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DUBAI ALTERNATIVE INVESTMENT SUMMIT | FEB 2024

SPECIAL EDITION



RISE OF INDIA
INVEST WITH INDIAN ALTERNATIVE ASSETS

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Editorial note

Greetings from PMS Bazaar!

We are delighted to extend a warm welcome to the Dubai Alternative Investment Summit (DAIS) 2024.

The DAIS returns in 2024, building upon the phenomenal success of last year, gathering the brightest minds in the alternative investment field, including market experts, asset managers, fund managers, and other industry veterans to share their insights with participants including distributors, financial advisors, research analysts, HNI and NRI investors, institutional investors, media participants, and many others.

With HNI and UHNI investors looking beyond traditional investment options, alternative investment products with attractive returns, and customised solutions catering to specific needs, risk profiles and investment horizons, have emerged as must-have asset classes in a portfolio.

Further, India is one of the vibrant emerging markets, projected to become a $10 Trillion economy by 2034 by Global Agencies. With positive growth projections and resilience to global turbulence, India has become an ideal Investment destination for Investors.

Data shows that the Indian alternative investment industry (PMS & AIFs) has witnessed a compound annual growth rate (CAGR) of 27% over the past five years (FY19 to FY24), which is more than double the growth of the mutual fund industry. With the growing HNI population globally, regulatory support from the Indian market regulator, the Securities and Exchange Board of India (SEBI), and the emergence of innovative alternative investment products, Indian alternates are poised to grow at a much faster rate in the upcoming years and become a prime investment product class in India.

In this regard, a flourishing alternative investment industry enables investors to access products including listed equity, private equity, private debt, structured products, credit funds, venture capital, angel funds, hedge funds, quant investments, dollar-denominated funds, infrastructure funds, commercial and residential real estate, and more.

Based on the feedback from Dubai-based investors in our network, we understood they are interested in exploring different asset classes. And India's asset managers offer hassle-free geographic diversification for such NRI investors. Also, we firmly believe that with the right knowledge and the right investment platform, investors can unlock the full potential of alternative investments and we at PMS Bazaar offer the facilitation and hand-hold the investors through their investment journey.

Amidst this excitement, PMS Bazaar proudly presents its Special Edition, a meticulously crafted, comprehensive guide, that unlocks the hidden potential of the booming India alternative investment market with expertly curated content and exclusive insightful interviews from the industry's veterans. The edition should help global Investors identify investment opportunities in Indian alternative investments.

As it is known that knowledge is power, and there is no better place to invest it than in yourself. Our special edition magazine is full of quality insights designed to elevate your journey in the world of Alternative Investments with PMS Bazaar. Remember, timing the market is a fleeting dream. True success lies in time spent in the market, so gain knowledge and make informed choices.

Happy Investing!



R Pallavarajan
Founder - Director



Daniel GM
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Myalternates–A Roadmap for NRI Investment to Indian Alternative Investments

In economics, "opportunity cost" refers to the missed gains incurred by choosing one option over another. When it comes to investments, many rely on traditional routes, assuming them to be the safe harbour of wealth growth. However, recent events like COVID-19 and geopolitical turmoil have exposed the volatility and unpredictability of even these "safe" options. Consequently, sticking to these familiar shores risks significant opportunity costs, potentially leading to losses.

NRIs seeking attractive returns and minimising opportunity costs should venture beyond traditional options. This is where India emerges as a compelling investment destination. As one of the world's most vibrant emerging markets, India has become a magnet for global investors. Renowned rating agencies predict India's meteoric rise to become the world's 3rd largest economy by 2028.

Lucrative asset classes beyond traditional equities in India

With a stable economy along with a well-regulated investment industry, the alternative investment market is gaining traction among domestic and foreign investors, providing access to products in the listed and unlisted space including private equity, private debt, structured products, credit funds, venture capital, angel funds, hedge funds, infrastructure funds, real estate funds, and more. These products are broadly classified under two baskets – portfolio management services (PMS) and Alternative Investment Funds (AIF) and both are regulated by the Securities and Exchange Board of India (SEBI).

To give you, the investor, a perspective – the Indian alternative investment industry (PMS & AIFs) has witnessed a CAGR (compound annual growth rate) of 27% over the past five years (FY19 to FY24).

Among this, AIFs have grown an impressive 34% CAGR, to Rs 9.54 lakh crore as of Sep 2023 assets under management (AUM). This stellar growth is primarily fuelled by the rising popularity of Category II AIFs, which include private equity, real estate funds, venture capital, venture debt, infrastructure funds and more. Rising wealth among the HNIs and UHNIs has helped this trend, propelling Category II AIF commitments a staggering sixfold from Rs 1.45 lakh crore in 2018 to Rs 7.82 lakh crore in 2023, despite a minimum investment requirement of Rs 1 crore.

When it comes to PMSes the industry exhibits a steady growth trajectory with AUM growing at a 19% CAGR over the past five years, reaching Rs 6.19 lakh crore (as of Dec 2023). The minimum investment requirement in PMS is Rs 50 lakh.

With many industry experts expecting the income level to continue rising, the demand for alternative investments is expected to increase as well.

Further, to accommodate the global demand, Indian asset managers are even offering dollar-denominated funds. Thus, Indian alternative investments have the potential to multiple returns and create wealth.

That said, the India alternative investment universe is vast and complex, but finding the perfect fit for your investment needs doesn't have to be overwhelming. We recommend you to discover the exclusive platform, **Myalternates,** the distribution arm of PMS Bazaar, that simplifies your exploration and connects you with ideal alternative investment solutions.

Myalternates will help you, investors, uncover lucrative investment opportunities tailored to your risk appetite with ease and confidence.

Direct investments to alternative investments: An option, not a solution

Investors often seek expert assistance as an unnecessary expense, a belief that **direct investing** can save them a significant amount. However, especially, in the complex and high-stakes space of alternative investments, where the ticket sizes are substantial, navigating various PMS/AIF approaches, understanding and narrowing down one approach for investment could be difficult. The same applies to fees and regulatory rules and laws applicability. Doing this on your own could cost a lot of time and energy and you may end up missing an investment opportunity at the right time.

A seasoned expert or guide would help you navigate the Indian alternative investment landscape better. This is where **Myalternates** comes in.

Myalternates is the distribution arm of PMS Bazaar – India's Number 1 destination for PMS and AIF investments. With over 200+ Portfolio Managers empanelled, Myalternates offers the widest coverage of more than 365+ PMSes and 85+ AIFs.

In addition to the widest product coverage, which no other Indian player offers, Myalternates stands out from the competitors with its integration of technology and research-driven guidance methodology, making it a widely recognised and recommended player in the industry.

The Myalternates Way

In the investment world, relying solely on peers' suggestions or fleeting performance is a recipe for disappointment. Your risk tolerance, and timeline, demand solutions tailored just for you.

That's where Myalternates comes in. Our experts deep dive into your existing portfolio - PMS, AIF, mutual funds, ULIPs, direct equity, you name it. But it's not just about numbers. We delve into your investment philosophy, risk appetite, and timeline to understand what truly drives you. With this picture, we unleash the power of our proprietary DRHP Model, meticulously filtering the vast possibilities to unearth the right investment options for your portfolio.

DRHP – The secret sauce of choosing the right portfolio manager

Myalternates uses a unique and comprehensive process to map the right portfolio manager to an investor – The DRHP Process. The four pillars of this process are –

01 Due diligence

02 Risk and returns ratios

03 History of the fund manager & fund house

04 Process, Performance & Product

Due diligence: A Prudent screening process to identify eligible portfolio managers and asset management companies (AMCs) in the alternative investment universe

Risk and returns ratios: An analytical approach to quantify and compare the ability of fund managers and fund houses to manage risk and generate returns.

History of the fund manager and AMCs: An examination into the history to distinguish proven portfolio managers with required experience and expertise.

Process, Performance, and Product: A final product and process features to finalise the investment recommendations

Hassle-Free onboarding: Finding the perfect investment isn't a problem. Myalternates has that cracked with their data-driven approach. But for NRIs, the real hurdle often lies in the mountain of paperwork and complex onboarding processes. That's where Myalternates truly shines.

Say goodbye to paperwork headaches. Myalternates boasts a dedicated-backend team that will handle every document, ensuring smooth account activation, fund transfers and compliance. So, relax, invest, and let Myalternates handle the rest.

Dedicated support throughout your investment journey:

Myalternates don't just find you the perfect investment, they become your investment companion for life. Imagine having a dedicated relationship manager on speed dial, ready to answer any question, anytime, anywhere. With Myalternates, you have a direct line to someone who knows your portfolio inside and out.

You, as an investor, also get direct access to the fund managers themselves. Myalternates makes it easy to get answers straight from the source, building trust and confidence in your investments.

And when it comes to keeping track of your progress, Myalternates is the king of transparency. It provides an all-in-one dashboard. It provides a user-friendly interface, where you can monitor every single alternate investment, you have made, across all your accounts.

With Myalternates, you have a dedicated team that provides the support, transparency, and convenience you need to make informed decisions and watch your wealth grow with confidence

The Unique NRI Edge:

Investing as an NRI can feel like navigating a financial minefield. Tax complexity, fund transfers, and feeling disconnected from your investments are indeed difficult processes when investing outside your residing country.

Myalternates expert team, working 24/7, demystifies the process, answering your every question and ensuring smooth, compliant fund transfers. The platform also provides regular real-time updates. With Myalternates, investing as an NRI doesn't have to be a solitary, stressful journey. It's a collaborative, and worry-free experience, paving the way for your financial success.

Get in touch with Mylaternates team today and begin your alternative investment journey!

To get in touch, all you have to do is write to the team at info@myalternates.com



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EXCLUSIVE INTERVIEW



SUNDARAM ALTERNATES
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Vikaas M Sachdeva
Managing Director,
Sundaram Alternates

"Most strategic asset allocations have traditionally favoured asset classes in developed markets – however, considering the growth potential emerging markets are showing this decade, a pivot towards emerging markets makes eminent sense."

Coming to India's equity market, which scaled a new all-time high in 2023, where are markets headed for 2024?

India's equity market saw immense volatility in 2023, with businesses being valued on expectations vs reality across business models. Although there was a shift in sectoral growth stories, fundamentally strong companies and sectors remain promising in 2024.

Mid and small-caps remain overvalued, although growth opportunities remain. Businesses operating in the sphere of secular opportunities, high ROCEs and strong cash flows will remain resilient in 2024.

Political and policy stability observed in the recent elections is good news for the Indian markets. Further tailwinds have come in from the Union Budget '24 – '25, which remained towards core development & building infrastructure and should continue to push public and private capex.

The investment-to-GDP ratio should improve, setting the stage for structural growth for India, supported by both manufacturing and services sectors. This will be viewed positively by FIIs, which will, in turn drive flows; interest rates having peaked out along with inflation concerns coming down being major positive. India will be a favourable investment destination for global investors.

How do you view equity investments as a core component of an investor's portfolio, and what factors influence a decision to allocate funds to specific equity markets globally?

Equity as an investment class for long-term investors has the potential to compound investors' money unparalleled by any other asset class. Investing in growing businesses over the long term can help your money benefit from the power of compounding. I believe in investing in good quality businesses that offer good growth & value on the table.

Factors such as structural rather than cyclical growth stories influence the global investor's decision to invest in a particular geography. A global investor usually has the benefit of investing in asset classes across geographies. Most strategic asset allocations have traditionally favoured asset classes in developed markets – however, considering the growth potential emerging markets are showing this decade, a pivot towards emerging markets makes eminent sense.

Political and policy stability at the current juncture, given the global focus on India as an investment destination, will be very positive. For the next 10 years, if we can stick to our investment-driven agenda, then India's dream of becoming 3rd largest economy can be achieved much before 2030. Equities are the best asset class to play this structural India growth story.

How do you assess the potential for alternative investments in the Indian market compared to global markets, and where do you see the growth opportunities in Indian Alternative markets?

The investment management business has progressed by leaps and bounds, patronised by investors actively searching for diversified non-traditional avenues to generate additional alpha.

A recent survey conducted brought out some interesting insights, on why HNIs invest, namely a) creating alpha from new sources, b) accessing innovative solutions and the best minds in the industry and c) capturing emerging trends and early opportunities. The underlying objective innately remains growing capital while ensuring preservation.

As India crosses the USD 2000 income per capita mark, investing patterns also have evolved. AIFs constituted 5% to 15% of total portfolio allocation for 27% of investors in 2023; this number is expected to rise to 57% in the next 5 years, according to the survey.

In India, as we become a USD 5 trillion economy soon, we will need about USD 2 – 2.5 trillion in credit to support this growth. One would expect the AIF industry to step in and largely shoulder the responsibility, at least to the extent of USD 50 billion in the next 5 years. I see the Indian alternatives industry being in the top 10 globally by the end of this decade, spanning across multiple geographies and asset classes.

Can you elaborate on your risk mitigation strategies, particularly in the current economic climate?

There are no returns without risks. Private credit investments, by nature, are illiquid investments and are meant to yield returns over time vs short-term. They involve sector and credit risks, which the investors should be aware of. Investors should evaluate track records, the sponsor's strength and stability, the actual risks being taken by the fund and the feasibility of exits along with other intangible factors.

At the core of Sundaram Alternates' underwriting template is "capital protection". Risk mitigation is looked at on a consistent quarter-on-quarter basis with cash returns and amortising deal structures to continuously take credit risks off the table. In addition, our investment policies outline business and project risks that the funds are allowed to take to reduce subjectivity and ensure portfolio quality.

Given the growth of private credit markets, how do you approach and assess opportunities in the private credit space in India?

Similar exciting times await us in the alternates industry. As a segment, AIFs contribute a sizeable chunk towards the growth capital of a burgeoning entrepreneurial fraternity in the country. Be it through private debt, equity or private equity, this industry, in its relatively early years, has been an outlier in contributing to the country's growth.

Just to give you a sense of how things can pan out - Globally, Private Credit is a ~$900 bn AUM industry, which is expected to grow by around 17-18% CAGR to around $2250 bn in the next few years. It already forms 15% of the private capital being raised globally. In India, if we are on the way to becoming a $5 trillion soon, we will need about $2-2.5 tn. in credit to support this growth. One would expect the AIF industry to step in and largely shoulder the responsibility.

Where do you see the gap between the global alternative industry and the Indian alternative industry? How do you see Sundaram Alternates stepping into this gap?

The Indian Alternatives industry is rapidly narrowing the gap between itself and its global peers. The investor today actively seeks and consumes information on global financial trends and partakes in them.

The regulator's progressive approach towards the industry has led to an innovation momentum, which in turn is tapping into the appetite exhibited by these investors. Initiatives to tap into global opportunities, such as the GIFT City in India, are a significant step forward.

At Sundaram Alternates, we have world-class skills in managing money across asset classes and platforms. At over INR 6500 crores of AUM, we have had the talent pool to manage and deliver up to the expectations of our investors across the last 14 years. Our strategies have been winning awards on various platforms and are patronised by a cross-section of NRIs, Indian investors, family offices and trusts.

Sundaram Alternates has the unique advantage of operating both as an institution as well as a boutique fund house.

As an institution, it is our value system that governs us - a "client first" thought process embellished with the highest standards of integrity, transparency, and commitment. We have world-class teams and processes at play that de-risk the investor from a star-based investment management framework.

As a boutique, we are mindful of changing trends in the investment landscape and have been nimble-footed enough to accommodate and capitalise on emerging trends, which makes us one of the leading choices of investment advisors across the country today.

Having said that, I see the Indian alternatives industry being in the top 10 globally by the end of this decade, spanning across multiple geographies and asset classes, propelled by entities such as Sundaram Alternates at the forefront of this evolution of the Indian Asset Management Landscape. The fact that India's economic prosperity is backed by thought leadership will help Indians across the globe partake in this growth.

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** Returns data as on 15th January, 2024*

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EXCLUSIVE INTERVIEW



Siddharth Vora
Fund Manager, Head of Quant Investment Strategies
& Executive Director, Prabhudas Lilladher.

> "Aqua is for moderate to aggressive investors, offering a flexi-cap equity product that adapts to varying market conditions. It employs a dynamic and tactical asset allocation to manage risk and generate alpha"

01 How does quant strategy work? Can it be called an active or passive investment strategy?

Quantitative is neither a completely active nor passive investment strategy but a blend of both, capturing the best attributes. The objective of active investing is to outperform the market by selecting a portfolio of securities, while passive investing simply aims to mimic the performance of an index. Quant investing, on the other hand, aims to control exposures to risk factors in the portfolio to achieve the targeted investment objectives through a data-driven and processor-oriented approach that eliminates biases. This rules-based systematic investing can combine fundamentals, macro, math, technical, and analytics at a massive scale into an objective decision-making model by leveraging computing power, allowing this approach to potentially offer higher risk-adjusted returns along with several benefits such as optimal diversification, agile risk control, and superior adaptability.

02 Quantitative investment strategy simply means that the algorithm uses historical data to analyze valuations, quality, and liquidity and make trades accordingly. How does this strategy work in an uncertain time or during a volatile market as there is no historical data to analyse? And how does your risk management work?

Let's address both aspects of the question separately. The rules-based quantitative models can be tested on historical data to evaluate the performance of the strategy across different market cycles.

While specific events are unique, their impacts on the markets can be assessed in detail, where we observe that patterns of high risk and volatility often recur, providing ample data to evaluate. For instance, the 2008 financial crisis and the 2020 Covid crisis, though triggered by distinct factors, exhibited high-risk traits like earlier crises like the 2000 tech crash where volatility increased, risk appetite reduced, liquidity tightened, and capital moved from risk-on assets to risk-off assets. Such patterns, which can be gauged through broad market data and investor sentiments, are likely to be paralleled in future crises, enabling analysis and strategy testing based on historical data. The objective here is to have in place a systematic plan to manage potential risks with a disciplined response mechanism rather than to avoid risk altogether. Coming to the risk management aspect of our strategy, let's break it down further.

Rigorous Elimination: The portfolio comprises stocks that pass our strict liquidity and fundamental filters to ensure we invest only in liquid stocks that meet our robust fundamentals criteria.

Periodic rebalance: Rebalance is done every 2 months. Sometimes the entire portfolio could be rebalanced, sometimes only 10% of it. The average is around 40%.

Diversification & Dynamic Asset Allocation: AQUA is a flexicap PMS that has a diversified portfolio spanning large, mid, and small-cap stocks. The portfolio can dynamically adjust its allocations across market caps to target optimal risk-return profiles. This ensures that Aqua is well-diversified by selecting stocks across market caps creating a portfolio of 25 stocks that have an equal weight of 4% for each stock. In situations of extreme systematic asset-class risk, Aqua can adjust its equity exposure and create some cash to mitigate this risk. At every rebalance, the portfolio always comes back to its target weights and there is a timely booking of profits and timely cutting of losses.

Dynamic Sector Rotation: Aqua adopts a benchmark-agnostic approach, prioritizing dynamic sector rotation and weighting, which has been shown to enhance returns significantly. This strategy focuses on investing in sectors and themes with a positive growth outlook and favourable sentiment, operating under the principle that the right stock in the wrong sector is less advantageous than a wrong stock in the right sector, as some sectors consistently exhibit strong market performance.

Dynamic Style Alignment: AQUA is an adaptive PMS where the model reviews the macro and market conditions and dynamically weights the investment styles by aligning the portfolio to the right style as identified by our multi-factor models, contributing to alpha generation

Beta management: The model adapts itself to the beta environment. When the market is low-volatile, the portfolio shapes itself into a low-volatile portfolio and the same is applicable when the market is highly volatile.

03 Among the factors analysed by the quant model, quality is also one factor. In this regard, how would your model find value? For instance, PSU stocks are fundamentally strong, but they haven't given much return in the past, while in recent times, they have done well.

We view all parameters of a stock on a relative and not on an absolute basis w.r.t the past performance, peers, and the markets. AQUA employs a holistic multifactor approach to investing, that covers a wide spectrum of characteristics such as investment style, sector, superior fundamentals, sound valuations, strong technical, and smart risk management. Furthermore, the PMS structure allows us the flexibility required to stay benchmark-agnostic, with sector allocation dropping to 0% if required. Thus, our investment framework along with our periodic rebalance, helps us stay aligned to investment styles and sectors exhibiting improving risk-adjusted returns.

04 As per the holding in the AQUA strategy, about 78% are into small and mid-cap stocks. Does it mean that you are bullish on these market caps? If so, what are the reasons?

AQUA is adaptive across the market cap of stocks as well. The portfolio leans more towards relatively higher beta, small and mid-caps currently due to the pro-cyclical risk-on regime, but that might change with the changing macro and market environment later. Keeping in mind India's growth narrative, we expect the small and mid-cap firms to capitalize on the tremendous businesses and opportunities flocking to the country, driving the stock performance, and outperforming large to the country, driving the stock performance, and outperforming large caps over the long term, despite any short-term fluctuations in prices. Since its launch, Aqua has been in the value-momentum regime. We usually see momentum and value exhibited by the smaller stocks which are under-owned, undiscovered, and undervalued and usually have headroom to grow earnings and multiply at a faster rate. Large caps are widely tracked, where the information asymmetry is low while in small caps tracking is low information asymmetry is high mispricing is probable hence value plus momentum persists. This can be observed by looking at 1-year correlations of daily excess returns, where the correlations between large cap (Nifty 50) and Momentum is -0.74 and Value is -0.54. The same for small caps (Nifty Smallcap 250) and Momentum is 0.64 and Value is 0.48.

05 Also, how often does portfolio churn happen? And what are the factors that trigger them?

There are over 25 factors and 1000+ indicators that govern the investment decisions for AQUA. The trigger for the change in portfolio constituents might be a single factor or a combination of multiple factors depending on their level of importance at that point. Post the analysis, if a stock maintains its position within the top 25 based on its scores in time, it remains a part of the portfolio. Additionally, we use a dynamic weighting methodology as opposed to a static one for the multiple factors as the significance of these factors varies based on the macro and market regimes. So, sometimes the entire portfolio could be rebalanced, while at times just a small part of it, with the average turnover at around 40%. There is no inherent inclination towards short or long-term holdings. Thus, the holding period is dynamic as well, and if market conditions necessitate a higher churn ratio, AQUA will proactively trade and adjust the portfolio holdings in response to emerging opportunities and risks.

06 In an interview you mentioned strategic and tactical allocation, where one focuses on the risk profile of an individual and the other on risk management. How does the AQUA strategy find a balance here ?

Aqua is for moderate to aggressive investors, offering a flexi-cap equity product that adapts to varying market conditions. It employs a dynamic and tactical asset allocation to manage risk and generate alpha. Strategic asset allocation refers to constructing a portfolio of assets based on clients' risk profile which could range from conservative, moderate, to aggressive. Whereas tactical allocation shifts focus from static risk profiling to dynamic risk management by being opportunistic. This flexibility ensures that Aqua aligns with the specific risk tolerance and investment goals of its diverse clientele.

07 How does your model analyse the value and stock price? Many in the industry say that there is a gap between the two. What's your view?

By value, I am assuming you are referring to a stock's valuation and the concern regarding a stock's price deviating from it based on its fundamentals. There are periods when a stock's price deviates from its fair valuation as calculated by traditional methods. There are often multiple reasons for this deviation, such as a supply-demand imbalance, uncertainty surrounding growth opportunities, or sentiment-driven trading.

Additionally, in this era, the traditional method of valuations may not always be the right approach as businesses have evolved drastically from what they used to be just over a decade ago. For these reasons, we do not look at valuations in isolation but view them as one of our factors. Furthermore, we follow the principle of relativity in our analysis approach where we compare the valuations of a stock

against its past, peers as well as the market. Looking at relative valuations rather than absolute valuations helps us navigate the complex nuances of the market. Additionally, having a robust risk management framework in place further helps significantly navigate these situations.

08 Can we say because the AQUA strategy uses Quant, it has an edge in generating alpha? If so, can it be consistent even if the competition in the industry catches up in terms of quant-based investing?

Markets have inefficiencies that can be traded to generate alpha. Quant is just one way to trade these inefficiencies, and it has been lucrative as it is easier to generate an edge in the market when you have the support of machines with their tremendous computing power, enabling humans to make decisions in a few seconds, which otherwise would take days or weeks. Aqua's man-with-machine approach involves a complex and layered design process, encompassing a multitude of intricate elements such as factors, indicators, thresholds, signals, rebalancing triggers, weighting mechanisms, and architectural frameworks requiring robust risk management and advanced filtering techniques.

Each investor must develop and differentiate their strategies to find a unique edge in the market. While these IP-led complexities are hard to replicate, as investors start adopting a quantitative approach to investing over time, this increased competition would slowly start eating away the edge, making markets more and more efficient. Investors would then need to keep upgrading their models and keep adding layers of varying complexity to maintain an edge and deliver alpha. That said, there's a long way to go before we reach that stage as quant adoption stands at less than 1% in India currently compared to 40%+ managed in the US and other Western markets. Over the medium-to-long term, quant investing holds promise and a long growth runway!



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Why now is the right time to consider

Indian Alternative Investments?

> **In the past five years, the Indian alternative investment industry (PMS & AIFs) has witnessed a CAGR of 27% (FY19 to FY24)**

Despite global uncertainties, India shines as a beacon of investment potential across asset classes. Several factors contribute to this: healthy government incentives, a vibrant domestic market, stable regulations, favourable demographics, a rise in income levels and a strong focus on infrastructure development. Together, these elements fuel one of the highest GDP growth rates (6.7-7%) among developing nations.

The stability of the Indian economy opens doors to diverse investment opportunities, from equities and bonds to REITs, PMS, AIFs, commodities, and more. Recognising this potential, several multilateral institutions and global banks including IMF, and S & P Global Ratings have recently revised their growth projections for India upwards. The latest revision of India's growth estimates comes from India Ratings and Research. The agency has revised the country's GDP growth estimate for FY24 to 6.7% from 6.2% earlier. The revision comes on the heels of the Reserve Bank of India upping its GDP growth forecast for 2023-24 by 50 basis points to 7%, from 6.5% earlier.

Given this promising outlook, considering alternative investments in India becomes especially compelling. Data shows that the Indian alternative investment industry (PMS & AIFs) has witnessed a compound annual growth rate (CAGR) of 27% over the past five years (FY19 to FY24).

With India's ambitious target of becoming a $10 trillion economy by 2035, alternative investments offer exciting opportunities for growth and wealth creation.

Alternative investments: A compelling choice

The Indian alternative investment industry is booming, driven by strong economic growth and a growing appetite for sophisticated investment options among HNIs and UHNIs.

AIFs growth was primarily fuelled by Category II AIFs, with commitments raised increasing a staggering sixfold from Rs 1.45 lakh crore in 2018 to Rs 7.82 lakh crore in 2023

Over the past five years, Alternative Investment Funds (AIFs) have grown an impressive 34% CAGR, with their assets under management (AUM) reaching a staggering Rs 9.54 lakh crore as of Sep 2023. This stellar growth is primarily fuelled by the rising popularity of Category II AIFs, which include private equity, real estate funds, venture capital, venture debt, infrastructure funds and more. HNIs and UHNIs, with their rising wealth, have fuelled this trend, propelling Category II AIF commitments a staggering sixfold from Rs 1.45 lakh crore in 2018 to Rs 7.82 lakh crore in 2023, despite a minimum investment requirement of Rs 1 crore.

Meanwhile, the Portfolio Management Service (PMS) industry exhibits a steady growth trajectory. AUM managed by PMS providers has jumped at a 19% CAGR over the past five years, reaching Rs 6.19 lakh crore (as of December 2023).

PMS industry saw a steady growth trajectory with AUM growing 19% CAGR over the past five years, reaching Rs 6.19 lakh crore (as of December 2023)

This sustained growth speaks volumes about investors' interest in PMS despite the regulatory change mandating a higher minimum investment requirement amount of Rs 50 lakh versus Rs 25 lakh earlier.

In terms of returns, within the PMS Bazaar universe, PMS approaches have delivered a remarkable performance. About 86% of the PMS approaches outperformed benchmark returns in the past year, based on December 31 data, which is essentially every 9 in 10 PMS approaches. Similarly, in the long run (10 years), 77% of the PMS approaches have outperformed benchmark returns.

In terms of returns, every 9 in 10 PMS approaches within the PMS Bazaar universe have outperformed benchmark in the past year (CY23)

	PMS		AIFs	
	AUM (Dec 2018)	AUM (Dec 2023)	AUM (Sep 2018)	AUM (Sep 2023)
Rs (Lakh Cr)	2.61	6.19	2.17	9.54
5-year CAGR (%)	19%		34%	

Source: SEBI

Looking ahead, both PMS and AIFs are poised for continued rapid expansion. This optimism stems from India's strong macroeconomic tailwinds and rising prosperity, factors that have been instrumental in their past success. The projected doubling of India's HNI population by 2027, as per Knight Frank, further bolsters this outlook.

Recent regulatory changes are also playing a part in this narrative. Modifications in tax rules for debt mutual funds and insurance policies are likely to drive HNIs away from these options and towards the tax-efficient world of alternative investments.

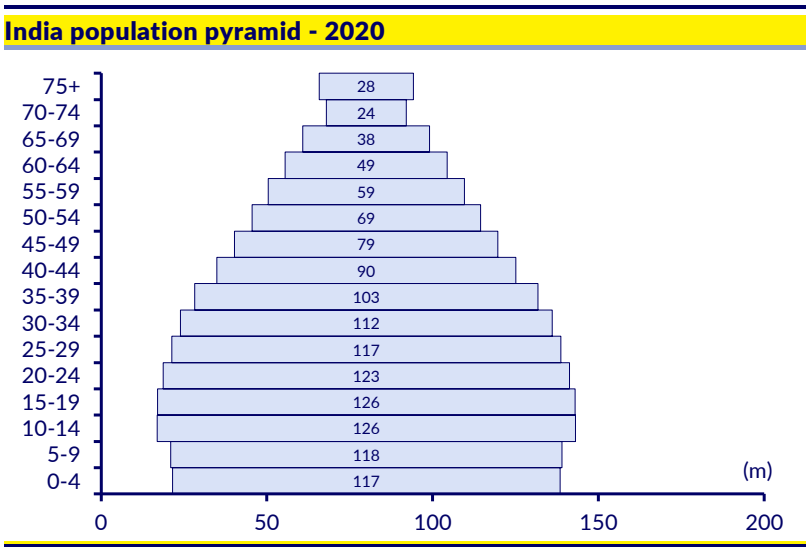
Ultimately, it's the heightened awareness among HNIs of the diversification and wealth creation potential offered by alternative investments that will solidify their long-term growth. As information about these alternatives becomes more readily available, along with the rising income levels and unique investment needs of HNIs and UHNIs, the demand for bespoke and structured PMS and AIF products is set to rise, pushing the industry to new heights.

What works in favour of India?

India's economic growth narrative is optimistic with a GDP growth rate of 6.3% (average) annually, strong demographics, financial deepening, fiscal prudence, and healthy reforms underpinning India's upward trajectory.

Favourable demographics

At the core lies India's demographic dividend. With a median age below 30, the nation boasts one of the world's youngest and largest workforces. This translates to a readily available pool of skilled and cost-effective labour, a driver of robust domestic consumption and attracts foreign investments as well. Further, the sheer size of this young population leads to innovations in the economy, thereby ensuring continuous adaptability and resilience.



Source: UNDP, CLSA

Financial deepening

Complementing this demographic benefit is a flourishing financial system. Credit penetration is steadily increasing, thereby unlocking previously dormant markets and encouraging the growth of small and medium-sized enterprises. This enhanced financial inclusion facilitates investment, fuels consumption, and adds capital into key sectors, leading to overall economic expansion.

Fiscal responsibility

Notably, India's economic rise is not fuelled by reckless debt accumulation. Total corporate debt sits at a healthy 51-52% of GDP and according to a Nippon India Mutual Fund report India's debt has remained constant since the global financial crisis of 2008 at nearly half of the global level. The household debt, on the other hand, remains even lower at 20%, says the report. Thus, favourable demographics and low debt are key ingredients for a prolonged period of a virtuous cycle of consumption, incomes, savings and investments.

Healthy reforms and regulations

Beyond leveraging its strengths, India has actively fostered growth through economic reforms over the past 5-8 years. Streamlining bureaucracy, improving the ease of doing business, and implementing the Goods and Services Tax (GST) have all contributed to a more transparent and efficient economic environment. This momentum is further strengthened by a leap in the Ease of Doing Business ranking (World Bank), from 142nd in 2014 to 63rd in 2022. Initiatives like RERA (Real Estate Regulation Act) safeguard investors and curb project delays, PLI (Production Linked Incentive Scheme) boosts domestic manufacturing and job creation, and UPI (Unified Payment Interface) which enables real-time money transfers, particularly for MSMEs reducing the working capital burden, are fuelling this transformative journey.

In conclusion, India's economic rise isn't a flash in the pan but multiple internal and external factors such as receding inflationary pressures and stable crude oil prices, working in perfect sync for India, towards sustained economic growth and global leadership. While challenges remain, India's economic engine should be able to overcome them and continue to roar on the global stage. In this context, the Indian alternative industry offers immense potential for growth to investors.



Here is what the experts say about the Indian alternative industry



Abhisar Jain
Head & Fund Manager,
Monarch AIF

The Indian AIF industry is maturing rapidly, offering investors a diverse array of attractive investment options through several boutique investment houses. These products cater to the twin objectives of diversification with access to a focused and niche product in either the listed or unlisted space and a higher potential for generating excess returns (alpha) due to the alignment of interests between investors and sponsors. The industry has seen impressive growth of 30% in FY23 and is projected to maintain a CAGR of 20-25% over the next five years. AIFs are poised to play a key role in fuelling India's economic expansion by providing long-term capital to critical sectors like debt, infrastructure, real estate, and SMEs.



Aditya Kanoria
Director, Credent Asset
Management Services Pvt. Ltd.

While India's alternative investment scene still lags behind the global average, it's experiencing a meteoric rise. And by 2026, it's expected to reach a staggering growth of 20%. These investments offer diversification benefits, better risk-adjusted returns, access to specialized markets, and protection against inflation, attracting more investors like HNIs and UHNIs. Among them, AIFs, especially Category II, are leading the charge due to increased interest and favourable tax changes. If the current trend continues, the overall industry could reach Rs 43.64 lakh crore by 2028. In essence, India's alternative investment story is one of rapid growth, diversification, and unlocking new avenues for investors. As the market matures and regulations evolve, this sector is poised to play a crucial role in India's financial landscape.



Akhil Chaturvedi
Director & Chief Business
Officer, Motilal Oswal
Asset Management Company

Alternate investments include products like PMS, AIF, private equity, debt, real estate, hedge funds, etc. Such products enjoy the freedom of fewer regulations and higher return expectations at the cost of higher risk. They are attractive to people having large amounts of wealth and higher risk tolerance. HNIs and Ultra HNIs can invest in such products to create higher growth in their wealth. As India's economy is projected to become the third-largest global economy by 2030, the HNI population is expected to increase considerably. Exponential growth of the amount invested in the alternative products shall be experienced.



Anand Shah
Head - PMS and AIF Investments, ICICI Prudential AMC

According to a leading survey, 45% of the HNIs, UHNIs & Family Offices allocate at least ~5% of their portfolio to alternate investments (PMS and AIF). The acceptability of alternative investments to a broader spectrum of investors has increased due to rising income levels and higher risk/reward over traditional investments. Also, bespoke solutions, lucrative opportunities and a distinct style of fund management offered are drawing a large number of clients. This offers significant opportunities to customize products that suit one's requirements. Solutions like concentrated high conviction portfolios, thematic strategies, quant strategies, asset allocation strategies and value /GARP strategies are some of it. Further, alternative investments offer strategies for defined, as well as long tenure options, along with flexible fee options like fixed fee, variable fee or a combination of both. Another interesting trend that corroborates the India story is the rising prosperity across the strata. Apart from metros and sub-metros, we have seen traction from smaller cities and towns. These cities are fast emerging as one of the growth areas for us. In the past, these products were largely advised by private banks and wealth managers to their clients, now we are witnessing participation from individual financial advisors and large national distributors of traditional products. Institutions like ours have taken the baton of educating and sharing product knowledge to widen the distribution base.



Anil Rego
CEO & CIO, Right Horizons

Alternative investments, such as private equity, hedge funds, real estate, commodities, and venture capital, often have a low correlation with traditional asset classes. So, the inclusion of alternates in the portfolio can be return-enhancing and diversifying. The Alternative investment segment in India is experiencing rapid growth propelled by various micro and macro-economic factors, secular mega-trends, a strong regulatory framework, and favourable tax regulations. The industry is expected to grow at a healthy pace with the rise of HNI & UHNI's and additional interests from international investors as the capital market scales upwards in a relatively stable and progressing economy.



Anirudh Garg
Partner & Fund Manager, INVasset PMS

Investors should consider alternatives due to the Indian PMS and AIF industry's projected growth at a 24%+ CAGR, reaching ₹50+ lakh crore by the end of the decade. This sector offers high growth potential, outpacing traditional mutual funds. Alternative investments provide diversification, reducing risk by being less correlated with standard asset classes. Increased income levels and investor sophistication in India are expanding the investor base for these high-risk, high-return options. The supportive regulatory environment, particularly in Gift City, enhances their appeal. Recent tax regulation changes may also pivot investor preference towards alternatives, making them a compelling component for diversified portfolios in the dynamic Indian market.



Anunaya Kumar
President, Sales and Distribution, 360 ONE Asset

Traditional investment options like equities and bonds are no longer satiating the appetites of India's HNI and UHNI investors. The emergence of Alternative Investment Funds (AIFs) has led to a shift towards customized solutions catering to specific needs, risk profiles, and investment horizons. Knight Frank's "The Wealth Report 2023" predicts a 58% surge in India's UHNI population over the next five years, further fuelling the demand for sophisticated investment vehicles like AIFs. Additionally, the establishment of GIFT City creates new avenues for investment and attracts foreign capital, solidifying India's position as a prime market for global investors. This confluence of factors positions the Indian AIF industry for an exponential growth trajectory in the years to come.



Arpit Shah
Co-Founder & Investment Director, Care Portfolio Managers Pvt Ltd

Alternate investments by definition include each and every asset class that is in existence in India and hence for all investors definition will be different. Now let's talk about alternate investment into equity where Care PMS operates. Equity is the game of concentration i.e. limited number of companies with higher weight which is missing in traditional products like Mutual funds and with education investors started believing in this and are ready to take risks and hence result is faster growth of Alternate assets compared to Mutual Funds. This is just the beginning and this will steadily grow over the next decade.



Gaurav Mehta
CIO Alternatives - Equity, SBI Funds Management Limited

The coming decade promises a vibrant stage for alternative investments, fueled by three key trends. First, with conventional equity funds growing in size, it will mean smaller, illiquid listed securities need to be accessed via alternative funds like PMSes and AIFs. Second, persistent fiscal expansion alongside inflation might foster an environment favouring physical assets, drawing investors beyond traditional financial options towards alternatives. Finally, higher interest rates triggered by a growth-inflation mix could reignite volatility in financial assets, prompting a shift towards low-volatility alternatives like long-short strategies within the listed universe. In short, these converging forces point towards a robust expansion in investor appetite for alternatives, both within the listed universe and beyond

Alternative investments, like private credit and real estate, offer unique opportunities for investors seeking superior risk-adjusted returns and income streams. Traditionally, these strategies were dominated by banks, but asset managers are increasingly playing a key role. Compared to public markets which are "beta" strategies, alternatives often provide uncorrelated returns and the potential for higher returns through patient capital deployment. This has attracted global pension funds and, increasingly, individual investors. India's alternative industry is booming, driven by regulatory changes, customer demand for unique income streams, and structural opportunities. At Neo Asset Management, we are excited by these opportunities and committed to connecting investors with productive assets that fuel the Indian economy.



Hemant Daga
CEO & Co-Founder, Neo Asset Management Pvt Ltd

The market for alternative investment (AI) products is booming, with a surge in both managers and total assets under management (AUM), an indication of increasing awareness catering to investors' diverse financial goals. Several factors make AI products attractive: long-term investment continuity due to founder/fund manager ownership, strong alignment of interests thanks to the "skin in the game" of the fund managers, and higher focus on absolute returns through concentrated portfolios. At Green Lantern Capital, we combine top-down sector analysis with deep company research to identify opportunities. We prioritize a margin of safety alongside revenue and earnings growth, seeking superior returns by investing only when we find the right fit. Fueled by investor-friendly regulations, the AI industry is poised for even faster growth in the coming years.



Nilesh Doshi
CEO & Managing Partner,
Green Lantern Capital LLP



Nimesh Mehta
Director & Head, Sales and Products,
ASK Investment Managers



Vishal Shah
Senior Vice President Products,
ASK Investment Managers

Alternative investments provide clients with a differentiated value proposition, enabling them to diversify their portfolios with new opportunities. Alternate investments are generally less volatile and generate superior risk-adjusted returns, making them attractive even during turbulent times. Like any investment, the rate of return for alternatives is not guaranteed, but there is potential for it to be higher than that of traditional investments.

Future growth prospects of the Alternative Investment Fund (AIF) Industry in India: AIF commitments are expected to witness a significant three-fold increase in their AUM, from approximately 8.3 lakh crore INR (~$100 billion) to around 26 lakh crore INR (~$320 billion) in the next 4-5 years, reflecting a robust 33% compound annual growth rate (CAGR). These trends align with India's projected growth as an approximately $8 trillion economy in the next 8-9 years, and an expected four-fold increase in upper-income households to reach approximately 2.5 crore households from the current ~60 lakh households.



Rajesh Sehgal
Managing Partner,
Equanimity Investments

Alternate investments (AIFs) have emerged as an evolved asset class in India over the last decade. They not only promise better returns than the usual asset classes but have delivered on the same. The aggregated AIF benchmark's IRR reached 25.76% by March 2023, showcasing consistent outperformance of the listed markets. Over 75% of AIFs consistently generate positive alpha, providing curated access to high-growth opportunities amid India's economic boom. AIFs act as bridges in the exclusive private market, making it navigable. With supportive government policies and a surging economy, now is an opportune time to enter the AIF arena, offering unmatched growth prospects. Equanimity Ventures Fund II, with its focus on early-stage tech-enabled startups and a seasoned management team, stands well-positioned to capitalise on India's startup growth wave. The fund's proactive fundraising and investment strategy, targeting a 30-50% IRR for investors, aligns with the potential for outsized returns in the evolving landscape of alternative investments.



Ravi Dharamshi
Founder & MD, Valuequest Investment Advisors

While stocks, FDs, and MFs have traditionally held the spotlight in Indian investments, a new class of assets is rising – Alternative Investments (AIFs). In today's volatile markets, AIFs offer a safe harbour from correlated downturns. With access to real estate, private equity, hedge funds, and even art, AIFs provide unprecedented diversification, safeguarding from single-market dips. At ValueQuest, our first CAT 2 PE Fund raised ₹1,000 crores in just 9 months, highlighting investor appetite for curated growth & liquidity. Our upcoming CAT 3 public equity AIF capitalizes on the expertise of investment managers to unlock superior returns. With the rise in investor sophistication, wider product offerings, and regulatory tailwinds, AIFs offer access to India's growth story.



Siddharth Vora
Fund Manager, Head of Quant Investment Strategies & Executive Director, Prabhudas Lilladher

Alternative investments provide investors with diversification, potentially higher returns, and lower correlation with traditional investment strategies. This can mitigate risk and enhance portfolio resilience. India's alternative investment industry, buoyed by structural economic growth, rapid Financialization of savings and regulatory support, is poised for significant expansion. The rising interest in private equity, quant funds, real estate, and hedge funds, coupled with an increasingly sophisticated investor base, will drive this growth. In the coming years, we can expect increased Financialization of assets, foreign investment, technological advancements, and innovative financial products to revolutionise India's alternative investment landscape further, offering diverse opportunities for domestic and international investors.



Shashi Singh
Chief Business Officer, Singularity AMC

The Indian market, known for its resilience and potential, offers investors a diverse landscape to explore. Alternatives such as private equity & venture capital have gained traction due to:

Diversification: Alternatives provide a chance to diversify investment portfolios beyond traditional assets, mitigating risk and enhancing overall performance.

High Growth Potential: India's robust economic growth and demographic advantages contribute to the high growth potential in sectors like technology, consumer, renewable energy, and financial services.

Government Initiatives: Proactive government initiatives, regulatory reforms, and ease of doing business have created a favourable environment for founders/ entrepreneurs and investors, fostering confidence in the market

Further, India's thriving startup ecosystem along with a stable Indian financial system and a matured alternative investment market offers sophisticated investment structures. We encourage investors to carefully assess the diverse opportunities within the Indian alternative market, leveraging its dynamic nature for long-term value creation.





Sonam Srivastava
Founder, CEO, Wright Research

In today's volatile landscape, embracing alternatives is no longer a "may" but a "must" for discerning investors. Indian alternatives offer access to innovative ventures, uncorrelated returns, and potential inflation hedging – something traditional assets often lack. Quant investing, with its data-driven precision, emerges as a powerful weapon in this arsenal. Imagine unearthing alpha in undiscovered corners, navigating volatility with algorithmic agility, and harnessing the power of AI to unlock alpha. This is the dawn of a golden age for Indian alternatives, and allocating now could unlock significant value in the years to come.



Soumendra Ghosh
Chief Investment Officer, Vivriti Asset Management

Fixed income alternates have the potential to yield double-digit returns with low dispersion in outcomes. The asset side opportunity is structural, in a country with a deep pool of enterprises seeking capital for growth or sustenance, a less-than-flexible bank lending market, underdeveloped bond markets, and a regulatory framework balancing risk-taking and investor protection. This is best played through capital-pooled and risk-managed vehicles that insulate investors from liquidity risks and market volatility and offer superior diversification compared to taking positions in individual assets. Over the past years, alternates have increasingly become part of the core allocation of domestic family offices and HNIs, which in turn has led to more investment managers, sharper benchmarking between investment strategies and outcomes, and consequent gradual 'mainstreaming' of this asset class.



Subahoo Chordia
President & Head of Real Assets, Edelweiss Alternative Asset Advisors Ltd.

Investors are increasingly turning to alternative investments like Real Assets – Infrastructure and Commercial real estate, Private Credit, Private Equity and hedge funds, for diversified portfolios, superior risk-adjusted returns, and unique opportunities. Private Market AUMs constitute approximately 25% and 14% of GDP in the US and Europe, respectively. In India, a robust regulatory framework, demographic advantages, and economic growth are catalysts for the expanding alternative investment landscape. Constituting only 3% of GDP, there is significant growth potential, with estimates suggesting a potential five-fold increase to over $450 billion. The Alternative Investment Funds industry in India has witnessed substantial growth, reaching $83 billion in AUMs in 2022, doubling since 2016. This underscores the rising importance of alternatives in India's investment landscape.



Sunil Singhania
Founder, Abakkus
Asset Manager

Alternative Investments provide a respite from the traditional market philosophies. Unlike the latter, Alternative Investments spread their corpus across several asset classes, such as private equity, hedge funds, and unlisted securities, among other traditional assets, coupled with leverage and an increased degree of freedom. Generating sustainable and higher returns from these asset classes requires expert management, an aspect that is abundant in Alternative Investments. Alternative Investments have provided structure to innovative financial assets, granting investors a simplified entry into complex projects. With several innovations on the horizon, increased investor participation will help Alternative Investments reach new, unprecedented highs.



Surjitt Singh Arora
Portfolio Manager - Portfolio Management Services, PGIM India Asset Management

AIFs and PMS are two private wealth management options for India's growing HNI population. Both capitalize on rising household wealth, yet cater to distinct preferences. AIFs, investing in non-traditional assets like structured products, commodities, private equity and more, offer unparalleled diversification beyond conventional bonds and stocks. PMS, on the other hand, tailors individual portfolios using familiar assets like debt and equity. This customization appeals to HNIs who value personalised investment strategies and convenient access to their holdings. With the growth in the number of high-net-worth individuals in India and the increasing appetite to diversify beyond traditional assets, we believe AIFs will see decent growth in the coming years.



Vignesh Shankar
Managing Partner, Artha99

Investors stand to benefit from alternative investments due to diversification, risk mitigation and potential higher returns. Alternative assets, often exhibit low correlation with traditional markets, enhancing portfolio resilience. In India, the alternative industry is poised for growth with India forecasted to be a part of the top 3 economies of the world due to the burgeoning startup ecosystem & regulatory reforms. In the last decade, AIFs have grown by 80x returning 4.7 x capital to investors. Investors can harness India's dynamic market for enhanced returns and reduced portfolio vulnerability in the years to come.





Vikaas M Sachdeva
Managing Director, Sundaram Alternate Assets Ltd.

The investment management business has progressed by leaps and bounds, patronised by investors actively searching for diversified non-traditional avenues to generate additional alpha. A recent survey conducted brought out some interesting insights, into why HNIs invest, namely a) creating alpha from new sources, b) accessing innovative solutions and the best minds in the industry and c) capturing emerging trends and early opportunities. The underlying objective innately remains growing capital while ensuring preservation. As India crosses the USD 2000 income per capita mark, investing patterns also have evolved. AIFs constituted 5% to 15% of total portfolio allocation for 27% of investors in 2023; this number is expected to rise to 57% in the next 5 years, according to the survey.

In India, as we become a USD 5 trillion economy soon, we will need about USD 2 – 2.5 trillion in credit to support this growth. One would expect the AIF industry to step in and largely shoulder the responsibility at least to the extent of USD 50 billion in the next 5 years. I see the Indian alternatives industry being in the top 10 globally by the end of this decade, spanning across multiple geographies and asset classes.



Vipul Prasad
Founder & CEO, Magadh Capital Advisors LLP

Alternative investments provide a good way to diversify the portfolio. These assets often have a low correlation with traditional assets, meaning they can act as a shield during downturns, protecting investors' overall portfolios. Further, while carrying higher risks, alternative investments can offer the potential for superior returns over the long term, appealing to investors seeking to bolster their portfolios. Despite challenges, the Indian alternative industry is poised for significant growth from here, driven by a growing investor base, increasingly supportive regulations, and vast untapped potential. With careful due diligence, alternative investments can be a powerful tool for Indian investors to diversify and enhance their returns.



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Anil Rego
CEO & CIO, Right Horizons

Investment outcomes at the asset level are inherently linked to the economy so an investor who understands the current economic landscape and can forecast or discern changes in economic trends will have a competitive advantage. The growth trend of the economy stipulates long-term expectations for asset classes such as equities and cyclical variations affect corporate profits, and interest rates, amongst other variables.

Despite global challenges, India was amongst the fastest-growing major economies in FY22 & FY23 showcasing resilience. This was underpinned by robust domestic demand, a focus on infrastructure, and a healthy financial sector. Real gross domestic product (GDP) grew 7.6% per cent year-on-year in Q2 of FY24, aided by robust investment and government consumption, which softened the impact of net external demand.

RBI has revised its real GDP growth projections upwards to 7 per cent for FY24 from 6.5 per cent earlier presenting a picture of resilience and momentum. The International Monetary Fund in its annual Article IV consultation with India mentioned that, amid considerable global uncertainty, India is expected to attain a growth rate surpassing 6 per cent over the next five years. This would be propelled by sustained robust investment, the ongoing expansion of private consumption, and productivity improvements resulting from the ongoing process of digitalization.

The persistent enhancement of manufacturing activity, vitality in construction, and a gradual rebound in the rural sector are anticipated to enhance the outlook for household consumption. The robust financial positions of banks and corporations, normalization of supply chains, growing business confidence, and an increase in both public and private capital expenditure are expected to strengthen investment prospects. An improvement in exports is likely to alleviate the impact of external demand. Headwinds from geopolitical instability, volatility in international financial markets, and geoeconomic fragmentation pose risks to the overall outlook.

India's per capita income crossed the traditional inflection point of 2000$ USD, a point in which economies have witnessed exponential growth in consumption as the higher per capita income often translates to an improved standard of living and the incremental disposable income leads to increased consumption of goods and services. Moving up the pyramid we are currently noticing a swift growth in the segment of the working-age population with per capita income surpassing US$10,000. It is expected that this segment will grow to about 100 Mn consumers by 2027 from about 60 million currently.

As the income level of an individual rises, he/she has more resources to meet their basic needs and handle unforeseen expenses, they tend to feel more confident about their financial well-being improving their sense of financial security. This leads to an increased demand for financial services such as banking, insurance, and investment products.

Additionally, individuals tend to borrow against their future incomes to facilitate the acquisition of assets such as a home or a car, which individuals might not be able to afford with their current savings. Taking all this into account we anticipate that businesses catering to broad-based consumption are poised for substantial growth, businesses addressing the premium category consumption to grow at an explosive pace comparatively, and consumer credit businesses to accelerate robustly.

India is propelling toward achieving a $5 trillion economy and the foundation of the economic ambitions lies in the focus on infrastructure through structural reforms, initiatives like 'Make in India' and PLI schemes fostering efficient manufacturing, streamlined exports, and cost-effective freight delivery. As the country progresses along this path, infrastructure becomes a crucial element, playing a pivotal role in shaping the future economic landscape.

Indian equities have demonstrated resilience in the recent past and are scaling to new heights with earnings growing at a healthy pace. The rationale to allocate to Indian equities stems from the formalization of the economy, supply-side policy reforms, conducive policies to make India a global manufacturing hub, focus on infrastructure development, Real Estate (Regulation and Development) Act, digitalizing social transfers, and Insolvency and Bankruptcy Code that has transformed the economy. Structural factors like PLIs, FTAs, domestic demand, favourable government policies, and healthy balance sheets of corporates and consumers are driving GDP higher.

PLI (PRODUCTION LINKED INCENTIVE) scheme plays a crucial role in development as the investment outlay will induce capex, manufacturing, and exports while simultaneously reducing the reliance on imports. This, along with Free Trade Agreements (FTAs) signed with sizeable economies, will act as a catalyst to increase exports eventually. The focus on infrastructure development and the progress of the economy will lead to a multiplier effect that benefits a diverse range of industries as the government capex continues (supported by buoyant revenues and asset monetization).

Indian economy is at a long-term secular megatrend where the relationship with the historical is being muddled with distinct secular drivers creating inflection that is of greater prominence for the current investment landscape. The risks to the outlook are primarily external as global and idiosyncratic risks may have spillover impacts. Broader and deeper geo-political conflicts may lead to supply disruptions or fluctuations in commodity prices.

We believe a bottom-up approach to picking stocks and investing in reasonably diversified higher-quality, growth-oriented businesses in sectors with tailwinds at reasonable prices ensuring a sufficient margin of safety will likely reverberate in generating alpha or excesses over the long term. Drawdowns to such portfolios are influenced by top-down factors, concerning the overall market or macroeconomic conditions which are typically to be transitory.

> **We are pivoting towards SMIDs with selective quality names that are axiomatic in offering better risk-reward relatively and expected to outperform over the next two to three years.**

While every cycle is different, this bull cycle is being driven by a broad-based investment cycle and GDP that is led by growth in 'gross fixed capital formation' augmented by the 'real estate upcycles' and central government capex and higher-end discretionary consumption. Anticipated favourable cyclical factors are projected to intensify in 2024, propelled by a robust capital expenditure cycle. We lean into opportunities in the Mid, small & micro caps that have significantly high shares in the broader industrial sector, discretionary consumption, and newer themes that could benefit from the current economic demand environment. We believe the circumstances are opportunistic for SMIDs to outperform their large-cap peers given the progressing trend of economic growth where such fragments are favourably placed in the economic upcycle. Sowing the seeds for remarkable alpha generation by harnessing the mega trend domestically and leveraging on structural shifts, we are pivoting towards SMIDs with selective quality names that are axiomatic in offering better risk-reward relatively and expected to outperform over the next two to three years. Additionally, interest rates the primary lever of central banks are expected to be cut in 2024 leading to increased inflows into equities and SMID's likely benefitting disproportionately.

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NSE Indices – AIF Benchmarking

Considering the rising importance of Alternative Investment Funds (**AIFs**) as an asset class for investors, NSE Indices Ltd. has created a suite of benchmark indices to measure returns across various categories of AIFs (Category I, II and III). The objective is to benefit investors by increasing transparency and facilitating comparison of AIFs with their peers and public market equivalents, where applicable.

The First Nifty AIF Benchmark Report was published for the period ended March 31, 2021. Following the first report, four Nifty AIF Benchmark Reports were published for the period ended September 30, 2021, March 31, 2022, September 30, 2022, and March 31, 2023, respectively. NSE Indices also published three sub-category level benchmarking reports for the period ended March 31, 2022, September 30, 2022, and March 31, 2023, which feature a host of finely curated indices to enable a more nuanced benchmarking of fund performance.

Coverage & Features of Nifty AIF Benchmarks

- NSE Indices Ltd.'s AIF performance indices represent the industry aggregate performance of funds for the three fund categories (Category I, II and III).
- Benchmark numbers are calculated based on the data submitted by AIFs to NSE Indices Ltd., subject to the data being complete, consistent, and timely. The benchmarks consider schemes that have matured, thus mitigating survivorship bias.

- Performance metrics for Categories I and II are provided for different vintages. IRR and investment multiples are provided for categories and benchmark years. Metrics are calculated on a pooled and equal-weight basis.

- For Category III AIFs, two performance benchmark indices - asset-weighted and equal-weighted - are calculated.

- Returns for all three categories are on a **post-expenses, pre-carry, and pre-tax basis.**

- For returns in **dollar terms,** all the cash flows, valuations and index values are converted to US dollars based on the **Reserve Bank of India's reference rates** for the respective dates.

- Within broader categories (I, II & III), AIFs are **further classified into various subcategories.** The detailed classification methodology can be found in the detailed sub-category level report.

- AIFs are classified into sub-categories based on their **actual exposures to different asset classes** and sectors.

- The sub-category level benchmarks would enable more accurate and like-for-like comparisons for fund performances. This would allow investors to compare a fund's performance with the most relevant set of peers that most closely fit the investment criteria and risk profile of the fund. Sub-category indices are a pool of schemes having **homogeneous investment and risk characteristics.**

Performance Highlights – AIF Benchmark Report March 2023

CATEGORY I

Vintage Year	Scheme Count	INR				USD			
		Pooled XIRR (%)	Pooled DPI	Pooled RVPI	Pooled TVPI	Pooled XIRR (%)	Pooled DPI	Pooled RVPI	Pooled TVPI
FY 2014	5	12.06%	1.18	0.68	1.86	8.31%	1.00	0.54	1.54
FY 2015	7	8.53%	1.02	0.57	1.59	5.58%	0.91	0.44	1.36
FY 2016	18	28.62%	0.46	2.93	3.39	24.30%	0.42	2.45	2.87
FY 2017	10	39.78%	0.24	3.57	3.81	34.43%	0.22	3.06	3.28
FY 2018	9	29.78%	0.30	1.73	2.03	24.59%	0.29	1.54	1.83
FY 2019	10	41.59%	0.05	2.54	2.59	35.78%	0.05	2.27	2.32
FY 2020	16	31.91%	0.02	1.65	1.67	25.37%	0.02	1.51	1.53
FY 2021	5	38.70%	0.01	1.56	1.58	30.75%	0.01	1.44	1.46
FY 2022	6	13.72%	0.01	1.11	1.12	6.23%	0.01	1.05	1.05
Total Schemes	**86**								

CATEGORY II

Vintage Year	Scheme Count	INR				USD			
		Pooled XIRR (%)	Pooled DPI	Pooled RVPI	Pooled TVPI	Pooled XIRR (%)	Pooled DPI	Pooled RVPI	Pooled TVPI
FY 2014	10	8.84%	1.15	0.06	1.20	6.20%	1.09	0.05	1.14
FY 2015	10	8.81%	0.56	0.90	1.47	5.26%	0.53	0.73	1.26
FY 2016	15	14.15%	0.76	0.95	1.71	10.74%	0.71	0.79	1.50
FY 2017	32	13.81%	0.63	0.84	1.47	9.57%	0.60	0.71	1.31
FY 2018	40	17.64%	0.82	0.88	1.70	13.06%	0.75	0.74	1.49
FY 2019	55	23.64%	0.41	1.14	1.56	18.62%	0.40	1.03	1.43
FY 2020	50	17.87%	0.38	0.92	1.31	12.67%	0.38	0.84	1.21
FY 2021	36	14.95%	0.55	0.64	1.19	9.50%	0.53	0.59	1.12
FY 2022	85	10.64%	0.12	0.98	1.10	3.49%	0.11	0.92	1.03
Total Schemes	**333**								

Data as of 31st March 2023; Returns and multiples are calculated on a post-expenses, pre-carry, and pre-tax basis.
DPI: Distributions to paid-in capital, RVPI: Residual Value to paid-in capital, TVPI: Total Value to paid-in capital
Benchmark metrics are published starting from that vintage year in which at least 2 schemes are available.
RBI reference rates are used for the calculation of metrics in USD terms.
Please refer to the full report for complete scheme eligibility criteria and the number of schemes excluded from the calculation of the above benchmarks

CATEGORY III

Period	Benchmark Returns		Public Market Indices Returns (INR)		
	Asset Weighted INR	Asset Weighted USD	Nifty 50 TR	Nifty Total Market TR	Nifty Composite Debt TR
Since Inception*	13.72%	10.53%	13.70%	14.98%	8.17%
5 Years	8.90%	3.91%	12.75%	11.49%	7.15%
3 Years	23.30%	19.79%	27.80%	29.42%	5.81%
2 Years	9.49%	3.53%	9.99%	10.19%	4.44%
1 Year	-1.37%	-9.06%	0.59%	-1.13%	3.76%

Data as of 31st March 2023; Total schemes considered for above analysis – 206.
Returns are calculated on a post-expenses, pre-carry, and pre-tax basis.
RBI reference rates are used for calculation of metrics in USD terms.
*Indices have been created from the quarter in which at least three schemes were available i.e., September 2013
Please refer the full report for details of complete scheme eligibility criteria and number of schemes excluded from calculation of above benchmarks

Disclaimer: The information provided herein is for reference and cannot be used for commercial purpose. For further queries please contact indices@nse.co.in

For more information, you can contact **niftyindices.com**

NSE Indices

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INDICES

INDEX LICENSING	Index funds, ETFs, Index Linked Insurance Products, Market linked Debentures/Structured Products etc.
INDEX DATA SUBSCRIPTION	Benchmarking, Asset Allocation, Risk Monitoring, Performance Attribution etc
CUSTOMISED INDICES	Development and calculation of customised indices
PERFORMANCE BENCHMARKING - ALTERNATIVE INVESTMENT FUNDS	Aggregate and scheme level reports
INDUSTRY CLASSIFICATION OF STOCKS	All stocks listed on NSE

KEY NIFTY INDICES

Nifty 50	Nifty Bank	Nifty Financial Services
Nifty Next 50	Nifty ESG Indices	Nifty Bharat Bond Indices
Nifty 100	Nifty Midcap 150	Nifty Smallcap 250

MARKET DATA

REAL TIME DATA FEED	SNAPSHOT DATA	DELAYED DATA	END OF DAY DATA	CORPORATE DATA	HISTORICAL DATA
Level 1, Level 2, Level 3 & Tick By Tick	1 Minute 2 Minutes & 5 Minutes	15 minutes	Closing prices and volume data	Data pertaining to company fundamentals, corporate announcement and shareholding patterns	• Order & Trade data • Trade data

SEGMENTS - Capital Market, Futures & Option, Currency, Whole Sale Debt etc.

ANALYTICAL PRODUCTS

NSE FIXED INCOME VALUATIONS	Offers daily security level evaluated pricing for more than 10,000 bonds
ANALYTICAL PRODUCTS	Real Time Market Data Analytics | Real Time Options Greeks
NSE'S FIXED INCOME ANALYTICS PLATFORM	Fully integrated web-based fixed income analytics platform with portfolio attribution

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



SUNDARAM ALTERNATES
UNEARTHING OPPORTUNITIES

EXCLUSIVE INTERVIEW

Karthik Athreya

Director and Head of Strategy for Alternative Credit, Sundaram Alternates

"Sundaram's RE funds have adopted a lower-risk, high-visibility lending model to create returns for its investors within the residential category, and we expect this strategy to do well over the next few fund cycles"

You have been in the real estate industry for many years and launched Real Estate Fund IV last year. How has the industry transformed? What were the ups and downs?

Real Estate (RE) is one of the most interesting sectors that we invest in. The sector appears to always be counter-balancing a steady demand for housing (mirroring the steady growth of the economy) versus the seemingly out-sized growth aspirations of developers across various Indian micro-markets. In between are the market variables of cash, leverage, politics, approvals, and the costs of doing business, which create patterns in the type of demand for capital. This cocktail of market factors has created an attractive private credit opportunity to make consistent risk-adjusted returns (RAR), which investors see from our RE funds.

During 2018, the Government of India came up, in our opinion, with one of the most impactful regulatory changes in the country with RERA - real estate regulatory authority. RERA has massively corporatized and created transparency in the sector, which has had the effect of plugging credit evaluation gaps caused by a lack of transparency and accountability. This has enabled smart private credit managers to create underwriting templates that can create scalable opportunities to invest in this sector.

Aside from RERA, there have been other demand triggers in housing, such as a focus on affordable housing through government initiatives such as Pradhan Mantri Awas Yojana (PMAY), the launch of Smart City Missions, the rise of co-working spaces fuelled by the growth of e-commerce and the WFH lifestyle post-COVID-19.

What would be the ideal time horizon for investors investing in this fund? And how should one evaluate such real estate AIFs before investing?

There is "Timing" and "Time Horizons"

From an investment timing perspective, "right now" over the next decade appears a good time to look at participating in the sector as economic growth indicators and sectoral demand triggers look robust. As the underlying economy looks to perform to market expectations of 5-7% annual GDP growth, we expect secular growth across RE categories of residential, commercial, retail, logistics and social infrastructure across pan-Indian micro-markets. Sundaram's RE funds have adopted a lower-risk, high-visibility lending model to create returns for its investors within the residential category, and we expect this strategy to do well over the next few fund cycles.

From a time horizon perspective, the Sundaram funds are close-ended 5-year fund vehicles, which are efficient timeframes to perform full fund cycle functions of identifying deals, investing, harvesting and exiting with a decent MOIC for investors on a senior secured portfolio that auto winds down with no recourse to market events etc.

Our first 3 RE funds, designed as 4-5 year tenors, have consistently created 18-19% portfolio returns from 2017 onwards with no capital losses despite market events. Our Fund IV was launched in late 2023 to raise ~USD 100-125 million and has closed on 30% of its fund to date. The SA RE team is today geared to invest ~USD 150-200 million annually and has built asset monitoring capabilities to effectively manage risks and pay down portfolios through project cash flows.

Our investors have preferred 5-year fund structures wherein they get income distributions every quarter and capital distributions between years 3-5. This makes it a short to medium-term investment timeframe for them and they prefer to switch into the next RE fund versus investing into a longer tenor 7-10-year fund structure when the global macros look as volatile.

How does Sundaram select a property for investment? Does it have a mix of both residential and commercial properties and geographical split? What kind of checklist do you follow?

The Sundaram funds are almost exclusively residential project funds, and within this, the funds focus on the South micro-markets of India where the Sundaram Group has a significant presence and market intelligence to manage risks.

The Sundaram RE deal underwriting template is exhaustive and addresses risks relating to promoters, project status, micro-markets, and metrics to ensure the funds take on only credit-type risks and not equity, etc. In addition, the SA underwriting template also specifies end-usage of funds, permits investing against "brownfield" projects (i.e. no greenfield risks) and seeks to create controls over multiple streams of project cashflows so the funds are adequately protected from a capital loss perspective.

The deal level filters which are part of the checklist include the following:

- 1.5-2x security cover and cash flow covers
- Quarterly interest and only amortizing debt structures (i.e. no back-ended redemptions)
- Credit enhancements from promoter & corporate guarantees, share pledges, creditor step-in rights, etc.
- Downside protection features include post-dated cheques, NOCs on every sale, project performance covenants, and limiting end-use towards land acquisitions.

All the above ensures that the SA funds only participate in pure credit situations and do not end up taking equity-type risks that could become difficult to manage.

It is often said that real estate faces a shortage of capital. Why do you think that is?

This is true, but necessarily so! The largest capital providers in India are the banks. And banks are regulatorily constrained from participating in the RE sector due to the potential to create speculation and a sub-prime type crisis. The RBI has stipulated that banks can only finance pure construction activities, and this, too, on a slab-wise basis.

On the other hand, developers need financing to buy land, fund approvals, manage working capital, last-mile funding to accelerate projects and a host of other uses. None of these can be financed by banks and also, to a large extent, by NBFCs. This has created a regulatory arbitrage white space for credit funds to operate and make RARs.

Now, it is up to the credit fund managers to intelligently and responsibly use this opportunity to create sustainable returns for investors.

Your fund (Real Estate Fund IV) has a higher deal towards structured finance despite IRR from Structured Finance, Bridge Finance and Growth Capital remaining in similar ranges. What are your reasons here?

The Sundaram funds invest in senior secured deal structures and front-end repayments, use high degrees of asset monitoring to protect our investors' cash flows, and ensure we take on only credit risks and not equity risks. Our deal structures are plain vanilla and do not involve complex structuring. The SA RE funds largely invest in brownfield projects and focus on mid-market pricing of Rs 50-150 lakh per home (i.e., no premium, high volatility housing projects). Our fund level ALM is tight, wherein on a 5-year fund, we invest in a maximum tenor of 4 years and underwrite durations of 3-3.5 years. So, there is a high degree of capital protection that supports our RAR thesis.

Our core investment focus is to invest in post-approval projects that tend to generate cash flows at the time of investment or those projects in which we bridge the immediate working capital requirement to iron out cashflow mismatches and make our deals fairly re-financeable. It is perhaps due to this that our portfolio returns appear on par with other funds that might be taking higher or different risks to achieve similar returns.

What risks do your Real Estate Fund IV have, and how do you mitigate them? Do you have a process for early warning signs?

As a principle, the SA RE funds (including Fund IV) only take on brownfield project completion risks. And by default, do not take on land stage, pre-approvals and risks of financial closure. As a result, the SA RE underwriting policy only permits post-approval brownfield project stage entry and investments are made with the security of a certain percentage of project completion where there is visibility of sales and cashflows.

Some of the key features of underwriting and asset monitoring that ensure active risk management include:

Fund / Portfolio Level

- Only post approvals projects approved for funding - no greenfield / early-stage risks
- Min of 2 post-approval projects with at least two different cashflow streams needed for every deal - mitigates sales velocity risks

Investment Level

- Only brownfield projects considered for investment where there is cashflow visibility mitigates project execution risks.
- 1.5-2x hard assets and cashflow covers - ensures alignment of interest with investee
- Max 4-year deal tenor, which means 3-3.5 years average maturity against a 2.5-3-year residual project completion timeframe - minimal tail risks
- SA funds ensure the project's financial closure - no further financing risks.
- 18-20% cost of financing - ensures prioritization of repayment to SA funds

On this basis, the SA RE funds have executed over 43 deals to date and deployed over Rs 2300 crores (USD 300 million) with no capital losses.



With interest rates expected to stay elevated for the medium term, does it affect the real estate sector and the fund's performance? What is the outlook for the Indian real estate sector?

RE, as a sector, has grown from ~0.5% of GDP in 2000 to close to ~7.3% of GDP today. The sector is growing by 15-20% annually across categories on the back of economic growth. The outlook remains strong with an annual housing demand of 31m units of residential on the back of urban migration, increasing jobs and affordability and demand for larger homes due to WFM. These, to a large extent, mitigate relatively higher mortgage loan costs and as if to prove this point, the number of mortgage loans has increased from 3.4m in 2022 to 3.7m in 2023.

From a rate perspective, all central banks are wary of raising rates further, while this might be an economic necessity given the geography. Even so, the absolute rates at which the fund is making investments continue to be high, especially considering that the SA RE funds only invest in senior secured structures. As a result, we believe the SA funds are generating RARs that are significantly higher than benchmark rates and in the event that rates decline, then the SA RE funds would be sitting on sizeable MTM profits for its investors going forward.

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AQUA PMS: Navigating Markets with Unmatched Adaptability



Siddharth Vora
Fund Manager, Head of Quant Investment Strategies, and Executive Director, Prabhudas Lilladher

Back in 1891, William Wrigley Jr. ventured into the business of selling soap. Fast forward to 2023, his company is the largest manufacturer and marketer of chewing gum in the world. Surprised at this dramatic shift from soap to Spearmint? Turns out, it's all about the simple principle of adaptability. Wrigley adapted from selling soaps to baking powder to chewing gum – constantly evolving with consumer demand trends – and built a successful business.

This transformative pivot isn't unique to Wrigley's. Companies like Apple, Netflix, and Amazon adapted to changing circumstances and thrived, while those resistant to change faced decline – case in point Blackberry, Kodak, and HMV.

Adaptability is equally important in the capital markets too. The nimbleness of an investment strategy to stay attuned to market realities is pivotal for consistent performance across diverse market conditions. This need, for an adaptive investment style, has led to the growing popularity of Quant Investing.

Foundation for Quant Investing

Quant investing is a fusion of human insight and machine intelligence and is completely revolutionizing the investment landscape. It leverages technology to process vast datasets through well-defined rules and systems, enabling objective decision-making, that can be tested rigorously across market and macro cycles, which is beyond human capability alone. This approach eliminates biases and enhances adaptability, something unattainable without the aid of machines.

But machines alone aren't the answer either.

This is why, going one step further, the concept of Quantamental Investing, a man-with- machine approach, is gaining traction. It combines human expertise with technology across various disciplines like macroeconomics, fundamental analysis, valuations, and technical analytics through sophisticated quantitative techniques, offering a more comprehensive, exhaustive, and dynamic investment strategy.

Paving the Road to Factor Investing

Let's delve deeper into the construct of quant strategies. Courtesy of the machine power, quant strategies can analyze sources of risk and returns, determining the drivers of risk andreturns as well as explaining their characteristics across asset classes.

These factors or drivers are broad, persistent drivers of return that are critical to helping investors seek a range of goals – from generating returns and reducing risk to improving diversification. Knowing the factors that drive returns can help investors choose the right mix of assets and strategies as per their needs. Note that the risk premium can vary due to multiple reasons – economic rationale, investor behavior, market constraints, and information asymmetry.

Take the value factor, for instance, where investor reactions, both overreactions and underreactions, can lead to potential mispricing opportunities. There are also market constraints like limits on borrowing or shorting, differences in information access, and transaction costs. In addition, behavioral biases like overconfidence, herd mentality, or loss aversion can make market participants stray significantly from logical decision-making, creating lasting pricing discrepancies.

So, in an ideal world where all investors act logically and follow a factor-based approach in a market free of any constraints, there would be no mispricing and no opportunity for outperformance. In the practical world, where emotional and behavioral patterns, liquidity constraints, and speculation exist, factors provide a method to trade these inefficiencies and generate alpha.

Simply put, factors offer risk premiums as rewards for those willing to bear these specific risks, like investing in distressed companies to access the value factor.

These risk premia display cyclicality and adapt to changing market conditions as seen in Figure 1, where we plot prevalent style factors based on their annual returns on the Nifty50 curve. Although factors may undergo periods of underperformance, they tend to revert to long-term outperformance over the course of market cycles, cementing their enduring presence in the investment landscape. Thus, factor investing is the systematic application of math and data to harness financial wisdom and manage specific risk exposures.

The accompanying chart illustrates the cyclical nature of style factors across calendar years. By plotting their returns against the Nifty50 equity curve, it is easy to see how their performance varies through different market cycles. Table 1 below provides a heatmap of annual absolute returns of different factors from 2013 to 2023.

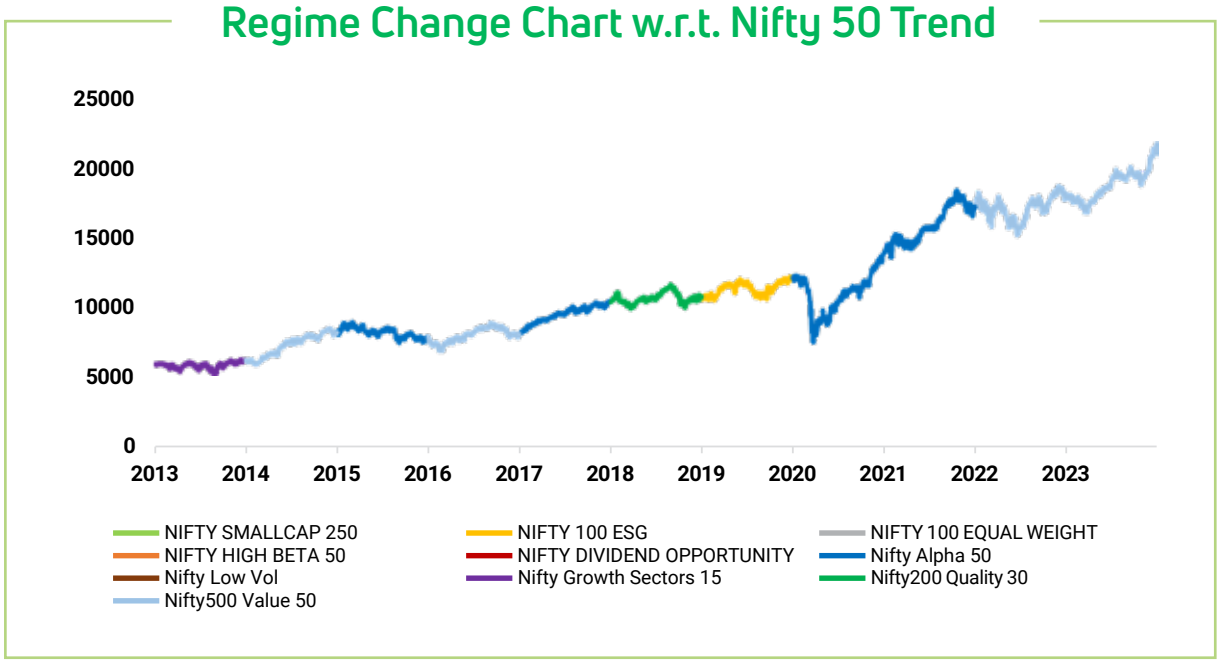


Figure1: Prevalent Style Factor across calendar years 2014-2023 plotted on Nifty 50(2013 – 2023)
Quality: Nifty 200 Quality 30, Low Volatility: Nifty Low Vol 50, Momentum: Nifty Alpha 50, Value: Nifty 500 Value 50

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Nifty Smallcap 250	-8.1%	69.6%	10.2%	0.4%	57.3%	-26.8%	-8.3%	25.1%	61.9%	-3.6%	48.1%
Nifty 100 ESG	9.1%	31.9%	-2.2%	3.2%	31.6%	4.0%	11.0%	21.6%	30.7%	-4.2%	22.2%
Nifty 100 Equal Weight	2.8%	40.2%	-1.4%	6.0%	33.9%	-9.9%	2.1%	16.0%	32.2%	0.9%	29.7%
Nifty High Beta 50	-20.3%	39.8%	-17.9%	-2.7%	59.5%	-28.4%	-18.5%	9.1%	35.5%	10.4%	49.0%
Nifty Dividend Oppns	-7.2%	33.6%	-11.3%	9.9%	25.3%	-1.8%	-2.0%	12.6%	30.1%	1.9%	42.1%
Nifty Alpha 50	2.9%	68.0%	14.7%	-10.2%	67.0%	-14.5%	7.2%	51.8%	74.4%	-14.2%	42.5%
Nifty Low Vol	3.4%	43.3%	8.8%	3.7%	30.2%	-0.5%	5.1%	24.0%	22.4%	-0.1%	30.5%
Nifty Growth Sectors 15	31.8%	27.8%	7.8%	0.1%	26.6%	-1.5%	-1.1%	10.2%	8.8%	12.4%	24.8%
Nifty200 Quality 30	17.5%	38.1%	0.9%	-0.6%	27.8%	6.8%	3.9%	24.4%	23.8%	-6.3%	29.9%
Nifty500 Value 50	-16.1%	75.5%	-9.2%	22.6%	42.4%	-28.6%	-15.6%	6.3%	51.7%	18.9%	61.0%

Table 1: 10 years' calendar year returns of Nifty factor indices; Quality: Nifty 200 Quality 30, Low Volatility: Nifty Low Vol 50, Momentum: Nifty Alpha 50, Value: Nifty 500 Value 50; 2013-2023

PL's Multifactor Approach: Where Diversification Is Your Ally

Since different factors drive returns in different periods, the ideal way ahead is to adopt a multifactor approach. Identifying this opportunity early on, we at PL have been at the forefront of quant-based, multifactor investment strategies.

The multi-factor approach presents a profound avenue for factor investing as it enables further diversification among factors. It allows the investor to navigate consistently across various market conditions and challenging macro environments, fostering resilience and adaptability in investment strategies.

The efficacy of a multi-factor approach is largely dependent on the factors' capacity to display low correlations within their respective return profiles. Additionally, the risk premiums/ discounts of factors exhibit complementary performance. These characteristics allow the portfolio to benefit from the diversification opportunities presented between factors, aiming to enhance risk-adjusted returns and reduce overall portfolio volatility.

The following Figure 2 and Table 2 provide a simulated performance summary of PL's balanced multifactor portfolio and other Nifty style factors.

The universe for our portfolio is the top 500 companies by market capitalization. Post the screening stage, stocks are given scores based on selected parameters for each factor and are ranked based on their combined scores for all factors. The top 25 stocks are selected to be a part of the portfolio. There is an equal weight allocation given to each factor for computing the combined factor score.

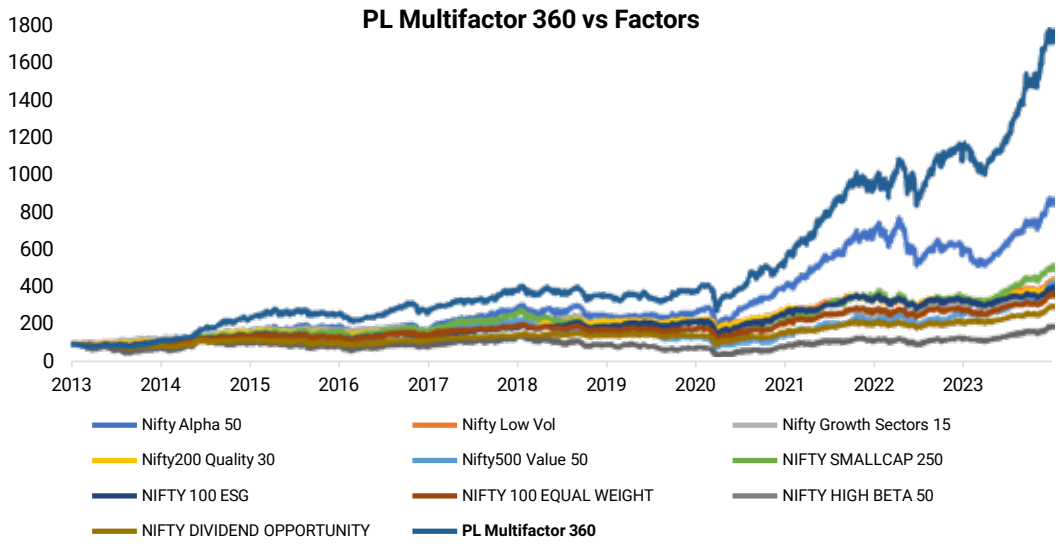


Figure 2: 10 years' performance of Nifty style factors vs PL's Balanced Multifactor 360 portfolio (2013 – 2023)

	Nifty Alpha 50	Nifty Low Vol 50	Nifty Growth Sectors 15	Nifty200 Quality 30	Nifty500 Value 50	Nifty Smallcap 250	Nifty 100 ESG	Nifty 100 Equal Weight	Nifty High Beta 50	Nifty Dividend Oppty	PL Multifactor 360
CAGR	24.23%	16.18%	14.15%	15.72%	15.60%	17.90%	15.07%	13.93%	7.02%	11.85%	**33.34%**
Annualized SD	20.10%	13.42%	16.47%	14.44%	24.33%	18.98%	16.51%	17.07%	28.55%	15.98%	**18.96%**
Sharpe Ratio	0.91	0.76	0.49	0.67	0.39	0.63	0.55	0.46	0.04	0.37	**1.44**
Sortino Ratio	1.06	1.46	1.08	1.38	0.82	1.07	1.13	1.00	0.31	0.94	**2.16**
Max Drawdown	-40.67%	-29.33%	-44.53%	-29.51%	-66.25%	-60.79%	-37.12%	-43.09%	-71.43%	-38.49%	**-33.21%**

Table 2: 10 years' risk-return ratios of Nifty style factors vs PL's Balanced Multifactor 360 portfolio (2013 – 2023)

Introducing AQUA: Systematic Style Bets for Enhanced Alpha

Two things are evident from our Multifactor 360 portfolio's performance:

- A balanced exposure to multiple style factors helps mitigate risk and improve returns.
- Adapting to the prevailing style regime and tilting our portfolio accordingly has the potential to further enhance returns.

With this realization, achieved through rigorous analysis and testing over 5 years, we launched AQUA –an Adaptive Quantamental Flexicap Equity strategy offering India's first style agnostic and style adaptive PMS. Inspired by the adaptability of water, AQUA dynamically adjusts its allocations across investment styles, sectors, sizes, factors, and risk regimes. This ensures that the investment is made in the right place at the right time, maximizing returns while managing risks and ensuring consistent performance across market cycles.

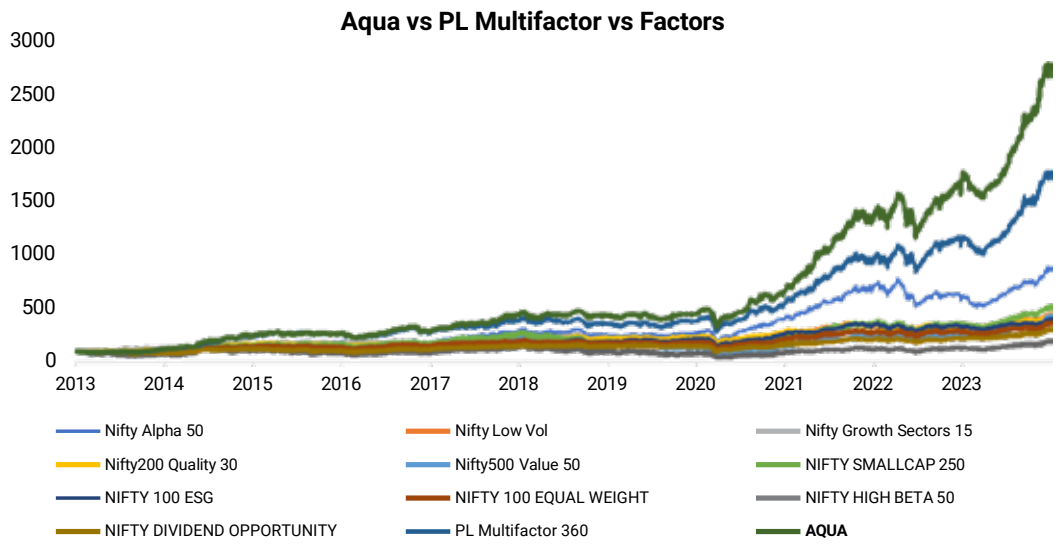


Figure 3: 10 years' performance of Nifty style factors vs PL's Balanced Multifactor 360 portfolio vs AQUA Portfolio (Simulated 2013 – 2023)

	Nifty Alpha 50	Nifty Low Vol 50	Nifty Growth Sectors 15	Nifty 200 Quality 30	Nifty 500 Value 50	Nifty Smallcap 250	Nifty 100 ESG	Nifty High Beta 50	Nifty Dividend Opportunity	PL Multifactor 360	AQUA
CAGR	24.23%	16.18%	14.15%	15.72%	15.60%	17.90%	15.07%	7.02%	11.85%	33.34%	**39.41%**
Annualized SD	20.10%	13.42%	16.47%	14.44%	24.33%	18.98%	16.51%	28.55%	15.98%	18.96%	**19.34%**
Sharpe Ratio	0.91	0.76	0.49	0.67	0.39	0.63	0.55	0.04	0.37	1.44	**1.73**
Sortino Ratio	1.06	1.46	1.08	1.38	0.82	1.07	1.13	0.31	0.94	2.16	**2.50**
Max Drawdown	-41%	-29%	-45%	-30%	-66%	-61%	-37%	-71%	-38%	-33%	**-33%**

Table 3: 10 years' risk-return ratios of Nifty style factors vs PL's Balanced Multifactor 360 portfolio vs AQUA portfolio (simulated 2013 – 2023)

As seen from Figure 3 and Table 3 above, AQUA outperforms all single factors over the last 10 years, as well as the balanced Multifactor 360 portfolio. Our unique investment approach is a testament to the power of quant-based adaptive investing in a dynamic world. It exemplifies how the collaboration between human intelligence and machine-driven precision can deliver consistent and sustainable alpha.

A testament to its capabilities is the fact that AQUA PMS has been among the Top Performing Funds consistently in the Flexicap PMS category in India. It has given 45.17% returns since inception vs benchmark returns of 22.30% and an alpha of 22.87% as of 31st December 2023. The below chart provides the live portfolio NAV, which is net of all expenses, fees, and costs.

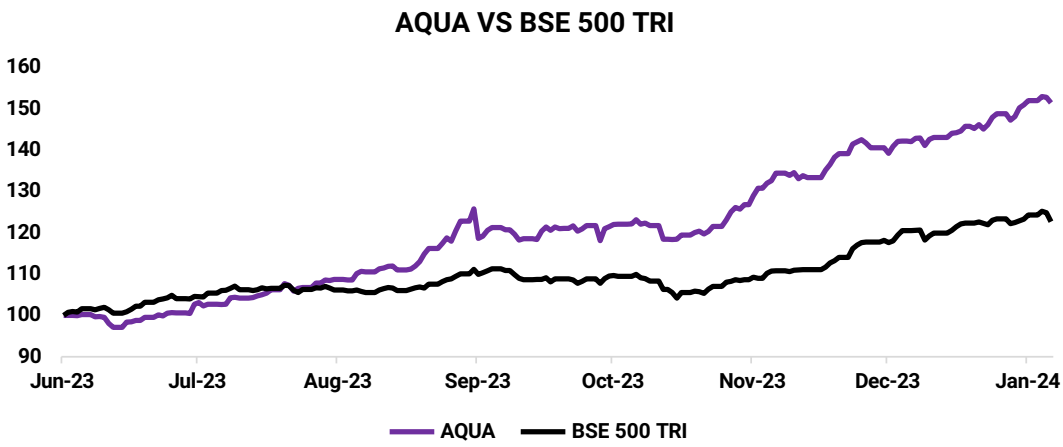


Figure 4: AQUA vs benchmark BSE 500 TRI NAVs since inception, net of fees, expenses, & costs (Inception date: 12th June 2023)

AQUA is not just another Investment Strategy, here are 10 Reasons that make AQUA different.

01 **A Flexicap Strategy for Dynamic Diversification:** Diversifies the portfolio allocations across large, mid, and small caps, while dynamically adjusting their exposures based on market cycles and investment regimes for enhancing risk-reward.

02 **Superior Performance driven by Systematic Quant Processes:** Designed with a focus on alpha generation using an objective, rules-based process, ensuring a personality-agnostic strategy free from key man risks, where repeatable portfolio performance is purely an outcome of the process.

03 **Responsive Risk Management:** Periodic rebalancing tactically mitigates risk by adjusting beta or asset allocation, shifting to less volatile stocks and sectors, generating cash, or changing investment styles as per market risk levels.

04 **Benchmark Agnostic Portfolio:** Unconstrained by benchmark weights, AQUA is a style and sector agnostic portfolio that allocates across the size, sector, style, and security spectrum, to capture opportunities while mitigating risks across market cycles.

05 **Equal Weighted Strategy:** Giving all stocks an equal weight in the portfolio enables Granular and sustainable outperformance at a total portfolio level, eliminating concentration risks and market cap biases.

06 **Holistic Multi-Dimensional Analytics:** Utilized advanced quant techniques to blend macro, fundamental, sentiment, and technical analytics in a dynamic multifactor strategy for a Holistic quantamental decision-making framework.

07 **Blends Top Down & Bottom Up Research using Proprietary 6S Framework:** Portfolio's asset allocation, sector rotation, and investment style alignment are driven by Top-down relative risk- reward assessment. A bottom-up analysis is used to select stocks with relatively superior fundamentals, sound valuations, and strong technicals. The 6S Framework is inspired by Einstein's principles of relativity.

08 **Biases and Emotion Free, Quant Investing:** A data-driven, quant strategy back-tested across market cycles, to systematically eliminate emotional and behavioural biases, while ensuring objectivity, reliability, discipline, and responsiveness in investment decisions.

09 **Adaptive Rebalancing:** A pioneering style adaptive strategy, that regularly reviews and realigns the portfolio allocations as per the ongoing market and macro risk regimes, by changing its style, sector, factor, size, asset, and beta mix.

10 **Packs 80 years of Expertise, Experience & Excellence:** AQUA's Man with Machine approach leverages 8 decades of PL Group's market insights, investing wisdom, and pedigreed research frameworks with modern computing technology and quantitative data analytics offering a rigorously time-tested strategy to deliver superior performance.

As we continue to expand our quant offerings, we are excited about the niche we are creating for PL in quantitative investing. The era of 'Man with Machines' has dawned, and we're among the early adopters, pioneering the future of investment strategies. After all, in the ever-evolving world of investments, adaptability is not just a choice; it's the name of the game.



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At PL, investing takes on a new approach. We pack the power of 8 decades of PL's research pedigree and investing wisdom with cutting edge technology in our AQUA PMS.

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BUDGET 2024

HIGHLIGHTS

Unveiling India's interim budget for 2024, Finance Minister Nirmala Sitharaman struck a balance between pragmatic fiscal consolidation and targeted growth initiatives. The budget exuded stability and strategic direction, prioritising long-term economic well-being.

Macroeconomic stability takes centre stage in this interim budget. Its commitment to fiscal prudence shone through, aiming to reduce the deficit from 5.8% of GDP (gross domestic product) to 5.1% FY25. Further, the finance minister reiterated the commitment to achieving a fiscal deficit target of about 4.5% of GDP by FY26. This, coupled with the planned inclusion of Indian government securities in global indices, aims to anchor macroeconomic stability and potentially lower yields for investors, making Indian bonds more attractive. The focus on fiscal discipline is expected to cheer bond investors and contribute to overall economic stability.

The budget also continues with the **infrastructure push**. That is, infrastructure development remained a key thrust area, with initiatives like upgrading railway infrastructure and building dedicated freight corridors promising improved connectivity and efficiency. However, mindful of fiscal consolidation, the budget anticipates a moderate overall spending increase in the coming year. This measured approach is unlikely to deter the private sector's investment momentum, which analysts predict will continue its upward trajectory. According to one analyst report, private capex has seen a sharp increase in the past 12-15 months.

The budget 2024 continues to recognise the **critical role of rural communities** in India's growth and has allocated resources to bolster the rural economy. Increased access to credit for self-help groups and farmers, along with the continuation of key government schemes and measures to improve the benefit welfare of the farmers, including PM Kisan Samman Nidhi, better prices for agri produce by integrating mandis digitally, de-risking farmers' profitability through crop insurance and promoting efficient use of fertilisers.

The budget also included **targeted measures for specific sectors** like affordable housing, electric vehicles, and renewable energy to stimulate growth in these key areas. Additionally, a dedicated Rs 1 lakh crore corpus will be established to promote technology, innovation, and research to foster long-term development.

That said, the withdrawal of petty tax demands offered a small sigh of relief to individual taxpayers as there has been no change in direct tax rates.

Impact on the equity market and outlook

While the recent budget offers positives for the equity market, tempering return expectations is important as some of the optimistic factors are already factored in valuations. So, in the near term, market performance might be moderate.

That said, the market might quickly shift its focus to corporate earnings performance, and the budget's commitment to long-term stability and strategic direction provides a reassuring foundation for future growth. Analysts anticipate the market to quickly discount the budget and focus on the trajectory of corporate earnings growth, which has remained resilient so far.

In conclusion, India's interim budget for 2024 presented a clear roadmap for the nation's economic journey. By prioritising fiscal prudence, investing in infrastructure, and empowering the rural economy, the budget lays the groundwork for sustainable and inclusive growth in the years to come.



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> "We look for long-term compounders. A high-quality small-cap business with strong balance sheets, and proven management teams, in a sector with attractive dynamics."

Anil Rego
CEO & CIO, Right Horizons

What are the key factors for the Indian market in the coming year? And will the global market conditions impact Indian equity performance?

Indian economy is at a long-term secular megatrend where the relationship with the historical is being muddled with distinct secular drivers creating inflection that is of greater prominence for the current investment landscape. India is advancing globally positioning itself as the fastest-growing major economy. GDP growth during the first half of FY24 has been robust exceeding expectations

Earnings in H1FY24 have been healthy additionally we have observed the proportion of profits in the GDP has experienced an upward trajectory, ascending to nearly 5%, and projected to go further up over the next three years. We anticipate robust annual earnings growth over the next three years, driven by a multi-decadal growth outlook for the economy, healthier corporate balance sheets, an expanding capex trend focused around infra, a multiyear credit cycle for financials, a structural increasing trend in discretionary consumption and a dependable reservoir of domestic capital.

Political continuity is expected in the upcoming elections as a result the market is pricing in the focus on infrastructure and conducive policies to continue.

We believe the rate cuts will drive the markets as liquidity is infused into the system.

The risks to the outlook are primarily external as global and idiosyncratic risks may have spillover impacts. Broader and deeper geo-political conflicts may lead to supply disruptions or fluctuations in commodity prices. Spikes in Oil prices might have an impact if the prices trend upwards beyond the 100$ per bbl mark.

Typically, during a market correction, the mid and small-cap stocks take a beating. How do you handle such volatility in this segment? And when do we say that mid and small-cap categories are overvalued?

Market dynamics are influenced by a multitude of factors such as economic indicators, global events, and investor sentiment, which can change rapidly. While we cannot be certain what 2024 holds, we take comfort in relatively stable macro, robust GDP growth, sustained momentum in domestic corporate earnings, healthier corporate balance sheets, and expected interest rate cuts domestically and globally and expect markets to perform well over the next three years.

The Mid & Small caps are structurally well-positioned to grow above the industry average. The collective may be overvalued but at the granular level, there are limited opportunities where businesses with sustainable models, healthy balance sheets, and secular growth in high-return industries, have durable moats that are trading at discounts.

We emphasise the quality of the companies rather than just their size. Investing in quality companies with consistent earnings and sales growth, reasonable valuation, and solid financial strength is a better risk-reward strategy. Volatility in mid and small-cap stocks can be heightened in the short term, but focusing on the long-term growth potential of fundamentally sound companies can help investors weather market fluctuations. Investing in businesses at an adequate discount to value acts as a margin of safety when drawdowns due to external factors occur which is typically transitory.

Being proactive in reassessing investments allows investors to adapt to changing market conditions and make timely adjustments to one's portfolio.

Given your several years of experience navigating the market, what are the top three things you scan for the most when evaluating a small-cap stock you are new to? When and what kind of small-cap stock becomes a compelling buy for you?

We look for long-term compounders. A high-quality small-cap business with strong balance sheets, and proven management teams, in a sector with attractive dynamics. When it comes to small-cap we look to invest in high-growth businesses with sustainable competitive advantages that are emerging leaders or businesses with turnaround stories or businesses with the potential to be disruptors.

1. We seek companies with strong balance sheets. We typically avoid businesses that have significant liabilities such as high debt that could cause insolvency concerns when there is an economic, financial, or any other kind of crisis.

2. We invest in businesses that have high growth potential and are available at reasonable prices. To ensure a sufficient margin of safety, the price has to be lower than the value of the business that is calculated from free cashflow discount valuation models or relative pricing models.

3. Businesses are invested in growing industries with stable competitive dynamics and favourable economics.

How do you handle the cyclical nature of sectors? Do you have an early warning sign that the sector is expected to see a turnaround? For instance, Right Horizons Super Value PMS approach has Capital Goods, cyclical in nature, as part of top sector holdings.

- We follow a bottom-up approach, and our portfolios are sector agnostic and if the allocation is higher in a particular sector, it is likely that the sector is benefiting from tailwinds due to

broader macro trends and earnings of the underlying businesses are poised to compound at a healthy pace over the next three to five years.

- Monitoring industry-specific metrics for accelerating or decelerating trends provides insight into managing the industry's cyclicality.
- Diversifying portfolios across various sectors and industries helps mitigate the impact of unsystematic risk or downturns in any single sector.

> "During the volatile markets, the quality of the business acts as a floor to significant drawdowns and as the businesses are invested at a reasonable price the margin of safety plays an important role."

Right Horizons' Portfolio themes for the next bull cycle (for the next 5 years), include paints, wires & cables, steel pipes, NBFC, electronic retail and fashion retail. Could you provide your reasoning behind your bullish view?

The focus on infrastructure development and the progress of the economy will lead to a multiplier effect that benefits a diverse range of industries as the government capex continues. Structural factors like PLIs, FTAs, domestic demand, favourable government policies, and healthy balance sheets of corporates and consumers are driving GDP higher.

We are optimistic about the building materials segment due to increased investment towards infrastructure, urbanization, and a recovery in the housing and commercial real estate markets. Companies are incurring capex aggressively or actively pursuing growth opportunities to cater to the demand.

This bull cycle is being driven by a broad-based investment cycle and GDP that is led by growth in 'gross fixed capital formation' augmented by the 'real estate upcycles' and central government capex and higher-end discretionary consumption.

India's per capita income crossed the traditional inflection point of 2000$ USD, a point in which economies have witnessed exponential growth in consumption as the higher per capita income often translates to an improved standard of living and the incremental disposable income leads to increased consumption of goods and services. Moving up the pyramid we are currently noticing a swift growth in the segment of the working-age population with per capita income surpassing US$10,000. It is expected that this segment will grow to ~100 Mn consumers by 2027 from ~60 million currently.

As the income level of an individual rises, he/she has more resources to meet their basic needs and handle unforeseen expenses, they tend to feel more confident about their financial well-being improving their sense of financial security. This leads to an increased demand for financial services such as banking, insurance, and investment products. Additionally, individuals tend to borrow against their future incomes to facilitate the acquisition of assets such as a home or a car, which individuals might not be able to afford with their current savings.

Taking all this into account we anticipate that businesses catering to broad-based consumption are poised for substantial growth, businesses addressing the premium category consumption to grow at an explosive pace comparatively, and Consumer credit businesses to accelerate robustly.

GARV - Growth at Reasonable Valuation is part of your investment process. How do you identify a stock's reasonable valuation, particularly in volatile market conditions?

Growth at reasonable valuation (GARV) is a fundamental-driven investment strategy that balances growth and value by investing in high-growth stocks that are trading at a discount to the fair value.

Primarily, the GARV strategy favours investing in companies with consistent earnings and sales growth, reasonable valuation, and solid financial strength. The underlying investment thesis is to earn higher risk-adjusted returns than its underlying universe over a long-term investment horizon.

To identify such businesses, investors can look at metrics like the three-year net sales and earnings growth which capture a company's growth, and in order to sustain the growth momentum, the company needs to be highly profitable, indicated by a consistently high ROE and the company must not have excessive leverage (permissible range for the ratio varies depending on the sector). For relatively reasonable valuation, investors can look at PE, EV/EBITDA, earnings yield and industry-specific multiples.

These factors, along with others, effectively capture the characteristics of the GARV strategy and balance between growth and valuation exposures and lead to better long-term risk-adjusted returns.

During the volatile markets the quality of the business acts as a floor to significant drawdowns and as the businesses are invested at a reasonable price the margin of safety plays an important role. During the bull cycle, the solid earnings growth and quality of the business led to multiple re-ratings over time leading to a higher degree of price appreciation

When do you have a portfolio churn? And what are the factors that lead to portfolio churn? For instance, Polycab India Ltd had recent volatility in its share price and your Super Value Fund has, about 6%, exposure. So how do these factors impact your investments?

Changes in market conditions, economic factors, or geopolitical events may disproportionately impact the performance of specific sectors or businesses. In response to changing market conditions if exposure is significant then we may choose to rebalance the portfolio.

If there is a significant change in Business Outlook, Slowdown in growth or Risk we may choose to rebalance the portfolio. Investors often rebalance their portfolios to maintain the desired asset allocation. If the value of certain businesses has increased significantly, it may be necessary to trim exposure to bring the portfolio back to its target allocation.

If a business is exposed to Corporate Governance risk or other types of risks as per our risk management framework, we will exit the security.

Polycab has been a consistent wealth compounder for our portfolios. Over time we have trimmed exposure booking profits as the valuations were stretched with robust H1FY24 results and euphoria around the elections. We brought down the allocation by nearly 40% to the desired levels based on our risk management framework prior to the declines. As per our stringent risk management framework due to potential corporate governance issues we had exited the position from the portfolio and replaced with businesses with higher earnings growth potential.

How much diversification is too much? What, according to you, is an ideal diversification for PMS investors?

Diversification aids in managing risk by spreading investments across different assets and sectors. The ideal level of diversification can vary based on individual goals, risk tolerance, and investment strategy. At RH for our core strategies based on Diminishing Marginal Returns we have identified the optimum level beyond which the addition of each security dilutes the potential of excess returns and impacts the consistent performance of the portfolio.

We have capped the exposure in the range of 25-35 securities, Max security exposure at 10% and Max Sector exposure at 35%. We believe this is the optimum level for us based on our framework at which level the idiosyncratic risks can be diversified, systematic risk can be mitigated while leaving ample space for the portfolio to generate excesses.

How important is geographical diversification for an NRI investor?

Geographical diversification is particularly important for Non-Resident Indian investors due to the unique set of risks and opportunities they face. Investing across different geographical regions provides exposure to diverse global economies. This helps to spread risk, as economic conditions and market performance can vary drastically from one region to another. A well-diversified portfolio may be better positioned to withstand adverse economic events specific to a country or region.

Different regions offer unique investment opportunities. Geographical diversification allows NRIs to capitalize on growth prospects in various markets and niche industries, reducing reliance on the performance of any single market. Different countries have varying regulatory environments and political stability. Geographical diversification helps NRI investors mitigate the impact of sudden potential regulatory changes or political uncertainties in any single jurisdiction, minimizing the impact on their overall investment portfolio.



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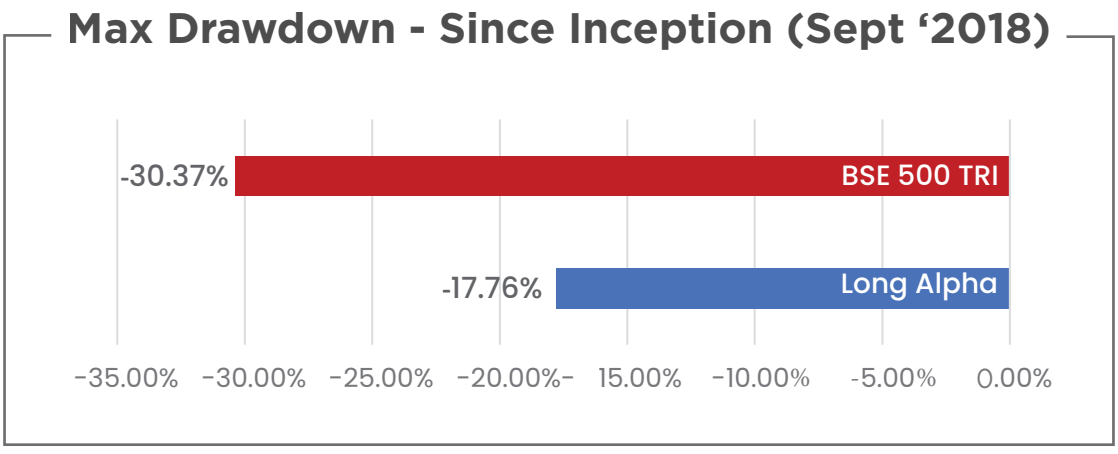
Vivek Sharma
Investment Head, Estee Advisors

EXCLUSIVE INTERVIEW

> **We measure our risk both empirically as well as in terms of factor exposure, exposure to each market cap, exposure to each sector our historical variability to the index**

1 Your Long Alpha Quant strategy has had a tremendous run in the past few years. Apart from returns, what performance metrics do you prioritize when evaluating the success of your quant fund, and how do you benchmark your performance against relevant indices?

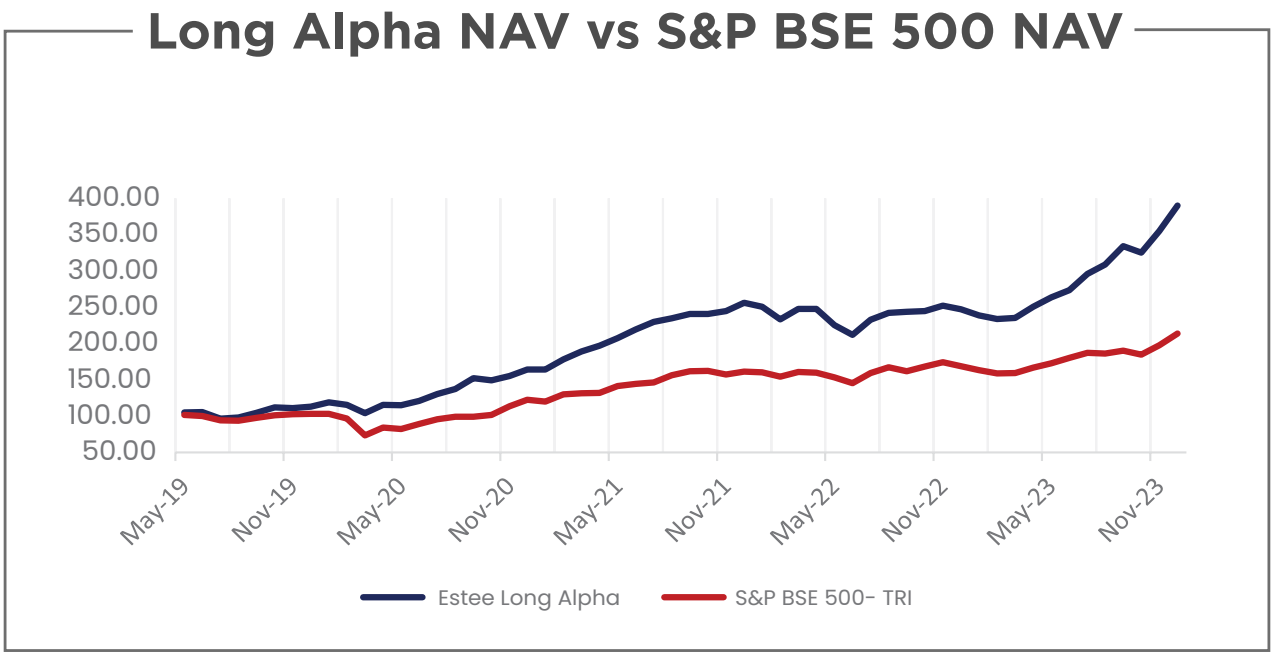
Yes, apart from our returns we also look at how well we're managing the risk and the risk-adjusted returns as well. We have been able to maintain a lower volatility than our benchmark in the Long Alpha fund while generating an alpha of over about 16%. So, risk-adjusted, and risk factors are an important additional metric.



If you look at the fund's performance during the COVID-19 fall, you get a very good idea of the risks relative to the benchmark. Our peak-to-trough drawdown was 17.76% vs 30.37% in the BSE 500 benchmark index.

The portfolio is constructed in a way to optimize the risk-adjusted returns. We also take into account the liquidity of each stock and have developed proprietary execution algos that help us minimize the slippages in the strategy.

For benchmark, we follow the S&P BSE 500 TR Index for Long Alpha.



2 You also have an I-Alpha Arbitrage Fund which has generated about 12% since inception. How do you evaluate success in a fixed-income arbitrage type fund which is quite rare in the market?

I-Alpha is a rare, fixed-income PMS fund that trades in pure index arbitrage trades. We've been very fortunate to run a rare product in I-Alpha which was launched in 2009 and has been in the market for 15 years. For the Arbitrage fund, we look at its risk-adjusted returns as well to measure how well it's doing. For example, we look at Sharpe, I-Alpha has a Sharpe of about 2.25 which is tremendous. It's a fixed-income product and hence its benchmark is also different, we benchmark it with the Crisil Composite Bond Fund Index and FDs/Debts.

This product has a unique track record of never having a losing month in its 12+ years since inception.

3 How do you incorporate machine learning and artificial intelligence into your quantitative models, and what role do these technologies play in your decision-making process?

We use deep analytics and machine learning in our process and it's a very important component. Majorly, we use it in identifying and estimating what is the return that a particular factor can deliver. It's also important to understand where machine learning is most effective, and it does a good job in a very well-defined problem. But in problems like the construction of portfolios with 500 companies and 10-15 years of good data, we can't rely solely on machine learning and hence we use a more systematic approach.

4 How often do you update or refine your quantitative models, and what triggers those adjustments?

Our team is consistently looking for ways to improve our code, analysing data and making improvements. Additionally, 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.

5 What factors do you prioritize when selecting securities for your portfolio, and how do you determine their weights?

In our Equity portfolio, we have a multifactor approach which includes factors like Momentum, Value, Quality, Leverage and Value factor. Our proprietary algorithm dynamically selects amongst our factors based on its assessment of the market regime as well as the expected return of the performance of factors in the estimated regime.

> **"The only human judgement that is involved is in the designing of the portfolio construction approach."**

The value creation happens when we can define these factors in a better way and also when we assign weights to these factors depending on the expected returns from each factor in the future.

6 Can you provide insights into your team's composition and the skill sets you believe are essential for success in quantitative fund management?

We have a team of more than 90 quant/tech professionals, many of whom have been with us for a very long time, some around 5-10 years now. At Estee, we've been doing quant investing using the data-driven approach for more than 15 years now and we have been able to groom a lot of great talent as well during this period.

We have a great group of engineers from very reputable colleges as well as people with a background and skills for High-Frequency Trading and quant investment.

We feel a mix of experienced professionals and fresh joiners with a passion for problem-solving and a great environment to assist them is a great recipe for teams to do well.

7 Long-Alpha fund is a quantitatively managed fund that implements a rule-based trading model, similarly, your I-Alpha fund is also a stat index arbitrage fund. 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 keeps 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.

8 What would be the average and max holding period and what would be the churn in your quant portfolio?

We do about 30% buy and 30% sell, so about 60% monthly churn including both. So, we do churn quite a bit, but that's because it's AUM is relatively on the smaller side, and we soon are bringing a change that will reduce the churn quite a bit.

9 How do you handle risk management within your quantitative strategy, especially during volatile market conditions?

We measure our risk both empirically as well as in terms of factor exposure, exposure to each market cap, exposure to each sector our historical variability to the index. Our process of creating a balanced portfolio is combining all these factors. Additionally, we also measure our metrics such as Sharpe and Volatility. For example, below are some of the factors we use to measure risk.

Measure (Since Revamp - May'19)	Estee Long Alpha	S&P BSE 500 TRI
Gross Returns	33.9%	17.7%
Standard Deviation (Annualised)	17.4%	19.3%
Maximum Drawdown	-17.2%	-28.8%

10 How do you take qualitative factors into account when running a pure quant strategy?

Many of the qualitative aspects are measurable, like we do use of debt ratio, leverage, trend in working capital, and quality of earnings vs cash flows. Then there are other factors like quality of management, which are not directly measurable but can be quantified indirectly by using factors 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 cases, you are trying to aggregate all the information and make sense out of it.

11 What measures do you take to maintain liquidity in your portfolios?

Our portfolios are very liquid. We provide access to the Long Alpha portfolio at any time so you can invest and redeem at any time in our equity portfolio. In I-Alpha, we have monthly liquidity because we invest in monthly futures as the spreads in futures converge at the end of the month.

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ESTEE'S PORTFOLIO MANAGEMENT SERVICES

ESTEE

Risk.Return.Optimized.

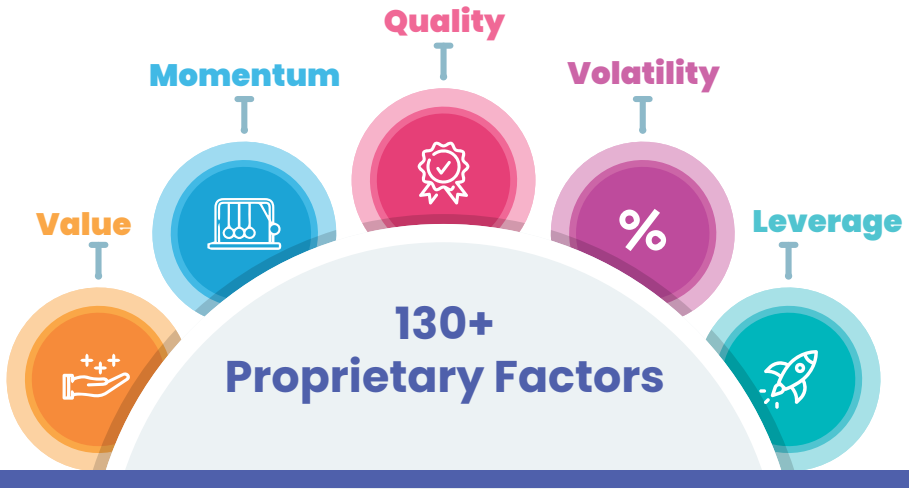
- **15+** years of consistent performance
- **90+** tech and quant professionals
- **INR 1500 Cr.** Assets under management

PRODUCT

Long Alpha - Quant PMS

Long Alpha is quantitatively managed strategy launched in 2018, implementing a rule-based trading model to remove human subjectivity.

- **34% CAGR in its current strategy vs ~18% of BSE 500**
- **Lower Volatility than BSE 500 Index**
- **Multi factor approach employs Fundamental, Technical and Macro-economic Factors**





PMSes OUTSHINE BENCHMARK INDICES, AND MUTUAL FUNDS

Over 75% of PMS approaches have given excess returns than mutual funds over 10 years

While Portfolio Management Services (PMS) and Mutual Funds offer avenues for investment and growth, their clientele and approaches differ.

PMS, a bespoke suit for High Net-Worth Individuals (HNIs) and Ultra-HNIs, comes with Rs. 50 lakh minimum investment and tailors portfolios to individual needs. Mutual funds, on the other hand, cater to a broader audience with minimal investments as low as Rs. 100, pooling investments to create ready-made portfolios accessible to all.

So, comparing the two options head-to-head isn't entirely fair. They cater to distinct financial needs and risk appetites, providing valuable information for investors seeking high-performing options. Yet, investor curiosity often seeks parallels.

With that in mind, PMS Bazaar conducted a study comparing the performance of PMS and mutual funds against their respective benchmarks, across various categories and timeframes. For this purpose, 335 PMS investment approaches within the PMS Bazaar universe and 388 mutual funds schemes via regular as well as direct modes, as per AMFI, were considered. The study was conducted across 7 market categories including largecap, midcap, smallcap, large-midcap, multicap, flexicap, and thematic. The time frames taken into consideration for the study of both PMS and mutual funds are 1, 3, 5 and 10 years up to 31 December 2023.

The goal of the study? To shed light on which investment models have consistently bested their benchmarks over time. So, before contemplating which investment avenue fits your needs, remember, that understanding investment objectives, risk tolerance, and minimum investment comfort is crucial.

Keep in mind that past performance is not always indicative of future results. Diversification and a long-term approach are key to any successful investment strategy.

PMS and MF: How was their performance?

The Indian market, despite market volatility like the 2020 COVID plunge and the 2016 liquidity crisis, has soared over the past decade. The Nifty 50 has tripled in value in the past decade. This upswing has naturally benefitted both PMS and mutual funds, generating substantial returns for investors.

A study by PMS Bazaar analyzed 335 PMS investment approaches and 388 mutual funds (regular) across 1, 3, 5, and 10-year periods. The study reveals that PMS investment approaches outperformed their benchmarks by an impressive 70% on average across all timeframes and categories, while mutual funds managed a respectable 48%.

Interestingly, when comparing PMS to mutual funds, PMS investment approaches consistently outperformed mutual funds across all timeframes. For example, in the 5 years, 59% of PMS investment approaches outperformed their benchmarks compared to just 46% of mutual funds. This trend continued in the 3-year and 10-year periods, with PMS consistently delivering superior benchmark-beating returns.

PMS Performance	1-yr Period	3-yr Period	5-yr Period	10-yr Period
Total no of PMS investment approaches	294	226	157	58
No of PMS investment approaches outperformed benchmark	254	132	92	46
Outperformance	86%	58%	59%	79%

Mutual Fund Performance - Regular	1-yr Period	3-yr Period	5-yr Period	10-yr Period
Total no of mutual funds	388	332	282	210
No of mutual funds outperformed benchmark	203	152	129	103
Outperformance	52%	46%	46%	49%

In the 3-year period, 6 of 7 PMS investment approaches have outperformed their benchmark and mutual funds across all the categories.

3-yr Period	Mutual Fund	PMS	Performance
Large Cap	26%	38%	PMS Outperformed
Mid Cap	17%	84%	PMS Outperformed
Small Cap	41%	91%	PMS Outperformed
Large-Mid Cap	35%	56%	PMS Outperformed
Flexi Cap	40%	56%	PMS Outperformed
Multi Cap	44%	51%	PMS Outperformed
Thematic	61%	36%	PMS Underperformed

In the 5 years, too PMS investment approaches were dominating in 5 of the 7 categories including large, mid, small, flexi and multi-cap categories. But in the large-mid and thematic categories, mutual funds had the upper hand.

5-yr Period	Mutual Fund	PMS	Performance
Large Cap	28%	44%	PMS Outperformed
Mid Cap	23%	93%	PMS Outperformed
Small Cap	76%	78%	PMS Outperformed
Large-Mid Cap	24%	17%	PMS Underperformed
Flexi Cap	42%	88%	PMS Outperformed
Multi Cap	38%	52%	PMS Outperformed
Thematic	56%	43%	PMS Underperformed

The highlight was that in the 10 years all the PMS investment approaches have outperformed mutual funds and benchmarks.

10-yr Period	Mutual Fund	PMS	Performance
Large Cap	38%	50%	PMS Outperformed
Mid Cap	11%	83%	PMS Outperformed
Small Cap	73%	90%	PMS Outperformed
Large-Mid Cap	22%	50%	PMS Outperformed
Flexi Cap	58%	100%	PMS Outperformed
Multi Cap	33%	78%	PMS Outperformed
Thematic	63%	NA	NA

NA: Not applicable. In PMS, there are no performance from Thematic PMS investment approaches for 10-year period.

Source: PMS Bazaar, AMFI;
Note: Value and Focussed mutual funds are considered under Flexi-cap category
All data as on Dec 31, 2023



How did direct mutual funds fare?

While this study focuses on comparing PMS and traditional mutual funds, a quick detour to direct mutual funds reveals they have carved their own path to outperformance. Across all seven categories and timeframes, direct funds generally shine brighter than their regular counterparts. However, a deeper analysis shows a nuanced picture.

In the one-year period, PMS led with 86% outperformance compared to 60% for direct funds.

But in the three-year period, both PMS and direct funds outperformed benchmarks by 58%.

On the other hand, during the five-year period, direct mutual funds took the lead with 62% outperformance, while PMS lagged at 59%.

And in the long-term of 10-years, PMS emerged as the winner, boasting 79% outperformance against 65% for direct funds and the benchmark.

Mutual Fund Performance - Direct	1-yr Period	3-yr Period	5-yr Period	10-yr Period
Total no of mutual funds	387	330	280	209
No of mutual funds outperformed benchmark	234	191	173	136
Outperformance	60%	58%	62%	65%

PMS Performance	1-yr Period	3-yr Period	5-yr Period	10-yr Period
Total no of PMS investment approaches	294	226	157	58
No of PMS investment approaches outperformed benchmark	254	132	92	46
Outperformance	86%	58%	59%	79%

TOP PERFORMERS

Over 1, 3, 5, and 10 years, PMS investment approaches consistently outperformed their benchmarks and (regular) mutual funds. In the three-year window, 6 in 10 PMS investment approaches beat the benchmark compared to only 5 in 10 mutual funds. Similar trend was seen in the five-year period as well.

Lastly, over 10 years, a staggering 8 in 10 PMS investment approaches surpassed the benchmark, while only 5 mutual funds managed the feat. However, in the one-year period, a remarkable of 9 in 10 PMS investment approaches, while it was only 5 in 10 mutual funds that beat benchmark.

Here are the top 10 performers in PMSes and Mutual Funds across all categories for 1-year:

PMS Investment Approaches	Category	1-yr Returns (%)
INVASSET LLP - GROWTH PRO MAX FUND	Multi Cap	96.57
AEQUITAS INVESTMENT CONSULTANCY - INDIA OPP. PRODUCT	Small Cap	91.23
SHEPHERD'S HILL FINANCIAL ADVISORS - VALUE MAGNO	Flexi Cap	89.55
SAMVITTI CAPITAL - PMS ACTIVE ALPHA MULTICAP	Multi Cap	85.13
GREEN LANTERN CAPITAL - GROWTH FUND	Small & Mid Cap	84.74
EQUITREE CAPITAL ADVISORS - EMERGING OPPORTUNITIES	Small Cap	79.71
INVESTSAVVY PORTFOLIO MANAGEMENT - ALPHA FUND	Multi Cap	79.61
CARNELIAN ASSET ADVISORS - YNG STRATEGY	Multi Cap	76.56
ASIT C MEHTA INVESTMENT INTERMEDIATES - ACE MULTICAP	Flexi Cap	73.69

Mutual Fund Schemes	Category	1-yr Returns (%)
ADITYA BIRLA SUN LIFE PSU EQUITY FUND	Thematic	59.28
NIPPON INDIA POWER & INFRA FUND	Thematic	58.00
MAHINDRA MANULIFE SMALL CAP FUND	Small Cap	57.18
HDFC INFRASTRUCTURE FUND	Thematic	55.42
INVESCO INDIA PSU EQUITY FUND	Thematic	54.48
SBI PSU FUND	Thematic	54.03
BANDHAN SMALL CAP FUND	Small Cap	53.60
FRANKLIN INDIA OPPORTUNITIES FUND	Thematic	53.56
ICICI PRUDENTIAL PSU EQUITY FUND	Thematic	52.72
FRANKLIN INDIA SMALLER COMPANIES FUND	Small Cap	52.15

Here are the top 10 performers in PMSes and Mutual Funds across all categories for 3-years:

PMS Investment Approaches	Category	3-yr Returns (%)
COUNTER CYCLICAL INVESTMENTS - DIVERSIFIED LONG TERM	Small Cap	70.26
GREEN LANTERN CAPITAL LLP - GROWTH FUND	Small & Mid Cap	59.06
AEQUITAS INVESTMENT CONSULTANCY - INDIA OPP. PRODUCT	Small Cap	58.96
GREEN PORTFOLIO - SUPER 30 DYNAMIC	Thematic	52.13
EQUITREE CAPITAL ADVISORS - EMERGING OPPORTUNITIES	Small Cap	48.93
BONANZA - EDGE	Multi Cap	45.87
VALENTIS ADVISORS - RISING STAR OPPORTUNITY	Small Cap	43.58
ROHA ASSET MANAGERS - EMERGING CHAMPIONS	Small & Mid Cap	42.64
ELECTRUM PORTFOLIO MANAGERS - ELECTRUM LAUREATE	Small & Mid Cap	42.18
CARNELIAN ASSET ADVISORS - SHIFT STRATEGY	Multi Cap	41.68

Mutual Fund Schemes	Category	3-yr Returns (%)
QUANT SMALL CAP FUND	Small Cap	44.55
ADITYA BIRLA SUN LIFE PSU EQUITY FUND	Thematic	41.16
SUNDARAM LONG TERM MICRO CAP TAX ADVANTAGE FUND SERIES VI	ELSS	40.99
ICICI PRUDENTIAL INFRASTRUCTURE FUND	Thematic	40.95
NIPPON INDIA SMALL CAP FUND	Small Cap	40.46
QUANT INFRASTRUCTURE FUND	Thematic	40.29
SUNDARAM LONG TERM MICRO CAP TAX ADVANTAGE FUND SERIES IV	ELSS	39.63
SUNDARAM LONG TERM TAX ADVANTAGE FUND SERIES III	ELSS	39.31
SUNDARAM LONG TERM TAX ADVANTAGE FUND SERIES IV	ELSS	38.83
SUNDARAM LONG TERM MICRO CAP TAX ADVANTAGE FUND SERIES III	ELSS	38.82

Here are the top 10 performers in PMSes and Mutual Funds across all categories for 5-years:

PMS Investment Approaches	Category	5-yr Returns (%)
GREEN LANTERN CAPITAL LLP - GROWTH FUND	Small & Mid Cap	35.04
BONANZA - EDGE	Multi Cap	31.68
SAMEEKSHA CAPITAL - INDIA EQUITY FUND	Multi Cap	31.20
UNIFI CAPITAL - APJ 20	Mid Cap	31.11
NEGEN CAPITAL - SPECIAL SITUATIONS & TECHNOLOGY FUND	Multi Cap	31.02
GLOBE CAPITAL MARKET - VALUE	Multi Cap	29.86
VALUEQUEST INVESTMENT ADVISORS - PLATINUM	Multi Cap	29.70
ESTEE ADVISORS - LONG ALPHA	Multi Cap	29.24
STALLION ASSET - CORE FUND	Multi Cap	28.97

Mutual Fund Schemes	Category	5-yr Returns (%)
QUANT SMALL CAP FUND	Small Cap	32.21
QUANT INFRASTRUCTURE FUND	Thematic	30.36
BANK OF INDIA SMALL CAP FUND	Small Cap	30.33
QUANT ELSS TAX SAVER FUND	ELSS	28.79
NIPPON INDIA SMALL CAP FUND	Small Cap	28.38
SBI TAX ADVANTAGE FUND SERIES III	ELSS	27.07
QUANT MID CAP FUND	Mid Cap	26.83
QUANT FLEXI CAP FUND	Flexi Cap	26.63
QUANT ACTIVE FUND	Multi Cap	26.24
AXIS SMALL CAP FUND	Small Cap	26.04

Here are the top 10 performers in PMSes and Mutual Funds across all categories for 10-years:

PMS Investment Approaches	Category	10-yr Returns (%)
AEQUITAS INVESTMENT CONSULTANCY - INDIA OPP. PRODUCT	Small Cap	36.91
NINE RIVERS CAPITAL - AURUM SMALL CAP OPP.	Small Cap	28.24
GLOBE CAPITAL MARKET - VALUE	Multi Cap	26.91
ACCURACAP - PICOPOWER	Small & Mid Cap	24.82
CARE PORTFOLIO MANAGERS - GROWTH PLUS VALUE	Small & Mid Cap	24.06
ABANS INV. MANAGERS - GROWTH & MOMENTUM	Multi Cap	23.05
GIRIK CAPITAL - MULTICAP GROWTH EQUITY	Multi Cap	22.98
ADITYA BIRLA SUN LIFE AMC LTD - SSP	Small & Mid Cap	22.18
MASTER PORTFOLIO SERVICES - MASTER TRUST INDIA GROWTH STRATEGY	Mid Cap	21.73
CENTRUM PMS - MULTIBAGGER	Mid Cap	21.69

Mutual Fund Schemes	Category	10-yr Returns (%)
FRANKLIN BUILD INDIA FUND	Thematic	22.36
SBI INFRASTRUCTURE FUND	Thematic	18.76
SUNDARAM INFRASTRUCTURE ADVANTAGE FUND	Thematic	17.15
NIPPON INDIA SMALL CAP FUND	Small Cap	27.51
SBI SMALL CAP FUND	Small Cap	26.48
QUANT ELSS TAX SAVER FUND	ELSS	24.97
DSP SMALL CAP FUND	Small Cap	24.31
AXIS SMALL CAP FUND	Small Cap	23.75
MIRAE ASSET LARGE & MIDCAP FUND	Large & Mid Cap	23.55
QUANT ACTIVE FUND	Multi Cap	23.29

Source: PMS Bazaar, AMFI; 3,5,10 years returns are compounded; All data as on Dec 31, 2023

Disclaimer: PMS investment approaches within the PMS Bazaar universe and data for mutual fund schemes are from AMFI are considered for the story. Any information contained in this material shall not be construed as an advice, solicitation or an inducement to invest in any portfolio/approaches/mutual fund schemes of the Portfolio Manager. The names of the approache/portfolios/mutual fund schemes do not, in any manner, indicate their prospects or returns. There is no assurance or guarantee that the objective of the portfolios/approaches/mutual fund schemes will be achieved.Past performance is not necessarily a guide to future performance and no way guarantee the future performance. Investment in securities market is subject to market risks, you are requested to read all the related documents carefully before investing. Investors are responsible for their investment decisions and are responsible to validate all the information used to make the investment decision. No content of this material including the performance related information is verified by SEBI nor has SEBI Certified the accuracy or adequacy of the same.

Magadh Capital

BEHAVIOURAL BIASES ON INVESTMENTS & MAGADH CAPITAL PORTFOLIO STRATEGY

Vipul Prasad,
Founder & CEO, Magadh Capital Advisors LLP



"In theory, there is no difference between theory and practice. In practice, there is!" – Yogi Berra

The ability to curb investing mistakes is crucial for wealth creation via equities. Equally important is the mental discipline to benefit from the occasional opportunities that the market offers. It is not for nothing that Warren Buffet speaks so highly of temperament for succeeding in stock markets.

The human brain works with several thumb rules to simplify and accelerate decision-making. These thumb rules are drawn from our personal experience and preferences. Some of these thumb rules, known as behavioural or cognitive biases, lead us to poor decisions.

Investing requires intense focus on such cognitive biases to avoid mistakes. At Magadh Capital, we have in place a formal behavioural finance framework to support our fundamental analysis processes. We are cognizant of the fact that unless controlled systemically, our decisions and forecasts can be adversely affected by our behavioural biases.

Magadh's investing process also places a lot of emphasis on introspection by analysing its judgement post-facto - trying to see motivation and the science behind its choices.

Magadh Capital encounters these five behavioural biases regularly:

Loss aversion – We humans are wired to dislike losses much more than we like gains. Thus, we pass up even favourable bets if there is any chance of a loss. It is this bias that prevents us from accepting even temporary capital erosion in stocks with great medium-term appreciation prospects. To an extent, this is the inherent reason why many people invest in bank fixed deposits instead of equities. Loss aversion also acts as a key basis for the sunk cost bias. Investors, who attempt to time the market, are often driven by loss aversion bias. The antidote that Magadh Capital applies against this bias is a conscious approach based on probabilistic thinking. Magadh's decision-making process works with a payoff matrix where we assign probabilities to various outcomes.

Sunk cost fallacy – Reluctance to sell a stock at a minor loss even if there is realization that it will perform poorly is caused by a commonly encountered cognitive flaw- the sunk cost fallacy. Here a layman remains fixated with the portfolio stock's purchase price instead of its prospects.

This affects equity investors in another related way too - via the disposition effect. When he/she needs cash, an investor has to decide which stock holding should he/she reduce. An untrained human mind often forces a decision based on stocks' trailing performance. As a result, stocks that have performed well so far are the ones that get trimmed. This helps in closing our mental account in positive territory.

However, this process is flawed. The stock to be sold should be decided based on relative prospects - then - for all portfolio stocks.

To avoid the sunk cost fallacy an active, engaged and disciplined mind is required. One needs to consider the counterfactual possibilities. Would the above investor have held on to a bad stock hoping to sell at a profit, if he/she had inherited it from his/her father?

Overconfidence – A high level of confidence in an opinion cannot be, in itself, a sign of the correctness of this opinion. Behavioural finance experiments, on the contrary, prove that the more confident a forecaster is in his forecast, the worse his forecast turns out to be. Further, overconfidence nudges investors towards recklessness and away from rigour in analysis and hence generally leads to poor outcomes.

Overconfidence can manifest itself in many forms – overconfidence in one's ability to forecast future earnings of a company, to judge the management's capabilities, or to buy a stock at a bottom and sell at a peak. Magadh Capital believes in having strong opinions held loosely. Accepting that luck plays an important part in investing, and in life, helps us stay humble with our opinions and work hard to arrive at conclusions.

Bias blind spot – Ironically even while blindly following the herd most of us tend to think that we are different from the consensus, and that consensus is wrong.

So how does someone late to a stock market rally (which may be peaking) justify one's fresh buying? Simply, by concluding that consensus is too pessimistic and is unable to see the blue-sky scenario that one "knows will happen".

This behaviour, known as bias blind spot, is a bias that prevents people from spotting the impact of biases on their own judgment even though they mistakenly feel that they recognize the impact of bias on others' judgment. Humility again, intellectual resilience and flexible thought processes are the traits that we at Magadh Capital apply to overcome this bias.

Terminal paralysis – Terminal paralysis prevents us from acting even on favourably loaded games if the environment is adverse. For example, most of us are perennially waiting for the equity markets to tank by 25-30% so that we can load up on stocks paving the way to a wealthy future. Unfortunately, terminal paralysis bias often takes control in the event of a sharp slump in markets. In the real event of a 25-30% market crash, the accompanying pessimistic environment makes it difficult to make new purchases.

To defy terminal bias, we effectively tie ourselves to a decision – buy, sell, or hold.

Thus, at Magadh Capital, generally, we are ready with names of stocks that can offer good entry opportunities at certain price points. When those price points are achieved, we make the purchase– irrespective of the market environment.

To sum it up, to be able to act in a rational fashion we need to be aware of these behavioural biases first. Magadh Capital analyses the possibility of these biases in every investment decision with a checklist. Then, conscious thinking and willpower help us overcome most of them. Advanced research and pre-commitment to follow one's analysis are the keys here.



Magadh Capital

PORTFOLIO MANAGEMENT SERVICES



DEEP RESEARCH, DEEP IMPACT

INVEST BEYOND THE ORDINARY

Empower your wealth aspirations with Magadh Capital's bespoke portfolio management. Forget one-size-fits-all approaches; we cultivate tailored investment strategies, grounded in research and unwavering integrity following a process shaped by our rich market experience. As your fiduciary partner, we prioritize your long-term objectives, with focus on delivering consistent returns with capital protection - all with a human touch. Your success aligns with ours.

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SINGULARITY AMC

INDIA INVESTMENT OPPORTUNITY



Shashi Singh
CBO, Singularity AMC

Why India – **All pointers towards a fast growth economy**
Which Sectors – **Focus sectors driving growth in India**

India toppled China's long-held status as the world's most populous country at the end of April. On path to steal China's crown as Asia's largest private equity powerhouse too



$3.2Tn going to $5Tn

↑7.19%
2021-26 average real GDP growth projection

↑111
Number of unicorns in India at the end of Oct 23

7.2%
GDP Growth rate (22-23)

$70.97 Bn
FDI inflows in India (22-23)

67% population in age 15-64 & improving over next 20 years

India is a long term structural story. Fundamentals of the economy coupled with political stability, tremendous amount of foreign capital and other underlying drivers point towards long term growth in India. The growth path is underpinned by the Indian Government's dedicated efforts to enable a robust and self reliant country. The new India is to be promoted as a knowledge based digital hub.

India's emergence as one of the World's most entrepreneurial and technology oriented nations presents a massive opportunity for investors. The Indian Government's investments in physical and digital infrastructure and improved business practices will act as force multipliers in the country's key growth drives over the next decade. Increased fund flow, deal size and an emerging venture debt space offers alternate capital and investment sources to founders and investors.

As urbanization proceeds, an increased middle class with more disposable income will drive up businesses.

The large pool of young new age entrepreneurs are spearheading a changed thought process which is that of partnership with PE/ VC firms. Globally exposed and professionally trained they are unencumbered by the traditional conservatism of previous generations. The rapid growth pace is further demonstrated by sustained optimism in listed markets.

Being or investing in a Unicorn is a fulfilling proposition.

India has laid the foundation for local and global investors to fully engage. With a strong economy, an evolving and progressive regulatory framework, political stability, demographic advantage combined with a highly entrepreneurial landscape there will undoubtedly be great investment opportunities ahead!

This raging growth is fostered by some sectors as key drivers of Indian growth story.

Enterprise SaaS | Consumer | Fintech | Healthcare

Why Enterprise SaaS

~1200 SaaS startups ~$10bn Revenues

7 SaaS Unicorns ~27% CAGR for the next 4 years

India SaaS market ~$10bn, is expected to reach $26bn by 2027 at a CAGR of 27% Projected to reach $50 billion of annual recurring revenue (ARR) by 2030, nearly quadrupling its size today

Global tailwinds

- Digitization of Enterprises and SMBs
- Conversion of legacy software model into SaaS
- Flexibility to implement faster without any regular maintenance investment, easy to integrate with existing application

Important factors

- Indian companies' efficiency advantage will aid them on their path to global leadership
- New cloud infrastructure will emerge to power traditional financial services
- UPI will create SaaS and infrastructure opportunities across a wide spectrum
- Indian Pharma will move forward on the wheels of cloud software
- AI-first companies from India will lead the productization of services locally and globally

Why Consumer

- Consumers aspiring for better lifestyle and wellbeing
- Tier II India spending is on the rise as disposable incomes grow and digital markets reach everyone.
- Currently consumers from Tier 2+ spend 3x of the top 60 Cities. 83% of Tier 2+ are open to trying new brands and products.
- 300 mn Indian households are at the beginning of their discretionary consumption cycle
- Contract manufacturing by brands to bring in efficiency in manufacturing process and keep costs low
- Transparent new age logistics providers that save costs and time Premiumization across categories

Why Fintech

- India continues to remain credit hungry, both retail (consumption driven) and business (growth and business expansion driven)
- Retail Credit Gap: of the total 440Mn eligible people, only 120Mn people covered by formal lenders. A credit gap of $530bn.
- New to credit and new to bank customers are increasing as lenders can better underwrite borrowers with the help of fintech and via alternative data.
- Innovative financial products with custom repayment schedules and offerings require new-age Loan Lifecycle Management Systems
- New-age cloud Loan Management and Loan Origination Systems
- Insurance levels very underpenetrated in India at 1% despite rapid growth over the last 10 years, target to achieve penetration levels of 2.5% by FY27
- General Insurance Companies (Late Stage) and omni-channel Insurance Distributors
- As digital payments become more ubiquitous, companies in the space have far larger and unique data sets to underwrite customers.
- Large fintechs in the payments space will remain an acquisition hook, fintechs have started monetizing a customer by cross-selling debt & insurance products.
- With a wide distribution network of POS devices, a large customer base (consisting of merchants) will have a collection at source mechanism (loan repayment on an everyday basis), which would drive improved collection efficiency and better

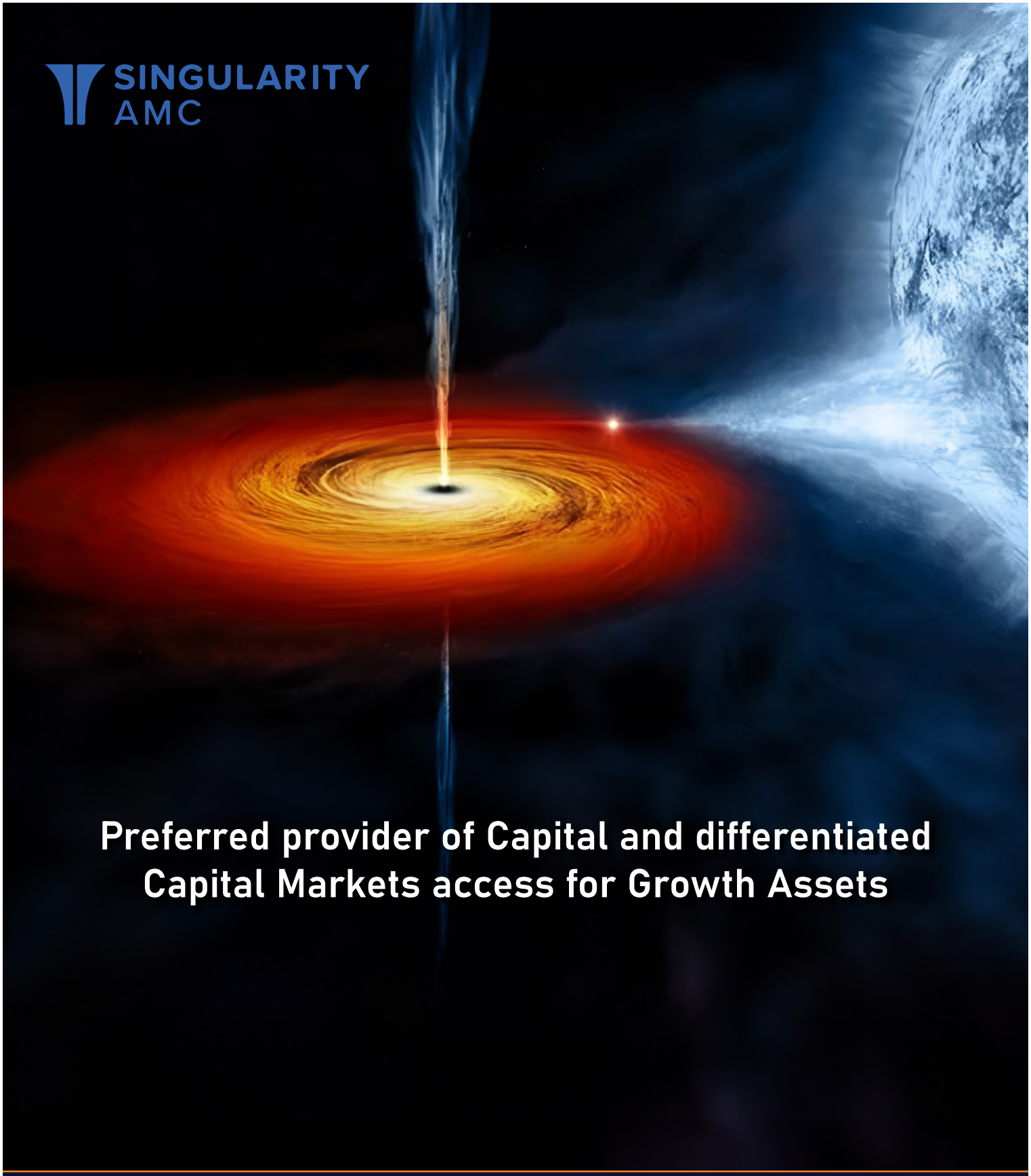
Why Healthcare

- India has a senior citizen (60+ years) population of ~10 Crs.
- The Aging senior population will drive senior living facilities for able as well seniors with health challenges.
- EY expects per capita income to increase by 6x from 2023 to 2047. HNI population is expected to grow at ~12%-14% CAGR.
- Increasing income levels will be driving healthcare outcome expectations
- Under Ayushman Bharat Yojana, free INR 5L cashless health insurance cover to 50cr Indian families; Results in surge in demand for high quality private hospitals
- India has 39 JCI accredited and 657 NABH accredited hospitals. Need significantly more such hospitals to cater to medical tourism.
- The increase in size of the Indian healthcare ecosystem will result in significant increase in demand around existing and new medical devices, equipment as well as consumables.
- Health tech stack by Indian government will create a single repository of health data and make it “interoperable”
- AI/ Deep Tech based continuous health monitoring and actionables using health tech stack will be a big opportunity.

Conclusion

India is gradually gaining momentum as the World’s preferred investment destination. Political, Demographic, Business environment and rising entrepreneurship will foster this growth. A not to miss destination for investors from across the globe.





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Singularity AMC

EXCLUSIVE INTERVIEW



> **AAID** segments our strategy into four distinct quadrants - Value, Growth, Quality, and Pension Fund Investing - each tailored to specific market conditions and investment goals

Anirudh Garg
Fund Manager at INVasset PMS

Invasset PMS has been recognized as India's Best PMS for 2023. What key factors contribute to this prestigious accolade

Our recognition as India's Best PMS is a testament to our innovative investment strategies and the INVasset Advanced Algorithm for Investment Decisions (AAID). Our 30-year journey in the financial industry, marked by continuous learning and algorithmic advancements, enables us to adapt dynamically to market changes. This commitment to innovation and excellence in algorithm-driven investment strategies has been pivotal in achieving this honour.

Can you elaborate on the INVasset AAID and how it revolutionizes investment decision-making at Invasset PMS

The INVasset AAID is the heart of our investment strategy. It's a sophisticated multi-model factor tool developed from years of experience and expertise. This algorithmic evolution enables us to analyse market conditions comprehensively, identifying potential investment opportunities across various sectors. It segments our strategy into four distinct quadrants - Value, Growth, Quality, and Pension Fund Investing - each tailored to specific market conditions and investment goals.

Invasset PMS emphasizes a unique investment philosophy based on future-oriented market rewards and bias elimination. How does this philosophy guide your approach

Our investment philosophy is grounded in the belief that the market rewards companies poised for future growth, regardless of their current state. We aim to eliminate investment biases, fostering an objective, data-driven decision-making process. This approach enables us to identify undervalued opportunities, emerging market leaders, companies with robust fundamentals, and strategies for alpha preservation, depending on the market scenario.

Your Two-Run Theory categorizes investment scenarios into 'old economy runs' and 'new economy runs.' How does this impact your investment strategies

The Two-Run Theory is crucial for aligning our investment strategies with economic cycles. In old economy runs, characterized by high inflation and growth, our focus shifts to mid and small caps for value. Conversely, the new economy runs prompt us to emphasize quality and sustainability in large caps during subdued economic environments. This theory ensures that our investment strategies are responsive and tailored to the prevailing economic context.

Invasset PMS has set ambitious performance targets and employs robust risk management techniques. Can you discuss these aspects

Our performance targets are aggressive yet realistic, aiming for 18% to 24% returns post fees, with the goal to outperform Nifty by 1.5 to 2x. Risk management is integral to our approach. We have strategies in place to limit temporary downsides to a maximum of 20%, ensuring our investments are not only high-performing but also resilient in various market conditions. But its important to remember here is that these are targets that we have set for ourselves and not a guarantee or guidance of any kind.

Customer service and communication are key to investor relations. How does Invasset PMS excel in these areas

We prioritise direct and transparent communication with our clients. Our dedicated WhatsApp groups offer personalized support, facilitating immediate access to our team, including fund managers. We also ensure our investors are well-informed with regular updates, sending over 15 communications per month, and keeping them abreast of market trends and our portfolio strategies.

How does Invasset PMS align the interests of fund managers with investors, and what are the company's expansion plans

Alignment of interests is crucial for us. Our fund managers are deeply invested in the INVasset AAID, with a proprietary fund mirroring client investments. This creates a shared goal of maximising returns. Regarding expansion, we're planning to extend our presence to Ahmedabad and Dubai, broadening our reach and bringing our expertise to new markets.

Finally, could you shed light on Invasset PMS's fee structure, onboarding process, and approach towards investment churn rate and bias-free investing

Our fee structure is performance-based, aligning our earnings with the profitability of client investments. This ensures that our interests are directly linked with our clients' success. The onboarding process is streamlined and digital, taking just 5 minutes without extensive paperwork. Our approach towards investment includes maintaining the industry's lowest churn rate and a neutral stance on the sector, market cap, investing style, and holding period biases, ensuring a comprehensive and unbiased investment approach.



INVASSET

INDIA's Best Performing PMS For C.Y. 2023

Why Invasset PMS?

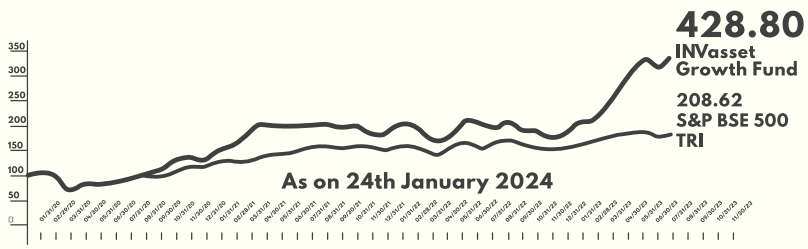
- Hassle Free Online Onboarding
- Low Churn Rate
- Quant Expertise Meets 30 Years Of Wisdom
- Personal Whatsapp Group For Every Investors
- Pay For Performance You Pay Only When You Earn No Fixed Fee

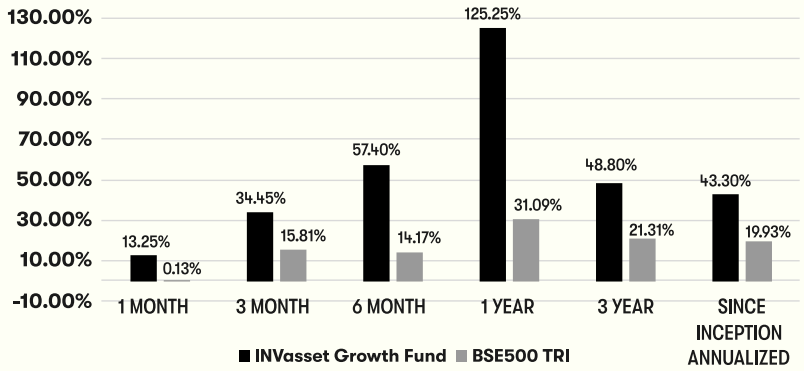
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NO
INVESTING STYLE BIAS

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NO
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FCA & ACS
30 Years Of Full Market Experience
250 Cr.+ Proprietary Desk
100% Invested In INVasset AAID Algorithm



Rajnish Garg

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EXCLUSIVE INTERVIEW

ABANS INVESTMENT MANAGERS



Bhavik Thakkar
CEO, Abans Investment Managers

> **"Our endeavour is to identify stocks that can double their earnings over four years. We have been agnostic to sectors and have avoided market cap bias"**

Most major companies across sectors have announced their December quarter results. What do you make out of management commentaries regarding the outlook for Q4FY24 and FY24?

December quarter has begun on a good note, especially for our set of companies. However, at the sector level, we see a good divergence in terms of outlook. Discretionary consumption and capex themes have a brighter outlook, which includes cement, building materials and infra. Focus on local manufacturing and rural push brings optimism for the future. Perceived peaking of interest rates augurs well for financials and rate-sensitive sectors. A comeback for commodities amid supply disruptions sounds good for energy and metals. For export-led sectors, the pharma outlook is stronger. In contrast, commentaries suggest that the tech sector is not yet out of the woods - considering adverse global macros and delays in bagging new deals. View remains challenging for chemicals, too, and pain is likely to take some more time. Overall, FY24 should be a mixed bag with a positive bias, tossing several opportunities at the sector level.

Do you see more concerns on the domestic side than the global side in the coming months that can keep the market volatile?

Positive outcomes on State elections have increased hopes for the continuation of the current regime at the Centre. Political stability coupled with robust macros in the form of strong GDP growth and measured inflation makes the domestic story compelling. The continuation of reforms, rural revival, and strengthening of infrastructure activity should ensure high growth in the coming years. A cliffhanger is in the form of Centre elections, which could keep markets volatile weeks before the event.

That said, global uncertainties – whether the slowdown in developed economies, the weakening of China or any geo-political conflicts outweigh domestic issues for any market volatility over the medium to long term.

Your multi-cap fund has given tremendous returns since its inception in 2012. This is despite seeing multiple downturns. What has helped?

Yes. It's not uncommon to see markets give big drawdowns every few years. Emerging markets like India, for various reasons, have higher volatility when compared to developed markets. So, the right approach would be to create a portfolio targeting superior risk-adjusted returns. India is a growth economy and the world pays a premium for the same. We firmly believe that investing in high-growth companies is the best way to create long-term value. Our endeavour is to identify stocks that can double their earnings over four years. We have been agnostic to sectors and have avoided market cap bias. Active management has helped us to identify themes early and timely exits - if valuations are away from our comfort levels. Aiming at high-growth stocks without losing focus on quality in terms of fundamentals, management, or valuations has helped us to navigate downturns smoothly and outperform strongly over longer horizons.

In your funds, small-cap has a higher allocation. What are your specific reasons, considering that they face the highest volatility if the whole market corrects?

Small caps do have higher volatility when compared to large caps. This is more prevalent at the Index level, and thus, all stocks cannot be measured with the same scale. One key point that needs to be highlighted is that many stocks might be small caps based on market capitalisation. However, they might be market leaders in their industry/segment and having exposure to them is the best way to participate in that growth. We also believe volatility is a friend for long-term investors. It does not impact the portfolio till the time invested in businesses continues to grow, and we do not retort to knee-jerk reactions in the market.

Could you shed some light on the performance of your arbitrage fund? Also, why do you think this fund should form part of an investor's portfolio?

Abans Global Arbitrage Opportunities Fund is a Mauritius-based fund focused on short-term arbitrage opportunities across commodities and currency derivatives traded on global exchanges. It's a market-neutral strategy that has generated around 8% per annum

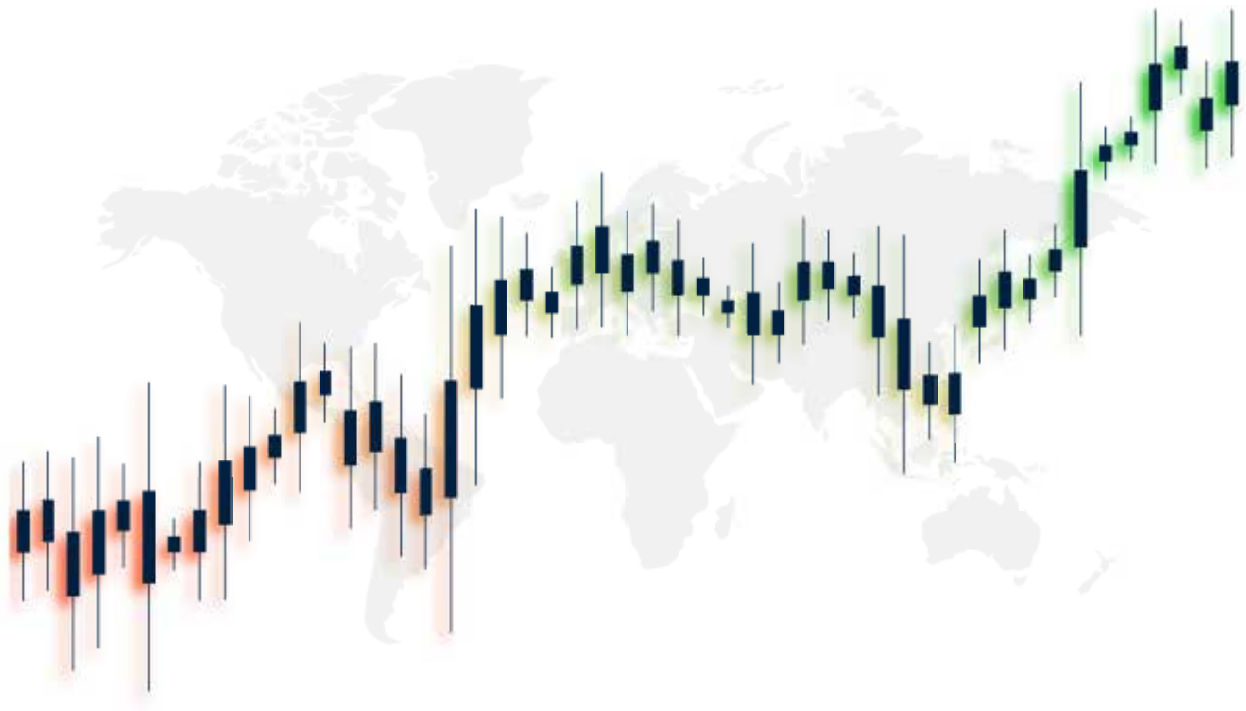
returns over the last seven years. During the COVID-19 year of 2020, the fund delivered 9.50% returns, which displays that the inclusion of the fund in investors' portfolios truly adds diversification benefits.

What is the investment strategy of your Dollar PMS fund? How will investing in this fund benefit an NRI investor?

Abans Growth & Momentum Fund is a Mauritius-based fund investing in the India PMS strategy as an FPI client. NRI investors can invest in the India PMS through PIS (portfolio investment scheme) accounts, which have lengthy account openings as well as yearly tax filing compliance requirements. NRI investors investing through the Mauritius feeder fund will get the same performance as they would have got through direct investment as PMS clients. Moreover, the investor is investing and redeeming funds in $ currency from NAV-based funds.

Your portfolio churn is low. What is your risk management strategy?

Our strategy is driven by fundamentals and is a long-only portfolio. So, a lot of thought and work goes into stock picking. Since investments done in stocks have a long-term horizon, churn is usually low. The churn could go a little higher when superior ideas are generated over existing ones or price targets arrive earlier due to positive markets. We have internal risk rules on stock/sector allocations, drawdowns, valuations, and changing business dynamics that support the risk management process. Saying that we believe the best way to manage risk is by sticking to the philosophy and buying good-quality stocks.





Abans Growth & Momentum Fund (US$ version of India PMS)

19% CAGR returns in US$ over last 13 years

Abans Global Arbitrage Fund

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*Investments in securities are subject to market risks. Please read all scheme related documents carefully before investing.

**Past performance is not indicative of future returns.

EXCLUSIVE INTERVIEW

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Bhavin Shah

Founder & CIO, Sameeksha Capital

IFSC fund would have additional flexibility to allow us to invest also in any securities that are listed in IFSC or abroad, and IFSC fund will enjoy favourable taxation for derivatives should we decide to use them to enhance portfolio returns without adding risk

How do global investors see GIFT City? And while it is expected the traction of investment in GIFT City will increase going forward, what, in your view, can accelerate the foreign investors' interest?

GIFT City is still fairly new for many global investors. GIFT City is backed by a progressive and world-class regulatory framework. In our view, the following benefits of the GIFT IFSC jurisdiction will accelerate the foreign investors' interest:

- **The favourable long-term outlook of the Indian economy** - **Plethora of opportunities** - The long-term outlook for Indian equities remains very promising because of a number of structural factors favouring a sustained period of high growth for the Indian economy under the right set of conditions.

- **Tax benefits** - A foreign investor does not have to take any registration apply for any Indian Tax ID, or undertake any Indian tax compliances to participate in the Indian market.

- **No risk of General Anti-avoidance Rules or Multilateral Instrument Rules (an OECD initiative)** - Currently, many offshore investors who participate in Indian equities do so through funds domiciled in jurisdictions such as the Cayman Islands, Mauritius, British Virgin Islands, where the cost to operate a fund is low. However, it is difficult to establish commercial rationale/substance in such cases. Therefore, investing through such jurisdictions may run the risk of being regarded as a tax avoidance structure, leading to taxation of all the benefits claimed. With GIFT City in place, Indian managers can set up infrastructure and teams, and will have a commercial substance.

- **Consistent Government Support** - The Government has been diligent in its efforts to make GIFT IFSC a global hub for investments.

You have India Equity Fund (Domestic) and IFSC Fund. How are these two funds different? And what is your investment strategy in the IFSC fund?

Our IFSC Fund will follow the same investment philosophy and strategy as our India Equity Fund (Domestic), and the portfolios will largely mirror each other over time. IFSC fund would have additional flexibility to allow us to invest also in any securities that are listed in IFSC or abroad, and IFSC fund will enjoy favourable taxation for derivatives should we decide to use them to enhance portfolio returns without adding risk.

What are the factors that an investor should look for before investing in your IFSC funds?

Our IFSC Fund - Sameeksha India Flexicap Equity Fund ('the Fund') is suitable for foreign and non-resident Indian investors who want to invest in Indian equities. The following are the key features of the fund -

- **Investments** - Primarily in equities listed in the Indian stock exchanges and IFSC stock exchange or about-to-IPO equities across multiple sectors and market cap, and temporary investments in Government-backed securities and Treasury bills

- **Investment strategy and returns history** - The Fund will follow a strategy to invest in Indian Equities across market cap while following a set of risk management rules.

- **Taxation benefits** - (1) Reduced tax rate of 10% on Dividend and interest income as opposed to 35-40% tax on the same income in the domestic area (2) No tax on gains from derivative transactions (3) No GST on the investment manager fees (4) The Fund will bear all the Indian taxes; thus, the investors need not file Indian tax returns.

- **Investor-oriented Fee structure** - The investment manager absorbs all the expenses, and all the fees are variable, i.e., subject to the funds making profits.

How do you see FII inflows shaping up in the coming years? Will it help in lowering the volatility in the Indian market?

It appears that volatility in the Indian market due to FII inflows and outflows may have diminished due to rising participation in equities by domestic investors. At the same time, FII inflows into India may continue to remain robust based on the strong growth outlook of the Indian economy and stable macro indicators. While market volatility is also a function of other factors, such as economic cycles, the impact on the market due to FII flows is set to diminish in importance.

When and how do you narrow down on a stock for an investment? And when do you see the time to exit?

We are sector-agnostic bottom-up investors using a multi-pronged approach for idea generation, including automated screeners, major new macro or global developments, investor conferences, sell-side research, discussion with our peer network, channel checks on peer group companies, new listings and so on. Any idea identified after initial evaluation is then taken through our research process. We study its industry in detail to understand its growth potential, longevity, and competitive intensity. We interact with management channel partners, including customers, dealers, suppliers, etc., and employ second-order checks for corporate governance and related party transactions.

In parallel, we complete an exhaustive checklist of more than 100 items to make sure we have covered every relevant aspect of due diligence that we need to do before narrowing down on a name. Finally, we arrive at an estimate of expected returns from a stock over a horizon of two to three years using the Dynamic DCF/EROE model along with conventional valuation measures as cross-check. We invest only if the expected return estimate thus derived meets or exceeds our required rate of return for a given company based on the risk profile of the business and liquidity in the stock. The price at which the expected return matches with required rate of return sets our Buy-below level.

Once invested, we derive at our Buy-below on an ongoing basis to determine if we can add to our position. Maximum position size is determined based on trading volume in the stock to manage liquidity risk. We also derive our sell-above level, which is the level above which we would consider exiting any position.

> **“We often find companies that are yet to be fully valued by the market and are also delivering superior growth in cash flows and earnings. At the same time, we exit our investment in stocks that are fully valued and suggest very low incremental returns.”**

Which sectors are you bullish in FY25, and what are your reasons?

We continue to like opportunities in financials. Financials do play a vital role in the growth of the economy and, despite strong growth and profitability, are not valued excessively. The wealth management sector presents a structural growth story where we see demand being met by some nimble, mid-sized companies looking to keep it simple. Beyond financials, we continue to find opportunities in select IT services and stocks that generally benefit from higher discretionary spending.

We like media that plays into the higher discretionary spending theme and where valuations remain supportive.

We believe the tourism and entertainment industry has a long runway for growth driven by better road/rail/air connectivity, and the government’s thrust on this sector allows the private players to leverage the opportunities in the space.

The domestic pharma and hospital sector is a play on the increasing affordability and rising health insurance penetration.

Your India Equity Fund has consistently delivered over 30% CAGR returns in the 3-year and 5-year period. Even in the past year, your returns were a whopping 53.5%. How did you manage this feat?

We focus on process-driven investing and have developed a comprehensive set of rules that guide our investment process and arguably reduce individual biases and mistakes. We have chosen to invest heavily in the business (research and technology; in-house software development team) so that we are able to follow our rigorous investment process effectively. Using our process, we invest in Growth stocks at a reasonable value.

Furthermore, we have been following a strategy of reaching out to companies relatively unknown to the market for the last fourteen years and have identified many winners in this manner.

Our investment criteria require that we only invest if the expected return from our investment is above our minimum required return over our investment horizon of two or more years. We derive this expected return figure using sound valuation methods and based on reasonable forecast assumptions.

In addition, every investment has gone through a rigorous process of elimination; hence, the probability of realising those returns is likely to be high. Because of our criteria, we end up investing in companies that are below the radar of most of our peers.

As such, we often find companies that are yet to be fully valued by the market and are also delivering superior growth in cash flows and earnings. At the same time, we exit our investment in stocks that are fully valued and suggest very low incremental returns. Such a strategy helps us avoid sharp corrections in stocks that fail to deliver rising expectations associated with high valuation.

How do you see the Indian market faring going forward, considering the geopolitical tensions?

There are usually some ongoing geopolitical tensions in the world, and these have mattered little in terms of India's long-term returns. Unless there is a major escalation or if it leads to crude prices shooting up and sustaining at high levels along with an impact on global trade, there may be limited impact on the Indian markets overall, and it may be more specific to some sectors.



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A driving force behind the soaring equity markets

Naysar Shah
Fund Manager, Credent AIM Multi Cap Strategy

India is moving upwards in the world, and the dynamics of equity markets are intricate, influenced by a myriad of factors that collectively shape the trajectory of stock prices. India has been one of the fastest-growing economies, with positive expectations building up for the decade. The world's most populous country has grown at a strong pace this year, with the most recent reading on third-quarter GDP showing a much higher-than-expected growth rate of 7.6%. The soaring Indian equity markets have also shown sound fundamentals and robust earnings, which are expected to grow. The uptrend in the Indian equity market was driven by robust macro and micro factors, alleviating concerns about political continuity, and expectation of improving liquidity going ahead. This soaring growth in the capital markets has been witnessed due to various positive outcomes:

Economic Reasons

As stated by the RBI Governor "Forecasts show that the Indian economy will double in size to USD 7trn by the end of this decade with per capita income also nearly doubling to USD 4,500 by 2030 and even before the end of this decade, India is likely to become the third largest economy by size after the USA and China, overtaking Japan and Germany".

The yield on the 10-year US Treasury has fallen from 5 per cent in October to 4.23 per cent at present. This fall means foreign flows will look at the emerging markets, including India, where returns are higher. In India, the benchmark 10-year government security (g-sec) is offering a yield of around 7.20-7.25 per cent. Foreign institutional investors, who sold domestic equities in September and October, became purchasers in November as well as in December.

Changes in global interest rate dynamics are expected to have repercussions on India's monetary policy. External factors such as global economic conditions and monetary policies of major central banks, may also influence the RBI's decisions. The U.S. Federal Reserve's decision to maintain the benchmark interest rate and signal potential rate cuts in 2024

led to a stock market rally, with the Dow Jones Industrial Average closing above 37,000 for the first time.

The Fed's commitment to an accommodative stance and updated projections, including a median Fed funds rate of 4.6% in 2024, suggests a cautious approach. Despite concerns over inflation, tight labour markets, and economic projections, the stock market has shown resilience, prompting analysts to question the prevailing optimism. The Fed faces the challenge of achieving a "soft landing" for the economy amid uncertainties.

RBI's decision to maintain an accommodative stance and keep the repo rate steady reflects a nuanced approach to supporting economic growth. The market's reaction will depend on evolving economic indicators, inflation trends, and the central bank's future policy signals, especially concerning the possibility of rate cuts in subsequent periods.

Political Reason

The decisive majorities won by the BJP in the three heartland states of Madhya Pradesh, Rajasthan and Chhattisgarh have increased hopes that the party will retain power in the 2024 General Elections. This confidence boost in political stability at the centre has resulted in heavy buying by investors in markets. The government's initiatives such as building strong infrastructure, digital India and 'Make in India' are some of the pro-growth initiatives that have been well received by the market.

The market reaction is a clear endorsement of growth and is not driven by freebies. The valuation picture does not look concerning as long as the cost of capital does not rise, the interest rate trend remains the same and there is no doubt on the growth outlook of India. Forecasts build in political stability over the short to medium term, which is positive for the ongoing reform agenda and the structural outlook of the Indian economy

Solid Corporate Earnings

The Nifty-50 has reported an impressive 30% earnings growth in the first half of fiscal year 2024 (1HFY24). Ongoing high-frequency data analysis, including metrics like GST collections, monthly auto figures, power demand, and PMI data, suggests a sustained momentum in earnings throughout the second half of FY24. Sectors that have faced underperformance in earnings over the past several years, including Automobiles, Real Estate, Capital Goods, Infrastructure, Industrials, Utilities, Hotels, and Public Sector Undertakings (PSUs), have rebounded strongly.

The resurgence is attributed to increased government capital expenditure (capex) and notable growth in order books, particularly benefiting sectors such as Railways, Defence, Capital Goods, and Utilities.

Conclusion

In conclusion, the Indian stock market's performance in 2023 is a testament to its resilience and capacity for growth even in challenging global scenarios. The strong post-pandemic recovery and resilient performance amid global headwinds demonstrate the inherent strength of the economy.

Investors should approach the nuanced economic landscape with cautious optimism, considering short-term challenges and long-term growth potential. Diversification, thorough research, and an understanding of global and domestic dynamics remain essential for navigating uncertainties and making informed investment decisions. As the financial year concludes, the market's ability to adapt to challenges and exhibit resilience bodes well for the long-term, while short-term fluctuations warrant careful consideration

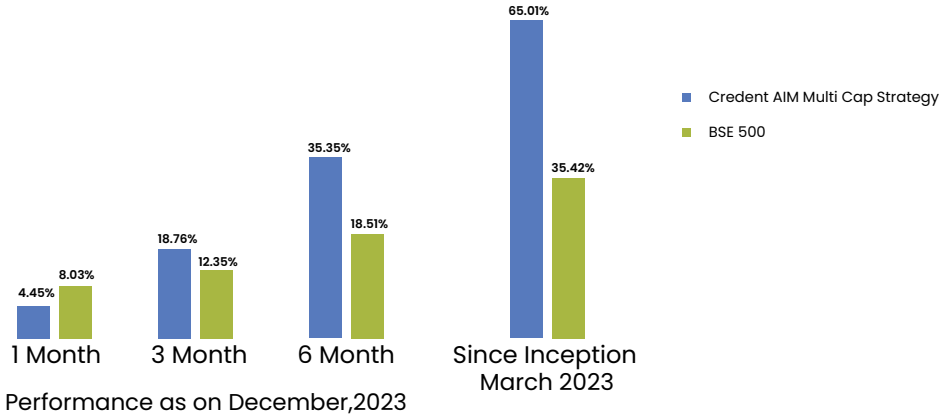
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Performance as on December,2023

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PMS Registration Code: INP000006101

EXCLUSIVE INTERVIEW

CREDENT ASSET MANAGEMENT
Invest your belief in us



Naysar Shah
Fund Manager,
Credent AIM Multi Cap Strategy

"Instead of rigid sector-specific focuses, our strategy hones in on individual stocks that demonstrate growth potential, considering factors like valuation, management quality, and balance sheet strength."

Reflecting on the impressive market performance in 2023, could you share your perspective on whether the bullish trend could continue in 2024 and beyond?

Short-term market predictions, especially within a year, pose inherent challenges due to unpredictable factors. However, looking at the mid to long term, the fundamentals of the Indian economy remain robust. We anticipate India to emerge among the fastest-growing economies globally, accompanied by mid-teen corporate earnings growth, collectively contributing to favorable returns in the medium to long term. While forecasting specific year-to-year trends remains intricate, our strategic focus is steadfastly aimed at sustained growth over an extended horizon.

Shifting the focus to the recent budget and upcoming elections, how do you think these factors could influence the market?

The recent budget, structured as a vote on account, adhered to fiscal consolidation goals, targeting a deficit lower than market expectations. With minimal alterations in taxes and borrowing numbers slightly below projections, it is perceived as a non-event in terms of immediate market impact. Our attention now shifts to scrutinizing corporate fundamentals and balance sheets, emphasizing a strategic approach that transcends the short-term influences of the budget.

With AIM Multi Cap strategy delivering remarkable returns, can you shed light on the sectors or themes you expect to perform well in the upcoming years?

AIM adopts a versatile portfolio strategy, amalgamating both top-down and bottom-up analysis. This approach enables us to identify growth prospects across diverse sectors such as banking, IT, pharmaceuticals, and discretionary consumption. Instead of rigid sector-specific focuses, our strategy hones in on individual stocks that demonstrate growth potential, considering factors like valuation, management quality, and balance sheet strength. This flexibility ensures adaptability across various themes, fostering sustained performance.

Given your substantial exposure to mid and small-cap stocks, how are allocations and strategies within different market caps?

Our portfolio management maintains equilibrium with approximately 30% exposure to large-cap stocks and around 65% distributed between mid and small caps. This dynamic allocation is contingent upon meticulous risk-reward assessments. Notably, recent adjustments have seen an uptick in exposure to large-cap names. This balanced strategy aims to capture potential returns from mid- and small-caps while prudently managing risk through exposure to stable large-cap stocks.

Considering the robust performance of mid and small caps in 2023, do you anticipate this momentum to continue going forward?

While 2023 was favorable for mid and small caps, projecting a seamless extension of momentum into 2024 remains uncertain. Acknowledging the opportunities within large caps, we have strategically increased exposure. This decision is rooted in considerations such as anticipated earnings growth and attractive valuations. Our approach meticulously evaluates the risk-reward dynamics, ensuring a well-rounded portfolio that capitalizes on opportunities across different market caps.

Is there any sector where the AIM Multi Cap Strategy has reduced exposure, and if so, what factors influenced this decision?

AIM adopts a bottom-up analytical approach, prioritizing individual stock merits over sector-specific preferences. While our portfolio encompasses various sectors, there might be instances where limited exposure to certain sectors is observed. This could stem from elevated valuations or uncertainties in the medium-term money flow story. Our overarching strategy revolves around constructing a diversified portfolio aligned with our criteria, even if it means selectively avoiding sectors with heightened risk or uncertainty.

The AIM Multi Cap strategy has delivered over 35% returns in the last six months; could you elaborate on the stock selection process and provide an illustrative example?

The AIM strategy employs a meticulous stock selection process, integrating both top-down and bottom-up analysis. We identify sectors or themes with growth potential and subsequently evaluate individual stocks based on factors such as earnings growth, valuation, management quality, and balance sheet strength. A prime example is our focus on mid and large-cap companies with initially low valuations, initiated in March 2023. This discerning selection contributed to robust earnings growth and subsequent market rewards.

What is the exit strategy in case of underperformance or changes in market conditions?

The exit strategy for AIM involves a rigorous reassessment of the initial thesis for purchasing a stock. If the thesis is proven incorrect or if valuations become unattractive with limited upside in the medium term, we might choose to exit the stock. Additionally, if superior alternate opportunities emerge or there are significant shifts in market conditions, we consider adjusting our portfolio. The exit strategy is an adaptive process aligned with our commitment to optimizing returns within a risk-managed framework.

As we step into the new calendar year, what advice would you offer to investors considering investment in 2024?

Investing in equities can yield substantial returns over the long term, albeit with inherent volatility. Strategic asset allocation based on individual life stages is crucial. Allocating a portion to equities, adopting a medium to long-term perspective, and affording ample time for compounding are pivotal strategies for navigating the dynamic equity market. While short-term fluctuations are inevitable, a disciplined approach to long-term investing can unlock the potential for significant wealth creation.

What is the ideal investment horizon for investors considering the AIM Multi Cap strategy?

Investors should regard equity as a long-term asset class, aligning with the nature of the AIM strategy. While evaluating our strategy, we recommend a minimum investment horizon of 3 to 5 years before forming conclusive judgments. This time frame allows investors to experience the potential of our diversified portfolio approach and witness the strategy's effectiveness over various market conditions.

Lastly, who would be the ideal investor for the AIM Multi Cap strategy?

The ideal investor for the AIM strategy is someone seeking diversified exposure and a balanced portfolio. This individual should be comfortable with the potential for higher returns and volatility associated with mid-and small-cap stocks. At the same time, it's important to value the stability provided by big company stocks, even if they might give slightly lower returns. Additionally, the ideal investor should have a minimum investment horizon of 3 to 5 years, aligning with our strategy's focus on generating compounded annual growth rate (CAGR) returns over the medium to long term.

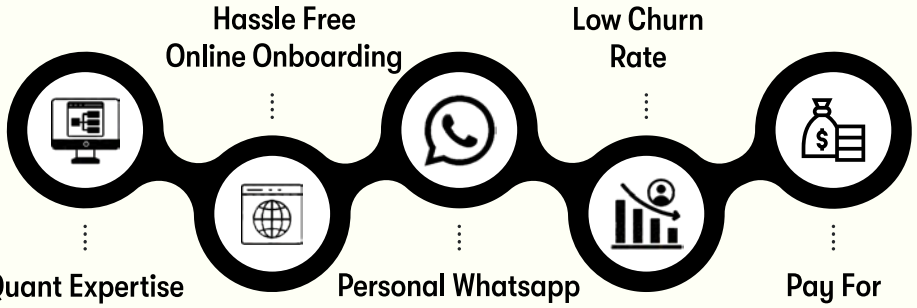



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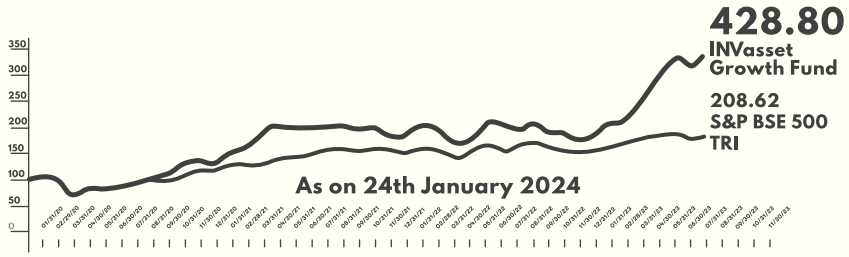


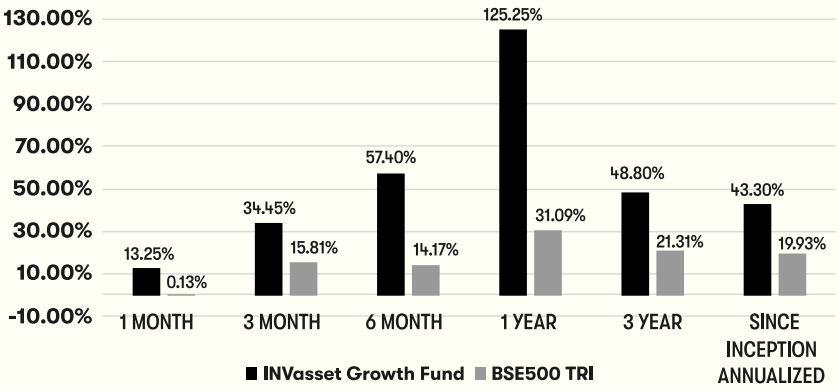
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TAXATION

FRAMEWORK FOR NON-RESIDENT INDIANS INVESTING IN INDIAN SECURITIES





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Senior Manager, Deloitte Haskins & Sells LLP

Non-resident Indians (NRIs) have long played a pivotal role in India's growth story. As the nation's economy continues to expand, an increasing number of NRI investors are opting to participate in India's financial markets through various means, including Portfolio Management Services (PMS) and Alternative Investment Funds (AIFs). Additionally, many NRIs choose to invest in India via Offshore Funds, which register as Foreign Portfolio Investors (FPIs), subject to the prescribed NRI investment limits outlined in FPI Regulations.

Both PMS and AIF sectors have witnessed remarkable growth in recent years, with the total Assets Under Management (AUM) of PMS exceeding Rs 30 lakh crore and AIFs securing capital commitments surpassing an impressive Rs 9.5 lakh crore as of September 2023.

NRIs have been permitted to directly invest in listed Indian securities through the Portfolio Investment Scheme (PIS) and in unlisted shares/securities of Indian entities via the Foreign Direct Investment (FDI) route.

To facilitate investments in India, NRIs can either directly allocate funds from their offshore accounts or utilize Non-Resident External (NRE) or Non-Resident Ordinary (NRO) accounts.

Investments through NRO accounts are considered resident investments for exchange control purposes and monies in the NRO account are not repatriable under Indian exchange control regulations (except to the extent specified under the laws).

Taxation of NRIs on investment in Indian securities

The tax implications for Non-Resident Indians (NRIs) investing in Indian securities vary depending on several factors, including the investment route, type of security, holding period, and income characterization. Thus, understanding the taxability of NRIs for each investment route and security class is crucial. Let's delve into the tax treatment for each security category.

Investment in India under the PMS route

NRIs can invest in India under the PIS route and appoint a Portfolio Manager in India to undertake investment/ divestment decisions on behalf of the NRI. Portfolio Managers typically allocate NRI funds into listed equity shares, debt securities, and derivatives. The gains derived from transferring these securities are categorized as either long-term or short-term, depending upon the period of holding of these securities.

Long-term capital gains

Investments held for over 1 year (for listed securities) are characterised as long-term capital gains. Long-term gains from the transfer of listed equity shares are taxable at 10% (for amounts exceeding Rs 1 Lakh), while long-term gains from debt securities or other securities may attract a tax rate of either 10% or 20%, depending on specific circumstances. However, capital gains arising on the transfer of a Specified Mutual Fund (<35% investment in the equity shares of domestic companies) and Market Linked Debentures are deemed to be Short-term Capital Gains.

Short-term capital gains

Investments held for less than 1 year (for listed securities) are recognized as short-term capital gains. These gains are subject to tax at 15% (for listed equity shares) or as per the slab rates (for securities other than listed equity shares), with the highest rate being 30%.

Dividend and interest income

Dividend and interest income earned by NRIs are taxable as per the slab rates, with the highest rate being 30%.

Benefits under tax treaty

NRIs may avail themselves of benefits and obtain exemptions or reduced tax rates under the tax treaty between India and their country of residence. To access these benefits, NRIs must obtain and furnish a Tax Residency Certificate (TRC) and fulfil other conditions stipulated in the respective tax treaty.

Withholding of taxes

Banks would typically withhold taxes at source in the name of the NRI with respect to income earned by the NRI investors investing under the PIS route through the PMS in India. Consequently, income earned by the NRI as well as taxes withheld by the bank would be reflected in the Form 26AS of the NRI investor. Accordingly, NRIs should typically be eligible to claim foreign tax credits in their home jurisdiction for the income earned from such investments.

Characterisation of income from transfer of securities

An essential aspect to consider is the characterization of income as either capital gains or business income.

Long-term capital gains from listed shares are classified as capital gains (based on the CBDT Circular).

However, short-term capital gains may be characterized either as business income (taxable on a net basis at a rate of 30%) or as capital gains, depending upon specific circumstances. In cases where such short-term gains are classified as 'business income', NRIs can avail exemption from taxation under the respective tax treaty, if they do not have a Permanent Establishment (PE) in India. Having said the above, there is juridical precedence to support that investment under the PMS route should be characterised as 'capital gains' and not 'business income'.

NRIs should be cognizant of the number of days of their physical presence in India to avoid triggering residency or PE in India. However, to the extent, that NRIs visit India solely for vacation purposes and do not engage in any business activities, residency or PE concerns should not arise.

Investment in Category I and Category II AIFs

Indian tax laws provide a special taxation framework wherein Category I and II AIFs have been granted pass-through status for all incomes (except business income).

Pass-through status signifies that the income generated by the AIF is taxed in the hands of the investor rather than at the fund level. Consequently, any income derived by such AIFs (excluding business income) is directly taxable in the hands of the investor.

However, NRIs can claim losses (other than business loss) of such AIF on a pass-through basis only where the units of such AIF are held for a period of 12 months or more.

Such AIFs would typically withhold taxes at source before making any payments to NRIs or at the end of the financial year (i.e., 31 March), whichever is earlier. Consequently, these income as well as taxes would be reflected in the Form 26AS of the NRI investor. Accordingly, NRIs should typically be eligible to claim foreign tax credits in their home jurisdiction for the income earned from such investments.

Thus, NRIs investing in Category I or Category II AIF in India are mandatorily required to obtain an India tax ID (i.e., Permanent Account Number or PAN) and file an India

tax return, disclosing the income allocated by such AIFs to the respective NRI. The tax rates applicable on income allocated by the AIFs are similar to those mentioned earlier for investments made under the PMS route.

However, with respect to Category I and II AIFs set up in the International Financial Services Centre ('IFSC'), the NRI investors have been exempted from the requirement to obtain PAN and file tax returns in India, if the NRIs do not have any other income in India and the AIF withholds appropriate taxes at source.

Investment in Category III AIFs

Unlike Category I and II AIFs, the Indian tax laws do not provide any special taxation framework for Category III AIFs. Consequently, Category III AIFs (which are generally set up as trusts) are governed by a complex trust taxation framework in India. Typically, in the case of Category III AIFs, the AIF pays the entire tax on income earned by it, on behalf of the investors. The tax rates applicable to such Category III AIFs are similar to the tax rate for NRIs, except they are not entitled to slab rates and benefits under the tax treaty. Once the AIF pays taxes on the income earned by it, NRIs generally are not obligated to pay further taxes on the same income.

In case the NRI is investing in a Category III AIF set-up in the IFSC, then the NRIs are exempted from the requirement to obtain PAN or file any India tax return.

AIFs typically do not withhold taxes on distributions made to NRIs, as NRIs' income from such AIF is not taxable in India. Hence, income earned by the NRIs from such AIF does not appear in Form 26AS of the NRIs. However, NRIs often regard the AIF as a 'pass-through' entity in their home country, enabling them to claim foreign tax credits for taxes paid by the AIF in India. Additionally, AIFs commonly provide statements detailing the tax allocated to NRIs facilitating them to claim foreign tax credits in their home country.

Investment in an Offshore Fund registered as a FPI

When an NRI invests in an Offshore Fund that invests in Indian securities under the FPI route, typically there are no India tax implications for the NRI. Consequently, such NRIs are not obligated to obtain a PAN, file an Indian tax return, or settle taxes in India, as these responsibilities fall upon the Offshore Fund. However, if the Offshore Fund is categorized as a Category II FPI, the NRI could potentially be subject to Indian taxes upon transferring shares or interests in the said Offshore Fund, under India's indirect transfer tax regulations. However, the indirect transfer tax provisions do not apply where the Offshore Fund registered as FPI derives less than 50% of its total AUM from Indian securities, or where the investment by a particular NRI in the Offshore Fund is below 5% of the fund's corpus.

Other points for consideration

If an NRI, who is an Indian citizen, resides in a country that does not impose taxes on their income and the NRI's India-sourced income exceeds Rs 15 lakh, then they might be regarded as a tax resident in India. Consequently, their entire worldwide income could become subject to taxation in India

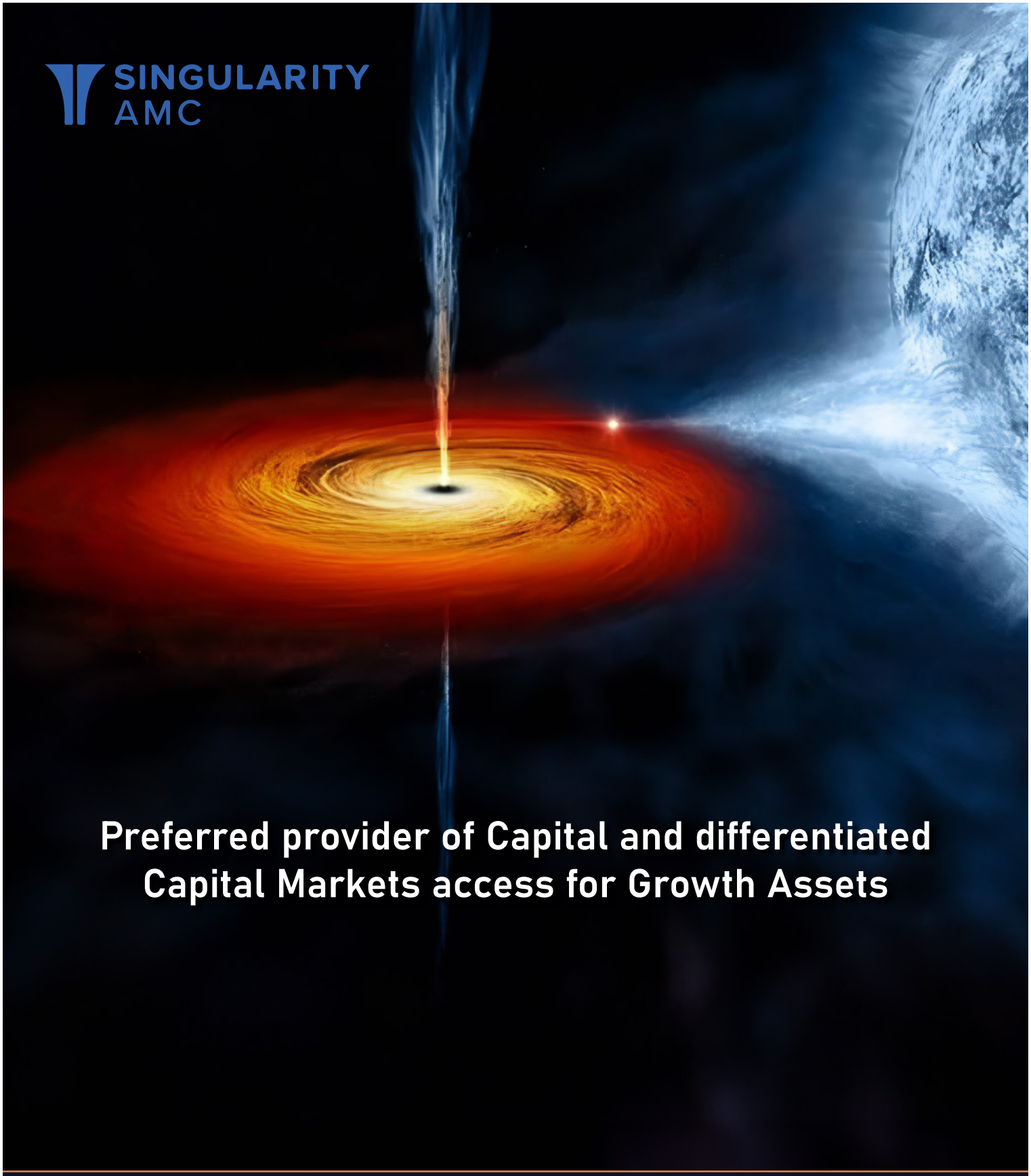
Conclusion

NRIs have probably not received complete flexibility to invest in India particularly due to fear of round-tripping of investments in the past and concerns around double non-taxation of income.

Since India has come a long way and today has a robust KYC framework under PMLA along with increased transparency, digitization and awareness, it is high time NRIs are given greater freedom to invest in India in all avenues. The suggestion in the recent consultation paper allowing 100% NRI participation in an IFSC fund is a step in the right direction.

As NRIs venture into the diverse opportunities offered by India's economy, understanding the Indian taxation framework is crucial to ensure due compliance with the law and avoid any tax challenges in the future.





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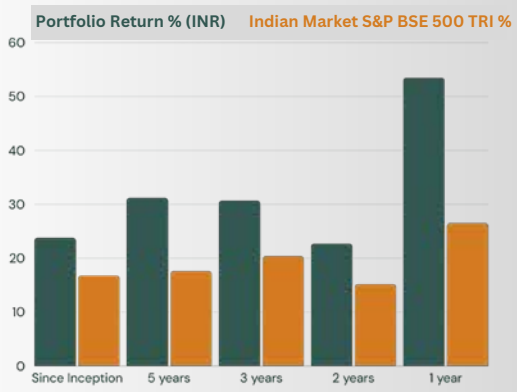
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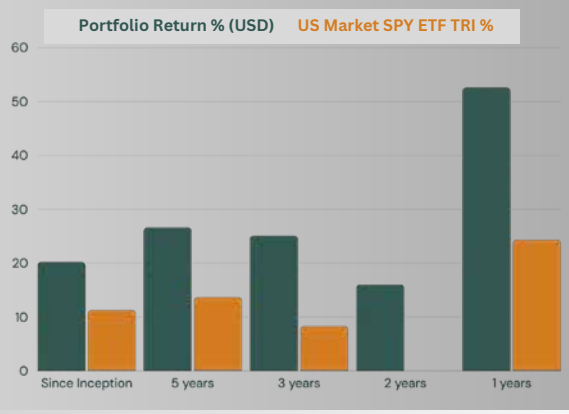
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1 AGGREGATE PORTFOLIO RETURNS[1]

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2 CONSISTENT AND BEST-IN-CLASS

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- Meaningful outperformance for all the accounts with more than one year tenure.

3 OUTPERFORMANCE ACROSS PERIODS

Period	Annualized Outperformance*
Pre-Covid Period From 1 April 2016 to 29 February 2020	**3.1%**.
Covid Period From 29 February 2020 to 30 June 2022	**8.3%**.
Post-Covid Period From 30 June 2022 to 31 December 2023	**16.8%**.

4 UP MARKET OR DOWN MARKET[5]

Upside Capture	**114**
Downside Capture	**58**

1. TWRR **2.** As on 31 December 2023 **3.** From 1 April 2016 to 31 December 2023 **4.** As per ranking of PMS Bazaar **5.** For last 5 years ending on 31 December 2023

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