Buoyant Opportunities Portfolio

FACTSHEET for **July 2022**

Buoyant Capital

PERFORMANCE

The **Buoyant Opportunities strategy returned 10.8% over July 2022** vs. 9.5% for BSE-100 (our benchmark). As always, returns are computed post fees and expenses, as computed by Kotak Mahindra Bank and HDFC Bank, our custodians and fund accounting partners. We can already guess what you're thinking: **will this third upmove (since Oct-2021) bring lasting cheer?**

MARKET VIEW

The strong (12%) rally that started in mid-June hides what you already know: markets have gyrated back and forth frequently over the trailing year or so. This has typically taken the form of a sharp decline of 10-15%, followed by a somewhat lesser recovery. Our view remains that these inflation/recession mood swings will keep landing into risk-on/risk-off market phases for a while. **So where is the world headed?**

Our understanding of the Fed's latest commentary is that it feels inflation will moderate reasonably quickly, eliminating the risk that rate hikes continue into 2023. The question to ask is: **what's currently priced in?** We believe the Fed will hike by 50 bps in Sep-2022, followed by 25 bps each in its Nov and Dec meetings. With the US already into a technical recession (two successive quarters of contraction), the Fed is likely to decelerate or even abandon Quantitative Tightening, which it started in Jun-2022 to partly reverse Quantitative Easing. QE, for those who remember, was itself a massive monetary response by global Central banks to the pandemic (Bloomberg has a good piece on this stuff, here).

Meanwhile, **the 1QFY23 results season has been mixed**. All large IT service companies have run into margin pressure. The inverted yield curve will keep up recession fears in Western economies and it is likely that IT services will face challenges on revenue growth vs. high expectations. Our exposure is under-weight here and value-oriented.

Financials (lenders) have beaten estimates, while results of consumer businesses look resilient despite material cost pressures. Still, this is the first earnings season in over two years when brokerages are **cutting** forward estimates, mostly driven by inflationary impact on energy and material intensive sectors. **The Buoyant Opportunities portfolio continues to have a domestic bias rather than a global one.**

ALLOCATION DECISIONS

While our defensive tilt was maintained, **we deployed cash heavily over June and early July** (the 15% cash position in early May fell to 5% by mid-July). Towards the end of July, however, we trimmed weights in a couple of banks and exited one bank. Further, our relatively unfavourable view on midcap risk-reward saw us cutting weights here. **Midcaps are now a mere ~15% of the portfolio, from over 26% nine months ago.**

PORTFOLIO CLASSIFICATION – by mkt cap

Equity holdings	**93%**
Large Caps	*40%*
Mid Caps	*15%*
Small Caps	*38%*
Cash	**7%**
TOTAL	**100%**

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PORTFOLIO CLASSIFICATION – internal

Core	**48%**
Satellite	**45%**
Cyclical	*18%*
Turnaround	*12%*
Value	*15%*
Cash	**7%**
TOTAL	**100%**

On **internal classification** (Core vs. Satellite), our defensive tilt continues with the Core part of the portfolio at 48%. On the other hand, Satellite (comprising Cyclical, Turnaround and Value) is ~46%. Even here, we've been reducing positions in Cyclicals and Turnarounds, while adding to the Value sub-slice (which is now at 14.7% from 4.4% a year ago).

Over the last few months, we have taken tactical positions through Core holdings, holding the Satellite allocation steady.

SECTORAL DECISIONS & CHURN

After a strong recovery in many financials in the recent pull back, we reduced weights to financials (comprising banks, Insurance and NBFCs) during July by over 3%.

However, **Financials continues to be our heaviest sector.** In July, we trimmed our positions here to align a specific stock and brought overall sector exposure in line with our risk parameters.

SECTORAL CLASSIFICATION

Banking	30%
Info Tech	10%
HealthCare	7%
Industrials	7%
Automobiles	6%
Chemicals	6%
Materials	6%
Insurance	4%
Building Materials	4%
Misc	5%
Textiles	2%
Staffing	2%
FMCG	1%
NBFC	2%
Oil & Gas	2%
Cash	7%
TOTAL	**100%**

VALUATION

As at end-July 2022, the **Buoyant Opportunities portfolio is valued at 21.2x FY23E EPS**. This makes it a tad costlier than the NSE NIFTY positive PE of 19.1, which we don't interpret as a significant difference. Incrementally, however, we will fish for value so you can expect the portfolio PE to reduce, albeit slowly.

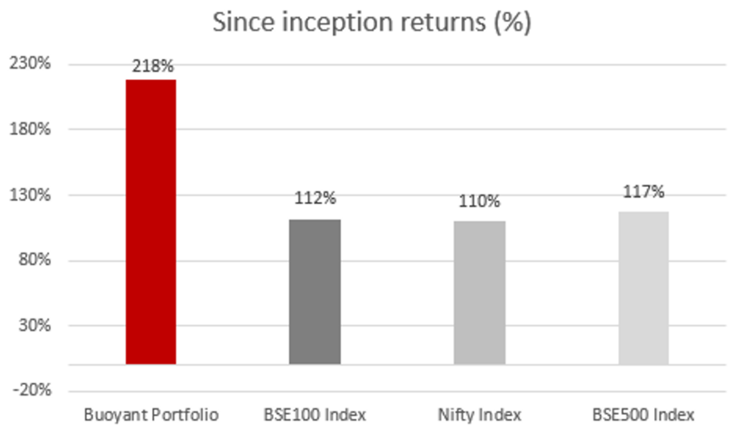
INVESTMENT RETURNS

We have outperformed our benchmark (BSE-100) over the last two, three and five years as also since inception in June-2016. Our nearer term performance which was lagging (till last month) did not bother us much, and it has come back to par in the trailing 1-month and one-year periods (see tabulated details on the next page).

We prefer not to get caught up in short term noise, as we continue to sharpen what we believe is a robust cross-cycle framework and investment strategy. **Team Buoyant remains committed to delivering long-term alpha for its investor clients.**

Total returns (%)	Buoyant Portfolio*	BSE 100 Index	Nifty 50 Index	BSE 500 Index
Inception (Jun-16 to date)	20.7%	12.9%	12.8%	13.4%
Five years	15.3%	10.9%	11.2%	10.9%
Three years	25.8%	16.1%	15.6%	17.7%
Two years	53.7%	25.3%	24.5%	27.6%
One year	8.9%	8.8%	8.9%	7.4%
One month	10.8%	9.5%	8.7%	9.5%

Source: Bloomberg for Indices. Kotak/HDFC Bank for Buoyant Portfolio. Buoyant portfolio returns are POST-fees and expenses. **More than one year returns are annualized.**



BLOGS & MEDIA APPEARANCES

BLOGS

- Majority opinion is irrelevant in stock markets!
- Oversimplifying investments could be detrimental…

MEDIA APPEARANCES

- Jigar Mistry (CNBC-TV18) on the mkt pullback, financials, pharma, autos, IT, consumer
- Viral Berawala (ET Now Swadesh) on 1Q results, financials, pharma, interest rates
- Viral Berawala (CNBC Bajar) on 1Q results, interest rates, market gyrations, small caps
- Jigar Mistry (CNBC-TV18) on metal cycles, IT valuations, autos

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