

# Sundaram Asset Management Investment Process



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UNEARTHING OPPORTUNITIES

# Vision, Mission & Philosophy



## VISION

To be a significant player in the Indian asset management space and be one of the top ten asset managers



## MISSION

To provide people the best experience in accessing financial markets



## PHILOSOPHY

- Respect others, their needs and sentiments
- Develop and maintain trust
- Communicate freely and maintain confidentiality
  - Be on time always
- Never ever take short cuts
- Admit and share mistakes ...



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# Investment Philosophy

## We believe that...

- A greater level of neglect in the Indian equity universe leaves fund managers with a wider array of opportunities to exploit through an active fundamental approach.
- An extensive fundamental quantitative analysis, regular company visits with top management allow us to assess these markets, thus giving us access to attractive and relatively unknown companies with strong financial characteristics.
- Long term outperformance is achieved by investing in large and medium/small sized companies with unique business strength in attractive sectors, sound and transparent management, visibility and durable growth at a reasonable price. The risk management is also crucial.
- The local presence and expertise of the fund management team is key to exploiting market mispricings due to the lower level of research resulting in an inefficiency of information in Indian equities.



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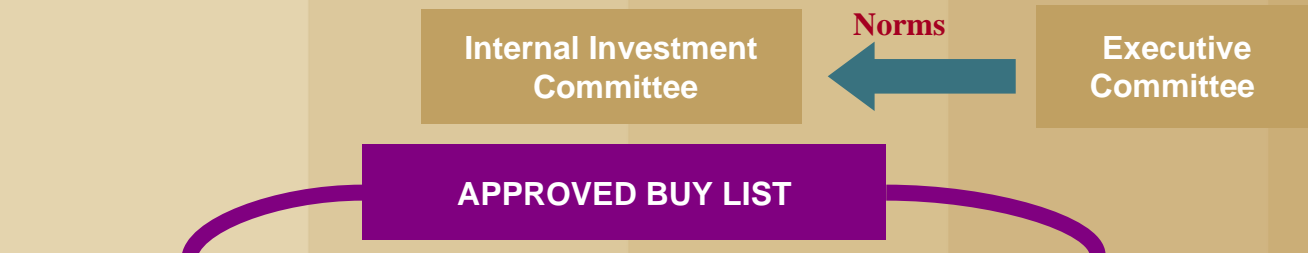
# Equity Investment process

## An active fundamental approach

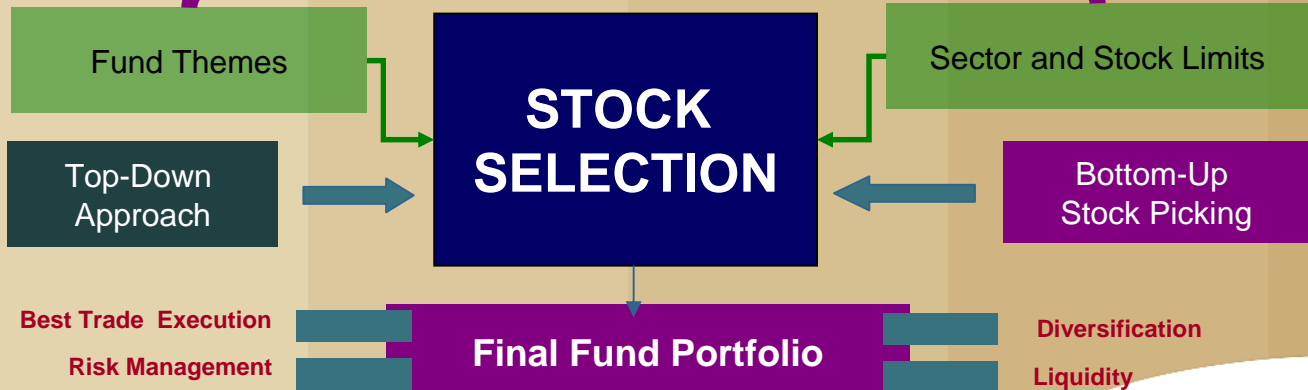
### Idea Flow & Research



### Approval of Stocks



### Portfolio Construction



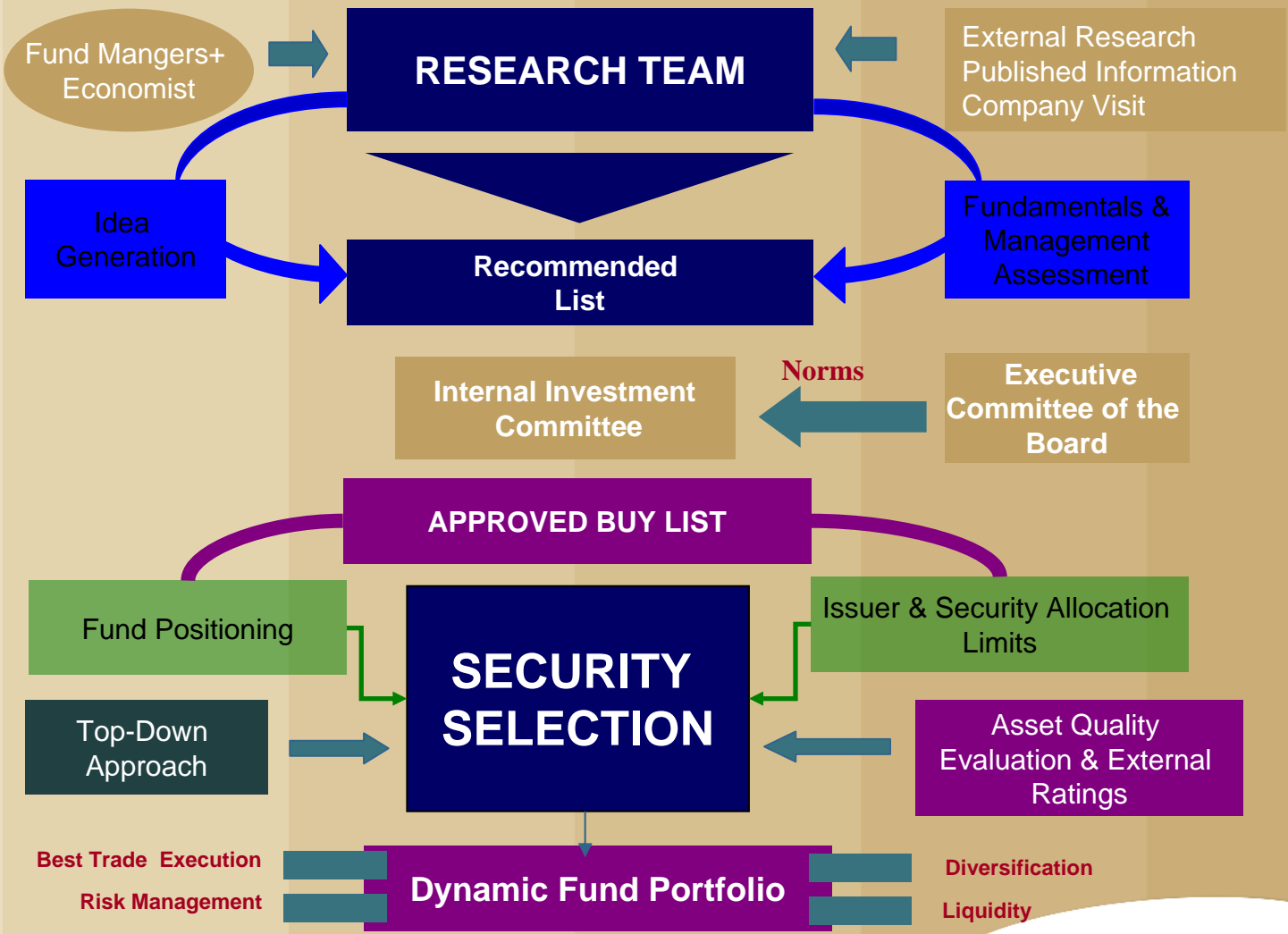
# Fixed-Income Investment process

## An active fundamental approach

Idea Flow & Research

Approval of Securities

Portfolio Construction



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# Process: Idea Generation

## Macro factors

GDP, inflation, interest rates, money supply, credit growth, forex accretion

Mapping sector patterns in GDP growth

Understanding the economic cycle

## Company specific

Future growth drivers

Management capability

Capital intensity

Balance sheet strength

Emphasis on long-term prospects than on near-term triggers

## Peer study

Comparison on quantitative as well as qualitative parameters

## Company contact & interaction

Mandatory company contact at least once in six months

## Third-party research

Customized corporate and economic database

## Broker research

Access to reports of most reputed brokerage houses

Extensively used for large-cap stocks

History of research calls used to identify superior brokerage houses

Brokerage models used for top 50 stocks by market-cap



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# Process: Financials

## Quantitative

- Profit margins
- Finance charges
- Cash flows
- Revenue and earnings growth
- Value add
- Return on equity and Du-Pont analysis
- Return on capital employed
- Working capital efficiency
- Trend analysis for key parameters
- Peer and industry aggregate comparison

## Qualitative

- Business / sector prospects
- Product life-cycle / business cycle

## Estimates

- Street estimates tracked extensively
- Earnings revisions and price impact
- Earnings & revenue guidance
- Trends in estimates and guidance

## Risk Profile

- Leverage
- Ability to raise equity
- Cost of capital
- Track record in debt repayment
- Qualitative aspects
- Transparency
- Management quality and capability
- Fairness in treatment of minority shareholders



# Process: Approval of Stocks

## Investment Committee

- Qualifications for investment
- Investment restrictions
- Norms for counterparts & intermediaries
- Approval for certain investments
- Review compliance of internal rules & performance

## Internal Investment Committee

- Clear names for investment
- Approve names of intermediaries and counterparts
- Review investment decisions
- Review fund performance - weekly

**Tier I**

## Risk Controller

- Portfolio liquidity
- Exceptional trading activity
- Significant investments in single stock
- Order and execution time
- Trade allocations and trades done in the last half-hour

## Compliance Officer

- Adherence to SEBI norms
- Offer documents stipulation
- Broker empanelment
- Post facto clearance of trades
- Monitoring single stock exposure

**Tier II**



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# Process: Portfolio Construction

## Regulation & internal norms

- SEBI limits
- Internal risk control guidelines
- Risk team monitors adherence

## Diversification

- Owning a large number of stocks
- Capping single stock exposure at 10%; rarely holding more than a 5% in a single stock

## Valuation

- Price Earnings Multiple and Price to Cash Flow
- Peer comparison
- Relative attractiveness of sector and stocks

## Liquidity

- Regular monitoring of broad market trends
- Trading volumes in portfolio stocks
- Trend analysis
- Impact cost

## Defined entry & exit

- Discipline in buying and selling
- Flagging of overweight exposures
- Low turnover through judicious cash-equity balance
- Buying and selling in a phased manner

## View on the market

- Active cash calls
- Cash waits for right stock in mid- and small-cap spaces
- Long-term approach



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# Portfolio construction: a core/satellite approach

## CORE PORTFOLIO 70% - LARGE CAPS

- Identify the best sectors and industries
  - Strong growth potential
  - Whatever the macro economic cycle

***DOMESTIC CONSUMPTION  
INVESTMENT IN INFRASTRUCTURES***
- Select the “best in class” stocks within the selected sectors
  - Primarily wealth creators
    - RoCE (used to evaluate companies)
  - Emphasis on operating efficiency
    - High RoE
    - Earnings Yield > Cost of Capital

***COMPANIES LIKELY TO GENERATE CASH  
SURPLUSES***

## SATELLITE PORTFOLIO 30% - MID/SMALL CAPS

- Select the best Mid and Small Caps
  - Under-researched stocks offering
    - Strong growth in earnings
    - Valuations cheaper than the whole market
  - Important growth bias
  - Small Caps emerging into Mid Caps in the medium term

***NICHE PLAYERS***



Process at work



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# Investment Process: At Work

## Early entrant into engineering & construction sector stocks

- Upturn in investment cycle
- Excess capacities created in mid-90s exhausted
- Government's emphasis on infrastructure

## Earliest to spot the turn in sugar price cycle

- Rise in domestic consumption
- Tight supply trends
- Shift to ethanol

## Structural changes in textiles

- Capital support for modernization
- Consolidation in the industry
- Removal of quotas

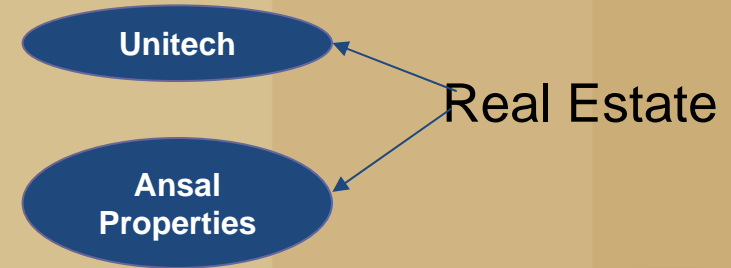
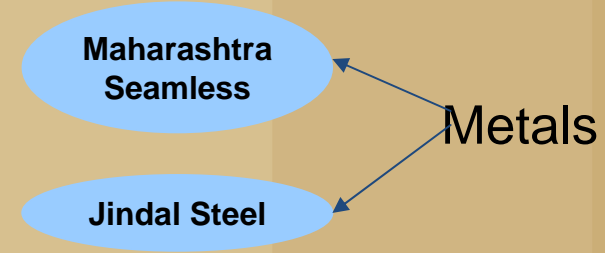
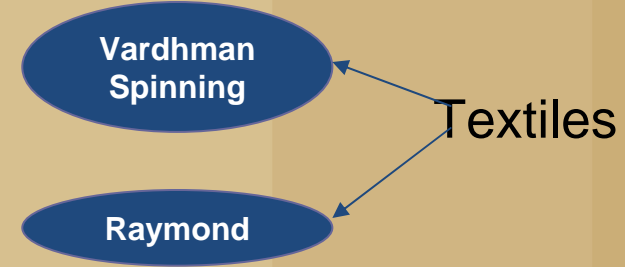
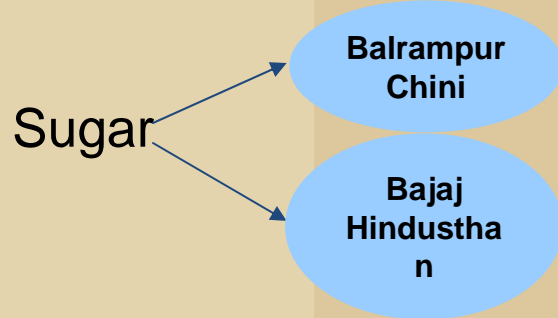
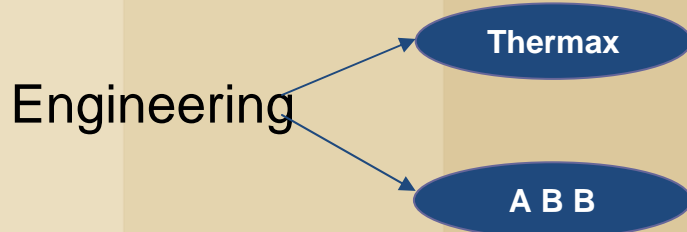
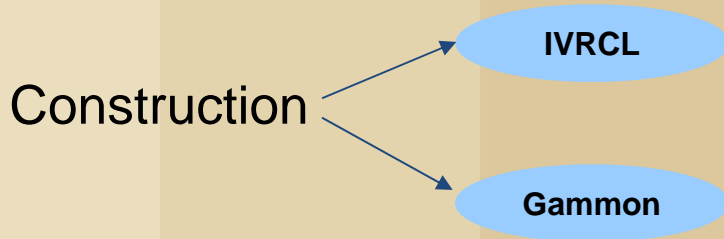
## Real estate

- Rising demand for residential and commercial space
- Liberal norms for FDI investment
- SEZ
- Lack of appropriate value for land banks



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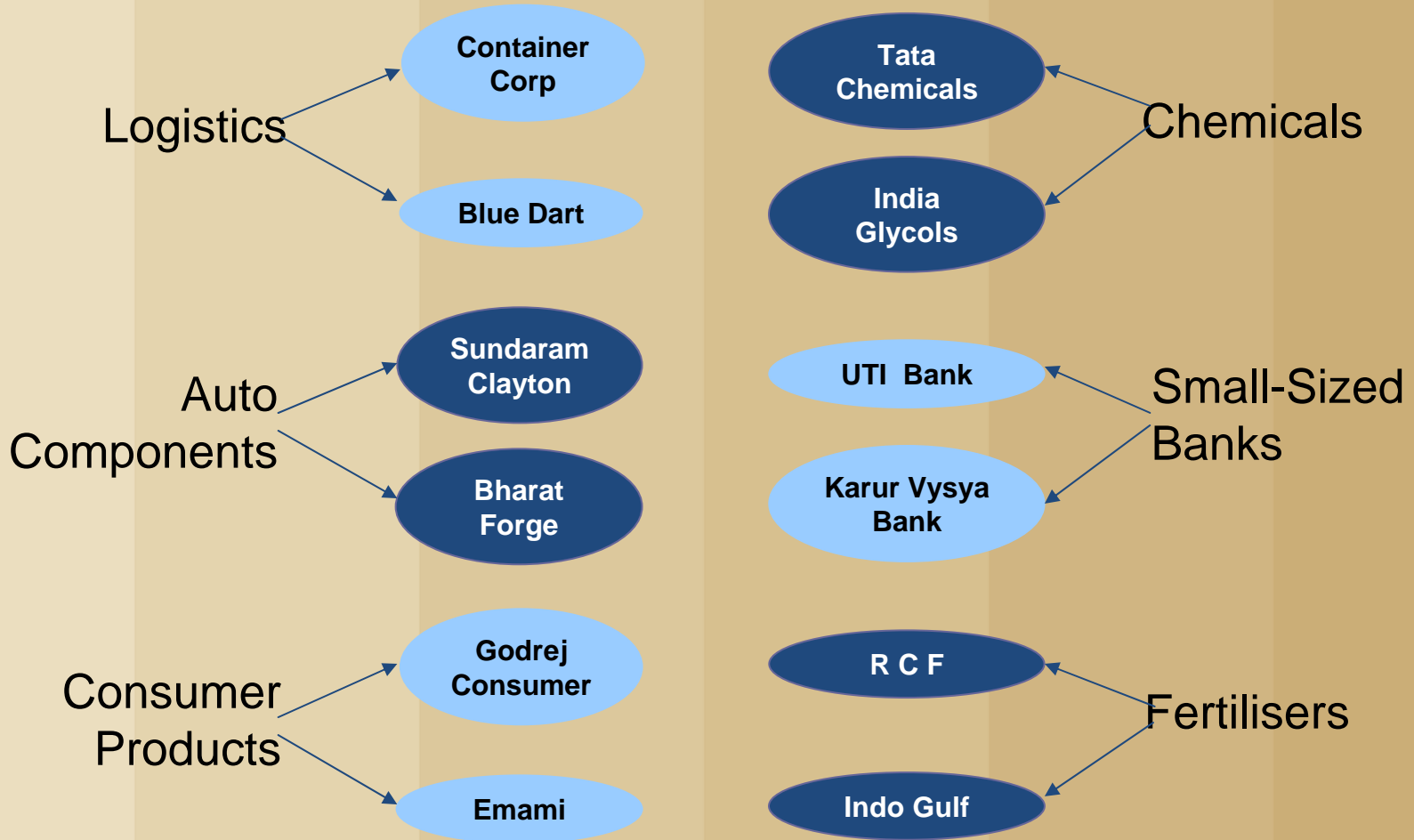
# Prime picks when not fancied



This is an illustrative list



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This is an illustrative list



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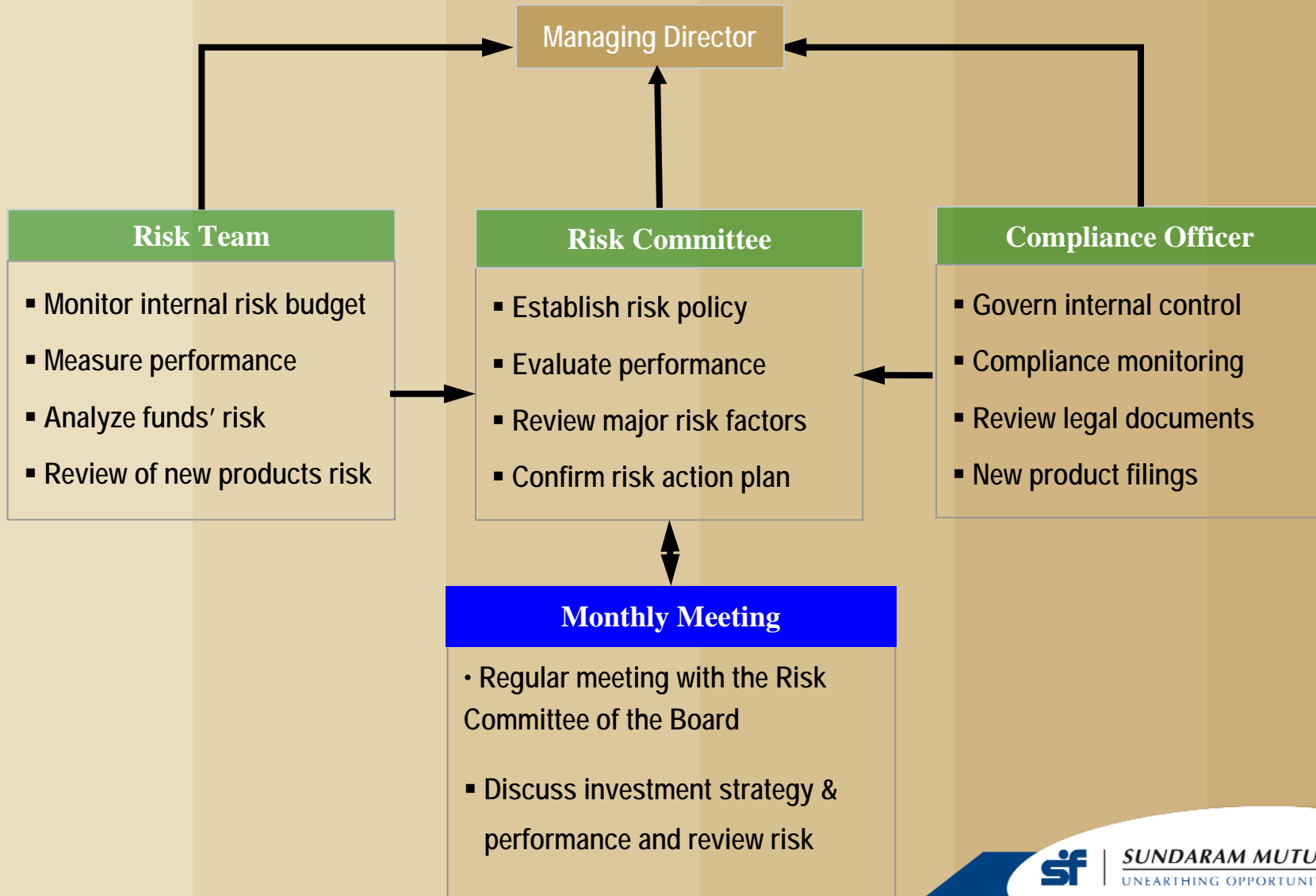
# Key player in the Asset Management process

- **The Risk Management team ensures effective risk control for investors of the funds managed by the AMC**
- **Investment Risk: Assignments**
  - Market risk : Identification, measurement and control of market risks
  - Credit risk : Maintenance and control of limits according to Credit Committee, risk measurement
  - Valuation risk : Mark to Market : Definition of processes and methodologies
  - Support to investment management area : Risk analysis, Performance Analysis
  - Risk information to other area
  - Risk control of new products parameters and risk disclosures
- **The objective of the risk management process is to monitor and measure the risks of portfolio construction, diversification and holdings, and their contribution to the overall risk profile of each fund, with clear definitions of process and procedures**
- **Managed by an independent team, risk management is an integral part of the investment process**
- **To perform risk analysis, Market and Credit Risk team is using third-party, as well as proprietary tools**



# Risk management

## A clear risk organisation



# The fund management team



Satish Ramanathan, a CFA Charter Holder, is the Head-Equities. He is a graduate from IITMadras who has specialised in Finance & MIS in his MBA. He has extensive experience in the asset management business with stints in Research division of Sundaram AMC and managing funds for Franklin Templeton. He has been involved in equity research for more than a decade and brings expertise in tracking several key sectors in the Indian economy. *Satish Ramanathan manages Select Mid Cap, Tax Saver, Select Small Cap, Equity Multiplier, Entertainment Opportunities and Balanced Fund.*

Dwijendra Srivastava, a CFA Charter Holder, is the Head-Fixed Income. He has done his graduation in Textile Technology and Post Graduate Diploma in Management from Goa Institute of Management. He has 15 years of total experience out of which seven years of experience as fund manager. His fund management experience includes three years as Vice President and fund manager in Deutsche Asset Management, one year in JM Financial Asset Management and three years in Tata Asset Management. *Dwijendra manages Money Fund, Ultra Short-Term Fund, Flexible Fund – Short-Term Plan, Flexible Fund – Flexible Income Plan, Gilt Fund, Select Debt Short-Term Asset Plan, Income Plus, Fixed Term Plans, Capital Protection and Interval Funds*



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## The fund management team



Srividhya Rajesh, a CFA Charter Holder, focuses on the equity markets. She is also a management graduate from BITS Pilani and has done specialized courses in equity research and financial applications from ICFAI, Hyderabad. She has been with us from the time the fund house started operations in 1996. A two-year stint at the broking arm Kotak Mahindra opened a window to the equity markets. *Srividhya Rajesh manages Select Focus and Capex Opportunities.*

S Krishnakumar is an engineer from REC (now National Institute of Technology), Trichy, he did an MBA from LIBA, Chennai. He has worked for 18 years of which the latest eleven years relate to the equity markets. Before joining our fund house, he was Vice President (Research) at Anush Shares & Securities. *Krishnakumar is the Fund Manager for the S.M.I.L.E Fund and Energy Opportunities*



J Venkatesan, a Cost Accountant and a Post-Graduate in Commerce, has an experience of more than two decades in the banking and asset management businesses. A seven-year stint at Canara Bank was followed by a shift to the asset management industry through Canbank Mutual Fund. With a rich experience of close to ten years in fund management, he joined Sundaram Asset Management in January 2006. *Venkatesan is the Fund Manager for the Rural India Fund, Growth Fund, India Leadership Fund, Financial Services Opportunities & PSU Opportunities*



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