MONTHLY Communique

January 2018

Making sense of the market noise.. and then junking it

2017 saw continuing discussions about the quantum of investments from domestic investors into equity mutual funds and more importantly their sustainability. Industry talking heads have been frequently asked about what has changed, what is causing the huge inflow into equity mutual funds, how long this will sustain, what can make it stop etc.? In response we hear intelligent, rational and picture perfect coherent analysis of regulatory changes driving adaption of capital market products, decline in inflation and positive real rates, low attractiveness of other asset classes etc. Then there are complex terms like financialization of household savings, formalization of the economy, generational change in attitudes and expectations, digitization of transactions and information availability, and last but not the least to the utter delight of career asset management professionals like me finally the realization that “MutualFundsSahiHai”! If the flow is so large the number of reasons also has to be many; how we can have just one or two reasons for a net flow > 1.5 lacs crs in CY17 alone!!!

When I meet investors, I hardly hear any of this. Stated or unstated, I hear only relative stuff – generating and holding cash, gold and real estate, fixed income – all alternatives are currently unattractive and equity returns in the last 1,2,3,...years, all times frames are linear high double digits. If just these two facts didn't exist, all the other intelligent analysis wouldn't matter. If equity mutual funds didn't show great past returns, just being digitally accessible or if bank deposits were yielding 9% knowing “sahihai” wouldn't be “sahi enough”.

We always think in terms of the idealistic “how things should be” instead of “how things would be” or the more practical and probabilistic “how things could be”. The yawning gap between what professionals think and what investors are actually being driven by must set the agenda for all of us.

As professionals we need to be mindful what is driving investors – relative return on alternative asset classes and past performance of equity. There are short cycles and long cycles and once in a century maybe there are super-cycles but eventually every asset class is mean-reverting. We need to watch for anything that can make other asset classes more attractive or cause a dent in equity returns i.e. a sharp and sustained correction from the current levels. That entails setting right expectations along a range of probabilistic outcomes - from an absolute decline of 10-15% in any window of time up to 10-15% compounded gain over next few years. Anything better is surely not ruled out in these transformational politico-economic conditions but setting expectations conservatively will hold everyone in good stead. Clear guidance is required on investing gradually as well as investing only those monies that can be spared without recourse for minimum 5 years. After all, every investment that professionals make is based on some hypothesis of corporate and economic performance and we need our investors to be with us for a time frame over which strategies can fructify. Performing well is half the job done; enabling investors to stay firmly in the saddle is the more important half.

(Continued overleaf)

You as an investor on the other hand, should think like an investor without bothering about intelligent explanations of what supposedly drives you. You are definitely driven by some objective investing goals but do introspect to ensure there is no mental over-lay of the greed for more, the fear of missing out, relative comparisons with friends, influence of what the crowd at large is doing and thinking of probabilities as if they are certainties. Equity investing is always probabilistic and these mind games play havoc at market extremes.

If you have been invested for long expecting 'teen' returns from equities and the recent past average has been pulled way above, stay the course with your SIPs and your asset allocations but all the same do consider taking the excess off the table. If you are under-invested and you need to correct your exposure, you cannot do it overnight; draw out a plan over time to gradually correct the asset allocation. Asset allocation is far more strategic than merely over-weighting the asset which did the best in last couple of years by under-weighting what has not done as well.

Over the years inflation has dropped from 8-9% to 4-5%, interest rates on savings have declined from 9-12% to 6-8%. Hence, nominal returns across all investments including equity should decline though you get better inflation adjusted returns today. The gravest of investing errors are caused chasing high returns in a low return environment. See the weighted returns on your total investment portfolio - PPF, FDs, non-term insurance, fixed income, gold, property, and equity - vis-à-vis return required for your goals. Do not make decisions based on how one component has been doing off late.

On the other hand, if markets correct by 10-20% remember that you have been waiting precisely for a correction to invest – I gather everyone is - SIPs are registered precisely because markets can fall 10-20%. Celebrate the market fall, it may temporarily look bad on your current investments but it will augur very well for the future. As the saying goes, all past corrections look like missed opportunities; except this one!

And remember what happened last month, quarter or year doesn't determine what will happen in 2018.

Yours Sincerely,

Aashish P Somaiyaa
Managing Director and CEO

Note: Reproduced from article appearing in Mint on January 22, 2018

Value Strategy

Strategy Objective

The Strategy aims to benefit from the long term compounding effect on investments done in good businesses, run by great business managers for superior wealth creation.

Investment Strategy

- Value based stock selection
- Investment Approach: Buy & Hold
- Investments with Long term perspective
- Maximize postt ax return due to Low Churn

Details

Fund Manager	:	Shrey Loonker
Co-fund Manager	:	Kunal Jadhwani
Strategy Type	:	Open ended
Date of Inception	:	24th March 2003
Benchmark	:	Nifty 50 Index
Investment Horizon	:	3 Years +
Subscription	:	Daily
Redemption	:	Daily
Valuation Point	:	Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	44.64
Auto & Auto Ancillaries	20.86
Oil & Gas	8.69
FMCG	6.79
Pharmaceuticals	5.57
Engineering & Electricals	5.21
Cash	2.43

Data as on 31st December 2017

*Above 5% & Cash

Top 10 Holdings

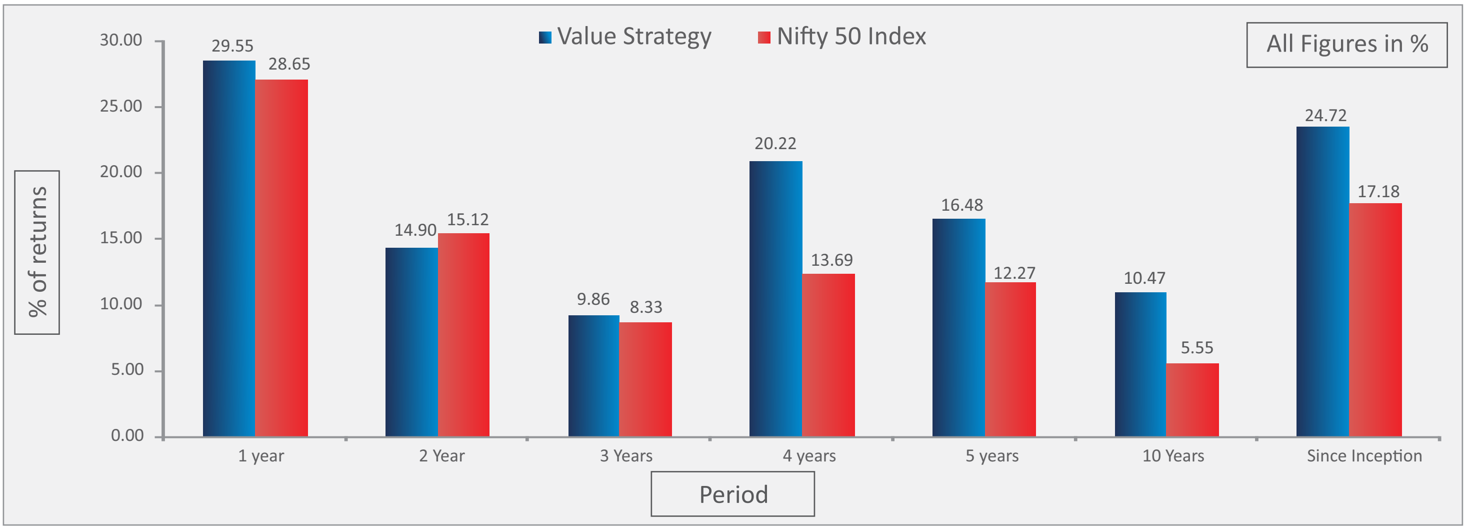
Particulars	% Allocation
HDFC Bank Ltd.	10.00
Bharat Petroleum Corporation Ltd.	8.69
Kotak Mahindra Bank Ltd.	7.44
Asian Paints Ltd.	6.79
AU Small Finance Bank Ltd.	6.59
Eicher Motors Ltd.	6.52
Bharat Forge Ltd.	6.38
Sun Pharmaceuticals Ltd.	5.57
Bajaj Finserv Ltd.	5.46
Larsen & Toubro Ltd.	5.21

Data as on 31st December 2017

Key Portfolio Analysis

Performance Data (Since Inception)	Value Strategy	Nifty 50
Standard Deviation (%)	20.82%	23.04%
Beta	0.82	1.00

Data as on 31st December 2017



The Above strategy returns are of a Model Client. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategy. The Above returns are calculated on NAV basis and are based on the closing market prices as on 31st December 2017. Past performance may or may not be sustained in future. Returns above 1 year are annualized. Please refer to the disclosure document for further information.

Next Trillion Dollar Opportunity Strategy

Strategy Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from the Next Trillion Dollar GDP growth.

It aims to predominantly invest in Small and Mid Cap stocks with a focus on identifying potential winners that would participate in successive phases ofGDPgrowth.

Investment Strategy

- Stocks with Reasonable Valuation
- Concentration on Emerging Themes
- Buy & Hold Strategy

Details

Fund Manager : Manish Sonthalia
Strategy Type : Open ended
Date of Inception : 11th December 2007
Benchmark : Nifty Free Float Midcap 100 Index
Investment Horizon : 3 Years +
Subscription : Daily
Redemption : Daily
Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	31.40
FMCG	17.66
Auto & Auto Ancillaries	14.48
Diversified	13.80
Oil & Gas	6.98
Cash	0.23

Data as on 31st December 2017 *Above 5% & Cash

Top 10 Holdings

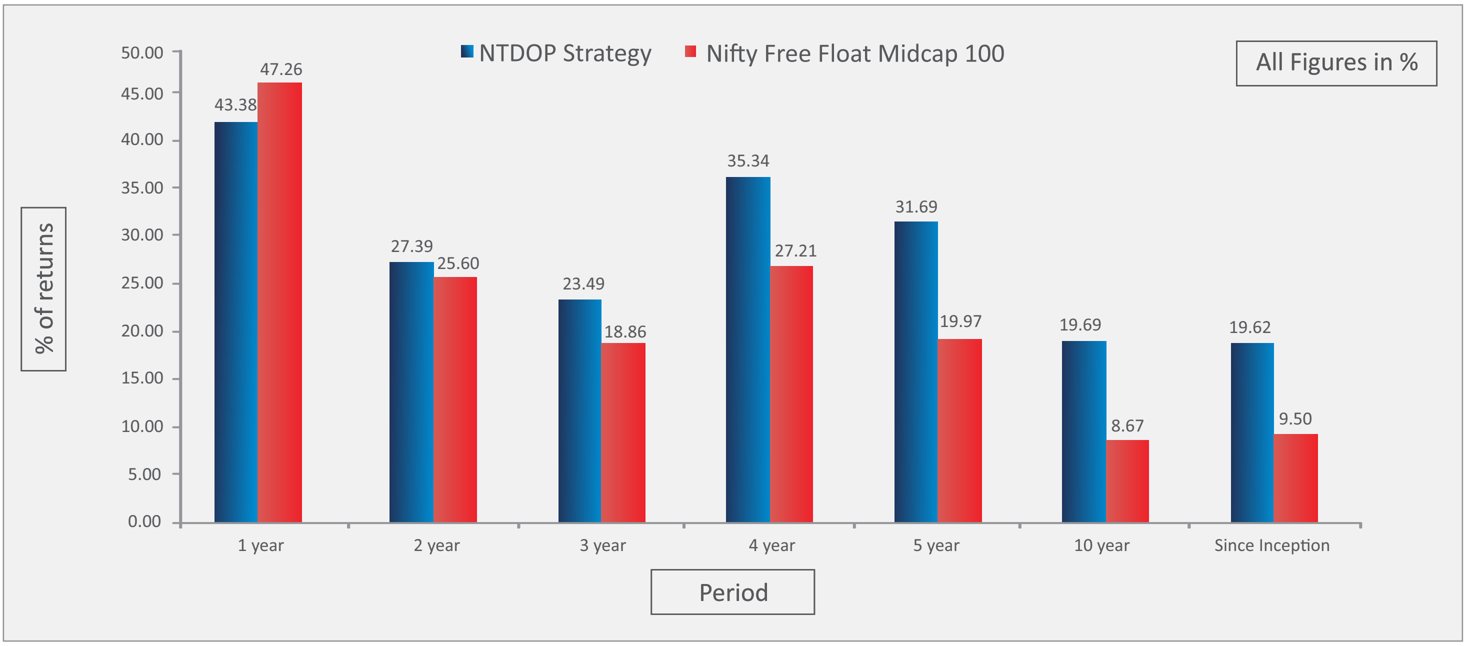
Particulars	% Allocation
Kotak Mahindra Bank Ltd.	10.10
Voltas Ltd.	9.80
Page Industries Ltd.	9.66
Bajaj Finance Ltd.	8.20
Eicher Motors Ltd.	6.29
Max Financial Services Ltd.	4.91
Bosch Ltd.	4.39
City Union Bank Ltd.	4.37
Hindustan Petroleum Corporation Ltd.	4.09
Godrej Industries Ltd.	4.00

Data as on 31st December 2017

Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.08%	21.97%
Beta	0.71	1.00

Data as on 31st December 2017



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India Opportunity Portfolio Strategy

Strategy Objective

The Strategy aims to generate long term capital appreciation by creating a focused portfolio of high growth stocks having the potential to grow more than the nominal GDP for next 5-7 years across market capitalization and which are available at reasonable market prices.

Investment Strategy

- Buy Growth Stocks across Market capitalization which have the potential to grow at 1.5 times the nominal GDP for next 5-7 years.
- BUY & HOLD strategy, leading to low to medium churn thereby enhancing post-tax returns

Details

Fund Manager	: Mr. Manish Sonthalia
Co-Fund Manager	: Ms. Mythili Balakrishnan
Strategy Type	: Open ended
Date of Inception	: 11th Feb. 2010
Benchmark	: Nifty Free Float Midcap 100
Investment Horizon	: 3 Years +
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.29
Cement & Infrastructure	13.39
Oil & Gas	12.03
Pharmaceuticals	10.73
Consumer Durable	10.21
Services	8.27
Auto & Auto Ancillaries	6.51
Cash	2.08

Data as on 31st December 2017 *Above 5% & Cash

Top 10 Holdings

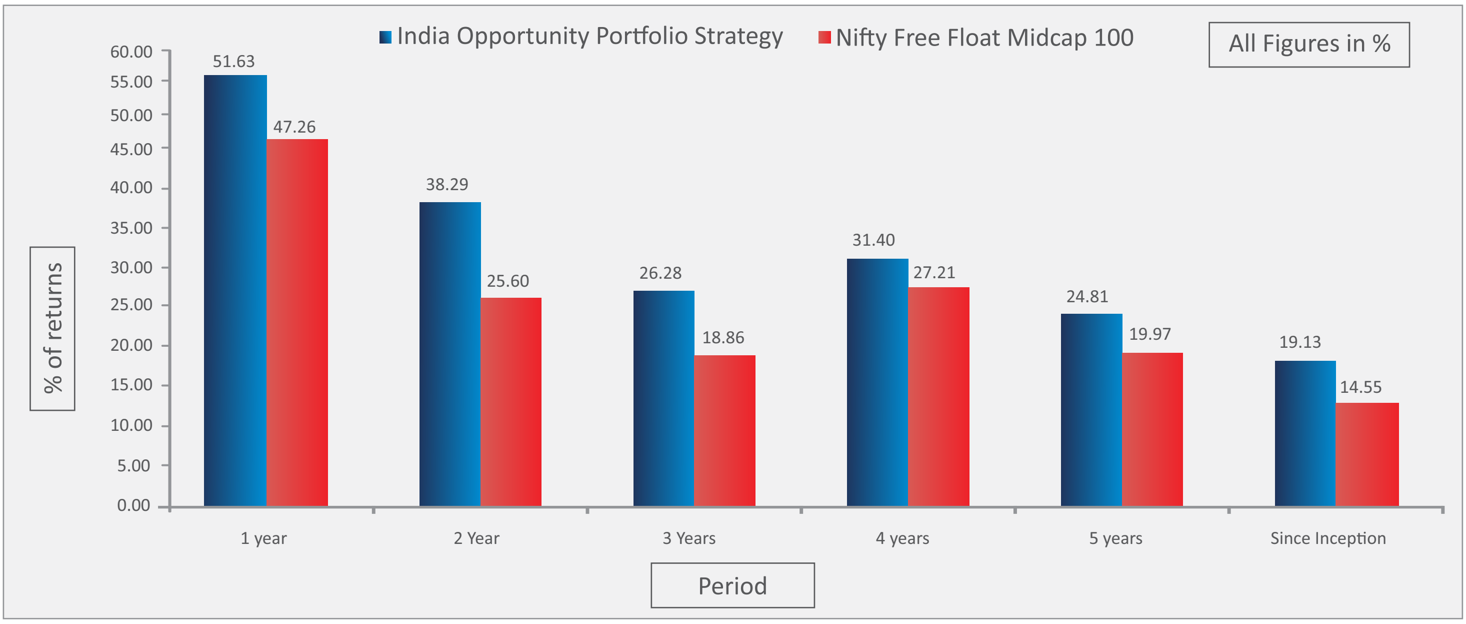
Particulars	% Allocation
Birla Corporation Ltd.	9.67
Development Credit Bank Ltd.	9.20
Quess Corp Ltd.	8.27
Aegis Logistics Ltd.	6.93
Gabriel India Ltd.	6.51
Au Small Finance Bank Ltd.	6.37
TTK Prestige Ltd.	5.20
Mahanagar Gas Ltd.	5.10
Kajaria Ceramics Ltd.	5.01
Canfin Homes Ltd.	4.93

Data as on 31st December 2017

Key Portfolio Analysis

Performance Data (Since Inception)	IOPS	Nifty Free Float Midcap 100
Standard Deviation (%)	15.24%	16.88%
Beta	0.74	1.00

Data as on 31st December 2017



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Risk Disclosure And Disclaimer

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