

COMPARING YOUR PORTFOLIO TO Siddhartha Investment Growth Scheme -1



the analyst

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NMB Capital Limited



A mutual fund is an investment vehicle that pools funds from many investors and invests the funds in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. Currently, our market has two mutual funds; Nabil Balanced Fund- 1 (NBF -1) & Siddhartha Investment Growth Scheme -1 (SIGS-1), with others in the pipeline from various institutions.

In theory, mutual funds have the following benefits.

- a. Professional Management: Team of managers, researchers and analysts implementing best industry practices, techniques and tools; research, select, trade, and monitor the performance of the securities the fund invests in and attempts to garner above average market returns.
- b. Diversification: Diversification is an investing strategy that can be summed up as "Don't put all your eggs in one basket". Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or a sector doesn't perform satisfactorily. It is easier and economically feasible for investors to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.
- c. Affordability: Mutual Funds investments are suitable for all kind of investors. They accommodate large investors who have resources but lack know how and time to manage large portfolios and small investors who don't have sizeable funds to invest by setting relatively low amounts for initial investments.
- d. Liquidity: The units of the mutual funds are listed securities, which can be easily traded or pledged for liquidity.

We intend to analyze if these benefits do stand ground in our market. We have taken SIGS-1 (managed by Siddhartha Capital) as an example.

- a. Performance & Risk: SIGS-1 has performed well in terms of NAV contributing significant value to the unit holders. SIGS-1's performance has been at par with the performance of the market during stable times and only lagging behind during boom. General Investors should use these benchmark percentage increases of NEPSE and SIGS-1 to evaluate the performance of their own portfolios (SEE following PDF & Table 1 below). SIGS-1's portfolio beta stands at 1.01 meaning it closely resembles the markets movements. Also the portfolio VaR is at NPR. 13 million signalling that it has 2% chance of loosing NPR 13m in span of 10days; which is significantly low for a portfolio worth over NPR. 757 million.

- b. Diversification and Number of Scrips held: SIGS-1 held 52 scrips in Magh (consisting of 20 commercial banks, 18 Development banks, 4 Hydro Power Companies, 4 Insurance Companies, 2 Finance companies, 2 Promoter Shares, among others)/ SEE following PDF. These diversified scrips allows SIGS-1 to weather the downturn of a specific sector/ company and maintain its performance. Any general investor should find it difficult to keep track of all the investments and returns of such a large number of scrips. Also gaining such returns without significant risk is a far fetched goal for any general investor. Mutual funds have the expertise to create optimal/efficient portfolios and SIGS'S portfolio closely resembles the asset allocation of an optimal portfolio (depicted at the end of the paper).
- c. Liquidity: Since the listing of SIGS-1, it has traded 239 days till date out of 270 days. The median number of traded shares of SIGS-1 has been over 17,000 each day. This statistic is testament to the fact that mutual funds are indeed a liquid investment vehicle.

Value at Risk (VaR) calculation

EFFICIENT PORTFOLIO & VaR Parameters

NUMBER OF COMPANIES	41
START DATE	01/01/2013
END DATE	19/03/2014
VOLATILITY TIME PERIOD (YEARS)	1
VOL (DAILY/YEARLY)	yearly
FRONTIER POINTS	20
SHORT SELLING ALLOWED (YES/NO)	NO
VaR Horizon (DAYS)	10
VaR Confidence Level	98.00%

10 Day Portfolio VaR **NPR 13,572,957**

TICKER	EXPECTED RETURN	RISK	BETA
BOK	-0.06%	2.07%	1.35
CZBIL	0.17%	2.44%	1.67
EBL	0.15%	1.72%	1.08
NMB	0.14%	2.49%	1.69
SCB	-0.06%	1.59%	0.99
SRBL	0.30%	2.48%	1.52
SWBBL	0.38%	2.75%	0.65
RMDC	0.14%	1.60%	0.65
MDB	0.39%	2.64%	-0.04
GBBL	0.18%	3.34%	0.77
VBBL	0.07%	2.50%	0.28
UNL	0.02%	0.79%	0.04
NTC	0.01%	1.55%	0.86
AHPC	0.14%	3.74%	0.76
BPCL	0.09%	2.82%	0.65
CHCL	0.14%	2.02%	1.09

HIDDEN **HIDDEN** **HIDDEN** **HIDDEN**

ASSUMPTIONS

- All figures are based on the month end published data by SIGS-1
- Any intra month trades by the fund hasn't been considered
- All return, risk, VaR data has been calculated using the specified parameters

Value at Risk (VaR)

VaR is a widely used risk measure of the risk of loss on a specific portfolio of financial assets. For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value (assuming normal markets and no trading in the portfolio) is the given probability level.

For example, if a portfolio of stocks has a one-day 2% VaR of \$1 million, there is a 0.02 probability that the portfolio will fall in value by more than \$1 million over a one day period if there is no trading. Informally, a loss of \$1 million or more on this portfolio is expected on 1 day out of 20 days (because of 2% probability).

SAMPLE OPTIMAL PORTFOLIO ASSET ALLOCATION

Modern portfolio theory (MPT) is a theory of finance that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. MPT is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. By combining different assets whose returns are not perfectly positively correlated, MPT seeks to reduce the total variance/ std deviance (risk) of the portfolio return. MPT also assumes that investors are rational and markets are efficient.

We have implemented MPT in our research; a sample allocation is depicted below.

	RETURN	RISK	BETA	BOK	CZBIL	EBL	GBIME	HBL	KBL	LBL	NABIL	HIDDEN
PORTFOLIO 1	0.00%	0.54%	18.19%	3.38%	-3.62%	5.16%	9.16%	-1.38%	-5.37%	-1.06%	4.66%	HIDDEN
PORTFOLIO 2	0.03%	0.52%	18.59%	1.77%	-3.76%	5.54%	9.29%	-1.48%	-4.56%	-0.74%	4.18%	HIDDEN
PORTFOLIO 3	0.06%	0.52%	18.98%	0.16%	-3.90%	5.90%	9.42%	-1.58%	-3.73%	-0.42%	3.70%	HIDDEN
PORTFOLIO 4	0.09%	0.52%	19.37%	-1.45%	-4.05%	6.26%	9.56%	-1.69%	-2.90%	-0.10%	3.21%	HIDDEN
HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN
HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN	HIDDEN
PORTFOLIO 16	0.44%	1.02%	24.12%	-20.78%	-5.80%	10.61%	11.20%	-2.90%	7.04%	3.71%	-2.63%	HIDDEN
PORTFOLIO 17	0.47%	1.08%	24.51%	-22.39%	-5.94%	10.97%	11.34%	-3.00%	7.87%	4.03%	-3.12%	HIDDEN
PORTFOLIO 18	0.50%	1.14%	24.90%	-24.00%	-6.09%	11.34%	11.48%	-3.10%	8.70%	4.34%	-3.60%	HIDDEN
PORTFOLIO 19	0.53%	1.21%	25.30%	-25.61%	-6.23%	11.70%	11.61%	-3.20%	9.53%	4.66%	-4.09%	HIDDEN
PORTFOLIO 20	0.56%	1.27%	25.68%	-27.22%	-6.38%	12.06%	11.76%	-3.31%	10.35%	4.98%	-4.58%	HIDDEN
PORTFOLIO 21	0.59%	1.33%	26.07%	-28.83%	-6.52%	12.41%	11.88%	-3.42%	11.19%	5.30%	-5.07%	HIDDEN

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NMB Capital Limited (NMBCL) is into merchant and investment banking, established as a wholly owned subsidiary of NMB Bank Limited. The merchant banking function was an epitome specialization of NMB Bank Limited for more than a decade (licensed by SEBON under the prevailing Securities Act to carry out the Merchant Banking activities on October 1998), NMBCL was spin-off from NMB Bank primarily to stand as a independent arm excelling merchant and investment banking and to abide with the new regulations in place. It formally started its operation from September 17, 2010.



SIGS-1

SN	STOCK NAME	CATEGORY	PERIOD START HOLDING	SIGS-1 TRADES (BUY/ SELL)								MAGH HOLDINGS	
				BAISAKH	JESTHA	ASAD	SHRAWAN	BHADRA	ASHWIN	KARTIK	MANGSIR		POUSH
1	Civil Bank Ltd	Commercial Banks	178,667	(83,400)	(51,000)	-	-	-	-	-	-	-	44,267
2	Nepal Bank Limited	Commercial Banks	60,606	-	90	-	-	(17,772)	(16,262)	(4,000)	-	-	22,662
3	Kumari Bank Ltd.	Commercial Banks	59,314	(4,000)	(7,002)	(40,515)	(7,797)	-	-	15,772	-	-	15,772
4	Himalayan Bank Ltd.	Commercial Banks	52,133	2,909	-	-	-	-	(5,000)	(5,000)	(5,000)	-	40,042
5	NMB Bank Ltd.	Commercial Banks	49,750	-	-	-	-	-	-	(11,000)	-	-	38,750
6	Bank of Kathmandu	Commercial Banks	38,564	15,055	-	-	-	-	7,507	(11,900)	(1)	-	49,225
7	Nepal Investment Bank Ltd.	Commercial Banks	30,996	1,727	(902)	500	3,191	-	(2,000)	(6,300)	7,082	2,354	36,648
8	Nepal SBI Bank Limited	Commercial Banks	27,558	3,189	4,241	2,264	11,759	6,126	-	(500)	(4,000)	2,277	52,914
9	Laxmi Bank Limited	Commercial Banks	27,178	-	-	(500)	-	-	(4,400)	19,000	(10,000)	-	31,278
10	Standard Chartered Bank Ltd.	Commercial Banks	23,712	1,275	1,941	(2,700)	-	-	-	1,723	(3,000)	739	23,690
11	Nabil Bank Ltd.	Commercial Banks	22,351	(4,800)	(1,500)	(3,612)	3,915	-	(3,500)	(500)	6,089	-	18,443
12	Lumbini Bank Ltd.	Commercial Banks	21,434	-	-	-	-	-	-	(4,000)	1,395	-	18,829
13	Sunrise Bank Limited	Commercial Banks	11,000	-	-	-	-	-	-	-	15,452	-	26,452
14	NIC Asia Bank Ltd.	Commercial Banks	8,958	-	-	-	38,182	-	-	(1,000)	(3,000)	9,150	52,290
15	Sanima Bank Ltd.	Commercial Banks	8,908	5,351	-	-	-	1,426	-	(5,000)	999	-	11,684
16	Citizens Bank International Limited	Commercial Banks	8,502	-	-	-	-	-	-	-	5,988	-	14,490
17	Everest Bank Ltd	Commercial Banks	3,378	3,690	6,500	-	9,632	1,737	-	(1,000)	-	-	23,937
18	Commerz and Trust Bank Nepal Ltd.	Commercial Banks	-	120,000	(70,140)	-	-	-	-	-	-	-	49,860
19	Mega Bank Nepal Ltd.	Commercial Banks	-	-	-	-	135,873	(30,000)	(40,750)	(15,000)	-	-	50,123
20	Global IME Bank Limited	Commercial Banks	-	-	-	-	9,542	-	-	-	1,431	-	10,973
21	Swabajanwan Bikash Bank	Development Banks	10,936	1,050	1	-	-	(1,500)	(4,500)	-	838	8	6,833
22	Sahayogi Vikas Bank	Development Banks	6,045	63	-	-	-	-	-	-	1,588	-	7,696
23	Tourism Development Bank Ltd.	Development Banks	3,716	(3,716)	-	-	-	-	-	-	-	-	-
24	Vibor Bikas Bank Limited	Development Banks	3,686	-	-	-	-	-	-	-	-	-	3,686
25	Garima Bikas Bank Limited	Development Banks	2,207	-	-	-	264	494	-	4,236	-	-	7,201
26	Chimek Laghubitta Bikas Bank Limited	Development Banks	1,763	(1,763)	-	-	-	-	-	-	-	-	-
27	Nerude Laghubitta Bikas Bank Limited	Development Banks	798	-	-	-	-	-	-	-	-	-	-
28	Bishwa Bikas Bank Limited	Development Banks	490	520	-	(798)	1,177	-	-	394	-	-	2,581
29	Rara Bikas Bank Limited	Development Banks	128	-	(128)	-	-	-	-	-	-	-	-
30	Manakamana Development Bank Limited	Development Banks	120	-	(120)	-	-	-	-	-	-	-	-
31	Axis Development Bank Limited	Development Banks	88	-	-	(88)	-	-	-	-	-	-	-
32	Diprox Development Bank	Development Banks	-	4,000	-	4,292	-	-	(4,000)	-	858	-	5,150
33	Kamana Bikas Bank Limited	Development Banks	-	530	-	-	2,830	-	-	-	504	-	3,864
34	Triveni Bikas Bank Limited	Development Banks	-	127	6,315	-	-	-	-	3,543	(1)	-	9,984
35	Kailash Bikas Bank Ltd.	Development Banks	-	-	-	20,000	-	2,000	-	-	-	26,266	48,266
36	Nirdhan Utthan Bank Ltd.	Development Banks	-	-	-	2,015	-	(2,015)	-	-	-	-	-
37	Shine Resunga Development Bank Ltd.	Development Banks	-	-	-	-	4,481	-	896	-	-	-	5,377
38	City Development Bank Limited	Development Banks	-	-	-	-	1,571	-	336	-	-	-	1,907
39	Miteri Development Bank Limited	Development Banks	-	-	-	-	488	-	98	-	(1)	-	585
40	Rural Microfinance Development Centre Ltd.	Development Banks	-	-	-	-	26,000	-	-	-	5,379	(1,000)	30,379
41	Sana Kisan Bikas Bank Ltd	Development Banks	-	-	-	-	15,000	(5,000)	-	-	1,500	-	11,500
42	Prabhu Bikas Bank Ltd.	Development Banks	-	-	-	-	-	-	15,000	-	-	-	15,000
43	Muktinath Bikas Bank Ltd.	Development Banks	-	-	-	-	-	-	5,597	-	-	-	5,597
44	Clean Energy Development Bank Limited	Development Banks	-	-	-	-	-	-	4,520	226	-	-	4,746
45	Kalka Microcredit Development Bank Ltd.	Development Banks	-	-	-	-	-	-	-	-	5,000	-	5,000
46	Prudential Finance Company Limited	Finance	32,314	-	-	-	(32,314)	-	-	-	-	-	-
47	Goodwill Finance Co. Ltd.	Finance	12,414	-	-	-	-	-	-	-	-	-	12,414
48	Narayani National Finance Co. Ltd.	Finance	11,170	-	-	(5,000)	(1,000)	(100)	(5,070)	-	-	-	-
49	Guheysthori Mer. Bank. Fin	Finance	5,777	-	-	-	-	-	-	(530)	787	46	6,080
50	Nava Durga Finance Co.Ltd.	Finance	3,308	-	-	(3,308)	-	-	-	-	-	-	-
51	Janaki Finance Ltd.	Finance	1,439	-	-	(1,439)	-	-	-	-	-	-	-
52	Nepal Aawas Finance Limited	Finance	1,350	-	-	-	-	(1,350)	-	-	-	-	-
53	Hama Merchant & Finance Ltd.	Finance	288	-	(288)	-	-	-	-	-	-	-	-
54	Apex Development Bank Ltd.	Finance	-	128	(128)	-	-	-	-	-	-	-	-
55	Soalte Hotel Ltd.	Hotels	17,765	-	-	(9,900)	(7,865)	-	-	-	-	-	-
56	Oriental Hotel Ltd.	Hotels	-	-	-	-	-	-	-	-	-	-	-
57	Taragaon Regency Hotel	Hotels	-	-	-	-	-	-	-	-	-	-	-
58	Yak and Yeti Hotel Ltd.(Ord.)	Hotels	-	-	-	-	-	-	-	-	-	-	-
59	Butwal Power Co. Ltd.	HydroPower	30,857	(1,032)	(1,000)	(13,000)	-	-	-	-	-	-	15,825
60	Chilime Hydro power Co.	HydroPower	23,037	(9,289)	7,687	1,800	(9,198)	7,218	-	-	-	4,525	25,780
61	Arun Valley Hydropower Development Company Limited	HydroPower	9,670	-	-	1,450	-	-	-	-	1	-	11,121
62	Sanima Mai Hydropower Ltd.	HydroPower	-	-	-	-	-	-	-	-	35,167	-	35,167
63	National Hydro Power Co.	HydroPower	-	-	-	-	-	-	-	-	-	-	-
64	National Lifeinsu. Co.Ltd.	Insurance	32,268	-	(22,100)	(6,000)	-	(500)	-	-	-	-	3,668
65	Life Insurance Co. Nepal	Insurance	3,750	-	(3,750)	-	-	-	-	-	-	-	-
66	Himalayan Gen.Insu. Co.Ltd.	Insurance	1,598	-	-	-	-	(1,598)	-	-	-	-	-
67	Nepal Insurance Co.Ltd.	Insurance	716	-	-	-	(716)	-	-	-	-	-	-
68	United Insurance Co.(Nepal)Ltd.	Insurance	690	-	-	-	-	-	-	(690)	-	-	-
69	Sagarmatha Insurance Co.Ltd	Insurance	-	13,811	13,811	-	(10,000)	(1,000)	-	-	10,581	-	26,203
70	NLG Insurance Company Ltd.	Insurance	-	-	-	19,250	1,566	-	-	-	15,385	3,620	39,821
71	Alliance Insurance Company Limited	Insurance	-	-	-	-	-	-	2,400	30,366	(1,500)	-	31,266
72	Bottlers Nepal (Tera) Ltd.	Manufacturing & Processing	640	-	-	-	-	(640)	-	-	-	-	-
73	Uniliver Nepal Ltd.	Manufacturing & Processing	184	-	-	-	-	-	-	-	6	730	920
74	Nepal Lube Oil Ltd.	Manufacturing & Processing	148	-	(148)	-	-	-	-	-	-	-	-
75	Nepal Doorsanchar Company Limited	Others	54,640	-	-	9,870	-	-	(6,850)	(2,000)	(10,000)	-	45,660
76	Nepal Film Dev.Co. Ltd.	Others	81	-	(81)	-	-	-	-	-	-	-	-
77	Everest Bank Limited Convertible Preference	Preferred Stock	312	-	(312)	-	-	-	-	-	-	-	-
78	Narayani National Company Limited Promotor Share	Promotor Share	30,739	-	-	-	-	-	-	-	-	-	30,739
79	NABIL Bank Limited Promotor Share	Promotor Share	3,900	-	-	-	-	-	-	7,500	850	-	12,250

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