RW ADVISORS

Quarterly Update Dec 2022

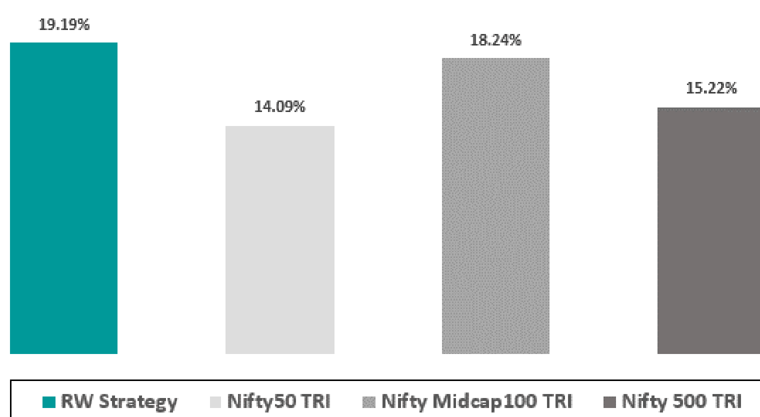
Investment Objective

RW Investment Advisors uses a proprietary framework that combines fundamental and technical factors to identify businesses that can create long term wealth. The guiding philosophy is capital protection and compounding over longer periods.

Holding Companies

Asset Concentration	Holding
No. of Companies	32
Top 5 Company Holdings	28.8%
Top 10 Company Holdings	47.8%
Highest Exposure	ICICI Bank (7.6%)

Chart 1: RW Strategy TWRR* (Since Inception)



Strategy returns shown above are post fees and expenses.

Sector Allocation

Sectors	Allocation (%)
Consumer	38.9%
BFSI	26.4%
Auto & Ancilliaries	14.2%
Healthcare/Pharma	12.1%
Technology & Others	8.5%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	55.1%
Mid Cap	10.2%
Small Cap	34.7%
Avg. Market Cap (Rs. Bn)	1,727

Top Performers

Scrip Name	Purchase Date	Adj. Purchase Price (Rs.)	CMP (Rs.) as of 30-12-2022)	Growth (%)
Asian Paints	01-Sep-2017	1,550	3,088	99.2%
ICICI Bank	23-Dec-2020	646	891	38%
IndusInd Bank	07-July-2022	902	1,220	35.2%
Cera Sanitaryware	16-Mar-2021	4,162	5,207	25.1%
Axis Bank	05-Sep-2022	754	934	23.8%

Qualitative Analysis

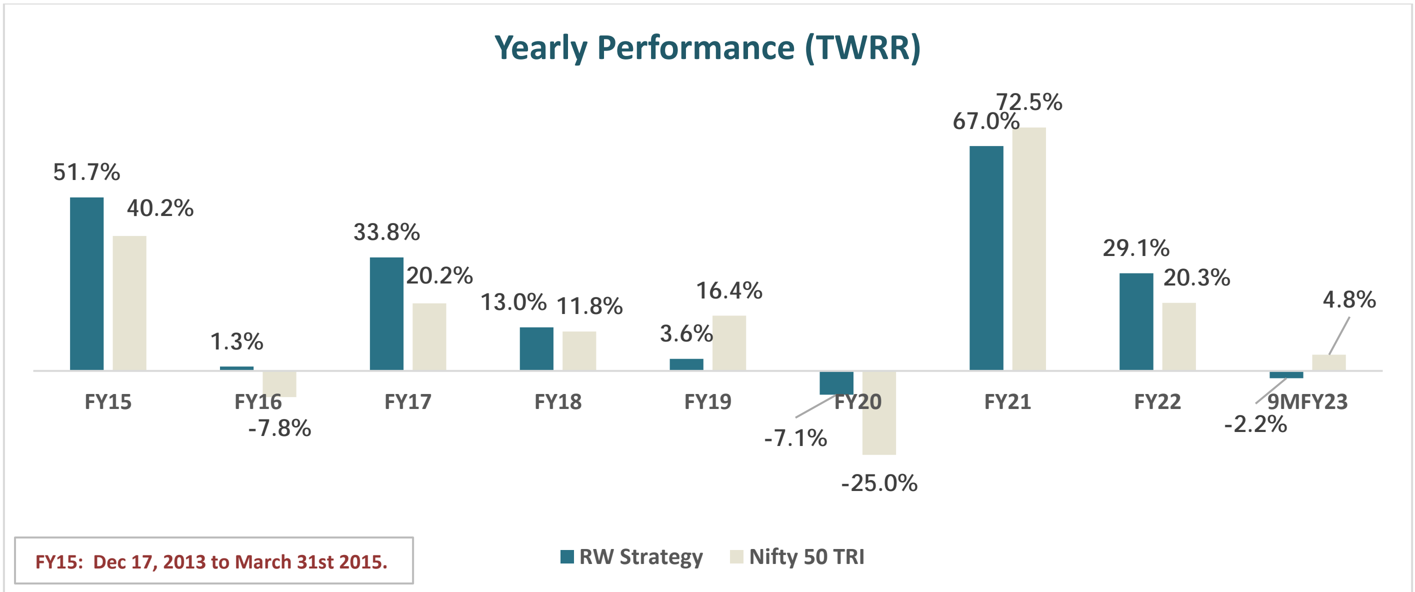
Parameters	TTM
PAT Growth	67.3%
PE	43.6x
ROE	19.7%

Holding Period

Holding Period	No. Of Scrips
Less than 1 Year	21
Between 1 to 3 Years	9
More than 3 Years	2

Disclaimers and Risk Factors

RW Strategy Inception Date: 17th December, 2013, Data as on 31st Dec., 2022. Data Source: RW Internal Research. RW Strategy results are for an actual Client as on 31st Dec., 2022. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The stocks forming part of the existing portfolio under RW Strategy may or may not be bought for new client. The Company names mentioned above is only for the purpose of explaining the concept and should not be construed as recommendations from RW Advisors.



Strategy returns shown above are post fees and expenses

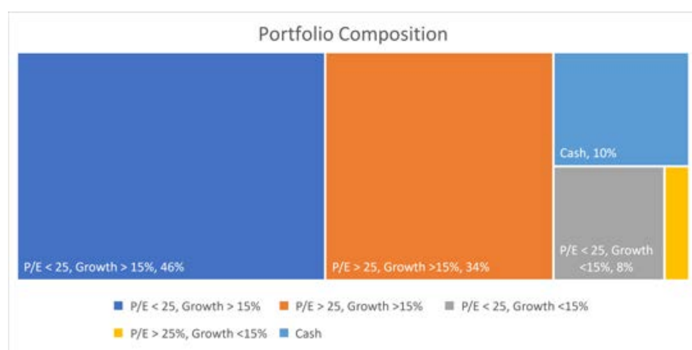
March down, June up, September up, December down – It has been one rollercoaster of a year for "quality" investors. December was one of those quarters when the last benchers had the last laugh – PSUs (banks, defence, NBFCs), EPC companies, Capital Goods companies all came to party. I understand the "stock is not the same as the business" argument, but sometimes there's very little gap between the cup and the lip before the tongue gets burnt. Something similar happened in 2019 as well.

One big lesson is that anybody having growth stocks is getting nailed (us included) and the market is amplifying this message! So, we are far more focused on valuations now with around 50% of the portfolio valued at sub 25 forward multiples (P/E). This could very well continue until the US 10 year bond rates drift below 2.5% again (which according to a lot of experts, is highly unlikely).

"you look at where you're going and where you are and it never makes sense, but then you look back at where you've been and a pattern seems to emerge." Zen and the Art of Motorcycle Maintenance: An Inquiry Into Values

In this newsletter we reflect upon the portfolio composition, strategy outcomes and the possible adjustments that need to be made as we move forward:

Table 1: Portfolio Composition:



When we view the portfolio purely from a growth and valuation perspective, about 45% of the portfolio is in more or less reasonably valued with strong growth; about 35% is in high growth companies but with a higher P/E. This is where we would have companies such as Apollo Hospitals, Bajaj Finance, Asian Paints, Titan etc – strong moat companies with high absolute valuations. If the expected returns based on reasonable assumptions are lesser than 20%, we are exiting such positions – one of the key reasons driving churn last year.

Given the flux in global macro economy and some knock on effects on India, we continue to advocate having a higher allocation to stocks dependent on domestic economy. Banks, Auto, Utilities and a few names in domestic pharma continue to trade cheap. Overall, we will continue to do what we have always focused on i.e. growth but at much lower valuations now.

Table 2: Strategy Outcomes:

Strike Rate Table	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Gainers	91%	67%	79%	87%	59%	61%	70%	72%	36%
Average Gain	21%	12%	13%	21%	16%	27%	23%	34%	10%
Contribution Factor	19%	8%	11%	18%	9%	16%	16%	24%	3%
Losers	9%	33%	21%	13%	41%	39%	30%	28%	64%
Average Loss	1%	9%	9%	4%	12%	8%	12%	6%	10%
Contribution Factor	0.1%	3%	2%	0%	5%	3%	4%	2%	6%
Gain/Loss	***33.62***	***1.35***	***1.45***	***5.93***	***1.34***	***3.28***	***1.90***	***5.88***	***0.96***

In the above table, Gainers stands for the percentage of trades in a year that ended with positive return (batting average) and Average Gain stands for how much the Gainers went up on an average. Gainers consist of both realized trades and mark to market positions.

Typically, the best investors are right 2 out of 3 times (link). Over the last 9 years, we have been in the zone in 6 times - CY22 was very different, though. Nothing changed in the strategy that we have always followed, but the factors that we invest in did not work in this backdrop of macro disruption and earnings slowdown in some of our portfolio picks. Momentum (in the right sectors) works most of the time but not all the time. During this time out phase, we should not unnaturally stray into companies which may not fit in our fundamental framework or we don't have an edge in.

Table 3: CY22 – Winners*, Detractors and Lessons Learnt:

Worst 5			
Realised Losses		**MTM**	
Gland Pharma	-1.5%	Newgen Software T	-1.4%
AAVAS Financiers	-0.8%		
Stove Kraft	-0.8%		
LTIMindtree	-0.7%		

Best 5			
Realised gains		**MTM**	
Cera Sanitaryware	0.7%	IndusInd Bank	1.0%
Cholamandalam Inv	0.7%	ICICI Bank	1.0%
Greenpanel Industrie	0.6%		

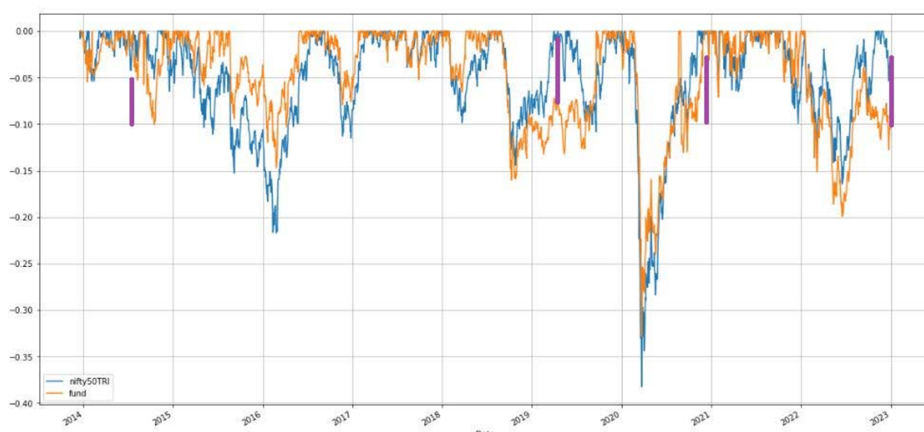
** percentage impact on the portfolio*

Gland was a classic case of laying too much emphasis on what the management says. We started doubting our buy thesis when price erosion of similar drugs in the US was in double digits, while for Gland it was hardly 2%; Second was supply chain (Syringes and Stoppers) issue was not resolving itself in 'couple' of quarters. Management was repeatedly upbeat on growth guidance despite the issues and like lemmings, we fell for their assurances after all these years of battle scars.

In Aavas, we got anchored to the 2021 prices for selling down, despite a slowdown in growth in the core book and higher opex. When growth purgatory happens, its difficult to ascertain the terminal multiples even for the best franchises.

Winners primarlily came from companies with low valuations and high growth. Without growth, low valuations did not help – Green Panel and Newgen were cases in point.

Table 4: Drawdown – Strategy vs NIFTY 50:



Given the mercurial nature of the markets, there will always be bouts of underperformance for any particular strategy. We continue to try our level best to prevent this, which leads to higher churn, but one should bear in mind that short-term underperformance is bound to happen.

There have been four instances (highlighted by purple lines in the drawdown graph) in the last 9 years where we lagged the index for a brief period - CY15, CY19, CY20 and now. In the previous 3 instances, underperformance resolved itself well under 18 months.

Table 5: Factor underperformance chance (%) – 1927 to 2015:

	1-YEAR	3-YEAR	5-YEAR	10-YEAR	20-YEAR
MARKET BETA	34	24	18	10	4
SIZE	41	24	30	23	14
VALUE	37	28	22	14	6
MOMENTUM	27	14	9	3	0
PROFITABILITY	37	28	23	15	7
QUALITY	35	25	19	11	4
P1	23	10	5	1	0
P2	17	5	2	0	0
P3	13	3	1	0	0

In Table 5, we would qualify for an investing style that matches P3, i.e. higher weights for momentum and quality and lower weights for value. Based on global research on factor investing (which combines momentum and quality), the probability of underperformance over 3 years is sub 10%. Hence, this is the recommended holding period for the clients who joined in the last one year.

Although there is a drift towards value over growth in the portfolio, we will always be ultra watchful not to buy businesses without cashflows/talent/governance. The good part is that we are flexible.

Source: Your Complete Guide to Factor-Based Investing: The Way Smart Money Invests Today (P 143)