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IDFC CLASSIC EQUITY FUND

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IDFC Classic Equity Fund

- A Diversified Equity Fund
- A mix of large cap and mid/small cap opportunities.
- Benchmark sensitive (S&P BSE 200) – Underweight/overweight sector weights depending on fund manager view
- Quality with Valuation

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An Overview of Process

Quality: Key Characteristic for Portfolio Construction

- High Relative Returns
- Consistent Returns
- Investment Universe should be Large
- Stocks across Large, Mid & Small Market Cap Segments
- Investment Universe should not be focussed towards a few sectors

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Identifying the Right Stock Selection Screen

Ranking performance for each criteria

Parameters tested	Absolute Return	Consistent Return	Stocks across Market Cap	Stocks across Sectors	Overall Rank
High Growth PAT	5	4	1	1	3
Reducing Debt	4	5	3	4	5
Free Cash Flow	1	2	5	5	2
Return on Capital	3	3	4	2	4
3 Factor Model	2	1	2	3	1

Scale: 1=Best Scale: 5=Worst

All the above quality screens were tested and ranked as for each of the parameters – absolute return and consistency, coverage across market segments and sectors. The three factor screen satisfies all the criteria and was hence chosen.

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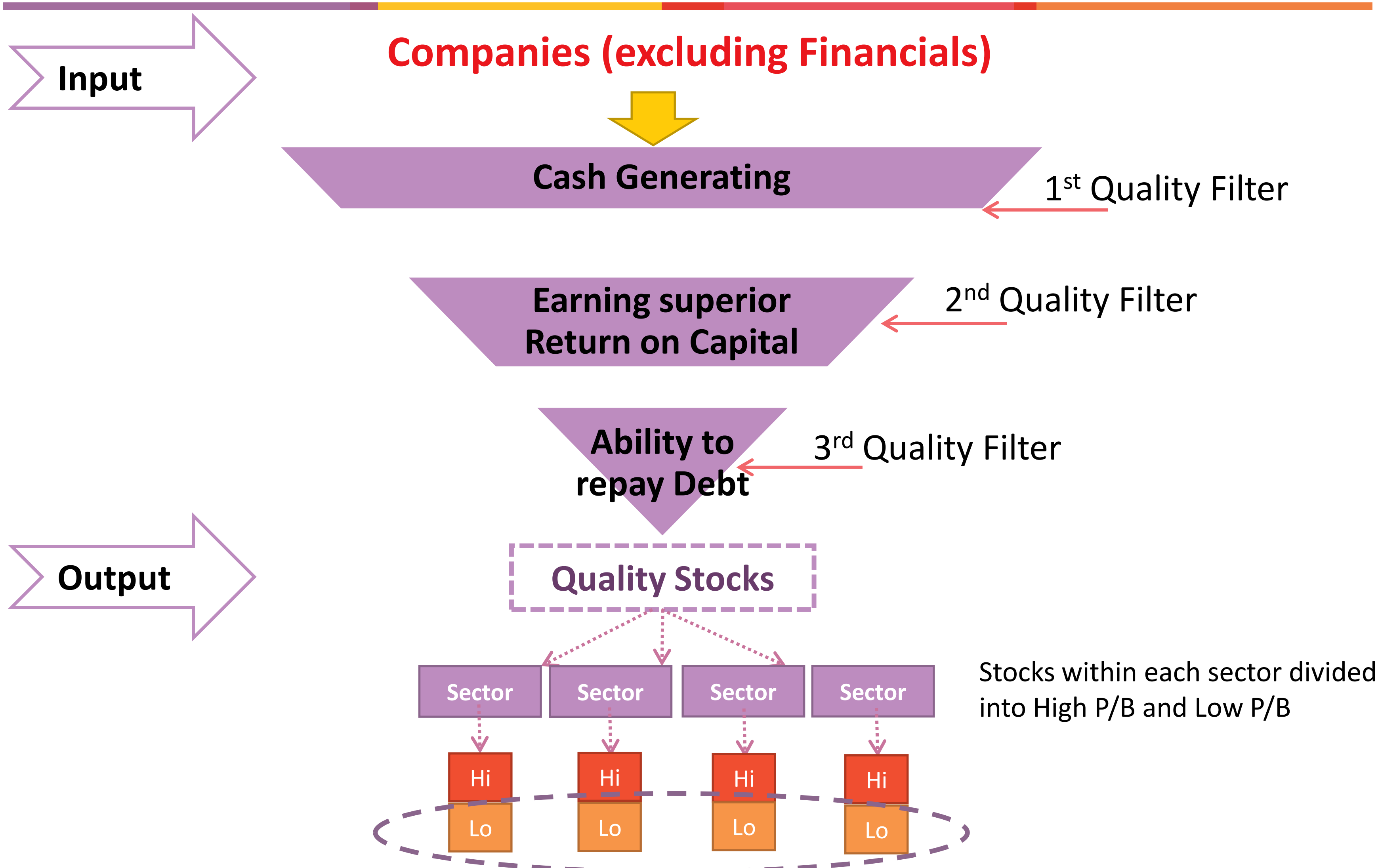
Overview of Stock Selection Process



Low P/B Quality stocks form the **CORE** of **IDFC Classic Equity Fund**

The 3-Factor Model

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What is 3-Factor model

Companies selected on the basis of following factors

Factor 1

Cash Generating

- Greater flexibility in responding to emerging dilemmas

(PAT + non Cash Charges – Inc Working Capital) / EBITDA > 33%

Factor 2

Earning superior Return on Capital

- Sustainably create value for shareholders by earning **Return on Capital greater than the Cost of Capital**

Return on Net Worth > 15% OR EBITDA / Net Operating Assets > 30%

Factor 3

Ability to repay Debt

- Fixed cost of debt poses a burden on cash flows that are cyclically impacted and therefore debt needs to be at a level that can sustain downturns

Debt / EBITDA < 3

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How the 3-Factor model works

We did a study using this model on **Top 700** companies (excluding financials)

The Result – Across Market Cap

Small Cap	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR	Average Cos.	Times outperforming
3 Factor Screen	56%	24%	46%	118%	30%	55%	-9%	-14%	79%	10%	-2%	5%	97%	38%	31%	131	13/15
Universe	53%	11%	41%	131%	26%	46%	-11%	-14%	59%	-5%	-15%	-10%	80%	15%	21%	439	

Mid Cap	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR	Average Cos.	Times outperforming
3 Factor Screen	58%	15%	45%	74%	44%	41%	-22%	2%	54%	2%	-1%	8%	51%	37%	24%	58	12/15
Universe	47%	11%	42%	73%	32%	46%	-16%	-4%	47%	-7%	-12%	-5%	55%	19%	18%	161	

Large Cap	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR	Average Cos.	Times outperforming
3 Factor Screen	11%	13%	31%	42%	46%	39%	2%	9%	35%	12%	-3%	8%	33%	25%	21%	43	12/15
Universe	9%	12%	39%	44%	45%	34%	1%	7%	22%	-3%	-9%	3%	34%	7%	17%	96	

Overall	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR	Average Cos.	Times outperforming
3 Factor Screen	17%	13%	33%	48%	46%	40%	-1%	7%	37%	11%	-3%	8%	37%	26%	22%	233	12/15
Universe	15%	12%	39%	54%	41%	37%	-2%	4%	26%	-4%	-10%	1%	39%	9%	17%	696	

Data as on June'15, All Calendar year returns are from June to June; CAGR Returns from June'01 to June'15
Market Capitalization has been defined as follows: Small Cap- <3500crs; Mid Cap- 3500 to 14,000crs; Large Cap- >14,000crs. The same ratio has been maintained for historical calculations

Inference

Portfolio outperforms Market & Sufficient cos. get shortlisted

Degree of outperformance falls from Small Cap to Large Cap (reducing information gap)

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How the 3-Factor model works

We did a study using this model on **Top 700** companies (excluding financials)

The Result – Across Sectors

Sector	3-Factor Screen CAGR	Universe CAGR	3-Factor screen Companies	Average Companies	% Companies	Outperformance
Auto	29%	28%	29	54	54%	1%
Cement / Building Mat.	27%	25%	16	39	41%	2%
Health Care	23%	24%	28	53	53%	-1%
Consumer Staples	25%	21%	33	79	42%	4%
Chemical	25%	19%	20	51	39%	5%
Industrials	25%	18%	68	159	43%	6%
Metals & Mining	24%	19%	17	50	35%	4%
Textiles	31%	17%	8	37	22%	14%
Energy	14%	16%	7	14	47%	-2%
Consumer Disc.	23%	16%	22	68	32%	7%
IT	17%	15%	28	55	50%	2%
Utilities	15%	13%	6	17	36%	2%
Telecom	NA	8%	NA	13	NA	NA
Overall	22%	17%	232	696	33%	5%
Small Cap	31%	21%	131	439	30%	10%
Mid Cap	24%	18%	58	161	36%	6%
Large Cap	21%	17%	43	96	45%	4%

Inference

Sufficient cos. get shortlisted

Portfolio outperforms Market

Data as on June'15; CAGR Returns from June'01 to June'15
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Does “Value” add value?

Extending the 3-Factor Model to S&P BSE 200

How selecting Value stocks adds Value to the portfolio

- We have used, P/B as the metric for relative valuation of companies
- We split the companies (S&P BSE 200 ex Financials) into Growth and Value indices
- For each sector, companies in the top half P/B ratio are categorized into Growth and companies in the bottom half are Value

Just Value – No Quality Without 3-Factor Model	**Value + Quality** With 3-Factor Model
• No strategy, neither Growth nor Value outperforms on a consistent basis	• Value Index has outperformed the Growth Index in 12 out of 14 years with 6% CAGR outperformance.

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Growth v/s Value Strategies

Just selecting companies basis **Value/Growth** without considering **Quality**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR Growth
Growth 1 Yr Return	8%	43%	46%	48%	39%	-9%	12%	29%	6%	-7%	7%	40%	19%	20%
Value 1 Yr Return	22%	65%	49%	45%	27%	3%	-2%	35%	-3%	-6%	10%	41%	6%	20%
Growth PAT	43%	57%	42%	12%	55%	24%	3%	20%	21%	4%	7%	13%	5%	
Value PAT	4%	43%	19%	4%	37%	17%	-18%	-16%	30%	-11%	-21%	34%	-14%	

Growth Cos (nos.)	81	80	82	78	80	78	80	80	78	74	73	74	75
Value Cos (nos.)	85	84	86	84	85	84	81	83	80	82	78	79	78

Data as on June'15, All Calendar year returns are from June to June; CAGR Returns from June'02 to June'15
Market Capitalization has been defined as follows: Small Cap- <3500crs; Mid Cap- 3500 to 14,000crs; Large Cap- >14,000crs.
The same ratio has been maintained for historical calculations

Inference

No Strategy Outperforms!

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Growth v/s Value Strategies with Filter criteria

Filtering quality companies (3-Factor Model)

Then selecting companies basis **Value/Growth**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR Growth
Growth 1 Yr Return	-1%	42%	40%	46%	22%	-11%	14%	51%	11%	3%	13%	36%	24%	21%
Value 1 Yr Return	24%	50%	55%	51%	33%	-8%	14%	55%	7%	4%	18%	45%	19%	27%
Growth PAT	18%	16%	27%	14%	69%	17%	18%	22%	24%	16%	9%	15%	7%	
Value PAT	25%	36%	25%	23%	48%	9%	2%	27%	19%	4%	10%	20%	-11%	

Growth Cos (nos.)	38	38	39	34	30	30	30	34	37	37	43	46	47
Value Cos (nos.)	44	44	44	40	37	30	33	37	41	45	47	50	53

Data as on June'15, All Calendar year returns are from June to June; CAGR Returns from June'02 to June'15
Market Capitalization has been defined as follows: Small Cap- <3500crs; Mid Cap- 3500 to 14,000crs; Large Cap- >14,000crs.
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Inference

Value Index has outperformed the Growth Index in 12 out of 14 years with 6% CAGR outperformance

Conclusion

- Shortlisting quality companies that are relatively cheaper has generated consistently higher returns historically.
- The years of outperformance of Growth are those when the PAT growth of Growth Index is significantly higher than PAT growth of Value Index

Valuations of these high growth pockets have been continuously on the rise

Going ahead we believe that the economic growth will be better distributed and hence the set of companies who are relatively undervalued for the want of above average growth, are the ones which have potential to deliver improved growth numbers

IDFC Classic Equity Fund would look to build a portfolio from a universe of such companies…

Product Label

This product is suitable for investors who are seeking*
- Create wealth over a long period of time
- Investment predominantly in equity and equity related instruments across market capitalisation.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISK FACTOTRS: MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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THANK YOU