PORTFOLIO FACTSHEET

December 2023

Borrowing returns from the future... India promises an enticing economic transition, with changing demographic mix and rising productivity gains. This improvement in the fundamental fabric will likely result in higher investment flows: both domestic and international. However, of late, there appears to be a rising disparity between fundamentals and sentiment. The Buoyant Opportunities strategy attempts to navigate this challenge through disciplined investment, avoiding fear-of-missing-out (FOMO) and adjusting portfolio composition to navigate market dynamics.

India + equity: the place to be

India is currently experiencing a captivating transformation, which warrants exploration through two key perspectives: fundamentals and flows.

The foundational structure of an economy relies predominantly on two overarching pillars: (a) the extent of labour force participation, and (b) the efficiency of labour productivity. India stands on the verge of significant transformation in both these aspects.

In the next two decades, India's working-age population will grow from 830 million to over 1 billion people.

Historically, such a significant demographic shift has been pivotal for economies. While some may express concern about the potential scarcity of employment opportunities, we choose to view it optimistically. India has consistently overcome challenges in the past, and this time will be no exception. Notably, the 170 million individuals expected to transition represent a substantial pool of national talent, promising a remarkable impact when they actively contribute to the economy.

Secondly, the significance of productivity gains cannot be overstated. While India is among the top five economies in absolute GDP size, our per-capita GDP rank is 127th. Currently, with a per capita income of USD 2,200, over 55% of our GDP is derived from services, with manufacturing contributing only 17%. The ongoing initiatives by the current government, including schemes like PLI and Make in India, are poised to rebalance this equation. These measures are expected to not only shift the economic mix favourably but also lead to increased employment and enhanced productivity for the existing workforce. Collectively, these factors are anticipated to contribute to a positive transformation in the fabric of India's economy.

The second factor to consider pertains to flows, which can be broadly categorized into international and domestic. Currently, the conditions in both spheres appear quite favourable.

India's positioning as an alternative to China in the manufacturing sector is expected to attract external inflows of capital, as portfolio investment (FPI) and non-portfolio investment (FDI). In 2024, India is projected to exhibit higher real growth and the highest real interest rates among countries, presenting a formidable challenge for other growing economies to match.

The narrative of domestic investing is in its early stages. Over the late nineties and subsequent two decades, the prevalence of black money in India saw domestic savings move increasingly towards physical assets like real estate and gold. However, equities as an asset class gradually clawed back into favour. This got more pronounced in the post-COVID era with a surge in new investors, whether into direct equity, mutual funds or alternative investments.

With the fundamental fabric of the economy improving and a sustained rise in flows, equities emerge as the preferred asset class for investment.

But tactics need to change…

In November and December 2023, India's primary indices recorded a whopping increase of over 14%, marking the third instance of such a surge since the Global Financial Crisis (GFC). The previous occurrences took place in October 2013 and during the post-COVID recovery.

This runaway rise was fuelled in part by the optimism over the BJP victory in three state elections and the perceived early shift in stance by the Federal Reserve, both surpassing expectations.

In our assessment, the likelihood of a stable central government was already substantial, considering the BJP's attainment of 224 seats with over 50% vote share in 2019. The recent state election results merely affirmed this probability.

Furthermore, considering the ongoing increase in debt levels in the United States, it appears that the Federal Reserve's policy adjustments are not conclusively in benign territory. The likelihood is that interest rates will persist at elevated levels for an extended duration, even if there are marginal reductions in 2024.

There has been a substantial surge in flows, both at the retail and institutional levels. Foreign Institutional Investors (FIIs) have injected USD 7 billion over the last two months, and retail inflows have remained robust, with 30% of incremental flows directed towards small and mid-cap funds.

Given the resulting run up in markets, we see notable disparity between fundamentals (value) and sentiment (price). The prevailing exuberance has led to stocks in several sectors rising to prices that seem incongruent with long-term value creation.

Examples include (a) Utilities, where there is a widening gap between increased power demand and the impediment of persistent losses at the distribution stage hindering long-term Power Purchase Agreements (PPAs), (b) Automobiles, where stock prices have surged despite subdued volume growth, impending disruptions, and a significant proportion of valuations derived from embedded value, and (c) Information Technology, with the IT index registering an 11% increase in December despite unfavorable sector fundamentals, primarily driven by its comparatively lower valuation. Additionally, several stocks in sectors such as defence, capital goods and railways look quite richly valued, leaving minimal room for error.

The market frequently assumes that the current cycle, whether at the sector or market-cap level, will persist for an extended duration, leading to the accumulation of excesses. Instances include the unwavering optimism in consumption businesses from 2014 to 2019, the infallibility of small-cap stocks in 2017, and a similar pattern observed in the capital goods sector between 2002 and 2008.

Contrary to perceptions, the reality diverges significantly. Following the global financial crisis in 2008, the capital goods index in India took 13 years to reach the same level again, achieving this milestone only in 2021.

The small-cap rally experienced an interruption in 2018 due to seemingly inconsequential events, including the introduction of long-term capital gains in the 2018 budget and mutual fund realignment.

This led to a nearly 39% decline in the small-cap index by mid-2019, with 250 companies witnessing drops exceeding 60% from January 2018 levels. Lastly, the consumption cycle that peaked post-COVID in 2014-19 has resulted in relatively subdued returns.

So how are we addressing it?

Navigating a robust long-term outlook coupled with exuberant sentiment poses a challenge.

Two choices emerge: first, succumb to the prevailing enthusiasm and invest indiscriminately, disregarding margin of safety. This may yield satisfactory short-term results, but may lead to disproportionate risk to the longer term performance of the portfolio.

The alternative approach (that we have chosen) aligns with the words of Morgan Housel: ‘The most important financial skill is having no FOMO.’

Our focus is on identifying businesses experiencing growth without being excessively priced on the market. Given the limited number of listed businesses meeting these criteria, the deployment of incoming capital may take time and requires patience.

Despite potential short-term under-performance, we are confident that this strategy will yield a positive and sustainable outcome over the longer term. We are also prepared to accept the temporary drag on returns that comes with not deploying new capital rapidly.

Lastly, the portfolio composition is undergoing a significant transformation. At the beginning of the current fiscal year, small and mid-cap businesses accounted for nearly 65%, with large caps (including cash) constituting the remainder.

By Dec-23, this ratio had reversed. Small and mid-caps now represent less than 40% of the portfolio. If the rally in this segment persists, our intention is to further reduce it to 30% or thereabouts.

Sector classification

Banking	28%
Insurance	7%
Automobiles	7%
Chemicals	4%
Health Care	4%
Information Technology	4%
NBFC	4%
Industrials	4%
Others	3%
Telecom	3%
Building materials	2%
FMCG	2%
Retailing	1%
Materials	1%
Others	5%
Cash and equivalents	25%

Core vs. Satellite

Core (incl. cash)	69%
Satellite	31%
Cyclicals	*15%*
Turnaround	*10%*
Value	*6%*

Market cap segregation

Large Cap and cash	65%
Mid Cap	5%
Small Cap	30%

Returns

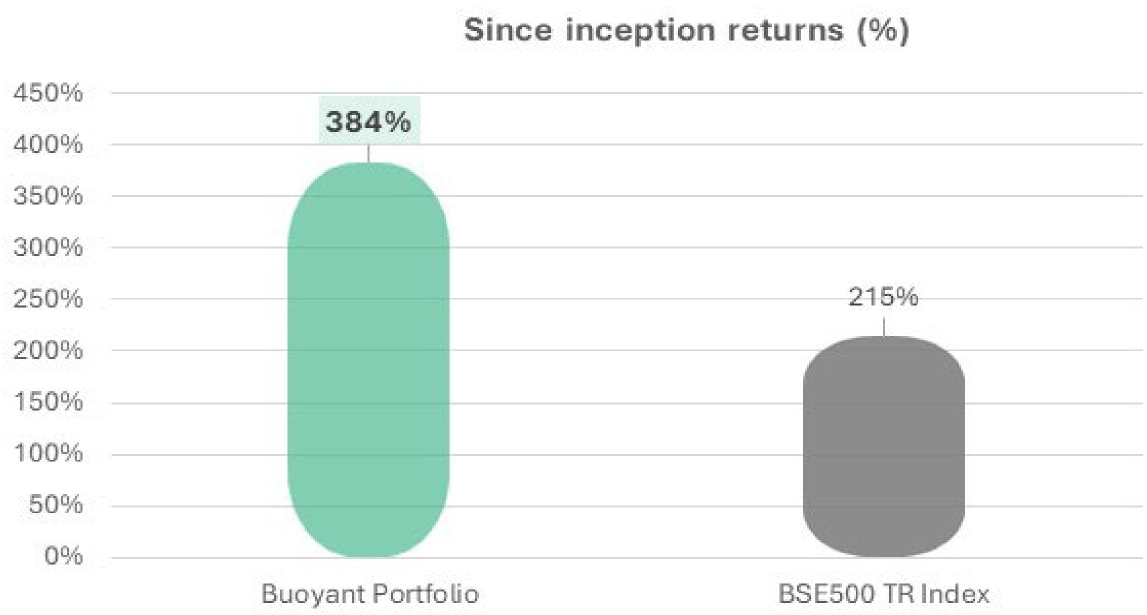
In the calendar year 2023, the Buoyant portfolio achieved a 40% return, surpassing the BSE 500 Total Returns Index by more than 1380 bps. In compliance with SEBI regulations, Buoyant returns are calculated post fees and expenses. The performance chart is presented below.

External publications rate the Buoyant portfolio as a top quartile fund across periods (1 year, 3 years, 5 years and 7 years). However, our primary objective is not to generate the highest possible returns. We rather seek to generate superior risk-adjusted returns across market cycles. One part of that product promise is risk-adjusted returns, and as is evident from the table below, as the markets have risen, we have reduced the risk in the portfolio (to 0.6X as measured by beta). The second part of the product promise is across market cycles. The Buoyant portfolio has outperformed when the markets have risen sharply post-COVID. We intend to keep this up should the markets correct in the ensuing cycle.

Relative performance

31-Dec-23	1 month	6 months	1 year	2 years	3 years	5 years	Since Inception
CAGR (%)							
Buoyant Portfolio	**2.8%**	**18.7%**	**40.3%**	**20.4%**	**34.9%**	**24.0%**	**23.1%**
BSE-500 TR Index	8.0%	18.5%	26.5%	15.2%	20.4%	17.6%	16.3%
Absolute (%)							
Buoyant Portfolio				45%	145%	193%	384%
BSE-500 TR Index				33%	75%	125%	215%

Source: Bloomberg for Indices. Buoyant portfolio returns are post-fees and expenses. Returns are for Buoyant Opportunities Scheme - Discretionary portfolio. More than one year returns are annualized.



Risk metrics

	1-yr	2-yr	3-yr
Sharpe ratio (X)	2.7	0.8	1.7
Information ratio (X)	1.2	0.5	1.3
Standard deviation (%)	11.4	15.7	16.5
Beta (X)	0.6	0.9	0.9
Sortino (X)	8.6	1.4	3.6

Blogs and Media

Our recent blogs and media appearances

Blogs

- Small cap cycles – Moneycontrol 15 November 2023
- Privileging the hypothesis – Moneycontrol 5 September 2023
- Credit cards – Moneycontrol 18 July 2023
- Junk bonds and market cycles – The Economic Times 26 Jun 2023
- Network effects: a double-edged sword – Moneycontrol 12 Jun 2023

Media Appearances

- Jigar Mistry (CNBC TV18) 11 December 2023
- Jigar Mistry (CNBC TV18) 16 November 2023
- Jigar Mistry (CNBC TV18) 8 November 2023
- Jigar Mistry (ET Now) 9 October 2023
- Jigar Mistry (CNBC TV18) 29 September 2023
- Viral Berawala (ET Now) 12 September 2023
- Jigar Mistry (CNBC TV18) 1 September 2023
- Jigar Mistry (CNBC TV18) 1 August 2023

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