INVESTOMICS

DEALING WITH THE 2ND WAVE OF COVID-19

PMS AIF WORLD
High Performance Investing

EDITION 13 | APRIL 2021

Don’t Just INVEST,

Make Informed Decisions.

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Trusted Alternates Focused Platform

PMS AIF WORLD

PMS AIF World is an alternates focused, new age investment services company, providing analytics-backed quality investing service with an endeavour and aim of assisting investors' journey of long-term wealth creation and prosperity. The Investment Service Industry isn't designed to be Fair; there are hundreds of products and strategies that waste time and money. So, one must practice caution while investing.

We offer responsible, long term investment service. We distribute well analysed PMS and AIF products and offer investment service along with in-depth information for investors to make informed decisions not just before investing, but throughout the wealth creation journey.

We are very selective in our approach, and analyse PMS AIF products across 5 Ps – People, Philosophy, Performance, Portfolio, Price, with an objective to ascertain 3 most important attributes i.e. **Quality, Risk, and Consistency(QRC) for assisting informed investment decisions.**

Genuine

Visionary

Creative

Focused

Persistent

OUR TEAM

KAMAL MANOCHA
Founder, CEO,
& Chief Strategist

Having worked in Citibank, India as a Private Banker and Investment Counselor for 10 and then as Head of Business Development and CEO of an investment advisory startup, Bharosa Club, he founded PMS AIF World. The purpose of starting this boutique investment services firm is to service investors with the ethical and right approach, which is largely missing in the industry.

RITIKA FARMA
Sales & Client
Relations

An investment professional with more than 6 years of experience in Financial planning and wealth management space. Worked in various capacities with different wealth management companies and has comprehensive experience in cementing relationships with the clients for managing wealth and portfolios.

SANKALPO PAL
Product & Biz.
Development

Sankalpo brings 4 years of valuable experience in Wealth Management and has worked during this time with India's premiere institute, Motilal Oswal, in their investment advisory division and has excelled in business development as well as managing of client relations. He is passionate about numbers and likes to study each portfolio in depth in terms of quality, risk and performance before the same is offered to any investor.

OUR TEAM

ARVIND KAUSHAL
Product & Technology

An entrepreneurial-spirited, a hands-on technologist with more than 21 years of executive-level experience identifying, qualifying, building consensus for, and implementing enabling technologies and enterprise systems that facilitate business processes and strategic objectives, for emerging startups and established multi-national corporations.

DEEP CHAND
Operations & Support

A Commerce graduate from Jaipur National University, Deep is an operations Professional with more than 4 years of experience in Operations Departments in Karvy Fintech Pvt. Ltd.

CHARMI SHAH
Content & Analysis

An investment professional with a creative approach to new ventures and projects that she delivers, fitting the market requirements. Being at the helm of a weekly financial newsletter and a financial podcast, her pioneering work in this field paves way for her to meet industry veterans and re-invest her financial wisdom and knowledge.

INDUSTRY's No. 1
PMS AIF SUMMIT & AWARDS

- Held on 5th and 6th February 2021
- 3D Virtual Summit
- 28 Prominent Speakers, 12 Discerning Topics
- Smart Money Manager Awards 2021 (in coalition with IIM-Ahmedabad)
- 13 Award Categories [data evaluated till 30th Nov 2020]

INDUSTRY's No. 1
PMS AIF SUMMIT & AWARDS

Click here to watch the recordings: Day 1

Click here to watch the recordings: Day 2

Click here to understand the awards methodology

Déjà Vu moment for the Markets

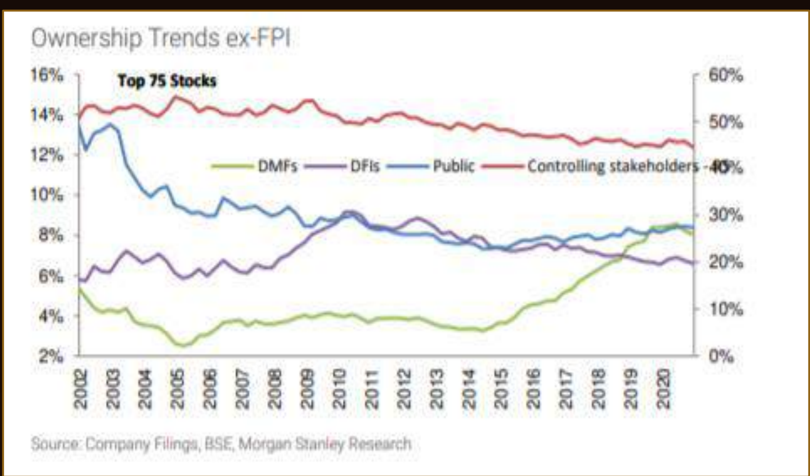
Dear Investors,
Welcome to the latest Edition of Investonomics.

Kamal Manocha
CEO & Chief Strategist,
PMS AIF World

Déjà Vu is a a French phrase, and means an uncanny feeling, that you have experienced something before. The world & specially India is experiencing a Déjà Vu moment in April 2021. Glimpses of March 2020 in terms of pandemic linked health & wealth fears are back in April 2021 as Covid infections rise across India and Globally. The question is - **how does market handle this Déjà Vu Moment - a lower circuit every other day leading to 25%+ crash or ~15% profit booking or upto 10% correction?** And the reality is that no one would know until future is seen. So, no point talking predictions.

We, at PMS AIF WORLD strive to demystify all risks with power of knowledge for Informed Investing. And here is our take during this **Déjà vu moment.**

1. Amongst a lot of fanfare that equity markets have attracted, what's important to understand is that we have just started the shift from traditional financial savings to equities. Indian banking deposits recently crossed the 150 trillion Rupees mark; it had crossed the 50 trillion rupees mark in 2011 and the 100 trillion mark in 2016. As interest rates gradually either decrease or stay put, we can be certain that a big shift is to come to equity participation from Indian savers. This might not be an immediate set of investors coming gushing to the Equity markets but slowly and certainly we are sure of this shift. What this means for an investor is that there is a more dependable domestic equity investor base being created in the country.



As seen in the graph, the ownership trends of top 75 stocks by M-cap excluding FPI, the public ownership has been steadily increasing and promoter ownership decreasing.
This trend is going to accelerate going ahead.

2. The Indian government has executed a lot of meaningful reforms over the last decade and that will shape the Indian economy affirmatively over the next decade. Older reforms like GST and Corporate tax cuts have been spoken about in a lot of forums but newer reforms like Performance Linked Incentive (PLI) Scheme, the adaptation of Fast Tags across highways, an accommodative policy stance from both the Government of India and the RBI have helped the economy stay buoyant and that's validated by the pre-Covid level credit disbursal and higher levels of GST collection. The structural upliftment of Indian Economy is inevitable.

RBI's consumer confidence survey indicates that more people are confident towards a structural reform and a robust economy.

3. Mankind is amazing and has developed more than one vaccine within one year of Covid which is a remarkable achievement and India has led this drive. The vaccination drive is slower due to logistic challenges; however, the vaccination efforts are intensifying over time. As Covid is an act of nature, we can never be certain what Covid mutates into, however, we can be certain that there will be a way of coming out of it.

The Déjà vu is real but how the scene unfolds is nobody's guess and like always we urge investors to be informed, and not take decisions out of fear or greed; stick to asset allocation, take risks in line with ones' risk profiling, invest in high conviction portfolios, and focus on underlying business earnings and not market levels or price.

HEALTH IS PARAMOUNT, BUT HOW SHOULD INVESTORS DEAL WITH THE 2ND WAVE OF COVID-19?

PMS AIF World interviewed investment thought leaders and tried to find out viewpoints and answers to…

…5 most important questions that investors have on their minds right now!

Disclaimer: The views of the fund managers included are their personal views and not necessarily the views of PMS AIF World. The points of discussions here are not to be considered as advice or suggestions and readers are requested to consult their financial advisor before making any investment decisions.

Prashant Khemka
Founder & CIO, White Oak Capital Management

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

In the first wave, a broader index such as the BSE-500 crashed by nearly 40% from its peak. Interestingly, this sharp fall happened in Mar 2020 in the very initial days of the pandemic when the total number of Covid cases in India were hardly 500. This time, despite a far higher number of Covid cases, the BSE-500 has corrected by only 4% from its peak. One possible reason is that vaccination has emerged as a mitigating factor. Last year there were many things which were unknowns like transmission rate, fatality rate, vaccine availability etc., but this time there is a little more understanding of the pandemic. Our firm belief is that it is impossible to time the market and thus it is advisable to stay invested at all times.

2) What lies ahead for the economy and corporate profits, in FY 22?

As per sell-side consensus, India's GDP growth estimates for FY22 is 10% YoY while earnings growth rate is a steep 30% YoY. The sharp rise in Covid cases and the accompanying lockdowns do pose downside risks but with manufacturing activity being allowed in most areas the impact is likely to be contained as compared to 1QFY21 (Apr-Jun'20). Accommodative monetary policy, a likely pick up in vaccination rate and an improving global growth outlook can drive recovery in subsequent quarters.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

We do not make any top-down allocation decisions on sector weights or thematic exposures. The sectoral weights are an outcome of our bottom-up stock selection process. Having said that, we continue to find compelling opportunities across private financials, technology, and healthcare.

4) Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?

We seek to maintain a balanced portfolio with a mix of both pro-cyclical and counter-cyclical companies. The aim is to consciously avoid sector rotation, market timing or other such top down bets. As such, generally we would expect the portfolio to outperform through various sub segments of the market cycle.

5) Are there any economic risks that the markets are ignoring at the moment?

A prolonged or a stricter lockdown like the one which we saw in 1QFY21 can be a risk to market sentiments in the near term. The ramp up of the vaccination process will be closely watched out for. Apart from that, volatility in commodity prices, especially crude oil and reversal in global growth sentiments are also some of the perennial risks that exist.

Sunil Singhania
Founder, Abakkus Asset Management

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

After a strong start to the year, markets have turned volatile as India saw the second wave with spurt in Covid-19 cases, imposition of lockdowns and night curfews in some parts of India. We see his as an opportunity as we believe the economic impact of second wave will be much limited than the first one. The good thing this time is that everyone around is aware of the symptoms plus precautions that they must take. The State governments too have rightly imposed more localised lockdowns and curbs on mobility against a full lockdown earlier. With cases largely localised and concentrated, and with momentum of vaccination likely to increase significantly, there are expectations that the second wave can be controlled soon. Expectations are of the 2nd wave to peak out somewhere in May 2021 and that should be heartening. India's vaccination roll-out phase has also been encouraging, though it needs to be rolled out much faster than at present to cover the vast population. Given the decent pullback in the headline indices, market has provided a reasonable opportunity to investors who have been waiting on the side lines for a correction in the market to enter gradually.

2) What lies ahead for the economy and corporate profits, in FY 22?

The expectations for Nifty 50 earnings for FY21, post the onset of Covid-19 pandemic in March 20 were for a 25-30% drop. As time passed by, the recovery in economy & corporate profitability turned out much better than expected. What helped the trend was the resilience in demand plus the formal segment of the economy was less impacted and this is what gets represented in equity markets. In fact, after a long time, we are seeing many more upgrades than downgrades over the last three quarters. The earnings season for the December quarter was one of the best in the last 13 years and the March 21 quarter earnings are also expected to be quite good. Thus, from a scenario of a 25-30% drop in FY21 Nifty 50 earnings projected in April 20, it is now expected that there will be a healthy 13% earnings growth in FY21 Nifty 50 earnings, despite the challenges posed by the Covid-19 pandemic (Motilal Oswal Research estimates). Adjusting for the base effect of Fy21, we see healthy high double digit earnings growth. The idea is to pick the winner sector and stocks within them which will do better than the averages.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

We have not materially changed our portfolio positioning over the last 2-3 months. Our focus is on fundamentals and not on short term news flow. We continue to have decent share of Export driven sectors like IT and Pharma. At the same time, we continue to have exposure to economy related stocks. In terms of consumption, we have a bias towards rural consumption companies as monsoon is expected to be strong for third consecutive year and these companies are growing at reasonable pace but at the same time are at reasonable valuations as well. Currently financials is our largest exposure and we remain positive on the outlook as this sector will see maximum benefits from an acceleration in economic activity and valuations are reasonable giving us superior risk reward equation.

4) Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?

An interesting aspect of the markets, particularly over the last 6-8 months has been change in stocks and sectors that have been outperforming. Broader markets have significantly outperformed, with the midcap and small cap indices doing much better. It has been a combination of massive underperformance from 2017 to 2020, faster growth and deep discount in valuations compared to their historic ratios as well as their large cap peers. Institutional apathy towards them, reflected by almost zero to very low holdings in these stocks, also has been a reason for the strong performance by this segment. Another interesting trend has been the move away from “Quality at any Price” to “Growth at Reasonable Price”. The point we want to reiterate is that quality is always a key factor while investing, but “Buy at any Price” will not work eventually. Also, quality exists even in sectors that maybe cyclical but over a period even they report decent return ratios and are opportunities to invest in. We continue to believe that a good company also has to be a good investment and here valuations play a major role. There is always more money to be made in identifying a good company which becomes great than investing in an already great company.

5) Are there any economic risks that the markets are ignoring at the moment?

The biggest driver for the global market rally has been abundance liquidity. There is consensus view that this liquidity will stay for a long time. Any pullback of liquidity is not priced in the markets currently. With inflation risks also rising, there is a possibility of rates inching higher. However, in our opinion, a gradual increase in rates is not going to spook the markets. Also, any re-emergence of currency or trade war can be a potential risk.

Anup Maheshwari
CIO & Joint CEO, IIFL AMC

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

Health is always of utmost importance irrespective of the pandemic and we hope that people are able to tide through these times by taking due precautions and staying safe. Based on the long-term valuations, we use Price to Book - P/B as one of the key indicators, to monitor valuations. When P/B in the range of 3.5 or below, the markets are in the fair valuation zone and at such valuation levels, the allocation should continue. Further, given our emphasis on bottom up stock picking, we continue to focus on company specific opportunities to invest and hence would recommend investors to stay invested.

2) What lies ahead for the economy and corporate profits, in FY 22?

The corporate earnings growth has remained lackluster in the last few years. Further, India's corporate profit to GDP ratio at 1.8% for FY20, was the lowest in the last two decades. We have seen that the long-term average of corporate profit-to-GDP ratio is around 4.4% (FY01-FY20). While the improvement in some of the domestic high frequency indicators has been indicative of a potential macro recovery underway, the vaccine inoculation for masses at large will be instrumental in determining the pace of recovery. Given the single point focus on making vaccine available for all, we believe that recovery in corporate earnings will pave the way for corporate profits in the coming fiscal.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

We have been increasing our exposure to companies which are poised well to benefit from the cyclical recovery within our SCDV framework. Continued government thrust on capex led recovery and infrastructure, has increased our conviction on the cyclical uptick ahead. Sectors such as Financials, Industrials, and Building materials are best placed to benefit from the acceleration in the growth trajectory.

4) Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?

In our SCDV framework which we follow, we are overweight secular stocks at all points of time, which is also the core allocation in our portfolio. This entails from the fact that companies in this segment have historically displayed superior business economics. Allocation to cyclicals and defensives is more on a tactical basis which could keep changing as per the prevailing market conditions. At this stage, where we anticipate economic recovery to pick up in coming months (provided a third wave doesn't derail the growth), we are focusing on opportunities across these defensives and cyclicals based on our ROE and PAT growth parameters.

5) Are there any economic risks that the markets are ignoring at the moment?

In the last few years, we have seen equity markets pricing in future economic recovery and policy reforms which at times was not in sync with the prevailing macro-economic environment. Currently, the markets are not pricing in a prolonged lockdown and hence any negative surprises on that front could have a short-term impact on the market performance. Nevertheless, there are estimates showing that nearly 40% of the population may start having antibodies by the end of April, so we believe while there are risks, but a successful vaccination drive may be instrumental in containing the downside risk.

Hiren Ved
Co-Founder & CIO, Alchemy Capital

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

Firstly, nothing is as important as one's health. Looking after oneself and the family should be everyone's priority. Having said that the second wave is a great opportunity for investors to invest in the markets because the next couple of years could deliver double digit compound return which looks difficult in any other asset class.

2) What lies ahead for the economy and corporate profits, in FY 22?

In FY22 we will see a double-digit GDP growth and 20%+ earnings growth. But that's not the point. We are at the cusp of a new economic growth cycle in India as well as a new earnings cycle. We will see massive improvement in productivity driven by digitalization of the economy. People are underestimating that digitization will drive velocity of money and velocity of money in a productive and growing economy creates a virtuous cycle.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

1.Cyclical sectors – Cement, Metals, logistics, Auto
2.Technology
3.Pharma & Specialty chemicals

4) Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?

Except for Bajaj Finance (yes) from the first cohort and yes for all stocks (or similar proxies) from the second lot.

5) Are there any economic risks that the markets are ignoring at the moment?

A national lockdown (very very low probability event) or rapidly rising inflation

Vaibhav Sanghavi
Co-CEO & Portfolio Manager, Avendus Capital

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health at the moment?

First and foremost, one should surely focus on health by masking up and stick to Covid appropriate behavior. Coming to investments, it is very easy to get bearish amid the shorter term noise trying to extrapolate and extend it to long term. We already have a template of last year where after the initial panic in the markets, things recovered very swiftly. We think that post the shorter term uncertainty, we will again focus on economic and earnings recovery, leading to better market performance. If an investor has longer term investment horizon, it's a good time to invest, however, for shorter term traders, it is advisable to wait, till volatility ebbs.

2) What lies ahead for the economy and corporate profits, in FY 22?

After very encouraging initial forecasts on potential GDP growth for FY22, post the fresh lockdowns / restrictions, estimates have been cut by about 100 bps. We are yet to see how much do these restrictions extend and depending on which we will see revisions of estimates. Estimates on Corporate profits, will also likely be trimmed for FY22. However, it still would be a good growth vis a vis FY21, with estimates unlikely to be changed for FY23 yet.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?

We are positive on the economy facing sectors like banking and financials, industrials and materials for medium to long term. In the shorter term our preference would be towards defensives like Pharmaceuticals.

4) Are there any economic risks that the markets are ignoring at the moment?

I think the risks to economy are playing out in the shorter term, as lockdowns / restrictions get implemented. However, from medium to long term perspective, we have to keep a close eye on the expectations of interest rates moving higher basis strong inflation. Markets are cognizant of this second wave of Covid as a risk factor and thus have seen heightened volatility with change in the composition of sectors outperforming.

Saurabh Mukherjea
Founder & CIO, Marcellus

1) Is the 2nd wave of COVID-19 a 2nd chance for investors to invest, or one should wait and watch, and just focus on health now?
Factors like Covid don't impact stock prices for horizons longer than 3-6 months. Furthermore, factors like Covid or monsoons cannot be predicted successfully on a consistent by professional experts (virologists for Covid, meteorologists for monsoons). So, investors – who have no expertise in forecasting Covid or monsoons - should not even think of trying to bring Covid or monsoons into the equations. Equity investing in India should always be done with a forecasts on three factors: (a) are the financial statements of a company accurate or fabricated; (b) is the company selling products or services which are essential; and (c) does the company have a dominant franchise with high barriers to entry.

2) What lies ahead for the economy and corporate profits, in FY 22?
We have no ability to predict the outcome of the economy or corporate profits over a time period as short as 6-12 months. Our investment philosophy does not depend on forecast of profits for the next quarter or for the next year. We invest basis the 3 parameters given in the preceding answer for our portfolio companies.

3) During this 2nd wave of COVID-19, given the prevailing valuations, what are the top 3 Key Sectors that you would like to add?
We don't add or subtract sectors from a portfolio due to such events. Sectoral considerations play no role in our stock picking. We look for companies which satisfy the 3 parameters given in the first answer. About 30 companies in the entire Indian market satisfy these 3 criteria. Such companies accelerate market share gains in a difficult external environment, and they also grow at a healthy pace in an environment which is supportive of all players in their industry. Hence, we pick stocks from this list of 30 companies whether Covid is happening or not happening.

4) Would you allocate more to Seculars like Asian Paints, HDFC Bank, Nestle, Bajaj Finance OR Cyclicals like ICICI Bank, Maruti, L&T, ACC?
As mentioned in the preceding answer, we don't think about the stock market in this manner. We look for companies which satisfy the 3 parameters given in the first answer. About 30 companies in the entire Indian market satisfy these 3 criteria. Hence, we pick stocks from this list of 30 companies whether Covid is happening or not happening.

5) Are there any economic risks that the markets are ignoring at the moment?
We honestly don't know what the markets are factoring or ignoring. We look after around a billion dollars worth of equity assets for 6000 families. These monies are invested in around 30 stocks. We focus on ensuring that the promoters of these 30 stocks are doing a good job in terms of corporate governance, in terms of building dominant monopolistic franchises and in terms of reinvesting their free cashflow so that the franchise grows at 20-25% per annum.

An Intuitive Webinar conducted for our clients, with Samir Arora

PMS AIF WORLD, which is India's most trusted, alternates focused investment services firm led by its Chief Strategist & CEO, Kamal Manocha, conducted an intuitive webinar with **Mr. Samir Arora,** Founder of **Helios Capital.**

Many money managers make claims like 'concentration builds wealth' or 'hold on for long term to build wealth', or 'allocate more money where there is high conviction backed by good management or 'invest where there is expected growth in earnings.' Samir Arora, one by one, covered all these so-called wealth creation claims and concluded that stringent formulas don't work in stock markets. He asserted that, investing is such a game where even popular fund managers fail in a short span of 5 to 10 years, as nothing works for ever. He clarified that, of course, factors like research, discipline, and the likes work, and must be done, but there is no formula to crack the markets in every situation, so one must be flexible with one's philosophy and investment approach to last over longer periods of time.

Claim 1: Concentration Builds Wealth: There is a famous quote written by Mr. Warren Buffett, "Diversification may preserve wealth, but concentration builds wealth.

But, as per Samir Arora, it's just a myth. He highlighted with data, 'Truth is that only a few investments done by Warren Buffett have worked, and most of them have actually hurt him. Did he know what will work and what will not when these investments were done? The reality is that none of us know that we are ignorant, until something happens for us to gain that knowledge. Concentration works theoretically and retrospectively.

Most of Warren Buffet's holdings (assuming that he held all of these for FY19–20; we know that many were sold) underperformed the Index. Except for maybe Apple, Moody's and Visa, every other stock in his *concentrated* portfolio underperformed the market.

The notion that only 10–15 companies can generate wealth in the long term is 'mathematically wrong.' The belief that Warren Buffett is sitting on cash of USD 100 bn, waiting to invest that entirely into one company rather than investing USD 10 bn each in 10 companies, is flawed.

There are 500 companies in the S&P 500; how can it be that ONLY 20 of these will beat the index? The index is ultimately the weighted average of these companies.

Data shows that for the S&P 500, on a 3-year basis, an average of 215 companies out of 500 have beaten the Index. This is pure arithmetic. For India, on a 3-year basis, an average of 117/300 have beaten the Index.

Claim No 2: Long-term holding period builds wealth.

Mr. Samir Arora highlighted that the truth is that academic paper titled '*Overconfidence*', *'Under-Reaction', and 'Warren Buffett's Investments'* by John S. Hughes, Jing Liu, and Mingshan Zhang has analyzed Buffett's investments over his prime years (1980 to 2006). These papers state that Warren Buffett's median holding period is only one year, ~20% of his stocks held for more than 2 years, ~30% stocks are sold within six months. Holding for long term is fine, but it does not mean "Buy & Forget"

• Exit when you think that money can be put to better use somewhere else.

• Do not follow "Keep this also and buy something else"

- If 25 years ago, one had bought HUL instead of Nestle and just held that same HUL for long term, one would have made money but, less than half of what you could've made on Nestle (Nestle is up 131x v/s HUL which is up 59x till 31st Mar'21).

- If 25 years ago, one invested in ACC and not on Reliance, and held that for long term, the returns would been less than 1/10th of Reliance. (RIL is up 207x v/s ACC which is up 59x over 25 years till 31st Mar' 21)

- And, what if one had invested in Tata Motors for long period of 25 years (Tata motors is up only 4x in 25 years, till 31st mar' 21)?

Claim No 3: Allocate more, with high conviction to good management and growth in earnings.

- The truth of life is that conviction is always higher on things that one knows, one won't do in life, rather than things that one would do. For instance, Warren Buffett is convinced that he will not buy tech stocks.

- On good management backed high conviction, Samir Arora pointed out that there is a basis to find out if bad management exists or not, but there is no basis of good management. If an MNC is listed in India, what are the screeners for good management? Is it that the parent company has to be clean? Or is it that the local company should be honest? What is the time frame to judge the company's management? If TCS has good and efficient management, can one necessarily say so about Tata Motors because eventually, the parent group is the same? Samir Arora added if a company is not stealing money, then that is okay because it is basic, that one is not supposed to steal. But if a company does steal, it means, that bad management in there.

Apart from this, while judging management, how will one separate **the Halo Effect?**

Halo effect basically means that if a company's stock price is going up, everybody believes that it has good management & vice-versa. He added, show me a company that delivers high performance, and I can always find something positive to say about the person in charge. But this is necessarily not true (in the longer term).

On allocation of more proportion with high conviction to businesses with high expectations of growth, Samir Arora questioned that even if one is sure of growth, will the price of stock necessarily go up? Data shows, the answer is NO.

Infosys reported an earnings growth of about 44.6% p.a. for 5 years (FY2000–2005) but its share price did not even grow by 1%. From INR 139, it went up to INR 141. The same company (Infosys) in another phase (FY2013–2019), had an earnings growth of about 10.5% p.a. for 6 years, but the stock price more than doubled in this period.

Helios' Investment Process, which, Samir Arora says, should be everyone's investment process as this is the recipe for outperformance & wealth creation.

Samir Arora does not view Bitcoin as a favorable asset class option as the bitcoin argument that is used is inconsistent and he is a 'theoretical guy.' He mentioned, the price of Bitcoin runs up as and when some XYZ company (Tesla, Visa, PayPal, etc) announces that it will accept payments in Bitcoin. So, if the value of Bitcoin goes up because it can be used as transaction payments, why will anyone use it for transactions? According to him, it is a 'High Beta NASDAQ Stock.'

Sharing his learnings, Samir Arora also covered some thumb rules of investing in equities as an asset class, worth reading.

→ Risk-reward trade-off is crucial & is favorable for equities, as an investor is rewarded with 5–6% p.a. above the return on government bonds for investing in equities. So, one must accept equity as an asset class.

→ An economic downturn should not pause your investing activity, rather it is the perfect time to buy equities as you will be able to ride the growth in the near future.

→ Three themes prevalent in India, 1) Private sector financial, 2) Consumption, 3) Global sectors within the country — IT, Pharma, Specialty chemicals.

→ One should also invest outside India also. Investing 10–15% is nothing wrong as the rupee is depreciating 4–5% on average.

Samir Arora concluded that no one formula works for ever. The solution lies in diversification, being flexible, and looking at companies for 3 years because it is easier to project with this objectivity. Long term is a series of short term so if your stock works 3 years at a time it may be there in the portfolio for the long term but not committed upfront. A large number of companies do well, so if you can just eliminate the bad ones your portfolio will outperform the market.

Please click here to know more about this webinar.

Transformation of Market Trend is visible: A webinar with Aniruddha Sarkar

The market is showing a transformation of trend from growth at any price to growth at a reasonable price. This implies that markets are no more polarized, and opportunities belong to broader markets. Since a few years, investing in **Growth at Any Price** has become popular and investors learned an easy way to make money investing in 'Consistent Compounders.' But this style of investing is showing relative Under – Performance recently, and traditional methods like **Growth at Reasonable Price** or **Value Investing** have been showing Out – Performance. It doesn't matter what is right or wrong, but it's important to understand, which style of investing is relevant in which market trend and how to strike a right balance between these styles to generate best performance at a portfolio level.

Mr. Aniruddha Sarkar, CIO & Portfolio Manager, Quest Investment Advisors has been in the industry since more than 15 years. As per him, if one studies the history of the markets for last 35-40 years, there have been market cycles, where growth style has done well and cycles where the value style has overpowered. The last decade favored only Growth Style of investing. The way the global & domestic economy stand today, it will be naïve to stay fixated on one strategy; hence flexibility is required and thus comes the question of maintaining the right balance.

One of the reasons why growth has worked in the past years is because GDP numbers were on downwards, and investors were only comfortable investing in companies that were showing rise in earnings and figured out that the patterns of earnings for these companies are likely to remain so for many years, given their competitive edge. Thus, investing in such companies came at the cost of buying them at 4-5 times premium on the earnings growth, which implied 'Buying at any price.'

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Now, as the economy is showing signs of recovery and revival, and valuation of front-end markets look expensive, investors want to look at broader markets and so ‘Buying at a reasonable price’ resonates better as it pertains to the idea of picking up growing companies at a good price that enable an investor to build his/her ‘margin of safety’ as well.

The recency bias today has made most investors invest in growth at any price than waiting for markets to give them a reasonable price to invest in. However, what needs to be understood by most investors is that, whenever there is a liquidity/monetary stimulus in the economy (local or global), consumption is given a push and hence the growth stocks soar. On the other hand, whenever there is a fiscal push, which shifts the government’s focus on building infra, increasing capex, etc, leads to rise in value stocks. 2020-21 has been a very good example, reflecting that the infusion of trillions of USD in the global economy has led to growth stocks outperforming the value stocks by a large percentage.

But what lies ahead?

Mr. Aniruddha Sarkar believes that post pandemic, most governments will focus on building infrastructure. Locally, the Indian Budget is a good example which shows the govt.’s intentions of massive increase in private + public capex.

But do remember, it does not take long for a value stock to become a value trap. Hence, it is important to look for growth opportunities within the value part of the market. Talking about wealth creation that every investor is ultimately looking for, the biggest alpha can be generated from PE expansion, and the biggest PE expansion is only possible when one is able to buy something cheap that shows growth in the longer run, with in-built value in it.

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To make money in the markets, foremost is to know when to enter, then is to know the percentage of allocation towards each sector/company, and third is to know when to exit. Most of us are experts at entering the markets at the click of a ‘buy’ button; what we can’t fathom is the capital allocation/exposure and the exit time. This is where lies the differentiation that **Mr. Aniruddha Sarkar** brings to the table. He says that the percentage allocation in a particular stock shows the fund manager’s conviction on that particular bet. As for a promotor, capital allocation decides the future of his business, similarly, for a portfolio manager, or an investor, investment allocation decision determines the portfolio’s future.

And, if one is fixated to one approach, one ends up as a loser, as markets are dynamic, and for such portfolio managers, it becomes difficult to run on a road that most don’t even walk on. For instance, he mentions, in mid-2020 he picked SBI & Tata Motors. The question that most investors asked him then was why SBI and why not HDFC Bank, and why Tata Motors and why not Maruti. Come forward 8-9 months today, the performance that SBI & Tata Motors have shown compared to its peers is evidence of identifying potential outliers by striking a right balance in the portfolio and not staying fixated to a particular style of investing in all phases of markets.

On the exit front, **Mr. Aniruddha Sarkar** mentioned that his portfolio had exited Bajaj Finance at the peak, when its valuation was really expensive – was trading at almost 8 times BV and then again entered the same stock months later, when it was at a reasonable valuation, being cushioned by the margin of safety. Just by exiting and entering this stock at the correct time, alpha of the portfolio increased by a good mark. Hence, agility and flexibility over a fixated approach has its own importance in markets as we are living in world which are dynamic and markets where front end growth stocks are expensive.

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Talking about where the markets are headed, as mentioned earlier, he said that he is overweight on those sectors that will get a push because of the incoming fiscal stimulus. In fact, even within the Banking & Financial Sector, 80% of his exposure is in the cyclical side of the banks and not on the growth side. This shift was done a couple of months back, knowing that growth has done its job and it's time to switch, in their perception.

The constant capex push, the $5 trillion economy vision, incentives for export-oriented businesses – all these factors will favour cyclicals in the coming 4-5 years. This does not mean growth will not perform; growth will also make money, but cyclicals will outperform them in the coming years.

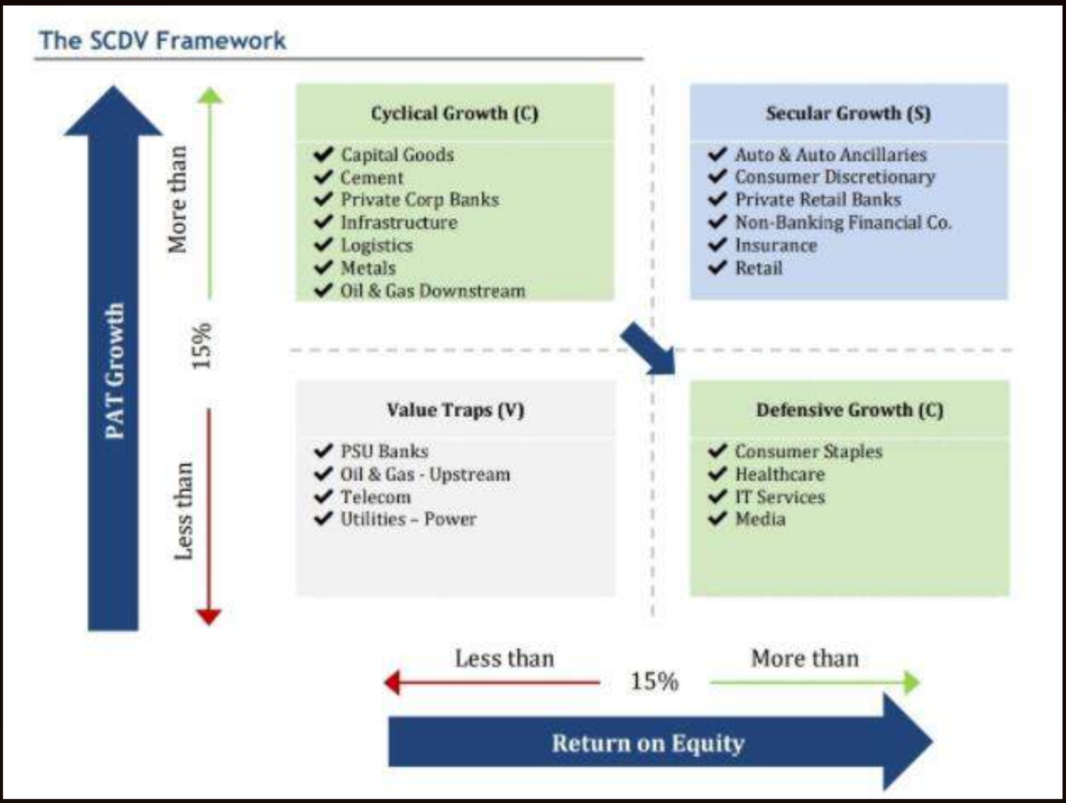
At the current juncture, **Mr. Aniruddha Sarkar's** portfolio constitutes of about 60-70% of cyclicals as compared to 30% cyclicals 8 months back. This is what is meant by agility and flexibility of portfolio manager versus fixated approach.

To conclude, for continued alpha in the current state of stock markets, it is important to identify the growth outliers in the value part of the market i.e. growth at reasonable price. And, follow a flexible approach, so that one can transition once portfolio in line with change in market trend and state of economy.

Please click here to know more about this webinar.

An Intuitive Webinar conducted for our clients, with Anup Maheshwari

Another webinar was between **Mr. Anup Maheshwari, CIO & Joint CEO at IIFL AMC,** and Kamal Manocha, CEO PMS AIF WORLD. Mr. Anup Maheshwari, who brings with him over two decades of equities experience as a money manager, shared fine details of much-appreciated S-C-D-V Framework which has been pioneered by him based on his understandings and learnings of how Indian capital markets are structured.



The above slide lays the foundation of **IIFL AMC's S-C-D-V Framework** The genesis of the whole framework is that the two financial parameters (ROE on X-Axis and PAT on Y-Axis) have a very strong correlation with shareholder value generation. Using 15% as par (average returns + growth), and taking BSE 200 as the benchmark, the companies were mapped into these 4 quadrants.

‘S’ for Secular: A company would fit in this quadrant if it met the criteria of being above 15% on both ROE as well as PAT in at least 6/10 years (10 year rolling period is taken into consideration in this framework). The sectors mentioned in the quadrant make up about 34% of BSE 200. Secular businesses have demonstrated the ability to consistently generate shareholder return and therefore the core of the portfolio is overweight on secular.

‘C’ for Cyclicals: This includes businesses that are high on PAT but relatively low on ROE. This in some ways, includes businesses that are cyclical and economy-sensitive that tend to be more capital intensive; hence the ROE is lower but can experience high PAT when the cycle is in their favour. This makes up about 14% of BSE 200.

‘D’ for Defensives: This includes businesses that are high ROE generating businesses but relatively low on profit growth. This comprises of about 28% in BSE 200.

‘V’ for Value Traps: Value Traps are businesses that have struggled to make even 15% ROE or PAT consistently over the 10-year horizon. These are businesses that could have short-term performances but ‘the longer you tend to hold them, the worse off you could be.’ These generally constitute of heavily regulated sectors and in the BSE 200 are about 24%. The portfolio aims to ensure that its weightage on Value Traps is below 24% i.e., underweight. These are businesses that will generate value in a short term but will trap your investment if held for a longer-term.

This framework (evolved through a combination of past experiences as well as quantitative testing) gives the flexibility to be consistent throughout, rather than being biased on one side or the other only. By keeping this flexibility between defensives and cyclicals particularly, the ability to navigate through cycles becomes easier.

Another important factor that needs to be put into context is that the S-C-D-V framework is that a lot of businesses are not static in those quadrants – they are quite dynamic and given the churn, a fair amount of monitoring is required which is why it is important to track these changes.

The time frame of investing is a very important factor to be considered here. If the time horizon is long enough, say 10-15 years, it is okay to just sit on seculars or consistent compounders; but here also constant monitoring is required.

There's a very simple rule of thumb – the higher the ROE, the higher will be the Price to Book Value (P-BV) and the market makes a lot of mispricing on price to book terms depending on the near-term ROE. For instance, Hindalco, which is in the business of making aluminum, is very power-intensive and so it is a capital-intensive business. It takes thousands of crores to set up the aluminum plant and is a very economy-sensitive biz.- even if the economy is not doing well and the company is not selling, it still has to keep the plants running- so there's a good amount of fixed costs involved and thus, PAT gets impacted accordingly. So, in bad times Hindalco's ROE may fall down to 2-3%, whereas in good times it can move up to even 20%. In either cases, the market assumes this will stay forever and the stock will start trading above/below BV. This is the anomaly of the market, and these mis-pricings occur when markets mis-price the future ROE or PAT of the business. This is where the flexibility comes in and the advantage of mis-pricing is taken in whichever quadrant it falls in.

With such a mix of market allocation and the flexibility to jump between quadrants is what makes the S-C-D-V framework unique!

Please click here to know more about this webinar.

Every Fund Manager, in his journey, experiences many learnings (errors). These learnings can be both financial & non-financial in nature. When Sachin Shah (Fund Manager at Emkay Investment Managers Ltd. (EIML)) and his colleagues reflected upon these non-financial learnings, that were qualitative in nature (related to management intent and acts), they decided to put these learnings into effective use. Thus, was born the E-QUAL Framework.

While contemplating upon the learnings, they observed that even though most of their stock selection was spot-on, they would end up making sub-par returns, thanks to the purchase price. Thus, multiple valuation methods were devised to calculate the *Great Purchase Price* to have a high margin of safety. It was observed that price volatility was higher in lower quality companies as compared to superior quality ones. Their method of calculating the right purchase price aims at taking advantage of this differentiated volatility arising due to non-financial parameters, to garner higher returns.

E-QUAL Framework:

→ Identify Quality Parameters like Management Integrity & Capability, Wealth Distribution, Investor Communication, and Liquidity
→ Objectively evaluate all and generate a weights-based score card
→ Build a Risk-Reward Matrix in terms of *differentiated expected returns*
→ Arrive at the Right Purchase Price
→ Invest

Their three-pronged **Investment Process** consists of the E-Qual framework (with steps as mentioned above), Earnings Growth (looking at financials and ratios to determine a target price over the Investment Horizon of 3-5 years) and maintaining a Purchase Price discipline.

At Emkay, this model is in use since a decade, and they are continuously working towards refining it more.

It is imperative to congratulate the people behind this model, the team at EIML, who have helped create this model, based out of *learnings*. As rightly pointed out by EIML's CEO, Vikaas M. Sachdeva, "In a world, which is increasingly becoming more dynamic and complex with each passing day, the importance of making lesser mistakes is as important than notching up successes, if not more. One of the more obvious ways to make lesser mistakes than the next investment professional is to invest in a company with high quality management and impeccable governance standards."

Top 20 Portfolio Management Services

Company	Strategy	AUM (Cr)	1M	3M	6M	1Y	2Y	3Y	5Y	10Y	SI	Market Cap	Fund Manager	Incep-tion
Alchemy	Ascent	**175**	8.2%	24.0%	44.4%	75.9%	-	-	-	-	20.1%	Multi Cap	Vikas Kumar	Sep-19
ALFAccurate	IOP	**856**	2.1%	8.4%	29.5%	74.8%	15.7%	8.7%	15.3%	18.5%	18.7%	Multi Cap	Rajesh Kothari	Nov-09
ASK	IEP	**15005**	3.9%	6.3%	32.9%	68.6%	17.6%	15.3%	16.9%	18.80%	18.8%	Multi Cap	Sumit Jain	Jan-10
Axis	Brand Equity	**1404**	0.8%	4.2%	30.0%	59.9%	14.9%	11.4%	-	-	10.4%	Multi Cap	Trideep Bhattacharya	Jan-17
Abakkus	Emerging Opp	**-**	3.3%	17.8%	43.3%	-	-	-	-	-	39.9%	Mid Cap	Sunil Singhania	Aug-20
Carnelian	Shift Strategy	-	4.8%	12.3%		-	-	-	-	-	37.6%	Multi Cap	Manoj Bahety	Oct-20
CapGrow	Special	**-**	3.0%	12.6%	38.1%	103.4%	14.0%	-	-	-	15.3%	Multi Cap	Arun Malhotra	Oct-18
Helios	India Rising	**217.18**	-1.7%	6.4%	25.4%	49.6%		-	-	-	49.7%	Multi Cap	Dinshaw Irani	Mar-20
IIFL	Multicap	**-**	0.0%	3.8%	28.3%	68.5%	20.0%	20.7%	20.6%	-	19.3%	Multi Cap	Mitul Patel	Dec-14
ITUS Capital^	Fundamental Value	356	1.3%	3.7%	21.6%	79.7%	23.8%	20.6%	-	-	23.5%	Multi Cap	Naveen Chandramohan	Jan-17
Marcellus	CCP	**3533**	2.4%	-2.2%	27.8%	50.1%	27.1%	-	-	-	25.4%	Multi Cap	Rakshit Ranjan	Dec-18
Motilal	NTDOP	**8120**	2.0%	7.7%	29.7%	66.2%	11.4%	9.0%	14.7%	19.1%	15.6%	Multi Cap	Manish Sonthalia	Aug-07
Nippon	High Conviction	**-**	0.5%	0.8%	20.2%	61.5%	17.9%	13.5%	15.4%	-	17.5%	Multi Cap	Varun Goel	Mar-14
Nine Rivers	Aurum Small cap	**-**	15.6%	29.6%	55.3%	202.8%	25.9%	12.6%	15.5%	-	29.9%	Small Cap	Sandeep Daga	Dec-12
Phillip	Multi Asset	-	0.2%	1.3%	13.5%	-	-	-	-	-	11.24%	Multi Asset	Nishit Shah	Aug-20
SageOne	Small Cap	**330**	5.0%	19.0%	39.0%	130.1%	38.0%	-	-	-	37.9%	Small Cap	Samit Vartak	Apr-19
Stallion Asset	Core Fund	**254.84**	-3.2%	7.0%	28.7%	84.7%	33.1%	-	-	-	31.4%	Multi Cap	Amit Jeswani	Oct-18
Sundaram	SISOP	**624**	4.0%	6.8%	31.9%	69.9%	21.7%	15.5%	15.0%	15.8%	18.6%	Multi Cap	Madanagopal Ramu	Feb-10
Quest	Flagship	**813**	0.0%	9.2%	30.0%	80.4%	13.1%	5.7%	15.3%	14.7%	16.8%	Multi Cap	Aniruddha Sarkar	Oct-07
White Oak	India Pioneers	**1868**	4.4%	7.2%	34.0%	76.6%	-	-	-	-	24.5%	Multi Cap	Prashant Khemka	Apr-19

DISCLAIMER

- Data as of 31.03.2021
- Data is as per TWRR guidelines and is presented referring to data shared by AMC's
- Data above 1 year is CAGR and less than 1 year is Absolute
- This information is for a general understanding of past performance of PMS
- Past performance is not indicative of future returns
- These are popular strategies with fine past performance, not necessarily the best in respective categories

Top 10 Alternative Investment Funds

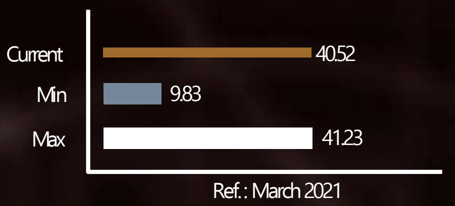
Strategy Name	Category	Type	Nature	Fund Manager	Inception
Avendus Enhanced Return Fund-II	CAT-3	Equity	**Open Ended**	Vaibhav Sanghavi	Nov-18
Alchemy Leaders of Tomorrow	CAT-3	Equity	**Open Ended**	Hiren Ved	Jan-18
Axis Rera Opportunities Fund-II	CAT-2	Real Estate	Closed Ended	Balaji Rao	Jan-21
Centrum Credit Opportunities Fund	CAT-2	Pvt Credit	Closed Ended	Rakshat Kapoor	Apr-19
Emkay Investment Emerging Stars Fund	CAT-3	Equity	Closed Ended	Sachin Shah	Jan-18
Girik Advisors Multi Cap Growth Fund	CAT-3	Equity	Closed Ended	Charandeep Singh	Nov-18
IIFL High Conviction Fund -Sr-1	CAT-3	Equity	**Open Ended**	Mitul Patel	Nov-19
TCG Advisory SMF Disruption Fund	CAT-3	Equity	**Open Ended**	Chakri Lokpriya	Jul-17
Varanium Capital Advisors Nexgen Fund	CAT-1	Pvt Credit	Closed Ended	Aparajit Bhandarkar	Oct-19
White Oak India Equity Fund-I	CAT-3	Equity	Closed Ended	Prashant Khemka	Nov-17

DISCLAIMER

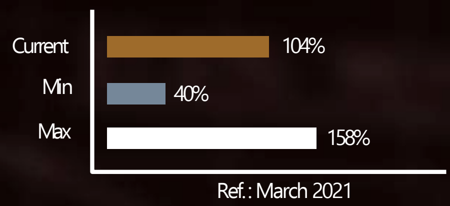
- Data as on 31.03.2021
- Data is net of expenses and gross of taxes unless indicated by marks (*and^).
- Data above 1 year is CAGR and Less than 1 year is Absolute
- AIFs are governed by private placement norms.
- This information is for a general understanding of past performance of AIFs
- Past performance is not indicative of future returns
- These are popular strategies with fine past performance, not necessary the best in respective categories

CURRENT 10 INVESTMENT INDICATORS AND THEIR HISTORICAL MAXIMUM AND MINIMUM

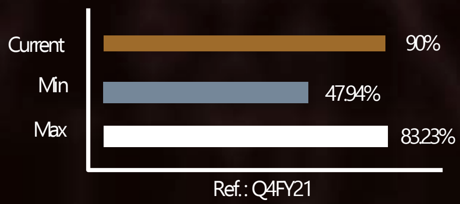
1 NIFTY PRICE TO EARNING RATIO



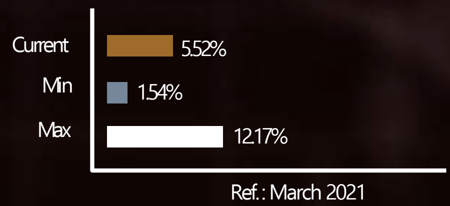
2 MARKET CAP TO GDP RATIO



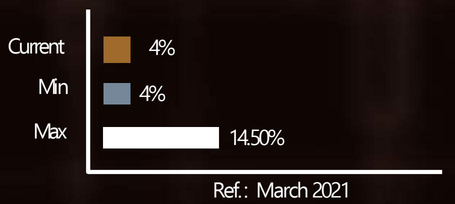
3 GOVERNMENT DEBT TO GDP RATIO



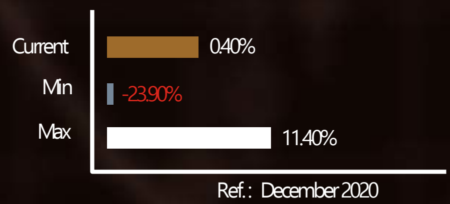
4 INFLATION RATE



5 INTEREST RATE

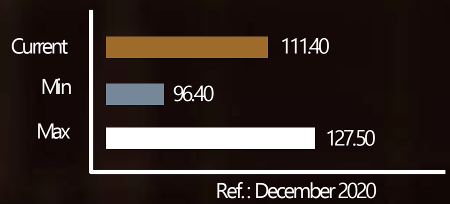


6 GDP ANNUAL GROWTH RATE

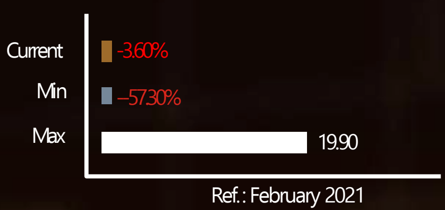


7 CREDIT RATING

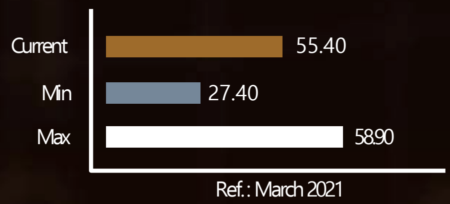
8 BUSINESS EXPECTATION INDEX



9 INDIA'S INDUSTRIAL PRODUCTION



10 MANUFACTURING PMI



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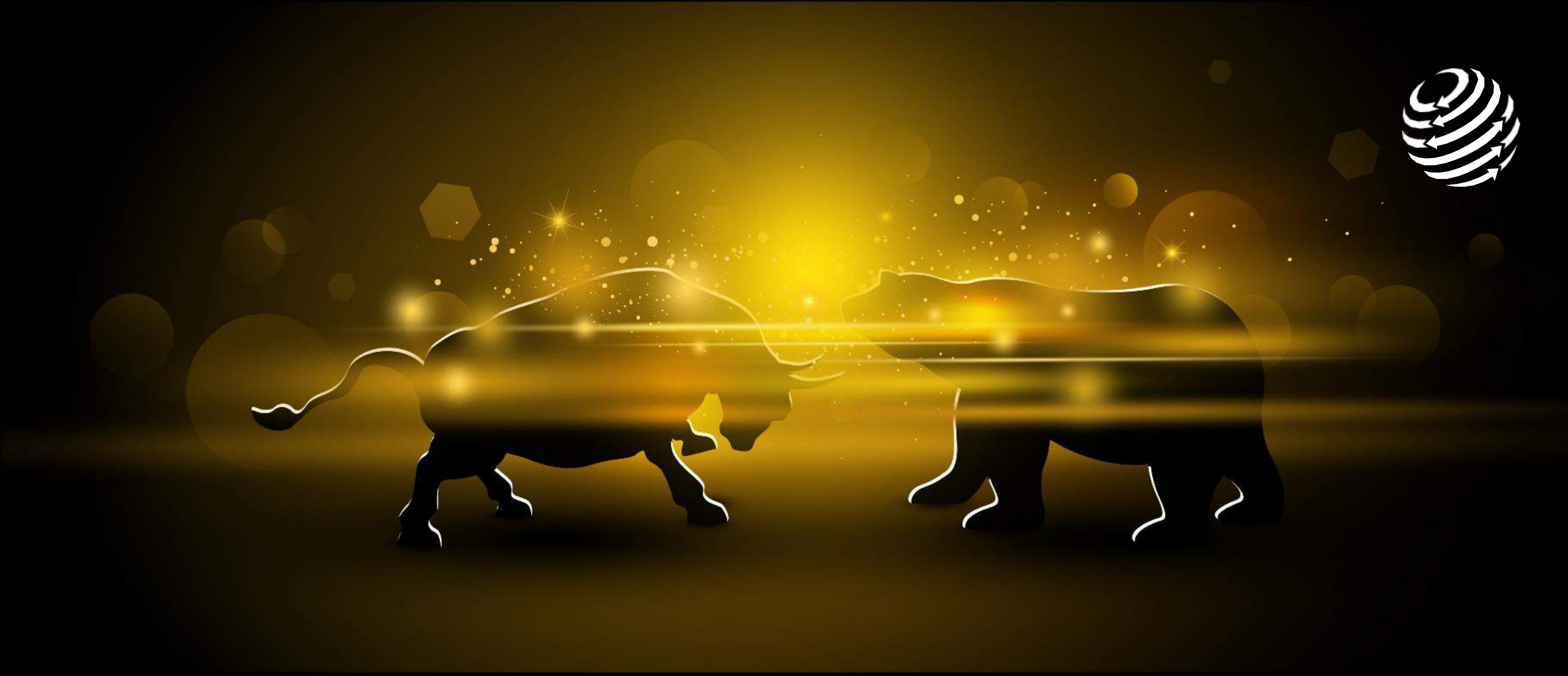

LEADING THE GROWING SPACE OF ALTERNATES

PMS AIF WORLD

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The data has been complied on best effort basis. Source of data has been mentioned wherever it was available.

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Past performance is not indicative of future returns.

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IT ALL SEEMS VERY SOPHISTICATED BECAUSE IT IS...

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you need to make ONE!

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