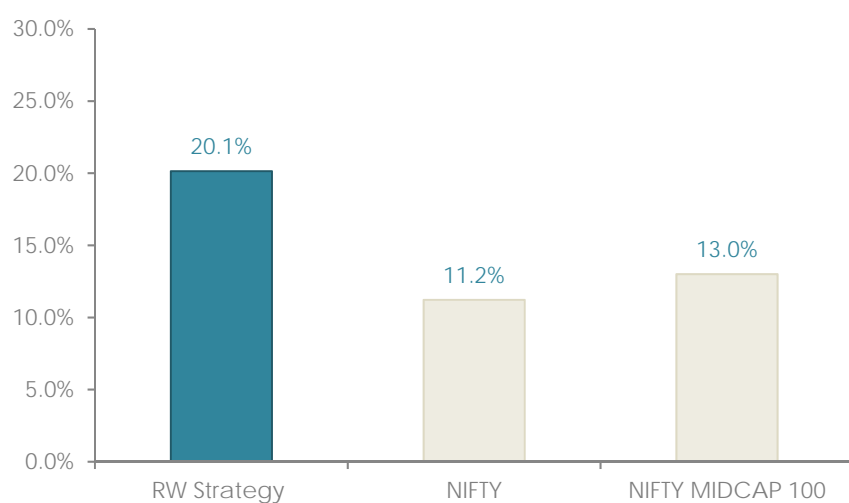# RW ADVISORS

Quarterly Update | June 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.

RW Strategy Performance* (Internal Rate of Return)

RW Strategy	20.1%
NIFTY	11.2%
NIFTY MIDCAP 100	13.0%

Holding Companies

Asset Concentration	Holding
No. of Companies	21
Top 5 Company Holdings	40.8%
Top 10 Company Holdings	67.9%
Highest Exposure	Kotak Bank (12.1%)

Sector Allocation

Sectors	Allocation (%)
Banking & Finance	42.2%
Auto & Auto Ancillaries	16.5%
Paints & Varnishes	12.8%
IT Services	7.6%
Pharmaceuticals	6.3%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	72.4%
Mid Cap	22.0%
Small Cap	5.6%
Avg. Market Cap (Rs. Bn)	1,495

Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 29-06-2018	Growth (%)
HDFC Bank	13-Feb-14	634	2,108	232.5%
Kotak Bank	22-Jul-14	437	1,342	206.9%
Maruti Suzuki	07-Apr-16	3,476	8,821	153.8%
Indusind Bank	30-Nov-16	1,079	1,939	79.7%
Abbott India	17-Mar-17	4,524	7,242	60.1%

Qualitative Analysis

Parameters	TTM
PAT Growth	21.0%
PE	35.5x
ROE	21.7%

Holding Period

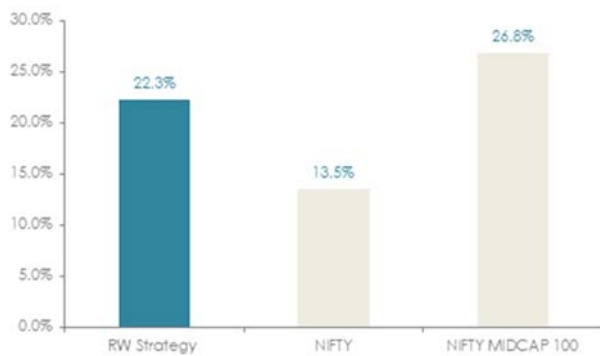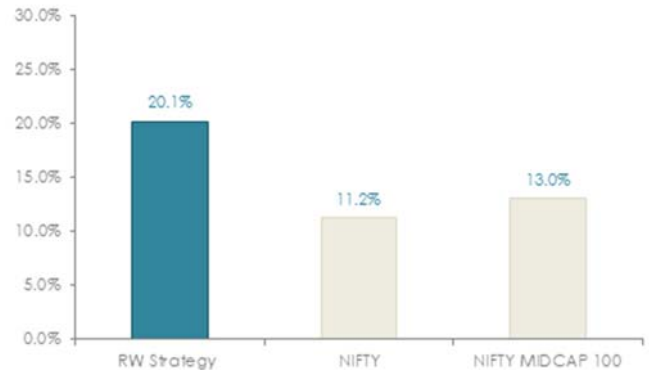| Holding Period	No. Of Scrips
Less than 1 Year	12
Between 1 to 3 Years	7
More than 3 Years	2

Chart 1: Performance as of Dec 2017

Chart 2: Performance as of June 2018

By end of June, what is evident from the charts above is the pace at which midcap returns have halved since Dec 2017 to 13% IRR– Valuations have not gone back to pre-2014 levels notwithstanding normalization of growth. It has been a narrow rally with large caps showing stronger gains while the rest of the market has been in a downtrend. From our viewpoint, results have been steady over the last 6 months, helped primarily by the banking picks but the endeavour is to make the results more broad-based. Alpha remains intact and the enthusiasm to invest in businesses with strong growth and quality is ever increasing. We have somewhat sidestepped the valuation discipline which is reflected in the trailing P/E of the portfolio, having learnt the hard way that business quality matters much more than valuations.

Inorder to introspect more on the portfolio performance, its good to look at the following questions - 1) Does trading/portfolio churn add value and 2) how would the return profile and IRRs look assuming you just held onto each of the purchases without selling them till date? Here are the results:
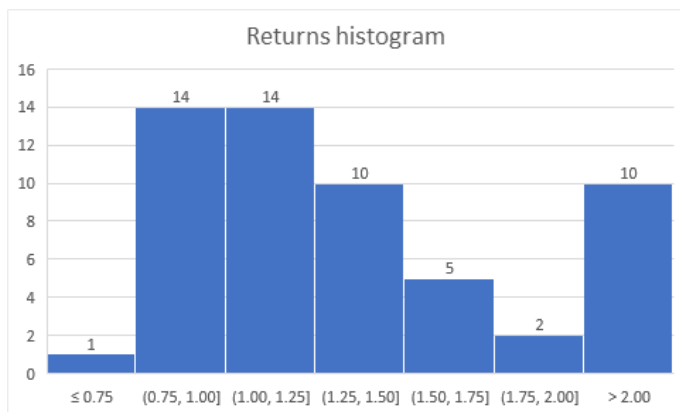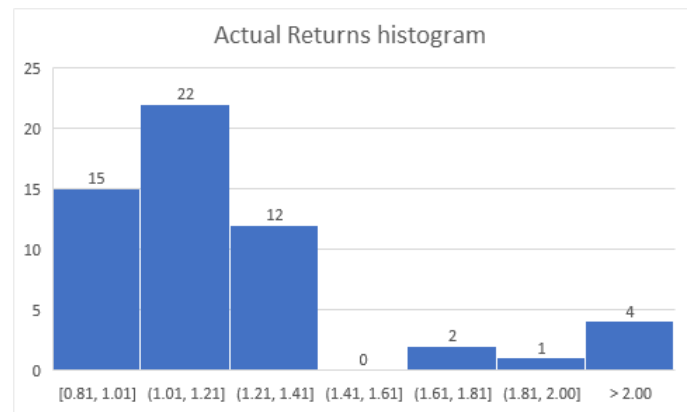
Chart 3: Buy and hold strategy

Chart 4: Actual portfolio strategy

How to read the graphs above:
As the rightmost bar of Chart 3 suggests, there were ten companies/stocks in the portfolio, that were bought originally that have become two baggers (i.e. they went up atleast 100%). Similarly, towards the extreme left there was one company which lost most than 25% of the invested amount.

Please note that the above graphs are for the first client who joined in Dec 2013 and can likely be extrapolated to other clients as well – it is for illustrative purposes only.

From Chart 3 – Buy and hold strategy:
There were a total of 55 purchases of which 72% of the trades were profitable – On an average, we bought 12 stocks in a year (roughly one stock a month) over the last 4.5 years. Key point to note is that we would have exhausted the committed capital within 2 years into the game. Worst performer (Strides) is down 40% and continues to trend down operationally. There were 14 stocks that generated positive returns upto 25%, which more

or less balanced by 14 trades that generated negative returns upto -25%. In effect, there were 27 stocks that generated returns greater than 25% and one stock that generated a loss of 40%.

From Chart 4 – Actual portfolio strategy:
Strike rate (number of trades with positive returns) was exactly the same as buy and hold strategy at 72%, however we avoided the loss from Strides as we sold it closer to the purchase price as the thesis was not holding up. Most of returns got concentrated between 1 and 1.4 x with almost 60% of the portfolio in these two buckets – ideally, this bulge should shift right towards higher returns, but for the capital constraints. Gruh and Godrej Consumer have been sold earlier primarily based on valuation concerns. Critically, the two bagger bucket reduced from 10 to 4 i.e. we have been holding onto 40% of the potential multibaggers, in the pursuit of trading gains and this needs significant improvement.

Table 1: Portfolio characterstics

Comments	Buy and Hold	Actuals
Invested Amount / Committed Amount	3.15 x	0.94 x
IRR (Post Fees)	14%	20%
Multiple on Investment	1.31 x	1.65 x

To paraphrase the table above, we have done far better in terms of IRR and overall money made on investments compared to buy and hold strategy under the given capital constraints. We are reasonably confident that this would be the case even after tax and transaction cost considerations.

If we had followed the buy and hold strategy, we would have knocked on the doors of our sponsors three times over compared to what we have actually done or swing far lesser by waiting for the fat pitch. The latter is tough and the former is tougher.

The key learning, though, is to hold on more to Mbapes, Messis and Ronaldos of the stock market and let them 'run' – these deserve top dollars.