AMBIT
Acumen at work

CELEBRATING 25 YEARS OF ACUMEN!

Ambit Asset Management

MONTHLY NEWSLETTER

MAY 2023

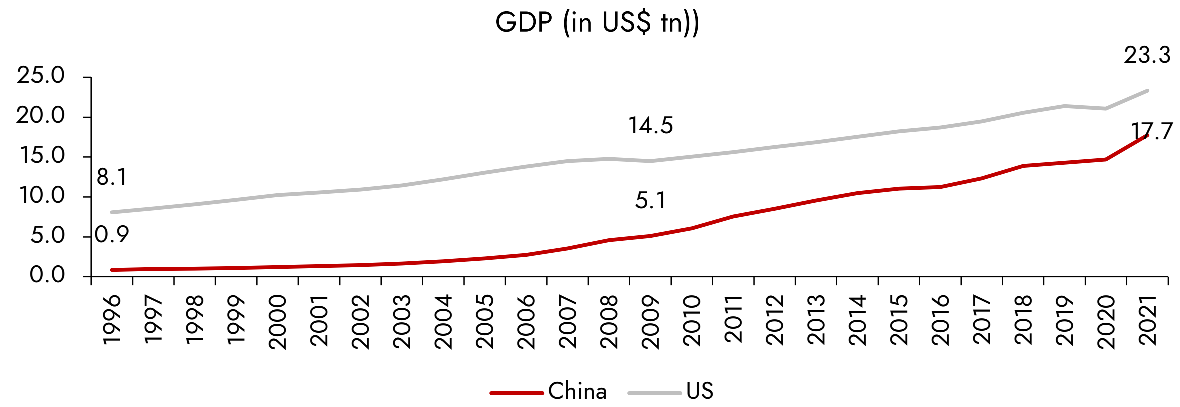
EXPLORING DE-DOLLARIZATION IN A MULTI POLAR WORLD

Exploring De-Dollarization - In a Multi Polar World!

If we were to look at the global monetary history over the last few centuries, the popularity of different reserve currencies have ebbed and flowed, reflecting the shifting fortunes of leading global economies. Economists argue that the demand for currencies over the long run revolves around the economic relevance and dominance of that respective country. In general, the larger and more powerful a country's economy is, the greater the network effect, and the more interlinked they are to the global economy. Large share in global trade implies greater demand to hold that country's currency in reserve.

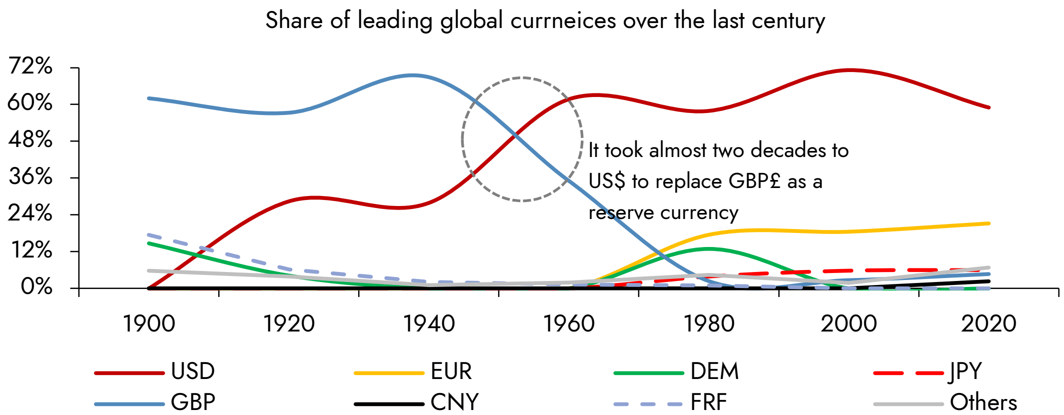
In the not too distant past, the U.S. displaced the UK economically as well as the world's reserve currency. Today, the U.S. economy is showing signs of slowing down, with other economies - especially China and India - catching up fast **(Exhibit 1).** Additionally, increased trade wars and sanctions by US have accentuated the search for a new trade mechanism other than US Dollar. This has only accelerated over the last year since the Russia-Ukraine conflict, thus giving wind to the de-dollarization thesis. In this newsletter we will understand what is de-dollarization, why is there so much interest around it and is there a possibility of it playing out?? If yes! Then how it will impact India.

Exhibit 1: US continues to be the leading economy, however China is closing the gap fast



Source: Bloomberg, Ambit Asset Management

Exhibit 2: Foreign exchange Reserves of leading global currencies



Source: COFER, International Finance Statistics, IMF Data

What is De-dollarization?

De-dollarization refers to countries reducing reliance on the U.S. dollar as a reserve currency, medium of exchange or as a unit of account. It is a process of substituting US dollar as a primary currency used for:

- Trading oil and/ or other commodities (i.e. petrodollar),
- Buying US dollars for the forex reserves and
- Bilateral trade agreements

Time line of Dollar dominance:

1920:

the dollar begin to displace the pound sterling (GBP) as an international currency after the First World War as the United states were the significant recipient of the wartime gold flows courtesy increased exports to war struck Europe.

1944:

The Bretton Woods Agreement established the post-war international monetary system, with the U.S. dollar ascending to become the world's primary reserve currency for international trade, and the only post-war currency linked to gold at $35 per ounce.

1970:

Petrodollar emerged as an economic concept as growing U.S. imports of increasingly costly crude oil increased the dollar holdings of foreign producers. 1971: President Nixon ceases the direct convertibility of US dollars to Gold.

1981:

After years of hyperinflation, the US dollar loses two-third of its purchasing power.

2014:

Russia prioritizes de-dollarization following the annexations of Crimea in response to western sanctions.

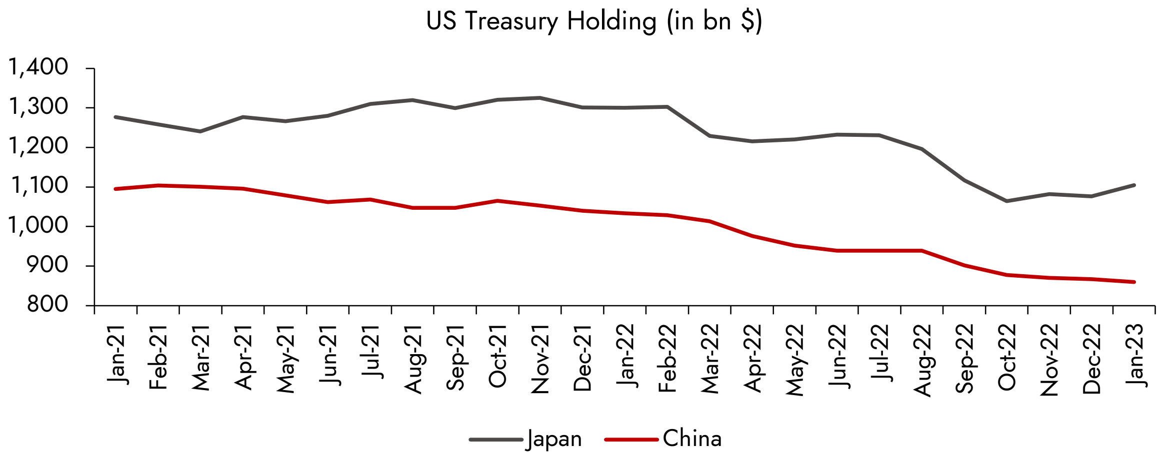
2018:

China has been gradually shifting from trade in US dollar and in favour of Chinese yuan since 2011, and in Mar'18 China started buying oil in gold-backed yuan.

2022:

Largest holder of US debt – Japan (7.8% IN Jan'23) followed by China (6.1% in Jan'23 pared back holdings of U.S. Treasuries to multi-year lows. (Refer to Exhibit: 3). Central banks buy gold at fastest pace since 1967 as countries diversify their revenues away from the dollar. The war in Ukraine results in Western sanctions against Russia. As a result Russia and China deepen cooperation between their financial systems with ruble – yuan trade settlement.

Exhibit 3: Japan & China are on a spree to reduce their US treasury holding over the last 2 years



Source: TIC Treasury Government Data

The current situation – Why is there increased talk of de-dollarization and how real is it?

Rising global tensions, trade wars and financial / economic sanctions have compelled countries to look for alternative form of payment / settlement other than USD. Russia is leading the de-dollarization campaign from the frontline with support from China, Iran and economies in Latin America. Russia has already offloaded $80 bn in US securities. US dollar hegemony has been a frequent target of criticism by the Chinese government in recent years, with the US-China trade war plunging bilateral relations to a decades-low point, and the ongoing tech-decoupling endeavors of the Biden administration have raised concerns of an all-out clash. The impact of US sanctions on Russia is demonstrating how much influence the US wields over a dollar-driven world, inspiring many countries to speed up their search for options.

The sign of de-dollarization is catching up in other parts of the world:

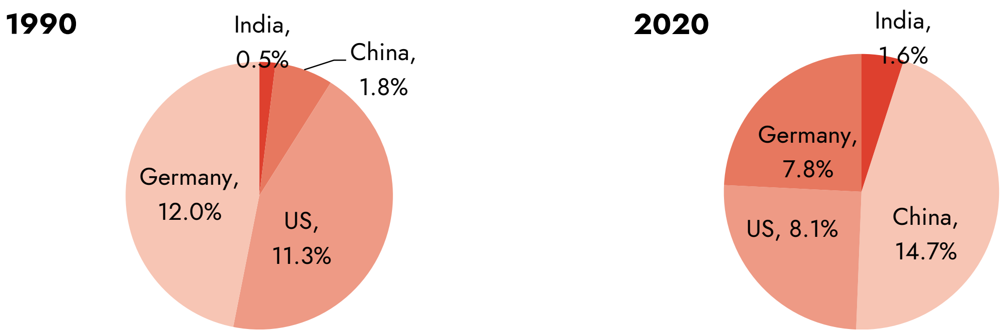
- **Russia -** Russia's economy run on oil revenues is hit by the US-led sanctions. Russia is trying to make payments in non-dollar currencies for bilateral trade and has been transferring dollar holdings to the Russian jurisdiction. Even pre-war, the use of USD in Russia's exports to BRICs nations crashed from ~95% in 2013 to <10% in 2020.
- **China -** Beijing's de-dollarization agenda has a parallel track in promoting own currency yuan as the alternative to the dollar in international trade and investment. The Special Drawing Rights achieved by Yuan in 2016 is a case in point. China is avoiding US dollar based transactions in bilateral trade. It has done so with Iran and agreements were signed with Canada and Qatar to that effect.
- **Alternative for SWIFT -** Efforts are underway for the possible introduction of a new Russia-China payment system, bypassing SWIFT and combining the Russian SPFS (System for Transfer of Financial Messages) with the Chinese CIPS (Cross-Border Interbank Payment System).
- **India -** RBI has allowed International Trade Settlement in Indian Rupees (INR) to facilitate trade with partners. This initiative by RBI is aimed at facilitating the growth of global trade and to support the interests of the global trading community in INR. In FY19, India imported crude oil from Iran using Rupee based mechanism. Recently, India and Malaysia have agreed to settle trade in INR. Apart from these about 35 nations have expressed an interest in learning more about how the rupee trade mechanism works.
- **Increasing talks of a BRICS currency -** India, Russia and China are spearheading talks of development of a new currency which can be used for cross-border trade by these BRICS nations. On a combined GDP scale, these nations would not only outpace USA but the entire G-7, making a strong fundamental case.

Key factors in determining global reserve currency:

If, hypothetically, we were to assume that de-dollarization was to take place and other global currencies were to replace the USD in international trade, we feel that following key factors are important to determine the global reserve currency:

- **Share in Global trade -** One of the key reason of USD gaining prominence post WW2 and the reason it is still the leading global currency, is because of USA's huge share in global trade (Export-Import). This makes technical and economic sense for other nations to maintain USD reserves. This will be an important consideration when searching for an alternative to the USD.

Exhibit 4: US trade share in world trade has decreased over last few decades while China and India gained share

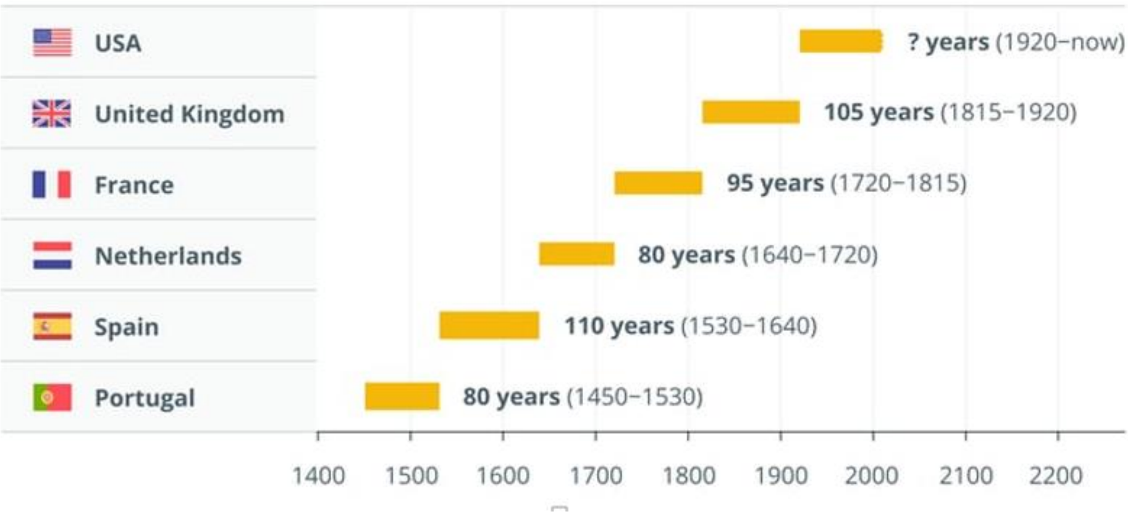


Source: UNCTAD statistics Data

- **Geopolitical relations -** In addition to global trade share, it is also a country's geopolitical position / standing which determines the acceptability of their currency in international trade. China has been trying to promote the Yuan (CNY) as the alternative to USD in international trade and investment. It has been making active investments in infrastructure in Africa and Asian countries such as Pakistan and Sri Lanka, in addition to lending with an option to pay-back in CNY. These efforts would make a strong case for higher use of CNY by these countries. However, China faces stiff opposition from other developed nations owing to the lack of transparency & trust in its political and economic policy. While the CNY could become an alternative to the US dollar in a "multipolar" world but this parity with the greenback could take a few decades to play out.

- **A slow and gradual process -** Past data of global reserve currency suggest that the transition from one global currency to the other is often slow and subtle, usually spread over decades. **(Refer to Exhibit: 5).** Talks of de-dollarization have been around for quite some time. Despite this, USD's share in global central bank reserves is ~60% as of 2022. A compete de-dollarization may still be some (many) years away!

Exhibit 5: A Reserve Currency on an average last 96 years' vs Current 120+ years



Source: Company, Ambit Asset Management

India's position in a De-dollarized world

- **Currency for a multipolar world -** It is quite likely that a 'de-dollarized' world may not feature a leading global currency with share as high as that of USD. There could be multiple coalition or Unions such as BRICS, Quad or the Gulf states forming a currency of their own similar to the Euro. There could also be instances of increased local-currency trade – as seen between India-Iran crude oil import. This will go a long way in curtailing India's Current Account Deficit, securing favourable trade terms (as seen during Russia crude import in 2022) and becoming more self-reliant.
- **Local borrowing -** Increased acceptance of INR would make it easier for Indian government and corporates to borrow in local currency, which in turn would play a vital role in strengthening the local currency.
- **Can INR become a reserve currency -** As of 2020, China constituted ~15% of global trade in spite of that China contribute merely 3% to the world's forex reserve due to lack of trust & governance on the economic system of China. Whereas over the years - India has gained status of more trusted and stable economy due to regulatory transparency, coherence and predictability than China. So, if over next few decades India can be an economic powerhouse and gain share in global trade, the likelihood of INR being considered as a substitute to USD would certainly increase given the high trust bestowed by other nations.

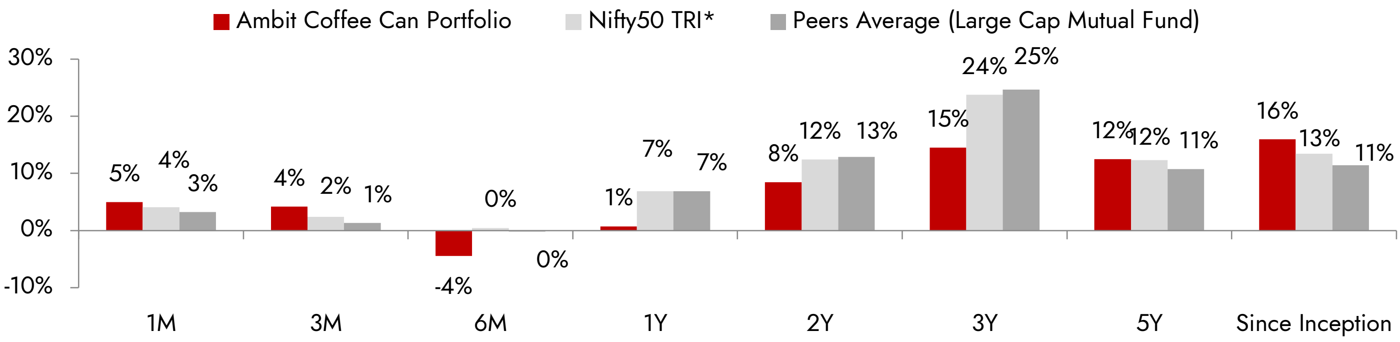
Conclusion:

As Ray Dalio said "no system of government, no economic system, no currency, and no empire lasts forever, yet almost everyone is surprised and ruined when they fail." Clearly there has been a growing trend among countries and regions like India, Brazil, and ASEAN to "de-dollarize". Despite countries' efforts to "de-dollarize", replacing the U.S. dollar as the global reserve currency is a lengthy & challenging process. While overnight change may be a tall ask, the effect of countries reducing their USD dependence will become increasingly significant, eventually leading to a new global monetary and geopolitical pattern. However, the pace of change will depend on how much the system will bend before it changes the status of world reserve currency.

Ambit Coffee Can Portfolio

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail and consumption-oriented sectors. The Coffee Can philosophy has an unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced with disruptions at regular intervals. As the industry evolves or is faced with disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 6: Ambit's Coffee Can Portfolio point-to-point performance

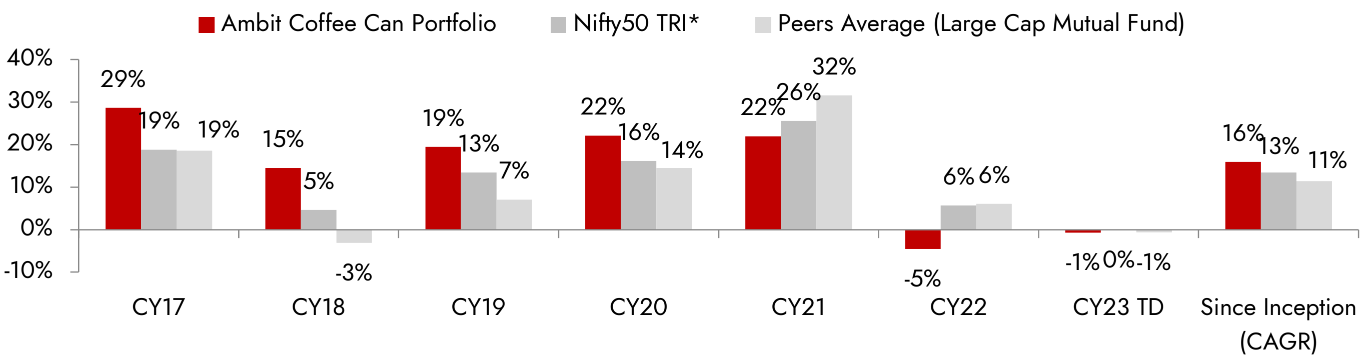


Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of April 30th, 2023; All returns are post fees and expenses; Returns above 1 year are annualized; Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

* Nifty 50 TRI is the selected benchmark for the Ambit Coffee Can Portfolio and the same is reported to SEBI. In addition to the same, we have included the MF peer average for information purpose only. The same should not be relied upon for performance benchmarking in any manner.

MF Peers include: Aditya Birla Sun Life MF, Franklin India MF, HDFC MF, ICICI Prudential MF, Nippon India MF, SBI MF.

Exhibit 7: Ambit's Coffee Can Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of April 30th, 2023; All returns are post fees and expenses. Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

* Nifty 50 TRI is the selected benchmark for the Ambit Coffee Can Portfolio and the same is reported to SEBI. In addition to the same, we have included the MF peer average for information purpose only. The same should not be relied upon for performance benchmarking in any manner.

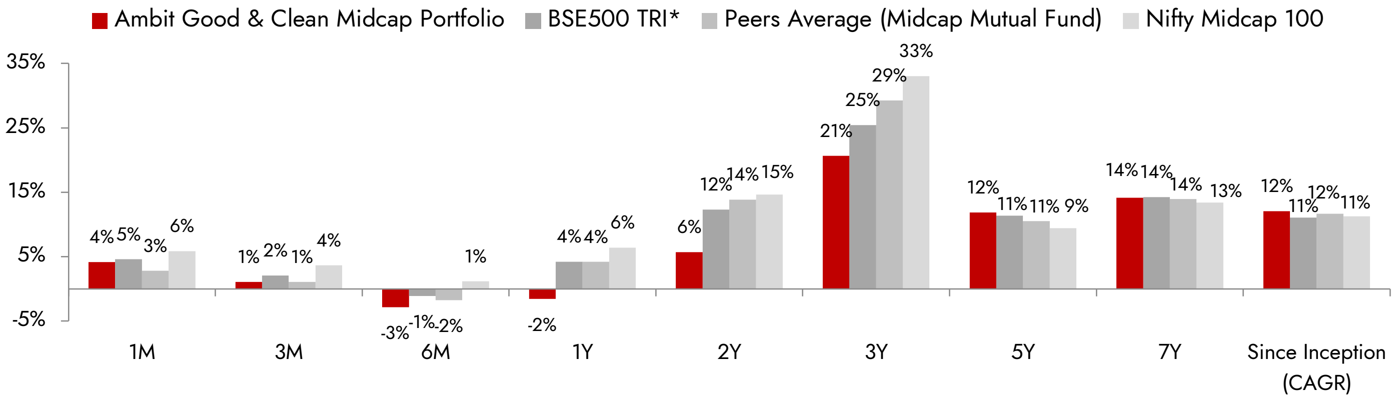
MF Peers include: Aditya Birla Sun Life MF, Franklin India MF, HDFC MF, ICICI Prudential MF, Nippon India MF, SBI MF.

Ambit Good & Clean Midcap Portfolio

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. 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 for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

- Process-oriented approach to investing: Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.
- Long-term horizon and low churn: Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with these compounding earnings acting as the primary driver of investment returns over long periods.
- Low drawdowns: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

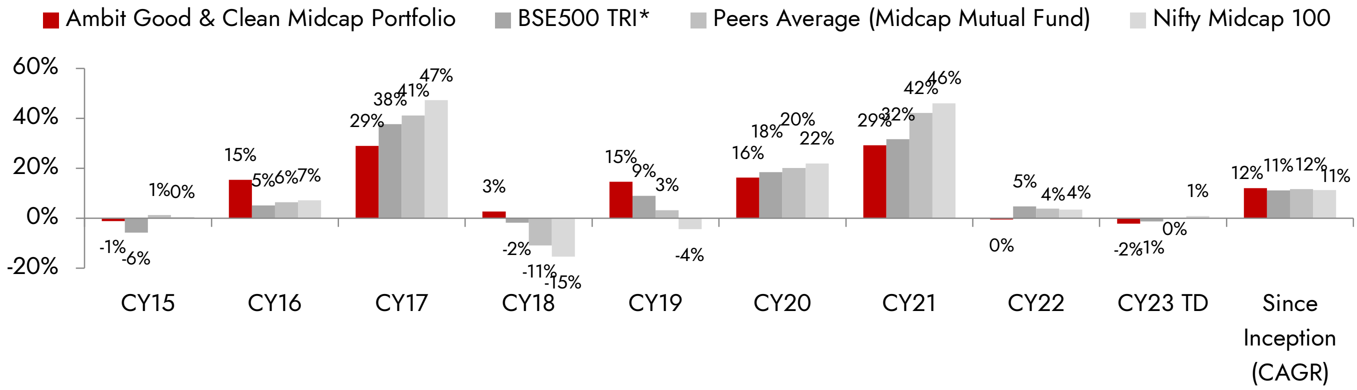
Exhibit 8: Ambit's Good & Clean Midcap Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of April 30th, 2023; All returns above 1 year are annualized. Returns are net of all fees and expenses.

*BSE 500 TRI is the selected benchmark for the Ambit Good & Clean Midcap strategy and the same is reported to SEBI. In addition to the same, we have included the Nifty Midcap 100 and MF Peers for information purposes only. The same should not be relied upon for performance benchmarking in any manner. MF Peers: HDFC MF, Kotak MF, SBI MF, Franklin India MF, Aditya Birla Sunlife MF, Axis MF, L&T MF, MOSL MF, ICICI Prudential MF

Exhibit 9: Ambit's Good & Clean Midcap Portfolio calendar year performance



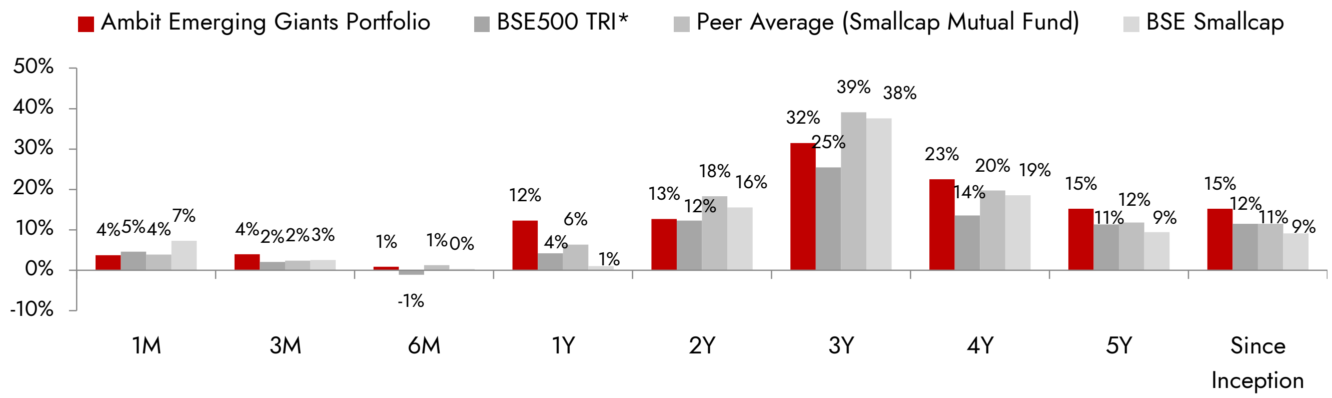
Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of April 30th, 2023. Returns are net of all fees and expenses.

*BSE 500 TRI is the selected benchmark for the Ambit Good & Clean Midcap strategy and the same is reported to SEBI. In addition to the same, we have included the Nifty Midcap 100 and MF Peers for information purposes only. The same should not be relied upon for performance benchmarking in any manner. MF Peers: HDFC MF, Kotak MF, SBI MF, Franklin India MF, Aditya Birla Sunlife MF, Axis MF, L&T MF, MOSL MF, ICICI Prudential MF.

Ambit Emerging Giants Portfolio

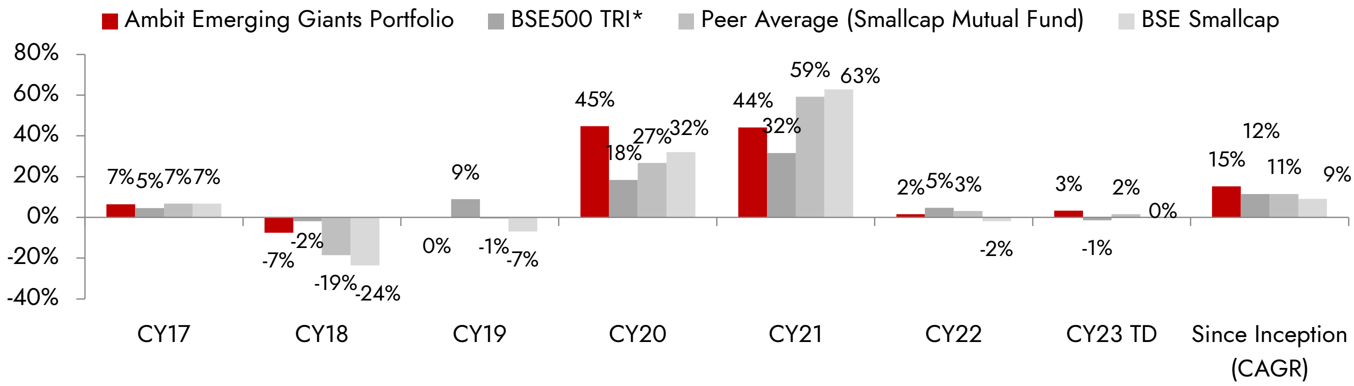
Small caps with secular growth, superior return ratios and no leverage – Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt), and the ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes, these companies are not well discovered, owing to lower institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Exhibit 10: Ambit Emerging Giants Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of April 30th, 2023; All returns above 1 year are annualized. Returns are net of all fees and expenses.
*BSE 500 TRI is the selected benchmark for the Ambit Emerging Giants strategy and the same is reported to SEBI. In addition to the same, we have included the BSE Small cap and MF Peer group for information purpose only. The same should not be relied upon for performance benchmarking in any manner.
MF Peers Include: Nippon India MF, Franklin India MF, ICICI Prudential MF, DSP Blackrock MF, Kotak MF, HDFC MF, SBI MF, Aditya Birla Sun Life MF

Exhibit 11: Ambit Emerging Giants Portfolio calendar year performance



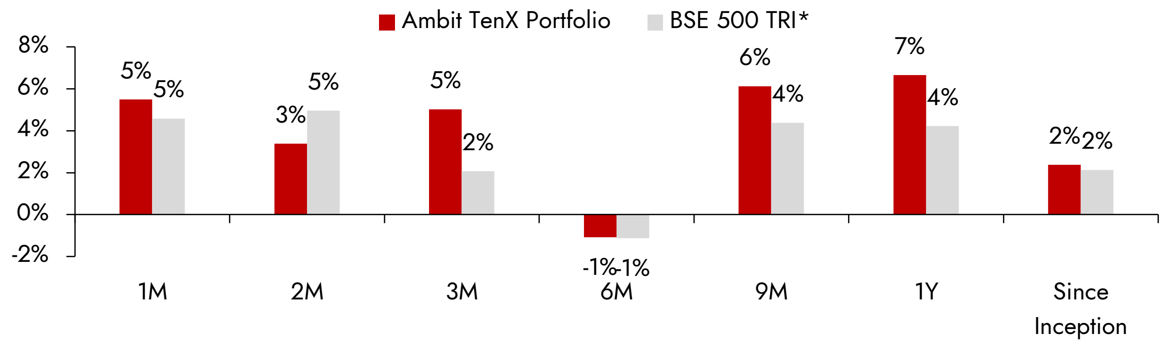
Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of April 30th, 2023. Returns are net of all fees and expenses.
*BSE 500 TRI is the selected benchmark for the Ambit Emerging Giants strategy and the same is reported to SEBI. In addition to the same, we have included the BSE Small cap Index and MF Peers for information purpose only. The same should not be relied upon for performance benchmarking in any manner.
MF Peers include: Nippon India MF, Franklin India MF, ICICI Prudential MF, DSP Blackrock MF, Kotak MF, HDFC MF, SBI MF, Aditya Birla Sun Life MF.

Ambit TenX Portfolio

Ambit TenX Portfolio gives investors an opportunity to participate in the India growth story as the Indian GDP heads towards a US$10tn mark over the next 12-15 years. Mid and Small corporates are expected to be the key beneficiaries of this growth. The portfolio intends to capitalize on this opportunity by identifying and investing in primarily mid & small cap companies that can grow their earnings 10x over the same period implying 18-21% CAGR. Key features of this portfolio would be as follow:

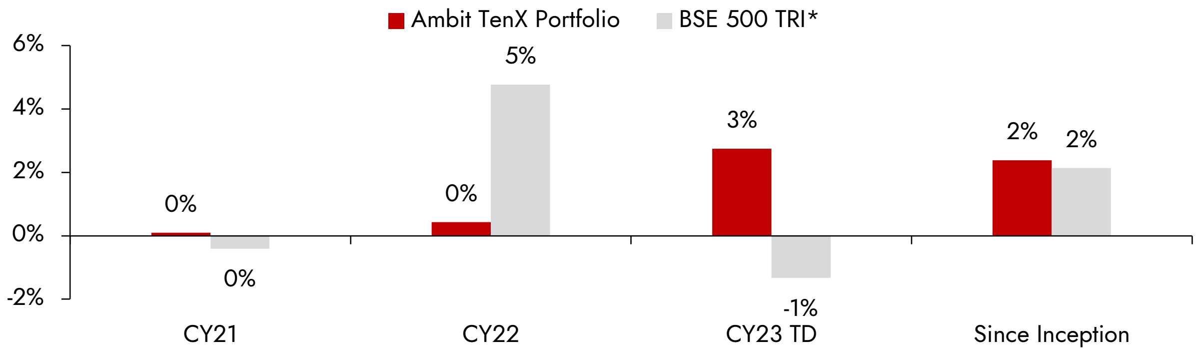
- Longer-term approach with a concentrated portfolio: Ideal investment duration of >5 years with 15-20 stocks.
- Key driving factors: Low penetration, strong leadership, light balance sheet
- Forward-looking approach: Relying less on historical performance and more on future potential while not deviating away from the Good & Clean philosophy.
- No Key-man risk: Process is the Fund Manager

Exhibit 12: Ambit TenX Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of April 30th, 2023; Returns are net of all fees and expenses
*BSE 500 TRI is the selected benchmark for the Ambit TenX Portfolio and the same is reported to SEBI.

Exhibit 13: Ambit TenX Portfolio calendar year performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of April 30th, 2023. Returns are net of all fees and expenses
*BSE 500 TRI is the selected benchmark for the Ambit TenX Portfolio and the same is reported to SEBI.

For any queries, please contact:

Umang Shah- Phone: +91 22 6623 3281, Email - aiapms@ambit.co

Ambit Investment Advisors Private Limited -
Ambit House, 449, Senapati Bapat Marg,
Lower Parel, Mumbai - 400 013

Risk Disclosure & Disclaimer

The performance of the Portfolio Manager has not been approved or recommended by SEBI nor SEBI certifies the accuracy or adequacy of the performance related information contained therein.

Ambit Investment Advisors Private Limited ("Ambit"), is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000005059.

This presentation / newsletter / report is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or to enter into any Portfolio Management agreements. This presentation / newsletter / report is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This presentation / newsletter / report may contain confidential or proprietary information and no part of this presentation / newsletter / report may be reproduced in any form without its prior written consent to Ambit. All opinions, figures, charts/graphs, estimates and data included in this presentation / newsletter / report is subject to change without notice. This document is not for public distribution and if you receive a copy of this presentation / newsletter / report and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited. This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify Ambit for any liability it may incur in this respect.

Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the presentation / newsletter / report herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this presentation / newsletter / report, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this presentation / newsletter / report and any such liability is expressly disclaimed. Further, the information contained in this presentation / newsletter / report has not been verified by SEBI.

You are expected to take into consideration all the risk factors including financial conditions, risk-return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio in future. You further understand that all such products are subject to various market risks, settlement risks, economical risks, political risks, business risks, and financial risks etc. and there is no assurance or guarantee that the objectives of any of the strategies of such product or portfolio will be achieved. You are expected to thoroughly go through the terms of the arrangements / agreements and understand in detail the risk-return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. The investment relating to any products of Ambit may not be suited to all categories of investors. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this presentation / newsletter / report.

Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Investment in any product including mutual fund or in the product of third party service provider does not provide any assurance or guarantee that the objectives of the product are specifically achieved. Ambit shall not be liable for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing. The name of the product does not in any manner indicate their prospects or return.

The product 'Ambit Coffee Can Portfolio' has been migrated from Ambit Capital Private Limited to Ambit Investments Advisors Private Limited. Hence some of the information in this presentation may belong to the period when this product was managed by Ambit Capital Private Limited.

You may contact your Relationship Manager for any queries.

The performance data for coffee can product between 6th march 2017 - 19th June 2017 represents model portfolio returns. First client was onboarded on 20th June 2017. The performance data for G&C product between 1st June 2016 to 1st April 2018 also includes returns for funds managed for an advisory offshore client. Returns are calculated using TWRR method as prescribed under revised SEBI (Portfolio Managers) Regulations, 2020