TURNAROUND OPPORTUNITIES FUND

(A scheme of IIFL Opportunities Fund - Category III Alternative Investment Fund)
All data are as on September 30, 2022 and denominated in INR

IIFL ASSET MANAGEMENT

Investment Theme

The investment strategy is to invests in businesses having long term track record where profitability and growth may have been impacted by short term cycles. The investment manager would target such opportunities having long-term mean reversion capability, having potential for sharp improvement in fundamentals.

Key Terms

Launch Date	July 01, 2021
Bloomberg Ticker	NA
Scheme	Closed Ended Scheme
Category	Category III Alternative Investment Fund
Benchmark Index	S&P BSE 200 TRI

Fund Details

- Since Inception till September 30, 2022

AUM(INR in Cr)	496.56
NAV(INR)**	11.3428
Pre-tax CAGR	
Turnaround Opprtunities Fund	10.63%
S&P BSE 200 TRI	9.85%
Outperformance/ (Underperformance)	0.78%

**Pre Tax NAV

Schedule of Charges

Management Expenses(as % of daily net assets p.a.)	Class	Fees
	A1,C1,E1	2.50%
	A2,C2,E2	2.10%
	A3,C3,E3	1.75%
	B1	1.75%
	B2	1.40%
	B3	1.10%
	C4	1.50%
	E4	1.25%
	S	0.10%
	D*	NIL
Administration Expenses	The Administration Expenses of the Fund shall not exceed 0.15% per annum on daily net assets	
Minimum Investment Amount	INR 1 Crore	

* Investment Manager and any of its Affiliates or such other Employees, trusts or other Persons as designated by the Investment Manager
Class C (including its sub classes) shall be offered onlyto investors of preferred channel partners and the following conditions shall be met:
The share Class C4 will not be charged any distribution fees; The management expense shall be uniformly charged to all share classes as per the investment amount of the respective share class and parity in charging expense shall be ensured in same share class
The Management Expenses will be accrued on daily Net Asset Value. The Investment Manager will charge its Management Expense, on quarterly basis or such other periodicity at the discretion of the Investment Manager from time to time

Investment Manager

IIFL Asset Management Limited (IIFL AMC)

Fund Manager Profile

Mehul Jani

Mehul has over 18 years of experience in covering and managing financial services and consumer stocks. Prior to working with IIFL, he worked with DSP BlackRock (a joint venture between BlackRock and the DSP Group in India) for 10 years as an analyst and fund manager. His previous experience includes Morgan Stanley Plc, London, for 4 years, as an associate, dealing with structured product valuation and fund derivatives. Mehul is an alumnus of Cass Business School, London and holds a Masters in Banking and International Finance. He is also a CFA charter holder.

Performance (%)*

Strategy / Benchmark	1 Month	2 Months	3 Months	6 Months	YTD	1 Year	Since Inception
Turnaround Opportunities Fund	(2.46)	1.91	12.82	5.78	4.28	6.65	10.63
S&P BSE 200 TRI	(3.54)	0.97	10.88	0.73	1.01	0.18	9.85

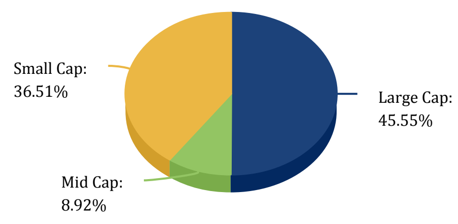
*Based on Pre-tax NAV
Returns less than 1 year are on absolute basis and more than one year are on compounded annualised basis. Past performance may or may not be sustained in future.

Risk Ratios

Beta	0.88
Sharpe Ratio	0.35
Information Ratio	0.10
Treynor Ratio	0.07
Volatility	16.46%

All risk ratios are calculated since inception

Market Capitalization



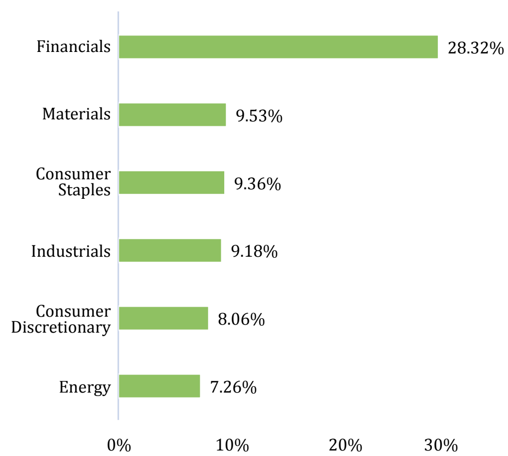
As per AMFI Categorization

Portfolio - Top 10 Holdings (%)

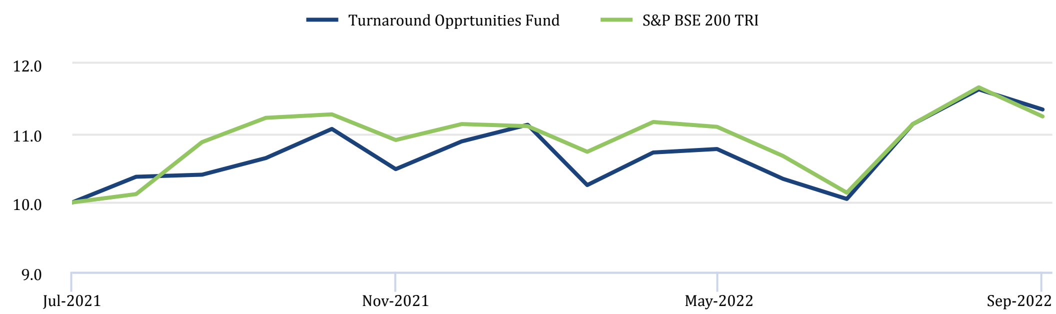
Company	Weightage
ICICI BANK LTD.	8.40
AXIS BANK LIMITED	5.84
STATE BANK OF INDIA	4.74
SUN PHARMACEUTICAL INDUSTRIES	4.40
UJJIVAN SMALL FINANCE BANK LIMITED EQ	4.30
ITC LTD.	4.26
MAHARASHTRA SEAMLESS LTD	3.69
AEGIS LOGISTICS L	3.18
BHARTI AIRTEL LIMITED.	3.13
UNITED SPIRITS LTD	2.89
CASH AND CASH EQUIVALENTS	9.02

*Including Other Current Assets

Sector - Top 6 Holdings



NAV Movement



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Fund Commentary

Indian Equity Markets: Month Gone by

Indian equity markets had a break in their upward trajectory (of previous two months – July'22 & August'22) and closed the month in red. The US Fed's hawkish tone on interest rates and the fear of a global recession led to pessimism among investors. As a result, almost all major global markets ended lower than the previous month. Further, FPI net flows turned negative resulting in outflows to the tune of $0.9 bn. DIIs turned net buyers to the tune of $1.7 bn after being sellers in the previous month (August'22). The key benchmark indices S&P BSE Sensex and Nifty closed the month with losses of 3.5% and 3.7% respectively. The indices down the capitalization curve outperformed the key benchmark indices. S&P BSE Mid-cap index and S&P BSE Small cap index registered monthly losses of 2.2% & 0.7% respectively. Amongst the sectoral indices, barring S&P BSE FMCG and Healthcare, all the other indices closed the month in red. In terms of the key developments during the month, —(1) Central banks across the globe continued to hike interest rates (2) RBI increased repo rate by 50 bps to 5.9% (3) Tata Steel announced the merger of its group metal companies with itself; (4) a number of rating agencies cut India's GDP growth forecast.

The manufacturing activity lost a bit of momentum in September'22 and came in at 55.1 as against 56.2 in August'22. Though a tad lower as compared to previous month, Indian manufacturing production grew for the fifteenth consecutive month in September'22 and was above its long-term average. The data showed that despite global headwinds and recessionary pressures, Indian manufacturing industry continued to remain in decent shape. Factory orders continued to increase at the end of the second fiscal quarter, stretching the current sequence of expansion to 15 months. Meanwhile, the gross GST revenue collected in September'22 was up 27%YoY and stood at INR 1.48 trillion. This is the seventh month in a row that the total GST collections have crossed INR 1.4 trillion mark and hence are likely to provide more headroom on the fiscal front. Further, the finance ministry in its release mentioned that the collections in the upcoming months are expected to be even more robust due to the higher consumption expected during the festive season and the extension of the mandatory e-invoice protocol to taxpayers having turnover above INR 10 crore from October 1.

Global scenario gets more challenging

With US Fed Chairman Jerome Powell quoting Paul Volcker (who had increased the interest rates in order to tame inflation which ultimately led to recession), with his rapid monetary tightening, Powell is trying to rein in the inflation which is highest since Mr. Volcker's tenure. Further, risk of meltdown in Europe has gone up owing to higher energy prices & gas shortages and China continues to remain a Blackbox. All this put together, point towards a severe global slowdown if not recession.

Positive Surprise on Balance of Payments (BoP)

India's BoP for 1QFY23 surprised positively led by better than expected software exports, which grew by ~22%YoY despite a strong base and a sharp jump in the net banking capital to near all-time high of $19bn in 1QFY23 (-$6.0bn in the previous quarter).

Sector/Sub-sector level trends

- **Auto**: Passenger vehicles and Commercial vehicles continue to witness strong recovery, while the two-wheelers are seeing green shoots of recovery. Post the normal monsoon, tractors are expected to get a growth fillip the second half of the fiscal.
- **Consumer Discretionary:** The demand for premium segment is holding up better than the mass market category. Consumer discretionary led by QSR and Retail continues to outpace their Staples counterpart both in the short and medium term.
- **Industrials:** The order pipeline in the domestic market is robust for both public and private players, led by the demand from the government side coupled with increase in exports driven by supply chain re-organization. Additionally, margins are likely to improve provided the commodity prices remain stable.
- **Building Materials:** Building material companies are seeing good visibility on growth, given the pick-up in housing demand. However, margins have remained under pressure due to sharp increase in gas prices.
- **Financials:** With rising loan growth, improving NIMs and moderation in credit costs, companies in the banking space are likely to do well. Further, **c**ompanies in the lending space are seeing strong credit growth. The challenges during Covid-19 which had impacted insurance companies are gradually becoming a thing of past. The insurance sector is now better placed and ready for growth.
- **Impact on margins:** Most companies which had borne the brunt of high raw material cost, may see impact in their 2QFY23 margins, nevertheless, these margins are likely to improve from the next quarter.

Outlook

The global market sentiment which had started showing signs of improvement in the previous month (August'22) has turned negative amidst hawkish talks from central banks, sticky core inflation, concerns on global recession and increasing geopolitical risk. As a result, we remain concerned regarding the underlying fundamentals of the global economy. We believe that rapidly tightening monetary policy coupled with high inflation & slowdown in real GDP growth are likely to have a bearing on the market performance. Global risk aversion could also lead to flight of capital from risk assets including emerging markets such as India. At home, CPI remains elevated owing to large supply shocks, spillovers from the global economy and improving demand. We believe in the near term the demand conditions at home are likely to remain steady aided by continued pick-up in the services sector. Further, the onset of festive season is likely to provide support to growth.

Even though the markets are currently trading slightly above the long-term valuations and FPI have turned sellers again owing to global risk off sentiment, we believe that continued support from DIIs and retail investors may provide support to the market. Further, medium to long term growth prospects for India continue to remain encouraging led by pick up in private sector capex, government's resolve on infrastructure spending, opportunities arising from shift of global supply chains, and a rebound in housing cycle. Further, low corporate and housing leverage coupled with strong banking sector are likely to augur well for economic growth in the medium to long term.

Although our long-term view on the economic cycle remains positive, we believe the market is likely to remain range-bound until clarity emerges on global macro. While softening crude oil prices due to global recession may provide some comfort to certain sectors due to lower raw material cost, however, the same recession may impact our trade deficit. We believe that normalization supply chain might play a pivotal role in the earnings trajectory of some of the sectors. Irrespective of short-term sector performance, we believe that identifying companies having sound managements and potential for sustainable long-term earnings growth would be the key for long-term performance.

Notes

1. Inaccordance with Regulations 10(d) of SEBI (AIF) Regulations, 2012, IIFL Wealth Finance Limited (Co-Sponsor) has committed Rs. 10 Cr to the Fund.
2. Gross NAV has been calculated by dividing the total value (assuming no payouts and no tax impact) by the total number of units outstanding.
3. Advance Tax deposited to the Government as per the provisions of Income Tax Act on the short term capital gains on the shares sold, as applicable.
4. The data stated herein is as of Sept 30, 2022, unless specifically stated.
5. The publicly available data for Crisil AIF benchmarking is available as on 31st Mar 2021. The scheme was launched on 1st July, 2021. Hence, performance comparison vs Crisil AIF benchmarking shall be done when updated data is available
6. CRISIL AIF benchmark return for CAT III (INR) fund available at http://t.ly/45mS. . Please find the link of stewardship code for the FY ended 2021 as follows: https://aif.iiflamc.com/disclosures

Disclaimer

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