



Portfolio Observer - July 2018

Core Equity Portfolio

Write your own chapter in India's growth story with the Core Equity Portfolio (CEP). An exclusive offering from Aditya Birla Sun Life AMC Ltd - Portfolio Manager, CEP gives you the opportunity to invest in businesses that are central to the country's growth drive.

This portfolio helps you identify these businesses and participate in their growth journey in the medium to long-term. By investing in CEP, you also get to practise value investing.

Investor profile

Core Equity Portfolio is an ideal investment option for investors seeking a long-term participation in India's growth journey through investment in Indian equities.

Consistency of performance across market cycles

What creates this sustainable wealth-creation portfolio?

The Core Equity Portfolio consists of 25-30 stocks selected from a multi-cap universe. The investment approach is founded on four pillars:

- Sustainable growth over long-term in select industries, which endeavors to make up for most of the GDP growth patterns.
- Focus on businesses that consistently create value through favourable industry operating conditions.
- Quantitative Screeners backed by fundamental research: Comprehensive alert system to track industry-wise valuations. Current studies include: Recurring Winners Study, Piotroski Scores.
- Value investing approach to generate alpha.

Portfolio Managers



Vishal Gajwani

With over 11 years of experience in equity research and portfolio management, Vishal has extensive expertise in researching companies across sectors and market capitalisations. Prior to this assignment he was a part of Reliance Portfolio Management Services (a part of Reliance Capital Asset Management Ltd), where he was designated as an Assistant Fund Manager and was responsible for managing equity portfolios.

He is a Gold Medal winning Chartered Accountant (ICAI, India) and holds a Masters degree in Commerce from M. S. University of Baroda. Vishal received 4 Gold Medals, including the Chancellor's Gold Medal, for topping the Master of Commerce Exams. Vishal is also a CFA charter holder from the CFA Institute (The Global Association of Investment Professionals), USA.



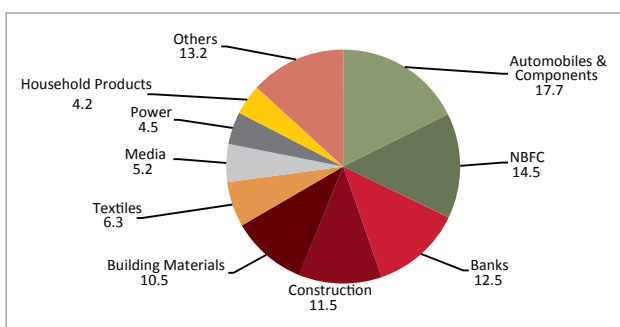
Natasha Lulla

Over 10 years of experience in equity research and fund management. Prior to joining Birla Sun Life Portfolio Management Services, Natasha was working with Goldman Sachs as an equity analyst covering India Materials sector. In her earlier stint at Goldman Sachs, she was responsible for Portfolio Strategy for ASEAN regions and also covered Singapore Real Estate.

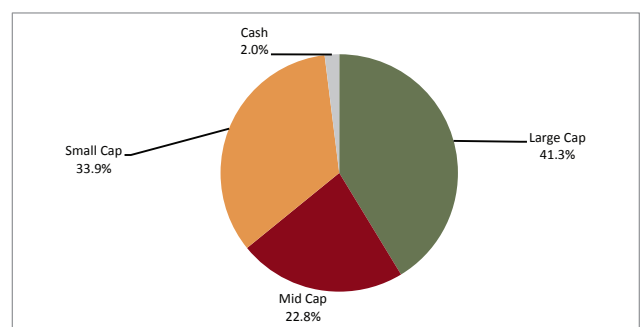
Natasha holds a Masters in Business Administration (Finance Major) from Management Development Institute, Gurgaon and was a Gold Medal winner in each of the two years. She was also awarded a Gold Medal for achieving 1st rank in the Finance stream. Natasha has done her graduation in Economics from Lady Shri Ram College, New Delhi and graduated amongst the top 1% in Delhi University.

Portfolio Analytics

Sector Allocation (As per GICS Sector Classification)



Market Cap Bias



Portfolio Analytics

Top 10 Portfolio Holdings

Sr. No.	Company Name	% to Net Assets
1	Yes Bank	7.6
2	Maruti Suzuki India	6.8
3	Cholamandalam Investment	5.3
4	Zee Entertainment Enterprises	5.2
5	RBL Bank	4.9

Sr. No.	Company Name	% to Net Assets
6	Bajaj Finserv	4.6
7	Century Plyboards India	4.5
8	K.P.R. Mill Limited	4.1
9	Gulf Oil Lubricants India	4.1
10	Ashok Leyland	3.8

(Source: Internal ABSLAMC Research). All data as on June 30, 2018. Past performance may or may not be sustained in the future.

Portfolio Manager's Commentary

Equity Outlook

The calendar year 2018 to date was marked by high market volatility. While the Nifty Index has remained resilient amidst the negative macro news flow, the Midcap & Smallcap Indices have faced the brunt, falling 15-25% from their recent peak. Also, within the mid-cap space, more than 60% of the stocks were down 20% or more with average decline of 30%. Against this backdrop, our portfolios delivered returns in line with mid cap index for CY2018 to date considering that they have 60-70% exposure to mid and small cap stocks. In our view, such broad based correction in mid-caps may not be warranted. We believe that quality mid-caps are expected to rebound strongly from these levels, led by their strong earnings growth over the next few quarters.

On the positive side, our portfolios had minimal exposure to high beta sectors like Metals (down 12% CYTD), Oil and Gas (down 16% CYTD) and PSU banks (down 20% CYTD) which have corrected by upto 20% in the last 6 months. (Source - Bloomberg. As on June 30, 2018)

In this backdrop our top 10 holdings have delivered very strong performance of 17% profit growth for FY18 with FY19 profit growth expected to be in the range of 25%.

Returns of Top 10 holdings since 30 June 2017 or Date of Purchase	PAT growth (%) FY18A	PAT growth (%) FY19E	PAT growth (%) FY20E
10.6	17.1	25.6	23.6

Let us have a glance at the outlook for some of the top holdings in detail.

Yes Bank delivered advances growth of 54% in FY18 with CASA growing by 41% yoy to reach 36% of the total deposits. The asset quality remained stable with gross NPAs at below 1.5% levels. For FY19, we believe that the AUM growth could be more than 30% considering that private sector banks are expected to gain market share as PSU banks struggle with rising NPAs.

Maruti Suzuki continues to maintain leadership position in the Indian market with more than 50% market share. The waiting period for cars like Baleno, Brezza continue to be around 1-2 months. New product launches & premiumisation trend are expected to further augment its profitability. With capacity expansion happening at Sanand plant, the volume growth is expected to be 10-12% for the next two years.

Zee Entertainment has become India's largest non-sports entertainment network in terms of viewership market share in FY18. Given its cost efficient business model, the foray in Zee5, its digital video platform & entry in new regional languages is expected to drive strong FCF generation translating into earnings growth of 18% over the next 2 years. Also, the company is likely to benefit from election related

advertising spend over the next few quarters.

Century Plyboards is a strong play on the Indian building materials sector with 25% market share in the organized plywood industry. The GST & E-way bill implementation are expected to drive the market share gains for organized players over the next 3 years. While the plywood segment is expected to grow at low double digits for the company, we believe the laminates and MDF segments may grow at a faster pace, leading to improvement in the business mix and more than 25% profit growth for the next 2 years.

KPR Mills is an integrated textiles player with strong balance sheet and high return ratios at 20% ROCE. Its competitive advantages include availability of low cost labor, proximity to markets & focus on value add products. The forward integration through increase in garmenting capacity is expected to improve profitability & return ratios going forward.

Portfolio Action

In the month of June we exited from DCB Bank and added Bata Industries into the portfolio. DCB Bank's prolonged period of sub-optimal return metrics led by elevated costs, margin pressure & fast pace of capital consumption coupled with a rising rate environment makes the 'cost heavy' strategy fraught with risks, though the execution risks stand abated. Also, Net Interest Margins (NIM) are expected to remain flat at around 3.9-4% levels for FY19. Hence we sold the stock for investing in better alternatives.

Bata has a healthy balance sheet with robust cash and bank balance worth Rs.588.5 crore and a debt free status. We believe Bata India is at sustainable growth trajectory on the back of its leadership position in largely fragmented India's footwear market, diverse presence, renewed focus on innovative offerings and product offerings across the value segment.

Overall, we believe that the portfolios are well positioned with high exposure to sectors like, Private Financials, Consumer Discretionary, Materials and Industrials, which are expected to benefit from higher disposable income, propensity to consume and improved rural prosperity.

(Source: Bloomberg, ABSLAMC Internal Research)

Disclaimer: The views expressed above are the views of the Fund Managers of Select Sector Portfolio and should not be construed as an investment advice.

Investments in securities are subject to market risks and there can be no assurance or guarantee that the objectives of the Product will be achieved. Past performance may or may not be sustained in future.

Risk Ratios

Analytics for period ending June 30, 2018	Benchmark	Standard Deviation	Sharpe Ratio*	Beta	PTO (%)
Core Equity (Model) Portfolio	Nifty 500	17.12%	0.20	1.05	40.8%

*Risk-free rate assumed to be 6.25% (MIBOR as on June 29, 2018)

Above ratios are calculated on Annualised basis using 3 year history of monthly data points

Portfolio Key Facts


Inception Date	April 1, 2008
Benchmark	Nifty 500
Type of portfolio	Open-ended Discretionary Portfolio
Minimum Investment Amount for New Account Opening	Rs. 25 lacs OR such other amount as decided by the Portfolio Manager at its sole discretion
Recommended Investment Horizon	At least 3 years
Taxation	Investors are advised to seek consultation from their Independent Financial Advisor / Tax Advisor before making any investment decision.
Key risks	Equity Market Risk

Risk Factors and Disclaimers

Model Portfolio refers to portfolio of earliest investor in the product and in case of redemption of the model client, portfolio of earliest client in the said product rebased for computation of returns. It refers to specific investments that the investor will have in his portfolio when it is completely built-up over a period of time. Past performance may not be sustained in the future. Investments in securities are subject to market risks. Please refer to disclosure document. The returns are absolute for the period mentioned less than 1 year and in CAGR for the period more than 1 year. Individual portfolios of investors may vary from the model portfolio due to factors such as timing of entry and exit, timing of additional flows and redemptions, individual investor mandates (if any), specific portfolio construction characteristics or structural parameters. These factors may have bearing on individual portfolio performance and hence individual returns of investors for the said portfolio type may vary from the data on performance of the portfolio depicted above. Neither the Portfolio Manager nor the Asset Management Company, its Directors, employees or sponsors shall in any way be liable for any variation in the actual returns of individual portfolios.

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