

**Sectoral, Style and Market Cap Leadership Keep Rotating**

The key phenomenon of our industry is that the best performing fund/fund house/manager or sector/market cap/style is rotating in about 18 to 24 months. Following are some past instances of the challenges one faced with a style or theme bias investment approach.

**Value Style Under-Performed for 3 Years**

Before the comeback in CY 2021, for **three consecutive calendar years (2018, 2019, 2020)**, Value Style underperformed most of the other styles of fund management. Delivering poor investor experience.

**Roller-Coaster Ride with Quality Style**

Quality Style **worked well in CY 2018 and CY 2020** but did poorly in CY 2017 and CY 2019.

**Domestic v/s Export Oriented Theme**

Sectors like IT Services and Pharma were among the **worst performing sectors in CY 2016 and 2017** compared to broader market. Subsequently, **IT Services outperformed** most of the other sectors in **CY 2018, 2020 and 2021**, and Pharma outperformed in 2020.

**Defensives v/s Cyclical**

Some of the **Defensive Sectors did well in CY 2020** but in **CY 2021** many of the Cyclical Sectors performed relatively better than broader market and **Defensive Sectors were among the laggards**.

**Mapping the Investment Style Performance**

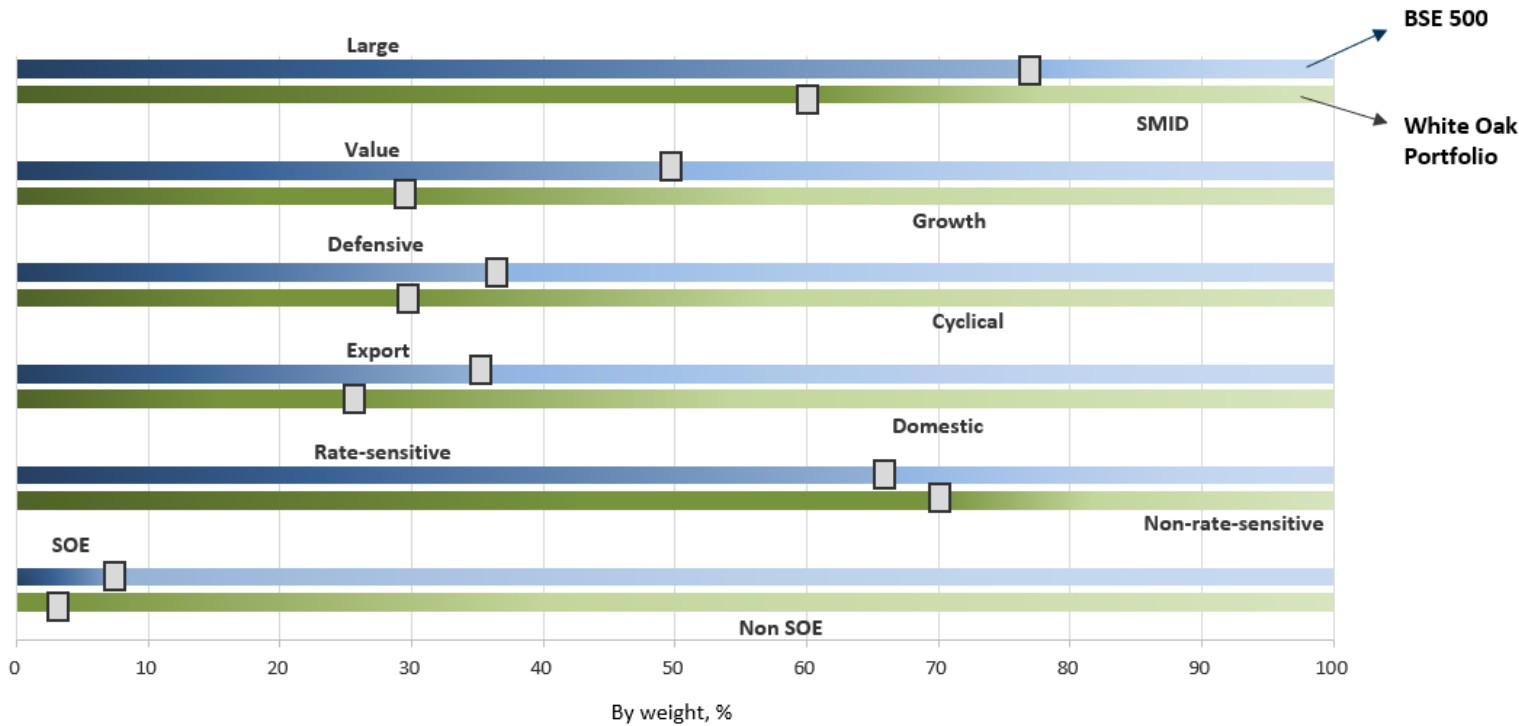
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 CYTD July
Value 108.4	Low Volatility -45.0	Value 133.0	Value 30.9	Quality -10.1	Alpha 52.1	Quality 19.6	Value 78.9	Alpha 15.3	Value 25.1	Alpha 69.9	Quality 8.8	Nifty 50 13.5	Alpha 52.5	Alpha 75.4	Value 23.2	Value 20.7
Alpha 100.3	Quality -49.9	Quality 131.0	Low Volatility 29.1	Momentum -16.1	Momentum 38.6	Momentum 12.9	Alpha 69.3	Momentum 10.8	Momentum 9.6	Momentum 57.6	Nifty 50 4.6	Momentum 10.6	Quality 26.2	Value 56.4	Nifty 50 5.7	Low Volatility 15.5
Momentum 100.3	Nifty 50 -51.2	Low Volatility 96.5	Quality 28.4	Low Volatility -18.2	Low Volatility 34.1	Nifty 50 8.1	Momentum 49.6	Low Volatility 10.1	Low Volatility 5.1	Value 47.1	Low Volatility 1.0	Alpha 7.8	Low Volatility 25.7	Momentum 53.8	Low Volatility 1.6	Momentum 15.1
Nifty 50 56.5	Value -56.6	Alpha 88.0	Momentum 19.8	Alpha -20.7	Value 31.9	Low Volatility 4.9	Low Volatility 45.0	Quality 2.4	Nifty 50 4.4	Low Volatility 32.3	Momentum -1.7	Low Volatility 6.6	Momentum 19.9	Quality 26.2	Quality -4.4	Alpha 15.0
Quality 50.2	Momentum -59.9	Nifty 50 77.6	Nifty 50 19.2	Nifty 50 -23.9	Quality 31.2	Alpha 3.6	Quality 40.5	Nifty 50 -3.0	Quality 1.0	Nifty 50 30.3	Alpha -13.5	Quality 5.6	Nifty 50 16.1	Nifty 50 25.6	Momentum -5.5	Quality 13.4
Low Volatility 41.2	Alpha -73.4	Momentum 69.3	Alpha 18.1	Value -37.8	Nifty 50 29.3	Value -14.0	Nifty 50 32.9	Value -7.2	Alpha -9.1	Quality 30.3	Value -26.0	Value -13.7	Value 8.4	Low Volatility 24.5	Alpha -13.5	Nifty 50 9.8

**It is not possible to consistently time the winners and there may be prolonged cycle of outperformance and underperformance. Following or Skewness to a particular style may increase portfolio volatility and can adversely impact portfolio performance on risk adjusted basis.**

# Why Do Winners Rotate?

In the following illustration, we have categorized S&P BSE 500 and WhiteOak Portfolio in terms of various factors. For example, 77.1% of S&P BSE 500 is composed of large cap stocks and 22.9% is composed of SMIDs (Small and Mid Caps).

**Expressing S&P BSE 500 and White Oak Portfolio by Factors (In terms of weight %)**



Factors as per MSCI Barra Risk Model; Factor disaggregation for illustration purposes only. These factors may not be mutually exclusive. Past performance may or may not sustain in future. White Oak Portfolio : White Oak India Pioneers Equity PMS as of June 30, 2023

The WhiteOak portfolios are quite extensive. Our endeavor is to construct a balanced portfolio in relation to the S&P BSE 500 index. This involves incorporating certain aspects of the S&P BSE 500 while primarily emphasizing superior stock selection. Although our portfolio may consist of 70-80 stocks, our primary goal is to outperform the benchmark. This pursuit necessitates a high level of active share.

As a result, we refrain from implementing any filters or screeners at the initial stage. Instead, we commence with the entire spectrum of investment options and subsequently strive to attain an equilibrium within the portfolio concerning style, sector, and market capitalization. Within this framework, we identify the most promising stocks for investment, forming the basis of our portfolio construction strategy. We intend to cultivate comprehensive portfolios that minimize market fluctuations and ensure greater consistency of alpha.

Over time, the macroeconomic landscape undergoes changes. Different macroeconomic conditions exert varied impacts on distinct sectors and companies. Consequently, any chosen style, sector, or market capitalization strategy will be subject to alteration as macros evolve.

While a manager might opt for a specific style, favoured sectors, or thematic considerations, this inadvertently confines their focus to a narrower market segment. During periods when this segment is favoured, it may result in substantial outperformance. However, a shift in market sentiment can lead to significant underperformance, causing a fund that previously lagged to surge ahead.

The rotation of winners stems from the fact that investment managers tend to adopt distinctive styles. Given the fluctuating nature of macroeconomic conditions, preferences for style, sector, and market capitalization tend to oscillate, resulting in a rotation of winners.

The chart above illustrates the representation of the S&P BSE 500 across various factors. Active management is imperative for alpha generation. Outperforming the market necessitates a departure from a passive approach, entailing a significant active share.

# Why Do Winners Rotate?

## Factor Diversified Balanced Portfolio with High Active Share

The pre-requisite for any manager to generate alpha or outperform the benchmark is to have an active share. Active Share is the measure of the percentage of security holdings in a manager's portfolio that differs from the benchmark. A low Active Share score indicates that a portfolio manager is closely replicating the Benchmark (engaging in a passive investment strategy). A high Active Share score suggests that a portfolio's holdings diverge from the benchmark. As a result, managers with reasonably high Active Share have a higher potential to outperform the benchmark.

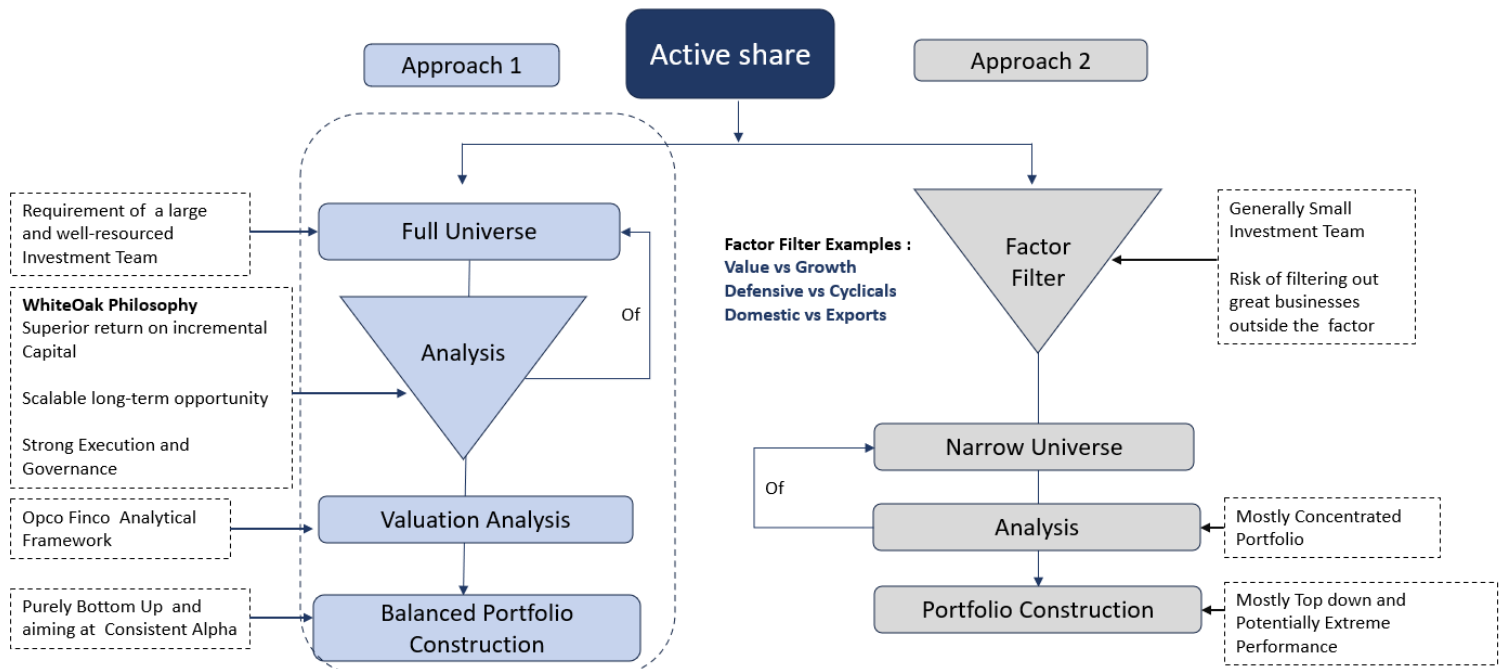
Active positions can be attained either by taking top-down bets or via bottom-up stock selection. A top-down bet entails concentrated exposure along various factors such as growth/value, large/small & mid, defensives/cyclicals, exporters/domestic, etc. Factor performance inherently tends to be volatile and thus the performance of such a portfolio will also be volatile and is likely to swing between extremes.

However, higher active weights generated through bottom-up stock selection is likely to ensure that not only is the alpha generation strong but also consistent and not overwhelmed by factor performance over any reasonable time-period. This has been the case with WhiteOak's portfolio which has generated peer group leading performance since its inception with lower risk. However, as a caveat, we might choose to tolerate some of these factor risks but only if such risks are more than commensurately compensated by the increased potential for superior stock selection returns.

	Pure Indexing	Factor Neutral	Factor diversified (Balanced Portfolio)	Concentrated Factor bets	Concentrated Stock Picker
Description	Portfolio similar to Benchmark	No Active Factor Bets	Bottom-Up Stock Picking and a Balanced Portfolio Construction Approach	Targeted factor bets along Growth / Value, Large / SMID, Quality / Momentum, Thematic etc	Targeted individual stock bets
Active Risk (Volatility of Alpha)	Zero	Low	Medium	High	Highest
Active Share (Measure of the percentage of security holdings in a portfolio that differs from the benchmark)	Zero	Low	High	High	Highest

A higher active share may also introduce active risk, if the portfolio is constructed based on a narrow strategy such as concentrated top-down factor bets. Conversely, a manager can pursue a higher Active Share without necessarily increasing active risk by following a Balanced Portfolio Construction Approach.

### How WhiteOak's approach to create Active Share is different?



## WhiteOak Strategy : Peer-Group Leading Consistent Performance

Part 2017 <sup>1</sup>	2018	2019	2020	2021	2022	2023 TD	Since Inception <sup>2</sup>
Portfolio 9	White Oak Strategy	Portfolio 3	Portfolio 9	Portfolio 4	Portfolio 10	Portfolio 7	White Oak Strategy
White Oak Strategy	Portfolio 1	Portfolio 6	White Oak Strategy	Portfolio 9	Portfolio 6	Portfolio 9	Portfolio 9
Portfolio 4	Portfolio 7	Portfolio 5	Portfolio 3	Portfolio 7	Portfolio 7	Portfolio 4	Portfolio 1
Portfolio 10	Portfolio 8	White Oak Strategy	Portfolio 4	Portfolio 10	Portfolio 8	Portfolio 1	Portfolio 10
Portfolio 7	Portfolio 2	Portfolio 8	Portfolio 6	White Oak Strategy	White Oak Strategy	Portfolio 6	Portfolio 6
Portfolio 2	Portfolio 6	Portfolio 1	Portfolio 1	Portfolio 1	Portfolio 5	White Oak Strategy	Portfolio 7
Portfolio 1	Portfolio 5	Portfolio 9	Portfolio 10	Portfolio 2	Portfolio 4	Portfolio 10	Portfolio 8
Portfolio 5	Portfolio 10	Portfolio 2	Portfolio 8	Portfolio 6	Portfolio 1	Portfolio 5	Portfolio 5
Portfolio 8	Portfolio 9	Portfolio 7	Portfolio 5	Portfolio 8	Portfolio 3	Portfolio 3	Portfolio 4
Portfolio 6	Portfolio 4	Portfolio 10	Portfolio 2	Portfolio 5	Portfolio 2	Portfolio 8	Portfolio 2
		Portfolio 4	Portfolio 7	Portfolio 3	Portfolio 9	Portfolio 2	Portfolio 3

<sup>1</sup>Since 31 August 2017, Peer Group source: PMS Bazaar. Besides White Oak, Peer Group includes benchmark and Flexicap portfolios with AUM over INR 2,000 Cr and 3 years of investment horizon, making a total of twelve data points. <sup>2</sup>Data from August 31, 2017 till 30 June 2023. Performance between August 31, 2017 till September 30, 2018: India Acorn Fund, Performance from September 30, 2018 onwards: White Oak India Pioneers Equity Portfolio ◆ : S&P BSE 500 TRI.

WhiteOak Portfolio is meant to be a long-term core allocation in clients' portfolios with an aim to outperform the broader market represented by S&P BSE 500 without participating in the violent "Winner Rotation" phenomenon. The color-coded chart clearly shows that in our best years, we are amongst the top, but in our worst years, we are average or above compared to PMS peers.

## White Oak India Pioneers Equity Portfolio Performance

The Portfolio has **outperformed the benchmark by 2.8% CAGR** as of July 31, 2023 since its inception.

Performance (%)	July 2023	3 Months	6 Months	1 Year	3 Year	CYTD 2023	CY 2022	CY 2021	CY 2020	CY 2019	Since Inception	
											CAGR	Absolute
Portfolio	2.9	13.0	14.7	14.7	21.8	11.0	-6.6	34.4	34.9	13.3	17.9	122.3
S&P BSE 500 TRI	4.0	12.5	14.8	17.4	25.2	11.0	4.8	31.6	18.4	9.0	15.1	97.3
<b>Excess Returns (%)</b>	<b>-1.1</b>	<b>0.5</b>	<b>-0.1</b>	<b>-2.7</b>	<b>-3.4</b>	<b>+0</b>	<b>-11.4</b>	<b>2.8</b>	<b>16.5</b>	<b>4.3</b>	<b>2.8</b>	<b>25.0</b>

Source: WhiteOak Capital. Inception Date: 27 September 2018. All indices are Net Total Return in INR. Partial 2018 : Performance shown since 27 September 2018 as client monies were managed from this date. Performance is net of all fees and expenses. Performance related information provided herein is not verified by SEBI. Past performance is not a reliable indicator of future results. Returns less than one Year are Absolute Return and more than one year are CAGR. Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of 1) the timing of inflows and outflows of funds; and 2) differences in the portfolio composition because of restrictions and other constraints. Performance relative to other Portfolio Managers within the selected Strategy : [Click Here](#)

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