

Sundaram India Secular Opportunities Portfolio (SISOP)

• Monthly Update •

Objective: To generate capital appreciation across market cycles by investing in a concentrated set of high conviction stocks.

Target Investors: Designed for investors seeking returns through investments in a concentrated portfolio of companies with sustainable competitive advantages and reasonable valuations.

Investment Horizon
Above 3 years

Benchmark
NSE Nifty 500 Index

Inception
February 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 5.6% and 9.4% 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.

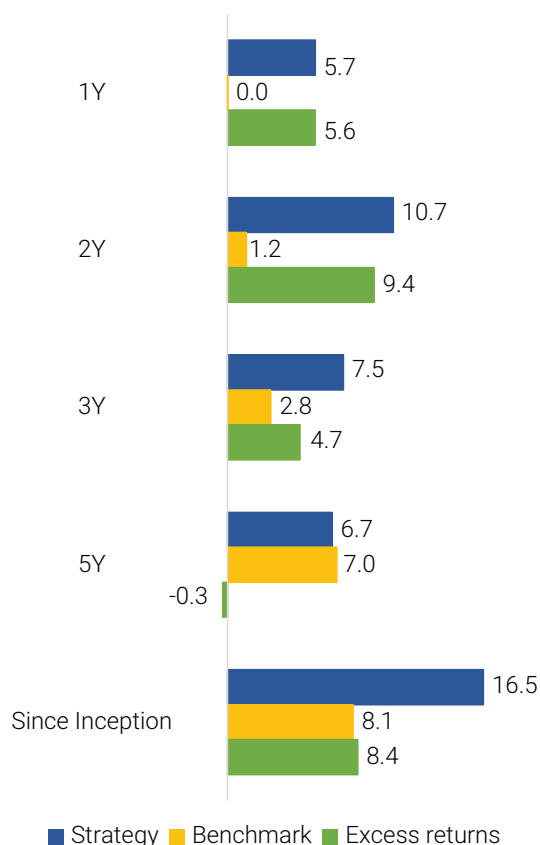
Our multi-cap strategy has a higher allocation to consumer discretionary and financials, which have not aggressively participated in the current market context. But other major sectoral calls like specialty chemicals, healthcare and materials remain a prudent move. A looming risk to our strategy from 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 peeking, 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.

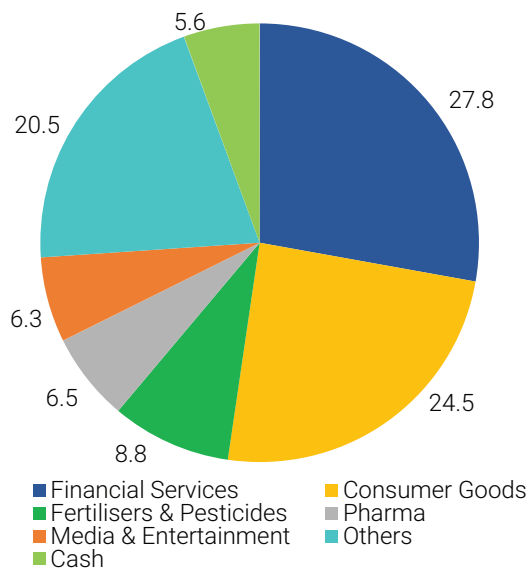
Another major sectoral exposure is in financials. The street expectations for this space is too bearish. However, we expect stress in the sector to be lesser than what is factored, as disbursements are likely to gain momentum ahead of consensus expectations. At current valuations, large private sector banks with sufficient capital and deposit base are likely to recover faster than their PSU counterparts as they will face higher stress and capital requirements. As the economy recovers, we expect credit growth to be in the high single-digits or low double-digits in FY22 and growth will return to large private sector banks and well-run NBFCs, selectively. 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 (%)

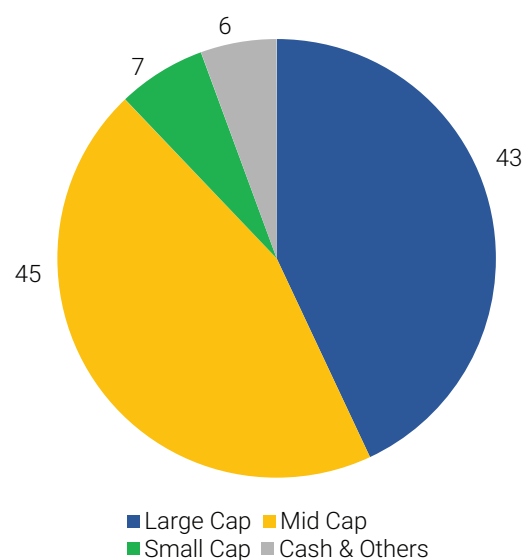


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 93,233 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	16.6	9.2
Annualised Standard Deviation	16.3	16.8
Beta	0.8	-
Sharpe Ratio	0.6	0.2
Correlation	0.8	-
Alpha	8.0	-
Tracking Error	10.6	-

PORTFOLIO PERFORMANCE

SISOP delivered a return of 2.4% while the market remained relatively flat during the month. From a long-term perspective, we strongly advocate investing in sectoral leaders, since sectors will revive with a market consolidation resulting in leaders becoming stronger. 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

As pharma and technology stocks were the top gainers so far this year amidst the pandemic, AstraZeneca and Mindtree delivered a meaningful alpha of 21.5% and 16.1%, 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. Titan and Trent fared well with an excess return of 9.5% and 5.4% respectively, as urban centres open up with lower restrictions. ICICI Bank and Bajaj Finance corrected by 10.1% and 6.0% respectively, amidst volatility in financials, as the noise levels relating to the Supreme Court's decision on interest waiver intensified. PVR saw a 7.5% correction, but as Unlock 5.0 unfolds coupled with a declining infection situation, the outlook is set to improve over the year.

KEY FEATURES

- Concentrated Portfolio - Maximum of 15 stocks.
- Invests across market caps – "Multi Cap" (skewed towards large cap).
- Long term orientation towards portfolio building i.e. >3 years.
- Invest in business with secular growth opportunities.

Compounding Stories

- Companies with growth opportunity > 15%
- Ability to generate > 15% ROIC
- Excellent cash flows from business
- Option to reinvest for growth
- Low D/E to sail through crisis situations and gain market share

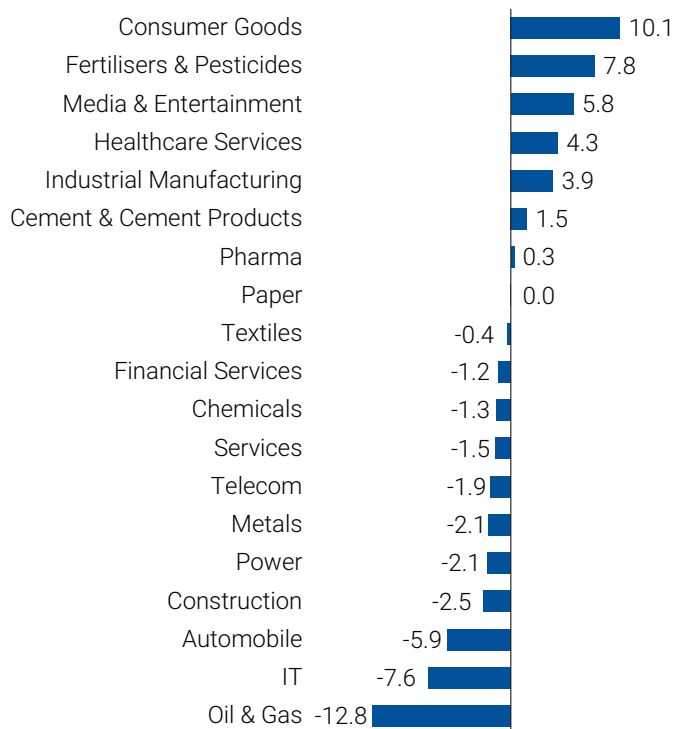
TOP HOLDINGS

PI Industries Ltd.
AU Small Finance Bank Ltd
Titan Industries Limited
Berger Paints I Ltd
Astrazeneca Pharma India Limited

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
Berger Paints I Ltd	317	584	84
Astrazeneca Pharma India Limited	2,659	4,304	62
Metropolis Healthcare Limited	1,220	1,794	47

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



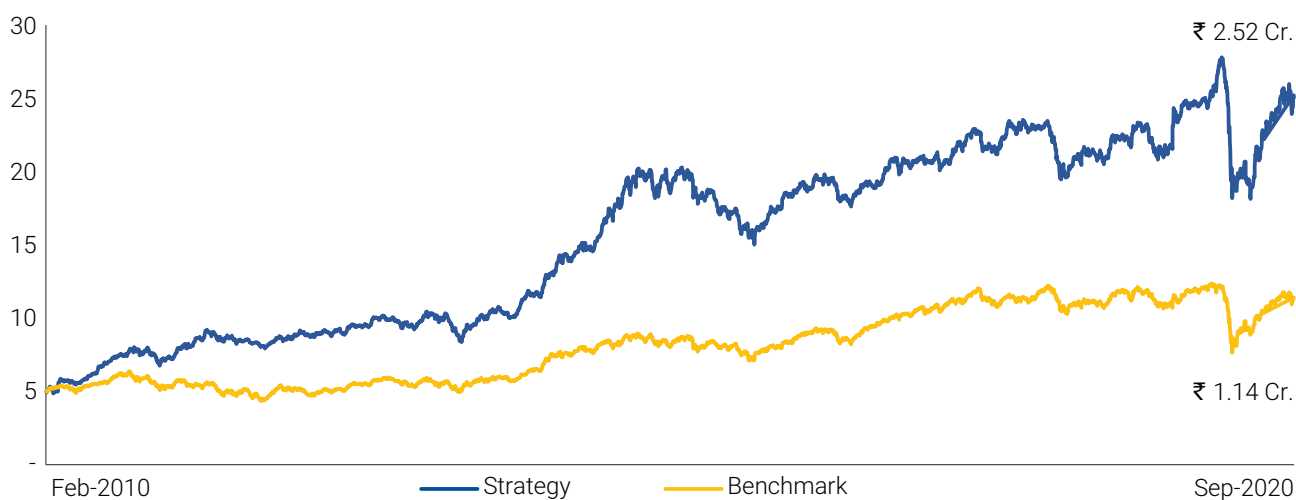
CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	58.3	20.7	37.7
2011	1.5	-27.2	28.7
2012	25.4	31.8	-6.4
2013	6.0	3.6	2.4
2014	66.1	37.8	28.3
2015	-2.0	-0.7	-1.3
2016	4.2	3.8	0.3
2017	24.0	35.9	-11.9
2018	-4.3	-3.4	-0.9
2019	15.4	7.7	7.8
2020 YTD	1.4	-5.4	6.8

CY2010 returns is from inception date (February 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