

# 3 Asset Classes 1 Solution

## UTI Multi Asset Allocation Fund

Equity | Debt | Gold



### Frequently Asked Questions (FAQs)



#### What is UTI Multi Asset Allocation Fund?

UTI Multi Asset Allocation Fund (UTI MAAF) follows a model-guided asset allocation strategy that dynamically manages allocation across Equity, Gold and Fixed income. This approach brings discipline in asset allocation based on relative attractiveness of an asset class and overcomes emotional biases associated with Investing. The fund endeavors to deliver portfolio diversification across asset classes and aims to generate better risk-adjusted returns across market cycles.



## What is the asset allocation strategy of UTI Multi Asset Allocation Fund?

UTI Multi Asset Allocation Fund invests across equity (net long exposure: 40%-80%), gold (10%-25%) and fixed income (10-25%) driven by an in-house proprietary asset allocation model guided by fundamental and valuation-based factors that determines the net equity allocation for the fund and allocation to gold is based on relative performance of Gold as compared to Equity gauged by Gold/Equity (G/E) Ratio trend.

The fund shall take exposure to arbitrage (long stock, short futures) to manage gross equity exposures at 65% (to maintain Equity status of the fund) of total portfolio. The balance portfolio will be invested in Gold ETF and fixed income securities.



## What are the factors driving UTI MAAF asset allocation model?

The UTI MAAF Model determines the allocation of Equity and Gold.

For equity allocation the model assesses four factors that have been proven for having correlation with the market forward returns to determine the net equity allocation. These factors are:

### **Valuation based factors: Have negative correlation with market forward returns**

- **1Y Forward Price to Earnings (PE) Ratio** – Higher the P/E ratios, lower the equity allocation.
- **TTM\* Price to Book (PB) Ratio** – Higher the P/B ratios, lower the equity allocation.

### **Yield based factors: Have positive correlation with market forward returns.**

- **TTM\* Dividend Yield** – Higher the dividend yield, higher the equity allocation.
- **Yield Gap** – Yield gap is difference of Equity Yield (1/1 year Forward Nifty 50 P/E Ratio) and Bond Yield (10-year GSEC Yield). The higher the yield gap relative to history, the higher the equity allocation.

\*TTM – Trailing 12 months

For gold allocation the model assesses the Gold/Equity (G/E) Ratio which is based on historical trends. When G/E Ratio is below mean, the allocation to Gold is Higher and vice versa. The Residual Allocation goes to fixed income through exposure in high rated Fixed Income & money market instruments.



## What is the weightage given to each of the factors within the model?

The weightages of these factors are dynamic in nature as we are using multiple statistical approaches to arrive at the final net equity allocation. The four factors in the model are interlinked with each other. The model takes into consideration the correlation of each factor with market performance and thus the model implicitly assigns relatively higher weightages to factors having higher correlation with market performance. The model gets updated as new data points are generated. As a result, the model is dynamic in nature rather than static, which implies that weightages for each factor implicitly used by model will also keep changing over time.



## When will the model rebalance the allocation between equity, gold & fixed income?

The in-house factor-based model evaluates the net equity allocation and gold allocation on a daily basis for the purpose of rebalancing.

The rebalancing of equity is undertaken if the difference between the current net equity allocation of the scheme and the equity allocation suggested by the model is more than the tolerance band of  $\pm 7\%$ . (Tolerance band shall be reviewed on periodic basis).

The rebalancing between gold is undertaken if the difference between the current gold allocation of the scheme and the gold allocation suggested by the model is more than the tolerance band of  $\pm 5\%$  (Tolerance band shall be reviewed on periodic basis)

Let us assume that the current scheme net equity allocation is 62%. Let us also assume that when the model is run next week it suggests a net equity allocation of 67%. Since, the indicative net equity allocation lies within the tolerance band of  $\pm 7\%$  i.e., 69% (62% + 7%) and 55% (62% - 7%), there will be no rebalancing undertaken in this weekly review.

For the sake of understanding let us assume that in a subsequent week the model suggests an allocation of 71% and the scheme net allocation is at 62%. Now the difference is more than 7% and hence the scheme will raise its allocation to match the level of 71% suggested by the model.

Similar is the case with allocation of Gold with its tolerance range.



## What is the logic of having a tolerance band for the purpose of rebalancing?

Every transaction in the scheme will result in transaction cost and impact cost that is borne by the scheme. There is a need to balance between frequent asset allocation to changes and the cost associated with rebalancing. The model is back tested for multiple tolerance band ranges, and it was observed that the tolerance bands for rebalancing was providing the most optimal returns for the portfolio after considering the likely costs towards churn like impact cost, transaction charges, etc.



## What is the difference between the model that runs in UTI MAAF & UTI BAF?

Both these schemes employ the same in-house proprietary model to determine the net equity allocation based on factors related to valuation & yield.

In the case of UTI BAF, the asset allocation is determined between two asset classes (equity & fixed income) while in case of UTI MAF allocation is determined across three asset classes (equity, fixed income & gold). Accordingly, the net equity allocation range for UTI BAF is 30% to 90% and for UTI MAF is 40% to 80%. Gold has a 10-25% weight in UTI MAF whereas in UTI BAF there is no allocation to gold.



## How is our model different from other models in the market?

For equity allocation, we use a four-factor methodology vs many other models in the market may use only one factor. Our model uses 3 separate factors linked to equity valuation – P/B, P/E and Dividend yield. This reduces the risk posed by using only a single factor. Further our model uses an inter asset comparison factor – we compare equity earnings yield (1/PE ratio) vs 10-year G sec yield by taking a difference between the two yields. This use of four factors including an inter asset comparison factor makes our model unique.

While allocation for gold is largely discretionary with the majority of schemes in the category, we use the Gold/Equity (G/E) Ratio.

Therefore, the use of four factors (dynamic weightages) including an inter asset comparison factor for net equity allocation and G/E ratio for gold allocation makes our model unique.



## What is the investment strategy for equity and fixed income portfolios in UTI MAAF?

While the factor-based model will determine the asset allocation between asset classes, the fund managers will actively manage the equity & fixed income portions of the portfolio.

The fund manager would employ **Integrated Investing** that combines fundamental research with market signals for construction of the equity portion of the portfolio. The fund manager will have the flexibility to invest across the market cap spectrum. The stock selection is based on market signals i.e

**Market factor – Momentum/ Volatility**

**Fundamental factor – Quality/ Growth/ Value**

**Size factor – Large/ Mid/ Small Caps**

The equity portfolio shall be dynamically managed across the factors based on relative attractiveness.

The focus on the fixed income portion will be on construction of a 'Quality' and 'Liquid' portfolio.

The fund manager will be predominantly investing in Sovereign/AAA & equivalent rated papers across the shorter to moderate end of the yield curve. The risk management for this strategy ensures that the strategy does not pick lower rated credits.



## Given that the scheme will allocate in both equity, gold and fixed income assets dynamically, what will be the applicable taxation for the scheme?

Though the asset allocation in the scheme shall be managed dynamically, the endeavor will be to maintain at least 65% of the total portfolio of the fund in domestic equity & equity related instruments (based on annual average of the monthly averages of opening and closing figures) to attract equity taxation benefits as per prevailing tax laws.



## Will the fund manager use derivatives in construction of the portfolio?

If the target net equity allocation is below 65% the fund will maintain arbitrage positions (long stock-short futures) to maintain the gross equity allocation above 65% of the total portfolio. To illustrate, if the net equity allocation of the scheme is 45%, to gross up the equity exposure to 65% of the portfolio, the scheme will take an arbitrage exposure (long stock -short future) to the tune of 20%.

Arbitrage positions by the definition are fully hedged and hence such positions may also be taken in stocks which are not part of the UTI universe (not researched) based on the attractiveness of the arbitrage yield.

The fund may take derivative/arbitrage positions within the framework of scheme information document as per the stated investment objective and asset allocation of the scheme.



## How will the fund manager deploy the funds for gold allocation?

The fund manager will deploy 10%-25% of the portfolio in gold as determined by the model through exposure in Gold ETFs.



## What are the benefits of UTI Multi Asset Allocation Fund?

- **Portfolio Diversification** – Intends to invest 3 asset classes, i.e equity, gold and fixed income
- **Disciplined approach** – Dynamic asset allocation based on in-house model driven approach which brings discipline to investing.
- **Eliminates behavioral biases** – Model guided asset allocation based on valuations to eliminate individual biases
- **Professionally managed** – Managed by a team with vast experience in research & portfolio management
- **Tax efficient** – Endeavors to provide equity taxation\*



## Who should invest in UTI Multi Asset Allocation Fund?

Investors looking for long term wealth creation

Investors looking for a diversified portfolio of equity, gold and fixed income

Investors looking for a dynamic asset allocation solution to minimise risk of market volatility

Investors seeking better risk adjusted and tax efficient reasonable returns



\*Note: The asset allocation in the scheme shall be managed dynamically as per the stated Investment objective, investment strategy, asset allocation in Scheme Information Document (SID), with an endeavor to maintain at least 65% of the total portfolio of the fund in domestic equity & equity related instruments (based on annual average of the monthly averages of opening and closing figures) to attract equity taxation benefits as per prevailing tax laws. The fund will take exposure to derivatives/arbitrage to manage gross equity exposures at 65% of the total portfolio.

## Fund Facts

<b>Fund Manager</b>	Equity: <b>Sharwan Goyal</b> Fixed Income: <b>Sunil Patil</b>
<b>Benchmark</b>	S&P BSE 200 TRI (65%), CRISIL Composite Bond Index (25%) Price of Gold (10%)
<b>Plans &amp; Options</b>	<b>Plans:</b> Regular Plan & Direct Plan <b>Options (under both Plans):</b> Growth Option & Payout of IDCW Option
<b>Exit Load</b>	a). Redemption/ Switch-out within 12 months from the date of allotment: 1) up to 10% of the allotted Units – Nil 2) beyond 10% of the allotted Units - 1.0% b). Nil thereafter
<b>Minimum Application Amount</b>	<b>Initial Purchase:</b> ₹5000 and in multiples of ₹1/- <b>Additional Purchase:</b> ₹1,000 and in multiples of ₹1/-

IDCW – Income Distribution cum Capital Withdrawal. For further details, please refer to the Scheme Information Document.

## Product Label & Riskometer

Scheme Name	This product is suitable for investors who are seeking*:	Riskometer
<b>UTI Balanced Advantage Fund</b>	<ul style="list-style-type: none"> <li>Long term capital appreciation and income</li> <li>Investment in a dynamically managed portfolio of equity and debt instruments</li> </ul>	 RISKOMETER Investors understand that their principal will be at High Risk.
<b>UTI Multi Asset Allocation Fund (Erstwhile UTI Multi Asset Fund)</b>	<ul style="list-style-type: none"> <li>Long term capital appreciation</li> <li>Investment in equity, debt and Gold ETFs with a minimum allocation of 10% in each asset class.</li> </ul>	 RISKOMETER Investors understand that their principal will be at Very High Risk.
<p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p>Risk-o-meter for UTI Balanced Advantage Fund and UTI Multi Asset Fund is based on the portfolio ending March 31, 2024. The Risk-o-meter of the fund/s is/are evaluated on monthly basis and any changes to Risk-o-meter are disclosed vide addendum on monthly basis, to view the latest addendum on Risk-o-meter, please visit addenda section on <a href="https://www.utimf.com/downloads/">https://www.utimf.com/downloads/</a></p>		

## Disclaimers

The illustrations of in-house proprietary asset allocation model are for understanding the working of the model. The performance of the internal model does not represent the performance of the scheme. Actual allocation and investing experience may vary. The portfolio will be managed as per the stated investment objective, investment strategy, asset allocation in the scheme information document (SID) and is subject to changes within the provisions of the SID of the scheme. Past performance may or may not be sustained in future.

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