

Axis Flexi cap Fund – Fund Update

(An open ended dynamic equity scheme investing across large cap, midcap, small cap stocks)

Fund Manager: Shreyash Devalkar & Hitesh Das (For Foreign Securities)

Investment Strategy

- Access to **entire market spectrum** and opportunities to focus on fast growing sectors
- Aims to look for stocks that are at **inflection point**
- Good ideas can do better irrespective of its sector/theme/size
- Uses **bottom-up stock selection** process (Focus on appreciation potential of individual stocks from a fundamental perspective)
- Stocks are selected in the portfolio based on their ability to **grow earnings on a sustainable basis** while maintaining a **highly liquid and risk managed** portfolio.
- Look for stocks that are expected to report the faster growth relative to the benchmark

Positioning– Portfolio Changes

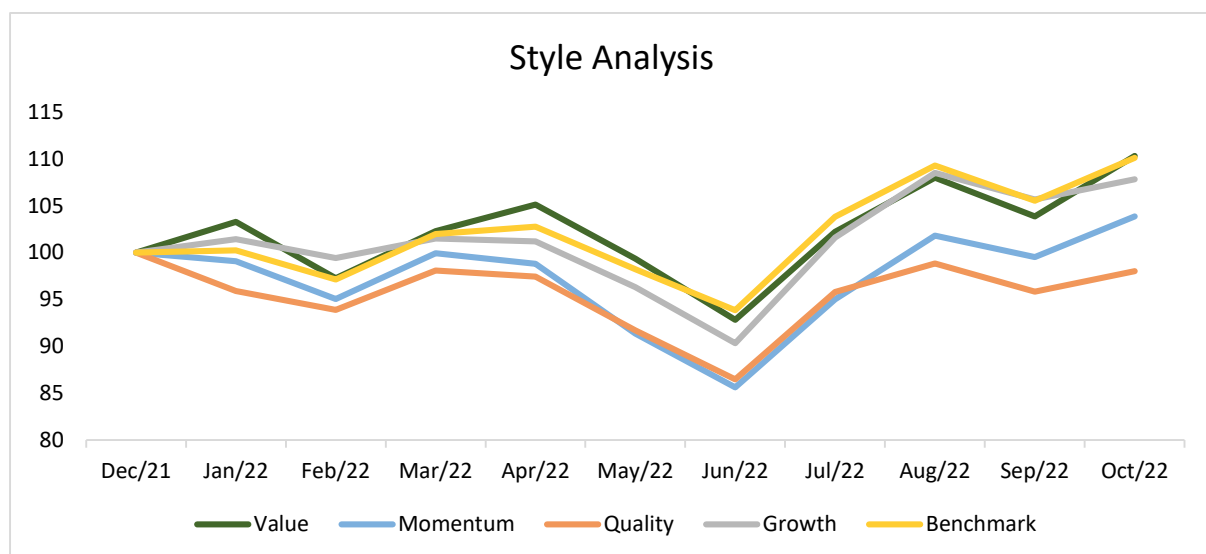
Sector	Nov-22	May-22	Difference
Autos & Logistics	7.7%	5.3%	2.4%
Financial Services	35.6%	33.4%	2.2%
Capital Goods	2.7%	1.3%	1.4%
Chemicals	7.4%	6.0%	1.4%
Consumer	13.4%	13.5%	-0.1%
Telecommunication	1.0%	1.6%	-0.6%
Construction Materials	1.9%	2.9%	-1.0%
Healthcare	6.8%	7.8%	-1.0%
Oil & Gas	0.3%	2.8%	-2.5%
Information Technology	11.0%	13.6%	-2.6%

Source: Axis MF Internal Research. Data as on 31st May 2022 and 30th November 2022. Current portfolio allocation is based on the prevailing market conditions and is subject to changes depending on the fund manager's view of the equity markets.

✚ Axis Flexi Cap Fund is sector agnostic and has been well diversified across the market capitalization curve (**Large Cap – 70.4%, Midcap – 7.1% and Small cap – 12.0% as on 30th Nov 22**). It focuses on a **bottom up approach** to invest in stocks that are at an inflection point such as market share gain, industry consolidation, sunrise industries, improved management focus and capital allocation or regulatory & policy changes.

✚ In the last 6 months, we have witnessed sharp rate hikes from all central banks globally. There has been a clear shift in focus from **“Growth”** towards battling **“Inflation”**. However, we can now see the pace of hikes slowing, with Fed indicating a hike of 50 bps instead of 75 bps in the upcoming policies and the European central banks also witnessing some ease in inflation. Domestically, RBI raised the key interest rates by **35 bps**; lower compared to the previous 50 bps rate hikes. (Source: RBI Website. Data as on 7th December, 2022)

- Given this backdrop, we believe that interest rate hikes should see a pause and hopefully a slow reversal from H2-2023. Due to this market environment, the coming 2 quarters are likely to witness margin pressures. Earnings season has commenced on a tepid note. While headline revenue growth remains comfortable, margins continue to remain under pressure.
- Considering the above, Axis Flexi Cap Fund has made a few changes in its portfolio in the last 6 months. We have been consistently decreasing our allocation to the IT sector over the last 1 year and continue to do so. The IT sector has seen phenomenal price returns over the past couple of years and with short term pressure on margins due to wage inflation and tightening policy stance, the sector has given up some of the gains. Hence, we had reduced our allocations to specific areas within the sector.
- For Axis Flexi Cap Fund, the financial sector has performed reasonably well and has also been one of the key contributors to its performance with ICICI Bank Limited & AU Small Finance Bank Limited, being the top contributors. However, on a larger scale, the market has outperformed more in the PSU Segment.
- One of the major reasons for a drag in the fund performance has been the exposure to select names from the Pharmaceutical Sector. The polarisation at the market and sector level also resulted in a skewed performance on the style front. In the last 1-2 quarters, market has seen bias towards “Value” stocks. Quality stocks continued to experience a tough year with most quality metrics continuing to underperform barring low beta which showed some signs of life. That aside parameters like Return on Equity / Assets and leverage parameters failed to affect stock selection process positively. Growth style performance was only barely positive.



Source: Axis MF Internal Research. Data as on 31st October 2022. The above graph is for illustration purpose only.

Portfolio –Performance & Snapshot

The fund has stuck to its investment philosophy of investing in companies with materially higher return ratios as compared to its benchmark (NIFTY 500 TRI). Currently, the fund is overweight on **Automobile, Finance and select Consumer** names. On the underweight list, the overall portfolio is underweight on **Oil & Gas and Information Technology**.

Top 10 Holdings (May '22 – Nov '22)

Top 10	Nov-22	Top 10	May-22
ICICI Bank Limited	10.04%	ICICI Bank Limited	9.39%
Bajaj Finance Limited	8.41%	Bajaj Finance Limited	8.95%
Infosys Limited	6.92%	Avenue Supermarts Limited	7.52%
Avenue Supermarts Limited	6.46%	Infosys Limited	7.08%
HDFC Bank Limited	6.35%	HDFC Bank Limited	5.97%
Kotak Mahindra Bank Limited	3.47%	Tata Consultancy Services Limited	5.12%
Mahindra & Mahindra Limited	3.10%	Kotak Mahindra Bank Limited	3.66%
Tata Consultancy Services Limited	2.95%	Reliance Industries Limited	2.75%
Krishna Institute of Medical Sciences Ltd	1.90%	Ultra Tech Cement Limited	2.30%
State Bank of India	1.79%	Sona BLW Precision Forgings Ltd	2.02%

Source: Axis MF Internal Research. Data as on 30th November 2022.

The current portfolio allocation is based on the prevailing market conditions and is subject to changes depending on the fund manager's view of the equity markets.

Attribution (May '22 – Nov '22)

Company Name	
Top Alpha Generators	Top Detractors
ICICI Bank Limited	Sona BLW Precision Forgings Ltd
Reliance Industries	Gland Pharma Ltd
Motherson Sumi Wiring India Ltd	Avenue Supermarts Ltd
Sector	
Top Alpha Generators	Top Detractors
Oil & Gas	Autos & Logistics
Information Technology	Pharmaceuticals
Agro Inputs & Chemicals	Capital Goods, Engg. & Construction

Source: Axis MF Internal Research. Data as on 30th November 30th 2022. 6 Month Attribution. The current portfolio allocation is based on the prevailing market conditions and is subject to changes depending on the fund manager's view of the equity markets.

Risk Management

Risk Ratios	Axis Flexicap Fund	NIFTY 500 TRI	Remarks
Standard Deviation	18.6%	22.1%	Longer term outperformance can be seen with limited risk
Beta	0.87	1.00	
Sharpe Ratio	0.41		
Information Ratio	1.47		

Source: Internal Analysis. Data as on 30th November 2022. Above risk ratios are calculated based on daily return with daily rolling frequency for last 3-year period ending 30th November 2022. Risk free rate: 5.86%, Source: FIMMDA

Fund Valuations

Fund Name	ROE(%)		PE (x)	
	FY22	FY23E	FY22	FY23E
Axis Flexi Cap Fund	17.3	19.1	32.6	25.9
NIFTY 500 TRI	12.8	13.8	29.1	24.4

Source: Bloomberg. Axis MF Research. Data used as on 31st October 2022. Please refer SID/KIM for respective scheme benchmarks. Indices mentioned are used as indicators of valuations representative of the respective market.

Performance

	1 Year		3 Year		5 Year		Since Inception	
	CAGR (%)	Current Value of investment of Rs. 10,000	CAGR (%)	Current Value of investment of Rs. 10,000	CAGR (%)	Current Value of investment of Rs. 10,000	CAGR (%)	Current Value of investment of Rs. 10,000
Axis Flexi Fund - Regular Plan - Growth	-3.81%	9,619	13.48%	14,623	13.00%	18,428	12.90%	18,410
Nifty 500 TRI (Benchmark)	10.20%	11,020	18.83%	16,795	13.03%	18,456	12.94%	18,442
Nifty 50 TRI (Additional Benchmark)	11.93%	11,193	17.22%	16,123	14.32%	19,529	14.07%	19,393

Data as on 30th Nov 2022. Past performance may or may not be sustained in future. Since Inception – 20th November 2017. Different plans have different expense structure. Shreyash Devalkar is managing the scheme since 20th November 2017 and he manages 4 schemes of Axis Mutual Fund & Hitesh Das is managing the scheme since 2nd November 2020 and he manages 17 schemes of Axis Mutual Fund. Returns greater than 1 year period are compounded annualized (CAGR). Face Value per unit: ₹10. Please click on the below link to view other schemes currently managed by the fund manager & relevant schemes for performance.

[https://www.axismf.com/cms/sites/default/files/Statutory/Annexure Without%20Dir%20Scheme Nov%202022.pdf](https://www.axismf.com/cms/sites/default/files/Statutory/Annexure%20Without%20Dir%20Scheme%20Nov%202022.pdf)

Way Forward

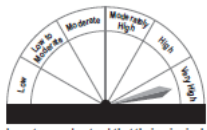
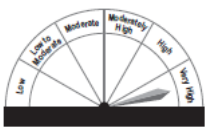
Given the narrow market conditions, active fund managers have been beaten by frontline indices like the NIFTY 50 & S&P BSE Sensex. The short term returns are distorted by various headwinds and global uncertainties, but over longer term, the fund has outperformed the benchmark.

We find the current fundamentals of India a mixed bag. Growth outlook looks good but other parameters like fiscal deficit and trade/CA look mediocre. India's macro-economic situation can deteriorate meaningfully at higher energy prices; current oil prices provide a fair bit of respite but fresh pressures could exert incremental pressures. Inflation and commodity prices especially oil, are likely to remain key triggers for the markets.

Valuations are quite rich for the market from an overall standpoint. We note, select pockets of the markets especially the one's over-owned by retail and domestic funds have begun to show signs of froth. Further, the valuation premia offered to select companies where growth is lacking is increasingly unjust especially as base effects wean away super normal growth. The last month's move is characteristic of a narrow market, with 4 stocks accounting for ~45% of the entire market rally. We had last seen this phenomenon in 2019.

Our portfolios favour large caps where companies continue to deliver on growth metrics. Corporate earnings of our portfolio companies continue to give us confidence in the strength of our portfolio companies. We have added some meaningful small cap names in Axis Flexi Cap Fund in the last 6 months.

Product Labelling & Disclaimers

Axis Flexi Cap Fund (An Open Ended Dynamic Equity scheme investing across Large cap, Mid cap, Small cap stocks) Benchmark: NIFTY 500 TRI This product is suitable for investors who are seeking* <ul style="list-style-type: none"> • Capital appreciation over medium to long term • Investment in a dynamic mix of equity and equity related instruments across market capitalization. * Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	
Riskometer	
Fund	NIFTY 500 TRI
 <p>Investors understand that their principal will be at Very High Risk</p>	

Disclaimer

Past performance may or may not be sustained in the future. Data updated as on 30th November, 2022. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time.

a) Large Cap: 1st-100th company in terms of full market capitalization b) Mid Cap: 101st-250th company in terms of full market capitalization c) Small Cap: 251st company onwards in terms of full market capitalization.

Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). Trustee: Axis Mutual Fund Trustee Ltd. Investment Manager: Axis Asset Management Co. Ltd. (the AMC) Risk Factors: Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.