The Bottom Line... PLUTUS ALPHA

TRUSTPLUTUS
Wealth Management with a Conscience

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We start this newsletter by thanking our clients for reposing their faith in us, which has helped us establish our Plutus Alpha product as a differentiated idea in an otherwise difficult environment. The idea itself is relatively simple, but its nuance lies in managing the individual components and not taking outsized risks. We believe that any return generated over and above the underlying portfolio is an addition. The strategy has worked and performed as per our expectations. This product was designed to generate 5-6% above the underlying portfolio return, and it gives us great pleasure to report our annual performance at 5.1% for our first calendar year in operation. In 2019, our clients have generated a total return of 5.10% on the margin amount placed by them. This return is over and above capital gains and dividends on their underlying portfolio. With the one year return on the Nifty50 at 12.02%, our clients have generated an alpha of 42% over Nifty by deploying this strategy.

During the year, we have demonstrated our conservative philosophy by sitting out in May, when the general elections were afoot. Our investment decisions bear testimony that there is no fixed formula; sometimes we have only sold calls, sometimes only puts and so on. During the year, the Nifty gained 7.70% and fell 5.69% each, in one month. The range of the Nifty during 2019 was from 10,604 to 12,271 – 1,667 points or 16%, with extreme choppiness. We have successfully navigated these waters and the results are presented here.

In global news, S&P has crossed 3,200 on the back of large ETF inflows linked to Phase 1 of a potential US-China trade deal. Risk-on sentiment is in the air, with several central banks resorting to further easing. This expansion is now in its 11th year, and the consensus is that next year will also see an economic expansion. It helps that some major impediments have been addressed. It is now certain that there will be Brexit with a deal, after Boris Johnson's decisive victory in December. US-China seems to be headed for a multi-phase trade deal, but the ink is not dry yet. The US Congress has voted to impeach President Trump, but the vote in the Republican-controlled senate is expected to dismiss these charges. All in all, there has been some improvement in the overall global sentiment meter.

Linked to easing and risk on sentiment, Emerging Market funds are also seeing record inflows. Just on 16th December, the iShares Core MSCI Emerging Market ETF saw an inflow of $ 1.41 Billion. Since the India weightage in this ETF is 9.21%, Indian markets had an inflow of ₹ 922 Crs from just this ETF. There are several more ETFs which invest into India and these flows have driven Indian markets in December. In December alone, FIIs have purchased almost ₹ 2,000 Crs of Indian equities. The appetite for quality businesses continues to be strong. On the other hand, Indian institutions other than mutual funds have sold substantially in December, mostly to book profits. SIP data for mutual funds continues to be strong.

In 2019, the Nifty50 has gained 1,306 points. This entire gain can be attributed to only the top 6 stocks, i.e. Reliance, ICICI Bank, HDFC Bank, HDFC, Kotak Bank and Infosys. This explains the divergence between the performances of actual portfolios versus the index. This polarisation is not unique to India. In the same time frame, the S&P500 has gained 736 points, of which 489 points can be attributed to their top 12% stocks. So in effect, 65% of the gains made by the S&P500 have also come from their top 12% performers. This is a common trend.

The theme of polarisation has become self-fulfilling. More and more money finds its way to these stocks, and their prices keep rising. Fortunately our six Indian companies are performing well, and that holds up their prices, even at these valuations. However, any poor performance will also see these stocks getting punished hard, which is a risk we carry going into 2020.

Continuing with polarisation and flows, the emerging view is that flows will continue into Q1 -Q2 of 2020. The other view that is emerging is that some of these flows will find their way into midcap and smaller companies which have solid fundamentals. Even in 2019, more than 100 companies in the NSE500 have generated greater than 20% return; so this view is not surprising. In general we find that flows follow performance and quality, with no prejudice. We therefore conclude that there is sufficient room for further foreign capital flows in India even outside the Nifty50.

In December alone, crude has gained almost 10%, which was unexpected. Overall in 2019, crude has gained 26%, which is substantial. If crude crosses $ 70/b again, it will again have an inflationary impact on the Indian economy.

The RBI has made it clear that they are not interested in cutting rates unless transmission improves. They have now deployed "Operation Twist" to improve transmission and liquidity, which seems to be working at the moment. However, large scale financial sector resolution is required to get lending back in shape, which still seems to be a few quarter s away.

We complete this calendar with a successful month in December. We took our positions on 6th December, post the RBI policy announcement. There were no significant events on the horizon for the rest of the month, and traditionally, the last week in December is a quiet week due to the holiday season. Additionally, easing by central bankers promised improvement in foreign flows, thus giving a floor to the index. We saw the opportunity to sell calls at 12,400 and purchased cover at 12,600. We also sold puts at 11,500 with cover at 11,300. The total income collected was ₹ 52.10 Lacs against a margin of ₹ 100 Crs worth of securities, and would be on the money as long as Nifty remained between 11, 476 and 12,424. The Nifty finally closed at 12,126, which was also within our target range. Thus, we generated income of ₹ 52.10 lacs in December. In the calendar year 2019, our strategy has generated cumulative income of 5.10 Crs on a margin of ₹ 100 Crs worth of securities.

In 2019, the Nifty has underperformed the S&P by 19% in US$ terms, which looks exaggerated. However, if we normalise for the fall and quick recovery of the S&P in December 2018/ January 2019, the under-performance is 7.5%. This is still large, and could lead to some further buying and allocations into India, subject to companies reporting better performances in January. This is what will essentially drive equity markets in 2020 - flows and performance catch-up.

In January, all eyes will be on results for the third quarter, which traditionally has been a good quarter for companies. We will also get some sense around the budget which comes early February. Government finances are in focus, as tax collections have been dismal and the fiscal deficit has to be made up, so we may see a divestment push. The NCLT mechanism has settled in 2019, markedly after the Supreme Court judgement in the Essar case. Faster resolution by these benches could also make currently unproductive assets productive, and add to growth. However the key lies with restoring the financial system which is currently dysfunctional. With these thoughts, we head into 2020, which promises to be better than 2019.

We wish you a Happy New Year 2020.

Plutus Alpha Performance Update

Month	Trade Date	NIFTY Level	Recommended Position	Total Premia Collected (₹ Lacs)	NIFTY Closing	Net Income for Month ₹ Lacs	Cumulative Income (₹ Lacs)
December 2019	6 December	12,013	Sold Puts at 11,500 and bought Puts at 11,300; Sold Calls at 12,400 and bought calls at 12,600	52.10	12,126	52.10	509.58
November 2019	13 November	11,891	Sold Puts at 11,400 and bought Puts at 11,200; Sold Calls at 12,200 and bought calls at 12,400	64.11	12,151	58.58	457.48
October 2019	14 October	11375	Sold Puts at 10,700 and bought Puts at 10,500; Sold Calls at 11,900 and bought calls at 12,100	47.48	11,877	24.23	398.90
September 2019	3 September	11,023	Sold Puts at 10,400 and bought Puts at 10,200	33.13	11,571	52.30	374.67
	20 September	11,200	Sold Puts at 10,800 and bought Puts at 10,600	20.92			
August 2019	13 August	11,110	Sold Puts at 10,600 and bought Puts at 10,400; Sold Calls at 11,500 and bought calls at 11,700	70.68	10,948	70.68	322.37
July 2019	16 July	11,626	Sold Puts at 11,300 and bought Puts at 11,100; Sold Calls at 11,900 and bought calls at 12,100	29.18	11,252	(-) 2.30	251.69
June 2019	7 June	11,844	Sold Calls at 12,300 and bought calls at 12,500	27.68	11,842	27.68	253.99
May 2019	No recommendations						226.31
April 2019	9 April	10,605	Sold Calls at 12,000 and bought calls at 12,200	40.46	11,642	40.46	226.31
March 2019	13 March	11,342	Sold Puts at 10,900 and bought Puts at 10,700; Sold Calls at 11,700 and bought calls at 11,900	43.21	11,570	43.21	185.85
February 2019	1 February	10,894	Sold Calls at 11,300 and bought calls at 11,500	41.85	10,793	81.72	142.63
	15 February	10,746	Sold Puts at 10,400 and bought Puts at 10,200	39.87			
January 2019	17January	10,891	Sold Puts at 10,500 and bought Puts at 10,300; Sold Calls at 11,200 and bought calls at 11,400	60.91	10,831	60.91	60.91

Calendar Year Returns	YTD 2019
Total Return	₹509.58 Lacs

Notes:

- This strategy commenced in September 2018. Details of transactions prior to January 2019 available upon request
- All options are sold for expiry of the said month with NIFTY50 Index as the underlying.
- This portfolio is based on a model portfolio of ₹ 100 Cr of shares given as margin.
- The entire premia collected is credited into the account of the investor
- There is no pledge or encumbrance on the securities that are used as margin

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