Sundaram India Secular Opportunities Portfolio (SISOP)

• Monthly Update •

Objective: To generate capital appreciation across market cycles by investing in a concentrated set of high conviction stocks.

Target Investors: Designed for investors seeking returns through investments in a concentrated portfolio of companies with sustainable competitive advantages and reasonable valuations.

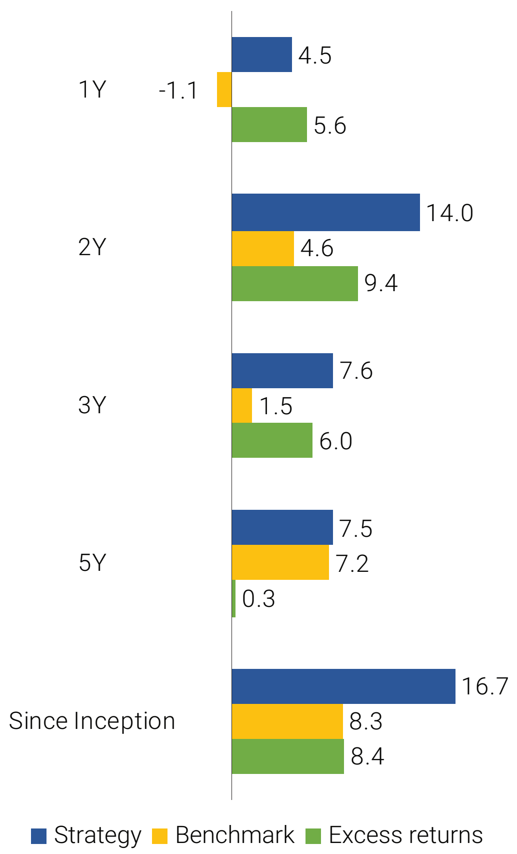
Investment Horizon
Above 3 years

Benchmark
NSE Nifty 500 Index

Inception
February 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

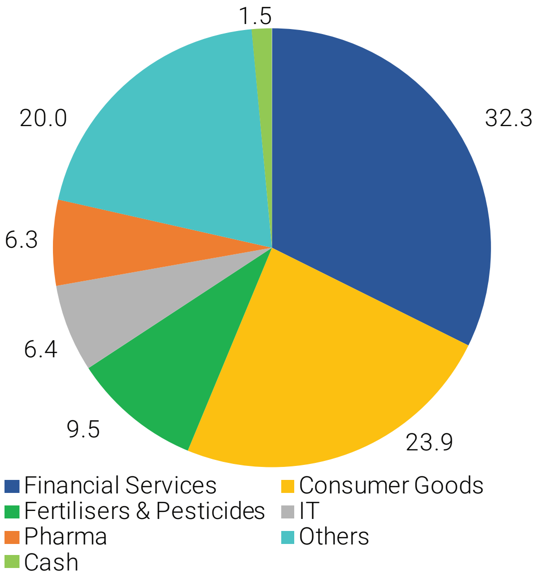
The course of various short frequency parameters indicate an affirming recovery in H2 FY21 and expectations of growth in FY22. For the first time since February 2020, GST collections topped ₹1 lakh crores, with a 10.5% rise since last month, definitive of a consumption revival. Given the festivities, 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 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

SECTOR ALLOCATION (%)

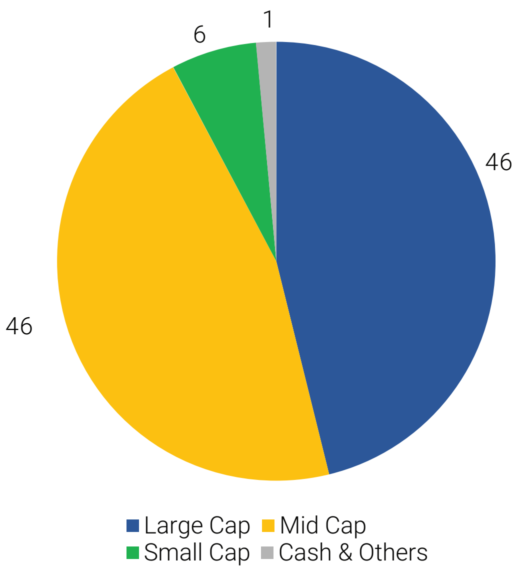


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 1,05,015 Cr

MARKET CAPITALIZATION (%)



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PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	16.7	9.4
Annualised Standard Deviation	16.3	16.8
Beta	0.8	-
Sharpe Ratio	0.6	0.2
Correlation	0.8	-
Alpha	8.0	-
Tracking Error	10.5	-

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.

Healthcare sector is also recovering with the diagnostics segment reaching over 80% of pre-Covid-19 levels in non-Covid-19 revenues. Operations have returned to normalcy with additional volumes from Covid-19 tests. We expect a significant jump in the short-term earnings due to revival of non-Covid-19 tests along with Covid-19 tests over the next 1 year or so. But investors have to bear in mind, that it would be difficult to predict the durability of volume improvement from Covid-19 tests.

PORTFOLIO PERFORMANCE

The SISOP strategy gained 3.1% during the month as the infection curve flattens and economic activity improves. The portfolio has outperformed the benchmark over the 1Y and 2Y period with a meaningful alpha of around 5.6% and 9.4%, respectively. From a long-term perspective, we strongly advocate investing in sectoral leaders, since sectors will revive with a market consolidation resulting in leaders becoming stronger. 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, PI Industries, ICICI Bank and HDFC Bank delivered an alpha of 15.9%, 8.8%, 8.1%, and 7.1% respectively, over the benchmark. While financials are seeing encouraging signs post Q2 results, performance of PI Industries is on the back of better than expected corporate results. PVR Ltd witnessed a 11.9% correction as footfalls remained muted despite opening up of multiplexes in pockets. Astral Poly witnessed a correction of 8.2% and a pick-up in construction activity will help in sales recovery from H2 FY21E onwards. While Titan and Trent declined by 3.0% and 1.8%, the festive season will improve the outlook of non-food retail demand.

KEY FEATURES

- Concentrated Portfolio - Maximum of 15 stocks.
- Invests across market caps – "Multi Cap" (skewed towards large cap).
- Long term orientation towards portfolio building i.e. >3 years.
- Invest in business with secular growth opportunities.

Compounding Stories

- Companies with growth opportunity > 15%
- Ability to generate > 15% ROIC
- Excellent cash flows from business
- Option to reinvest for growth
- Low D/E to sail through crisis situations and gain market share

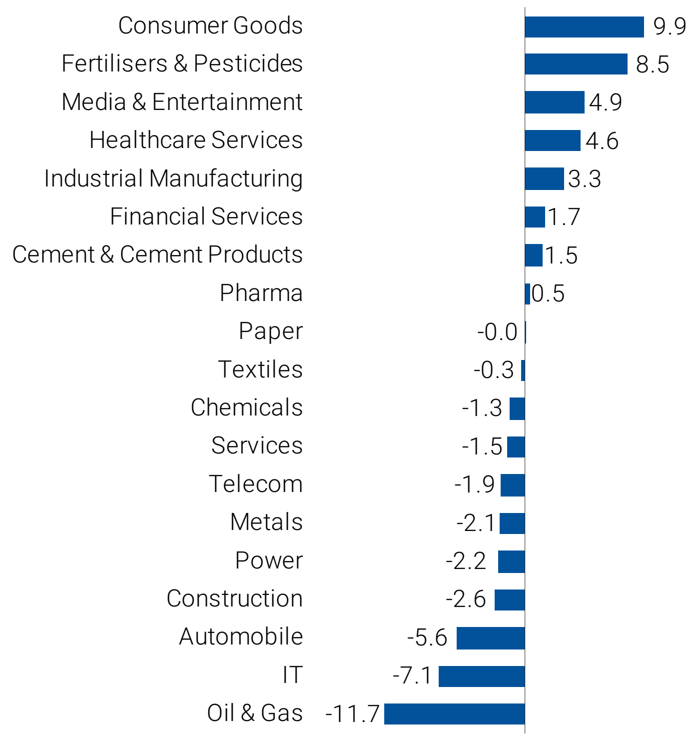
TOP HOLDINGS

PI Industries Ltd.
AU Small Finance Bank Ltd
ICICI Bank Ltd
Titan Industries Limited
Berger Paints I Ltd

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
Berger Paints I Ltd	317	623	97
Astrazeneca Pharma India Limited	2,659	4,300	62
Metropolis Healthcare Limited	1,220	1,968	61

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



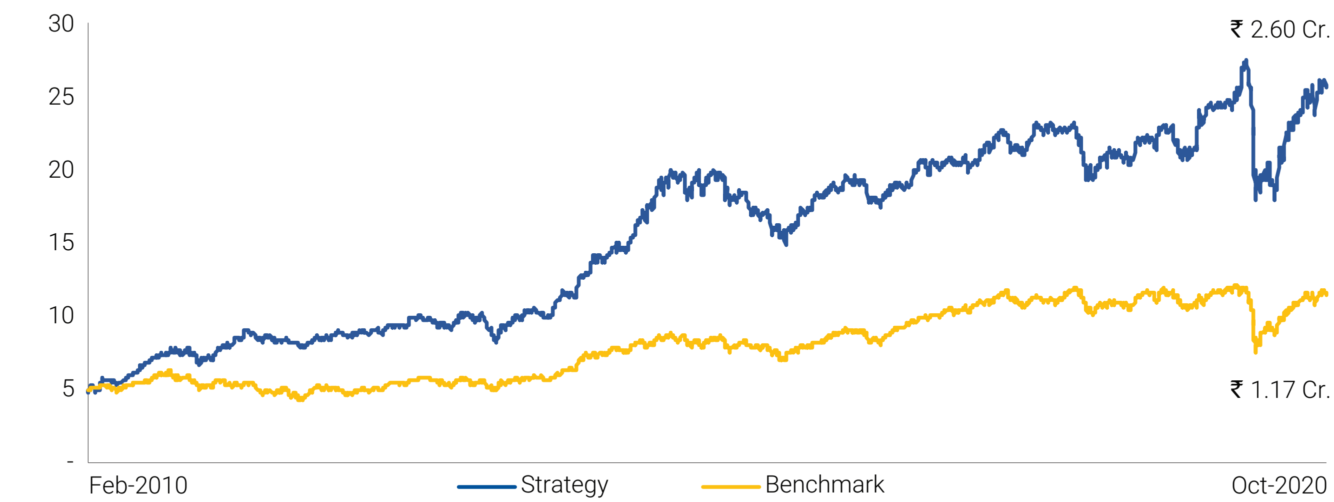
CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	58.3	20.7	37.7
2011	1.5	-27.2	28.7
2012	25.4	31.8	-6.4
2013	6.0	3.6	2.4
2014	66.1	37.8	28.3
2015	-2.0	-0.7	-1.3
2016	4.2	3.8	0.3
2017	24.0	35.9	-11.9
2018	-4.3	-3.4	-0.9
2019	15.4	7.7	7.8
2020 YTD	4.5	-2.9	7.5

CY2010 returns is from inception date (February 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