



Sanctum
Wealth Management

INVESTMENT OUTLOOK 2018





Contents

Letter from the CEO	4
Global Insights	5
Structural Reforms - A Misunderstood Saga	7
Return of Yield - Real Estate	8
Estate Duty - A Reality	10
Private Transactions	11
Bitcoin - Millennial Gold or Overinflated Bubble?	13
Asset Class Outlook	14
Technical View	19
Routes to Market	21
The Cost of Risk Aversion	22
Conclusion - 18 Insights for 2018	23

Letter from the CEO

As we enter 2018, we take a step back, as is our tradition, to share insights on the various big-picture trends at play in the global economy.

What a difference a year makes! Complexity has always been a part of the investment world and will remain so as we move forward, but today's political and macro economic environment has served to amplify its magnitude manifold. Further, as information becomes rapidly and abundantly available, the challenge is to sift through the deluge of data coming at us from all directions, to separate facts from opinion, to distinguish short-term drivers from long-term ones, and to then convert the resultant insights into meaningful courses of action.



This year, as before, we highlight several key trends at play, both globally and locally. One, the structural shift continues towards emerging markets and away from developed ones. Two, our research suggests that structural reforms undertaken by the government are not fully appreciated, and we believe a platform is being put in place for sustainable, healthier growth in the coming quarters. Three, for the first time in almost two decades, we are entering an environment where U.S. central bank liquidity is being extracted from the system. The Fed is hawkish and U.S. interest rates are rising. All this alongside the latest fiscal policy measures by the U.S. government.

While the global economy remains in a relatively robust and synchronized recovery, worries about the length of the U.S. business cycle - nine years and running - are a part of the analytical backdrop. This has repercussions for all markets as we move forward and vigilance will be required to navigate a potential cycle turn, although it still looks like it may be several quarters away.

From a portfolio perspective, it is abundantly clear that the cost of risk aversion in investments has been high, whether you consider a three-year, five-year, or fifteen-year horizon in the Indian equity market. The data is starting to confirm what we have spoken about earlier, that a growth shift is underway. Further, a stark contrast is starting to emerge in the experiences of investors in the domestic market, versus global markets.

What is clear is that a balance in approach going forward, between protection and risk, a fine balance if you will, is called for. India remains in the middle stages of what we believe will be a healthy recovery, but risks will need to be navigated, and some tactical agility may be of value.

In the end, actions emerging from these insights will be assessed in the context of our clients' individual profiles and we endeavour to ensure that our advice is specific, timely and trustworthy.

On behalf of the firm, I thank you for the trust you have placed in us and extend my very best wishes for a prosperous 2018.

Sincerely,
Shiv Gupta

Global Insights



Gary Dugan is an investment professional with over 35 years of experience, who advises Sanctum on global macro economic trends. He has worked with some of the world's largest asset managers and investment banks including JPMorgan, Barclays and Merrill Lynch. As a Chief Investment Officer, he has managed money and advised the world's largest sovereign wealth funds and private clients.

In recent years he has worked in the Middle East as a CIO. He also spent time in Singapore as CIO for Coutts International. He is currently the CIO for Namara, a multi-family office based in Dubai.

Gary has for many years been regularly quoted in the media, spoken at international conferences, and appeared on TV and radio.



2018 may start well if only because the global economy has maintained reasonable momentum into the end of the year. However,

in our view, the ongoing lack of structural reform in many of the world's largest economies will inevitably weigh on long-term growth. Debt levels are very high, labour markets are showing skill shortages, and productivity gains are well down on previous levels. Over the longer term, many of the largest economies are likely to struggle to get out of the 0.5% to 2% range of annual GDP growth.

The primary challenge for global markets in 2018 is that we are likely to see many central banks reversing at least part of the very accommodating policies of low-interest rates and quantitative easing.

The US Federal Reserve is already raising interest rates, and is expected to increase interest rates more aggressively in 2018. Other central banks could join the Fed on a path of moving rates higher or reducing their quantitative easing.

2018 will likely see some shape of correction in global asset markets.

Volatility has been unnaturally low and must inevitably revert, which will hurt those investors that over-exposed to what they believed to be safe assets. As central banks rein in their quantitative easing, there will most likely be some negative consequence for asset prices. US equity valuations are at some of the highest levels seen in history, and credit spreads at some of the tightest. The volatility of financial markets has been the lowest in history giving investors a false sense of the degree of risk in financial assets. We fear that many investors have been lured into taking inappropriate risks with their capital. Even a modest sell-off of markets could lead to a more significant

correction as many investors seek to re-balance their portfolios to a more cautious strategy.

Given the backdrop of higher US interest rates, **the US dollar is likely to recover modestly from its weakness in 2017.**

That said, we would be surprised to see any sharp movements in the major currency crosses. Even though geopolitical issues could still disturb the markets, the dollar has not always been a beneficiary; investors are tending to prefer buying gold or indeed cryptocurrencies rather than the dollar.



In commodity markets, there is room for some modest appreciation of prices with reasonable global growth in 2017 having taken some of the slack in markets away. Oil prices are expected to remain in the range of \$60-70. We expect metal prices to hold onto their recent gains (around +20% for the year).



For international investors, the Indian asset market will continue to be seen in a favourable light.

Where the rest of the world offers low growth and insufficient structural change, India, by contrast, is seen as a reforming economy with the prospect of strong long-term growth. India also benefits from a favourable contrast to other emerging markets. In particular, the fact that China is downshifting to a slower pace of growth.



Structural Reforms - A Misunderstood Saga

Structural reforms aren't easy, but they do deliver growth. There are three priorities: structural initiatives, fiscal responsibility and investment stimulus. By pursuing all three, the government has ensured additional multiplier growth benefits will come forth.

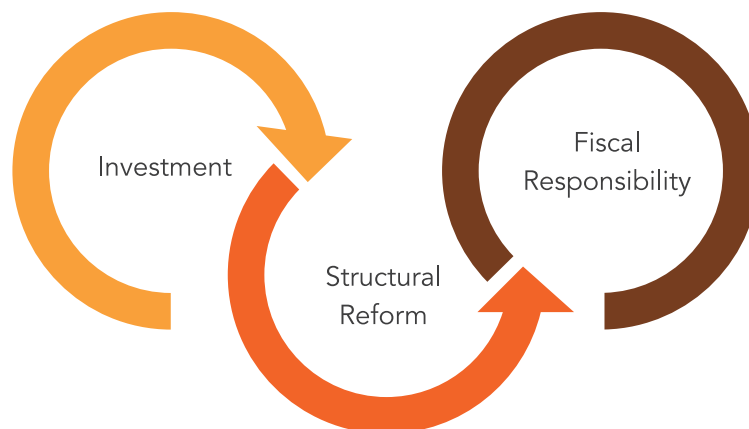
The pursuit of the three aforementioned policies creates a resilience to macro-economic shocks, raises economic growth and reduces unemployment. There is a lag however, on the materialization of growth benefits and in the short term, there is substantial pain and resistance to change.

Aadhaar, Jan Dhan, demonetisation, GST, and soon benami, are working synchronously to create a new, inclusive infrastructure. Central to the reforms is the move away from cash, towards electronic payments, away from black money to white, from unorganized to organised and towards a national biometric identification based financial system.

Following structural reform, the government has come through with the other two legs: an infrastructure stimulus, and banking recapitalisation. The Modi government has also strengthened its economic and legal infrastructure with real estate and bankruptcy legislation, applied corporate governance mandates for the PSE sector and fiscal transparency. The farm loan waivers and crop insurance programs have reduced regulatory bureaucracy and helped India jump 30 spots in the ease of doing business.

Though it isn't easy, structural reform works. The economic literature is abundantly clear on the impact of structural reforms. **Reforming countries experience a growth acceleration in the medium term, following short term pain. Reforms in banking significantly raise growth and make economies attractive for FDI.**

Recent developments have witnessed a number of brokerage houses coming forward with revised upgrades to India's 2018 growth. We expect India to be the fastest growing large economy in the world in 2018.

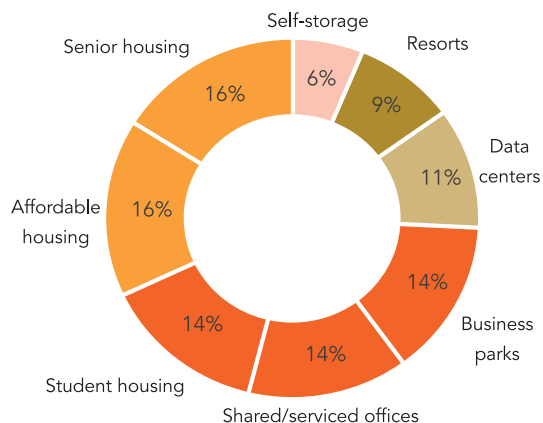


Return of Yield - Real Estate

The headlines around real estate continue to be negative as investors are faced with stagnation and in many cases erosion of values for land and residential assets. However, on the other side we are seeing the institutionalisation of the real estate market with participation from large global private equity players, pension and sovereign funds who are seeking yield, and a steady increase in capital values. With REITs and InvITs offering exit options for funds, we are now seeing the **emergence of different asset classes within commercial real estate** including office, retail, hospitality, warehousing, education assets (including student housing), co-working, worker and industrial housing.

Commercial Markets: Investors Remained Active

As per Colliers, in the first nine months of 2017, about 28.9 million sq. ft. was leased at par with 2016. Grade A income yielding commercial leased assets should remain in demand as we should see the first REITs listed in 2018.



Source:
Emerging Trends in Real Estate Asia Pacific 2018 survey.

REITs

REITs (Real Estate Investment Trusts) as an alternative investment vehicle, have a significant opportunity in India. It is estimated that India currently has a rent-yielding office and retail inventory to the tune of 350 mn sq.ft., valued in excess of USD 70 bn. (INR 4.5 tn.). Furthermore, other rent-generating real estate assets such as warehouses and hospitality assets, too, have significant REIT-able stock. This would enable developers and asset managers to raise funds, which are expected to reduce the liquidity deficit in the sector.



Warehousing - Industrial Sector: Positively Impacted, With Investment on the Rise

Implementation of GST has acted as a catalyst for the rise of the warehousing market in India, by eliminating a multi-layered tax system and state borders, thus, creating a fair marketplace across the country. Consolidation in the warehousing sector is expected to gain momentum in the short-to-medium term, as most large corporates are now focused on optimising their resources with a twin-pronged approach of improved inventory planning,

Return of Yield - Real Estate

coupled with demand forecasting. This is expected to lead to a phenomenon, wherein, **warehousing demand is expected to outpace supply.**

Canada Pension Plan Investment Board's (CPPIB's) acquisition of a majority stake in IndoSpace, for about USD 500 million, marked the largest industrial and logistics deal in India. LOGOS Group and Assetz Property Group, earlier in the year announced a partnership to set up a logistics and warehousing platform that will invest around \$400 million of equity capital to build and manage specialised logistics and industrial parks in India. Many e-commerce logistics businesses like Amazon, Delhivery and 4tigo Network Logistics secured an infusion of funds for their warehousing activities.



Student Housing:

India has a student population of over 300 million and there are many Tier II and III cities that have become education hubs, including Pune, Hyderabad, Ahmedabad, Nagpur, Kota and Jaipur. The magnitude of students' influx is high and Higher Educational Institutes are unable to provide sufficient accommodation

options. This has in turn given a boost to rental housing markets in various cities.



Co-working Spaces:

With improved automation enabling a distributed workforce, emergence of the start-up economy and multiple travel options offering access to remote areas, community working, economical spaces as well as plug-and-play cubicles are the need of the hour and on-demand today. According to a study by JLL, the co-working segment (market size 12-16 million sqft) in India is expected to receive \$400 million in investments by 2018. Subsequently, the segment is expected to grow by 40-50% in 2018.

In India's top cities of Delhi NCR, Mumbai, Bangalore and Pune, **a co-working space is likely to lead to cost savings in the range of 20-25%** when compared with leasing a traditional office space. Planning for 2020, Mumbai and Bangalore offer by far the best opportunity for creating co-working spaces targeted at corporate firms seeking activity-based office space for focused talent groups.

Estate Duty - A Reality

Inheritance tax 'has been in the crosshairs' for tax reforms in India.

Speculation is rife about the reintroduction of Estate Duties - abolished in the 80s, when taxes peaked at 40% on the highest slab post the government's bold structural reforms.



While the reintroduction may be aimed at bringing equilibrium in society, reducing the wealth gap and bringing in an additional source of revenue for the government, the fact of the matter remains - is the country ready for it? Estate taxes are prevalent in most developed countries such as Germany, UK and USA, that have economic and financial stability with structured social security, and retirement plans

in place. As India does not have such facilities, the culture is to save for the future and the next generation. Hence a haphazard implementation may hurt the sentiments of the strata of the population likely to be impacted by it.

In most countries with Estate taxes, specially structured private trusts are used by families to mitigate its implications. In the event of a possible reintroduction of the Estate Duty regime in India, private trusts could be used as a planning tool to minimise the tax incidence. However, one must remember that these trusts have to be structured in a specific way to plan for this eventuality, and getting expert involvement would be the safer course. While no one can pre-empt the nature of future laws, you can always adopt prudence with well-thought-out succession plans for your own family. **A good succession plan may use trusts for a variety of client objectives including continuity, mitigation of disputes, self-regulation, privacy, etc. including the possible reintroduction of Estate Duties.**

As the famous author Alan Lakein puts it "planning is bringing the future into the present so that you can do something about it now".



Private Transactions - A Differentiated Strategy

In the search of that ever-elusive alpha, investors have started following a direct investment or co-investment strategy in early stage ventures or pre-IPO situations as part of their alternative asset allocations, instead of only investing through private equity / venture capital funds.

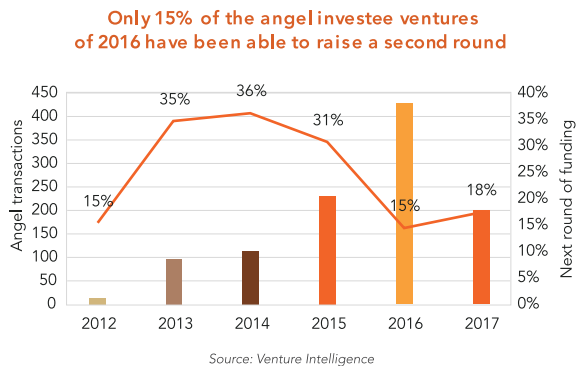
“You can’t do the same things others do and expect to outperform”
- Howard Marks

In the last couple of years, UHNIs and family offices have taken differentiated paths, by making direct investments across the growth spectrum, starting with early stage investing in the angel / pre-series A rounds, to mature buyout situations and late stage “pre-IPO” like situations. This momentum has been accentuated with equity capital market bullishness triggered by liquidity and the search for that meaningful allocation in Initial Public Offerings (IPOs). While not without challenges, a well-executed selective direct investment strategy could be a real differentiator in the family office / UHNI’s overall investment portfolio. Here, we look at analyzing two areas that have seen increasing focus in the private transaction space across the two ends of the spectrum - early stage direct investing and pre-IPO investing.

Early Stage Direct Investment

Startup investing has always been seen as an opportunistic investment strategy as part of one’s alternative asset portfolio, potentially delivering multi-baggers. Direct investing or club investing with like-minded investors,

allows families to have a greater control and transparency over their investments, while reducing the management fee and carried



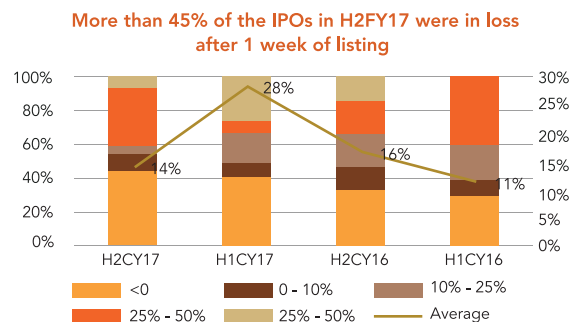
interest payable to fund managers. They also provide the ability to cherry-pick the best deals. Since a lot of these sophisticated investors either lead large enterprises or are promoters of businesses, there is a natural affinity to pick startups in industries that they understand and add strategic capital. According to Inc42 DataLabs, since H1 2015, over 1668 unique angel investors have participated in Indian tech startup funding. Starting with 257 in H1 2015, the participation of angel investors in startup funding reached 326 in H1 2017 i.e. a 27% rise. If we look at the historical data of startup funding in India, since H1 2015, over 127 angel investors participated in more than three deals and about 560 angel investors participated in more than one deal.

Having said that, direct investing in this asset class is not for everyone. Given the risks of investing in early stage startups with its low funding graduation rate, illiquidity and lack of return visibility, it suits only a few sophisticated investors who have the ability to write the cheque and not lose their sleep over it. Generally, only 20%-30% of the ventures can raise the next round. Additionally, finding the right types of direct

investments that fit long-term wealth-generation strategies is easier said than done. The sectors where we see increasing interest are sunrise sectors such as consumer, healthcare and emerging tech like Artificial Intelligence, Internet of Things, sustainable energy along with some old favorites like BFSI and education.

Pre-IPO Investment

2017 has been touted as the year of the IPOs, with over \$10bn being raised through main board IPOs. Out of this, around \$8bn has been raised since September 2017 itself, with the expectation of continuing momentum. This buoyancy in the public issuances driven by foreign and domestic institutional flows coupled with regulatory impetus has prompted UHNIs / family offices to invest in pre-IPO opportunities either directly or through a "Special Situations" Fund.



In an environment of bullish capital markets, IPO success stories and ever-increasing liquidity, every investor has been vying for that limited amount of stock available in an IPO. To capture that allocation, they are happy to go up the risk curve and take an exposure at an early stage of the IPO cycle, even 12-18 months before the planned listings at times. This not only provides them with an opportunity to get significant exposure, but also enables them to come in at a potential discount to the IPO valuation.

From a sector perspective, we have seen most of the interest coming in the BFSI space across insurance, banks and NBFCs. We believe this momentum will further continue as Mutual Funds and newer NBFCs look to list.



However, is this additional risk and euphoria for IPOs justified? Our analysis shows that, more than 45% of the IPOs in the H2CY17 have given negative returns after 1 week of listing, this has gone up from 30% levels in H1CY16*. The bullishness in the IPO market is also evident from the fact that 50% of the IPOs in CY17 have come to the market in the last 4 months (September 2017 - December 2017). This momentum is expected to continue with over 20 IPOs planned for the next 2 quarters. With increasing capital chasing these IPOs there is greed which has set in, with promoters and bankers pricing the issue to the hilt, leaving very little on the table for investors.

Additionally, investors must be mindful that as per SEBI regulations, pre-IPO exposures come with a lock-in provision for 1 year. Recently launched pre-IPO funds have a potential benefit of size and access, however there are issues regarding control and transparency on stock selection and adverse returns due to fee and carry structures.

While one needs to be cognizant of the risks involved in pre-IPO investing, if done right, through selective investments in fundamentally strong companies, with a hawk eye view on valuations, they can provide sustainable alpha.

* Main board IPOs over Rs. 250 cr

Bitcoin - Millennial Gold or Overinflated Bubble?

For a bubble to grow, it needs a compelling story. Bitcoin has it, and has caught the imagination of speculators worldwide. But the story has fundamental flaws and Bitcoin is unlikely to gain traction as a digital currency as currently structured.

The cryptocurrency was the fastest growing asset in the world in 2017. Bitcoin, in its various avatars, is the first digital currency or cryptocurrency. It utilises blockchain technology, facilitates secure peer-to-peer transactions and has enormous future application in terms of security of data. However, being a user of the technology does not make you an owner.



Bitcoin is neither a real currency nor a commodity, but has similar properties. It serves as a medium of exchange, and a store of value, just like regular money. Like gold and other precious metals, bitcoin is potentially an alternative asset.

For a bubble to propagate, it needs a compelling story. Bitcoin has it. It is revolutionary, a new digital currency, the new

Gold. There is urgency in price action, scarcity in availability and a shroud of secrecy. Then there is fear and greed. It's valuable because people believe it's valuable. According to an article in The Guardian, the cryptocurrency was the fastest growing asset in the world in 2017.

The core argument for Bitcoin is that central banks are unable to control it or print it. Like Gold, Bitcoin has no inherent value, there is no income stream and no guarantor. So it isn't an investment. It's a perceived investment, driven by supply and demand. The counter argument is that all currency is also traded on perceived value. However, Bitcoin is ill-equipped to handle high transactional volumes. Coins need to be mined and there is a limited supply. As with all technological solutions, it remains highly vulnerable to obsolescence.

Bitcoin today is valued by the greater fool theory. Should Bitcoin achieve a level of mass acceptability, it may gain legitimacy, but governments are unlikely to hand away their currency to a digital competitor.

Bitcoin, by all means, is a fascinating speculative investment. As investors, we prefer assets we can value using dividends, income or earnings.



Asset Class Outlook

Investors are reasonably deployed into equities, but we sense a fair bit of concern in our conversations with them. All institutional investors - domestic and foreign - seem to have a consensus bullish view on India. It seemed easier last year but frankly, it was not. We said in late 2016, when the markets were in a steep sell-off, that "India remains in a structural bull market... equities are the most attractive asset class for investments with a three-year horizon". We also said, "A case exists for an allocation increase in equities... the last time an equivalent valuation opportunity in favour of equities arose was June 2013, which was a great time to enter equities." Today, the risks are higher, and the call tougher, as we sit on attractive returns in equity portfolios.



Equities

The global economy is in a strong phase of synchronized growth as Japan, Europe and emerging markets join the U.S. on an upward growth path. Corporate spending and capital expenditure are on an uptrend globally, inflation is benign, but crude's rise is a cause for concern. The consensus view remains bullish that this strong environment will continue into 2018, with calls for a correction along the way.

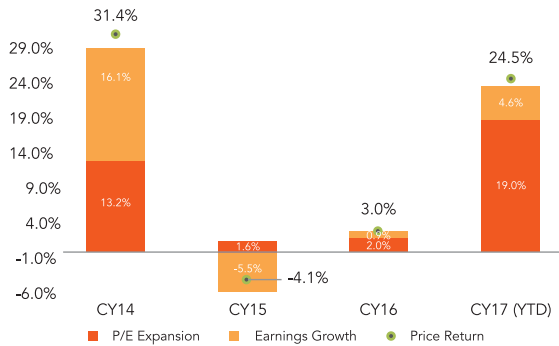
This is the third longest expansion cycle on record for the U.S., with persistent low growth and lagging industrial production. But a recession does not look imminent.

Government and central bank actions staved off a great depression, but they left the U.S. and the global economy hobbled with excess liquidity, dismantled free market mechanisms such as bankruptcy and restructuring that supported economic rebalancing. Overcapacity remains a major problem across most industries because firms have been kept afloat by artificially low borrowing costs. Global indebtedness remains at historically peak levels.

As investors, two rationales confront us. On the one hand, contours of an impending turn in the business cycle are slowly coming into place. Interest rates are rising, inflation too, is set to rise around the world and in India as well.



Much of the Rally so far has been P/E Expansion Driven

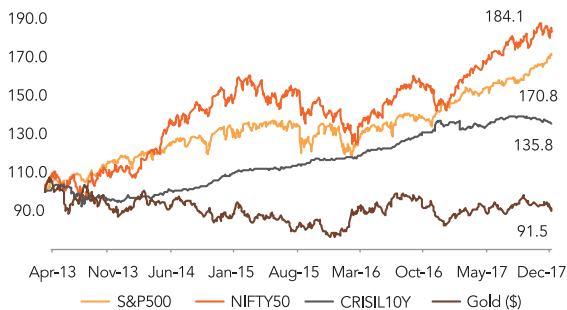


Source: Bloomberg, NSE

Crude oil prices could continue to rise. Valuations are at extremes. The economy has not delivered earnings growth. It is a risky time to be invested in equities, and fixed income, for that matter. IPOs are overheated, **and the small investor appears to be late to the party.**

On the other hand, a growth shift is occurring. Developed economies are cheering 2-3% growth, while India is focused on breaching 7.5%. India remains in a structural bull cycle, earnings are about to come through next year at double-digit teens; stimulus is coming, and the sectors that have been slacking are repairing themselves, such as Telecom, PSUs, Materials and Real Estate. Finally, domestic flows remain resilient and rising, the rural consumer is getting healthier, bank recapitalization has addressed system default risk, borrowing costs are lower, and a large infrastructure stimulus appears to be on the way.

Despite limited F1 flow support, the CNX 500 has outperformed the S&P 500



Source: Bloomberg

A major factor that has changed is that the domestic buyer now sets market prices. Domestic mutual funds bought equities worth \$15.3 billion against \$8 billion by foreign investors in 2017. The government's ongoing push in infrastructure will continue to support investment growth with 80,000 km of roads across the country over the next 5 years, and a total investment of \$106 billion or 0.8% of GDP.

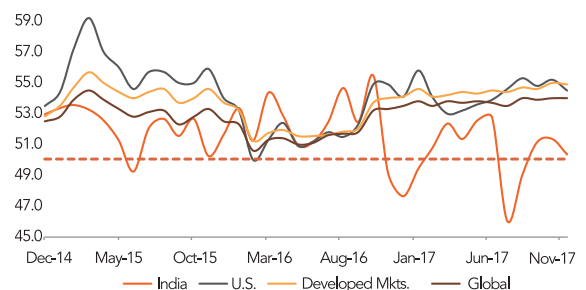
U.S. yield curve suggests the economy still has room to run



Source: Bloomberg

Our models continue to suggest that prospective returns for equities are much higher than the 6-8% that one would look at from fixed income. Technical indicators remain positive and supportive. Should inflation or rates rise, we should not expect further gains. Crude remains a concern. Earnings growth is now critical to sustaining the bull market. Should earnings continue to not come through, stocks would be vulnerable to a correction. We remain of the view that we are not yet near the turn in the business cycle, but that could change during 2018 and it is likely that there will be greater volatility in equities in 2018 than 2017.

Global PMI, Developed PMI and India PMI



Source: Bloomberg (Markit for Developed, J.P. Morgan for Global)

Fixed Income

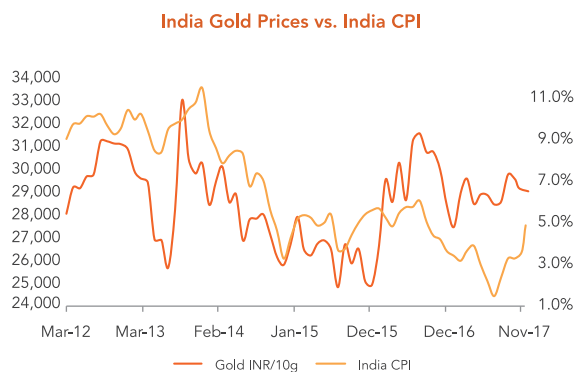
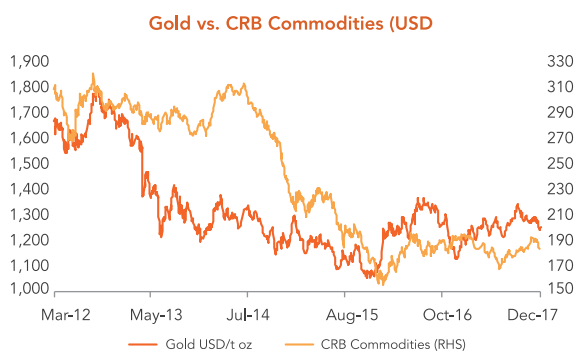
Inflation has picked up as has crude and interest rates. Most RBI MPC members have sounded cautious notes on inflation, believing the growth slowdown has troughed and a recovery may be underway. Yields have risen in recent weeks on fears of increased market borrowing and rising crude. On the positive side, FDI remains robust and rising. A stable currency driven by high real interest rates and improving macros have fuelled buying interest in debt with foreign institutional investors. Other domestic macros remain comfortable, with rising FDI flows, and rising forex reserves. The liquidity situation is almost back to normal.

Globally, the sustained rise in commodities has put pressure on inflation, but those trends also appear to be moderating. The fiscal deficits of the states are also a cause for concern, as is the consistently negative news coming out of PSUs on losses. Further complicating the issue will be the level of financing requirements put forward in the Union Budget. With the government on the back foot in the Gujarat elections, a pro-populist rural budget could mean further pressure on rates. To summarize, rising rates, rising inflation and rising commodity prices create a fairly unpleasant cocktail for debt investors. However, we remain of the view that fiscal worries are generally priced in, and at some point this year, debt is likely to look attractive for an increased allocation.



Gold

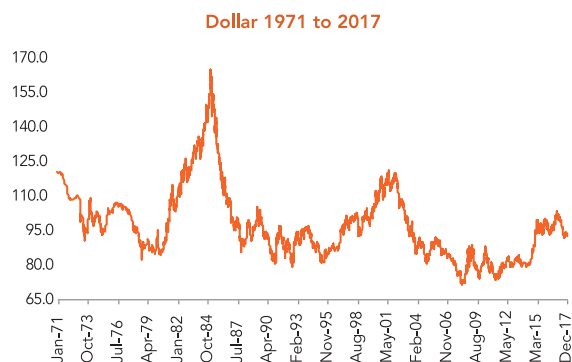
We have been underweight in Gold all of 2016 and 2017. With inflation rising, one could make the case that Gold will remain an inflation hedge. Firstly, we are not fully convinced that inflation will spike meaningfully. Crude oil still remains within manageable territory, with the large producers - Russia and U.S. - incented to keep crude at a sweet spot where a spike does not unravel the global economy.



Despite expectations of a spike in inflation by many watchers, we are also mindful of technological disinflation, improving agri productivity, and better supply chain management. The worrisome factor for investors is a spike in crude, but that is not a call we are prepared to make now. With much of the global economy in a synchronized upswing, investing for the black swan event is not a high probability decision.

Currency

From the lows of 2011 to the end of 2016, the U.S. dollar has appreciated an impressive 40% versus major currencies. Over the past few weeks though, the greenback has given back a fair bit of those gains. While rising interest rates are positive for the dollar, vis-a-vis the Rupee, structural reforms and rising attractiveness of India as an investment destination, along with the rising attractiveness of Indian debt act as offsets.



Much will be determined by the trajectory of domestic fiscal borrowing, the economy's performance, earnings, inflation, and crude oil. Gold in our opinion will remain muted, and the final determinant will be the performance of crude oil.



With rising rates in India and the U.S., the Rupee remains an attractive currency. We expect the RBI to step in to stabilize the Rupee above 65. Furthermore, we think that the long term direction of the Rupee is now stable, rather than appreciating or depreciating ahead. With the growth in emerging markets outpacing U.S. growth, the U.S. dollar should remain stable to slightly weaker, in relation to emerging markets.

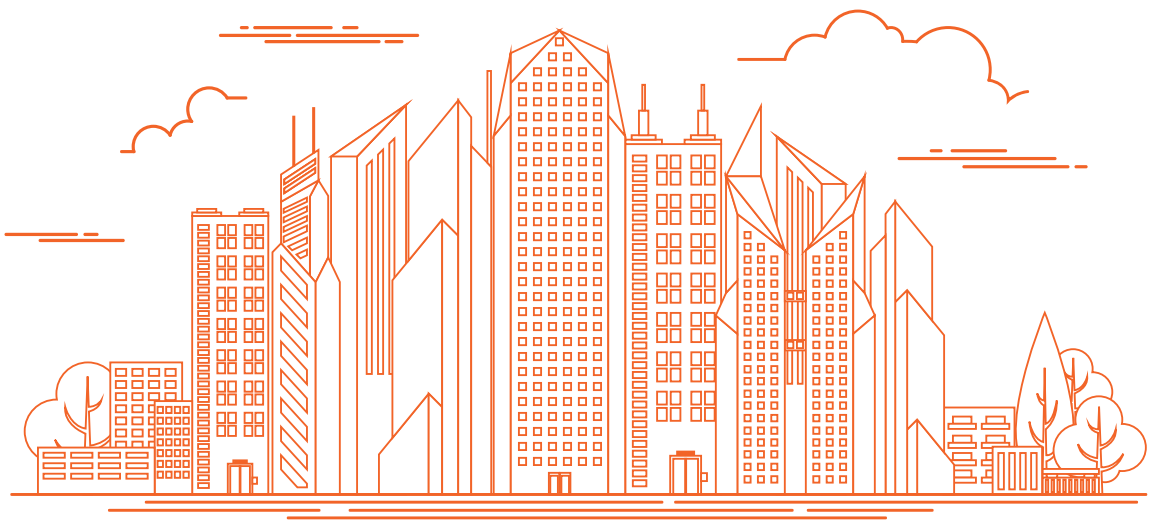
Real Estate

The year 2017 has been a watershed year for the real estate industry with a triple impact starting with demonetisation, implementation of RERA and finally the rolling out of GST. All this was felt in an environment of lower demand for residential units and supply overhang of five years inventory in some markets. We have witnessed a decisive change in investor preference away from real assets to financial assets. On the other hand, significant institutional flows have found their way into commercial yield assets and many Tier I and II cities have seen the emergence of SEZs, swanky retail malls, top hospitality operators, new educational institutes and warehousing parks.



We believe that 2018 would witness the start of a slow and painful recovery process for the residential sector driven by end-user demand and depletion of unsold inventory. Evolving regulatory landscape, improvement in macroeconomic environment, and stable interest rates may act as a catalyst to boost demand for property. **RERA will drive consolidation in 2018 where smaller or highly leveraged companies will likely resort to asset sales to shore up liquidity,** and coupled with consumer activism, it will continue to reduce the pace of new launches in 2018, as developers focus on completing existing projects.

Sales in the secondary residential market, especially in the luxury segment, will continue to remain tepid. However, the transactions in mid-segment and affordable housing will remain strong. Due to the continuous support of the government, the affordable housing segment should pick up, and more developers and investors will try to invest in this segment. We should see the first REIT launch in 2018 and many yield asset classes will continue to see a strong institutional interest.



Technical View

Nifty

After two consecutive flat years, bulls clearly took charge of the market in 2017, as the Nifty50 rallied 29% last year. The positive momentum in global equity markets has also been supportive of our markets. Though foreign flows were good last year with more than Rs. 51 thousand crores buying, domestic mutual funds have been the main drivers with a net investment of Rs. 1.19 lakh crore. It has been a broad-based rally with small and mid-cap indices rallying 40% and 48% respectively, outperforming the large-caps. Post the demonetization low of 7894 in the month of December 2016, the Nifty50 has been in a strong uptrend, with a higher-top-higher-bottom formation on the charts. In the months of August and September, the market did witness minor hiccups, but it rallied swiftly to hit a high of 10490 levels in the month of November. As seen in the below chart, the index is facing resistance at the rising trend-line, connecting

the highs of 8969 (September 2016) and 10138 (August 2017). The declines from this resistance trendline have been of a corrective nature and is maintaining higher-lows formation. Now the market has a critical support level at 9685 levels, which was the double-bottom-low of August-September. A key risk to watch is INDIA VIX; a measure of volatility having a negative correlation with Nifty. Though VIX has seen a fall after its December peak, its rise will add pressure to the markets. Further strengthening of Crude oil prices could become a dampener. Despite these concerns, the broader market is still in a strong uptrend, and for any strong trend reversal, the downside index should breach 9685 levels. If that happens, the market may see a deeper correction that can lead to the start of a lower-top-lower-bottom formation which will be negative in the medium term. Considering the fact that Nifty50 is in a broader uptrend, a sustained move beyond the 10490-10580 levels could lead to a rally towards 11200-11500 levels in the medium term.

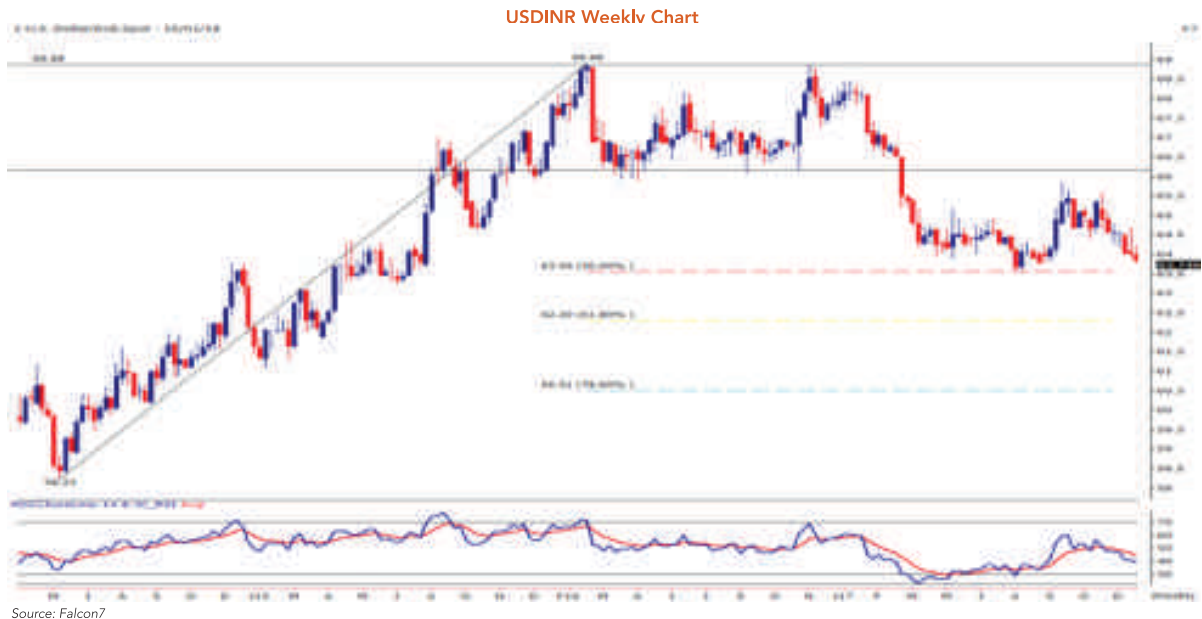


Source: Falcon7

Currencies - INR/USD

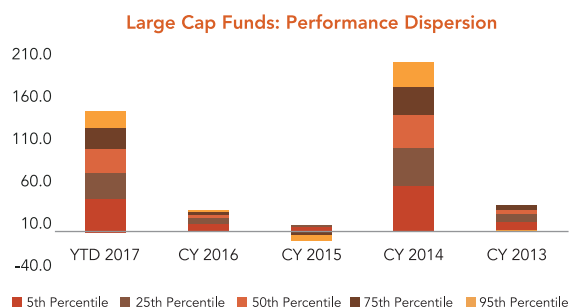
The Rupee saw a sharp appreciation against the U.S. Dollar from 68.9 levels in November 2016 to 63.6 in August 2017. Then the currency witnessed a bout of depreciation in the month of September when it quickly fell to 65.9 levels. Since then it has appreciated to 63.8. Now the Rupee has strong resistance at 63.5 levels, where 50% retracement comes

from the major swing of 58.2 in May 2014 to 68.9 levels in February 2016. If the Rupee strengthens beyond 63.5 levels on a sustainable basis then a rally can be seen towards 62.30 and then possibly towards 60.5 levels. Holding 63.5 levels, the Rupee may see a reversal and depreciate initially towards 65.2 levels. Sustaining above 65.2 levels, the Rupee may see further depreciation towards 65.9-66.2 levels.



Routes to Market

Our expectation last year that 2017 will have wider performance dispersion amongst funds, proved to be accurate. As markets marched on ahead of earnings, valuation caused discomfort amongst value conscious fund managers. Ballooning fund sizes did not help either. Consequently, we saw half our large-cap fund universe underperforming the index.



As SEBI tries to bring uniformity in how funds are categorized, the dispersion should reduce, but the margin of outperformance over the index may also reduce. Going forward, time horizon and patience will be key to generating returns - of course, the seat belt needs to be tightened too, as there will be volatility along the way.

Our routes-to-market recommendations this year, represent a core allocation idea i.e. Sanctum Indian Titans (Discretionary Portfolio Strategy) and two tactical, out-of-the-box ideas, from the mutual fund space viz. Invesco Contra Fund and L&T Business Cycle Funds. When one evaluates out-of-the-box ideas it is important to set aside past performance and take a forward-looking view instead, which is what we are attempting to do this year.

Sanctum Indian Titans

As a route-to-market, we continue to recommend an allocation for this strategy managed by Sanctum as a part of the core

portfolio. The strategy predominantly invests in companies with proven growth record that will continue to benefit from the structural growth drivers. A complementing albeit smaller allocation is made to emerging growth stories. The strategy, since the launch of our portfolio management services, has delivered a robust performance and makes a case for a long-term allocation in the client's core portfolios.

For tactical allocation this year we make a case for two under-rated funds. The common thread that we have run through the Investment Outlook hitherto is to look beyond past performance and focus on hypotheses of the funds, their relevance to the current market environment and their manager selection. Our experience shows that this method has thus far held us in good stead.

Invesco India Contra Fund

This multi-cap fund has a value bias and invests predominantly in companies that are trading below their fundamental value. It also carries allocation to cyclicals and some companies in a turnaround phase. The fund then intends to hold these stocks until the hypothesis plays out.

L&T Business Cycles Fund

In line with the name of the fund, the manager tends to invest in cyclicals when the economy is in the recovery or growth phases and switch to defensives during an economic slowdown. While the sectoral allocation is linked to the economic cycle, the manager then selects stocks on a bottom-up basis. With the current pro-cycle approach, we believe the fund is well positioned to deliver alpha to investors over the next 3-5 years.

The Cost of Risk Aversion

The opportunity cost of choosing risk aversion - investing in FDs for instance - has been high over the past two decades. Staying invested is clearly the right choice. Time and again investors have chosen risk aversion, and the opportunity costs have been large.

Chart of Nifty Equity Returns Going Back to 1990.



A review of asset allocation principles is appropriate. Asset allocation should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many investment and business cycles, independent of near term view of prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Play more defense now so you can play more offense later. Seek growth and protect. Be prepared to significantly overweight equities when the opportunity presents itself.

We think 2018 will be the year for incrementally defensive investing, which we define as staying invested, but using tactical strategies to stay protected. On the back of

a good year in equities, principal protection makes sense.

- Reduce equity allocations and keep some money in cash or short term debt
- Reduce the risk profile and valuation multiple of investment portfolios
- Consider hedging via principal or selective protection
- Within equities, move to specialized managers that are focused on focused strategies
- Protect portfolios. When the masses are greedy, forward returns are usually lacklustre.
- The market is smarter, faster, and greedier today than we've seen in years. Fundamentals are better today globally than at any time since the great recession.
- As long as an investor is in a financial situation where they can cope with a correction, then the right thing is to stay invested.
- Avoid becoming overly aggressive
- The easiest answer, obviously, should the market sell off, is to buy more.



Conclusion - 18 Insights for 2018

1. Upside surprises on domestic economic growth will come through via structural reforms, heading into 2019, as the economy recovers
2. Infrastructure spending will finally come forward as the government gets serious about execution and implementation
3. Strong liquidity in the Indian market will continue and build apace, as the positive wealth effect of equities lead consumers to feel wealthier
4. A rising number of active managers will underperform benchmarks going forward
5. The size of the funds managed is likely to be inversely correlated to performance
6. Market participants will continue to move away from large-caps, focusing on mid-caps and add increasing exposure to small-caps
7. A correction at some point in 2018 is likely. Driven by inflation and rising bond yields domestically, and central bank rate hikes, withdrawal of liquidity and the subsequent balance sheet unwinding, globally
8. It will take a severe correction for the bulls to stop buying the dip
9. Indian millennials will flock to affordable home purchases, equities, and consumption, in that order
10. Real estate buyers will come back to the affordable segment of the market as affordability converges with price
11. Real estate yields will become more important than capital appreciation
12. Growth will emerge stronger in emerging markets
13. India will become the fastest growing large economy in the world, eclipsing China. Indian equity market will jump to become the 5th largest in the world
14. The days of U.S. tech dominance will slow and others will catch up, with the exception of Google. Amazon will fight Reliance/Dmart/Future Group/Flipkart; Facebook will mature; Uber will take on Ola; AirBnB will make limited headway versus OYO/MMT, Hotstar/Hooq will fight Netflix
15. Tesla will face strong competition as well-funded, experienced players enter the EV space. EVs will move closer to reality and will accelerate in pockets; India's players are well positioned
16. Apple's best days are behind it, as a paucity of innovative products and increasing recognition of the superiority of Android leaves it a niche player
17. Russia and the U.S. will drive Crude pricing, not Saudi Arabia
18. Social media will convert to mature growth as consumers tire of the next cool app and smartphone addiction





Profiles



PRATEEK PANT Head of Products & Solutions

Prateek Pant, is part of the Founding Management Team and oversees the India product platform to deliver client solutions in Investments, Wealth Planning and Real Estate. He has over 20 years of experience in the Banking & Financial Services sector in India and the Middle East.



SUNIL SHARMA Chief Investment Officer

Sunil Sharma, oversees a nine member investment management team investment management team and is responsible for the firm's strategic investment outlook, tactical and sectoral strategies. He chairs the Sanctum Investment Committee and serves on the Investment Review Committee. He has over twenty five years of experience on Wall Street and Dalal Street alike, holding Chief Investment Strategist and Investment Manager positions during that time.



ROOPALI PRABHU Head of Investment Products

Roopali Prabhu, is responsible for bringing well-researched, high conviction products to clients. She has over fifteen years of experience in diverse roles and functions. She was a key member of the Products & Communications team at Morgan Stanley Wealth and ICICI Prudential AMC. She was also a part of the frontline team managing client relationships at Franklin Templeton and HDFC Bank.



MUGDHA SAHAL Head of Wealth Planning

Mugdha Sahal, is a Lawyer, Chartered Accountant and Company Secretary, and is suited to offer holistic solutions in wealth planning to family businesses. Mugdha has worked with IL&FS, IIFL and Cyril Amarchand and Mangaldas, after which she founded Metasis Legal, offering wealth planning, legal, and tax consulting services.



HEMANG ARUNKUMAR KAPASI Portfolio Manager

Hemang Kapasi, oversees the Discretionary Portfolio function and is a member of the company's Investment team. He has over twelve years of experience in the industry, nine of which was in the Indian Equities market as an Equity Research Analyst. Later he worked with Canara Robeco Asset Management Company as a Fund Manager. Prior to Equity markets, he served as an Assistant Manager at ICICI Bank, in its Treasury.

Profiles



SUMIT PACHISIA Head of Strategic Solutions

Sumit Pachisia, assists clients in their investment banking requirements and presents them with private deal opportunities. He has more than twelve years of experience in Investment Banking and Corporate Finance across ICICI Securities and Marico, advising clients on M&A, Private Equity fund-raising and capital market transactions, like IPOs and QIPs.



ASHISH JINDAL Co-Head Real Estate

Ashish Jindal, works by understanding the client's requirements in real estate and creates bespoke solutions for them. He has over twenty years of experience, fifteen being in real estate, with expertise across development, strategic planning and market assessment amongst other things. He has previously worked with Ernst & Young, Emaar MGF India, Puravankara and Knight Frank.



TEJAS PATIL Co-Head Real Estate

Spread over twelve years, Tejas' experience spans Real Estate Advisory, Investment Banking, Private Equity, and Wealth Management. Tejas has worked as the Head of Fund Raising and Investor Relations at Nisus Finance Services Ltd., a Real Estate Fund. He has headed an independent RE Investment Advisory firm and was in-charge of Alternate Investment Solutions at ASK Group, advising ultra HNIs on Structured Products, PE, Real Estate and Estate Planning. Tejas is a chemical engineer from UDCT and has an MMS degree from JBIMS.



ASHISH CHATURMOHTA Head of Derivatives and Technical Analysis

Ashish Chaturmohta, delivers technical calls on equities and currency for different time frames and provides a variety of derivative products and strategies. He has featured on The Economic Times' list of India's best derivatives experts in 2014. He was also nominated for the Zee group's Best Market Analyst in 2011.

Sanctum Wealth Management Private Limited is registered with SEBI as a Stock Broker (Reg. INZ000011338), a Portfolio Manager (Reg. INP000005067), a Research Analyst (Reg. INH000003051) and with AMFI as a Corporate Distributor of Mutual Funds (ARN-105768)

Sanctum Wealth Advisors Private Limited is registered with the Real Estate Regulatory Authority as a Real Estate Broker (Reg. A51900011805).

Disclaimer

This document is produced by Sanctum Wealth Management Private Limited and Sanctum Wealth Advisors Private Limited (hereinafter jointly referred to as "Sanctum") for information purposes only and for the sole use of the recipient. No part of this document may be reproduced without the prior written consent of Sanctum. Persons into whose possession this document or any copy thereof may come ("recipients"), must inform themselves about, and observe any legal restrictions in their jurisdictions on the distribution of this document and the use of the information described herein. Sanctum cannot be held responsible for any use of the said information by recipients in dissonance with the restrictions.

The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment product and neither does it constitute a personal recommendation. Nothing in this material constitutes investment, legal, financial or tax advice, or a representation that any investment or strategy is suitable or appropriate to the recipient's individual circumstances. This document does not constitute financial research.

Opinion or views mentioned in this document are as at the date of issue and subject to change without notice. To the extent permitted by law and without being inconsistent with applicable regulations, Sanctum, its Promoters, Directors, Employees or any representatives shall not accept any responsibility for any direct, indirect or consequential loss suffered by any person as a result of their acting, or deciding not to act, in reliance upon such information. Any information in this document extracted from third party sources is believed to be correct, however Sanctum does not guarantee the accuracy of the same.

Historical performance of investments, market indices and industrial sectors have been provided for comparison purposes and their future performance may vary substantially from the past. Furthermore, projections or other information illustrated in this presentation regarding the likelihood of various investment outcomes are based on certain hypotheses and should not be considered a guarantee of future results.

The value of investments and the income produced in securities market can go down as well as up and recipients may not recover the amount of their original investment. Past performance should not be taken as a guide to future performance. Recipients are requested to read the Risk Disclosure Document, Rights & Obligations and Guidance Note prescribed by stock exchanges and/or the relevant Scheme related documents provided by Mutual Funds and/or Disclosure Documents provided by Portfolio Managers carefully before investing.

By accepting this document, you agree to be bound by the foregoing limitations.

In case recipients have any complaints or grievance regarding Sanctum's products or services they may refer to the investor grievance handling procedures on our website www.sanctumwealth.com.

Sanctum Wealth Management Private Limited
(CIN: U74140MH2015PTC264932)

Sanctum Wealth Advisors Private Limited
(CIN: U74999MH2017PTC302008)

Registered Office:

Mumbai: 1501, Tower 2B, One Indiabulls Centre,
841, Jupiter Mills, Off Senapati Bapat Marg,
Lower Parel, Mumbai 400013, Maharashtra, India
Tel: +91 22 6177 9500 | sanctumwealth.com

Branches:

New Delhi: 812 - 816, 8th Floor, Narain Manzil,
23, Barakhamba Road, New Delhi - 110001
Tel: +91 11 6612 5713

Bengaluru: Unit No. 1102, 11th Floor,
HMG Ambassador, 137, Residency Road,
Bengaluru - 560025, Tel: +91 80 67427900

Chennai: Level 4, Suite No. 503, Apeejay Business
Centre, 39/12, Haddows Road, Nungambakkam,
Chennai - 600006, Tel: +91 44 28224949

Kolkata: Regus Business Centre Office no. 131,
The Legacy, 1st Floor 25-A, Shakespeare Sarani,
Kolkata - 700017, West Bengal
Tel: +91 33 44000509

www.sanctumwealth.com



[/company/sanctum-wealth-management](https://www.linkedin.com/company/sanctum-wealth-management)



[@sanctum_wealth](https://twitter.com/sanctum_wealth)



[@SanctumWealth](https://www.facebook.com/SanctumWealth)

