



Select Sector Portfolio - June 2018

- A concentrated portfolio of 15-25 stocks; benchmark agnostic.
- Multi cap universe; owns companies that have high quality businesses with consistent growth/returns profile.
- 80% of the portfolio is invested in 4-6 sectors.
- Investment horizon of 3-5 years

Investment Process based on 4 Pillars:

1. **Identify sectors that grow faster than the GDP.**
2. **Recurring Winners:** Focus on businesses that have consistently created value – Favorable industry operating dynamics key to wealth creation. Consistent growth/returns profile is reflected in high ROEs, ROCEs.
3. **Strong screening process backed by fundamental research** – To segregate winners from losers:
 - a. **Piotroski Score (P-score)** – Companies with P-score >6; companies with superior financial parameters and strong growth visibility
 - b. **Return on Equity (ROE)** – Companies with minimum ROE > 15%; i.e. identifies high quality companies that can deliver consistent returns and avoids companies with lower returns on capital
 - c. **Debt to Equity (D/E)** – Eliminate companies with D/E > 1.5 to avoid highly levered companies as these companies don't have the capacity to withstand stress during adverse market/business cycles
 - d. **In-depth fundamental research process** including management meetings, plant visit, dealer checks, with focus on corporate governance and good management.
4. **Value investing approach in generating alpha** – Endeavour to invest in companies which can double in the next 3 to 4 years on the back of high earnings growth while having lower downside on account of reasonable valuations.

Current Portfolio Allocation: Basis the above Investment framework the current portfolio is invested as:

Sector Allocation	Weight (%)
Financials	24.2
Materials	22.9
Consumer Discretionary	20.8
Industrials	17.5
Real Estate	3.6
Information Technology	3.4
Consumer Staples	3.0
Cash and Current Assets	2.7
Health Care	2.0

Market Cap Bias	Weight (%)
Large Cap	23.4%
Mid Cap	6.3%
Small Cap	67.6%
Cash	2.7%

Consistency of Performance across Market cycles

Over the last 3 years (31 May 2015 – 31 May 2018), the portfolio has delivered **~16% p.a. vs ~10% p.a. for the benchmark NSE 500**

Returns	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	Since Inception*
SSP	-6.1%	-6.8%	-8.0%	7.4%	19.0%	15.6%	34.2%	19.5%
Nifty 500	-1.9%	0.6%	1.8%	11.5%	17.0%	10.2%	14.7%	10.8%
Outperformance	-4.2%	-7.4%	-9.8%	-4.1%	2.0%	5.4%	19.5%	8.7%

*Inception Date: 01 Aug 2009

CY Returns	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD 2018
SSP	16.5%	9.1%	-30.3%	33.9%	13.9%	116.6%	16.8%	2.3%	55.5%	-11.1%
Nifty 500	15.0%	14.1%	-27.2%	31.8%	3.6%	37.8%	-0.7%	3.8%	35.9%	-1.8%
Outperformance	1.5%	-5.0%	-3.1%	2.1%	10.3%	78.8%	17.6%	-1.5%	19.6%	-9.2%

Note: Less than 1 year Absolute; more than 1 year CAGR; Returns as on 31st May, 2018

(Source: Internal ABSLAMC Research). All data as on 31st May, 2018. Past performance may or may not be sustained in the future.

3 year Risk Return Ratios	SSP	Nifty 500
Standard Deviation	17.37%	14.01%
Sharpe Ratio	0.55	0.30
Beta	1.09	-
Jensen's Alpha	5.04%	

* Risk-free rate assumed to be 6.00% (MIBOR as on 31st May 2018)

Top 10 Portfolio Holdings

Sr. No.	Company Name	% to Net Assets
1	Yes Bank	7.3
2	IFB Industries	7.1
3	Muthoot Capital Services	6.8
4	APL Apollo Tubes .	5.7
5	Maruti Suzuki India	5.6
6	Eicher Motors	5.6
7	Zee Entertainment Enterprises	4.9
8	JK Cements	4.8
9	Skipper	4.5
10	JK Paper	4.2

Portfolio vs Benchmark- Higher Growth/ROE's with lower valuations

PE (x)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	22.0	17.2	13.5	
Nifty 500	28.1	23.3	19.1	-26.2%
Nifty	22.6	20.0	16.8	

ROE (%)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	18.0%	19.8%	20.7%	
Nifty500	11.1%	12.8%	14.3%	54.4%
Nifty	14.4%	13.5%	14.7%	

EPS growth (%)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	14.9%	28.2%	27.1%	
Nifty 500	5.0%	20.1%	21.7%	40.1%
Nifty	9.3%	18.2%	19.5%	

Net debt to Equity (%)	FY17	Prem/Disc to benchmark
SSP	42.60%	
Nifty 500	90.0%	-52.7%
Nifty	75.8%	

(Source: Internal ABSLAMC Research). All data as on May 31, 2018. Past performance may or may not be sustained in the future.

Piotroski Model is an effective screener as it measures the overall strength of the firm's financial position and the improvement in the financial position of the firm. It is a 9 point indicator, based on 9 financial parameters. Companies with P-score greater than 6 are considered to be High P-score companies.


Sr. No.	Ratio	Description	Scoring Criteria
Quality of Financials (Helps in Capital Preservation)			
1.	Return on Assets (ROA)	ROA indicates how efficient the management is at using its assets to generate earnings; calculated as Net Income/Total Assets	Score of 1 if ROA > 0
2.	Cash Flow from Operations (CFO)	CFO refers to amount of cash a company generates from its operating activities, excluding costs associated with long term investment of capital items; calculated as Cash Flow from Operations/Total Assets	Score of 1 if CFO > 0
3.	Accrual	Net profit might not reflect the true picture due to taxation or depreciation policy, whereas cash flows are more credible in any financial statement	Score of 1 if CFO-NI>0
4.	Issuance of Common Equity in last year	Raising external capital indicates that internally generated cash flows are not sufficient to fund future growth	Score of 1 if Equity is not raised last year
Change in Quality of Financials (Helps in Capital Appreciation)			
5.	Change in ROA	Current year ROA - Previous Year ROA	Score of 1 if change in ROA > 0
6.	Change in Margin	The factor signifies that the company has the bargaining power to raise prices, or is efficient to cut costs, resulting in margin expansion, Gross Margins(EBITDA)/Total Sales (Current Year)- Gross Margins(EBITDA)/Total Sales (Previous Year)	Score of 1 if the Change in Margin > 0
7.	Change in Asset Turnover	The factor signifies that the productivity from the asset base is increasing. It is calculated as Total Sales/Total Assets (Current Year)- Total Sales/Total Assets (Previous Year)	Score of 1 if the Change in Asset Turnover > 0
8.	Change in Leverage	Total Long Term Debt/Average Total Assets (Current Year) - Total Long Term Debt/Average Total Assets (Previous Year)	Score of 1 if the Change in Leverage < 0
9.	Change in Liquidity	Change in Current Ratio between current and previous year	Score of 1 if the Change in Liquidity > 0

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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