

From the Desk of Fund Manager.

05 April, 2018.

Re: CONCEPT WEALTH PLUS – PORTFOLIO MANAGEMENT SERVICE

Dear Sir/Madam,

**The Financial Year 2017-18 has come to an end bringing some volatility in Equity Markets.** Volatility is in the nature of stock market that we didn't see in CY2017 but is back in CY2018. The pitch has clearly turned from batting (easy) to bowling (hard). **Money making will become difficult in this year.** If you recall my last letter of CY2017, I was not comfortable with valuations of the market especially mid and small caps. Now with this correction setting up, valuations have started to become reasonable in certain stocks. I want to discuss the current context of our stock market.

**Investing is simple but not easy.** It teaches you something new every day. For instance Titan is a great quality stock but is now available at PE of 72 which is expensive. But currently market is not bothered about valuations of Titan and so the stock is currently trading at a new all time high. In FY18 it is likely to clock Rs. 1150 crore net profit and market is valuing the whole company at Rs. 83000 crore market caps. On the other side we have SBI, which is a leader among PSU banks, is currently perceived as a non-quality stock by the market. Good point to note is SBI has never lost its market share to private sector banks. SBI's subsidiaries like SBI Life Insurance, SBI Non-Life, SBI Mutual Funds, SBI Securities etc. are so well managed and are at par with private players when we compare the numbers. NPA has been a big problem for them because of their strategy to lend to corporate sector. But after the formation of NCLT, we will probably see the Gross NPA's going down within 3-6 months. Remember in India most loans are asset backed and through NCLT 1 they have been able to recover a major chunk of bad loans in cases like Bhushan Steel and Binnani Cement with a minimal haircut. On valuation front also, it is available at around 1.2 times Book Value which looks cheap and is much lower than its historical average. The above two examples show that **on one stock (Titan), Mr. market is factoring in most of the positives whereas on the other stock (SBI), Mr. Market is factoring in most of the negatives. To make money one cannot just buy a great business but has to buy it at a fair price.** We have currently adopted a mixed approach in our PMS with Portfolio comprising of both type of companies.

The trade-off between the quality and valuation is the dilemma which most Fund managers are facing today. **Currently the market is too much in favor of quality companies and ignoring the valuations.** The same situation we came across in the past as well. For instance, if somebody bought Infosys during the peak of year 2000 at PE of 200, he/she did not make money for next 10

Years. Infosys share price did not move up even though the business was growing. Infosys had great business coupled with competent management but was available at euphoric valuations at that time. **Thus as a fund manager I try to keep a check on expensiveness and quality of the stocks we hold.**

Now I come to the strategy which we will be adopting going forward. **Currently we are holding 28-30 stocks in LEGEND and 33-35 stocks in MARVEL.** This was because we wanted to have a diversified portfolio. Also we didn't have much experience of managing funds earlier. **Going forward we want to adopt a FOCUSED portfolio strategy with number of portfolio scrips coming down to 20.** This transition may take around 2 years or so. **This will help in enhancing returns.** We have always maintained a low churning ratio. Currently it is around 20%. We aim to further bring it down to around 10%. This means **average holding period for a company in our portfolio would increase from 5 years to 10 years.** The above steps are being taken as **we have gained wisdom through our experience of managing funds for last 8.5 years in wealth management.**

**Our investment Philosophy going forward would be to identify great businesses having a competitive edge which is being run by an ethical management, available at reasonable valuation having a long runway ahead.** I have seen and learnt many styles of investing but the above suits us the most and will also help us to generate superior returns with less or no stress. **We are not changing our strategy but just revamping from good to great.**

CONCEPT WEALTH PLUS (PMS) PERFORMANCE						
PMS Funds	Concept Legend (Inception : 28th July, 2009)	BSE 200 Return	Sensex Return	Concept Marvel (Inception : 12th Oct, 2009)	BSE 200 Return	BSE Midcap Return
Return Since Inception	223.24%	135.32%	115.03%	212.69	111.13%	150.26%
Annualized	14.47%	10.36%	9.22%	14.41%	9.22%	11.44%
Last 5 Year	18.52%	14.14%	11.85%	22.28%	14.14%	21.05%
Last 3 Year	5.72%	7.81%	5.65%	12.67%	7.81%	14.65%
Last 1 Year	5.05%	11.04%	11.30%	13.52%	11.04%	13.24%

\*Returns as on 31<sup>st</sup> March, 2018 and are post expenses.

\*Past performance may or may not be sustained in future.

**In last quarter we just made one change i.e. sold off Poddar Developers in MARVEL, as we did not see business execution as per our expectation. We participated in buyback opportunity of Infosys and right issue of Tata Steel. Currently at macro front the news has been terrible, be it trade wars between US and China or crude oil inching up along with liquidity drying from global markets. All these factors can be seen as negative in short term but when it comes to investing it is not about timing the market but staying on the course.**

Recently I had the privilege to address Finance students of AURO UNIVERSITY where I talked about EQUITY – THE WEALTH CREATOR. I am attaching the brief summary of it along with this letter. Do read and comment.

**We will be sending you a C.A certified statement on short term and long term capital gains incurred during FY18 shortly.** Lastly, I must acknowledge JENISH RANA who has played a significant role when it comes to maintaining relationship with you all. I am confident that you are happy with our service. **We promise to never compromise on ethics and try to be the best at what we do.**

Yours Truly,

Siddharth B. Mandalaywala

Fund Manager