SUNDARAM
India Secular Opportunities Portfolio

• 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

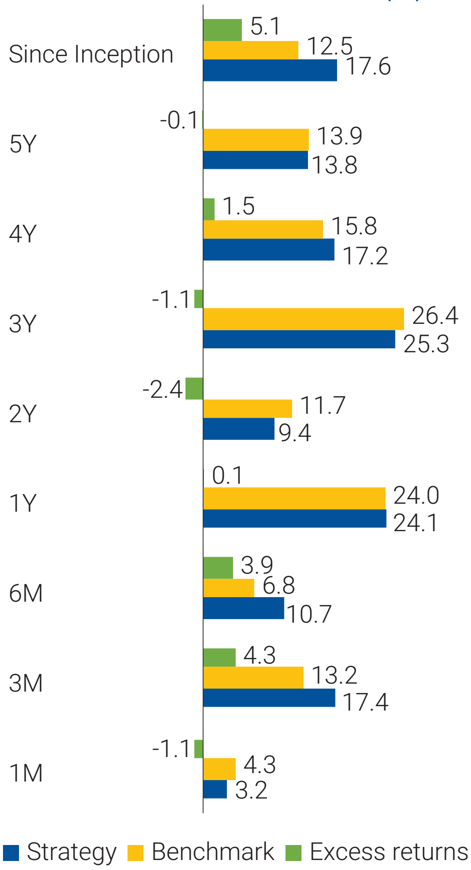
Benchmark
S&P BSE 500

Inception
February 2010

Fund Manager
Mr. Madanagopal Ramu

Assistant Fund Manager
Mr. Prashant N Kutty

SISOP vs S&P BSE 500 (%)



1. **Do you think that this market rally is different from the previous ones? How is it different?**

   In our opinion, the underlying cause for each market rally will always be different. The post-covid market rally in India is predominantly defined by 3 factors 1. Huge FPI flows in 2020, due to a large liquidity infusion by developed economies to support economic recovery post Covid, 2. India's earnings in the formal sector saw a benefit due to supply chain issues globally, leading to a jump in corporate cash profits in FY21 & FY22 and 3. China's economic slowdown resulted in a higher allocation towards India by global funds in 2022. The first factor was a major driver for significant rerating in India's valuations, particularly in the mid and small cap space. The other two factors continued to support valuations despite volatile FPI flows in last 12 months.

2. **Does this rally have legs? How long do you expect this rally to last and what may derail it?**

   All the three legs of rally are playing out, but at varying rates. The earnings growth leg of the rally continues but may not be as broad based as it was in the last 2 years, although it's expected to be much better than that in pre-covid levels. Earnings visibility for the Indian market is currently better than what it was during the pre-covid period, due to the support from the manufacturing sector and a consistent growth in the services sector. As highlighted above, the higher allocation towards India, diverted from China seems to be continuing given that China's recovery looks uncertain, despite various government measures; on the other hand, India's growth looks more certain. FPI flows therefore were strong in the start of 2023 and might continue to be so, although expected to be directed towards specific sectors and stocks rather than a broad-based rally we saw post covid. Between quality and value, value took precedence in the last 3 years, going forward we believe that quality will make a comeback. Because enablers for value have reduced considerably, considering a sharp jump in valuations in the mid & small cap space. There aren't many low PE sectors and stocks in the market now unless there is a serious earnings visibility issue in that space.

3. **What sectors are you watching out for now?**

   We see major value in our 4x4 wealth multiplier themes – 1. Financial Inclusiveness – here we play the growth opportunities in retail credit penetration and shift from unorganized to organized lending, 2. Consumer "Czars"– we are positive on urban discretionary consumption growth, particularly small ticket spending, where we expect robust growth to continue supported by healthy urban job growth and recovery in rural consumption in 2023, 3. Phygital "Bluechips" – here we play companies that would benefit from India's online penetration across various sectors. India is at a nascent stage of technology penetration in various consumer-facing services, and lastly 4. Manufacturing Maestros – we believe that electronics, chemicals, auto and engineered goods will be the beneficiaries of import substitution driven by the PLI scheme, India's cost competitive exports and focused infra spending by the government.

4. **Do Indian market valuations worry you?**

   While there has been a good bounce back in the Nifty 50 from March lows, it's currently rangebound at around 18500-19000 levels, which it touched for the first time in October 2021. The market has seen a consolidation over the past 20 months, while earnings have grown >25% on an absolute basis in the last 2 years. Hence, from a value perspective, the markets have factored in a 25% discount and are trading at an 18x FY25 PE and a 20x FY24 PE. Markets have traded at similar multiples but with much lower earnings visibility during 2018 and 2019. With crude at ~USD 75, inflation heading to lower levels and macro growth looking strong, being supported by manufacturing & services, we see a limited downside and expect markets to deliver a decent return over the next 2 years. We expect the positive momentum to continue –the positive news flow around a rate cut from the Fed can be a trigger point.

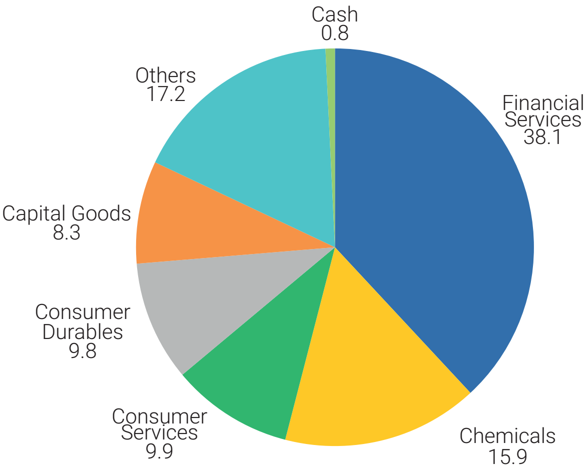
5. **What are key challenges for markets? Critical factors to watch out for?**

   Sticky inflation and a prolonged high interest rate scenario could lead to an economic slowdown in developed nations and may drag developing nations as well; this remains a key concern to look out for in H2FY24. Fed's hawkish commentary in June increases the risk of two more rate hikes. Can RBI avoid/abate such a scenario, is a key development to look out for. Our stance is, that inflation momentum will decelerate probably with a delay, chances of significant rate cuts therefore in 2024 are still highly possible.

   India's market share in global merchandise trade is less than 2%, therefore meaningful slowdown in developed markets may not have such a significant impact on India, except for specific sectors like IT outsourcing. Another risk to watch out for would be crude oil price levels; reversion to higher levels of +USD 100 per barrel could increase inflationary conditions and lead to a cut in India's valuations in the short term. El-Nino remains a key risk for rural consumption in 2023; but so far the monsoon has been better than expectation in India.

Peer performance is available under the following link of Association of Portfolio Managers in India (APMI): https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu

SECTOR ALLOCATION (%)

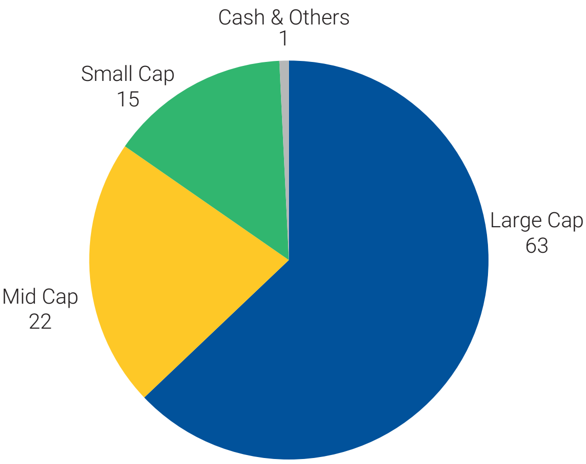


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 2,16,234 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	17.5	13.2
Annualised Standard Deviation	16.1	16.4
Beta	0.8	-
Sharpe Ratio	0.6	0.4
Correlation	0.8	-
Alpha	5.6	-
Tracking Error	9.9	-
Up capture Ratio	100.6	-
Down capture Ratio	75.8	-

6. How is the Q1 earnings season likely to be for the market as well as portfolio companies?

Macro indicators are still healthy; monsoon was better than expected, credit growth, GST collection, the e-way bill, Naukri job index etc. numbers were in line with expectations. Consumption in rural markets showed signs of recovery in Q1. Urban consumption (demand) is seeing some moderation, probably due to a stronger base. With inflation under control and income growth sustaining in urban markets, the urban consumption slowdown may not be prolonged. Going forward, broad participation of earnings growth from all sectors may be difficult. Long term structural themes like retail banking, manufacturing, consumer discretionary and digitization will continue to grow. We see challenges in growth for generic Pharma, FMCG, Metals and IT sectors. Export-oriented sectors will see a slowdown in demand. But our exposure to this sector only includes specialty chemical companies, where new projects continue to support growth.

Performance Benchmarking

SEBI vide circular dated 16th December 2022 mentioned that Association of Portfolio Managers in India (APMI) shall prescribe a maximum of three benchmarks for each Strategy. Effective from 1st April 2023, the Portfolio Manager shall select one benchmark from those prescribed for that Strategy to enable the investor to evaluate relative performance of the Portfolio Managers. APMI vide communication dated 31st March 2023 prescribed the following benchmarks:

Strategy	Benchmark 1	Benchmark 2	Benchmark 3
Equity	Nifty 50	S&P BSE 500	MSEI SX 40

Among the options given, we had selected S&P BSE 500 which is a broad-based benchmark to our PMS strategies.

PORTFOLIO & STOCK PERFORMANCE

The portfolio has underperformed the benchmark in the past 1M by 1.1%. The stocks that have performed in the month are Trent up 13%, Mahindra & Mahindra up 10%, Astral up 9% and home first finance was up 9%. The stocks that dragged the performance are SRF down 9%, Sapphire down 5% & Navin fluorine down 3%. There were no new stocks added to the portfolio nor any exits made in the current month.

KEY FEATURES

- Concentrated Portfolio - Around 15 stocks.
- Invests across market caps – "Multi 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

This material should not be construed as solicitation for investing in countries where restrictions exist on soliciting business from potential clients residing in such countries

TOP HOLDINGS

Axis Bank Ltd.
Astral Limited
ICICI Bank Ltd
Navin Fluorine International Ltd
HDFC Bank Ltd

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
AU Small Finance Bank Ltd	314	754	140
Titan Industries Limited	1,490	3,048	106
Astral Limited	983	1,983	102

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK

CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	58.3	24.9	33.4
2011	1.5	-26.4	27.9
2012	25.4	33.4	-8.0
2013	6.0	4.9	1.1
2014	66.1	38.9	27.2
2015	-2.0	0.4	-2.4
2016	4.2	5.2	-1.0
2017	24.0	37.6	-13.6
2018	-4.3	-1.8	-2.4
2019	15.4	9.0	6.5
2020	25.2	18.4	6.8
2021	36.2	31.6	4.6
2022	-6.9	4.8	-11.6
2023 YTD	10.7	6.8	3.9

Source: Inhouse computation

Calendar Year Performance Since Inception February 2010

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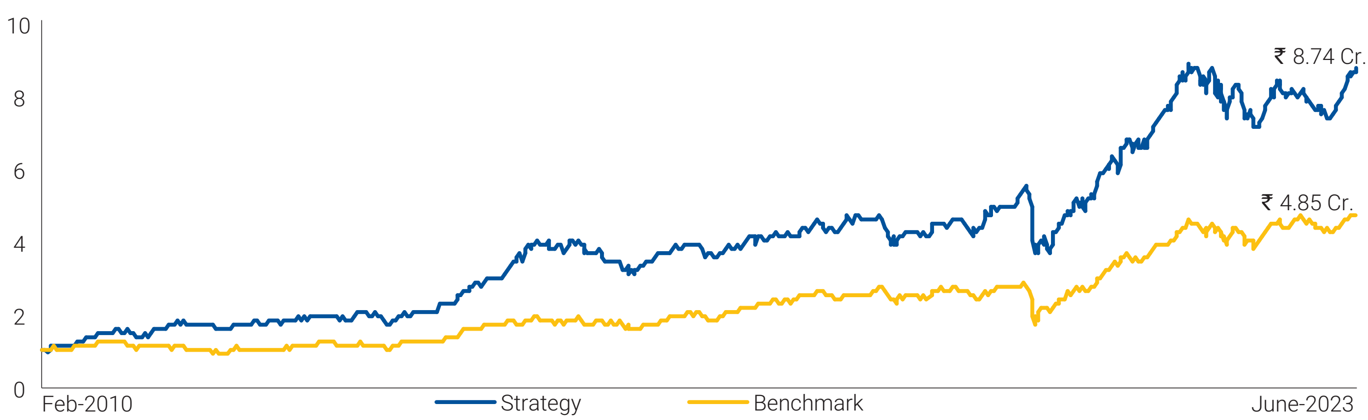

WHY SUNDARAM PMS

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

3Q QUALITY APPROACH TO STOCK SELECTION

- **Quality Business**
  Scalable, Growing, Reinvestment opportunities, Strong Moat
- **Quality Financials**
  High ROIC, Excellent Cash Flows, Low DE
- **Quality Management**
  Visionary, Problem solving

CUSTOMER SERVICES

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

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DISCLAIMER

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