

On Path to Recovery..

Global:

- The Covid19 curve is being flattened in key countries - China, US, Japan, Germany, France - which are most important for global economy.
- For the first time, in Europe, there is an effort underway for debt mutualisation (proposal for a recovery fund consisting of 500 BN Euro to be distributed in the form of grants as per French and German plans).
- Unprecedented support provided by global bankers ensured that stress in credit markets in Mar20 was quickly arrested and stabilised credit spreads.
- There are reports of US FED considering Yield-curve control - where the central bank caps yield on government bonds of a chosen maturity through potentially unlimited purchases (Japan used it for years to simulate the economy).
- As economies gradually open up, there is rising evidence of business activity -Mortgage applications, air/ hotel bookings, auto production etc - picking up from its recent troughs although still lower than normal levels.

Earnings Outlook:

- We expect 1QFY21 to be a washout quarter for corporate India as Indian economy is on halt. As per many corporate commentaries, 2Q is expected to be better compared to 1Q and expect normalcy to return in 3Q/4Q. Many corporate decided not to give guidance for FY21 considering uncertainty in Covid19. Thus, forecasting FY21 is hard and we continue to believe that market being forward-looking, will care more about FY22 (and beyond).
- On a positive side, Covid19 has changed many businesses way to connect with their customers. Maruti Suzuki introduced digital platform for booking of cars and convenience of doorstep delivery. For Dabur India, E-commerce grew by more than 100% (3.1% contribution to sales). Similarly, for IT sector, work from home has become a new norm. Excerpt from TCS Annual report: "With our teams as well as our customers' teams working from home, in-person interactions are now replaced with virtual collaboration".
- Such changes can have long term positive impact for companies as it can improve efficiencies at various stages and make them one step close to customers.

Portfolio Positioning:

- Our portfolio companies have defensive elements such as strong balance sheets, ability to generate and sustain operating cash flows in excess of capex (i.e. sustainable positive free cash flow generation ability) and have zero/low leverage (key advantage especially in current times when business activity has been disrupted and top line has been materially affected).
- Many of our portfolio companies took drastic steps to reduce fixed and semi variable cost significantly (in some cases as high as 20%) to ensure lesser impact on profitability during zero revenue days. Many of such measures are expected to continue even during post lockdown reducing their cost structure permanently and making company further cost competitive.

- We believe these companies will gain market share as they are cost competitive, have access to capital, and ability to invest for future growth. We expect such companies should command a premium valuation especially in testing times where cash and liquidity deserve a premium.

AAA PMS Performance

Compounded Annual Returns (%)	1 Year	3 Years	5 Years	Since Inception
AAA IOP PMS	-14.5%	-1.8%	5.1%	14.9%
BSE 500 Index	-20.0%	-2.0%	2.4%	6.1%
BSE Midcap Index	-21.5%	-6.8%	2.0%	5.9%
BSE Smallcap Index	-26.7%	-10.3%	-0.7%	3.5%
Nifty	-19.6%	-0.1%	2.6%	6.2%

Note: Returns of Individual clients may differ depending on the time of entry in the Strategy. Past Performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. Performance-related information provided herein is not verified by SEBI.

For further details please contact: investorservices@alfaccurate.com; www.alfaccurate.com

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