Core Value Investment Approach Newsletter

Five years of Core Value

Dear Investor,

We are happy to share with you the news of the completion of the fifth year of the Core Value Portfolio on the Buglerock (erstwhile o3) platform. On this occasion, we wish to share with you the thought process behind the portfolio, the salient points during the last five-year journey, and our suggestions as to the ways in which the investor can make optimum use of the Core Value portfolio.

The Core Value Portfolio was started under the banner of Buglerock (formerly called o3 Securities) in April 2019. In these five years, and thanks to your support, the size of the portfolio has now crossed Rs.1000 crores (Rupees 10 billion).

The journey so far

These have been the salient milestones for us so far:

- We have launched the facility for digital onboarding of clients.
- Strengthened the investment team further, added strong personnel in operations, compliance and customer service.
- Increased the geographic reach of our company to newer cities. We are now having bases in Mumbai, Bangalore, Chennai and Hyderabad, and shall be expanding to other cities shortly.
- We started off with HDFC Bank as the only custodian, but now have Kotak Mahindra Bank too for providing custodial services.
- We have started the facility for Systematic Transfer Plan for investors who wish to invest over several instalments (subject to the statutory minimum subscription prescribed by SEBI).

The Covid Pandemic was a good testing point for the Core Value Portfolio. Of course, our stocks also fell during such times, but during the panic periods of March/April 2020, we sharply increased our holdings in stocks of great companies that were suddenly available much cheaper.

We are grateful for our investors who saw the merit of increasing holdings in stocks of strong companies during the times of panic and monetarily supported us by increasing their allocation to the Core Value when almost everyone else was panicking.

Sharing details of a few success stories, and a few lessons learnt

As you are aware, our approach to investing is to buy into a measurably strong business when it is not very popular. We do this consciously. A very popular stock does not come cheap, and when one buys a stock that is expensive, the chances of succeeding in that investment are fewer (we are not amongst those who rely solely upon the continued bullishness of other market participants to take up the stock to higher and higher levels).

The essential ingredients in this type of investing are two:

(a) Absolute insistence on buying businesses that have demonstrably high quality, and

(b) The willingness to wait (because an unpopular stock need not turn popular just after we buy it)

Over the last five years, we are gratified by the successes in several instances when our calls turned out to be profitable. Inevitably, there have also been cases that did not move the way we wanted them to.

Some success stories....

State Bank of India (derided as a "Sarkari bank" a few years ago), has now come into the limelight.

Several stocks in the "Industrials and Capital Goods" space. We bought several of these since the weight of the Capital Goods sector in the Index was at a multi-year low in 2020-21 and we were seeing signs of big government-led investment in infrastructure development and in pushing of higher share of Indian manufacturing. Some examples of our picks were **Cummins, Thermax, Bharat Dynamics and Larsen & Toubro.**

ITC was the butt of ridicule and several memes on social media about two or three years ago. All along it showed improving fundamentals and in our estimate, there was a big difference between the reality and the perception around the stock, with the perception being much weaker than reality. Although we had to wait for more than two years for this stock to perform, it was worth the wait.

Oracle Financial Services Software had been languishing for a long time. We kept the faith, and now have been rewarded.

We have had success in **Multi Commodity Exchange, Container Corporation** and **Bosch** as well.

And a few lessons learnt....

As is the case with any portfolio, we too have had some stocks that did not go the way we wanted them to.

We did not have a satisfactory return in **Sanofi India** (we switched that to another pharma company), and we sold **Castrol** at a price lower than what it is trading at now.

Therefore, in a portfolio, there will always be a few stocks that do not move the way we want it to move. Our observation is that if we are right in about seven cases out of ten, the results are satisfactory.

The track record of Core Value

This has been the track record of the Core Value portfolio over the last five years:

Performance of the Core Value Portfolio over 5 years			Max drawdown Portfolio	Max drawdown S&P BSE 500 TRI	Portfolio turnover	Average age of companies	Average RoCE/RoE	Overlap with S&P BSE 500 TRI
Financial year ending	Portfolio	S&P BSE 500 TRI						
31st March 2020	-18.18%	-22.38%	-34.76%	-38.14%	16.56%	60	31.67%	15.34%
31st March 2021	58.08%	78.63%	-7.10%	-9.58%	40.50%	63	29.37%	13.42%
31st March 2022	14.90%	22.26%	-15.26%	-14.33%	31.23%	62	22.93%	20.07%
31st March 2023	12.82%	-0.91%	-10.02%	-15.36%	31.20%	58	24.80%	21.08%
31st March 2024	41.05%	40.16%	-4.78%	-6.30%	29.13%	45	27.31%	22.41%
Since Inception	19.27%	19.16%						

Data sources: Bloomberg, Wealth Spectrum and ACE Equity.

Notes: 1) Since Inception performance is the CAGR rate till 31st Mar 2024
2) Returns are calculated as per the standard Time-weighted rate of return (TWRR) basis.
3) Returns are calculated after deduction of fees.
4) Average RoCE/RoE has been calculated for the model portfolio of each year, using the average of the previous 5 years' data. For financial services companies, the RoE has been calculated, while it is the RoCE for all other companies.
5) The overlap is calculated vis-à-vis the S&P BSE 500 index and the model portfolio for each year.
6) The portfolio turnover rate is calculated by dividing the total sales for the period by the Average AUM for the period.

We would like to present the following observations:

a) Being conservative about the portfolio has not been a hurdle in generating a decent return.

b) Core Value's track record has been that while it protects the downside in a market trending downward, it does not fully participate in a sharply rising bull market, and that is because we tend to stay away from stocks that are, in our estimate, hyped up beyond justification.

c) There will be times when Core Value would underperform, but there would be no occasion when Core Value would dilute its own mandate.

What purpose does Core Value serve?

The Core Value portfolio was created after careful observation of the needs of the target customer segment it seeks to serve.

The target customer is someone who has achieved considerable financial success and now seeks to diversify through an equity portfolio that first and foremost seeks to reduce risk rather than attempt to earn a maximum return at all points of time. Typically, such a customer:

- Has achieved financial success and has built wealth over the years
- He/she seeks to diversify beyond his/her own business, and also diversify beyond mainstream investment products. The client does not want Core Value to replicate the same portfolio that the mainstream investment products offer, but rather wants to use Core Value to supplement the other equity products in his/her overall equity exposure.
- Such a client seeks a portfolio that is managed with a logical process of risk control, and gives a decent chance of succeeding, without subjecting the client's money to unnecessary levels of risk.
- A customer whose main ambition is not to "get rich" through investing. He/she is rich already and seeks to earn an inflation-beating return from a portfolio, while not risking losing sleep over the quality of stocks in the portfolio.

In other words, Core Value is sought as a "good" diversification compared to equity portfolios such as Index Funds/ETFs and also compared to actively managed equity mutual funds.

It does not seek to be the "best" portfolio, because the best is a transitory position, and more importantly, there are times in the stock market that one can achieve the position of being the "best" only by either significantly diluting the risk standards in terms of quality of stocks purchased, or the valuations at which such stocks are held, or both.

We gladly would choose to be consistently "good" rather than trying to run behind the transient "best" position.

How to make optimum use of Core Value

1) It is not a substitute for any other product, but it complements the others.
2) It is neither superior, nor inferior to other equity portfolios.
3) It is measurably different from the Indexes (both the Nifty 50 Index and the more-diversified BSE 500 Index)
4) Since it has a different portfolio, the trajectory of returns earned by Core Value would be different. This is an important point to consider, since not all equity products in an investor's portfolio should rise and fall together.
5) There will be years when Core Value outperforms its peers, and there will be years in which it would underperform. When it outperforms, it is not a superior product, and when it underperforms, it is not an inferior product. At all times is recommended that you treat it as a good complement for your other equity exposures.

Warm Regards,
Yours sincerely

E A Sundaram
Chief Investment Officer and Portfolio Manager

"Investing isn't about beating others at their game. It's about controlling yourself at your own game." ***Benjamin Graham***

The investment world has been rendered poorer with the recent passing of Daniel Kahneman, the Nobel Prize winner. His pioneering work in behavioural economics would guide investors for generations to come.

Investment Objective:

The investment objective is to achieve capital appreciation through investment in a diversified portfolio of high-quality companies, purchased at reasonable valuation.

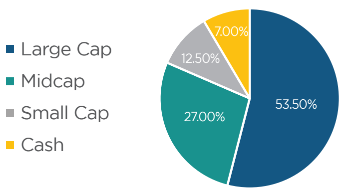
Core Value Investment Approach

Name	GICS Sector	Weight
HDFC Bank Ltd	Financials	7.42%
ITC Ltd	Consumer Staples	6.51%
Maruti Suzuki India Ltd	Consumer Discretionary	5.00%
Indraprastha Gas Ltd	Utilities	4.98%
Asian Paints Ltd	Materials	4.38%
Bosch Ltd	Consumer Discretionary	4.33%
Oracle Financial Services Software Ltd	Information Technology	4.02%
Infosys Ltd	Information Technology	3.79%
Divis Laboratories Ltd	Health Care	3.69%
Titan Company Ltd	Consumer Discretionary	3.64%
		47.76%

Overweight/Underweight of Model Portfolio Compared to Benchmark

	Underweight | Overweight
Consumer Discretionary	9.70%
Industrials	8.66%
Real Estate	2.29%
Health Care	1.71%
Utilities	0.60%
Consumer Staples	-1.29%
Information Technology	-1.78%
Communication Services	-2.88%
Materials	-4.64%
Energy	-8.99%
Financials	-10.38%

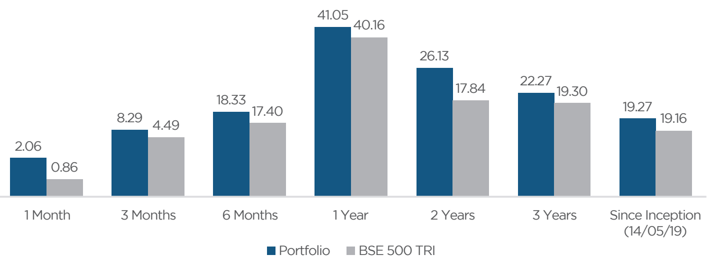
Performance Description	Regular	Concentrated	BSE 500 TRI
Largest Monthly Gain	12.51	11.41	14.63
Largest Monthly Loss	-20.53	-19.19	-23.85
Beta of Portfolio	0.76	0.74	
Standard Deviation (Annualised)	15.16	14.86	
Correlation	0.92	0.91	



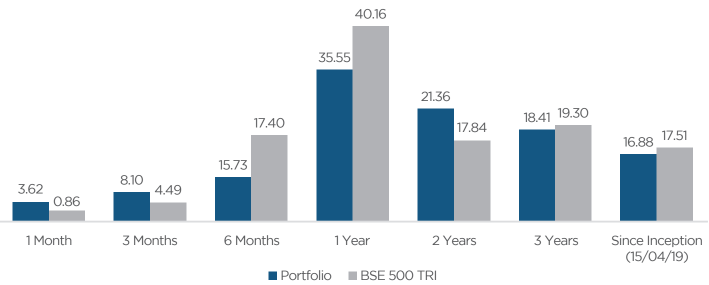
Regular Model Portfolio Composition

Weighted Average ROCE	27.31%
Portfolio PE (1 year forward PE, based on FY25)	33.54
Portfolio Dividend Yield	1.04%
Average Age of companies	45 Years
Overlap with BSE 500 TRI	22.41%
Total Debt/Equity	0.19
Debt/Equity (Excluding Financial Stocks)	0.10
Sales Growth	23.46%
EPS Growth (FY25 over FY23)	12.74%

Consolidated Portfolio Performance of Core Value Investment Approach Regular Option 31st March 2024



Consolidated Portfolio Performance of Core Value Investment Approach Concentrated Option 31st March 2024



- *Benchmark is BSE 500 TRI, the portfolio is spread across different market capitalization, hence BSE 500 TRI is chosen as benchmark.*
- *Since inception date stated is considered to be the date on which the first active client investment was made under the investment approach.*
- *All the data are as of 31st March 2024. ROCE/ROE are average of last 5 years.*
- *Source: Internal, BSE, Bloomberg & Ace Equity.*

Disclaimer: Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging expenses. The above performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document. Beta, Standard Deviation & Correlation are from Since Inception period.