ISOA

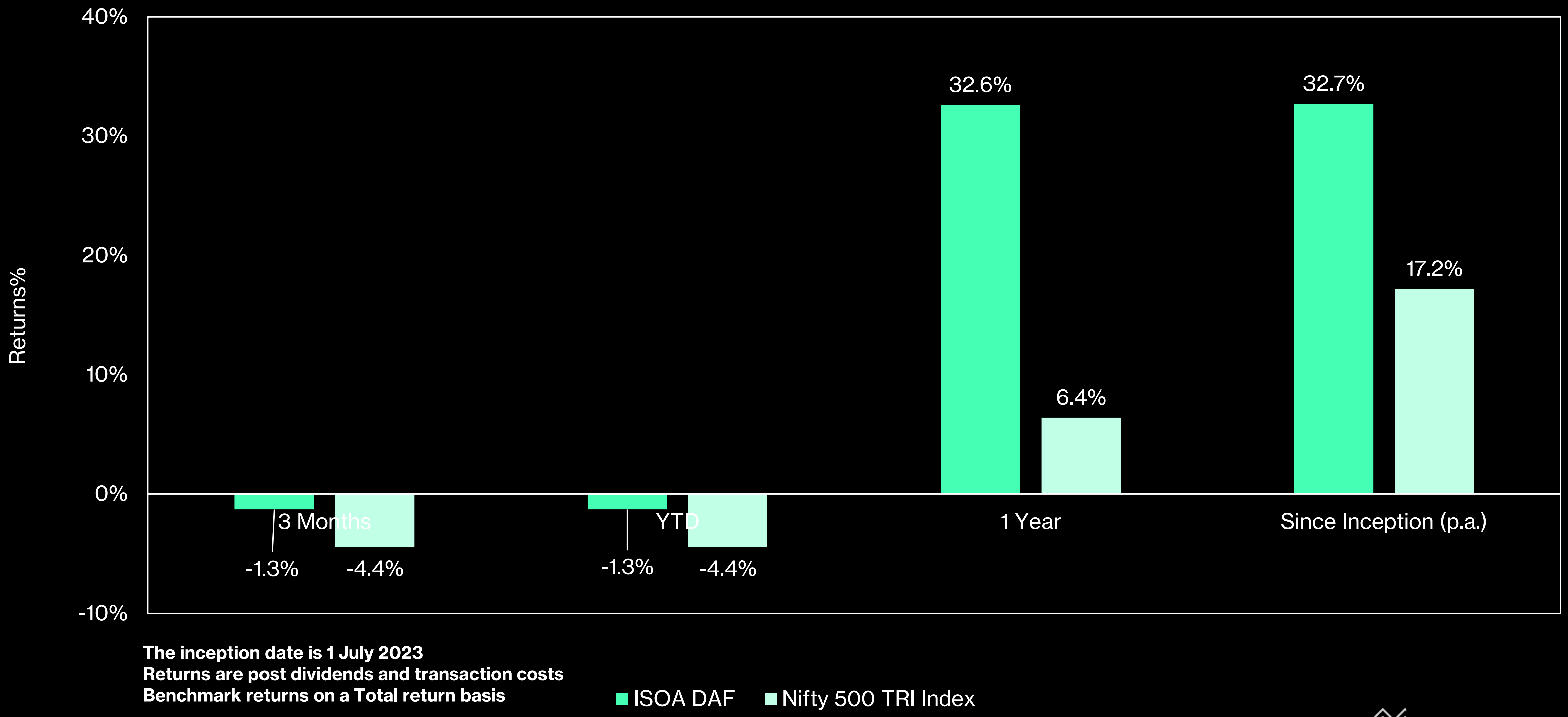
Dynamic Advantage Fund (DAF)

Portfolio Deck- March 2025

ISOA DAF

Portfolio Performance and Outlook

Portfolio Performance to 31 March 2025



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

SOURCE: NSE, ISOA

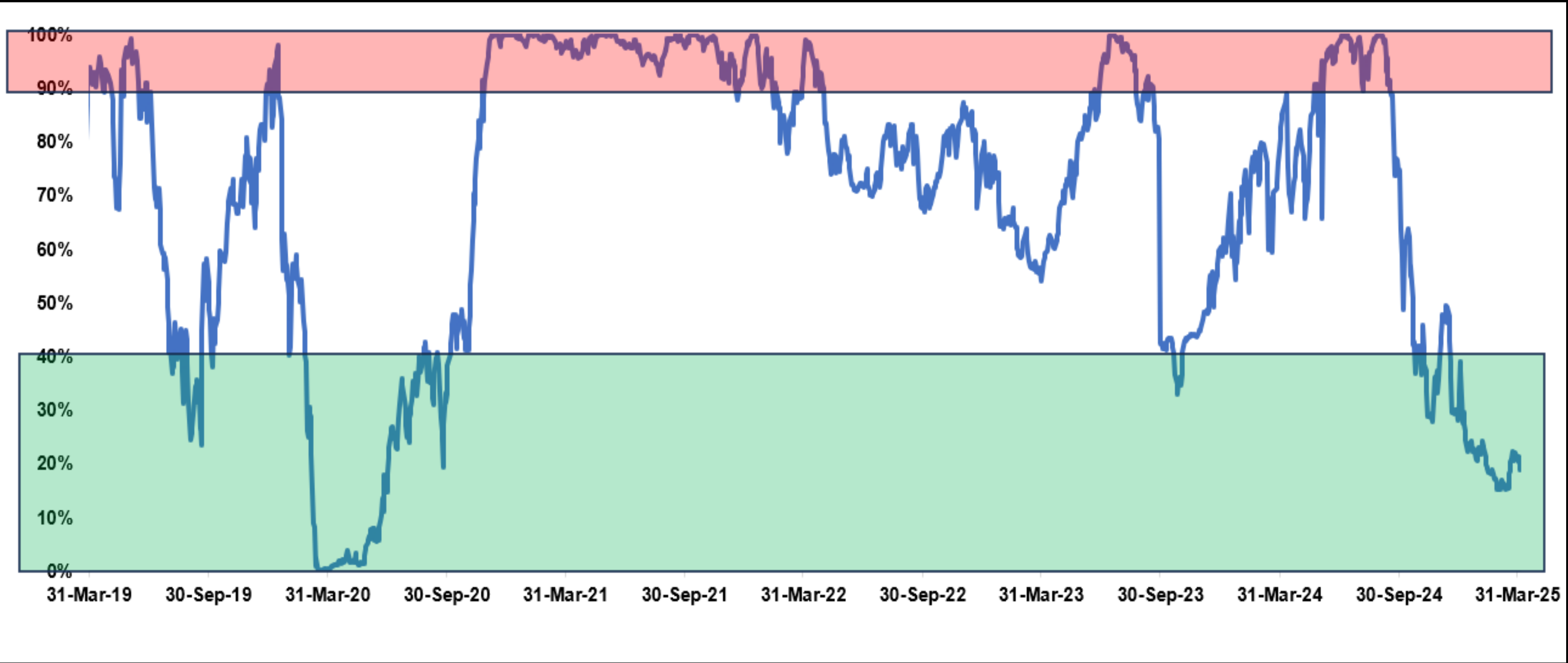
Valuations Check

Following our commentary in September on valuations being high, the value Oscillator has continued to fall further, into buying territory now.

Our proprietary ISOA Value Oscillator fluctuates on a scale of 0 - 100%. As a thumb rule, about 85-90% is generally a good time to trim or exit positions, and below 35-40% is a leading signal from a valuation standpoint (most fresh AUM additions to be done in this phase). However, this can't be used in isolation.

We trimmed some positions in Zone 3 holdings where we saw technical breakdowns on charts. The proceeds from this were reallocated using the dips in the market. The Value Oscillator is around the 22% mark as of 31 March, so good time to start looking for value opportunities.

ISOA India Value Oscillator



SOURCE: NSE, ISOA

Market Pulse

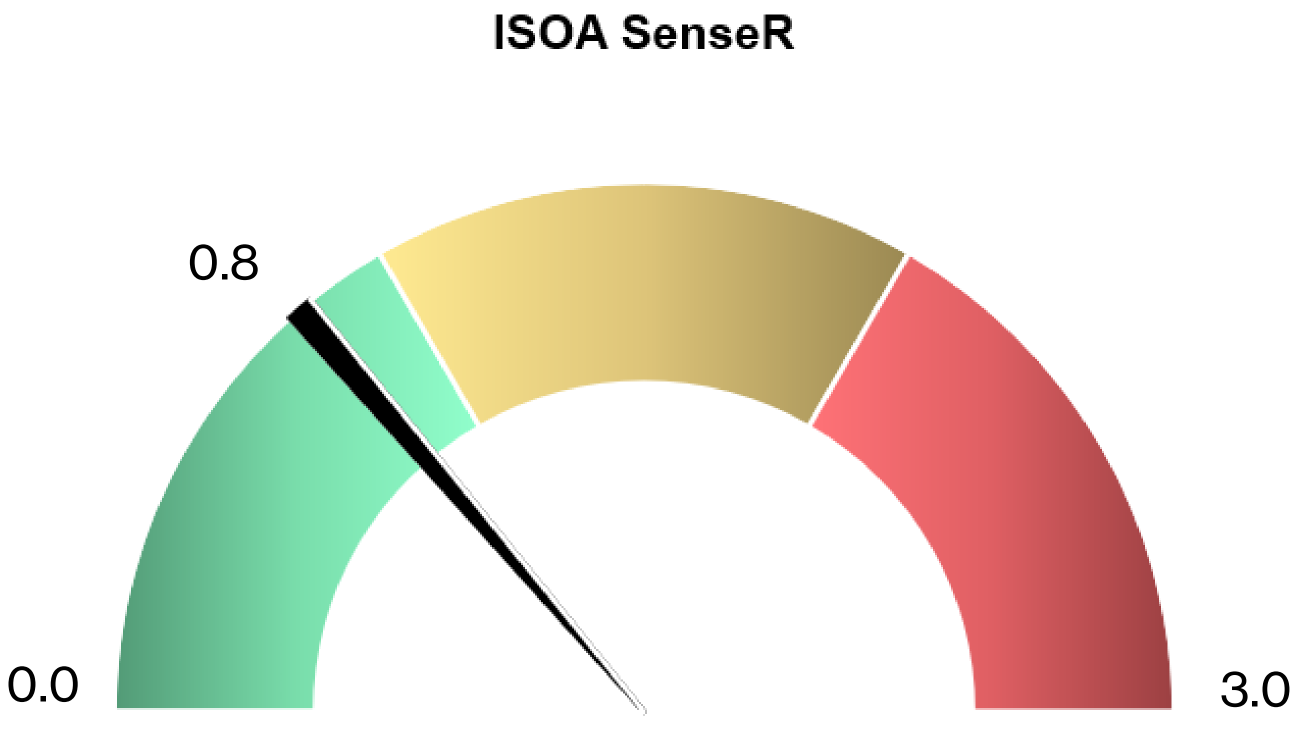
Inspired by Howard Marks's framework in his book, 'Mastering the Market Cycle,' gaining a sense of market sentiment is a key input in our investment strategy.

The ISOA SenseR assigns a score between 0 and 3, gauging the market pulse. A score of 0 indicates an environment of fear and pessimism, while a score of 3 indicates significant market euphoria. It does so by measuring three key factors: (A) News flow, (B) Money flows and (C) Social checks.

The metric stands at 0.8 as of 31 March 2025, with news flow being extremely negative as markets digest the potential tariff impact from the Trump administration and China's retaliation. On the other hand, March was the first time since Sept 2024 where FII flows turned positive, which has been quickly reversed so far in early April. Social media feed is flooded with a high degree of pessimism in these early April days.

This is a contrarian indicator, so an ideal time to look to add some value buys into the portfolio.

ISOA SenseR Value as of 31 March 2025



SOURCE: NSE, ISOA

Tariffs – How much do we really know?

There's no certainty in investing, especially when markets are grappling with unprecedented unknowns. Can anyone say with confidence what tariffs will look like three months from now? Doubtful. Your guess is as good as mine. There are no historical precedents or solid facts to base decisions on in such times. Sure, the markets expected the new Trump administration to introduce tariffs, but the scale and speed? That caught everyone off guard. This note isn't about modeling every possible scenario, but rather laying out the thinking behind how we are positioning this portfolio.

It's easy to get lost in market narratives. Sometimes, simply admitting "I don't know" can be a powerful reset. It helps shift focus from predicting events to weighing probabilities. When I see a correction, I also see improved odds of strong future returns. If the chance of achieving a 20%+ CAGR on new investments over the medium term improves from 2/10 to 7/10, I'll take that bet. We cannot time the bottom perfectly, but we can certainly in more control deciding what odds to take on.

With the drawdowns we've witnessed and valuations easing off their highs, history suggests this may be well be a great time to consider buying. But that's easier said than done. When it's time to act, fear often takes over. Nobody feels great hitting 'buy' when headlines scream recession and markets log their worst days. But that's usually when opportunity is hiding in plain sight – wrapped in discomfort and uncertainty. Could things get worse? Absolutely. Manchester City lost 9 out of their last 12 games in early 2024 – yes, I still can't figure that one out! This could very well be the biggest economic reset of our lifetime. Markets might fall another 30%. Anything is possible. But again – it's all about probabilities, what odds are you willing to bet?

Fundamentals, Expectations and Positioning

Our expectation of a 15-20% correction set out in our September 2024 note has materialized fully, quicker than anticipated. Given this broader view, our focus was on exiting or trimming down positions on technical chart breakdowns, especially in Zone 3 holdings, which proved to be the saving grace to come out of this drawdown relatively unscathed.

The result - Our portfolio is just marginally down from its peak in October 2024 vs the broader market correction. The broader process of switching over to technical setups vs. long-term fundamentals, especially for the larger allocations in the portfolio, when they enter Zone 3 as per our model classifications, has fared well during this period. The notion that this has to be a high turnover strategy also hasn’t been the case, with turnover of c. 23% over the previous 1-year period. The target is to keep this under 30% annually.

From a valuation standpoint, large-caps have fallen off to their long-term average (Nifty 50 at 20 P/E) while small and mid are still above long-term averages. Nifty 50 at 16-17 P/E would be a great opportunity to buy if we were to see further price correction with the tariff and trade policy uncertainty looming. However, waiting for the perfect entry point seldom works. Given the easing off in valuations and increasing volatility, the focus, at least for the upcoming quarter, will shift towards adding to existing positions or new positions in the fund. The decision to hold off fresh purchases for most of this correction has meant we have some cash reserves to deploy in the coming months. While it’s not a “cash call” in the traditional sense, temporary pauses are part of the playbook when valuations/momentum aren’t aligned.

Fundamentals/Expectation Setting

Circling back to the Earnings growth and Multiple expansion/contraction framework. With the onset of the “tariff wars” globally and heightened uncertainty, projecting growth is a real challenge. We have cut our growth projections by 1-2% to 15-16% CAGR on earnings for the underlying holdings, with no contraction in multiples over a 3–5-year period, increasing our CAGR expectation to 15-16% CAGR in our base case (assuming no change in holdings).

Fundamentals, Expectations and Positioning

Value pockets Emerging

Courtesy of the folks at DSP, this chart captures why the ramp-up in financials and chemical sectors was a key theme for us in the recent quarter.

This is still not a picture of a true value market opportunity yet, but certainly, certain pockets are offering some margin of safety for fresh positions. The key remains to have a bottom-up selection approach.

Corporate balance sheets are in good shape as well, with the median Debt to Assets down from c. 50% in 2008 to c. 20% today. This just adds another layer of confidence going ahead.

Sector	Valuation Metric	% of stocks trading below 30th percentile of its historical valuations
Private Banks	Price to Book	70%
Nifty Financial Services (ex Banks)	Price to Book	37%
Oil & Gas (incl. RIL)	EV to EBITDA	33%
Chemicals	Price to Book	26%
Auto	Price to Earnings	20%
Metals	EV to EBITDA	20%
Healthcare	Price to Earnings	11%
FMCG	Price to Earnings	7%
Capital Goods	Price to Book	3%
IT	Price to Earnings	0%
PSU Banks	Price to Book	0%

Source: DSP Netra, DSP Navigator – Data as at Feb 2025

Fundamentals, Expectations and Positioning

Positioning and Outlook

From a positioning standpoint, the dynamism of the fund meant that the portfolio's style has shifted from the momentum play we saw in the first half of FY25. This is in line with our previous quarter commentary as Q4'FY25 saw further sell-offs in key Zone 3 positions, and the market dips presented opportunities to redeploy those proceeds.

We have increased our weightage on Financials over the last two quarters (largely through Bajaj Finance, CDSL, and Kotak Bank exposures). The chemical sector allocation is currently close to its sector cap, so keep a close watch on this area, as it is also a sector where the tariff outcomes could have a significant impact. Coming to the Nasdaq 100, we tactically scaled down exposure in February based on stretched valuations and breakdown on charts, and with the April correction, re-entered a bit at much favorable levels. This phased approach aligns with our technical zone framework.

Volatility is on the up, which means market moves will be aggressive and those lead to opportunities both to buy more or take profits off the table. Broadly speaking, the bias and focus are more towards buying opportunities than looking to sell. Sell trades, if any, will more likely be for rebalancing reasons.

ISOA DAF

Current Portfolio Positioning

Key Metrics

As of 31 March 2025

Metric	Portfolio (DAF)	Benchmark (Nifty 500)
Top 5 Positions	36.7%	23.9%
Top 3 Sectors	63.1%	47.6%
Number of Stocks*	32	500
Portfolio P/E Ratio*	38.0	23.5
Volatility (Since Inception)	17.6%	13.9%
Sharpe Ratio** (Since inception)	1.5	0.8
Sortino Ratio** (Since inception)	2.0	0.9
Turnover (1 yr.)	23.3%	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

Asset Class Split

India equity and gold allocation have gone up marginally during Q4'FY25.

The increasing uncertainty around the impact of potential tariffs in the US, along with a breakdown in technical charts, saw us trim down our exposure in the Nasdaq 100. The VIX index (measuring volatility) is through the roof, and the price moves have been extreme. The index is down to the same levels we added in Q3'FY25.

Considering the valuations now, with market pessimism and accounting for the uncertainty in the global markets, we added back some exposure to Nasdaq in early April.

I believe it is a good time to start thinking of fresh AUM addition given the market circumstances today.

As at 31 March 2025

Asset Class	Portfolio Weightage%	Target Range%
India Equity	89.6%	70 to 95%
International Equity	4.6%	0 to 20%
Gold	5.8%	0 to 10%
Cash	0.0%	0-10%

Sector Allocation

Sector allocation is more of an outcome rather than an input. It's an outcome based on how individual companies are positioned from a Zonal perspective.

Target ranges provide sufficient flexibility to accommodate tactical overweights and underweights, ensuring the strategy is not benchmark-hugging.

Information Technology and Healthcare remain structural overweights in the portfolio. Healthcare reached the upper limit, trimmed some exposure in January 2025 through Neuland Labs.

Been adding to the financial services sector for the second quarter running, taking the allocation much closer to benchmark weight.

Sector Allocation as of 31 March 2025

MARCH 2025	ALLOCATION%			
Sectors	Portfolio (DAF)	Benchmark	Target Range	Deviation from Benchmark
Financial Services	28.7%	30.9%	15-35%	-2.2%
Oil, Gas & Consumable Fuels	0.0%	7.7%	0-10%	-7.7%
Information Technology*	17.9%	9.1%	10-25%	8.8%
Automobile and Auto Components	4.4%	6.5%	0-8%	-2.1%
Fast Moving Consumer Goods	4.9%	6.7%	0-10%	-1.8%
Capital Goods	1.4%	5.4%	0-10%	-4.0%
Healthcare	17.3%	6.5%	5-20%	10.8%
Power	0.0%	3.4%	0-5%	-3.4%
Metals & Mining	0.0%	3.6%	0-5%	-3.6%
Consumer Services	4.2%	3.5%	0-10%	0.7%
Consumer Durables	3.0%	2.9%	0-10%	0.1%
Construction	0.0%	2.9%	0-5%	-2.9%
Telecommunication	0.0%	3.3%	0-5%	-3.3%
Construction Materials	0.0%	2.1%	0-5%	-2.1%
Chemicals	11.3%	2.1%	0-12%	9.2%
Services	0.0%	1.8%	0-5%	-1.8%
Realty	0.0%	1.2%	0-5%	-1.2%
Textiles	0.0%	0.3%	0-5%	-0.3%
Media, Entertainment & Publication	1.1%	0.2%	0-2%	0.9%
Diversified	0.0%	0.1%	0-2%	-0.1%
Forest Materials	0.0%	0.1%	0-2%	-0.1%
Gold**	5.8%	0.0%	0-10%	5.8%
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

SOURCE: NSE, ISOA

Top Current Positions

Neuland Labs, CAMS, and Nasdaq 100 are out of the top 5 positions after the profit booking done in Q4'FY25. I still retain exposures to these holdings, but these are not the Top 5 holdings as at 31 March 2025.

As mentioned in the last quarter update, SRF exposure was ramped up in January. Financial services have outperformed other sectors, which has also helped our performance over the quarter.

Continue to retain the gold exposure through Bees and Muthoot Finance, but no fresh additions were made here.

Top Positions as at 31 March 2025

Companies	Sector	Portfolio Weightage%
Affle India	Information Technology	6.9%
SRF	Chemicals	6.9%
Bajaj Finance	Financial Services	6.0%
Muthoot Finance	Financial Services	5.9%
Gold Bees	Gold	5.8%

Quarter Trade Sheet

The quarter saw some rebalancing, with most sales being technical breakdown-related.

While rebalancing is dynamic, the actual number of trades remains limited due to focused position sizing and entry/exit criteria. The overall portfolio turnover remains below the 30% target levels.

February-end offered some good market opportunities –wanted to increase exposure in financials, so a major rebalancing chunk went to Kotak (comfort on valuations) and CDSL (40% drawdown creating opportunity to add some exposure)

Key Entry/Exits	Action	Rationale
Trim Neuland Labs	Early Jan - Sold about 2/5th of the position	Some profit booking + Sector allocation cap triggered
Trim CAMS	Early Jan - Sold about half of the allocation	Sharp Zone 3 technical breakdown + CAMS moves are sharp
Increase SRF	Early Jan - Added ~4% allocation	Improved Chem biz. Outlook from management, recovery in packaging margins + decent vals.
Trim MON100	Mid Feb- Sold half of the position	Breakdown in Zone 3 technical setup
Increase CDSL	Feb-end - Added ~2.5% allocation	Sharp cuts on broker targets post a weak set of numbers, a sharp 40% decline from the top, but strong biz. Model long-term
Increase Syngene	Feb-end - Added ~1.5% allocation	100% innovator in CRDMO space + market opportunity on dips
Add Kotak Bank	Feb-end - Added ~3.6% allocation	Valuation comfort, a strong franchise, expect RBI embargo to be over
Increase Tata Consumer	Feb-end - Added ~1.5% allocation	Zone 2 position building on the dip + strong business franchise

ISOA DAF

Portfolio Strategy and Construction

What the Fund is all about?

ISOA DAF is a process-driven, multi-factor portfolio focused on generating long-term alpha across Indian and select international equities. 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 (inception in July 2023), 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.

- Shivam Jain, CFA

The journey so far and the year ahead

2021-2022

Trial and Error Phase

Multiple iterations, back-testing pieces of the strategy.

2023

Implementation Phase

Implementation started in mid-2023, with data compilation, setting up triggers and rebalancing the existing personal portfolio to align with the strategy.

2024

Formalisation Phase

Expanding base research coverage

Formalising documentation and reporting of the portfolio strategy and performance

2025

Process Improvement

Automate much of the manual data inputs

Continue refining the investment process.

Expand coverage and reporting depth

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.

The portfolio is also market cap agnostic.

The three most prominent inputs in the investment approach are business quality, valuations and investor behavioural patterns in the market.

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. We 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**

ISOA DAF

Investment Shortlisting

(Eliminate)

Investment Shortlisting

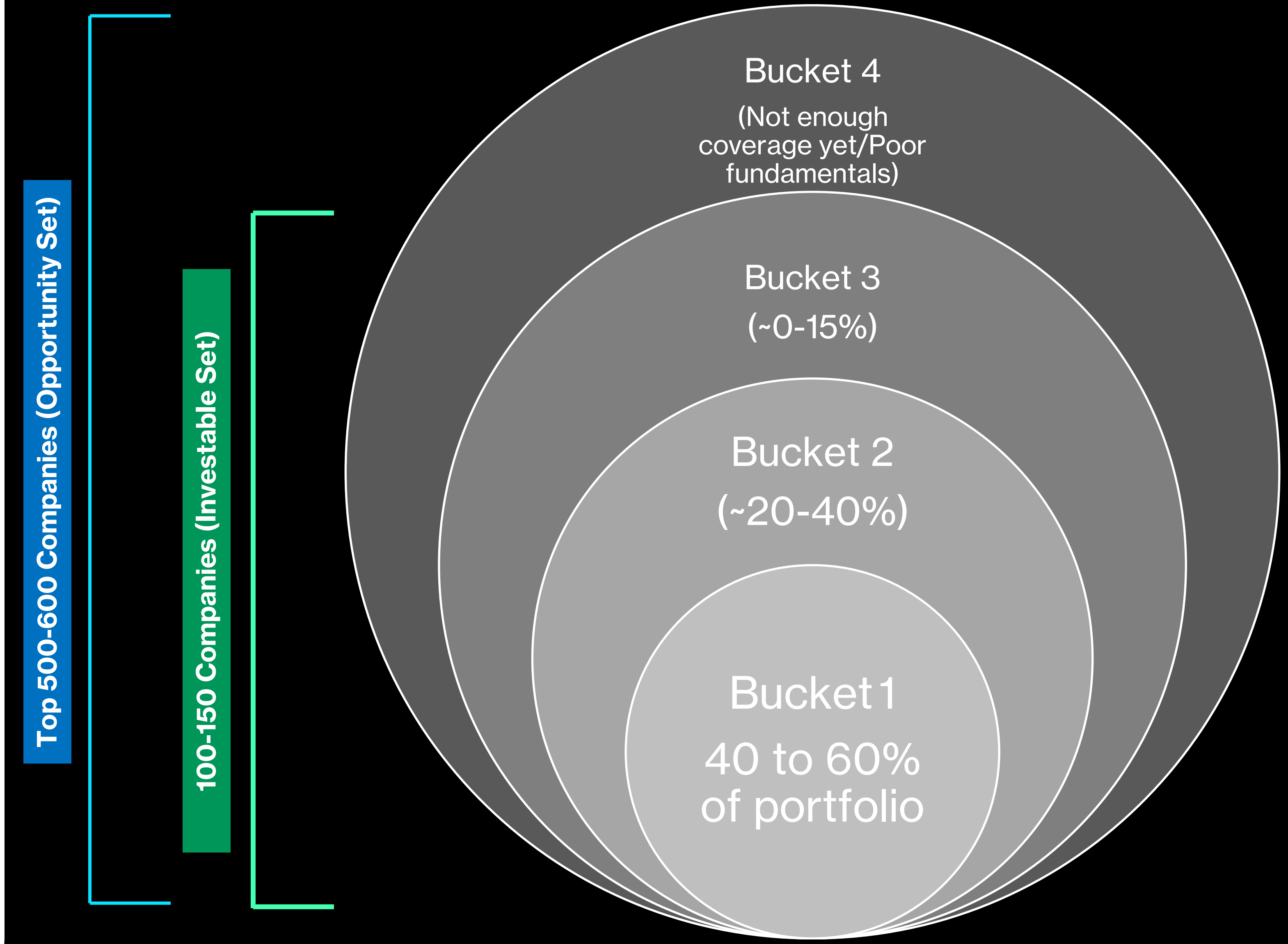
Bucketed (with 1 being best) based on the below parameters:

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)



Portfolio Coverage

We started with a coverage of 50 companies in July 2023 and have successfully scaled up coverage to over 125 as of December 2024.

The aim is to build coverage on close to 500 companies by 2028.

What is enabling this all?

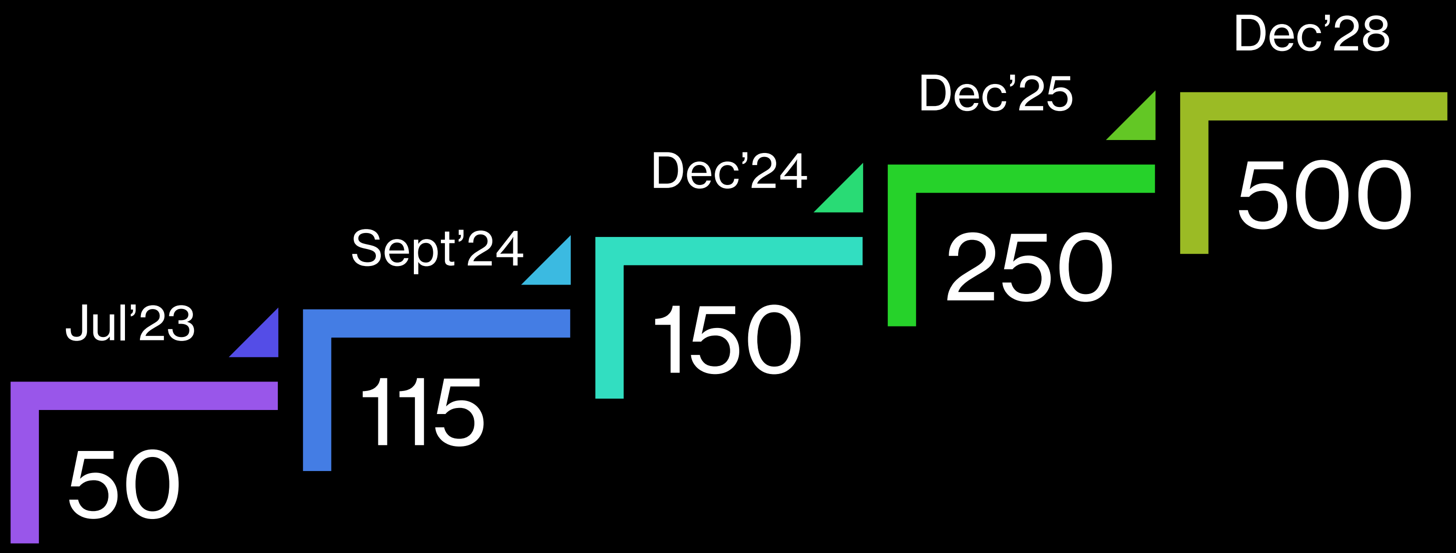
Integration of AI in baseline research

Software integrations for portfolio tracking

Enhancement and automation of the allocation model

Expansion into active international equities

Continuously looking to expand coverage to improve the idea-generation process and gradually incorporate international equities as well in the medium term



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

ISOA DAF

From Shortlist to Portfolio

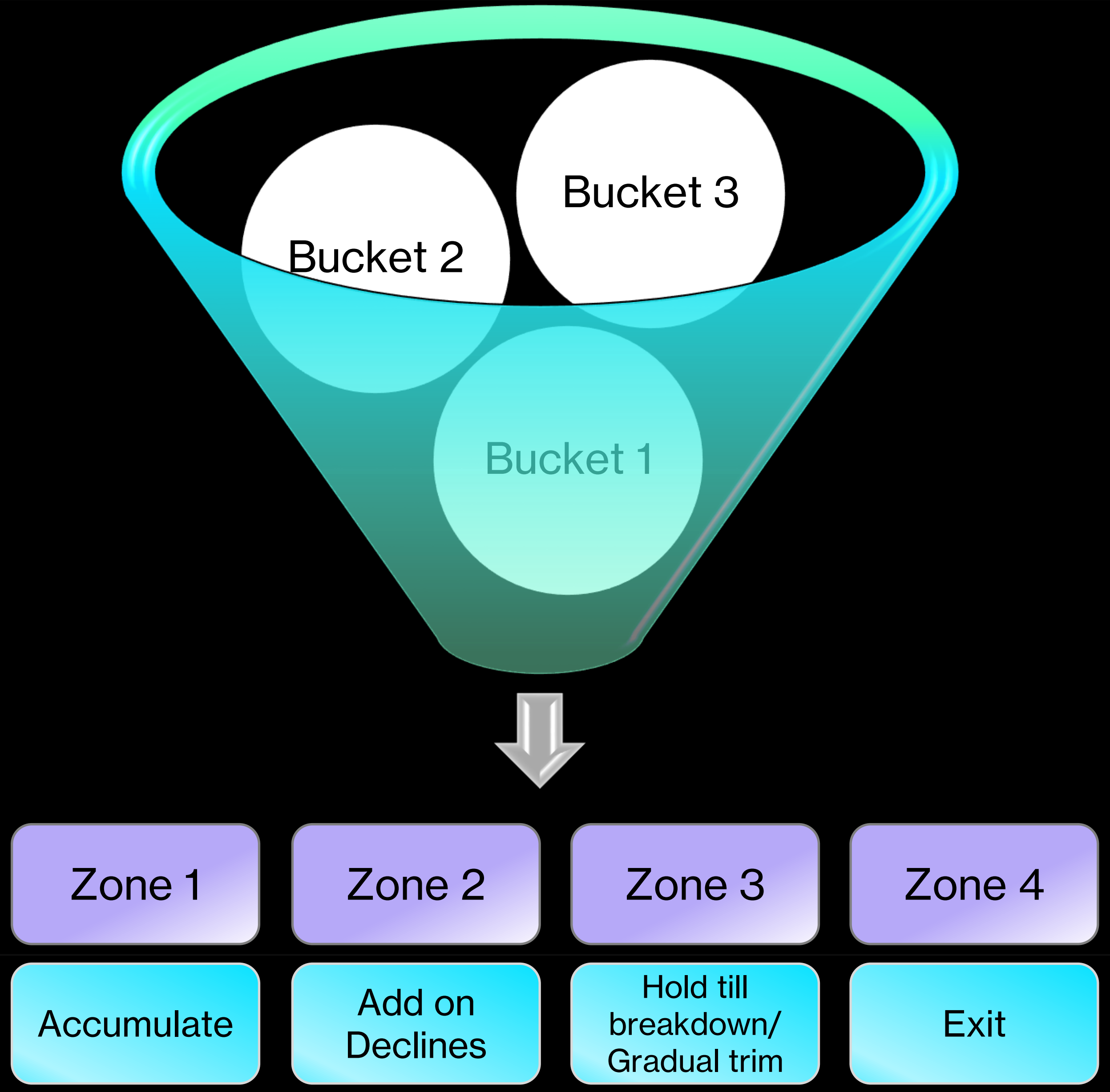
Mapping Buckets to Zones

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%	Value Oscillator Reverse DCF Relative Valuations	Compare expected vs what Current price is implying
Business Fundamentals	20%	Bucket 1 to 4	Feeds from Bucket categorization
Market Pulse	15%	ISOA SenseR Curated Template on three parameters	News flow Fund flow Social checks
Technical Setup	15%	Technical Charts	Stage Analysis Moving Averages Volumes

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	Balanced 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)

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