pmsbazaar
MILLION to BILLION

Newsletter

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ALL INTELLIGENT INVESTING IS VALUE INVESTING, ACQUIRING MORE THAN YOU ARE PAYING FOR

CHARLIE MUNGER

Exclusive
PMS Coverage

ESTEE
Risk.Return.Optimized.



Economic Outlook & Indian Equity Market Analysis - December 2023	2
About Estee Advisors and Fund Management Team	3
Estee's Approach and Investment Philosophy	4 - 5
Estee's Long Alpha Equity Strategy	6 - 9
Exclusive Interview with Sandeep Tyagi, Founder & CEO, Estee Advisors	10 - 12

Economic Outlook & Indian Equity Market Analysis - December 2023

Global Economy:

The month of November has witnessed encouraging developments across some global economies. For one, US yields, which had declined in anticipation of an early interest rate cut, have recently begun to rise again. While analysts believe this is a temporary reversal, the trend's persistence remains to be seen. Continued low US yields post-holidays would bode well for emerging market assets, including Indian equities, as it would attract foreign institutional investors (FIIs) back to these markets. The US economy has also proved to be resilient, all three major US stock indexes ended November at least 8% higher, as per Nasdaq Market Intelligence report. Elsewhere in Japan, exports have been slowing, and the economy faces high inflation. Despite these challenges, rising wage rates could bolster consumer demand.

Additionally, China's better-than-expected economic indicators bode well for the global economy going forward, particularly for metals. This is expected to provide some support to global export demand, such as from Germany and India, as reported by news outlets.

Amidst these positive developments, some progress needs attention. Europe's economy has been stagnating for nearly a year. This was mainly on account of high energy costs, high inflation and low consumer demand. This apart, Germany, as per reports, has frozen public spending, casting doubts over its economic prospects. In the UK too, the government's official forecaster has downgraded the country's GDP growth forecasts for the next two years.

Having said that, while economists expect global growth to slow down for FY25, they do hold a brighter near-term outlook. The IMF has indicated that projections increasingly align with a soft-landing scenario for inflation, implying a decline without a significant economic downturn.

Indian Economy:

Despite the global headwinds, Indian investors have reasons to cheer. There are several reasons to be optimistic about the Indian economy including easing inflation pressures, a fall in crude oil prices and improving the capex cycle. Recently, the Indian stock market achieved a milestone, touching $4 trillion in market capitalization for the first time. This is higher than the country's gross domestic product (GDP) of $3.4 trillion. On November 30, domestic GDP at 7.6% year-on-year showed India's economy grew at a much faster pace than expected in the July-September quarter, helped by government spending and manufacturing.

Considering the positive signals, the bull run in the equities continued with the Nifty 50 closing over the 20,100 mark. For November, the Nifty 50 index jumped 5.52% and the S&P BSE Sensex climbed 4.87%. Further, if domestic inflation continues to retreat, economists expect the Reserve Bank of India (RBI) to cut interest rates in the middle of next year which is expected to boost consumption. Also, upcoming elections are expected to further stimulate demand and investment.

That said, while the global headwinds could weigh on India's growth as well, CEA is confident of maintaining the GDP growth at 6.5% for FY24. Further, economists estimate that for the next fiscal year, the Indian economy can maintain 6.3% GDP growth.

Happy Investing!!

PMS Bazaar Research Team.

ABOUT ESTEE ADVISORS & FUND MANAGEMENT TEAM

Risk.Return.Optimized.

Estee Advisors Pvt. Ltd. is a quant-based investment management and execution and advisory services firm, started in 2008 when SEBI permitted algorithmic trading in India.

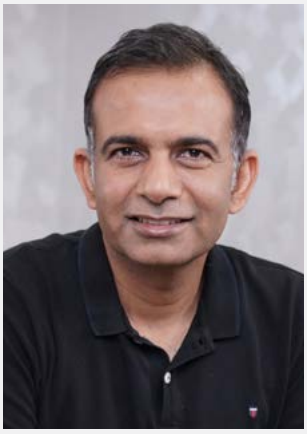
Estee has been building algorithmic investment products for 14+ years and has a strong track record as an asset manager and execution and advisory services provider in Indian capital markets. The firm is a SEBI-registered Portfolio Manager Service (PMS) provider and a registered broker-dealer with all the major Indian exchanges, including NSE, BSE, MCX, and MSEI, and operates in listed securities and derivatives markets. Estee is trusted by more than 8000 Clients and manages assets worth more than ₹ 1500 Crore.

Fund Management team



Sandeep Tyagi, Founder & CEO

He is a B.Tech from IIT Delhi and an MBA from Columbia Business School. He is also a CQF from London. Sandeep Tyagi is the Chairman and Managing Director of Estee Advisors. He is responsible for setting the firm's direction, sustaining a winning culture, and developing profitable investment strategies. Prior to Estee, Mr. Tyagi was CEO of Inductis, a consulting and analytics firm that he founded in 2000. The firm served the largest financial services companies in the world including asset management, credit card, insurance, and lending companies in the areas of investment optimization, target marketing, and risk management. Mr. Tyagi is a board member of the IIT Delhi Excellence Foundation and a Charter Member of TiE. He is also a board member of the Young Presidents Organization (YPO), Delhi Chapter. He has received numerous awards including 40 under 40 for New Jersey and the Distinguished Alumni Service Award from IIT Delhi.



Vivek Sharma, Head of Investment India

Vivek Has been in the trading and investing field for 20 years now. He is a graduate of IIT Kharagpur. He has traded international markets for over 10 years with Futures First, where he set up their Energy Trading Desk. He has trained hundreds of successful traders during his time with Futures First. For the last 8 years, Vivek has been focusing on Quant Trading and Investments. He currently runs a successful smallcase portfolio which has generated 384.5% return vs 122.33% in Index since launch. These portfolios are designed using the multi-factor methodology and use technical, fundamental, and macro factors. He is passionate about helping and educating investors to manage their money well.

ESTEE'S APPROACH & INVESTMENT PHILOSOPHY

Estee employs a multi-factor approach in which a portfolio is constructed using multiple factors rather than a single-factor approach like momentum or value. The model looks at various macro factors, determines the market regime we are currently in, and identifies factors that are more likely to work in such a market regime. The final portfolio is constructed using only the factors that are more likely to work in the current market regime.

The rise of model portfolios and basket investment opportunities in the recent past has given rise to thematic, sector-specific, and model-specific portfolios. While a single-factor approach is easy and more understandable for an investor, employing multiple factors is more reliable in the long term.

Single factor investing approach, say, momentum investing, where stock selection is made by the signals generated by momentum factor, has grown so popular that there are even courses being offered to understand momentum as a factor. Momentum had a golden run from 2011 to 2019, but over the last 3 years, the performance has gone down and dipped to the bottom in 2022. Similarly, the value factor was at the bottom for 3 straight years from 2018 to 2020 and has been a top performer during the last 2 years. Simply put, factors' performance is as dynamic as markets' performance. Relying on specific factor-driven portfolios is likely to increase the concentration risk.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Value	Low Volatility	Value	Value	Quality	Alpha	Quality	Value	Alpha	Value	Alpha	Quality	Nifty 50	Alpha	Alpha	Value
Alpha	Quality	Quality	Low Volatility	Momentum	Momentum	Momentum	Alpha	Momentum	Momentum	Momentum	Nifty 50	Momentum	Quality	Value	Nifty 50
Momentum	Nifty 50	Low Volatility	Quality	Low Volatility	Low Volatility	Nifty 50	Momentum	low volatility	Low Volatility	Value	Low Volatility	Alpha	Low Volatility	Momentum	Low Volatility
Nifty 50	Value	Alpha	Momentum	Alpha	Quality	Low Volatility	Low Volatility	Quality	Nifty 50	Low Volatility	Momentum	Low Volatility	Momentum	Quality	Quality
Quality	Momentum	Nifty 50	Nifty 50	Nifty 50	Value	Alpha	Quality	Nifty 50	Quality	Nifty 50	Alpha	Quality	Nifty 50	Nifty 50	Momentum
Low Volatility	Alpha	Momentum	Alpha	Value	Nifty 50	Value	Nifty 50	Value	Alpha	Quality	Value	Value	Value	Low Volatility	Alpha

Let's talk about sector-specific bets. Investors track a specific sector they understand and try to take positions in the same. But is there any pattern in sector performance? Healthcare, being a top performer in 2020, turned out to be the worst performer in 2021. Utilities have gained quite a lot over the last 5 years, but cyclicity can hit any time. A similar case happened with consumer discretionary (Hitting peaks and falling to the bottom). There is not a clear trend about which sector performs better in a given year. Hence, taking a skewed bet in favour of a specific sector is a very difficult and risky bet.

ESTEE'S APPROACH & INVESTMENT PHILOSOPHY

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Consumer Staples	Materials	Healthcare	Consumer Staples	Financials	IT	Industrials	Healthcare	Materials	Real Estate	IT	Real Estate	Healthcare	Utilities	Utilities
Healthcare	IT	Consumer Discretionary	Healthcare	Real Estate	Healthcare	Consumer Discretionary	Consumer Staples	Energy	Materials	Consumer Staples	Energy	IT	Industrials	Industrials
Utilities	Consumer Discretionary	Financials	IT	Consumer Staples	COMMs	Healthcare	COMMs	Utilities	COMMs	Financials	Financials	Utilities	Real Estate	Financials
Financials	Industrials	Consumer Staples	COMMs	Consumer Discretionary	Consumer Staples	Financials	IT	Financials	Industrials	Energy	IT	Materials	IT	Consumer Staples
Energy	Real Estate	IT	Consumer Discretionary	Healthcare	Consumer Discretionary	Materials	Consumer Discretionary	Consumer Discretionary	Financials	Healthcare	COMMs	Industrials	Materials	Energy
COMMs	Financials	COMMs	Energy	Industrials	Energy	Utilities	Energy	Consumer Staples	Consumer Staples	Industrials	Utilities	Consumer Discretionary	Consumer Discretionary	Materials
IT	Energy	Energy	Utilities	Materials	Financials	Consumer Staples	Industrials	Real Estate	Consumer Discretionary	Utilities	Materials	COMMs	COMMs	Consumer Discretionary
Consumer Discretionary	Healthcare	Materials	Financials	Energy	Materials	Energy	Utilities	Industrials	Energy	Materials	Consumer Staples	Real Estate	Energy	COMMs
Industrials	Utilities	Industrials	Materials	Utilities	Utilities	IT	Materials	IT	Utilities	Consumer Discretionary	Healthcare	Energy	Financials	Real Estate
Materials	Consumer Staples	Utilities	Real Estate	COMMs	Industrials	Real Estate	Financials	Healthcare	IT	Real Estate	Consumer Discretionary	Consumer Staples	Consumer Staples	Healthcare
Real Estate	COMMs	Real Estate	Industrials	IT	Real Estate	COMMs	Real Estate	COMMs	Healthcare	COMMs	Industrials	Financials	Healthcare	IT

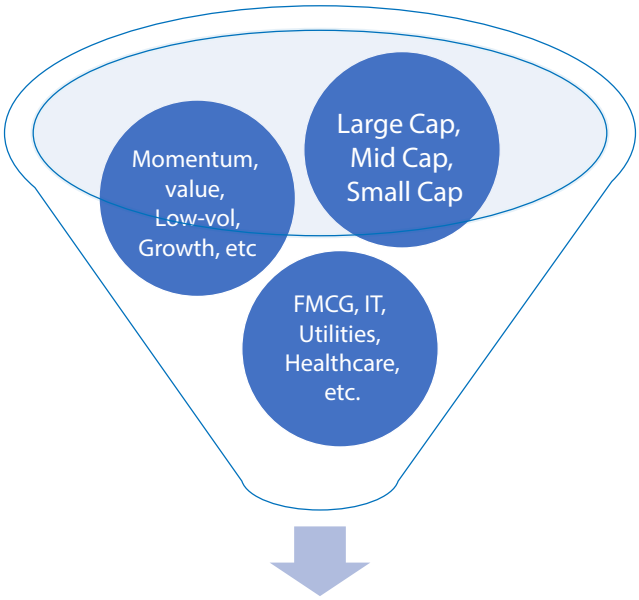
Calendar Year	Nifty 100	Nity Midcap 150	Nifty Smallcap 250
CY 2005	38.3	43.5	56
CY 2006	40.2	28.5	32.9
CY 2007	59	77.5	96.6
CY 2008	-53.2	-65.6	-69.2
CY 2009	80.4	108.6	111.4
CY 2010	19.2	20	17.6
CY 2011	-24.9	-31	-35.1
CY 2012	32.3	46.4	40.2
CY 2013	7	-2.4	-7.6
CY 2014	34.8	61.8	69.4
CY 2015	-1.3	9.3	10
CY 2016	4.7	5.5	0.5
CY 2017	32.9	55.5	58.5
CY 2018	3.4	-12.5	-26.5
CY 2019	11.4	0.6	-7.6
CY 2020	16	25.1	25.5
CY 2021	26	46.5	61.5
CY 2022	4.9	3.9	-2.6

** Total Returns Index*

Estee's Long Alpha equity strategy is a multi-cap strategy that has historically invested in Large Cap, Mid Cap, and Small Cap in ~46-27-27 percentage allocation since its revamp (May 2019). It is believed investing in large caps is traditionally associated with stability and in small caps or mid-caps with growth. Hence, they analyzed the last 15 years' data to see if there is a pattern in market cap performance. You can guess the answer from the chart itself. Additionally, there are 100s of stocks being part of each index which brings in selection risk.

Below is Estee's understanding of the single factor and thematic approach towards investment:

- None of the factors outperforms the Index consistently. Momentum and growth work in growing economies and value and quality work better during bear markets.
- There is no clear pattern in sector-wise performance each year. There is a cyclicity in money flowing from one sector to another. A sector-agnostic portfolio would limit the concentration risk and provide stability.
- Small caps don't mean growth, and large caps don't mean safe bets. The data clearly doesn't support this belief. A multi-cap portfolio would strike a balance between growth and safety.



Long Alpha Balanced Portfolios

As illustrated in the above portfolio construction process, the Long Alpha model tracks and analyses 130+ factors, including fundamental, technical, and macroeconomic factors. Their Quant team has developed algorithms that digest the data and generate queues about which particular index has a better chance to grow, and their portfolio weights get adjusted accordingly.

Long Alpha balanced portfolios focus primarily on consistent performance with diversification across market caps, factors, and sectors. Their quant team analyse each of the 500 in their universe and ranks each stock on these 130+ factors. The final portfolio is created using only the factors that are likely to work better in current market conditions.

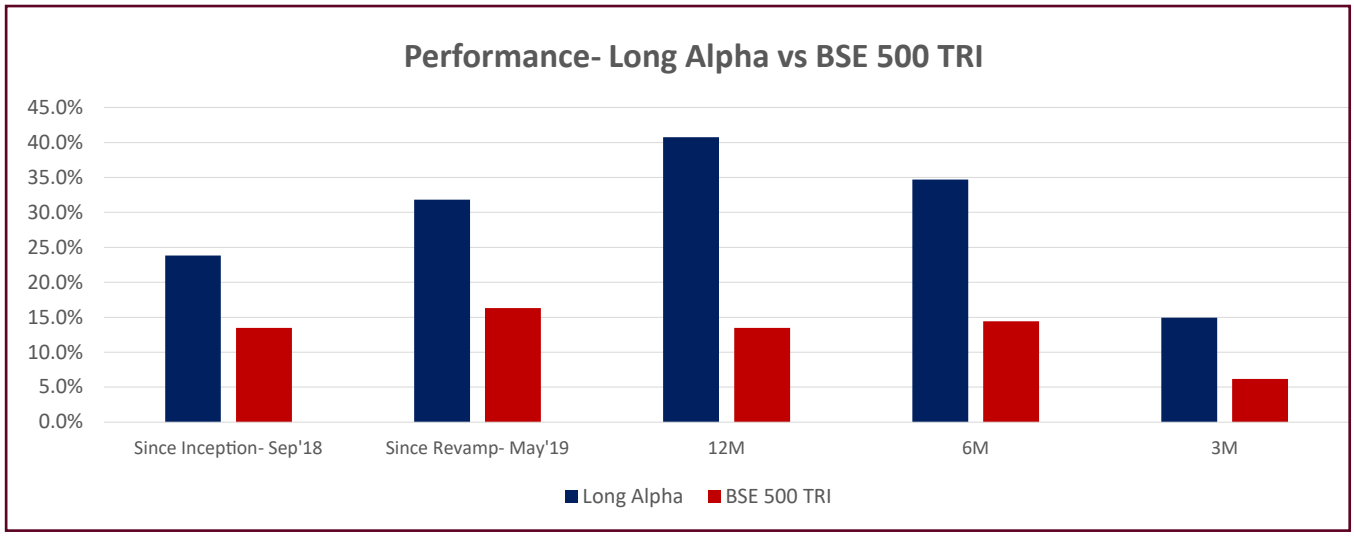
Objective

Estee Long Alpha is a long-only equity strategy that aims to consistently outperform the benchmark equity index while maintaining low volatility.

Investment Universe

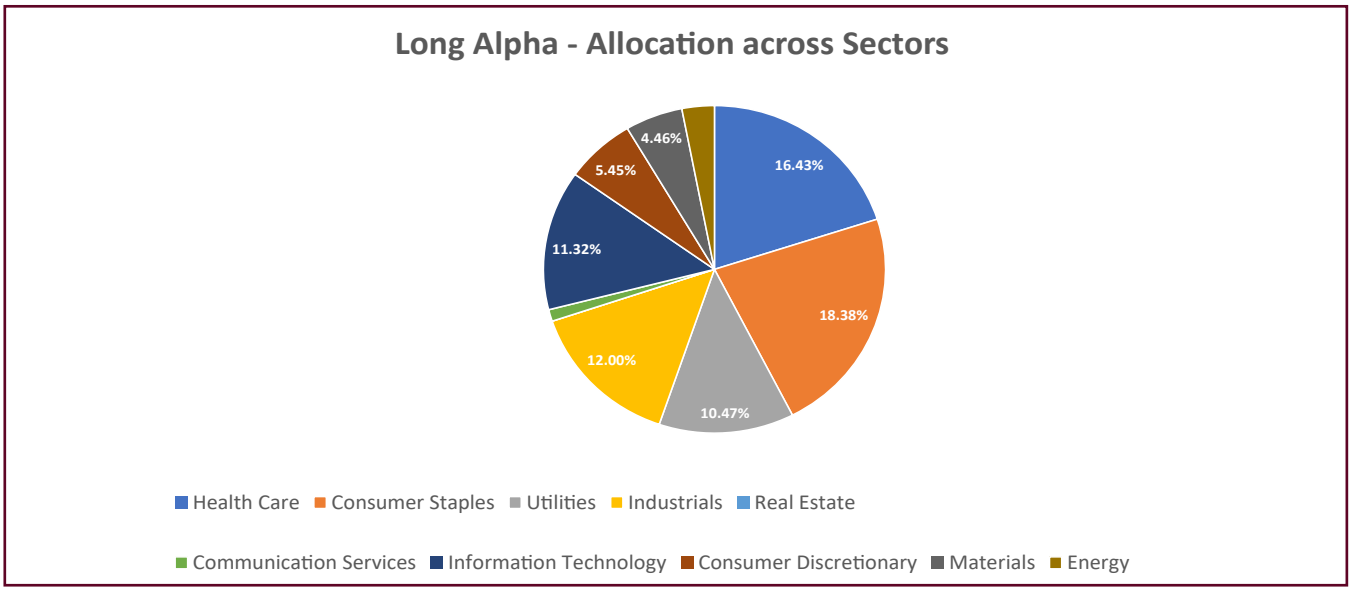
Long Alpha invests in the BSE 500.

Trailing Returns



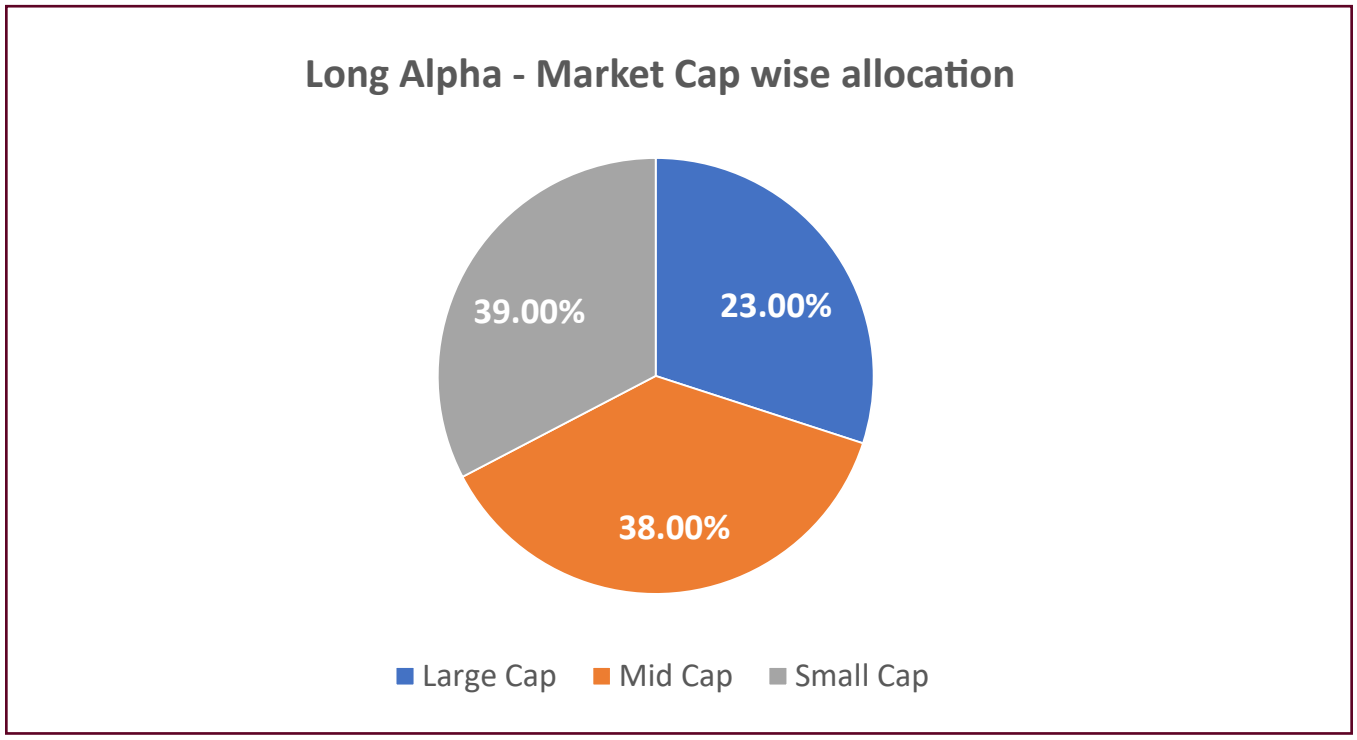
Note: Returns more than 1 year are annualised while <1 Year are absolute. Nov-23 numbers are preliminary and are yet to be finalised.

Sector Wise Holdings



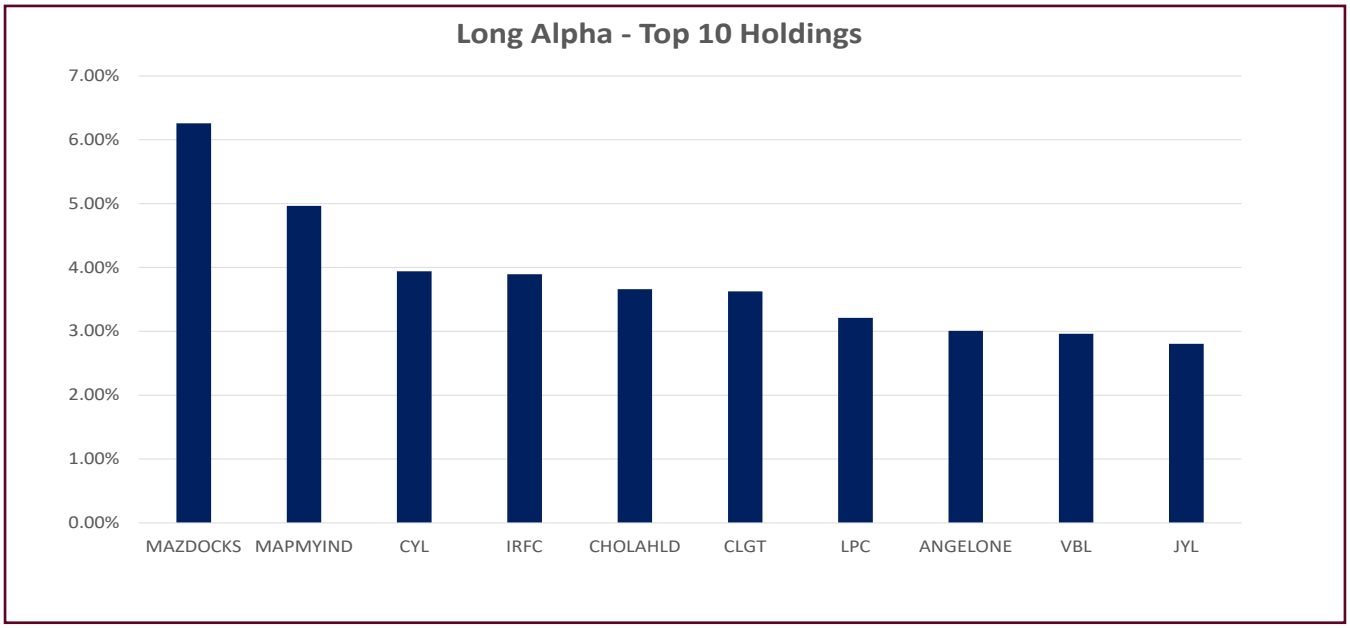
Note: This is Sector wise allocation as on end of Nov'23

Market Cap Wise Allocation



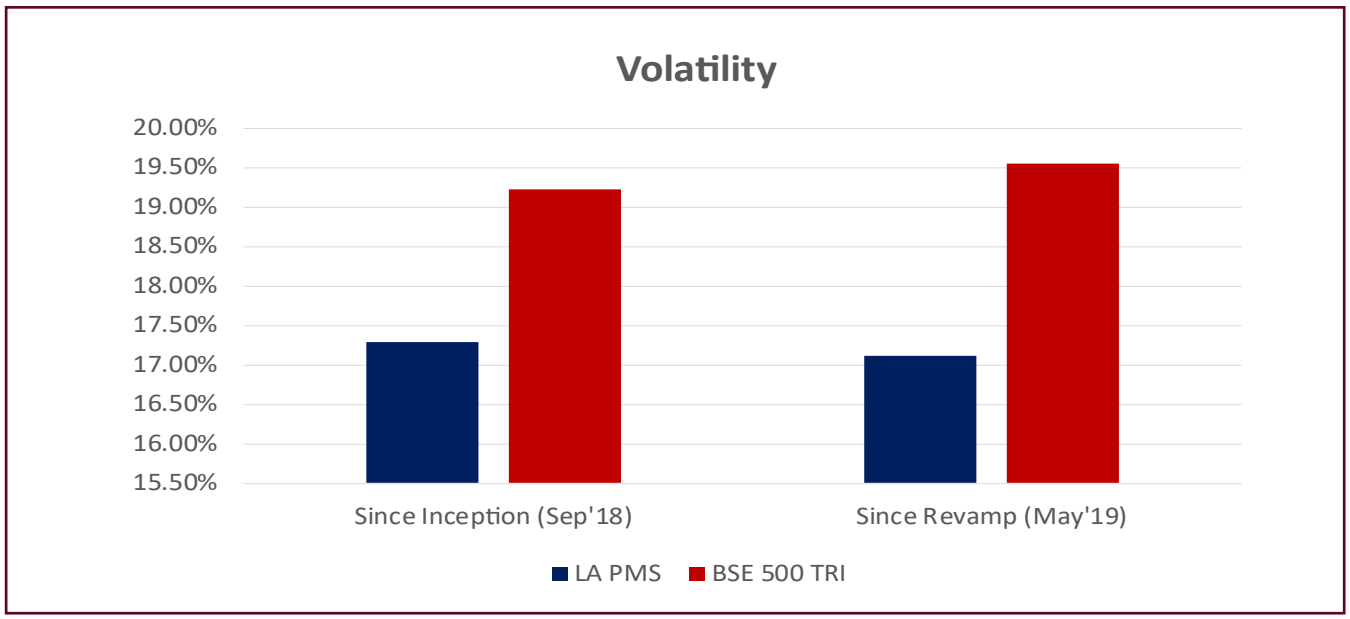
Note: This is market cap wise allocation as on end of Nov'23

Top 10 Holdings



Note: This is Top 10 holdings as on end of Nov'23

Risk Stats

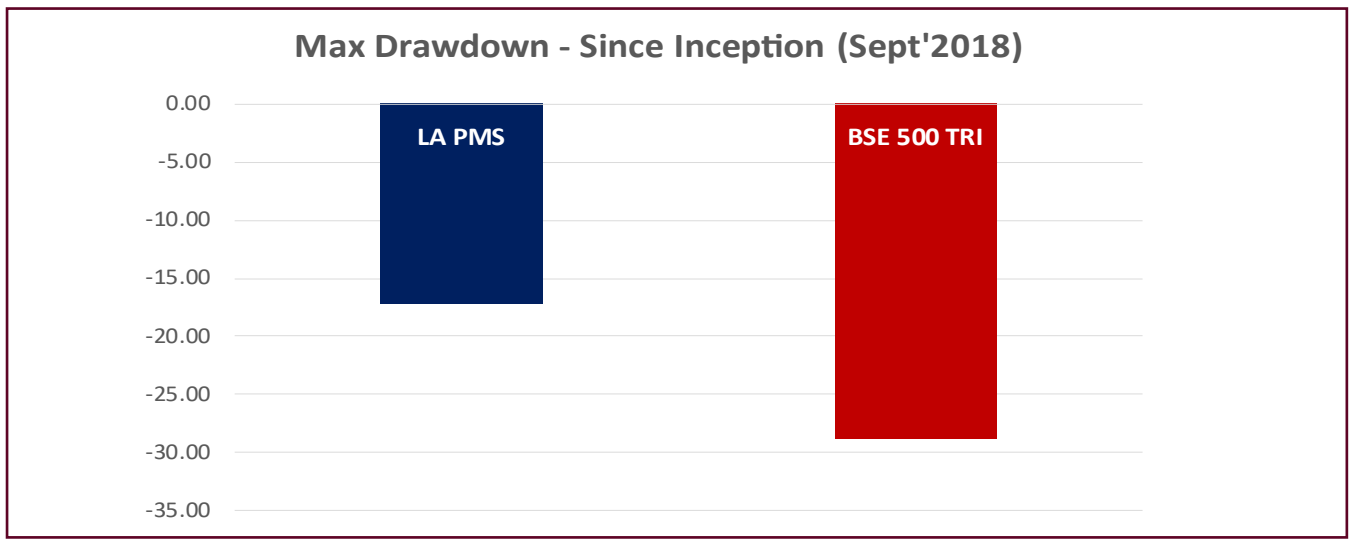


Volatility

Volatility is a measure of an index or security's deviation from the mean is a measure of risk. It helps ascertain the uncertainty of the returns of an asset. As seen from the above chart, Estee's Long Alpha has had lower volatility since its inception and the revamp (~17.4%) in comparison to the BSE 500 TRI index (~19.2%). This means that Long Alpha PMS has not only outperformed the index since its inception, but it has also been able to do so while being less risky than the S&P BSE 500 TR Index.

Max Drawdown

Max Drawdown gauges the max peak-to-trough decline seen by an index or a security. The chart below showcases that Long Alpha PMS has seen a relatively less maximum decline from the peak (17.19%) than the BSE 500 TR Index (28.81%)



Exclusive
Interview



SANDEEP TYAGI
Founder & CEO
Estee Advisors

> "In all market conditions, following a flexicap strategy is the best strategy for optimizing long term returns"

Excerpts from the interview:

Since inception/revamp your fund has given a CAGR of about 30% whereas the benchmark has given only 15%. What is the secret sauce for the Alpha generation?

The is primarily due to our stock selection approach. The underlying stock selection methodology is the secret sauce in all Estee's Quant portfolios. We follow a multi-factor methodology which is a combination of fundamental factors, technical and macro factors. This ensures that we are looking at everything that can impact stocks prices. The we selectively pick factors that are likely to work in current markets and use only those to construct our portfolio. The weights are then assigned to these stocks to optimize for risk adjusted returns.

We are very much focused on doing cutting edge research in factor investing and the performance of these portfolios is a testament to the research capability we have developed over the years.

Small and Mid-cap space continue to be the flavour for investors. How do you see the sentiments going forward? What is your current allocation and do you foresee any allocation changes in these segments in your Long-Alpha portfolio? Additionally, are there any sectors or themes an investor should favour or avoid going forward? If so, what is your reasoning?

I believe that not only in current market conditions but in all market conditions, following a flexicap strategy is the best strategy for optimizing long term returns. Most of the retail investors would do well to follow a flexi-cap strategy because timing the entry and exit into the market cap allocation funds or even thematic funds is highly tricky and fraught with risks. Currently we are at 23% in large caps, 38% in mid caps and rest 39% in small caps.

What is the exit strategy Estee follows for the Long-Alpha portfolio? Could you explain it with an example?

We just look for the stocks that can give us the best risk adjusted returns in the prevalent market conditions. If the situation warrants that we reduce our risk because of the volatility in the markets, the algos will automatically exit the stocks which are not suited for that market regime and will select the stocks best placed to take advantage.

Long-Alpha fund is a quantitatively managed fund that implements a rule-based trading model. So here, to what extent is human judgment involved in your investment process?

The only human judgement that is involved is in the designing of the portfolio construction approach. Our research team keeps itself abreast of the new developments in this space and keep testing ideas that can improve our models.

Another way we might get involved is in case some really bad market news comes out about a stock in our portfolio and at that time, depending on the situation we might decide to remove it from our portfolio.

How frequently do you update or refine the quantitative models used in your portfolio, and what triggers these updates?

Whenever we feel we have made significant improvements in our models, which happens typically 2-3 times a year, we update our models in production.

How do you assess the interactions between different quantitative factors within your portfolio? Are there specific combinations of factors that tend to work better together or show correlations?

We have a robust proprietary methodology of assessing interactions between various factors within our portfolio to ensure orthogonal combination of factors are included in our final portfolio with minimum correlation of around -0.01 and average correlation of around 0.44 among factors.

What is the kind of diversification that your Long Only Portfolio follows?

We are a staunch believer in the power of diversification. That's the only free lunch available in the field of finance. That's why our multi-factor methodology takes into account more than 130 factors that can impact stock returns and the construct the portfolios. The impact this diversification has cannot be really seen in short run, even in the yearly returns. We will rarely be in the top 5% of the funds based on yearly returns. But the diversification helps is be in the top 5% of the funds over the 5 year period. That's the target we are shooting for.

Investors who invest in quant are generally worried about the churn and high churn leads to high taxation for investor. Can you throw light on this?

This is absolutely true and rightly so. The investors should focus not on churn in isolation but the impact of churn on the overall performance. Quant strategies, because of the speed at which they can analyze data and make decisions, tend to be high churn but the advantage of speed is the alpha they are able to produce. So if we see our net returns, post transaction costs, slippages and taxes, we have a huge alpha.

Even if you consider, Peter Lynch's Megallan Fund, which beat the markets for 13+ years, it had the highest churn amongst the funds of its category.

Once every decade we see events like we saw in 2020 or 2008 when markets correct by 30%, and then we see a V shaped recovery in the markets. In such periods it is perceived that quant based strategies underperform because if one keeps conviction like few Long Term investors, we see that they make a lot of money. How does quant react to it?

Its unfair to paint all the quant funds with same brush. The issue of underperforming during the crisis is a real issue and that's because most of the quant funds are not diversified enough to ride through the difficult phases. They usually rely on just few factors – momentum being the prominent one. The risk of relying on few factors is that when they stop working, you have to have stomach to bear the losses which could be significant. If you see the performance of our quant fund – in Feb to April when markets lost more than 18%, we lost only 3%.

	BSE 500	Long Alpha
Feb-20	-6.4%	-3.1%
Mar-20	-23.8%	-9.9%
Apr-20	14.6%	11.3%
Feb- Apr Total	-18.3%	-3.0%

How does quant see qualitative aspects while constructing a portfolio?

Many of the qualitative aspects are actually measurable, like we do use debt ratio, leverage, trend in working capital, quality of earnings vs cash flows. Then teher are other factors like quality of management and CEO, which are not directly measurable but we do track ratings like, analyst rating, sentiment analysis etc. The difference here is that in one case you are trying to use the subjective judgement of one fund manager and in other case, you are trying to aggregate all the information and make sense our of it.

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Please visit their website https://esteeadvisors.com//

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Best Financial Services Award 2018 | 150+ Portfolio Managers | 50000+ Subscribers | 300+ PMS Strategies | 75+ AIF Schemes