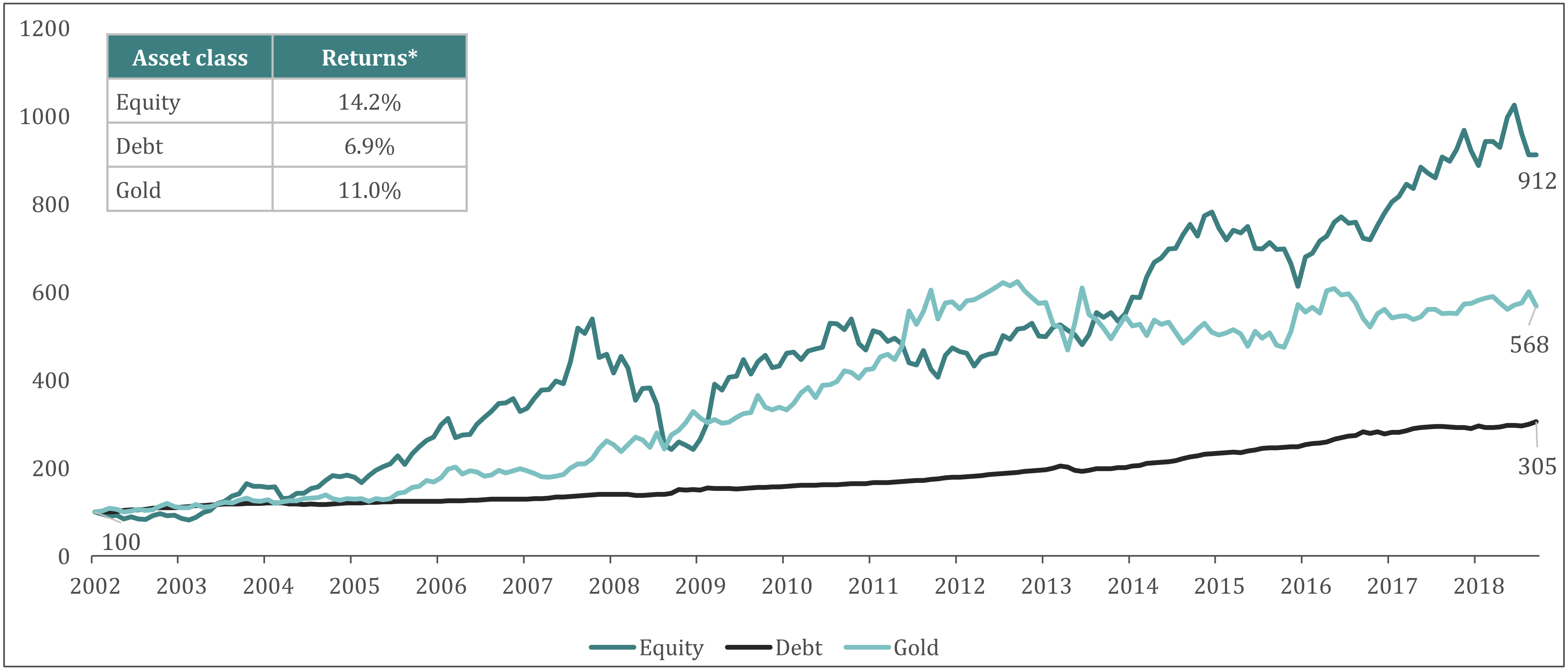
IIFL MULTICAP ADVANTAGE PMS

IIFL
INVESTMENT MANAGERS
ASSET MANAGEMENT

EQUITY VS OTHER ASSET CLASSES

Long Term Wealth creation through Equity Investment

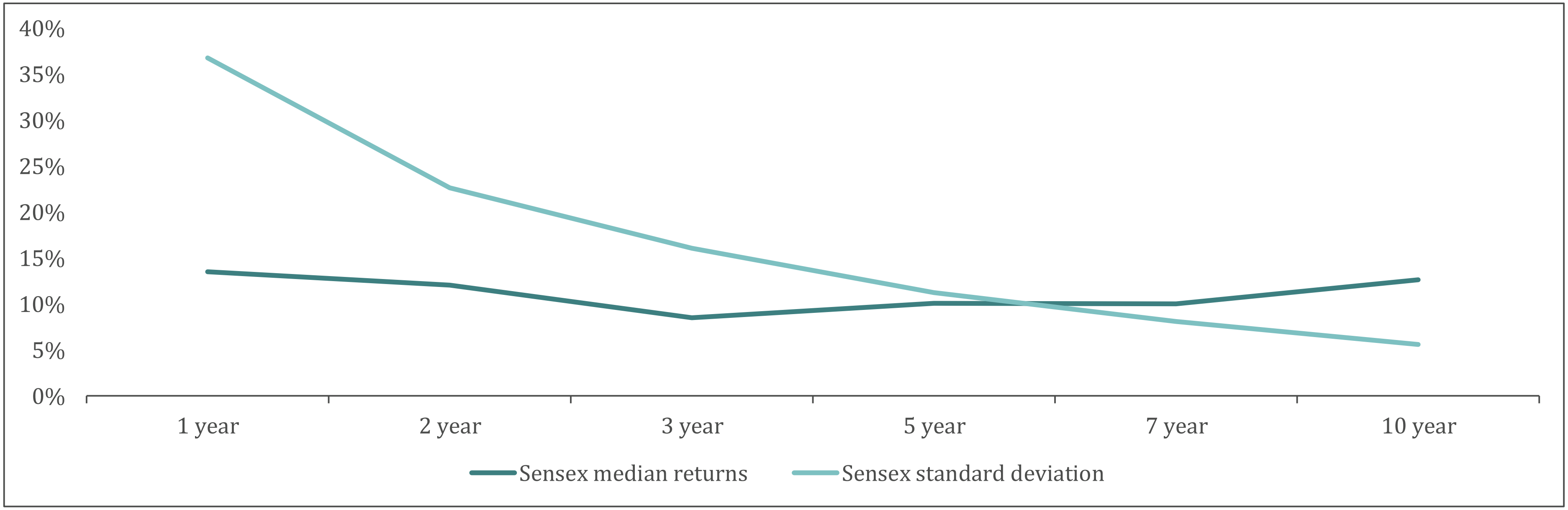
Asset class	Returns*
Equity	14.2%
Debt	6.9%
Gold	11.0%



Source: Bloomberg.
Note: The above chart shows the month end values of Nifty 50 Index (for equity),
Crisil Composite Bond Fund Index (for debt) and Gold prices in INR per troy ounce traded rebased to 100. Data since 31 Mar 2002 till 30 Nov 2018 has been used for this exhibit.
* Returns refers to CAGR returns from 2002-2018

- Equities have outperformed other asset classes over long term
- Provide the hedge against inflation on a long term basis

CORRELATION- TIME, VOLATILITY AND RETURNS

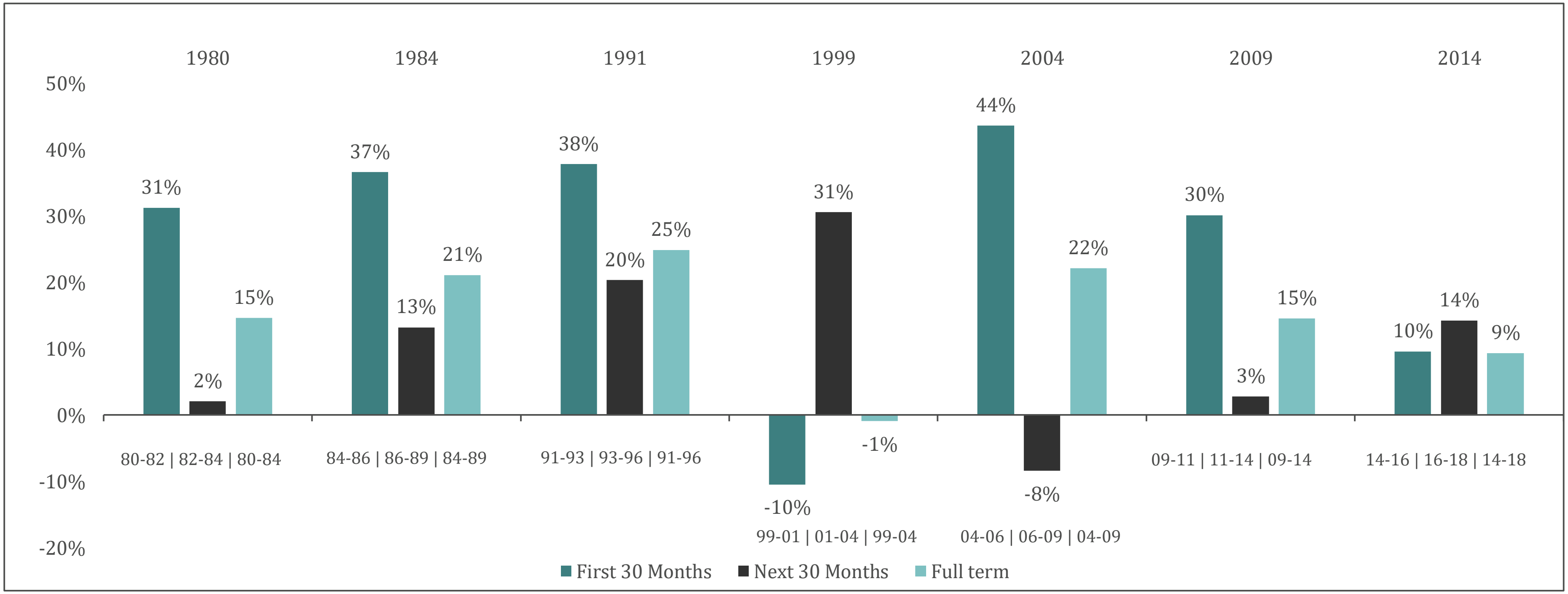


Source: Bloomberg.
Note: The above chart shows the rolling 1yr, 2yr, 3yr, 5yr, 7yr and 10yr returns for Sensex and the volatility in these returns.
Volatility has been calculated as the Standard deviation of these returns (dispersion from the mean returns).
Data since 02 Jan 1990 till 28 Sep 2018 has been used for this exhibit.

- Median equity returns across periods are broadly similar ~12-15%
- Volatility is high across 1-4 year period & reduces significantly over 5years and more period
- Ideal investment horizon– > 5 years(returns>volatility)

EQUITY ALLOCATION IN VOLATILE MARKETS

Return analysis – pre vs post election



Source: Bloomberg.
Returns for BSE SENSEX Index.
All returns are CAGR and calculated for Lok Sabha Election dates. Data as on 30th November 2018

- Tenor between elections broken into 2 equal periods (2.5 years each)
  - 6 months prior to event – 2 years post election
  - 2 years post election – 6 months before next election
- Returns have been higher for pre election investments, irrespective of the election outcome
- We are currently in a pre-election stage…

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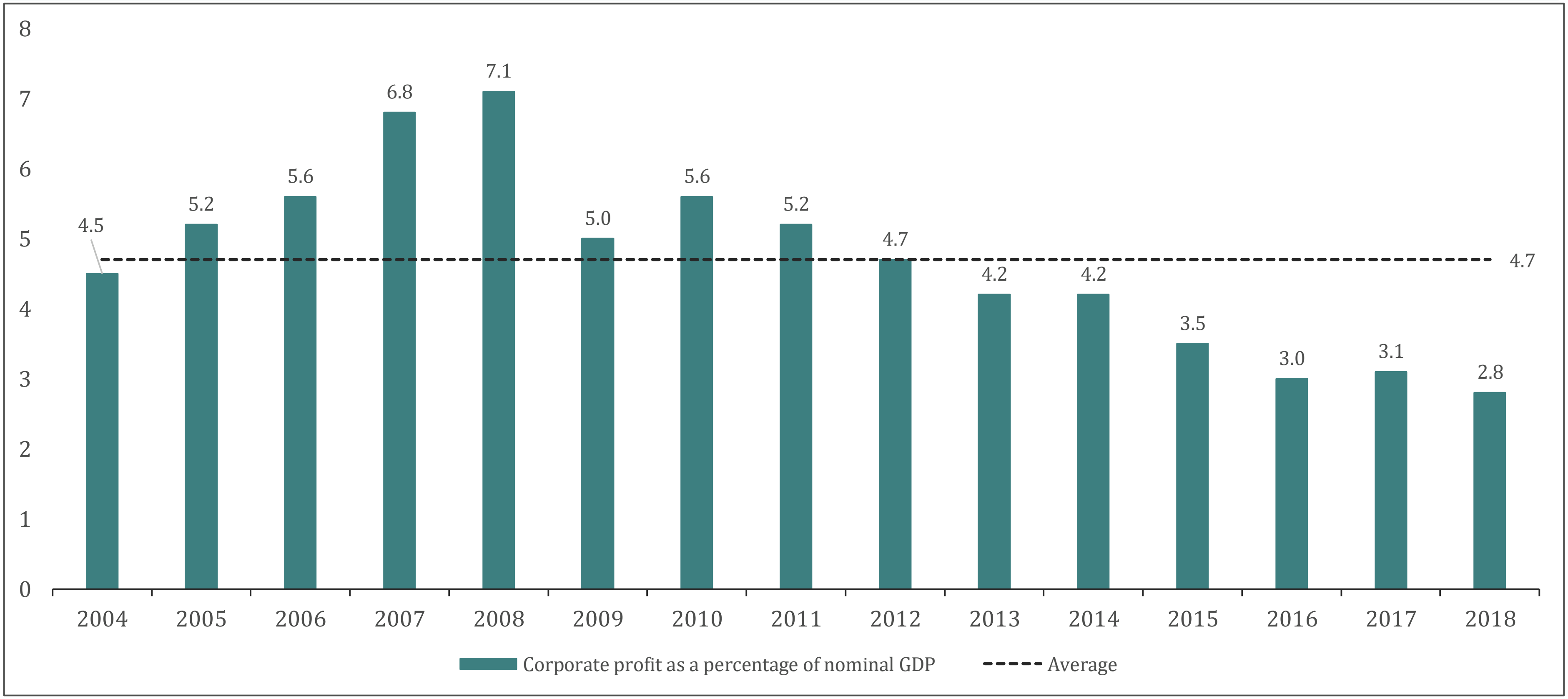
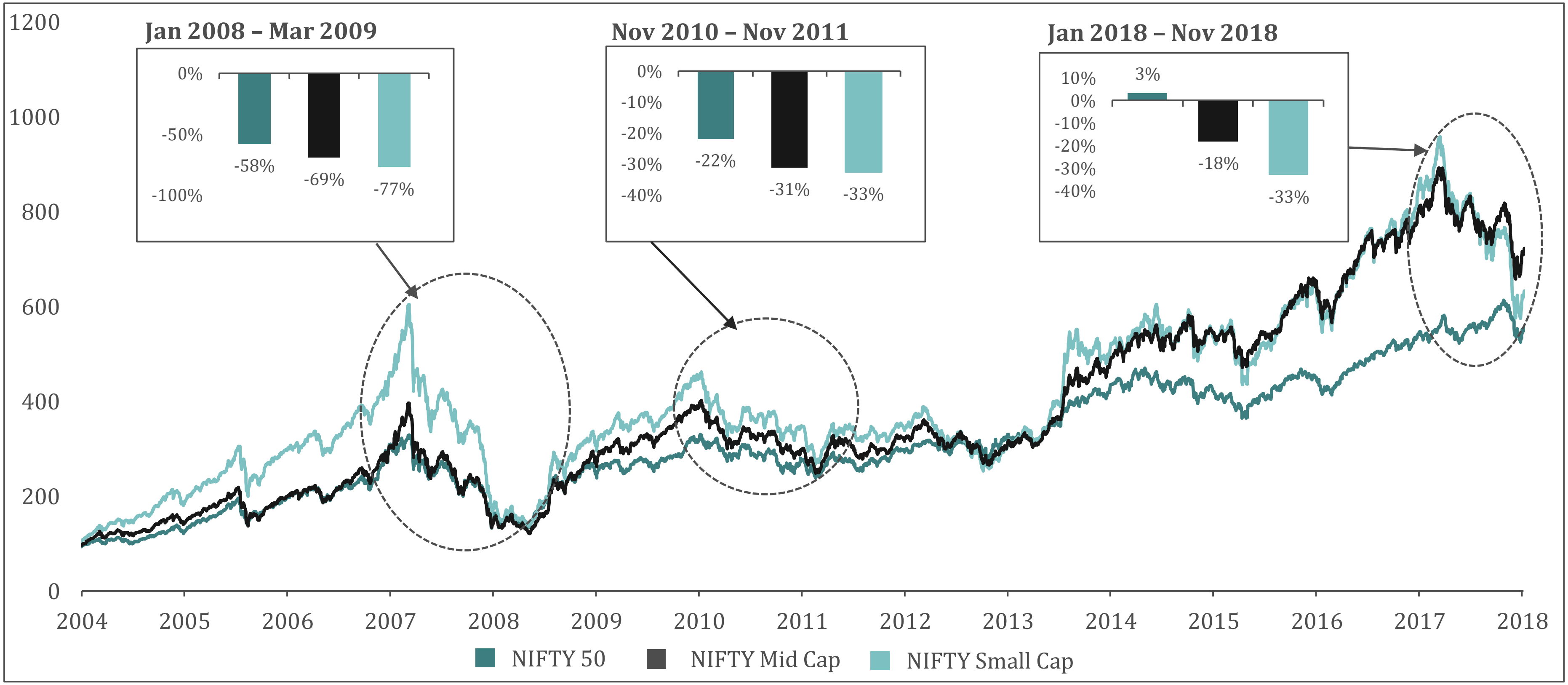
CORPORATE PROFITS VS GDP



Source: Bloomberg, CLSA, ACE Equity database.
Fiscal year ending 31st March; Corporate Profits are of all BSE 500 index constituents

- Corporate profits to GDP at multi year lows, likely to revert to long term averages in the future
- Indicate higher earnings growth to "catch up" across segments

MARKET CAP ALLOCATION VS VOLATILITY



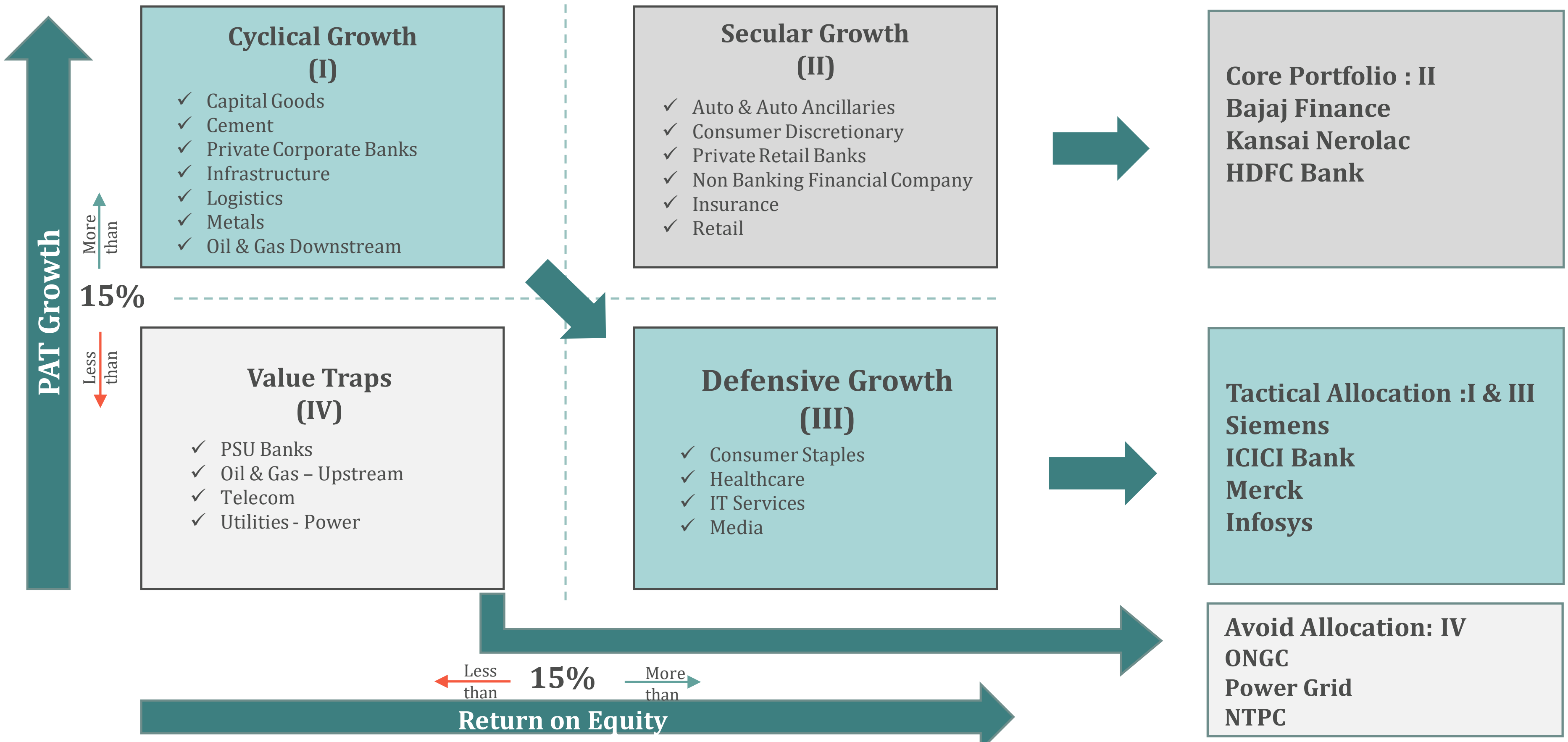
Source: Bloomberg. Data as on 30th Nov 2018

- During periods of higher volatility, large caps have outperformed mid and small cap stocks

INVESTMENT MANAGERS
ASSET MANAGEMENT

INVESTMENT PHILOSOPHY & PROCESS

INVESTMENT PHILOSOPHY & FRAMEWORK - 4 SEGMENTS



- **Cyclical (PAT>15%, ROE <15%)** –Companies/ Sectors that show high growth but are affected by market cycles hence need to be timed for entry and exit
- **Secular (PAT>15%, ROE >15%)** – High growth companies / sectors which show consistent growth across market cycles
- **Defensive (PAT<15%, ROE >15%)** – Companies / sectors that show consistent stable growth across market cycles
- **Value Trap (PAT<15%, ROE <15%)** – Companies/ sectors that are at attractive valuation but do not show commensurate growth

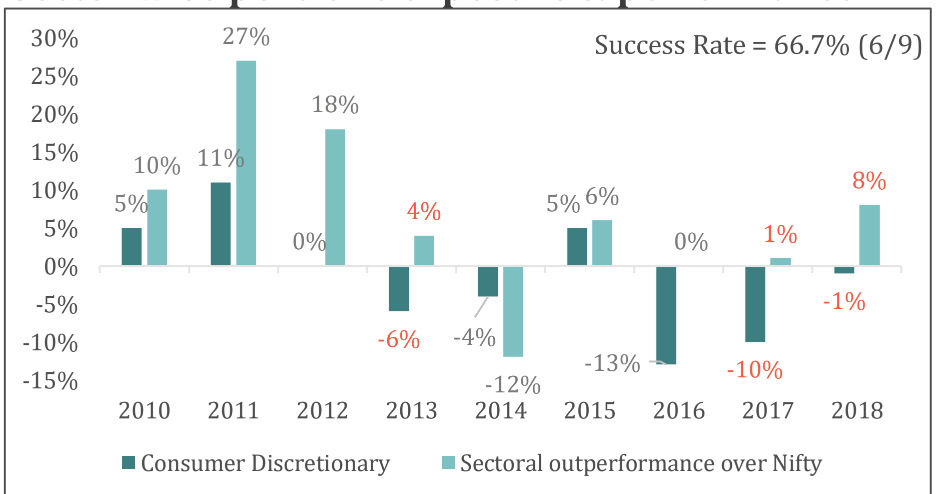
IIFL INVESTMENT MANAGERS ASSET MANAGEMENT

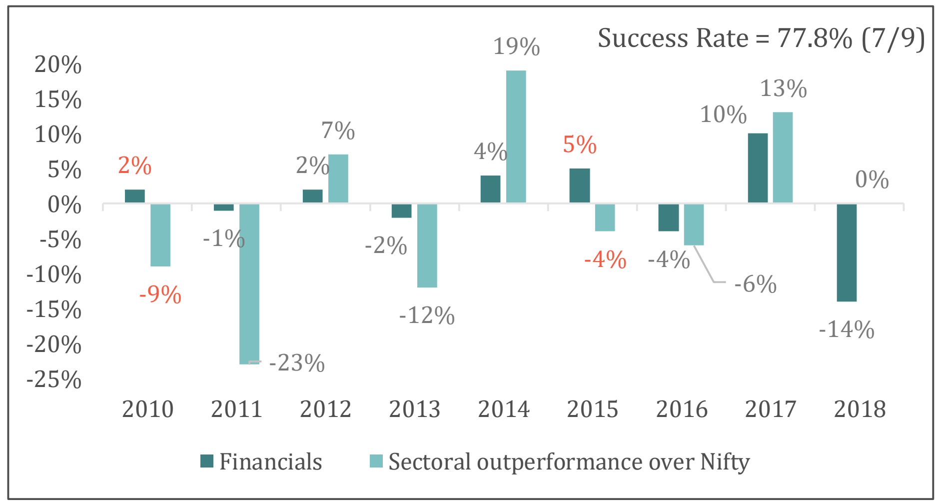
DYNAMIC SECTOR SELECTION*

2009	Increased exposure to cyclicals (auto, banking, utilities etc) (Jindal Steel & Power)
2010	Reduced beta, lowered allocation to infrastructure and mid caps, replaced by defensives like FMCG
2011	Zero exposure to mid caps and infrastructure
2012	Cautious, reduced exposure to commodity space, increased exposure to defensives (pharma)
2013	Increased allocation to cyclical sectors like capital goods, infra, banking, autos
2015	Reduced exposure to pharma sector as US FDA visits increased. Also reduced PSU Banks exposure to zero due to higher NPAs
2016	Added NBFCs and small finance banks
2017-18	Added exposure to defensives (IT and pharma)

*Till 2013, the above mentioned strategy was adopted by the investment team as part of the strategies managed under IIFL Wealth Management Limited, the holding company. Same strategy has been continued by the investment team, under IIFL Asset Management Limited.

Sector wise portfolio exposure & performance





The exposures in the above graphs are relative to Nifty 50 index

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PORTFOLIO HEDGING

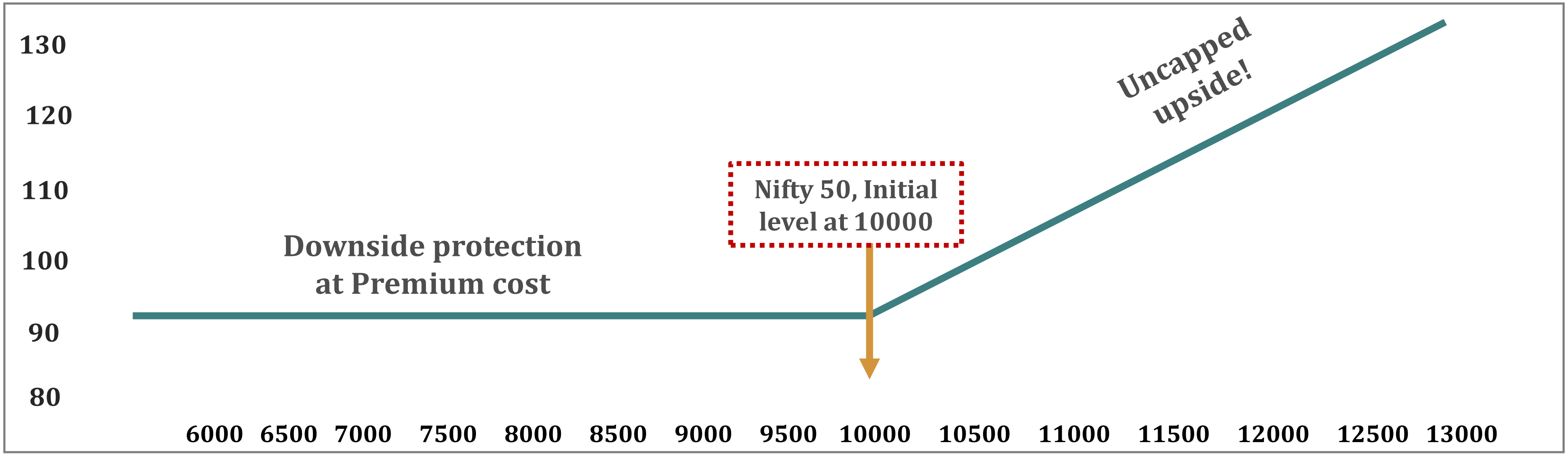
HEDGING - AT THE MONEY PUT OPTION

The loss that a buyer of a put option can incur is the option premium paid and this premium cost (if held till maturity) is as low as only 2% p.a *

Put Option Illustration

Assumption

- Invested amount = Rs. 100
- Allocation to stocks portfolio = Rs. 92–95
- NIFTY 50 initial level = 10,000



*2% is the current cost of the hedge, based on option quotes of a 3 year put option

- If the index is negative after 3 years at maturity, the strategy falls only by cost of the PUT option#
- If the Index is positive, the upside is uncapped

Assuming strategy returns are same as index

DYNAMIC HEDGING STRATEGY

Hedging Strategy timeline^

Dec 1st, 2018	Dec 15th – 24th, 2021	Jan 1st, 2022
Put Option purchased – maturity **Dec 31st 2021**	Investors to notify if they wish to switch to unhedged option*	In the absence of client communication, Portfolio manager to purchase another 3 year put option, maturing on **Dec 31st, 2024**

- The portfolio manager will hedge the portfolio by buying a European At the Money Put Option for a tenure closest to 3 years#
- The put option shall be bought simultaneously with equity deployment, and shall be rolled over at maturity
- In case the investor exits, put option shall be sold in the secondary market at available prices, which may result in mark to market (MTM) gain / loss
- The strategy manager may unwind/rebase put options based on changing equity market valuations

^ Timeline assumes 3 year maturity for put options, in case the portfolio manager takes a shorter duration for hedge, timelines will vary;
# Put option available for June and Dec maturity. Option shall be purchased for next available maturity after 3 years. Eg. for investment date upto Dec 31st 2018, Put option maturity shall be 31st Dec 2021
*Notification for hedge removal to be submitted at least 1 week prior to maturity (i.e Dec 24th2021)

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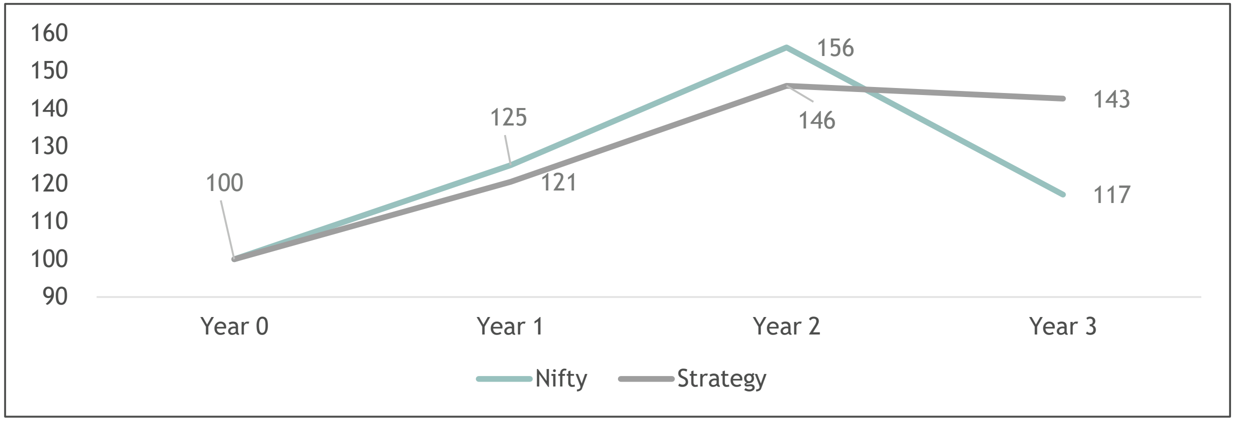
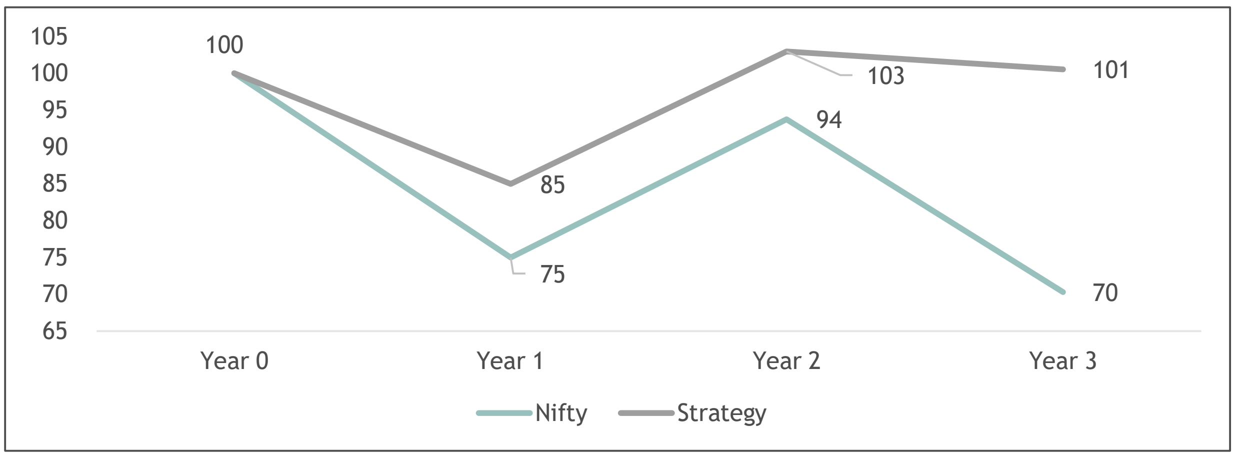
WHY HEDGE WITH A THREE-YEAR PUT OPTION?

Performance illustration: Scenario 1



Period	NIFTY	Strategy*
Year 1	25.00%	20.5%
Year 2	25.00%	21.3%
Year 3	-25.00%	-2.4%
Overall CAGR	**5.4%**	**12.6%**
Absolute Return	**17.2%**	**42.6%**

Performance illustration: Scenario 2



Period	NIFTY	Strategy*
Year 1	-25.00%	-15.0%
Year 2	25.00%	21.3%
Year 3	-25.00%	-2.4%
Overall CAGR	**-11.1%**	**0.2%**
Absolute Return	**-29.7%**	**0.6%**

*Strategy refers to hedged portfolio computed on back tested basis considering out performance of 3% over Nifty post all expenses. Back tested results are no assurance of future performance. Above illustration is only for reference.

Note: The above illustration explains the behavior of the strategy in various scenarios and does neither in any manner, reflect, assure, assume the returns of the actual portfolio, nor is it a recommendation made by IIFL AMC. IIFL AMC is not guaranteeing any returns on investments made in the strategy

IIFL INVESTMENT MANAGERS ASSET MANAGEMENT

PERFORMANCE

Back tested returns – portfolio strategy vs Nifty (since 2000)

Portfolio / Benchmark	Total return (annualized) July 2000 – January 2019
Hedged Portfolio	18.82%
NIFTY 50	11.11%

Performance over 3 year rolling periods

Period	Hedged Portfolio	NIFTY	Outperformance
July 2000-June 2003	7.8%	-9.5%	17.3%
July 2003-June 2006	41.9%	40.2%	1.6%
July 2006-June 2009	27.8%	11.1%	16.7%
July 2009-June 2012	14.7%	7.2%	7.6%
July 2012-June 2015	17.6%	16.4%	1.2%
July 2015-June 2018	9.2%	8.8%	0.4%
July 2000 – January 2019	**18.82%**	**11.11%**	**7.71%**

Portfolio / Benchmark	3 Y Rolling return		Total return (annualized)
	Min	Max	July 2000-January 2019
Hedged Portfolio	3.55%	58.69%	18.82%
NIFTY 50	-9.25%	57.19%	11.11%

Higher returns with lower volatility, based on back test results

Assumptions:

- Equity Portfolio assumed to outperform Nifty 50 index by 3% p.a. through stock and sector selection
- Delta of put option for MTM – 0.5. Delta on exercise (P/E levels below 14)– 1.00

Note: Strategy refers to hedged portfolio computed on back tested basis. The above illustration aims to explain the portfolio strategy, if it had existed in the past; Back tested results are no assurance of future performance

INVESTMENT TEAM & KEY TERMS

ORGANISATIONAL STRUCTURE

Anup Maheshwari (24)

(Joint CEO & CIO – IIFL AMC)

Investment Team

- Mayur Patel (14)

- Mehul Jani (14)

- Aniruddha Sarkar (12)

(Strategy Manager – IIFL Multicap & IIFL Multicap Advantage PMS)

Research

Mitul Patel (11)

Head of Research

- Sunesh Khanna (10)
- Rahul Salvi (6)
- Haresh Kapoor (5)
- Anish Goenka (5)
- Rohit Vaidyanathan (3)

Years in brackets ( ) is years of investment or investment-related experience

IIFL INVESTMENT MANAGERS ASSET MANAGEMENT

KEY TERMS

PORTFOLIO MANAGER	IIFL Asset Management Ltd. (IIFL AMC)
STRATEGY	The investment strategy is to invest in companies & sectors that are available at significant discount to their intrinsic value and provide earnings visibility. The strategy takes a concentrated position in stocks and sectors and endeavours to strategically change allocation between sectors depending on changes in the business cycle • Equity Investment – up to 100% of corpus • Put Options – up to 8% of corpus* • Liquid schemes of Mutual funds and other securities as per discretion of Portfolio Manager
RECOMMENDED TIME HORIZON	Recommended time horizon for effective portfolio returns as envisaged by the portfolio manager is minimum 36 months
MINIMUM INVESTMENT AMOUNT	INR 25 Lakhs
MANAGEMENT FEE	2.50% per annum. Management fee will be computed on Daily NAV (charged monthly)
PLACEMENT / ENTRY FEE	Up to 2.00% of Invested Amount
BENCHMARK	BSE 200 TRI
BROKERAGE	Cash – 0.12% of transaction value (plus applicable statutory levies) Options – 1% of the total consideration or Rs 100, whichever is higher
OTHER CHARGES	Statutory/Other charges as applicable (STT/Demat/Goods & Service tax/audit/custodial charges etc.). Charges to be levied on actual basis @
EXIT FEES	Less than 9 months – 4% of amount withdrawn 9 months or more but less than 18 months – 3% of amount withdrawn 18 months or more but less than 24 months – 2% of amount withdrawn 24 months or more but before 36 months – 1% of amount withdrawn**
ROLL OVER OF HEDGE	On expiry of the put, the portfolio manager will roll over the hedge by buying another 3 year put option. In case investors intend to switch to unhedged option, notice has to be provided to the portfolio manager at least 1 week prior to maturity of the option. In case the investor chooses to exit, the put option purchased shall be sold in the secondary market at available prices, which may result in mark to market (MTM) losses

*In case put options are not available in the suitable lots to hedge the equity investment(s), the Investment Manager may invest in available lots which may result in hedge exposure being either less or more than value of equity investments (upto 10%). The Investment Manager, has discretion to buy Put options across tenors (1-3 years) @GST credit shall not be available on brokerage and other expenses like custody, audit etc. as they are settled at the pool level **Exit load shall be calculated on the redemption value of the portfolio on the date of redemption.

IIFL INVESTMENT MANAGERS ASSET MANAGEMENT

CONTACT US

Location	Address	Contact no	E-Mail ID
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Delhi	**Naveen Bareja** IIFL Asset Management Ltd, 2nd Floor, GYS Platinum, D-3, P-3B, Saket District Centre New Delhi 110 017.	011 4369 3000 Extn 3090	amcsalesnorth@iiflw.com
Bangalore	**Mamatha J** IIFL Asset Management Ltd, Level 3,Prestige Nebula-1,8-12,Cubbon road, FMC Cariappa Colony, Shivanchetti Gardens,Bangalore-560001	080 22536400 Extn 6465/67	amcsalessouth@iiflw.com
Kolkata	**Sharmistha Dey** IIFL Asset Management Ltd, Unit 3, Level 3, Camac Square,24, Camac Street, Kolkata - 700 016	033 44035800 Extn 5820	amcsaleseast@iiflw.com

DISCLAIMER

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THANK YOU.

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