DV INVESTMENT ADVISORS LLP

15th November, 2021

1st Newsletter

Dear Investors,

This is our first newsletter to you and hence we think it is pertinent to layout our investment philosophy at the outset, so that you have a fair sense of how our journey together is going to work, what should be the investment goal and how DV Investment Advisors LLP (**"DVIA"**), a SEBI Registered Investment Advisor (**"RIA"**), with its dynamic asset allocation approach, will partner with you to achieve that goal.

Why asset allocation at all and not 100% Equity? Hasn't Equity outperformed all other asset classes over a long period, e.g.:- from 19th July 1993 when Sensex was 2098 to 15th November 2021 when Sensex was 60719, the index has generated a return of 12.6% IRR for ~28 years which is significantly better than any other asset class? But if we tweak the dates a bit, e.g.:- From 22nd April 1992 when BSE Sensex achieved 4467 (aka Harshad Mehta rally) to 23rd March 2020 when the Sensex tanked to 25981 (aka Corona Panic), the Sensex gave a return of 6.5% IRR over ~28 years which is lower than returns from govt debt securities in the same period. 28 years is as long as it can be. Yes, we have cherry picked the dates (peak of a cycle to bottom of another cycle) to suit our point but the data is factual and truth lies somewhere in between.

Another aspect is volatility and ability to stomach it. From January 2008 to March 2009, Sensex/Nifty corrected 61% while Nifty Midcap 150 and Nifty Smallcap 250 indices corrected 74% and 76% respectively. Recently in March 2020, Sensex corrected 38% and Nifty Smallcap 250 index corrected 60% from its all time high levels. To assume that one will be able to withstand these falls in terms of not only staying invested but also investing further money during this period, not to mention the emotional aspect of a loss being much much more painful than a profit of similar magnitude, is a very tall ask. So 100% Equity won't work for most of us. Asset allocation is the way.

Asset Allocation has many potential paths. But the 2 main ones are Static Asset Allocation path and Dynamic Asset Allocation path. Each can have an aggressive, moderate or conservative approach, for e.g.:- 100% Equity allocation at the aggressive end or 100% allocation to Bank Fixed Deposits at the conservative end. Some wealth managers prescribe an age based static asset allocation approach wherein they prescribe 100 minus your age should be the allocation to Equities and rest into other asset classes, i.e. the classic if you are 40 then you should have 60% in equities. Some other wealth managers try to assess the risk appetite of an investor based on quantum of savings as a multiple of yearly expenses or potential near term one off expense like real estate or some other metrics and accordingly curate a static asset allocation model with weightage to equity which corresponds to the risk assessment.

We don't agree with either of the above approaches. We believe that each asset class is inherently cyclical and they rarely trade at fair value. They oscillate from being extremely cheap to being extremely expensiveand everything in between. We accept that its practically impossible to predict the extent of how cheap or expensive an asset class can become (i.e. whether Sensex can correct to a low of 8,160 in March 2009 from a high of 20,873 in January 2008 i.e. fall of 61% in ~1.25 yrs and then go on to achieve a level of 21,005 in November 2010 i.e. 157% return from March 2009 low in next ~1.5 yrs). However, we believe that each asset class has what we call the green zones and the red zones, which are possible to predict.

Green zones signify levels/valuations from where the probability of an asset class to outperform other asset classes over a reasonable long period i.e. three years and above is very high. Red zones correspondingly signify zones where the probability of an asset class to underperform other asset classes over a reasonable long period is very high.

Our investment strategy is to add/increase weights in an asset class when it is in green zone and reduce/decrease weights in an asset class when it is in red zone, in tranches. Easier said than done.

But we have created a model which helps us to identify green and red zones for all asset classes and plan the asset allocation accordingly. We shall shift weights into and out of an asset class in tranches such that each such shift generates a minimum absolute return and a minimum desired IRR. Mind you, this does not in any way mean that post our shifting of weights, the asset classes will move in a direction favorable to us i.e. we can predict the peak or bottom of a cycle.

In our view, achieving such targeted absolute return and IRR invariably means that the asset class has transitioned from a green zone to a red zone and vice-versa, and thus becomes one of the best ways to identify where the asset class is in the green zone – red zone spectrum. Of course we will track other valuation parameters, e.g. for asset classes like equities we will also track the other parameters such as PE, spread between earnings yield and bond yield, market cap to GDP ratio etc., but we feel the deviation from target return led changes will be the exception and not the norm.

We thus strongly believe that irrespective of your age or perceived risk profile, a dynamic asset allocation approach with increasing weights in asset classes which are in green zones and reducing weights in asset classes which are in red zones will generate higher risk adjusted returns i.e. outperform other investment strategies over a period of time. Such a strategy also helps in reducing the psychological / emotional impact of significant wealth erosion during major market corrections which invariably leads to untimely exits from the market and hence opportunity loss.

One question that bags an answer is when not in Indian equity i.e. when the Indian equitiesis in red zone then what? Which other asset classes can deliver double digit IRRs?. Most wealth managers end up pushing very exotic alternative products like AIFs which invest in structured real estate debt or complex derivative instruments or complex/illiquid Private Equity, all of which are invariably sold by most wealth managers for high fees but don’t make any sense from post-tax risk adjusted returns perspective.

The Green zones of simple to understand, liquid, low transactional cost (no high fees or carry) instruments like Long term GILT (Govt Securities) debt MFs, Tax Free Bonds, Sovereign Gold Bonds etc. give double digits IRRs over a long period. Over and above these products, now Indian markets have got other alternative investment choices like Real Estate Investment Trusts (REITS) and Infrastructure Investment Trusts (InvITs) which are listed, liquid and have low transactional cost and have decent return potential, e.g.:- a) Indiagrid Trust, an InvIT which got listed in June 2017, has generated approx. 90% absolute and 16% IRR over a ~4.25 year period b) Embassy Office Parks, a REIT which got listed in April 2019, has generated approx. 42% absolute and 15% IRR over a ~2.5 year period.

We believe that what differentiates us is a decent understanding of the non-Equity asset classes over and above the Equity asset class given the partners’ combined work experience in managing Equities in Mutual Fund to complex debt instruments/structured credit/Real Estate Debt in NBFCs to managing a AIF Fund focused on high yield/high risk debt paper.

With this investment philosophy, we have been formally managing a dynamic asset allocation model portfolio – “**DV Model Portfolio**” since August 14, 2020 wherein we invest in various asset classes such as Equity, REIT, InvIT, Gold and Debt etc. We make changes to such weights determined by our proprietary in-house CAGR-cum-valuation led algorithm i.e. how much an asset class is in the green or the red zone. Invariably, the changes are few and far between as markets take time for transition from green zones to red zones and vice-versa.

Last but not least, we would like to highlight that the partners have deployed 100% of their investment surplus into the same strategy i.e. DV Model Portfolio so we personally practice what we preach thus achieving the maximum possible alignment with all our clients.

In addition, to avoid any potential conflict of interest we unlike other wealth managers/distributors, will not earn any revenue from the investee companies/ vehicles and will have only one source of revenue in this RIA model i.e. by charging the investor a percentage of the Asset under Advisory (AUA) for complete alignment of goals and interests of our entity with the investors.

DV Model Portfolio Details

a) Asset Allocation

Below table captures the changes in Asset Allocation in DV Model Portfolio from Inception to date:

Asset Class	Aug 15, 2020	Nov 15, 2021	Peak Allocation during the period
Equity - Indian	45%	30%	56.5%
Equity - International	0%	0%	0%
InvIT	5%	0%	5%
REIT	1%	15%	15%
Gold	0%	3%	3%
Debt	49%	52%	57%

b) **Performance**

In Compliance with SEBI Regulation

[redacted]