Ampersand Growth Opportunities Fund Scheme – I

FUND UPDATE: May 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 around 35 stocks.

Fund facts

Fund Size	Inception Date	Unit NAV	Unit Face Value	Benchmark	Category
INR 329cr	25 SEP 2017	INR 241.3	INR 100	S&P BSE 500	Multicap

Fund Performance : Strong follow up to previous month

Ampersand NAV was up 7.6% this month, well ahead of benchmark and key market indices. This was mainly due to a tailwind of strong results in the majority of our portfolio holdings. If not for a couple of earnings misses, we could have performed a tad better. Sectorally, our reasonable weights in IT and Autos helped us, as did the underweight stance in financials.

With this, we have significantly outperformed both the Nifty and benchmark (BSE 500) across time periods, and lagged the best performing index i.e. mid cap, just a tad in certain periods over the past year.

Since inception in Sept 2017, our fund delivered cumulative returns of 141.3%, compared to Nifty (86%) and Nifty Midcap (up 83.5%).

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	141.3%	7.6%	11.5%	4.8%	19.6%	34.4%	16.5%
S&P BSE 500 (Benchmark)	81.1%	3.5%	8.6%	-1.4%	11.4%	26.4%	11.2%
NIFTY 50	86.0%	2.6%	7.1%	-1.2%	11.8%	24.6%	11.5%
NIFTY MIDCAP 100	83.5%	6.2%	12.1%	5.4%	19.3%	36.5%	12.3%
AFOFS-I NAV*							**241.3**

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

Table 2: Portfolio Metrics

Valuation		Risk	
PE	35x	Standard Deviation *	18.5%
PB	8.4x	Beta	0.89
ROCE *	29.9%	Sharpe Ratio	0.87

*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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Core portfolio holdings remain unaltered

Our Top-5/10 holdings account for 25.1% and 43.4% of corpus respectively, which is quite similar to the end of previous month. This is despite slight pruning of positions in one of our larger holdings (i.e. Polycab) as well as general underperformance of private banks, which was largely offset by superior performance of the majority of stocks within the group. The list of top stocks is unchanged.

Table 3: Top Holdings

Company	% Weight	Company	% Weight
ICICI Bank	8.2%	PI Industries	3.9%
Varun Beverages	4.6%	Cummins India	3.7%
Polycab	4.2%	Tata Elxsi	3.7%
Axis bank	4.0%	Trent	3.6%
Maruti Suzuki	4.0%	Asian Paints	3.4%
Top 5 Holdings	**25.1%**	**Top 10 Holdings**	**43.4%**

Consumer sees a dip, even as Capital goods and Auto show an increase

Sectoral allocation has been tweaked a bit compared to the previous month. Consumer continues to be our preferred investment destination but with reduced exposure, followed by Engineering and Capital goods, where exposure has increased to 22.7% (from 18.5%). This is due to significant outperformance of stocks within the group, as well as addition of a couple of small caps to our portfolio. Autos too is a space where we increased our exposure, through the addition of Eicher Motors. We continue to be absent in PSUs, Metals and Real Estate sectors.

During the month of May, our portfolio weights underwent dramatic changes related to market cap classification. While this was mainly aided by extremely strong performance of our small cap constituents, it was also due to pruning and slight underperformance of our mid cap and large cap holdings.

As on May 31, 2023, our fund consists of 32 stocks and cash surplus is a tad lower as we gradually commence redeployment of funds.

Table 4: Market Cap Classification

Market Cap	% Weight
< INR 100 billion	23.0%
INR 100 – 250 billion	7.2%
INR 250 – 500 billion	13.6%
> INR 500 billion	47.4%
Cash & liquid investments	8.8%
Weighted Avg. Market Cap (Rs bn)	1,509

Table 5: Sectoral Allocation

Sector	% Weight
Consumer (Goods & Services)	30.6%
Engineering & Capital Goods	22.7%
Financial Services	12.3%
Information Technology	9.7%
Auto & Auto Ancillaries	8.3%
Others	7.6%

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Small caps were the big winners for the month

Key contributors from our portfolio were mostly small caps, which one knows can be volatile. Mid cap performance was mixed. Stocks which restricted overall returns were private banks, which despite our underweight stance in financials, account for a reasonable portion of our portfolio.

Table 6: Key Movers

Performers	% Avg Weight	% Return	Laggards	% Avg Weight	% Return
Schneider Electric	2.7%	39.5%	Blue Star	2.8%	-2.6%
Neuland Laboratories	1.9%	28.4%	Solar Industries	2.4%	-1.9%
Jupiter Wagons *	2.6%	24.9%	ICICI Bank	8.4%	3.4%
Elecon Engineering	2.0%	21.8%	ITC	4.7%	4.7%
Power Mech Projects	2.1%	21.4%	MTAR Technologies	4.8%	4.8%

** Jupiter Wagons average weight for the month calculated on pro-rata basis.*

Eicher Motors enters our portfolio, as do some smaller names

During the month, we attempted to deploy cash surplus by both, increasing weights to existing holdings and adding new names. We have been partially successful in our endeavour, which we will explain later. The key addition includes Eicher Motors.

Eicher Motors is attempting to consolidate its position as India's premium motorcycle manufacturer. The company is coming off an extended period of cost and inflation led pressures which had impacted consumer demand. Also, this was at a time when the company was shrugging off its dependence on a single product. In the first instance, inflationary pressures have peaked and to some extent absorbed. The company has also facilitated entry of newer customers by increasing the addressable market through a more affordable model 'Hunter'. While this did impact profit margins, increased product acceptance has enabled the company to bridge the margin gap. The company's portfolio is now more complete and ready to restart the shift of customers to premium products. Past issues have been a drag on the stock relative to peers, thereby allowing us to make an entry in the name. Valuations too appear reasonable (PE of 27x on FY24E and 24x on FY25E respectively), which is a tad below historic averages.

There have been some investment errors too, namely Gland Pharma where the business seems to be heading nowhere, and Page Industries, where recovery is possibly a couple of quarters away. We exited these names, as we did in Britannia, which had done well for us but we felt that deploying resources to ITC was a better choice.

Despite incremental investments, our cash position still remains reasonably high. We are comfortable with this position, since markets have run up for the second successive month, as did our holdings.

Table 7: Key Portfolio Changes

Company	% Weight Increase	Company	% Weight Decrease
Eicher Motors	307 bps	Britannia Industries	(298 bps)
Jupiter Wagons	295 bps	Page Industries	(132 bps)
TARC	109 bps	Polycab	(108 bps)

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Indian markets surge on foreign flows

For the second successive month, our markets witnessed a strong run, shrugging off the state election results and a mixed bag of company results. This was mainly driven by institutional buying from foreigners, even as domestic funds oscillated between profit taking and select buying. As the month progressed, overhang of the debt ceiling issue too was lifted, pushing markets and most sectors close to historic highs (mid cap indices too attained a new high).

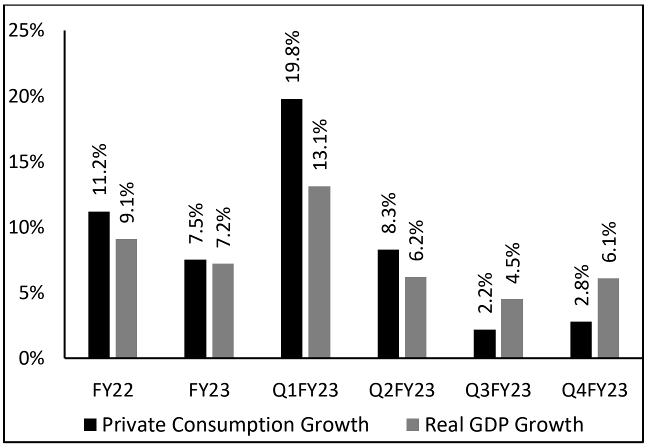
Sectorally, IT was one of the stronger performers (up 5.8%), and Autos (up 7.6%). On the other hand, Banks (especially PSUs) and Pharma fared poorly on a relative basis.

Quickening Consumer Sentiment to support markets

India is predominantly a consumption oriented economy with private consumption constituting over 60% of GDP. This is evident from Chart 1, wherein one can observe that private consumption more often than not grew faster than overall GDP except in H2FY23. This recent slowdown in private consumption is owing to excessive inflation that ate into disposable income last fiscal. However, greenshoots are emerging in private consumption in the form of quickening of consumer confidence in India as highlighted in a recent bulletin by the Reserve Bank of India (RBI). Recovery in sentiment as evident from Chart 2, can be attributed to multiple factors. Firstly, the softening of inflation in the last 3 months has provided consumers with more purchasing power, enabling them to spend more on goods and services. In April 2023, the Consumer Price Index (CPI) inflation rate dropped to 4.7% compared to 5.66% in the previous month, easing the burden on consumers' wallet (source: Reserve Bank of India). Additionally, the strong growth in agricultural produce since March has played a significant role in boosting consumption in rural India.

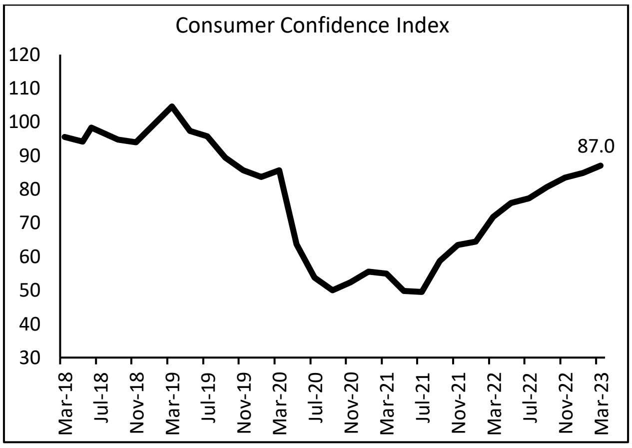
The Indian Meteorological Department (IMD) last week, reiterated the expectations of a normal monsoon in 2023, and somewhat placated concerns over adverse impact of El Nino. The timely arrival and distribution of rainfall can have a significant impact on agricultural output, inflation, and consequently the consumer sector. As per the IMD's forecast, the monsoon is expected to be normal and well-distributed across the country, providing a favourable environment for agricultural activities (source: Indian Meteorological Department). Resultant improved prospects of the consumer sector have the potential to provide ongoing support to the current bull market, thereby insulating it from global shocks.

Chart 1: Private consumption slowdown nearing end



Source: CEIC, Kotak Economics Research

Chart 2 : Consumer confidence is improving



Source: RBI: Consumer Confidence Survey Report

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Fund Information

Minimum investment
INR 10 million

Subscriptions
Monthly

Redemptions
Monthly, subject to 12 months lock-in

Registered for Sale
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
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