

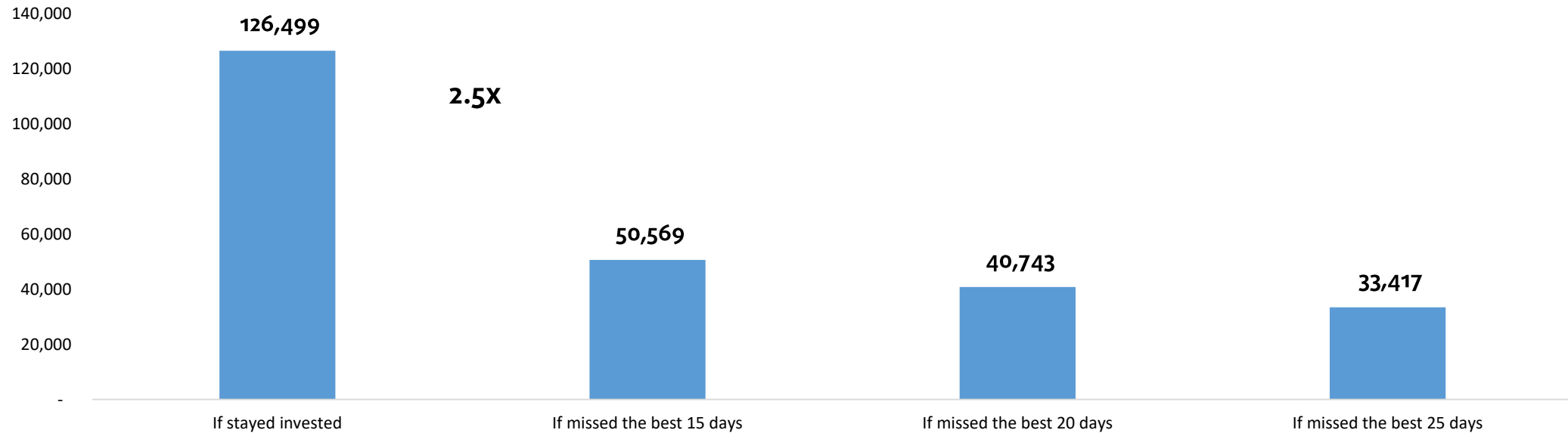


Why Small Caps are still looking attractive?

Long Term Investing – Ideal Source of Wealth Creation

Don't try to time the markets – Historical Perspective (1st Jan 2004-31st Oct 2023)

Nifty Small Cap 100 Value of INR 10,000 invested

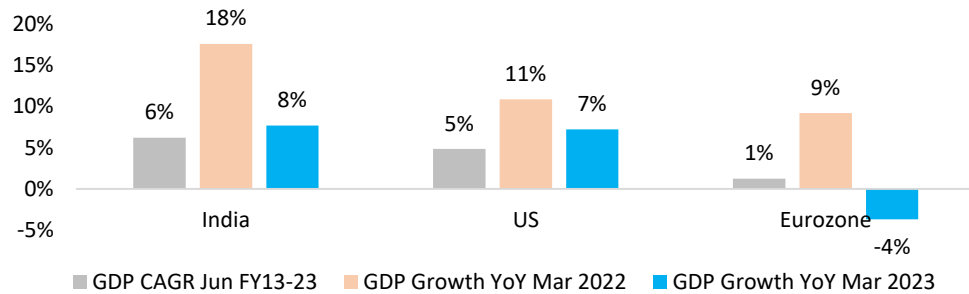


1 st Jan 2004 – 31 st Oct 2023	Value of INR 10,000 invested	% Returns
Stayed invested	126,499	13.6%
Missed the best 15 days	50,569	8.5%
Missed the best 20 days	40,743	7.3%
Missed the best 25 days	33,417	6.3%

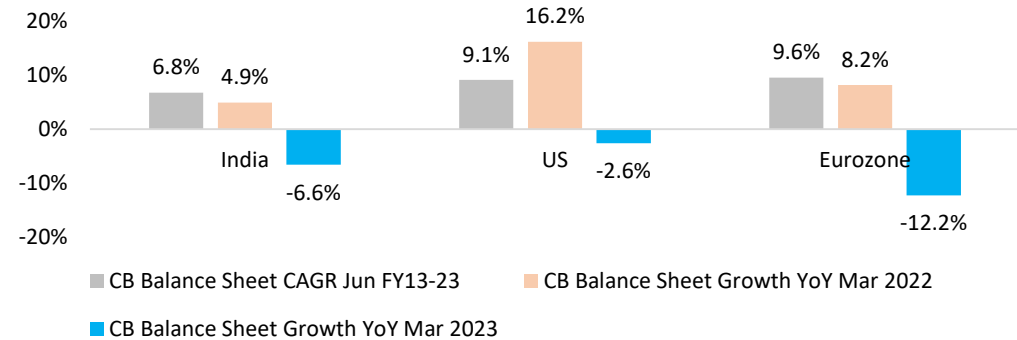
India continues to outshine

India's GDP growth in INR terms is 11% much ahead of other countries and backed by prudent balance sheet management by the Reserve Bank, keeping inflation and interest rates in check.

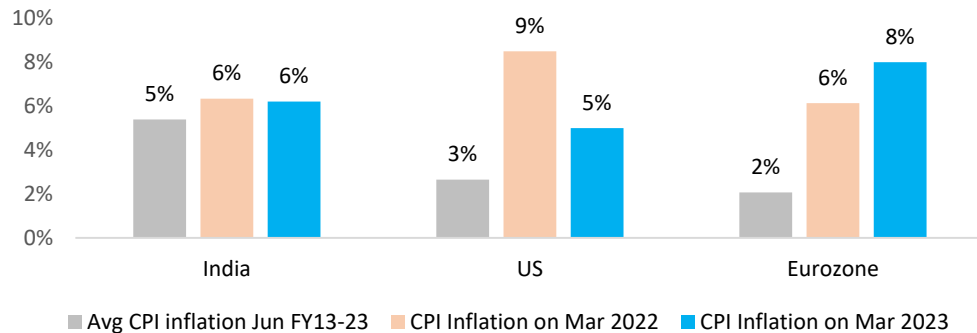
India's GDP growth continues to outperform many global majors



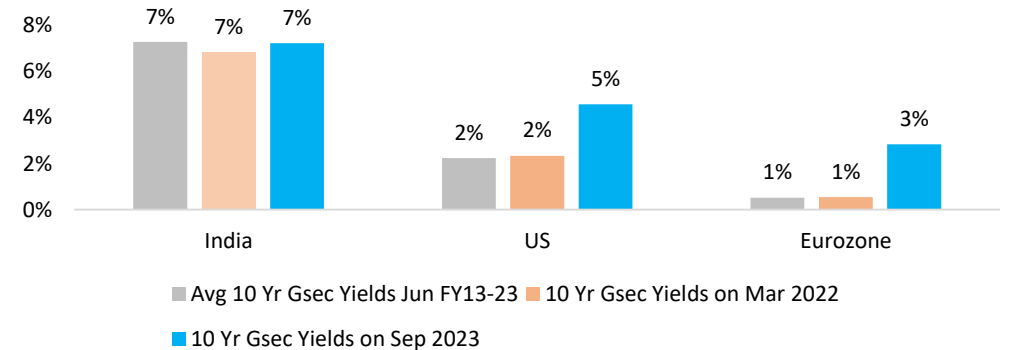
India's prudent balance sheet management continues



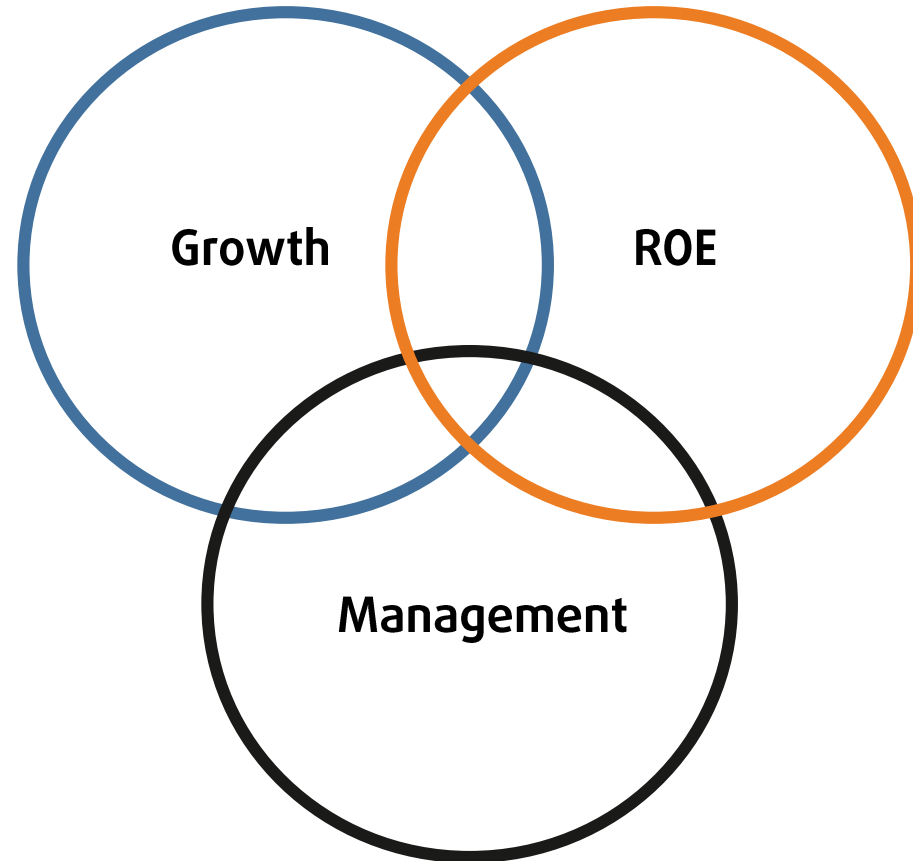
India's CPI inflation has been under control



India has lived through high yield environment

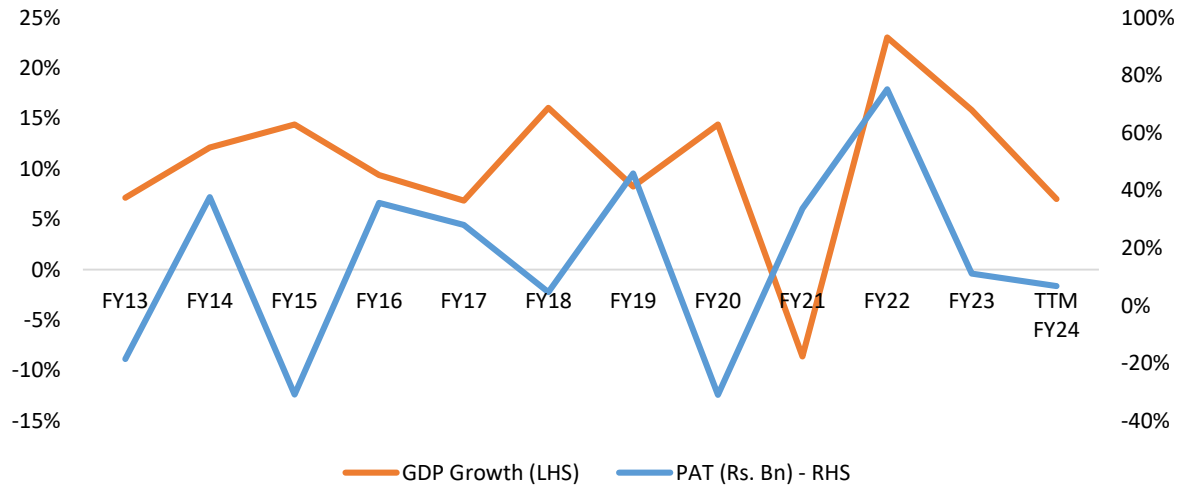


PAT Growth + High ROE + Management Execution = Compounding

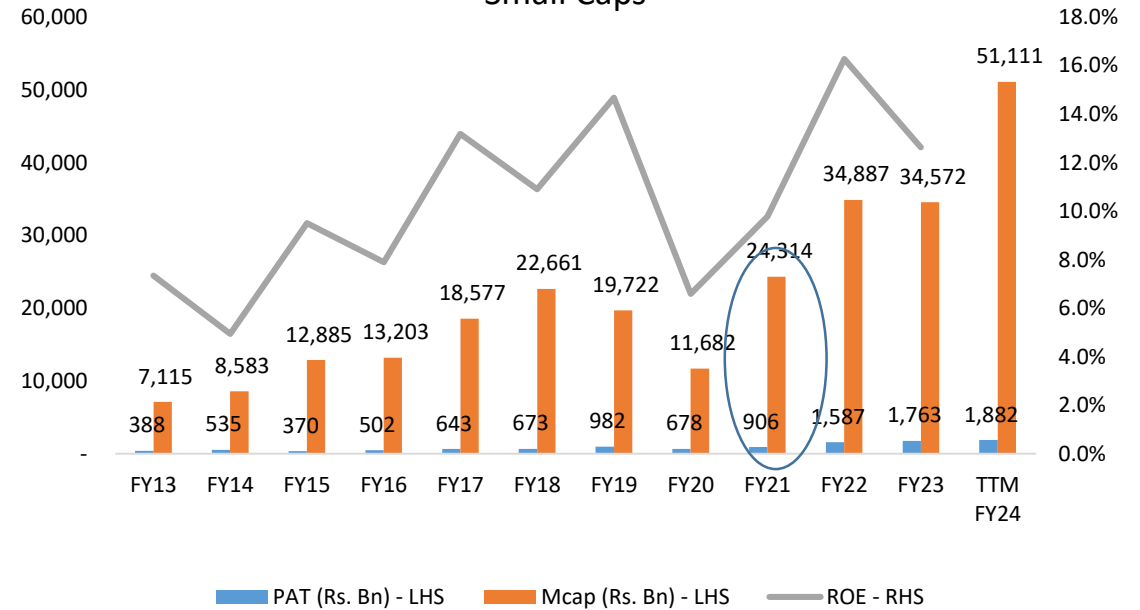


Earnings Growth along with ROE expansion drives Wealth Creation

High correlation between GDP Growth and PAT Growth

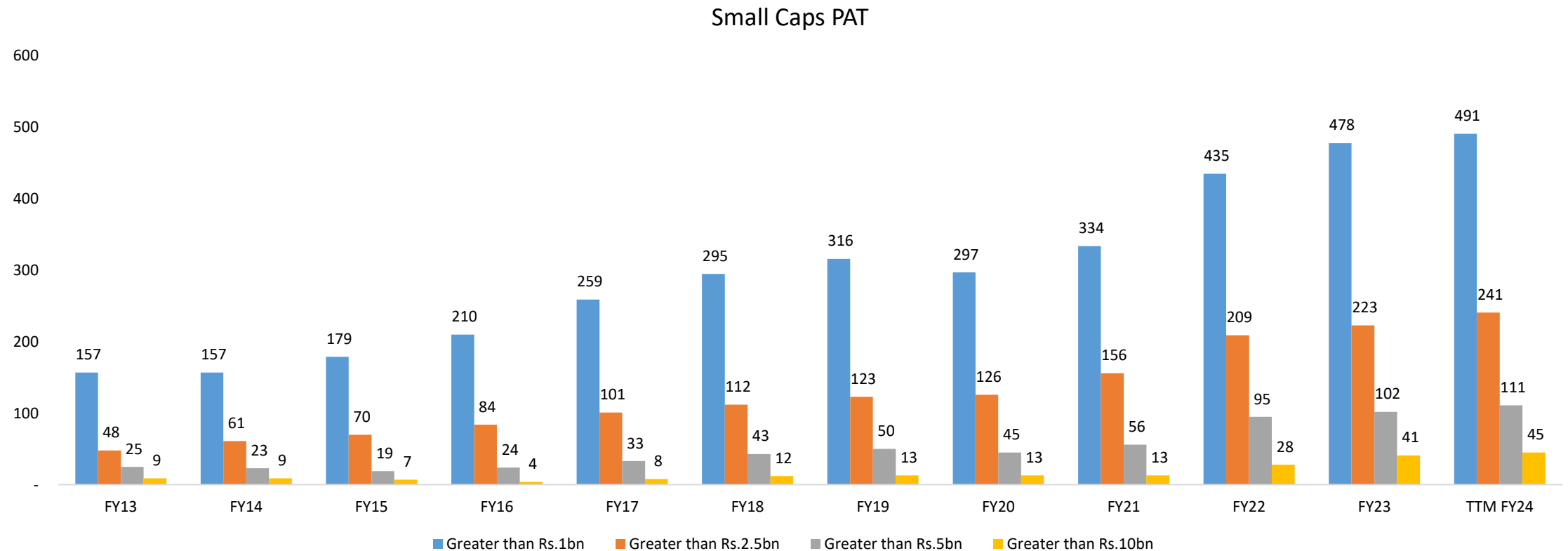


Small Caps



Rs. Bn					
Classification	Mcap Cutoff	# of Companies	Total Mcap	Total TTM PAT	P/E
Large Cap	500	100	198,000	9,365	21.1X
Mid Cap	170	150	56,500	2,120	26.7X
Small Cap	>10	933	51,000	1,882	27.1X
Total		1,183	305,500	13,367	22.9X

Small Caps PAT – emerging and strengthening

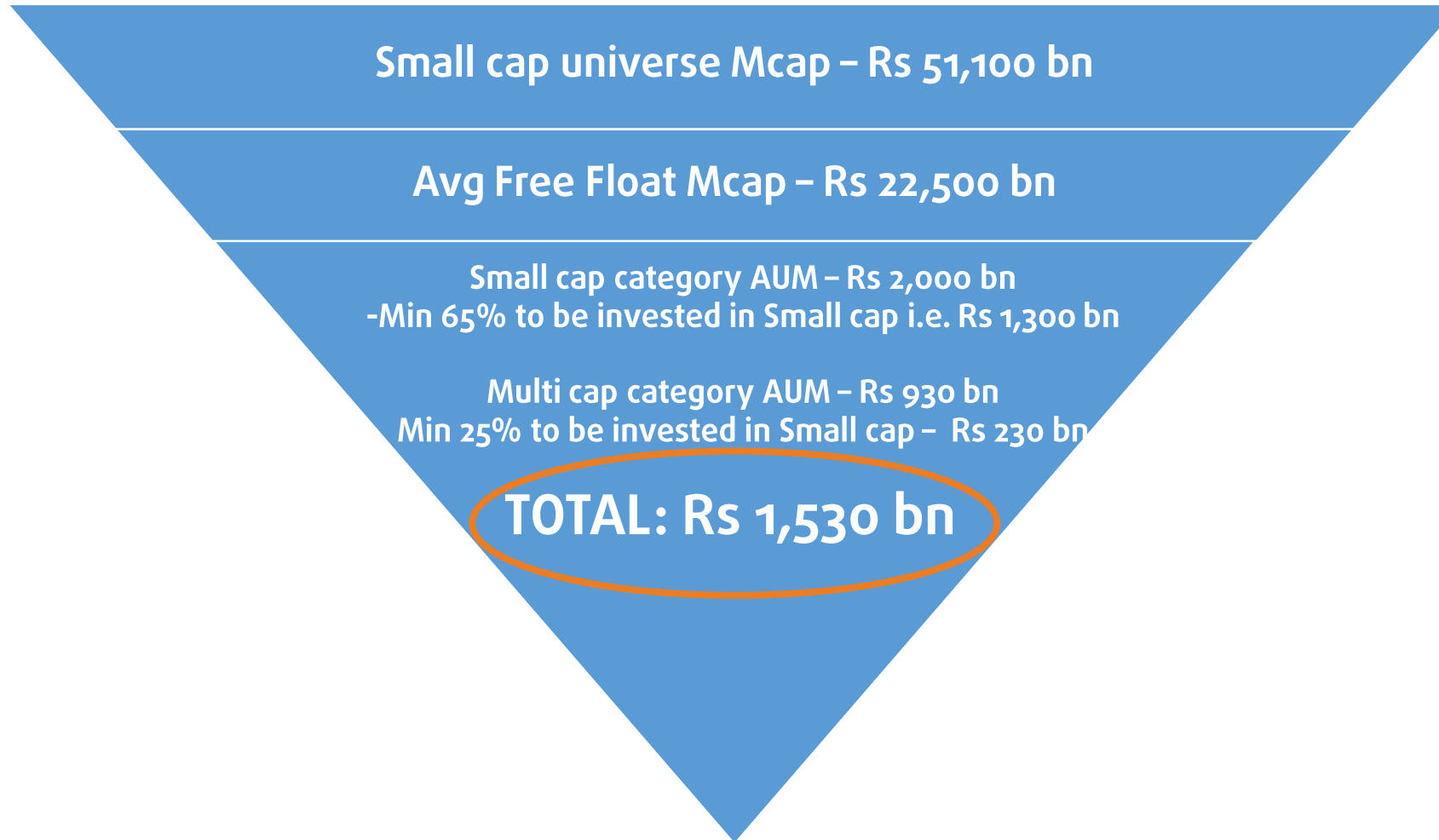


- Over last 11 years incremental 334 companies got added to Rs 1bn+ PAT pool
- Over last 11 years 36 incremental companies got added to Rs 10bn+ PAT pool reflecting the earning growth potential of the companies in small cap category

Small Cap – Better Representation of the Economy

Sectors representing Capex and Manufacturing theme				Sectors representing Consumption and Discretionary theme			
	Nifty	Nifty SmallCap 250			Nifty	Nifty SmallCap 250	
Sectors	Weightage	Weightage	Difference	Sectors	Weightage	Weightage	Difference
Oil, Gas & Consumable Fuels	11.2%	2.2%	-9.4%	Fast Moving Consumer Goods	9.3%	4.4%	-5.7%
Metals & Mining	3.8%	2.0%	-0.7%	Automobile and Auto Components	6.2%	4.7%	-1.4%
Construction	4.2%	3.8%	0.8%	Consumer Durables	3.2%	4.8%	1.2%
Telecommunication	2.7%	2.2%	-0.7%	Services	0.8%	3.3%	3.6%
Power	2.4%	1.1%	-1.1%	Consumer Services	0.0%	4.8%	5.6%
Construction Materials	1.9%	1.3%	-0.4%	Media, Entertainment & Publication	0.0%	1.8%	1.6%
Chemicals	0.4%	5.7%	5.8%	Total	19.5%	23.9%	4.4%
Capital Goods	0.0%	15.7%	14.9%	Sectors representing Financial/BFSI			
Diversified	0.0%	0.4%	0.4%		Nifty	Nifty SmallCap 250	
Forest Materials	0.0%	0.7%	0.7%	Sectors	Weightage	Weightage	Difference
Realty	0.0%	1.5%	2.0%	Financial Services	35.9%	22.0%	-18.4%
Textiles	0.0%	1.4%	1.7%	Total	35.9%	22.0%	-14.0%
Utilities	0.0%	0.0%	0.0%	Sectors representing IT and Healthcare			
Total	26.7%	38.0%	11.3%		Nifty	Nifty SmallCap 250	
				Sectors	Weightage	Weightage	Difference
				Information Technology	13.8%	6.2%	-6.1%
				Healthcare	4.1%	9.9%	5.5%
				Total	17.9%	16.1%	

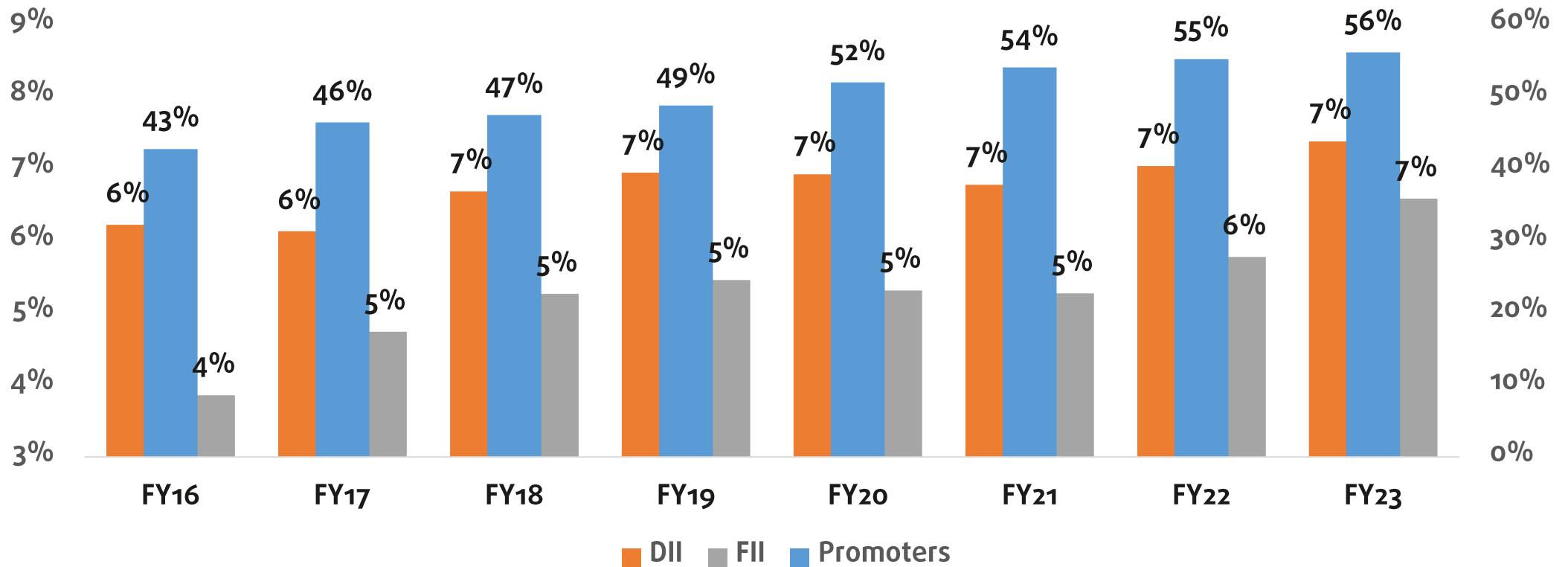
Small cap category potential expanding



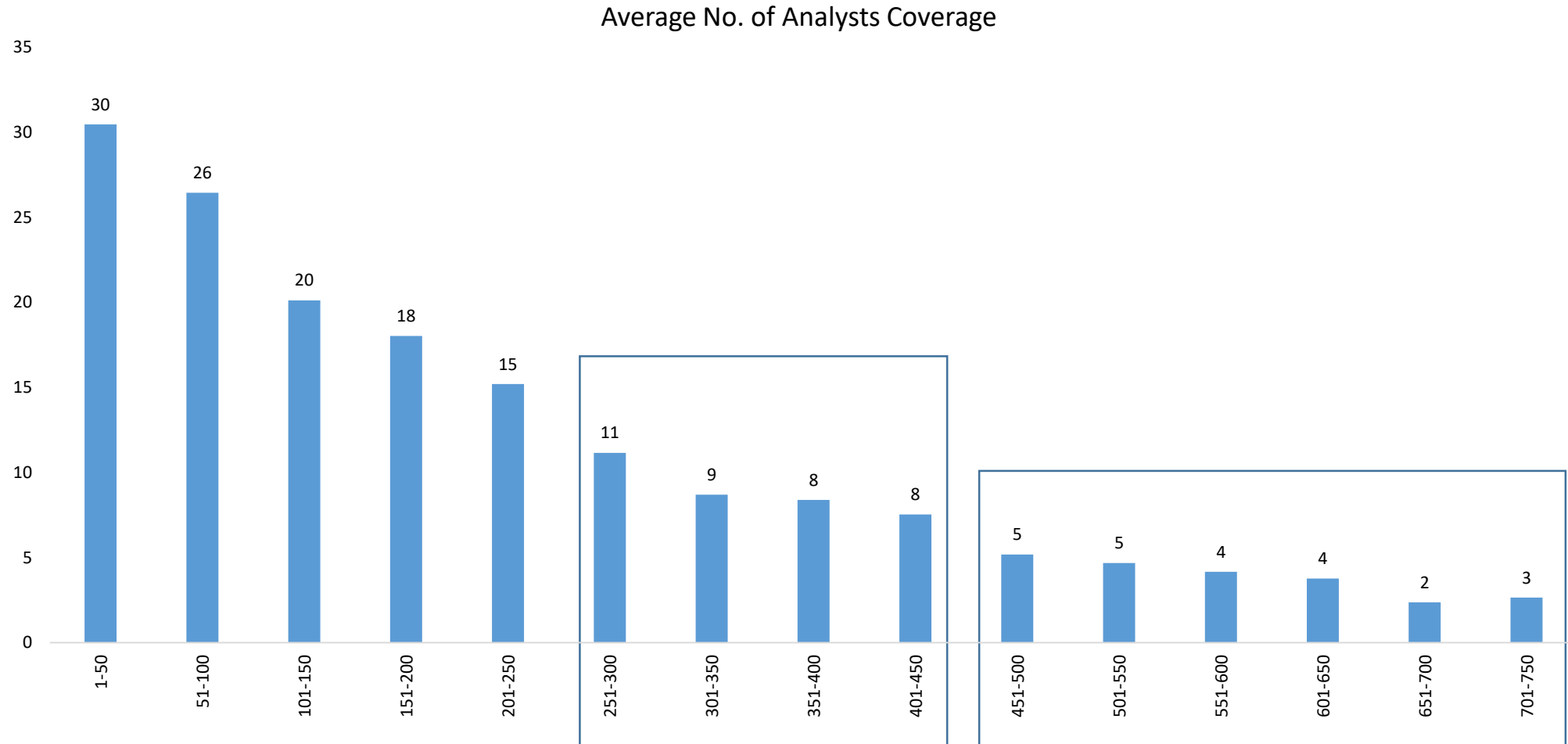
Institutional holding increasing in small cap companies

Over the years shareholding across promoters, FII and DII have increased reflecting the participation of institutions in the small cap category. Small Cap category has become one of the largest categories for the mutual fund industry.

Shareholding Pattern

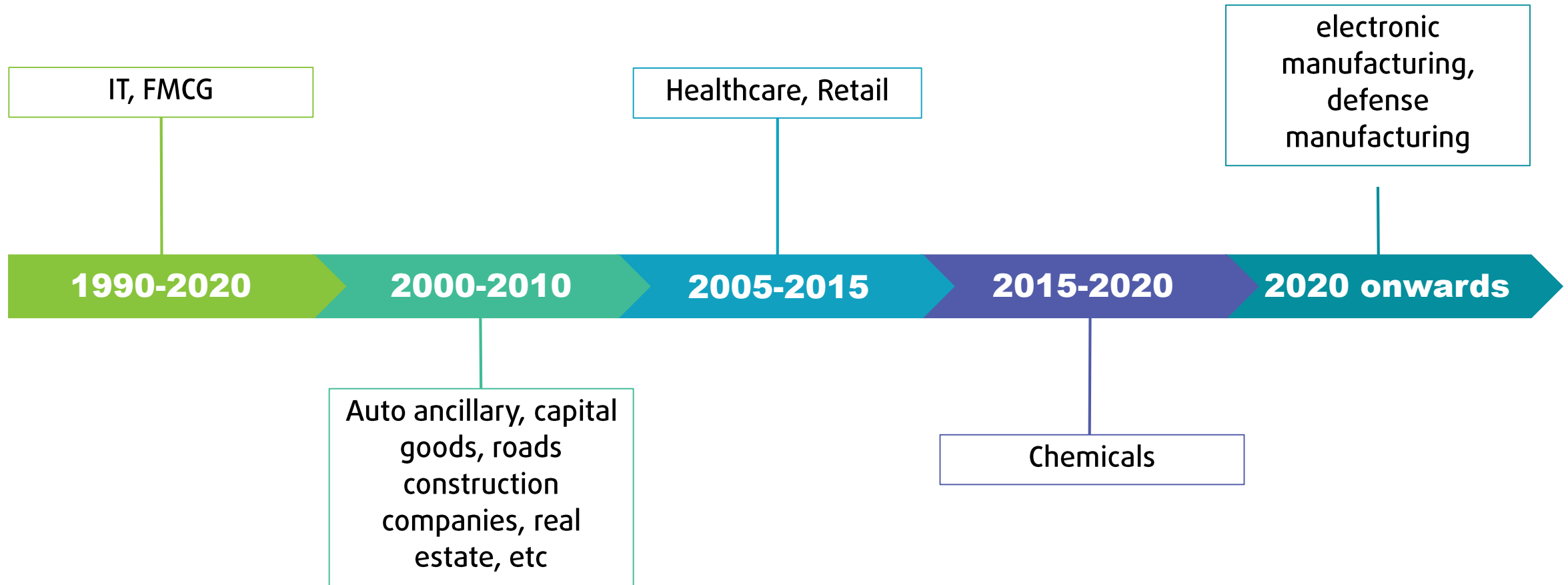


Under researched companies an opportunity



Emerging business once were small enterprises

Every 5 year new sector/theme emerges which contributes to GDP for medium to long term & when they started they started as small cap companies

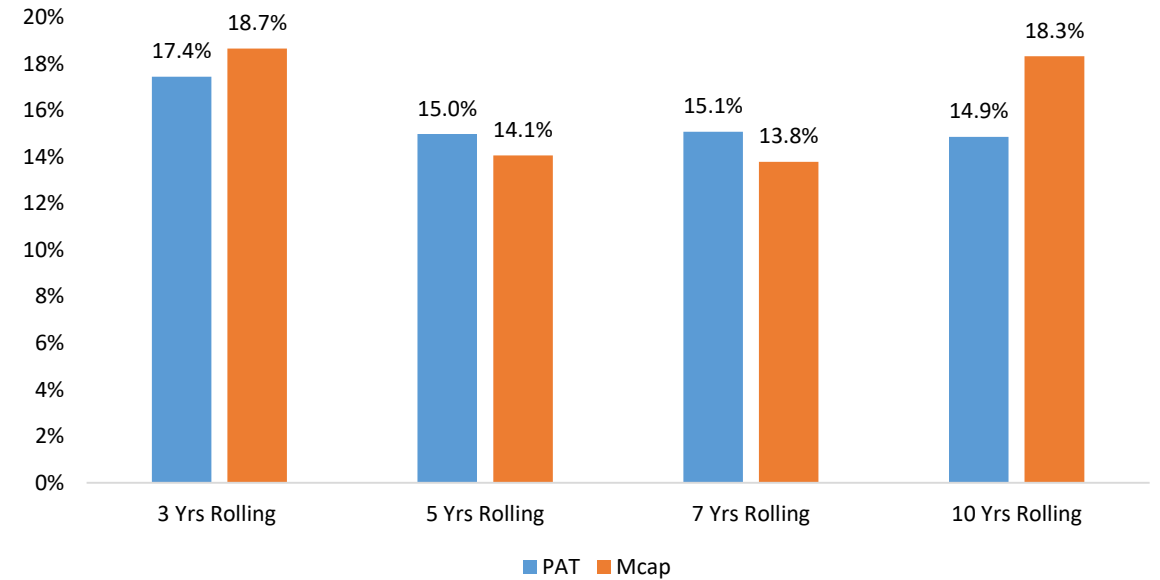


Small Cap Rolling PAT growth and Mcap growth aligned !

3 years Rolling

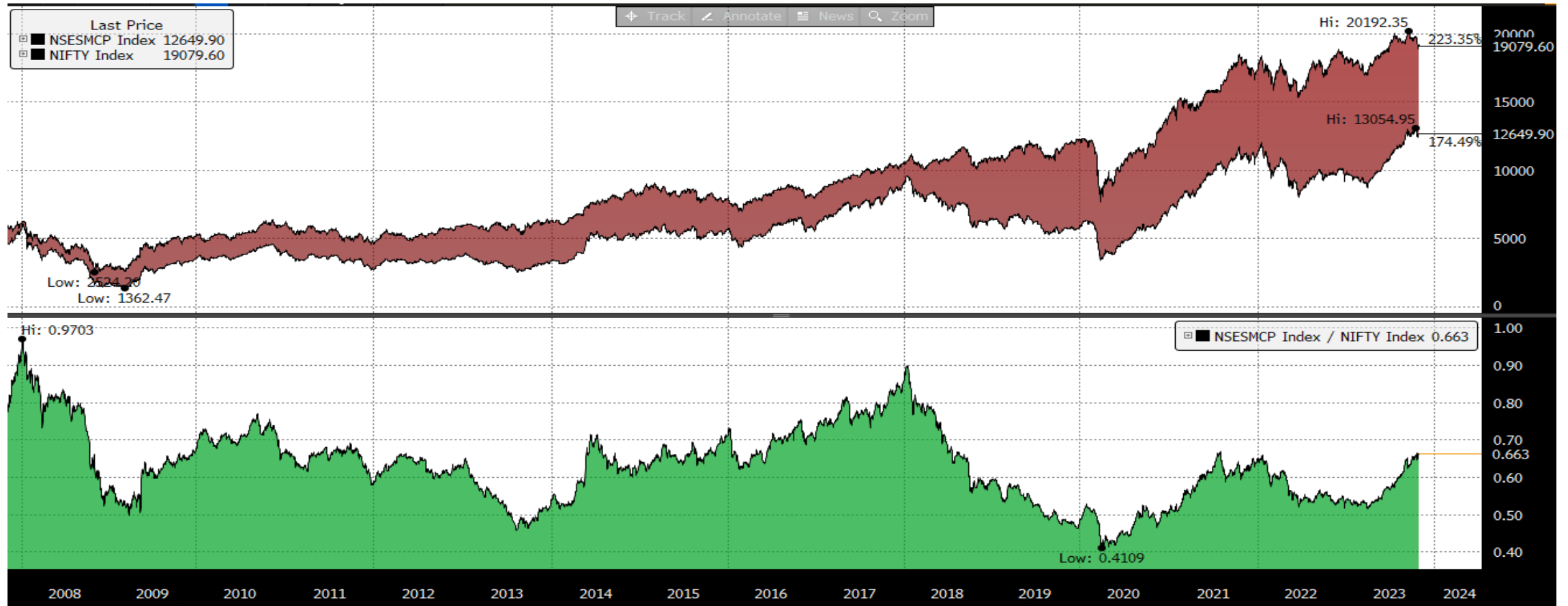


Average rolling growth and returns over period of..



Relative Valuation of Nifty Smallcap to Nifty

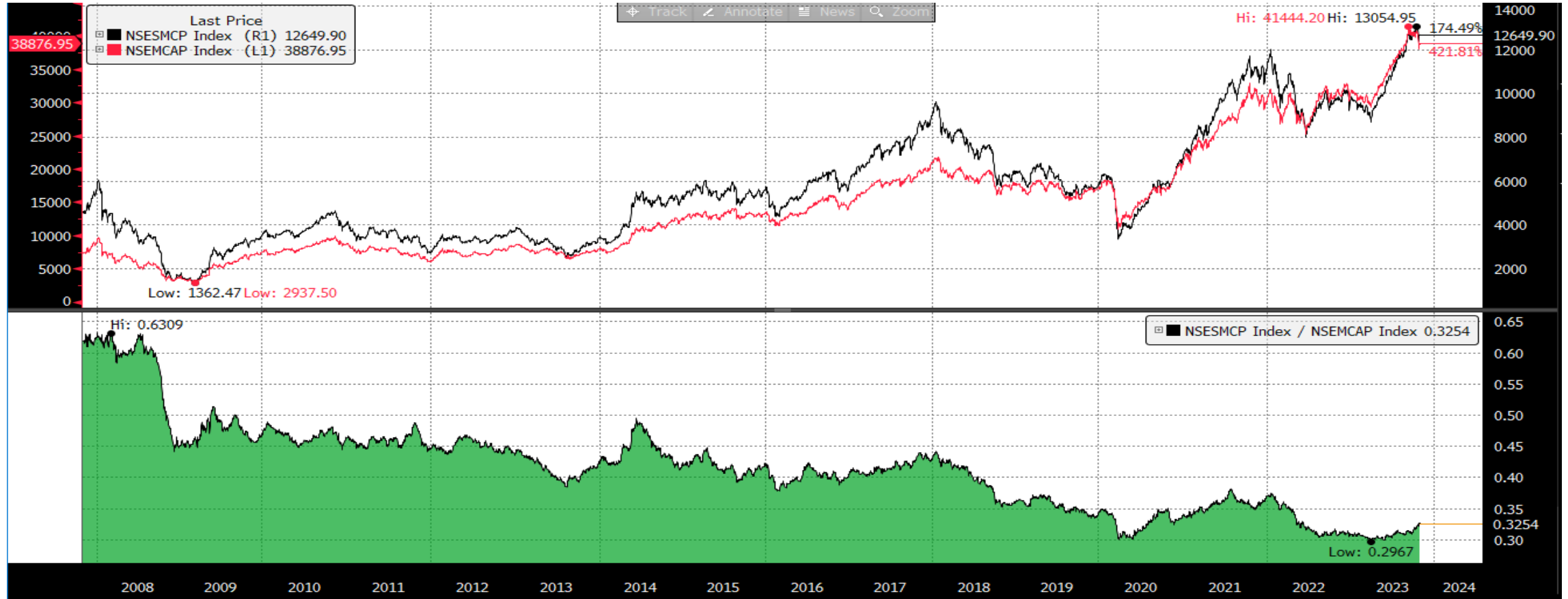
Nifty Smallcap to Nifty ratio average over last 16 years is 0.65x and is currently at the same level. Peak ratio during the tenure has been 0.98x which is 50% away from current levels.



Source: Bloomberg

Relative Valuation of Nifty Smallcap to Nifty Midcap

Nifty Smallcap to Nifty Midcap ratio average over last 16 years is 0.4x and currently it is at 30% discount to the average.



Source: Bloomberg

Relative Valuation of Russell 2000 to Dow Jones

Russell 2000 to Dow Jones ratio is currently the lowest levels in the last 16 years.



Conclusion

Potential for rerating is higher

Outcomes aligned to economic activity

Small Caps provide better growth potential

Relatively under owned and under researched

More diversified sectors & stocks provides ample choice to build portfolio

Why Bank of India Small Cap Fund?

01

Excellent track record of discovering and backing several winners early

02

Majority of portfolios deployed in industry leading growth businesses

03

Be agile to move across sectors, earnings cycle and business cycles

04

Mix of top down and bottom up approach in selecting companies

05

A great search strategy – this solves majority of the problem

06

Process oriented – objectivity over personal biases

What we look for?



Growth Runway

- Earnings compounding greater than its sector – Sign of market share gains
- Large market potential – Reinvestment potential and longevity of growth
- Sustainable earnings growth



Business Quality

- Sustainable competitive advantage
- Efficient capital allocation
- Sound Balance Sheet
- ROIC > Cost of Capital or improving (higher the better)



Management

- Skin in the game
- Capital allocation history
- Respect for minority shareholders
- Hunger for growth
- Execution track record

What we avoid?



Inadequate Management

- Unfavorable corporate governance
- No skin in the game
- Poor execution history



Lacking Performance

- Weak ROCE
- Undesirable cash flow generation
- Limited pricing power
- Present in highly regulated industry
- Substitute or obsolescence risk



Unreasonable Pricing

- Overpaying for growth
- Holding losers and selling winners
- Hope trades

Investment Objective

The Scheme seeks to generate long-term capital growth from a diversified portfolio of predominantly equity and equity-related securities across all market capitalizations. The Scheme is in the nature of diversified multi-cap fund. The Scheme is not providing any assured or guaranteed returns. There can be no assurance that the investment objectives of the Scheme will be realized.

Type	An open ended equity scheme predominantly investing in small cap stocks
Benchmark	Nifty Smallcap 250 TRI
Fund Manager	Mr. Dhruv Bhatia
Plan & Options	Direct & Regular Plan Growth Option, IDCW Option (Payout of IDCW facility)
Exit Load	<ul style="list-style-type: none">• For redemption/switch out Upto 10% of the initial units allotted - within 1 year from the date of allotment: "NIL"• Any redemption/switch out in excess of the above mentioned limit would be subject to an exit load of 1%, if the units are redeemed/ switched out within 1 year from the date of allotment of units.• If the units are redeemed/switched out after 1 year from the date of allotment of units : "Nil"

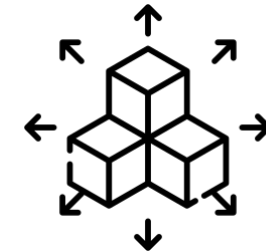
Features



**Invests
predominantly in
Small Cap Stocks**



**Growth
Potential**

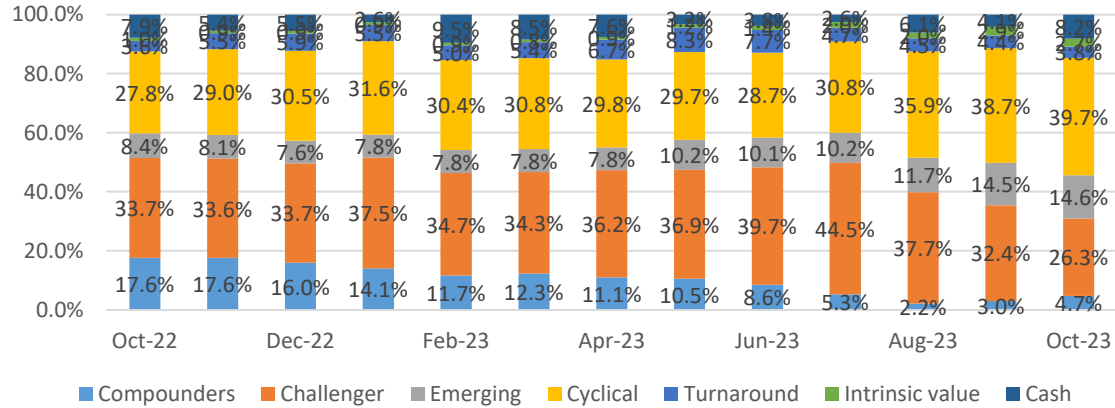


**Diversified
Portfolio**

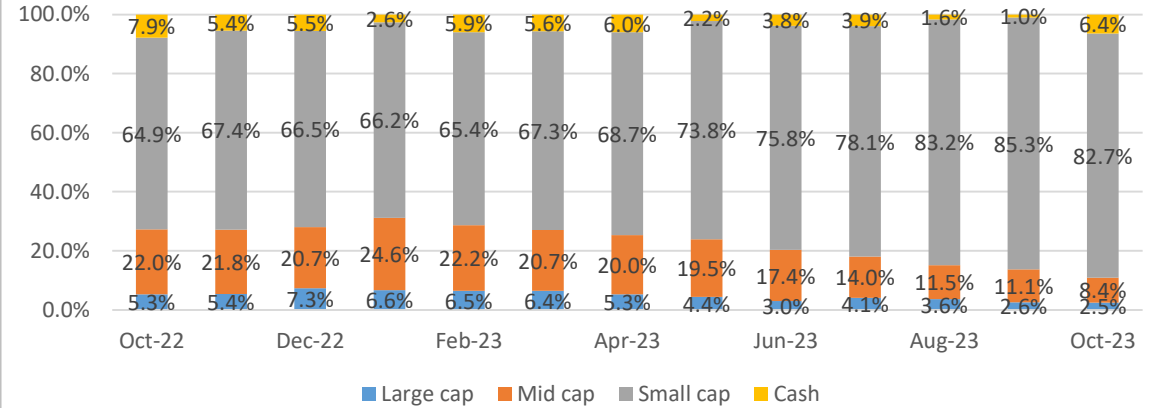
Portfolio Positioning

Bank of India Small Cap Fund

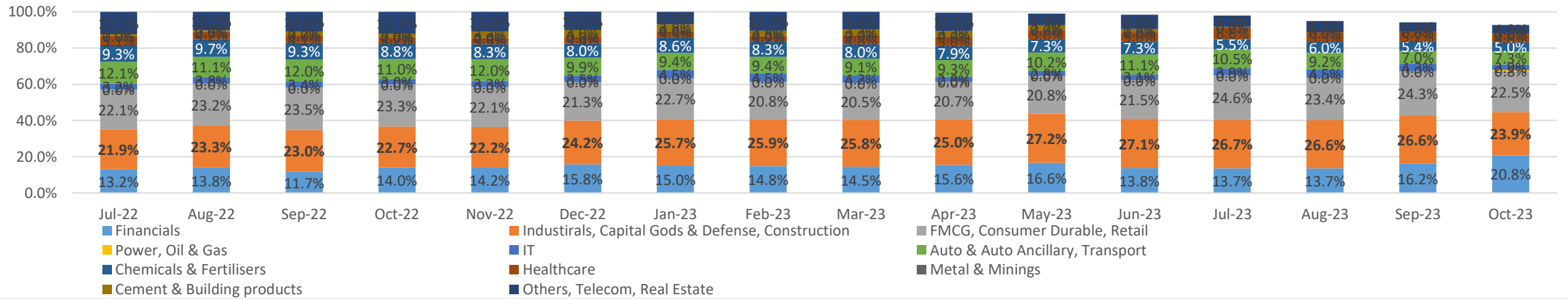
Portfolio business attributes



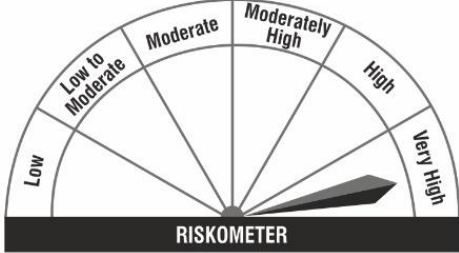
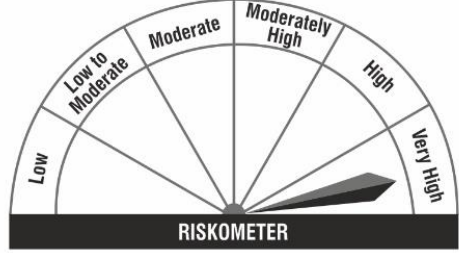
Portfolio market capitalisation



Portfolio sector exposure



Risk-o-meter

<p>Bank of India Small Cap Fund (An open ended equity scheme predominantly investing in small cap stocks)</p>	<p>Risk-o-meter is based on the scheme portfolio as on October 31, 2023</p>	<p>Benchmark Risk-o-meter as on October 31, 2023[^]</p>
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital appreciation. • Investment predominantly in equity & equity related instruments of Small Cap companies. 		
	<p>Investors understand that their principal will be at very high risk.</p>	<p>Benchmark riskometer is at very high risk.</p>

*Investors should consult their financial advisor if they are not clear about the suitability of the product.

[^]NIFTY Smallcap 250 TRI (Tier 1) (w.e.f. December 1, 2021)

SEBI Categorization

1. Large Cap: 1st -100th company in terms of full market capitalization.
2. Mid Cap: 101st -250th company in terms of full market capitalization.
3. Small Cap: 251st company onwards in terms of full market capitalization.

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