Fact Sheet

May 2017

Ambit Good & Clean PMS

Investment Manager

Ambit Investment Advisors Private Limited (AIAPL) is a joint venture entity between Ambit Corporate Finance Pvt. Ltd. and Nikko Asset Management Co., Ltd. AIAPL is registered with SEBI as portfolio manager.

Investment philosophy

To generate long term equity returns by investing in firms which are:

(a) Good- Basis capital allocation track record and quality of improvement in financial metrics; and

(b) Clean- Based on the quality of their accounts and corporate governance.

The focus on 'good' helps generate upside while not compromising on 'clean' reduces downside risk. Essentially, while our objective is to generate returns, the even bigger goal is to better manage drawdowns because we believe doing the latter successfully is critically vital in achieving the former.

Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts while our proprietary 'greatness' framework helps identify efficient capital allocators with a holistic approach to consistent growth.

General Information	
Fund Type	PMS
Fund Tenure	Open ended
Benchmark	BSE 500
Minimum Investment	INR. 25 lacs
Liquidity	Daily
Inception date	12th March 2015

Fees

	Option – I	Option - II
Management Fee	2.5 % p.a.	Nil
Performance Fee	NIL	20% of profits subject to hurdle rate
Exit Load	1% if redeemed before 1 year	2% if redeemed before 1 year 1% if redeemed before 2 years
Hurdle Rate &	NIL	Hurdle Rate of 12% p.a with catch up; high water mark applicable

Portfolio Manager
Gaurav Mehta, CFA

Risk Parameters	Fund
Standard Deviation	13.7%
Portfolio Turnover	12%

Portfolio Details

Top Holding

Scrip	Sector
AIA Engineering	Industrials
City Union Bank	Financials
Supreme Industries	Materials
Vinati Organics	Specialty chemicals
PI Industries	Agrochemicals

Sector Allocation#	Grand Total
Financials	15.1%
Auto & Auto Components	14.1%
Consumer Discretionary	13.2%
Specialty/Agro Chemicals	13.1%
Industrials	7.4%
Materials	6.6%
Pharmaceuticals	6.3%
Information Technology	5.5%
Consumer Staples	4.7%
Logistics	1.8%
Cash	12.1%
Grand Total	100%

 # Allocation as on 31 May'17 based on entire pooled AUM

Returns (%)*	30 day	90 day	1 yr	**2 yrs	**since inception
G&C PMS	0.81	8.00	20.6	13.6	11.63
BSE 500	1.69	8.39	22.5	9.4	6.7

*** Returns over one year period have been annualized.*

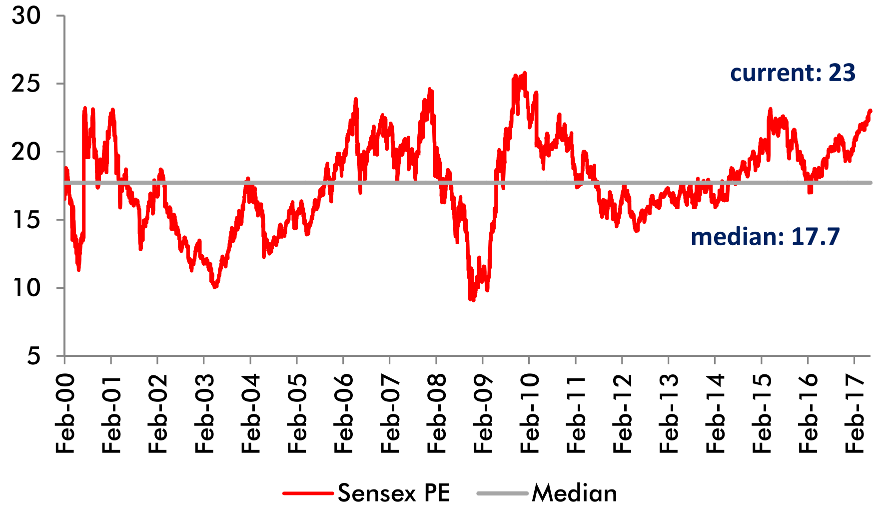
Returns (%)*	Dec16	Jan17	Feb17	Mar17	Apr17	May17
G&C PMS	-1.00	6.26	2.25	3.85	3.16	0.81
BSE 500	-1.42	5.65	4.43	3.74	2.75	1.69

** Represents time weighted return of the pooled AUM; performance is post brokerage and other statutory charges but before fees.*

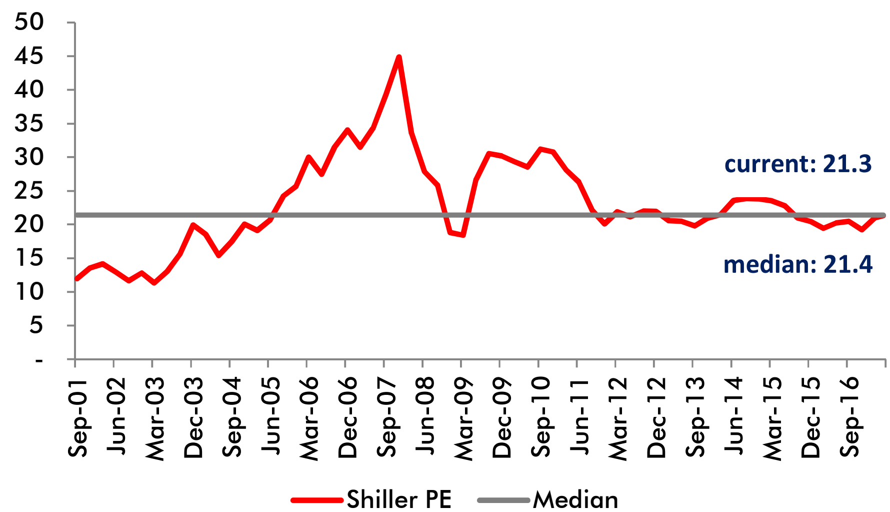
*** Inception date – 12th March 2015*

Market commentary

Markets continued to scale newer highs in May, helped by abundant liquidity. Thanks to the continued upmove in the markets without much support from underlying earnings, valuations on headline indices are way above historical averages, as measured by trailing price to earnings multiples. The exhibit below suggests that not only are we significantly above median valuations, we are quite close to the upper extreme of the historical range.



A part of this high trailing PE, however, can be explained by a suppressed earnings base. Indeed, looking at a cyclically adjusted PE (borrowing from Shiller's CAPE), which smoothens earnings over the past ten years, rather than basing on just the last year's earnings number alone, does suggest that we aren't as expensive. In fact, on Shiller CAPE we are just about at the historical medians.



The reason for the conflicting messages from trailing PE and CAPE same is that earnings growth has been fairly depressed over the last several quarters. Therefore the trailing earnings number is low which however normalizes when cyclically adjusted over the last ten years. In other words, for the market rally to sustain, a lot hinges on earnings growth normalizing. And in that context the earnings seasons so far hasn't provided much reason to cheer. While optically earnings appeared decent in the recently concluded quarter, operating profit growth was limited to low single digit for the Sensex. Moreover, Sensex earnings estimates have continued to be downgraded through the earnings season.

With GST implementation around the corner, near term disruption is likely. Furthermore, while the formalization of the economy is positive for the organized sector, the flip side is that a vast majority of employment in the country is in the informal sector. As the informal economy shrinks, what happens to those unemployed as a consequence is a question mark. Therefore, even as inflection in earnings trajectory appears imminent, it may still be a couple of quarters away.

At a juncture when markets appear to be discounting the best and with broader markets still struggling for earnings recovery, we think paying attention to earnings sustainability and quality is as important as ever. In Ambit's parlance, stay sane, stay Good & Clean.

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