PROOF OF CONCEPT

DV INVESTMENT ADVISORS

Newsletter *15Aug2025*

Dear Investors,

This newsletter marks the 7th newsletter that DV Investment Advisors LLP (**"DVIA"**), a SEBI Registered Investment Advisor (**"RIA"**), with its disciplined and mindful dynamic asset allocation approach to wealth management, is sharing with you. This newsletter also marks the completion of 5 yrs of our Model Portfolio, a practical manifestation of our thought process and philosophy. While we are as yet not allowed to share how we specifically have done over this period, we will try to show in general how asset allocation has done over this period. For, 5 yrs is a very good time for "Proof of Concept".

We are also happy to share that we have received our PMS license from SEBI and shall be shortly launching our offering under the same. It is pertinent to mention here that PMS or RIA is just a mode of imparting our services, and does in no way mark any deviation to our core concepts and philosophies, viz – asset allocation, disciplined dynamism, low expense ratio, tax optimization and optimal risk-adjusted returns.

Asset Allocation

When we started our journey, we chose dynamic asset allocation as our north star, from out of the plethora of investment strategies we evaluated for this purpose. During the journey, we have constantly faced one refrain - asset allocation is primarily a means to diversify and reduce risk, at the cost of returns. We beg to differ. The classic concept of diversification is that it helps diversify and reduce risk and tries to compensate underperformance in one asset class by outperformance in another asset class. This ensures portfolio returns are not disproportionately impacted owing to any single asset class.

The below table gives us a snapshot of how different asset classes have done over the last 20 years – a long enough period to put this aspect to objective test:

20-Year CAGR Returns In Local Currency By Asset Class and For Multi Asset Allocation Strategy

Nominal Local Currency 20-Yr CAGR	Inflation	Equity returns	Debt returns	International equity returns	Gold returns	Multi Asset returns	Standard Deviation (Domestic Equities)	Standard Deviation (Multi Asset)
Emerging Markets (USD)	6.1%	3.9%	5.5%	6.1%	10.7%	6.2%	19.4%	12.6%
India	**6.5%**	**13.0%**	**7.5%**	**9.8%**	**14.5%**	**12.7%**	**21.3%**	**11.3%**

Source: DSP Netra Aug 2025 report

As can be seen, being present in a multi asset portfolio would not have necessarily generated lower returns, but would have necessarily reduced the risk in the portfolio. However, this is only part of the full picture – long periods hide the range of returns of the asset classes in that period, an aspect that brings to the fore the point that it is very difficult to actually earn the long period return.

This is either because an investor wont necessarily be having such a long holding period to sit through the ups and downs or because the significant under performances and outperformances in an asset class over shorter periods in the interim will make the investor change the allocation, mostly after such period of under performance and outperformance. The below table helps us get a perspective of how the returns actually fluctuate over shorter periods of 1/3/5 yrs, which is more relevant to an investor:

Asset Class	Benchmark	1yr return	3yr return	5yr return
Equity – Indian	Nifty 500 Index Fund	-1.6%	15.1%	20.3%
Equity – International	Edelweiss Greater China FoF	42.4%	9.3%	3.1%

Asset Class	Benchmark	1yr return	3yr return	5yr return
REITs	Equal weighted index of listed REITs[1]	12.7%	6.7%	9.9%
INVITs	Equal weighted index of listed INVITs[2]	15.4%	4.7%	19.3%
Gold	Gold Fund	39.3%	22.7%	12.6%
Debt	10-yr Constant Maturity G-Sec Fund	8.9%	8.6%	5.7%

Source: Value Research, DVIA

As can be seen, performance of various asset classes keep changing significantly over various time frames. This is where dynamic asset allocation comes in. The dynamic part in asset allocation tries to envisage which asset class is going to underperform / outperform over next 3-5 yrs and accordingly switch weights – switching away from the one which is likely to underperform to the one which is likely to outperform – and thus ensure portfolio is better off than what a static diversification would achieve.

One thing is clear – a multi asset portfolio is never going to generate returns equal to the best asset class, but at the same time its neither going to be as bad as the worst performing asset class. It will always be somewhere in between – a classic optimal risk-adjusted return strategy. The dynamic nature of asset allocation tries to ensure that "somewhere in between" is above average and tends towards the best performing asset class rather than towards the worst performing asset class.

DV Model Portfolio

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

Asset Class	Aug 15, 2020[3]	Highest Allocation	Lowest Allocation	Aug 14, 2025	Change in last 1 yr
Equity – Indian	*45%*	*56.5%*	*26.2%*	*38.5%*	*+8%*
Equity – International	*0%*	*15%*	*0%*	*15%*	*+5%*
Equity - Total	45%	56.5%	28.7%	53.5%	+13%
INVIT	5%	5%	0%	5%	+2.5%
REIT	1%	15%	1%	10%	+2.75%
Gold	0%	6%	0%	0%	-5%
Debt	49%	57%	24%	31.5%	-13.25%

<u>*Equities*</u>

We have been underweight Indian equity over the better part of last year, while we have been increasing our internal equity exposure by investing in Greater China funds. We had highlighted the possibility of Indian equity underperforming in forseeable future in our earlier newsletter in Sep 2024, wherein we had stated that valuations leave no margin for error.

[1] Brookfield, Embassy, Mindspace and Nexus REITs
[2] Indigrid, Powergrid and Indus Infra INVITs
[3] Initial asset allocation

As profit growth kept slowing down over the last year, a meaningful correction (20% from peak in Sep 2024) in Indian equities finally happened towards end-Feb 2025 – which is when we increased our Indian equities allocation. However, the Indian market has witnessed a sharp bounceback since then – without any perceptible improvement in earnings (as evidenced by results of Mar and Jun qtrs) and in fact worse macro conditions fueled by none other than the Trump Tariffs.

Even though we are not economists, we think they are unequivocally bad for everyone – US consumer, US importer, foreign governments and foreign exporters. We try to expound on this by trying to answer a simple question – who will bear the tariffs – and therein lies the crux.

To take a simplistic scenario, in any trade between 2 counterparties across 2 countries – say India and US, there are are 5 players - US consumer, US importer, US govt, Indian exporter and Indian govt. Each one of them takes a pie of the entire chain and each one has a vested interest in the chain to that extent – the consumer wants goods at cheapest cost, the importer and exporter want to keep healthy margins, and the respective governments want to earn something in the process so that they can do all the other things they have to do – social security, defence, running the country, etc.

Lets say the US govt suddenly decides it wants a higher income than earlier – and it says anyone exporting to US has to pay a higher amount of tariff vs earlier scenario – say 10% tariff. Now, each party will obviously want to minimize the impact on itself so that it is not worse off vs earlier. However, logically each party in the chain will have to take a hit – and share the pain – no one party can absorb it fully – because if that was possible then it would have happened even without the tariff hike. So the US consumer, the US importer, the Indian govt and Indian exporter all will have to shoulder the burden – who will shoulder to what extent will vary on a case to case basis depending on the relative strength / weakness of each player in the chain and between all such other chains.

Needless to say, this cannot be without impact – whatever the consumer will bear has to impact the demand, whatever the importer or exporter will bear will impact their margins / profitability and whatever the govt will bear will reduce its earnings and worsen its fiscal – which will force it to recover the shortfall in some manner – either through lower spending or a hike in taxes on its people.

All in all, this is a sub-optimal outcome for the entire global system – everyone in the chain will be worse off. This should mean lower stock returns as well as a corollary as lower margins / profitability / demand will mean lower PAT growth and lower multiples / dcf values.

Coming to US govt, it surely will have additional income from tariffs, but how much of it will be lost owing to demand destruction is anyone's guess. Also, logically this should leave to inflation – which is something US cant afford as it will mean higher interest rates as well. A situation of high inflation and subdued demand – a la stagflation.

Interesting times ahead and hence we are possibly staring at a continued period of subdued returns till the situation stabilizes and longevity and effects of tariffs are firmly established and have worked their way through the supply chains.

REITs

We decreased our allocation to REITs despite our positive view on them as a whole, which we had written about in our previous newsletter, owing to our lack of comfort with Embassy REIT from a corporate governance perspective. We think that in Embassy REIT, the principal-agency problem is most stark and we will be at the mercy of a minority promoter who may not have the best interests of REIT holders in its mind. We would be happy to be wrong.

A new REIT – Knowledge Realty Trust – is about to get listed and it looks like a promising option in the listed REIT space given the strong pedigree of its Sponsors and its well balanced portfolio. We would like to wait for results and management concalls for a couple of quarters before we consider an allocation to it, as we will be invariably doing it from an existing position in one of the REITs, and so we need to weigh the relative risk-reward aspect before we do so.

INVITs

We switched out of Indus Infra (erstwhile Bharat Highways) INVIT despite our liking its construct and its vision – the reason was liquidity. We don't want to stay invested in illiquid instruments wherein we will have a tough time exiting when we want to switch for whatever reason. Its an yielding instrument as such without any high cap gains potential – then why risk the price destruction in case of forced exit in bad market.

Instead, we switched into Powergrid INVIT – it's a power transmission invit comprising 5 projects – governed and managed by Power Grid Corporation, a AAA navratna PSU. The nature of INVIT is such that it is akin to a AAA bond – and a AAA bond should trade 50 bps over Indian GSec – somehow, perhaps owing to growth concerns, it was trading at 400 bps spread, making it a very lucrative yielding option as the compression of spreads was likely to lead to decent capital gains.

And that's what happened, the spread compressed back to 150 bps, resulting in a significant capital gain within a very short span. Now the instrument is fairly valued and we continue holding it for its accrual, and treat it as a debt substitute.

Conclusion

Everyone has a common question as banter - Market kya lagta hai. Everybody, who is anybody with any modicum of investments in the market, has this question top of mind during any period of volatility, or even otherwise during normal periods – everyone wants someone else to tell them whether it is going to up or down. What will come out of it we are not sure – how much will someone act on it – how much will one buy or sell owing to this view - what will that someone do if the call doesn't go as envisaged – will the person wait it out till it does – at what point will it be accepted that the call was wrong and market is taking a different direction and what will be done to course correct.

To be very frank, and with all honesty, we are in the camp of "WE DON'T KNOW". Further, we don't think anyone knows. And there is no way of knowing. This is absolutely true for short periods, as short periods may have abnormalities which take time to even out or course correct. Even there, the "time" that will be taken for this course correction to happen is impossible to predict. As they say, " Markets can be irrational longer than you can stay solvent".

As we have stated above, from an overall portfolio perspective, such short term moves will have little benefit in terms of portfolio returns – and is more likely to cause losses – tax and expenses will be incurred for sure in the process. Therefore we like to stick to the dynamic asset allocation framework based on our internal algorithms, to decide when to change weights across various asset classes, and eliminate all kinds of biases and short term noises in the process – only then can we ensure disciplined and sustainable wealth creation over long term.

With Regards,

DV Investment Advisors LLP

Partners - Deepak Bakliwal and Vivek Agarwall

Annexure

Details of DVIA

SEBI Registration name – DV Investment Advisors LLP

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