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Global Private Client

KNOW THE NOW

2022 TREND WATCH - THE CHEETAH & THE PRONGHORN

PREFACE

Dear Clients,

In the first edition of 2022 **Know the Now: The Cheetah and the Pronghorn**, our Investment Strategist Sunil Sharma uses a very interesting metaphor of both the predator and its prey for investing lessons that will hold well as you charter the roller coaster ride that 2022, like the previous two years promises to be.

We will need the speed that both the Cheetah and Pronghorn have to stay ahead of the disruption and the pace of disruption as well as extreme stamina to live through it to tell the tale. The last two years have been very good for the public and private equity markets with interest rates falling. In hindsight, that looks fairly obvious, but we've worked hard and derive satisfaction that we got most of our calls right, be it being overweight Equities: *Shifting Winds, Aug'20*, *Seeing the Light at the End of the Tunnel, Nov' 20, The Promise of Spring, Feb'21*. The opportunities in the broader markets and the sector rotation: *A Change in leadership, Mar'21, Structural Drivers & Paradigm Shifts, Jul'21*. We walked the walk on these insights in our discretionary PMS strategies: CALIBER and Alpha Growth, each generating substantial alpha (>20% over NIFTY since launch in Feb'21) and while it's a feel good to look back and get a pat on the back, we are focused on what lies ahead.

And it's a paradox, because on one hand we will need to be quick and dynamic to understand the swift changes caused by technology and its impact on consumer behaviour; on the other we will need to not get carried away with the events in the short run, leading to a miss on the big picture. One needs dynamic allocators across asset classes that will manage short term volatility, alongside disciplined wealth managers that ensure stability and growth of your wealth in the long term (we have you covered on both!!!).

This is a very interesting piece with a take on some of the most important issues getting into 2022 - the explosion in the unlisted space aka unicorns, soonicorns and their likes, shifts in consumption patterns, ***metaverse*** or as Sunil more succinctly puts it 'the matrix is upon us', inflation, valuation, volatility, active vs passive, size et.al ...do take the time to read this.

Life is now an art of **living between waves**, on one extreme there is revenge travel, revenge buying and revenge living and a pause, retreat back and slow down on the other. The survival kit seems to be to make the most of both.

As we safely wait for OMICRON to peak, all of us at Ambit GPC wish you and your loved ones a very Happy New Year.

Amrita Farmahan
Chief Executive Officer

INVESTMENT COMMENTARY

2022 Trend Watch - The Cheetah and the Pronghorn

Sunil A. Sharma
Chief Investment Strategist

The American Cheetah is amongst the fastest animals in the world, a predator that moves with blinding speed up to 61 mph. It's prey, the Pronghorn, is a deer-like mammal that has evolved over hundreds of thousands of years and also reaches extreme speeds of 60 mph, second fastest to the Cheetah. However, the Pronghorn has survived while the Cheetah is struggling. The Pronghorn evolved an additional key trait which we will get to.

First, we'll spend some time identifying the cheetahs in the markets in 2022, and some strategies investors can use from the Pronghorn to survive and thrive.

Speculative Fervor and Noise Have Exploded in the Alternate Investment Space

Private equity valuations for unicorns coming public can only be classified as jaw dropping. Fifty times sales, no visible path to profitability, debatable moats, 100,000 cr market caps. Hope, sizzle, greed and FOMO have been packaged with brilliant marketing and buzz, skills Wall Street perfected decades ago.

A U.S. billionaire derives glee in tweeting about Dogecoin. An irate domestic IPO investor issues death threats to his wealth manager on a recorded line.

Another billionaire announces he's launching SPACs to bypass an unfair private equity market.

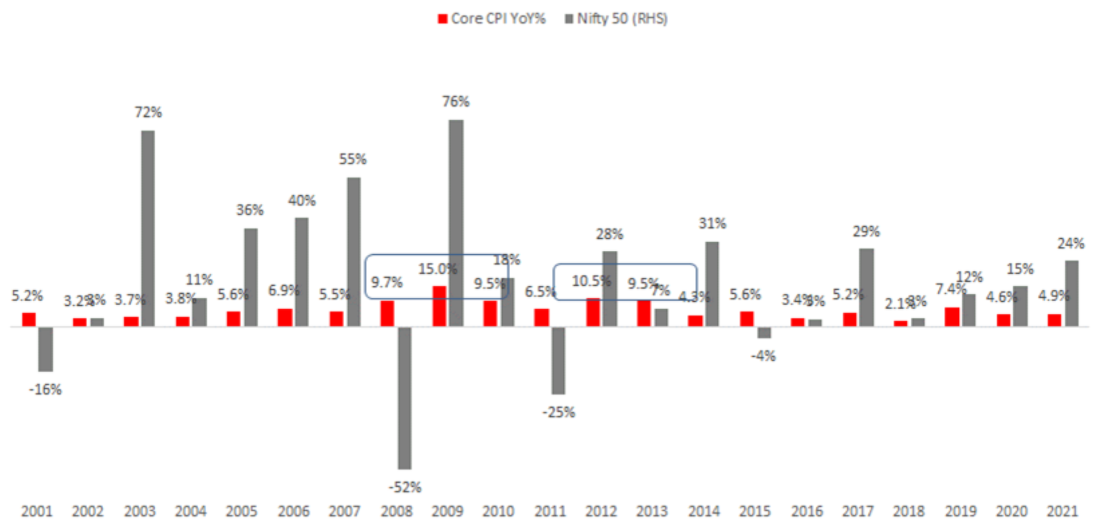
NFTs, Defi, DAOs, Reddit, NBA TopShot, Shiba Inu, Dogecoin, Ethereum, Unicorns, SPACs, IPOs… there's a new get rich scheme – for the issuers - launching every time we check the news. It's the new gold rush. We should point out that many of the more esoteric "investments" have originated out of the U.S., the primary source of easy money and ZIRP.

Keeping up with the Joneses attitudes also seem to be driving decisions and risk taking behavior. Insiders and VCs are buying and selling to each other, driving prices higher, and ultimately looking to cash out at the expense of an un-suspecting, un-informed, but ultimately greed driven speculator. Caveat emptor. We choose simplicity instead, and investments where the odds of success are determined based on reasonable, predictable estimates of future profits.

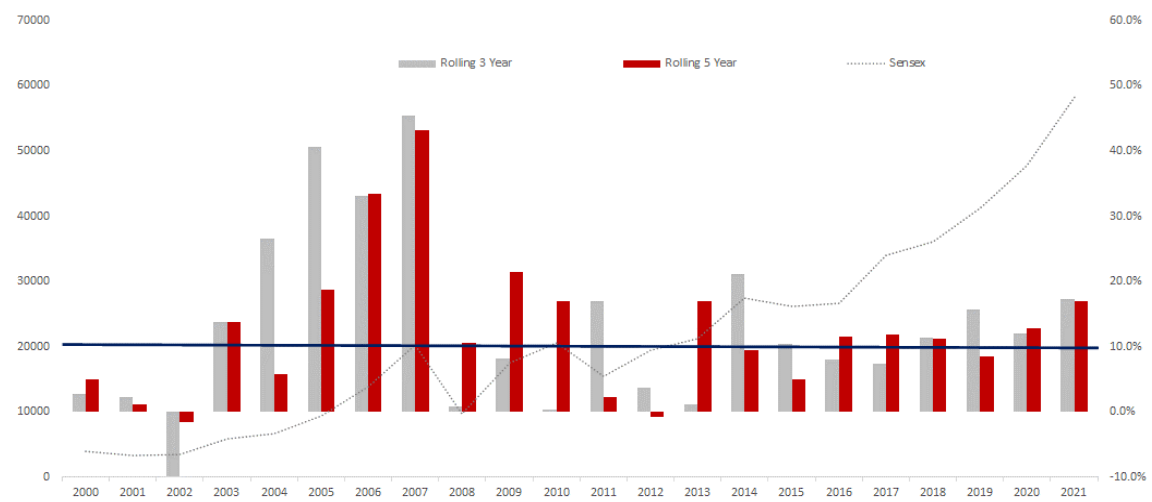
Our Too Hard Pile has Grown

Charlie and Warren bucket investments that are too difficult to understand into the "too hard" pile. Our "too hard" pile has grown this past year. The notion of an investment offering a predictable return has become passe.

Equity Markets Delivered Healthy Returns in High Inflation Periods Like 2012 and 2013…
…However 2011 and 2013 were Down Years, Mostly Due to the Euro Debt Crisis and INR Depreciation



Rolling 3 and 5 Year Returns have not Reached Historical Extremes such as 2007



Creative Destruction at the Speed of Light

Adoption of new services – Amazon, Netflix, Zomato, Ola/Uber – is happening faster than ever. Television took almost 15 years to be adopted by 50 million households, while Facebook got to 50 million users in 12 months. The blistering pace of technological change presents both opportunity and risk. Investing **in a disruptive world** appears to carry with it a fair share of risk and uncertainty, which requires vigilance and oversight.

Consumption Patterns are Shifting

The **distribution network** built by large firms over decades is being gradually displaced as a defensible barrier to entry. A massive trend shift is happening in consumption patterns as goods are increasingly purchased online and a plethora of innovative brands – choice – are popping up, eager to take advantage of instant distribution online. Amazon provides fulfilment and delivery. The traditional practice of competing for prime shelf space is being replaced by consumer ratings, reviews, price, seo, content.

Pricing power is being disrupted by greater choice. Brands are increasingly encroaching each other's turf. Smartphones have dissolved the boundaries of time and geography. Consumers buy whenever, where ever.

Traditional Banking is in the Crosshairs

Traditional banking appears to be in the crosshairs now. Digital lenders, discount brokers, easy to use tech driven platforms, that match Amazon on customer experience, technologically adept NBFCs, insurance marketplaces, and a diminishing utility for walk in banking are all areas where the battle is unfolding. There is a growing trend globally away from the traditional banking relationship, and towards decentralised finance. Companies that were once mainstays and anchors, are no longer a part of our portfolio. They could find their positioning with customers equally fungible.

We, the customer, are spoilt for choice and our expectations reset by Amazon. The culture of entitlement in the private banking space is increasingly morphing into an albatross. The typical **hesitance to innovate** - in this case to adapt to an increasingly digital, demanding and younger clientele - is a story oft witnessed in a typical creative destruction cycle.

The Matrix is Upon Us

As an aside, if all that isn't enough, we are now being told it's time to take a seat, plug in to an electronic device and **enter new digital worlds**. Twenty years on, the real world Matrix is upon us! Besides the socio-cultural ramifications, important investing and business implications to this new technology require this space is monitored. Yet again, things are moving fast and disruption is rampant.

Portfolio Strategy in a Rising Inflation Environment

Firstly, the data. **Equities, REITs and real estate tend to preserve their purchasing power during periods of high inflation.** As prices rise, these assets can raise prices charged, albeit at a lag. The variable component allows these business models to adapt, unlike fixed income, thereby resulting in a higher probability of protecting real value. That being said, the work from home and reverse migration trends are a concern for REITs.

Our base case remains a euphoric recovery post covid, followed by global demand normalizing lower. Ergo inflation is also likely to normalize, most likely in H2 CY22. We're hard-pressed to visualize a prolonged economic slowdown given healthy demand trends in India, alongside embedded drivers such as population growth, productivity, move to organized, import substitution and financialization. Second, the inflationary boom in commodity prices witnessed last year appears to have been brought under check by the prospect of monetary liquidity withdrawal by the Fed.

Volatility May Rise, Use it to your Advantage

With the right approach, volatility can be an asset, an opportunity, one that can be leveraged by a wider set of portfolio strategies. Strategies that benefit from volatile markets can be considered.

Active, Tactical Strategies will Outperform Passive

As we outlined earlier, disruptive creative destruction is underway across industries. Transportation, finance, manufacturing, medicine, education, information technology, retail, consumer, automobiles…it's everywhere. In the environment that we've outlined, **managers that spend time understanding the driving forces, adapt portfolios and strategies** have a clear advantage.

Buy and Hold in an Age of Disruption

From our perch, buy and hold in an era of historic disruption seems riskier than an alternative active approach.

That's a bold claim. Therefore, we feel it fair and necessary to put our money where our mouth is. **Our Caliber PMS, actively structured to ride structural tailwinds, has delivered a 28.8% alpha above the Nifty 50 last year**, and an absolute 47.5% return for the year versus 18.7% for the Nifty 50. Our five year performance in a professional managed strategy has been similarly effective.

The P/E Expansion Story Appears Largely Done

Many companies are now selling in excess of 50 times, 80 times earnings. How much higher can this go. While one may or may not buy into P/E multiples as a meaningful factor, the fact is that valuations across metrics, are expensive, particularly for consumer facing large caps. In a rising rate, inflationary environment, multiples are no longer expanding and haven't done so for a while. The multiple expansion game appears to us, to be largely done.

Diminishing Returns to Scale in Fund Management

It is repeatedly and abundantly clear over the past five years now, that for funds that exceed a particular size relative to style, diminishing returns immediately become a performance drag. Our view is clear. For investors seeking excess alpha, eschew funds that sacrifice investor return for AUM growth. Active managers with reasonable, manageable assets under management were a pre-requisite for outperformance in 2021. The same is likely for 2022.

Keep a Cash buffer

With elevated valuations, potential for rate hikes and monetary tightening, and potentially slowing growth globally, keeping a cash buffer will be a useful strategy. For those with cash on the sidelines, gradual deployment spread out over months also makes eminent sense.

Inflation Proof Portfolios with Pricing Power and Earnings Growth

Companies with high profit margins, operating levers, pricing power survive and thrive in inflationary periods. Earnings growth will be the ultimate offset to rising inflationary pressures.

Outlook: Stay the Course – Quicker Policy Response Will Keep the Expansion Cycle in Place.

It's safe to say that the easy money has been made in this recovery. However, that does not have to mean that the domestic economy will head into a recession.

Rather, the recovery could be choppy, markets could be volatile depending on Fed action and response, and returns are likely to be wider dispersed. Stock and sector selection will take on greater importance.

Investors should keep in mind that the economic **cycle has been lengthening** since the early 1980s. Central bank policy response – domestic and U.S. - has gotten better, quicker. That's allowed for expansions to continue. It's unlikely the Fed has the appetite to repeat the policy error it made in 2018. The stakes are high for the U.S. Political, economic discourse and approval ratings are now intricately connected to the daily gyrations of the S&P 500.

Second, long term deflationary trends remain in place, and bouts of inflation remain the exception rather than the norm. While Covid unleashed inflation in the short term, the longer term effects are more efficient economies, reduced slippages, and lasting productivity enhancements and improvements.

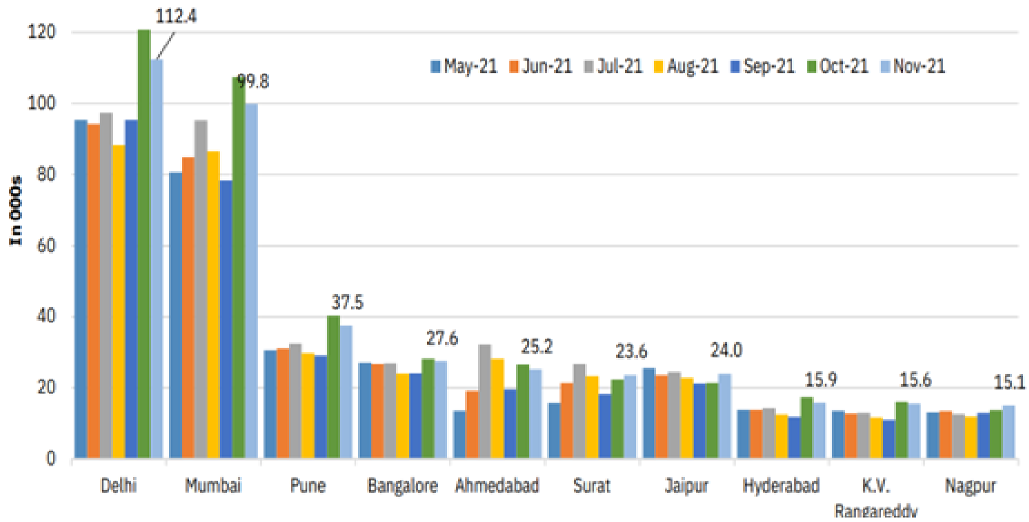
Financialization will Remain Our Superpower

The journey in India is only beginning for many retail investors. Only Delhi, Mumbai and to a lesser extent Pune have witnessed notable spikes in investor registrations. Bangalore is basically flat over six months. The spike in retail investor activity will spread to tier 2 and tier 3. The retail investor is here to stay and **flows are going to keep rising**, providing us a useful buffer from volatility.

quick, exhilarating returns is rarely sustainable. Structuring portfolios that withstand stresses and challenges is the financial equivalent of being a Pronghorn.

A good question for 2022 is to ask whether your portfolio holdings incorporate diversification, a margin of safety and peace of mind. A better question than “How can I earn the highest returns in the shortest time?” is, **“What are the best returns that can be sustained for a long period of time?”** Excellent short bursts for a couple of quarters aren’t as powerful as consistently good performance for a long period of time.

New Investor Registrations Are Likely to Broaden Out to Tier 2 and Tier 3 Cities



Ultimately the Optimists Win

Over the past 100 years, the world has witnessed two pandemics, two world wars, two crashes, multiple bubbles, financial panics, oil shocks. Yet markets have risen over the long run, and our lives today are far better than imaginable 50 years ago. Progress continues to create a better future for humanity. Ultimately, the optimists win.

The Key Trait of the Pronghorn

The second key trait that allowed the Pronghorn to survive the Cheetah, alongside extreme quickness, is **extreme stamina**, making it virtually impossible for predators to catch it. **Winning the long term** is more important than winning in the short term. Chasing

Finally, in closing, I’m grateful for the quality conversations I’ve had the privilege of having with clients and colleagues. Thank you for your kindness, considerateness, intellectually stimulating thoughts, and compassion. Ultimately, experiences, and relationships give meaning and satisfaction to our lives.

Happy Investing!

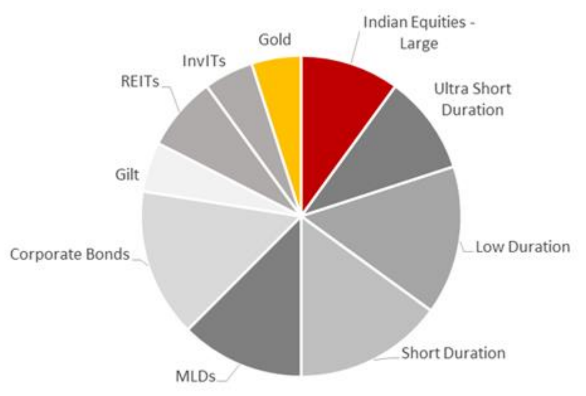
Tactical Asset Class Rationale

Equities	Weight	Rationale
India Equities	**Over Weight**	The emergence and rapid spread of the new variant may have some impact in the near term however it is unlikely to derail the economic growth as India is much better prepared now to cope with the new wave. With Fed hikes and taper on the cards next year, volatility could continue. India's strong demographic trends are driving its growth and we take comfort in the improved macroeconomic fundamentals, corporate balance sheets and underlying health of the Indian economy. The second year bull market that began in March 2020 continues, with the key risk being central bank policy and inflation, leading to a moderately bullish outlook.
India Hedge Funds	**Over Weight**	The traditional 60/40 portfolio that was expected to deliver reliable 12% returns is weighed down by the weight of low interest rates on the fixed income side. Rising volatility is a constructive environment for hedge fund managers. Hedged portfolios provide the perfect complement to an equity portfolio today, providing a diversifying non-correlated asset class that enhances risk adjusted return, while holding the opportunity to provide equity-like returns with debt-like risk.
U.S. Equities	**Market Weight**	Indian HNI portfolios are dramatically underweight global equities. Diversification provides strong portfolio optimization benefits. U.S. equities have dramatic barriers to entry and global leadership.
Emerging Market Equities	**Under Weight**	Given the action in Commodities, and the Dollar, and valuations for emerging markets trading at reasonable levels, most inflationary risks centered in the U.S., exposure to emerging markets will add to portfolio diversification. Most notably, political risk in China has risen, therefore we prefer exposure to non-Japan, non-China emerging markets that are on growth trajectory.
Europe Equities	**Under Weight**	Growth in India, emerging markets is likely to outpace European growth and therefore find limited triggers to gain exposure to European equities, except selectively at a company specific basis.
Fixed Income	**Weight**	**Rationale**
Duration	**Under Weight**	With risks on the inflation front, and demand supply dynamics eventually getting overwhelmed by supply, the likelihood of interest rates moving higher is tangible.
Corporate	**Market Weight**	With rates rising, absolute yields are heading into attractive levels, particularly with the future possibility of duration led yield enhancement on subsequent weakness. We'd look to build exposure to long term high quality corporates as the interest rate cycle peaks.
Credit Risk	**Market Weight**	With rising inflation, rising rates, low quality credit takes on additional risk. Quality standalone credits provide a positive risk reward equation (especially with well researched and strongly constructed investments). Allocations should be in line with investor's risk appetite.
Long Short (Absolute Return)	**Over Weight**	Selectively, long short funds that have consistently delivered post-tax 8% returns are a worthy consideration for portfolios.
REITs	**Over Weight**	Real estate investment trusts (REITs) have lagged in the past year due to the impact of covid on retail and urban office space. With rising threat of inflation, REITs offer an attractive inflation hedge that provides exposure to fixed assets.
Alternate	**Weight**	**Rationale**
Private Unlisted	**Over Weight**	We expect significant value and wealth creation in unlisted space in India primarily led by Technology, Financial and New Age Consumption companies. Our Direct Deal Thesis focuses on late stage companies with significant market share & profitability and our Manager Selection in early stage investments focuses on fund managers with established track record across cycles.
Gold	**Weight**	**Rationale**
Gold	**Under Weight**	Gold provides inflation protection, though the relationship isn't highly positively correlated. Gold provides currency debasement protection. It's suffered of late due to a slowdown in India Gold purchases and the rush towards Bitcoin investing in the U.S. Given our view of a growth cycle, we tilt our positioning to a marginal underweight.

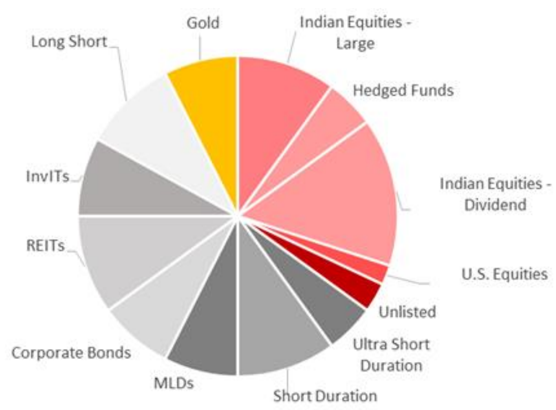
Ambit GPC Wealth Profiles - Strategic Weights

The Ambit GPC Asset Allocation & Investment Committee (AAIC) provide guidance on asset allocation via our wealth profile models below. The models are listed on a scale of rising return and rising risk and represent the most common investor profiles that we base our portfolio construction around.

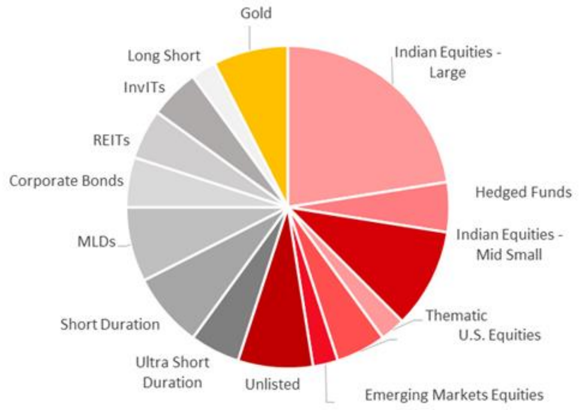
Wealth Conservation



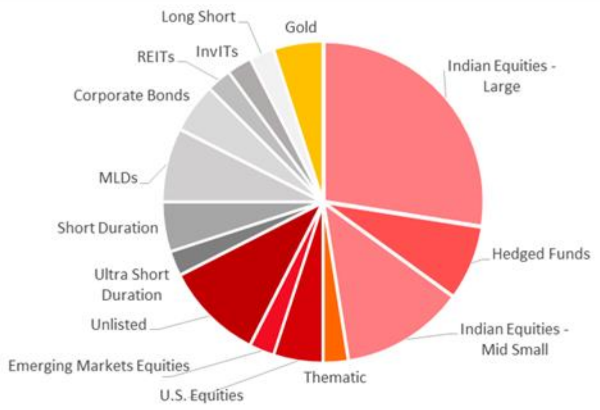
Income



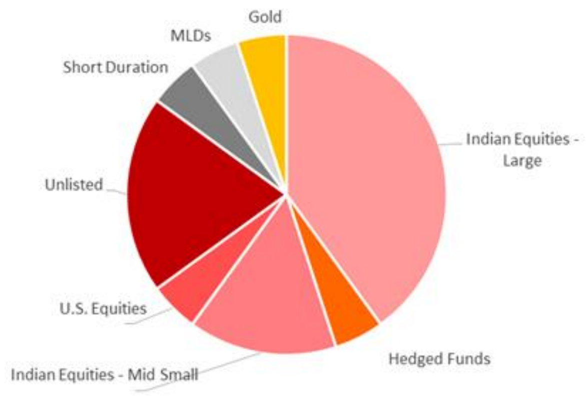
Balanced Growth



Moderate Growth



Aggressive Growth



Ambit Global Private Client - Asset Allocation & Investment Committee

The Ambit GPC Asset Allocation & Investment Committee (AAIC) is a group comprised of the CEO, Head of Products and Alternates, Chief Investment Strategist and Head of Fixed Income (listed below). The team has over 100 years of collective investment experience in markets. The AAIC meets monthly and as necessary during periods of market volatility to discuss the economy and markets. The committee determines the investment outlook that guides our advice to clients. The AAIC continually monitors developing economic and market conditions, reviews tactical outlooks and recommends asset allocation model changes, as well as analysis, investment commentary, portfolio recommendations and reports.

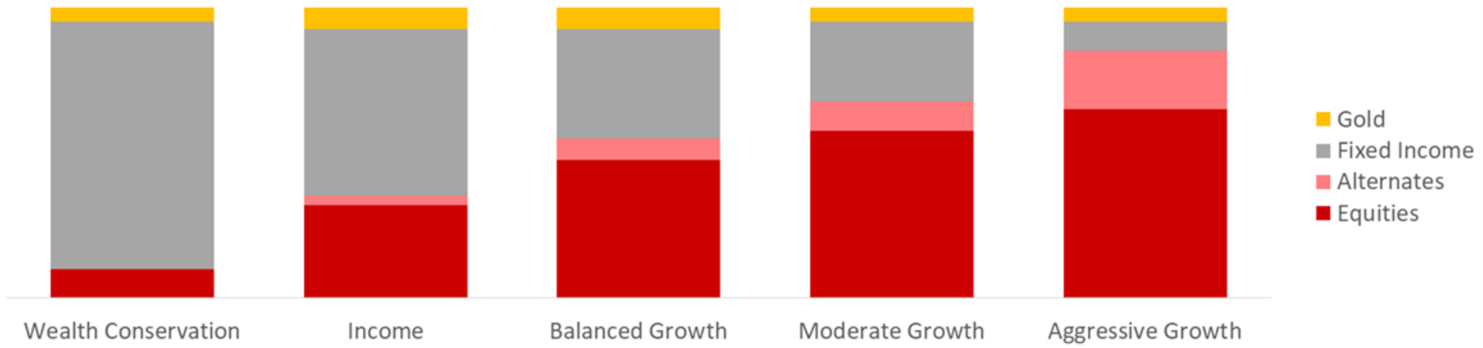
Tactical Allocation Weights Vs Strategic

Asset Class Pairs	Underweight ←					Scale		--> Overweight				View
	-5	-4	-3	-2	-1	0	1	2	3	4	5	
Equities								◆				Over-Weight
India Equities – Large								◆				Over-Weight
India Equities – Mid & Small							◆					Over-Weight
International Equities						◆						Market Weight
Long Short							◆					Over-Weight
Hedge Funds							◆					Over-Weight
Fixed Income					◆							Under-Weight
Duration			◆									Under-Weight
Corporate							◆					Trending Over Weight
Credit Risk					◆							Market Weight
REITs							◆					Market Weight
Alternates												Over-Weight
Private Unlisted								◆				Over-Weight
Gold				◆								Under-Weight

→ Shift from Prior View ◆ Under Weight / Over Weight Relative to Strategic Weight

Wealth Profiles - Summary

Strategic Asset Class Weights by Profile



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Ambit Global Private Client – Asset Allocation & Investment Committee

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Sources: All sources unless otherwise noted are Bloomberg, NSE. Returns for PMS are as on 31st Dec 2021 and are calculated from first fund deployment date (4-Feb-21). Returns are post expenses except for custody charges. Returns are composite returns of all the portfolios aligned to the investment approach. Client wise portfolio returns may vary as compared to strategy aggregate returns. Returns are absolute and calculated on TWRR basis as prescribed by SEBI; The performance related information is not verified by SEBI. Past performance may or may not be sustained in future.

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