



IDFC EMERGING BUSINESSES FUND

(Small Cap Fund – An open ended equity scheme predominantly investing in small cap stocks)

- Fund focuses on building a diversified portfolio within the small cap segment.
- Portfolio will contain buy and hold strategies as well as opportunistic picks in the cyclical space.
- Fund may also look to participate in new businesses via IPOs.

FUND PHILOSOPHY*

The fund aims to identify and invest in companies with steady growth prospects, operating in industries with a stable growth visibility over the medium term – 2-4 years. The fund would be willing to pay higher valuation for companies with distinct segment leadership advantages and/or for companies operating in segments which are witnessing a boost of growth due to change in industry dynamics; regulatory changes / geographical shifts. While not eschewing completely, the fund aims to limit exposure to “deep” cyclicals and focus more on companies and sectors with secular growth outlook. Hence, the valuation metrics of the fund – P/E; EV/EBIDTA; EV/Sales may appear to be more expensive than the benchmark.

Consumer facing rather than B to B is another focus area of the fund. The fund aims to ensure participation in non-small caps as a measure of higher liquidity as well as addressability for investing in sectors where size brings noticeable advantage – BFSI, for example. The fund aims to hold cash levels of upto 10% across time periods, both as a measure of liquidity as well as to capitalize on opportunistic investing. Lastly, rather than try to outperform the benchmark on the upside, the fund would aim to conserve capital by limiting downside during periods of drawdowns, a dominant (and painful) characteristic of small cap investing.

OUTLOOK

How it went:

Global equities declined by 4.3% MoM, positive returns from China, Spain, Malaysia and Japan were not sufficient to cushion downturn. Emerging markets lost 1.6% MoM while India underperformed with a decline of 5.4% MoM after touching all-time high, due to stretched valuations, covid fears returning, persisting Central Banks' hawkish stance, and FII outflows. However, India has outperformed on 6 month, 1 year and 3 year basis by a decent margin. Indian markets closed the year in red in USD terms, however in local currency Indian markets were slightly in green. The Indian stock market delivered 4.3% returns in CY 2022 in INR terms however falling 5.1% in USD terms. PSUs, Financials, Utilities and Industrials outperformed the market, while IT Services, healthcare and consumer durables underperformed the market. Large caps (BSE 100) did better than the mid-caps (BSE 150 Mid Cap) while small-caps (BSE 250 Small Cap) ended the CY2022 with a negative 2% return.

Outlook for 2023:

Going ahead, at the global front – trajectory of rate hike by US Fed and the cumulative impact of the rate hikes since 2022 on the economic growth could be the biggest global factor which investors will track and try to predict/forecast. On the geo-political front, the continuing Ukraine/Russia war may impact commodity prices only if it escalates to a higher level. Any resolution, though, could be a sentiment booster. A bigger impact on commodities could be driven by the state of the Chinese economy, which amidst a slowdown faces the additional challenge of a sharp spurt in Covid-19 related cases. The embattled European economy could slide into a deeper recession if the weight of “oversized” fuel costs does not drop sharply in the coming months. Gas prices today are trading at an equivalent of 2-2.25x current crude oil prices (diesel to generate power would be cheaper than using LNG to generate power in Europe today). Three of our neighboring countries (Bangladesh; Nepal and Sri Lanka) are in different stages of negotiations with World Bank for an economic package to alleviate the post pandemic downturn. Our focus should be on earnings delivery. Surprising to many, yet correct, would be the importance of delivery of earnings growth since Dec '19. While liquidity has been the other pillar on which the market returns have been built upon, earnings growth has been the dominant factor for this uptrend. With valuations at an elevated level – delivery of earnings will be the key driver for the markets ahead.

While global factors are important, delivery of earnings, to us remains paramount. Ceteris paribus, all things remaining the same, market returns would be positive, if earnings get delivered!

FUND FEATURES:

(Data as on 31st December'22)

Category: Small Cap Fund

Monthly Avg AUM: ₹ 1,479.79 Crores

Inception Date: 25th February 2020

Fund Manager: Mr. Anoop Bhaskar

Benchmark: S&P BSE 250 SmallCap-TRI

Exit Load:

1% if redeemed/switched out within 1 year from the date of allotment

Minimum SIP Amount: ₹100 and in multiples of ₹1 thereafter

Sip Dates : (Monthly/Quarterly*)

Investor may choose any day of the month except 29th, 30th & 31st of instalment. *Any day of next month from the Quarter end.

Options Available: The Scheme offer IDCW® Option & Growth Option. IDCW® Option under each Plan further offers of choice of Payout & Sweep facilities.

@Income Distribution cum capital withdrawal

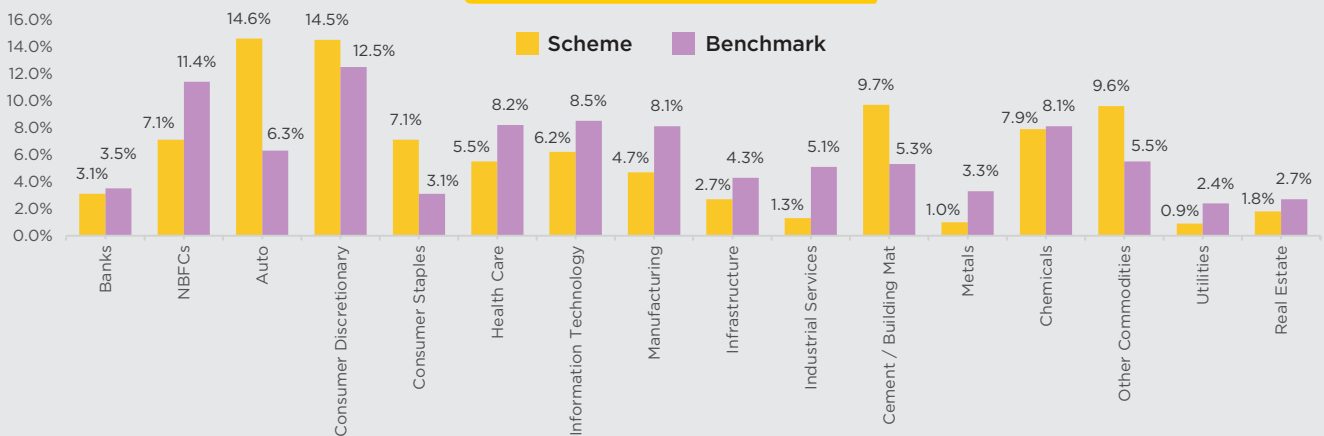
The above mentioned is the current strategy of the Fund Manager. However, asset allocation and investment strategy shall be within broad parameters of Scheme Information Document.

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

Name of the Instrument	% to NAV	Name of the Instrument	% to NAV
Equity and Equity related Instruments	97.87%	Krsnaa Diagnostics	0.67%
Auto Components	9.63%	IT - Software	3.17%
Automotive Axles	2.35%	Zensar Technologies	1.60%
Wheels India	1.99%	Birlasoft	1.57%
Alicon Castalloy	1.83%	Banks	3.08%
Jamna Auto Industries	1.49%	State Bank of India	2.20%
GNA Axles	1.41%	Indian Bank	0.88%
Schaeffler India	0.56%	Beverages	2.86%
Consumer Durables	9.57%	Radico Khaitan	2.86%
Metro Brands	2.91%	Construction	2.71%
Kajaria Ceramics	2.74%	Kalpataru Power Transmission	2.71%
Mayur Uniquoters	1.49%	Agricultural Food & other Products	2.44%
Cera Sanitaryware	1.38%	Balrampur Chini Mills	2.44%
Greenply Industries	1.04%	Pharmaceuticals & Biotechnology	2.35%
Industrial Products	9.43%	Gland Pharma	1.22%
Shaily Engineering Plastics	3.09%	FDC	1.12%
Carborundum Universal	2.66%	Agricultural, Commercial & Construction Vehicles	2.11%
AIA Engineering	1.31%	Ashok Leyland	2.11%
Graphite India	1.01%	Realty	1.80%
Kirloskar Brothers	0.71%	Mahindra Lifespace Developers	0.94%
Finolex Industries	0.64%	Keystone Realtors	0.86%
Leisure Services	6.90%	Commercial Services & Supplies	1.56%
Westlife Foodworld	2.74%	eClerx Services	1.56%
EIH	2.00%	IT - Services	1.55%
Jubilant Foodworks	1.17%	Cyient	1.55%
Taj GVK Hotels & Resorts	0.99%	Automobiles	1.50%
Chemicals & Petrochemicals	5.38%	Maruti Suzuki India	1.50%
NOCIL	2.41%	Fertilizers & Agrochemicals	1.45%
Navin Fluorine International	1.84%	Heranba Industries	1.38%
Chemplast Sanmar	1.13%	Paradeep Phosphates	0.07%
Cement & Cement Products	3.91%	Textiles & Apparels	1.42%
JK Lakshmi Cement	2.10%	Vardhman Textiles	0.73%
Sagar Cements	1.81%	Nitin Spinners	0.69%
Finance	3.89%	Transport Services	1.35%
Can Fin Homes	1.45%	VRL Logistics	1.35%
Mas Financial Services	1.33%	Cigarettes & Tobacco Products	1.24%
Poonawalla Fincorp	1.11%	Godfrey Phillips India	1.24%
Retailing	3.69%	Diversified	1.11%
V-Mart Retail	1.96%	DCM Shriram	1.11%
Vedant Fashions	1.72%	Industrial Manufacturing	1.11%
Food Products	3.60%	Syrma SGS Technology	1.11%
DFM Foods	1.38%	Petroleum Products	1.10%
Avanti Feeds	1.22%	Gulf Oil Lubricants India	1.10%
Heritage Foods	1.00%	Gas	0.86%
Capital Markets	3.32%	Gujarat State Petronet	0.86%
Multi Commodity Exchange of India	1.80%	Personal Products	0.62%
UTI Asset Management Company	1.52%	Emami	0.62%
Healthcare Services	3.17%	Net Cash and Cash Equivalent	2.13%
Narayana Hrudayalaya	1.45%	Grand Total	100.00%
Krishna Institute of Medical Sciences	1.05%		



SECTOR ALLOCATION



<p>Scheme risk-o-meter</p> <p>Investors understand that their principal will be at Very High risk</p>	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> To create wealth over long term. Investment in equity and equity related instrument of small cap companies. <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p>	<p>Benchmark risk-o-meter</p> <p>S&P BSE 250 SmallCap TRI</p>
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