

**NFO Period**

5<sup>th</sup> Dec  
2023 – 15<sup>th</sup>  
Dec 2023

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# **DSP Nifty Smallcap250 Quality 50 Index Fund**

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An open ended scheme replicating/ tracking Nifty Smallcap250 Quality 50 Index

**DSP**  
MUTUAL FUND

# Why Smallcaps and Why Quality within Smallcaps

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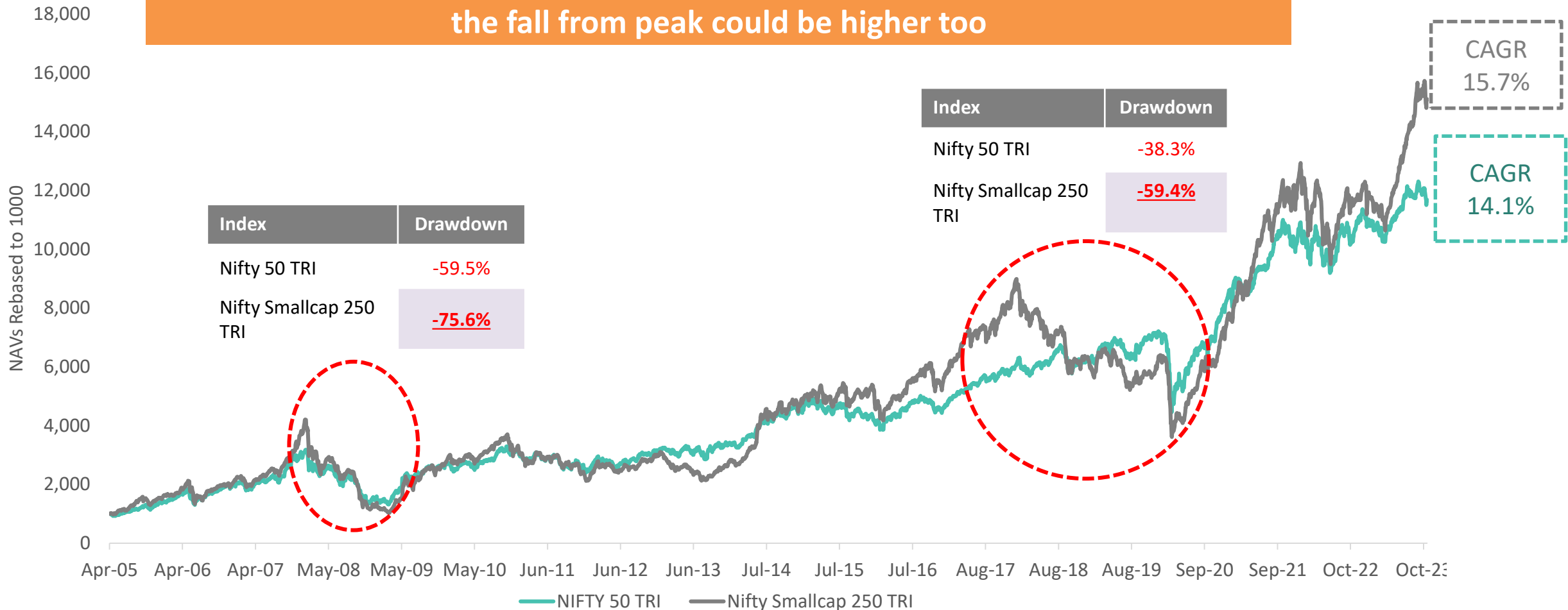
# Smallcaps – What is so different?

	LARGE	MID	SMALL
No. of companies	100 stocks	150 stocks	4813 stocks
Rank based on M cap	1-100 <sup>th</sup>	101-250 <sup>th</sup>	250 <sup>th</sup> onwards
Share of total market cap	68%	17%	15%
Total M Cap	₹ 186.7L crore	₹ 45.4L crore	₹ 41.4L crore
Avg M Cap	₹ 1.8L crore	₹ 30k crore	₹ 6.4k* crore
Min M Cap	₹ 49K crore	₹ 17K crore	₹ 0K crore
Covered by (on avg)	29 analysts	18 analysts	2 analysts
Avg Institutional Holding	19%	13%	8%*
Avg Liquidity (3M ADVT in Rs. Lacs)	35k	12k	0.9k

**Less liquid, Less explored, Vast universe, Less institutional holding**

# Why Smallcaps – High return potential albeit with higher risk- (1/2)

Smallcaps have the potential to generate alpha compared to large caps however the fall from peak could be higher too

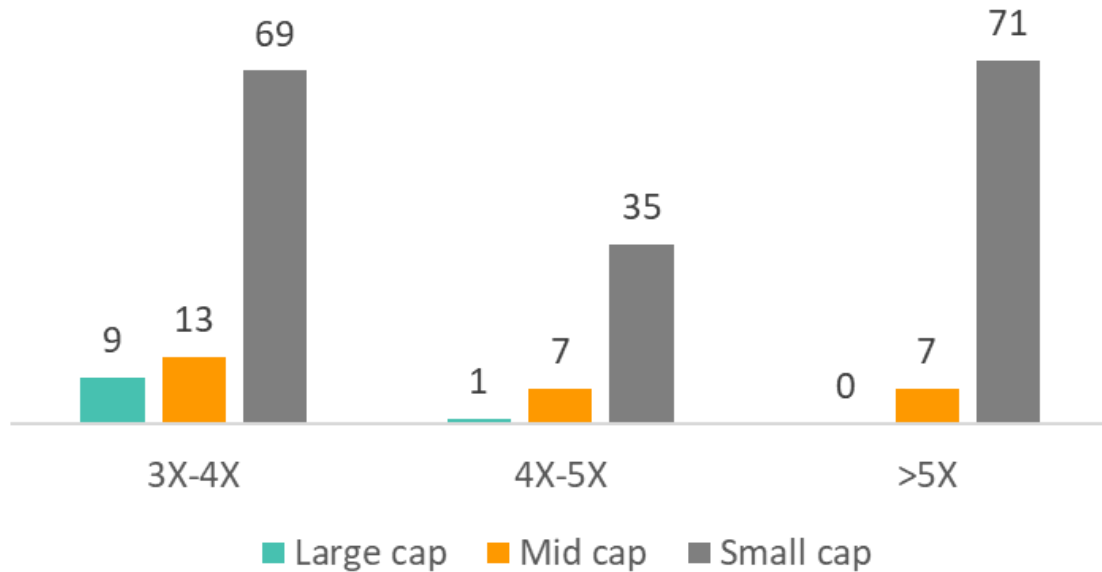


# Why Smallcaps - Probability of identifying multi-baggers are higher (2/2)

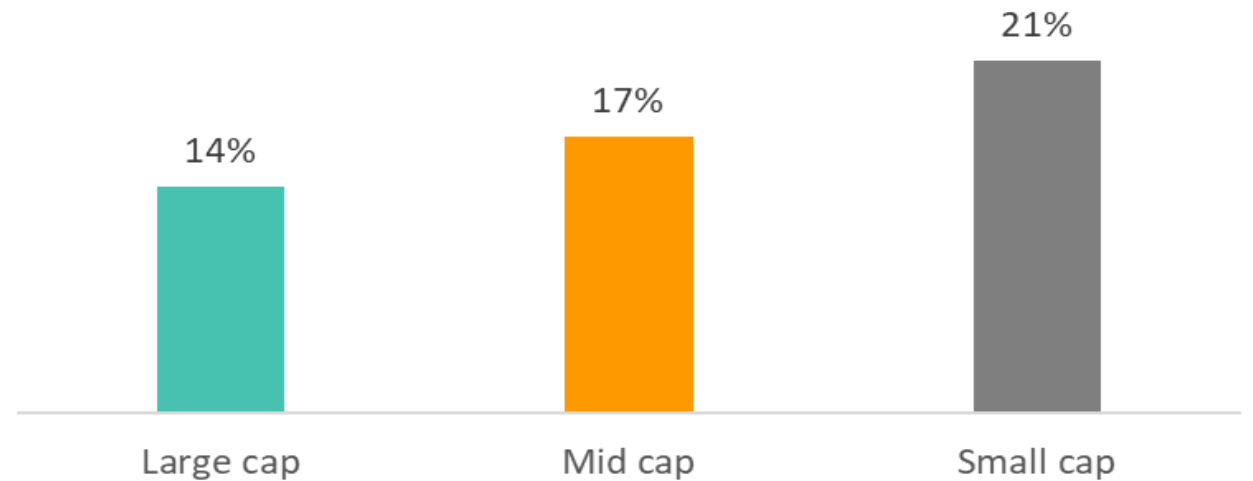
Small caps have higher no of multi baggers...

.....But also have higher no of stocks with negative long term returns

Number of Multibaggers stocks in last 5 years

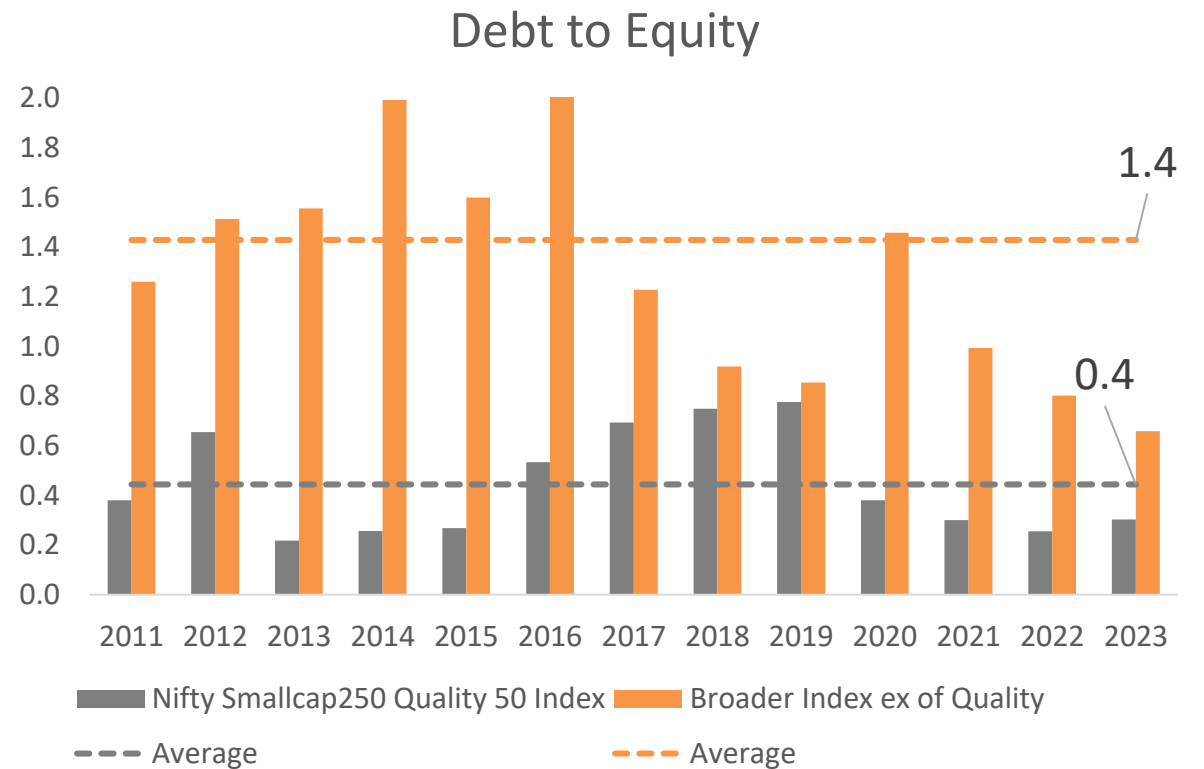
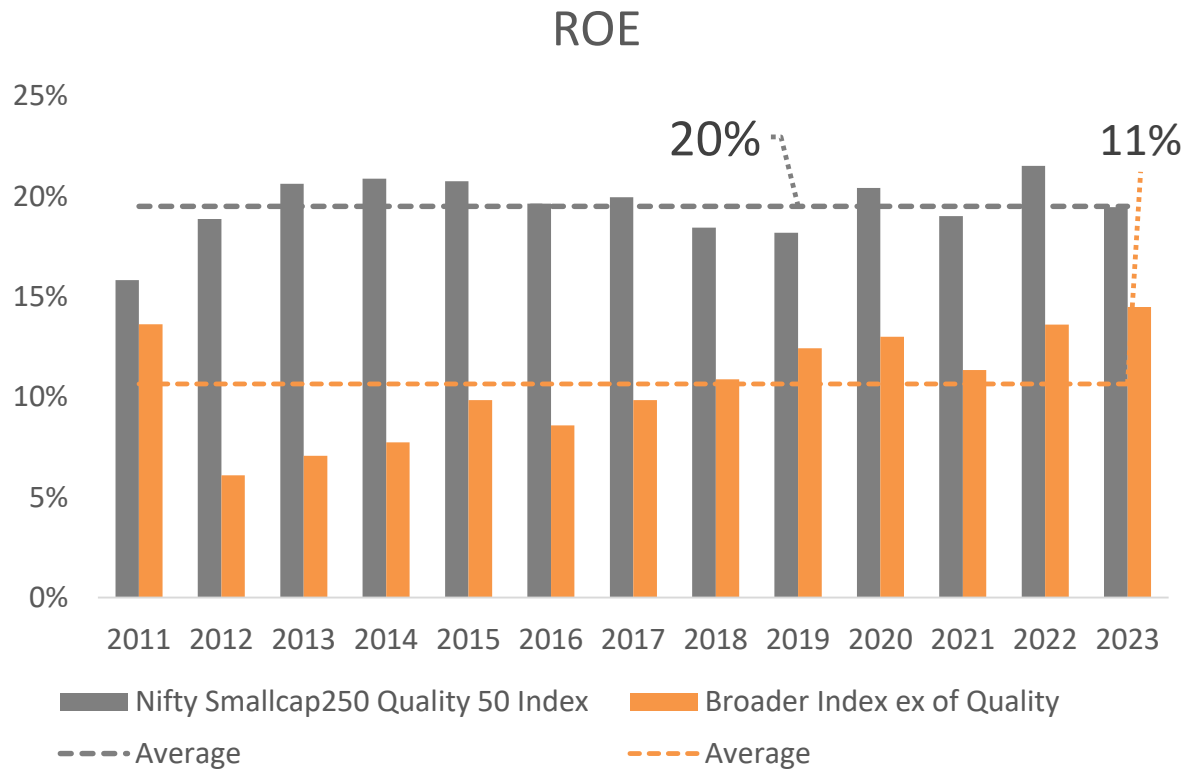


% of stocks giving negative returns in last 5 years

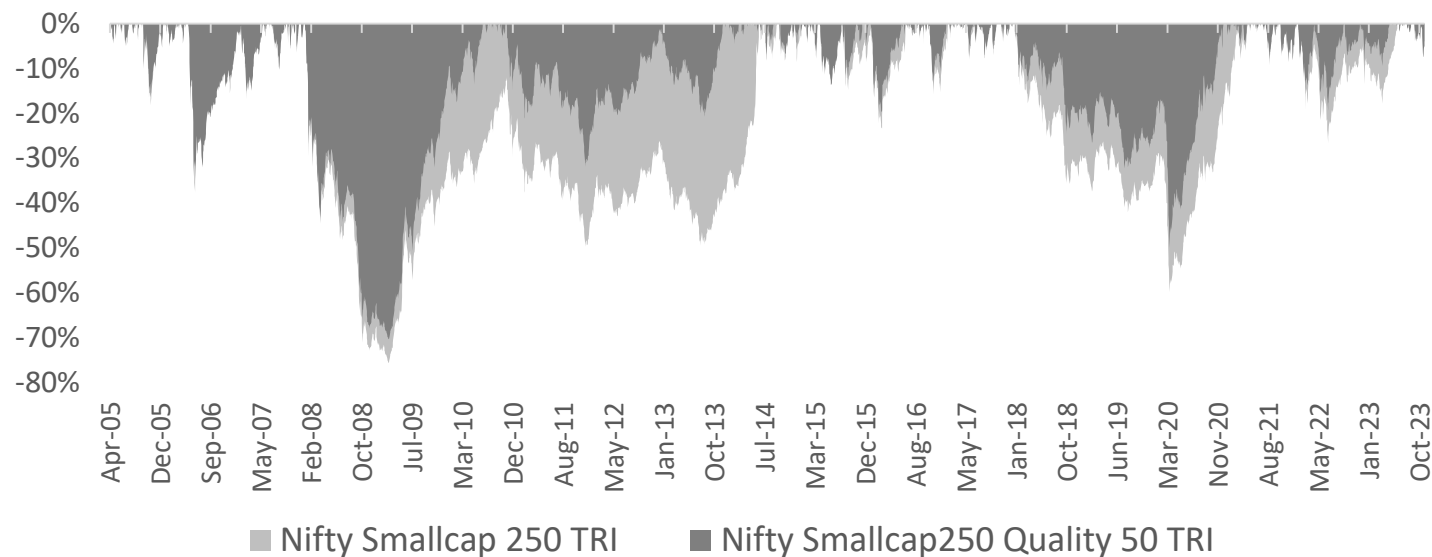


# Why Quality – fundamentally sound (1/4)

Quality Index have companies have higher ROE and lower leverage compared to the broader Index.



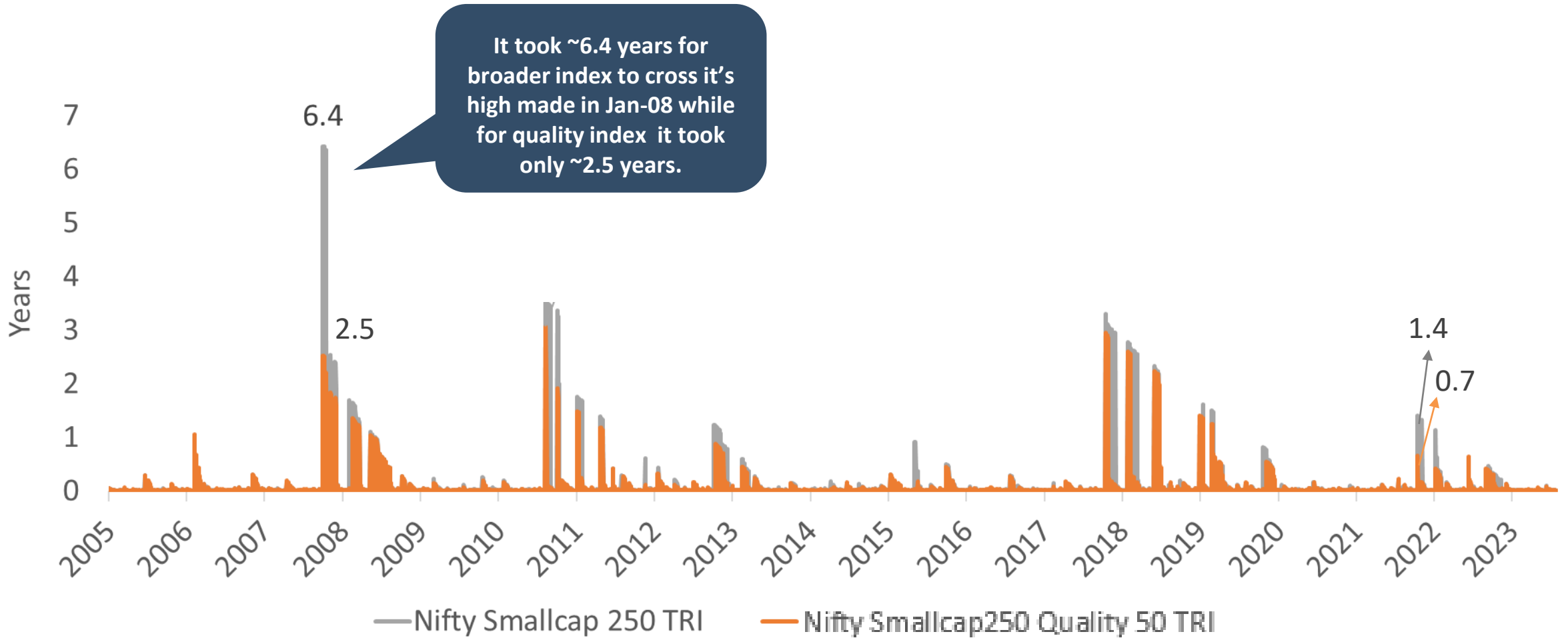
# Why quality – fall from the peaks are lower (2/4)



% times drawdown is	Nifty Smallcap250 Quality 50 TRI	Nifty Smallcap 250 TRI
< -15%	31%	52%
< -25%	15%	44%
< -35%	8%	25%
Max Drawdown	-70%	-76%

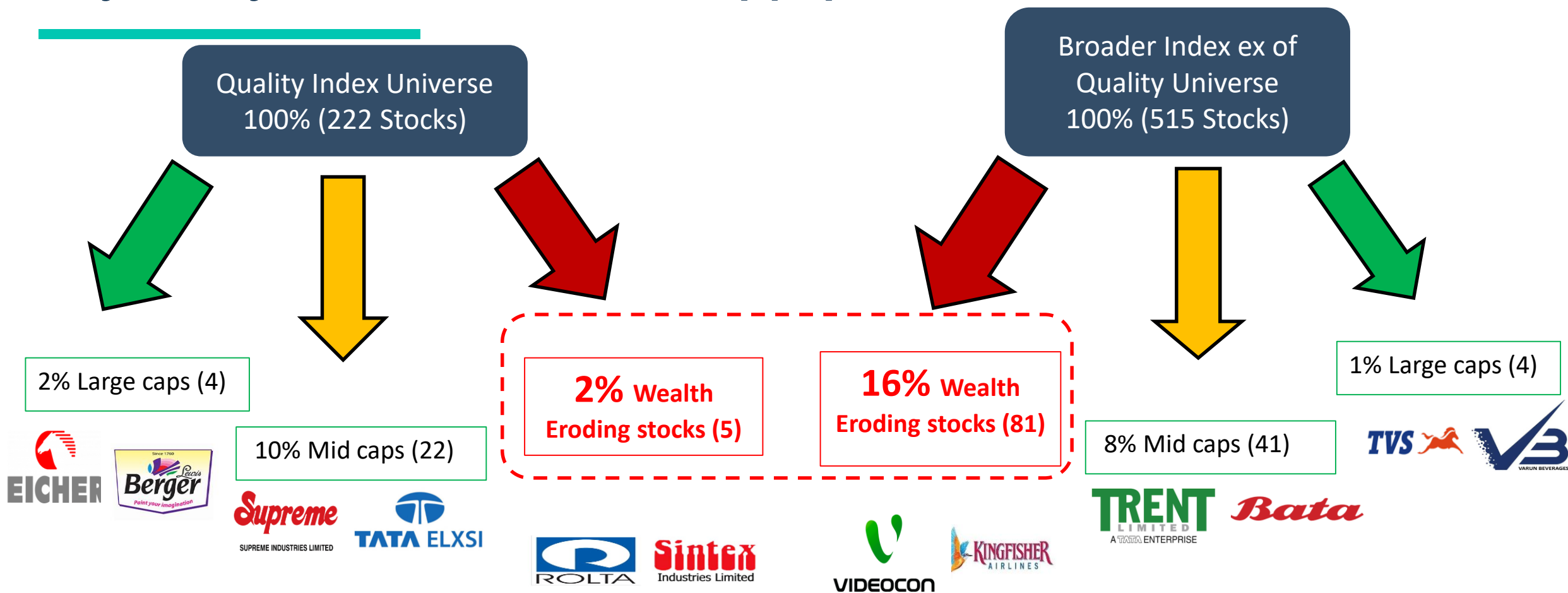
Year	Nifty Smallcap 250 TRI	Nifty Smallcap250 Quality 50 TRI
2005	-18%	-16%
2006	-38%	-37%
2007	-17%	-15%
2008	-73%	-68%
2009	-25%	-21%
2010	-20%	-15%
2011	-36%	-29%
2012	-14%	-8%
2013	-31%	-20%
2014	-9%	-7%
2015	-15%	-14%
2016	-22%	-20%
2017	-8%	-7%
2018	-36%	-25%
2019	-21%	-20%
2020	-43%	-40%
2021	-9%	-9%
2022	-27%	-19%
2023	-11%	-7%

# Why quality – recovers faster as drawdowns are lower (3/4)





# Why Quality – avoid wealth erosion (4/4)



Companies that eroded wealth were 14 times more from the broader index than the quality Index

Data from 2010 to Oct-23. Source – NSE, DSP. Large-caps are defined as top 100 stocks on market capitalization, mid-caps as 101-250, small-caps as 251 and above. Nifty Smallcap250 Quality 50 Index is referred as Quality Index and Nifty Smallcap 250 Index is referred as broader Index. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). All logos used in the image are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with or endorsement by them.

# Is this the right time?

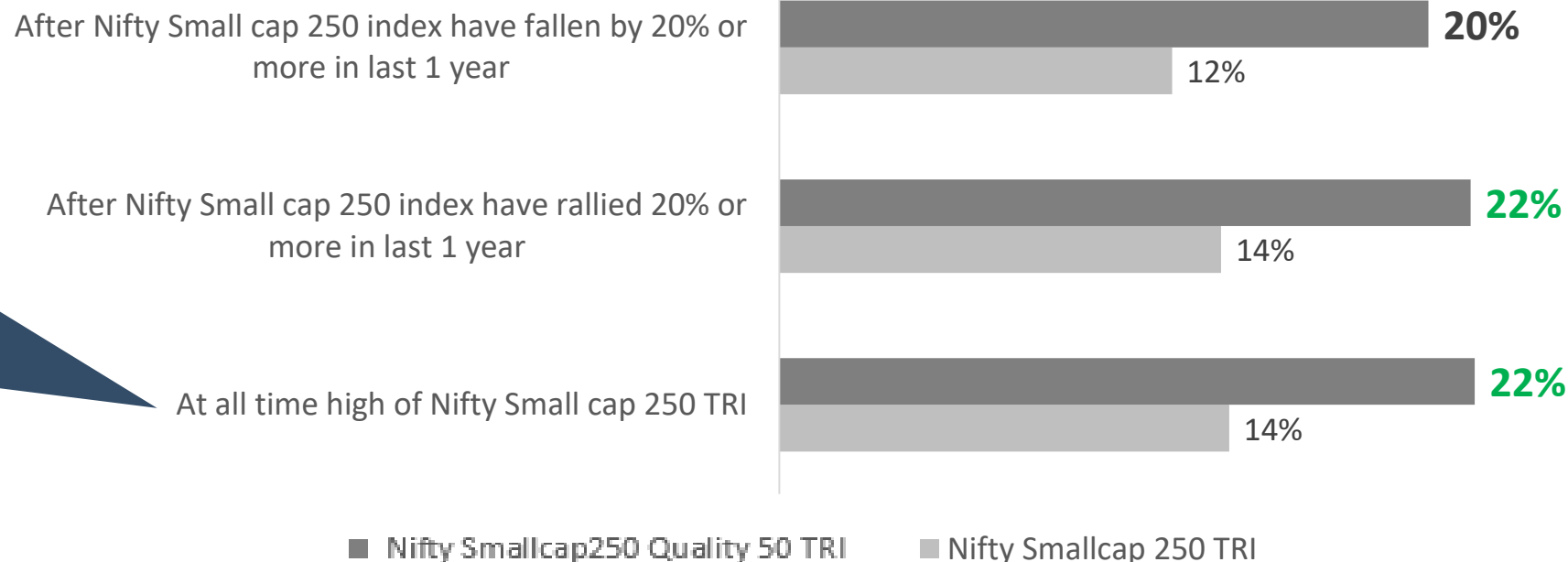
Starting a SIP at market highs, gives better behavior nudge. Initial units acquired at high prices will generate low return in short term causing one to lower expectations of returns and to stay invested for longer period.

Starting a SIP at market highs fare better because

1. whenever markets fall from peaks you start to accumulate more units (falling NAVs).
2. These higher units will get the benefit of rising NAVs when market rises again.

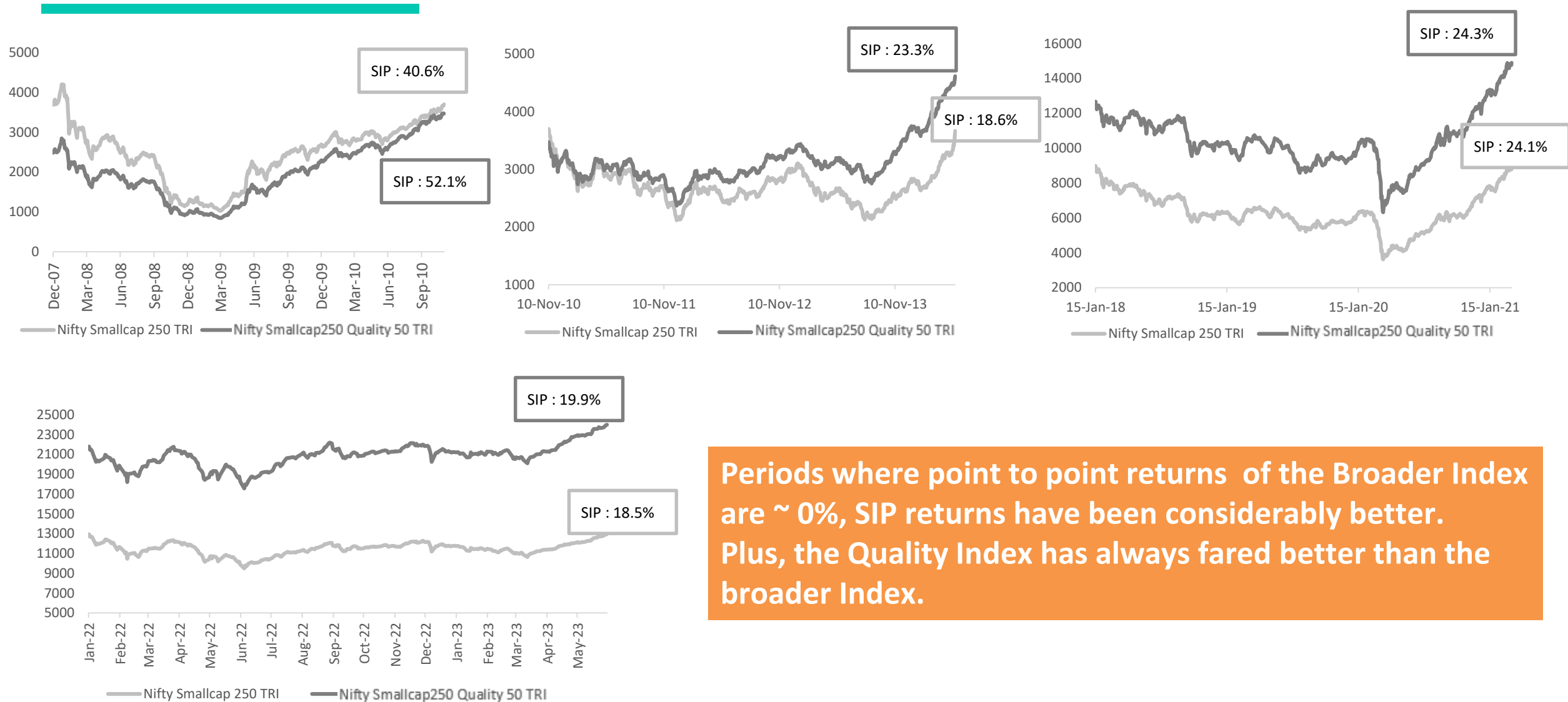
Wealth = more units x higher NAV

## Median 10 Year SIP Return



Long term SIP in Quality Index has given similar returns irrespective of market being at peak or lows and considerably better returns compared to broader Index.

# When broader Index CAGR was ~0%....



Periods where point to point returns of the Broader Index are ~ 0%, SIP returns have been considerably better. Plus, the Quality Index has always fared better than the broader Index.

# Performance

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# Why Quality – Reasonable Outperformance

Journey since inception



Calendar Year	Nifty Smallcap 250 Quality 50	Nifty Smallcap 250 TRI
2005	47%	56%
2006	15%	33%
2007	63%	97%
2008	-63%	-69%
2009	141%	117%
2010	35%	18%
2011	-26%	-35%
2012	39%	40%
2013	12%	-6%
2014	75%	72%
2015	20%	11%
2016	7%	1%
2017	46%	58%
2018	-16%	-26%
2019	-7%	-7%
2020	34%	26%
2021	66%	63%
2022	1%	-3%
2023	26%	28%

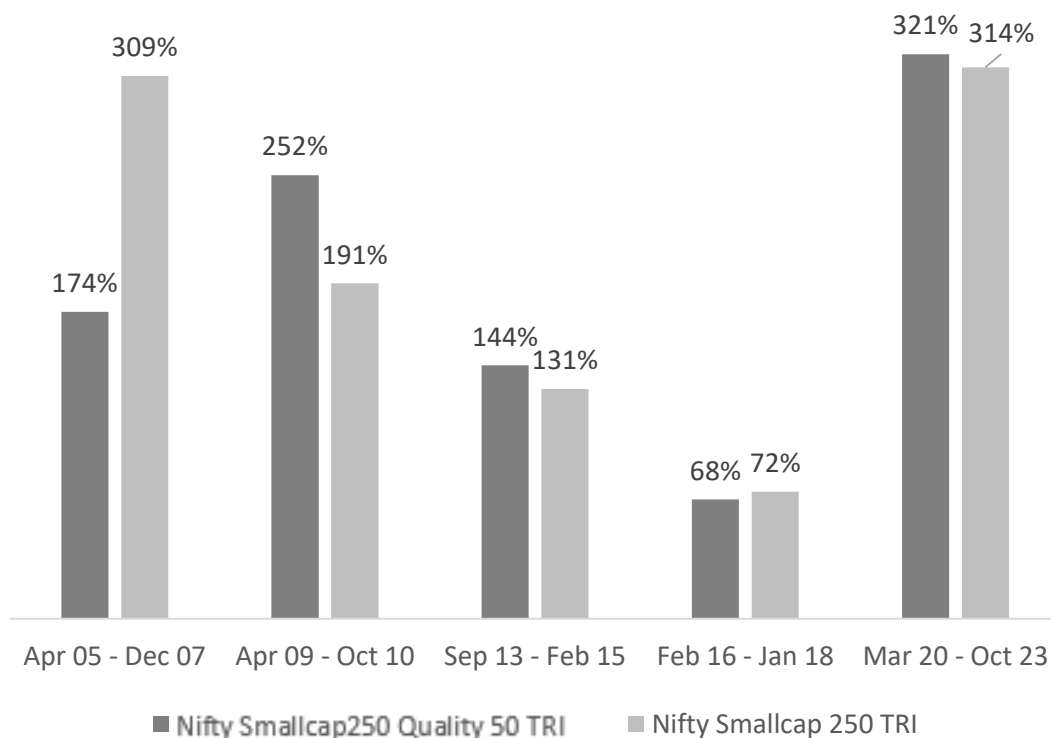
Nifty Smallcap 250 Quality 50 TRI has outperformed its parent index Nifty Smallcap 250 TRI since its inception

In 12 out of 19 calendar years - Nifty Smallcap 250 Quality 50 TRI performed better than Nifty Smallcap 250 TRI

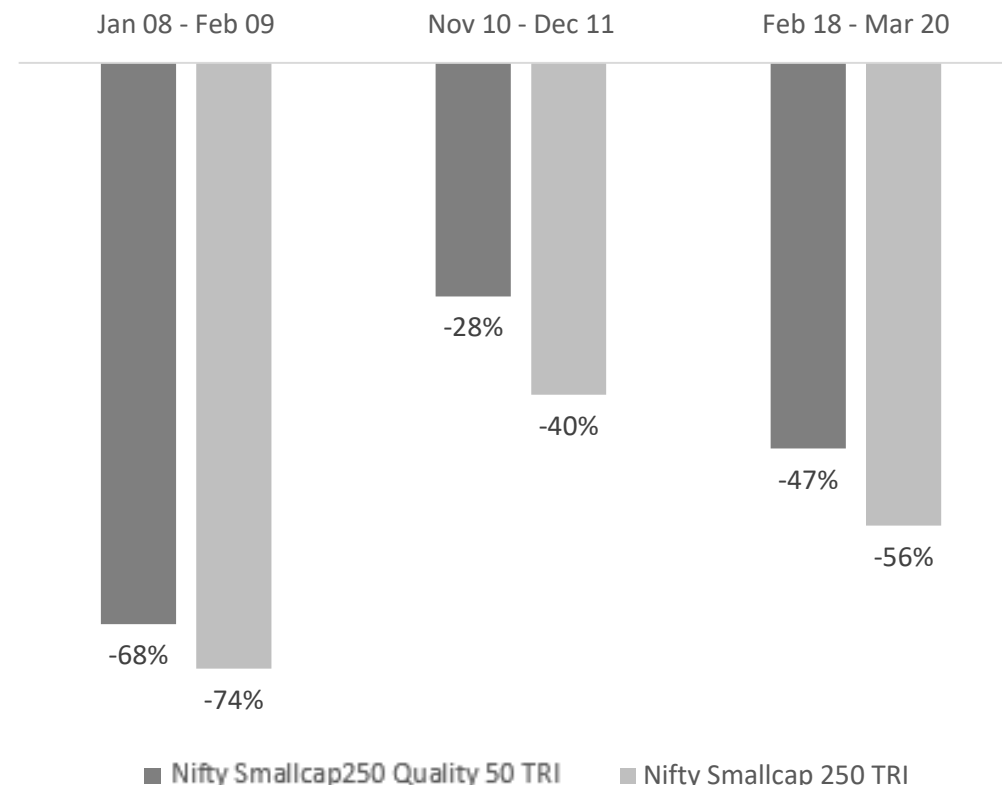
# Performance in various cycles

Quality Index has outperformed in rallies and during falls compared to the broader Index

## Bull Cycle

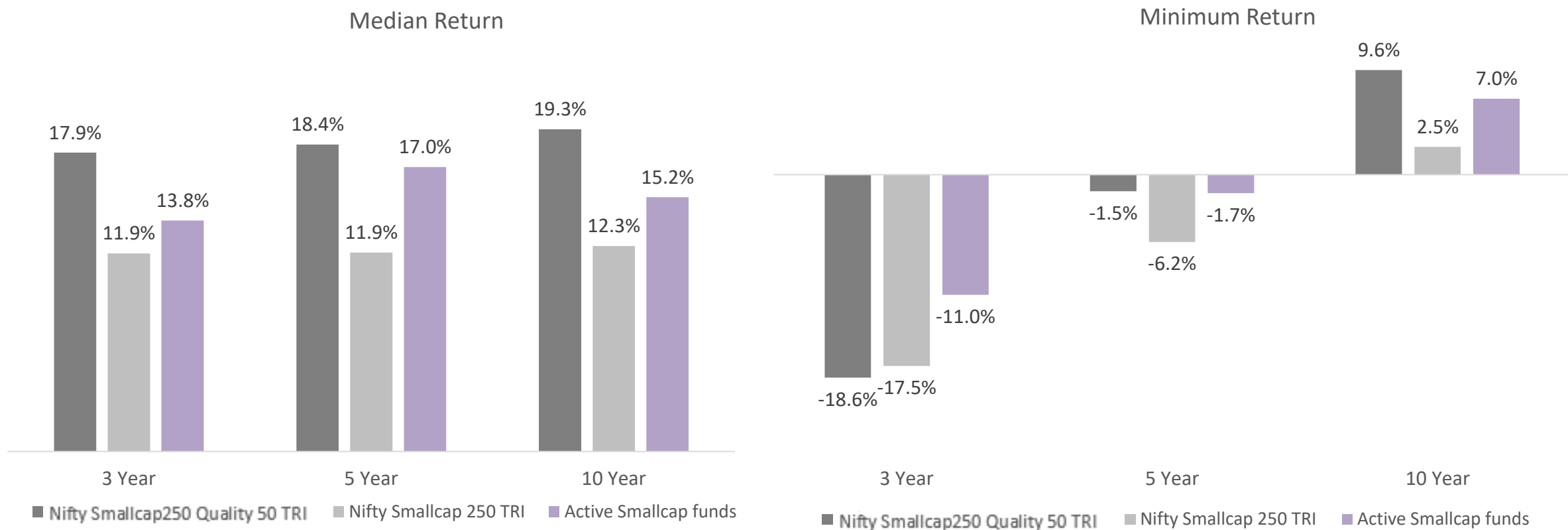


## Bear Cycle



# Rolling Returns

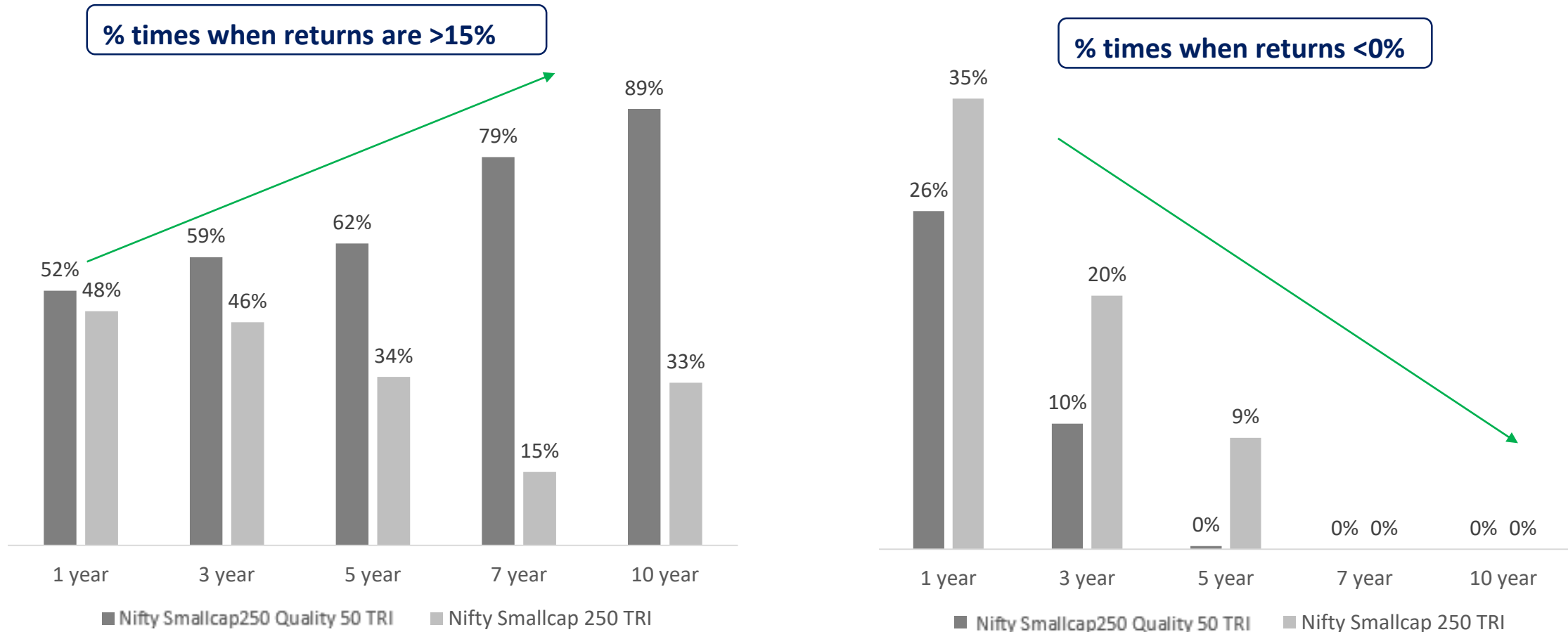
Quality index has outperformed on a rolling basis across periods indicating consistency compared to broader Index and active funds



Data as on 31 Oct 23; Source – DSP, NSE; **Past performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments.** These figures pertain to performance of the index and do not in any manner indicate the returns/performance of the scheme. Nifty Smallcap250 Quality 50 Index is referred as Quality Index and Nifty Smallcap 250 Index is referred as broader Index. Active Smallcap fund managers have their own stock selection framework & philosophy and differ from Index funds as it needs to replicate the Index.

# How a longer tenure may yield better experience

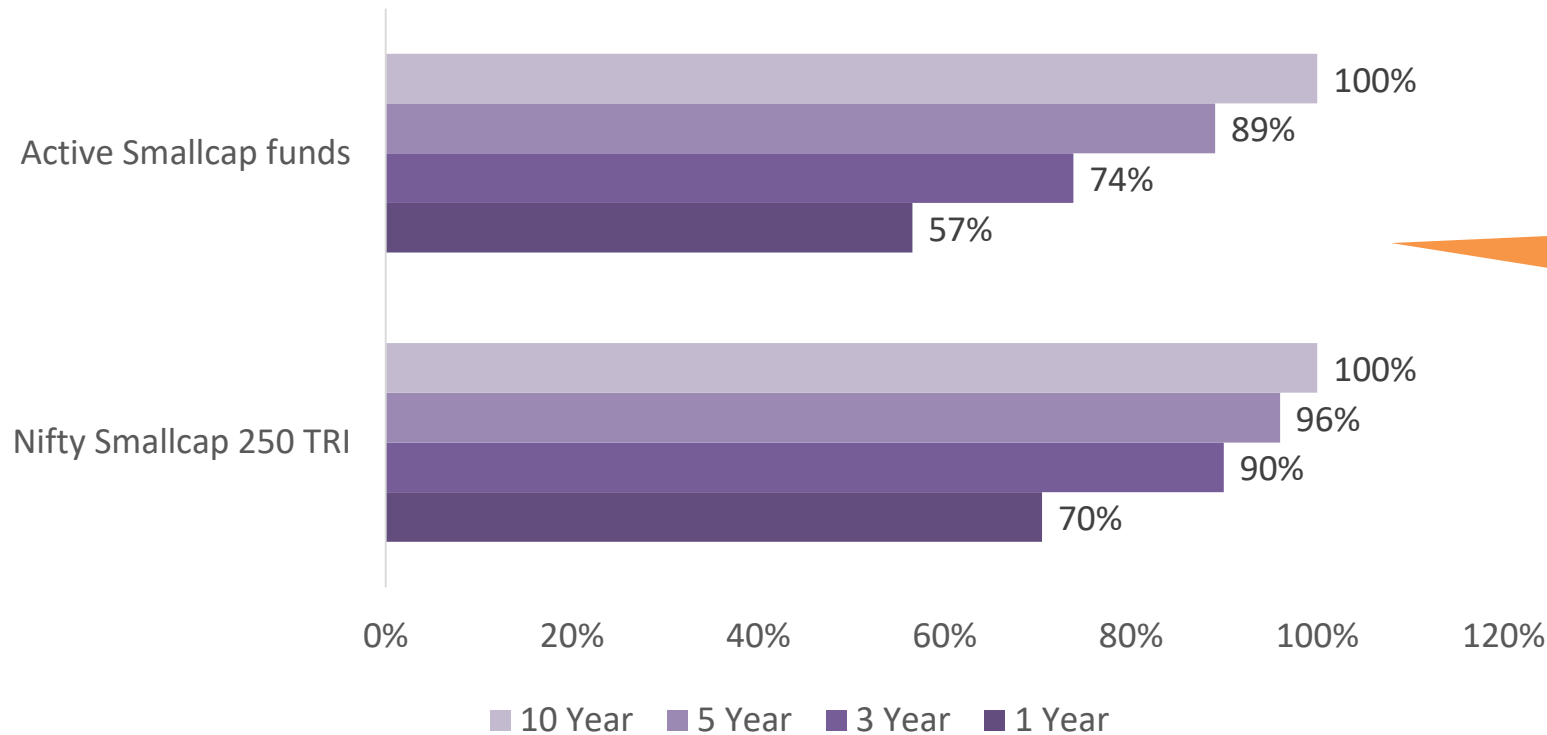
The probability of better returns increases and negative returns decreases with longer tenure for the Quality Index compared to Broader Index





# Outperformance with benchmark and Active funds

% times outperforming broader index & Active Smallcap funds average

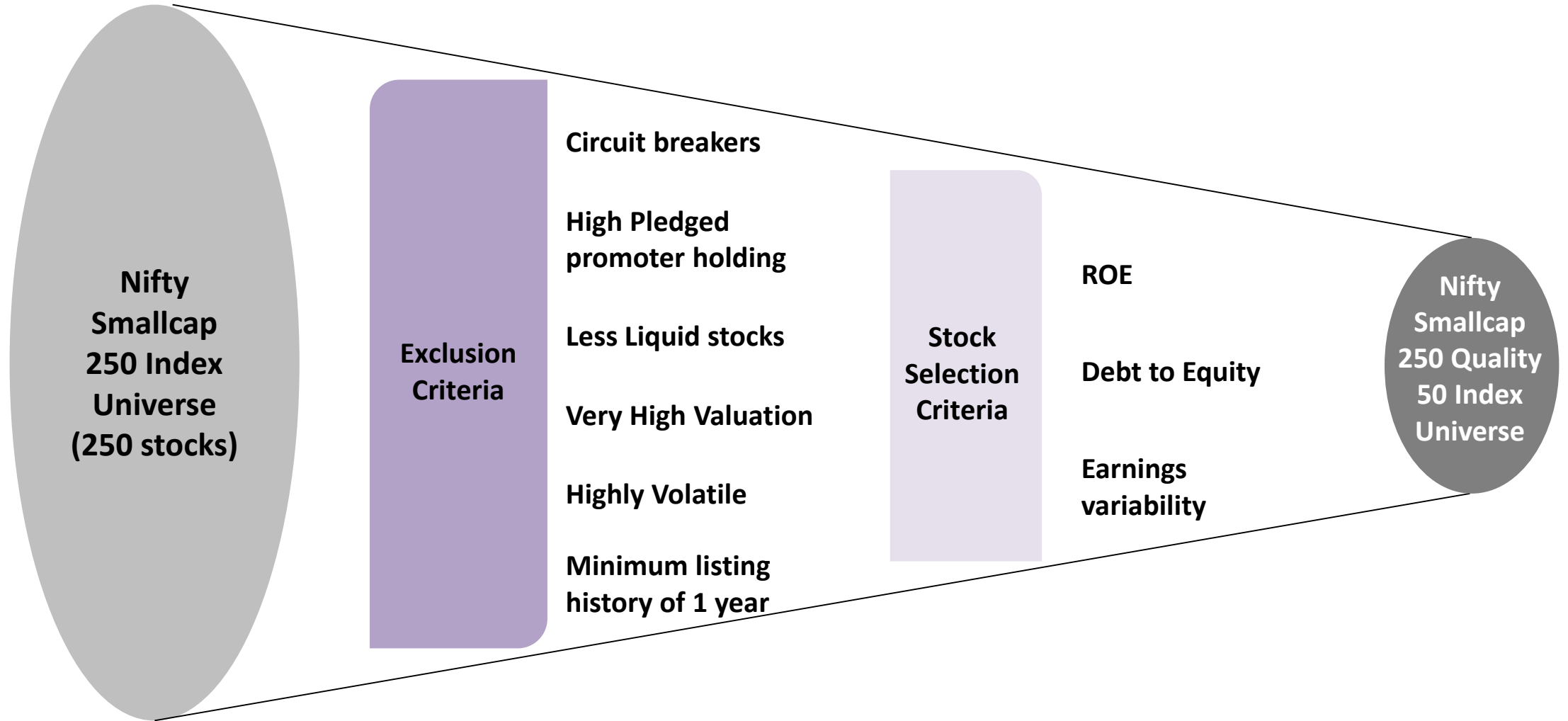


On 10 year basis, Nifty Smallcap 250 Quality 50 index has always outperformed broader index as well as active Smallcap funds

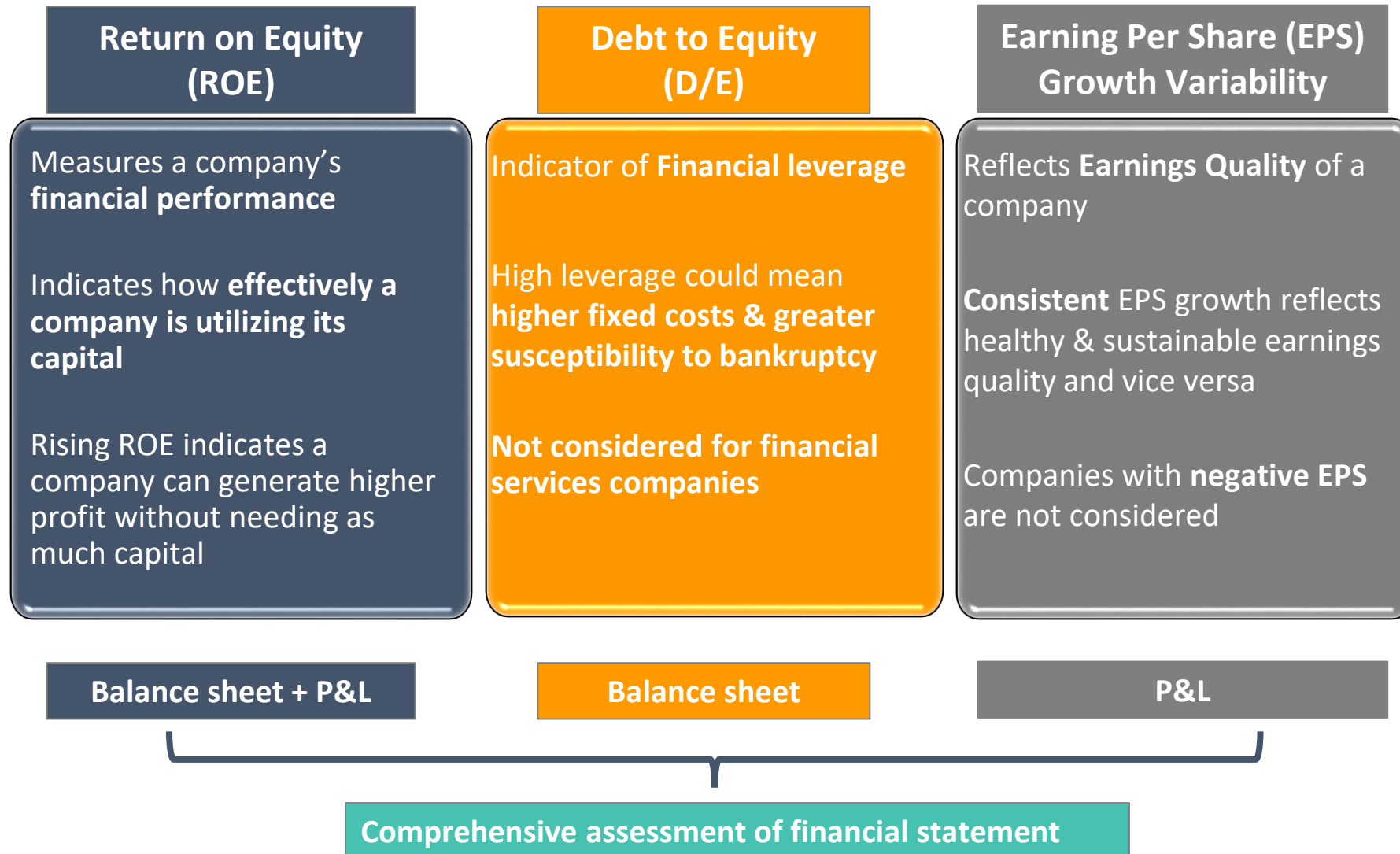
# About the Index

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# Index Explained



# What are the Quality Filters?



# Portfolio

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# Top 10 Holdings – 2 Common holdings

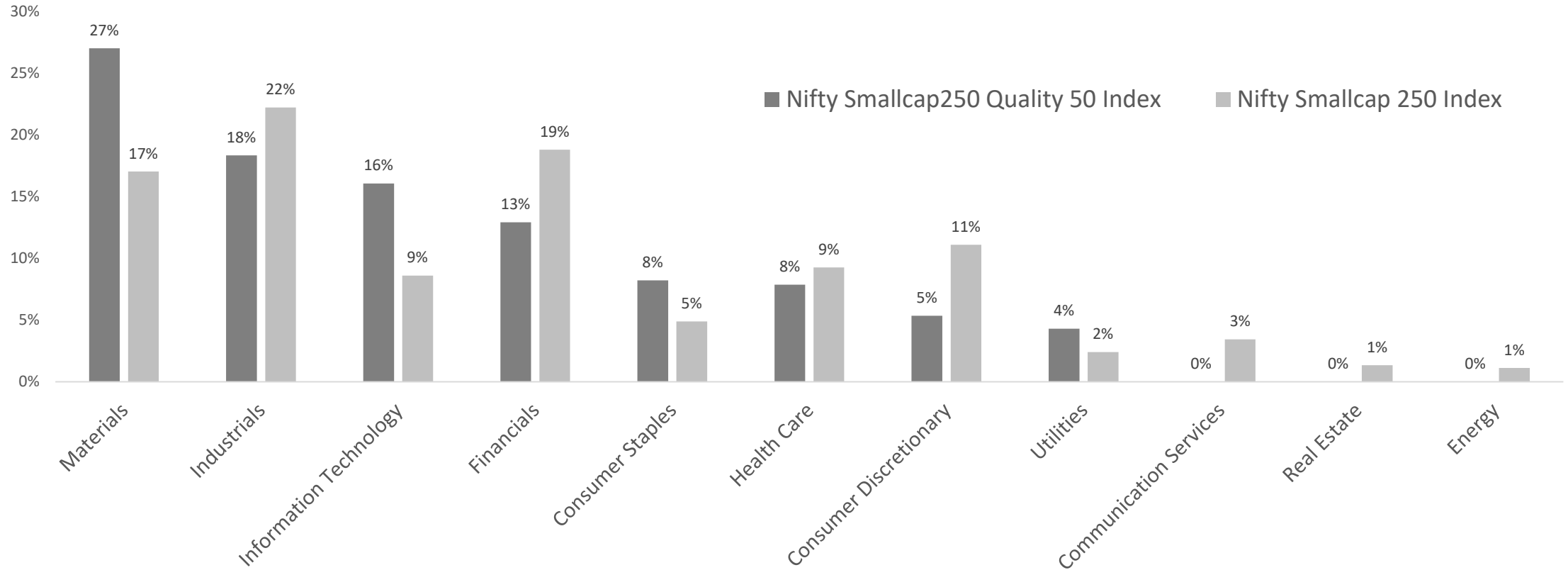
## Nifty Smallcap 250 TRI

Top 10 companies	Sector	Weights (%)
Suzlon Energy Ltd	Industrials	2.57
BSE Ltd	Financials	2.11
IDFC Ltd	Financials	1.27
KEI Industries Ltd	Industrials	1.12
Cyient Ltd	Information Technology	1.12
RBL Bank Ltd	Financials	1.10
Central Depository Services India	Financials	1.08
Angel One Ltd	Financials	1.05
Multi Commodity Exchange of India	Financials	0.99
IIFL Finance Ltd	Financials	0.97
<b>Total</b>		<b>13.37</b>

## Nifty Smallcap250 Quality 50 TRI

Top 10 companies	Sector	Weights (%)
Central Depository Services India	Financials	4.44
Indian Energy Exchange Ltd	Financials	4.44
Sonata Software Ltd	Information Technology	4.40
Castrol India Ltd	Materials	3.89
Birla soft Ltd	Information Technology	3.13
JB Chemicals & Pharmaceuticals	Health Care	2.88
KEI Industries Ltd	Industrials	2.85
Sanofi India Ltd	Health Care	2.76
National Aluminium Co Ltd	Materials	2.75
GNFC	Materials	2.73
<b>Total</b>		<b>34.27</b>

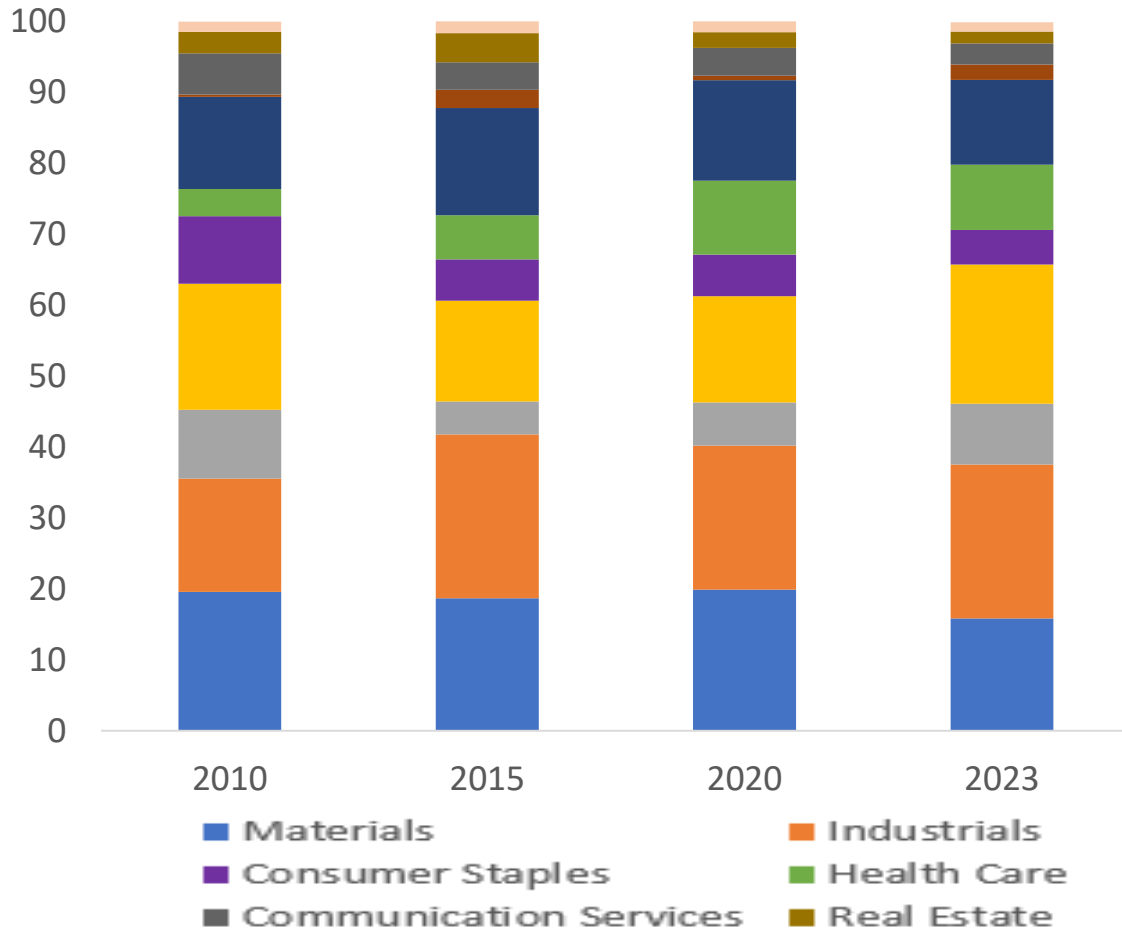
# Current Sector Exposure



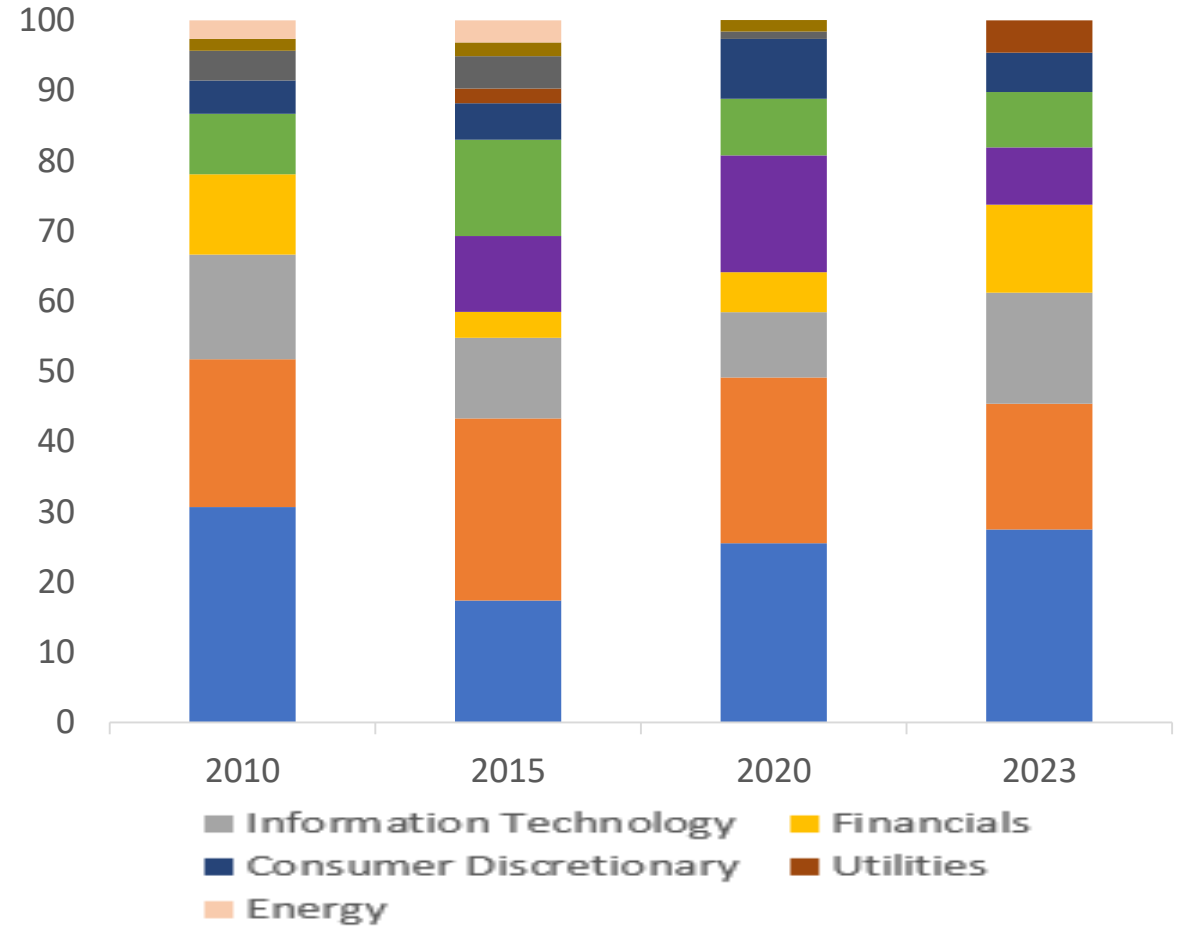
**The Quality 50 Index has no exposure to Media, Real estate and Energy sector. It is also Underweight Industrials, Financials and Cons. Discretionary while overweight in Materials, IT, Cons. Staples**

# Sector trends

Nifty Smallcap 250 TRI



Nifty Smallcap 250 Quality 50 TRI



Broadly, sector allocation has remained similar for benchmark while for Quality Index it has differed quite much.



# People

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# People

## Portfolio Management / Dealing / Analysis



Anil Ghelani, CFA  
(20)  
Head of Passive  
Investments &  
Products



Diipesh Shah  
(19)  
Vice President



Aanchal Alma, CFA  
(8)  
Manager



Ravi Gehani  
(7)  
Manager

## Passive Investments Process

### Pre - Trade Evaluation

Review Opening Portfolios  
and forecast Cash Flows

Track mandatory and  
elective Corporate Actions

Track Scheduled and  
Adhoc rebalances

### Investment Decision

Review market liquidity to  
manage impact costs

Strategy for stock level  
timing and pace of  
execution

Monitor  
real time market  
movement

Identify price movements  
and evaluate stock lending  
opportunities

### Post - Trade Analysis

Evaluate trade execution

Analyse Tracking Error

Ensure real time portfolio  
weights align with  
underlying index

In line with global best practices - dedicated passive investment desk to increase focus

# Scheme Details

Nature	Details
Name of the Scheme	DSP Nifty Smallcap250 Quality 50 Index Fund
Category of the Scheme	Index Fund
Type of the Scheme	An open ended scheme replicating/ tracking Nifty Smallcap250 Quality 50 Index
Investment Objective	<p>The investment objective of the Scheme is to generate returns that are commensurate with the performance of the Nifty Smallcap250 Quality 50 Index, subject to tracking error.</p> <p>There is no assurance that the investment objective of the Scheme will be achieved.</p>
Benchmark details	Nifty Smallcap250 Quality 50 TRI
Minimum Application Amount (Fresh purchase)	Applicable to both Regular & Direct Plan: For first investment and for additional purchase - Rs. 100/- & any amount thereafter.
Minimum installment Amount for Systematic Investment Plan (SIP)	Rs. 100/- & any amount thereafter
Exit Load	Nil
Fund Manager	Mr Anil Ghelani, Mr Diipesh Shah
NFO open date	5 Dec 2023
NFO close date	15 Dec 2023

# Key Risks – Underperformance

## Underperformance with Nifty Smallcap 250 TRI

- Nifty Smallcap 250 TRI is a diversified universe with 250 stocks while Nifty Smallcap250 Quality 50 TRI is relatively concentrated with 50 stocks.
- There are certain sectors which don't form meaningful part of Nifty Smallcap 250 Quality 50 Index universe owing to high leverage (e.g. Telecom, Power etc.). Index may underperform when such sectors perform well
- Historically, there are periods when Nifty Smallcap250 Quality 50 TRI has underperformed Nifty Smallcap 250 TRI in short term

## Underperformance with Active Smallcap Funds

- Active Smallcap Funds invests at least 65% of the portfolio in Smallcap stocks while having flexibility to invest remaining in Largecaps & Midcaps. **Further, active Smallcap fund managers have their own stock selection framework & philosophy which can lead to active Smallcap fund performing better than Nifty Smallcap250 Quality 50 TRI**

## Risks associated with small cap companies:

Investment in small-cap companies is based on the premise that these companies have the ability to increase their earnings at a faster pace as compared to large-cap and mid-cap companies and grow into larger, more valuable companies. However, as with all equity investments, there is a risk that such companies may not achieve their expected earnings results, or there could be an unexpected change in the market, both of which may adversely affect investment results.

Historically, it has been observed that as you go down the capitalization spectrum i.e., from large cap stocks to mid-cap stocks and beyond, there are higher risks in terms of volatility and market liquidity. Scheme invests in small-cap companies and hence is exposed to associated risks.

# Key Risks – TRACKING ERROR

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The Fund Manager would not be able to invest the entire corpus exactly in the same proportion as in the underlying index due to certain factors such as the fees and expenses of the respective scheme, corporate actions, cash balance, changes to the underlying index and regulatory policies which may affect AMC's ability to achieve close correlation with the underlying index of the scheme. The scheme's returns may therefore deviate from those of its underlying index. "Tracking Error" is defined as the standard deviation of the difference between daily returns of the underlying index and the NAV of the respective scheme. Tracking Error may arise including but not limited to the following reasons:

- i. Expenditure incurred by the fund.
- ii. The holding of a cash position and accrued income prior to distribution of income and payment of accrued expenses. The fund may not be invested at all time as it may keep a portion of the funds in cash to meet redemptions or for corporate actions.
- iii. Securities trading may halt temporarily due to circuit filters.
- iv. Corporate actions such as debenture or warrant conversion, rights, merger, change in constituents etc.
- v. Rounding off of quantity of shares in underlying index.
- vi. Dividend payout.
- vii. Disinvestments to meet redemptions, recurring expenses, Income Distribution Cum Capital Withdrawa (IDCW) payouts etc.
- viii. Execution of large buys / sell orders
- ix. Transaction cost (including taxes and insurance premium) and recurring expenses
- x. Realization of Unit holders funds
- xi. Index providers may either exclude or include new scrips in their periodic review of the scrips that comprise the underlying index. In such an event, the Fund will try to reallocate its portfolio but the available investment/reinvestment opportunity may not permit absolute mirroring immediately.

SEBI Regulations (if any) may impose restrictions on the investment and/or divestment activities of the Scheme. Such restrictions are typically outside the control of the AMC and may cause or exacerbate the Tracking Error. It will be the endeavor of the fund manager to keep the tracking error as low as possible. However, in case of events like, dividend received from underlying securities, rights issue from underlying securities, and market volatility during rebalancing of the portfolio following the rebalancing of the underlying index, etc. or in abnormal market circumstances may result in tracking error. There can be no assurance or guarantee that the Scheme will achieve any particular level of tracking error relative to performance of the Index.

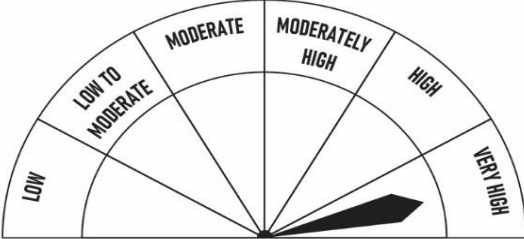
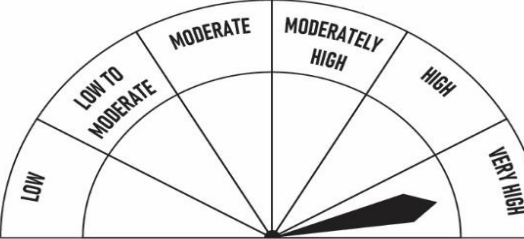
**For more details on scheme specific risk factors, please read the Scheme Information Document and Key Information Memorandum of the scheme available at the Investor Service Centers of the AMC and also available on [www.dspim.com](http://www.dspim.com).**

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For index disclaimer, Click [here](#)

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

<p><b>DSP Nifty Smallcap250 Quality 50 Index Fund</b> (An open ended scheme replicating/ tracking Nifty Smallcap250 Quality 50 Index)</p>	<p>This product is suitable for investor who are seeking*</p> <ul style="list-style-type: none"> <li>• Long-term capital growth</li> <li>• Investment in equity and equity related securities covered by Nifty Smallcap250 Quality 50 Index, subject to tracking error.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.</p>	<p style="text-align: center;"><b>SCHEME RISKOMETER</b></p>  <p style="text-align: center;"><b>RISKOMETER</b></p> <p style="text-align: center;">INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p>	<p style="text-align: center;"><b>BENCHMARK^ RISKOMETER</b></p>  <p style="text-align: center;"><b>RISKOMETER</b></p> <p style="text-align: center;">INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p>
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^ Benchmark - Nifty Smallcap250 Quality 50 TRI

The product labelling assigned during the New Fund Offer ('NFO') is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.

**DSP**  
**ASSET MANAGERS**

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