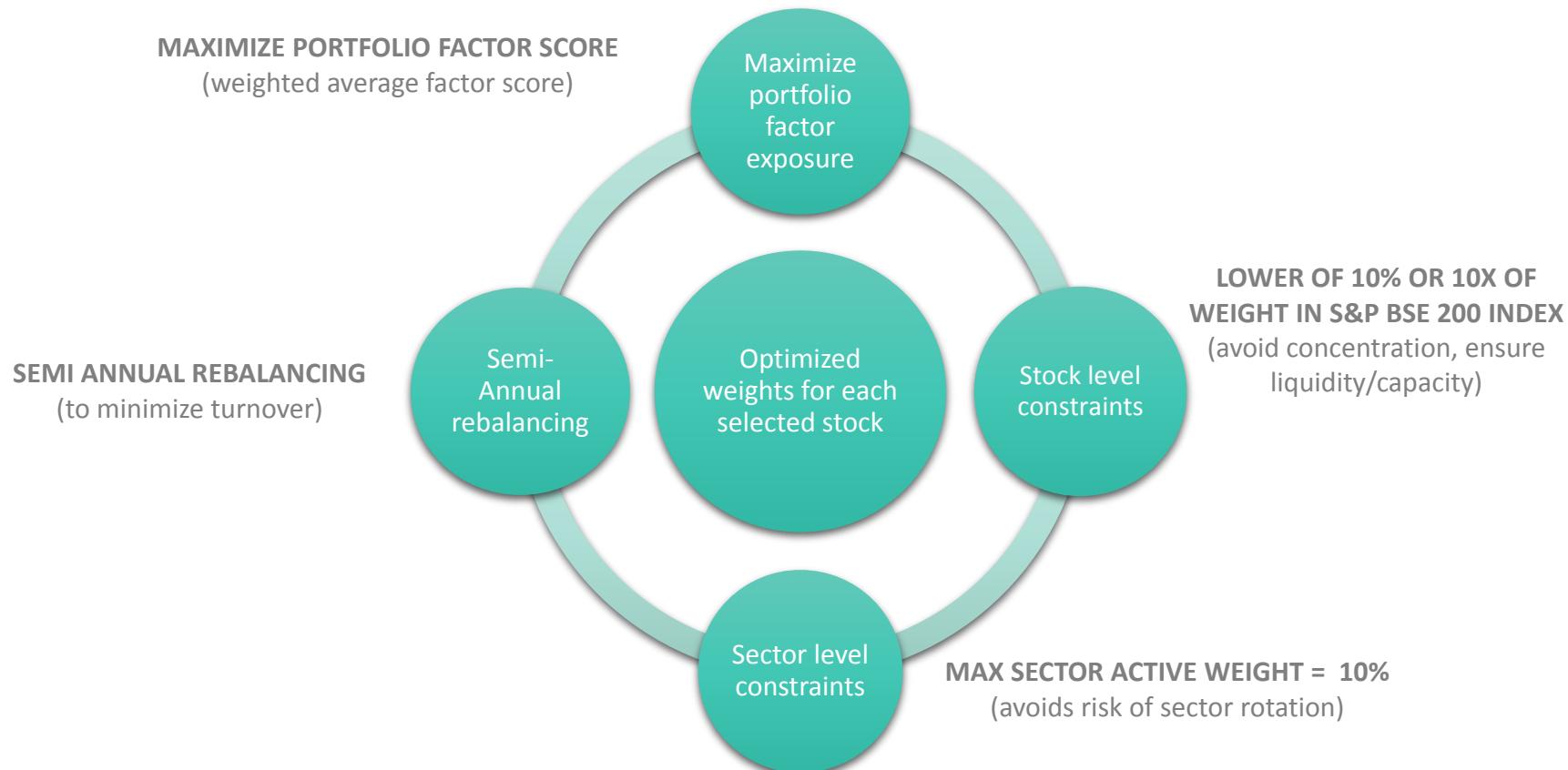
### EVALUATING COMPANIES ACROSS MULTIPLE FACTORS



Using a multi-factor approach to assess companies in a holistic manner

## Stage 3 : Optimization process

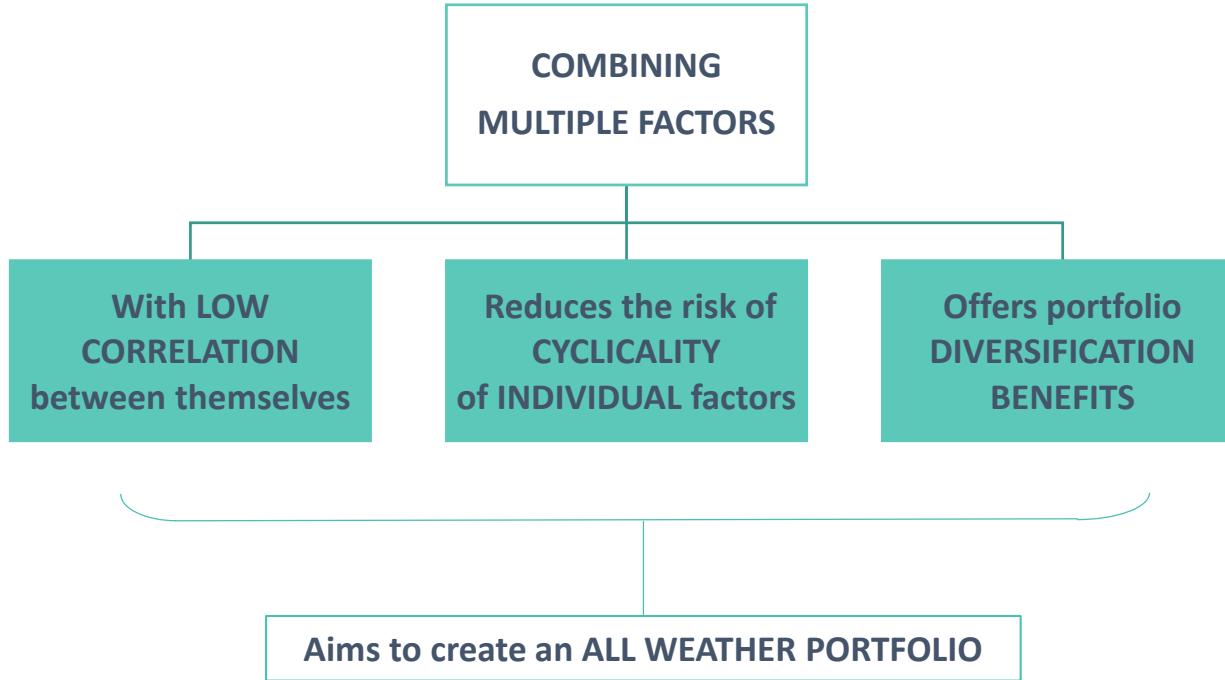
### ASSIGN WEIGHTS TO 30 – 50 SELECTED STOCKS AND CREATE FINAL PORTFOLIO



Optimization done with the objective of creating a diversified portfolio

# Why do we use multiple factors?

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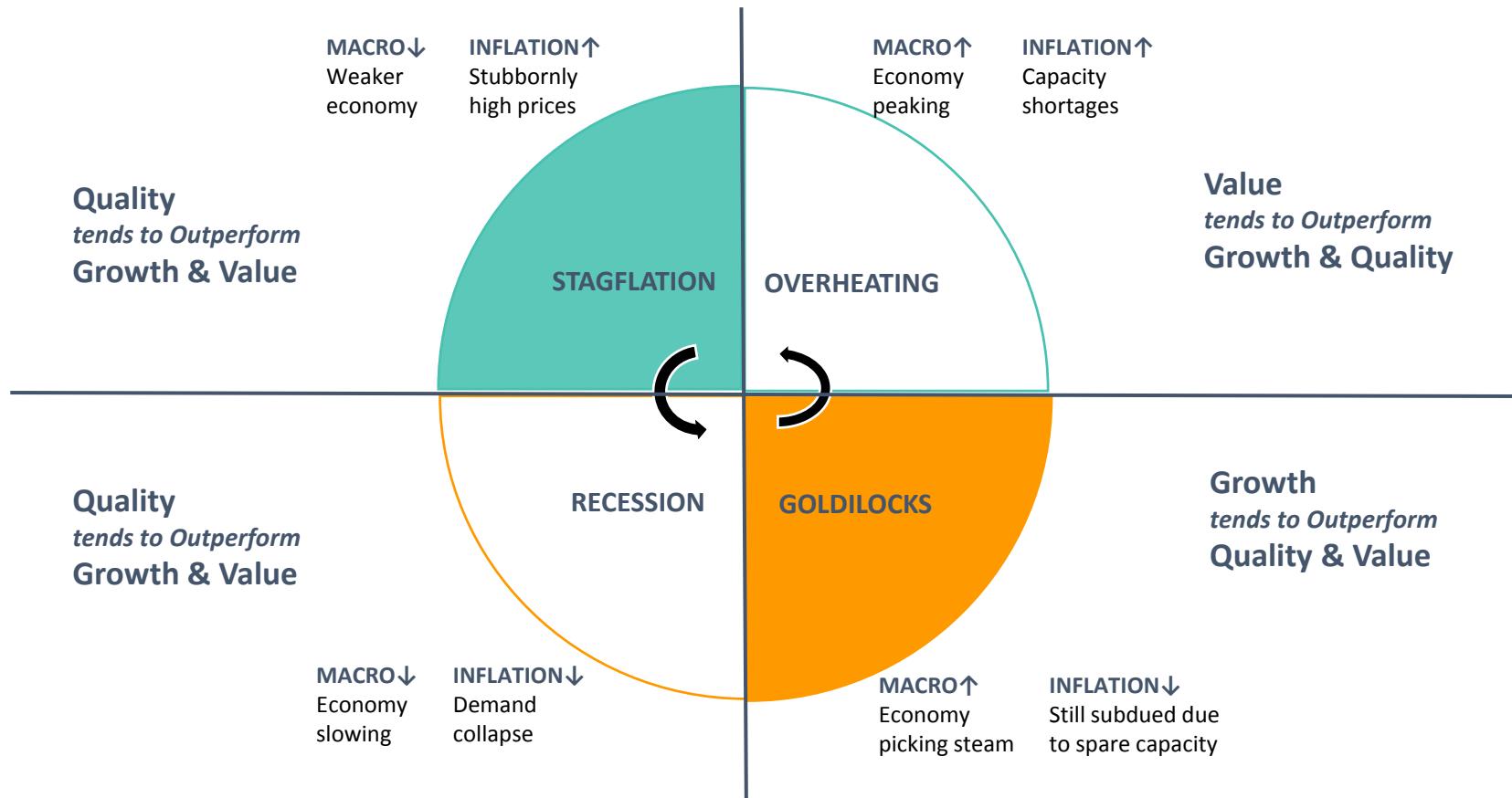


Based on the core investment principle of portfolio diversification

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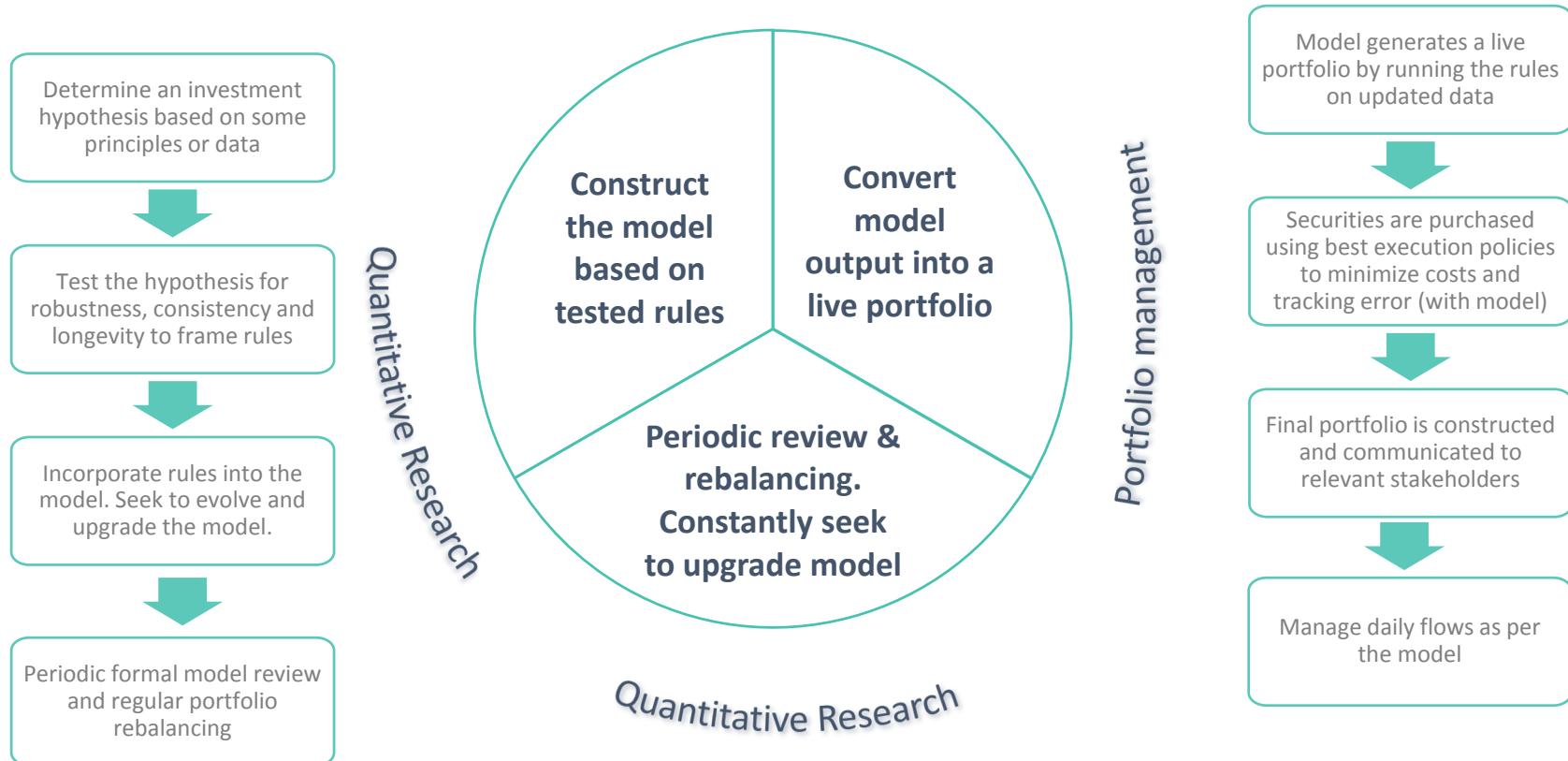
# Factor cyclicity

## MAPPING MACRO CONDITIONS TO FACTORS

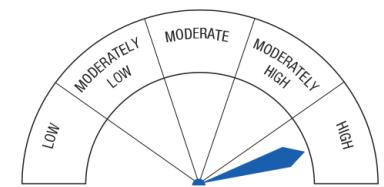


Factors generally show cyclicity in performance across the economic cycle

# QUANTITATIVE RESEARCH and PORTFOLIO MANAGEMENT TEAM



# Product labelling details

Fund	Product Suitability	Riskometer
<p><b>DSP Quant Fund</b> <i>(An open ended equity scheme investing based on a quant model theme)</i></p>	<p>This open ended equity scheme is suitable for investors who are seeking*</p> <ul style="list-style-type: none"><li>▶ Long term capital growth</li><li>▶ Investment in active portfolio of stocks screened, selected, weighed and rebalanced on the basis of a predefined fundamental factor model</li></ul>	 <p>A circular riskometer scale with a central needle pointing towards the 'HIGH' end. The scale is divided into four quadrants: 'LOW' (bottom-left), 'MODERATELY LOW' (top-left), 'MODERATE' (top-right), and 'MODERATELY HIGH' (bottom-right). The 'HIGH' end is at the far right. The needle is positioned between 'MODERATE' and 'MODERATELY HIGH'.</p> <p>Investors understand that their principal will be at high risk</p>

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

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