



WEALTH ADVISORS



IPC – Asset Allocation



January 15, 2020

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Quarterly Investment Policy Committee (IPC) – Stay overweight Equity and Fixed Income



WEALTH ADVISORS

A. Asset class performance in 2019

1. 2019 – What worked? Well almost everything!
2. 2019 – What worked? Our recommendations!

B. EQUITY: Stance stays at overweight

1. What moved equity markets during 2018 and 2019 – September month
2. What moved equity markets during 2018 and 2019
3. Winners – Realty, Durables, Bank/Finance, IT & Oil
- 2020 – What might work? US equities
4. 2020 – What might work? China equities
5. 2020 – What might help? The death of Washington Consensus
6. 2020 – Indian equity: Bubble in Quality?
7. 2020 – Indian equity: Large cap vs. Midcap?
8. 2020 – What might work? Financials
9. 2020: What might work- Gold - As a hedge against uncertainty

C. FIXED INCOME: Stay overweight

1. 2020 – What may work? Bond - Fiscal and inflation concerns vs. rates, liquidity and operation twist

D. ASSET ALLOCATION & MODEL PORTFOLIO

2019 – What worked? Well almost everything!

Year	Nifty	BSE Midcap	BSE Small cap	BSE 500	Bond (Compbex)	US Equity (S&P 500, INR)	Gold (INR)	Commodities (Bbg, INR)	INR
2000	-15			-27		-3.7		33	7.2
2001	-16			-23		-10.1		-20	3
2002	3			17		-23.8		23	-1
2003	72			101	8.1	20.2		17	-5
2004	11	26		17	-0.3	3.8		3	-5
2005	36	47		37	4.8	6.8		22	4
2006	40	31	28	39	4.0	11.7	20.2	-4	-2
2007	55	69	74	63	6.9	-7.8	12.4	-1	-11
2008	-52	-67	-69	-58	9.1	-23.8	25.5	-22	24
2009	76	108	115	90	3.5	17.7	32.8	13	-5
2010	18	16	17	16	5.0	8.4	19.5	12	-4
2011	-25	-34	-36	-27	6.9	18.7	36.9	3	19
2012	28	39	36	31	9.4	17.5	9.7	2	4
2013	7	-6	-10	3	3.8	45.6	-3.0	2	12
2014	31	55	63	37	14.3	13.6	-10.9	-15	2
2015	-4	7	6	-1	8.6	4.2	-5.4	-21	5
2016	3	8	2	4	12.9	12.5	10.1	14	3
2017	29	48	60	36	4.7	12.3	3.7	-5	-6
2018	3	-13	-24	-3	5.9	2.4	8.7	-5	9
2019	12	-3	-7	8	10.7	31.9	21.9	8	2
Avg (2000-2019)	16	21	18	18	7	8	13	3	3
Avg (2010-2019)	10	12	11	10	8	17	9	-1	5

2019 – What worked? Our recommendations!

Opportunity	Date of call	Unit	Benchmark	Change since call	Investment Portfolio	Change since call	Remark
1 US Equity	4-Apr-18	%	S&P 500 (INR)	24.7	ASK US Opportunities Fund T1 (INR)	39.1	The resilience of the US economy, tailwinds in the form of tax cuts and trade wars and the dynamic policy setting led us to ignore recession warning from many pundits and give a call for diversification of assets abroad.
2 Falling interest rates	14-May-19	bps	10-yr yield	-0.94	L&T Triple Ace Bond Fund-Reg(G)	9.9	The rapid fall in inflation, softness in the economy, changed stance of RBI and government resolve to stay broadly within fiscal rules were the rationale.
					IDFC Dynamic Bond Fund-Reg(G)	8.4	
		%	CRISIL Composite Bond Fund	8.0			
		%	CRISIL Short Term Bond Fund	6.2			
		%	CRISIL Low Duration Debt	5.0			
	%	CRISIL Liquid Fund	3.6				
3 Finserv	11-Jun-19	%	S&P BSE Finance	3.4	ASK FOP	11.4	Identified the recovery cycle early before the full clarity on IBC emerged
					SBI Banking & Financial Services Fund-Reg(G)	5.2	
					ICICI Pru Banking & Fin Serv Fund(G)	1.7	
4 Overweight Equity	24-Sep-19	%	Nifty 50	5.8			Signified Government's resolve to address the slowdown even when fiscal was stretched. To help sentiments apart from adding to bottomline directly.
5 Gold	24-Jun-19	%	Mumbai Gold (Rs./10 gm)	11.2	Aditya Birla SL Gold ETF	11.1	A call on the safe haven status of gold when other asset class prospects appears dim.
					HDFC Gold ETF	10.5	
					ICICI Pru Gold ETF	11.0	
					Kokak Gold ETF	11.0	

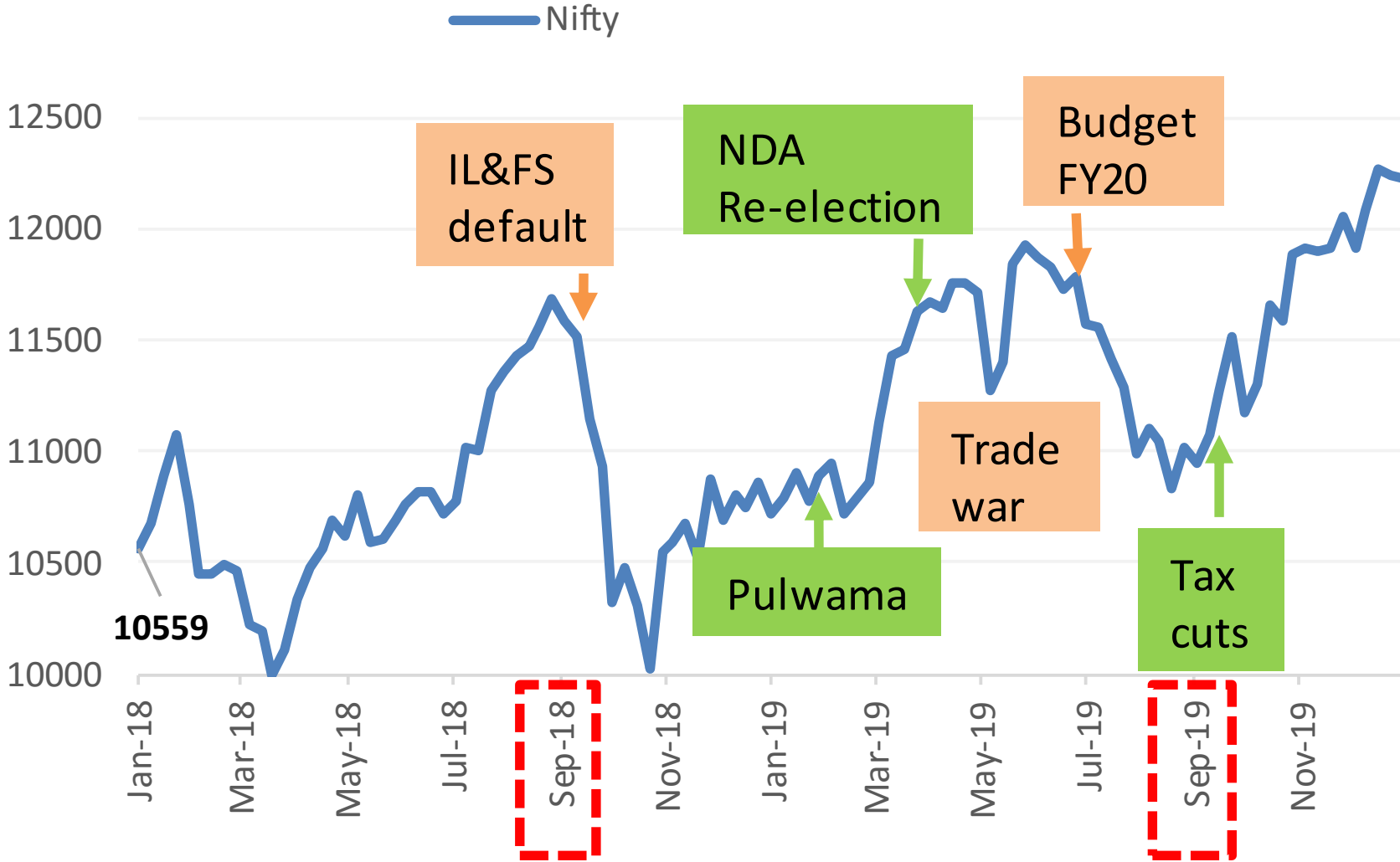
B. EQUITY: Shift to overweight on Govt. policy initiatives

Equity market:

- 1) *Nearly every asset class worked during 2019 barring the real estate. Our major recommendations regarding US equities, duration, finserv, gold and equity since tax cuts have panned out quite well too during 2019.*
- 2) *However, equity market in general and especially various indices and sectors performed only during the post tax-cuts period.*
- 3) *Going forward, we expect global asset diversification strategies including that in US equities as we all our fresh recommendation on China should do well in view of economic tailwind and favorable policy settings.*
- 4) *On the domestic equity market too, the shifting global opinion against Washington Consensus would enhance policy space for more fiscal and monetary expansion helping revive the economy and the markets.*
- 5) *While valuations of high quality companies are a concern, higher earnings prospect have stabilized the market wide valuations. The performance of midcap since tax cuts have improved and now at par with large cap. We have turned overweight on midcap in the expectation of better earnings prospects and higher margin of safety.*

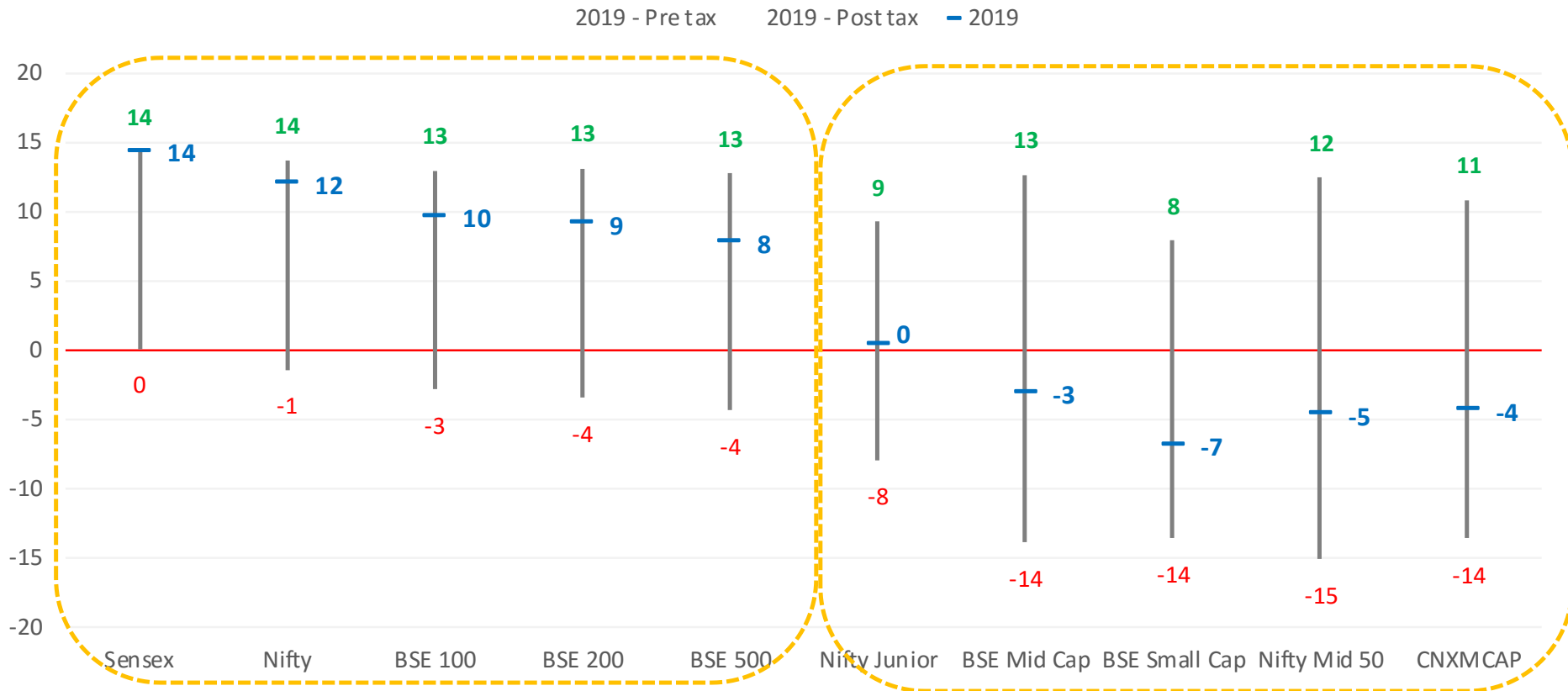
In view of the above we have decided to stay overweight on Equities. Within equities we have expanded global choice to include China opportunities and within domestic equities midcap. We retain the tactical selection of Finserv and gold on heightened uncertainty.

What moved equity markets during 2018 and 2019 – September was a pivotal month for both the years



Sources – Bloomberg, ASKWA Research

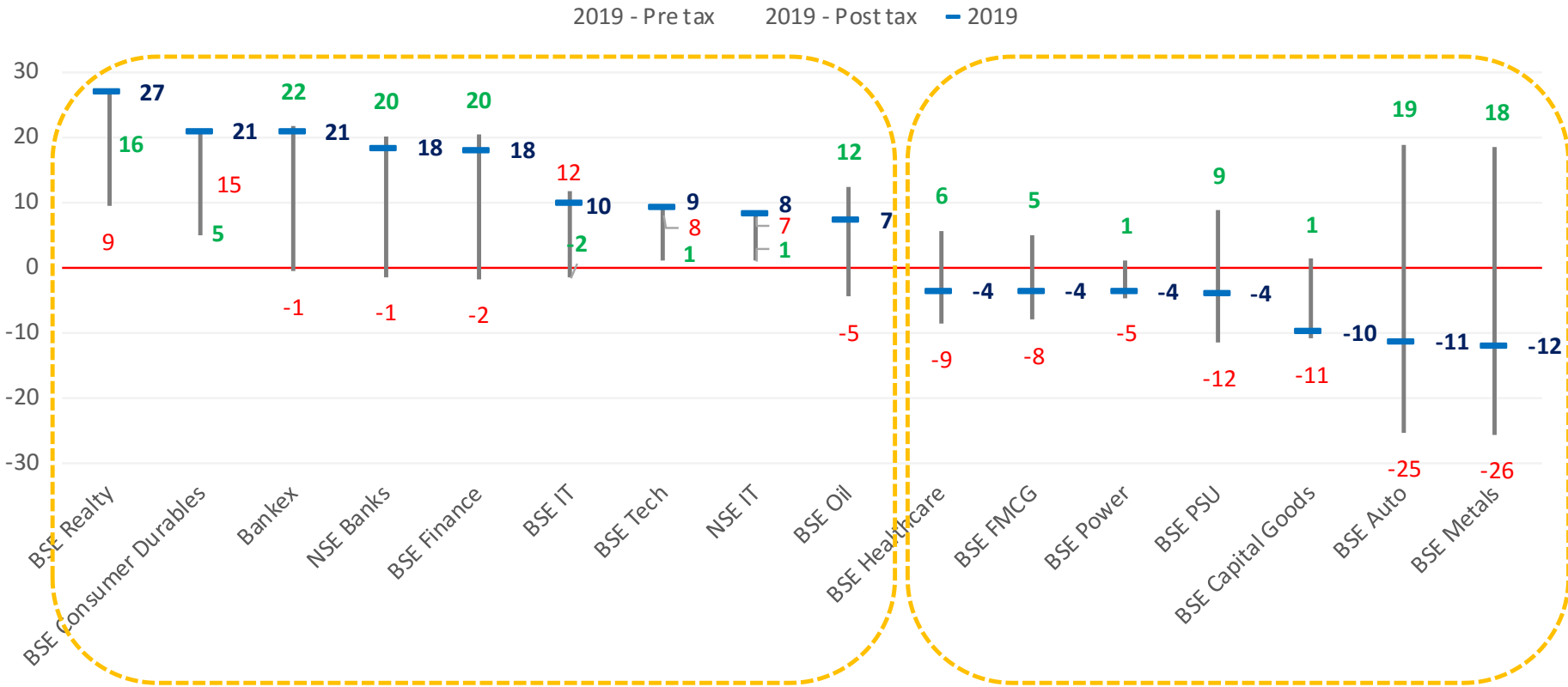
Large cap and broader market performed better – Mid and small struggled



Sources – Bloomberg, ASKWA Research

Winners – Realty, Durables, Bank/Finance, IT & Oil

Losers – FMCG, Power, PSUs, Cap Goods, Auto & Metals

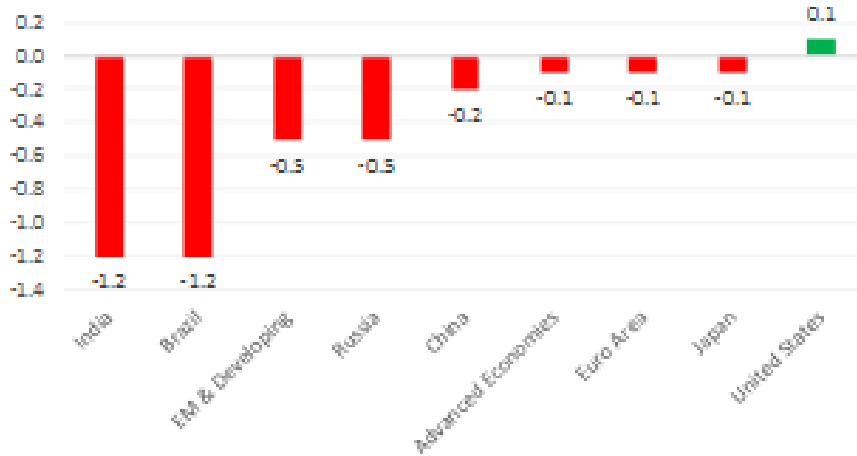


Sources – Bloomberg, ASKWA Research

2020 – What might work? US equities

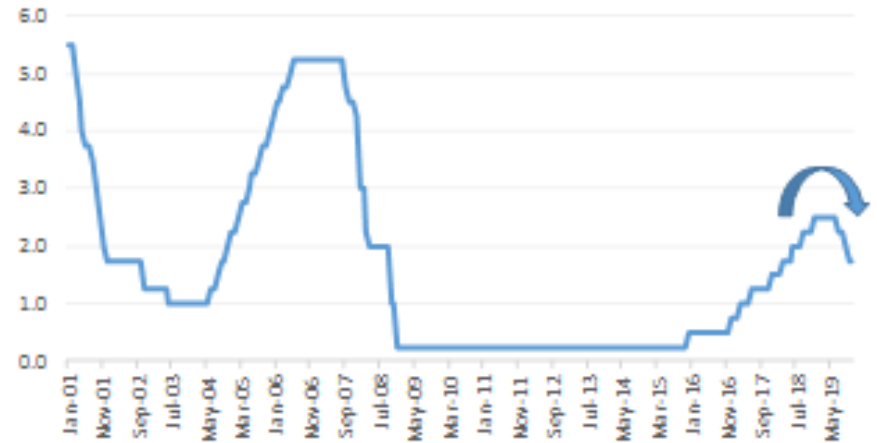
US only major economy to see a GDP growth upgrade

IMF growth downgrade since Apr-19



Dynamic policy setting

Fed rate



	Real GDP			Consumer Prices			Current A/c balance			Unemployment		
	2018	2019 E	2020 E	2018	2019 E	2020 E	2018	2019 E	2020 E	2018	2019 E	2020 E
Vietnam	7.1	6.5	6.5	3.5	3.6	3.7	2.4	2.2	1.9	2.2	2.2	2.2
China	6.6	6.1	5.8	2.1	2.3	2.4	0.4	1.0	0.9	3.8	3.8	3.8
India	6.8	6.1	7.0	3.4	3.4	4.1	-2.1	-2.0	-2.3	NA	NA	NA
Indonesia	5.2	5.0	5.1	3.2	3.2	3.3	-3.0	-2.9	-2.7	5.3	5.2	5.0
Malaysia	4.7	4.5	4.4	1.0	1.0	2.1	2.1	3.1	1.9	3.3	3.4	3.4
Thailand	4.1	2.9	3.0	1.1	0.9	0.9	6.4	6.0	5.4	1.2	1.2	1.2
United States	2.9	2.4	2.1	2.4	1.8	2.3	-2.4	-2.5	-2.5	3.9	3.7	3.5
Australia	2.7	1.7	2.3	2.0	1.6	1.8	-2.1	-0.3	-1.7	5.3	5.1	5.1
Canada	1.9	1.5	1.8	2.2	2.0	2.0	-2.6	-1.9	-1.7	5.8	5.8	6.0
Euro Area	1.9	1.2	1.4	1.8	1.2	1.4	2.9	2.8	2.7	8.2	7.7	7.5
Russia	2.3	1.1	1.9	2.9	4.7	3.5	6.8	5.7	3.9	4.8	4.6	4.8
Japan	0.8	0.9	0.5	1.0	1.0	1.3	3.5	3.3	3.3	2.4	2.4	2.4
Brazil	1.1	0.9	2.0	3.7	3.8	3.5	-0.8	-1.2	-1.0	12.3	11.8	10.8

Factors working in favour of China

- ❑ US-China **trade war** has possibly peaked out.
- ❑ Since 1991 China economy has grown consistently at **6%+** rate (29 years) with average growth rate of 9.5%.
- ❑ China radically and successfully altered the structure of its economy more towards **consumption** in the last five years.
- ❑ Stable **exchange rate**.
- ❑ Policy makers are supporting the economy once again with PBoC undertaking **rate cuts** once again for the first time since 2015.
- ❑ China has its internal and external **balance** well within control

2020 – What might help?

The death of Washington Consensus => More Policy Space

10 elements of Washington Consensus:

A. Fiscal

1. Low government borrowing.
2. Subsidies to education, health, infra.
3. Moderate marginal tax rate and broad base.

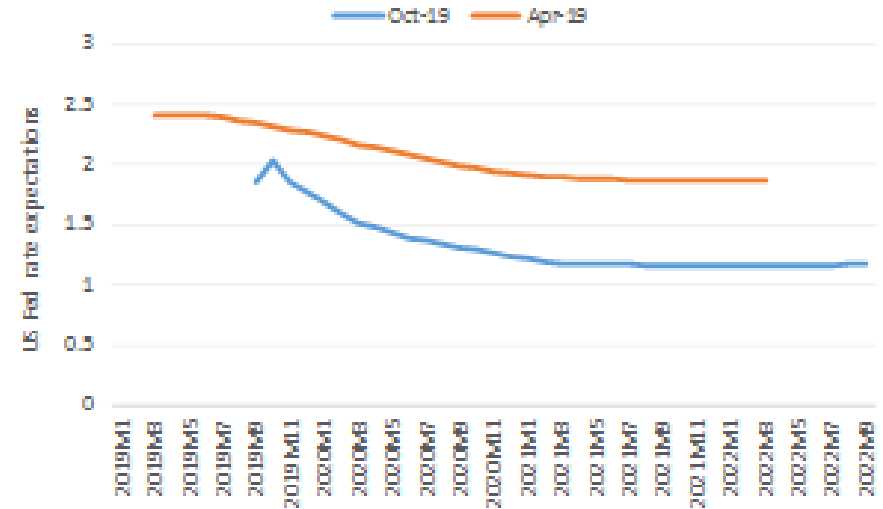
B. Monetary

1. Market determined interest rates, positive real rates.
2. Competitive exchange rates.

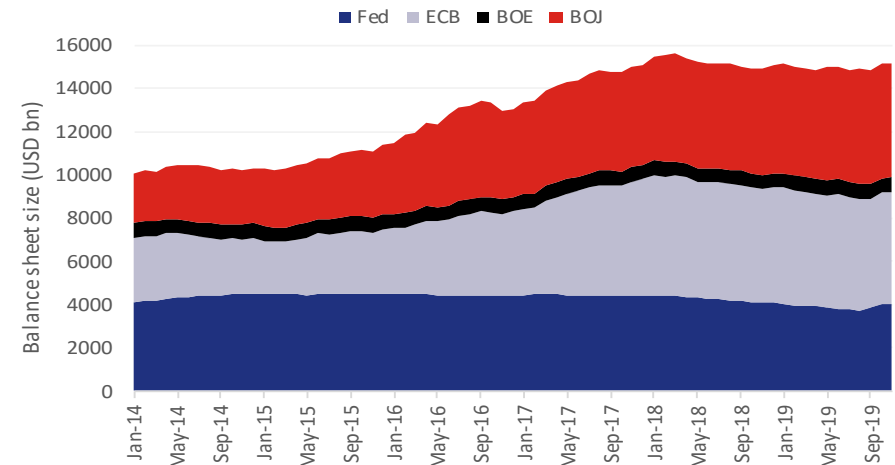
C. Trade and Investment

1. Free trade policies (allow import remove barriers).
2. Relaxed foreign direct investment.
3. privatization of state enterprises.
4. No to regulations and policies that restrict competition.
5. Development of property rights.

Reversal of policy expectations by US FED



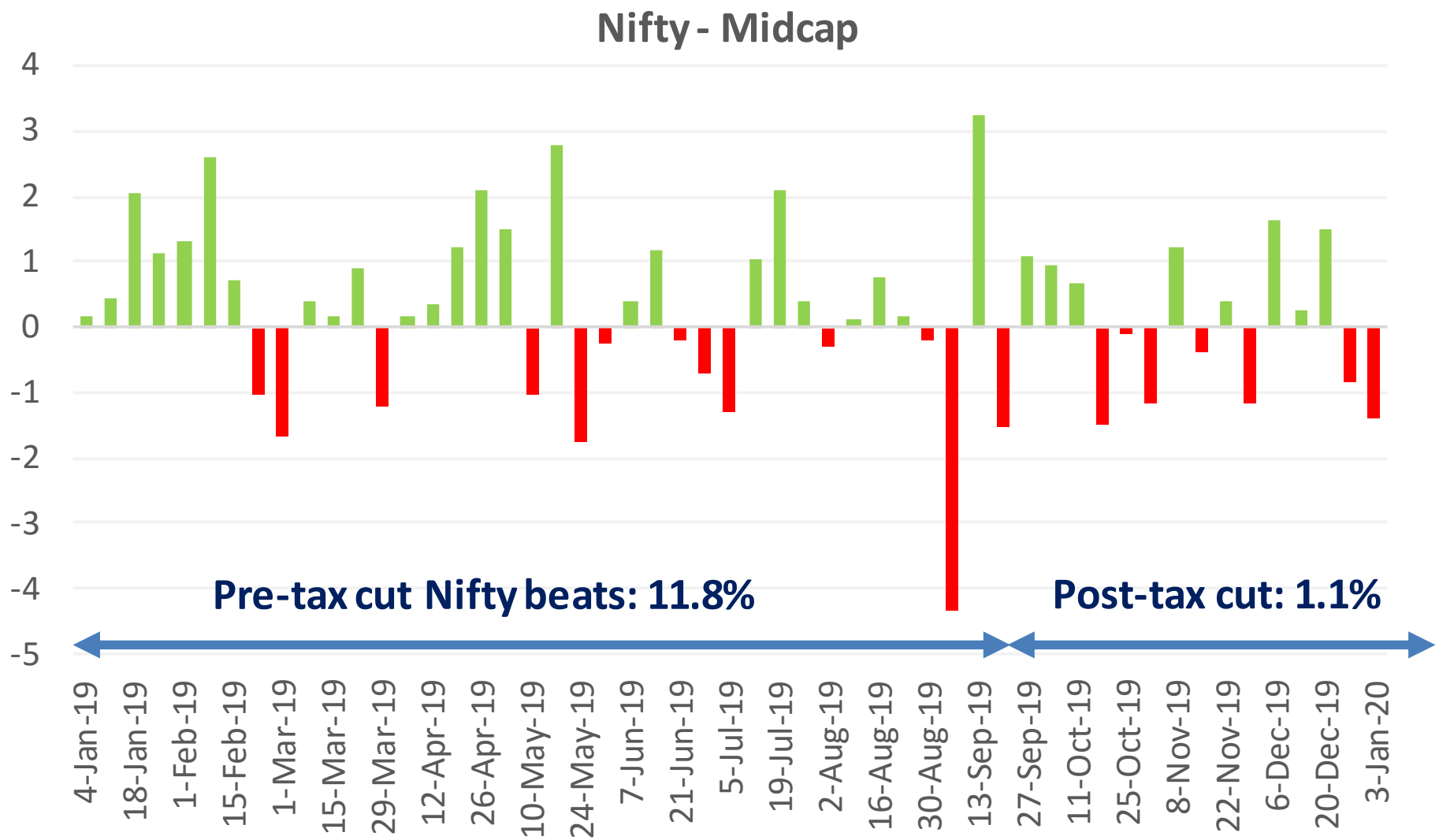
Major Central Banks injecting liquidity again



2020 – Indian equity: Bubble in Quality?

No. Company	FY19			FY28 (Assuming last 9 years PAT/PBT growth rate)			FY28 Market Cap & Implied P/E for Required Annual Return					
	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	10% CAGR		12% CAGR		15% CAGR	
							Mcap (Rs. Cr)	PE (x)	Mcap (Rs. Cr)	PE (x)	Mcap (Rs. Cr)	PE (x)
1 Hindustan Unilever Ltd.	39,311	9,430	6,060	86,992	30,455	17,444	10,86,036	55x	12,77,240	65x	16,20,283	82x
2 Maruti Suzuki India Ltd.	86,069	13,565	7,495	2,50,335	40,479	22,072	5,16,709	23x	6,07,678	28x	7,70,890	35x
3 Asian Paints Ltd.	19,350	3,757	2,171	56,042	10,256	5,333	4,02,544	71x	4,73,415	84x	6,00,565	106x
4 Nestle India Ltd.	11,292	2,877	1,607	24,860	8,036	3,942	3,41,904	80x	4,02,098	94x	5,10,094	120x
5 Titan Company Ltd.	19,779	2,174	1,391	83,638	11,569	7,697	2,78,311	33x	3,27,310	39x	4,15,219	49x
6 Dabur India Ltd.	8,515	2,036	1,445	21,385	6,172	4,174	1,96,811	45x	2,31,461	53x	2,93,628	68x
7 Pidilite Industries Ltd.	7,079	1,515	925	22,838	5,517	3,164	1,61,696	40x	1,90,163	47x	2,41,237	60x
8 Siemens Ltd.	12,795	1,635	901	17,512	2,365	1,173	1,40,429	120x	1,65,153	141x	2,09,510	179x
9 Berger Paints India Ltd.	6,062	942	498	19,429	3,940	2,063	1,09,811	49x	1,29,144	58x	1,63,829	73x
10 Colgate-Palmolive (India) Ltd.	4,462	1,274	776	10,147	3,046	1,381	98,418	55x	1,15,745	65x	1,46,832	83x
11 Procter & Gamble Hygiene & Health Care Ltd.	2,455	639	375	7,787	1,662	785	91,266	97x	1,07,333	114x	1,36,161	145x
12 ABB India Ltd.	10,862	1,023	511	18,916	1,687	736	76,952	100x	90,499	118x	1,14,806	149x
13 Kansai Nerolac Paints Ltd.	5,424	813	448	17,243	2,327	1,211	66,841	33x	78,609	39x	99,722	50x
14 Whirlpool Of India Ltd.	5,398	747	407	13,154	2,186	1,143	65,488	53x	77,018	63x	97,704	79x
15 Gillette India Ltd.	1,677	394	229	4,251	825	464	59,818	129x	70,349	152x	89,244	192x
16 Honeywell Automation India Ltd.	3,175	577	359	8,592	1,714	970	58,975	54x	69,358	63x	87,987	80x
17 3M India Ltd.	3,025	605	366	8,417	2,311	1,444	57,853	40x	68,038	47x	86,312	59x
18 Voltas Ltd.	7,124	798	566	10,668	1,183	832	54,080	65x	63,601	76x	80,683	97x
19 Bata India Ltd.	2,931	556	329	7,865	2,311	1,730	53,557	31x	62,986	36x	79,903	46x
20 Apollo Hospitals Enterprise Ltd.	9,617	1,095	199	45,644	3,603	305	49,816	133x	58,586	156x	74,322	198x
21 Astral Poly Technik Ltd.	2,507	400	201	21,650	3,415	1,456	40,540	23x	47,677	28x	60,482	35x
22 Emami Ltd.	2,693	762	305	7,098	1,492	547	36,044	62x	42,390	73x	53,775	92x
23 Symphony Ltd.	844	172	92	3,741	519	227	20,647	81x	24,283	95x	30,804	120x
24 TTK Prestige Ltd.	2,107	321	192	8,739	1,315	706	20,255	27x	23,821	31x	30,218	40x
25 Blue Star Ltd.	5,235	371	209	10,968	451	207	19,696	95x	23,163	112x	29,384	142x
26 VIP Industries Ltd.	1,785	235	145	4,947	566	436	15,733	35x	18,503	41x	23,472	52x
27 Blue Dart Express Ltd.	3,174	305	90	11,103	829	132	12,880	98x	15,148	115x	19,216	146x

2020 – Indian equity: Large cap vs. Midcap?



Sources – Bloomberg, ASKWA Research

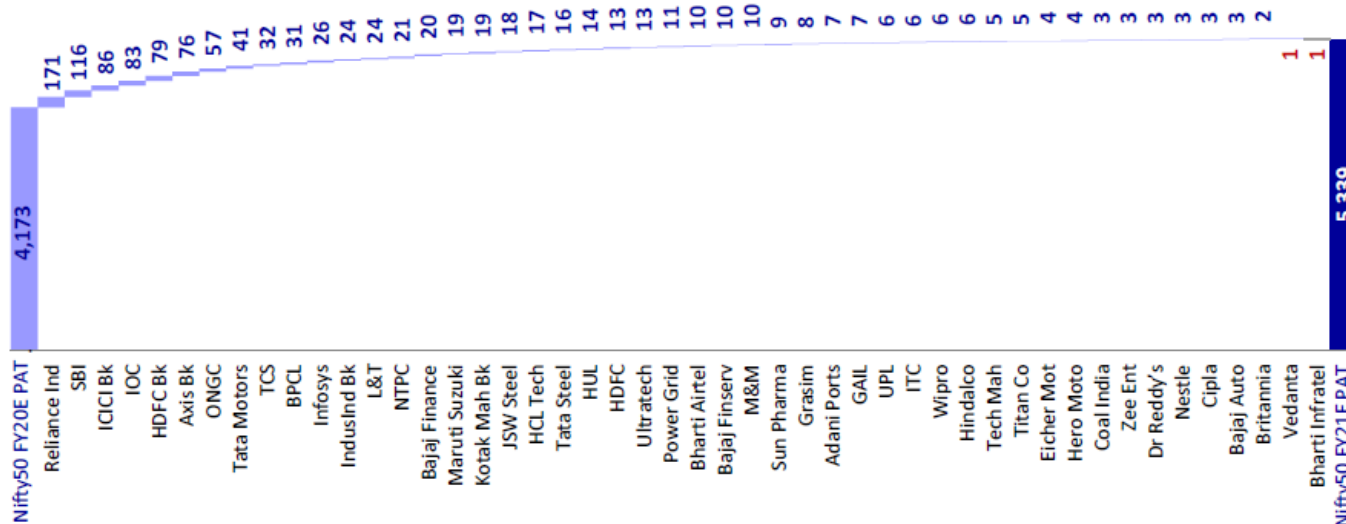
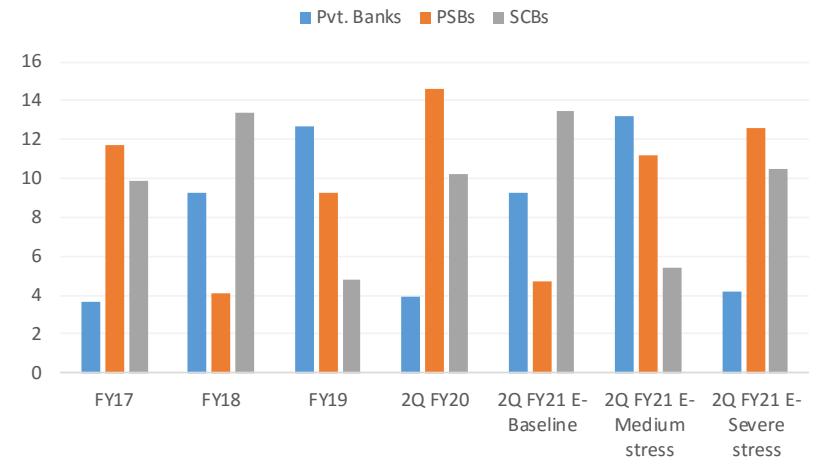
2020 – What might work?

Financials: A function of NPA recovery, growth uptick and easy rates

Incremental Nifty 50 profit entirely due to financials in FY20

	FY17	FY18	FY19	FY20E	FY21E
PAT (INR bn)					
Nifty 50	3,263	3,453	3,821	4,173	5,339
Financials	509	459	596	1,013	1,475
NIFTY ex-Fin	2,754	2,994	3,225	3,160	3,864
PAT (Increment) (INR bn)					
Nifty 50		190	368	352	1,166
Financials		-50	137	417	462
NIFTY ex-Fin		240	231	-65	704
PAT (YoY%)					
Nifty 50		5.8	10.7	9.2	27.9
Financials		-9.8	29.8	70.0	45.6
NIFTY ex-Fin		8.7	7.7	-2.0	22.3

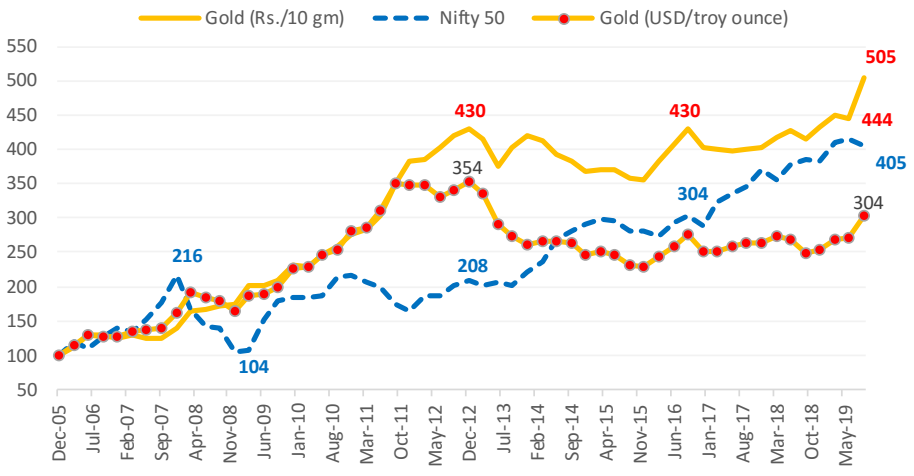
As per RBI, NPAs won't grow much even under stress case



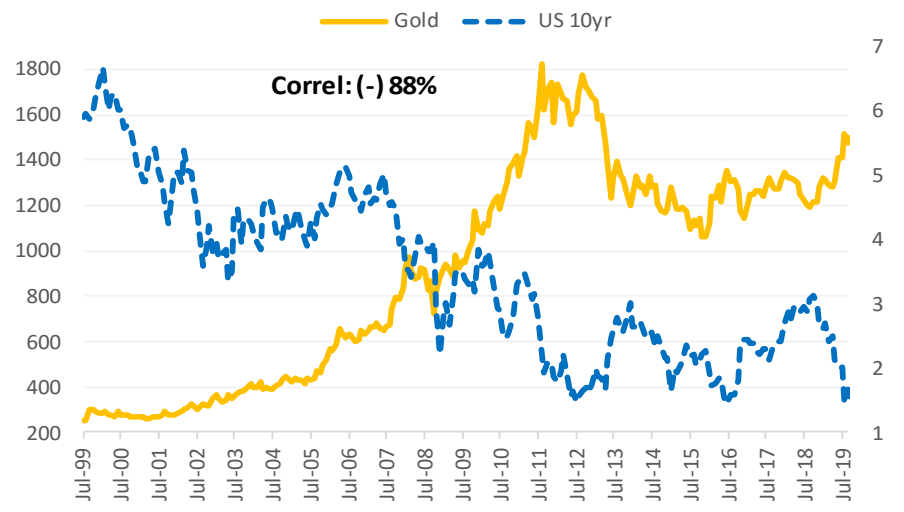
Dominance of financials in Nifty growth

2020: What might work- Gold As a hedge against uncertainty

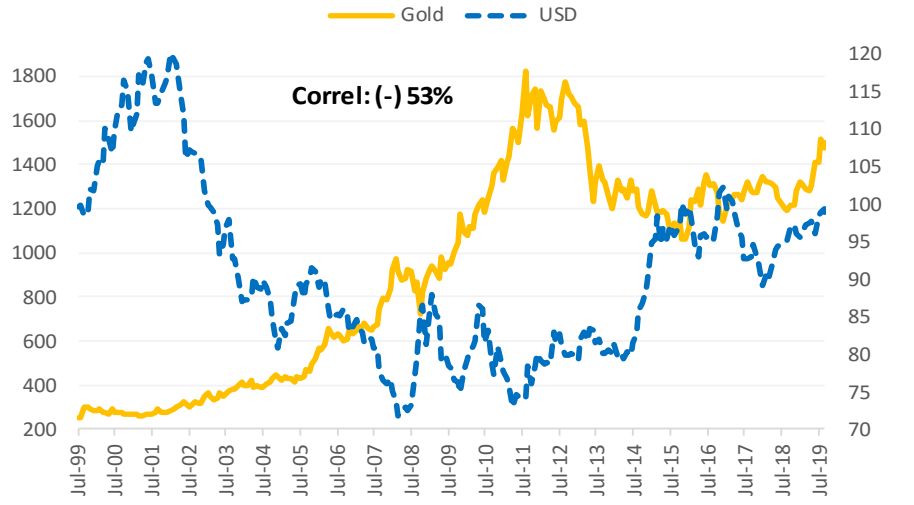
Gold cycles are long and contains a bet on INR



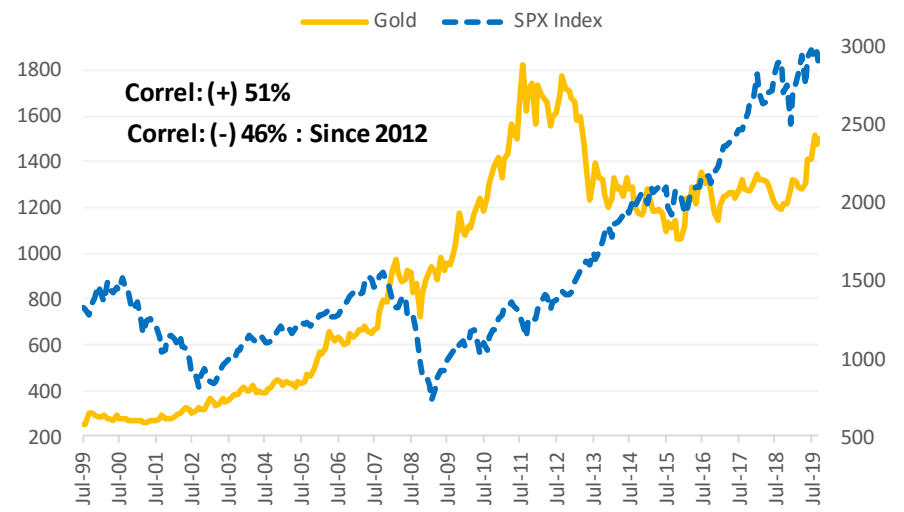
Gold go up when US 10-yr yield is low



Significant negative correlation with USD too



Gold and S&P altered relation



Sources – Bloomberg, CMIE, ASKWA Research

C. FIXED INCOME: Stay overweight

Fixed Income market:

- 1) There have been some concerns on the fiscal deficit front while concerns over health of NBFCs have stabilized somewhat resulting in some recent correction in credit spreads.
- 2) Term spreads however, stayed elevated on fiscal concerns and now on higher inflation print which by most reckoning is transient.
- 3) Better Rabi prospects, food import and base effect is expected to play out Feb-20 onwards. Meanwhile, accommodative monetary policy, reversal of stance of major Central banks and expected continued operation twist from RBI are moderating factors.

Given the balance of factors still favour a softening of yields towards the end of the year, we maintain our overweight stance on fixed income. The strategy should be geared towards benefiting from still attractive spreads of AAA in the 3-5 year maturity bucket, and locking in yields across highest rated instruments at the short end of the curve.

Absolute return:

With the major period of election related volatility behind us and increased tax incidence, **we remain underweight on Absolute returns strategies.**

Cash

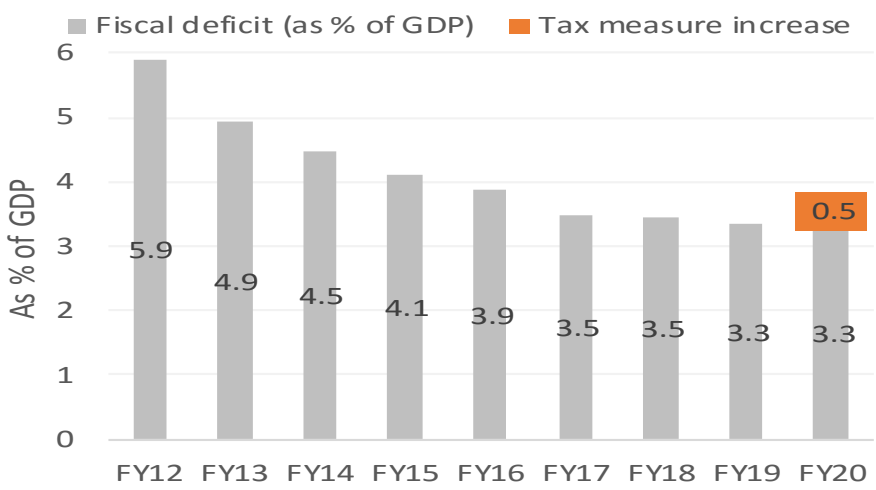
We stay underweight on cash as opportunities in other asset classes appear lucrative at the present juncture.

2020 – What may work? Bond

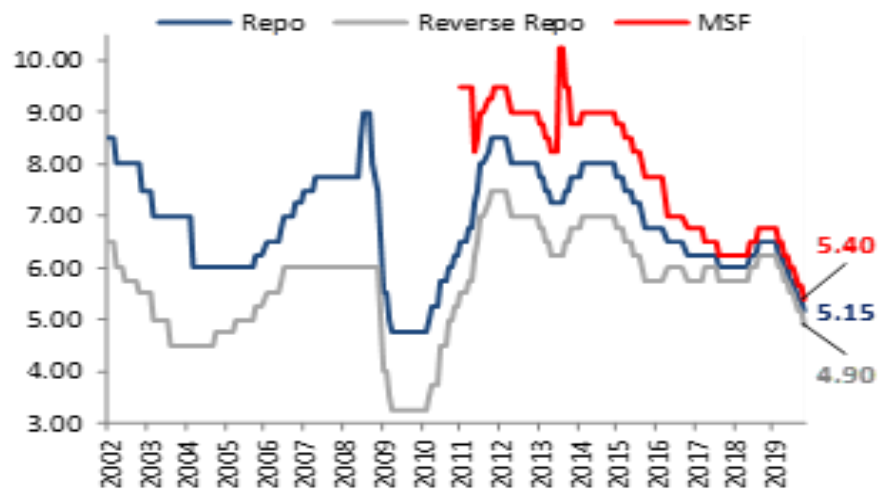
Fiscal and inflation concerns vs. rates, liquidity and operation twist



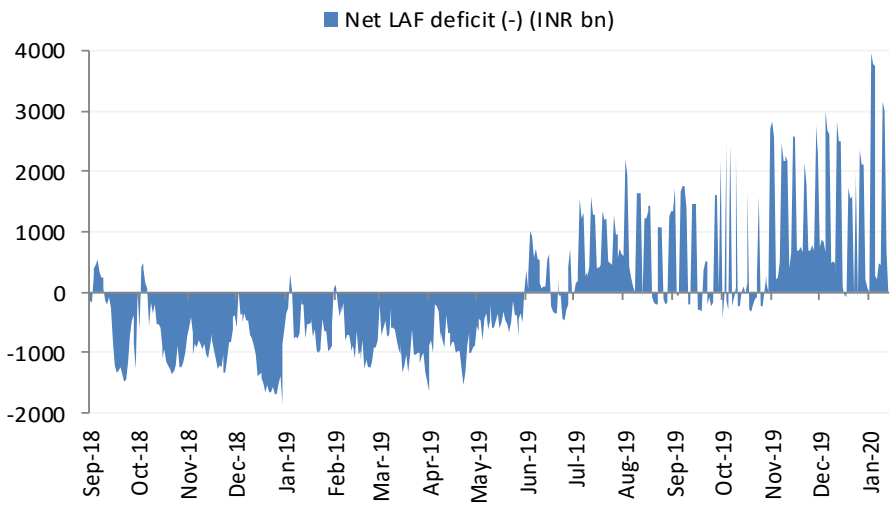
Fiscal risk broadly factored in



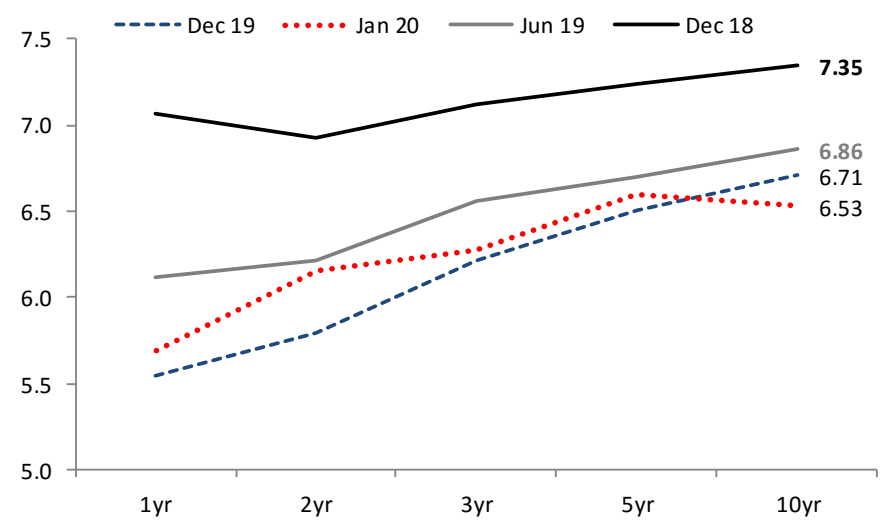
More rate cuts are in the offing as inflation cools off Feb-20



LAF kept well in surplus



Operation Twist is flattening yield curve



Sources – Bloomberg, RBI, CMIE, ASKWA Research

Asset Allocation and Current Model portfolio (Oct-Dec 2019)



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		TAA	Aggressive		Assertive		Balanced		Cautious		Conservative	
		Stance	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA
Equity		Overweight	65.0	70.0	55.0	60.0	42.5	47.5	30.0	35.0	20.0	25.0
Large-cap		Overweight	48.8	45.0	41.3	37.5	31.9	28.1	22.5	18.8	15.0	11.3
	ASK Global Strategies Fund		8	8	7	6	5	5	4	3	3	2
	Kotak Standard Multicap Fund(G)		8	8	7	6	5	5	4	3	3	2
	Mirae Asset Large Cap Fund		8	8	7	6	5	5	4	3	3	2
	ASK Equity PMS - Growth Portfolio		8	8	7	6	5	5	4	3	3	2
	Aventus Enhanced Return Fund		8	8	7	6	5	5	4	3	3	2
	Axis Focus 25		8	8	7	6	5	5	4	3	3	2
Mid/Small Cap		Neutral	16.3	15.0	13.8	12.5	10.6	9.4	7.5	6.3	5.0	3.8
	Invesco RISE Portfolio		8	8	7	6	5	5	4	3	3	2
	Axis Midcap Fund		8	8	7	6	5	5	4	3	3	2
Thematic		Overweight	0.0	5.0	0.0	5.0	0.0	5.0	0.0	5.0	0.0	5.0
	ASK FOP		0	5	0	5	0	5	0	5	0	5
Gold		Overweight	0	5	0	5	0	5	0	5	0	5
	HDFC Gold ETF		0	3	0	3	0	3	0	3	0	3
	Kotak Gold ETF		0	3	0	3	0	3	0	3	0	3
Fixed Income		Overweight	15.0	20.0	27.5	32.5	42.5	47.5	55.0	60.0	70.0	75.0
Long-term		Overweight	3.8	5.0	6.9	8.1	10.6	11.9	13.8	15.0	17.5	18.8
	IDFC Dynamic Bond Fund		4	5	7	8	11	12	14	15	18	19
Short-term		Neutral	7.5	10.0	13.8	16.3	21.3	23.8	27.5	30.0	35.0	37.5
	SBI Corporate Bond Fund		4	5	7	8	11	12	14	15	18	19
	IDFC Banking & PSU Debt Fund		4	5	7	8	11	12	14	15	18	19
High Yield		Neutral	3.8	5.0	6.9	8.1	10.6	11.9	13.8	15.0	17.5	18.8
	Basket of Perpetual Bond		4	5	7	8	11	12	14	15	18	19
Absolute return		Underweight	10.0	5.0	7.5	2.5	5.0	0.0	5.0	0.0	0.0	0.0
Equity		Underweight	5.0	2.5	3.8	1.3	2.5	0.0	2.5	0.0	0.0	0.0
	DSPEnhanced Equity Satcore (Monthly Return)		5	3	4	1	3	0	3	0	0	0
Debt		Underweight	5.0	2.5	3.8	1.3	2.5	0.0	2.5	0.0	0.0	0.0
	Edelweiss Arbitrage Fund-Reg(G)		5	3	4	1	3	0	3	0	0	0
Cash		Underweight	10.0	5.0	10.0	5.0	10.0	5.0	10.0	5.0	10.0	0.0
	ICICI Prudential Liquid Fund (G)		5	3	5	3	5	3	5	3	5	0
	HDFC Ultra Short Term Fund		5	3	5	3	5	3	5	3	5	0
Total			100	100	100	100	100	100	100	100	100	100

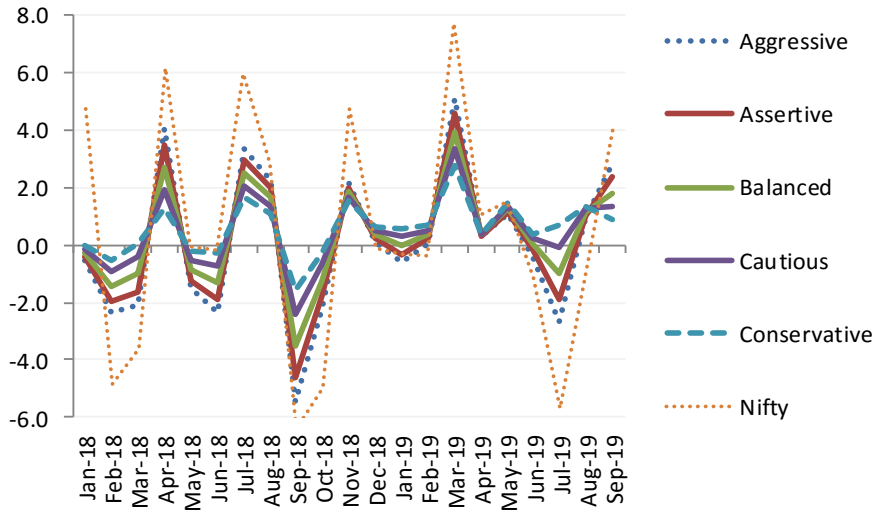
Sources – ACE-MF, ASKWA Research.

The Model Portfolios – Significant outperformance in 2019

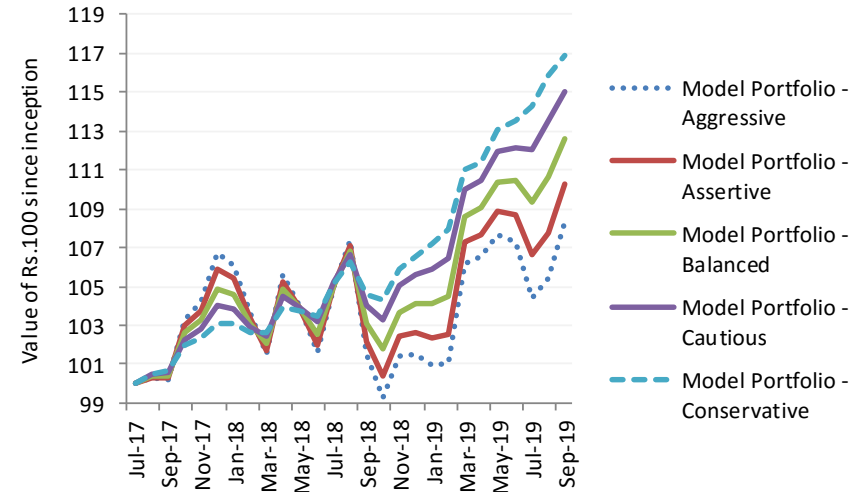
	CY 2018			FY 2018-19			CY 2019		
	SAA	TAA	MP	SAA	TAA	MP	SAA	TAA	MP
Aggressive	0.31	0.14	-4.70	7.92	7.79	4.62	8.16	8.49	11.62
Assertive	1.27	1.09	-2.88	7.80	7.67	5.41	8.58	8.90	11.97
Balanced	2.42	2.25	-0.62	7.62	7.49	6.36	9.05	9.38	12.30
Cautious	3.50	3.34	1.63	7.38	7.25	7.25	9.39	9.72	12.58
Conservative	4.42	4.25	3.45	7.24	7.12	8.05	9.86	10.18	12.98
	Oct-Dec 2019			Aug 17 to Dec-19					
	SAA	TAA	MP	SAA	TAA	MP			
Aggressive	4.34	4.60	4.58	14.61	14.71	13.31			
Assertive	3.98	4.24	4.25	15.23	15.33	14.95			
Balanced	3.54	3.80	3.82	15.91	16.01	16.90			
Cautious	3.08	3.33	3.36	16.40	16.51	18.85			
Conservative	2.75	2.99	3.02	16.93	17.03	20.43			

Model Portfolio: All portfolios outperformed in 2019; Debt oriented ones outperformed since Aug-2017

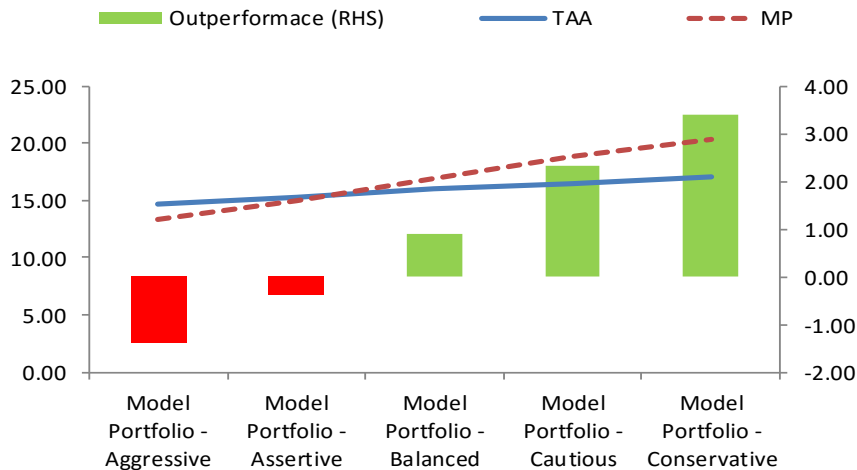
Model portfolios have fluctuated but much less than Nifty



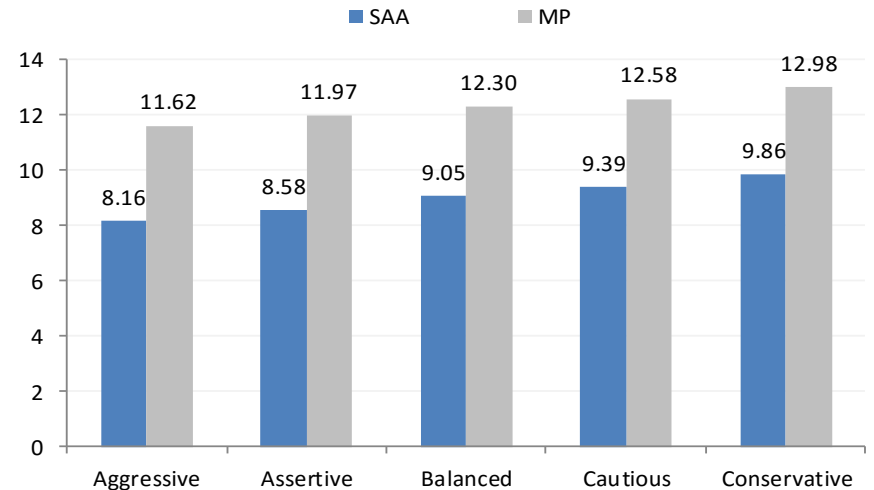
Performance recovered sharply in 2019



Debt oriented ones outperformed since Aug-17



All portfolios outperformed in 2019



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