

Frequently asked questions

Questions on our approach

1. What is Upside AI's investment philosophy?

- Completely system driven, no emotion, greed, fear or panic; no human bias or emotions
- Dynamic machine learning model adapts investing style to changing markets; usually any investor gets only 1 style of investing per human fund manager
- Purely fundamentals and macro signal based - no technical factors or static filters
- Systematic risk metrics built in - Allows risk to be maintained at market level, while generating superior returns; most funds follow an adhoc approach to risk management.

2. What are the PMS Strategies offered by Upside AI?

We are currently offering three PMS Strategies to our clients: They are;



3. How do you time the market because markets go up and down periodically? How do you solve for sentiment and market momentum?

The more you zoom into the market, the more volatile they look. Daily, markets move up and down approx. 1%. However, in the long term, markets trend up. This is because the stock market is a proxy for a country's GDP which trends up over long periods.

The average bear market lasts ~10 months and happens once every 5 years. In fact, in real terms, the longest bear market on record is 5 years during the Great Depression.

Further, more money is lost trying to time the market than actually riding a downcycle. We analysed NIFTY data for the last 20 years. For any given year, the entire year's returns are made in 10 days on average (out of 252 trading days). It is impossible to figure out what those 10 days are and therefore critical to stay invested through cycles.

Another example is data in two parts:

- Apple increased more than 6000% from 2002 to 2012
- Apple stock declined on 48% of all trading days. Lesson: it is never a straight path up.

Therefore, long term (1) value is driven by fundamentals; and (2) markets tend up. Hence, we do not try and time the market.

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4. Why should I choose Upside AI over human manager?

Firstly, the reason to use rules-based investing is to have an unbiased, unemotional approach to investing.

Secondly, given that we are a dynamic system, Upside AI adapts to different market conditions. It is able to understand the market's definition of "fundamentally good" evolves.

When you invest with a human, you get one type of investing approach – be it value, growth, thematic, etc. With Upside AI, given its machine learning, it can be different types of investors in different markets. For example, in Mar-20, it was buying expensive specialty chemicals stocks; while in Dec-20, it was a commodities investor with its biggest allocation to metals.

Further, it has no ego or emotion about stocks that did or did not do well for it in the past. It is able to ruthlessly and objectively decide if something is a good buy today based on facts alone.

5. How are you able to understand qualitative factors like management quality, etc or even macro factors while making a decision?

Short answer is: we don't. The reasons for that are three-fold:

One, we believe factors like management quality and industry outlook show up somewhere in either fundamentals, valuations or price. Therefore, while we are bottom-up, we are indirectly considering these factors in the algorithm.

Two, we agree that management, and other qualitative factors are important. However, we believe these are difficult to quantify. No investor can assimilate 100% of the information available to make a decision – it is the same with us. The factors we definitely want to consider are those that are objective and quantifiable and give us enough information to decide if something is a "good stock." Does this mean we will miss some great companies – absolutely. But you cannot capture every opportunity in the market. Our mandate is to consistently find ~15 good companies to deliver superior returns versus the benchmark – our current system allows us to do that well.

Three, we specifically do not want to meet management. Humans have conscious and subconscious biases about the people they meet, and it ends up unfairly influencing their conclusions about the business.

6. Quant strategies have not performed well in past. Why is this different?

Generally, quant and human strategies have struggled to beat the benchmark in the past decade. Like quant, several human fund managers have also imploded. Quant gets a particularly bad rap when it fails because machines are not supposed to "make errors" which humans can.

Just like with everything, there are good and bad quant managers. Quant is big umbrella that covers a host of strategies and approaches; it is hard to bucket everyone together. Having said that, although the median quant fund maybe unimpressive, the largest 5 hedge funds in the world are quant-based. Further, the widely acknowledged most successful investor of all time is also a quant fund (Medallion Fund – Renaissance Technologies.)

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7. What is the difference between this and a screener?

A screener is static. It is an excel filter on fundamental, valuation, technical parameters to build a shortlist of companies. Our contention is that the same filter (for example – 20 PE with 15% ROE and 20% growth) doesn't work in all markets. Market conditions keep changing and therefore the types of stocks that are in-demand also change.

For example, in Mar-20, the algo largely picked “safe” stocks with no debt and high ROEs. By Dec-20, markets had changed a lot and our algorithm was looking for value stocks at low valuations and with debt on books.

The point is to build a dynamic model that can understand which type of “fundamentally good” stocks are in-demand in prevailing market conditions.

8. What should be my time horizon?

For any equity products, time horizon should be at least 3 years. Since equity is a volatile asset class, it is difficult to judge performance over a short period of time. Even for the Nifty, which consists only of the 50 largest companies, for any given year, the entire year's returns are made in 10 days on average (out of 252 trading days).

9. What's the risk in investing in products by Upside AI?

The risks of investing in our current equity products are the same as investing in the market. As we only buy stocks and do not do any hedging/ short sells, if the market falls, we will also fall. Therefore, you should expect your drawdowns in Upside AI to look similar to the market.

Additionally, it is important to note that just because it is technology, does not mean that every stock it picks is a winner. We follow a portfolio approach so some stocks will do very well, some average and some poorly. Further, just like other fund managers, in the short term, there may be months or quarters where we could underperform the benchmark. However, in the long term, we believe an objective, systematic approach should beat the benchmark.

10. How do I know what product is suitable for me?

Upside AI's current products would be part of your asset allocation. Therefore, our equity products should find place within your equity allocation. Given equity's inherent risks, you should deploy capital that you are willing to invest for the long term and willing to ride market volatility.

Lastly, in any investment plan, diversification is key. If you already work with 2-3 human fund managers, adding a tech product gives you a different type of diversification away from human biases and emotions.

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Operational questions

11. What is Portfolio Management Service?

A Portfolio Management Service (PMS) is a service which provides professional management of investments to create wealth. It aims to cater to the investment needs of individuals or entities with high net worth value by providing them with investment solutions.

When you invest in PMS, you own individual securities unlike a mutual fund investor, who own units of the fund. You have the freedom and flexibility to tailor your portfolio to address personal preferences and financial goals.

12. Who is a Portfolio Manager?

A Portfolio Manager is a body corporate, which, pursuant to a contract with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary Portfolio Manager or otherwise) the management or administration of a portfolio of securities or funds of the client.

13. Who can sign up for a PMS?

The following investors are eligible to invest through PMS:

- Resident Individuals
- Hindu Undivided Families (HUF)
- Body Corporates (Private / Public)
- Limited Liability Partnership (LLP)
- Foreign Portfolio Investor (FPI)
- Private Trust
- Non-Resident Indians (NRI)
- Partnership firms.

14. What is the minimum value of funds or securities that can be accepted by the portfolio manager from the client while opening the PMS account?

The portfolio manager is required to accept minimum INR 50 Lacs or securities having a minimum worth of INR 50 Lacs from the client. If the client is an “accredited investor”, this minimum requirement falls away.

15. What is an accredited investor? How do I sign up?

An accredited investor can be a business institution or an individual who is allowed to deal with securities that are not available to the general public. Also, these securities may or may not be registered with any financial regulatory authority.

However, in order to become an accredited investor, an individual or a business entity will have to fulfil the eligibility requirement set by the market regulator.

In India, the accredited investor process was introduced by the Security and Exchange Board of India (SEBI) for high net-worth individual (HNI) investors who satisfy the regulatory body’s requirements to invest in listed startups.

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In order to become an accredited investor in India, the investor or business entity, who owns a demat account will be required to apply for accreditation to the depositories or the stock exchange. Once the eligibility of the investor has been determined, the investor will be granted accreditation for a period of three years by the stock exchange.

Also, the accredited investor is required to keep the stock exchange and depositories informed of any change in the financial status.

A business entity or institution who wishes to invest in listed startups is required to have a net worth of Rs.25 crore to be considered an accredited investor. Similarly, for an individual to be considered an accredited investor, a liquid net worth of at least Rs.5 crore and total annual gross of Rs. 50 lakh is to be maintained

16. Do investors need to open a separate demat account?

Yes, as per regulations a new demat account will be opened for Portfolio Management Services (PMS). We will help open this account for you. Portfolio Manager takes a Power of Attorney (POA) on this account so that they can operate account on investor's behalf to settle securities.

17. What is the meaning of Hurdle rate?

A hurdle rate is the minimum threshold of profit that a Portfolio Manager needs to earn before they can charge a profit-sharing fee.

18. What is the meaning of High Watermark?

'High Watermark' is the higher of either 'investment value' or 'highest NAV at which fees has been paid historically'. We will not charge profit share on a value below the high watermark

Illustration of how the High Watermark would work:

A client's initial contribution is Rs 1,00,00,000 which then rises to Rs 1,25,00,000 in its first year. Therefore, a profit share fee would be payable on the Rs 25,00,000 return.

Next year, the portfolio value drops to Rs 110,00,000. Therefore, no performance fee is payable.

In the third year, the portfolio value rises to Rs 1,40,00,000. Performance fee is payable only on the profit which is in excess of the previously achieved high watermark i.e of Rs 1,25,00,000 less profit share fee.

19. What is the meaning of No catchup?

No catchup means that profit share will be applicable only on the incremental return over and above the hurdle rate.

For example, if the value of a portfolio increases from Rs 100 to Rs 120 during a year when the fees structure included a hurdle rate of 8% (i.e., hurdle rate was at Rs 108), then the profit share will be applicable only on Rs (120-108) = Rs 12, rather than it being applicable on the entire Rs 20 profit delivered.

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20. Is there an exit load charged by Upside AI while closing PMS account?

Yes, exit load is charged, if redeemed before one year 1%. After one year, it is 0%.

21. What is the turnaround time to open a PMS account with Upside AI?

The turnaround time to open PMS account for:

- Resident individual is T+3 working days.
- Non- individual is T+ 4 working days.
- Non- resident Indian is T+12 working days.

Any deficiencies or discrepancies in the application form may result in delays.

22. What are the bank details to fund the PMS account?

The bank/funding details for your PMS Strategies are mentioned below.

- Upside Multicap

Account Name: Wyridian Advisors Private Limited

Bank Account number: 250557770211

IFSC Code: INDB0000033 **MICR:** 400234009

Bank Branch: Indusind Bank Ltd, Premises No 61, Sonawala Building, Mumbai, Mumbai Samachar Marg, Fort, Mumbai 400001.

- Upside 250

Account Name: Wyridian Advisors Private Limited - Upside 250

Bank Account number: 201014578192

IFSC Code: INDB0000033 **MICR:** 400234009

Bank Branch: Indusind Bank Ltd, Premises No 61, Sonawala Building, Mumbai, Mumbai Samachar Marg, Fort, Mumbai 400001.

- Upside Navigator

Account Name: Wyridian Advisors Private Limited – Upside Navigator

Bank Account number: 201014578059

IFSC Code: INDB0000033 **MICR:** 400234009

Bank Branch: Indusind Bank Ltd, Premises No 61, Sonawala Building, Mumbai, Mumbai Samachar Marg, Fort, Mumbai 400001.

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23. What are the fee options offered by Upside AI?

➤ Upside Multicap:

1% management fee + 10% profit share (no hurdle)
1% management fee + 15% profit share (8% hurdle)
0% management fee + 20% profit share (8% hurdle)

➤ Upside 250:

1.5% management fee + 10% profit share (10% hurdle)
2.0% management fee (no profit share)

➤ Upside Navigator:

1.5% management fee (no profit share)

Management fees is charged on quarterly basis in arrears and profit share every 31st March.

24. What are the operating charges charged by Custodian and brokers?

- Custodian: Orbis (2 bps p.a)
- Fund Accountant: Orbis (2 bps p.a)
- Brokers: Ambit, Aldan, Incred, (6-8 bps)
- STT, GST, and other govt duties on actuals.

25. How can I top up my PMS account?

Topping up your account is very easy - it is the same process as funding your account first time only there is no additional paperwork required.

Just transfer the funds (into the same account you transferred funds at account opening), and email us the cheque / proof of transfer / bank statement at clients@upsideai.com. We shall confirm the receipt once the funds are credited in our bank account.

26. Where can I find the disclosure document?

The disclosure documents are available on our website. Investors can click on the below to access the document.

<https://upsideai.com/disclosures/>

27. I need to make modifications in my demat account, how do I do that?

For any service-related request, please mark an email on clients@upsideai.com, we will share across the relevant forms and the supporting documents required to process any of the below mentioned request.

- Change/ modify nominee details.
- Change of distributor code.
- Change in KYC details.
- Updating mobile number/email id.
- Transmission of securities.
- Name change request.

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28. I want to redeem my funds; how do I do that?

The process to redeem/withdraw funds is very simple; investors can send an email to clients@upside.ai from his/her registered email id. The email should contain the below details:

- Name of the investor:
- Client Code/ OFIN:
- Amount to be redeemed:
- Scan copy of the cancelled cheque copy of the bank account in which the credit is required.

Once the email is received with the complete information, we will execute the redemption and the funds will be credited in the investors bank account within T+3 working days.

29. Can I access my portfolio details online?

Yes, you will have 24*7 access to your portfolio. We will share the login credentials once the account is funded.

You will receive your PMS reports along with fund managers reports on your registered email id monthly.