

As IIFL Capital Enhancer Fund Series -1 completes a year, we wanted to take this opportunity to update on the key market events over the past year, their impact on scheme performance and the market outlook going ahead

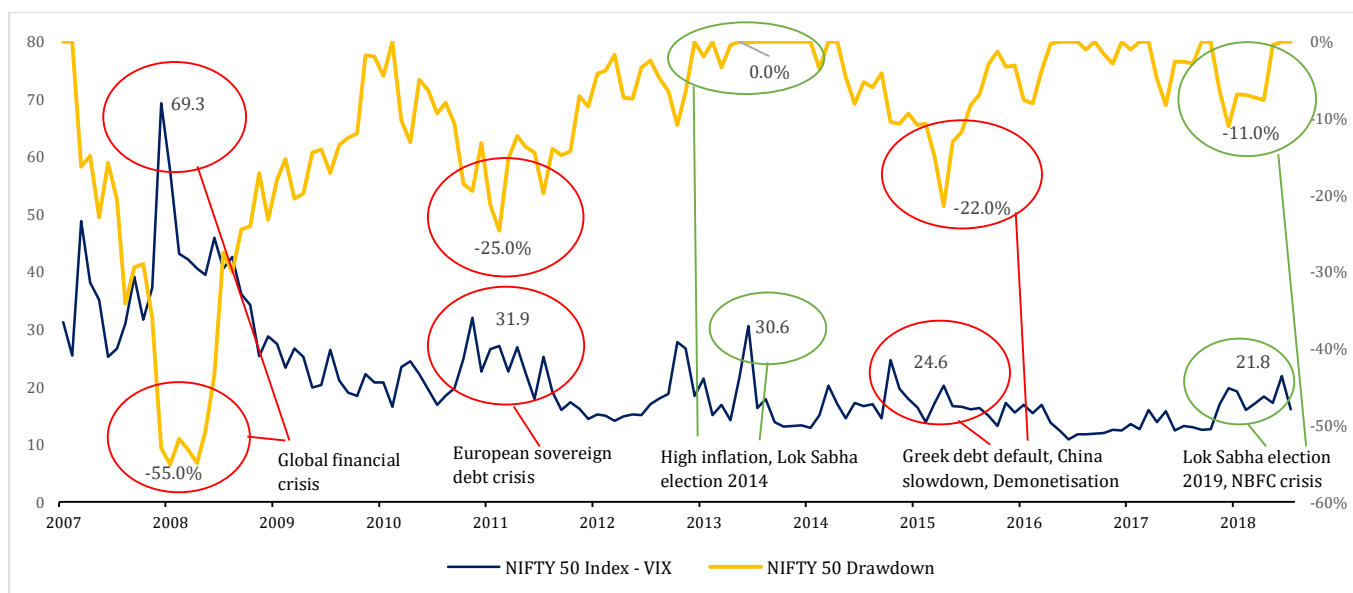
A. Key risks in 2018/19 and outcomes – reduction in macro-economic risks

Risks	Segment	Result	Outcome
General election	Macro	The NDA government receives the largest majority post-independence	Positive
Interest rates - global	Macro	Weaker economic growth and inflation led to the US Fed adopting a wait and watch stance. Consensus expectations indicate a rate cut as the next monetary action	Positive
Interest Rates- India	Macro	RBI has cut key rates by 75 bps in the past year, against expectations of rate hike a year earlier	Positive
Trade Concerns	Macro	While there have been signs of progress, trade agreements between US and major economies are yet to be concluded	Negative
Improvement in Earnings	Micro	Nifty earnings grew 16.5% in FY 19*, against expectations of 20%. Earnings momentum is expected to improve further in FY20 and FY21	Positive

* Source: IIFL research

As highlighted above, most risks, particularly on macro-economic front have reduced considerably over the past year. Despite the positive outcome, the presence of multiple factors led to higher volatility across the year (refer chart below)

Link between volatility and drawdowns[§]



Source: Bloomberg, IIFL Research. [§]Drawdown is a peak – to – trough decline during a specific period for an investment. A drawdown is usually quoted as the percentage between the peak and the subsequent trough. Data as on 31st May 2019

In line with expectations, volatility remained high in 2019, particularly during the general elections. Historically, periods of high volatility have seen significant drawdowns. However, just like 2014, equity markets gained in 2019 as the NDA government was elected to power and resulted in positive returns.

B. Investment objective, scheme performance and attribution

Investment objective - To achieve long term capital appreciation by investing in equity and equity related securities, with strategy of hedging the portfolio with Nifty 50 put option and other equity derivatives. However, there can be no assurance or guarantee that the investment objective of the Scheme would be achieved.

While the scheme generated returns in line with the benchmark and broader markets, the cost of hedging (approx. 4.3%) led to lower overall returns. Ongoing hedging through put options may lead to lower returns in up markets, but should help protect drawdowns and lower volatility in periods of negative returns

Scheme/Benchmark	31-May-18 to 31-May-19	PTP (₹)	Since Inception	PTP (₹)
IIFL Capital Enhancer Fund Series I – Reg - Growth	5.2%	10,515	4.9%	10,518
IIFL Capital Enhancer Fund Series I – Dir - Growth	6.9%	10,628	6.1%	10,637
Benchmark*	9.3%	10,933	8.6%	10,900
Additional Benchmark**	13.7%	11,370	12.6%	11,323
NIFTY 50 TRI Index	12.4%	11,240	11.4%	11,087

Past performance may or may not be sustained in the future. Different plans shall have different expense structure. Inception date: May 14, 2018. The scheme has been in existence for more than 1 year but less than 3 years. The benchmark of the scheme is – CRISIL Hybrid 35+65 – Aggressive Index. TRI = Total return index. Data as on 31st May 2019. Point to Point (PTP) returns in ₹ is based on standard investment of ₹10,000. *CRISIL Hybrid 35+65– Aggressive Index; ** S&P BSE Sensex TRI

Attribution – Equity holdings vs put option

Type of security	1 year return	Since inception return
Equity holdings	9.5%	9.0%
Put option	-4.3%	-4.1%
CRISIL Hybrid 35+65 – Aggressive Index	9.3%	8.6%
NIFTY 50 TRI Index	12.4%	11.4%

Past performance may or may not be sustained in the future. Inception date: May 14, 2018. The scheme has been in existence for more than 1 year but less than 3 years. The benchmark of the scheme is – CRISIL Hybrid 35+65 – Aggressive Index. The scheme has invested in the equity portfolio during a period where the NIFTY 50 was trading at ~10,750 levels. As long dated NIFTY 50 puts can only be purchased at a strike price in the multiples of Rs. 100, the scheme has partially purchased NIFTY 50 puts at 10,700 and 10,800 strike prices respectively. The annualized cost of put option at the time of purchase was ~ 3.0-4.0% of the portfolio value.

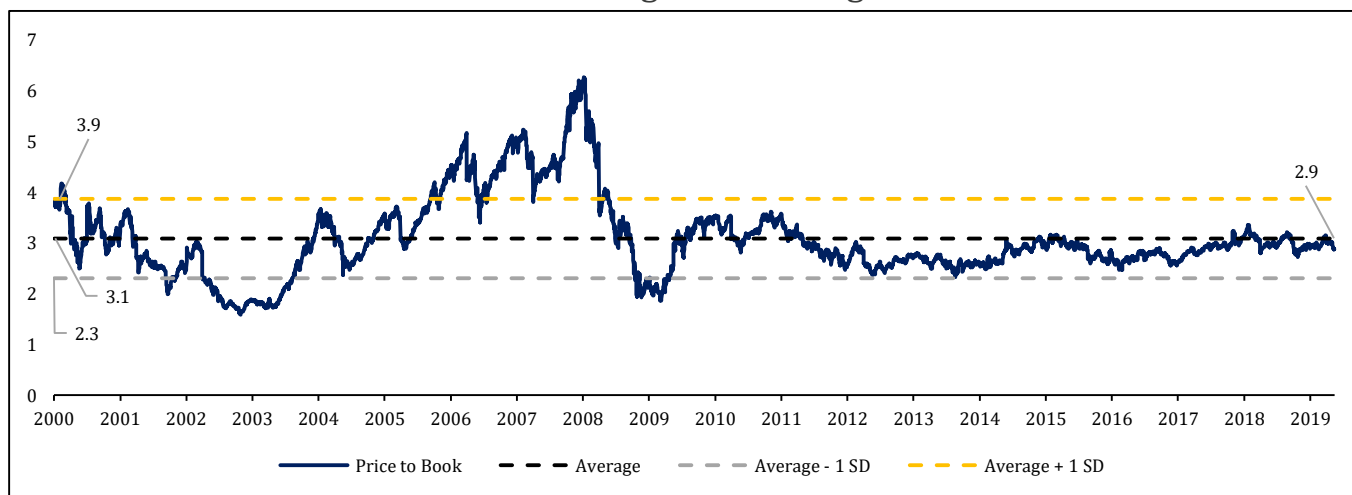
C. Market outlook

- In our view, the Indian electorate’s decision to give the incumbent Prime Minister Narendra Modi and his party another 5-year term in office is a significant event. Much was achieved in Modi’s first term but there remains plenty of unfinished business and the economy is still yet to fulfil its undoubted potential. But with this election now behind us and with a stable reform and growth minded government in place we remain very optimistic on the outlook for both the economy and crucially from an investor’s perspective, on corporate earnings
- We can be reasonably certain that PM Modi will not sit on his laurels and we expect action from the government to revive the economy which ultimately bodes well for earnings. With domestic flows into equities having recently been contracting we think this trend shall reverse and flows are likely to pick up again. Further, the recent fall in inflation and weak industrial production data should provide room for RBI to further reduce interest rates. Combined fiscal reforms and an accommodative monetary policy may help revive economic growth and improve corporate profitability.
- With the political stage now set the market’s attention will now shift back to the growth cycle. We remain constructive on the outlook for markets if the growth cycle does indeed revive leading to a more sustainable earnings cycle. The backdrop Modi finds himself in today versus his last win is

significantly better from a micro and macro perspective. Corporate India has spent much of the last few years recovering from the highs of the last cycle. Tough policy actions and reforms taken over the last term will continue to deliver benefits and should be augmented by new initiatives which will stimulate the business cycle in the period ahead. We are optimistic on India’s outlook and the country remains an attractive destination for the long-term investor

- Our favoured valuation metric for a market that has undergone an extended earnings slowdown over the last several years remains price to book, based on which we are still in line with long term averages (refer details below)

Current valuations – in line with the long-term averages



*Source: Bloomberg. Sensex data as on 16th May 2019

P/B range	5 year returns (median)*	Time spent (%)
Less than 2	40%	6%
Between 2&3	13%	51% ← <i>Currently, Sensex P/B in this range</i>
Between 3&4	11%	31%
Above 4	4%	12%

D. Scheme update and key dates

- In line with our investment objective, the scheme shall continue to invest in equities and aim to protect downside through long dated put options (3 to 6 Months)
- The next specified transaction period (STP) for the scheme shall be June 27th – July 1st, 2019
- Further, investors during the STP can also switch to other schemes of IIFL Mutual Fund

Other schemes managed by the Fund Manager (Prashasta Seth):

IIFL Focused Equity Fund (An open ended equity scheme investing in maximum 30 multicap stocks,) formerly known as IIFL India Growth Fund)

Investment objective - The investment objective of the scheme is to generate long term capital appreciation for investors from a portfolio of equity and equity related securities

Performance	31- May - 2018 to 31 - May - 2019	PTP (₹)	3 year return	PTP (₹)	Since inception return	PTP (₹)
IIFL Focused Equity Fund – Reg - Growth	13.8%	11,377	15.7%	15,488	11.9%	16,713
IIFL Focused Equity Fund – Reg - Growth	15.5%	11,552	17.2%	16,090	13.2%	17,687
Benchmark*	8.4%	10,841	14.6%	15,407	10.6%	15,841
Additional Benchmark**	13.7%	11,370	15.6%	15,468	9.9%	15,392

Past performance may or may not be sustained in future. Different plans shall have different expense structure. Inception date: 30th Oct 2014. This scheme is managed by the fund manager (Mr. Prashasta Seth) since November 03, 2016. Scheme has been in existence for more than 3 years but less than 5 years. The performance of the scheme is benchmarked to the total return variant of the index. Point to Point (PTP) returns in ₹ is based on standard investment of ₹10,000. *S&P BSE 200 TRI; **S&P BSE Sensex TRI

Exit load – 1% - if redeemed/switched out, on or before 12 months from the date of allotment w.e.f April 02, 2019

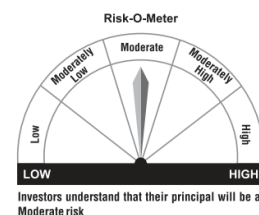
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The Scheme has invested in the equity portfolio during a period where the Nifty 50 was trading at ~10750 levels. As long dated Nifty 50 puts can only be purchased at a strike price in the multiples of Rs. 100, the Scheme has partially purchased Nifty 50 Puts at 10700 and 10800 strike prices respectively.

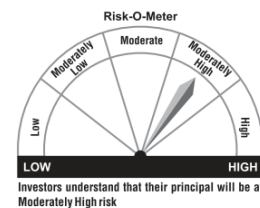
IIFL CAPITAL ENHANCER FUND SERIES 1 IS SUITABLE FOR INVESTORS WHO ARE SEEKING*

- Long Term Capital Growth
- Investments in equity and equity related securities with a Strategy of hedging by buying NIFTY 50 Put Option and other Equity derivatives
- Investors should consult their financial advisors if in doubt about whether the product is suitable for them



IIFL FOCUSED EQUITY FUND IS SUITABLE FOR INVESTORS WHO ARE SEEKING*

- Capital appreciation over long term;
- Investment predominantly in equity and equity related instruments.
- Investors should consult their financial advisors if in doubt about whether the product is suitable for them.



MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY