EAS Invest o3

o3capital

“At heart, uncertainty and investing are synonyms” – Benjamin Graham

Dear Investor,

Over the past one month, we have received numerous queries about how we are changing the portfolio after the Russia-Ukraine conflict began. Also, social media sites are abuzz with each person giving his/her own view of the world and how exactly the conflict should be solved. Concerns are expressed about the sharp rise in crude oil prices, commodity prices, and supply chain disruptions all over the world.

Doubtless, any war is unacceptable. It is also true that the sharp rise in crude oil and other commodity prices would seriously impact the fiscal calculations for India. It has been estimated that if oil remains at $120 per barrel, India’s GDP would take a 1.9% hit. Inflation and interest rates would sharply rise impairing several companies’ profitability.

So, we are not suggesting that the concerns and consequences of the war should be totally brushed aside. We will discuss how we have refined the portfolio, without reacting in haste.

The point is that the movement of the stock prices is unlikely to be in the same trajectory as that of the war. Let us see some examples.

a) During World War II, the Dow Jones Index bottomed out in 1942, three years before the war ended. It bottomed out well before the war had reached its zenith, and well before Hiroshima and Nagasaki happened. It peaked again in 1946 and then sharply fell until 1948.

b) In the week immediately after the assassination of the sitting US President in November 1963, the Dow Jones Index rose by 5.6%

c) During Operation Desert Storm in 1991, the Dow Jones Index rose by 9.85%.

d) During the Kargil war in 1999, the BSE Sensitive Index rose more than 30%.

We are not suggesting that one should ignore the economic or social impact of a war. It is just that the prices of some very good quality stocks give us a good entry price because of a war.

The o3 Core Value portfolio has seen no change during the last month. If anything, we have increased the weights in some of the strong businesses. Let us share one such example.

Housing Development Finance Corporation (HDFC) is one of the most reputed and respected finance conglomerates in the country. Since FIIs have been continuously selling after the eruption of the Russia-Ukraine conflict (and HDFC has traditionally been an FII favourite), the stock has corrected significantly in the recent past, and is now quoting at around Rs.2,330.

We were holders of HDFC Ltd even before the Russia-Ukraine conflict started. The stock has been an underperformer since 2020. We increased our holding during the last month.

The company’s holding in HDFC Bank, HDFC Life Insurance and HDFC Asset Management Co (three of its listed group companies) cumulatively is worth Rs.1375 per share (as per closing prices of March 29th). Conservatively if its unlisted subsidiaries contribute to another Rs.100 per share, it means that the standalone housing finance business is available to us at Rs.855 per share (or 1.2 times estimated book value of FY 2023). If we get a company like HDFC Ltd at 1.2 times book value, we think it makes sense to ignore the FII selling and just buy.

Our style of investment is to buy a strong company when the popularity of its stock is not very high. This may have a different trajectory of returns, but it is clear from the following table that over a period, it delivers a decent return compared to buying highly popular stocks.

Companies (FY 2018-19) Best performers in the Nifty	FY 2019 returns	2-year CAGR (2020-22)
Axis Bank Ltd.	52.3%	41.7%
Bajaj Finance Ltd.	71.1%	81.0%
Bajaj Finserv Ltd.	36.1%	92.8%
ICICI Bank Ltd.	43.9%	50.2%
Reliance Industries Ltd.	54.4%	54.5%
Tata Consultancy Services Ltd.	40.5%	43.1%
Top stocks in the portfolio	**FY 2019 returns**	**2-year CAGR (2020-22)**
Blue Dart Express Ltd.	(4.6%)	76.7%
Container Corporation of India Ltd.	5.5%	42.4%
Cummins India Ltd.	6.5%	85.3%
ITC Ltd.	16.3%	20.8%
State Bank of India	28.4%	58.3%
Sun Pharmaceutical Industries Ltd.	-3.3%	61.1%

Index movements	FY 2019 returns	2-year CAGR (2020-22)
NIFTY 50	14.9%	42.5%
NIFTY 500	8.4%	45.9%

We bought stocks like Sun Pharma, Blue Dart, Cummins and SBI and ITC when they were not very popular. However, with a time lag, these stocks have given very decent returns. Even ITC, which had a stagnant run for a long time, is now showing signs of an uptrend in price. There was never any doubt about the strength of any of these companies; it was just a case of the perception being worse than reality. There are others in the portfolio that still have not performed to the extent of their potential. We are confident that they will.

We have repeatedly made the point, both through the pandemic-induced panic and in the recent past when stocks sharply corrected, that a crisis does not affect all companies equally. Strong businesses with competitive advantages, management bandwidth and stronger balance sheets would be able to withstand the shocks better. And they also recover faster from the effects of the crisis.

Besides, let us admit the fact that we really CANNOT wait for the world to be completely without problems before we enter the stock market. That would be like waiting for the waves to subside before entering the sea for a swim. There will ALWAYS be some niggling issue or another. When these issues are ignored totally and everyone is bullish on the stock market, let us take that as a warning sign and remain wary of investing in stocks.

Just to refresh our collective memories, here are the list of problems this country has faced over the last 30-odd years:

1990 – riots over the Mandal Commission
1990 – the War in the Gulf
1991 – the assassination of the leader of a major political party, and a PM candidate
1992 – the infamous Securities Scam
1993 – the serial bomb blasts in Mumbai
1995 – the Plague epidemic scare
1997 – the Asian financial crisis
1998 – the sanctions following the Pokhran nuclear tests
1999 – the Kargil war
2000 – the meltdown of the Technology sector
2001 – the attack on the World Trade Centre and the Indian Parliament
2003 – the invasion of Iraq
2004 – the Asian Tsunami

2008 – the Global Financial crisis
2008 – the terror attacks in Mumbai
2012 – the recession
2016 – the shock of the demonetization
2020 – the Coronavirus pandemic
2022 – the Russia-Ukraine war

- Let us not forget that in the space of 32 years, this country saw twelve different governments at the centre (that is an average of 2.66 years per government). If one removes the stable terms for the last four governments, the first 14 years (1990-2004) saw eight different governments, or an average 1.75 years per government.
- We have seen numerous natural disasters during this period – earthquakes, tsunami, floods, landslides, the lot
- Pandemics – bird flu, swine flu, MERS, plague, and of course, Covid-19.
- Terrorist attacks in Mumbai, Delhi, Bengaluru, Hyderabad, Ahmedabad, Coimbatore
- Quite a number of scandals, both in the stock market and elsewhere.

The important point is, the Indian stock market (represented by the BSE Sensitive Index) has risen by 14.45% per annum through this period, problems notwithstanding.

While looking just at the problems, it is easy to forget that there is a lot to be grateful for:

- There are very, very few countries in the world where an individual enjoys the kind of rights and freedom as he/she does in this country.
- The literacy rate in India in 1991 was 39%. In the 2021 census, it is estimated to be 74%.
- The per-capita GDP in 1990 was $303 ($1190 in PPP terms). In 2020, the per capita GDP in India was $1901 ($6390 in PPP terms)
- IT exports from India in 2020 was $146 billion. In 1990 it was hardly a blip.
- In 2021, India is the fourth largest automotive manufacturer in the world. In 1990, India was ranked 16th.
- India is one of the largest vaccine manufacturers in the world. The recent Covid-19 pandemic saw the role played by India in this regard.
- India is the 10th largest pharmaceutical manufacturer in the world.
- NASSCOM estimates that India is the third largest number of start-ups in the world, and that the number of start-ups are growing by 10% per annum in India.
- In terms of stock market settlement systems and processes, India's stock market settlement systems are amongst the most efficient in the world.

Of course, there are problems. Of course, so many things need improvement. But we would be missing things big time if we waited for the world to be without problems before we committed money to the equity market.

Just as a wild enthusiasm of the favourable market is inappropriate, so too is the anxiety and fear brought about by a war-like situation.

Happy investing.

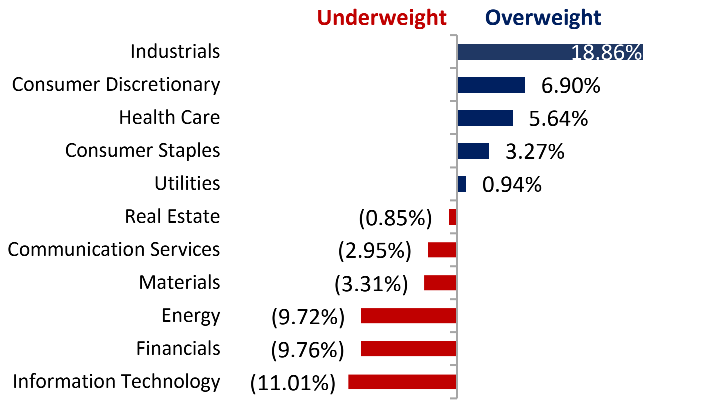
Warm regards

(E A Sundaram)
Chief Investment Officer and Portfolio Manager

"Buy not on optimism, but on arithmetic" - Benjamin Graham

Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 31st March 2022		
Name	**GICS Sector**	**Weight**
ITC	Consumer Staples	7.62%
HDFC Ltd	Financials	4.96%
Cummins India	Industrials	4.73%
HDFC Bank	Financials	4.60%
Sanofi India	Health Care	4.52%
Asian Paints Ltd	Materials	4.50%
Indraprastha Gas Ltd	Utilities	4.24%
Blue Dart Express Ltd	Industrials	4.21%
Bosch Ltd	Consumer Discretionary	3.96%
Sun Pharmaceutical	Health Care	3.92%
		47.26%

Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 31st March 2022



Investment Objective: The investment objective is to achieves capital appreciation through investment in a diversified portfolio of strong businesses, purchased at reasonable valuation.

Regular Model Portfolio Details as on 31st March 2022	
Weighted Average ROCE	22.93%
Portfolio PE (1 year forward PE, Based on FY23)	27.12
Portfolio Dividend Yield	1.72%
Average Age of companies	62 Years

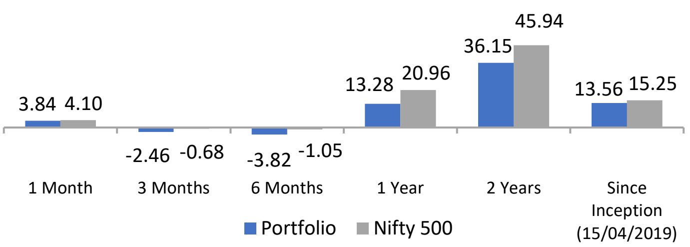
Regular Model Portfolio Composition as on 31st March 2022	
Large Cap	35.00%
Midcap	42.50%
Small Cap	20.50%
Cash	2.00%

- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order)*
- Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order)*
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order)*

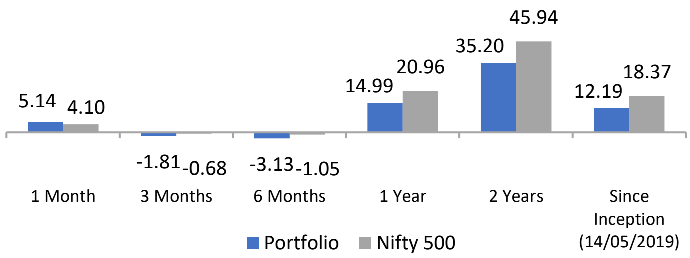
**As on last working day i.e. 31st March 2022*

Regular Model Portfolio Composition as on 31st March 2022			
Model Portfolio Overlap with Nifty 500	19.90%	Model Portfolio Overlap with Nifty 50	23.75%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 31st March 2022



Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 31st March 2022



- Benchmark is Nifty 500, the portfolio is spread across different market capitalization, hence Nifty 500 is chosen as benchmark
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

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 and then computing *arithmetic* average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses(Custody Fee adjustment is pending, the performance may change to it for some basis points). *The performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.*