

November 16, 2022

Active v/s Passive

Events over the past 2-3 years have been testing for the markets. If, in the aftermath of Covid-19, markets had a problem of plenty and chased yields; the period since February 2022 has seen a complete reversal in sentiment with markets looking for a place to hide. And even as the world economies were coming to terms with these two shocks, the global economy is in the eye of a new storm - arising from aggressive monetary policy actions and even more aggressive communication from Advanced Economy (AE) central banks.

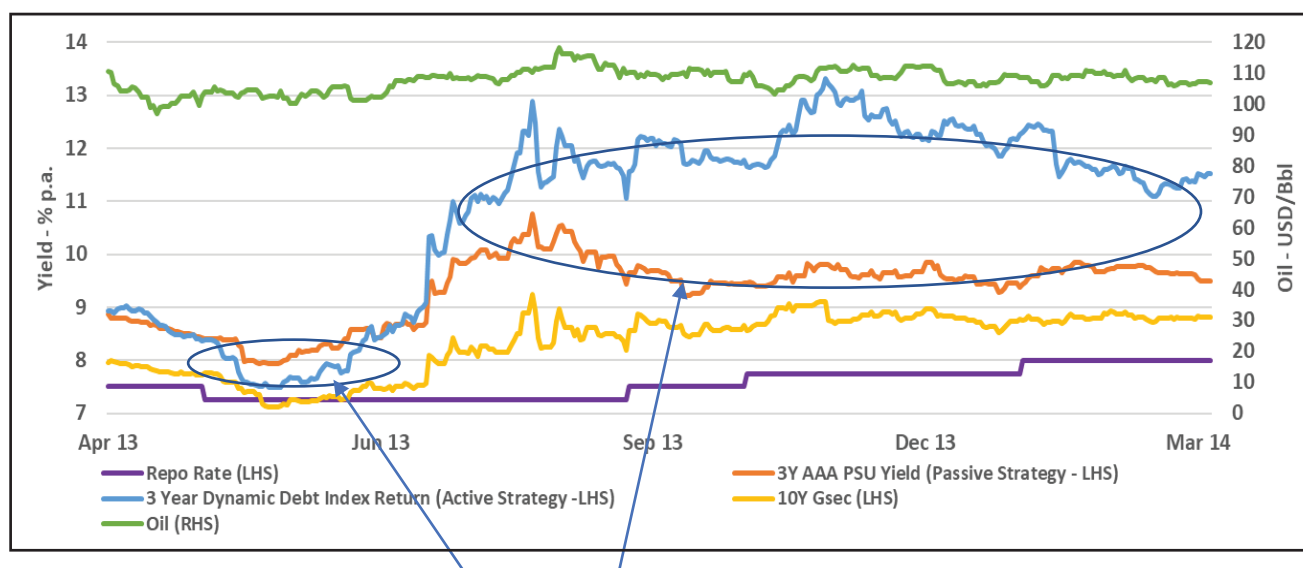
In such an era of volatility, where does one invest? In times of extreme pessimism and volatility, natural human tendency will probably point to a buy and hold-to-maturity (HTM) passive investment allocation. However, our analysis suggests that in times such as these, actively managed strategies are most likely well-positioned to deliver superior returns as compared to passive fund strategies.

To illustrate our analysis, we have compared the ex-post 3-year annualized return of CRISIL Dynamic Bond Fund All India Index (active strategy) with the 3-year generic yield on a AAA rated Public Sector bond (passive strategy). As per the PRC matrix, "A" signifies the portfolio as having the highest credit quality, while "III" signifies that the portfolio macaulay duration can be flexible and unconstrained.

2 macro events over the last 10 years come to our mind as case studies.

Case Study 1 – Taper tantrum period (April 2013 – March 2014)

This was the period during which the US Federal Reserve gave indications of a tapering of its quantitative easing (QE) program which was implemented in the aftermath of the 2008 global financial crisis. India was clubbed in the Fragile 5 group of countries and bore the brunt of the markets.



As can be seen, the average out- performance of the active strategy over the passive strategy was 150 bps (100 bps = 1.0%)

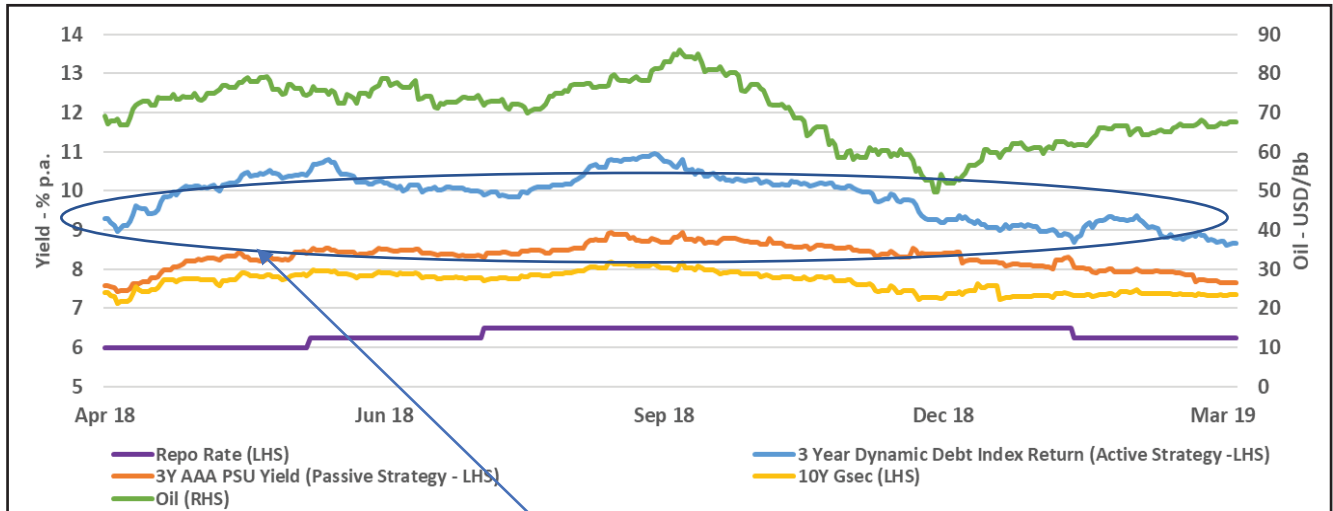
Source : Bloomberg, AMFI, CRISIL, RBI

The above is only for analysis purpose to explain context of the note. Past performance may or may not be sustained in future

Notes from the Fixed Income Desk – Active v/s Passive

Case Study 2 – Crude Oil spike and credit event period (April 2018 – March 2019)

This was the time during which India faced headwinds led first by sharp increase in oil prices, followed by the IL&FS default-led credit crises.



As can be seen, the average out performance of the active strategy over the passive strategy was 154 bps (100 bps = 1.0%)

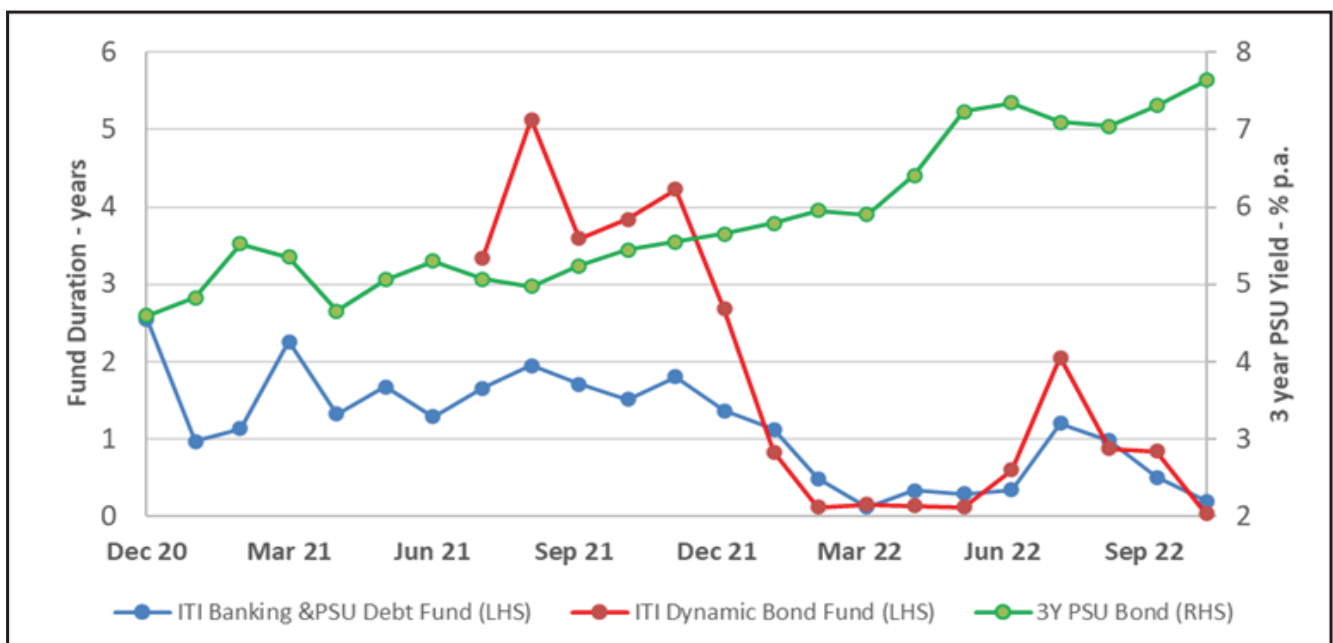
Source : Bloomberg, AMFI, CRISIL, RBI

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Active portfolio management @ ITI Mutual Fund

Below is an illustration of active duration management in our flagship duration funds viz. ITI Dynamic Bond Fund and ITI Banking & PSU Debt Fund. The yield movement of a 3-year AAA-rated public sector unit bond against these funds' modified duration is shown for comparison.

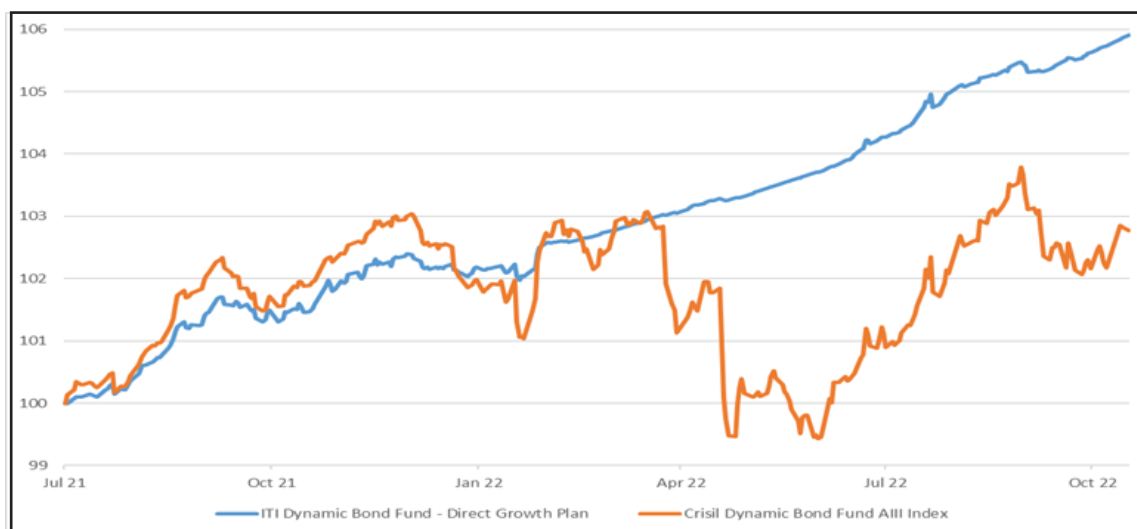
Active duration management (Dec 2020 – Oct 2022)



Source : Bloomberg, itiamc.com

Notes from the Fixed Income Desk – Active v/s Passive

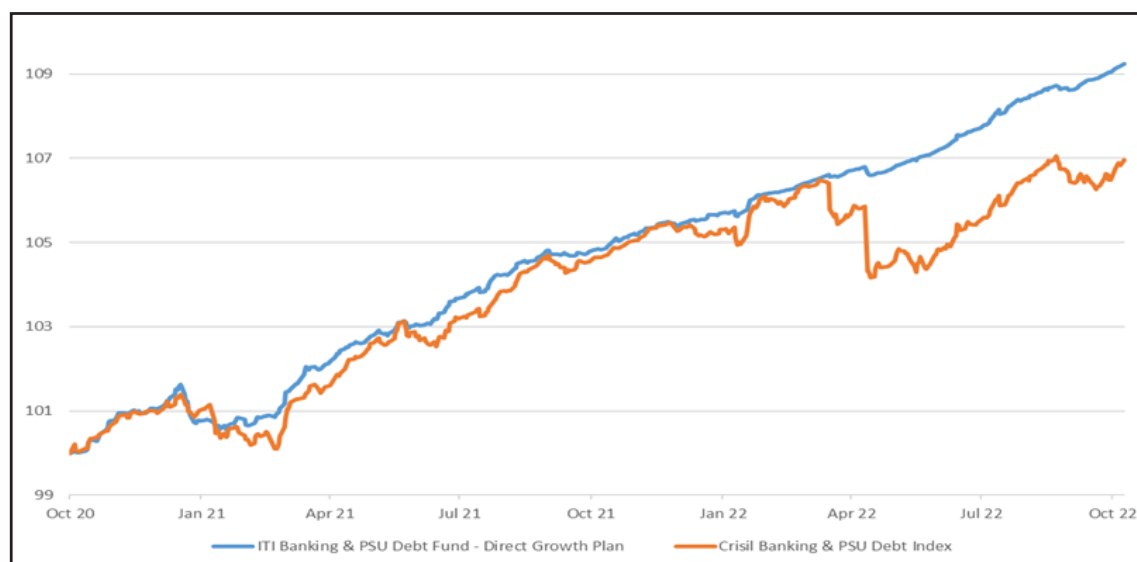
ITI Dynamic Bond Fund v/s CRISIL Dynamic Bond Fund All Index (Benchmark Index)



Source : AMFI, CRISIL, itiamc.com, Bloomberg

The above is the performance of ITI Dynamic Bond Fund – Direct Growth plan versus the Crisil Dynamic Bond Fund All Index (Benchmark Index). The data series is rebased to 100 and is for the period from July 2021 (fund inception) till October 2022.

ITI Banking & PSU Debt Fund v/s CRISIL Banking & PSU Debt Index (Benchmark Index)



Source : AMFI, CRISIL, itiamc.com, Bloomberg

The above is the performance of ITI Banking & PSU Debt Fund – Direct Growth plan versus the Crisil Banking & PSU Debt Index (Benchmark Index). The data series is rebased to 100 and is for the period from October 2020 (fund inception) till October 2022.

The above is given only for analysis purpose to explain context of the note. Please refer performance of the scheme on Page 4. Past performance may or may not be sustained in future.

Notes from the Fixed Income Desk – Active v/s Passive

Asset Class Returns

Period	NIFTY 50 Return	Crisil Dynamic Debt Fund AIII Index Return
CY2015	-4.06%	8.32%
CY2016	3.01%	13.25%
CY2017	28.64%	4.26%
CY2018	3.16%	5.50%
CY2019	12.02%	11.43%
CY2020	14.90%	12.95%
CY2021	24.12%	3.69%
YTD Oct 2022	3.79%	0.21%
Average Return	10.70%	7.45%

The above table shows the calendar year, YTD Oct 2022 and the average return over this period.

Source: Bloomberg, AMFI, NSE

Performance as on 31st October, 2022

ITI Dynamic Bond Fund

Period	Fund Returns (%)	Benchmark Returns (%)	Additional Benchmark Returns (%)	Fund (₹)	Value of Investment of 10,000 Benchmark (₹)	Additional Benchmark (₹)
Regular - Growth						
Last 1 Year	3.20%	0.88%	-0.96%	10,322	10,088	9,904
Since Inception	3.43%	2.15%	-0.71%	10,448	10,280	9,908
Direct - Growth						
Last 1 Year	4.36%	0.88%	-0.96%	10,438	10,088	9,904
Since Inception	4.56%	2.15%	-0.71%	10,597	10,280	9,908

Past performance may or may not be sustained in future. Different Plans i.e. Regular Plan and Direct Plan under the scheme have different expense structure. Benchmark: CRISIL Dynamic Bond Fund AIII Index # Additional Benchmark: CRISIL 10 Year Gilt Index. Fund Manager: Mr. Vikrant Mehta is managing the scheme since its inception 14th July 2021. Inception date of the scheme (14-Jul-21). Face Value per unit: Rs. 10.

ITI Banking & PSU Debt Fund

Period	Fund Returns (%)	Benchmark Returns (%)	Additional Benchmark Returns (%)	Fund (₹)	Value of Investment of 10,000 Benchmark (₹)	Additional Benchmark (₹)
Regular - Growth						
Last 1 Year	3.62%	2.21%	-0.96%	10,364	10,222	9,904
Since Inception	3.91%	3.48%	0.51%	10,807	10,717	10,104
Direct - Growth						
Last 1 Year	4.19%	2.21%	-0.96%	10,422	10,222	9,904
Since Inception	4.48%	3.48%	0.51%	10,928	10,717	10,104

Past performance may or may not be sustained in future. Different Plans i.e. Regular Plan and Direct Plan under the scheme have different expense structure. Benchmark: CRISIL Banking and PSU Debt Index # Additional Benchmark: CRISIL 10 Year Gilt Index. Fund Manager: Mr. Vikrant Mehta from (January 18, 2021). Inception date of the scheme (22-Oct-20). Face Value per unit: Rs. 10.

For performance of other schemes managed by the Fund Manager, kindly refer to the factsheet - https://itiamc.com/admin/pdf/1668144488-ITI_MF-FACTSHEET-October_2022.pdf

Notes from the Fixed Income Desk – Active v/s Passive

ITI Dynamic Bond Fund (An open ended dynamic debt scheme investing across duration. Relatively High interest rate risk and relatively Low credit risk.)

Product Labelling

This product is suitable for investors who are seeking*:

- Regular income over medium to long term
- Investment in Debt and Money Market Securities with flexible maturity profile of securities depending on the prevailing market condition.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer of the Scheme



Riskometer of the Benchmark "CRISIL Dynamic Bond Fund AIII index"



Potential Risk Class Matrix

Interest Rate Risk	Credit Risk of Scheme		
	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

The riskometer is based on the scheme portfolio dated October 31, 2022.

ITI Banking & PSU Debt Fund (An open ended debt scheme predominately investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds. Relatively High interest rate risk and relatively Low credit risk.)

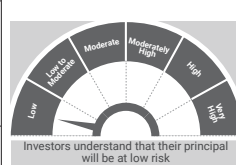
Product Labelling

This product is suitable for investors who are seeking*:

- Regular income over short to medium term.
- Investments in debt and money market instruments, consisting predominantly of securities issued by Banks, Public Sector undertakings, Public Financial Institutions & Municipal Bonds.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer of the Scheme



Riskometer of the Benchmark "CRISIL Banking & PSU Debt Index"



Potential Risk Class Matrix

Interest Rate Risk	Credit Risk of Scheme		
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Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

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Disclaimer:

All figures and data given in the document are dated unless stated otherwise. In the preparation of the material contained in this document, the AMC has used information that is publicly available, including information developed in-house. However, the AMC does not warrant the accuracy, reasonableness and/ or completeness of any information.

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Investors are advised to consult their own legal tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of ITI Mutual Fund. The information contained herein should not be construed as a forecast or promise nor should it be considered as an investment advice.

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