INVESTONOMICS

INVESTING GUIDE | OCTOBER 2019 to DECEMBER 2019

WE BRING OUR EIGHTH EDITION OF QUARTERLY INVESTMENT GUIDE INVESTONOMICS

8TH EDITION

Oct to Dec

WHAT'S INSIDE

PMS AIF WORLD

Superior Investments | Informed Decisions

Dear Investors,

Welcome to the latest issue of Investonomics.

Mahatma Gandhi was born in Year 1869, and 2nd Oct 2019, India celebrated 150 years of the Mahatma or Mohandas Karamchand Gandhi.

Remembering this great man, lets draw investing lessons from his life - Insights that will hold true for many generations.

- Be Consistent - He never altered the style or philosophy of his freedom struggle. He practised non-violence all his life and achieved desired results. Likewise, in investments, sticking to asset allocation with unwavering conviction is the key.
- Take the first step today – He began with small non-violent protests in parts of India. These first steps paved the way for the first ever organized non-violent struggle for independence in the world. Likewise, small investments compound to bigger values over time, what is important is to take the first step.
- Learning from your mistakes - He often said that freedom is of no worth if it does not allow you the freedom to make mistakes. Likewise, in investments, we are all prone to an occasional mistake owing to greed and fear. But wisdom lies in admitting that one is wrong, and finding a way out then becomes easier.
- Keeping the Faith - He said that a living faith will last even in the middle of the blackest storm. Likewise, when it comes to investing, there are times when one loses confidence. At that time, it requires a lot of patience and faith in one's own conviction.
- Know more – He had a knack for knowledge and limitless appetite for information. While investing, its equally important to make an informed decision.

Informed investing is the core to our investment philosophy. And, this quarterly edition is an educative initiative to help our investors in this regard.

Macro

The last quarter for the market participants has been a mixed bag, markets languished throughout August and half of September until the government bought in big bang tax reforms for Indian businesses. Additionally, RBI has maintained its accommodative stance and has delivered yet another 25-bps rate cut, taking the benchmark repo rate to 5.15%. The central bank has also asked banks to follow an external benchmark for lending to ensure better pass on of the rate cuts. These collective fiscal and monetary accommodations for growth are seen as a strong commitment from the government. The effects will accrue over the next few quarters.

On the economy front, headline CPI remained flat at 3.2% in Aug with core inflation at 4.6% and food inflation accelerating to 3%. WPI inflation for Aug came at 1.1% in-line with last month, lowest in 2 years. Given growth slowdown and good monsoon, inflation is expected to remain comfortably below 4% in FY20. Composite PMI for Aug came at 52.6, lower than July print of 53.9. July IIP accelerated to 4.3% vs 1.2% in June owing to both favourable momentum and base effect. MPC lowered its GDP growth projection for FY20 to 6.1% from 6.9%.

Equity Market

Impact of corporate tax reforms resulted in positive FPI's flows (~$1 bn) in Indian markets after a sharp sell-off seen in August. Both FIIs and DIIs were net buyers during Sep. BSE Midcap and BSE Small cap indices outperformed its larger peers after lagging in August and YTDFY20. Amongst Sectors, Energy was the best performing sector with (+7.8%) returns followed by Infrastructure (+6.9%), Auto (+6.9%), FMCG (+6.4%) and Bank (+6.1%). Under performing ones were Infotech (-2.9%), Realty (-3.2%) and Pharma (-6.5%). Global equities also gained in September and reversed some of the August losses. Nikkei was the top performer with (+5.1%) returns, followed by Euro Stoxx (+4.2%), FTSE 100 (+2.8%) and Dow Jones (+1.9%). MSCI Emerging market underperformed the Indian domestic market with (+1.7%) returns.

Debt Market

As of Sep 30th, the 10-year benchmark G-Sec yield closed at 6.70%, up by 14 bps from its previous close of 6.56% while that on the short-term 1-year bond ended 13 bps lower at 5.61%. In the corporate bond segment, yields rose across the yield curve over the month. The 10-year AAA bond yield ended 15 bps higher at 7.60%, while the short-term 1-year AAA bond yield ended flat at 6.70%. The spread between 1-year and 10-year AAA bond widened. Within the short-term segment, yield on 3-month commercial paper (CP) was down 30 bps to 5.50% while 1-year CP yield was down 10 bps at 6.40%. In September, the rupee appreciated after Finance Minister Nirmala Sitharaman announced corporate tax cut. The government also announced it would borrow Rs 2.68 trillion from the bond market in the second half, in line with expectations.

FII and DII Flows

FIIs turned positive with inflows of $1 bn in Sep vs. net outflows of $2.2 bn in Aug and $1.9 bn in July. Sentiment improved meaningfully post tax cut announcement. YTD, FIIs net buying in Indian Equities stands at $8.2 bn. DIIs continue to remain positive with net inflows of $1.7 bn in Sep taking YTD tally to inflows of $6.5 bn. Mutual funds and insurance funds bought $1.4 bn and $262 mn in September, respectively.

Outlook

The government's reaction to the unfolding economic crisis has followed the classic stages of grief. It has moved from denial (e.g. the refusal to release government reports on unemployment rates before the election) to anger (accusing anyone concerned about the economy of political bias) to bargaining - acknowledging a problem but not its full extent and expecting that some small measures will solve it. With all this gone by and not un-known anymore is incorporated, and today government is geared to boosting back growth and is taking measures in a swing.

Besides, India's economy is highly sensitive to crude prices and bearish outlook on crude is a big positive for us. Cumulative rainfall as of end - Sep is 10% above normal which also augurs well for the rural demand. The decision to slash corporate tax rates is a big structural reform and extremely positive move for long term, but its impact in driving growth would be lagged. With increased competitiveness of India among emerging countries on account of tax reforms, India is likely to be the major beneficiary of US-China trade war. More economic reforms and growth focused measures can be expected.

The upcoming earnings season is likely to be a key driver in Equities for the coming quarter. Pre earnings commentary from few corporates have been muted however the festive season to see some uptick in business. The market is hopeful that the lower base effect and tax stimulus will ensure increase in earnings going ahead. Returns in stocks to benefit from earnings uptick and probable valuation re-rating going ahead.

Valuations wise mid-caps and small caps look far more attractive than large caps. We recommend investors to stick to asset allocation and allocate new investments towards select Mid Cap Portfolios or Multi Cap Portfolios.

Valuation Comparison of Nifty 50, 500 and Mid cap 100

Indices	Category	3 Year High	3 Year Low	At present (Sep 30th)
Nifty 50	Large Cap Index	29.9	21.16	26.44
Nifty 500	Multi Cap Index	34.66	24.37	28.22
Nifty Mid Cap 100	Mid Cap Index	62.07	23.7	23.7

Debt allocations must be in low duration, and short-term funds. One must stay away from credit risk funds.

We do unparalleled research, provide un-biased advice and do suitability analysis before recommendations. We have analysed consistency of performance across time, and have highlighted our choice of top equity, and debt mutual funds.

We do industry's first of its kind in-depth 4P Analysis across Philosophy, Performance, Portfolio, and Price and have highlighted Top investment products across debt and equity.

Honesty is very expensive gift. Do not expect it from cheap people

– Warren Buffett.

Valuations favour Mid – Caps

The journey to higher double digit returns in equity investing goes through dark patches and sees bright sunlight. The inflection point or the new dawn in return trajectory for Indian shares could be visible soon. The awaiting dawn could be more rapidly approaching us in the Mid Cap space. This space has often been referred to as a searching ground for investors for finding quality companies. PMS AIF WORLD (www.pms-aif.com), presents a case for investing in Mid-Caps, and a selected list of a few PMSes with substantial weights in Mid and Small Cap Companies.

The mid cap space has been battered and bruised and, in some cases, burned. This was last time seen in 2013, when most mid-caps traded dirt cheap. Things started turning around 2014 onwards and most mid-caps delivered superb returns till Jan 2018. In a similar scheme of things, are mid-caps right now, and seem to be ready to out perform after seeing massive correction in last 20 months. The valuation divergence between mid and large cap indices has been at all time high and some mean reversion is expected, in fact the mean reversion has begun, as is visible already. The value of institutional holding in the 1,250 companies (after the top 250) dropped by 40% to INR2.9 lakh crore between December 2017 and June 2019, currently 55% of the institutional holding is in the top 20 stocks and only 1% in the bottom 1,000 stocks (501 to 1,500). This has not been the case always and we expect quality mid-caps to again see institutional buying interest.

Amongst PMSes with more than 35% allocation to mid-small caps, these 12 names have been picked based on long term out-performance on their respective benchmarks.

PMS PRODUCT FACTS

PMS	Category	Number Of Stocks	AUM	Large Cap	Mid Cap	Small Cap	Cash	Fund Manager
Motilal IOP 1	Mid Cap	25	3050	1.80%	36.80%	60.70%	-	Manish Sonthalia
Ambit Good and Clean	Mid Cap	15	121.3	20.00%	40.00%	35.00%	5.00%	Aishvarya Dadheech
Nippon Emerging India	Mid Cap	23	150	3.00%	29.00%	67.00%	-	Varun Goel
Sundaram SELF	Mid Cap	23	273	17.00%	67.00%	12.00%	4.00%	Madangopal Ramu
2Point2Capital	Mid Cap	13	323.4	4.76%	17.69%	64.49%	13.06%	Amit Mantri & Savi Jain
Alchemy High Growth	Multi Cap	20	2700	46.00%	38.00%	16.00%	0.00%	Amit Nadekar
IIFL Multi Cap	Multi Cap	28	1200	60.94%	21.68%	14.33%	3.05%	Aniruddha Sarkar
Motilal NTDOP	Multi Cap	26	9106	44.70%	51.50%	3.60%	-	Manish Sonthalia
AlFaccurate Advisors	Multi Cap	48	601.55	54.00%	23.00%	19.00%	4.00%	Rajesh Kothari
Invesco RISE	Multi Cap	19	672.67	23.52%	34.17%	33.46%	-	Amit Nigam
SBI Growth with Values	Multi Cap	23	-	36.52%	17.00%	45.01%	1.47%	Aparna Shanker
ICICI Prudential Contra	Multi Cap	20	161.47	48.90%	31.80%	19.30%	-	Parag Thakkar

PMS PERFORMANCE FACTS

PMS	Category	1 M	6 M	1 Y	2 Y	3 Y	5 Y	Date of inception	Benchmark	PMS Performance (SI)	Benchmark (SI)
Motilal IOP 1	Mid Cap	2.34%	-9.51%	-1.60%	-12.73%	-0.64%	9.02%	15-Feb-2010	Nifty Small Cap 100	10.90%	5.08%
Ambit Good and Clean	Mid Cap	7.90%	4.60%	21.20%	12.90%	12.70%	-	12-Mar-2015	BSE Mid Cap	12.40%	4.10%
Nippon Emerging India	Mid Cap	5.56%	-3.01%	5.69%	-1.23%	-	-	7-Mar-2017	Nifty MidCap 100	5.38%	-1.06%
Sundaram SELF	Mid Cap	6.80%	-2.00%	10.80%	1.40%	7.10%	10.80%	1-Jun-2010	Nifty 500	15.70%	7.70%
2Point2 Capital	Multi Cap	7.40%	0.80%	19.00%	10.40%	17.20%	-	19-Jul-2016	Nifty 50	18.10%	9.72%
Alchemy High Growth	Multi Cap	5.40%	-2.30%	0.30%	1.90%	8.00%	10.30%	8-May-2002	BSE 500	22.90%	15.50%
IIFL Multi Cap	Multi Cap	8.02%	6.87%	23.54%	13.36%	12.93%	-	31-Dec-2014	BSE 200	18.43%	8.75%
Motilal NTDOP	Multi Cap	7.76%	-0.39%	1.86%	1.97%	6.86%	16.54%	5-Dec-2007	Nifty 500	15.94%	5.28%
AlFaccurate Advisors	Multi Cap	5.32%	-4.31%	-1.14%	-0.96%	6.58%	12.72%	23-Nov-2009	BSE 500	17.99%	8.45%
Invesco RISE	Multi Cap	3.12%	-10.18%	-7.77%	-2.66%	9.20%	-	18-Apr-2016	BSE 500	12.21%	10.84%
SBI Growth with Values	Multi Cap	6.10%	8.61%	15.76%	5.73%	9.45%	-	11-Jul-2016	BSE 500	9.41%	9.29%
ICICI Prudential Contra	Multi Cap	5.44%	-1.51%	15.35%	-	-	-	14-Sep-2018	BSE 200	14.02%	-2.93%

For investors seeking mid cap exposure, a Multicap route should be a preferred one as the large cap portion in a Multicap PMS provides more stability to the portfolio and mid cap portion adds to superior pace of performance.

Top 10 Equity Mutual Funds

1. Axis Bluechip – The scheme predominantly invests in bluechip companies which are traded frequently and hence are more liquid. This scheme aims to outperform benchmark with lower risk.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
8,050	98.94%	1.06%	-	6.94%	3.80%	9.97%	17.22%	15.24%	11.81%	12.14%

2. Kotak Standard Multicap Fund – The fund aims to identify sectors that are likely to do well over medium term and take focused exposure on stocks within these sectors.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
26,991	78.38%	19.95%	1.67%	4.81%	-2.01%	0.30%	8.75%	10.46%	12.43%	13.26%

3. Mirae Asset Focused Fund – The fund's investment strategy is to invest in equity or equity related instruments of up to 30 companies. It follows focused approach of investment and is flexible to invest across market capitalization. It aims to build a portfolio of strong companies and created a robust portfolio.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
1,538	56.46%	41.87%	1.67%	5.40%	3.21%	-	-	-	-	10.27%

4. Mirae Large Cap Fund – The investment approach is centered around participating in high quality businesses upto a reasonable price and holding the same over an extended period of time. The scheme tries to identify companies which have sustainable competitive advantage – stocks which have strong pricing power and are sector leaders.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
14,917	85.72%	12.74%	1.54%	3.44%	-2.30%	0.48%	7.23%	11.77%	11.93%	15.01%

5. Motilal Oswal Multicap 35 – The fund invests in stocks across large, mid and small cap. It invests in maximum of 35 equity stocks (as the name suggests) across sectors and chooses stocks which are emerging and enduring wealth creators.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
13,235	88.06%	9.20%	2.74%	4.77%	-0.98%	1.35%	7.24%	9.10%	14.21%	19.53%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com

Data is as on 30th September 2019

Fund have been selected based on past performance, fund expense and portfolio allocation.

Top 10 Equity Mutual Funds (Contd...)

6. Tata Large and Mid Cap Fund – Tata Large And Mid Cap Fund aims at proactively taking advantage of Potential Capital appreciation opportunities arising from large and midcap segment of the market. It undertakes rigorous research to identify opportunities in equity markets that could be for instance, turnaround companies or stocks being re-rated by the market, companies benefitting from changing economic fundamentals, etc.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
1,455	59.40%	39.20%	1.39%	5.06%	-1.27%	3.49%	13.38%	7.94%	9.93%	22.28%

7. Axis Midcap Fund – The fund invests in Midcap companies have the potential to deliver superior returns due to potential of faster earnings growth. It has an actively managed portfolio diversified across sectors for keep the risk well managed.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
3,200	21.91%	78.09%	-	6.36%	2.83%	3.82%	10.01%	12.10%	11.44%	16.58%

8. SBI Small Cap Fund – The fund is a well-diversified basket of equity stocks of small cap companies. It invests (minimum 65%) in small cap stocks by following a blend of growth and value style of investing and will follow bottom-up investment strategy for stock selection.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
2,704	10.43%	25.55%	64.01%	7.08%	1.36%	0.26%	4.06%	11.97%	16.78%	17.83%

9. Kotak Emerging Equity Scheme – The fund invests predominantly in midcap stocks and identifies those companies which are either at a very nascent stage or developing stage and are under researched.

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
4,960	9.50%	76.52%	13.98%	6.17%	-2.46%	-2.08%	7.03%	6.61%	12.43%	11.17%

10. Mirae Emerging Bluechip Fund – The fund invests in Large or mid cap companies. The aim of the fund is to invest in both, the current bluechip companies and the upcoming potential bluechip companies.
*This fund allows investment via either SIP or STP (25,000 pm per PAN)

Fund Attributes	Market Capitalization			Returns						
Corpus (cr)	Large Cap	Mid Cap	Small Cap	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
8,219	53.08%	41.46%	5.47%	3.62%	-1.48%	0.02%	11.32%	12.39%	16.49%	19.59%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com
Data is as on 30th September 2019
Fund have been selected based on past performance, fund expense and portfolio allocation.
Investments are subject to market risks. Please read all Scheme Information Documents (SID) /Key Information Memorandum (KIM), addendum issued from time to time and other related documents carefully before investing.
Past performance is not indicative of future returns.

Top 5 Debt Mutual Funds

1. Franklin India Ultra Short Term Bond Fund Super Ins – The fund endeavors to strike optimum balance between regular income and high liquidity. This is achieved through a judicious mix of short term debt and money market instruments.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
DEBT: ULTRA SHORT DURATION	20,130	9.71%	0.47	Medium	0.69%	2.36%	4.50%	10.05%	8.79%	9.20%	8.94%

2. Kotak Low Duration Fund – The fund seeks to generate income through investments primarily in low duration debt security and money market securities. It aims for regular income over short term. The average duration of securities in this portfolio is 6 to 12 months.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
DEBT: LOW DURATION	4,796	8.76%	0.92	Medium	0.61%	2.44%	3.84%	8.46%	7.53%	8.40%	7.73%

3. Aditya Birla SL ST Opportunities Fund – The fund aims to generate income over short to medium term by investing in debt and money market instruments. It invests in those instruments that offer superior yield at acceptable levels of risk.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
DEBT: SHORT DURATION	3,096	8.59	2.34	High	0.51%	2.70%	4.74%	9.66%	7.05%	8.43%	7.39%

4. ICICI Pru Savings Fund – The fund is low-duration low-risk debt fund. It seeks to generate income through investing predominantly in floating rate instruments while maintaining the optimum balance of yield, safety and liquidity.

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
DEBT: CORPORATE BOND	19,022	6.94%	0.79	High	0.53%	2.31%	4.27%	8.96%	7.68%	8.24%	8.07%

5. HDFC Short Term Debt Fund – The fund aims to generate regular income through investments in Debt/Money Market Instruments and Government Securities with maturities not exceeding 30 months..

Fund Attributes					Fund Performance						
CATEGORY	Corpus (cr)	YTM	Mod Duration	Quality	30 D	3 M	6 M	1 Y	3 Y	5 Y	SI
DEBT: LOW DURATION	8,296	7.45%	2.06	High	0.43%	2.68%	4.64%	10.00%	7.60%	8.31%	8.65%

Source – https://www.valueresearchonline.com , https://www.mutualfundindia.com

Data is as on 30th September 2019

Fund have been selected based on past performance, fund expense and portfolio allocation.
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Top Portfolio Management Services

Large Cap Oriented

PMS Name	Corpus (cr)	1M	3M	6M	1Y	2Y	3Y	5Y	SI
Ambit Coffee Can	369.79	9.60%	15.40%	13.50%	16.90%	22.20%	-	-	22.90%
Motilal Oswal Value	2199	8.30%	3.58%	8.17%	14.93%	6.48%	8.03%	9.57%	22.33%
Marcellus Consistent Compounders	456	11.40%	16.10%	16.40%	-	-	-	-	22.30%

Multi Cap Oriented

PMS Name	Corpus (cr)	1M	3M	6M	1Y	2Y	3Y	5Y	SI
ASK IEP	9780	8.50%	5.30%	5.50%	13.80%	10.10%	11.10%	14.30%	18.70%
Alchemy High Growth	2670	5.40%	-4.50%	-2.30%	0.30%	1.90%	8.00%	10.30%	22.90%
IIFL Multi Cap	1200	8.02%	1.91%	6.87%	23.54%	13.36%	12.93%	-	18.43%

Mid Cap Oriented

PMS Name	Corpus (cr)	1M	3M	6M	1Y	2Y	3Y	5Y	SI
Ambit Good and Clean	121.3	7.90%	1.10%	4.60%	21.20%	12.90%	12.70%	-	12.40%
Tata Captal Emerging opportunities Strategy	-	6.20%	-0.30%	1.10%	7.30%	6.00%	10.10%	12.80%	10.71%
Sundaram SELF	273	6.80%	-1.50%	-2.00%	10.80%	1.40%	7.10%	10.80%	15.70%

Disclaimer – The performance data has been captured from the latest factsheets procured from respective PMS companies. The data is as of 30th September 2019. Performance up to 1 Year is absolute and above 1 Year is Annualized.PMS AIF WORLD has taken due care in collating the data from respective providers. It has been done on best effort basis and the accuracy of the data cannot be guarranteed. PMS AIF WORLD should not be held responsible for any errors for the results arising from the use of this data whatsoeverInvestments are subject to market related risks. Past Performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Please read the disclosure documents carefully before investing. Portfolio Management Services are market linked and do not offer any guaranteed/assured returns”

Team PMS AIF WORLD

When we have to travel a short distance in our own city, we're often confused about the mode of commute that would be optimal – should I drive my car ? should I take a cab ? should I take a metro ? should I board a city public transport bus or maybe take a rickshaw? Isn't it? However, we're never so confused while travelling from Delhi to Mumbai – We know, we're going to board a flight. Similarly, short term trading decisions may involve mental bandwidth but really do not take us much far from where we stand.

Warren Buffet says, "never buy a company for even 10 minutes that you are not willing to hold for 10 years". Wealth creation happens over long term. And, long term investment decisions are driven by fundamentals. Here we try and share some of the insights in this regard based on our learnings.

Observation 1: Choosing Good businesses

First of all, stick to the publicly listed equity space as it is much easier to get information here. Within listed space, look at companies which at least have a market cap of over Rs 100 crore. This surprisingly is a low barrier and throws a list of ~1,500 listed companies. Second, choose the time period for fundamental analysis as 10 years. Pick 2 yardsticks, Annualised revenue growth of 10% and return on capital employed (ROCE) of 15%, for every year for the past 10 years. ROCE can't be applied on financial firms and so, for them, use return on equity (ROE) of 15% and loan growth of 15% every year. These filters result in a universe of stocks so small that can be counted on fingers, however the returns generated by these companies on long time basis is as high as 25-30% CAGR.

Observation 2: Retail facing businesses create a lot of value for shareholders

Strong retail facing companies work well for long term investments. Amongst these, look for those which make continues efforts to make products suitable for retail customers. Like Asian paints and Marico have adjusted their packaging to suit consumer needs. Page industries focused on individual distribution network to maintain uniformity of price throughout the nation. HDFC bank started as a corporate bank and its retail business got thrust only post 2000s, between 2000-08 their Branch growth CAGR was 27% and ATM growth CAGR was 43%. These efforts by the chosen companies to reach to the ultimate individual consumer have done a lot in creating shareholder wealth.

Observation 3: Professional management of functions

This is one of the most important qualitative features of the greatest companies. Look for those companies, that attract top talent and retain them for longer durations. Asian paints have a culture of hiring from top B-schools and training them to be leaders. Berger Paints even after going through a lot of ownership change has never curtailed professional style management at the top. HDFC Bank and Axis Bank (in the latest Avatar) has shown great affinity towards professional leadership.

Observation 4: Capital allocation

This is one of the most important internal factors for companies to gain significant advantage over the competitor. How judiciously a company allocates capital to its business segments is very essential to its success. HDFC bank while expanding its retail banking spent a lot of resources on developing technologies which gave a lot of power to the consumer and has been one of HDFC Bank's greatest strengths.

One can remember above simple observations when tempted to buy a stock for a short-term trade.

Observation 5: Debt Free Structure (for a non-financial company)

If a company's Y-o-Y revenue growth is 10%, ROCE is 15%, why will a company need debt. Even if it wants to expand faster, look for those companies that rely on internal funds over raising debt. These companies are more agile and think more creatively without any burden. Even if it goes wrong, it can walk over the decision unlike a debt laden one which will have to serve the debt even after the wrong decision is over.

Observation 6: Promoters skin in the Game

Leadership matters a lot. And the topmost leader of a company are its promoters. A promoter may have many areas of interest to him and many businesses. Amongst all that, how much is promoters' skin in the game in a business is important criteria while investing for long term. He/she is expected to be focused and spend 100% of his professional bandwidth to the company being considered for investing.

Observation 7: Clean Practices

No political connectivity | High corporate governance | Clean accounting | High Promoters integrity | Ethics never compromised | No related party transactions | No favours to relatives | No linkages to bureaucrats

The four most dangerous words in investing:
'this time it's different'
– Sir John Templeton

This is one of the most important quotes in investment history. Unfortunately, it's often misunderstood. Of course, things are always different from one era to the next, but what does not change from era to era is human behaviour and the formation of market extremes.

Identifying extremes is easy in retrospect, but for most investors it's very difficult in the moment. That's because the natural human tendency is to chase performance, and the brighter the glow, the more average investors clamour to buy.

Here are a few things to consider regarding equity sector extremes. Timespan is important, extremes take years to develop; a year, two, or even three is typically not enough. The thing to look for is outperformance above the broad market for more than three years. Sectors in a classic bubble formation have usually outperformed for more than four years.

TEN INVESTMENT INDICATORS AND THEIR HISTORICAL MAXIMUM AND MINIMUM

1 NIFTY PRICE TO EARNING RATIO

Current	26.44
Min	10.68
Max	29.01

Ref. : Sep. 19

2 MARKET CAP TO GDP RATIO

Current	76.9%
Min	46.6%
Max	151.5%

Ref. : Dec. 18

3 GOVERNMENT DEBT TO GDP RATIO

Current	44.5%
Min	44.5%
Max	62.6%

Ref. : Sep. 19

4 INFLATION RATE (CPI)

Current	3.21%
Min	1.54%
Max	12.17%

Ref. : Aug. 19

5 INTEREST RATE

Current	5.15%
Min	4.25%
Max	14.50%

Ref. : Sep. 19

6 GDP ANNUAL GROWTH RATE

Current	5.00%
Min	-5.20%
Max	11.40%

Ref. : July 19

7 CREDIT RATING

Current	BAA2 (Moody's)

8 BUSINESS EXPECTATION INDEX

Current	112.80
Min	96.40
Max	127.50

Ref. : Aug. 19

9 INDIA'S INDUSTRIAL PRODUCTION INDEX

Current	-1.1
Min	-7.20
Max	19.90

Ref. : Aug. 19

10 MANUFACTURING PMI

Current	51.40
Min	47.90
Max	55.00

Ref. : Sep. 19

Source: https://www.tradingeconomics.com
https://www.ceicdata.com

ESG Framework : Responsible Investments for Sustainable Returns

Environment, Social and Governance

Impact Investing or Social Investing is gaining traction. If we look at numbers in this space, there are 1304 fund managers managing around USD 502 billion in assets across - fixed income, venture capital and listed equities. Only 3% of these assets are managed onshore in India. The future of impact investing in India might be very interesting given that it's just a beginning. In the eve of Gandhiji's 150th birthday celebration edition, we cover ESG Investment Philosophy that focuses on responsible investing, being followed by SBI Growth with Value Portfolio.

ESG stands for Environment, Social and Governance. This fund runs all the empirical quantitative filters like ROCE, ROE, Debt to Equity etc, but amongst that, selects those businesses which comply with the ESG framework. This is elaborated in the name "Growth" with "Values" Portfolio. Growth signifies companies with market leadership, high return on capital, improving EBDITA, and low leverage. Values signifies companies' positive standards of ESG. In nutshell, its covered by the portfolio's positioning which is *Seeking Growth Preserving Values*.

Sensitivity to ESG

- Adequacy of Data on ESG Footprints
- Senstivity towards environmental and social impact

Environmental Factors

- Progressive reduction in energy consumption
- Progressive reduction in water consumption, CO2 and other toxic gas emissions
- Renewable Energy

Social Factors

- Transparency to Governmental, Local bodies and affected communities, regarding consent, rehabilitation & Resettlement during land acquisition & Clearance
- Cordial Industrial Relations
- Training and Skill development

Governance Factors

- Competence & Diversity of Board of Directors
- Independence of the Board and rotation of directors
- Independence of Audit & Remuneration Committee
- Evidence of tax evasion
- Transparency in related party transactions
- Minority shareholder protection

SBI Growth with Values Portfolio invests in businesses which are scalable with sustainable profitability and driven by capable management. It is a concentrated multi-cap portfolio of min 15 and max 25 high conviction businesses picked via bottom up stock selection. The PMS is a sector agnostic, each stock is invested with 3-year perspective and follows zero market timing. Those companies are selected which follow positive standards of ESG and avoid few sectors through negative screening like tobacco, liquor, weapons, etc.

Top 10 Holdings	Weight (%)
HDFC Asset Management	7.24
HDFC Standard Life	6.55
Kotak Mahindra Bank Ltd.	6.44
Mahindra & Mahindra Financial Serv	6.43
Dixon Technologies India Ltd.	6.11
Prataap Snacks Ltd.	5.49
P&G Hygiene Health Care Ltd.	5.37
Teamlease Services Ltd.	5.14
ABB India Ltd.	4.87
ICICI Bank Ltd.	4.85

We at PMS AIF World recently, interviewed Aparna Shanker, who is the fund manager for this portfolio. She highlighted that "considering compliance with Environmental, Social and Governance (ESG) factors be an integral part of a company's day to day activities. It is treated as a natural extension of the operations of a company, since the sustainability of a company is dependent upon the health of the environmental metrices around it, the social license to operate and how well is it governed. Though still nascent in India, we find a positive regulatory framework evolving in the country, which is encouraging companies to move towards more transparency and increased efforts towards business sustainability. She added that "Good Corporate Governance is most critical aspect of the ESG framework". When ESG framework is applied to the conventional mathematical measures of stock selection, the consquent outome comprises of businesses that exhibit potential to create growth with values and enhance shareholder return.

Performance	1 Months	3 Months	6 Months	12 Months	24 Months	36 Months	Since Inception	YTD
SBI PMS	6.10%	1.58%	8.61%	15.76%	5.73%	9.45%	9.41%	11.40%
BSE 500	4.05%	-3.15%	-3.23%	2.52%	4.31%	8.17%	9.29%	1.85%

Disclaimer : The content presented is informative in nature, and the intent is education for informed investment decisions and is not a solicitation towards investing in this portfolio. One must make one's own investment decisions.

Longing for Returns, Short of Opportunities?

PMS AIF WORLD

Though the overall growth prospects for economy and capital markets remain high, the last 20 months have taught that stock market investing can go through frequent ups and downs with sharp moves at sector and stock level. Hence, there is an opportunity on the long side as well as short side. This bi-directional scope for returns has led to the significant growth in the space of long short alternative investment funds, which in terms of assets stand at around 15k crore as of Sep 2019.

The search for alternates intensifies when we see the usual faltering or when the usual seems harmful. The world is gung-ho about electronic vehicles because the usual fossil fuelled vehicles seem damaging to the environment. Similarly, in the investment space the usual investment philosophies have missed the target returns, and hence what is catching interest amongst low risk investors is the long-short style of alternative investing.

Global environment exhibits VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), which could continue for a while. Our country is undergoing strategic policy changes in the business environment. Additionally, new ways of doing business is the future and technology developments are making older ways obsolete. Besides, we're a tough country to run businesses with multiple regulatory risks, high costs of factors of production, heightened competition at SME/small scale business level, weak credit enforcement laws etc. All these factors are leading reasons for the volatilities across stocks, sectors, and industries. Thus, long trades and short trades both could be winners if the fund managers take the right call.

While all long short funds fall broadly in the same category, individual funds have different investment objectives. Some of them look to produce liquid plus returns, some look to beat NIFTY with active trading, some employ levered arbitrage strategies, a few others use heavy fixed income earnings with a trading overlay, and then there are a few funds which run as a hedge fund where the bulk of the returns are made from equity long-short strategy without participating in market direction.

Our Mumbai Team at PMS AIF World recently conducted an interview with Harsh Agarwal, Head, Alternatives, Tata Asset Management on the investing case for long short funds. Harsh explained that "a diversified equity market neutral AIF strategy is popularly growing amongst HNI investors as it is not only the lowest risk strategy within long/short investing but is also the lowest risk equity strategy for all equity investing". Here, the aggregate longs (the stocks that are bought) and aggregate shorts (the stocks that are sold through futures and options, without owning them) are roughly equal in size. These are designed to exhibit nearly 1/3rd of index volatility. He added, such a portfolio does not participate in market vagaries, and purely generates returns from active stock/sector selection and out-performance of long book over the short book.

<u>Broadly, there are 3 risks associated with all types of long - short funds: -</u>

a) Directional trading long - short funds which are looking to generate returns by predicting and timing the market direction, are exposed risks of fund manager's directional calls. A trending market will favour such a strategy, while range-bound or choppy markets could hurt returns.

b) Long - Short funds with long bias are funds where longs are more than the shorts. These are prone to market risk, where any weakness in market hurts returns. Additionally, these are exposed to stock selection risks, i.e. which stocks the fund manager chooses to buy and/or sell, and the accuracy (or lack of it) determines the returns.

c) Equity market neutral long short funds balance the long and short positions. Here, market direction risk (or systemic risk) is lowest, but still, the fund remains exposed to the stock selection risk, which is also the main driving factor for the fund.

Additionally, level of concentration in the fund increases the risks and volatility for all above mentioned three long short AIFs. The Knack of the fund manager and experience of the fund management team influences the performance of long short fund. And, these are the reasons for the divergence in the performance of various types of long short funds.

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Data Sources

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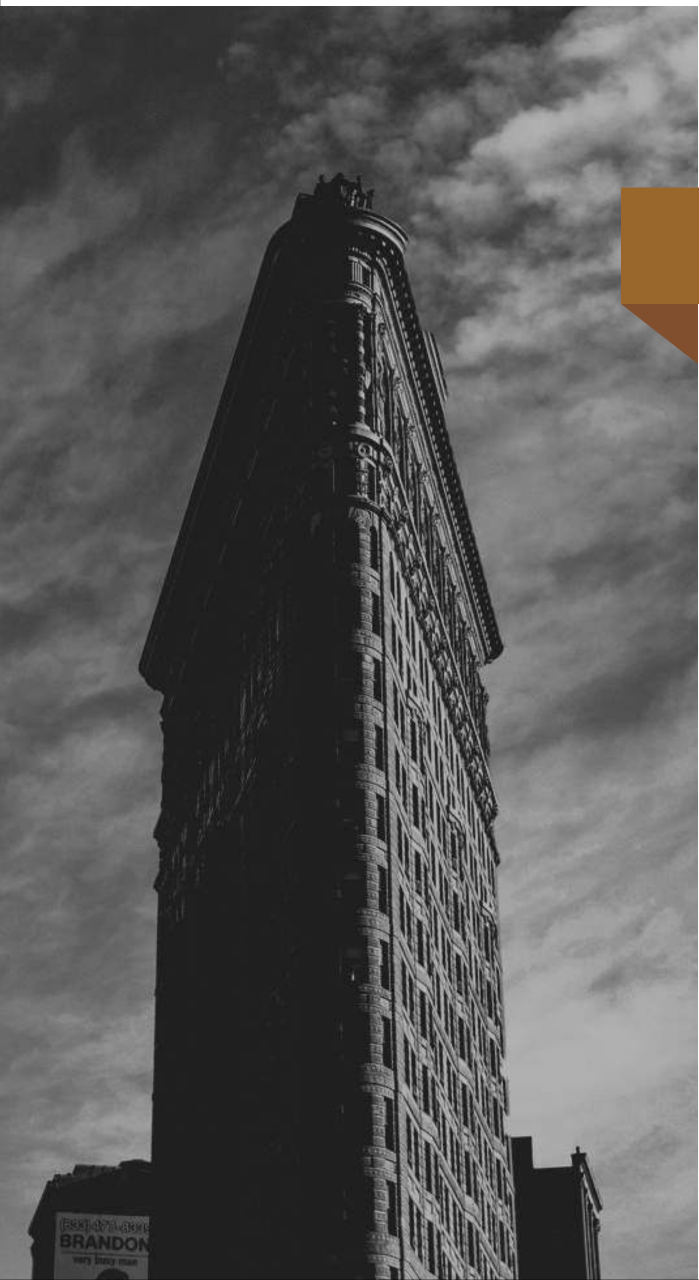

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