

## Equity ETF Small Case

### What is Smallcase?

A smallcase is a basket of stocks or ETFs, selected and weighted intelligently to reflect a specific idea or strategy. One can invest in a smallcase, track it with a custom index value updated in real-time & set up an SIP also. Investing in a basket of stocks gives you diversification benefits that minimize stock-specific risk. Instead of picking stocks, one can invest in ideas one believes in with research-backed portfolios that are tied to relatable themes. Smallcase help investors to easily invest in themes, ideas, strategies that they see, observe and experience. Investors can invest and rebalance the portfolio in a Single Click. They have flexibility of partial or entirely exiting from the thematic portfolio.

### How smallcase is different from Mutual Fund?

- **Cost Efficiency** - No separate management fees or expense ratios is charged for construction of smallcase. Only brokerage & other statutory fees are applicable as usual for all orders placed.
- **Transparency** – Unlike mutual funds where portfolio is available on month-ends. Smallcase portfolios can be tracked real-time.
- **Full Ownership** – No separate units are allocated, individual stocks and ETFs are directly reflected in your account.
- **Understandable** - Invest in trending market themes, ideas and strategies that they see, observe and experience in day to day life.

### What are Exchange Traded Funds (ETFs)?

ETFs are baskets of securities that are traded, like individual stocks, on an exchange. The objective of ETFs is to mirror the performance of a benchmark index such as the BSE Sensex or the Nifty 50, by investing only in the stocks of the index with the corresponding weightage.

### Benefits of ETFs

- **Diversification:** The investment in index funds and ETFs are widely diversified as indices are constructed to represent performance of the stock market as a whole. It reduces the overall risk of one's portfolio.
- **Lower expense ratio:** Index & ETFs are lesser expensive schemes than actively managed schemes. The expense ratio of such funds especially for broad based ETFs is the lowest among mutual fund schemes ranging from 0.05% to 1.07% (0.20% to 1.67%, in case of index funds and actively managed funds charge up to 2.25% of the corpus) as they are not necessarily requiring the service of fund managers and analysts.
- **Transparency:** Investors can access the portfolio composition of index on any day at any point in time. On the other hand, portfolios of other mutual funds schemes are declared by AMCs once a month.
- **No fund manager Risk:** As the objectives of such schemes is to mimic the performance of index which they track, they do build portfolio accordingly by investing in the same stocks in the same proportions as the index holds. So, these funds stay away from the risk of bias of fund managers. Fund managers sometimes get carried away with certain stocks and have their personal biases involved which might affect the performance. Also, the star fund manager who fetch stellar returns could one day pack his bags and leave for another fund house or the market may no longer favor the fund manager's investment style.
- **Downside Protection and Consistent Return over Long Run:** Passively managed funds have given good downside protection than actively managed funds during market downturns. Index funds withstood the market corrections well than other equity oriented schemes. Likewise, over long run, index funds outperformed other equity funds and registered optimum returns.

### Why current market conditions are favourable for investing in ETFs?

- GDP growth is expected stay healthy and India is likely to remain the fastest growing economy as supported by IMF outlook for India. India is projected to grow at 7.3% in 2019 and 7.5% in 2020, supported by recovery of investment and robust consumption. Once the election related doubts fade away, investors will be motivated to put in more money into India.
- Inflation is persistently low and is expected to remain stable. Global growth concerns and reversal of tightening phase adopted by major central banks would keep rates in India at lower levels and would also unleash liquidity in India. However geo-political disruptions, supply disruptions in crude oil prices and fiscal slippages could be some factor for the upside risks. The crude price is within the tolerance (range bound) level for Indian equities.
- Private consumption is expected to get a fillip from public spending in rural areas.
- Bank Credit to Commercial Sector is showing signs of recovery with both demand and supply showing signs of pick up. With a cut in interest rate and further easing of credit conditions, coupled with banks coming out of PCA framework, credit supply is likely to go up which will augur well for the improving economic activity. Also transmission of rate cuts might be more efficient in reviving the Economy, as banks have started opting to link lending rates to repo rate.
- Recovery in investment cycle over medium term, resolution of stressed assets through Insolvency & Bankruptcy Code and improvement in capacity utilization across industries will spur the next investment cycle in India. Capacity utilization has inched up to 75-80% levels for various industries implying the need for further capex.
- After a long pause, earnings growth in terms of Nifty EPS has returned. Overall valuations are going towards excessive, while most sectors are well below their five-year means.
- Domestic financial markets continued to be influenced by global developments. Lately FIIs have been buying heavily into our markets. Foreign portfolio investors were net sellers in 2018 and also in January 2019 but have become net buyers since February 2019
- Large cap stocks continue to remain richly valued. A sizeable earnings recovery and earnings multiple de-rating would likely keep large cap from delivering appropriate risk adjusted returns.

If global crude oil prices remain range-bound then a weakening USD, expectations of aggressive monetary easing by the RBI, end of the provisioning cycle for NPAs by the banking system & likely recoveries over the next 2 years aiding surge in profits; as also revival in corporate earnings in high-teens on a conservative basis over FY20 & FY21 will spur strong performance by Indian equities. A decisive mandate on 23<sup>rd</sup> May 2019 by the Indian electorate will strongly bolster the upward trajectory.

### About ETF Smallcase & Indices

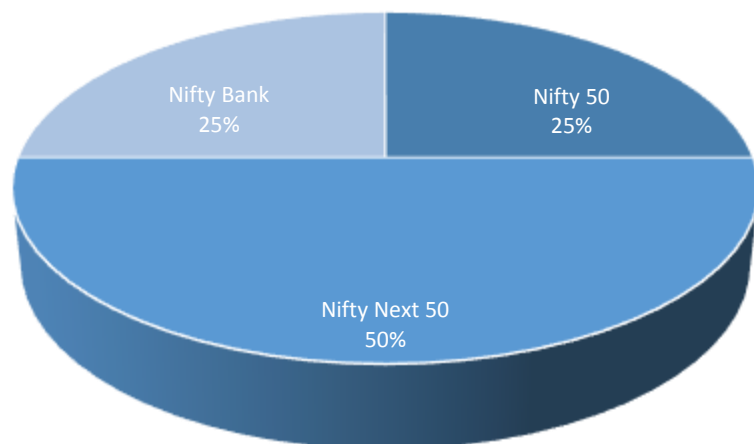
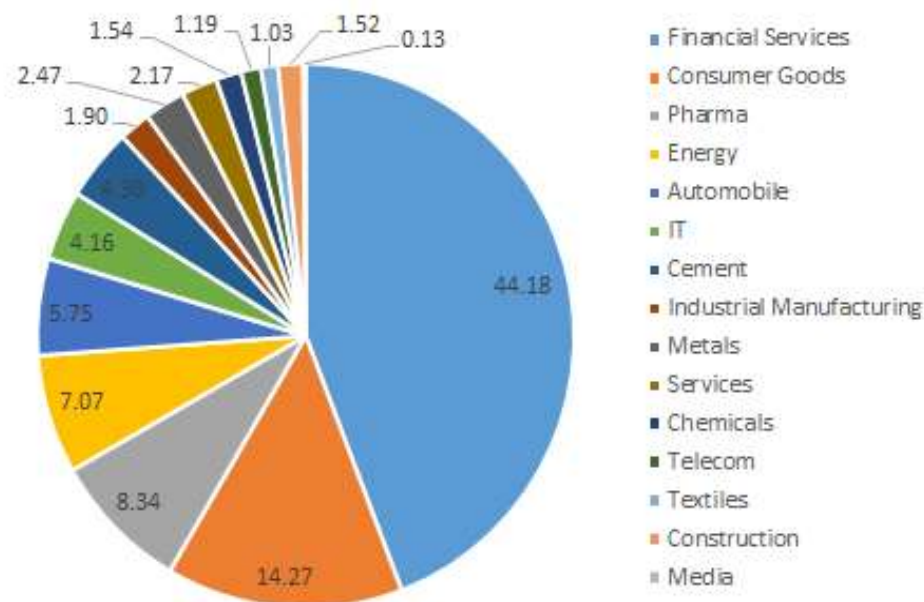
Why ETF Smallcase:

- This small case provides stability in returns at lower risk
- Participation in India growth story with the fundamentally sound and stable companies.
- Ideal for less active and risk averse investors
- This is a long-term investment strategy that investors can use to build wealth over the years to come
- The portfolio can be rebalanced periodically to generate relatively higher returns by assuming the least possible risks

### Indices Fundamentals:

Index	P/E	P/B	Dividend Yield	Annualized Volatility
<b>Nifty 50</b>	29.01	3.71	1.13	12.47%
<b>Nifty Next 50 (Nifty Junior)</b>	45.45	4.17	0.90	16.17%
<b>Nifty Bank</b>	64.82	3.40	0.42	14.45%

Note: Data as on 29<sup>th</sup> March, 2019.

**ETF Basket weight:**

**Sector weights of ETF Smallcase:**


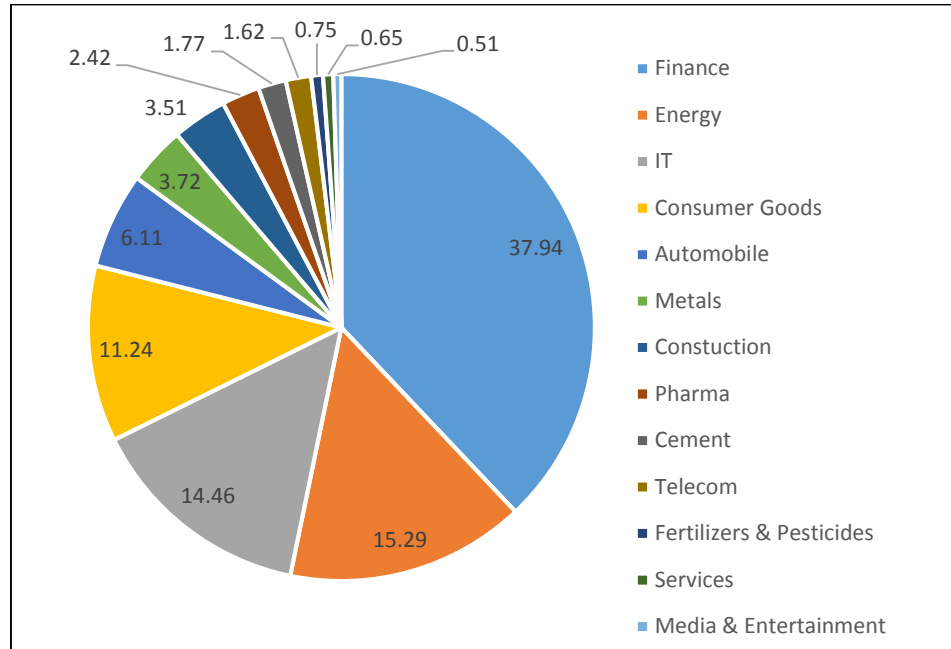
Nifty Next 50 has been given the highest weight (50%). In case of equal weight, Banking & financials will have a very large weight of ~53%, which may expose investors to lopsided risks. By increasing the weight of Nifty Next 50, the weight of Banks & Financials has come down to ~44%.

While higher exposure to Nifty Next 50 could result in outperformance in normal times, in times when small & midcaps undergo deep correction, this outperformance could get reduced.

**Nifty 50:**

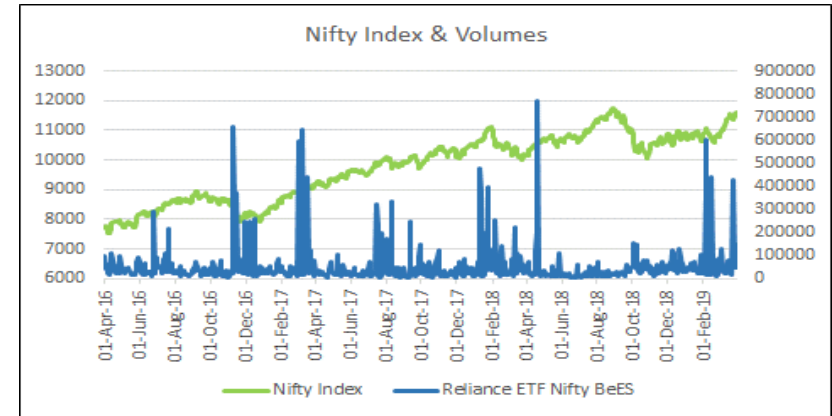
The NIFTY 50 tracks the performance of top 50 large cap companies selected based on free float market capitalization accounting for 13 sectors of the economy. The NIFTY 50 Index represents about 66.8% of the free float market capitalization of the stocks listed on NSE as on March 29, 2019. The total traded value of NIFTY 50 index constituents for the last six months ending March 2019 is approximately 53.4% of the traded value of all stocks on the NSE.

### Sector allocation



### Top 5 Constituents:

Constituent	Weights (%)
HDFC Bank Ltd.	10.53
Reliance Industries Ltd.	10.07
HDFC	6.95
Infosys Ltd.	6.03
ICICI Bank Ltd.	5.55



### List of Nifty ETFs

Scheme Name	Corpus (Rs in cr)	Tracking Error	6 Months absolute	1 Year CAGR	3 Year CAGR	5 Year CAGR
<b>Reliance ETF Nifty BeES</b>	1,164.27	0.1045	6.81	16.36	16.54	12.85
ICICI Pru Nifty ETF	1,120.09	0.1036	6.77	16.28	16.61	12.93
SBI ETF Nifty 50	51,782.43	0.1047	6.81	16.35	16.73	-
UTI-Nifty ETF	12,756.71	0.1047	6.80	16.32	16.78	-
HDFC Nifty 50 ETF	308.16	0.1046	6.81	16.34	16.64	-
Kotak Nifty ETF	759.07	0.1046	6.75	16.24	16.60	12.98
LIC MF ETF NIFTY	523.93	0.1040	6.72	16.26	16.59	-
Aditya Birla SL Nifty ETF	154.66	0.1109	6.52	15.86	16.42	12.86
Edelweiss ETF - Nifty 50	1.93	0.1043	7.01	16.45	16.54	-
Invesco India Nifty ETF	2.06	0.1044	6.77	16.24	16.67	12.83
Quantum Nifty ETF	4.87	0.1044	6.77	16.27	16.52	12.86

Trailing Returns as on 31.03.2019, Highlighted ETF is recommended. Schemes with history of 3 years are considered.

### Nifty Next 50:

The NIFTY Next 50 Index represents 50 companies from NIFTY 100 after excluding the NIFTY 50 companies. NIFTY Next 50 is an index that represents the performance of 50 large cap stocks which come after the top 50 (NIFTY 50) in order of free float market capitalization in NIFTY 100. NIFTY Next 50 thus represents companies which are presently below the NIFTY 50 index constituents in terms of free float market cap and may be potential candidates for inclusion in NIFTY 50 in future, subject to index criteria. Over last 18 years, in all 41 stocks have been upgraded to NIFTY 50, out of which 27 stocks presently form the part of NIFTY 50.

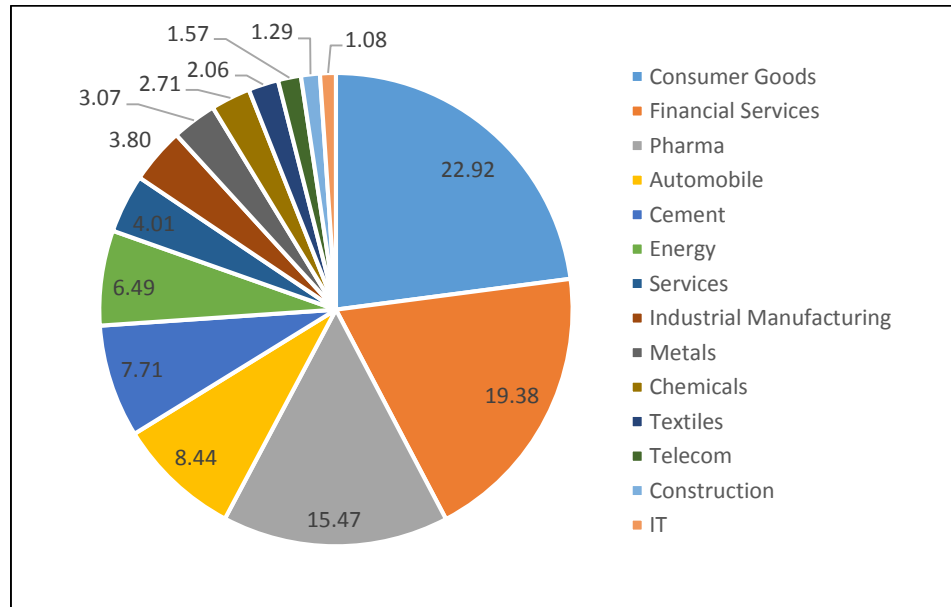
The NIFTY Next 50 Index represents about 10% of the free float market capitalization of the stocks listed on NSE as on December 31, 2018. On a stock level basis, NIFTY Next 50 boasts of a diversified and well distributed portfolio with top 10 stocks contributing close to ~35% exposure.

NIFTY Next 50 portfolio is well diversified across 14 sectors with top 5 sectors represents 76% of its portfolio and at stock level where total weight of top 10 stocks is about 35.4%. NIFTY Next 50 index has historically significantly outperformed NIFTY 50 index since its inception for longer investment horizon. This index includes emerging bluechips and/or future leaders in their respective sectors.

Nifty Next 50 vs Nifty 50

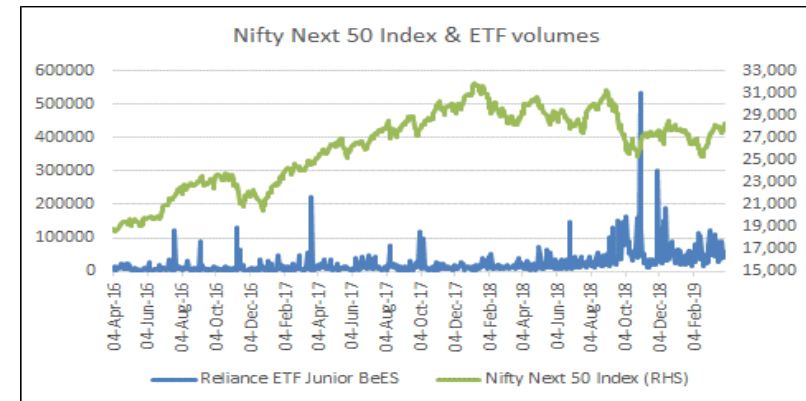


### Sector allocation



### Top 5 Constituents:

Constituent	Weightage (%)
Godrej Consumer Products Ltd.	3.70
Piramal Enterprises Ltd.	3.56
Dabur India Ltd.	3.29
Shree Cement Ltd.	3.24
Aurobindo Pharma Ltd.	3.14



**List of Nifty Next 50 ETFs**

Scheme Name	Corpus (Rs in cr)	Tracking Error	6 Months absolute	1 Year CAGR	3 Year CAGR	5 Year CAGR
Reliance ETF Junior BeES	1,228.64	0.6659	3.83	-0.10	16.23	16.83
UTI-Nifty Next 50 ETF	27.81	0.6665	4.10	0.01	-	-
SBI ETF Nifty Next 50	49.78	0.6668	4.03	-0.04	16.67	-

Trailing Returns as on 31.03.2019, Highlighted ETF is recommended

**Nifty Bank:**

NIFTY Bank Index is comprised of the most liquid and large capitalised Indian Banking stocks. It provides investors and market intermediaries with a benchmark that captures the capital market performance of Indian Banks. The Index comprises of maximum 12 companies listed on National Stock Exchange of India (NSE).

**Why Nifty Bank Index?**

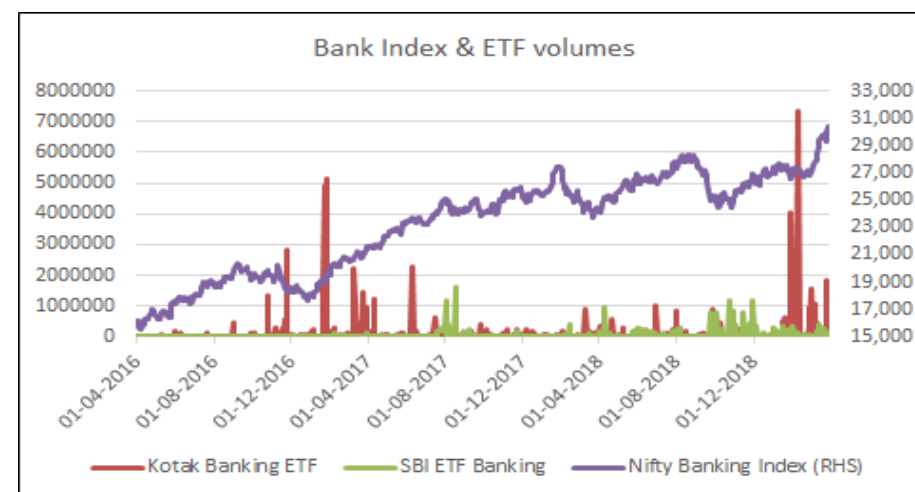
Financial sector is well positioned. Banks have outperformed almost every time the market has moved out of a bear market or a period of short-term vulnerability. Improvement in asset quality and earnings visibility are the carrots for banks.

1. Slippages or fresh bad loan formation is expected to come down materially. Slippages ratio have peaked and have already started coming down.
2. Credit costs is expected to normalise over the next two years. This is likely to be driven by lower incremental slippages and recoveries from existing NPLs referred to IBC.
3. Banks have already provided well on legacy NPLs. Much of the credit costs increase seen in the last few years was due to ageing of NPLs. With Provisioning Coverage ratio (PCR) now at healthy levels, credit costs related to improvement in PCR will come down.
4. The stressed corporate exposure as a percentage of total bank credit declined
5. Recoveries from NCLT accounts should aid in provision write-backs.

**Why Not PSU Bank Index?**

1. Risk of forced mergers with smaller, weaker PSU banks
2. Equity dilution at well below book value
3. Possible risk from farm NPLs due to loan waivers
4. Lack of any structural reforms
5. CET1 – private sector banks are much better capitalised compared to PSUs

Even if some PSU banks come out of PCA they are unlikely to grow their balance sheets meaningfully. The capital infusion by the government just meets the required provisioning and solvency norms but doesn't give growth capital for the PSU banks. Private sector banks will be in a position to capture market share not only from PSU banks but also from NBFCs.





Nifty Bank - Constituents	Weightage (%)
HDFC Bank	32.28
ICICI Bank	17.65
Kotak Bank	12.19
Axis Bank	11.65
SBI	9.22
Indusind Bank	6.99
Yes Bank	3.91
RBL	2.16
Federal Bank	1.47
Bank of Baroda	0.94
IDFC First	0.79
Punjab National Bank	0.75

Past 3 years NAV Movement - Nifty Bank vs Nifty 50



### List of Banking ETFs

Scheme Name	Corpus (Rs in cr)	Tracking Error	6 Months absolute	1 Year CAGR	3 Year CAGR	5 Year CAGR
<b>Kotak Banking ETF</b>	7,047.53	0.475	20.96	25.55	25.33	-
Reliance ETF Bank BeES	5,901.82	0.475	21.02	25.66	25.23	19.45
SBI ETF Nifty Bank	1,562.08	0.475	21.03	25.65	25.34	-
Edelweiss ETF - Nifty Bank	1.15	0.4748	21.12	25.77	25.46	-

Trailing Returns as on 31.03.2019, Highlighted ETF is recommended

### ETFs performance

Scheme Name	Latest Corpus (Rs crs)	Expense Ratio TER (%)	6 Months Absolute	1 Year CAGR	3 Years CAGR	Tracking Error	Average Daily Prem/(Disc) %	Average Daily Net Turnover Rs.	Average Daily Volume
Reliance ETF Junior BeES	960.44	0.23	3.83	-0.10	16.23	0.67	0.1809	1,25,67,726	44,173
Kotak Banking ETF	6088.74	0.18	20.96	25.55	25.33	0.48	0.0030	3,69,11,281	1,34,026
Reliance ETF Nifty BeES	1164.27	0.11	6.81	16.36	16.54	0.10	0.0031	5,16,51,724	45,787

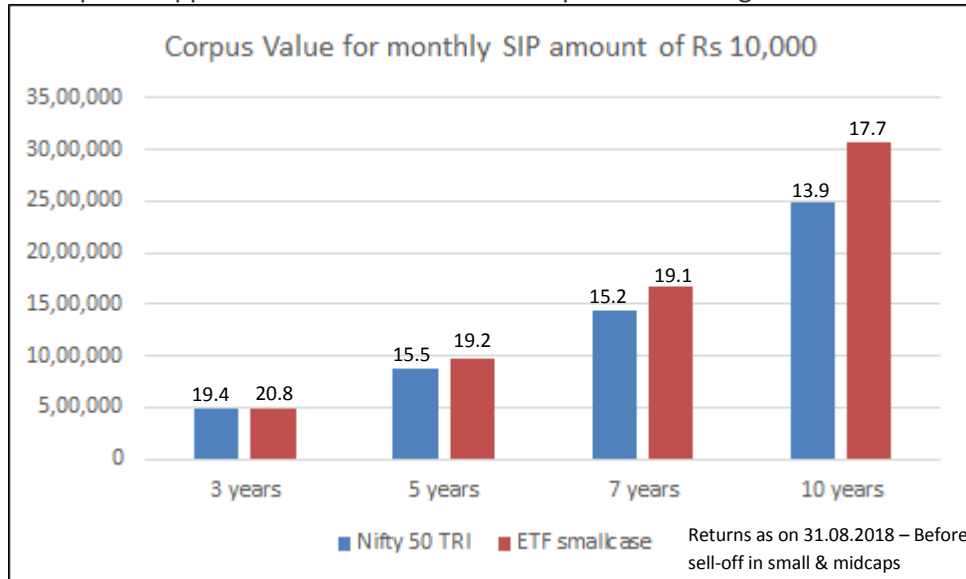
Note: Returns are trailing as on 31.03.2019. Tracking error, Prem/(disc), Volume and turnover data are based on last one year

### Why SIP in ETF Smallcase?

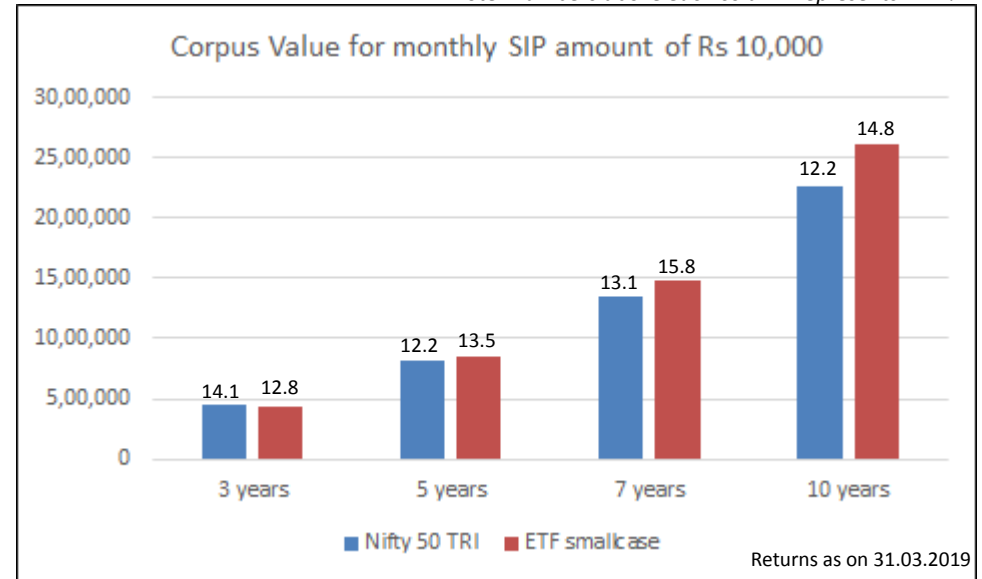
Large cap stocks continue to remain richly valued. Once you have invested in a smallcase, you can safeguard your investments from market volatility by starting SIP to invest more regularly. When your SIP instalment is due, you can confirm investing more in 2 clicks. SIP is suitable for first time investors and investors looking for relatively stable returns with diversification benefit.

### What are the benefits of SIP?

- Reduces Risk because of Rupee Cost Averaging.
- SIP can be started with very small amount of money.
- Timing the market is not necessary.
- Long term financial goal can be aligned with SIP.
- Disciplined approach towards Investment helps in controlling the emotions.



*Note: Numbers above each column represents XIRR%*

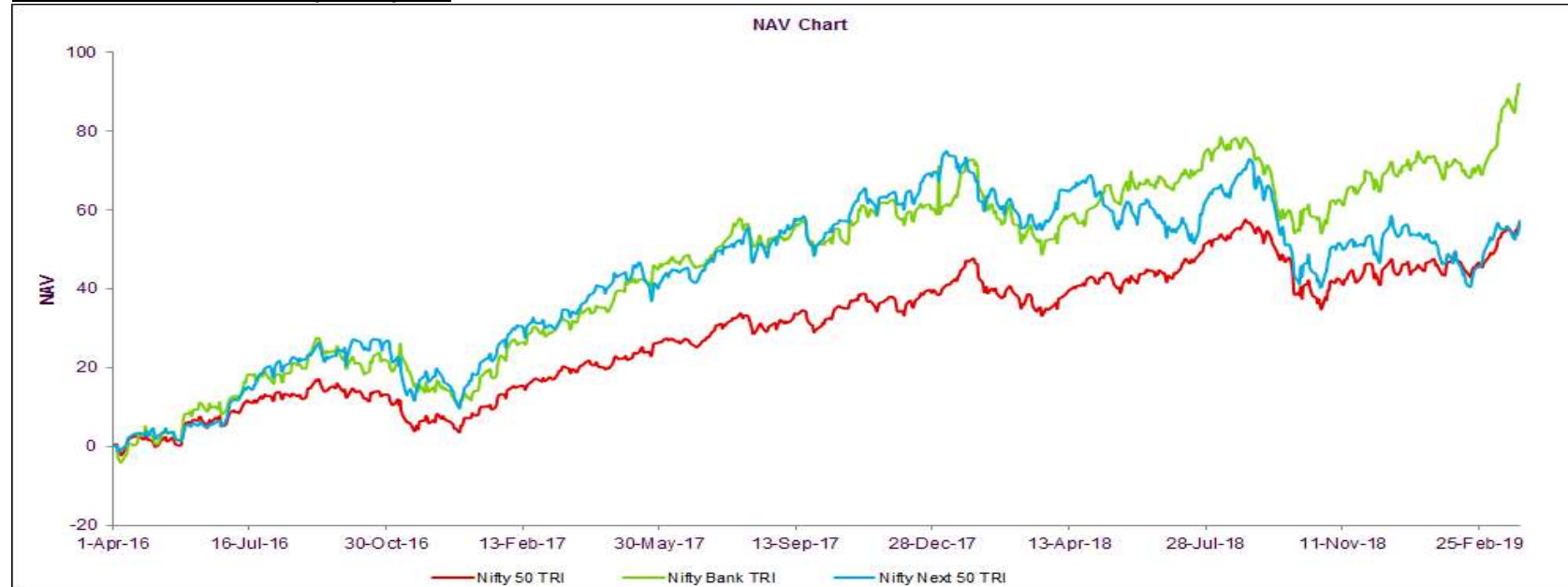


### Why lumpsum in ETF Smallcase?

ETF smallcase as a portfolio is already diversified having an exposure to 104 stocks. Highest allocation is towards HDFC Bank (~11%) followed by ICICI Bank (~7%). 97 stocks (out of 104) have less than 2% weight in the ETF smallcase. In such an over-diversified asset structure, entry timing would become less important and investors can invest at any time, though markets may look a bit stretched now. Aggressive to Moderate risk profile investors can consider lumpsum investing and in case of a sharp fall in values, look at adding/investing few more baskets at appropriate time.



### Index movement over the past 3 years



HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 3075 3450 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfsec.com](mailto:complianceofficer@hdfsec.com) Phone: (022) 3045 3600

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