# MONTHLY COMMUNIQUE

REPORT AS ON JUNE 30, 2023

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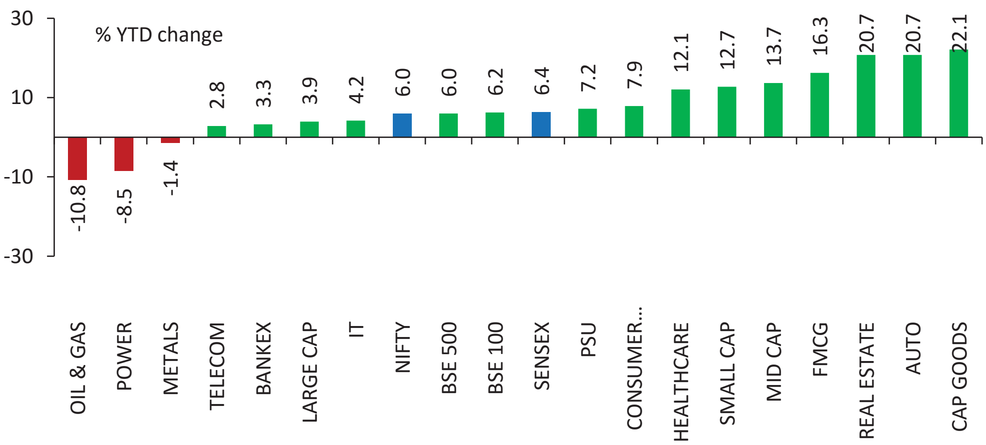
Indian equities continued their up move for the third consecutive month with the Nifty and the Sensex gaining 3.5% and 3.4% respectively in June 2023. Broader markets continued to outpace frontline indices with the Nifty Midcap 150 and the Nifty Small cap indexes gaining 6.2% and 6.4% respectively. After the recent outperformance, valuations of broader markets relative to large caps have reverted to historical averages. On a YTD basis, the Nifty is up 6% for the first half of 2023. The up move has been driven by domestic facing sectors while outward facing sectors have lagged. In terms of style preferences, 'Quality' as a style has started outperforming in CY23 after underperforming 'Value' in the previous two years.

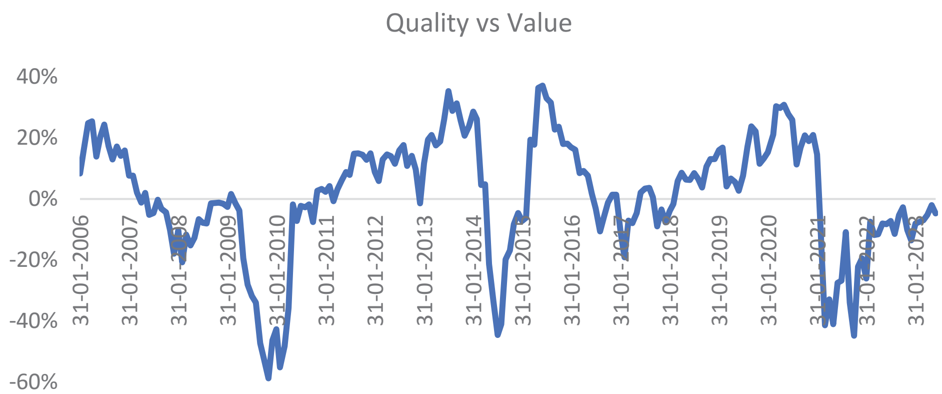
FPIs (foreign portfolio investors) remained strong buyers of equity with USD 5.2 billion of net buying in the past month. On index derivatives too, FPIs after carrying record short positions (betting on continued market declines) near the end of March have not only covered all their shorts, but their positions are pretty stretched on the long side now, nearing levels last seen near the Nov 22 peak.

**Domestic sectors have fared better this year versus outward facing sectors**



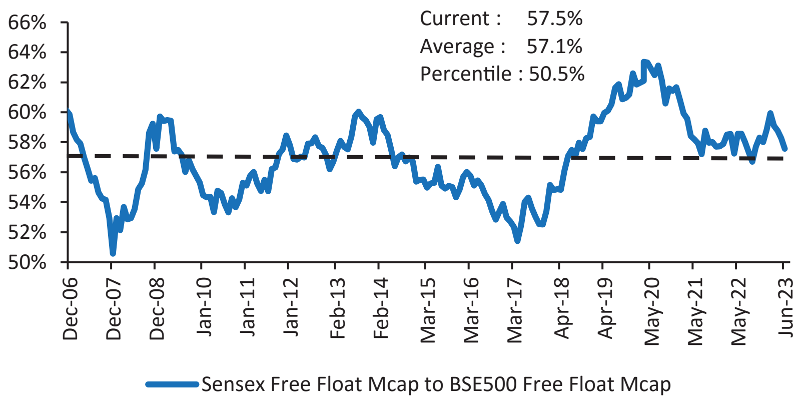

Source: Bloomberg, SBIFM Research. Note: This is the performance for calendar year 2023 till June end

**After underperforming 'value' in the previous two years, 'quality' is outperforming in CY23 so far**



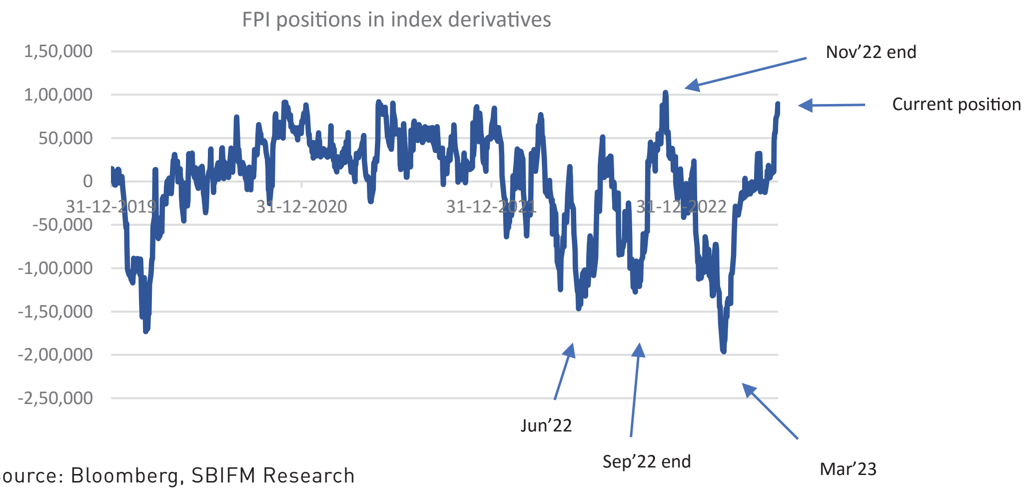

Source: FactSet, SBIFM Research. Note: This is the rolling 12-month performance of top 2 quintiles on quality relative to top 2 quintiles on value on our in-house factor definitions.

**Ratio of Sensex free float market cap to BSE500 free float market cap is back near historical averages**




Source: Bloomberg, SBIFM Research

**Short covering behind, FPI index futures positions stretched on the long side now**




Source: Bloomberg, SBIFM Research

On our preferred measure of valuations where we look at equity earnings yield relative to bond yields, we are expensive after the recent up move. In the initial move off the March lows, decline in yields was supporting valuations uptick but of late, equities have continued to march higher even as bond yields are inching higher too. The benchmark 10-year bond yield reversed its downtrend and increased by around 11 bps in June to close the month at 7.11%. This is making equity valuations expensive again.

On economy and earnings, India continues to be a resilient economy and probably one of the few bright spots in the world today. Profits to GDP have turned the corner after secularly declining between FY08 to FY20. That said the global picture is still far from clear. Several macro measures such as the weak global money supply growth, tightening credit conditions along with an inverted yield curve in the US, slowdown in global trade are pointing to a weak global backdrop. Any global slowdown will have some bearing on India as well.

The longer-term backdrop stays very constructive for India. However, in the context of not so cheap valuations and continued global fragilities, investors would do well to continue sticking to disciplined asset allocation.

Warm Regards

**Gaurav Mehta**, CIO Alternatives

# SBI AEON ALPHA PORTFOLIO

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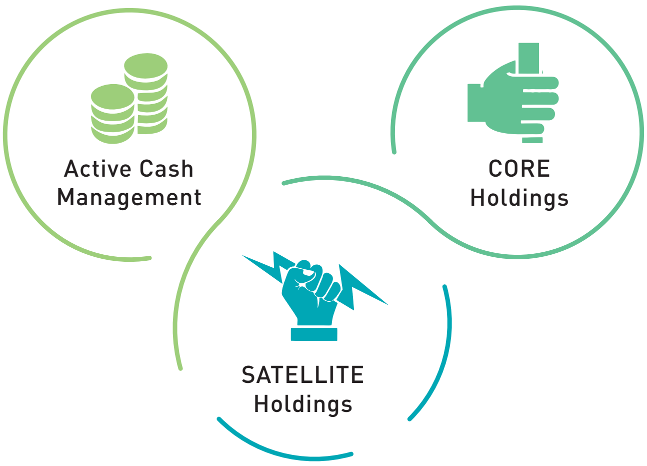
## An All-Weather Portfolio Strategy

A 3-in-1 portfolio aiming to have 15 - 20 stocks which will be a combination of long-term structural ideas, medium-term tactical opportunities and active cash calls




**Active Cash Management**
- A recourse available in case of inadequate opportunities
- Aims to reduce drawdown
- Helps to avoid forced buying
- Allocation range to be 0% -35% of the overall portfolio

**CORE Holdings**
- Focus on long-term earnings compounders
- Absolute return portfolio with low churn
- Allocation range: 50% or more of the equity portion

**SATELLITE Holdings**
- Focus on medium-term tactical opportunities
- Relative return with a "high risk - high reward" expectation
- Clearly defined exit strategy resulting in a higher churn ratio
- Allocation range: Upto 50% of the equity portion

| | |
|---|---|
| **Type of scheme** | An Open-ended PMS strategy |
| **Investment objective** | Investment objective of this portfolio will be to generate long-term capital growth through investment in well-researched stocks |
| **Portfolio attributes** | • Equity strategy – Endeavour to have 15 to 20 stocks<br>• Portfolio will have core and satellite along with active cash allocation<br>• Stock limit - 10% at the time of investment; No sector bias |
| **Asset Allocation** | Equity & Equity-related instruments including derivatives - Up to 100% Debt and Money Market Instruments - Up to 100% |
| **Benchmark** | NIFTY 50 TRI Index |
| **Fund Manager** | Mr. Gaurav Mehta |
| **Min. investment size (initial purchase)** | Rs. 50 lacs |
| **Additional Purchase** | Rs. 1 lac |
| **Minimum Redemption** | Rs. 1 lac subject to minimum balance of INR 50 lacs |
| **Exit Load** | For exit between 0 and 12 months: 1%; For exit after 12 months-NIL |

# SBI AEON ALPHA PORTFOLIO

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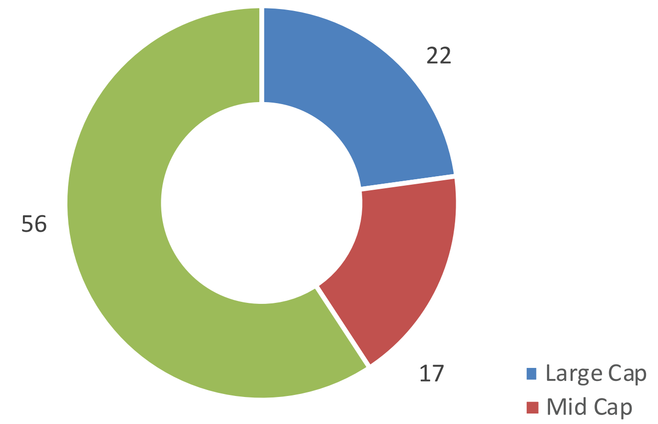
## Top 5 Holdings (With Current % Allocation)

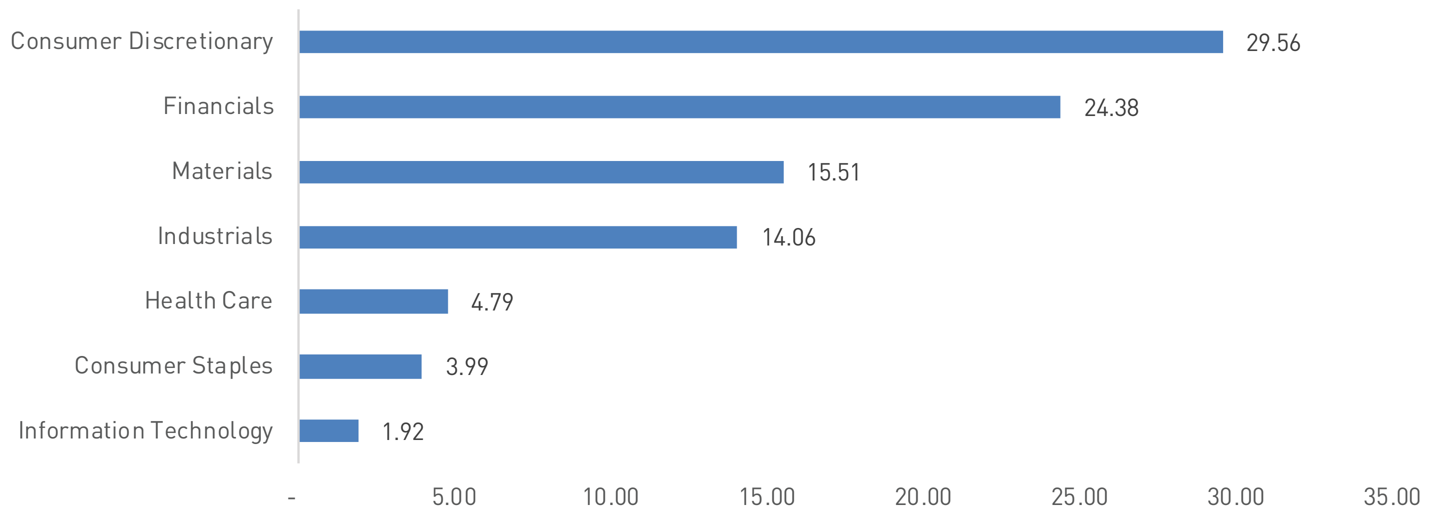
| Company | Weight (%) |
|---|---|
| CARBORANDUM UNVRSL | 67.77 |
| GE T&D INDIA | 64.76 |
| ZF C. V. CONTROL SYSTEMS INDIA LTD. | 57.85 |
| CSB BANK LTD. | 47.20 |
| GOKALDAS EXPORTS LTD. | 39.54 |

## Market Cap Break Up (%)




* Cash & Equivalent is 6%

## Sectorwise Allocation (in %)




## Fund Performance as on June 30, 2023

| % Returns | 1 Month | 3 Months | 6 Months | 1 Year | 2 Year | 3 Year | 4 Year | 5 Year | Since Inception | YTD |
|---|---|---|---|---|---|---|---|---|---|---|
| SBI AEON | 5.23% | 18.18% | 15.77% | 25.96% | N.A. | N.A. | N.A. | N.A. | 12.12% | 15.77% |
| NIFTY 50 TRI | 3.70% | 11.06% | 6.58% | 22.91% | N.A. | N.A. | N.A. | N.A. | 6.89% | 6.58% |

DISCLAIMER - **SBI Aeon Alpha Portfolio ; Inception Date : 21-01-2022**
Returns presented are time-weighted returns. Time weighted - Daily valuation method is used for rate of return calculation. Periodic returns are geometrically linked. Total return includes realized and unrealized gains and income. Accrual accounting is used for the calculations. Dividend is accrued on ex-date and reinvested in the portfolio. Trades are booked on trade date. Net returns are calculated after deducting actual management fees and all other expenses. Benchmark returns are presented gross of non-reclaimable withholding taxes.

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If you wish to invest, please contact your financial advisor or to invest Direct please contact us on pmsops@sbimf.com

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