Sundaram Emerging Leadership Fund (S.E.L.F.) Portfolio

• Monthly Update •

Objective: To seek long-term capital appreciation with investments in mid and small cap companies.

Target Investors: Ideal for long-term investors seeking returns through investments predominantly in small and midcap stocks and are comfortable with short-term volatility.

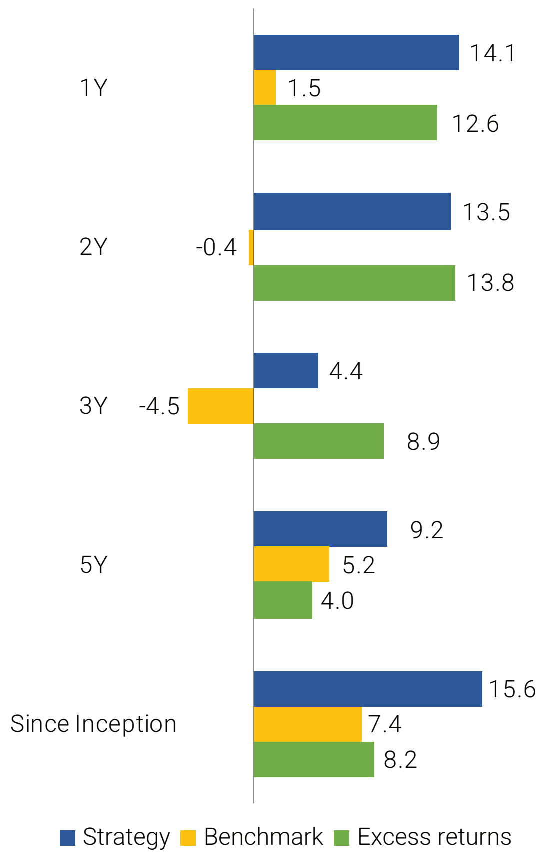
Investment Horizon
Above 3 years

Benchmark
Nifty Mid-Cap Index

Inception
June 2010

Fund Manager
Mr. Madanagopal Ramu

PERFORMANCE (%)



STRATEGY REVIEW

Indian markets gained during the month of October 2020, with the Nifty and Sensex up by 3.5% and 4.1% respectively. Key drivers of the positive uptick was the better than expected corporate Q2 FY21 results and considerable reduction in the Covid-19 infections in India. The sectoral gainers included IT and banking and financial services with the respective indices up by 5.4% and ~11.4%. Healthcare, auto and oil & gas sectors witnessed profit booking.

The US markets' S&P 500 was down ~3% and Europe region dropped ~4.5% with Germany down by 9% during the month. The month also witnessed a significant rise in the second wave of Covid-19 infections across Europe and the US. The unraveling of the US presidential election was another reason for significant market volatility. Brent crude oil closed below $37 for the month of October due to the increased supply coming from OPEC nations.

Over the last 2 months, we witnessed an improving infection trajectory in India as the curve has flattened gradually and the daily deaths remain contained. Although the global infections narrative is concerning with countries in Europe looking at more curbs to contain the infections, markets seem to be pricing the improvement in macroeconomic indicators. Global markets appear to be in a wait and watch mode as various externalities are expected to unfold over the next few months. Markets continue to observe the vaccine news flows closely for positive developments from the various vaccines being developed across the world. Market sensitivity will prevail during the course of the US Presidential Election. However, the markets are prepared for a surprise and the Indian market is likely to face a short-term impact in response to its global counterparts. Although, a crucial risk factor to India is the possibility of a second wave, the dropping infection count suggests otherwise. Also, since the global second wave is due to the onset of winter and flu season, the second wave in India is not expected to be on the back of activity resumption.

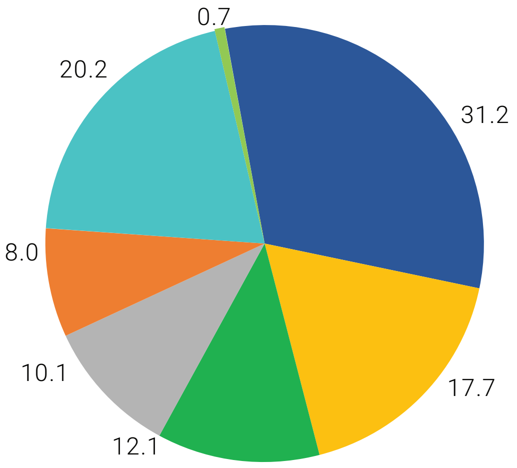
Demand revival - Economic

The course of various short frequency parameters indicate an affirming recovery in H2 FY21 and expectations of growth in FY22. For the first time since February 2020, GST collections topped ₹1 lakh crores, with a 10.5% rise since last month, definitive of a consumption revival. Given the festivities, November is expected to see a robust growth in collections and consumption behavior. The auto sector is witnessing a strong recovery with double digit growth compared to a decline last year with a strong demand growth across passenger and 2-wheeler. Manufacturing PMI is at 58.9, highest in a decade, as sales surge signaling an expansionary momentum in the manufacturing sector. As manufacturing gains steam, power consumption is up by 13% YoY guided by strong commercial and industrial demand. E-way bill inched up to 21% YoY, indicative of the improving resumption in movement of goods. With the possibility of a timely economic package from the government set to focus on urban infrastructure, PLI scheme sector extension and other measures, we expect a boost to the demand revival story.

Demand revival - Sectoral

Pent up demand and uptick in rural consumption has led to a strong revival in volume growth in the consumer space. As highlighted in previous commentaries, consumer discretionary has nearly recovered to pre-Covid-19 levels except in non-food-retail formats. We are seeing signs of growth coming back both in small and large ticket consumption baskets. Although a portion of the revival may be on account of pent-up demand as it spilled over from Q1 to Q2 of FY21, H2 FY21 will set the base for FY22 expectations. As demand recovered, most investee companies in the consumption space benefited during the quarter by unleashing tight cost control measures to accelerate earnings. Investors are advised not to extrapolate the current quarter performance at the margin level, as some of the fixed costs like advertisement and sales incentives will revert back to pre-Covid-19 levels. Employee cost may see an increase as most companies are currently reversing their strategy on salary structures on account of good demand recovery. We continue to remain

SECTOR ALLOCATION (%)

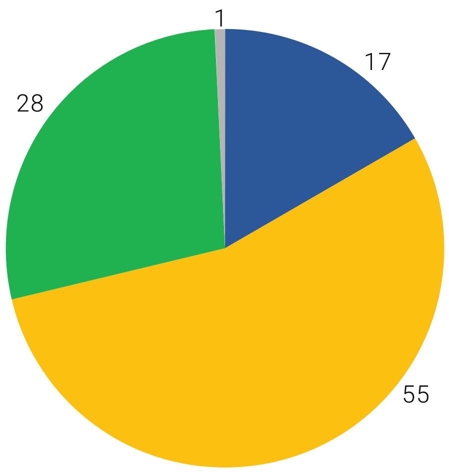


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 26,858 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	15.6	8.8
Annualised Standard Deviation	14.9	18.4
Beta	0.7	-
Sharpe Ratio	0.6	0.1
Correlation	0.8	-
Alpha	7.5	-
Tracking Error	9.8	-

positive in the discretionary space as non-food retail demand will also recover over the next 6 months, as infection numbers drop further, and vaccine development progresses in the right direction.

Recent commentary from companies in the financials space post Q2 results are encouraging. As highlighted previously, the stress in the sector appears to have been overestimated. Phase of demand recovery, MSME credit guarantee schemes and focused collection efforts have all resulted in considerably lower stress for the sector in comparison to the street expectation. Since, growth is the key for further performance in the space, we expect it to return by the end of Q4 FY21. Credit growth is likely to be strong in FY22 in line with economic recovery. In our opinion, financials will outperform the market if the current situation continues. Key risks are a second wave of infections and resultant shutdowns.

As one of the few sectors to resist the Covid-19 impact, specialty chemicals is seeing improved export demand despite a subdued domestic consumption. Furthermore, businesses with exposure to agro-chemicals are witnessing a positive outlook in the light of well-timed and distributed monsoons. Outlook commentary from management post Q2 results reiterate our view of a structural growth for at least 3-4 years in the space.

PORTFOLIO PERFORMANCE

The S.E.L.F. strategy delivered an excess return of 1.6% during the month as the infection curve flattens and economic activity improves. From a long-term perspective, the portfolio has outperformed the benchmark over the 1Y and 2Y period by 12.6% and 13.8%, respectively. This track record disproves the high-risk myth associated with the mid and small-cap space and shows the benefit of investing in quality mid and small cap names. Our strategy is to avoid the near-term noise and continue to back stocks with consistent earnings growth, strong balance sheet and quality management with a long-term outlook.

STOCK PERFORMANCE

During the month, AU Small Finance Bank and PI Industries delivered a meaningful alpha of 18.0% and 11.0% respectively, over the benchmark on the back of encouraging signs post Q2 results. As an organized retail format, Orient Electric outperformed the benchmark by 14.0% due to a demand revival as we approach the festive season. PVR Ltd witnessed a 11.9% correction as footfalls remained muted despite opening up of multiplexes in pockets. GMM Pfaudler continued to drop seeing a correction of 10.9%. KSB Ltd fell by 5.5% but is well-positioned to seize the demand recovery in the space.

KEY FEATURES

- Bet on Sundaram's strength in the mid & small cap space; a **differentiated** yet **concentrated portfolio** positioned attractively along the cap curve.
- Portfolio with a maximum of 25 stocks, Multi-sector portfolio.
- Stocks with market cap less than Rs. 500 billion.
- "**EASE**" portfolio
  - i. **E**merging leaders – clean and high quality promoters / management.
  - ii. **A**sset light & High ROCE businesses are preferred.
  - iii. **S**calable companies: mid cap to large cap, small cap to mid cap transitioning companies.
  - iv. **E**xcellent cash conversion from operations.
- Identify stocks that are in early stages of their business cycle and could emerge as tomorrow's large caps.
- India 2025 - Themes
  - i. Consumer discretionary
  - ii. Financial Services
  - iii. Specialty Chemicals
  - iv. Healthcare

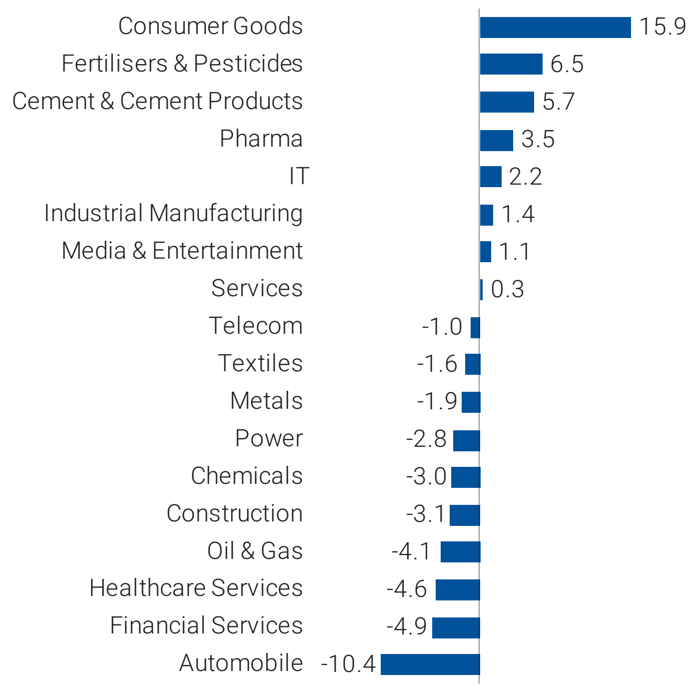
TOP HOLDINGS

PI Industries Ltd.
AU Small Finance Bank Ltd
Dixon Technologies Ltd
Natco Pharma Ltd.
Bajaj Finserv Ltd

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
Dixon Technologies Ltd	2,133	9,299	336
PI Industries Ltd.	982	2,197	124
Trent Ltd.	407	660	62

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



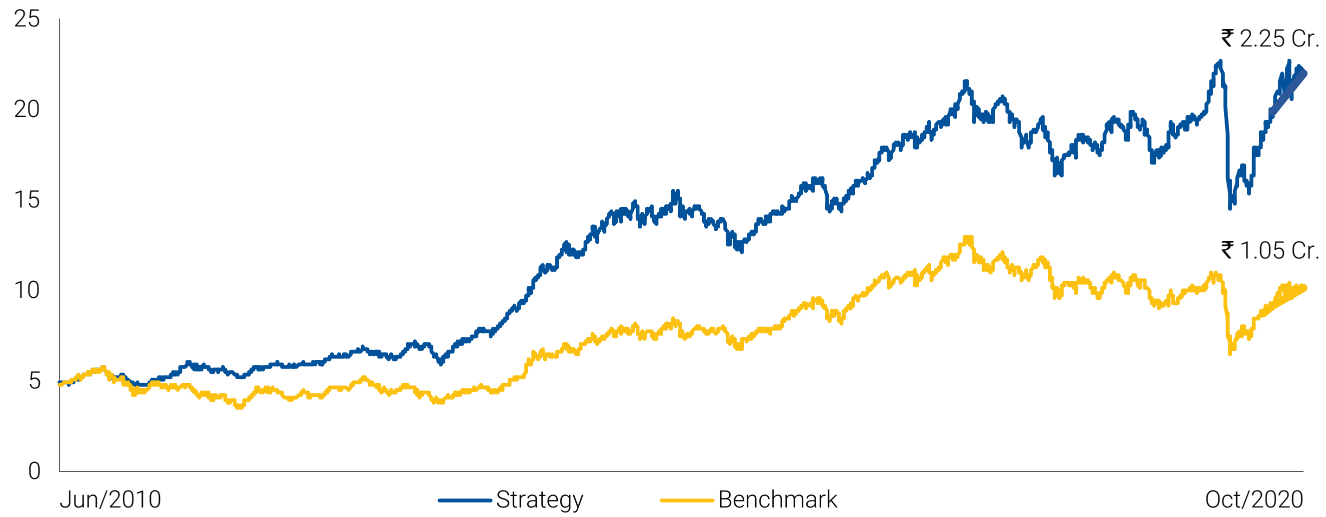
CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	9.2	9.4	-0.2
2011	-2.9	-31.0	28.1
2012	28.7	39.2	-10.4
2013	18.3	-5.1	23.4
2014	69.9	55.9	14.0
2015	3.4	6.5	-3.1
2016	6.1	7.1	-1.0
2017	41.8	47.3	-5.4
2018	-11.6	-15.4	3.8
2019	6.5	-4.3	10.9
2020 YTD	11.7	-0.2	11.9

CY2010 returns is from Inception date (June 2010) to December 2010

Source: Inhouse computation

VALUE OF RS. 50 LAKHS INVESTED AT LAUNCH



WHY SUNDARAM PMS

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

DIRECT ON-BOARDING OF CLIENTS

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

CUSTOMER SERVICES

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

3Q QUALITY APPROACH TO STOCK SELECTION

- **Quality Business**

  Scalable, Growing, Reinvestment opportunities, Strong Moat
- **Quality Financials**

  High ROIC, Excellent Cash Flows, Low DE
- **Quality Management**

  Visionary, Problem solving

DISCLAIMER

General Disclaimer: Performance and data is as October 31, 2020. Returns are on time weighted rate of return basis. All returns are in percentage. Performance disclosure is at aggregate portfolio level and the portfolio information (i.e. market cap, sector allocations, etc.) is at model client's level. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved. Past performance of the portfolio manager does not indicate its future performance. Performance related information provided herein is not verified by SEBI.

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