

The thrill of a sector fund with the comfort of a diversified fund

Presenting

IDFC Strategic Sector (50-50) Equity Fund

Do I lose out on Sector Funds because of the volatility?

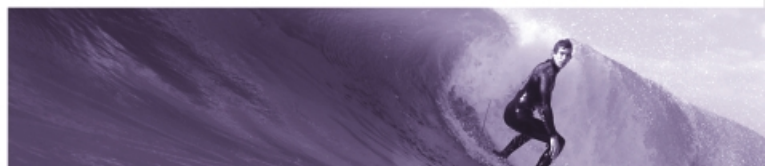
Sector Funds have their moments, but to profit from these moments there is a huge element of market timing. You can easily lose out on returns if you either delay the getting-in or the getting-out.

But does that mean that there is no way to profit from sectoral shifts? In a dynamic macro environment there are one or two sectors that take a leadership role in year-on-year equity markets performance. Sectors move differently compare to one another over time. Two main reasons seem to underpin this behaviour.

- 1) The presence of fundamentals. Some sectors benefit more relative to others during the growth phases, whilst other sectors benefit more relatively when the economy is in decline.
- 2) At each point of the economic cycle there are sectors that have more chances than others to generate an extra return (or hold value) relative to other sectors purely due to investors' belief and expectations.

Specific to examples in the Indian equity markets, the nineties were led by the technology boom leading to handsome out-performance of technology stocks. Infosys, the technology leader gained a whopping 872% in the year 1999-2000 (against Nifty returns of 68% over the same period). More importantly Infosys did not even come close to triple digit returns over the period from 2000 to 2008 with the highest year-on-year returns being 50% and lowest being negative 28%.

This proves that identifying tomorrow's performers can generate substantial wealth in one single period, but spread over a period of time the returns tend to falter. An investor who can jump from one potential performer to another is better off than an investor holding on sectors / stocks that have performed in one period but are falling behind over a period of time.



Back Testing

Let's back test the results for this strategy for a period from 2000 till July 31st 2008.

This was a period in which the Nifty gave a return of 18% CAGR; but there were sectors which showed stellar performance every year and assumed leadership in the bull market. As per research done by Citigroup, given below are the sectors which emerged at the no. 1, 2 and 3 spot every year and their returns in the period along with Nifty returns.

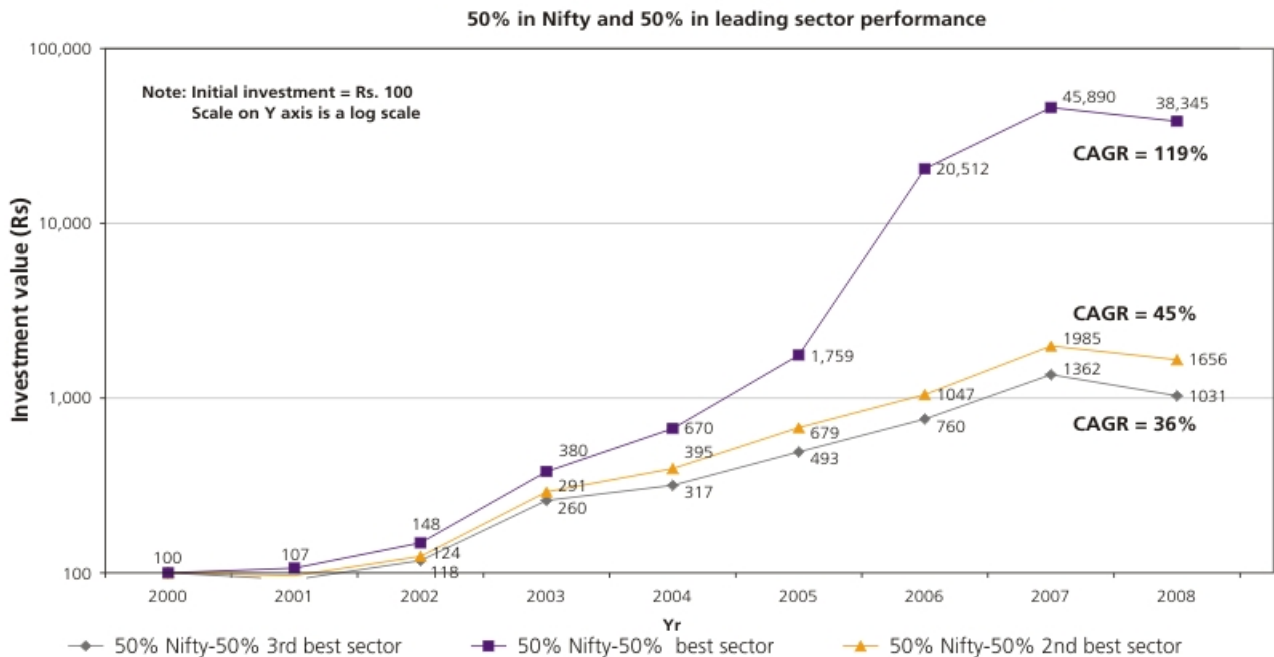
Table 1

Outperforming Sectors				
	No.1 sector	No. 2 sector	No. 3 sector	
2001	Autos 29%	Pharma / Biotech 9%	Real estate -1%	NIFTY -16%
2002	Energy 74%	Metals 54%	Banks 53%	NIFTY 4%
2003	Metals 238%	Real estate 193%	Capital goods 168%	NIFTY 74%
2004	Real estate 144%	Telecom 63%	Banks 35%	NIFTY 9%
2005	Real estate 289%	Capital goods 107%	Food / Beverage Tobacco 74%	NIFTY 36%
2006	Real Estate 2093%	Metals 69%	Telecom 69%	NIFTY 40%
2007	Metals 193%	Capital goods 124%	Energy 104%	NIFTY 55%
2008	House Hold Products -3%	Pharma / Biotech -4%	Food / Beverage Tobacco -19%	NIFTY -29%

Source: Citigroup, 2008 Returns are as on 31st July 2008.

The 50-50 style portfolios are constructed with an investment of Rs 100 at inception in 2001. The investment is then split into Rs 50 in the Nifty index basket and Rs 50 into one of the top three performing sectors. At the end of the year the portfolio is rebalanced to 50-50 based on the end of the year portfolio value.

The results of back testing the 50 - 50 portfolios are given in the following chart.



Past performance is no guarantee of future returns.

The results are there to see. A 50-50 strategy with investment in the top performing sector for the year has given a CAGR of 119% from 2001 to year-to-date. Investment with the second and third performing sectors has given a CAGR of 45% and 36% respectively. The Nifty in the same period has given a CAGR of 18%.

Risks involved

The task of identifying potential leaders year-on-year is not easy. It requires the ability to differentiate a fad from a trend. It is important to get-in early in the trend and get-out before the trend is over and not the other way around. Active fund managers are the ones to take advantage of this sector trends. However, it is also important to realize mistakes in entering-in at the top of trends. The sooner an investor gets out of these investments the better.

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The scheme may also invest in debt and money market instruments. There is no assurance or guarantee that the objectives of the scheme will be realized and the scheme does not assure or guarantee any returns. **Terms of Issue & Load Structure:** IDFC-SS(50-50)EF is an Open Ended Equity scheme. The Units are available at applicable NAV during continuous offer. During the Ongoing Offer Period: Entry Load: Of less than Rs. 5 Crores (including by way of SIP / STP) – 2.25%. Of more than Rs. 5 Crores (including by way of SIP / STP) – Nil, By an FOF (irrespective of the amount of Purchase) – Nil, By way of Dividend reinvestment – Nil. A switch-in/STP may also attract an Entry Load like any Purchase, however no load shall be chargeable on investments switched in by investor from any other Equity Scheme(s) of IDFC Mutual Fund (other than in case of switch-ins of less than Rs. 5 Crores from IDFC Arbitrage Fund, IDFC Arbitrage Plus Fund, IDFC Fixed Maturity Arbitrage Fund Series where entry load of 2.25% shall be applicable). Such switches may however be subject to exit load as applicable in the scheme from where the investments are switched out. Exit Load: For purchases of Rs. 5 Crores or more – Nil, In case of purchases of less than Rs. 5 crores if redeemed within 1 year from the date of purchase(s) applying First in First Out basis, (including purchases made through SIP/STP) – 1%, By a FOF (irrespective of the amount of Redemption) – Nil. No Entry / Exit Loads / CDSC will be chargeable in case of switches made between different options of the Scheme. **Asset Allocation:** Equities & Equity related securities of which: Investments in equity and equity related instruments of companies in a chosen sector (sector specific exposure) will be 50% of the total equity and equity related investments of the scheme & Investments in equity and equity related instruments of companies across capitalizations and across sectors (diversified exposure) will be the balance 50% of the total equity and equity related investments in the scheme – 65% to 100%, Debt & Money Market Instruments – 0% to 35%, Securitised debt instruments – 0% - 35%. **Statutory Details:** IDFC Mutual Fund has been set up as a trust by Infrastructure Development Finance Company Limited (IDFC) (liability restricted to corpus of Trust of Rs. 30,000) with IDFC AMC Trustee Company Ltd (Company with limited liability) as the trustee and IDFC Asset Management Company Ltd (Company with limited liability) as the investment manager.

For other scheme specific risk factors and other details please read the Scheme information document carefully before investing.