

Sundaram Emerging Leadership Fund (S.E.L.F.) Portfolio

• Monthly Update •

Objective: To seek long-term capital appreciation with investments in mid and small cap companies.

Target Investors: Ideal for long-term investors seeking returns through investments predominantly in small and midcap stocks and are comfortable with short-term volatility.

Investment Horizon
Above 3 years

Benchmark
Nifty Mid-Cap Index

Inception
June 2010

Fund Manager
Mr. Madanagopal Ramu

STRATEGY REVIEW

The first half of FY21 has been one of the most eventful and challenging phases in the capital markets. Evaluating how the portfolio has stacked up during this course from a 6 months and 12 months' time frame and how it is positioned in terms of exposure are the key drivers of future returns.

Our portfolio continues to deliver significant alpha of 8.0% and 12.4% versus the benchmark from a 1-year and 2-year perspective respectively - a phase which has been the most difficult during the last 10 years. It is crucial to not lose money during corrective phases in the markets as this will help generate superior returns over longer investment cycles. During the past 6 months, the portfolio made a smart rebound from short periods of pressure and covered up majority of the shortfall in performance in comparison to the benchmark. Although a gap exists, over the next 2 years, we believe the portfolio is well-positioned in investment themes that will benefit from the economic recovery as unlock unfolds.

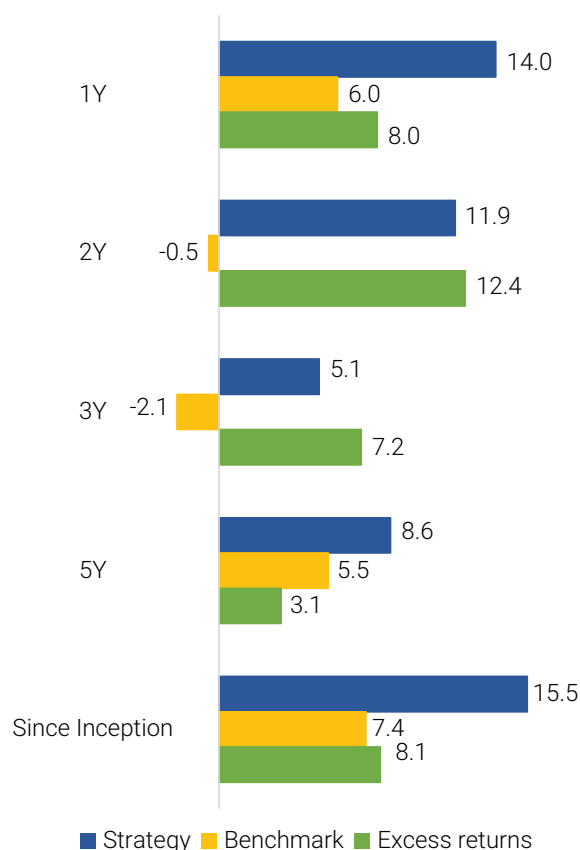
Our strategy's allocation to consumer discretionary and financials, have not aggressively participated in the current market context. But other major sectoral calls like specialty chemicals, healthcare and materials remain a prudent move. A looming risk to our strategy from a performance point of view would be a substantial delay in a vaccine and or a considerable increase in new cases. Last month, we witnessed improvements in the infection scenario in urban centers with active cases either remaining flat or trending downward. Covid-19 vaccine updates are encouraging with expectations of an approved vaccine to be in place in the next 4-6 months.

In our opinion, consumer discretionary is a structural growth story. Over the next 10 years, we expect households with > \$5000 per capita annual income to double and expect demand for consumer durables, fast fashion, organized retail, fast food, and entertainment to substantially increase. Companies with superior business models in these segments boasting a good ROIC and cash flows with an ability to reinvest in growth are likely to deliver superior returns to investors versus their counterparts in the FMCG space. As we unlock in phases, most of the retail formats in food and fashion are currently operating at 70-75% of capacity considering the majority are present predominantly in urban centers, where certain restrictions are still in place. With active cases showing signs of peaking, the phase of unlocking has moved in the right trajectory so far. We expect organized retail companies to deliver pre-Covid-19 level sales during the festive season in Q3 FY21.

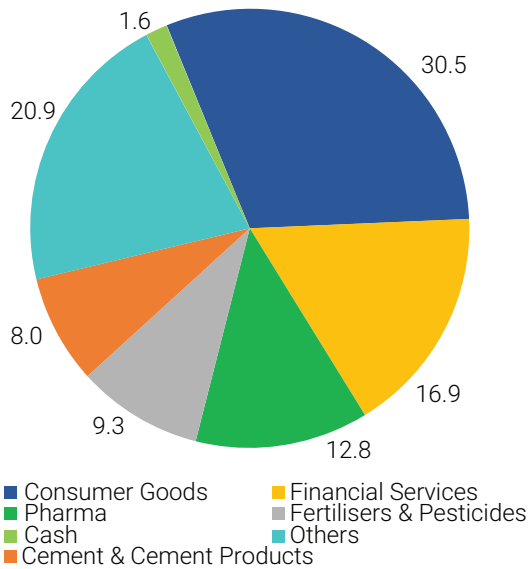
Another sectoral exposure is in financials. The street expectations for this space is too bearish. However, we expect stress in the sector to be lesser than what is factored, as disbursements are likely to gain momentum ahead of consensus expectations. Collection numbers have improved substantially in September for most of our investee companies and NPA numbers are likely to be lesser than expectations.

Overall, on the economy front, we see positive data in September 2020. GST collections have surprisingly improved when compared to the same period in September 2019 and power demand has grown on a YoY basis during the month. Two consecutive good monsoons and higher realization for agriculture products bodes well for rural demand and overall consumption in FY22. The auto sector is witnessing a revival from a decline last year. PLI schemes are supporting a pickup in investment momentum in consumer durables, inching up the growth potential from FY20 for the manufacturing sector. This is an affirming sign as both agriculture and manufacturing suffered in FY20, as a year of slow growth in recent history. So, if momentum sustains and urban demand rebounds to normalcy in FY22, economic growth might surprise positively. A timely government incentive will further accelerate demand and help our investment thesis. So, we recommend investors to hold or add on to investments with a time frame of above 2-years to make returns. Focusing on short-term news flows in an attempt to time the market may not yield the desired results.

PERFORMANCE (%)



SECTOR ALLOCATION (%)

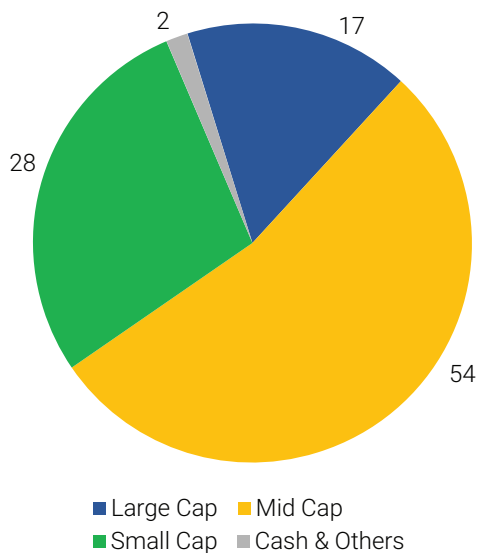


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 26,001 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	15.6	8.9
Annualised Standard Deviation	14.9	18.5
Beta	0.7	-
Sharpe Ratio	0.6	0.1
Correlation	0.8	-
Alpha	7.4	-
Tracking Error	9.8	-

PORTFOLIO PERFORMANCE

S.E.L.F. delivered an excess return of 1.8% over the benchmark during the month. The portfolio's track record disproves the high-risk myth associated with the mid and small-cap space and shows the benefit of investing in quality mid and small cap names. Our strategy is to avoid the near-term noise and continue to back companies with consistent earnings growth, strong balance sheet and quality management with a long-term outlook.

STOCK PERFORMANCE

During the month, Natco Pharma emerged as the industry's top performer with an alpha of 24.6% on the back of positive news flows with regards to its blockbuster cancer drug launch targeted for FY22. AstraZeneca and Mindtree delivered a meaningful alpha of 19.4% and 14.0% respectively, over the benchmark, during the month. While, the pharma sector makes headway, IT rallies due to increase in digitalization. Mindtree is also expected maintain a healthy trajectory in light of a structural change in the technology sector. Orient Electric corrected by 9.2% but is expected to gain steam as we approach the festive season.

Amidst the recent rally, GMM Pfaudler hit our target price of Rs. 6,000. Since the current prices nearly discounts the FY24 earnings, we have reduced weight in the stock from a peak of 7.70% to 1.53%, while we expect some modest upside for the next two years. However, GMM continues to remain a strong franchisee and a market leader in the business it operates in. The stock witnessed a 28.8% correction during the month.

KEY FEATURES

- Bet on Sundaram mid & small cap strength but yet differentiated with a **concentrated portfolio** and **attractive cap curve** positioning.
- Portfolio with a maximum of 25 stocks, Multi-sector portfolio.
- Stocks with market cap less than Rs. 500 billion.
- "EASE" portfolio
 - Emerging leaders – clean and high quality promoters / management.
 - Asset light & High ROCE businesses are preferred.
 - Scalable companies: mid cap to large cap, small cap to mid cap transitioning companies.
 - Excellent cash conversion from operations.
- Identify stocks that are in early stages of their business cycle and could emerge as tomorrow's large caps.
- India 2025 - Themes
 - Consumer discretionary
 - Financial Services
 - Specialty Chemicals
 - Healthcare

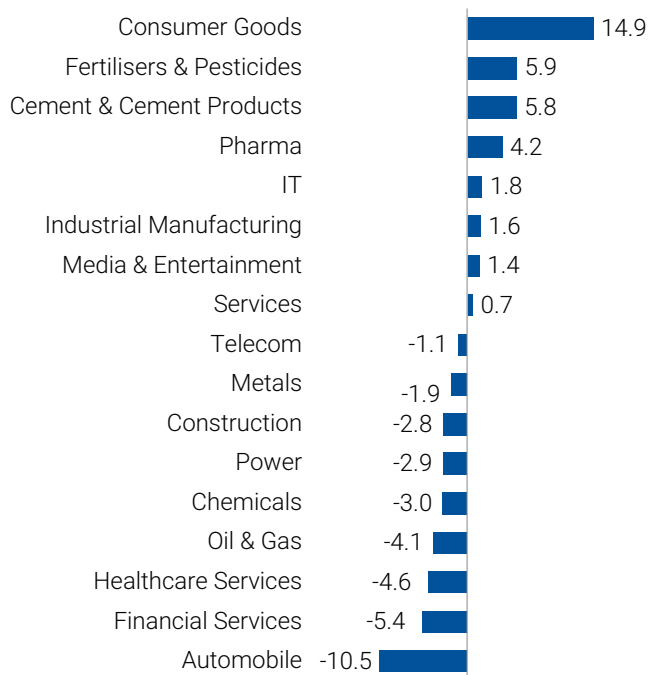
TOP HOLDINGS

PI Industries Ltd.
Natco Pharma Ltd.
Dixon Technologies Ltd
AU Small Finance Bank Ltd
Bajaj Finserv Ltd

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
Dixon Technologies Ltd	2,133	8,762	311
PI Industries Ltd.	982	1,972	101
GMM Pfaudler Ltd.	2,386	3,984	67

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



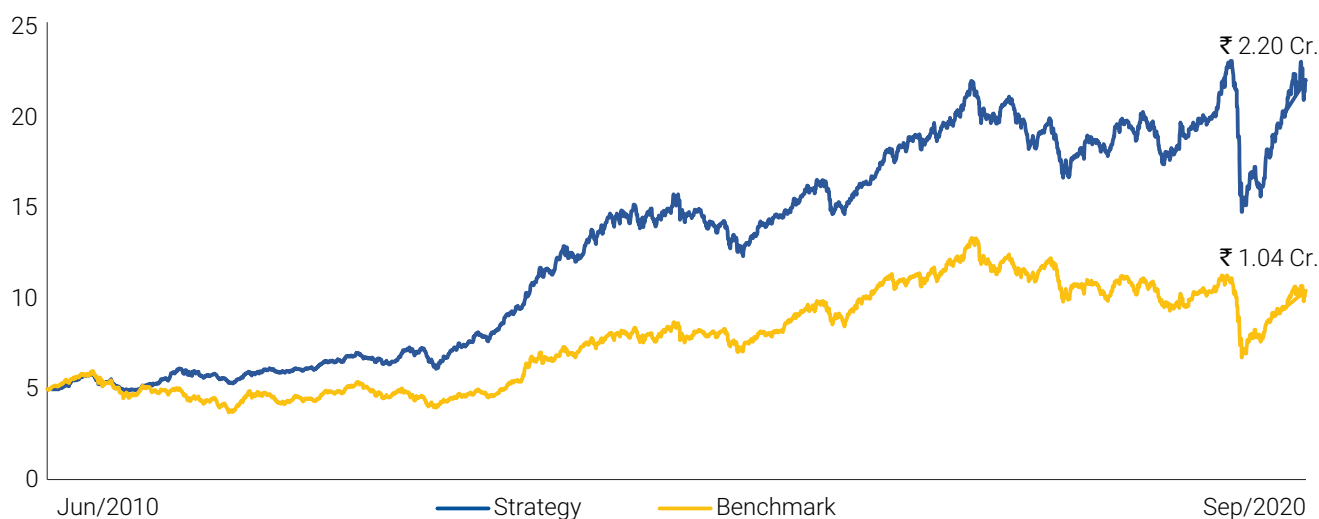
CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	9.2	9.4	-0.2
2011	-2.9	-31.0	28.1
2012	28.7	39.2	-10.4
2013	18.3	-5.1	23.4
2014	69.9	55.9	14.0
2015	3.4	6.5	-3.1
2016	6.1	7.1	-1.0
2017	41.8	47.3	-5.4
2018	-11.6	-15.4	3.8
2019	6.5	-4.3	10.9
2020 YTD	9.4	-0.7	10.1

CY2010 returns is from Inception date (June 2010) to December 2010

Source: Inhouse computation

VALUE OF RS. 50 LAKHS INVESTED AT LAUNCH



WHY SUNDARAM PMS

- Strong Track Record
- Low Churn
- Time Tested Stock Selection Process
- Reach Across Country
- Transparency
- Strict Adherence to Risk Guidelines
- Shared Research Capabilities

DIRECT ON-BOARDING OF CLIENTS

Client has an option for direct on-boarding without intermediation of persons engaged in distribution services. In this mode, client will be charged management fees and portfolio operating expenses. No other charges will be levied.

DISCLAIMER

General Disclaimer: Performance and data is as September 30, 2020. Returns are on time weighted rate of return basis. All returns are in percentage. Performance disclosure is at aggregate portfolio level and the portfolio information (i.e. market cap, sector allocations, etc.) is at model client's level. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved. Past performance of the portfolio manager does not indicate its future performance. Performance related information provided herein is not verified by SEBI.

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CUSTOMER SERVICES

Reporting Statements and Servicing: Monthly performance Statements Transactions, Holding & Corporate action reports, Annual CA certified Statement of the account & Online access

3Q QUALITY APPROACH TO STOCK SELECTION

- **Quality of Business**
Scalability, Brand Strength, Cost leadership
- **Quality of Management**
Management Bandwidth, Corporate Governance, Visionary
- **Quality of Financials**
High ROCE, Excellent Cash flows, Low Debt Equity ratio