WealthApp Investment Policy

Introduction

The intent of this document is to describe the methodology that WealthApp deploys to deliver optimized risk-return investment solutions based on each client’s risk profile and investment needs. This paper will help you understand the mechanics of the work and data analysis that goes on behind the scenes to be able to bring to you the most suitable and best-in-class investment portfolios.

Asset Allocation

The investment team at WealthApp starts with formulating a forward looking asset allocation strategy, taking cues from Modern Portfolio Theory and strategic / tactical models. The asset allocation would be primarily based on 2 broad parameters:

i. Risk Profile of the Client
ii. Market Dynamics

While the former is the most prevailing and popular method, we believe `Active Management’ with a scientific and disciplined approach by considering market scenarios can create an Alpha (extra return) for you.

The strategic asset allocation revolves around the Risk Profile of the client while tactical allocations would be based on the Market Dynamics. To ascertain the allocation towards the tactical side, we look at the Valuation & Momentum Metrics of the Equity Markets. Under normal circumstances, the asset allocation will not undergo a change for a period of 6 months.

Asset Classes that are considered for review are Indian equities (across large cap, mid cap, small cap, multicap, global & thematic categories), Indian debt (across liquid, ultra-short term, short term, medium term, long term, dynamic debt & Government bonds), Global equities (emerging and developed markets) and Gold. Please refer to Table 1 below for some key pointers on each of these categories

Table 1: Asset Categories and their characteristics

Asset Categories	**Characteristics**
Equity: Large Cap	Capital growth; Low volatility viz a viz other equity categories; Tax efficient
Equity: Mid Cap	Capital growth; Medium volatility viz a viz other equity categories; Tax efficient
Equity: Small Cap	Capital growth; High volatility viz a viz other equity categories; Tax efficient
Equity: Multi-Cap	Capital growth; Medium volatility viz a viz other equity categories; Tax efficient
Equity: Thematic	Capital growth; High volatility viz a viz other equity categories; Theme based participation; Tax efficient
Equity: Global	Capital growth; Diversification; Currency risk
Debt: Liquid / Ultra Short Term	Inflation protection; Low volatility; Very short term investment horizon; Diversification
Debt: Short Term	Inflation protection; Low volatility; Short term investment horizon; Diversification
Debt: Medium Term	Inflation protection; Low volatility; Medium term investment horizon; Diversification
Debt: Long Term	Inflation protection; Low volatility; Long term investment horizon; Diversification
Debt: Dynamic	Inflation protection; Medium volatility viz a viz other debt categories; Long term investment horizon; Diversification
Debt: Government Bonds	Inflation protection; High volatility viz a viz other debt categories; Long term investment horizon; Diversification
Gold	Inflation protection; Medium volatility; Long term investment horizon; Diversification

Fund Categorization

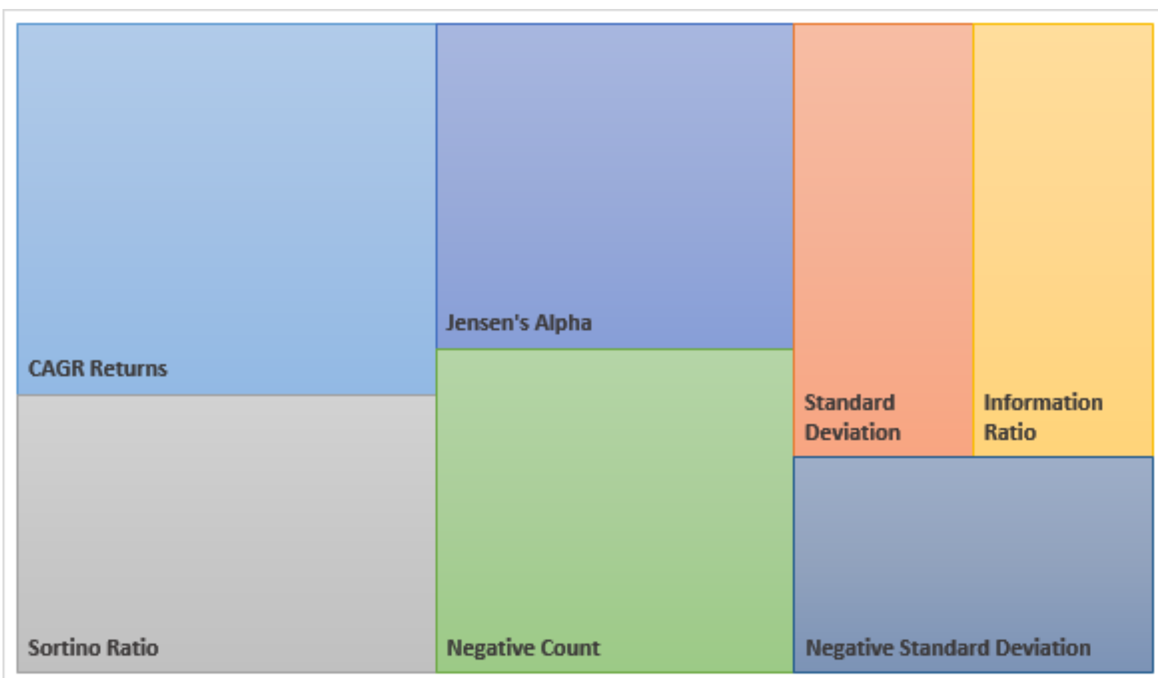
There are thousands of mutual fund schemes in the market today. Names of all schemes may not necessarily be the best representation of their underlying portfolios. To ensure that that each scheme is bucketed correctly, we undertake detailed research on the underlying portfolios of each scheme to decide upon their categorization and appropriate mapping to risk buckets.

We view this process as a subset of Asset Allocation and a precedent to our Fund Selection Process. This will also be based on your risk profile and market dynamics, although at a subtle level. For Instance, large cap funds will occupy the major portion within the Equity exposure for client's whose risk tolerance is low. As the risk tolerance goes up, mid cap & small cap funds would start fitting the bill. For debt, we will look at the 2 broader themes viz 'accrual' & 'duration', to decide upon the Fund categorization into a respective risk bucket.

Fund Selection

Picking the right fund is one of the most crucial step in advisory that will define your investment success and thereby your financial goals. That being said, it is also one of the most overwhelming task in the whole process. What really makes us unique from the rest is our **Research Architectural Framework**, which allows us to scan over 1000 schemes and tailor it down to your requirements. As a first step, we run a quantitative check on the entire fund universe with an objective to rank the schemes from a return & risk perspective. Please refer to Diagram 1 to see the quantitative parameters (in no specific order) of all funds that are considered for evaluation.

Diagram 1



With a well balanced approach of applying weightages each to returns & ratios, and thereby ranking the funds, we have demystified the maze and cleared the mist for you.

The next step is to critically analyze the funds, and not just rely on the quantitative indicators. It begins with studying qualitative parameters such as assets under management (AUM), market cap break-up, fund manager vintage, expense ratio, exit load, portfolio yield, credit quality & duration history.

And after putting over a 100 schemes into this funnel, we typically end up with 20 – 25 schemes cherry picked for you, matching your financial objectives.

Portfolio Optimization

Having cherry picked the funds, the next step is to decide what percentage of these schemes should go into your respective portfolio. Here again, we use a scientific model to solve for the "Efficient Frontier" using Mean Variance Optimization (MVO) approach. This model will identify portfolios that fall on the Efficient Frontier optimizing the Risk-Return relationship.

We take the average return of these schemes for a period and calculate the co-variance matrix for this period. We then find out the annual variance and return of these portfolios, if the chosen funds were to be distributed evenly in the portfolio. The next step is optimizing, that is, to decide what is the ideal exposure (in %) that these funds should have in your portfolio. We will find it by stating a defined objective for your portfolio. It would be either to Maximize Return or Minimize Volatility or a balance thereof. For instance, if you are chasing a goal in the next 2 years, the objective would typically be to minimize volatility as opposed to maximizing gains for a long term goal. The portfolio objective would also be based on your risk tolerance scores.

Risk Profiling

We start with asking you a set of questions to get to understand you, and your investment needs. The questionnaire is scientifically designed to understand not just your investment objectives, but also your behavioural biases to make your investment journey smooth. The questions are focussed on understanding your *need* to take risk, *capacity* to take risk and *willingness* to take risk. For instance, an individual at young age would typically have a higher capacity to take risk – however this capacity would get capped if you are looking to retire in the very near future. Our algorithms crunch your responses to these questions for each of your chosen financial goals, and assign a profile score that ranges from 0.5 (being conservative) to 10 (being aggressive). Each profile score is further mapped to the hand-picked portfolios which are a result of the Investment Methodology that we follow at WealthApp.

We write to our investors periodically to determine if their financial profiles have undergone any significant change that may affect their overall risk scores. For example, significant changes in salary, having children or decision to retire early are some of the events that could have a significant impact on the overall profile score of the individual.