# Ampersand Growth Opportunities Fund Scheme – 1

**FUND UPDATE: January 31, 2024**

## Fund objective and strategy

Ampersand Growth Opportunities Fund Scheme-1 (AGOFS) seeks to generate long term capital appreciation by investing in a portfolio of listed equity and equity related securities. AGOFS will follow a multi-cap strategy focusing on investment opportunities across the growth themes with a typical portfolio of 30-35 stocks.

## Fund facts

| Fund Size | Inception Date | Unit NAV | Unit Face Value | Benchmark | Category |
|---|---|---|---|---|---|
| INR 508.8cr | 25 SEP 2017 | INR 352.8 | INR 100 | S&P BSE 500 | Multi-cap |

### Fund Performance: Strong start to CY24

Ampersand fund has started well in CY24, delivering 6.6% returns in Jan. This was well ahead of most indices, including our benchmark BSE 500.

Since inception, our fund has delivered 21.9% CAGR, again ahead of all major indices.

**Table 1: Fund and Market Performance**

| Returns | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year CAGR | 5 Year CAGR | Inception CAGR |
|---|---|---|---|---|---|---|---|
| AGOFS NAV | 6.6% | 25.6% | 31.3% | 64.9% | 33.4% | 26.9% | 21.9% |
| BSE 500 | 1.9% | 17.7% | 15.6% | 31.6% | 20.3% | 17.0% | 13.7% |
| Nifty 50 | 0.0% | 13.7% | 10.0% | 23.0% | 16.8% | 14.9% | 13.0% |
| Nifty Midcap 100 | 5.2% | 24.9% | 28.8% | 58.3% | 32.4% | 23.5% | 16.5% |
| **AFOFS NAV*** | | | | | | | **352.8** |

** NAV (post expenses & taxes paid till date), Class & Series-wise NAV may differ*

**Table 2: Portfolio Metrics**

| Valuation | | Risk | |
|---|---|---|---|
| PE | 40.1 | Standard Deviation * | 18.57 |
| PB | 8.8 | Beta | 0.89 |
| ROCE * | 17.9 | Sharpe Ratio | 1.11 |

*PE, PB & ROCE calculated based on FY24 estimated values. *ROCE for portfolio is calculated ex-financials.*
**Annualised standard deviation of returns has been calculated.*

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### Core holdings witness couple of alterations

Our Top-5/10 holdings account for ~21% and ~40% of corpus respectively, similar to the end of previous month. However, the core holdings list has undergone a couple of alterations, due to full exit in LTIM (weak results and poor visibility) and partial cut in Polycab (overhang of tax raid which could cap valuations). These have been replaced by REC and Power Mech, both due to relatively superior stock performance.

**Table 3: Top Holdings**

| Company | % Weight | Company | % Weight |
|---|---|---|---|
| ICICI Bank | 5.6% | Neuland Laboratories | 3.8% |
| Jupiter Wagons | 4.4% | Varun Beverages | 3.6% |
| REC | 3.8% | Sonata Software | 3.6% |
| TARC | 3.8% | Power Mech | 3.4% |
| Trent | 3.8% | MCX | 3.3% |
| **Top 5** | **21.3%** | **Top 10** | **39.1%** |

### Consumer, IT exposure cut, Real estate upped

Our sector-wise allocation within the portfolio too has undergone some alterations, following cuts in key stocks within the Consumer and IT space. However, Engineering & Capital goods continue to remain our preferred sector with highest exposure. We also retained exposure to the Pharma & Healthcare sector, but raised exposure in Real Estate through Godrej Properties on solid prospects, yet available at discount to peers. We still remain absent in the Metals sector, and maintain minimal exposure within PSUs.

Our weights related to market cap classification saw a reduction in large caps, and similar increase in mid-caps i.e. 10kcr-50kcr market cap. This is due to full exit of LTI Mindtree, being adequately substituted by Godrej Properties.

Our cash and equivalents was much higher at ~7% (previous month ~4%).

As on Jan 31, 2024, our fund consists of 33 stocks, which accounts for 2 exit and addition of 1 new name.

**Table 4: Market Cap Classification**

| Market Cap | % Weight |
|---|---|
| < INR 10,000cr | 22.0 |
| INR 10,000-50,000cr | 39.3 |
| INR 50,000-100,000cr | 10.6 |
| >INR 100,000cr | 21.1 |
| Cash & Cash Equivalents | 7.0 |
| | |
| **Weighted Avg. Market Cap (Rs bn)** | 925.4 |

**Table 5: Sectoral Allocation**

| Sector | % Weight |
|---|---|
| Engineering & Capital Goods | 23.1% |
| Consumer (Goods & Services) | 17.8% |
| Financial Services | 15.5% |
| Pharma & Healthcare | 13.0% |
| IT Services | 8.6% |
| Real estate | 8.3% |
| Others* | 6.8% |

**Includes Auto, E-Commerce*

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### Most of the activity in Mid and Small caps

Our portfolio gains came mostly through Mid and Small Caps, with recent investment Motilal Oswal standing out with superlative gains. Our losers came in the same space, due to a combination of extraneous factors (Polycab) and corrective pull back after solid gains in previous months (Inox Wind).

### Table 5: Key Movers

| Performers | % Return | % Weight | Laggards | % Return | % Weight |
|---|---|---|---|---|---|
| Motilal Oswal Financial | 44.1% | 2.2% | Polycab India | -20.8% | 3.4% |
| Jupiter Wagons | 26.7% | 4.0% | Tata Elxsi | -13.1% | 2.7% |
| Power Mech Projects | 24.4% | 3.2% | ITC | -4.4% | 2.3% |
| Neuland Laboratories | 21.2% | 3.6% | Inox Wind | -4.4% | 2.5% |
| REC | 20.9% | 3.5% | Som Distilleries | -2.6% | 2.0% |

*Note: Average weight used when stocks are bought/sold during the month*

### Realty again stood out, while FMCG lagged

Sectorally, Realty, Pharma & Healthcare and Engineering & Capital goods sectors did well while FMCG and Metals fared poorly. As a category, PSUs did extremely well.

Since Mid and Small caps contributed significantly to our fund outperformance, sectoral moves did not impact us much. In fact, absence in Metals helped a bit, but then relatively low exposure to PSUs restricted our performance.

### We add a single name, but exited from a couple

During Jan, we had a single addition in Real Estate major Godrej Properties, and also increased our position in Motilal Oswal. We exited from legacy holding LTI Mindtree and Escorts Kubota, even while trimming our position in Polycab.

### Table 6: Key Portfolio Changes

| Company | % Weight Increase | Company | % Weight Decrease |
|---|---|---|---|
| Godrej Properties* | 163 bps | LTIMindtree ** | (382 bps) |
| Motilal Oswal Financial | 129 bps | Polycab India | (246 bps) |
| Jupiter wagon | 69 bps | Escorts Kubota ** | (203 bps) |

*Note: * New Buy, ** Complete Exit*

Stock markets globally, and in India towards the latter half, helped sustain up move for 3rd consecutive month. This was due to political development, which further enhances chances of incumbent government getting re-elected in the upcoming General Elections.

FIIs sold but more than adequately compensated by domestic institutions and retail HNIs, pushing up stock values especially in the broader market.

We had expected Nifty stocks to perform better given the extended underperformance and relative valuations. We expect this trend to play out in the near term. However, we will continue to follow a stock specific investment strategy, which so far have favoured Mid caps, and to a lesser extent small caps. It is possible that we could be inclined to increase exposure to some of the larger names in the coming weeks.

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## Identifying themes in low growth environment

At Ampersand, we consider earnings growth to be the primary driver of stock performance. We use valuation tools to assess downside risks, and will stay invested as long as growth prospects remain healthy. Our growth focus also reflects India's relatively stronger performance compared to major global markets, due to superior economic as well as earnings growth.

In the last 3 years, India's NIFTY is up 58%, compared to 22% rise in the global market (MSCI World). This has solely been driven by earnings growth of 93%, even as valuations have been derated. Expansion of profit margin has contributed to around 65% of profit growth in the last three-years.

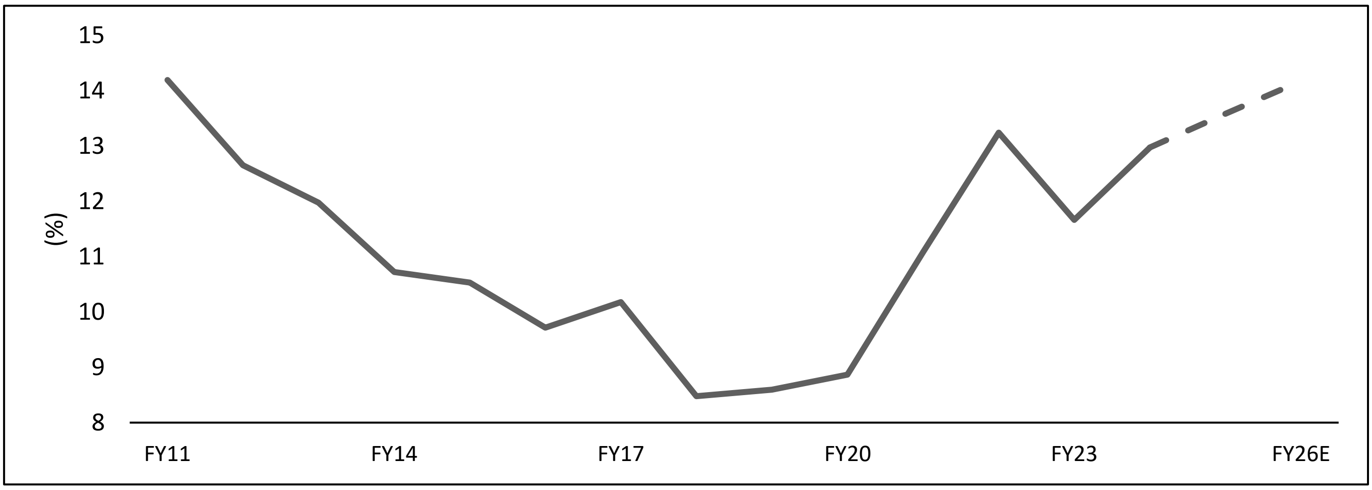
India corporate earnings growth is likely to remain strong over the next 5 years or more, as the government is putting policies in place to achieve ~7% annual GDP growth until 2030. However, earnings growth could be slower compared to the recent past, mainly due to possible moderation in margin expansion.

There will likely be a reduction in the number of companies delivering superior growth, and that will drive up the valuation premium of growth stocks even further. In this context stock picking based on growth will warrant deeper dive into financial analysis.

Given macro risks, demand prospects seem subdued and leave no headroom for further cost reduction. As such, opportunities for growth investors will get narrower. Companies which gain market share and/or improve their sales mix will be better placed for growth. We have identified the following high growth themes.

1. Renewable Energy, as India is trying to become increasingly self-reliant in energy, as well as reduce carbon footprint. Manufacturers of renewable energy equipment and financiers will stand to gain.
2. Premiumisation, with High end goods and services likely to sustain strong growth due to income inequality. Premium real estate, automobiles, Jewellery, Hotels and Travel should benefit from this trend.
3. Exporters of Electronics and Engineering goods, which should register strong growth on back of rising government incentives, as well as increased cost competitiveness over developed countries which are facing manpower shortages.
4. R&D driven areas of IT, E-Commerce, Chemical and Pharma, being well placed for growth, as India's pool of cheaper engineering talent is increasing faster compared to several competing countries.

**Chart: Profit Margin scaling new high, but limited upside**




*Source: Refinitive-Reuters*
*Note: OMCs excluded from BSE500 sample space. Estimates are Bloomberg consensus.*

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# Ampersand Growth Opportunities Fund Scheme – 1

## Fund Information

| Minimum investment | Subscriptions | Redemptions | Registered for Sale |
|---|---|---|---|
| INR 10 million | Monthly | Monthly, subject to 12 months lock-in | Registered with SEBI |

**Legal and Fund Consultant**
Khaitan & Co.

**Administrator**
Kotak Mahindra Bank Ltd.

**Registrar & Transfer Agent (RTA)**
CAMS Limited

**Statutory Auditor & Tax Consultant**
Deloitte Haskins & Sells LLP

**Investment Manager**
Ampersand Capital Investment Advisors LLP

## Investment Manager


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***DISCLAIMER***:

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