Kinntegra

Fund Selection Process

Our Objective

The endeavor of our selection methodology is to select a basket of funds in Wealth Portfolio which would deliver an alpha of 3% p.a. over and above Nifty 100.

Our strategy

To select a set of schemes which provides flexibility with market dynamics without allowing to do too much of change at scheme level for the clients.

Historically a composition of 45-55% in large cap , 15-25% in midcap and 20-30% in small cap have been able to deliver an alpha of more than 3% over NIFTY 100.

Categorization of Funds-Filtration Criteria

Category Name	Definition	Scheme Count	Reason for Elimination
Contra Fund	Scheme follows contrarian investment strategy with at least 65% in stocks	3	Higher Risk,Volatility,Time Horizon Suitability, Lack of Diversification, Performance Uncertainty
Dividend Yield Fund	Predominantly invest in dividend yielding stocks, with at least 65% in stocks	9	Lower Growth Potential, Interest Rate Sensitivity, Sector Concentration, Dividend Cuts, Tax Considerations, Market Conditions
ELSS	At least 80% in stocks in accordance with Equity Linked Saving Scheme, 2005, notified by Ministry of Finance	40	Lock-in Period, Market Risk, Suitability for Short-Term Goals
Equity Index Funds	Minimum 95% investment in securities of a particular index	127	Limited Potential for Outperformance , Lack of Active Management ,Tracking Error
ETFs: Equity	Minimum 95% investment in securities of a particular index	140	Market Risk , Tracking Error , Liquidity Concerns
ETFs: Global	Minimum 95% investment in securities of a particular index	6	Currency Risk , Regulatory Differences, Geopolitical Risk
Value Fund	Value investment strategy, with at least 65% in stocks	20	Value Trap Risk , Potential for prolonged underperformance , market timing risk
Sectoral Funds	At least 80% investment in stocks of a particular sector/ theme	96	Concentration to certain sectors results in high risk compared to a diversified fund and also inconsistent alpha due to sector cyclicality.

<u>Output</u>

Out of the total universe of 720 open ended equity schemes, 279 schemes meet the filtering criteria

Categorization of Funds-Filtration Criteria

Funds with similar investment mandate are categorized to have a fair comparison.

Fund Category	Definition	Scheme Count	1 year	2 year	3 year	5 year	Alpha >3%
NIFTY 100	Index	0	30.24%	15.84%	16.42%	14.59%	
Flexi Cap Fund	At least 65% investments in equity & equity related instruments	39	39.12%	20.89%	19.58%	17.58%	100%
Focused Fund	Focused on the number of stocks (maximum 30) with at least 65% in equity & equity related instruments	28	37.69%	20.37%	19.21%	17.09%	50%
Large & Mid Cap Fund	At least 35% investment in large cap stocks and 35% in mid cap stocks	30	43.21%	23.30%	22.08%	19.43%	100%
Large Cap Fund	At least 80% investment in large cap stocks	33	34.00%	19.01%	17.54%	15.48%	50%
Mid Cap Fund	At least 65% investment in mid cap stocks	29	52.10%	26.86%	25.16%	23.35%	100%
Multi Cap Fund	At least 75% investment in equity & equity related instruments	25	47.01%	25.84%	24.66%	22.07%	100%
Thematic Advantage Fund	Generate capital appreciation primarily from a portfolio of Sectoral/ Thematic schemes	1	33.14%	20.39%	20.71%	20.59%	100%
Small Cap Fund	At least 65% investment in small cap stocks	28	51.13%	26.88%	28.03%	26.87%	100%
Sectoral Diversified	Generate capital appreciation primarily from a portfolio of Sectoral/ Thematic schemes	67	50.15%	28.64%	26.56%	22.23%	100%

Categorization of Funds-Filtration Criteria

Flexi cap Funds chosen over Multicap Funds

1. **Agility in Capitalizing on Opportunities:** Flexicap funds can dynamically allocate capital to sectors or stocks with high growth potential, potentially enhancing the ability to generate alpha.

2. **Active Risk Management:** The ability of Flexicap funds to adjust exposure to different market segments can aid in managing downside risk during market downturns, potentially preserving capital better than Multicap funds.

3. **Potential for Higher Returns:** By actively managing asset allocation, Flexicap funds may have the potential to generate higher returns over the long term, thus increasing the likelihood of achieving the desired alpha target.

Categorization of Funds-Filtration Criteria

Large & Midcap Fund chosen instead of Large Cap Funds , Mid cap Funds , Focused Funds

1. **Flexibility**: Large and midcap funds have the flexibility to adjust their allocation between large-cap and mid-cap stocks based on market conditions and fund manager's outlook. This flexibility allows the fund manager to capitalize on opportunities across different market segments while adapting to changing market dynamics.

2. **Performance Potential**: Large and midcap funds have the potential to outperform pure large-cap funds during market phases where mid-cap stocks outperform large-cap stocks. Similarly, they may outperform pure mid-cap funds during periods of large-cap outperformance. This dynamic allocation strategy aims to enhance overall fund performance over the long term.

3. **Opportunity for Growth**: Large and midcap funds offer exposure to both established large-cap companies and promising mid-cap companies with growth potential. This blend allows investors to benefit from the stability of large-cap stocks while potentially capitalizing on the higher growth rates associated with mid-cap companies.

Categorization of Funds-Filtration Criteria

Thematic Advantage / Sectoral Diversified chosen over Sector Funds or Thematic Funds

1. **Diversification**: Thematic advantage or sectoral diversified funds typically invest in a broader range of companies within a theme or sector, providing greater diversification compared to sector or thematic funds. This diversification helps spread risk across multiple companies and reduces exposure to the performance of a few individual stocks.

2. **Flexibility**: Thematic advantage or sectoral diversified funds offer flexibility in portfolio construction, allowing fund managers to adjust allocations based on evolving market conditions and thematic trends. This flexibility enables the fund to capitalize on emerging opportunities and adapt to changes in the investment landscape.

3. **Exposure to Growth Themes**: Thematic advantage funds focus on capturing opportunities arising from long-term structural trends or themes, such as technology innovation, renewable energy, or demographic shifts. By investing in companies positioned to benefit from these themes across different sectors, investors gain exposure to diversified growth opportunities.

Categorization of Funds-Filtration Criteria

Dynamic Asset Allocation / Multiasset funds Taxed like equity as an alternate to Debt Fund allocation

1. DAA and MAF may offer tax advantages compared to traditional debt funds, especially for investors in higher tax brackets.DAA and MAF are subject to long-term capital gains tax of 10% (without indexation) if held for more than one year, which is lower than the tax on interest income from debt funds for investors in higher tax brackets.

2. Additionally, these funds qualify for the benefit of long-term capital gains tax exemption up to Rs. 1 lakh per financial year under Section 112A of the Income Tax Act, making them more tax-efficient for long-term investors.

Schemes eligible for qualitative and quantitative screening in each category

Fund Category	Large and Midcap Funds	Flexi Cap Funds	Sectoral Diversified	Multi cap Funds	Dynamic Asset Allocation
Total No of Schemes	30	39	68	23	33
Final Selected Schemes	2	3	2	1	1

Qualitative and Quantitative Screening Criteria

1. **Alpha-Focused Criteria:**
   1. Historical Alpha: Evaluate the historical alpha generated by potential funds compared to the Nifty index over various time frames.
   2. Consistency of Alpha: Look for funds that have consistently delivered alpha over multiple market cycles.
   3. Risk-Adjusted Returns: Assess the risk-adjusted returns of funds using metrics like the Sharpe ratio, Sortino ratio, and Information ratio.
   4. Fund Manager Expertise: Prioritize funds managed by experienced professionals known for their ability to generate alpha through skilful stock selection and portfolio management.
2. **Performance Metrics:**
   1. Absolute Returns: Target funds with a track record of delivering superior absolute returns compared to the Nifty index.
   2. Relative Performance: Analyse how funds have performed relative to their benchmark index and peer group.
   3. Capture Ratio: Consider funds with high upside capture ratios (capturing market gains) and low downside capture ratios (protecting against market downturns).

Qualitative and Quantitative Screening Criteria

3. **Portfolio Construction:**
    1. Diversification: Select funds with well-diversified portfolios across sectors and stocks to mitigate specific risks.
    2. High-Conviction Holdings: Look for funds with concentrated positions in high-conviction stocks where the fund manager has strong confidence.
    3. Quality Bias: Give preference to funds that invest in high-quality companies with strong fundamentals and competitive advantages.
4. **Risk Management:**
    1. Volatility Management: Assess how funds manage volatility and downside risk through portfolio construction and risk mitigation strategies.
    2. Stress Testing: Evaluate how funds have performed during periods of market stress to gauge resilience and risk management capabilities.
5. **Expense Ratio:**
    1. While seeking alpha, be mindful of expense ratios as lower costs can significantly impact net returns. Prioritize funds with competitive expense ratios.

Thank you