SBI MF
PASSIVE SOLUTIONS
INDEX FUNDS | ETFs | FOFs

Let your investments mirror market movements

Passive investment solutions by SBI Mutual Fund

What is Passive Investing?

Passive investing offers a hassle-free way to invest without constantly monitoring market movements. Instead of trying to outperform the market, passive investing aim to replicate the performance of an underlying market indices – such as the BSE Sensex, Nifty 50, Nifty Midcap 150 Index, BSE 100 etc.

Popular options for passive investing include Index Funds, Exchange-Traded Funds (ETFs) and Fund of Funds (FOFs). These investment vehicles typically hold a broad mix of assets that closely mirror the composition and performance of an underlying market index/fund.

The simplicity, low cost and convenience of passive investing make it an appealing choice for investors seeking a straightforward way to achieve their financial goals.

Benefits of Passive Investing

Low Cost

- Offers lower cost by avoiding active stock picking, resulting in reduced management and transaction expenses due to low portfolio turnover

Diversification

- Offers broad diversification, as Index funds and Fund of Funds (FOFs) include multiple companies or funds across in a single investment

No Bias of Fund Manager

- Changes in the underlying index are made by the index provider (e.g., NSE or BSE), with no active stock selection by a fund manager

Who Should Consider Investing in Passive Funds?

First-Time Investors

If you are new to investing or just starting your financial journey, passive funds offer a simple, diversified and low-cost way to invest.

New to Equity Investing

Anyone stepping into the equity market for the first time can use passive funds as a foundational investment to build confidence and experience before investing in other, perhaps active strategies, funds.

Tactical Investors

If you are bullish on a specific sector or index, passive funds tracking that segment can be a cost-effective way to capitalize on your tactical view.

Experienced Investors seeking unbiased strategies

Seasoned investors who prefer to have no fund manager bias in stock selection may choose passive funds for their rules-based approach of mimicking a particular underlying index.

Long-Term Investors

Investors with a long investment horizon and those who prefer a hands-off approach to investing may choose passive funds to help build wealth over the long term.

How are Passive Funds different from Active Funds?

Parameter	Active Funds	Passive Funds
Objective	Outperform the benchmark	Match the performance of specific Index
Management Style	Fund Manager actively select the stocks and try to outperform the market	Fund manager periodically makes minor adjustment to keep the fund in line with index and mimic the performance of index
Expense Ratio	1.05 - 2.25%	0 - 1%
Portfolio Turnover	High	Low
Customer Profile	Investor seeking alpha with incremental risk	Long term investor, seeking stable and low-cost return

Find the Right Balance: *Passive and Active Investing in Harmony*

In today's dynamic investment landscape, a hybrid approach that blends passive and active strategies is increasingly seen as an optimal path. Instead of choosing one over the other, many investors are leveraging the strengths of both to enhance potential returns, manage risk, and control costs.

Passive investing focuses on long-term growth by tracking market indices. It offers broad diversification, comparatively lower costs, and minimal trading efforts making it a suitable choice for those seeking convenience and market-aligned performance.

Active investing, on the other hand, involves a hands-on approach with an aim to outperform the market. It relies on research, analysis, and strategic decision-making to identify opportunities. This approach can be useful in navigating market shifts or identifying sectors or themes poised for growth based on a fund manager's and/or fund house's investing philosophy.

By combining both strategies, investors can benefit from the convenience and cost-efficiency of passive investing while also tapping into the potential for better risk-adjusted returns through active investing. The optimal mix will depend based on an investor's financial goal and risk capacity.

Know your Passive Offerings

1. Index Funds: *Simplicity Meets Performance*

Index Funds are mutual funds designed to replicate the performance of a specific market index, such as the Nifty 50 or BSE Sensex. By investing in the same securities as the index, these funds offer:

Low Costs: Lower expense ratio due to passive tracking.

Diversification: Broad market exposure reduces individual stock risk.

Consistency: Historically strong long-term returns aligned with market growth.

Ideal for investors seeking a hands-off approach with reliable returns and are comfortable investing in mutual funds regularly through SIP or lumpsum.

Know your Passive Offerings (contd...)

2. ETFs: *Flexibility with Efficiency*

Exchange-Traded Funds combine the convenience of mutual funds with the flexibility of stock trading. Listed on stock exchanges, ETFs can be bought and sold throughout the day through a demat account, offering:

Liquidity: Trade anytime during market hours through a demat account.

Transparency: Real-time pricing and holdings visibility.

Tax Efficiency: Generally, more tax-friendly than traditional mutual funds.

Ideal for investors who value control and cost-efficiency and comfortable transacting through a demat account, like direct equity investing.

3. Fund of Funds: *Diversified by Design*

A Fund of Funds (FoF) invests in a portfolio of other mutual funds or ETFs, offering a layered diversification strategy.
These funds are curated by expert managers to align with specific investment goals:

Multi-Asset Exposure: Access to equity, debt, and alternative assets.

Professional Management: Strategic fund selection and rebalancing.

Convenience: One-stop solution for diversified investing with a bouquet of multiple offerings in one fund.

Ideal for investors looking for a comprehensive, professionally managed portfolio.

The investor in FOFs will bear the recurring expenses of the Scheme, in addition to the expenses of the underlying Schemes in which the FOF invests.

Types of Offerings within Passive Solutions

Broad Market Offerings - These funds track a wide segment of the stock market, offering exposure to a mix of large, mid, and small-cap stocks. For example, Nifty 500

Market Capitalization Offerings - These funds follow indices weighted by company size. Larger companies have a bigger impact on the fund's performance. Examples: Sensex, Nifty 50, Nifty Next 50, Nifty Midcap 150 and Nifty Smallcap 250 etc

Equal Weight Offerings - Every stock in the index is given the same weight, regardless of its market capitalization. For example, Nifty 50 Equal Weight

Smart Beta Offerings - These funds use specific factors like size, value, or quality to select and weight stocks, aiming to improve returns while staying passive. For example, Nifty 200 Quality 30

Sector-Based Offerings - Focused on specific industries, these funds invest only in companies from a targeted sector such as Consumption, IT, Healthcare, Banks, Infrastructure etc. For example, Nifty IT, BSE PSU, Nifty Bank etc.

International Offerings - These funds track indices from global markets, through ETFs and FOFs, helping investors diversify beyond domestic companies and invest in other global economies. Examples: NASDAQ, S&P 500, Hang Seng etc.

Debt/ Fixed Income Offerings - These invest in fixed-income securities like government bonds or corporate debt, offering more stability and lower risk. For example, CRISIL IBX GILT INDEX-APRIL-2029 Fund, Nifty 10-year Benchmark GSec Funds, Constant Maturity Funds, Nifty 1D Rate ETF etc.

How can one invest?

Do your research:
Compare offerings (ETFs, Index Funds and FoFs) based on expense ratios, tracking error, underlying index, past performance and ease of access (opening of demat account / folio).

Open the Right Account:

- For ETFs: Open a trading and demat account.
- For index funds and FoFs: Register with a mutual fund platform or the fund house website. Complete KYC and set up bank mandates to open a folio.

Invest:

- For ETFs: Buy units through your Demat account just like you would purchase a stock.
- For Index Funds and FoFs: You can invest a lump sum or start a SIP to invest regularly.

Monitor Regularly:
Passive funds do not need constant attention but review occasionally to ensure they still align with your financial goals.

Know the terms to understand passives

Tracking Error:
The difference between a fund's returns and the returns of its benchmark index.

Index:
A market benchmark (e.g., Nifty 50, BSE Sensex) that passive funds aim to replicate.

Market Maker:
A financial intermediary that provides liquidity in the ETF market by continuously quoting buy and sell prices. They help ensure that ETF units can be bought or sold easily, even when trading volumes are low.

Authorised Participant (AP):
A large institutional investor (like a bank or brokerage) that has the right to create or redeem ETF units directly with the fund house. APs work with market makers to keep the ETF's market price close to its Net Asset Value (NAV).

Underlying Scheme:
In the context of Fund of Funds (FoFs), this refers to the mutual fund(s) or ETF(s) that the FoF invests in. The performance of the FoF depends on the performance of these underlying schemes.

Premium/Discount:
The difference between an ETFs market price and its NAV.