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Jan 04, 2019

Letter to investors: Update for nine months ended Dec 31st, 2018

Dear Investors,

For the three months ending Dec 31st, Buoyant PMS portfolio* gained 2.3%. The Nifty-50 Index returned a negative 0.6% and BSE 100 Index returned 0.7% during that time.

The performance of the PMS portfolio* over different time periods since inception is reflected in the table below:

Total returns (%)	Buoyant Portfolio*	Nifty 50 Index	BSE 100 Index	BSE 500 Index
Last month	1.3%	-0.1%	0.4%	0.8%
Last three months	2.3%	-0.6%	0.2%	0.7%
Last six months	-3.3%	1.4%	1.6%	0.1%
Last year	-14.8%	3.2%	1.2%	-3.1%
Last two years - annualized	34.3%	15.2%	15.4%	14.8%
Since inception - annualized	26.2%	11.7%	12.3%	12.3%

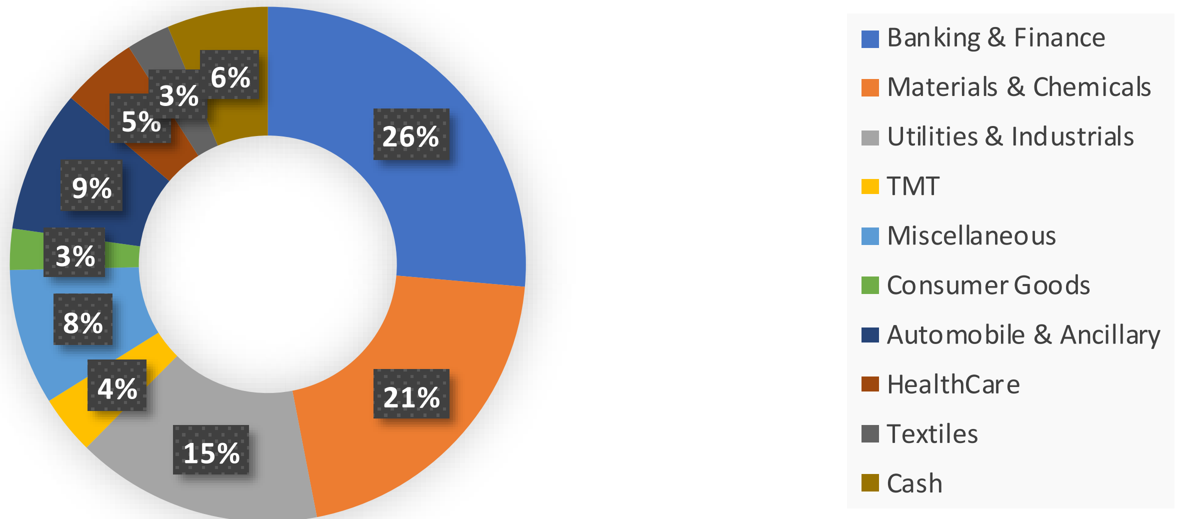
Source: Bloomberg for NIFTY 50 Index, BSE 100 Index and BSE 500 Index. Buoyant Portfolio is pre-fees and expenses
*See disclosures at end on how Buoyant Portfolio returns are calculated. More than one year returns are annualized

Buoyant's average cash position for the quarter stood at c6%. As mentioned in the disclosures on page 9, the composite performance above is average across all client portfolios and individual returns will differ due to variations in holdings, the subscription timing and other client-specific circumstances. Your individual account statements should have arrived by email to your addresses by now. Please get in touch with either of us with questions that you may have.

At our core, we have consistently believed in running a concentrated portfolio—investing in businesses that we understand and firmly believe in, and which are available at valuations that we consider are below their fair value, irrespective of the levels of broader indices.

For the nine months ended Dec -2018, Buoyant's portfolio turnover stood at 0.59 times (including businesses we churn out of, when we inherit an investor's portfolio) and total brokerage paid stood at 0.18% of average portfolio (see disclosures on how portfolio turnover and brokerage paid ratios are calculated). We believe the low turnover and brokerage ratio is reflective of our belief in the buying quality businesses and holding them. The weighted average market capitalization of the businesses in Buoyant portfolio as of Dec 31st, 2018 stood at USD7.4 billion (or, INR515.9b)

Portfolio composition and top holdings



Gujarat Fluorochemicals (GFLC, Market capitalization cUSD1.4b)

GFLC is India's largest producer of chloromethanes, refrigerants and Polytetrafluoroethylene (PFTE). In addition, it has stakes in film exhibition business (through Inox Leisure) and wind turbine manufacturing business (through Inox Wind), among others. Superior mix and new capacity commissioning in its chemicals business will drive revenue and earnings growth for the standalone entity. In addition, both its subsidiaries are performing better than last year, which makes GFLC an interesting business to own.

Ramkrishna Forgings (RMKF, Market capitalization cUSD0.3b)

RMKF supplies auto components to OEM of commercial vehicles (CV) in India and exports them to US and Europe. RMKF is a direct play on improving CV cycle in India and that of class 8 trucks in North America. In addition, the recently commissioned facility will allow RMKF to manufacture components with higher complexity, and a resultant enrichment of product mix should improve operating margins. New foray in sectors of Oil & Gas and Railways are added benefits.

Welspun Corporation (WLCO, Market capitalization cUSD0.5b)

WLCO is the second largest manufacturer of large diameter pipes in the world; with capacity to manufacture longitudinal (LSAW), spiral (HSAW) and ERW pipes. Higher crude oil prices is resulting in higher capital spending by oil majors to transport crude and products. This is beneficial to all line pipe manufacturers, including WLCO. WLCO's order backlog has increased materially over the last year, and we believe that new orders, arguably at higher profitability will drive earnings growth over the next couple of years.

What have we added in the last quarter?

An important event transpired in the Indian financials space during the last quarter. In Sept-2018, IL&FS Financial Services, a group company of IL&FS defaulted in payment obligation of bank loans and failed to meet the commercial paper redemption obligation. Consequent to the default, rating agency ICRA downgraded its ratings. IL&FS had 24 direct subsidiaries, 135 indirect subsidiaries, six JVs and four associate companies with a total debt of INR910 billion—large, in the context of Indian financial markets. The debt mutual funds scheme which were holding the short-term paper of IL&FS were forced to write-off the amount, leading to a large dip in daily net asset value of Money market and short-term funds. This spooked the debt-market participants, and they withdrew INR2.1 trillion from liquid funds (AUMs dipped by INR3.1 trillion from the debt funds–a drop of almost 12.5%) in the month of Sept-2018. The effect spilled over to equity markets as well, with equities of Non-Banking Financial Companies (or, NBFC) and Housing Finance Companies (HFC) falling between 12% to 64% over the course of the next one month.

At the heart of the crisis was the practice of finance companies borrowing in the short-term market (where borrowing rates are lower), and lending over a longer duration (where rates are higher), thereby resulting in higher spreads (and therefore, higher earnings). This created what is commonly known as an Asset-Liability duration mismatch. If the short-term markets kept rolling the debt obligation infinitely, then NBFC/HFCs could have kept reporting higher profits without worry. However, the IL&FS default sucked the liquidity out of the system, thereby making it a liquidity crisis for a few companies. Nevertheless, at this moment, it was just that—a liquidity crisis, not yet a full-blown asset crisis (where the value of assets fall below the outstanding liability). We had very little exposure to NBFC/HFC going into the crisis; which made this event an opportunity for us. After careful analysis, we decided to increase our exposure to this space.

The total borrowings by NBFCs and HFCs stood at cINR21 trillion as of Aug-2018, funded INR11 trillion by Banks and the balance broadly equally split between Mutual Funds (MF) and Insurance/Pension Funds. These companies were growing their advances at c20% CAGR over the last three years, and if similar growth rates were to continue, they would have required cINR4 trillion of incremental funding over the next year. In addition, given that the MFs were facing redemptions, that source might have to be replaced, requiring an addition funding of cINR5 trillion. In total therefore, the system was in a need of cINR9 trillion of incremental financing over next one year, which seemed relatively high to us (given that total bank loan outstanding at that point were roughly INR80 trillion). This, in our opinion, would have two implications: (a) that the growth rates would need to slow, and (b) that the source of financing would have to move to longer duration and to banks, which would be costlier. The end-result would be slower growth, and lower earnings—some correction in stock prices was clearly warranted.

Nevertheless, the market reaction on such junctures is often kneejerk. We used two filters to zero-in on businesses to buy (a) well-run NBFC businesses that has ALM matched across all time-baskets, and (b) HFCs that have a relatively stronger loan book with relatively lower builder financing, but a strong parentage (which can bail the business out even if it is running a negative ALM in the short-term). We chose Bajaj Finance under condition a, and CanFin Homes under condition b above.

Bajaj Finance (BAF, Market capitalization cUSD21.5b)
BAF is a direct subsidiary of Bjaj Finserv and is effectively controlled by Bajaj Holdings and Investments. BAF is a 31-year old NBFC, originally set-up as the auto financing vehicle, but has since diversified into consumer, rural, SME, commercial and mortgage lending. It is present across 862 urban locations, 751 rural locations with over 75,000 plus distribution points and has over 30 million consumers and Assets Under Management of over INR1 trillion. It also owns wholly owns Bajaj Housing Finance and Bajaj Financial Securities.

BAF had consistently demonstrated its ability to deliver Return on Assets (RoA) higher than its benchmark level of 3% across interest rate cycles, while managing to keep the gross non-performing assets (GNPA) below 2%. In addition, BAF presented that the duration of assets exceeds that of their liabilities across all the time-frames; which implies that they essentially run very low refinancing risk.

Lower refinancing risk also implies that BAF would stand to gain market-share, as its competition looks to scale-down their business for lack of financing, or for want of higher profitability.

At our acquisition price, BAF traded at 3.9X FY21e Price to book and 19.9X FY21e PER; which is higher than what we would prefer to pay. However, the stock had corrected over 30% from its recent highs and given our confidence in BAF's ability to continue (and rather, grow its business) as a going concern, we decided to buy into it.

CanFin Homes (CANF, Market capitalization cUSD0.6b)
CANF is among the larger housing finance companies in India, promoted by Canara Bank in the year 1987, and is registered as a deposit taking HFC with NHB. CANF's focus is on housing loans to individuals (90% of loan book) and has pan-India presence with 152 branches, 21 affordable housing loan centers and 14 satellite offices spread over 21 states.

CANF has had a strong loan book growth (24% over last three years) and 90% of the loans as housing loans and a very negligible (below 0.1%) builder loan book. More than 70% of its loans are to the salaried class, thereby reducing future potential risks of defaults, which is evident from the sub 1% GNPA that CANF reports despite the strong loan book growth. CANF's capital adequacy also remain strong (19% in 2QFY19). CANF has a relatively high exposure to market borrowings (46% of overall, split 15% in CP and 30% in NCD), which is higher than what we would normally prefer. And although CANF has not disclosed its ALM by time-buckets, the presence of higher share of market borrowing for a housing finance company would indicate a mismatch at the shorter-end, which could pose refinance risks. However, the stock had corrected c64% from its recent highs, which we believed was excessive given that CANF has a solid book and only runs liquidity risks (which could possibly be arranged by a strong parent in the event of crisis).

At our acquisition price, CANF traded at 1.8X FY20e Price to adjusted book and 10X FY20e PER; which we believed was attractive.

What are we actively avoiding?

The 'polluter' theme is here to stay; but, 'Steel' may not fit

We write in a lot more detail about China in the next section; but a few interesting stories seem to be in order now. About six months ahead of the 2007 party congress, the Tai lake in Jiangsu turned green. A crucial source of water for tens of millions of people and the heart of ancient China's fertile land 'land of fish and rice', the Tai lake had been blanketed by an algae bloom created from discharge of raw pollutants from chemical plants around its edge; this time, it was simply very bad. The Beijing leadership, as it had many times before, asked local governments to more strictly enforce longstanding environment laws. After that, the up-and-coming Jiangsu provincial party secretary ordered the closure of more than 2000 small chemical factories and said that they are willing to sacrifice 15% of economic growth to clean up the lake. Similar stories of how steel mills were moved to the outskirts of Beijing and almost a million cars ordered off the streets before the Olympics are galore.

With exponential growth in industrial production, pollution has been rising in China for many decades now. However, it has now reached a level where officials, both and Central as well as provincial level are taking note and are willing to go slow on economic development in extreme cases. In the meantime, not many questions are still raised about India's pollution, which allows India to occupy a larger role in some industries. Agro-chemicals, Steel, Active Pharmaceutical Ingredient etc. are a few such themes within the wider 'India as a polluter' theme.

Within the list above, steel occupies a special position. By Sept-2018, the market-cap of three largest Indian steel companies had increased to USD29.1 billion from its lows of USD8.5 billion in 2016. Steel companies have benefitted from two broad themes at play:

(a) **Rising protectionism**—both within India and in international trade. China is the largest consumer of steel in the world (consuming 768 million tons in 2017, or 45 percent of global consumption). Steel production capacity in China has kept rising throughout the last decade (rising to over one billion tons in 2018 to about 150 million tons at the start of the new millennium), and China went form net importer of steel to a net exporter (100 million tons at the peak) in 2016. Global consumption could not absorb the size of exports from China, leading to a collapse in steel prices world-wide. Given that steel is a major source of employment, many countries started imposing tariff and non-tariff barriers on steel imports from China (started with US, then Europe and India as well now). That resulted in not only rising production of Indian steel mills, but also rising steel prices and eventually, in higher profitability.

(b) **Environment protection** within China leading to lower production: China used to be a supplier of steel not only to Europe and US, but also within Asia. Over 2016 and 2017, estimates suggest that production capacity in China has been cut by 115 million tons (in perspective, the total production capacity in India is little over 130 million tons) as the polluting mini-steel mills were ordered to shut down. With potentially lower production from China as well as with availability of low-cost captive iron ore in India (key raw material for making steel), India could have substantially gained exports market-share resulting in higher profits from higher production and better fixed cost absorption.

Over the last three years, both the themes have played out well, in our opinion. However, the incremental focus, in our opinion, will move to the following areas:

(a) India had imposed Anti-dumping duty on steel originating from China, which will be in place till Aug-2021. Given the rise in protectionist measures across the globe, the Indian government will be keen to extend the benefit of protection going forward as well. Nevertheless, however small, we need to account for the possibility that these restrictions may no longer be in force, thereby effectively removing the floor on Indian steel prices should the Chinese steel prices correct.

(b) Chinese steel prices have corrected 15 percent from their top over the last four months. Despite the protection offered to Indian steel mills, imports from China continue, and Indian steel producers price their products in-line with the landed cost of material. As they are currently priced, Indian steel prices are trading at a USD30 per ton premium to landed costs – implying that there is room for Indian steel prices to come down from current levels.

(c) The winter shut-down of steel production in China has not happened as effectively as one might have hoped. This has resulted in Chinese steel production increasing over nine percent year-over-year over the last three months. Whereas environment protection is a long-term theme, over the short-run, it does not appear to be having a desired impact.

(d) With a lot of steel sector non-performing assets being sold to financially strong owners, the Indian steel production could also possibly increase over the next few months/years (Vedanta is already working on feasibility study to increase capacity of the acquired Electrosteel to 7mtpa from current production of 1.5mtpa). In addition, with ArcelorMittal entering Indian steel markets (with the acquisition of Essar Steel), it changes the longer-term domestic demand-supply balance in the equation, and

(e) Indian steel companies on average are trading at 9x one year forward price-to-earnings ratio. The consensus is expecting steel prices to correct, resulting in a fall in earnings over the next year. Whereas the valuations are not overly expensive, they are not conducive for us to initiate a long-term holding.

The often-quoted Chinese saying comes to mind. *'The mountains are high, and the Emperor is far away'*; describing how local officials become more independent the further away they are from Beijing. At the end, a few extra steel mills built in defiance of central government diktats on industrial policy or a few rivers dirtier than they should have been, however bad that is, will not bring the country to its knees. We do not own a steel business in the Buoyant Portfolio.

The Party, perfectly-curated socialist capitalism and INR2.5 trillion dole-out

'The Party is like God. He is everywhere. You just can't see Him.' – A university professor in Beijing
'We are the Communist Party and we will decide what communism means.' – Chen Yuan, China Development Bank
'I appointed myself party secretary of Haier. So, I cannot have any conflict with myself, can I?' – CEO, Haier; China's largest white goods company
Quotes from the book – *The Party: The Secret World of China's Communist Rulers*

This quarter saw one of us visiting China on a family holiday; and we were positively surprised by the expanse of infrastructure that has been created throughout the entire country. That China was spending a lot on creating infrastructure was very evident from their annual statistics (investment as a percentage of their GDP) as well as corroborated by their usage of hard commodities (steel, aluminium and cement); nevertheless, witnessing it first-hand was eye opening.

Amidst the awe, what hit us was also the widely prevalent language barrier; virtually no one (including staff at five-star hotels) spoke even rudimentary English. The words of Steve Cheung, a Chicago-trained economist rang true: 'That Chinese had to deal with corruption, a D-grade judicial system, controls on freedom of speech and beliefs, education and health care which were neither public nor private, exchange controls, inconsistent policies and tens of thousands of riots a year'. And yet, the economy still grew at nearly 10 percent for three decades. With the general elections in India around the corner, we wondered as to how could China pull it off?

Issues became amply clear in our reading of the book, *The Party: The secret world of China's communist rulers* written by Richard McGregor. Richard is an Australian journalist, currently the bureau chief of the Financial Times based in Washington; and the publication's former China bureau chief.

A bit of background might be in order: The roots of modern China were laid with the civil war that resulted in division of territory in 1949, when the Communist Party of China (CPC, or The Party) established the People's Republic of China (or PRC), a unitary one-party sovereign state with Mao Zedong as its founding father. Since the introduction of economic reforms in 1978 led by Deng Xiaoping, PRC has been one of the world's fastest growing economies with growth rates consistently above 6 percent. PRC is the world's second-largest economy by nominal GDP, the largest exporter and second largest importer of goods. PRC is also a recognized nuclear weapon state and has the world's largest standing army and second-largest defense budget. The PRC is a permanent member (one of five nations) of the UN Security council and currently, the only country opposed to India's bid for permanent membership of the council.

Richard writes that 'Hu's (fourth CPC chairman) displacement of Jiang (third CPC chairman) was not only the first peaceful handover in China since the 1949 revolution, which was notable in itself, but the first in any major communist country at all'. Within CPC, the Central committee (about 370 full and part time members) acts as a kind of enlarged board of directors. The central committee selects the Politburo (about 25 members), which in turn selects the Standing Committee (the inner sanctum of the leadership, currently seven members). The Politburo's overriding priority lie in securing the CPC's grip on the state, the economy, the civil service, the military, police, education, social organization and the media. State sovereignty, territorial integrity and economic development are all priorities of the state; but are subordinate to the need to keep the CPC in power. The Party has made sure it keeps a lock-hold on the state and three

pillars of its survival strategy are: control of personnel, propaganda and the People's Liberation Army. Richard has dedicated one chapter on each of the three subjects, which makes for a fascinating read.

- **Companies:** Within all companies, there is a separate 'Party Committee', and on occasions, it has superseded the Board of Directors as well. Ricard cites a banker stating that 'The idea that the boards really run companies is basically as credible as the constitutional guarantee of free speech and religious freedom in China. It does not happen'.
- **Personnel:** The Organization Department maintains files on top-level officials in public sector. The vetting process takes place behind closed doors and the appointment announced without any accompanying explanation. In absence of elections or public competition for government posts, the behind-the-scene battles to secure appointments are very stuff of politics in China. In early 2009, the heads of the three state airlines were all rotated overnight into rival firms to keep competition in check. Telco heads were also similarly switched. Also, ESOPs granted to employees of state enterprises are held in the name of employees but were supposed to stay the property of the state.
- **Army:** The People's Liberation Army (PLA) was formed in 1927 as the military wing of a revolutionary party and for all the recent focus on its growing capabilities, the PLA's primary mission has always started at home – to keep the Party in power. CPC judged that the arms race had brought communism in Moscow down, and China's 'peaceful rise' was hence articulated to avoid military confrontation.

With the Soviet President Mikhail Gorbachev announcing the dissolution of Soviet Union and his resignation from the top post on the Christmas Day in 1991, the communist rule across the globe all but disappeared. Nevertheless, more than two and a half decades have passed, and PRC (in the 1950s, China publicly deferred to the Soviet Union as the leader of the Communist bloc) has continued to grow its economy. Richard writes that China differs crucially from the Soviet Union in one respect: the system is far more pervasive, penetrating deeper into lower levels of government and other state-controlled institutions. The system is all from Soviet Union, but the CPC has taken it to an extreme.

Nevertheless, the Party's genius has been its leaders' ability in the last three decades to maintain the political institutions and authoritarian powers of old-style communism, while dumping the ideological straitjacket that inspired them. No matter how rich and powerful they have become, they are masters at calibrating their support for Marx, Mao or the market, depending on who is listening. In the Asian Financial crises, ICBC fired 200,000 employees and Bank of China and China Construction Bank laid off 100,000 people each; and in the process of repackaging itself for a portion to be sold to FIIs, PetroChina shed one million staff and the ministry disappeared altogether, leaving the company with little direct oversight from the government. Of course, the propaganda department termed the news of firing as state secret, and hence the media was not allowed to report it. Nevertheless, for a socialist regime to implement these harsh steps itself is rather impressive.

Now, China has obvious competitive advantages in relatively cheap, abundant and ambitious labor and a surplus of low-priced capital. And as Japan did for many years, it has kept its currency undervalued to bolster exports and borrowed the idea of designated economic zones from Taiwan. Yet, what differentiates the country most (and largely responsible for the strong growth over decades) is the cut-throat competition between localities for business. The pivotal role of local

governments in promoting their own economies means that each locality operates in a way like a standalone company. Localities often hold shares in the businesses themselves; aligning the end objectives.

In addition, China's relatively closed economy has resulted in giant value creation at home as well. They have Baidu (Market-cap USD56b) to replace Google, and WeChat (Market-cap of parent, Tancent Holdings USD375b) to replace WhatsApp. It is also routine for China to imbibe technology transfers while awarding large orders. So, while developing its first High Speed Rail network, it was a necessary condition to assemble units through local JV with Chinese manufacturers. Today, China is competing with Japan, Germany and France for the California high speed rail project.

The parliamentary elections are upon us in India (somewhere in calendar 2019), and we cannot help but compare the contours of growth that India has witnessed relative to its neighbor. India achieved its independence a couple of years before Mao declared the founding of PRC in 1949. The difference in size of economies is rather well known (China 2017 GDP: USD12.0 trillion vs India at USD2.6 trillion; per capita at USD8,643 for China vs USD1,983 for India). But those are just numbers; they hardly tell the full story. We find the following statistics more telling:

- The current administration launched Ujjwala Yojana on 1st May 2016 – with the aim of providing 50m LPG connections to replace the unclean cooking fuel. We estimate that this would cover about 20% (average household size of 4.8; total population of 1.3 bn) of India's population. After sixty-nine years of being an independent republic, that quantum of population did not even have basic cooking apparatus is surprising,
- As of 2016, India had 124 million people living in extreme poverty (defined as living on less than USD1.9 per day – and yes, the smallest Starbucks cappuccino cup costs more); largest in the world, a title that India held on for a very long time until recently. Now, it is second to Nigeria.
- Of the approximate 250 million households in India, 153m have in-house toilets; 90m of which the current administration claims to have constructed under its Swachh Bharat Mission. Assuming those statistics are correctly reported, after sixty-seven years of independence in 2014, more than 60% of Indian population had no access to in-house toilets (had to use community bathrooms or resort to open-defecation).

Clearly, the income disparity in India appears to be extreme, and people vent it on an election day (state and parliamentary election are held every five years). The quick fix that politicians find to address the inequality is through farm loan waivers (in the last five years, twelve states have waived off farm loans to the tune of INR2.5 trillion, or USD36 billion) – a method that creates a huge moral hazard (think of the farmer who actually repaid his loan), and virtually has zero multiplier effect (money moves from state coffers to banks). And more importantly, it impacts the productivity growth negatively (the only true measure of country's long-term growth is the growth in productivity of labor and capital).

Like China, India also had a competitive advantage in relatively cheap, abundant and ambitious labor, but not competitively priced capital. Over the years, India did not invest in creating manufacturing capabilities—and has chosen to import for the purpose of consumption (as evident from the rising non-crude, non-gold current account deficit). That ensured that India had limited control on its exchange rate, and eventually cost of capital has remained high. Besides that, India, in 2005, launched a social security employment act (christened MGNREGA) which provides 100-day employment guarantee to unskilled manual labor. India has spent over USD70b on this scheme since inception. Having

never created a sustainable framework that encourages global manufacturing and then having squandered the advantage of competitively priced labor, over the years, the contribution of agriculture has steadily fallen (from 51% in 1951 to 17% in 2017) and that of services has increased (from 29% in 1951 to 53% in 2017), whereas the share of manufacturing (which is more labor intensive) has remained constant around 13-17%.

The crucial point lies ahead. By 2026, India's average age would be 29 years, which is the least among global average. A total of more than 300 million adults will enter the working-age population. In terms of pure numbers, India would become the largest contributor to the addition in global workforce. To put things in perspective, MGNREGA guarantees employment of little over 10 million workers and the annual budget allocation is INR380 billion. India will quickly have to find suitable avenues to generate employment for the people coming into the work-force; otherwise demographic dividend can as easily turn into a demographic tax. In the upcoming parliamentary election, we do not know who will eventually win the mandate. But regardless of which party (or parties) form the government; the taxpayers have already spent the INR2.5 trillion in the process (and some politicians are proud of waiving farm loans within two days of coming to power, versus the promise of doing it in the first 10 days).

Buoyant Investors: Thank you!

As always, we would like to thank all of you for your investment and partnership with Buoyant Capital. Your collective belief in our ability to make right investment decisions, your support and patience at testing times and your overall emotional stability are extremely valuable to us. We wish and hope for our continued and lasting partnership in the coming times. We are keenly looking forward to the year 2019, as India votes for the Parliamentary elections. Please cast your votes - it is not only a democratic right, but equally also a democratic responsibility. Let us exercise the same caution in choosing our nominees, as we exercise in choosing our investments. We wish all of you a very happy and prosperous 2019.

Regards,

Sachin Khivasara
Director

Jigar Mistry
Director

Disclosures

Average returns are calculated across all the client accounts based on underlying data provided to us by Kotak Mahindra Bank's Fund Accounting team – the designated fund accounting partner. Returns are not audited. Individual returns will differ from the average returns presented in this note depending on the composition of portfolio, timing of deposit, withdrawals and fee structure specific to each account. Please contact either of us with any questions about your statement, returns, fees or anything else related to your account.

Portfolio Turnover Ratio is the percentage of a fund's holdings that have changed in a given period. This ratio measures the fund's trading activity, which is computed by taking the lesser of purchases or sales and dividing by average monthly net assets. Brokerage ratio is the total brokerage paid (excluding securities transaction tax) and dividing it by average monthly net assets.

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