

Newsletter

SUCCESSFUL
INVESTING IS ABOUT
MANAGING RISK
NOT AVOIDING IT

- Benjamin Graham

Exclusive
PMS Coverage

**RIGHT
HORIZONS**
Guiding you in achieving your goals...



Economic outlook & Indian Equity Market Analysis - Aug 2022	2
Right Horizons Introduction	3-4
Right Horizons Investment Philosophy	5
Right Horizons Investment Process	6-8
Exclusive Interview with Mr. Anil Rego, Founder, MD & CIO - Right Horizons	9-11

Global Economy:

The global economy continues to be under uncertainties emanating from elevated inflation and supply-chain bottlenecks. Since most businesses today work in various geographical regions and they are reliant, events in one country/region impact global stakeholders. Though volatility gets heightened with the noise levels, the stock markets capture the story of interconnectedness and spillovers rather well and in real time.

The World Bank cautioned that the Russian attack on Ukraine and its impacts on commodity markets, supply chains, inflation & financial conditions accentuated the slowdown in global economic activity. Currently, the Bank anticipates that world GDP growth to ease to 2.9% in 2022 from 5.7% in 2021. The IMF (International Monetary Fund) has forewarned that a recession next year cannot be ruled out, given the elevated risks. The Federal Reserve announced the rise in interest rate by 75 bps as it seeks to fight sky-high inflation. It is the second time in succession that the Fed has raised rates by three-quarters of a percentage point and the fourth rate hike this year.

The US economy is probably going to slow in 2022 and 2023 yet will “barely keep away from a downturn/recession” as the Federal Reserve carries out its rate-fixing, intended to check expansion. The FED’s arrangement of quickly getting back to benchmark rates is around 3.5%-4%. As this could create an upfront tightening of financial conditions which will bring inflation to target.

Indian Economy:

Despite such solid global headwinds, the Indian stock market has remained relatively calm in the face of global macroeconomic uncertainties. Our economy is projected to grow 7.1-7.6 percent in the current financial year and 6-6.7 percent in 2023-2024, despite geographical realities across the world. The rupee depreciated by 3 paise to close at the record low of 79.62 (as on data dated 27th July 2022) against the US currency. India is likely to recover from the lost ground against the US dollar but not before early next year.

The optimism in the air of our economy has jolted due to the omicron infections followed by the Russia-Ukraine war that happened in February. This influenced surging commodity prices and disruption in trade and financial transactions which quickly deteriorated the economy. With retail inflation based on CPI (Consumer Price Index) ruling at more than 6 percent for the last six months, it was 7.01 percent in June. Also, RBI has already raised the repo rate twice this year by 40 bps in May and 50 bps in June. Alongside this, the RBI rate-setting panel is expected to meet by the first week of mid-quarter (Aug 03, 2022) to discuss the prevailing economic conditions. NSE NIFTY 50 and BSE SENSEX have broken their ceiling of the falling trend in the medium-long term. Though the market is volatile & uncertain at present, it clearly offers an opportunity to invest & reap gains in the longer term. As Seth Klarman said,

“The single greatest edge an investor can have, is a long-term orientation”.

Happy Investing!!

PMS Bazaar Research Team.



RH PMS is a discretionary Portfolio Management Services firm that started operations in 2012 after years of rigorous fundamental & technical research by the Right Horizons Group before inception. Over this period, they have developed an expertise in picking stocks that can do well on a risk-adjusted basis which is also demonstrated in their portfolio performance during volatile market conditions. Their Fund Management Team has a combined experience of more than forty years in investment and research. It is headed by Mr. Anil Rego, a seasoned investor with more than twenty years of investing experience supported by CFA, IIT, and IIM graduates.

RH PMS is a one-stop shop for investors offering a diverse range of strategies under one roof, starting from strategies categorised by market caps to AI-based offerings.



Mr. Anil Rego – Founder, MD & CIO

A seasoned Investor for over three decades, following a contrarian style

Chartered Financial Analyst & MBA from ICAI

Corporate Experience in Business Planning, Corporate Finance, Mergers & acquisitions with Wipro Technologies.

A Regular & Featured Speaker on Business Television Channels and a regular Contributor to Articles in Print and Online media.

A Panelist at various International Conferences, Seminars, Symposiums, and Global Events.

An Author having Penned his own experiences, a Bestseller “Honey, I Lost All Our Money!”

A Philanthropist making a difference to the Underprivileged



Mr. Prabhat Ranjan, CFA – Co-Fund Manager

Prabhat Ranjan has over six years of experience in equity and investment research

He has done his B.Tech from BVP, Pune, and MBA from Delhi School of Economics

CFA charter holder from CFA Institute, USA

He covers Manufacturing, Cement, Chemicals, and Automotive, among other sectors at Right Horizons

Previously worked as an Investment & Research Associate at Client Associates



Mr. Vijay Chauhan – Co-Fund Manager

Vijay Chauhan is a B.Tech graduate from IIT and has an MBA from IIM

He covers Financial Services, Pharma, IT, and consumers, amongst other sectors at Right Horizons

He has a successful Track record of investing in Indian Small Cap and Mirco Cap companies



Mr. Piyush Sharma – Fund Manager

Piyush, born and raised in India, is the Fund manager of Right Horizons Minerva Funds. Having spent time with Citigroup and the Bombay Stock Exchange in India, he moved to the United States in 2002, where he covered stocks within Business Services, Autos, Consumer Products, and Financials with Sanford Bernstein, Longbow Research, and Avondale Partners, working in teams that received accolades from leading institutional research arbiters, including Institutional Investor (II) and Greenwich Associates.

Piyush received an MBA from the University of North Carolina at Chapel Hill, MS, from MNNIT, and a BS in Accounting from the University of Allahabad.



Mr. Satwik Jain – Fund Manager

Satwik Jain is the fund manager of RH Perennial Fund

He has previously led the equities asset allocation at one of India’s largest multi-family offices- Client Associates

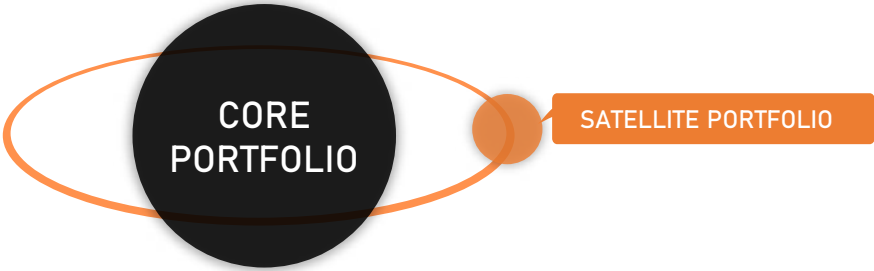
He has done MBA- In finance & Marketing from IMT, Ghaziabad, CFA Level 2 &FRM Part 1





Core & Satellite Portfolio

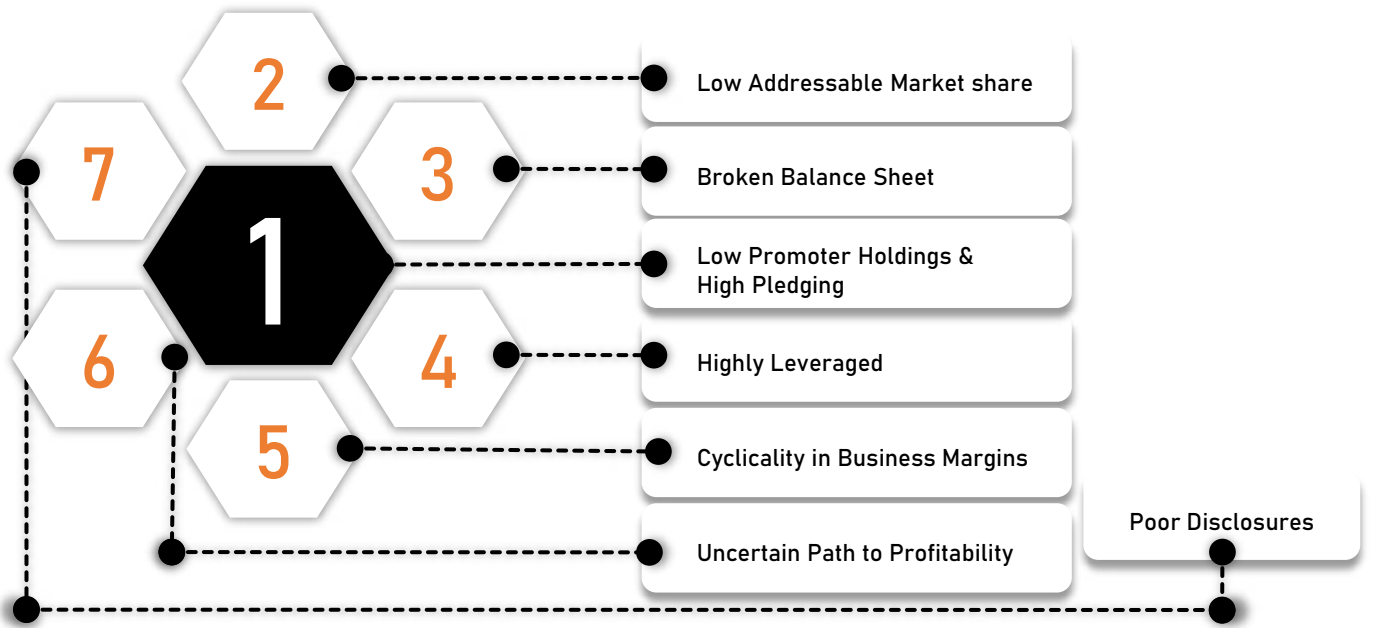
Right Horizons PMS follows a unique approach termed “CORE AND SATELLITE”. The core part of the portfolio makes about eighty percent with capital efficient high growth businesses. The Satellite part of the portfolio is used for tactical allocations in turnaround businesses or contrarian bets having a higher margin of safety and better risk-reward potential. This approach has helped them generate alphas consistently over the years.



Bottoms up Stock Selection

RHPMS research team follows the Bottom-up approach for stock picking, focusing on the fundamentals of the business-like Value generation factors, sustainable growth, Market size, and Promoter stake in the business rather than the overall macro environment. The objective is to invest in companies that outperform their peer group and the broader market over the long term while simultaneously paying attention to the red flags for unsystematic risk.

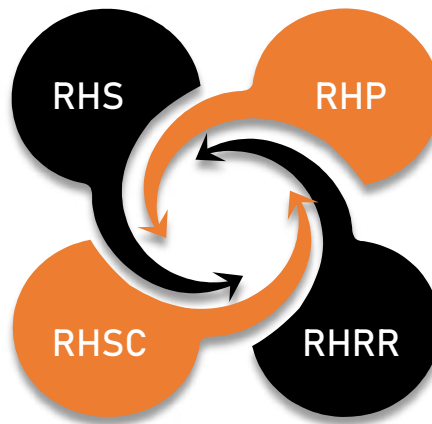
Systematic Risks



RH Investment Process

RH SCREENER [RHS]

RH SCORECARD [RHSC]



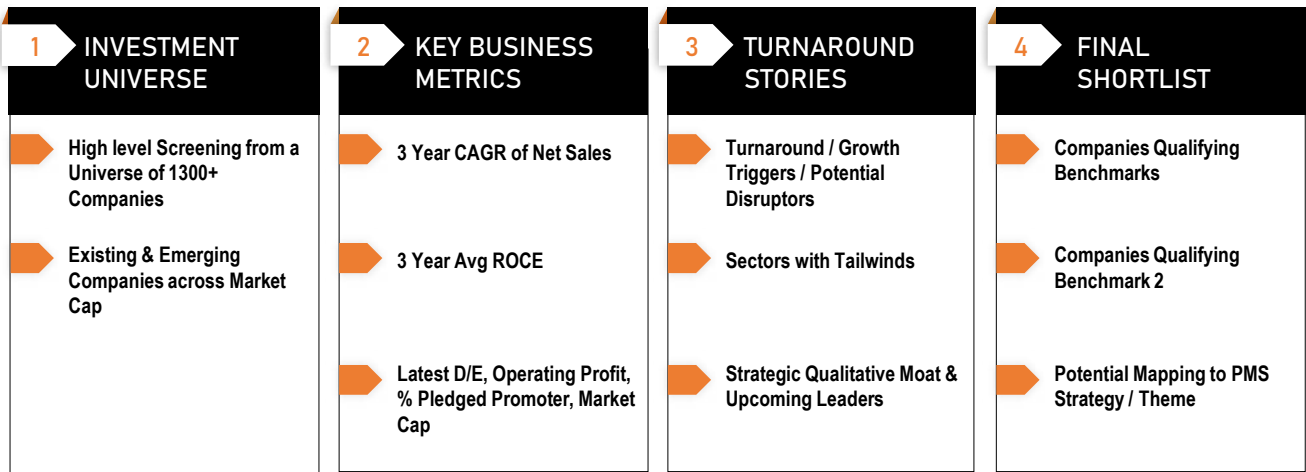
RH PENDULUM [RHP]

RH RISK RADAR [RHRR]

RH Investment process follows a four-layer approach designed to pick businesses in line with their philosophy. RH Screener filters businesses with solid fundamentals from a universe of more than a thousand three hundred businesses and is further scrutinised for Turnaround stories, Potential Disruptors, Moats & Emerging Leaders and are assigned scores based on a diverse range of parameters as per the RH Scorecard system.

RIGHT HORIZONS INVESTMENT PROCESS

RH SCREENER [RHS]

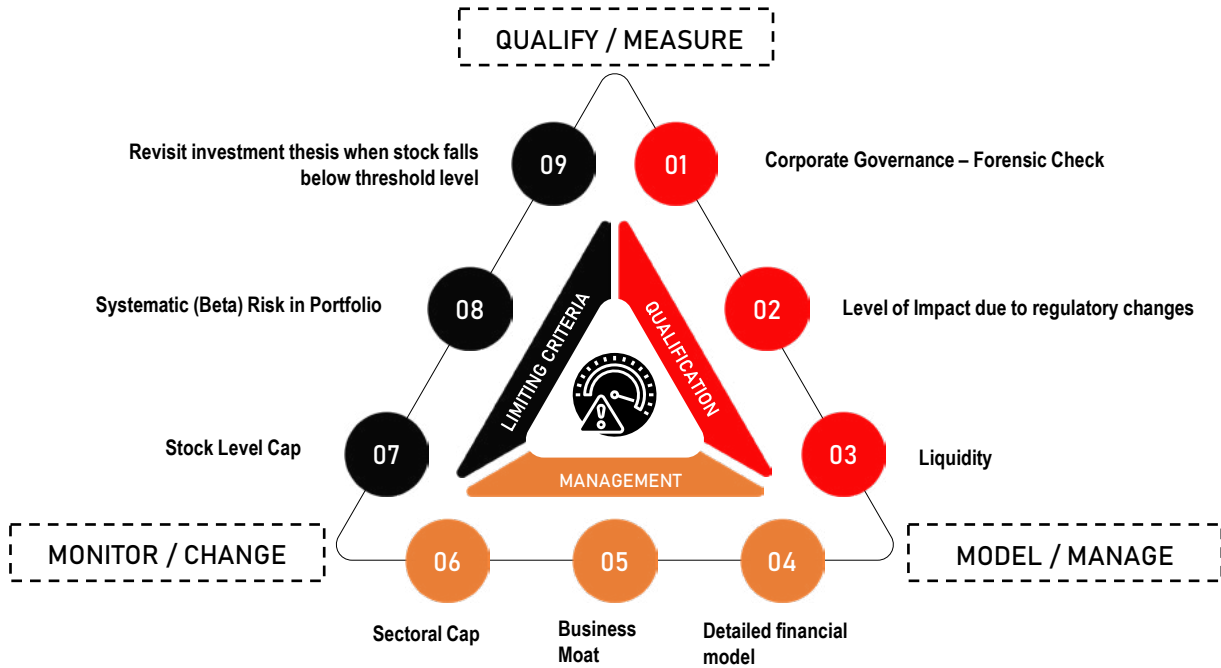


RH SCORECARD [RHSC]

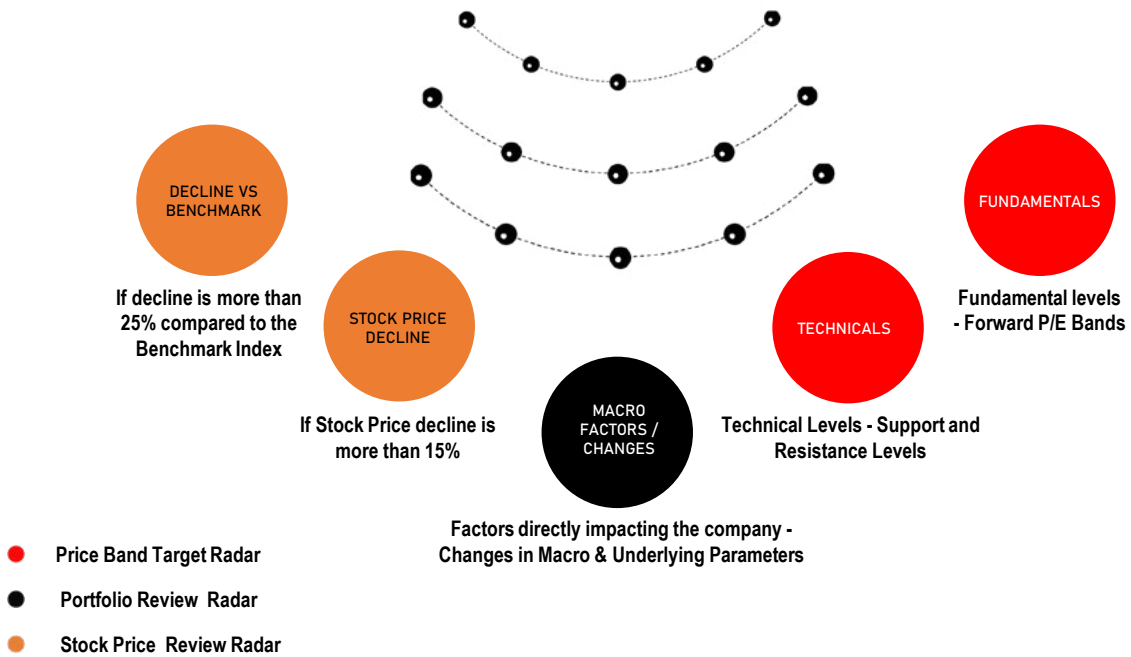


Businesses with eligible scores are scanned through the RH Risk Radar based on specific criteria that mitigate systematic risk and diversify unsystematic risk in the portfolio. RH Pendulum is a re-evaluation framework that re-assess businesses in case of declines in the price to check if the factors underlying the company have changed structurally.

RH RISK RADAR [RHRR]



RH PENDULUM [RHP]



Exclusive Interview



Mr. ANIL REGO
Founder, MD & CIO

We conducted an exclusive interview with Mr. Anil Rego - Founder, MD & CIO in order to know Right Horizons in depth and enable the investors to make informed decisions. The questions and answers are reproduced verbatim

What is the approximate weightage you assign for your fundamental and technical research in the investment process?

We invest and exit purely based on fundamental analysis since it helps us determine the fair or intrinsic value of a company based on rationales like the business model, competitive advantage, corporate governance and growth outlook

We use technical analysis more for better timing the entry or exit point once the decision to invest or exit is made based on fundamental parameters.

Do Large cap (Business Leaders) have an advantage over mid & small caps in volatile economic conditions?

During periods of higher volatility on the downside and when interest rates are on an upward trajectory, large-cap schemes generally do better since the market perceives them to offer a margin of safety, and investors move towards such companies because of their pricing power and lower leverage.

Our strategies have companies in the portfolio with pricing power that can pass on the input cost inflation, have lower leverage compared to the sector peers and earnings that are relatively resilient against economic downturns. Market respects quality parameter and hence our mid and small cap strategies tend to outperform their respective benchmarks during such economic conditions. Further, the RH Flexicap strategy also allows flexibility to move between large and mid/small caps based on our market outlook.

Does RH Screener include SME companies?

RH Screener filters businesses with solid fundamentals from a universe of one thousand three hundred listed companies with the highest market cap. SME companies are excluded from this list.

Do you hedge for the systematic risk allied with the portfolio?

Systematic risk is inherent in the market and cannot be hedged completely. We have evaluation tools derived from models that describe the risk-return relationship and specify the proportion of asset allocation needed to mitigate systematic risk. Our deep expertise in market cycles has helped us mitigate this risk as well.

We have systems in place that have identified restraints on allocation to diversify away other risks without hampering the portfolio's performance. We have capped exposure for sectors at 30% of the portfolio or equal to the weightage of the index (whichever is higher), maximum exposure on the stock level is capped at 15% and a full range of 20 to 25 number of stocks in the portfolio.

Other than gold ETFs, what other asset classes are getting your closer attention?

RH Flexicap is flexible to move across market caps based on the market conditions and in case of market uncertainties or if volatility increases on the downside. To reduce the impact, we look at raising cash or investing in gold ETFs due to its low correlation with equity and other asset classes.

We also have multi asset portfolios that typically hold- goldETFs, debt (through MFs and Bonds) and equity (both stocks and MFs).

How often do you swing the RH pendulum, or does it depends on its own?

RH Pendulum is our framework built to re-evaluate businesses when they get overvalued and undervalued. We also study technical of the stocks to help phase in entry or exits. In case of declines in the price beyond fifteen per cent or if the portfolio decline is more than twenty-five per cent compared to the benchmark, we review the companies we hold. This is to check if the factors underlying the company have changed structurally. Further, it must be noted that the RH Pendulum looks to have a medium to long term orientation, rather than a short-term trading approach.

Brief on RH Flexicap stock selection approach. Does RH Flexicap follow a top-down approach?

We follow a Bottom-up approach for stock picking, focusing on the fundamentals of the business-like Value generation factors, sustainable growth, Market size and Promoter stake in the business rather than the overall macro environment. The objective is to invest in companies that outperform their peer group and the broader market over the long term while simultaneously paying attention to the red flags for unsystematic risk. We filter businesses with solid fundamentals from a universe of more than a thousand three hundred businesses and scrutinise it further for Turnaround stories, Potential Disruptors, Moats & Emerging Leaders. We assign scores based on a diverse range of parameters. Companies with eligible scores based on specific criteria and the ability to complement the portfolio are selected to mitigate systematic risk and diversify unsystematic risk. While the portfolio is predominantly bottoms up, we do track the sectoral allocations and could fine tune the weights of the companies in the portfolio based on the overall sectoral view. This is also done from a risk management perspective.

Did IT stocks bottom out completely or yet to fall in case of a recession in the USA? Throw some light on the current landscape of the Indian IT Sector.

Indian IT space had a robust performance in FY22 due to strong demand, while stocks saw steep corrections due to the fall in Nasdaq. While the market remains robust, a recession in the US would restrict revenue growth, keeping in mind that the geographical exposure to US is the largest for most IT Services companies. Adding to it, the higher employee costs are impacting the margins that have declined to pre-covid levels. Furthermore, higher interest rates globally are unfavourable for the sector in the short term. We have a positive outlook on the sector over long term since the structural drivers of growth more than offset the short term pressures. Hence, further corrections can be used to accumulate stocks in the sector.

Is India's premium valuation justified compared to the emerging market peers?

Indian Equities measured by MSCI India Index have historically traded at an average premium of 44% compared to MSCI EM Index. As on 30th June 2022, Indian Equities were trading 72% premium compared to the Emerging Markets based on P/E multiple. While India has been and is projected to be, among the fastest-growing emerging markets, other factors such as robust infrastructure, attractive demographics, corporate governance, diverse composition at industry and company levels, relatively lower exposure to cyclicals, benefits in manufacturing due to China+1, benefits of digitization and various government reforms, comparatively lower government ownership companies make up the index and resilient corporate earnings justify the valuation.

Further, valuations as measured by the PE ratio of the Nifty have fallen sharply and are at attractive valuations compared to the past averages on the back of good earnings growth.

Brief your expectations on Foreign Direct Investment (FDI) into manufacturing in FY23.

The Indian government has implemented several reforms under the FDI policy regime across sectors such as insurance, defense, telecom, financial services, pharmaceuticals, retail trading, and e-commerce.

Despite the ongoing pandemic and global developments, the Manufacturing sector attracted FDI equity investments worth USD 21.34Bn in FY22 compared to USD 1.09Bn, an increase of seventy-six per cent yearly. This can accelerate as MNCs look to build up an alternate base to their manufacturing facilities in China.

While the macro uncertainty has led to outflows of investments in the last nine months, The Indian government has taken several initiatives and approved a PLI scheme for plants for critical starting materials, with the commercial development of the plants expected to start by FY24. Such initiatives have put India on the path of becoming the hub for hi-tech manufacturing as giants around the globe are in the process of setting up manufacturing plants in India. Manufacturing companies will also benefit from the lower interest rates compared to the past.

Disclaimer: Disclaimer: Any information contained in this material shall not be construed as an advice, solicitation or an inducement to invest in any portfolio/strategy of the Portfolio Manager. The names of the funds/ portfolios/strategies do not, in any manner, indicate their prospects or returns. There is no assurance or guarantee that the objective of the portfolios / strategies will be achieved. Past performance is not necessarily a guide to future performance and no way guarantee the future performance. Investment in securities market is subject to market risks, you are requested to read all the related documents carefully before investing. Investors are responsible for their investment decisions and are responsible to validate all the information used to make the investment decision. No content of this material including the performance related information is verified by SEBI nor has SEBI Certified the accuracy or adequacy of the same. Investors must read the detailed Private Placement Memorandum (PPM) including the Risk Factors and consult your Financial Advisor before making any investment decision/contribution to PMS. For Detailed Disclaimer of Right Horizons Portfolio Management Services

Please visit their website <http://www.righthorizonspms.com/>

PMS Fintech Pvt Ltd

Old No 24/New No 53, 2nd Floor, 1B
Wellington Estates, Ethiraj Salai, Egmore, Chennai - 600008.
Ph: +91 44 4857 0888 | Email: info@pmsbazaar.com

