IIFL FOCUSED EQUITY FUND

IIFL ASSET MANAGEMENT

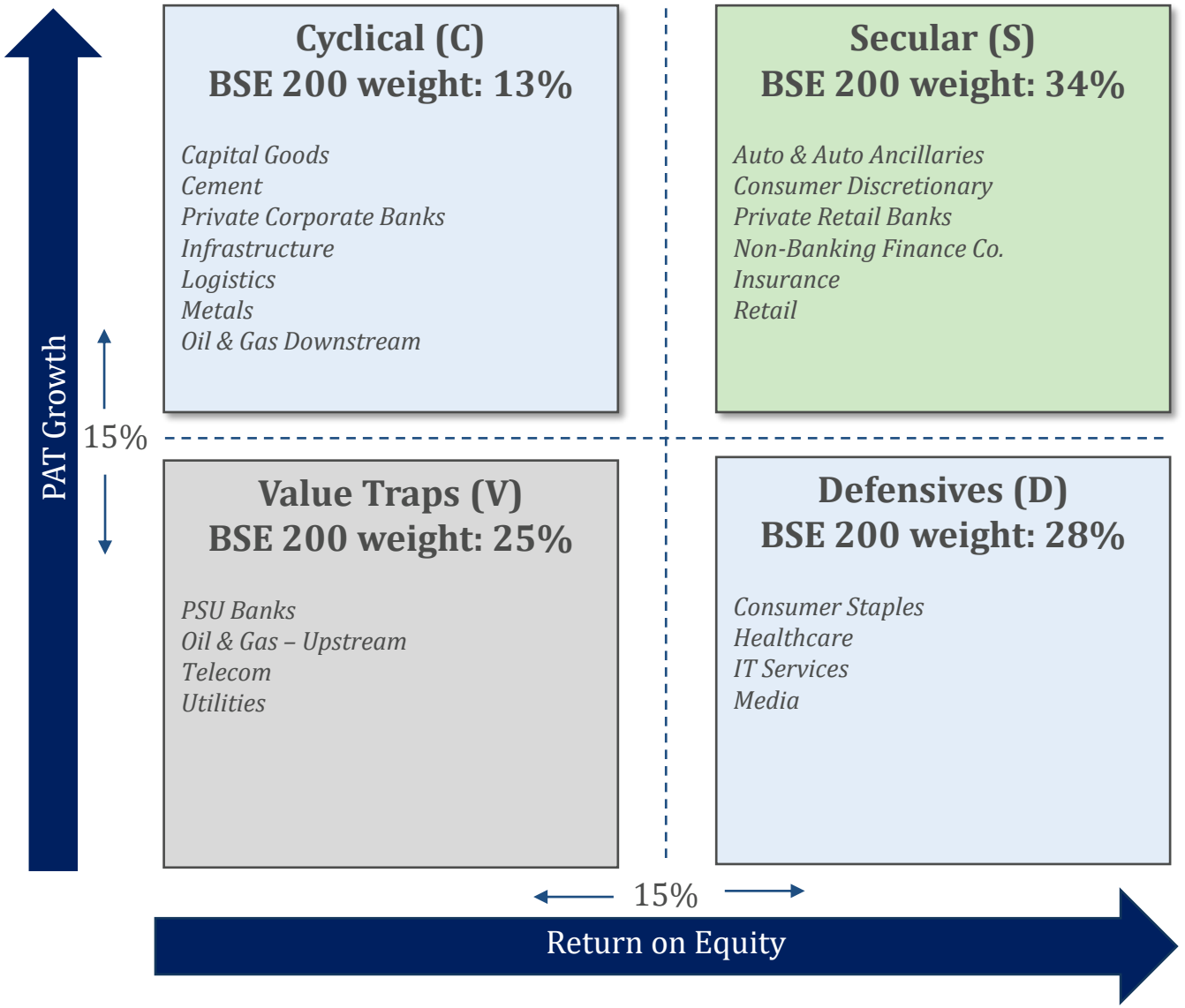
INVESTMENT PHILOSOPHY & FRAMEWORK

- Investment Philosophy
- Investment Framework
- Investment Process

INVESTMENT PHILOSOPHY

Industry or Sector Potential	• Growing companies scalable over time • Pricing power and benign competitive landscape • Avoid sectors vulnerable to regulation, high competitive intensity, technological changes and short growth cycles
Business	• Companies with competitive advantages, delivering higher ROEs than peers • Avoid companies with poor free cash flows and declining market share
Governance	• Managements with clear strategies on generating shareholder value over long term • Prudent capital allocation, in line with minority shareholder interest • Avoid companies with frequent equity dilutions, excess leverage and unrelated investments
Valuations	• Offering a favourable risk-reward ratio • Valuations not the sole investment criteria • Avoid value traps and short-term fads

INVESTMENT FRAMEWORK – 4 SEGMENTS



Core Portfolio

Tactical Allocation

Restrict Allocation

Data as on Aug 31, 2021

IIFL ASSET MANAGEMENT

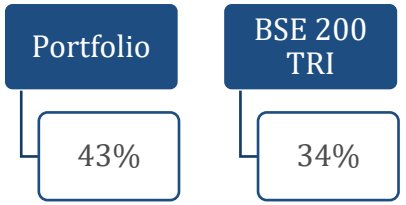
INVESTMENT FRAMEWORK – SECULAR

Core Portfolio

Secular (S)
BSE 200 weight: 34%

Auto & Auto Ancillaries
Consumer Discretionary
Private Retail Banks
Non-Banking Finance Co.
Insurance
Retail

- Companies which are consistently growing PAT by more than 15% and delivering ROE of more than 15% over long periods of time



Name of the Company	AMFI Sector	Weight
HDFC Bank Limited	Financial Services	6.6%
Axis Bank Limited	Financial Services	5.2%
SRF Limited	Chemicals	4.1%
Bajaj Finance Limited	Financial Services	4.0%
Larsen & Toubro Infotech Limited	IT	4.0%
Crompton Greaves Consumer Electricals Limited	Consumer Goods	3.8%
Cyient Limited	IT	3.0%
Apollo Tricoat Tubes Limited	Miscellaneous	2.9%
Dr. Reddy's Laboratories Limited	Pharma	2.3%
Sona BLW Precision Forgings Limited	Automobile	2.1%
Muthoot Finance Limited	Financial Services	1.9%
Kajaria Ceramics Limited	Consumer Goods	1.7%
Aavas Financiers Limited	Financial Services	1.6%

Stock Holding are based on portfolio as on Aug 31, 2021. Stock holdings and classification is subject to change. .

CASE STUDY (SECULAR)- LEADING CONSUMER ELECTRICALS COMPANY

Industry or Sector Potential	• Scale of industry- market size of USD 6.8bn which is likely to grow at 10-12% CAGR over next five years. It currently has around 10% market share • Market leader in fans and domestic pumps and No. 3 in lighting • Steady growth market with continuous shift from unorganised to organised sector • Work from home has added on to the demand of appliances
Business	• Strong historical brand and formidable distribution network • Strong cash flow and high ROE • Expansion in product offering providing higher growth visibility
Governance	• New promoters have brought in professional management • Improved governance standard and better disclosures • ESOP based compensation structure has aligned management goals with shareholder's interest
Valuations	• Strong cash flow generation • Net cash balance sheet • Relative valuation lower than peers despite best in class ROE

CASE STUDY (SECULAR)- TECH CONSULTING & DIGITAL SOLUTIONS COMPANY

Industry or Sector Potential	• Global IT spend is likely to be USD 1.3 tn in CY22. Digital services spend poised to grow to from USD 170 bn to USD 410 bn. NASSCOM Predicts 9-25% CAGR growth in software as-a-service market over CY18-22 • Digital is potentially a trillion dollar opportunity over the next ten years. The company is well positioned to capture market share in this opportunity
Business	• 6th largest Indian IT services company with revenue base of USD 1.5 bn • 52 clients from Fortune-500 companies and top-20 clients include 15 from Fortune-500. • Strong capability in BFSI vertical; Digital revenues at 44% of overall revenue
Governance	• Company is audited by top 4 auditors which ensures quality accounting practices and strong disclosures • Good capital allocation in form of 35%+ payout ratio takes care of minority interest
Valuations	• Strong cash flow generation • Net cash balance sheet with strong return ratios • Premium valuation compared to peers due to top quartile revenue growth and consistent performance on profitability

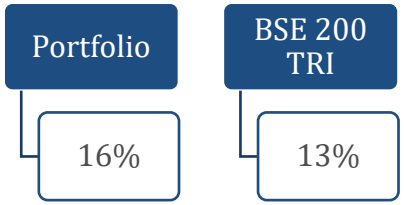
INVESTMENT FRAMEWORK – CYCLICAL

Tactical Allocation

Cyclical (C)
BSE 200 weight: 13%

Capital Goods
Cement
Private Corporate Banks
Infrastructure
Logistics
Metals
Oil & Gas Downstream

- Companies which tend to have high capital expenditure leading to higher sensitivity in ROE and PAT growth to economic cycles. ROE tend to be lower than 15% over long term but PAT undergoes cycles of high growth



Name of the Company	AMFI Sector	Weight
ICICI Bank Limited	Financial Services	9.3%
Larsen & Toubro Limited	Construction	4.6%
Tata Motors Limited	Automobile	1.7%

Stock Holding are based on portfolio as on Aug 31, 2021. Stock holdings and classification is subject to change. .

CASE STUDY (CYCLICAL) – LEADING PRIVATE SECTOR BANK

Industry or Sector Potential	• The sector has generally grown at 1-1.5x of nominal GDP • Retail credit is just ~28% of banking sector credit and at ~15% of GDP • Penetration of retail credit is one of the lowest in the world • Two-thirds of both loans and deposits market share is with less efficient state-owned players
Business	• The company has a strong liability franchise and one of the lowest cost of funds in the sector • The company has more than 50 mn customers and has the ability to cross-sell multiple lending and non-lending products to existing customers • Strong distribution network with 5000+ branches pan-India • Focus on core operating profit to be a key driver
Governance	• New MD & CEO has focused on improving lending and governance standards at the bank • Prudent capital allocation by increasing the granularity of the portfolio and lending to better rated corporates • The new management has also focused on early recognition of stressed assets and upfronting provisions
Valuations	• The bank offers favourable risk-reward ratio as its core bank is trading at reasonable valuation • We believe that the bank has improved its quality of balance sheet and it will be reflected in the valuation going ahead

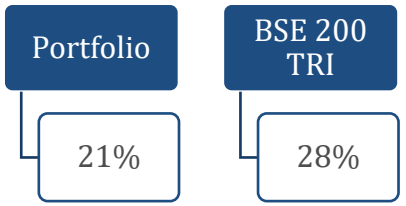
INVESTMENT FRAMEWORK – DEFENSIVE

Tactical Allocation

Defensives (D)
BSE 200 weight: 28%

Consumer Staples
Healthcare
IT Services
Media

- Companies which have been delivering ROE of more than 15% but PAT growth of less than 15% over long term. These are less vulnerable to economic cycle and provide good cushion during volatile times



Name of the Company	AMFI Sector	Weight
Infosys Limited	IT	7.3%
Divi's Laboratories Limited	Pharma	3.2%
Bharat Petroleum Corporation Limited	Oil & Gas	3.1%
CCL Products (India) Limited	Consumer Goods	2.1%
Mahanagar Gas Limited	Oil & Gas	1.8%
Asian Paints Limited	Consumer Goods	1.6%
Procter & Gamble Health Limited	Pharma	1.0%
ICICI Lombard General Insurance Company Limited	Financial Services	0.8%

Stock Holding are based on portfolio as on Aug 31, 2021. Stock holdings and classification is subject to change. .

CASE STUDY (DEFENSIVE) –PVT SECTOR GEN INSURANCE COMPANY

Industry or Sector Potential	• Industry penetration is at 1% of GDP and has significant headroom for growth ahead • Over 50% of India's population does not have any health insurance cover • ~70% of vehicles in India are uninsured • ~43% of market share is with less efficient state-owned players as on FY21
Business	• The company has delivered 20%+ ROE from FY17-21 • Strong multi-channel distribution network • Superior underwriting capabilities across products
Governance	• One of the best management teams in the sector • The company focuses on prudent capital allocation, in line with minority shareholder interest • High quality investment book
Valuations	• High solvency relative to regulatory requirement to help secular growth for multiple years ahead • We expect the company to deliver consistently once the impact of Covid-19 normalises

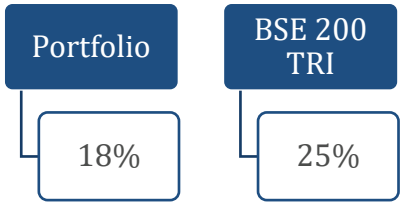
INVESTMENT FRAMEWORK – VALUE TRAP

Restrict Allocation

Value Traps (V)
BSE 200 weight: 25%

PSU Banks
Oil & Gas – Upstream
Telecom
Utilities

- Companies which have struggled to generate 15% PAT growth and 15% ROE over the long term period
- We maintain an underweight stance here
- We tend to take limited exposure in case we see changing regulations/management/competitive landscape which may result in non-linear value creation in these companies and thereby lead to a potential upgrade to other quadrants



Name of the Company	AMFI Sector	Weight
Bharti Airtel Limited	Telecom	4.1%
State Bank of India	Financial Services	3.8%
Zomato Limited	Consumer Services	3.7%
Mahindra & Mahindra Limited	Automobile	3.0%
Tata Communications Limited	Telecom	1.8%
EPL Limited	Industrial Manufacturing	1.1%

Stock Holding are based on portfolio as on Aug 31, 2021. Stock holdings and classification is subject to change. .

CASE STUDY (VALUE TRAP) – LEADING TELECOM COMPANY

Industry or Sector Potential	• Favorable Industry structure as sector has consolidated from 8 player market to 3 player market • Top 2 players favorably placed and expected to reap benefits of controlling ~75% revenue market share and ~100% share of the industry's profit pool.
Business	• The company ranks amongst the top three mobile operators globally • Its portfolio includes high speed 4G/4.5G mobile broadband, Xstream Fiber that promises speeds upto 1Gbps • Presence in digital TV solutions & digital payments aimed at building a digital services ecosystem
Governance	• Best in class Corporate Governance • CRISIL has assigned 'CRISIL GVC Level-1' rating • Highly competent and effective board • Ranked 4th in the category of "The Top 10 Most Valuable Indian Brands 2019
Valuations	• Strong cash flow generation • RoE should improve to 15% in FY23 from 8% in FY22 due to tariff hike and reducing capex intensity • 18% EBITDA CAGR FY20 – FY25 highest since FY12 • Current FCF yield of 6.5%. Globally mature telcos trade at 4% FCF yield

INVESTMENT PROCESS

Internal Analysis

- Weekly all-day sessions
- Financial analysis/screening
- Checklists
- Meeting notes
- Risk-reward framework
- Corporate governance checks
- Stock pitch & detailed note
- ESG checklist

+

External Analysis

- Conferences & analyst meets
- Investor presentations
- Management interaction
- Primary visits across supply chain
- Interactions with industry experts & peers

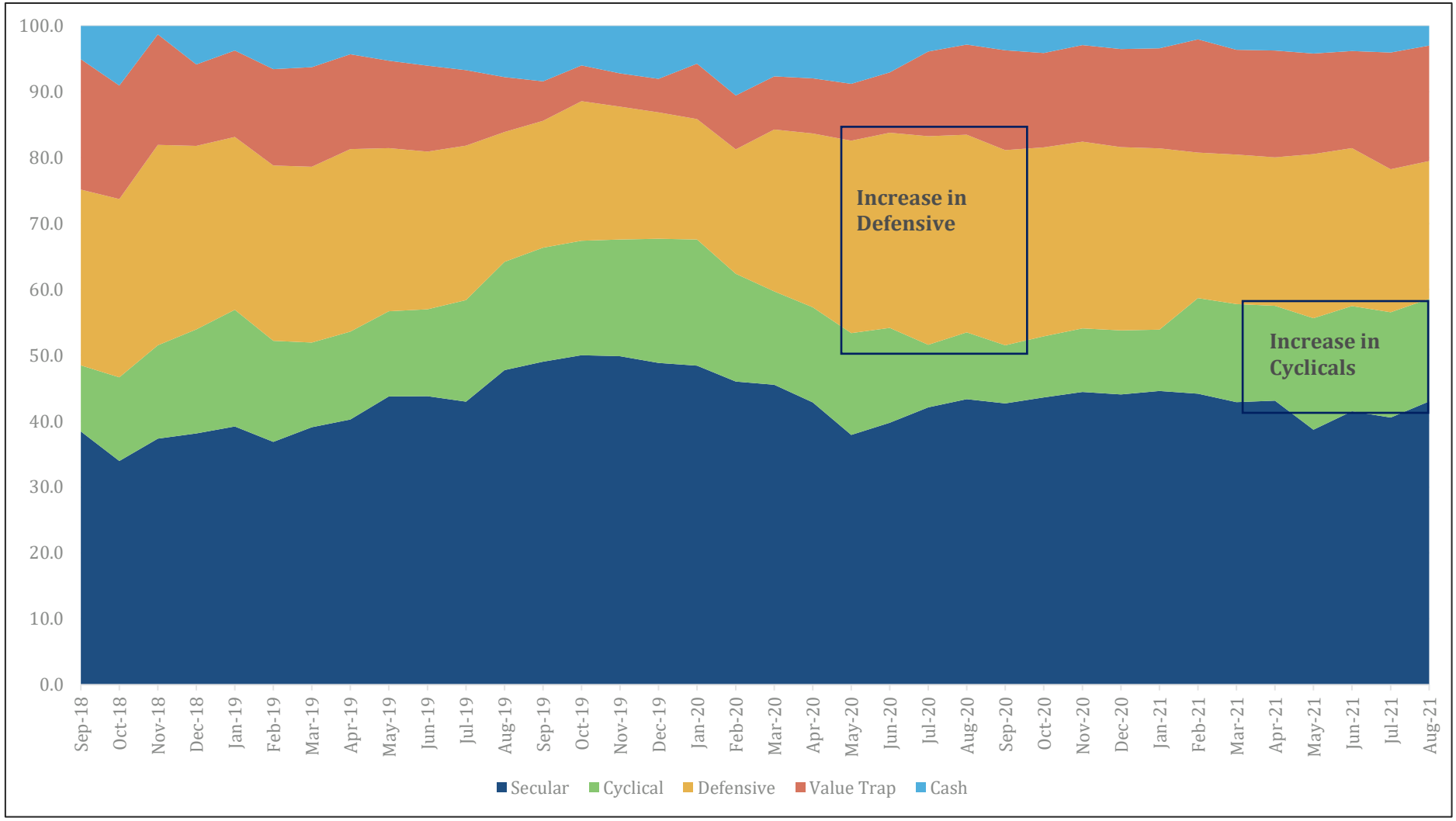
Every stock in the coverage universe is ranked using one of 5 recommendations

1	2	3	4	5
Strong buy	Buy	Hold	Sell	Strong sell

Model portfolio

Above information on stock process is for all equity related strategies of IIFL AMC

SCDV ALLOCATION THROUGH TIME



Data as on Aug 31, 2021. SCDV breakup is based on 10-year PAT growth and ROE for portfolio companies.

IIFL ASSET MANAGEMENT

FUND FACTS

- Why Invest
- Portfolio Quants
- Top 10 Holdings
- Performance
- Current Positioning
- Scheme Details

WHY INVEST IN IIFL FOCUSED EQUITY FUND

Focused but appropriately diversified	• Maximum 30 stocks across market capitalization and sector
Flexible in nature	• Invests across market caps having a no cap bias
Dynamic in allocation	• While core allocation (secular) is intact, tactical allocation between cyclical and defensive is done based on macroeconomic scenario and our outlook

IIFL FOCUSED EQUITY FUND – PORTFOLIO QUANTS

Sector Allocation

Sector	Portfolio	Benchmark
Financial Services	33%	32%
IT	14%	14%
Consumer Goods	9%	12%
Automobile	7%	5%
Pharma	7%	5%
Telecom	6%	2%
Oil & Gas	5%	10%
Construction	5%	3%
Chemicals	4%	1%
Consumer Services	4%	2%
Miscellaneous	3%	0%
Industrial Manufacturing	1%	2%
Others*	0%	13%
Cash & Cash Equivalent	3%	0%
Total	100%	100%

Segment Breakup

Segments	Portfolio	Benchmark
Secular	43%	34%
Cyclical	16%	13%
Defensives	21%	28%
Value Trap	18%	25%

Market Capitalization

Market cap	Portfolio	Benchmark
Large cap	70%	87%
Mid cap	15%	13%
Small cap	12%	0%
Cash	3%	0%

Source: IIFL Asset Management Limited, Internal, Data as of Aug 31, 2021. *includes Fertilizers & Pesticides, Media & Entertainment, Cement and Cement Products, Power, Metals, Services, Chemicals, Healthcare Services and Textiles.
Weightages are rounded off to the nearest integer. Actual weights may vary slightly. Benchmark is S&P BSE 200 TR Index

TOP TEN HOLDINGS

Company	Weight (%)	Allocation under the SCDV framework
ICICI Bank Limited	9.28%	Cyclical
Infosys Limited	7.34%	Defensive
HDFC Bank Limited	6.58%	Secular
Axis Bank Limited	5.15%	Secular
Larsen & Toubro Limited	4.60%	Cyclical
Bharti Airtel Limited	4.13%	Value Trap
SRF Limited	4.05%	Secular
Bajaj Finance Limited	3.96%	Secular
Larsen & Toubro Infotech Limited	3.95%	Secular
State Bank of India	3.84%	Value Trap

Source: IIFL Asset Management Limited, Internal, Data as of Aug 31, 2021.

PERFORMANCE DISCLOSURE

Performance (in ₹) for IIFL Focused Equity Fund

Scheme/Benchmark	31-Aug-20 to 31-Aug-21	PTP (INR)	31-Aug-18 to 31-Aug-21	PTP (INR)	31-Aug-16 to 31-Aug-21	PTP (INR)	Since Inception	PTP (INR)
IIFL Focused Equity Fund - Reg - Growth	61.73%	16173	21.08%	17753	17.95%	22831	16.99%	29251
IIFL Focused Equity Fund - Dir - Growth	63.57%	16357	22.74%	18489	19.55%	24418	18.47%	31885
Benchmark*	55.45%	15545	14.96%	15193	15.82%	20844	13.77%	24175
Additional Benchmark**	50.55%	15055	15.49%	15406	16.48%	21442	12.90%	22940

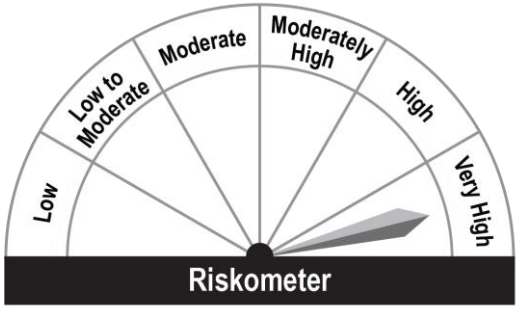
Past performance may or may not be sustained in future. Different plans shall have different expense structure. As on Aug 31, 2021; Point to Point (PTP) returns are based on standard investment of Rs.10,000; Since Inception date is Oct 30, 2014; *S&P BSE 200 TRI; **S&P BSE Sensex TRI; The performance of the scheme is benchmarked to the Total Return variant of the Index

THIS PRODUCT IS SUITABLE FOR INVESTORS WHO ARE SEEKING*

- Capital appreciation over long term
- Investment predominantly in equity and equity related instruments

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them

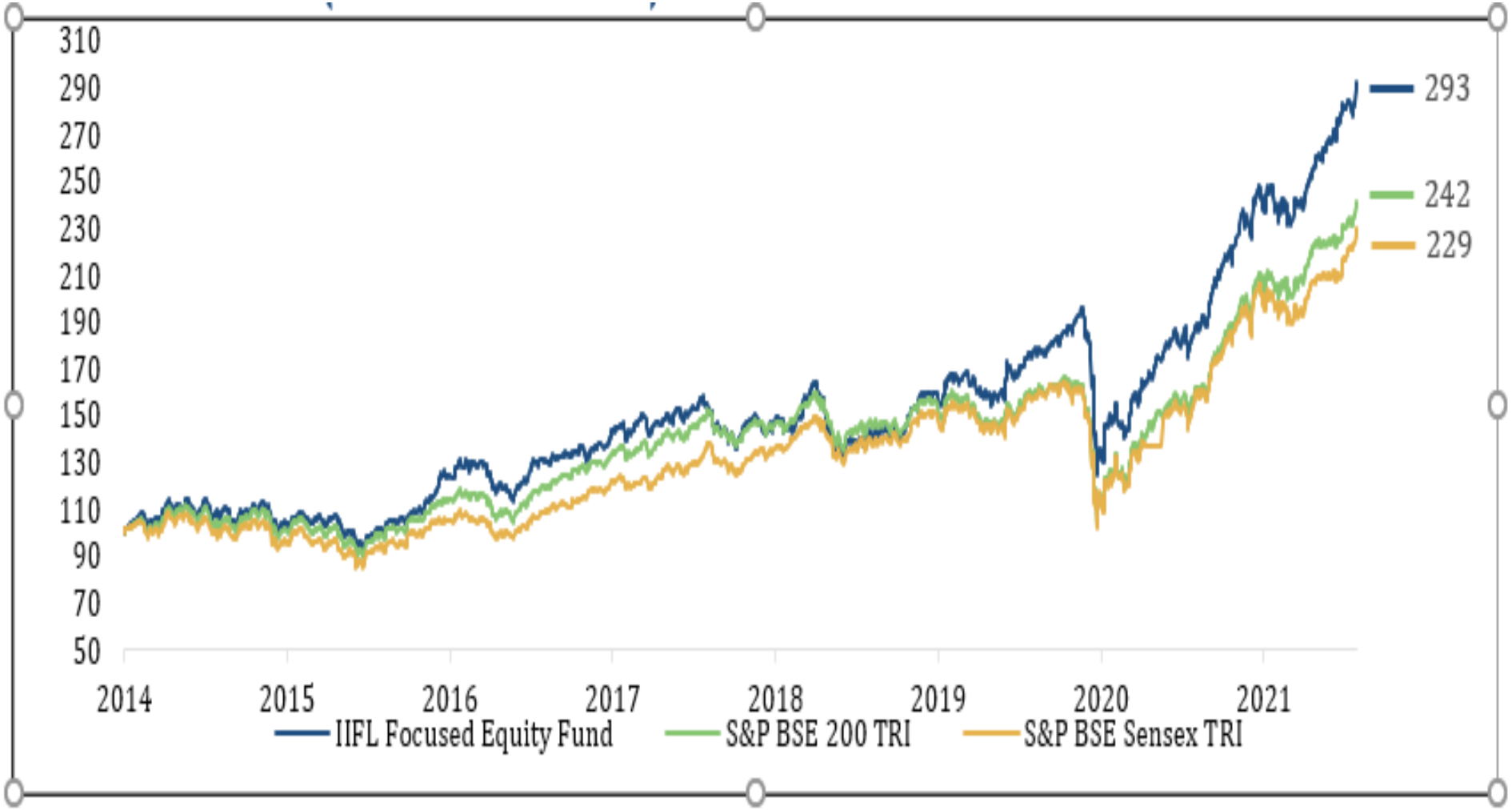
Performance and other details of the Scheme is provided for information purpose only and shall not be considered as a solicitation for making investments into the Scheme



Investors understand that their principal will be at Very High Risk

IIFL FOCUSED EQUITY FUND

NAV movement since inception (rebased to ₹100)



Past Performance may or may not be sustained in future.

Source: Internal, Bloomberg. Data as of Aug 31, 2021. Inception date of the fund is Oct 30, 2014, Benchmark: S&P BSE 200 TRI and Additional benchmark: S&P BSE Sensex TRI

CURRENT PORTFOLIO POSITIONING

Core allocation

- Always overweight the secular quadrant
- Underweight the value traps quadrant

Tactical allocation

- Overweight cyclicals
- Underweight defensives given our positive view on the economic recovery

Sectoral bent

- We see interesting opportunities in Private Sector Financials, Consumer Discretionary and Industrials to play the domestic economic recovery
- Even defensive sectors like Indian Healthcare and Indian IT services would continue to perform irrespective of the reopening of the economy. Indian healthcare is benefitting due to China +1 phenomenon. Indian IT services sector is set to witness a robust growth cycle owing to acceleration of digital transformation spending by global clients, quick adoption of work from home, and increased off-shoring

SCHEME DETAILS

Scheme Name	**IIFL Focused Equity Fund** **(An open-ended equity scheme investing in maximum 30 multicap stocks)**
Investment Objective	The investment objective of the scheme is to generate long term capital appreciation for investors from a portfolio of equity and equity related securities. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved
Category	Focused Fund
Fund Manager	Mr. Mayur Patel
Inception Date	30th October 2014
AUM	Rs. 2,287.34 crore (as of Aug 31, 2021)

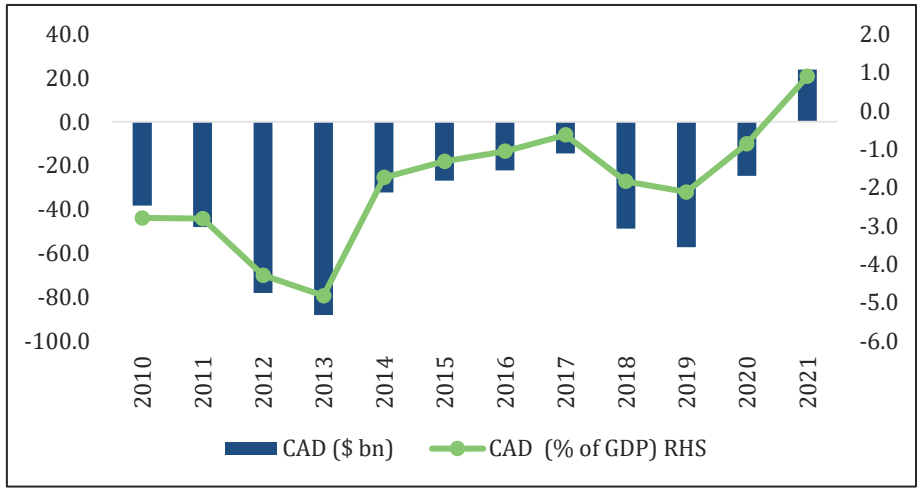
IIFL ASSET MANAGEMENT

INDIA OPPORTUNITY

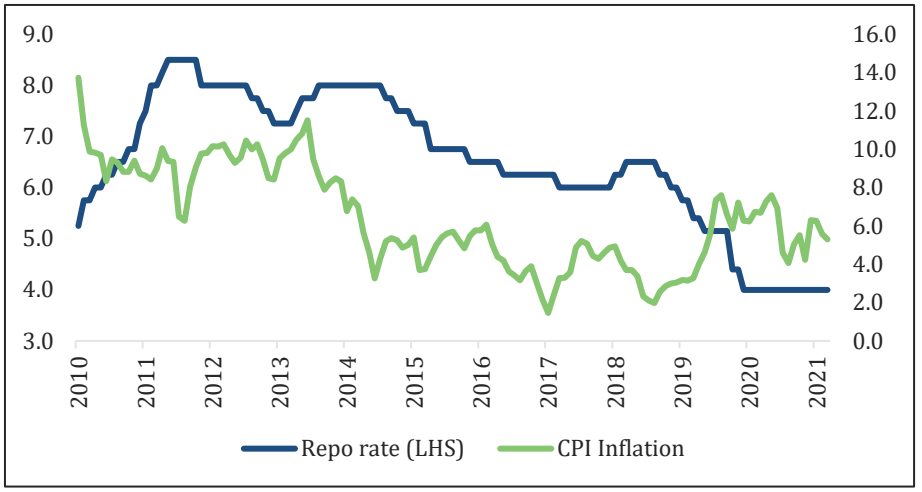
- Why India Now?
- India's Demand & Earnings Recovery
- Corporate Profits to GDP
- Current Valuations

WHY INDIA NOW?

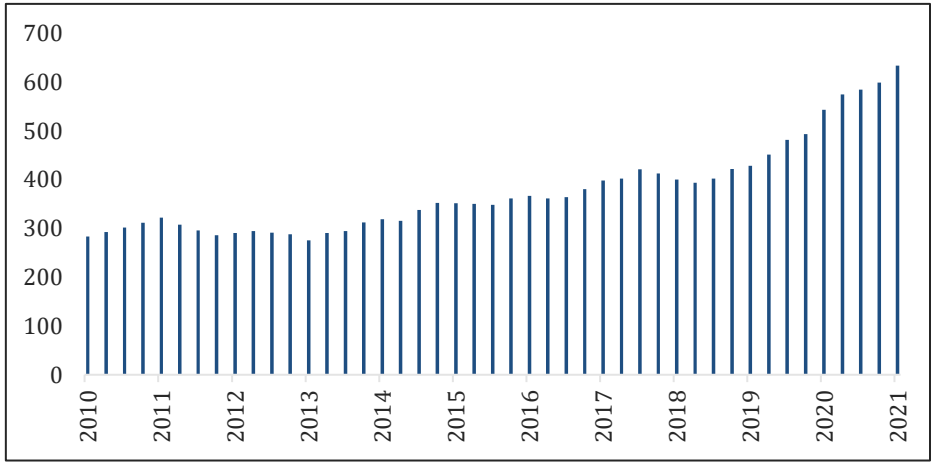
Current Account Deficit (CAD) as % of GDP



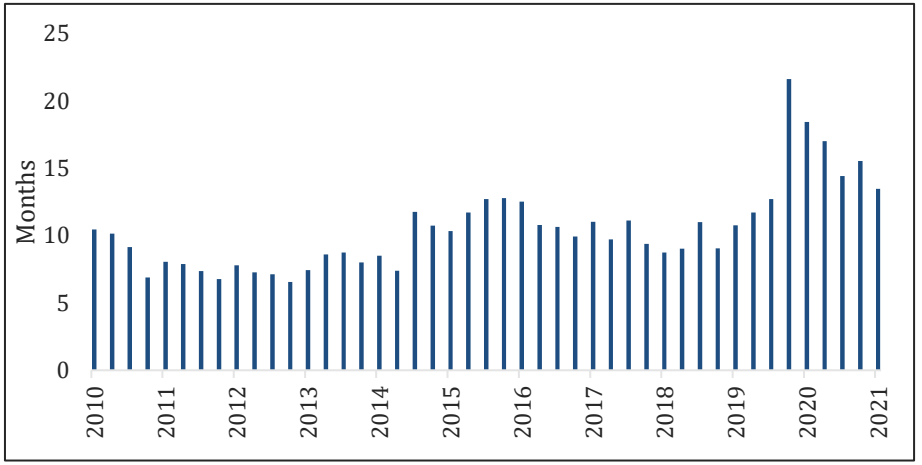
Inflation



Forex Reserves ($ bn)



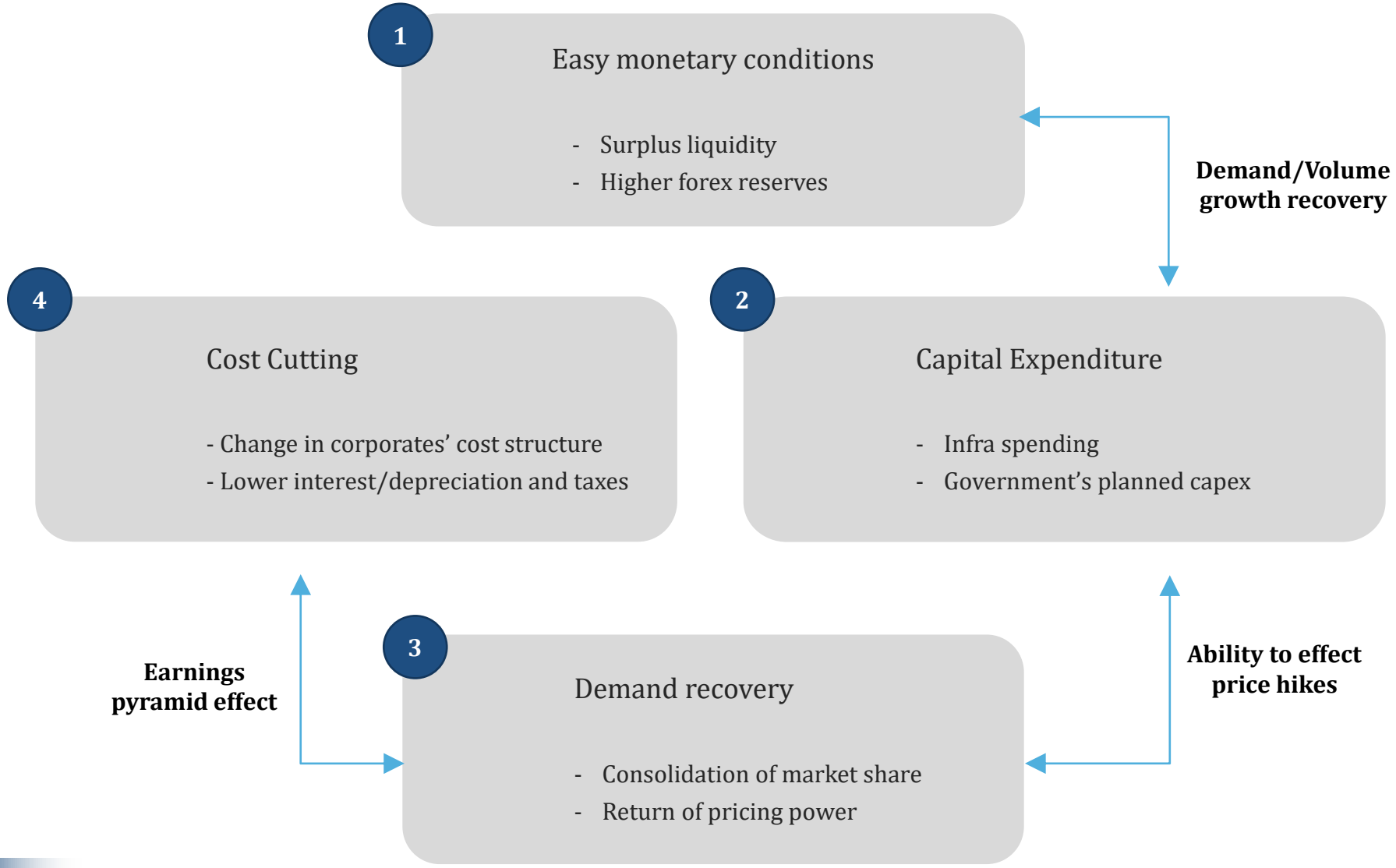
Import Cover in months



Source: Bloomberg,, RBI, Spark Capital, CEIC, MOFSL, Internal. Import cover has been shown at quarterly frequency starting Aug 2010. For CAD, the fiscal year is taken i.e. 2010 is FY10 and so on. Data as on Aug 31, 2021

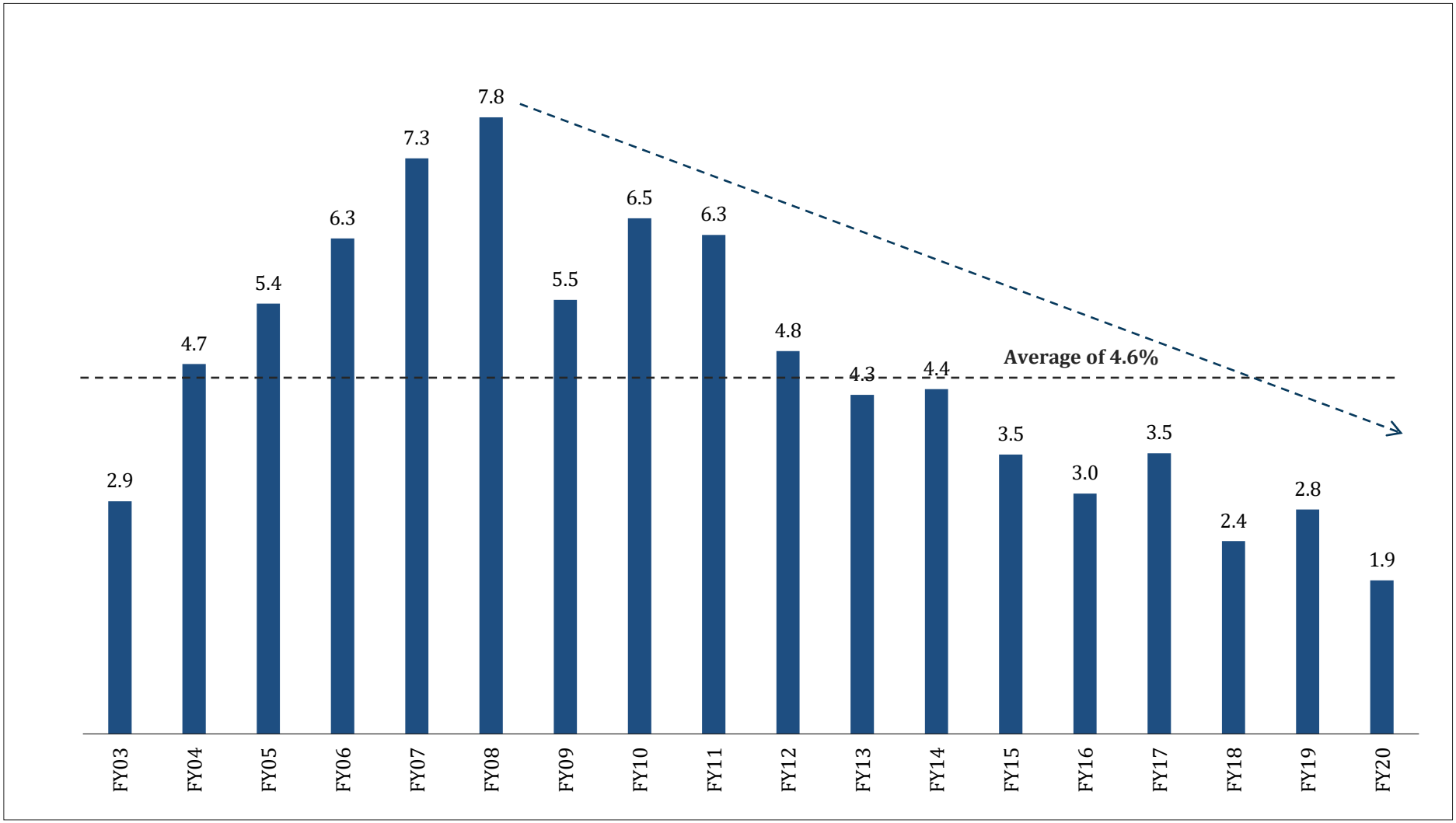
INDIA'S DEMAND AND EARNINGS RECOVERY

Drivers for earnings growth and upgrades



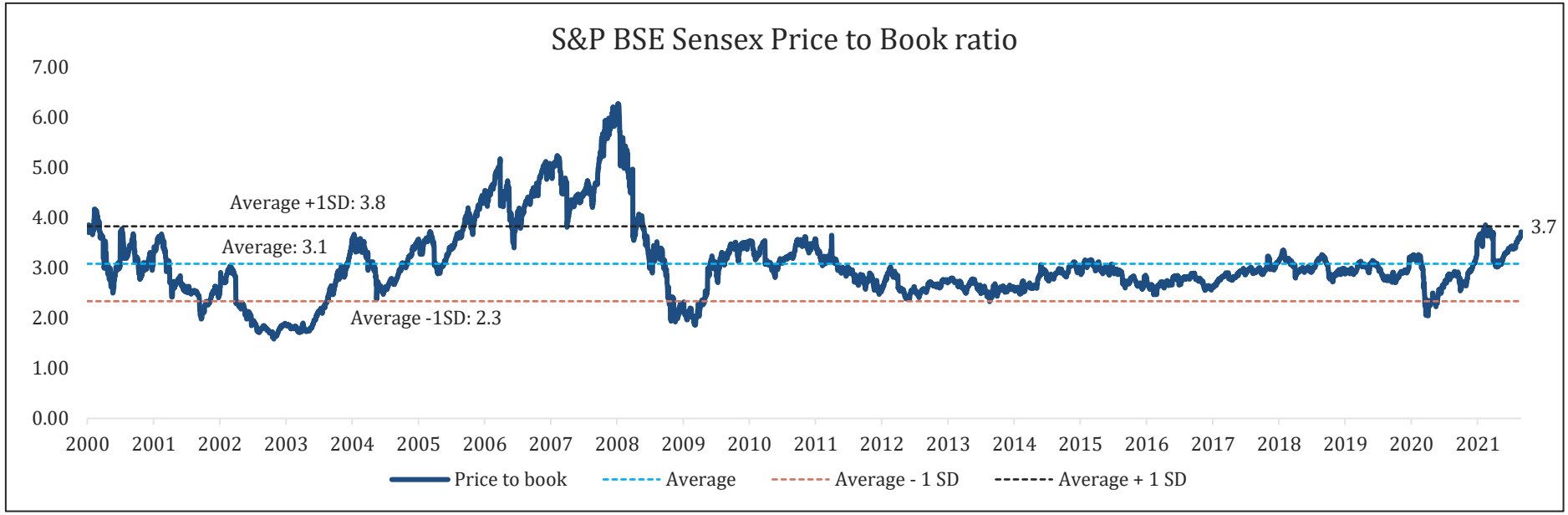
Source: Spark Capital, Internal

CORPORATE PROFITS VS GDP



Source: Motilal Oswal. Note: Corporate Profit compiled from capitaline for available listed + unlisted companies. Data for fiscal year ending Mar 31, of each year

CURRENT VALUATIONS



P/B range	5 year returns*	Time spent (%)
Less than 2	40%	5%
Between 2 & 3	13%	51%
Between 3 & 4	10%	33% ← *Currently, Sensex P/B in this range*
Above 4	4%	11%

Source: Bloomberg. *Median 5-year CAGR. Data from Jan 2, 2000 to Aug 31, 2021

DISCLAIMER

The above commentary/opinions/in house views/strategy incorporated herein is provided solely to enhance the transparency about the investment strategy / theme of the Scheme and should not be treated as endorsement of the views / opinions or as an investment advice. The above commentary should not be construed as a research report or a recommendation to buy or sell any security. The information / data herein alone is not enough and shouldn't be used for the development or implementation of an investment strategy. The above commentary has been prepared based on information, which is already available in publicly accessible media or developed through analysis of IIFL Mutual Fund. The information/ views / opinions provided is for informative purpose only and may have ceased to be current by the time it may reach the recipient, which should be considered before interpreting this commentary. The recipient should note and understand that the information provided above may not contain all the material aspects relevant for making an investment decision and the stocks may or may not continue to form part of the scheme's portfolio in future. The decision of the Investment Manager may not always be profitable as such decisions are based on the prevailing market conditions and the understanding of the Investment Manager. Actual market movements may vary from the anticipated trends. The statements made herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alterations to this statement as may be required from time to time. Neither IIFL Mutual Fund / IIFL Asset Management Ltd, its associates, directors or representatives shall be liable for any damages whether direct or indirect, incidental, punitive special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Mutual fund investments are subject to market risks, read all scheme related documents carefully.

THANK YOU

IIFL ASSET MANAGEMENT