"The ability to simplify means to eliminate the unnecessary so that the necessary may speak"
-Hans Hofmann

Dear Investor,

Of all the unnecessary stuff that has cluttered the investment world, possibly the most enduring has been the debate about the relative merits of the so-called "growth" and "value" styles of investing. The style that has been called "value investing" has been subjected to much maligning over the last few years, although we have seen some let-up in the last year. In this edition of the newsletter, we seek to dispel some of the misperceptions around the subject.

Reservations usually expressed about "value investing"

The reservations about value investing (and these usually appear when there is a sustained bull market) are usually the following:

(1) Value Investing is an outdated concept that uses quaint techniques like Low Price/Book Value and low PE as the fundamental principles. These have lost their relevance in the new age where intangible assets are predominant.

(2) When a company's earnings are growing robustly, valuation multiples do not matter

(3) Value investing does not make money for the investors.

We have put forth our views on this subject in various forums, but we would like to clear the air formally through our newsletter too, for the record.

Performance track record of "Growth" and "Value" in the US

We are quoting the data from the US, because it is a market with far greater access to data and a long history of designated "growth" and "value" indexes. The data is revealing:

Year	S&P Pure Value Index	S&P Pure Growth Index	Outperformer
2012	25.59%	15.43%	Value
2013	48.11%	43.85%	Value
2014	12.69%	14.29%	Growth
2015	(8.14%)	2.71%	Growth
2016	19.62%	4.22%	Value
2017	17.73%	26.76%	Growth
2018	(12.00%)	(4.20%)	Growth
2019	25.45%	28.99%	Growth
2020	(8.71%)	29.66%	Growth
2021 YTD	25.70%	18.93%	Value

Source: www.spglobal.com

We have chosen two indexes, the S&P 500 Pure Value Index, and the S&P 500 Pure Growth Index for the purposes of calculation. In the last 10 years, "growth" has outperformed 6 times and "value" 4 times. Recently, "value" has made a smart comeback (and 4 out of 6 is not such a bad track record after all). And the relative performance in only one year (2020) has contributed to a significant difference between the two styles in the last 5 years.

However, the last one year (Sep 2020-Sep 2021) has been very good for the so-called "value style". But the previous 4 years it has underperformed to the "growth style". The issue is, when "value" underperforms for four years, many people tend to extrapolate that trend to infinity. That is what happened. Let us not forget that the same opinions about "value investing" was expressed in 1999-2000 (during the technology and dot.com boom), and in 2007 (during the real-estate boom before the Lehman crisis).

How would we describe "Value investing"?

Imagine that we are seated in an auction house, and several people are bidding for purchasing a piece of art. As the bidding goes on, let us imagine that there is a person who is bidding higher and higher, not because he is interested in buying it at such prices, but because he thinks that he can kindle the greed of the others to bid at even higher prices. We get the same feeling when we look at the stock market sometimes. Bidding a reasonable price for what we think is worth buying is what strikes us as intelligent.

Value investing, dear Investor, is not just about buying cheap, or focusing on things like Price/Book Value or PE multiple alone. It is essentially about two important things:

(a) what we buy, and

(b) how much we are willing to pay for it.

Both these points are extremely important. We can't buy junk quality assets just because they came cheap, or because we expect someone else to buy them from us at a higher price. And value investors do not ignore the importance of intangible assets at all. At the same time, staying away from prices that we, with a reasonable amount of diligence, can estimate them as exorbitant, is what we mean by "value investing".

Followers of the "value investing style" don't subscribe to the view that the "market" is the final arbiter about what is worth buying. There have been many instances in bull markets, where stocks of companies with clearly inferior business models and balance sheets just race up, and many instances when stocks of excellent quality businesses are depressed for extended periods of time. We simply cannot accept that whatever is going up is a good investment, nor accept that whatever has lagged in price is not a good business to invest in.

Let us take examples from either side.

In 1999-2000, the Infosys stock was quoting at as high as 100 times earnings. Anyone who bought it at those prices had to suffer severe underperformance for the next several years. At the same time, there was nothing wrong with the earnings growth of Infosys during the next several years after 2000. Between 2000 and 2006, the earnings of Infosys grew by 36% per annum compounded. But the stock was almost stagnant during this period. It is pertinent to note that in the heydays of late 1999 and early 2000, there were stocks of several IT sector companies (those that just could not hold a candle in front of Infosys in terms of their competence or management quality) that appreciated more than that of Infosys itself. During such times, anyone who thought that the market was the final arbiter would have let himself in for a significant grief.

The same Infosys, in 2017, was ridiculed, ignored, and was trading at a PE multiple of 12.5 times. In the last 4 years (2017-2021), its stock price has risen at a compounded rate of 38% per annum. Buying at a reasonable price is an essential ingredient in getting a good return from our investments.

Buying a great company when fewer people want to buy it, is what "value investing" is all about. The idea of being careful about how much we pay for purchase of an asset is our idea of intelligent investing behaviour, and we see no reason to be apologetic about it.

It is another myth that "value investing" does not care about the future earnings potential of the company. Of course, value investors do care about the future earnings growth of the investee company. But they also care about not placing too much importance on the willingness of somebody else to buy an expensive stock at an even more expensive price, thus providing a convenient exit for anyone.

> "The best investors do not target return; they focus first on risk, and only then decide whether the projected return justifies taking each particular risk"
>
> -Seth Klarman

We cannot think of a better explanation of sensible investing than Seth Klarman's quote above. One of the major risks in investing is the risk of paying too high a price. If our investing success is dependent upon the willingness of someone else buying our stocks at **any** price, then we are not practicing investing, but something else.

Reversion to mean – the primary force in the market – some more Indian examples

Remember the most despised set of companies in India's stock market until about a year ago? It was the set of Public Sector stocks (PSU stocks). They are an interesting case study. We had touched upon this phenomenon in our June 2021 newsletter. After doing quite well in the decade 1999-2009, they significantly underperformed in the next decade (please see table below). So much so that very few investors had come to believe that they can perform in the stock market. The name "PSU" became the butt of ridicule. But many forgot that there were highly competitive PSU companies that had very stable and strong financial performances. And sure enough, in the last one year, the PSU stocks have come back strongly.

Period	S&P BSE PSU Index	S&P BSE 100 Index
1999-2009	20.31%	13.05%
2009-2019	3.86%	15.21%
Last 12 months (*)	86.62%	56.96%

Source: www.bseindia.com *(*) 12-month period ending September 2021.*

Interestingly, the 3-year CAGR performance of the BSE PSU index companies for EBITDA and net profit growth during the period 2018-2021 were 11.9% and 27.2% per annum, compared to 11.0% and 7.2% respectively for the BSE 100 companies (Source: ACE Equity)

We are of the opinion that an individual investor cannot consistently out-analyze the rest of the market about a company's prospects. He does not have superior information at his disposal, nor can he assume that he possesses superior intelligence. Just as the biggest bane of any policeman is the self-appointment as the next Sherlock Holmes, so too, the biggest bane of any investor is the self-appointment as the next Warren Buffett. An honest self-assessment is essential for any investor. And it is in the interest of any investor to pay attention to the risks first before thinking of returns.

Assuming that investing is all about correctly predicting by how much a company's earnings will grow, or how strong the company's competitive position is going to be, is only one part of the story.

The other (and important) part is about how much to pay for it. While we concede that there is no perfect system to determine this, any system that is logical, and consistently followed, is better than having no system at all.

By no means are we suggesting that this style is the best there is. No style is perfect. But by following this style, we have found a way to generate a decent return to our investors over the past many years. There are other portfolios that follow quite a different style and they have been successful too.

Dear investor, you would have observed that no single style is at the top of the performance table consistently. It is in therefore in your interest to choose portfolio managers with different styles so that the overall portfolio risk is spread out. If everyone has the same approach, all portfolios will resemble one another, rise, and fall together, and that is certainly not in your interest.

With warm regards,

Yours sincerely,

(E A Sundaram)

Chief Investment Officer and Portfolio Manager.

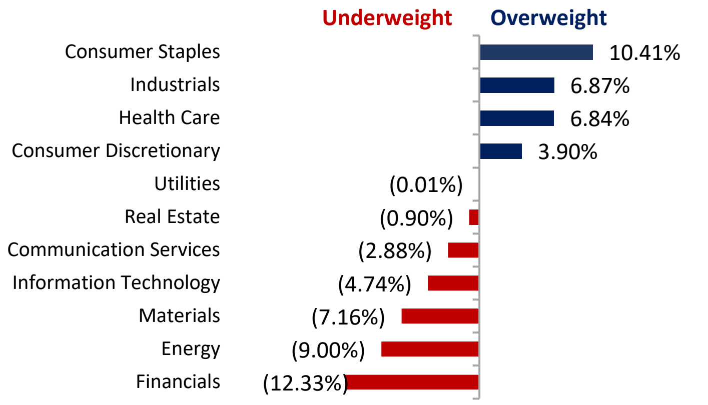
"We don't have to be smarter than the rest. We have to be more disciplined than the rest"

- Warren Buffett

Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 30th September 2021

Name	GICS Sector	Weight
ITC	Consumer Staples	7.17%
Oracle Financial Services Software	Information Tech	5.46%
Sanofi India	Health Care	4.66%
Colgate-Palmolive (India)	Consumer Staples	4.19%
Asian Paints Ltd	Materials	4.09%
HDFC Ltd	Financials	4.02%
Sun Pharmaceutical	Health Care	3.89%
Indraprastha Gas Ltd	Utilities	3.71%
HDFC Bank	Financials	3.64%
Larsen & Toubro Ltd	Industrials	3.54%
		44.37%

Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 30th September 2021



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

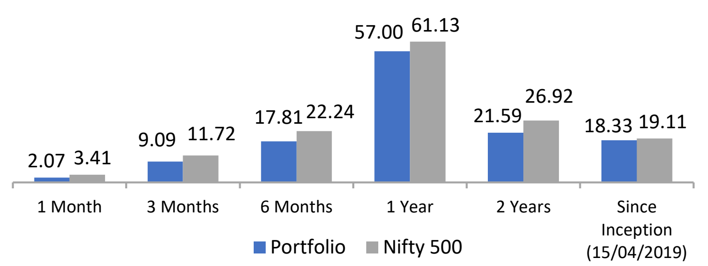
Regular Model Portfolio Details as on 30th Sept 2021	
Weighted Average ROCE	25.56%
Portfolio PE (1 year forward PE, Based on FY23)	25.73
Portfolio Dividend Yield	1.86%
Average Age of companies	62 Years

Regular Model Portfolio Composition as on 30th Sept 2021	
Large Cap	29.5%
Midcap	43.5%
Small Cap	18.0%
Cash	9.0%

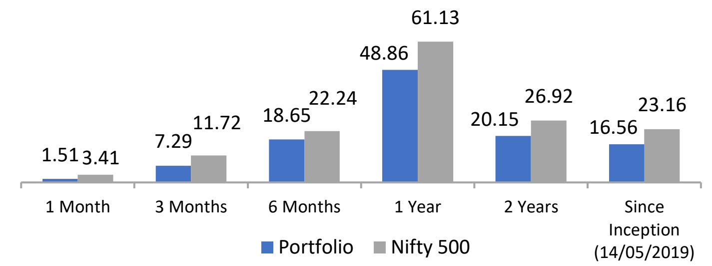
- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 30th September 2021
- Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 30th September 2021
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 30th September 2021

Regular Model Portfolio Composition as on 30th September 2021	
Model Portfolio Overlap with Nifty 500	15.34%
Model Portfolio Overlap with Nifty 50	17.20%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 30th September 2021



Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 30th September 2021



- 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.*