

Equity Investment Philosophy & Process



Investment Philosophy



Bottom-Up Stock Picking



We believe in
Bottom-up stock
picking

Long Term Orientation



We believe stock
prices track
business value over
Long Term

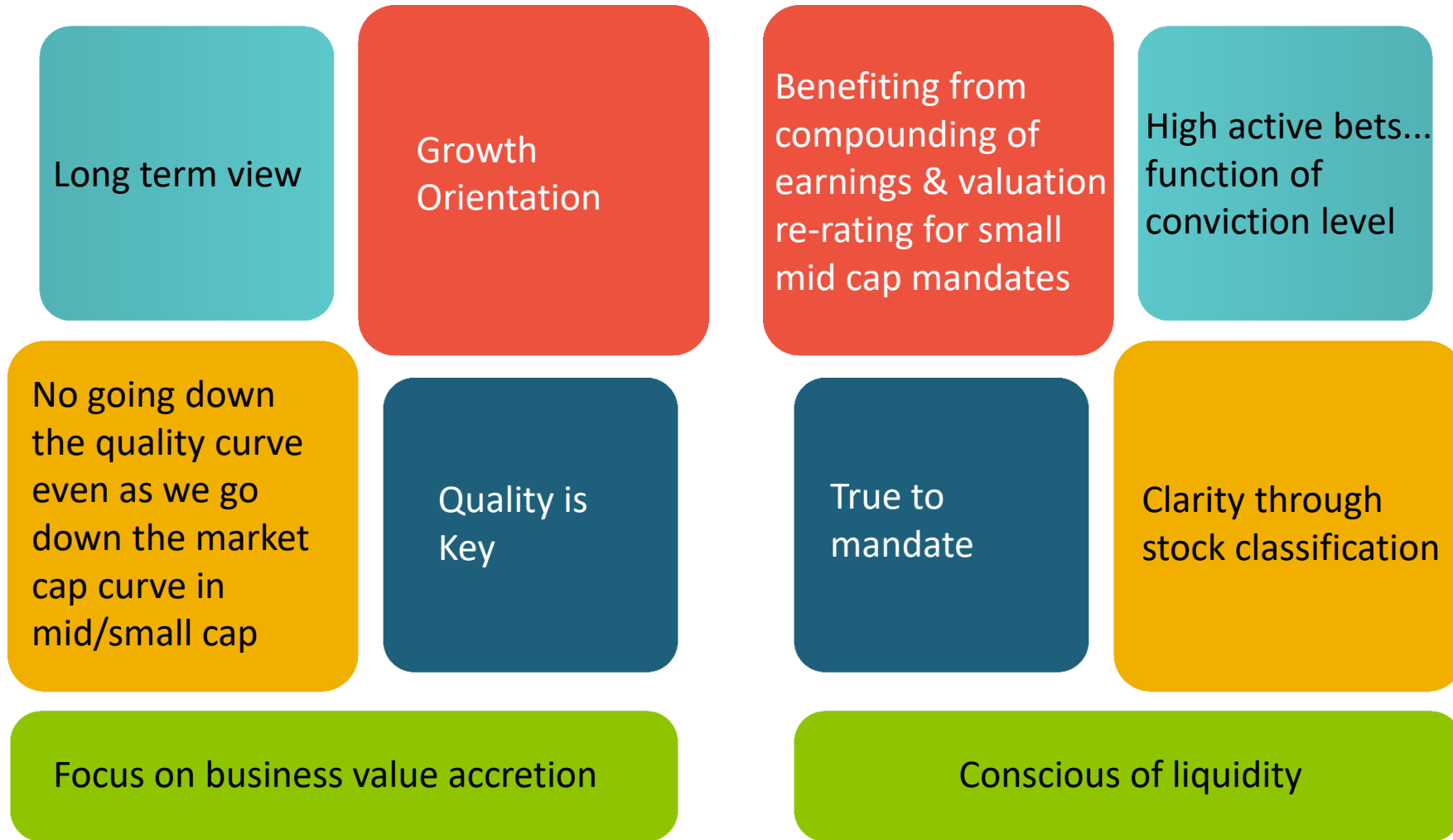
Growth + Quality



Identify superior growth,
compounded over long
period of time, within an
appropriate valuation
framework



Salient Features of our investment style

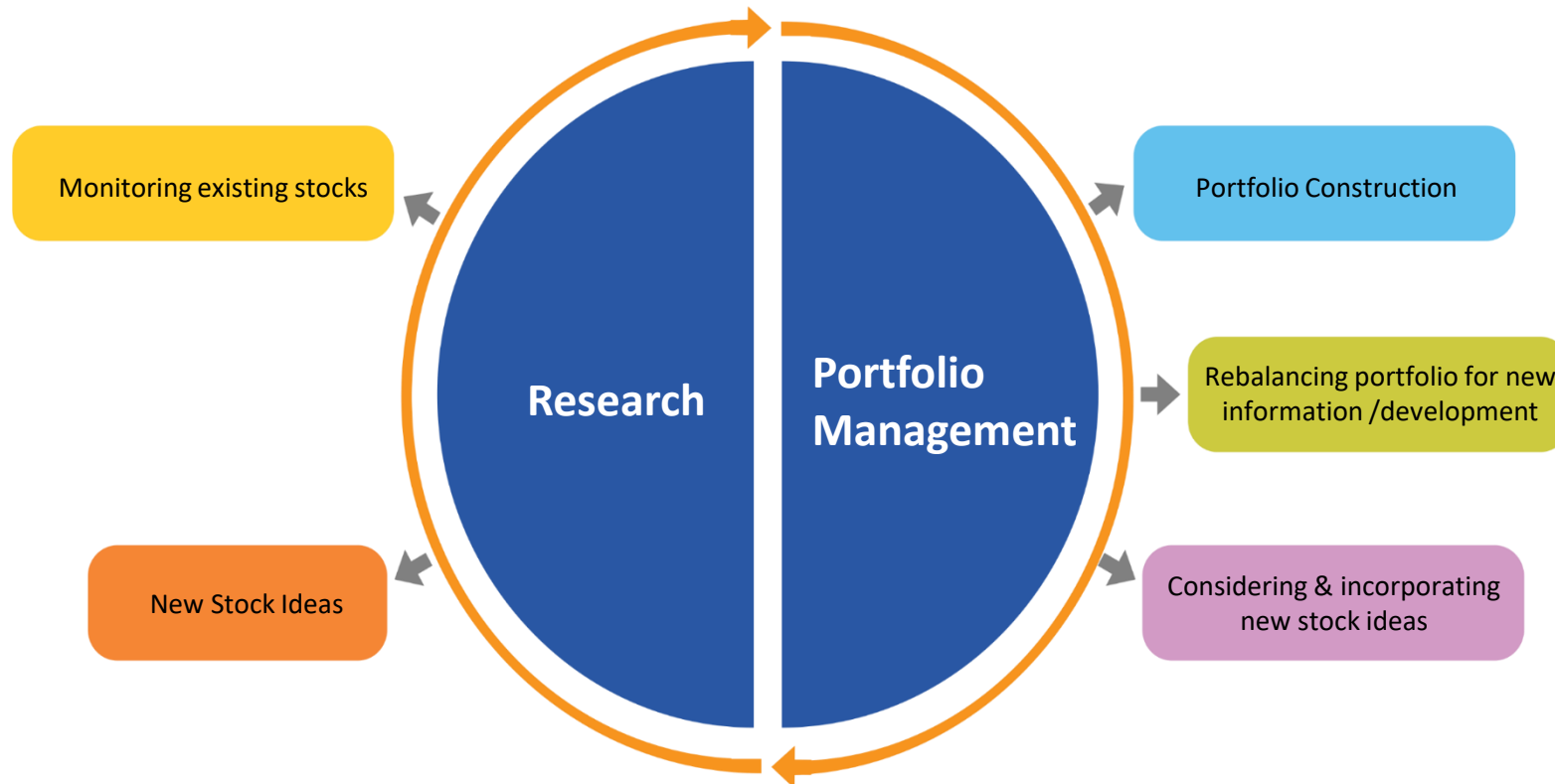




Investment Process: Fundamental, Bottom-up, Focused

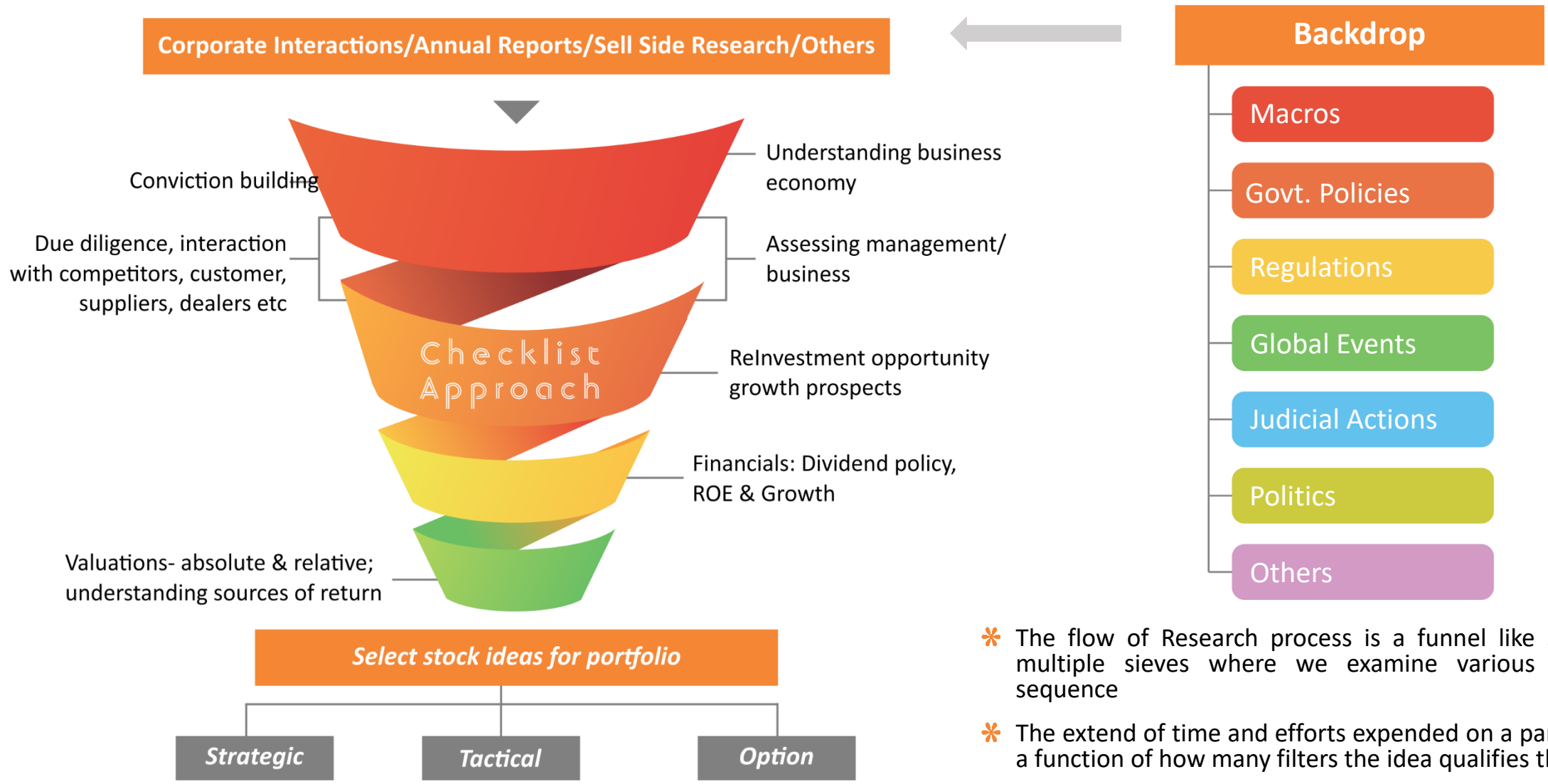


- * The Investment Process is divided into two parts.
 - * Stock Research Process: It includes New Stock Selection and Monitoring the existing stocks
 - * Portfolio Management: Based on research portfolio is constructed, rebalanced





Investment Process > Research Process



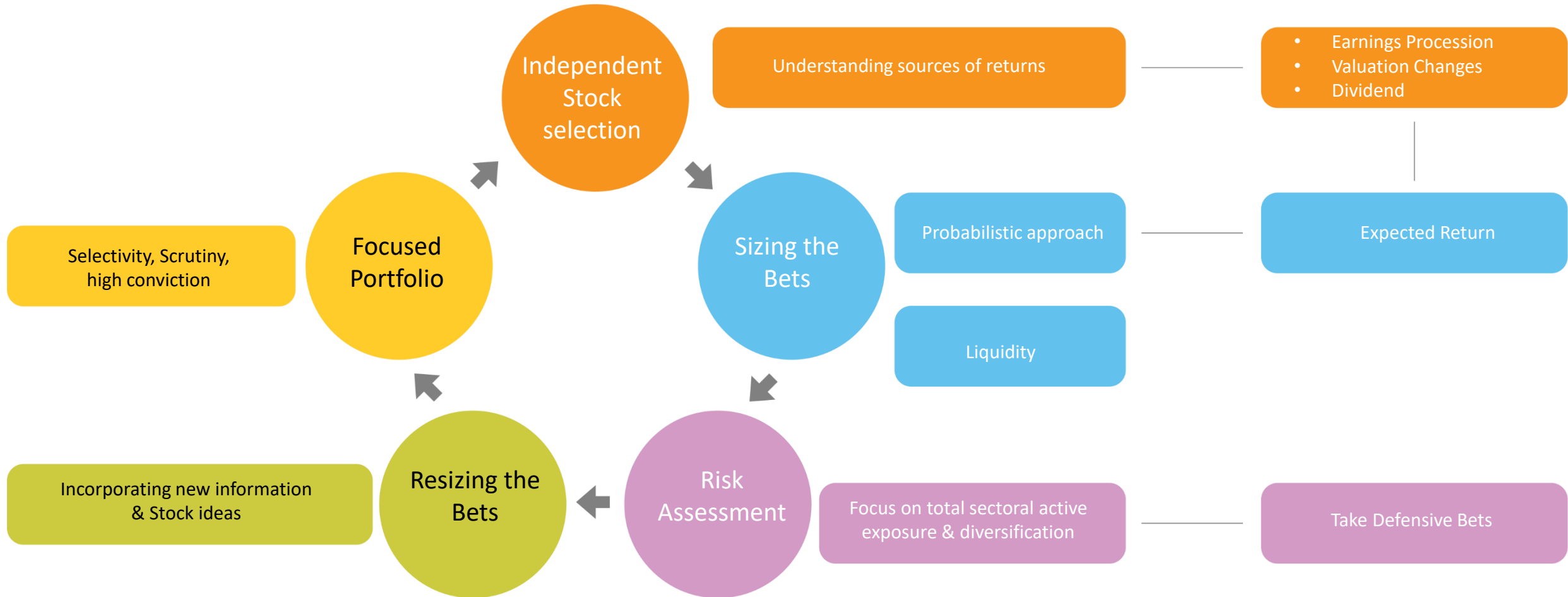
- * The flow of Research process is a funnel like structure with multiple sieves where we examine various aspects in a sequence
- * The extend of time and efforts expended on a particular idea is a function of how many filters the idea qualifies through.



Investment Process > Portfolio Management



Portfolio Construction Process



Portfolio Construction Process



The fund manager estimates sources of return through – Earnings growth, valuation changes and dividends, by performing primary fundamental analysis of the business.

Fundamental analysis includes:

- * Understanding business and its economics
- * Gauging promoters (founding shareholders) and management for competence & honesty
- * Assess reinvestment opportunity within the business for long term growth prospective
- * Study financials while understanding retained earnings, incremental ROE and growth dynamics.
- * Value business using various measures - absolute as well as relative.

This process helps in deriving expected returns of these stocks



Portfolio Construction Process



01

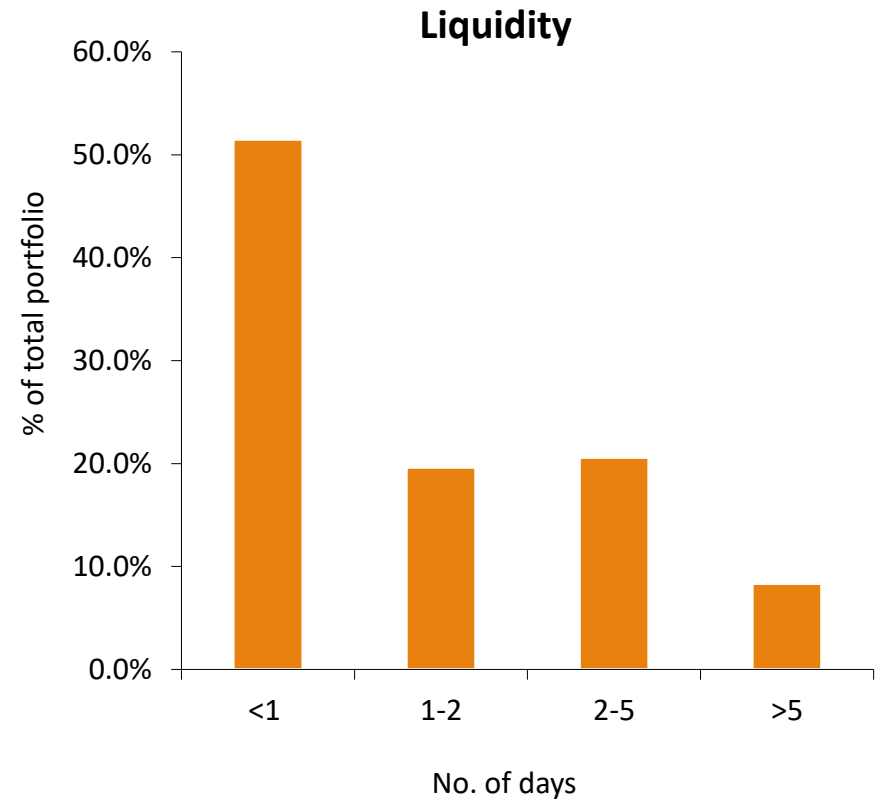
Once the sources of potential return is estimated based on earnings growth, valuation changes and dividends, focus is on how much exposure should be take in a particular stock.

02

This is a process where the effort is focused on reflecting the level of conviction on a stock accurately in the active bets (% of exposure in the portfolio compared to benchmark) for all the stocks based on a probability of achieving expected returns

03

Another aspect which is given high weightage while sizing the bet is Liquidity. Liquidity helps portfolio to remain agile. The chart shows more than 50% of Edelweiss Midcap Fund can be liquidated in single day. This is possible due to conscious management of liquidity of the portfolio.

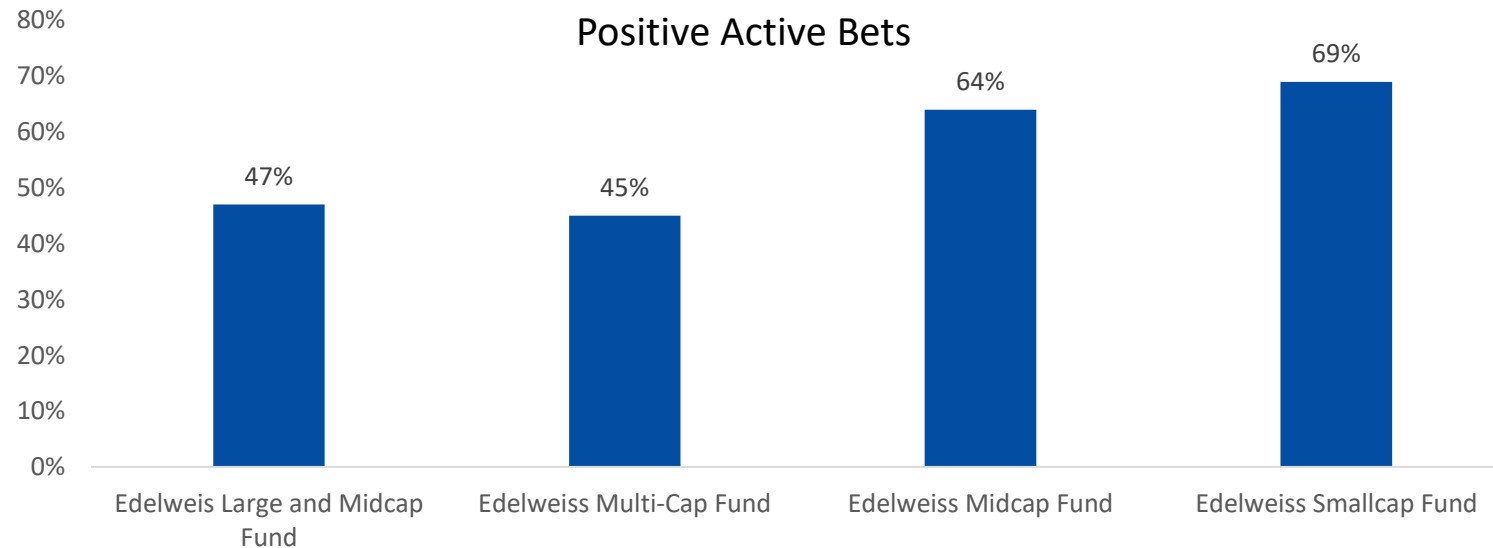




Portfolio Construction Process



Idea is to look at both, positive as well as large negative bets to check whether fund manager views are properly reflected in the portfolio and is not taking any inadvertent bets.



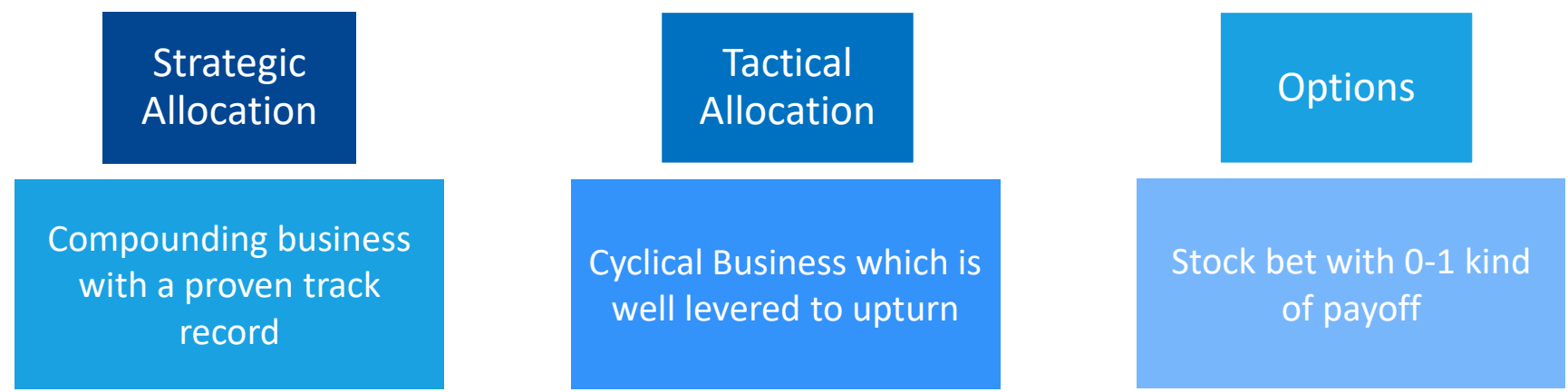


Portfolio Construction > Stock Classification

After the sizing the exposure into each stock idea, stocks are classified amongst 3 buckets on their characteristic and role the stock is expected to play in the portfolio.

This framework is useful for both research and portfolio management process as it provides the context for analysis and review

Following are the buckets of stock classification





Portfolio Construction > Stock Classification



Strategic Allocation

Typically, a compounding business with a proven track record of strong growth over long periods of time.

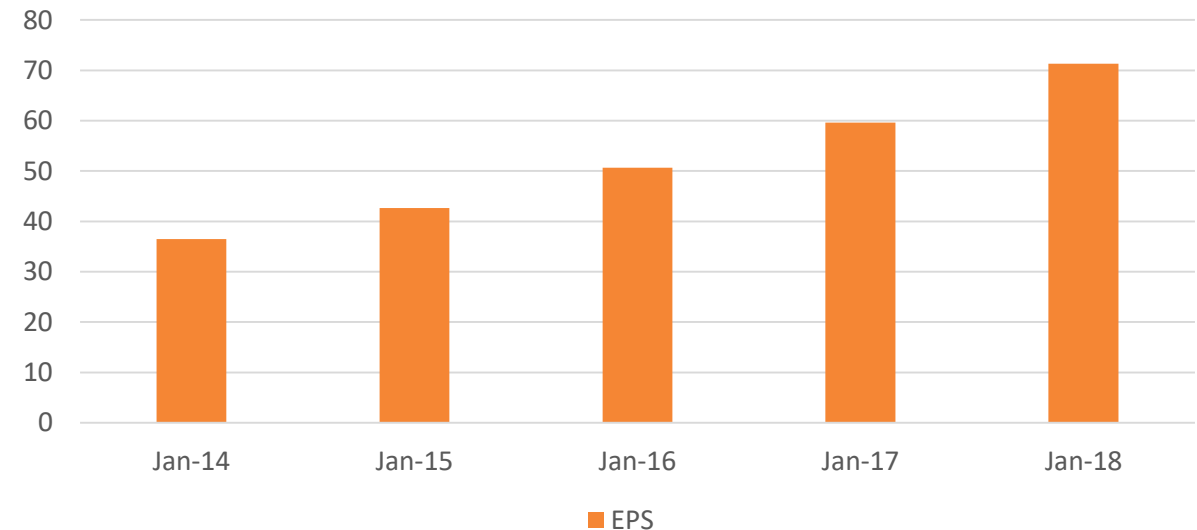
It is often a structural growth story with a high quality business & management.

Buy and hold kind of a stock.

Example: HDFC Bank

HDFC Bank is country's most valued private Lender by market value. The Bank's strong lending and deposit franchise, healthy capital positions and impeccable asset quality performance across market cycles have been aiding stable RoAs over years. The Bank's Earnings have consistently increased every year despite market cycles, hence classifies as a true compounding story.

Earnings Per Share - HDFC Bank Ltd.





Portfolio Construction > Stock Classification



Tactical Allocation

Typically a business in a cyclical industry which is well levered to the upturn

This stock has to be bought and sold depending on the phase of the cycle and valuations

Example: Indian Hotels

As Indian hospitality industry is at the cusp of an up-cycle that has recently begun. Indian Hotels which is Market leader in the Luxury segment has performed poorly in the trailing decade due to a cyclical down-turn and ambitious acquisitions in 2007-09. However, IHCL is at an inflection point to tap the next cycle of growth. The company has laid out strategic priorities and key drivers to increase revenue and enhance margins.

	CAGR (Hotel Industry Statistics)				
		Room Supply	Occupancy	Room Demand	ARR
Phase 1	FY96-02	6.9%	-3.9%	3.1%	-1.2%
Phase 2	FY02-08	7.6%	4.7%	12.5%	14.9%
Phase 3	FY08-13	16.7%	-3.4%	13.3%	-6.3%
Phase 4	FY13-17	6.7%	2.6%	9.3%	-0.4%



Portfolio Construction > Stock Classification

Defensive Allocation

It is a business offering potentially large scale-up opportunity but without sufficient track record and typically has a higher degree of risk

This stock potentially can have a 1 or 0 kind of a payoff.

Example: Himadri Chemicals

Himadri is India's largest coal tar producer with ~70% market share in FY17. The company is focusing to manufacture value added products, specialty carbon black and advanced carbon material, which have significantly higher realization compared to coal tar pitch and carbon black. Advanced carbon material finds application in lithium-ion batteries for making anodes. It is in advanced stage of testing with world-leading manufacturer of lithium-ion battery. If the company succeeds in this project it will give them opportunity of exponential growth and massive competitive advantage. Although, the uncertainty of success leads to its classification as Option.



Portfolio Construction Process



- In risk mitigation step the focus is not only on what the fund owns but also on what is not part of the portfolio.
- One way in which the fund tends to mitigate risk is by taking defensive bets.
- Defensive bets are not part of the core portfolio, although the fund invest in these stocks as they have very high weightage in the benchmark.
- Betting in these stocks help to reduce deviation from benchmark.

Example: ITC Ltd.

ITC is one of India's foremost private sector companies with a market capitalization of US \$ 50 billion and Gross Sales Value of US \$ 10 billion. ITC has a diversified presence in FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agri-Business.
For Reference: Weight on ITC Ltd. in the Benchmark was 3.9% which is too high. To avoid the deviation the in Edelweiss Large and Midcap Fund the Fund invested 1.88% despite Fund Manager not having very positive view on the stock (As on 30th Aug 2019)

Portfolio Construction Process



● Due to dynamic nature of Indian Market bets are resized at regular intervals.

● The resizing depends on Quarterly performance announcements, industry events, company developments and large stock price movements in the short term often lead to a need for active management by readjusting bets to align with changed circumstances and fresh views.



Portfolio Construction Process



The fund manager follows this rigorous research and portfolio construction process to arrive at a focused portfolio.

This entire process is an iterative process

Hence, the portfolio stocks and allocation keeps on evolving with changing market dynamics.



True to Label Philosophy



*** All Edelweiss Funds stick to its mandate invest in the assets and categories that it claim to**

- Investing in the Mandate
- The fund believes in maintaining Minimum Cash levels in all times. Cash is maintained only to meet redemption needs

Fund Name	Mandate	Actual	Equity Level
Edelweiss Large and Midcap Fund	Mini – 35% and Midcap as well as Largecap	Largecap – 61.72% Midcap – 38.28%	94.97%
Edelweiss Multi-cap Fund	65% Equity Level across Market cap	Largecap – 61.27% Midcap – 19.54% Small Cap – 19.18%	93.77%
Edelweiss Midcap Fund	65% in Midcaps	Midcap – 68.62% Small Cap – 31.38%	95.44%
Edelweiss Small Cap Fund	65% in Small Caps	Smallcap – 70.27% Midcap – 29.73%	92.94%

*** There is no alteration in asset allocation due to short-term or intermittent changes in the investment environment.**



Long Term Performance



Funds	Tenure					
	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Edelweiss Large & Mid Cap Fund	6.44	6.17	8.81	9.81	13.10	11.38
Benchmark	5.18	6.91	9.89	9.67	12.91	10.49
Alpha	1.26	-0.74	-1.09	0.14	0.19	0.89
Edelweiss Mid Cap Fund	1.69	1.41	6.91	11.71	18.43	16.32
Benchmark	-5.86	-3.94	3.14	9.03	13.02	11.05
Alpha	7.55	5.35	3.77	2.68	5.41	5.27
Edelweiss Multi-Cap Fund	5.31	6.29	10.44	-	-	-
Benchmark	3.75	5.39	9.17	-	-	-
Alpha	1.56	0.90	1.26	-	-	-

Data as on Sep 2019, Past Performance may or may not sustain in Future



Calendar Year Performance



Funds	Calendar Year Performance									
	YTD	2018	2017	2016	2015	2014	2013	2012	2011	2010
Edelweiss Large & Mid Cap Fund	6.73	-3.33	38.21	0.49	2.68	44.72	5.30	26.60	-22.66	26.40
Nifty Large Midcap 250 Index – TRI	1.14	-5.13	44.19	6.01	4.12	48.39	3.39	38.92	-28.08	17.21
Return Differential	5.59	1.81	-5.97	-5.52	-1.44	-3.67	1.91	-12.32	5.42	9.20
Edelweiss Mid Cap Fund	2.81	-15.61	52.39	2.49	9.38	83.36	6.81	44.41	-24.85	26.12
Nifty Midcap 100 – TRI	-7.15	-14.52	49.42	8.31	7.60	57.87	-3.71	41.21	-30.12	20.41
Return Differential	9.96	-1.09	2.98	-5.82	1.78	25.49	10.52	3.20	5.27	5.72
Edelweiss Multi-Cap Fund	5.28	-4.89	47.50	0.38						
NIFTY 500 - TRI	4.06	-2.12	37.76	5.12						
Return Differential	1.22	-2.76	9.74	-4.74						

Data as on 26th Sep 2019, Past Performance may or may not sustain in Future 19

CIO, Equities – Edelweiss Asset Management



Mr. Harshad Patwardhan - Fund Manager

With education from IIT/IIM, CFA charter and 25 years of industry experience, meet our CIO Equities – Mr. Harshad Patwardhan.

Harshad was the CIO Equities at JPMorgan Asset Management for over a decade and continued as the CIO Equities of Edelweiss Asset Management after the schemes changed hands in the year 2016. He's responsible for long only equity mutual funds at Edelweiss Asset Management Limited.

When not occupied with work, he loves to swim or read about a wide range of topics. His resilience to come out of difficult times has been an inspiration to many.

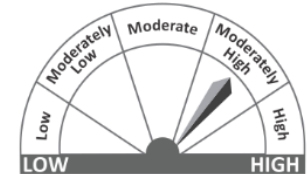
He has worked for 12 years on the sell side with various MNC brokerage firms and has been a rated research analyst by several large & prominent FIIs. He believes that the first-hand experience of covering stocks/sectors and interacting with experienced fund managers has been extremely valuable for his investment management career.

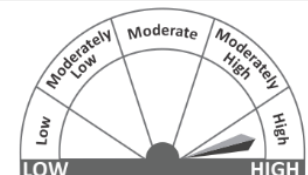


Disclaimers



Edelweiss Large & Mid Cap Fund is suitable for investors who are seeking*:	Riskometer
<ul style="list-style-type: none"> • Long term capital growth. • Investments predominantly in equity and equity related securities of large and mid cap companies. 	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	Investors understand that their principal will be at moderately high risk

Edelweiss Multi - Cap Fund is suitable for investors who are seeking*:	Riskometer
<ul style="list-style-type: none"> • Long-term capital growth. • Investment in equity and equity-related securities of companies across various market capitalisations. 	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	Investors understand that their principal will be at moderately high risk

Edelweiss Mid Cap Fund is suitable for investors who are seeking*:	Riskometer
<ul style="list-style-type: none"> • Long Term capital growth • Investments predominantly in equity and equity related securities of mid cap companies. 	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	Investors understand that their principal will be at high risk



Thank You
