



ISOA

Dynamic Advantage Fund (DAF)

Portfolio Deck- June 2024

What the Fund is all about?

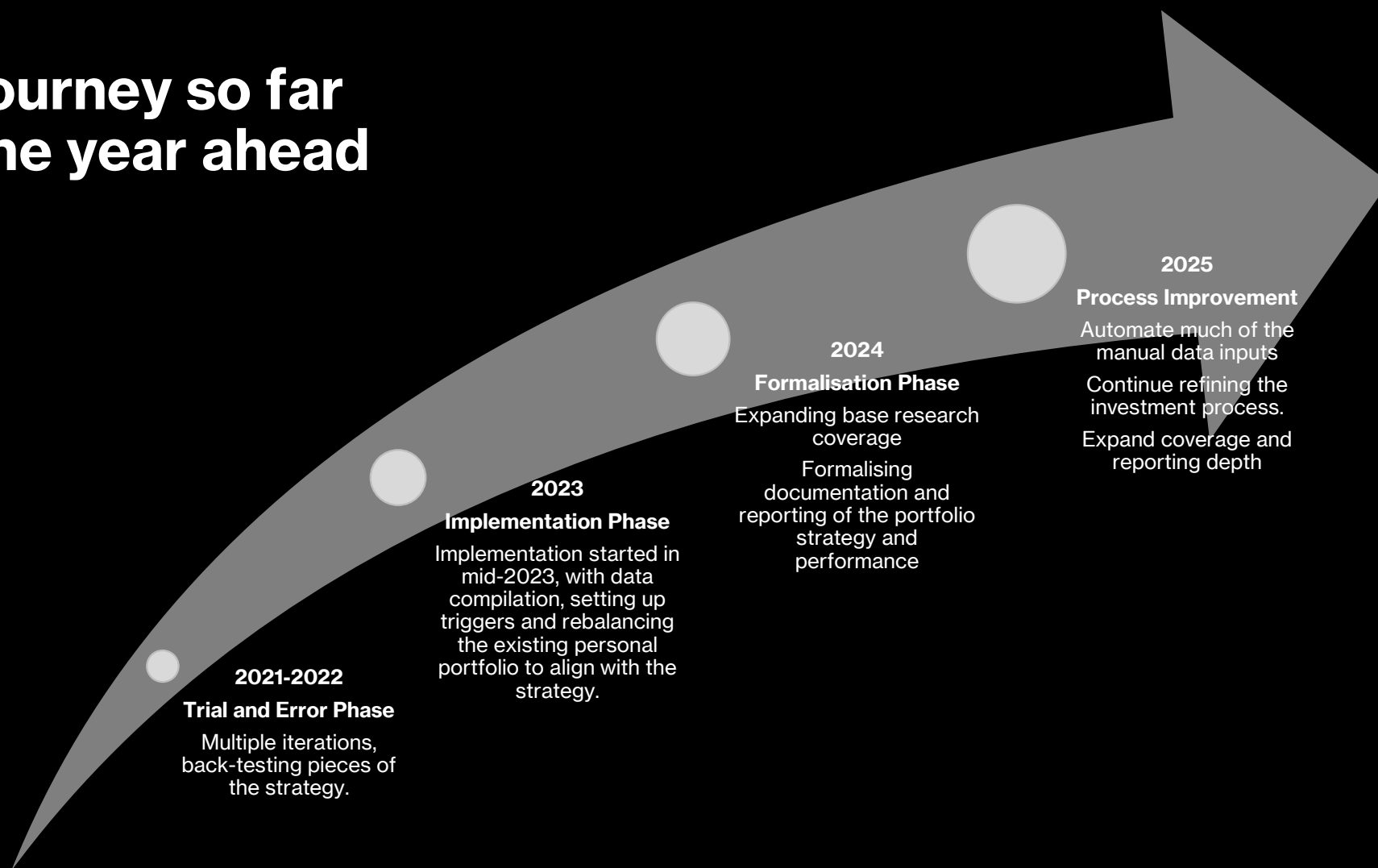
The **Dynamic Advantage Fund (DAF)** has been a **personal project** to set up a factor-based strategy to generate alpha over a 3-5-year horizon. Primarily focused on the Indian equity landscape, with some diversification into international equities, gold, and cash/money markets, DAF reflects my ongoing exploration of investment strategies.

Having completed its inaugural year (July 2023 - June 2024), where I documented portfolio changes largely through blog posts, DAF now transitions into a more formal phase. It's time to delve deeper, sharing detailed insights, perspectives, and outlooks that have shaped my investment decisions.

This platform serves as a medium to articulate my investment journey, refine my skills, and foster meaningful discussions around investment philosophies and strategies.



The journey so far and the year ahead



Investment Philosophy

Simple is effective

You'll see these core principles play out in multiple ways in the portfolio

The approach is for returns to be driven largely by **bottoms-up selection** with some target top-down sector exposure target ranges.

While macro outlook does not factor in directly in the investment approach. Company-level growth and valuation models do paint an industry-level macro picture.

Business quality, valuations and behavioural patterns in the market are more prominent in the investment approach.

Eliminate

- Much of the investing philosophy is looking to avoid landmines to the extent possible. Clear the chaff from the wheat!

Bias Conscious

- Streamlined investment framework to reduce personal biases from investing decision making.

Odds in Favor

- Position the portfolio to keep odds in favor. Win you win big, lose you lose small.



Opportunity Set

Some limitations in the opportunity set are due to a lack of easily accessible instruments, especially for international equities. Have some passive positions running in Japan and UK (mentioned in previous blogs) markets but these are currently in the exploratory phase and fall outside the DAF investment set.

Cash positions build up only on lack of investment opportunity vs. taking cash calls.

Asset Class	Opportunity Set	Target Allocation	Instruments
Indian Equity	Top 500-600 companies by MCap	70 to 95%	Listed Equity
International Equity	USA (INR)	0% to 20%	Exchange Traded Funds
Commodity	Gold (INR)	0% to 10%	Exchange Traded Funds
Cash	Money Market Instruments	0% to 10%	Savings Ac/Money market instruments



Strategy in Summary

(A) **Shortlist** based on fundamental checks

(B) **Dynamic Positioning** on the basis of valuations and market pulse

(C) **Track** and rebalance as per risk-reward setups

Process	Action	Target Outcomes
Investment Shortlist (Bucket Classification)*	Shortlist 100-150 company list	Reduce landmines in the portfolio
Portfolio Positioning (Zonal Classification)*	Position in 20-40 Companies	Avoid overpaying and reactionary trades
Track	Buy/Sell/Hold triggers	Maximize risk-return setup
Churn	Turnover limit < 30% p.a.	Lower transaction costs

*Detailed further in the presentation ahead





Investment Shortlisting

(Eliminate)

Investment Shortlisting

Bucketed (with 1 being best) based on the below parameters:

1. Growth prospects
2. Return ratios
3. Management Quality
4. Industry Leadership/Positioning
5. Cashflow conversion

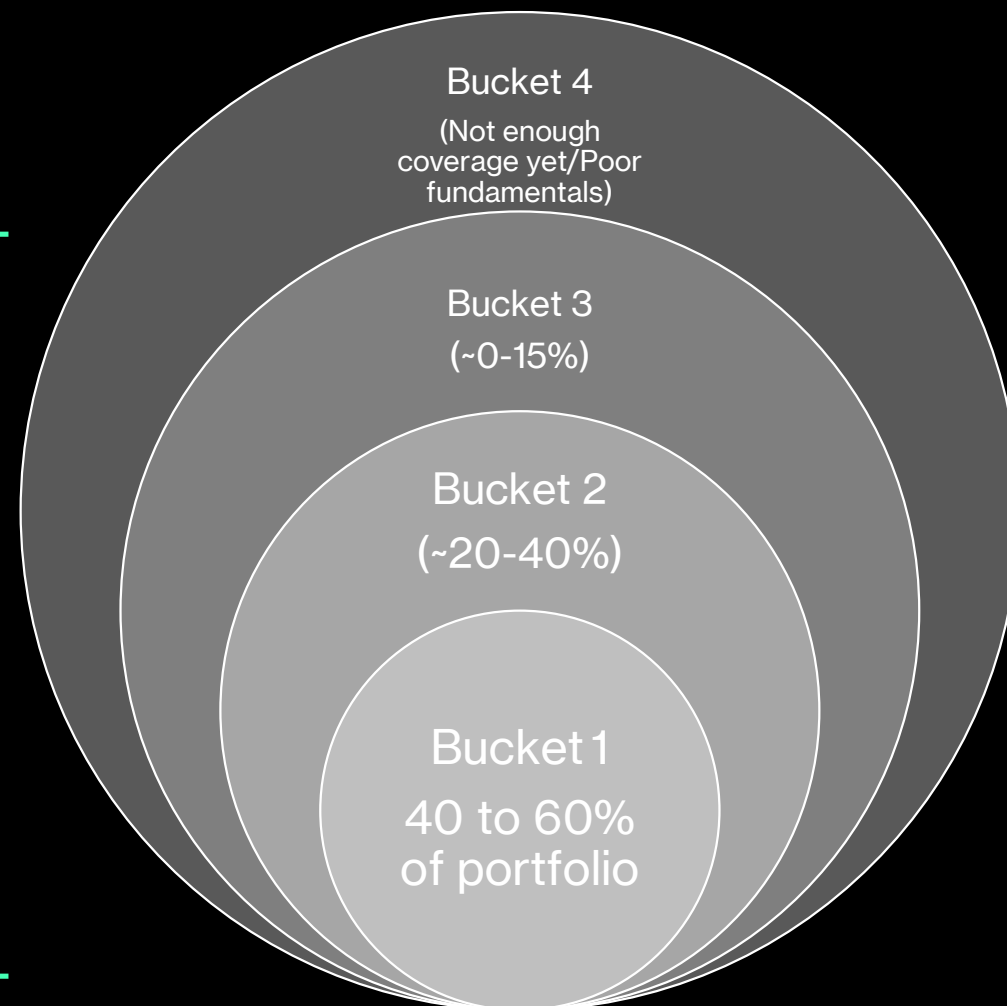
The broader shortlisting of 100-150 companies reviewed semi-annually

Bucket 4 comprises either when fundamentals are extremely poor or these are not currently under coverage

Buckets 1 to 3 would make up the 100-150 company list (the Investable Set)

Top 500-600 Companies (Opportunity Set)

100-150 Companies (Investable Set)



Investment Shortlisting

A mix of qualitative and quantitative inputs.
On average, which category does the company fit?

Metric	Weightage	Bucket 1 Core Portfolio	Bucket 2 Core Portfolio	Bucket 3 Tactical Bets	Bucket 4
Growth Prospect	20%	> 18%	12-18%	10-12%	< 10%
Return Ratios (ROE/ROCE/ROIC)	20%	> 18%	15-18%	12-15%	< 12%
Management Quality (Execution record, Exp., Clean, Shareholding)	20%	Strong	Good	Average	Poor
Industry Positioning (Score on Porters Five Force)	20%	Strong	Good	Average	Poor
Cashflows (Conversion, Utilization)	20%	Strong	Good	Average	Poor





From Shortlist to Portfolio

Mapping Buckets to Zones

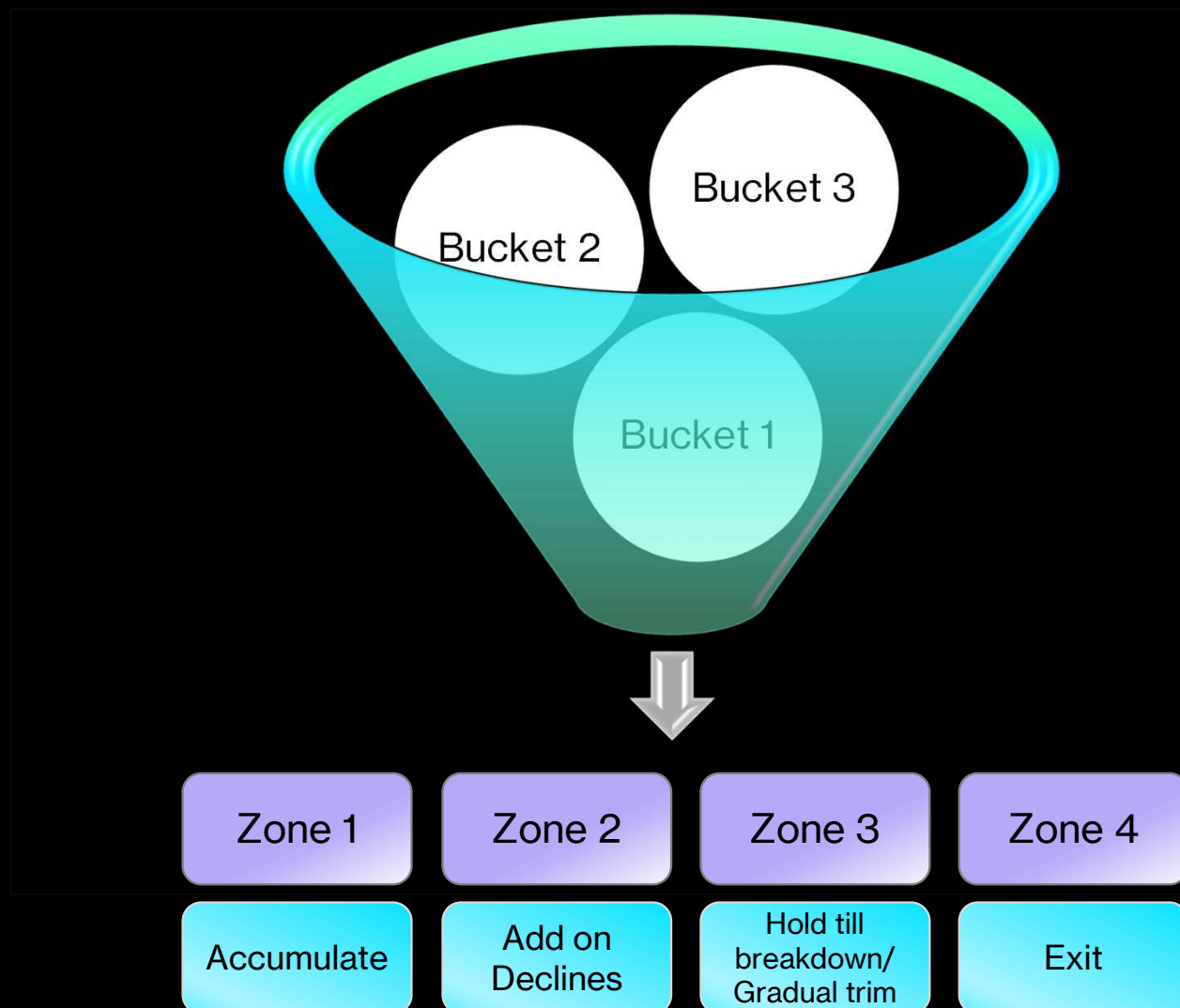
We follow a two-part classification approach: **Buckets** for deciding which company and **Zones** for how to position the company in the portfolio.

Bucket Classification filters out the investable set. This acts as an input in the zonal classification which then makes the allocation calls.

Dynamism in positioning

Zones add a dynamic layer to investing. **The portfolio entry/exit/hold parameters for the same company are different in each Zone.**

One size doesn't fit all, when one size doesn't even fit the same thing at different stages.



What makes up the Zone Score?

Generally speaking, the lower the Weighted Score the better.

Valuations and Fundamentals act as primary factors with market pulse and technical setups acting as catalysts

Valuations keep a check on avoiding overpaying.

Market and technical setup act as a buffer against reactionary trades.

Buckets act as an input (highlighted). Lower the bucket quality, higher margin of safety required elsewhere to enter Zones 1 & 2 for purchase

Factor	Weightage	Source	Data Points
Valuations	40%	Reverse DCF Relative Valuations	Compare expected vs what Current price is implying
Fundamentals	20%	Bucket 1 to 4	Feeds from Bucket categorization
Market Pulse	15%	Curated Template on three parameters	News flow Fund flow Retail euphoria
Technical Setup	15%	Technical Charts	Stage Analysis Moving Averages



General Zonal Traits

Metric	Zone 1	Zone 2	Zone 3	Zone 4
Score range	1 to 1.9	1.9 to 2.5	2.5 to 3	Upwards of 3
Valuations	Low to fair	Reasonable to slightly above average	Expensive no margin of error	Unrealistic
Market Sentiment	Slightly under the radar	Interest picking up	Beginning to overheat	Overheated
Buy Trigger	Accumulate	Add on declines	No fresh purchases/ Look to trim	No fresh purchases
Sell Trigger	Fundamentals deteriorating sharply	Change in fundamentals	Technical breakdown	Exit
General Types	Short-term pain, long-term story intact Value stocks	Steady ships Tailwinds kicking in	Momentum stocks	Ticking timebombs
Individual Position Sizing (Depending on conviction and bucket category)	Add 2-5%	Add 1-2%	(Exit 2-4%)	(Exit Full)





Current Portfolio Positioning

Asset Class Split

India Equity is near the higher end of the target range driven by a bullish stance thus far and outperformance vs other asset classes in the opportunity set.

Nasdaq 100 exposure has been gradually reduced over the last year, leading to lower International equity allocation

Fully invested but expecting some profit-booking opportunities ahead.

As at 30 June 2024

Asset Class	Portfolio Weightage%	Target Range%
India Equity	91.2%	70 to 95%
International Equity	3.2%	0 to 20%
Gold	5.6%	0 to 10%
Cash	0.0%	0-5%



Sector Allocation

Portfolio allocation is more of an outcome rather than an input. It's an outcome of how the sectors and shortlisted companies within it are positioned.

Target ranges provide enough flexibility to take tactical overweights/underweights.

Information Technology and Healthcare remain structural overweights in the portfolio.

Been very selective in the financial services space and mostly underweight over the last year (still the largest sector allocation) as felt that the reversal of provisioning and credit recovery theme has played out to a good extent. Lots of Bucket 1 & 2 companies but lacking in terms of Zone comfort. Starting to see some opportunities beginning to show up in this space again.

Have built up some positions in select Chemical companies in Zone 1 over the last few months.

Sector Allocation as of 30 June 2024

JUNE 2024		ALLOCATION%			
Sectors	Portfolio (DAF)	Benchmark	Target Range	Deviation from Benchmark	
Financial Services	20.4%	28.7%	15-35%		-8.3%
Oil, Gas & Consumable Fuels	8.1%	9.0%	0-10%		-0.9%
Information Technology*	18.9%	8.8%	10-25%		10.1%
Automobile and Auto Components	6.2%	7.6%	0-8%		-1.4%
Fast Moving Consumer Goods	3.4%	6.8%	0-10%		-3.4%
Capital Goods	1.7%	6.1%	0-10%		-4.4%
Healthcare	14.4%	5.4%	5-20%		9.0%
Power	0.0%	3.8%	0-5%		-3.8%
Metals & Mining	2.5%	3.6%	0-5%		-1.1%
Consumer Services	4.8%	3.2%	0-10%		1.6%
Consumer Durables	3.2%	3.1%	0-10%		0.1%
Construction	0.0%	2.9%	0-5%		-2.9%
Telecommunication	0.0%	2.8%	0-5%		-2.8%
Construction Materials	0.0%	2.1%	0-5%		-2.1%
Chemicals	9.3%	2.1%	0-10%		7.2%
Services	0.0%	1.7%	0-5%		-1.7%
Realty	0.0%	1.4%	0-5%		-1.4%
Textiles	0.0%	0.3%	0-5%		-0.3%
Media, Entertainment & Publication	1.5%	0.2%	0-2%		1.3%
Diversified	0.0%	0.2%	0-2%		-0.2%
Forest Materials	0.0%	0.1%	0-2%		-0.1%
Gold**	5.6%	0.0%	0-10%		5.6%
Total	100%	100%			

The benchmark used is the Nifty 500 Index
 Classification is as per NSE Sectoral classification
 *Includes exposure to Nasdaq 100 through ETF
 **Exposure to Gold via Gold ETFs

7/28/2024

Top Current Positions

BPCL has been a tactical call taken in July'23 given the value opportunity which has played out well despite it being a Bucket 3 holding.

Gold has been another broader theme which has played out well through direct gold exposure and indirect exposure through Muthoot Finance (gold financing NBFC)

Top 5 Positions as at 30 June 2024

Companies	Sector	Portfolio Weightage%
BPCL	Oil, Gas & Consumable Fuels	8.1%
Affle India	Information Technology	6.8%
Gold Bees	Gold	5.6%
Muthoot Finance	Financial Services	5.3%
Neuland Labs	Healthcare	5.0%



7/28/2024

Portfolio Bucket & Zonal Positioning

Portfolio up in quality since inception last year (Bucket 1 % increased)
Markets are heating up as Zone 1 declines

% of Portfolio

As at 30 June 2024

At Inception

Bucket 1

Bucket 2

Bucket 3

Bucket 4

49.4%

37.2%

13.4%

N/A

44.7%

39.2%

16.1%

N/A

Zone 1

Zone 2

Zone 3

Zone 4

As at 30 June 2024

At Inception

39.6%

53.2%

7.2%

0%

52.2%

45.7%

2.1%

0%





Portfolio Performance

7/28/2024

Key Metrics

As of 30 June 2024

Metric	Portfolio (DAF)	Benchmark (Nifty 500)
Top 5 Positions	30.7%	22.7%
Top 3 Sectors	53.7%	46.5%
Number of Stocks*	30	500
Portfolio P/E Ratio*	28.8	26.2
Volatility (1 yr.)	14.5%	13.6%
Sharpe Ratio** (1 yr.)	2.5	2.3
Turnover (1 yr.)	7.2%	N/A (Target < 30%)

*Excludes ETF Holdings for US Equity and Gold

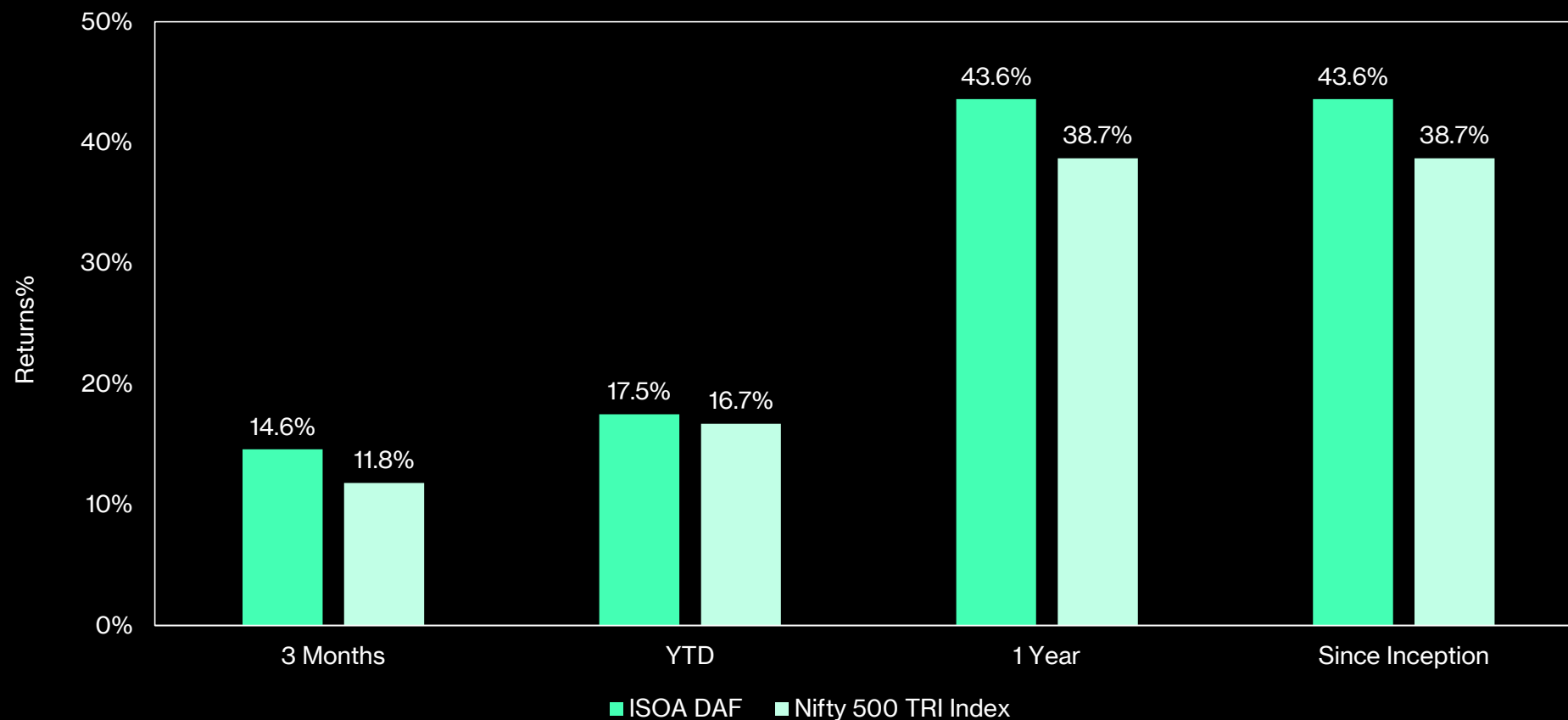
**The risk-free rate used is Avg. of 10 yr. India Gov. bond yield

SOURCE: NSE, INVESTING.COM, ISOA



IN SEARCH OF ALPHA

Portfolio Performance to 30 June 2024



The inception date is 1 July 2023
Returns are post dividends and transaction costs
Benchmark returns on a Total return basis

SOURCE: NSE, ISOA



IN SEARCH OF ALPHA

Top Contributors and Detractors

More detailed return attribution reporting will start in the coming quarters.

Companies	Sector	Return% since position taken	Current Weightage%
Neuland Labs	Healthcare	119.9%	5.0%
Dixon Technologies	Consumer Durables	108.2%	3.2%
Shriram Piston	Automobile and Auto Components	60.9%	1.5%
Car Trade	Consumer Services	57.6%	0.9%
C.E. Infosystems	Information Technology	54.8%	1.5%
Fine Organics	Chemicals	-0.8%	1.3%
Syngene Intl.	Healthcare	-3.2%	2.5%
Tata Elxsi	Information Technology	-5.5%	3.7%





ISOA DAF

Brief Outlook

Headline Indices	LTP VS 52W HIGH	1D	1W	1M	3M	6M	1YR*
Nifty 50	0.1%	1.8%	1.2%	4.0%	10.8%	16.3%	26.3%
NIFTY NEXT 50	-1.3%	1.6%	2.9%	3.0%	14.4%	35.2%	64.2%
NIFTY MIDCAP 150	-0.1%	1.7%	3.0%	3.7%	14.2%	23.1%	54.3%
NIFTY SMALLCAP 250	-0.7%	0.9%	2.8%	3.2%	11.6%	21.3%	57.6%
NIFTY MICROCAP 250	1.1%	1.1%	5.1%	5.5%	17.3%	23.1%	71.9%

Source: Tijori Finance. Returns as at 26 July 2024

Over the last year, the strong performance has been broad-based, with outperformance coming from mid and small-cap names. The headline indices are currently trading close to their 52-week and all-time highs. The risk appetite in the market is visible in terms of microcap index outperforming significantly and strong retail interest in SME IPOs. We have seen these as an early indicator for short-term top formations. There is caution in taking fresh positions, but overall cash positions with retail and institutions remain healthy. So, see a higher probability of time correction if any than a sharp correction in the short term. From a portfolio standpoint, looking to build up some positions in sectors that have not participated in the rally but are seeing signs of fundamental reversals in the coming months.

Markets are heating up and it is visible in terms of the portfolio zonal exposure moving higher in terms of Zone 2 and 3 as mentioned in Slide 18. This ratio increased further in July, and a good portion of the portfolio is now in the momentum category on a trailing stop-loss basis (Zone 3 exit trigger). Will churn out of some positions, if those stop-losses are breached or if better risk-reward setups become available.



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