SUNDARAM Emerging Leadership Fund

• Monthly Update •

Objective: To seek long-term capital appreciation with investments predominantly in mid and small cap companies.

Target Investors: Ideal for long-term investors seeking returns through investments predominantly in small and midcap stocks and are comfortable with short-term volatility.

Investment Horizon
Above 3 years

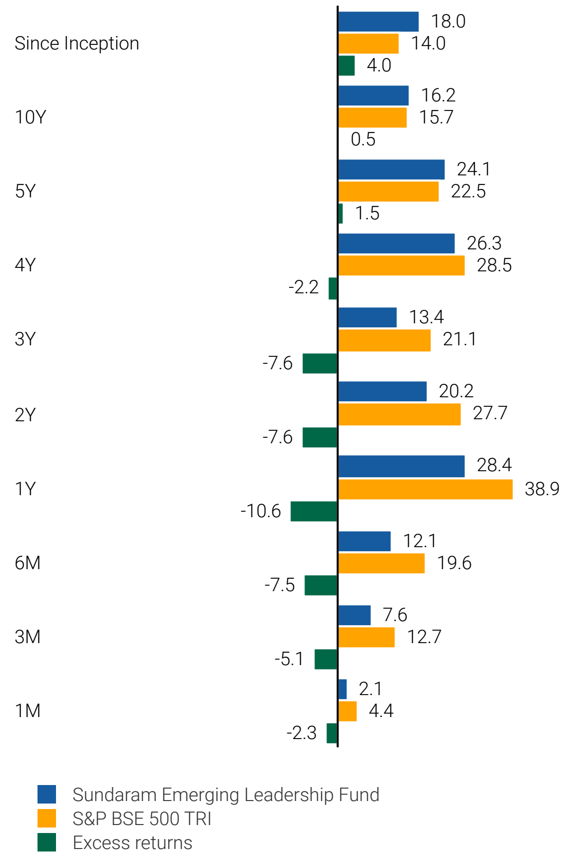
Benchmark
S&P BSE 500 TRI

Inception
June 2010

Primary Fund Manager
Mr. Madanagopal Ramu

Co-fund Manager
Mr. Prashant N Kutty

S.E.L.F vs S&P BSE 500 TRI (%)



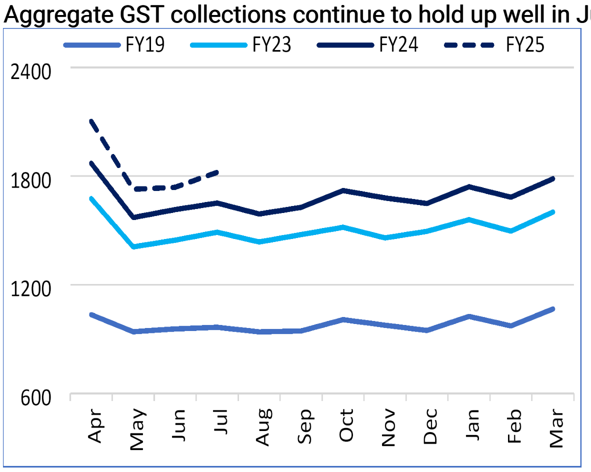
Peer performance is available under the following link of Association of Portfolio Managers in India (APMI): https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu

Equity markets, in dollar terms continued to deliver good returns in July. Japan topped equity market returns, while commodities (including crude) continued to remain weak.

US macro data witnessed incremental strength, but markets chose to focus more on dovish comments from Fed Chair Powell and other Fed members. These supportive comments hinted at Fed rate cuts as early as the Sep'24 policy. This was clubbed with disappointing commentary from top AI related companies and a failed assassination attempt of the former President Trump. All of these led to a sharp rotation out of Tech and into US cyclicals, leading to a significant Small cap outperformance in July.

The month also witnessed EU tariffs on China, indirect US tariffs on China through Mexico, soft China macro data and uneventful China 3rd Plenum meetings for the markets.

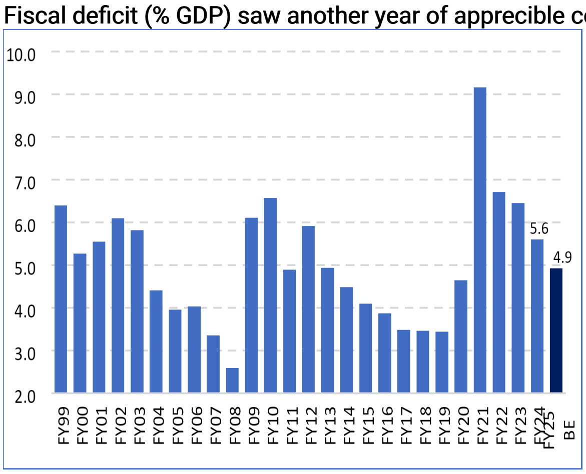
Aggregate GST collections continue to hold up well in July (Rs.Bn.)



Total GST collections for the centre and the state aggregated saw a growth of 10% y/y. GST collection growth remains broadly positive, with the 5Y CAGR from July FY20 just above 12%.

PMI numbers for the month of July inched down on the back of both manufacturing and services. However, note here that both the PMI numbers are at elevated levels, with services PMI (60.3) in a more expansionary phase than manufacturing (58.1). While services PMI recorded an appreciable increase in new orders on the back of new export orders, manufacturing saw strong demand. Broad macro indicators continue to remain resilient.

Fiscal deficit (% GDP) saw another year of apprecible consolidation



The final budget was presented by the government in July. These numbers need to be compared with the interim budget. Most of the budget numbers remain unchanged from what that of the interim budget. The excess RBI dividend has led to an increase in non-tax revenue growth. Clubbed with some positive rub-off assumed in income tax growth, the budget sees a large transfer to states in three buckets: an increase in its mandated (finance commission) transfer to states, in revenue spends and in capex spends. In addition to this, allocations are made to the ministries of labour & employment, consumer affairs, renewable energy, urban housing and farmer welfare, in that order of priority. This is alongside an aggressive effort to cut back on the fiscal deficit as well.

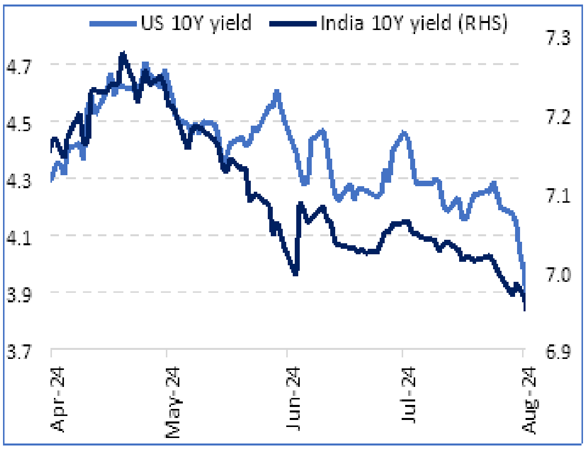
The key highlight of the budget in numbers are its continued trajectory of fiscal consolidation, its conservative assumptions and its strong capex focus. The budget saw a 20bps surprise in its fiscal deficit to 4.9% from its earlier estimate of 5.1%. This is 70bps lower than the FY24 fiscal deficit. And if one were to make a like-to-like comparison with the FY24 budgeted figure, it would be 100bps lower! The budget assumptions remain conservative and maintains a flat net tax/GDP ratio alongside a conservative nominal GDP growth. If one adds PSU capex, the total capex number from the budget sees an appreciable increase of 20bps from its interim projection to 4.3% GDP.

NIFTY delivered a 3.9% return in rupee terms for July. Small cap and Mid cap returns were seen well above large cap, and IT, Pharma and FMCG were the top three performing sectors during the month.

FII inflows continued to remain strong into both equities and debt. July saw $6bn of net FII inflows, with $3.4bn into equities and $2.6bn into debt.

The Union budget was presented with its focus largely on employment linked incentives. While the absence of significant personal income cuts and the removal of LTCG for real estate were not appreciated by the markets, on the whole, the government continued to maintain its momentum on both fiscal consolidation and government capex.

India 10Y moved well below the 7% level, on falling US yields



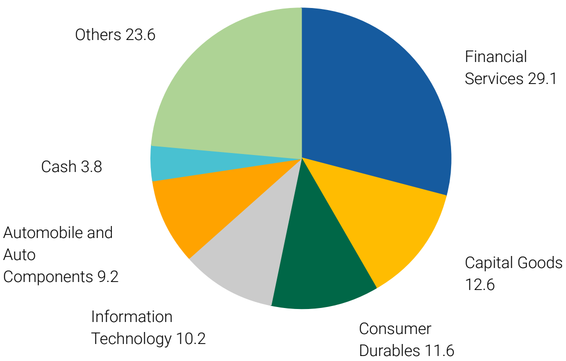
India 10Y yields have been secularly moving lower since end-Apr'24. This has largely been on the back a strong move lower in US yields as markets increasingly expect the Fed to start its rate cuts from the Sep'24 policy. Early August saw an increase in US unemployment which further led to markets repricing their Fed rate cut quantum to a 50bps from 25 earlier. Lower crude prices and favourable domestic liquidity have also greatly helped India 10Y yields move lower. With increasing Fed rate cut expectations, markets expect the RBI to follow suit. However, with strong underlying growth, the start to the RBI's rate cut cycle could take some time.

Equity Market Outlook

Budget 2024-25 focused on fiscal consolidation while maintaining momentum on capex, setting priorities for further simplification of taxes and laying foundation for medium-term job creation through targeted schemes. From an equity perspective, absence of populism and focus on macro-economic stability augurs well for overall sovereign ratings and currency stability, both being key elements for investor confidence and capital flows over the medium-term. With the Budget priorities laid out, we expect broad markets to consolidate and focus shift back to earnings and sustenance of medium-term earnings catalysts. The last few years have witnessed appreciable equity returns across cap-curves as the economy has experienced continued expansion in its macro variables.

Over the medium-term, the twin cylinders of investment and consumption are expected to fire up growth through manufacturing and services. Our medium-term approach is to pursue a well-diversified portfolio strategy with focus on growth-oriented companies with adequate margin of safety, within the above themes of manufacturing, industrials, consumer, services, and technology.

SECTOR ALLOCATION (%)

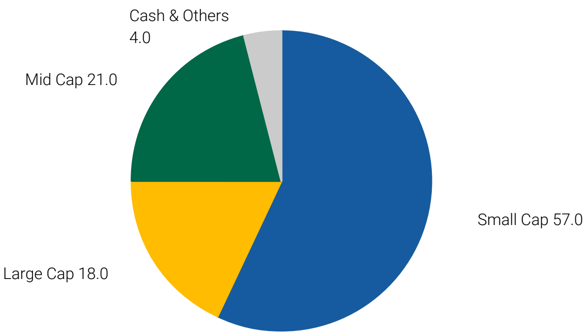


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 46,154 Cr

MARKET CAPITALIZATION (%)



Note: Numbers may not add up due to rounding

PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	17.7	14.4
Standard Deviation	15.0	16.2
Beta	0.8	
Sharpe Ratio	0.7	0.5
Correlation	0.8	
Alpha	5.0	
Tracking Error	9.4	
Up capture Ratio	100.3	
Down capture Ratio	79.4	

Performance Benchmarking

SEBI vide circular dated 16th December 2022 mentioned that Association of Portfolio Managers in India (APMI) shall prescribe a maximum of three benchmarks for each Strategy. Effective from 1st April 2023, the Portfolio Manager shall select one benchmark from those prescribed for that Strategy to enable the investor to evaluate relative performance of the Portfolio Managers. APMI vide communication dated 31st March 2023 prescribed the following benchmarks:

Strategy	Benchmark 1	Benchmark 2	Benchmark 3
Equity	Nifty 50	S&P BSE 500	MSEI SX 40

Among the options given, we had selected S&P BSE 500 which is a broad-based benchmark to our PMS strategies.

PORTFOLIO & STOCK PERFORMANCE

The portfolio underperformed the benchmark by ~2%. Major contributors to the portfolio were REC & Coforge. REC was up 23% on strong advances and disbursement along with good guidance on growth for FY25. It continues to be among the better rated ROA metrics and reasonably valued stock in the PSU entities. IT stocks were in flavor for the month of July, as the Demand environment seems to have bottomed out in the US. Further, one of the major verticals i.e. Banking & Financial saw a revival in growth trends after 4-6 quarters of moderation. Coforge was in a strong zone, up 16%. Draggers to the portfolio were Angel One & Hitachi Energy. Angel one was down 17%, due to SEBI regulations on clamping down F&O trades for retail investors. We believe most of the negative is factored in price and the stock is available at very attractive valuations. Hitachi Energy was down 10% as it saw a slights muted quarterly result compared to previous quarters, albeit the order inflows have been very strong in the export market. Hitachi Energy has been in flavor led by strong investments towards power transmission and distribution in the country.

Positions initiated

- **NEULAND LABORATORIES LTD**: We believe pharma R&D and manufacturing outsourcing would be a structural theme primarily led by a) large pool of skilled manpower, and b) labour/ material cost arbitrage. Upcoming commercial molecule launches to drive the major growth and expansion of some of the existing CDMO molecules such as Bempodoic acid would benefit the company.
- **MTAR TECHNOLOGIES LIMITED:** A classic play on the rising data centre demand in US, US grid has been facing challenges on transmission infra and Bloom energy with its fuel cells technology from natural gas offers cheaper source of energy. Bloom energy had seen moderation in demand in last year, this should revive in coming quarters, post US elections, there can be rise in data centre demand. Mtar has capabilities in nuclear power and defence operations as well, Govt focus on Nuclear can improve the order flow and there is also aftermarket which can add to revenues and margins.
- **MPHASIS LTD:** A classic turnaround play in the BFSI IT solutions vertical, which has struggled for last 1 year due to moderation in spends by the BFSI clients. With talks of rate cuts gaining traction in the next 1-2 quarters, there can be upswing in the spends by the BFSI vertical. The current BFS business quarterly run rate is at 80% of the peak run rate in FY22-23. As the spends of the top clients improve, this will increase the run rate in FY25-26.
- **BSE Limited -** With new restrictions in place i.e. weekly expiry per exchange, BSE is well placed to gain premium market share in F&O volumes from current 11% to 20% and above in the medium term. With slab-based pricing going away and NSE's need to raise price to manage volume decline will provide room for BSE to increase prices while gaining volumes and market share.

Exits

- **EQUITAS SMALL FINANCE BANK LIMITED**: Is saddled with pressure of high credit cost given increasing stress in the system. Growth has also moderated, especially in the unsecured part of the business, and at a time when the OPEX is increasing in line with increasing branches, which can lead to lower PAT growth. Valuations at 2x is not very attractive for the earnings moderation in this year.
- **TASTY BITE EATABLES LIMITED** : Post-acquisition by Mars global we were expecting strong traction in the ready to eat food business in US markets, however the execution has been lower than expected and we believe that tasty bites capitalizing on ready to eat food market opportunity might be a long haul.
- **TRENT LTD :** Been the best performing stock in Retail; made handsome profits, making way for new ideas, as valuations starting to look pricey. Although, we continue to maintain a positive stance in this name

KEY FEATURES

- Bet on Sundaram's strength in the mid & small cap space; a differentiated yet concentrated portfolio positioned attractively along the cap curve.
- Multi-sector portfolio.
- Stocks with market cap less than Rs. 500 billion.
- "EASE" portfolio
  - Emerging leaders – clean and high-quality promoters/management.
  - Asset light & High ROCE businesses are preferred.
  - Scalable companies: mid-cap to large cap, small cap to mid-cap transitioning companies.
  - Excellent cash conversion from operations.
- Identify stocks that are in the early stages of their business cycle and could emerge as tomorrow's large caps.
- India 2025 - Themes
- Financial inclusiveness
- Phygital Bluechips
- Consumption Czars
- Export Voyagers

TOP HOLDINGS

NAVIN FLUORINE INTERNATIONAL LTD
PRICOL LIMITED
FIVE-STAR BUSINESS FINANCE LIMITED
AMARA RAJA BATTERIES LTD.
BLUE STAR LTD

KEY CONTRIBUTORS

Symbol Name	Unit Cost (INR)	Unit Price (INR)	Gain/Loss (%)
ZOMATO LIMITED	54	229	326
REC LTD.	299	644	115
TD POWER SYSTEMS LTD	242	415	72

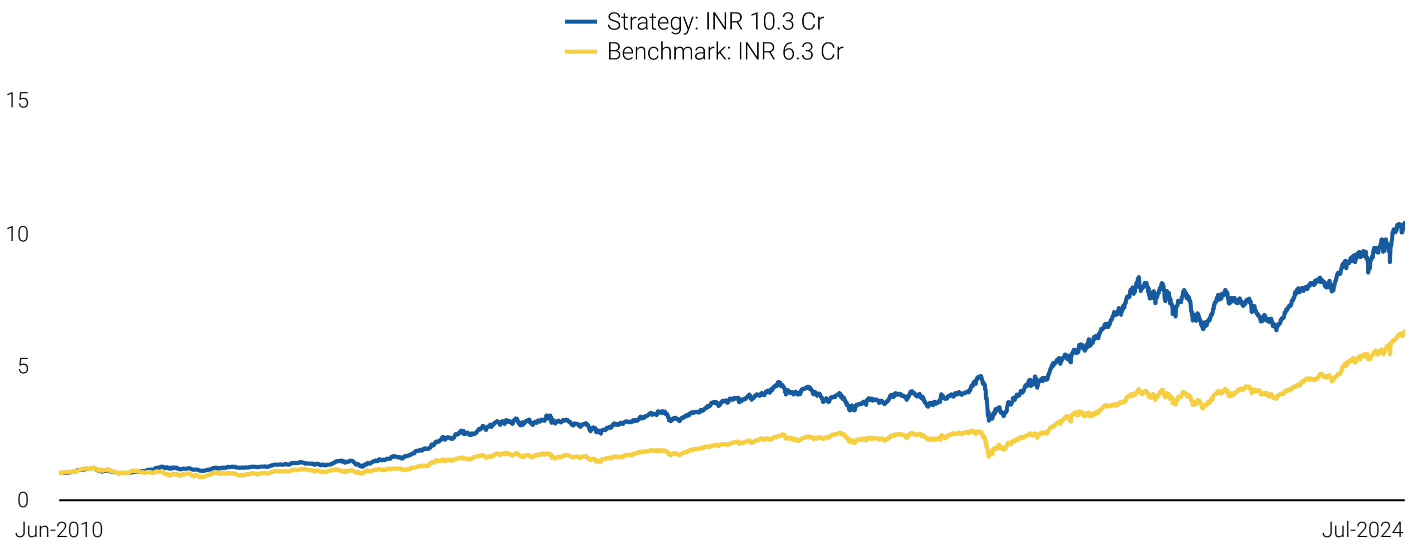
SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK

CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	9.2	12.7	-3.5
2011	-2.9	-26.4	23.5
2012	28.7	33.4	-4.7
2013	18.3	4.9	13.4
2014	69.9	38.9	31.0
2015	3.4	0.4	3.0
2016	6.1	5.2	0.9
2017	41.8	37.6	4.2
2018	-11.6	-1.8	-9.8
2019	6.5	9.0	-2.5
2020	31.4	18.4	13.0
2021	46.3	31.6	14.7
2022	-6.8	4.8	-11.6
2023	22.8	26.5	-3.7
2024 YTD	16.5	21.9	-5.4

Source: Inhouse computation. Calendar Year Performance since June 2010

VALUE OF ₹ 1 CRORE INVESTED AT LAUNCH



WHY SUNDARAM PMS

- Strong Track Record
- Low Churn
- Time Tested Stock Selection Process
- Reach Across Country
- Transparency
- Strict Adherence to Risk Guidelines
- Shared Research Capabilities

3Q QUALITY APPROACH TO STOCK SELECTION

- **Quality Business**

  Scalable, Growing, Reinvestment opportunities, Strong Moat
- **Quality Financials**

  High ROIC, Excellent Cash Flows, Low DE
- **Quality Management**

  Visionary, Problem solving

CUSTOMER SERVICES

Reporting Statements and Servicing: Monthly performance Statements Transactions, Holding & Corporate action reports, Annual CA certified Statement of the account & Online access

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DISCLAIMER

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