

## The Blackest of Swans

We started 2020 with one of the biggest crisis mankind has ever faced post World War-II. As we write this note, the total number of cases across the globe has already crossed 12 million with 550 thousand deaths. The rapid spread of the virus and the ensuing fall in equity markets initially lead to comparisons with the GFC of '08, and the dot-com-bubble of '00, which in hindsight were clearly far more easily navigable.

## Markets

It was one of those rare occasions in economic history when all the asset classes had a significant correlation in depth and direction. Gold, Equities, Fixed Income, and several market neutral and risk parity funds were down at the same time. The VIX, a measure of expected price fluctuations in the S&P 500 over the next 30 days, at 90, was the highest ever in the history of its existence. While virologists waged their own battles, the Fed knew better than to compound a pandemic with economic misery. Apart from throwing its weight behind *good* securities, the Fed for the first time in history made known its outright support for *non-investment grade* debt, thus overwhelmingly showing its intent to do whatever it takes to back stop an economic melt-down. Soon, every central bank around the world followed with its own version of a stimulus to get their economies back on track. *From being crippled due to fear of solvency, markets around the world thawed gradually.*

Understanding the direction and magnitude of liquidity is very critical today. Once a new kind of stimulus is tested, it becomes a template of how future downturns are handled. And given the back to back successes of how monetary policy has worked in 2008 and now 2020, *more liquidity* is the likely baseline assumption of policy response for future moments of stress.

## India

Between the 12<sup>th</sup> Feb and 23<sup>rd</sup> Mar, the NIFTY gave up 38% [12,201 to 7,610] as panic turned de rigor. With policy actions, the recovery was equally swift as the NIFTY climbed back 47% from the lows [11,194 by 24<sup>th</sup> July]. Following the global template, RBI reduced the repo rate to 4% in two tranches, cutting rates by 115 bps. This is the lowest interest rates in the last 20 years.

*For the academically inclined, a 1% reduction in interest rates, increases equity value by 10%+, assuming a nominal 5% risk free rate.*

## Where do we go from here?

*A crisis is prima facie a conundrum.* While the magnitude of near-term pain cannot be estimated, with asset prices factoring in the worst and a return to normalcy becoming more certain, the margin of safety in valuations is at its attractive best. We have seen across cycles, how a bottom up and calibrated approach in moments of panic is a key driver of subsequent outperformance. To be able to take such a calculated risk, it is imperative to weigh the knowns against the unknowns and their likely outcomes.

*For instance, the following questions still do not have answers*

- *How fast and deep will the pandemic spread?*
- *How long will this necessitate a sustained lockdown?*
- *How long will the vaccine take?*
- *Can economies return to being healthy soon enough?*

*In the same breadth, we had answers to the following*

- *Led by a good Rabi, rural India is in the midst of the strongest demand and consumption cycle in years*
- *The headline stress reported in Mumbai, Chennai & Delhi were not indicative of stress in other parts of India. Lead indicators such as supply chain logistics and rural facing industries showed a sharp recovery*
- *Large B2Bs, where India is a significant leader, remained relatively unperturbed and consolidated their prospects (Specialty Chem, IT, Pharma)*
- *Interest rates and inflation were expected to be benign for the foreseeable period*
- *Retail borrowers are now more aware of the long-term implications of defaulting on their loan obligations*
- *The probability of a vaccine in the next 6-12 months increased significantly*

Our understanding of the above variables determined our course of action in the key months of April, May & June of 2020.

## From Crisis to Consolidation

In an environment where participants are emotionally shaken, it is easy to lose sight of the fact that the markets price the future. Given the circumstances, the leading companies in a sector are likely to consolidate their position. Post the correction as markets recovered, several of our holdings crossed their earlier highs as the potential for these companies to gain market share became evident. In the times to come, we believe the pace of consolidation will gather pace, as marginal players find it difficult to grow and/or survive.

## Outline of the strategy

The strategy cherry picks investment ideas from across the 7 investment theme that we have developed since 2001. Each theme has proven credentials and track record for acting as a filter to shortlist great investing opportunities. From the universe of about 100 ideas, the advisor selects 15 to 20 businesses. The theme wise composition of the strategy is given in the table below.

**Theme wise Allocation (as of 17 July 20)**

Deep Value	38.0%
BCAD	21.1%
Spinoff	14.1%
APJ	11.7%
Green	9.6%
<b>Cash</b>	<b>5.6%</b>
<b>Total</b>	<b>94.5%</b>

It was our belief (conveyed to you in our letter of March 2020) that market conditions should give us opportunities to deploy in businesses that we like, at better valuations. This indeed turned out to be the case. As energy prices weakened, a strong tailwind emerged for India's largest gas company Petronet. Also, the completion of GAIL's Mangalore pipeline shall add to their volumes from August, 2020. Due to these developments, allocation to Petronet been increased to 10%. Given the potential of Pharma to withstand protracted economic weakness and JB Chemicals growth leadership in the Indian branded generics market, we advised a 5% exposure to the company. While consumer demand is expected to bounce back in the second half of FY21, the steep stock price fall in case of United Spirits gave an opportunity to add 6.25% of the company. On similar lines, the broad fall in markets presented an opportunity to take a 5% exposure in Axis Bank, the 3<sup>rd</sup> largest private sector bank in India, and an institution we have been tracking for several quarters prior to Covid.

To facilitate these buys, we advised exits in EID Parry, APL Apollo, KPR Mill, Navin Fluorine and Crompton Consumer. Weak energy prices have potential to derail the sugar economics in India as realization for ethanol has fallen; hence, suggested exit in EID Parry. While APL Apollo's business performance has been resilient, an investigation by SEBI found the promoter in violation of securities' regulations. Given the impetus we place on governance, we recommended to move out of APL. With offline retail bearing the brunt of lockdowns and subdued demand outlook, we expect KPR to experience several soft quarters, which impelled us to switch to other attractive opportunities. The capabilities and potential of Navin and Crompton are now widely appreciated and as these got reflected in the valuations, we exchanged these for more lucrative opportunities.

Post the demerger of Suven Pharma, we took advantage of the strong up move to trim the exposure. Similarly, Muthoot Finance saw a re-rating due to its robust asset quality and we used the rally and advised to trim the exposure to redeploy elsewhere.

In summary, we have been able to take advantage of the volatility and are seeing this reflect positively in the numbers.

## Q4FY20 | Results summary

Despite the loss of business in last fortnight of Q4, the fourth quarter ending 31<sup>st</sup> March, 2020 has been a good one, with most of the strategy's investee companies delivering along the expected lines. Pharma constitutes the largest segmental exposure (25%) to the strategy, followed by BFSI (21%), Chemicals (12%), Oil & Gas (10%) and Materials (9%). Within the pharma basket we are well diversified with exposure to both CRAMS as well as domestic formulations. All the three business that we own delivered good results. Of our BFSI holdings, the India's largest gold mortgage company (Muthoot Finance) did well as competition from unsecured lending is lower post Covid. We also own the biggest broker in India (ICICI Securities), which continues to gain from consolidation in the broking industry. The consumption basket (United Spirits, VIP) has been affected by the prevailing circumstances and we are closely

tracking the evolving situation to assess any changes to medium term prospects. Aarti Drugs, our sole investment in chemicals reported strong results driven by both volume and value growth. Garware reported weaker than expected revenues, however strong margins lead to profit growth. Petronet LNG had a steady quarter and it should continue to gain from India's increasing appetite for gas. With a strong harvest of paddy in the season beginning October, rice exporter Chaman Lal experienced strong volume growth and margin expansion, thereby delivering sharp growth from a low base in corresponding quarter. While Sonata had a modest degrowth, the key challenges emanate from its 40% reliance on travel & tourism industry.

## Q4FY20 | Result Updates

<p><b>Suven Pharma</b></p>	<p>Suven Pharma Limited (demerged entity) delivered numbers that were as per expectations at the standalone level and above expectations at the consolidated level. Due to the nature of R&amp;D projects billing that could vary among quarters, we typically look at the annual progress rather than quarterly results. In FY20, Revenues were up 29% YoY and EBIDTA was up 47% YoY due to margin expansion from favorable business mix and no drug discovery R&amp;D costs post demerger. PAT growth was an impressive 90% YoY abetted by Rs.48cr share in profits from its associate company Rising Pharma. Further business synergies with Rising Pharma that will help shore up Suven's formulations segment is underway.</p> <p>SPL revenues arise from contract research services, commercial scale intermediate supplies and select specialty chemicals sales. SPL looks to move into APIs as well as formulations and is building capacities in this regard.</p> <p>Management bandwidth and no new research orders in the COVID affected Q1FY21 are the key concerns.</p>
<p><b>Aarti Drugs</b></p>	<p>Aarti Drugs Limited (ADL) reported EBIDTA and PAT growth of 29% and 123% YoY respectively due to better price realisations, product mix, operating leverage efficiencies, lower borrowing costs and tax savings. Revenues however declined marginally at 2% YoY, due to the stringent implementation of the lockdown in the last week of March. Although Pharmaceutical companies were exempt, exports were affected due to non-availability of transportation facilities, in the initial days of lockdown.</p> <p>ADL is currently (Q1FY21) operating at 70% of its capacity due to restricted availability of manpower. This will have its due impact in Q1FY21 numbers. However, price realisations have gone up further and hence margins will remain at current levels of 15% despite increase in COVID-19 related additional costs and fall in production levels. Considering the increasing demand for APIs and manpower availability improving, the prospects for growth in FY21 (70% volume growth and 30% price growth) remain strong, despite the likely dip in Q1FY21.</p> <p>Valuations are reasonable even after the recent rise in price (18x FY-20 earnings and 16x FY-21e) notwithstanding the impact of the pandemic, while their capital efficiency has strengthened this year (&gt;20%). Delay in formulations product approvals from regulators and any environment / safety related API specific bans are the key risks.</p>

<p><b>Petronet LNG</b></p>	<p>Petronet delivered 7% YoY growth in regassification volumes on the back of the lockdown that impacted the utilization of Dahej terminal, barring which, the company would have registered growth of 15% YoY. Correspondingly, the company delivered PBT growth of 10% YoY to Rs.723cr.</p> <p>The utilization of their Dahej terminal had fallen to a low of 55% in April due to the nationwide lockdown, but that has now recovered to normal levels of 100%. The Kochi-Mangalore pipeline is expected to commission in July and this will improve the utilization of their Kochi unit to 35-40% vs. 20% currently.</p> <p>Petronet is a play on India's increasing domestic natural gas consumption. India's domestic production of natural gas is not on pace with demand growth, leading to increasing imports, and Petronet is very well poised to capture this opportunity. The company is very well capitalized and is well suited to withstand a difficult economic environment.</p> <p>Key risks will be competition from Adani's new terminal and a slowdown in economic activity.</p>
<p><b>Garware Technical Fibres</b></p>	<p>Garware reported a topline decline of 13% YoY to Rs.253cr, partly due to the impact of COVID, and in part due to softness in core demand for nets and industrial products. The fall in revenue is steeper than our expectations of low single digit degrowth. However gross margin improved by 3.6% YoY and other expenses fell sharply on back of which EBIDTA grew 8% YoY to Rs.55cr.</p> <p>Margin gains primarily accrued from the Synthetic Cordage division, which has the majority of the value-added products. Weak sequential performance in Fiber and Industrial products division indicates that the business which was delayed in H1 due to elections hasn't got back the momentum which the company had guided for. FY20 has been an year of consolidation with company having navigated weak demand, volatile crude and Covid.</p> <p>Key risks: fall in price of Salmon, sharp rise in Crude Oil, prolonged economic weakness and failure of newer innovative products to garner market share.</p>
<p><b>ICICI Securities</b></p>	<p>ICICI Securities reported a good quarter, with the broking segment increasing its market share in Equity ADTO to 9.1%. About 90,000 clients were added in Q4 FY20 taking the total count of clients to 4.77mn. The distribution revenues grew 2% YoY driven by growth from insurance and fixed income products. The focus in FY 21 would continue to be on rationalization of human resources and push to digital initiatives. The PBT was up 10% YoY at Rs.208cr on the back of lower costs. Overall, PAT for the quarter was higher by 28% YoY at Rs.156cr in Q4 FY20. For FY 20, while revenues were flat at Rs.1,725cr, PAT was up by 10% YoY at Rs.542cr driven by improved traction in 2H FY20 and lower tax rate.</p> <p>I-Sec is a leading tech-based securities firm offering a range of financial services including brokerage, financial products distribution and investment banking, with a focus on both on retail and institutional clients. As of March 2020, the proprietary electronic brokerage platform ICICI Direct had approx. 4.77 Mn operational accounts of whom about 1.48Mn had traded on NSE in last 12 months. I-Sec is also the second largest non-bank MF distributor with an AUM of Rs.362bn. We like the business due to its absolute technology leadership, continuing consolidation of user base, high RoE of more than 60%+, and access to ICICI Bank's franchise for customer acquisition.</p> <p>Key risks would arise from a prolonged down cycle in equity markets leading to lower turnover, and heightened competition leading to loss of market share.</p>
<p><b>Muthoot Finance</b></p>	<p>On the back of liquidity flows being reinstated, the Gold AUM delivered growth of 22% YoY and 8% QoQ to end at Rs 41,611cr at March 2020. On the back of higher gold prices, yields were higher at 23.5% in Q4 FY20 as the company collected excess interest on delayed payments (similar to Q3 FY20). On the other hand, the cost of funds fell by 46 bps sequentially to 8.73% at March 20. As a result, NII was up by a strong 29% YoY to Rs.1,581cr. Overall, PAT of the gold loan business was up 59% on a YoY basis at</p>

	<p>Rs.815cr in Q4 FY20 and their consolidated PAT was up 52% YoY at Rs.836cr. For the full year, the PAT was up 51% YoY to Rs 3,169cr.</p> <p>Muthoot Finance is the largest gold financing company in India with a network of over 4,480 branches spanning 27 States &amp; UTs. It has a long track record in the gold loan sector with operations dating back to 1939. The company has about Rs.41,600cr of retail gold loan AUM as on March 2020. With an average loan size of Rs.50,800 and comfortable LTV of around 58%, the company has adequate cushion to withstand any volatility in gold prices. Rated AA/Positive by CRISIL, the company has a strong capital adequacy ratio of 25.5%. We expect the company to record steady earnings growth of around 10-12% over the next couple of years. Overall, we like the business due to (A) the low risk gold loan business with high NIMs and extensive branch network; (B) well diversified borrowing profile with good access to bank funding, public NCDs, commercial paper and other wholesale channels of funding and (C) it's high capital adequacy along with high RoE which obviates the need for equity dilution.</p> <p>Key risks would include sharp rise in NPAs especially in the subsidiaries and increasing competition within the segment leading to decline in NIMs.</p>
<b>United Spirits</b>	<p>United Spirits reported revenue decline of 12% YoY to Rs.1,994cr during the quarter as the lockdown impacted their dispatches. The PBT decline has been 15% YoY to Rs.161cr due to higher RM prices which impacted the gross margins (down by 430bps YoY). For the full year FY20, the revenue was almost flat at Rs.9,091cr while the PBT was up by 15% to Rs.1,135cr.</p> <p>Alcobeve has high stickiness and the volumes here are generally not impacted by a cut in discretionary spending. H1 would be weak for the company as bars and pubs are yet to open but as conditions normalize, the company is expected to continue its trend of premiumization and gain market share. Better Rabi harvest and lower demand for ENA from OMCs should result in benign raw material prices for the company. For the past couple of years, USLs management has emphasized on keeping cost structure tight, and in times like this, we expect management to deliver on this. We continue to be positive on Alcobeve consumption in India given the potential of volume growth and trends in premiumization.</p> <p>Key risks: Steep increase in taxes, higher raw material prices and regulatory interference from State Governments.</p>
<b>JB Chemicals</b>	<p>JB Chemicals delivered topline growth of 6% YoY at Rs.444cr and operating margins expanded by 5% YoY, on the back of which EBIDTA grew 40% YoY to Rs.92cr. In FY-20, this was among the fastest growing pharma companies in the domestic formulations market with a growth of 18%. Post the Q4 results, the company announced a deal whereby Private Equity firm KKR would be taking over the company from promoters at a price of Rs. 745/Share.</p> <p>Eventually, KKR is shall own between 54% and 64.9% of JB. It has been indicated that the current promoters of JB are likely to continue playing a role, albeit a smaller one. Also, depending on the number of shares tendered in open offer, the existing promoter might continue to hold an estimated 5-10% of the company as compared to the current stake of 55.9%.</p> <p>Key risks: prolonged economic weakness and supply chain disruptions that can impact the supply and demand for drugs.</p>
<b>Chaman Lal</b>	<p>Chamanlal reported revenue growth of 1% YoY to Rs.223cr, and driven by sharp improvement in gross margins (up by 7%), EBITDA rose 3x YoY to Rs.31cr for the quarter. This is the highest absolute EBITDA reported by the company ever in a quarter. While the H1FY20 performance was impacted by the US sanctions on Iran, the market seems to have stabilized and the volumes have picked up driven by strong paddy harvest. With forecast for a good monsoon and reservoir water levels strong, the harvest in the season beginning Oct, 2020 is also expected to be good.</p>

	<p>Key risks: Geopolitical upheaval in Middle East, volatility in INR and weak monsoon in the basmati producing states.</p>
<b>Sonata</b>	<p>Sonata delivered revenue growth of 11% YoY, at \$44mn while EBIDTA fell -1.7% YoY and PAT was down -5.5% YoY. In their IT services segment, they de-grew by -5.1% QoQ and this is the first drop in sequential growth in the last 12 quarters, driven by COVID related disruption. For the full year, IT services grew revenues by 12%. The sub-segments that led the degrowth was travel, led by the disruptions to the sector in Europe. Coming off a strong base of sales in Q3, the product reselling business continued to do well, growing 13% YoY to Rs.607cr. We believe that the issues surrounding the European travel industry are transient and normalcy will eventually return, as indicated by their bookings for 2021.</p> <p>Risks: Slower than expected economic recovery in Europe and cuts in discretionary IT spends by enterprise clients.</p>
<b>Sanofi India</b>	<p>Sanofi reported revenue growth of 9% YoY to Rs.785cr and EBITDA growth of 15% YoY to Rs.177cr for the quarter ending Q4-FY20. Other Income rose 28% to Rs.30cr for the quarter on the back of which PBT grew 23% YoY to Rs.185cr. At their recently concluded AGM, the management confirmed that there were no supply disruptions during the lockdown. The Company's Goa plant is now operating at pre-Covid levels of 85% capacity utilization. The capacities at Goa are sufficient to service the demand for the next few years without significant capex. Sale of Ankleshwar plant to ZENTIVA along with termination of 5-year supply contract was completed on May this year. Transfer of products from Ankleshwar to the Goa plant taking place in a phased manner to be completed by December'2020. No supply disruptions are expected due to the transfer. Sanofi India continues to focus on 7 key therapies namely diabetes, cardiovascular, respiratory, pain management, neurology, gastroenterology and vitamins.</p> <p>Key risk could emerge from biosimilar competition to <i>Lantus</i>, and newer product failing to deliver growth and unexpected regulatory developments.</p>
<b>VIP Industries</b>	<p>VIP reported a 28% drop in revenues due to the lower travel-based demand in Q4-FY20. This led to a PBT loss of Rs.27cr for the quarter. For the full year, the company reported revenue degrowth of 3.7% YoY. Gross margins improved to 58% from 48% last year as the company increased its procurement from its plant in Bangladesh (which has lower duty), higher share of hard luggage and lower raw material costs. Due to negative operative leverage, EBIDTA margin for the quarter was 10.2%, compared to 16% recorded in Q3 FY20. Overall, the PBT was Rs.10.5cr in Q4 FY20 and the PAT was Rs.9.5cr during the same period. For the full year, the PAT (adjusted) was Rs.144cr, almost same as last year.</p> <p>VIP's products are sold through a chain of traditional retailers, in hypermarkets, online portals and the CSD (defense) network via more than 10,000 retail sale points. VIP procures 50% of its products from China, and has five manufacturing plants in India and one in Bangladesh. The company dominates the luggage industry with a share of 40% in the organized segment. The ongoing demand disruption is expected to weigh heavily on marginal players who form the unorganized segment of the industry. While VIP might witness a sharp drop in demand in FY 21, it will emerge with a higher market shares thanks to its lighter balance sheet, deeper distribution network and in-house production facility in Bangladesh.</p> <p>Key risks would be disruption in domestic travel, depreciation of INR, loss of market share due to intense competition, disruption in the supply chain from China and sustained slowdown in consumption.</p>



**VALUATION METRICS**

Weighted	FY 20
Earnings Growth*	30.2%
Price to Earnings Ratio	26.7
ROE	26.7%
Price to Book Ratio	6.2

**TOP 10 HOLDINGS**

	Weights %
Position 1	14.09
Position 2	11.63
Position 3	9.62
Position 4	8.46
Position 5	8.31
Position 6	7.98
Position 7	5.84
Position 8	5.74
Position 9	5.54
Position 10	5.40
<b>Total</b>	<b>82.60</b>

**SECTOR EXPOSURE**

Sector	%
Pharma	24.7%
Banking & Fin Serv	21.0%
Chemicals	11.6%
Oil & Gas	9.6%
Materials	8.5%
Consumer	8.1%
Others	10.9%
<b>Cash</b>	<b>5.6%</b>

\*OTHERS INCLUDE IT & FOOD PROCESSING

**CLASSIFICATION BY MARKET CAP**

Segment	Basis	%
Large Cap	> \$2000mn	43.80%
Mid Cap	> \$200mn < \$2000mn	50.30%
Small Cap	> \$50mn < \$200mn	0.00%
Micro Cap	< \$50mn	5.90%
<b>Total</b>		<b>100%</b>

**LIQUIDITY ANALYSIS**

Segment	% of portfolio
Less than 1 day	85.20%
Between 1 & 3 days	14.80%
Between 3 & 5 days	0.00%
Greater than 5 days	0.00%
<b>Total</b>	<b>100%</b>

As of 17<sup>th</sup> July, 2020

\*Adjusted for Suven demerger price

## Information on Risk Management

Risk	Mitigants
Coronavirus Impact	The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. How long it takes for sentiment to return to consumers remains to be seen. While a second wave of infections cannot be ruled out, we believe our investee companies have the product and category leadership along with the financial wherewithal to withstand a temporary phase of demand slowdown.
Geo-political risks	The Galwan incident at the Sino-Indian border has increased tensions on both side of the LAC. Even though talks are continuing through the diplomatic channels, both the countries have mobilized troops close to the border. Any flare up can escalate into a full-scale military action between two of the biggest armies of the world, and disrupt supply chain in the region.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories here would include crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices may have a financial impact on the companies. The situation in China (Corona virus and political) has the potential to disrupt the supply chain of a few of our investee companies.
Liquidity risk (in case of NBFCs)	The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. Our investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability-management (ALM). However, sustained deterioration of the asset quality cycle can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments spanning Brexit, US-China trade war, OPEC related developments, and other geo-political issues. Investee companies can be subject to sharp movements in USD, EURO or GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in FX movements.
Leverage risk	Except for the financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.
Governance risk	We avoid investing in companies with a known history of corporate governance issues. Further, in case such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.



Risk of Key Personnel	This represents loss of one or more key personnel of the advisory team who are responsible for managing the strategy. The process of advisory is institutionalized and hence procedure driven. This reduces the risk of loss of key personnel.
Liquidity Risk	This represents the possibility of not honouring redemptions upon closure of the strategy due to illiquidity of the portfolio. Also, it is possible that the realized price from selling the security might be lesser than the valuation price as a result of illiquid market. The strategy would ensure that at a significant portion of its investments can be liquidated at prevailing market prices.
Price Risk	Stock markets are volatile and may decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market and different types of equity securities may react differently to these developments. For example, small cap stocks may react differently than large cap stocks. Issuer, political or economic developments may affect a single issuer, issuers within an industry, sector or geographic region, or the market as a whole. The strategy adopts a bottom up approach towards investing. Also, various macro events and its implications are considered to reduce the overall negative impact on portfolio.
Loss of Capital	All investments in securities present a risk of loss of capital which is an outcome of various events like macro events or something internal to the company. The strategy would seek to moderate this risk of loss of capital through a careful selection of investments.