

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

Assistant Fund Manager
Mr. Prashant N Kutty

FROM OUR ECONOMIST'S DESK

February'23 saw the Sensex contract by (1) % over January to 58,962. Reduced recession risks in the US/Eurozone on stronger macro, expectations of a higher peak Fed rate, ECB hawkishness and gradual easing of exuberance of China opening post Covid were the key global events during the month. A capex heavy credible union budget, resilient GDP and an open-ended RBI rate hike were the key domestic events to take note of. Net FII flows were negative at \$(0.5) bn. The rupee depreciated by 0.9% and closed at Rs.82.7, even as the dollar index (DXY) strengthened by 2.7% during the month.

MACRO OUTLOOK

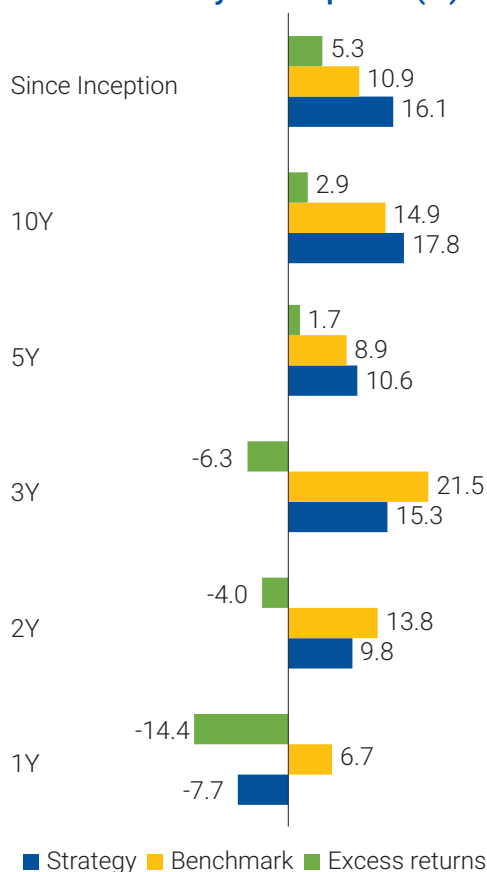
Macro factors in US continued to remain strong. The months of Jan'23 and Feb'23 have seen increasing strength in the US reflected in the PMI indicators for both manufacturing and services. We saw this reflect in the Jan'23 CPI numbers and is yet to see reflect in the Feb'23 numbers. The Fed would have completed 12 months of rate hikes and would have raised rates by 500bps (if one assumed 50bps hike for Mar'23). Despite such a steep pace of rate hikes in such a short time span (last seen in the 70'-80's), the US economy continues to remain strong and has not witnessed any visible signs of weakness. While our base case on the US had been that of no recession in 2023 based on this very US macro strength, this sudden strength in the US macro indicators over the last two months has been a surprise. Back home, Fed being hawkish would mean that RBI wouldn't be clear whether it should be a 25bps hike or a 50bps hike in upcoming monetary policy. However, if the US macro data on labour market and inflation could set the tone for Fed view on rate hike. If March'23 shows a 25bps from the Fed, then it could very well bring back a possibility of no hike from the RBI and replace it with a pause.

February focus was on Union budget which registered continued fiscal consolidation and a significant increase in capex that touched a decadal high in GDP terms. On the broader data front, there was higher-than-expected retail and wholesale inflation numbers. Credit growth remained elevated and India manufacturing was above the 50-level mark for a 20th consecutive month. The broad economy resilience was reflected in the Dec'22 GDP numbers released during the month, where private consumption was seen holding up and a strong pickup seen in construction and the finance/insurance/real estate segments. However, channel checks and corporate feelers gave markets a whiff of slowdown across product categories, with fears of El Nino spoiling the upcoming monsoon, delayed pick up in rural demand and hint of slowness in demand in the urban market post festive, which all led to consolidation in the market.

India so far has been a laggard on YTD performance vs both regional EMs and developed markets. While earnings growth of headline indices is expected in healthy double digits for FY24E, the key catalyst remains the call on rate cycle. India's premium valuations to EM have already started mean-reverting. A few near-term worries on the system exposure to specific industrial group appear to have tempered down. We expect the equity markets to broadly consolidate in the short term, as the market adjusts for higher-for-longer interest rates and weak global growth outlook. Focus would be on bottom-up ideas that could remain resilient on earnings and growth.

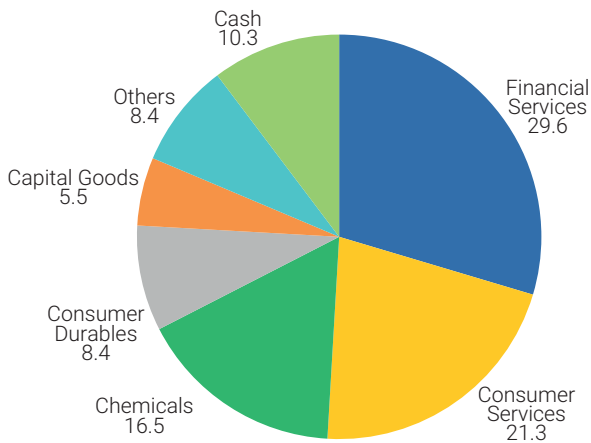
Our investment philosophy is to invest in high growth quality business models at right valuations. The theme suffered last year due to high inflation and interest rate scenario. Defensive portfolios outperformed after a long time due to high yield. With substantial fall in commodity prices across the categories, inflation is expected to come down substantially over next 3-6 months and bond yields will start moderating. During such a phase, growth stocks outperform and our investment style has potential to do well. Our 4x4 wealth multiplier theme -Financial inclusiveness, Phygital Bluechips, Consumption Czars, Export Voyagers and Domestic manufacturing is focused on investing into high growth segments of the economy and has potential to create meaningful alpha over next 5 years.

SELF vs Nifty Midcap 100 (%)



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SECTOR ALLOCATION (%)

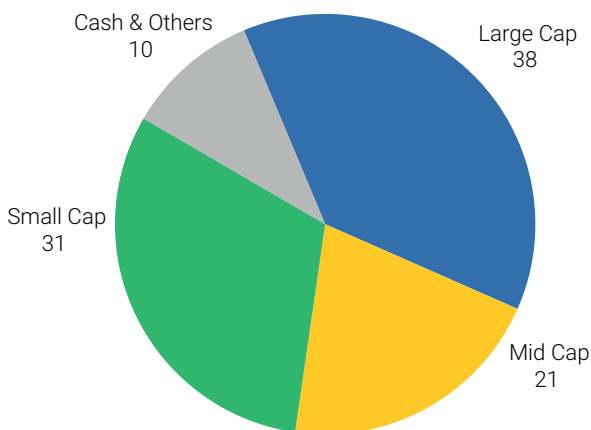


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 61,593 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	16.1	12.0
Annualised Standard Deviation	15.1	18.5
Beta	0.7	-
Sharpe Ratio	0.6	0.3
Correlation	0.9	-
Alpha	5.5	-
Tracking Error	9.6	-
Up capture Ratio	93.0	-
Down capture Ratio	69.9	-

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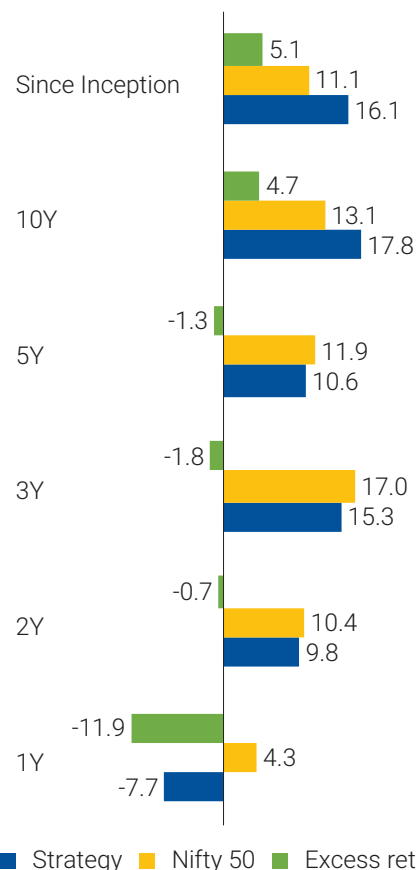
PORTFOLIO & STOCK PERFORMANCE

The fund is marginally lower than the benchmark in Feb. The top contributors to returns in the month were Zomato which was up by 7.5% on launching the Zomato Gold plan. Trent was up by 6.8% on delivering strong Q3FY23 results. We have initiated position in Mahindra CIE Automotive Ltd in this month. Mahindra CIE in in annual results, cleared its intent to sell the less profitable Europe truck forging arm, which is about 20% revenues, but only 6% of EBITDA and consuming 20% of capital employed. The story of Mahindra CIE is now a play on domestic market growth in the 4W and EV space along with getting the financial indicators like EBITDA margins (from 14% to 18%), growth (10% to 14-15%) and ROCE (from 12% to 18%) in line with global benchmarks of CIE. In the month, Mahindra CIE was up by 7.4%. The stocks which dragged the performance are City union bank which was down by 12.7% on the back of reducing its growth guidance for FY24 in addition to the divergence report which was released earlier this month. Westlife Foodworld which was down by 11.8%, which we believe is purely profit booking, given that it has been one of the best QSR stocks in last few quarters. Chemplast was down by 12.3%, as there were no signs of PVC prices cooling off which could have support stock price. Earnings growth and commentary on expanding CDMO business continues to be strong for Chemplast.

KEY FEATURES

- Bet on Sundaram's strength in the mid & small cap space; a **differentiated** yet **concentrated portfolio** positioned attractively along the cap curve.
- Multi-sector portfolio.
- Stocks with market cap less than Rs. 500 billion.
- "EASE" portfolio
 - Emerging leaders – clean and high quality promoters / management.
 - Asset light & High ROCE businesses are preferred.
 - Scalable companies: mid cap to large cap, small cap to mid cap transitioning companies.
 - Excellent 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
 - Financial inclusiveness
 - Phygital Bluechips
 - Consumption Czars
 - Export Voyagers

S.E.L.F vs Nifty 50 (%)



TOP HOLDINGS

Axis Bank Ltd.
Navin Fluorine International Ltd
Berger Paints I Ltd
AU Small Finance Bank Ltd
Astral Limited

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
AU Small Finance Bank Ltd	342	593	73
Westlife Development Ltd	418	649	55
PI Industries Ltd.	2,176	3,100	42

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



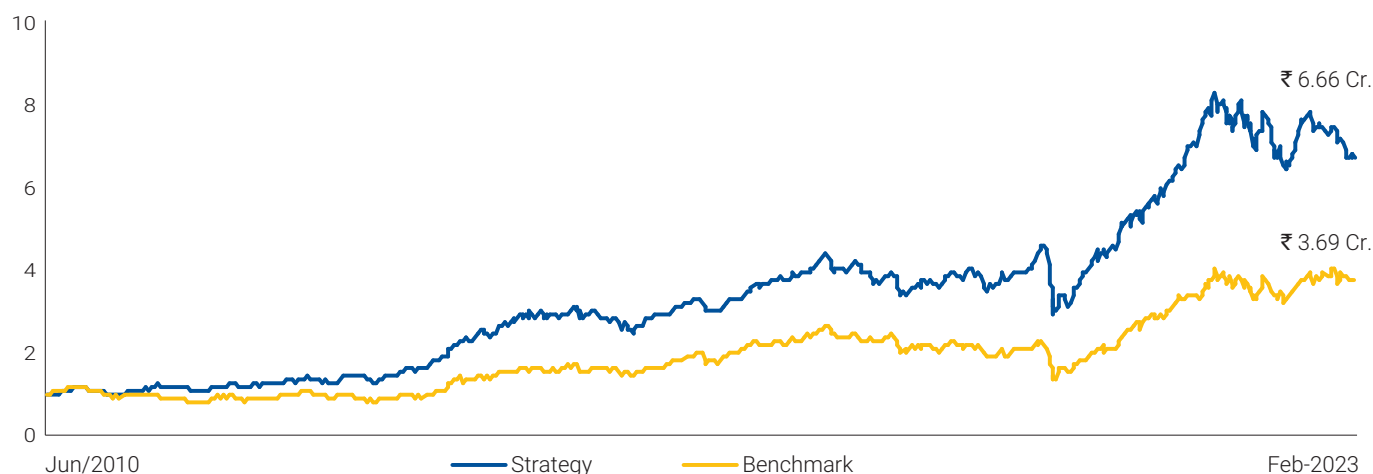
CALENDAR YEAR PERFORMANCE (%)

	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	31.4	21.9	9.6
2021	46.3	46.1	0.3
2022	-6.8	3.5	-10.3
2023 YTD	-7.8	-4.4	-3.3

Source: Inhouse computation

Calendar Year Performance Since Inception June 2010

VALUE OF ₹ 1 CRORE INVESTED AT LAUNCH



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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

CUSTOMER SERVICES

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



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