

Overview of the enhanced investment approach of Axis Equity ETF FoF

Introduction

The Axis Equity ETF FoF (Fund of Funds) has historically focused on investing in broad-based and sectoral/thematic equity ETFs, aiming for long-term capital appreciation. However, a strategic shift is underway. The FoF now seeks to invest in factor-based ETFs listed in India. This document provides an in-depth study and illustrative examples of the revised approach.

“**Factor investing** is an investment approach that involves targeting specific drivers of return. Investing in factors can help improve portfolio outcomes, reduce volatility and enhance diversification.”

What is the Factor Investing?

Factor investing is an investment approach that involves targeting specific drivers of return. According to academic research, it works across asset classes, geographies, and time periods. Investing in factors can help improve portfolio outcomes, reduce volatility and enhance diversification. The factor investing is a sweet spot between active and passive style of investing, as it aims to select stocks based on various factors in strictly rule based manner. Globally there are numerous factors available, however the most known factors are Momentum, Low Volatility, Value, Quality, and Size.

Quick introduction to commonly known factors

Momentum : Select stocks with strong recent performance (price returns), as it aims to exploit the tendency of winning stocks to continue performing well in the near term. Works well during bull markets. Usually, stocks are selected based on past price performance.

Low Volatility : Includes stocks which have higher stability of price movement (i.e. lower standard deviation). The strategy offers downside protection during bear / falling markets. Because it falls less, it needs to recover less to breakeven the losses, thereby outperforming the broader market over long term. Standard deviation of stocks price movement is used to identify the Low Volatility portfolio.

Quality : Aims to capture companies with durable business models and sustainable competitive advantages. Like Low Volatility, this factor is also considered as a defensive factor and works well during bear markets. ROE, Leverage Ratio, Earnings Growth etc. are considered to identify stocks in this factor.

Value : Captures stocks that are relatively less expensive. This factor is considered as ‘King of Recovery’ phase of market. Ratios such as Price to Earning (PE), Price to Book Value (PB), Price to Sales (PS) and Dividend Yield are used to build Value factor portfolio.

Single Factor Performance table (risk-returns profile)

	Stats	Nifty 500 TR Index	Value	Momentum	Low Volatility	Quality
CAGR	1 Year	39.30%	89.40%	67.70%	35.20%	41.50%
	3 Year	21.10%	44.30%	26.70%	19.70%	19.40%
	5 Year	22.30%	38.90%	30.20%	21.10%	21.90%
	10 Year	15.50%	17.00%	23.80%	16.10%	15.50%
	15 Year	14.30%	15.50%	21.80%	16.50%	18.30%
	Since Sep 2005	14.50%	16.40%	21.00%	17.40%	18.50%

Single Factor Performance table (risk-returns profile) (Contd.)

Volatility / Risk	Stats	Nifty 500 TR Index	Value	Momentum	Low Volatility	Quality
	1 Year	13.70%	25.30%	20.10%	10.50%	11.90%
	3 Year	14.40%	22.20%	19.70%	11.90%	13.20%
	5 Year	18.60%	25.90%	21.70%	15.80%	16.50%
	10 Year	16.30%	24.30%	19.30%	14.00%	14.50%
	15 Year	16.50%	24.40%	18.20%	13.70%	14.30%
	Since Sep 2025	20.80%	27.00%	22.80%	17.30%	18.30%

Data from 16-Sep-2005 to 31-Jul-2024, Source - NSE and BSE Indices. Benchmarks used to represent respective factors in the entire notes are Momentum = Nifty200 Momentum 30 TR Index, Low Volatility = Nifty100 Low Volatility 30 TR Index, Quality = Nifty200 Quality 30 TR Index and Value = BSE Enhanced Value TR Index. Same indices are used to create factor blend study.

6 reasons to consider Factors in your portfolio



Approach to building factor blended Portfolio

Though single factors tend to generate outperformance to broad market over the medium to long term horizon; investing in single factors can be stressful / complex due to their own cycles and complexity to understand. Over recent years, investors have become increasingly interested in constructing their investment portfolios by considering blending factors, a combination of rules-based approaches—for example, 1. value and momentum or 2. value, momentum, low volatility and quality together — rather than any one factor on its own. The reason for this is that multifactor strategies tend to lead to more stability of excess returns (ER), than single factors.

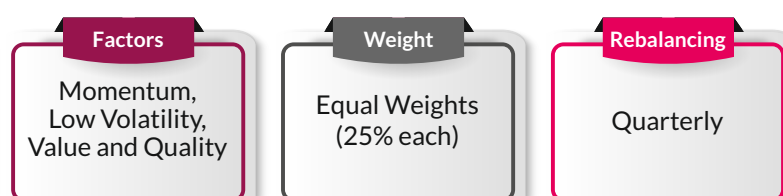
Factors have exhibited less correlation among each other offering effective diversification when blended. The empirical study below showcases how investors can benefit from factors blending approach.

Multi-Factor Study

“**Factors** have exhibited less correlation among each other offering effective diversification when blended. The strategy aims to maintain Equal weight allocation among the key factors identified and aims to generate capital appreciation over long term.”

1. Approach

The strategy aims to maintain Equal weight allocation among the key factors identified. It is rebalanced quarterly to maintain equal weights.

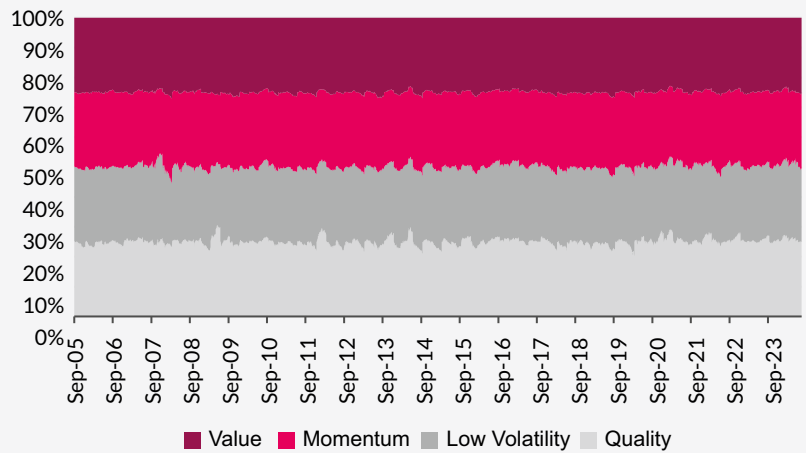


Note - Investors may incur total expense ratio and tracking error and tracking difference.

Empirical Study (Contd.)

2. Historical Allocations

The quarterly rebalancing helps maintain the target equal weight distribution of weights over the long term.



Data from 16-Sep-2005 to 31-Jul-2024, Source – NSE and BSE Indices.

3. Historical Performance

The study indicates the blending of 4 factors has helped generate positive excess returns that are in the range of 3-5% over the long term.

	Data Label	Nifty 500 TR Index	Multi-Factor Study
CAGR	1 Year	39.3%	57.6%
	3 Year	21.1%	27.7%
	5 Year	22.3%	28.5%
	10 Year	15.5%	18.6%
	15 Year	14.3%	18.6%
	Since Sep 2005	14.5%	18.9%

Volatility / Risk	1 Year	13.7%	15.8%
	3 Year	14.4%	15.3%
	5 Year	18.6%	18.5%
	10 Year	16.3%	16.6%
	15 Year	16.5%	16.3%
	Since Sep 2025	20.8%	20.0%

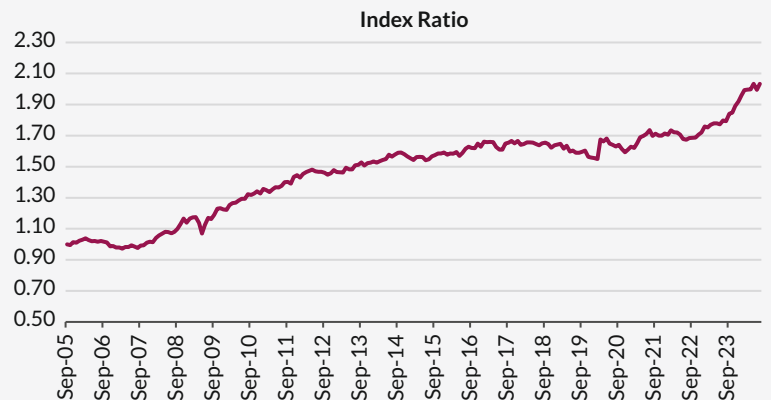
Data – 31-Jul-2024, Source – NSE and BSE Indices

4. Index Ratio Chart

The persistent upward trend from the below chart suggests consistent outperformance over the benchmark throughout its history of 18+ years.

How to read Index Ratio chart?

This chart shows the relative performance of the strategy compared to the benchmark (Nifty500). An upward sloping line indicates the strategy outperforming the benchmark and vice versa.

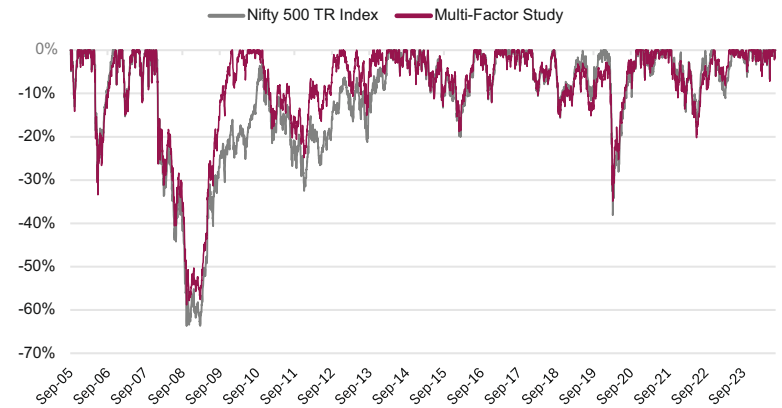


Data from 16-Sep-2005 to 28-Jun-2024, Source – NSE and BSE Indices.

Empirical Study (Contd.)

5. Historical Drawdowns

Low Volatility and Quality are relatively considered defensive factors that have exhibited lesser drawdown as compared to markets. Blending these factors with Momentum and Value has helped strategy experience lesser drawdowns as compared to market historically. The largest drawdown of ~63% was experienced by the market (Nifty 500) was during the Global Financial Crisis drawdown, during the same period the multi-factor strategy experienced drawdown of 59%. Further it took lesser time to recover to the previous peak as compared to benchmark. Similar trends can be seen during other key corrections/bear markets.



Data from 16-Sep-2005 to 31-Jul-2024, Source – NSE and BSE Indices.

6. Taxation

The investment strategy focuses on factor-based equity exchange-traded funds (ETFs). These ETFs will maintain a tax treatment like that of equity-oriented mutual funds. Specifically:

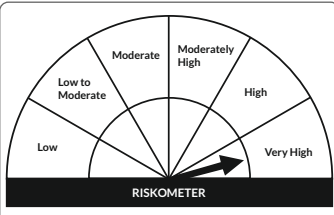
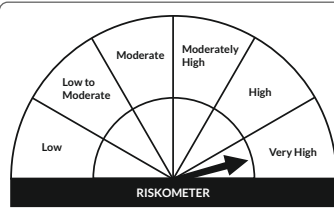
- If you hold the FoF for more than 12 months, it will be subject to a long-term capital gains tax rate of 12.5%.
- For investment horizons shorter than 12 months, the FoF will incur a short-term capital gains tax at a rate of 20%.

Additionally, Fund of Funds (FoF) that rebalance their portfolios quarterly offer a tax-efficient option for investors. During rebalancing, no additional tax is applicable.

Conclusion

Factor based investing is quite popular globally and is fast catching up interest among the Indian investors. Factor has historically outperformed broad markets and works across time periods and geographies. Some investors may find blending factors complex; a Mutual Fund (FoF) structure offering solution with factor blending can potentially enhance post tax returns at the hands of investors. The empirical study above exhibits factors blending offers better risk-returns profile by combining Momentum, Low Volatility, Quality and Value.

Product Labelling

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer
Axis Equity ETFs FoF (An open ended fund of fund scheme predominantly investing in units of domestic equity ETFs) Benchmark: NIFTY 500 TRI	This product is suitable for investors who are seeking* • Capital appreciation over long term. • Investment predominantly in units of domestic Equity Exchange Traded Funds. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 Investors understand that their principal will be at very high risk	 NIFTY 500 TRI

Disclaimer

The factors-based indices and the allocations mentioned above are for the purpose of empirical study/illustration and should not be construed as recommendation. The fund manager(s) may or may not choose to adopt same approach, from time to time. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s). **Past performance may or may not be sustained in the future. Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). Trustee: Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC) Risk Factors: Axis Bank Ltd is not liable or responsible for any loss or shortfall resulting from the operation of the scheme. This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Ltd nor Axis Asset Management Company Ltd, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

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