Ampersand Growth Opportunities Fund Scheme – I

FUND UPDATE: July 31, 2023

Fund objective and strategy

Ampersand Growth Opportunities Fund Scheme – I (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 362.9cr	25 SEP 2017	INR 268.6	INR 100	S&P BSE 500	Multi-cap

Fund Performance: Superior showing yet again this month.

Ampersand NAV was up 5.5% this month, well ahead of the benchmark BSE500 (up 3.8%) and the Nifty (up 2.9%), and broadly in line with mid cap indices. This was despite several of our large cap holdings not faring as well. Our superior performance was aided by a host of mid and small caps, where investments made in the past have started to bear fruition now. Sector-wise, our exposure to Engineering & Capital goods and Auto sectors helped us, as did the underweight stance in Financials.

Since inception in Sept 2017, our fund delivered cumulative returns of 168.6%, compared to Nifty, BSE 500 and Nifty mid cap (each delivered in the 95%-105% range).

Table 1: Fund and Market Performance

Returns	Since Inception	1 Month	3 Months	6 Months	1 Year	3 Year CAGR	5 Year CAGR
AGOFS-I	168.6%	5.5%	19.8%	25.6%	22.8%	31.2%	18.9%
S&P BSE 500 (Benchmark)	95.7%	3.8%	11.8%	13.8%	15.9%	23.6%	12.1%
NIFTY 50	98.2%	2.9%	9.3%	11.8%	15.1%	21.3%	11.7%
NIFTY MIDCAP 100	105.1%	5.5%	18.6%	23.0%	27.3%	34.6%	14.9%
AFOFS-I NAV*							**268.6**

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

Table 2: Portfolio Metrics

Valuation		Risk	
PE	35.6x	Standard Deviation *	18.52%
PB	8.4x	Beta	0.90
ROCE *	36.5%	Sharpe Ratio	0.96

*PE,PB & ROCE calculated based on 1 year forward estimated values. *ROCE for portfolio is calculated ex-financials.*
**Annualised standard deviation of returns has been calculated.*

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Top portfolio holdings undergo minor positional cuts

Our Top-5/10 holdings account for 24.4% and ~40% of corpus respectively, which is lower compared to the end of previous month, mostly due to relative underperformance of our large cap holding as well as pruning some exposure. Also, the top holdings list underwent a couple of alterations, with total exits in Asian Paints and Axis Bank, while Eicher Motors dropped off due to underperformance on concerns over rising competitive intensity. These names made way for Schneider Electric (solely due to strong performance) and new Buy, Amara Raja Batteries.

Table 3: Top Holdings

Company	% Weight	Company	% Weight
ICICI Bank	7.8%	Trent	3.4%
Polycab India	5.3%	Schneider Electric Infrastructure	3.1%
Jupiter Wagons	4.0%	Varun Beverages	3.0%
Maruti Suzuki	3.8%	Cummins India	3.0%
PI Industries	3.5%	Amara Raja Batteries	3.0%
Top 5 Holdings	**24.4%**	**Top 10 Holdings**	**39.8%**

Sector preferences unaltered, Financial exposure lowered

Sectoral allocation has undergone some alterations compared to the previous month. The Consumption space and Engineering and Capital goods sector are our preferred investment destinations with largely similar exposure of ~25%. We further cut our exposure to IT and also trimmed Financials (i.e. banks). Most of this went to Autos, a bit to Pharma and increase in cash levels. We remain absent in PSUs and Metals sectors.

During the month, our portfolio weights too underwent changes related to market cap classification, with the most significant one being a sizable increase in small caps, mainly due to performance as well as addition of a new name. On the flip side, we trimmed weights in some of our large cap holdings. This also resulted in cash levels temporarily spiking towards the end of month to ~8%% (previous month 5.5%)

As on July 31, 2023, our fund consists of 33 stocks, although we exited 2 positions (Axis Bank, Asian Paints) and duly replaced by 2 names (Escorts, Amara Raja).

Table 4: Market Cap Classification

Market Cap	% Weight
< INR 100 billion	29.5%
INR 100 – 250 billion	11.9%
INR 250 – 500 billion	10.2%
> INR 500 billion	40.3%
Cash & liquid investments	8.1%
Weighted Avg. Market Cap (Rs bn)	1,252.2

Table 5: Sectoral Allocation

Sector	% Weight
Engineering & Capital Goods	24.8%
Consumer (Goods & Services)	24.7%
Auto and Auto Ancillaries	12.6%
Financial Services	7.8%
IT Services	6.7%
Others*	15.3%

**Includes Pharma & Healthcare and Chemicals*

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Strong winners across portfolio

Small caps yet again contributed well to our performance, but the most significant one was a large cap i.e., Polycab. However, our mid-caps did not fare as well as anticipated, and relative to the indices. Sector-wise, Financials (Banks) and IT fared poorly, and our portfolio was no different. While our absence in PSU banks and Metals sector restricted performance a bit, we benefited from modest exposure to Banks.

Table 6: Key Movers

Performers	% Weight	% Return	Laggards	% Weight	% Return
Power Mech	2.9%	37.1%	PI Industries	3.7%	-7.8%
Polycab India	5.3%	35.6%	Amara Raja Batteries	2.5%	-6.8%
Elecon Engineering	2.4%	29.6%	Eicher Motors	3.0%	-6.0%
Neuland Laboratories	2.5%	22.7%	LTIMindtree	2.5%	-5.9%
Jupiter Wagons	4.0%	18.2%	TATA Elxsi	2.9%	-5.7%

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

Auto and pharma exposure sharply up this month

During the month, we increased investments to the Auto sector through a new name i.e., Escorts Kubota, as well as adding to our existing position in Amara Raja Batteries. Pharma space too witnessed a significant increase in exposure in July, but mostly due to strong performance. We briefly highlight the investment rationale of Escorts Kubota.

Escorts Kubota Ltd, under its Japanese owner Kubota, is well positioned to achieve its stated goal of 2.5x growth over the next 5 years. Access to technology, products and superior production management systems will likely boost market share as well as margins. In the interim, the company will also benefit from sector tailwinds in Agri-machinery and Construction equipment businesses. Stock trades at attractive valuation relative to peers and should deliver significant upside.

As far as divestments are concerned, we pruned our exposure in names which had exceeded our expectations and risk reward was no longer attractive. These include Asian Paints, Cummins and Varun Beverages. Axis Bank was the only profitable investment where exit can be justified due to fundamental reasons (low credit growth, cost pressure).

Table 7: Key Portfolio Changes

Company	% Weight Increase	Company	% Weight Decrease
Escort Kubota	157 bps	Axis Bank	(358 bps)
Amara Raja Batteries	100 bps	Asian Paints	(268 bps)
Som Distilleries & Breweries	95 bps	Varun Beverages	(120 bps)

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Indian markets surge on foreign flows

Indian markets continued to do well for the 4th consecutive month, despite tapering flows and valuations seemingly closer to the higher end of the historic valuation band. This was driven by better results and a pickup in rainfall in several parts of the country. While the narrative that our economy stands out in various macro-parameters should sustain, some early headwinds such as rising oil prices could be dampener near term.

Within sectors, Real Estate, Pharma and Metals performed the best (each up ~9%), while Autos (up 3.5%) too did well. On the other hand, Financials, dragged by Banks as well as IT fared poorly on a relative basis, gaining less than 1% each during the month.

All eyes on consumption recovery

India's growth story is mainly being driven by the capex cycle, while consumer demand continues to remain sluggish. This is due to high inflationary trends over the past couple of years, which has particularly impacted rural disposable incomes. However, green shoots are now emerging, with corporates starting to report gradual demand recovery. However, the pace needs to improve for the sustainability of the ongoing bull market. Also, if consumer demand remains muted for an extended period, investment sentiment is likely to taper off, leading to lower capex growth.

Additionally, sustained demand weakness will indicate discontent amongst rural voters and could hurt electoral prospects of the incumbent government in general elections next year. Hence, we are closely monitoring rural demand trends, and expect recovery in the upcoming festival season commencing in September. Key drivers of recovery will be (1) normal monsoons, (2) increased affordability, with most products not seeing significant price hikes for nearly a year, and (3) increased government support to rural consumers ahead of elections.

Chart 1: Demand of FMCG recovering slowly

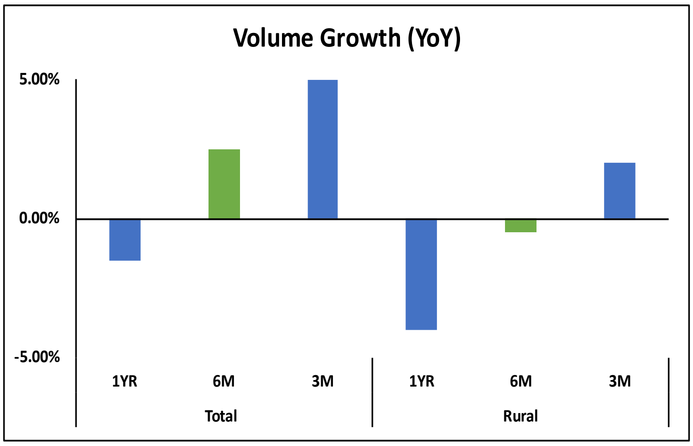
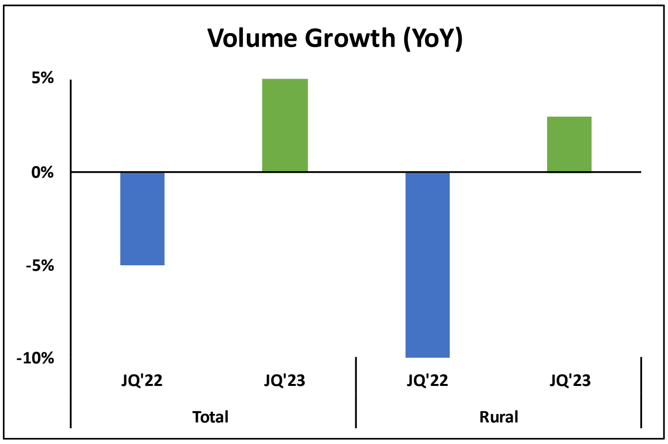


Chart 2: ...albeit on a low base



Source: Nielsen FMCG Market Report for June 2023

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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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