HIGH CONVICTION FUND SERIES 1

(A scheme of IIFL Opportunities Fund - Category III Alternative Investment Fund)

All data are as on December 31, 2020 and denominated in INR

IIFL ASSET MANAGEMENT

Investment Theme

The Scheme endeavours to generate long-term capital appreciation for contributors by investing in equity and equity related securities. High Conviction Fund Series 1 would be following a mix of top-down (macro analysis to identify sectors) and bottom-up approach (micro analysis to pick stocks within these sectors) based on the investment philosophy centered around (1) Industry/sector potential, (2) Businesses with competitive advantage, (3) Good governance and (4) Favourable valuation (based on risk-reward ratio)

Key Terms

Launch Date	November 26, 2019
Bloomberg Ticker	NA
Scheme	Closed Ended Scheme
Category	Category III Alternative Investment Fund
Benchmark Index	S&P BSE 200 TRI

Fund Details

- Since Inception till December 31, 2020

AUM (INR in Cr.)	413.32
NAV (INR)**	11.1183
Pre-tax CAGR	
High Conviction Fund Series 1	12.74%
S&P BSE 200 TRI	17.32%
Outperformance / (Underperformance)	(4.58%)

**Post-tax NAV

Schedule of Charges

Management Expenses (as % of daily net assets p.a.)	Class	Fees
	A1, C1	2.50%
	A2, C2	2.10%
	A3, C3	1.75%
	B1	1.75%
	B2	1.40%
	B3	1.10%
	C4	0.95%
	S	0.10%
	D*	NIL
Administration Expenses	The Administration Expenses of the Fund shall not exceed 0.15% per annum on daily net assets	
Minimum Investment Amount	INR 1 Crore	

* Investment Manager and any of its Affiliates or such other Employees, trusts or other Persons as designated by the Investment Manager

Class C (including its sub classes) shall be offered onlyto investors of preferred channel partners and the following conditions shall be met:

i) The share class C1, C2 and C3 shall not pay any upfront distribution fee. Trail fee shall be paid todistributors out of the management expense charged to the Scheme;

ii) The share Class C4 will not be charged any distribution fees; The management expense shall be uniformly charged to all share classes as per the investment amount of the respective share class and parity in charging expense shall be ensured in same share class

The Management Expenses will be accrued on daily Net Asset Value. The Investment Manager will charge its Management Expense, on quarterly basis or such other periodicity at the discretion of the Investment Manager

Investment Manager

IIFL Asset Management Limited (IIFL AMC)

Portfolio Manager

- Mehul Jani

Mehul has over 15 years of experience in covering and managing financial services and consumer stocks. Prior to working with IIFL, he worked with DSP BlackRock (a joint venture between BlackRock and the DSP Group in India) for 10 years as an analyst and fund manager. His previous experience includes Morgan Stanley Plc, London, for 4 years, as an associate, dealing with structured product valuation and fund derivatives. Mehul is an alumnus of Cass Business School, London and holds a Masters in Banking and International Finance. He is also a CFA charter holder.

Performance (%)*

Strategy / Benchmark	1 Month	2 Months	3 Months	6 Months	YTD	1 Year	2 Years	3 Years	Since Inception
High Conviction Fund Series 1	8.75	20.16	23.17	38.27	14.19	14.19	NA	NA	12.74
S&P BSE 200 TRI	7.80	20.40	23.84	36.59	17.92	17.92	NA	NA	17.32

*Based on Pre-tax NAV

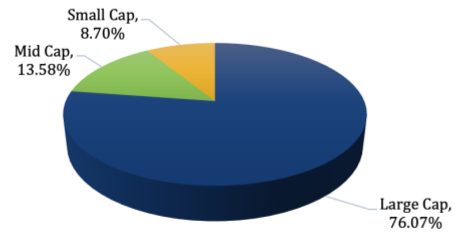
Returns less than 1 year are on absolute basis and more than one year are on compounded annualised basis. Past performance may or may not be sustained in future.

Risk Ratios

Beta	1.07
Sharpe Ratio	0.41
Information Ratio	(1.83)
Treynor Ratio	0.15
Volatility	35.13%

All risk ratios are calculated since inception

Market Capitalization



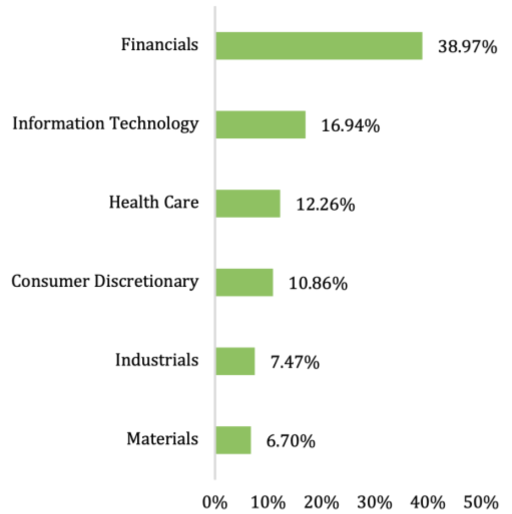
Small Cap < 8500 Cr; 8500 Cr < Mid Cap < 28,000 Cr; Large Cap >28,000 Cr

Portfolio - Top 10 Holdings (%)

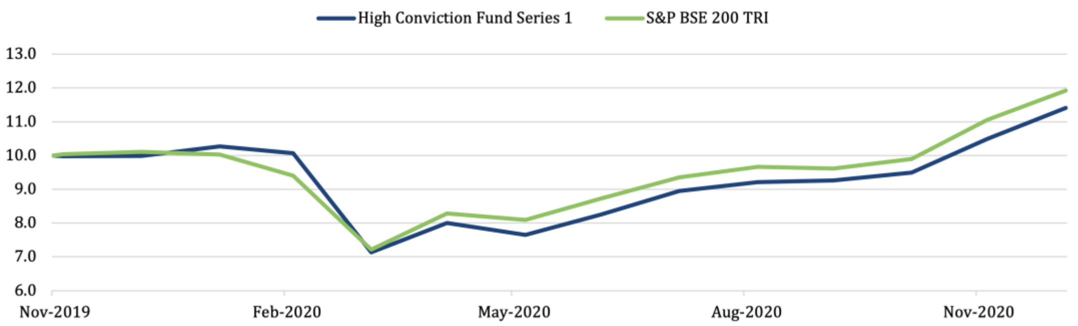
Company	Weightage
ICICI BANK LTD.	9.50
BAJAJ FINANCE LIMITED	7.72
LARSEN TOUBRO INFOTECH LIMITED	6.89
INFOSYS LIMITED	6.87
CROMPTON GREAVES CONSUMER ELECTRICAL LIMITED	6.70
DR REDDYS LABORATORIES LTD	6.61
LARSEN TOUBRO LTD.	5.66
BHARTI AIRTEL LIMITED.	5.15
NATIONAL STOCK EXCHANGE OF INDIA LTD	5.03
AXIS BANK LIMITED	4.85
CASH AND CASH EQUIVALENTS	1.65

Cash Includes Other Current Assets

Sector - Top 6 Holdings



NAV Movement



IIFL Asset Management Limited (Investment Manager)

Regd Off: 6th Floor, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai -400 013

Tel: (91-22) 4876 5600 • Fax: (91-22) 4646 4706 • CIN: U74900MH2010PLC201113 • SEBI AIF Category III Registration No: IN/AIF3/12-13/0016

Fund Commentary

Levels of broader indices closing:
Nifty: 13,982 (+7.7% MoM)
S&P BSE Sensex: 47,751 (+8.2% MoM)

Over the month, all sectoral indices closed in green with Nifty Realty (+20.2%) and Nifty IT (+11.4%) leading the pack. For the calendar year 2020, Nifty Pharma (+60.6%) and Nifty IT (+54.9%) were the highest value generating sectors.

Dear Investor,

The year 2020 turned out to be a year with extraordinary challenges for global economies with IMF estimating contraction in global economy of over 4%. Despite the pandemic related challenges, the massive fiscal packages, ultra-supportive monetary policies and a glimmer of hope of a vaccine have helped the financial assets to witness a V-shaped recovery to close the year in green zone. While market sentiments over the last couple of months were uncertain of a visible economic recovery path, now the global economic turnaround appears a factor of "when", rather than "if".

Indian equities closed the year with record market highs, Nifty TRI yielded 16.1% returns in the calendar year. The sharp recovery in the Indian equities were supported by all-time high foreign inflows (INR terms) which were keenly investing at attractive valuations and the possibility of sharp earnings growth over the next few years. Further, favourable measures by RBI, declining COVID cases over the second half of the year and upbeat recovery in global markets upheld the investor sentiments.

COVID and the global recovery

Barring some disruptions in Europe, green shoots of a broad-based global recovery are gradually becoming more visible as economic activities largely continue their pace. While cases of rising infection and identification of new strain in Europe have raised some concerns, central banks stay committed with their asset purchase program. Positive trial results from vaccine for COVID have paved path for the largest vaccination campaign in the world history. Closing the year on a positive note, European Union and the UK agreed to a trade deal helping to avoid tariffs and quota restrictions on goods in the geographies.

As economic recoveries continue to beat expectations, even the vaccine dependent sectors (travel, hospitality) are now witnessing positive activity. We expect continued monetary policy support along with demand-led improvement in commodity prices including Crude, which touched $50 per barrel for the first time since Mar '20, may augur faster economic recovery.

Indian Equity Markets

After the pandemic, multiple factors have led to surprise recovery across sectors and has bade well for the markets. With historically high FII inflows (net buying of INR 1,70,260 Cr) during the year supporting positive sentiments for the earnings recovery of Indian equities, we believe Q3FY20 may further witness earnings upgrades for FY21-22 as most of the Nifty constituents are reporting improvement in top line on a QoQ basis. The corporate profit to GDP ratio had slumped from a peak of 3.8% in FY12 to 1.7% in FY20 due to weak profitability for financials was a key reason. With the expected peaking of the provisioning cycle, we expect the ratio to improve over the next couple of years. While domestic markets look towards the upcoming budget, overall vaccine efficacy and global cues shall be key watchful events.

Indian economy: Road to gradual recovery

While the markets cherished with foreign inflows, largely led by near zero interest rates in developed economies, leading economic indicators have been incrementally showing recovery. In the last month of the calendar year, improving average peak power (+8% YoY) along with Petrol & LPG demand (+10.4% YoY) signified improving manufacturing activity. Rural growth has continued to be resilient with Tractor volumes have mostly stayed ahead of the automotive pack. Further, GST collections have stayed over INR 1 Lakh Crore mark for two consecutive months, Oct' 20 and Nov '20. Index of Industrial Production (IIP) also grew by 3.6% for the month of Oct '20, largely led by improvement in electricity and manufacturing. Going ahead, recovery in demand and consumption shall pave path for need of capital investments and the further trajectory for the economic recovery.

We believe the economic recovery has been relatively private-driven, hence is sustainable. As sub-2% fiscal support from the government has been favourable for the sovereign debt profile and COVID-situation remain largely under control, a cyclical upswing in capex intensive sectors can be expected in the next fiscal. While concerns over CPI inflation remain, we believe initial 'high' inflation in a recovery cycle bodes well for the economy. A sustained high inflation over a longer period of time, especially if it remains above RBI's policy target of 2-6%, may require intervention from RBI for liquidity reduction.

Our portfolio and thinking going forward

The overall macro in India is pointing towards a cyclical upturn in the economy. With a combination of manageable inflation and all-time low interest rates, cyclical sectors are poised for a turnaround. Commodity prices rising and declining US dollar will enable this cyclical recovery.

As we move forward, we expect the weight of the cyclical quadrant will rise in the portfolio as we find quality companies on the cusp of recovery. Therefore, our aim is to find these businesses and reduce our weight on the defensive quadrant. For example, financials, autos, business services and infrastructure sectors are just some of the sectors that we see a cyclical rebound because of this macro backdrop. Lastly, we are positive on the financial sector, as banks and NBFCs come out of this COVID crisis, stronger and better. We expect quality financials to do quite well on asset quality and growth over the next few years.

As mentioned earlier, our goal is to own a collection of quality businesses in the country. Most of stocks in your portfolio meet this criterion. Majority of the businesses we own have durable business moats, experienced managements, low leverage and prudent capital allocation. We have always been skewed towards large caps and that mix has not changed materially. As a team, we are constantly trying to scout for businesses that meet the criterion mentioned above. Our proprietary SCDV framework helps us in minimizing mistakes that can be easily made in markets like these.

Notes:

1. IIFL Wealth Finance Limited (Co-Sponsor) has committed Rs. 10 Cr to the Fund.
2. Gross NAV has been calculated by dividing the total value (assuming no payouts and no tax impact) by the total number of units outstanding.

The data stated herein is as of December 31, 2020 , unless specifically stated.

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