



# QUANTUM SMALL CAP FUND

(An Open-Ended Equity Scheme Predominantly  
Investing in Small Cap Stocks)

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**NFO Period: 16<sup>th</sup> to 27<sup>th</sup> October 2023**



# WHY SMALL CAPS?

# Small Caps account for more than 85% of all listed companies

Mcap >Rs.400 Crs  
< Rs. 21,791 Crs



Smallcap  
251st  
Onwards



No. of Stocks: 1,374\*

Mcap >Rs.21,791  
< Rs. 66,901 Crs



Midcap  
100-250



No. of Stocks: 150

Market Cap > Rs. 66,901 Crs



Largecap  
Top 100



No. of Stocks: 100

*\*Quantum Small Cap addressable universe*

**Note:** SmallCap / MidCap / Large Cap companies in terms of full market capitalization as prescribed in SEBI Master Circular No. SEBI /HO/IMD/ IMD-PoD-1 / P/ CIR / 2023/74 dated May 19, 2023. **Data as of September 30, 2023 Source: NSE, BSE**

# Small Caps More Diverse – Offer New Opportunities:

Top 3 sectors in Large Cap: 66% of market cap; in Small Cap: 41%

Sector	BSE Small Cap Index	BSE Sensex Index
Finance	14.04	39.64
Information Technology	7.34	15.30
Oil & Gas	1.02	10.79
FMCG	4.57	9.25
Transport Equipments	5.83	5.36
Capital Goods	15.75	4.88
Telecom	1.73	3.12
Power	2.51	2.74
Metal, Metal Products & Mining	4.48	2.34
Chemical & Petrochemical	6.89	1.91
Consumer Durables	3.93	1.77
Healthcare	8.40	1.64
Housing Related	6.56	1.26
Miscellaneous	4.31	
Agriculture	3.35	
Tourism	1.96	
Transport Services	1.69	
Media & Publishing	1.22	
Textile	2.35	
Diversified	0.79	
Other	0.95	
Utilities	0.08	
<b>Total</b>	<b>100</b>	<b>100</b>

**Some Niche Businesses, Available in Small Cap Space**

# Small Caps - Exposure to emerging sectors / themes









Theme	Sub-Sectors	Drivers
<b>Fin Inclusion</b>	Small Finance Banks MF Distribution Broking	Increasing reach in Tier-II, Tier-III towns High Returns ratios Compelling valuations
<b>Internal Combustion Engine to Electric Vehicles</b>	Auto Auto Ancillaries	Increasing Bill of Materials with OEMs Improving margin Exports
<b>Import Substitution</b>	EMS (Electronic Manufacturing System)	Increasing competitiveness against China Increasing exports Govt. incentives
<b>China+1</b>	Application Programming Interface (API) Special Chemicals	Increasing scale Improving competitiveness Govt. incentives
<b>Renewable Energy</b>	Green Energy Water Treatment / Waste Management	Regulatory / Investor push / Consumer Preferences Regulations / Resource Efficiency

# Small Caps are not to be confused with Start ups...

In many instances Small Caps have a history of profits – start-ups are still seeking revenue

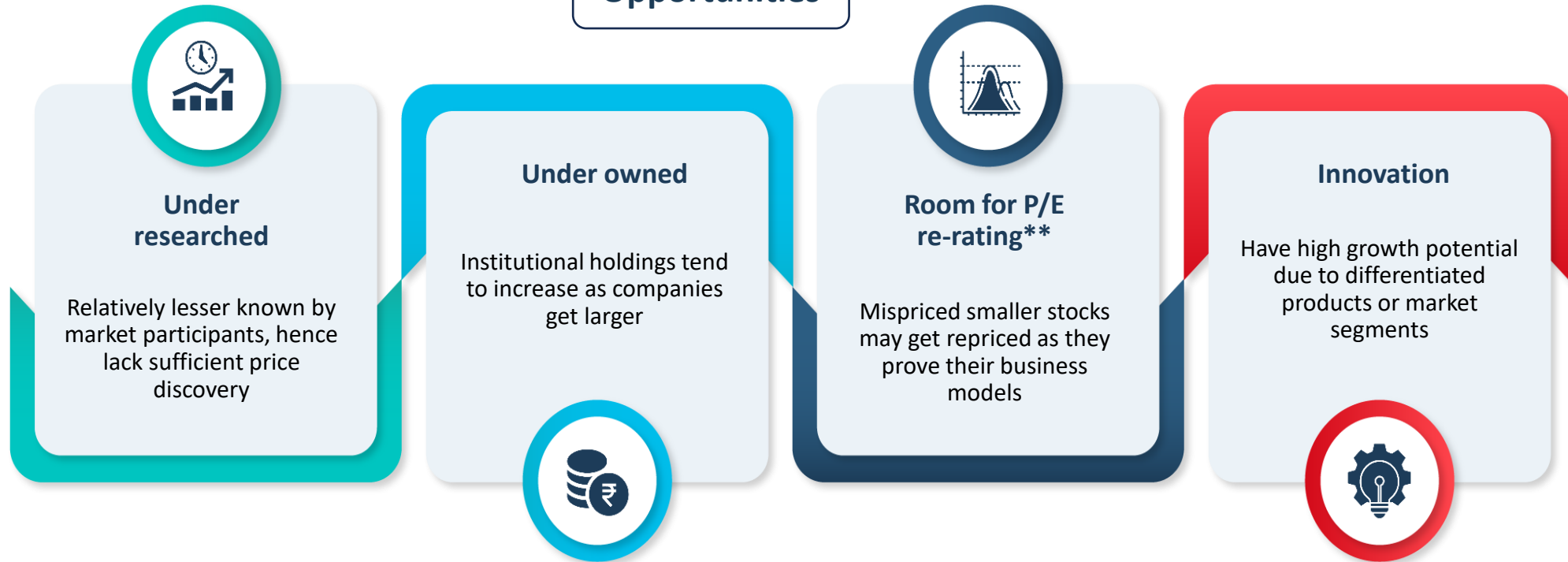
## Small Business

## Start-Ups

Established			Very risky
Successful business model			In search of unique and profitable business model
Long-term potential for success			Temporary nature
More traditional methods, take less risk			Extremely Innovative

# Small Caps have the potential to create wealth over the long run

## Opportunities



### Risks:

Smaller companies may not attract the best management talent, or have access to abundant equity capital while debt capital may be limited and available at higher interest rates  
Smaller companies may have lower governance standards and weaker oversight from external vendors

\*\* Re-Rating of a stock indicates that Investors are willing to pay more or less for the stock.

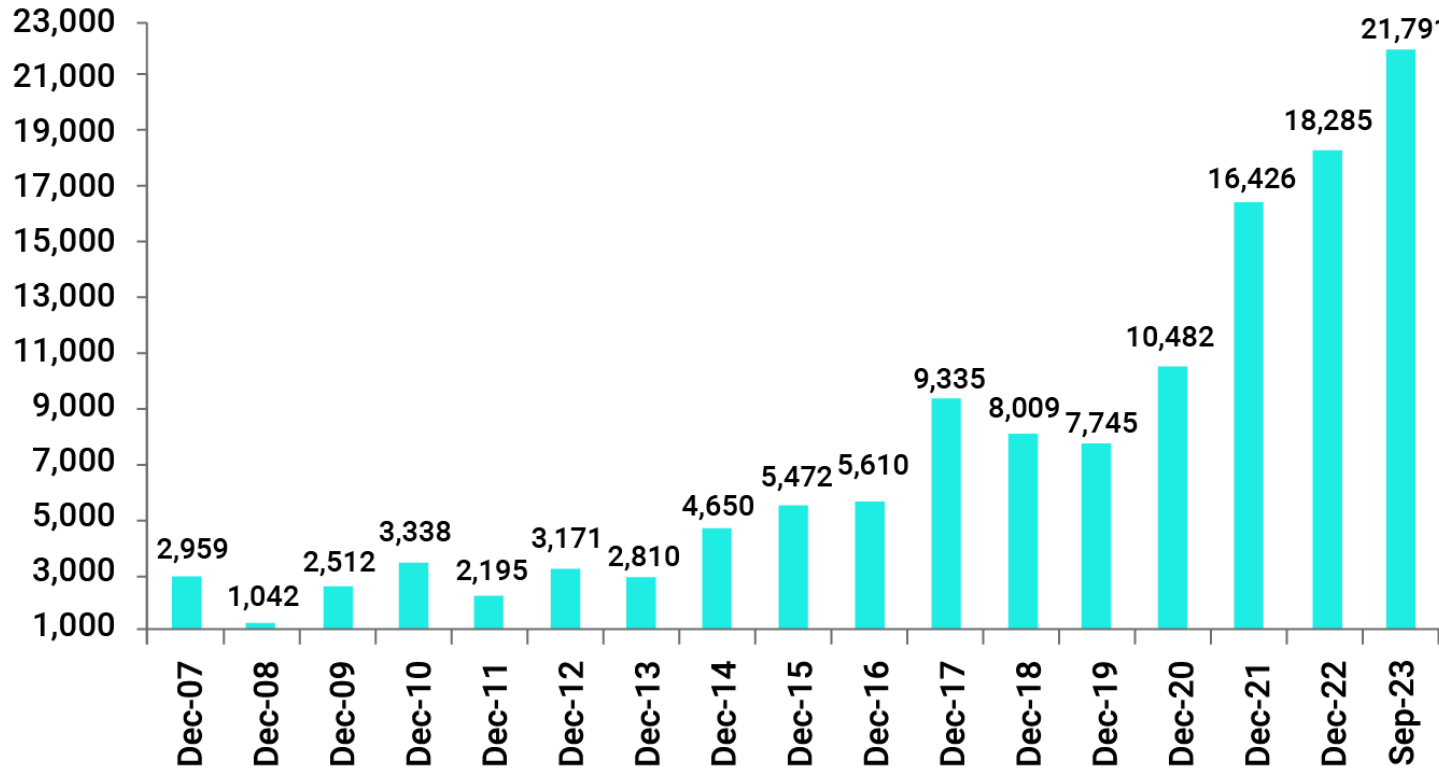


## **WHY QUANTUM SMALL CAP FUND?**



# Quantum sees potential in increasing footprint of Small Caps

## Market Cap of 251<sup>st</sup> Stock onwards (Rs. Crores)



Market Cap (Crs)	No. of Stocks
8,000 Crs & above	228
3,000 Crs to 8,000 Crs	304
<b>1,000 Crs to 3,000 Crs</b>	<b>436</b>
400 Crs to 1,000 Crs	406
1 Crs to 400 Crs	1,376

# Funds with large AUM become Index-like?

Small wts. in many stocks is lack of conviction – difficult to enhance fund performance?

No of funds	Average AUM	Average no. of stocks in portfolio	Top 20 stocks average portfolio weight	Average weight of stocks other than top 20
24	8080 crore	80	43%	50%

Fund	No. of stocks	No. of Stocks with less than 1% weight	% of stocks with less than 1% weight	Top 20 stocks weight (%)
Fund A	93	58	62%	49%
Fund B	72	21	29%	44%
Fund C	75	35	47%	47%
Fund D	92	48	52%	44%
Fund E	77	36	47%	46%
Fund F	196	176	90%	26%
Fund G	55	14	25%	48%
Quantum Small Cap*	40 TO 60	5 or less	10%	60%

## Why pay an active management fee for 'closet' indexes?

Source: Ace MF  
Data Compiled by: Quantum AMC

The above information is to explain the concept of over diversification on account of average AUM size of the small cap funds and is for illustrative purpose only. The above information should not be constructed as views/ opinions of Quantum Mutual Fund / Quantum AMC in any manner. \*Please refer Scheme Information Document of the Scheme for complete Investment Strategy.

# Small caps find some liquidity comfort in large and mid caps, However, it should not be substantial....

*Quantum is aware that Large AuMs result in illiquidity. Negative impact on performance and divergence from mandate are the disadvantages*

Fund Name	% of Top 10 - More than 66 days to Liquidate	% of Top 10 - Large and Mid	Days to liquidate* the least liquid position in Top 10
Fund A	61.59%	0.00%	216
Fund B	70.16%	20.59%	157
Fund C	69.85%	20.03%	179
Fund D	24.32%	46.37%	1,623
Fund E	61.30%	9.87%	177
Fund F	48.97%	16.48%	506
Fund G	0.00%	31.42%	65

Source: Ace MF Data Compiled by Quantum AMC

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# What happens in a sell-off?

*Even a small holding by a fund in a Small Cap Company can be a large % holding of that company – when the fund sells that stock will it depress the price of that stock?*

Company Name	Sample Portfolio holding of different funds (%)	Portfolio holding as a % of market cap	Days to liquidate* the holding
Company A	0.62%	8.65%	168
Company B	0.25%	8.25%	94
Company C	0.58%	7.48%	185
Company D	0.57%	8.77%	205
Company E	1.12%	7.75%	1,623
Company F	0.52%	7.90%	397

Source: Ace MF Data Compiled by Quantum AMC

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# Unique Features of the Quantum Small Cap Fund



**Liquidity and market cap will be important considerations –**  
Disciplined about fund capacity to avoid large size becoming a hindrance to performance



**Strong Research Capabilities** to navigate large small cap universe



Emphasis on **Governance and Management Quality**



**Growth at Reasonable price (GARP) approach**

- ❖ Prudent capital allocation for better returns
- ❖ Growth / Valuation levers to deliver upside potential



**Long term Approach** to capitalise on compounding that small businesses offer

# Well defined universe helps overcome traps of Illiquidity and Size

*Low Liquidity and market caps lead to risks of exit and sub optimal portfolio*

## Quantum Small Cap Fund – Defined universe

Universe	(Rs. Crores)	
	Min	Min
Liquidity / Day	2	-
Market Cap	400	17,000

*The above Liquidity & Market Cap Universe is defined based on current market thresholds & are subject to change as per changing market conditions*

Please refer Scheme Information Document of the Scheme for complete Investment Strategy

Thoughtful Today, Secure Tomorrow

# Fund Capacity – Most defining trait in the Small Cap world

Capacity depends on Liquidity and Market Cap



***Portfolio Traits for a Rs. 5,000 Crore Small cap Fund – and ensuring we own less than 5% of a company***

***Quantum Portfolio will be mindful of below given metrics while building it's portfolio***

Fund Size	5,000	Crores				
	Our criterion: Weight, at cost	Amount Invested (Rs. Crore)	Portfolio Size (No. of Companies)	Our criterion: Trading Days to fill position	Hence, Required Volume/Day (Rs Crore)	Min Market cap @ 5% of the company
Min wt	2%	100	50	66	1.5	2,000
Max wt	4%	200	25	66	3.0	4,000

Chasing AuM gives investors an NAV which is not a 'Transactable' NAV.

Being Mindful of the 'Capacity of Quantum Small Cap Fund' helps manage liquidity Risk.

*As per Quantum estimates above is an example to showcase what a fund of 5000crores AUM should consider as Liquidity & Market Cap thresholds*

# Quantum's Approach to Small Caps

Mitigate Risks while Banking on opportunities

## Why Quantum?



### Robust Research Process

*to navigate large small cap universe*



### Disciplined Buy and Sell Limits

*for every stock*



### Long Term Perspective

*when building a portfolio*



### Investing in Growth

*while being mindful of Valuations*



### Focus on Liquidity

*of the stocks we invest in*



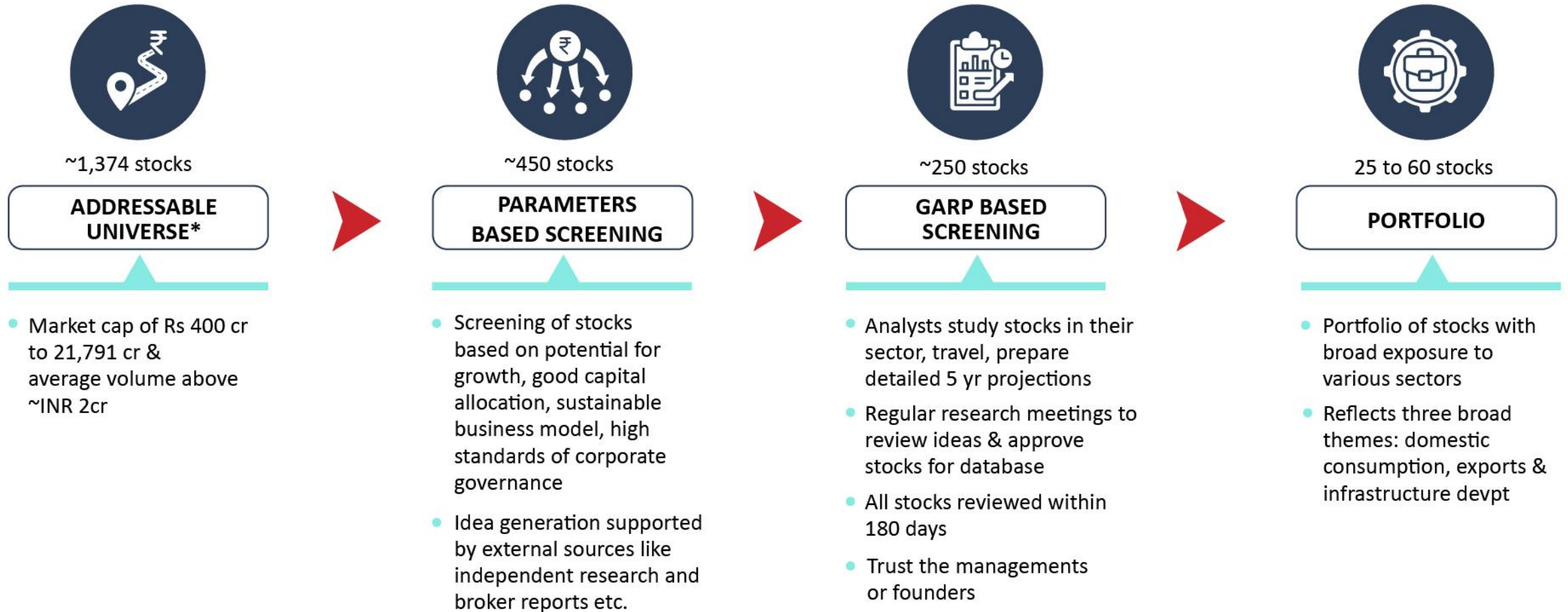
### Diversified, Liquid Equity Portfolio

*of Quality Companies*

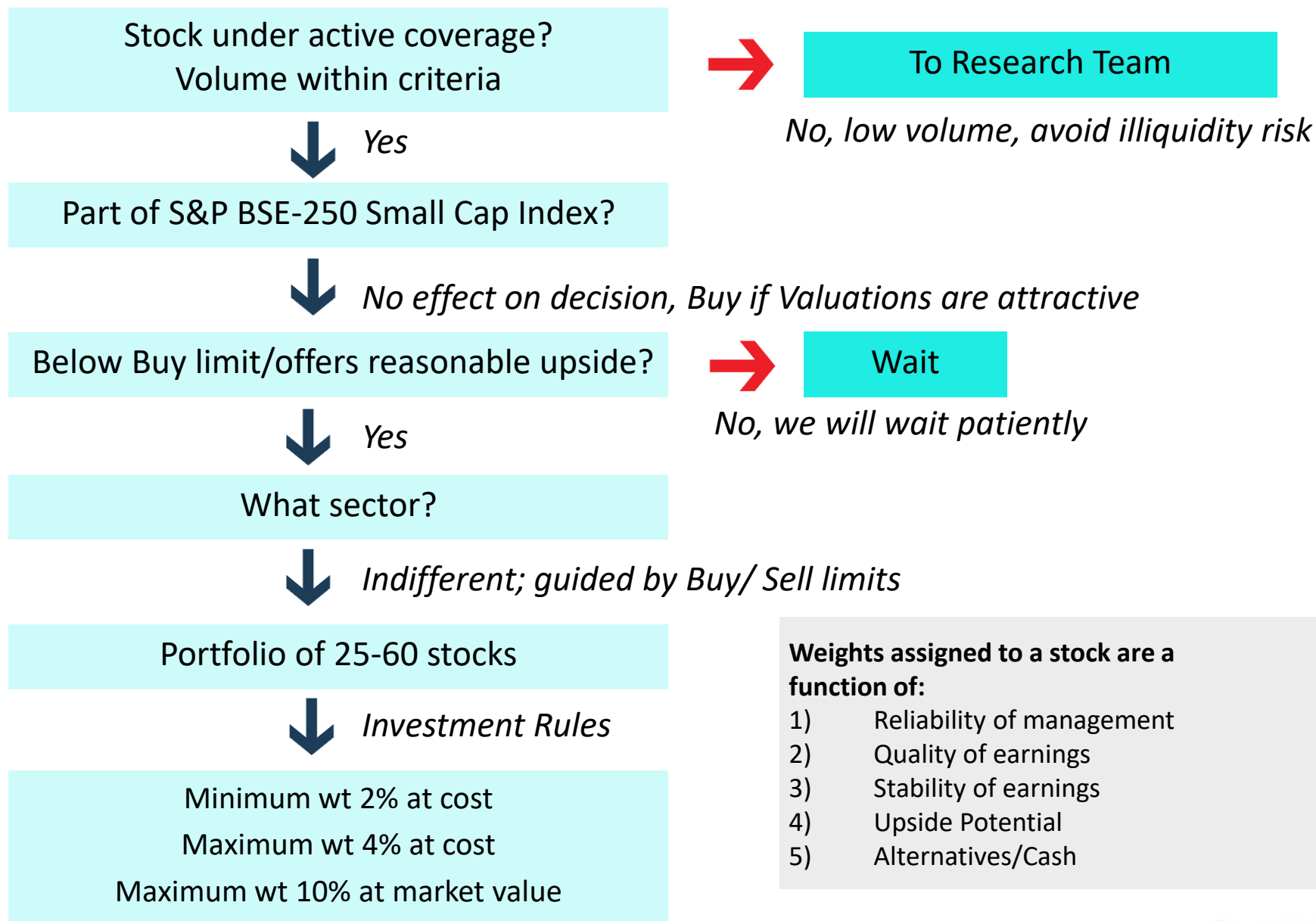


# Our Investment Approach

Investors get best of bottom-up ideas with a risk control measurement for each sector



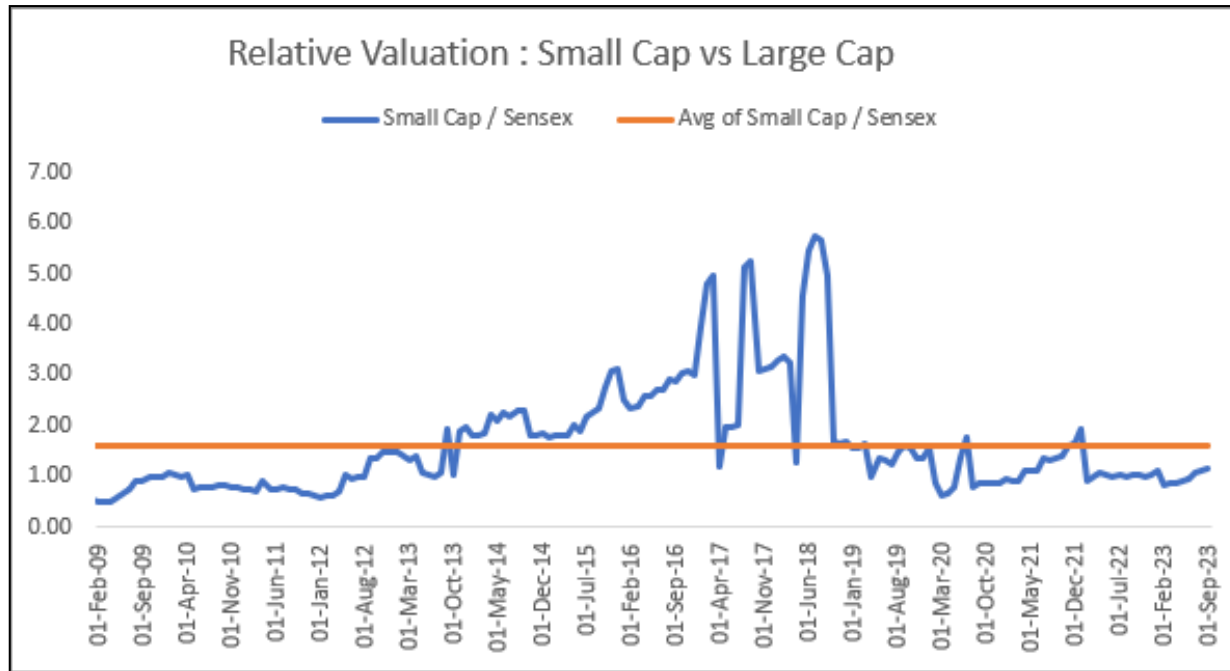
# Portfolio Construction Process



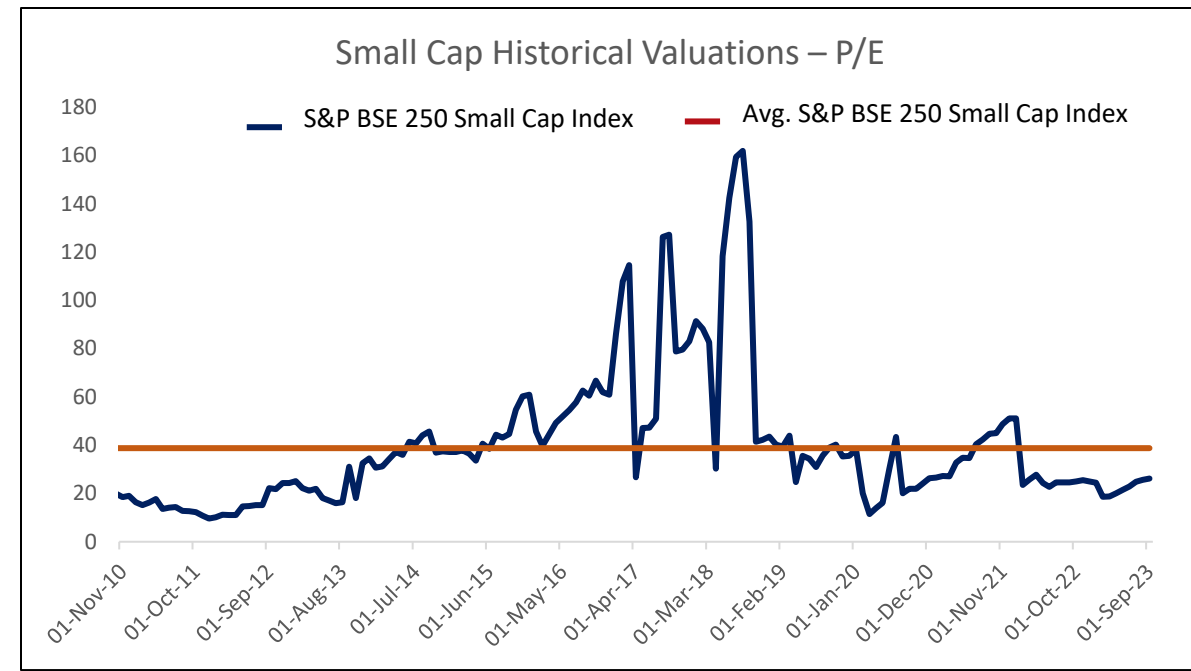
# Liquidity and Irrational exuberance can propel the price of Small Cap stocks but earnings need to support eventually

## Is it the right time to invest?

The Small Cap space is trading close to long term averages with pockets of value



Past performance may or may not be sustained in the future



Past performance may or may not be sustained in the future

*At times we have witnessed a period of irrational exuberance that small caps go through, if you were to remove such periods from the above time period, Small Caps normalised P/E are closer 20-25x and not about 40x as seen above*



## Investment Objective

The investment objective of the scheme is to generate capital appreciation by investing in Small Cap Stocks. There is no assurance or guarantee that the investment objective of the scheme will be achieved.

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## Benchmark

S&P BSE 250 Small Cap TRI

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## Type of Scheme

An Open-Ended Equity Scheme Predominantly Investing in Small Cap Stocks

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## Plans Available

Direct Plan and Regular Plan with Growth option

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## Minimum Application Amount

Lumpsum – 500  
SIP - 100 (Daily) & 500 (Weekly, Fortnightly, Monthly & Quarterly)



**Chirag Mehta**  
CIO & Fund Manager

**Funds Managed:**

Quantum Equity Fund of Funds  
Quantum Multi Asset Fund of Funds  
Quantum India ESG Equity Fund  
Quantum Gold Saving Fund  
Quantum Small Cap Fund

**Qualification:**

CAIA (Chartered Alternative Investment Analyst), and Masters in Management Studies in Finance



**Abhilasha Satale**  
Associate Fund Manager

**Funds Managed:**



Quantum Small Cap Fund

Abhilasha Satale has more than 16 years of experience in Indian Capital Markets as an Analyst and Senior Research Manager.

**Qualification:**

Masters in Business Administration

## Product Labeling

Name of the Scheme & Tier I Benchmark	This product is suitable for investors who are seeking*	Risk-o-meter of Scheme#	Risk-o-meter of Tier I Benchmark
<p>Quantum Small Cap Fund</p> <p>(An Open-Ended Equity Scheme Predominantly Investing in Small Cap Stocks)</p> <p><b>Tier I Benchmark:</b> S&amp;P BSE 250 Small Cap TRI</p>	<ul style="list-style-type: none"> <li>• Long term capital appreciation</li> <li>• Investment in Small Cap Stock</li> </ul>	 <p>Investors understand that their principal will be at Very High Risk</p>	

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

#The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made. For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund [www.QuantumAMC.com](http://www.QuantumAMC.com)

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**4<sup>th</sup> October 2023**

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

ಧನ್ಯವಾದಗಳು  
(dhanyawaadagalu)

धन्यवाद  
(dhanyavād)

நன்றி  
(nandri)

നന്ദി  
(nandi)

Thank You

सुखरिभा  
(zukriā)

ಧನ್ಯವಾದಮುಲು  
(dhanyavaadhamulu)

धन्ववाद  
(dhanvād)

ধোন্নোবাদ  
(dhonnobad)