



VALUATION OF SECURITIES

Investment Philosophy:

- Bottom up approach for stock picking
- Disciplined Investment approach
- Adherence to risk minimization norms
- Calculated use of derivatives for risk hedging
- Desist from momentum investing
- Fundamental research investment, a pre-requisite for all decisions
- Reasonably long term view on stocks
- Flexibility in sectoral exposure

Stock Selection Procedure:

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| Step-1 | Idea generation through mix of internal and external research |
| Step-2 | Management contacts (combination of management meetings, plant visits and/or conference calls), analyst meetings & other background research |
| Step-3 | Creation of earning model, Forecasting of revenue and profitability. Active monitoring based on quarterly results and fundamental news flows |
| Step-4 | Periodic follow up meetings with management to re-evaluate earlier assumptions |
| Step-5 | Based on earnings estimates valuation screen is created |
| Step-6 | Valuation screen used extensively for studying absolute valuations, valuations relative to sector, peer group, own history and market conditions |
| Step-7 | Purchase / Sale decisions formulated based on key learning from Valuation Screen |
| Step-8 | Management quality and attractive valuations help determine weight of stock in portfolio |
| Step 9 | Bottomed out stocks for covered calls and breakouts for volatility play in options |
| Step 10 | Important corporate announcements and merger & acquisitions scenarios for risk arbitrage. |

Risk Control Guidelines:

Sectoral Bets:

- Sectoral risk is mitigated through effective diversification.
- Any single sectoral allocation to be capped at 30%

Stock Bets:

- Individual stock concentration would be preferably limited to 10%.
- Fund Manger also try to limit exposure to any Single Corporate Group

Hedging:

- Hedging Strategies to be actively used with discretion of Fund Manger