

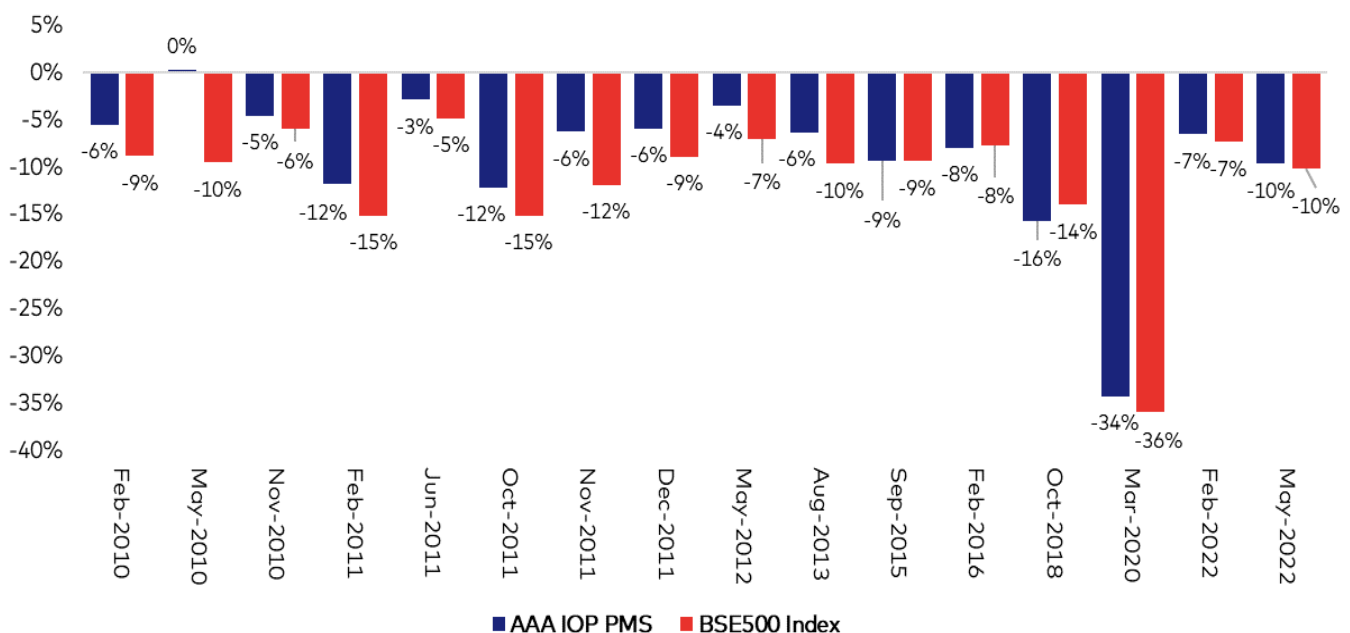
Diversified Equity Portfolio - Recipe to Navigate Volatility

We are living through an unprecedented time in history, marked by geopolitical tensions, high inflation, fear of stagflation, highly volatile and unpredictable financial markets, and the end of a 40-year period of declining interest rates in the United States. Despite these challenges, our team remains optimistic about the investing environment for several reasons. First, India's corporate earnings growth is expected to remain strong over the next two to three years. Second, earnings growth is expected to be the driving force of equity markets, as opposed to the expansion of multiples - a welcome return to fundamentals. Third, despite the USA nearing a recession, India is in much better shape and well-positioned. We believe that the correction in the market is necessary and healthy. What does this mean for investors? Maintaining a diversified equity portfolio makes sense in any environment, but particularly this one. Earlier this year, we cautioned investors to prepare for volatility and advised them to remain focused on the quality of the portfolio. Market volatility has returned, but that's not a reason to be discouraged. **We continue to believe that a diversified portfolio with the right stock selection is the best recipe to navigate the rough waters and will reward investors in the long term.**

AAA IOP wins over the volatility in the past periods

Back in 2009, we launched the AAA IOP PMS plan, a multi-cap PMS plan which invests in about 50 companies carefully selected by applying our resilient 3M Investment approach. During the last 12 years, there were 19 episodes when volatility in the market, as measured by the VIX index registered sharp increases (above 20). Correspondingly, the market registered declines in the range of -5% to -35% during a staggering 16 times out of 19. However, due to the right stock selection and diversified investment approach, our flagship AAA IOP PMS plan did better than the market 14 out of the 16 times. On a median basis, AAA IOP PMS outperformed the BSE500 Index by 2.5% during such volatile periods. This time too, our team continues to persevere to insulate your portfolio.

Fig1: AAA IOP PMS vs BSE500 Index drawdown in high volatility periods



Diversification helps to manage the unsystematic risk

There is no secret sauce to manage risks and navigate volatility. Investors are often so enthralled in the macros, that the basics are overlooked at times. Our approach at AAA is simple. To manage volatility, one needs to reduce the unsystematic risk and diversification is an important tool we can use to do it. During the last 12 months, there are many incidents experienced by corporate India which unfolded the risks of concentration in the portfolio. For instance, supply chain shortages resulted in a significant cost push in the automobile industry. Similarly, rising energy costs adversely impacted the cement sector significantly. High concentration and investment holdings in one particular sector would have meant significant damage to overall portfolio returns. However, our sectoral cap on exposure resulted in a much lesser impact on the performance and thus, a lesser turbulent investment journey for our clients.

The greatest risk to any portfolio is the risk of the unknown – the risk which can emanate from unforeseen events like sudden changes in management or risks posed by regulatory changes, the risks of the ever-changing industry dynamics. We have highlighted below the important events faced by corporate India during recent times. In each of the examples below, the stocks have witnessed sharp falls (refer to Fig2) resulting in significant damage to investor wealth. At AAA, our diversified portfolio across 50 companies limits the damage to the portfolio returns ensuring resilient risk management, which leads to superior risk-adjusted returns.

Fig2: Recent examples of unsystematic risk arising from the unforeseen events

Event Type	Name of Company	Drawdown(%)	Brief
Change in Management	RBL Bank	-57%	Vishwavir Ahuja's (MD & CEO) resignation due to RBI's action led to concerns about the asset quality, the future growth strategy, and the continuation of the other key management personnel.
	Asian Paints	-17%	Grasim's aggressive increase in capex commitment to Rs100 bn (Asian Paint FY22 Gross Block Rs84 bn) from Rs50 bn and its ambition to become the second largest player in the decorative paints business shall result in the increased competition in the sector.
New Competition	Ultratech Cement	-17%	Adani Group's acquisition of Holcim's interest in ACC and ACEM and its plan to reach 140 mtpa over the next five years, raised concerns about the increased competition in the sector.
	BPCL	-24%	Government's decision to freeze prices for motor fuel and LPG RSP resulting in massive under-recoveries (estimated Rs.260bn).
Regulatory Actions	ONGC	-13%	In an effort to curtail producers' unexpected profits from high international oil prices, the Indian government has put an additional tax on the export of locally produced crude oil at Rs 23,230 per tonne (equal to US\$ 40.1 per barrel).

Source: AlfAccurate Research, AceEquity

Note: AAA IOP PMS has no exposure to these names, except ~2% exposure in Asian Paints.

AAA PMS Performance

Compounded Annual Returns (%)	1 Year	2 Year	3 Years	5 Years	10 Years	Since inception*
AAA IOP PMS	-1.6%	27.3%	14.8%	10.3%	19.1%	17.6%
BSE 500 TRI (Benchmark)	0.7%	27.6%	13.2%	11.5%	13.8%	11.2%
BSE Midcap TRI	-2.5%	30.4%	15.0%	9.4%	14.9%	11.5%
BSE Smallcap TRI	-1.0%	42.6%	21.5%	11.0%	15.5%	11.1%
Nifty TRI	1.7%	25.4%	11.6%	12.0%	13.0%	10.7%

Compounded Annual Returns (%)	1 Year	2 Year	3 Years	5 Years	Since inception#
AAA FOCUS PMS	-0.2%	24.4%	13.2%	10.9%	12.8%
BSE 500 TRI (Benchmark)	0.7%	27.6%	13.2%	11.5%	10.7%
BSE Midcap TRI	-2.5%	30.4%	15.0%	9.4%	11.6%
BSE Smallcap TRI	-1.0%	42.6%	21.5%	11.0%	11.8%
Nifty TRI	1.7%	25.4%	11.6%	12.0%	9.9%

Compounded Annual Returns (%)	1 Year	Since inception@
AAA Emerging Giants PMS	8.5%	21.4%
BSE MidSmall Cap TRI (Benchmark)	-1.7%	19.7%
BSE Midcap TRI	-2.5%	14.8%
BSE Smallcap TRI	-1.0%	24.3%
Nifty TRI	1.7%	9.8%

* (23 Nov 2009 – 30 June 2022); #(17 Nov 2014 – 30 June 2022); @(01 Jan 2021 – 30 June 2022)

Performance is after all expenses and fees from April 2018 onwards. Prior to April 2018, the performance is after all expenses and Fixed Management fees. Index performance is calculated using Total Return Indices, as per SEBI guidelines.

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.

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Equity Investments are subject to market risks , read all plan related documents carefully.

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