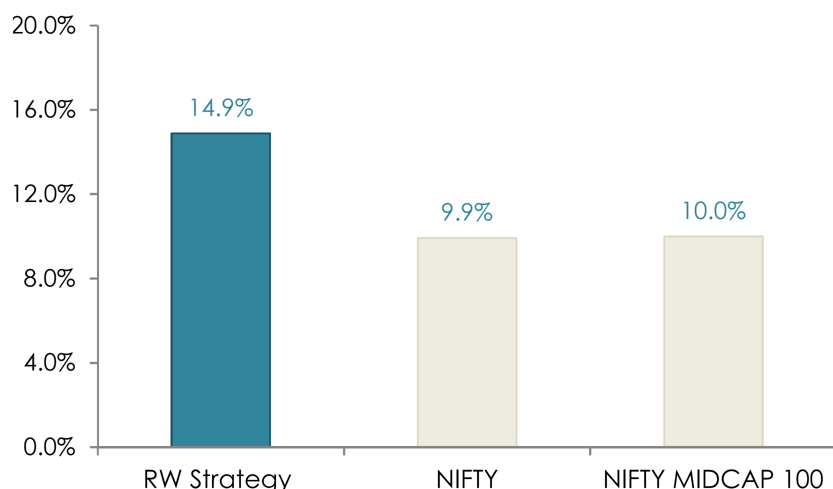
RW ADVISORS

Quarterly Update
December 2018

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.

Chart 1: RW Strategy Performance (Actual IRR)



Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 31-12-2018	Growth (%)
HDFC Bank	13-Feb-14	634	2,122	234.8%
Abbott India	17-Mar-17	4,524	7,519	66.2%
Bajaj Finance	17-Jan-18	1,702	2,641	55.2%
IndusInd Bank	30-Nov-16	1,079	1,599	48.2%
Schaeffler India	30-Aug-17	4,250	5,691	33.9%

Holding Companies

Asset Concentration	Holding
No. of Companies	19
Top 5 Company Holdings	40.6%
Top 10 Company Holdings	68.7%
Highest Exposure	HDFC Bank (11.1%)

Sector Allocation

Sectors	Allocation (%)
Banking & Finance	29.2%
Paints & Varnishes	17.7%
Auto & Auto Ancillaries	16.0%
IT Services	15.4%
FMCG	9.2%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	44.5%
Mid Cap	51.2%
Small Cap	4.3%
Avg. Market Cap (Rs. Bn)	1,126

Qualitative Analysis

Parameters	TTM
PAT Growth	20.6%
PE	38.3x
ROE	23.3%

Holding Period

Holding Period	No. Of Scrips
Less than 1 Year	11
Between 1 to 3 Years	6
More than 3 Years	2

Disclaimers and Risk Factors

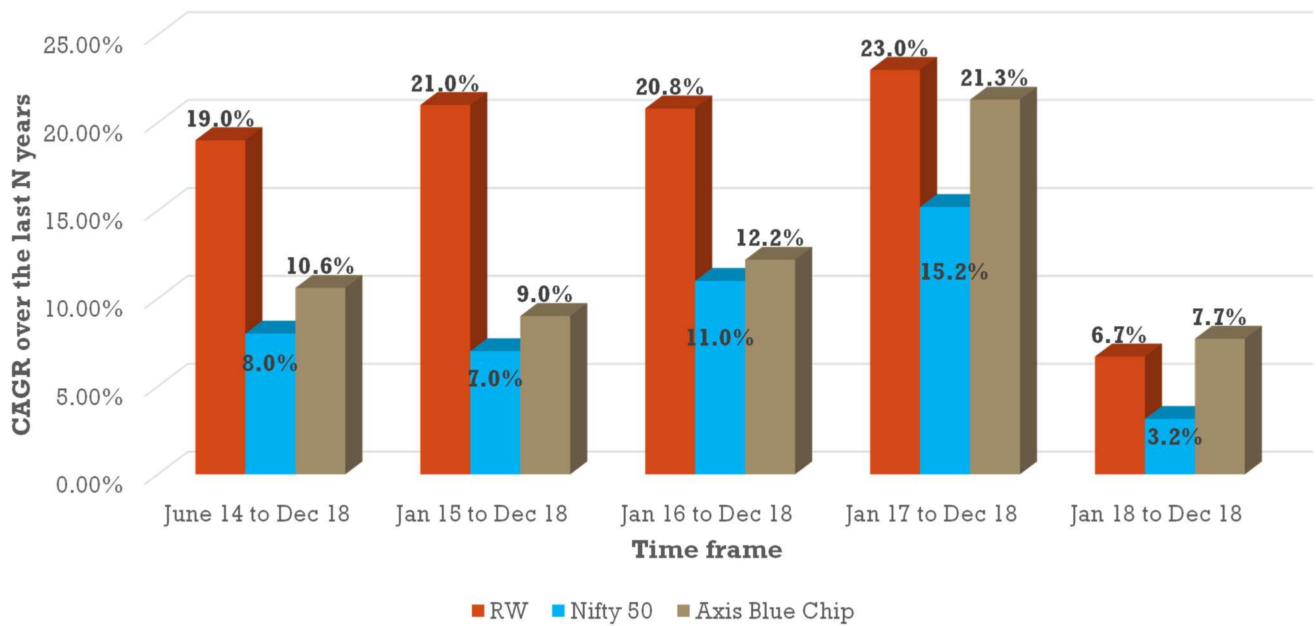
RW Strategy Inception Date: 17th December, 2013, Data as on 31st December, 2018, Data Source: RW Internal Research. RW Strategy results are for an actual Client as on 31st December, 2018. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may 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.

RW Investment Advisors LLP is registered with SEBI as an Investment Advisor (INA200004342) and is subject to its rules & regulations

One of my advisors asked me to look at vintage-wise performance to look for areas of improvement. On the face of it, 5 year performance data reveals a lot but, likely a newly wed bride, hides much more. Since the peak of Dec 2017, last one and half years have been testing for many professional money managers including RW Advisors.

Data below is for model portfolio i.e. portfolio assuming constant allocation and without any missed trades (both buy and sell). Actual client data could differ primarily because of above two factors. Axis Blue Chip is one of the best performing mutual fund with similar strategy.

Chart 2: Model Portfolio performance (*net of fees*) over 4.5 years



Few interesting things from the data above:

- 5 year RW CAGR is closer to longer term expectation of 15%
- This is the 5th consecutive year of positive performance in the context of median decline of 11% for an average PMS last year due to bear market conditions

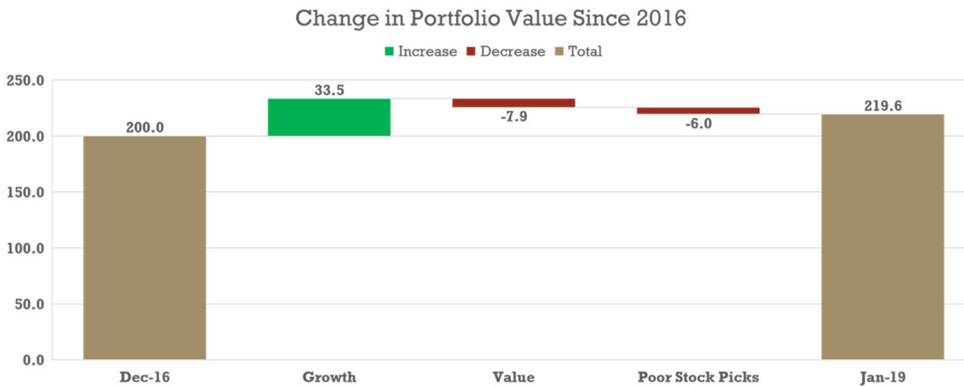
Have said that, there is still a lot of scope for better performance.

Looking for areas of improvement:

In March 2018, we discussed at length the observations from Mr. Bharat Shah's book on the criticality of growth in quality companies for generating higher returns. i.e. invest in **Best Friends Group (i.e. Best Companies with ROCE > 50% and earnings growth > 15%)**. If we do a post mortem analysis on our own portfolio, it is interesting to see that 1) we have shifted gears to look for **Best Friends** at the cost of valuation and 2) the shift has been gradual over the last couple of years.

Following charts illustrate the impact of this shift (*choice of Dec -2016 is primarily because it was the last time when Best Companies were available at reasonable valuations*) :

Case 1: If we had continued with original philosophy of companies with high returns on capital but low growth and cheap valuations – without stoploss

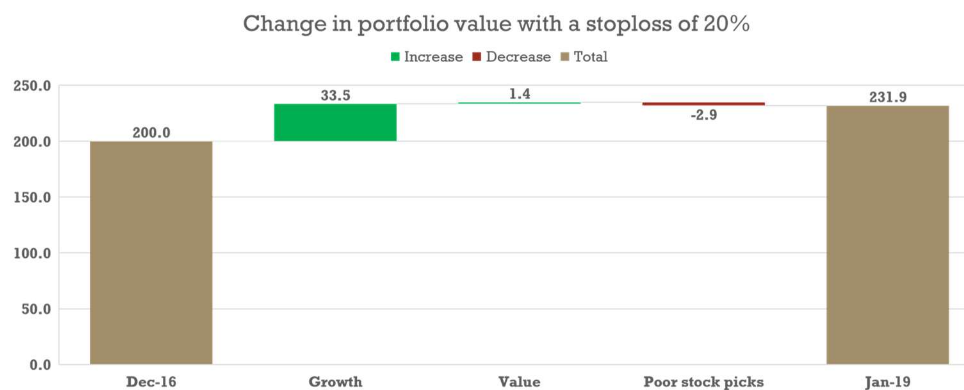


As can be seen from the chart on the side, portfolio would have up only 10% in 2 years.

In the value bucket, we had companies like Bajaj Corp, Care Ratings, DB Corp, Infosys, ITC, Kewal Kiran, PI and Jagran Prakashan

Portfolio would have delivered a compounded return of 5% for the 2 years ending December 2018.

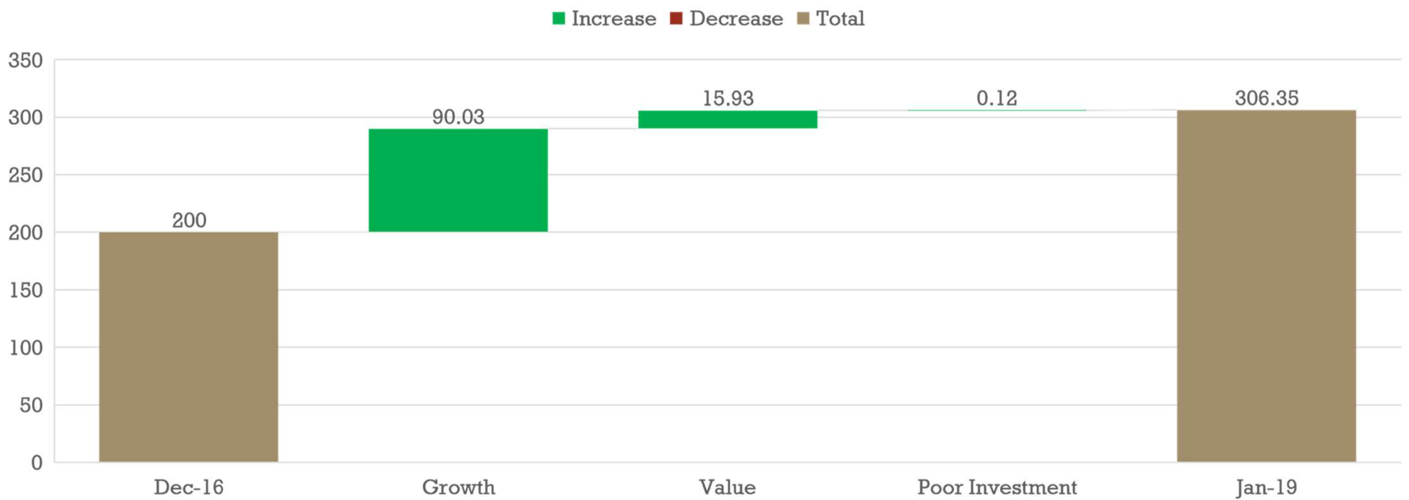
Case 2: If we had continued with original philosophy of companies with high returns on capital but low growth and cheap valuations - with a stop loss of 20% at the stock level



As can be seen from the chart on the side, portfolio would have been up 15% in 2 years.

Based on Case 2, portfolio would have delivered a compounded return of 7% for the 2 years ending December 2018 which is better than case 1.

Case 3: If we had completely shifted gears to high returns on capital and high growth (>15%) and median valuations.



Key learning, though, is that if the shift to growth was quicker, the same portfolio that we held as of Dec 2018 would have delivered 24%. Two years is a short time, but every passing year seems to be reinforcing the same learning.

The shift from pure value to growth investing has clearly helped us in improving IRRs as depicted in Chart 2. The key though is to have the right temperament in executing this strategy over the long run.