Fact Sheet

July 2017

Ambit Good & Clean PMS

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%
Portfolio Turnover	15%

Portfolio Details

Top Holding

Scrip	Sector
AIA Engineering	Industrials
City Union Bank	Financials
PI Industries	Agrochemicals
Vinati Organics	Specialty Chemicals
Persistent Systems	Information Technology
Page Industries	Consumer Discretionary
Supreme Industries	Materials

Sector Allocation#	Grand Total
Consumer Discretionary	14.8%
Financials	14.7%
Specialty/Agro Chemicals	14.0%
Auto & Auto Components	13.0%
Pharmaceuticals	8.3%
Industrials	7.7%
Information Technology	6.2%
Materials	5.8%
Logistics	1.8%
Consumer Staples	0.9%
Cash	12.7%
Grand Total	**100%**

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

Returns (%)*	30 day	90 day	1 yr	**2 yrs	**since inception
G&C PMS	1.00	3.26	17.42	14.2	11.90
BSE 500	5.45	7.07	19.90	11.2	8.60
Nifty	5.80	8.30	16.70	8.7	6.00

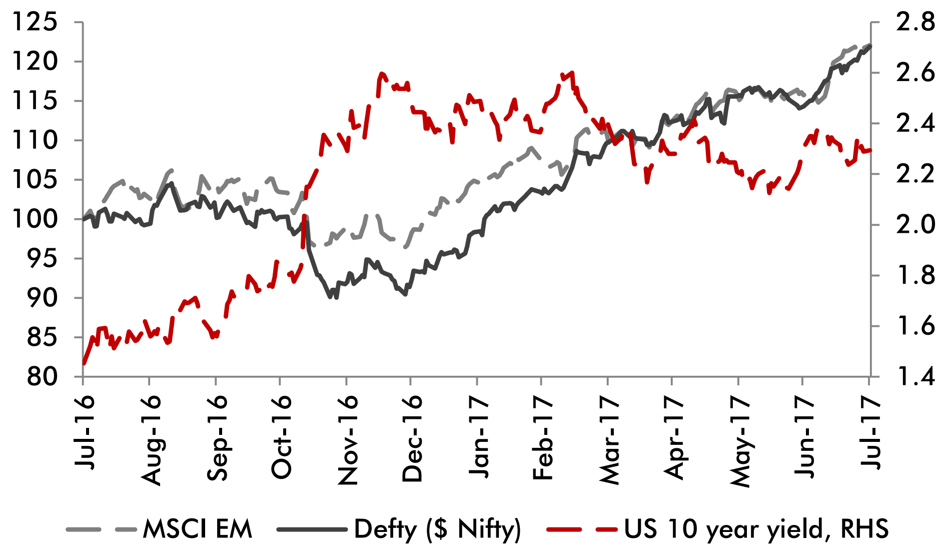
*** Returns over one year period have been annualized.*

** 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

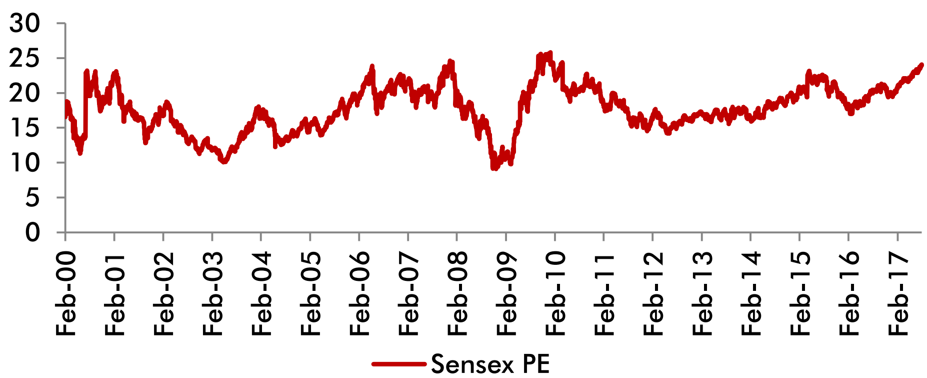
July was a similar story for Indian equities as has been the case for the last several months- strong domestic inflows and strong gains on the indices. Yet for all the domestic liquidity and supportive macro story, Indian equity returns have continued to track emerging market equities very closely for the last several months, including the volatility around demonetization. Both Indian equities and emerging market equities in turn appear to be tracking global liquidity (as seen in the inverse relationship with US 10 year bond yields- see chart below).



The rally therefore appears to be driven more by global factors than local. If anything, a closer look at domestic prints suggests that earnings recovery continues to be elusive. Sensex's earnings estimates have been cut by 1.4% over the past four weeks and by 3.2% over the past 3 months.

Not just that, in the BSE100 unviserse of companies, over **60% of all earnings revisions have been in favour of downgrades over the past 4 weeks while as much as 66% of all earnings revisions have been in faour of downgrades over the past three months**. This clearly suggests that for a majority of companies earnings are still being downgraded. However the more interesting piece is this- **75% of all target price changes over the past 4 weeks have been in favour of upgrades while as much as 79% of all target price changes over the past three months have been in favour of upgrades**. So even with majority of stocks seeing earnings cuts, targets prices for most are still being upgraded by the analyst community. A case of following and perhaps justifying market prices?

No doubt then that a combination of subpar earnings and rising stock prices are resulting in historically high valuations.



While we appreciate that these high PE numbers are on a suppressed earnings base, the actual earnings delivery as well as the breadth of earnings estimates downgrades do not suggest that a strong reversion to historical earnings growth trajectory is likely to materialize any time soon.

In the context of indiscriminate nature of the recent rally, lofty valuations and lack of a broad based earnings revival, we continue to focus on companies with strong balance sheets and quality managements, rather than chase near term returns by compromising on quality. And in that context, while the significant underperformance of July isn't something we are happy about, we are confident that it will correct itself as markets revert back to fundamentals.

The only change we have made recently is to use the upmove in a consumer staple holding to take profits, as regulatory headwinds continue to haunt the prospects of this company. On the flip side, we have started building positions in a consumer discretionary company which happens to be the leading play on organized entertainment in the country, a segment which we believe faces strong strucutrual growth prospects.

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