OUTLOOK

2020

NEWSLETTER: ISSUE 2

TATA CAPITAL WEALTH

FOREWORD

Dear Esteemed Client,

Here is wishing you a successful 2020, may the coming decade bring you prosperity and happiness! I am delighted to present our second newsletter, curated to help you understand Markets, performance of different Asset Classes and Industry Trends.

To further enhance your investment strategies for the year ahead, read to understand the views of well-known market participants about the year ahead. We have compiled the views of various Market Veterans in this newsletter across asset classes.

As we step into the new decade, our aim is to make investing easier, simpler and even more seamless than ever before. For our mutual fund investors, we have built a new digital platform which is simple, convenient and user friendly; we hope you have experienced the same.

I am happy to share some of the new initiatives which we took over the course of last year to enhance your investing experience with us:

- **Go Paperless** - Now you can invest in mutual funds digitally
- **Revamped Client Portal** - Now you can access the new client online portal through Mobile or Desktop and can do safe and secured transactions.
- **New Website** - Our Website got a new makeover which have various additional features such as various investment calculators, new reports, etc.
- **New Logo** - We have unveiled our New Tata Capital Wealth Logo which will create our brand and visibility in the market.

Keep investing with us! We are here to take care of your financial wellbeing and we look forward to strengthening our partnership in the coming year and decades ahead.

Once again, wishing you and your loved ones a very Prosperous, Healthy and Financially Rewarding New Year!

Saurav Basu
Head - Wealth Management, Distribution & Advisory
Tata Capital Financial Services Ltd.

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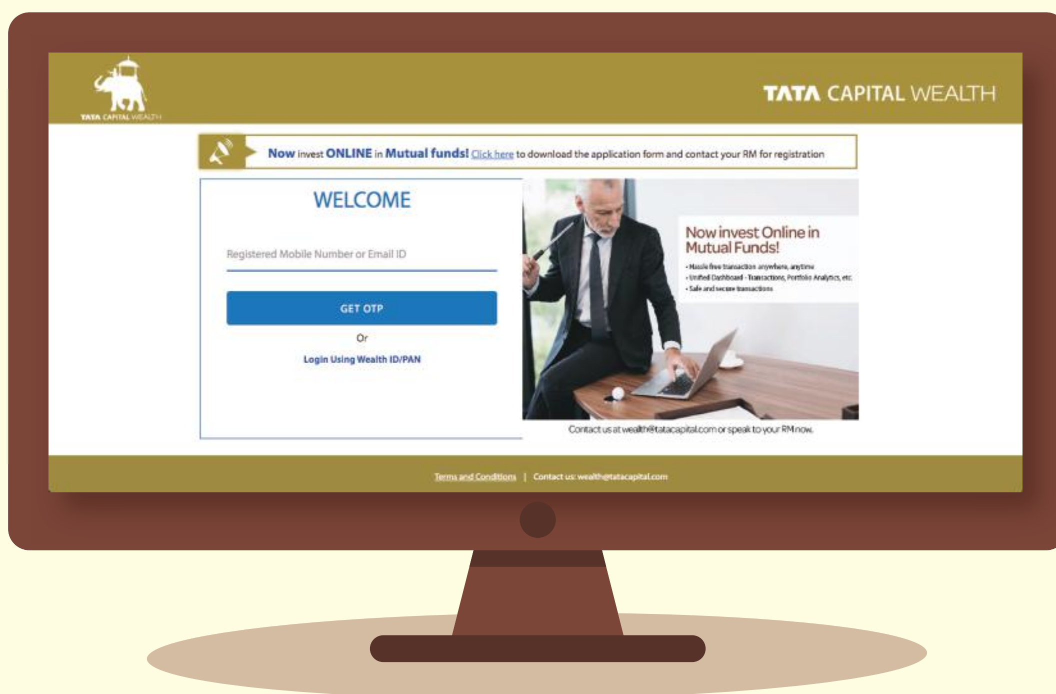
WE ARE NOW ONLINE...



DIGITAL

User Friendly client portal login via SMS/Email OTP

- Online Mutual Fund Transactions
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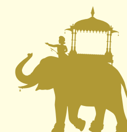
- Ease to connect with your RM/IC
- Meeting as per convenience

Intuitive Website

- Overview of Products
- Financial Calculators
- Query Page
- In House Research Report



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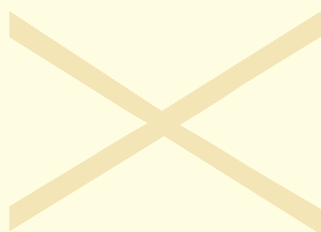
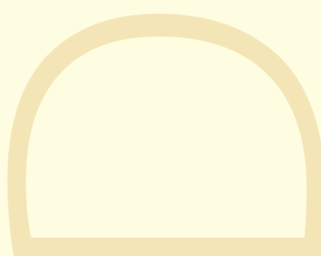
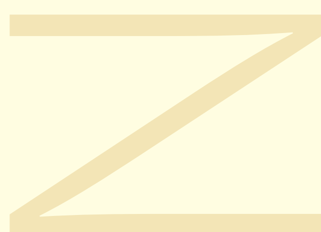
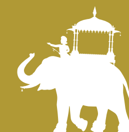


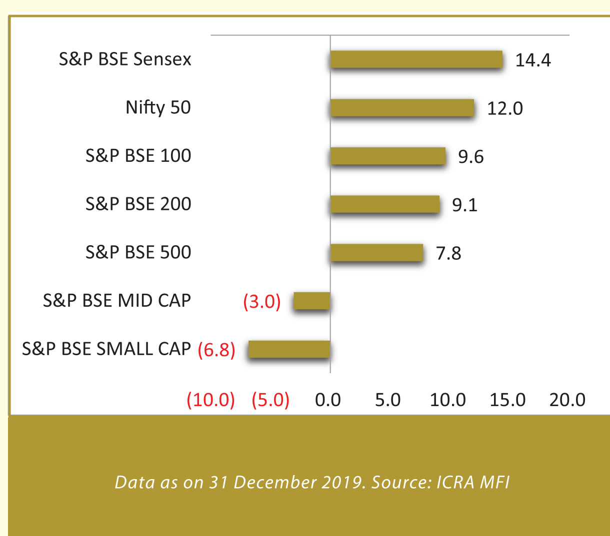



INDEX

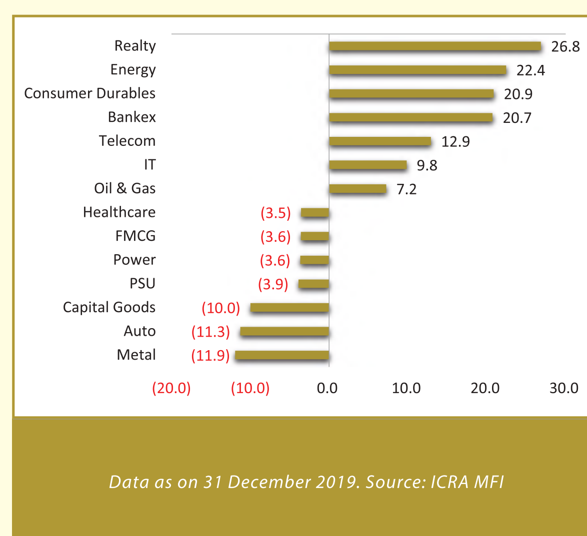
1-2	***The Year Gone by - How Markets fared in 2019***
3-4	***Equity Outlook 2020 - Views by Industry Experts***
5-6	***Debt Outlook 2020 - Views by Industry Experts***
7-9	***CIO Speak - Darkest Before Dawn or a Long (Economic) Winter?***
11	***Asset Allocation - Key to Consistent Long Term Performance***
12-13	***AMC View: Small-Cap Correction***
14	***A Small Increase in SIP each year can lead to Big Fortune***
15-17	***Outlook 2020 by Anoop Bhaskar, IDFC AMC***
18-19	***Interview with Amandeep Chopra, UTI AMC***
20-21	***Lead your list of Priorities with Health Insurance today!***



THE YEAR GONE BY - HOW MARKETS FARED IN 2019



Data as on 31 December 2019. Source: ICRA MFI



Data as on 31 December 2019. Source: ICRA MFI

Domestic Indices Annual Movement:

• The extreme polarisation of Indian equity market was seen in the markets during the CY2019. The effect of the same was seen in higher returns of the benchmark indices in comparison to the broader markets and Mid & Small cap indices.

• S&P BSE Sensex and Nifty 50 rose by 14.4% and 12.0% respectively in the past year; however, the S&P BSE 100, S&P BSE 200 and S&P BSE 500 gained in single digits.

• The returns of the broader markets were dragged by the dismal performance of the mid- caps and small caps which lost 3.0% and 6.8% respectively.

Sectoral Indices Annual Movement:

• In the calendar year 2019, Realty, Energy, Consumer Durables and Banking were the top gainers adding over 20% each. On the other hand, Metals, Auto, and Capital Goods were the major laggards losing in the range of 10.0 -12.0%.

• Realty was the top gainer (26.8%) on the back of ₹25,000 crore booster package announced by the government in the last quarter of the calendar year and Metal was the top loser (11.9%) on account of the US-China trade conflict.

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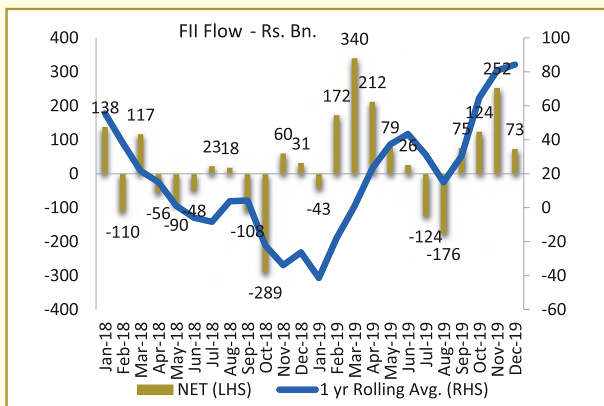
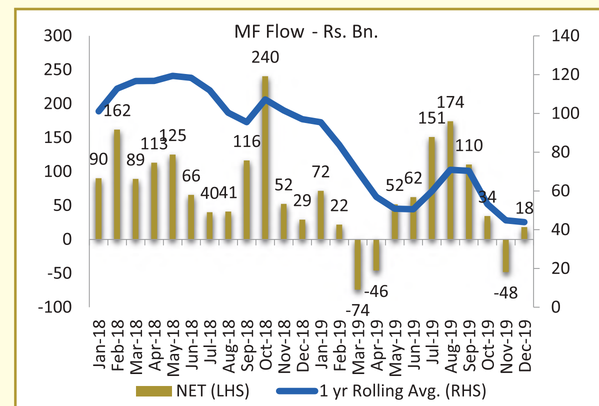
FII AND MF FLOWS IN CY2019



Data as on 31 December 2019. Source: ICRA MFI



Data as on 31 December 2019. Source: ICRA MFI

FII Flows:

- After an extremely volatile negative flows in CY2018 the FII / FPI flow in CY2019 witnessed a turnaround on account of the steps taken by the government to boost the economy.

- During the year, while; the months of January, July and August saw outflows; the positive flows during the month of February, March, April, October and November pulled back the average rolling monthly flows to the positive zone.

MF Flows:

- The domestic investors flow driven by mutual funds remained robust; when the FII had carnage by the market after the IL&FS debacle in September 2018

- The third quarter of the calendar year witnessed the highest fund flows by the domestic investors following a slew of reforms announced by the finance ministry to revive the economy.

- On the flip side; March, April and November months saw outflows; on account of which the average rolling monthly flows slipped during these periods.

EQUITY OUTLOOK 2020: VIEWS BY INDUSTRY EXPERTS

NILESH SHAH,
MD - Kotak Mahindra AMC

"The growth in year 2020 may be dependent on how soon can the credit flow be revived to the commercial sector. The markets will watch out keenly in the upcoming year the possibility of offshore sovereign bond issuance and the likely inclusion of India in the global bond index. Both these two events will provide India access to cheap long-term offshore capital inflows. Other than that, meaningful strategic divestment of PSUs too would help improve productivity and fiscal situation. The direction of fiscal deficit and monetary policy will also be a key guidance for the market sentiment in the coming year."

S NAREN,
Executive Director and CIO
ICICI Prudential AMC

"Global and Domestic factors like US elections, US-China Trade deal, Union Budget, pace of government reforms, contagion effect of credit concern etc. are few factors which may keep the market volatile in 2020. Hence, we continue to recommend investors to invest in Dynamic Asset Allocation Schemes / Hybrid Equity schemes which endeavor to manage equity levels basis market valuations and can benefit from market volatility. We believe with Valuations fully priced in, business cycle in the low to mid phase and sentiments in the moderate zone, it is better to take a middle of the road approach and accumulate equities in Staggered /Systematic way. Hence, we strongly recommend investors to continue their SIPs and for investors with a longer time horizon, it is a good time to be constructive on equities by means of lumpsum investment."

NIMESH CHANDAN,
Head Investments Equities
Canara Robeco AMC

"Globally, large economies have provided monetary and/or fiscal stimulus to support growth. In India too, we have seen the RBI cut interest rates and ease liquidity in the system. Government has announced various measures to stimulate growth and encourage investments. This combined with rising capacity utilization in industries and a banking system that has provided well for historical NPAs, will trigger a positive investment and growth climate. In many sectors, the market will shift from unorganized to organized and formal segment. With better economic and revenue growth, the profit margins which got squeezed during slowdown will recover and lead to better earnings growth. Markets focuses on both actual growth numbers as well as the expectations. The near term growth remains subdued but the headwinds have receded. There are expectations of recovery in business cycle in the next 3-5 years. The long term growth prospects for India remains strong and equity markets offer investors an opportunity to participate in the economic growth and create wealth over long term."

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EQUITY OUTLOOK 2020:
VIEWS BY INDUSTRY EXPERTS

RUPESH PATEL,
Senior Fund Manager - Tata AMC

"The markets have so far witnessed a narrow growth in select high quality stocks which had visible earnings growth. However, with revival in earnings there will be broadening of market interest in stocks beyond the benchmark index. Going forward, we believe that the corporates earnings revival is key to watch. This will lead to large re-rating of many companies which are at the inflection point of high earnings growth."

JINESH GOPANI,
Head of Equities - Axis AMC

"The worst for growth may be behind us. Bad macro news is proving to be good news for the market since it is pushing policy makers to take decisions on an accelerated basis. It is also setting the stage or prolonged accommodative monetary policy. On the other hand, good macro news may also prove to be good for a market that is looking for confirmatory signals that India may have put in a growth through in the quarter gone by. Earning recovery will be closely linked to return of growth in the economy. The consensus now expects considerable outperformance by India's corporate earnings versus EM. While earnings growth is set for improvement, we still believe that policy action cannot rest to ensure that both growth and stock prices sustain into 2020. Policy action will be the key trigger with the budget offering the first glimpse of government action."

ANOOP BHASKAR,
Head Equities - IDFC AMC

"The last decade seems to have followed the Chinese proverb "May you live in interesting times". The only single strategy which could emerge as a winner across different phases in the past decade – diversify across fund categories and stay invested for long period of time to profit from the growth potential of equity markets as different segments of the market have delivered in different market cycle. Another learning for the investor would be to diversify across investment styles and not based on traditional market cap segment – Large, Mid and Small. Quality/Growth on the one hand and Valuation focused on the other hand would be the two broad styles. How the next decade will play out for equity investors is impossible to predict and we are neither brave nor buoyed by strong performance to dive into this issue. However, a diversified portfolio spread across investment styles and with selective sector bets could be the path to use for the next decade."

MANISH GUNWANI,
CIO Equities - Nippon India AMC

"We believe that structural strengths of economy remain intact and the most cyclical factors seems to have bottomed out. Given that global growth is tepid, expect economic recovery to be gradual. The current economic conditions have to a large extent resulted in polarized equity markets with returns being concentrated in few index heavyweights. The previous cycle of narrow markets lasted for short periods while the current cycle has been elongated and this current scenario is providing opportunity for ecent alpha creation. Equities continue to stand out as an asset class for the long term wealth creation. We believe the prevailing market narrowness has created relatively attractive valuations for the broader markets especially the Mid cap space and these segments may benefit meaningfully as the market conditions normalize."

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DEBT OUTLOOK 2020: VIEWS BY INDUSTRY EXPERTS

R SIVAKUMAR,
Head Fixed Income - Axis AMC

"For debt markets, the fiscal deficit and inflation will be key pointers in the new year. Up until now, the accommodative rate stance and surplus liquidity environment has created a large cushion for growth to revive. This however stokes longer term inflation. Currently we are in the best phase of the surplus liquidity environment. Going forward we should see liquidity draining out as transmission of rates takes place. We see rates remaining stable over the course of the next year. From an investment point of view, AAA Long corporate bonds currently offer attractive investment opportunities for long term investors looking to lock in rates. As the economy revives, albeit gradually and given the headroom available today on account of the steepness in the yield curve, we believe this strategy is likely to remain attractive as compared to short term strategies and tax free bonds. Another theme we like currently is 'Credits'. The AA egment in general currently looks attractive as market uncertainty around such papers subsides. Investors who understand credit risk and are ok with some short term volatility should invest in highly diversified largely AA oriented credit funds as we see reasonable spreads between AAA & AA curves making them attractive bets from a risk reward perspective."

RAHUL GOSWAMI,
CIO Fixed Income - ICICI Prudential AMC

"In 2020, we believe fiscal stimulus will take the centre stage and monetary stimulus will play the supporting role. Last year, monetary stimulus has done the heavy lifting with 135 bps rate cut and ample system liquidity. This year we expect RBI to be more opportunistic in its approach with continued focus on growth. However, room for fiscal stimulus need to be monitored due to the fiscal deficit constraint. Keeping the above shift in mind, we believe best strategy would be to create a portfolio with maturity in the range of 2-5 years with combination of short term assets and long term assets. Focus should be on accumulating spread assets to give better carry to the portfolio with tactical exposure towards longer term assets to give the capital appreciation flavor. We believe the main theme for 2020 would be accrual. This is mainly due to the huge divergence which is prevalent between G-Sec/AAA yields Vs. AA/A yields. Reason for such divergence can be attributed to the Credit concerns, lack of transmission of rate cut, high small saving rates and due to flight to safety. Hence, it is recommended to invest in accrual schemes which invest in higher spread assets and earn the higher carry over repo rate. We also remain cognizant of managing the liquidity, concentration, credit and duration in our accrual portfolios to provide investor with better risk adjusted returns. We recommend investors with an appetite for volatility to invest in Dynamic Duration Schemes."

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DEBT OUTLOOK 2020:
VIEWS BY INDUSTRY EXPERTS

SUYASH CHOUDHARY,
Head Fixed Income - IDFC AMC

"The Indian economy needs a somewhat cohesive diagnosis of its problems and a clear roadmap for both the sequencing of the solution as well as where the response can come from. This can be done, and indeed may be underway already. Fixed income investors need greater adherence to a sound set of first principles as well as a robust asset allocation framework. On their part, fund manufacturers need to be able to construct enough products that fit into such an asset allocation framework instead of every product trying to do everything."

AMIT TRIPATHI,
CIO Fixed Income - Nippon India AMC

"Expectations of fiscal slippage and upward revision of inflation projection kept RBI on hold in its Dec 2019 policy and we expect RBI to remain on hold in the last quarter of FY20 and now assign a low probability of further rate actions in Q1 of F21 based on the evolving growth trajectory and the uncertainty around it. Liquidity will continue to remain comfortable as RBI will provide more than adequate iquidity. Given the fiscal worries due to upcoming Union Budget and low growth, we recommend investors to remain invested in the short end of the curve (mainly GSecs, AAA PSU/Privates) while remaining cautious on longer maturity corporate bonds and GSecs."

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TATA CAPITAL WEALTH

DARKEST BEFORE DAWN OR A LONG (ECONOMIC) WINTER?

CIO Speak

Rahul Singh

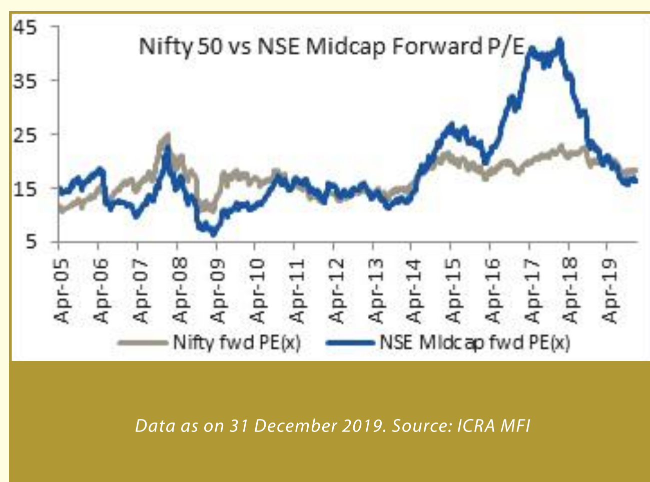
Chief Investment Officer (CIO) – Equities
Tata Mutual Fund

2019 was an interesting year. It saw an accelerated economic slowdown as the funding squeeze faced by the NBFCs combined with the pro-cyclical fiscal policy of the government (which led to expenditure cuts to balance lower revenues). Given that it followed a period where the economy was just recovering from the adjustments post GST and Demonetization, the slowdown has been more severe than expected. The headline numbers are unlikely to improve much in the next 1-2 quarters.

In contrast, the headline indices have done pretty well. Nifty50 is at a near all-time high while the Nifty Midcap and SmallCap indices are down 9% and 15% from their respective 52-week highs. The brunt of the economic slowdown has therefore been borne by the Mid and Small caps and the "Value" segment within the Large Caps. Within the index constituents, performance has been varied and the list of top gainers has changed like every year.

Top 10 Stocks	2019	Top 10 Stocks	2018	Top 10 Stocks	2017	Top 10 Stocks	2016	Top 10 Stocks	2015
BAJFINANCE	60%	BAJFINANCE	53%	BAJFINANCE	102%	HINDALCO	82%	MARUTI	38%
BHARTIARTL	57%	TECHM	44%	TATASTEEL	81%	YESBANK	57%	BPCL	36%
ICICIBANK	50%	TCS	43%	IBULHSGFIN	77%	TATASTEEL	52%	LUPIN	29%
BAJAJFINSV	45%	HINDUNILVR	35%	MARUTI	76%	BPCL	43%	INDUSINDBK	19%
RELIANCE	38%	INFY	28%	HINDALCO	73%	POWERGRID	28%	ASIANPAINT	18%
KOTAKBANK	35%	KOTAKBANK	26%	BHARTIARTL	71%	EICHERMOT	24%	ZEEL	16%
NESTLEIND	35%	BAJAJFINSV	25%	RELIANCE	70%	ONGC	19%	KOTAKBANK	14%
BPCL	34%	RELIANCE	23%	HINDUNILVR	64%	TATAMOTORS	17%	RELIANCE	14%
ASIANPAINT	31%	ASIANPAINT	20%	HDFCBANK	57%	GAIL	15%	HINDUNILVR	14%
TITAN	29%	HDFC	17%	GAIL	57%	INDUSINDBK	15%	HDFCBANK	14%
Top 10 Avg	**41%**	**Top 10 Avg**	**31%**	**Top 10 Avg**	**73%**	**Top 10 Avg**	**35%**	**Top 10 Avg**	**21%**
Bottom 40	**-6%**	**Bottom 40**	**-12%**	**Bottom 40**	**17%**	**Bottom 40**	**-4%**	**Bottom 40**	**-13%**
NIFTY 50	**12%**	**NIFTY 50**	**3.5%**	**NIFTY 50**	**28.6%**	**NIFTY 50**	**3.0%**	**NIFTY 50**	**-4.1%**

Source: NSE, Capitaline; Data as on 30th December 2019



Data as on 31 December 2019. Source: ICRA MFI

Source: Axis Capital, Bloomberg

A large contribution to earnings growth in index performance in particular has come from corporate banks which are witnessing lower bad debts and resolution. In addition, certain sectors like telecom are on a turnaround path while select PSU stocks have done well in 2019 due to the privatization initiative. So, while the markets have not been as narrow as in 2018, the broader markets have still struggled with relative valuation of midcap vs. large cap at multi-year lows.

So, can the trend reverse in 2020? Can midcap and small cap come back? Will the market become broader within the Large Caps? How soon can the trend reverse?

The answer to all of the above is linked to the extent and pace of economic recovery in 2020. While there are a lot of possibilities and it depends upon government policy direction, fiscal stimulus, reversion to mean in the credit markets, global trade and geopolitics, we paint two extreme scenarios which will determine the fate of the markets in 2020.

The Bull Case – Darkest before Dawn

In this scenario, NBFC funding squeeze comes to an end quickly leading to a free flow of credit and reduced risk aversion. This alone can be good enough to lift the GDP growth rate to 5.5-6.0% and a revival n discretionary consumption in combination with better rural incomes. The resultant improvement in tax revenues and a big thrust on privatization would give confidence to the government to boost public expenditure with or without loosening fiscal deficit targets. In an ideal scenario, public expenditure cycle will result in improving growth and tax revenues further thus leading to a virtuous cycle. The government's determination to reverse the economic slowdown can also result in more structural reforms in land and labour along with a focused approach to attract investments and capitalize on the long-term opportunity arising out of the global trade war. In the global context, stable oil prices, low global interest rates and absence of any dramatic developments in the US-China trade negotiations will also be important. In this scenario, markets could witness EPS upgrades, or at least no further downgrades. Although the index returns may not exceed low double digits given valuations are at 10% premium to long-term averages, the biggest benefit would be a broad-based equity market rally with sharp outperformance of midcaps/small caps. In addition, an aggressive privatization and asset monetization stance of PSUs can lead to re-rating, thus allowing "Value" segment to outperform after many years of underperformance.

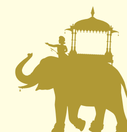
The Bear Case – Long Winter

Risk aversion continues with potential defaults in real estate loans leading to continued funding issues in NBFCs except the top few companies. Rising inflation could reduce the chances of further rate cuts. Tax collection shortfalls force the government to cut public expenditure further (assuming the reluctance to shift to higher fiscal deficit) thus worsening the slowdown even further, hence continuing the present vicious cycle. This will keep GDP growth rate suppressed below 5% in 2020 despite the benefit of low base in second half. Government's privatization and reform initiatives remain one-off with poor execution and without enough follow through. Global developments like high oil prices (due to geopolitical developments) or breakdown in US-China trade talks can further create a risk-off environment. In such a scenario, markets could see further EPS downgrades, mid-single digit returns and flight to quality thus keeping the market breadth narrow. Midcaps and small cap performance would be stock-specific like in 2019. Growth/quality will continue to trade at significant premium to Value.

What is more likely?

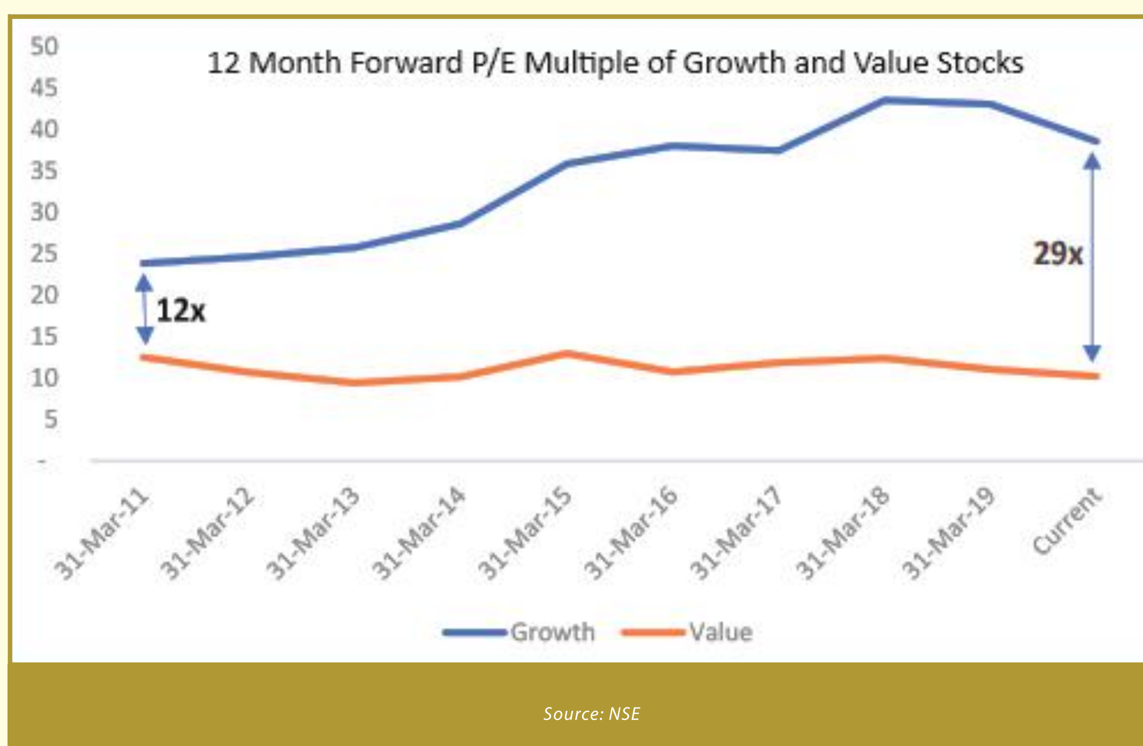
Given the range of outcomes, it is difficult to crystal gaze but there is enough evidence to suggest a U - shaped recovery in the economy probably in the second.

- We see plenty of signs of the risk aversion in the funding environment returning to normal. There have been resolutions in the cases of promoter pledges, some of the stressed NBFC/HFC with developer loan exposure have received equity funding and government has moved swiftly to prevent any default risk in telecom.
- Good monsoons and food inflation are usually supportive of rural consumption which should improve discretionary demand.
- While a full-fledged fiscal stimulus is ruled out, the pace of slowdown will force the government to pursue privatization (for revenue) and come up with more radical reforms in land/ labour to attract private investments. Corporate tax cuts and lower



interest rates are also supportive. Some of these measures will yield results only in the long run but will keep the equity markets spirited in the short run. We expect the headline index level returns to be lower than in 2019 (14% for Nifty50), but the broader markets will start participating too in line timed with the economic recovery in second half. We believe corporate banks and turnaround sectors will extend their good performance into 2020 in such an

So, to sum up, the bull case is that markets climb walls of worry and the rally broadens, while the economy is able to pull itself out of the current slowdown. The not so bull case is that the markets continue to obsess over quality while the problems deepen for the environment. Successful privatization of BPCL & CONCOR could trigger valuation re-rating of other PSUs especially if government outlines a more comprehensive policy for monetization and privatization. This can also reduce the present "Value vs. Growth" differential too. economy, making it a long and cold winter. We would urge investors to keep the faith while we navigate this turn by dynamically shifting gears in our portfolios across large to mid & small caps or managing trade- offs between Growth and Value.



Source: NSE

Rahul Singh is the Chief Investment Officer (CIO) – Equities of Tata Mutual Fund. The views expressed in this article are solely of the author and do not necessarily reflect the views of Tata Capital Wealth.

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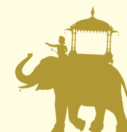

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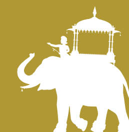

ASSET ALLOCATION: KEY TO CONSISTENT LONG TERM PERFORMANCE

Quick Read

Asset allocation involves dividing an investment portfolio among different asset categories, such as equities, bonds, gold and cash. Asset allocation for every investor depends on factors such as investors age, time horizon, goals and risk-taking appetite. The objective of asset allocation is to minimize volatility and generate better risk adjusted returns in the overall portfolio. **Thus, having the right balance and proper asset allocation helps you have diversified portfolio** and may be able to limit your losses rather than heavily invested in one asset class that could fall down and would lead to permanent loss of capital.

To analyze this better, we took last 11 years return data of various asset categories within equities as well as Gold, International equities & Gsec. The table ranks these 7 asset classes from - highest to lowest for a period of 11 years from 2009-2019. What can be inferred from the data is that **there is no particular pattern of asset class performance** in the last 11 years. For example, small cap category is top performer in 4 years and also bottom performer in other 5 years. Also each year, there was also a new combination of top 2 performers, with no asset making the cut more than two years in a row.

2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
Small Cap 113.92	Gold 23.17	Gold 31.82	Mid Cap 43.99	Intl 30.44	Small Cap 69.57	Small Cap 10.2	G-Sec 14.24	Small Cap 57.47	G-Sec 8.00	Intl 28.89
Mid Cap 110.55	Mid Cap 18.50	Bonds 6.92	Small Cap 37.94	Large Cap 6.76	Mid Cap 60.26	Bonds 8.63	Bonds 12.91	Mid Cap 54.53	Gold 7.87	Gold 23.79
Large Cap 75.76	Large Cap 17.95	G-Sec 5.29	Large Cap 27.53	Bonds 3.79	Large Cap 31.39	Mid Cap 8.41	Gold 11.35	Large Cap 28.74	Bonds 5.91	Large Cap 12.00
Intl 25.47	Small Cap 16.25	Intl -0.51	Intl 13.84	G-Sec 2.65	G-Sec 15.28	G-Sec 8.17	Intl 9.7	Intl 19.4	Large Cap 3.13	G-Sec 11.34
Gold 24.25	Intl 13.87	Large Cap -24.68	Gold 12.27	Mid Cap -3.01	Bonds 14.31	Intl -1.09	Mid Cap 5.41	Gold 5.12	Intl -6.55	Bonds 10.72
Bonds 3.50	G-Sec 5.64	Mid Cap -32.17	G-Sec 11.11	Gold -4.50	Intl 11.07	Large Cap -4.06	Large Cap 3.01	Bonds 4.71	Mid Cap -13.26	Mid Cap -0.28
G-Sec -6.93	Bonds 4.96	Small Cap -36.11	Bonds 9.34	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.68	Small Cap -8.27

Data as on 31 Dec 2019. Source: ICRA MFI

Index used for each of the Asset Class: Gold: Domestic Prices of Gold, Intl: Russell 1000 Index, G-Sec: ICRA Composite Gilt Index, Bonds: CRISIL Composite Bond Fund Index, Large Cap: Nifty 50, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Small Cap 250.

Conclusion: This high degree of variance in returns of assets from one year to the next emphasizes the importance of asset allocation in building a portfolio. It's imperative for investors to focus on long term, have the right asset allocation and reap the benefits of portfolio diversification.

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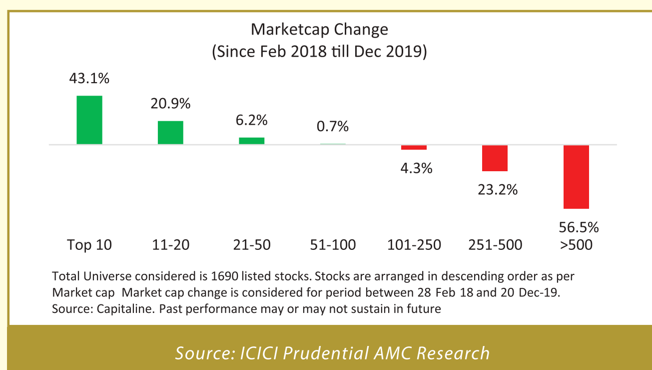
SMALL-CAP CORRECTION: WE THINK IT'S QUITE OVERDONE NOW!

MOTILAL OSWAL AMC

AMC Speak

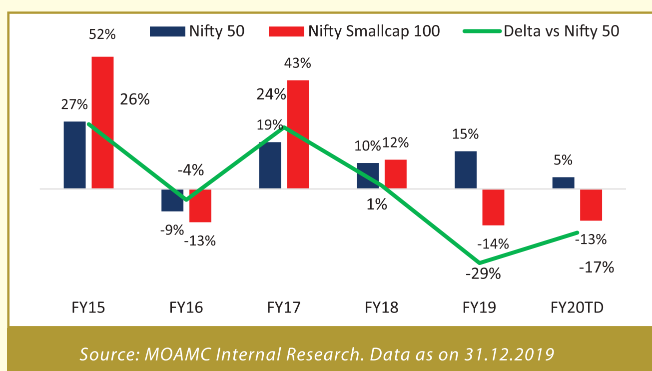
The last two years have seen an index polarisation of an unprecedented nature. The chart below highlights the extent of polarisation of returns in the last two years. This is even more pronounced for the previous year: Nifty has gained 1409 points during the year of which the top 10 stocks have added 1652 points and the remaining 40 have contributed negatively.



Source: ICICI Prudential AMC Research

Disclaimer: The above graph should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

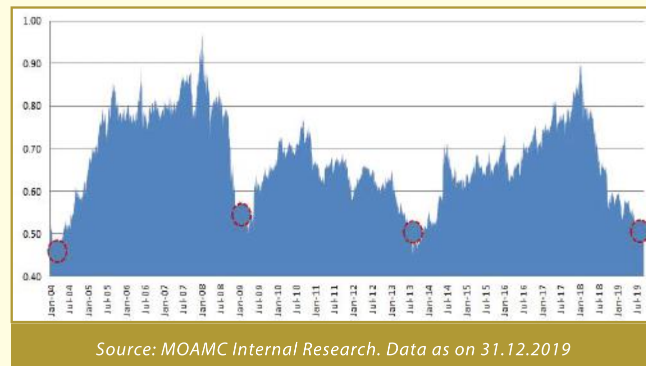
While Nifty stocks have shown a polarisation, the divergence between Nifty and the Small cap index is further pronounced. Nifty as an index and its larger constituents have held up very well despite a tough economy, the small cap space has bared the brunt of a tough economy/market. From its peak while the Nifty 50 is down around 7%, Nifty Small cap 100 is down 43%. For two consecutive financial years, small caps have underperformed large caps.



Source: MOAMC Internal Research. Data as on 31.12.2019

Disclaimer: The above graph should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

Small-cap space has been in a cyclical downturn - FY19: ~29% under-performance / FY20TD: ~17% under-performance



Source: MOAMC Internal Research. Data as on 31.12.2019

Disclaimer: The above graph should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

A ratio chart of the Nifty small-cap 100 index divided by the Nifty 50 index. Typically, the ratio bottoms at 0.5x and tops at ~1x. There have been 3 instances in the past; each of them marking the bottom of the market, and consequently marking the next up-cycle in small cap space. Currently, we're at the bottom end of this range; with the ratio being exactly at 0.5x.

Date	Nifty 50	Nifty Small Cap 100	Ratio	Peak/Trough
23-Mar-04	1,696	745	0.44	Trough
3-Jan-08	6,179	5,994	0.97	Peak
CAGR	41%	74%	33%	Outperformance
Date	Nifty 50	Nifty Small Cap 100	Ratio	Peak
2-Apr-09	3,211	1,652	0.51	Trough
18-Feb-10	4,888	3,503	0.72	Peak
CAGR	61%	134%	73%	Outperformance
Date	Nifty 50	Nifty Small Cap 100	Ratio	Peak/Trough
19-Sep-13	6,116	2,842	0.46	Trough
15-Jan-18	10,742	9,580	0.89	Peak
CAGR	14%	32%	19%	Outperformance

Source: MOAMC Internal Research

Disclaimer: The above graph should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

The ratio of 0.5x assumes significance as it happens to be the near bottom of the down- cycle and an imminent upturn. It is often advocated that timing the market is not wise - however when it comes to small cap stocks, entering at the peak of the cycle has proved detrimental. Unlike large caps which are sturdy businesses; small caps are prone to the vagaries of the business cycle, and hence exhibit greater volatility.

The table clearly indicates that at every instance, buying small caps at the right time has resulted in significant outperformance over large caps.

SMALL-CAP CORRECTION: WE THINK IT'S QUITE OVERDONE NOW!

MOTILAL OSWAL AMC

We certainly believe now is one such opportunity!

In the same vein, clients who have invested in Small cap portfolios in calendar years 2017 and 2018 have seen large drawdowns in line with the index. They will do well to be aware that in-spite of the heartburn it has caused; this still is a notional loss. The investment horizons surely have gone up since we operate in a relative environment - converting this notional loss to a permanent loss will rob those investors of an opportunity to participate in the possible rally (as suggested by historical data points).

Higher drawdowns have tested many investors but as history suggests, increased allocations at these junctures and staying put far outweigh the benefits over breaking down at this stage.

At Motilal Oswal Asset Management Company (MOAMC), our investment philosophy is centred on 'Buy Right: Sit Tight' principle

Buy Right: Businesses we understand and managements we trust

'**Q'uality** denotes quality of the business and managements
'**G'rowth** denotes growth in earnings and sustained RoE
'L'ongevity denotes longevity of the competitive advantage or economic moat of the business
'P'rice denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

Sit Tight

Buy and Hold: We are strictly buy and hold investors and believe that picking the right business needs skill and holding onto these businesses to benefit from the entire growth cycle needs temperament. Temperament is precious; and governs 90% of the outcome.

Focus: Our portfolios are high conviction portfolios with 25 to 30 stocks being our ideal number. We believe in adequate diversification but not over-diversification as it results in diluting returns for our investors and adding market risk.

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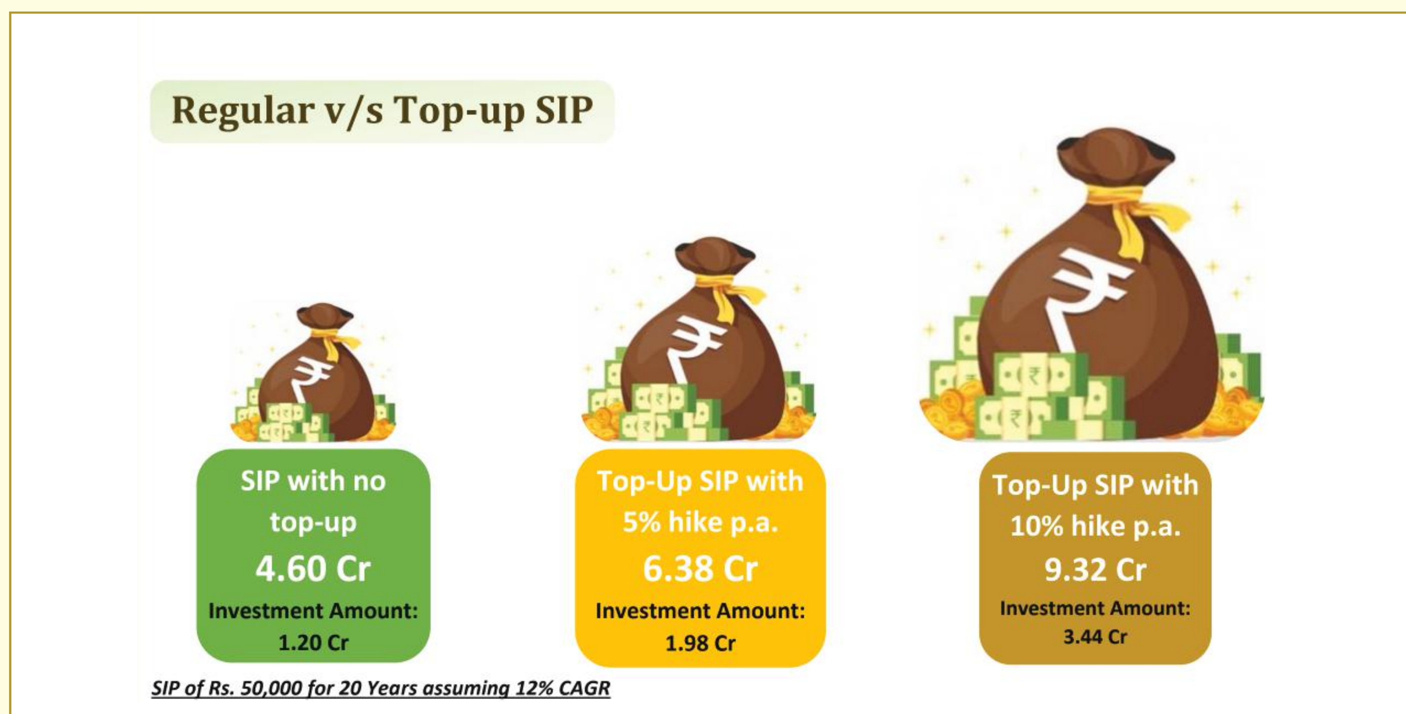
A SMALL INCREASE IN SIP EACH YEAR CAN LEAD TO BIG FORTUNE...

Quick Read

SIP is the most preferred and convenient way of investment when it comes to mutual fund investment for the very fact that it not only cushions the investments from market volatility but also it is hassle-free and automated. While SIP helps in creating wealth in the long term, one should not forget increasing the amount in line with the income every year. Even small increase in the amount can make huge difference in the longer term.



Let's take a look at the illustration shown above. It depicts how investments would've grown in a top-up SIP as compared to a regular SIP of ₹50,000 assuming 12% compounded returns.

Note: For illustration purpose only

Top Up every year (%)	Investment Amount (Rs. Cr.)	Future Value at 12% CAGR (Rs. Cr.)
0%	1.20	4.60
5%	1.98	6.38
10%	3.44	9.32

Top-up SIP **helps one to keep investments in line with the increasing inflation.** It adds to the power of compounding and **helps building bigger corpus in the longer term and achieve financial goals faster.** However, one **should not forget to keep track of their portfolio** regularly and take appropriate action if required to safeguard the investments from impact of any adverse market event.

So start your Top-Up SIP now and let power of compounding show its magic...!!!

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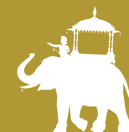


Fund Manager Speak

Anoop Bhaskar

Head Equities - IDFC AMC

> *Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.*
>
> *- Warren Buffett*

Our obsession with identifying "trends" to "justify" portfolio positioning and building an investment hypothesis is an exercise which organized money management has indulged (in the past) and will continue in the future as well. However, reflecting back on 2019, the fragility of such trend "spotting" needs to be reviewed with the same degree of humility as was the confidence with which they were made. Here are three of our key "predictions" for 2019.

- Strong election mandates translate into strong broad equity market returns: The stock market reaction of the last three General Election results had highlighted the above. Unfortunately, 2019 laid to rest this hypothesis – Mid and Small Cap indices underperformed the Nifty in CY 2019 despite a strong election mandate for BJP & PM Narendra Modi.

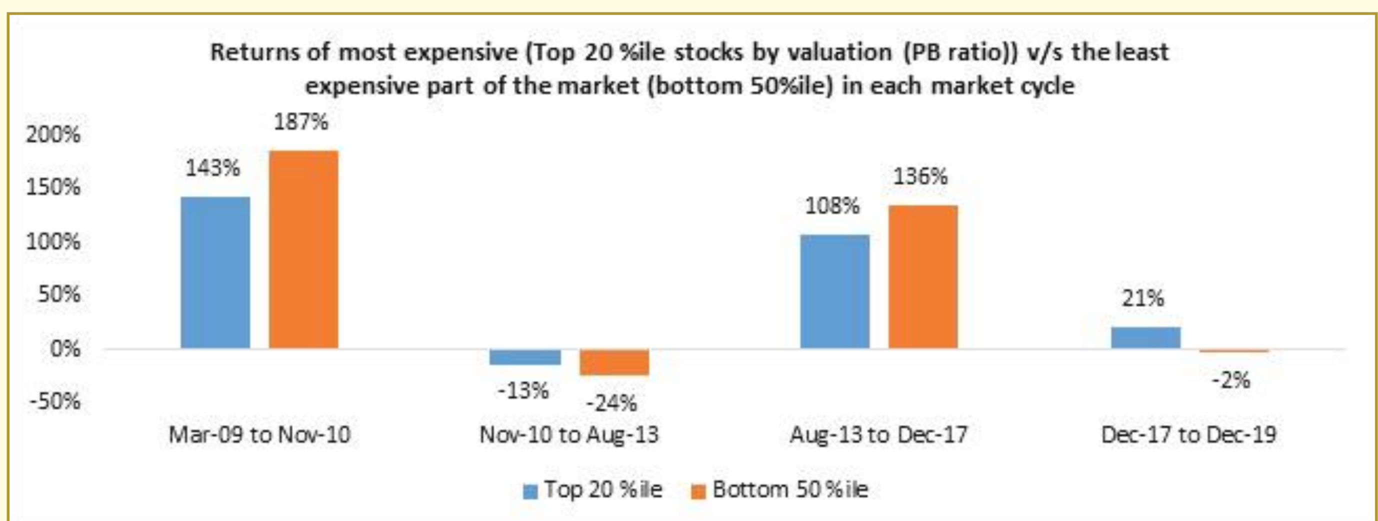
- Periods of Rupee appreciation are positive for broader markets: Over the last decade, sharp appreciation of the INR has been followed with a period of INR appreciation, during which broader markets outperform the Nifty. CY 2019 also laid to rest this hypothesis.

- Over the last ten years, Nifty has not outperformed the Mid and Small caps for two consecutive years: CY 19 ended with Nifty firmly in the "green" outperforming Mid and Small cap indices for two successive calendar years!

Reviewing the last decade: 4 Phases and different styles The last decade seems to have followed the Chinese proverb "May you live in interesting times". For equity investors, this period can be broadly categorized into four phases. Interestingly, each phase has its own set of winners and those who were left behind. The only single strategy which could emerge as a winner across these four phases - diversify across fund categories and stay invested for long period of time to profit from the growth potential of equity markets as different segments of the market have delivered in different market cycle. To look at how various investing styles have worked over the last decade, we have calculated the returns of most expensive (Top 20 %ile stocks by valuation (PB ratio)) v/s the least expensive part of the market (bottom 50%ile) in each market cycle.

OUTLOOK 2020 - ANOOP BHASKAR, IDFC AMC

Market Phase	Top 20 %ile (returns)	Bottom 50 %ile (returns)	Key Characteristics of Each phase
Mar-09 to Nov-10	143%	187%	Launch of QE in the US triggers a global rally, in India re-election of UPA without requiring support of the Left triggers jubilation. Autos; Staples; Consumer discretionary - after underperforming during 2003-08., Quality, good corporate governance and strong balance sheet emerge as virtues. Broad rally across Large, Mid, with **Small Cap outperforming**. Real estate sector outperforms equities.
Nov-10 to Aug-13	-13%	-24%	Fiscal weakening – double digit food inflation, early signs of NPA problem; INR crisis and Court activism result in Govt machinery coming to a standstill; Consumption remains the only star, **quality emerges** as the defining investment style. Large Cap outperforms Mid & Small caps. Real Estate is trumped by Gold as the strongest performing asset class.
Aug-13 to Dec-17	108%	136%	Hope of a Government change. "Strong" govt perception expected to drive economy and take decisive action; **Small caps** rise like the Phoenix, **outperforming Large Caps,** Real Estate, Gold. Record inflows from retail into MFs – equity as well as debt after De-monetization.
Dec-17 to Dec-19	21%	-2%	Small cap valuations peak, Budget announces re-introduction of LTCG after 15 years; froth in Small cap valuations quickly reverses. Quality and consistent growth make a comeback; emerges as the most profitable equity strategy. Benchmark heavy weights outperform Large, Mid and Small caps. Real estate continues to flounder, flows into equity MF continue.



OUTLOOK 2020 - ANOOP BHASKAR, IDFC AMC

The important observation for the investor would be to diversify across investment styles and not based on traditional market cap segment – Large, Mid and Small. Quality/Growth on the one hand and Valuation focused on the other hand would be the two broad styles. Funds, generally have remained consistent with this style though may have flirted with market cap segments in the past. With the new SEBI classification, funds have "tighter" market cap mandates and thus, tracking them on their investment style will become easier going ahead as compared to the past.

The other observation, is the steep drawdowns which a segment like Small cap is unable to escape from, even if the focus is on "quality" or put in another manner, quality without growth gets de-rated swiftly irrespective of the market cap segment. While, not all the companies in the small cap space would move up the market cap curve, we believe it is pertinent that we be very selective in this space and spend more time and effort in analysing and studying these opportunities. Therefore, for most of the investors a professionally and actively managed approach would be the way to explore opportunities in this space.

It is also important that we are cognizant of the market phase (pricing/valuation) when we enter into this space. Currently, with significant price correction, moderate valuation and volumes indicating that we may be closer to bottom, small cap space may be attractive proposition for those with commensurate risk appetite.

Decade Ahead

How the next decade will play out for equity investors is impossible to predict and we are neither brave nor buoyed by strong performance to dive into this issue. However, a diversified portfolio spread across investment styles and with selective sector bets could be the path to use for the next decade. Wishing you a profitable decade ahead and thank you for your support.

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INTERVIEW

Fund Manager Speak

Amandeep Chopra

The Group President and Head of Fixed Income at UTI AMC

1. The CPI moved up to 7.35% in Dec'19 and WPI moved to 2.60% in Dec'19. Do you the rising rend continuing and what is the implication of the same on the interest rate movement on the economy?

We expect inflation to pick up on account of number of factors, primarily driven by food & fuel inflation in the first half of the year and then decline. The headline inflation is expected to be in the range of 5% - 5.75% during the year. With the probable uptick in inflation due to uptick in crude oil and revised GST rates, we believe we are nearing the end of rate cut cycle and RBI might maintain an extended pause while being supportive to growth.

2. With retail inflation breached the upper end of the RBI 6% limit in Dec'19; do you think there is a likely change in the stance of RBI from the present "Accommodative"? Further are there any chances for a rate cut in CY2020?

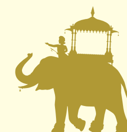
Going ahead, there are a few upside risks to inflation, and it is quite likely that we might see a continued pause in any rate action beginning February 2020 tself. We think RBI would continue to ensure sufficient liquidity in the system through OMOs and other measures in 2020 to justify their accommodative policy stance in a low growth environment and transmission of the rate cuts. While we expect an extended pause by the RBI, if growth data falters in the 2Q of 2020, there will then emerge a probability of a rate cut.

3. India's GDP growth fell to its lowest pace in 7 years with the Q2FY20 growth coming in at 4.55%. What is the growth trajectory do you see in CY2020?

The growth-inflation dynamic and the upcoming Union Budget would be a key in determining the market sentiment. While there will be a likely growth revival, we continue to expect moderate growth in 2020. We believe GDP is likely to be in the range of 5.10% - 5.40% on back of expectation of continued slowdown in domestic markets.

4. Though the government has announced various disinvestment projects to meet the fiscal deficit target; however, there is very little ground work seen in this direction, what is your opinion - will the government will be able to meet fiscal deficit target of 3.3%?

While the Government announced several divestment projects, due to limited time these could not be executed n FY20 and are likely to be key events for FY21. There are clearly some risks as far as fiscal slippage is concerned. Some degree of revenue loss has already happened due to the stimulus give to corporate sector in form of tax breaks. We are expecting some degree of fiscal slippage in the current year, with the expectation ranging from 3.5% to 3.7%.



5. Though the liquidity in the banking system has improved in the second half of the CY2019 the money supply in the economy has been weak, seen in the YoY growth in M3. What does this phenomenon indicate for the state of the economy and the movement of the yield curve?

The surplus liquidity in the system has reflected in the higher transmission of rate cuts, at the shorter end of the yield curve. The longer end of the yield curve would have remained elevated had it not been for operation twist. From an economic perspective, a slowdown in consumption and a lack of credit offtake, domestic growth revival is expected to be slow. With headline inflation breaching RBI's legal mandate, the central bank would have lower manoeuvrability and limited monetary policy tools. The government would have to do the heavy lifting through mix of fiscal policy measures and structural reforms to kick start the economy.

6. The RBI has cut the repo rate by 135 bps however the transmission of the same is not witnessed in the MCLR. When do you think the transmission of the same will happen in the conomy?

There will always be a lag between MCLR and transmission of rate cuts. MCLR is formula driven and is dependent on the banks' ability to cut deposit rates to lower their cost of funds. To have higher transmissions, the banks will need to cut deposit rates by much larger proportion compared to the policy rate cut.

7. India's shadow bank the NBFC has gone through tough times in the CY2019, thereby leading the real economy to slow down. When do think the cycle will upturn?

The NBFC sector has been starving for funds for more than a year now after the default by IL&FS in Sep 2018. The view amongst most market observers has been that the top tier NBFCs will be able to navigate the liability side pressures, while the rest of the NBFCs would struggle for funds and find it difficult to raise liquidity. While the pressure on the sector exists, the initiatives taken by the regulator and the government is expected to stabilise the credit markets. The Partial Credit Guarantee (PCG) offered by the government in Aug 2019 purchasing high-rated pooled assets from NBFCs/HFCs, is expected to assist in securitisation of loans worth₹4,000 - 5,000 crores by December 2019. Another initiative that is expected to ease the woes of NBFCs is the setting up of a ₹25,000 Crore Alternative Investment Fund (AIF) by the Government to provide relief to developers with unfinished projects to ensure delivery of homes to buyers. This is also expected to release large amount of funds stuck in these projects (with PSBs & NBFCs) for productive use in the economy. We expect the recovery for the sector to be slow as the funding remains a challenge for the financially weak NBFCs. However, the markets would derive more comfort from fast tracking of resolution for some of the stressed assets/companies in the sector.

8. With the US China Trade deal signed and the US Presidential elections due in November, what will be the impact of the same on the global commodity prices and bond market?

The Trade deal is expected to be positive for market sentiments but may not immediately lead to a spurt in global economic growth and hence the commodity prices may move up only marginally.

9. Looking at the current scenario, in which categories should investors park their money?

The investment theme in 2020 may remain centered around preserving capital and having low yield expectations. With the expectation of higher fiscal deficit and probable uptick in inflation due to oil and revised GST rates, we believe we are nearing the end of rate cut cycle and RBI might maintain an extended pause while maintaining accommodative stance. In such a scenario, funds having a combination of income accrual and low to short term duration would provide a good investment opportunity for the investors in 2020. While we recommend accrual, there will be opportunities for trading duration and a fund like the Short-term/Corporate Bond Fund following an accrual strategy while taking tactical calls on duration could be considered.

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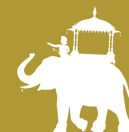


LEAD YOUR LIST OF PRIORITIES WITH HEALTH INSURANCE TODAY!

Quick Read

Health conditions are not premeditated. Nobody plans to fall ill or meet with an accident on a pre- ordained date and hence most of the times individuals are not prepared for the financial hit that comes with a large medical expense. In younger - healthier days a medical insurance may seem worthless. Often an investment that can be put on hold till 'old age' or 'retirement' arrives. However, as statistics say, that's not the case anymore. According to the data released from a national agency, by October 13, 2019 almost 67000 cases of dengue were reported across the country with the death toll increasing by the minute. A large number of these cases were amongst youngsters in the age group of 18-30. Considering the current environmental hazards and climatic imbalance, it is pertinent to have a health insurance to shield your finances from a sudden outburst of medical bills.

Importance of health insurance and why you should get one before your grey hair days!

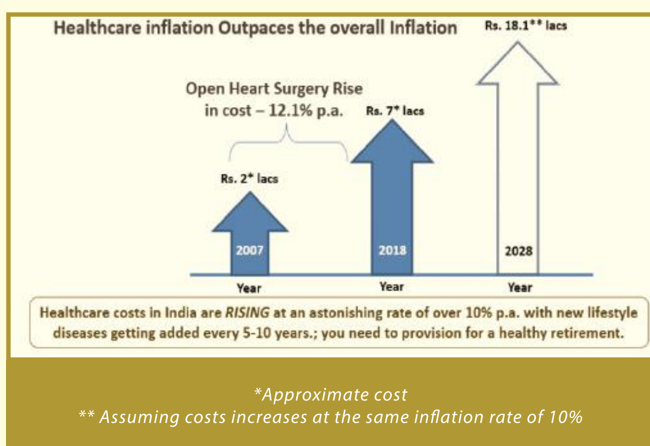
One policy, multiple coverage: A health insurance guards you from expenses of not one, but a host of multiple diseases that may or may not occur to you during a lifetime. From a simple fewer to relatively complex medical disorders - medical insurance policies have it all covered. A simple annual premium of INR 5,000 - 15,000 depending on your age and pre-existing medical conditions can provide you with a medical cover of almost INR 5-10 Lakhs, sufficient enough to provide for a large chunk of expenses in an event of an unfortunate disease or accident.

Lower premiums for early starters: Young people, owing to them being in the pink of health and having lesser health complications have the benefit of a lesser premium and higher coverage if they take insurance at an early age. As age keeps increasing, so do the health risks making buying an insurance policy a costly affair.

Cashless benefits: One of the most important benefits of an insurance policy is the feature of paying your medical bills directly through the insurer without a need of providing hard cash. In this era where the millennia have increased consumption spends; hardly have emergency fund and run their day to day expenses on credit cards, health insurance has a vital role to play in financial planning. A cashless insurance policy provides the advantage of settling your medical bills by merely displaying the insurance card.

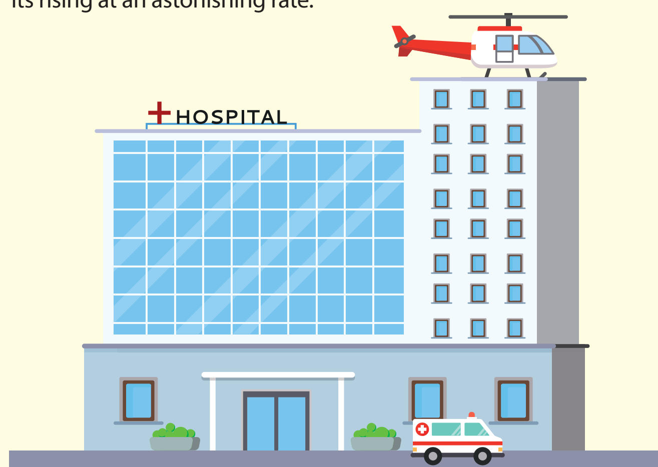
Income tax adjustments: Last but not the least, premiums paid towards insurance policies is eligible for deduction from total income under the income tax act thus reducing your total taxable income. The premium paid can help in reducing your income tax liability under section 80D and result in a great deal of savings.

LEAD YOUR LIST OF PRIORITIES WITH HEALTH INSURANCE TODAY!



**Approximate cost*
*** Assuming costs increases at the same inflation rate of 10%*

Rising medical costs: In the last few years, medical innovations have touched new heights. Even the most complex ailments have found a permanent cure. With rising innovations, the cost of these procedures has also risen. Medical expenses have easily gone into multiple digits resulting in a half day hospital stay also setting you back by a few tens of thousands. Keeping this in mind, a valid and ready insurance can be a saviour in combating these expenses that strike suddenly and avoid any imbalance in your daily life. In the graph, we can see how open heart surgery cost has increased over the years. The rise in cost is 12.1% p.a. in last 11 years which shows its rising at an astonishing rate.



Additional benefits: Along with medicines and treatments, insurance policies also cover additional expenditures like hospitalization, ambulance charges, vaccinations and health check-ups. These expenses though individually look minimal can eat up a great chunk when incurred collectively. Other than these there are some add-ons which some policies provide and are like oasis in a desert such as emergency air ambulance, global cover, bariatric surgery, day care procedures.

Conclusion: Health insurance may be scary and cumbersome to understand for a layman. A seemingly healthy individual who has had no major health issues in the past may also see it as a dead investment. However, these thoughts should not deter you from buying a health insurance of appropriate cover. A medical insurance is one of the most important and useful kind of insurance. In the long run, it results in a saving of lakhs of rupees in an investment of a few thousands. A boon you will only realize one day suddenly. Owing to the growing importance of this insurance, presently there are a large number of players in the market offering different types of medical insurance policies. Some even tailored as per an individual's needs. As time strikes, an individual should prioritize his health and invest in a suitable policy as soon as possible.

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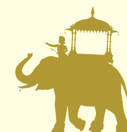

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