Dear Sir/Madam,

Re: Quarterly Report of Fund Manager – Q2 – FY 17-18.

Greetings for the Diwali. As we celebrate the festival of lights, let us hope that it brings along new opportunities for us to work together and reach new heights of success and glory. I wish that together we write new story of success year on year. The last time, post Diwali, when market corrected sharply and provided some buying opportunity was when the demonetization was announced i.e. last year in November 2016. Since then the Market had a clean upmove, which lasted for a good 8-9 months. But **the scary part about this bull run is that it is not backed by the earnings.** In most cases the stock prices have gained upward momentum due to Price Earnings (PE) expansion. **The immense liquidity being pumped by retail investors via mutual funds and especially through Systematic Investment Plan (SIP) has helped inflate the prices.** The run in mid-cap and small-cap has been beyond one's expectation.

Currently, the problem with the market is that expensive stocks are becoming more expensive and cheap or attractive stocks are under-performing the overall markets. This typically happens in every Bull Run. This is mainly because of the market's focus on near term growth while ignoring a long term moat and good fundamentals. Take for instance in the year 1999-2000; IT, Media and Telecom (TMT) stocks were incredibly expensive. Infosys was trading at PE of 110 and other IT stocks PE went around 300. Mutual Funds schemes which were not holding such stocks were underperforming for a year or two. Same thing repeated in the year 2007-08 when Infrastructure, Real-estate and R-Group stocks were in fashion. DLF a leader in real-estate came out with an IPO at Rs.550, post listing went up to 1225 but when the market corrected, it came down to double digits. Same thing happened with R-group stocks and many infrastructure companies like JP Associates, HCC, Punj Llyod and many more. Even till date, 80% of the stocks which made high in 2008 have not yet recovered and achieved that level. Needless to say, funds not holding these sectors and stocks in their portfolio underperformed by a big margin in 2007-08.

Why I am telling you this is because **in every Bull Market there is euphoria in certain sectors and stocks.** This time it is no different. Many stocks in the mid-caps and the small-caps have reached an alarming level. **There is complete euphoria in Initial Public Offer (IPOs)**, take for instance D-Mart which is trading at a PE of 110. **Non Banking Financial Companies (NBFCs) are trading at their peak historical valuation**. Gruh Finance was once trading at a PE of 16, now it is at a P/B (Price/Book) of 16. Bajaj Finance is trading at around 9 times its book value whereas its lowest historical valuation was at 0.9 times. **No doubt that these are the quality companies**

<u>with a robust business and a dynamic management but while investing what price you pay makes a difference.</u> For eg. Infosys in the year 2000 was trading at a PE of 110 and the reason with which investors justified it was its future growth prediction at 50%,on the basis of its quality management and business. But what happened after was, it took more than 9-10 years for Infosys to achieve the same price which it made in year 2000. Currently, the PE has come down to 14 times and the growth has mellowed down to 6-8%.

Through my experience of more than 14 years in stock market, I can say that an investor makes money only when there is a difference of perception between him and consensus. For eg. few years back ,most Fund Managers were of the view that Oil Marketing Companies (OMCs) were a value trap and that most of them had not given returns for many years. But today the perception has completely changed with most of the funds holding these companies and the stocks turning into multi-bagger. Same thing is happening with Corporate Banks, IT and Pharma today. Most people are bearish on these sectors.

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	**207.46%**	127.27%	104.04%	**190.62%**	103.90%	142.00%
Annualized	14.72%	10.56%	9.11%	14.32%	9.35%	11.72%
Last 5 Year	17.06%	13.16%	10.77%	19.87%	13.16%	18.50%
Last 3 Year	10.31%	9.60%	5.51%	15.06%	9.60%	17.44%
Last 1 Year	6.16%	15.09%	12.27%	18.19%	15.09%	17.24%

*****Returns as on 30th September, 2017 and are post expenses.

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

Looking at our two plans, **Legend (Large-cap) and Marvel (Mid-cap), we feel that we have tried to reduce high valuation stocks and added reasonably valued stocks in last 1 year**. Legend has shaped into a more defensive portfolio with atleast 67% of the stocks being large-cap. Marvel is a bit aggressive fund, currently, which also has 35% of exposure in large-cap. In trying to do this we have underperformed in Legend for last 1 year and have done reasonably well in Marvel. But a Fund Manager or a Fund should always be looked at from its investment philosophy and its track record across market cycles over long period. **<u>We have always focused on risk</u>**

adjusted returns rather than only returns. For us capital safety is more important while returns will take care of itself. We have been in business of managing funds for more than 8 years and have seen both good and bad business cycles.

Lastly Indian economy is currently witnessing some slowdown due to after effects of Demonetization and GST which are good for long term. We feel the pain is temporary and economy will bounce back. Morgan Stanley has recently come out with a report that India will become $6 trillion economy by 2027. Currently we are at $2.1 trillion. This means our economy will triple in 10 years. **On this optimistic note I would like to thank you for keeping confidence in us for managing your funds.**

Yours truly,
(Siddharth B. Mandalaywala)
Fund Manager.