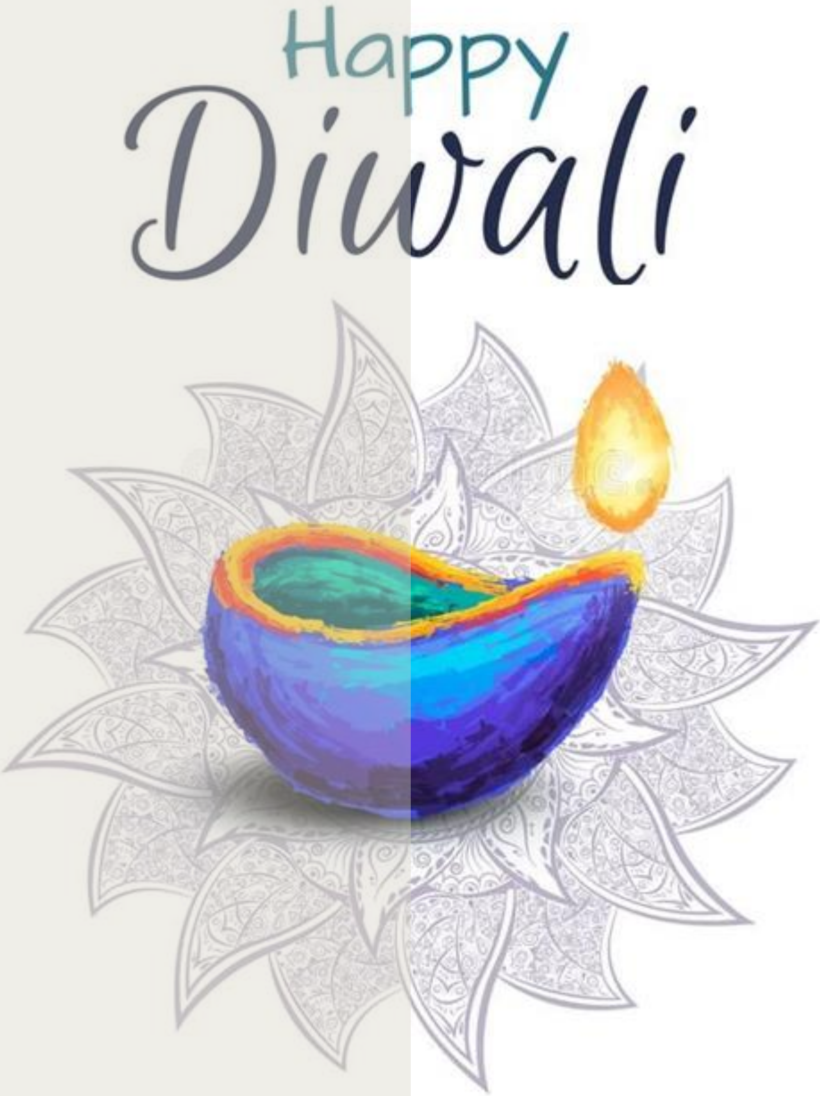
November 2021

Fintrust

bulletin...



May the little lamp's of Diwali; light up your life with love and happiness.

Updates
- Economic Indicators
- Debt Market Outlook
- Equity Market Outlook

Articles
- Investment Perspectives: Compounding & Performance Paradox
- What's the secret recipe for a happy marriage between startups and corporates?

Awards & Recognitions

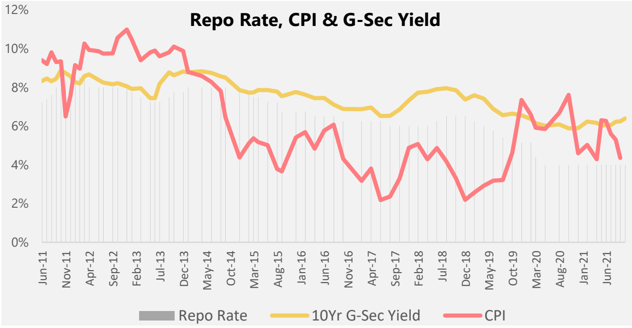
Disclaimer

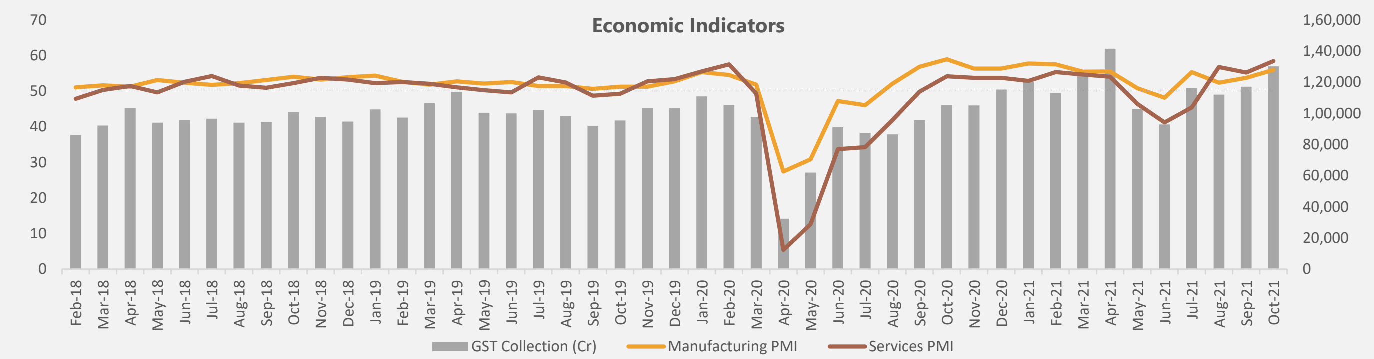
Economic Indicators

- Manufacturing sector growth gained steam as companies scaled-up production. Input purchasing by firms saw an uptick amid stock-building efforts and further improved demand as business optimism hit a six-month high.
- At 55.9 in October, India Manufacturing Purchasing Managers' Index (PMI) was in expansion territory for the fourth month in a row. Moreover, rising from 53.7 in September, the latest figure points to the significant improvement in overall operating conditions since February.
- India's Services PMI hits a decadal high of 58.4 in October, from 55.2 in September as the expansion in services activity extended for the third consecutive month.
- Goods and Service Tax (GST) collections for October, the beginning of a demand-boosting festive season, came in at Rs 1.30 lakh crore, compared with Rs 1.17 lakh crore in September, indicating strengthening economic recovery in the second half of the fiscal year.
- The GST revenues would have been higher if the sales of cars and other products had not been affected by disruption in the supply of semiconductors.
- Government is confident that net tax revenues for the year (direct & indirect tax) will comfortably cross the budgeted target of Rs. 15.45 lakh crore. However, as budget preparations begin, the higher expenditure would remain a concern.
- According to the data released by the Controller General of Accounts (CGA), the government's fiscal deficit worked out to be Rs 5.26 lakh crore or 35% of the budget estimates at the end of September 2021 compared to 114.8% of the estimates over the corresponding period of the previous fiscal.
- The growth of eight core industries fell to 4.4% in September from 11.5% in the previous month due to flat fertilizer production, a decline in crude oil output and a slowdown in the expansion of electricity generation.

Head's Up from the Central Bank

- RBI's MPC unanimously voted to keep the policy rates unchanged for the eighth consecutive time while maintaining its accommodative policy stance.
- They have retained their growth projection at 9.5% for FY22, led by signs of recovery in all sectors of the economy, as indicated by the incoming high-frequency data and the fast pace of vaccination.
- The risks to this growth are the resurgence of a third wave, high fuel prices, and any slowdown in exports momentum led by a moderation in global economic activity.
- RBI lowered its FY22 inflation forecast by 40 bps to 5.3%, on the back of low food inflation led by good Kharif crop and a favourable base effect. Upside risks to inflation emanating from a surge in global commodity prices driving up input costs and revival in demand leading to higher pass through.





Debt Market & Other Indicators

- The interbank call money rate settled at 3.25%, compared with 3.00% a month earlier.
- The yield on the 10-year benchmark 6.10% 2031 paper settled at 6.39% on 31st October compared with 6.24% on 30th September. Trimming of positions ahead of the weekly gilt sale weighed on bonds. Prices dipped further following the bond auction, which included the 10-year benchmark note.
- The bond prices were under pressure across the maturity curve, as you can see the yields going up for October in the table beside.
- A rise in US benchmark Treasury yields added to the pressure on domestic gilts. The US 10-year benchmark's yield remained elevated after the US Federal Reserve Chairman Jerome Powell warned that inflation might remain sticky for a prolonged period.
- The rupee took cues from crude oil prices, which saw a surge, and depreciated further to close at Rs. 74.87 against USD. Depreciation was rather sharp against European currencies.
- Chronic underinvestment & a sharp rebound in demand has pushed energy prices higher than anticipated. WTI crude oil futures rose to a 3-year high, crossing $82 per barrel.

Indicator	Oct 21	Sep 21	Trend
Call rate	3.25%	3.00%	▲
3Month CP	4.30%	3.80%	▲
1Year CP	4.80%	4.50%	▲
3Year AAA	5.40%	5.30%	▲
5Year AAA	6.15%	5.79%	▲
10Year G-Sec	6.39%	6.24%	▲

Currency (USD)	Oct 21	Sep 21	Trend
US Dollar	74.87	74.17	▲
GBP	103.27	99.81	▲
EURO	87.28	85.79	▲
YEN	0.66	0.67	▼

Commodity (USD)	Oct 21	Sep 21	Trend
WTI Crude	82.81	74.89	▲
Gold	1796.70	1756.86	▲
Silver	23.83	22.07	▲

Debt Market Outlook

- As anticipated, we can see the yields rising across all maturities ahead of central banks decision to raise rates. We recommend investments in ultra-short to short term maturity (3 Months to 2 Years) as the interest rate cycle gradually reverses.
- With yields tending to inch up, higher accruals can provide a buffer to mitigate some erosion in price. Investors may consider investing in funds that offer such exposure along with better quality, management and lower volatility.

Domestic Equity Market

- October has seen mixed reactions within the sectors. While rate-sensitive Banking & Finance, Automobiles were on fire, the defensive sectors like Pharmaceuticals, Information Technology, and FMCG corrected significantly.
- After touching all-time highs, Nifty 50 & Nifty Midcap 100 managed to close 0.3% higher each and BSE Small-cap lost 0.4%, making it a flat month.
- Morgan Stanley downgrading Indian equities to equal-weight from overweight due to expensive valuations, weak third-quarter GDP numbers from the US and Europe, and the crisis engulfing Chinese developers induced immense selling pressure from Foreign institutional investors (FIIs). FIIs sold equities in the cash segment to the tune of Rs. 25,572 Crores which is the most significant selloff in this calendar year.
- Government data showed that India's merchandise trade deficit widened to a record $22.59 billion in September, the highest in at least 14 years, as crude oil and gold imports surged. Exports in September rose 22.6% over last year to $33.79 billion, while imports rose 85% on-year to $56.39 billion.
- The Union Cabinet approved the Rs 100 lakh crore PM GatiShakti National Master Plan, including implementation, monitoring and support mechanism to provide multi-modal connectivity. The government will also invest Rs 50000 crore to set up 500 multi-modal cargo terminals by 2025 under the Gati Shakti National Master Plan.
- The government asked state-owned banks to aggressively target financial inclusion, expand pension and insurance coverage, and use financial technology to extend credit to borrowers during the festive season through co-lending arrangements.

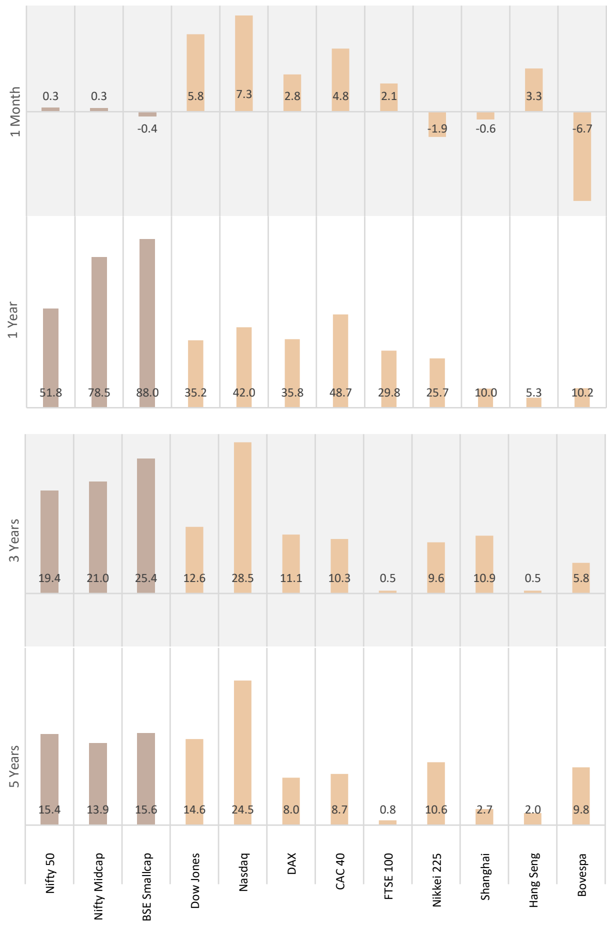
Broad Indices	Oct 21	Sep 21	Change
Nifty 50	17672	17618	0.3%
BSE Sensex	59307	59126	0.3%
Nifty Midcap	30470	30384	0.3%
BSE Smallcap	27983	28082	-0.4%
S&P BSE 500	23990	23938	0.2%

Sectoral Indices	Oct 21	Sep 21	Change
S&P BSE Bankex	44651	42728	4.5%
S&P BSE Metal	20017	20182	-0.8%
S&P BSE Healthcare	25034	26093	-4.1%
S&P BSE IT	33491	34419	-2.7%
S&P BSE FMCG	14003	14862	-5.8%
S&P BSE CD	43219	41340	4.5%
S&P BSE Auto	25338	23866	6.2%
S&P BSE Oil & Gas	18143	18302	-0.9%
S&P BSE Realty	3985	4104	-2.9%
S&P BSE CG	26673	25967	2.7%
S&P BSE Power	3338	3199	4.4%

Global Equity Markets

- US benchmark indices surged in the range of 6% to 7% due to strong corporate earnings and an improved economic outlook.
- Sentiments were further boosted after US President Joe Biden secured a new $1.75 trillion framework for economic and climate change spending.
- US gross domestic product (GDP) grew at an annualised 2.0% in the third quarter ending September 2021, compared with 6.7% in the previous quarter.
- The US consumer confidence index rose to 113.8 in October, from an upwardly-revised 109.8 in September. New home sales soared by 14% to an annual rate of 800,000 in September, after falling by 1.4% to a downwardly-revised rate of 702,000 in August.
- Britain's FTSE rose 2.13% on buying interest in mining, consumer staple, oil and auto-parts-related stocks.
- Other European equities also ended higher, with Germany's DAX and France's CAC 40 gaining by 2.8% and 4.8%, respectively. Investors cheered strong corporate earnings as the European Central Bank kept policy measures unchanged.
- The Eurozone GDP expanded 3.7% on-year in the third quarter compared with revised 14.2% on-year growth in the second quarter. The economic sentiment indicator rose to 118.6 in October from 117.8 in September.
- Asian equities ended mixed, with Hang Seng surging 3.3% and Japan's Nikkei falling by 1.9%. Japanese investors showed caution ahead of national elections over the month.
- China's Shanghai Composite declined 0.6% due to a sell-off in real estate stocks on a planned pilot real estate tax scheme and broking agencies downgrading Chinese developers.
- Chinese factory activity contracted for a second straight month. Manufacturing PMI fell to 49.2 in October from 49.6 in September. About one-third of the surveyed companies listed insufficient demand as the most severe difficulty.

Performance of Indian & Global Indices



***Note:** For Periods till 1 year the returns are absolute and for beyond 1 year, its CAGR returns*

Equity Market Outlook

- As per the IMF, the global economy will grow at 5.9% in 2021 (downgraded by 0.1%) due to supply disruptions and dismal economic prospects due to COVID-19 related "fault lines".
- Inflation risks are on the upside due to pandemic induced supply-demand imbalances, and the IMF has predicted that inflationary pressures will likely diminish only in 2022. Dearer crude oil, faltering INR, expected tapering of liquidity by central banks and rising US yields will bear future stock market dynamics.
- Market valuations have hit the roof as Central Banks have flooded the market with money due to their quantitative easing policies. It is better to look at fundamentally strong business houses as there could be a sharp rise in volatility.

Investment Perspectives: Compounding & Performance Paradox

Over decades investors have understood the power of compounding; however, in the equity market, Performance Paradox often acts as a deterrent and clouds one perception of the long term. **Performance Paradox** happens when one gets caught in the short-term investment product returns rather than the long-term. Therefore, we want to discuss the compounding that can happen in one's portfolio by holding a few exceptional, consistent, great compounding investment managers by avoiding performance paradox to create extraordinary wealth. We have chosen managers A, B & C (managers & investment schemes - names changed) in the mid-cap and small-cap space, which we believe is highly fertile for alpha generation, to explain the same.

These three managers have delivered exceptional returns in the last 17 months **(shown in Table I)** since the markets hit bottom in March 2020, which might let you think, what's more? Therefore may result in a Performance Paradox. Hence, knowing the facts to understand the Bigger Picture is a must. All are highly experienced and have been running their strategy since the beginning of the decade 2010-2019. They have witnessed the vagaries of the stock market, as shown in **Graph I**.

They have navigated the market and economic cycles very well and have individually delivered impressive returns that helped create serious wealth for the investors. All the managers have been the leader amongst the Top Quartile since inception compared to benchmarks and peers, as shown in **Table II**.

Compound Interest is the eighth wonder of the world. He who understands it earns it. He who does not pays it.

– Albert Einstein

Table I - Performance of the fund managers during recovery

Fund	Apr-2020 to Aug-2021
Fund Manager A	189.6%
Fund Manager B	199.1%
Fund Manager C	188.5%

Graph I - Market Cycles

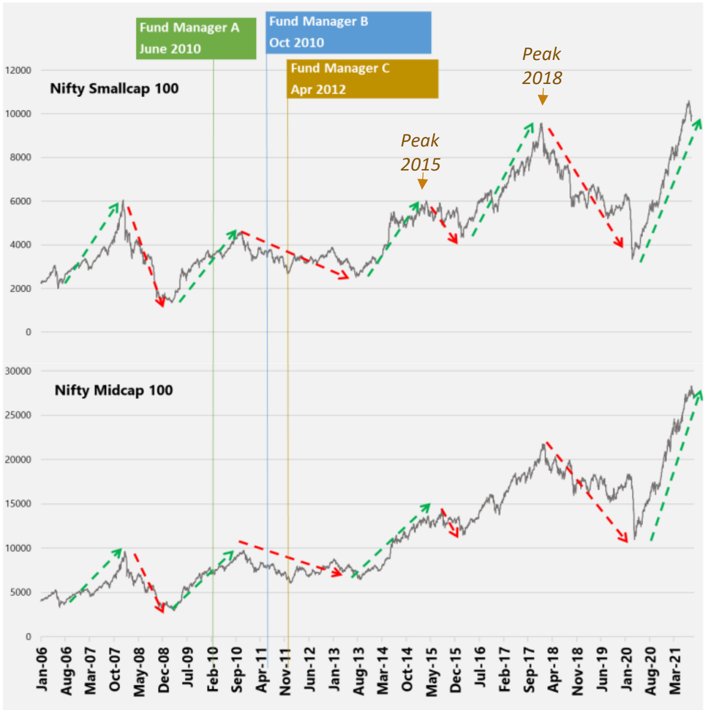
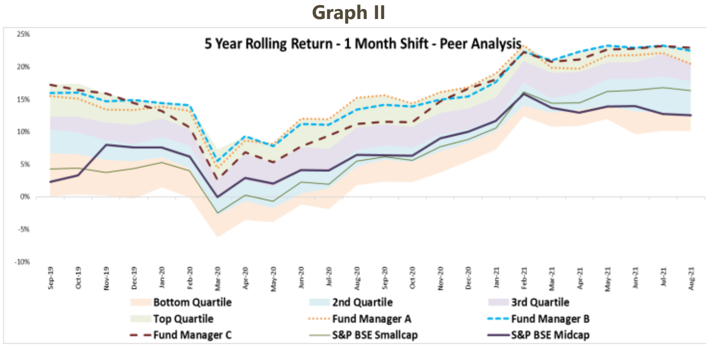


Table II - Performance since Inception

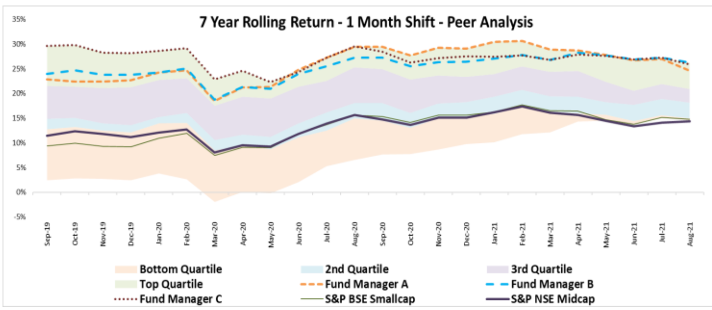
Parameters	Category	Annual Returns (CAGR)		
		June'10 to Aug'21	Oct'11 to Aug'21	Apr-12 to Aug-21
Unify Blend Rangoli	Mid & Smallcap	**19.9%**	24.3%	26.4%
Vallum India Discovery		--	**26.9%**	28.4%
SageOne Core Portfolio		--	--	**34.0%**
NIFTY Smallcap 100	Small Cap	10.0%	12.1%	12.5%
Top Quartile		19.7%	23.7%	24.6%
Bottom Quartile		13.3%	15.6%	15.7%
NIFTY Midcap 100	Mid Cap	12.2%	15.0%	14.8%
Top Quartile		18.5%	21.1%	21.6%
Bottom Quartile		14.2%	14.3%	14.6%

Graph II



In addition, these managers have delivered returns on a buy & hold basis and have been consistently in the top quartile if the money was given to them for 5 years or higher. As a result, **they have been defying the fact** that a manager can't be in the top quartile consistently and across various long time frames, making them unique and preferred investment choice for family offices in India, as shown in **Graph II** & **Graph III**. However, as stated above, their recent performance may cast doubts in some investors' minds regarding future returns. *Hence long term picture is essential to steer away from the Performance Paradox.*

Graph III



Good investing isn't about generating supernormal returns once in a while; instead, it is about generating handsome returns consistently across all market cycles and over long periods.

No particular investing style works over all periods, so combining managers with different styles can help investors reduce risk and smooth their investing journey. Therefore, managers with a different investment style in a portfolio have their merits. While operating in the same space, all three have different investment styles & philosophies.

- "A" follows an event-driven investing style across the breadth of the markets,
- "B" follows turnaround/mean reversion and growth investment style,
- "C" follows growth style investing with the last man-survival bias.

And this is what makes all three very unique.

Exposure to such differentiated style managers is more meaningful and enough to benefit and take advantage of the opportunities offered by Indian Mid-Cap & Small-Cap universe.

The question in today's market is whether one should invest at this point in time, given the recent rally? If one has a horizon of 5 years plus, additional allocation in today's market should be considered, as timing the markets consistently is not possible.

Also, **look-back analysis** *reveals the fact that if one had invested with them at the peak of the markets in 2015 and 2018 (refer* ***Graph I on previous page****)*, they would have still delivered good returns, despite seeing corrections, as shown in **Table III**. In the short term, like 3 years, as seen since 2018, they are in top quartile or upper second quartile; however, they have demonstrated repeatedly that over five years, they are in the top quartile.

Table I (*refer previous page*) and **Table III** also shows that **an investor can be entirely correct in their asset allocation decision, only to lose money by not choosing the right investment manager** as represented by the bottom quartile. Therefore, picking an investment manager is a significant decision. Often, it can be the difference between successful financial wealth creation and one of high-stress & below-average returns.

The bedrock of successful manager selection is a rigorous research process. We believe that there is no one simple way of verifying the presence of such a skill. Hence, the manager selection process draws on a multitude of qualitative and quantitative techniques that give an informed view when combined. At all stages of the selection process, our manager research is looking for evidential support for the presence of key manager skills and verification of the manager's stated investment style and process.

But finding the right manager is just the start; managers need to be monitored on an ongoing basis, with changes made in a timely and efficient manner when required. *The changes should basis factors like change in investment style, departures of key investment professionals, unsustainable growth in assets, the unexpected change in investment process etc, and not because of Performance Paradox.*

> *"Put all your eggs in one basket... the handle's going to break. Then all you've got is scrambled eggs".*
>
> *- **Nora Roberts***

Table III - Performance from Peak (2015 & 2018) Till Date

Parameters	Category	Annual Returns (CAGR)	
		Aug'15 to Aug'21	Jan'18 to Aug'21
Fund Manager A	Mid & Smallcap	**21.1%**	**13.3%**
Fund Manager B		**22.7%**	**14.7%**
Fund Manager C		**21.2%**	**18.9%**
NIFTY Smallcap 100	Small Cap	10.1%	3.4%
Top Quartile		18.9%	21.5%
Bottom Quartile		11.5%	4.3%
NIFTY Midcap 100	Mid Cap	12.7%	8.4%
Top Quartile		16.2%	19.0%
Bottom Quartile		11.5%	8.6%

> *"Compounding has a snowball effect. It is just a tiny ball of snow at the very start, but it can turn into an avalanche over time."*
>
> ***— Naved Abdali***

To summarize, the majority of investors want performance more than any other value driver. They define long-term performance consciously or subconsciously. However, it shouldn't stop with short-term returns or enhanced product choices and act as constraints.

If your investment manager has a stable strategy designed to endure changing economic and market cycles then staying invested for long term and avoiding performance paradox will inevitably lead to compounding and give your portfolio the performance edge.

What's the secret recipe for a happy marriage between startups and corporates?

The spurt of growth in India's startup ecosystem has prompted corporate interest, leading established companies to bet on young founders and innovation. This marriage, if stable and happy, can prove beneficial to both parties.

By Anurag Jhanwar
Published in
yourstory.com - 08th Oct 2021

The Indian startup ecosystem has evolved over the last decade, with the emergence of over 40 unicorns that have made their mark on the global map. The momentum has picked up pace and it is expected that another 15-20 unicorns will be added to the elite list by the end of March 2022. These startups, and many more, have challenged the dominance of established corporates and made them take note of the pace of innovation and disruption, which, if not acted in time, can potentially cause irreparable damage to the corporates.

As aptly stated by Jack Welch, Former CEO of GE, "If the rate of change on the outside exceeds the rate of change on the inside, the end is near."

Not to be left out, the corporate sector has started showing keen interest in startups. They have been organising and aligning specific initiatives to take advantage of the vast potential of working with promising startups. The most common structure of engagement is a corporate accelerator, which brings together established corporates and agile startups under one umbrella.

A corporate accelerator is sponsored by an established for-profit corporation to support early-stage startup companies through mentorship, capital, and other nonfinancial resources. In recent times, corporates from various industries such as Reliance, Mahindra, Tata Group, L&T, Microsoft, Amazon, and Intel have launched different initiatives and structures to work closely with startups.

> The association can either be to work closely on seeding and scaling an idea/product or establish a funnel for strategic investments. These initiatives spur innovation, helping corporations innovate and evolve to stay competitive in a rapidly changing market.

Why the increase in interest?

It has been documented by research professionals that innovation is stifled due to excessive red-tapism as companies become larger and more bureaucratic. This is because larger organisations have several layers of decision-making, which is incongruous with a startup's way of functioning.

Startups have a flat organisation structure and require freedom in decision making and rapid execution; flat-footed, large organisations don't have this.

But, at the same time, large firms are astute and realise that they cannot afford to miss the action and dynamism intrinsic to the startup sector. This is why leading corporates, keen to get the best of both worlds, have ventured into the startup domain.

From the perspective of a startup, while it may have a great idea it will typically lack strong financial management skills, adept human resource faculties, and a brand that signals consistency of experience. Established corporates have all these attributes and can offer these benefits to the startup on a platter, thus bringing to the table a significant value proposition.

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