03

Investor NEWSLETTER

"The benefits and uses of contrarian investing"

Dear Investor,

As you are aware, we follow a style not usually followed by a majority of portfolio managers. The two main features of our investment process are

- Restriction of choices to very strong businesses that show the promise of remaining competitive in the foreseeable future, and
- Buying into such companies when they are not very popular in the stock market.

Both factors are very important. The basis of this approach is the firm conviction that the capital market does reward efficiency in the use of capital (and conversely, punish inefficiency in the use of capital), although it does not do so on a continuous basis. The intermittent inefficiency is when opportunities arise.

Over the long term, efficiency in the use of capital can be achieved in two ways:

- Investing only in companies that efficiently use their capital (based on measurable parameters like sustained return on capital employed, generation of free cash flows and other similar indicators), and
- Investing the client's capital more efficiently by not overpaying for what we buy.

Sometimes, there are doubts that have been expressed to us whether such a style works in today's environment. Our answer is an unequivocal YES. It does work. The important thing is to understand how to use this style properly.

Some examples from our portfolio over the last year

In any portfolio, not all stocks move up at the same time. Some come to their fruition earlier than the others. Here we just want to give some examples from our portfolio (over the last year) that have performed so far (*).

Company	Absolute Return %	Date of Purchase
Sun Pharmaceuticals	38%	March 2020
Asian Paints	18%	March 2020
VST Tillers	50%	May 2019
Multi Commodity Exchange	113%	April 2019
NOCIL	29%	December 2019
Sanofi India	49%	April 2019
Indraprastha Gas	19%	June 2019

(*) The actual returns for each client would be lower or higher than the figures quoted in the above table, depending upon the date of commencement of the portfolio. The returns have been calculated till 31st Aug 2020 from the date of purchase.

These companies are part of the portfolio. These represent stocks where the market view has coincided with our view. Of course there are others where such a thing has still not happened.

Coming back to the two original questions: What are the benefits and uses (for an investor) of a portfolio that follows this style of investing?

a. Lower cost of acquisition

The essence of the contrarian style of investing is to stay away from any stock or sector when it is in the midst of hype. Hype generally means that the stock is valued well in excess of its earnings capacity, or compared to its historical average valuations. When we buy a stock that is not hyped up, we buy cheaper, thus increasing our chances of investment success. The unyielding truth is that the returns from an investment is inversely proportional to the price paid for it.

b. Ability to acquire a decent quantity when prices are depressed

Buying when a stock is unpopular enables the investor to accumulate a decent quantity before it turns popular. A 0.25% position in a stock that quadruples in price serves the same role in a portfolio as a 5% position that grows by 20%. Buying when a stock is unpopular provides more opportunities for us to accumulate a decent position. It is worthwhile to remind ourselves that finding a stock that quadruples in price is considerably more difficult and rarer compared to finding a stock that grows by 20%.

c. Comfort that investments are happening in very competitive businesses

Contrarian investors don't attempt to buy simply because a stock is cheap or unpopular. They get interested only when a good business gets unpopular. Given the fact that the waiting period in some stocks can get elongated, the conviction to hold a stock under such conditions becomes much easier if the company is competitive.

For an investor, this style is most useful when the following points are observed:

a. Use a contrarian portfolio as a complementary product in the overall portfolio

If all portfolios were similar, they would rise together and fall together. This is hardly the ideal condition for the investor. The investor should ideally hold 4 or 5 products with different portfolios so that the risk is spread out. Of course, they will have different return trajectories – and that is a good thing.

b. Being aware that all styles ultimately converge in terms of performance

Irrespective of the style followed, or the capitalization tilt of the portfolio, all investment styles, if followed diligently, will converge in terms of returns. For example, please look at the data provided in the following table:

Time Period	BSE Sensex	BSE Midcap	BSE Smallcap
Apr 2003 - Mar 2008	39.51%	46.51%	54.41%
Apr 2008 - Mar 2013	3.78%	(0.91%)	(5.84%)
Apr 2013 - Mar 2018	11.85%	21.05%	23.97%
Apr 2018 - Mar 2020	(5.46%)	(18.63%)	(24.81%)
Apr 2003 - Mar 2020	14.48%	15.21%	15.00%

Source: BSE

Over a period of time, Large cap, Mid cap and Small cap products give the same return. The same is true of "aggressive growth" portfolios and "blue-chip" portfolios. It is also true of contrarian and value portfolios.

These styles are not competing against one another. They complement one another.

c. Creating a portfolio out of a collection of "good" products that are different from one another, instead of an excessive focus on the elusive "best" product.

NO INVESTMENT PRODUCT, ANYWHERE IN THE WORLD, CAN CONSISTENTLY GIVE THE HIGHEST RETURN. Investors would have observed that products that gave the highest return a few years ago are not longer at the top of the performance table. But it is amazing to note the constant effort to invest in the "best product". The hard truth is that there is no best product, because what is called the best keeps changing every few months. However, there are several good products that remain good for a long time.

Keeping in mind the point above, our portfolio fulfils the need of the investor in getting a collection of good quality businesses, while not overpaying for any of them, and at the same time providing a portfolio that has a low level of overlap with the index and with a significant number of investment products available in the market.

In essence, contrarian investing is one of the several methods used in equity investing. The returns from this style will neither be significantly superior, nor significantly inferior, to the other methods. This is borne out by our track record over the years.

Warm regards

Yours sincerely,

(E A Sundaram)

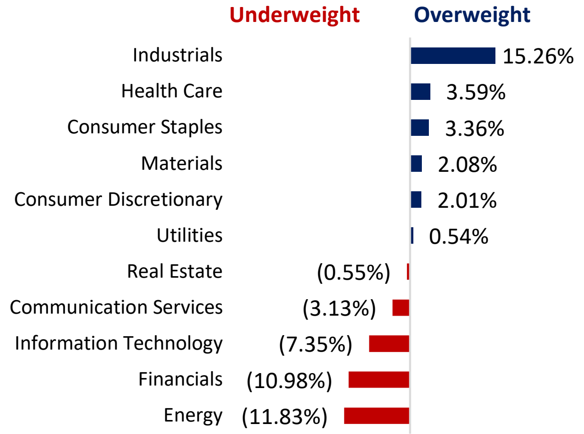
Chief Investment Officer and Portfolio Manager

"Observation over many years has taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions. The purchasers view the current good earnings as equivalent to "earning power" and assume that prosperity is synonymous with safety."

James Montier

Top 10 Holding of o3 Core Value Strategy - Regular Scheme Option as on 31st August 2020		
Name	**GICS Sector**	**Weight**
ITC	Consumer Staples	5.39%
Container Corporation of India	Industrials	4.79%
HDFC Bank	Financials	4.50%
State Bank of India	Financials	4.16%
Colgate-Palmolive (India)	Consumer Staples	3.95%
Cummins India	Industrials	3.45%
Oracle Financial Services Software	Information Tech	3.41%
Bosch	Consumer Discretionary	3.25%
Blue Dart	Industrials	2.82%
Castrol India	Materials	2.82%
		38.54%

Overweight / Underweight of Regular Portfolio Compared to Nifty 500 as on 31st August 2020



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

Model Portfolio Details as on 31st August 2020	
Weighted Average ROCE	28.79%
Portfolio PE (1 year forward PE, Based on FY22)	23.09
Portfolio Dividend Yield	2.21%
Average Age of companies	59 Years

Model Portfolio Composition as on 31st August 2020	
Large Cap	41.0%
Midcap	43.0%
Small Cap	9.0%
Cash	7.0%

- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 31st August 2020
- 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 31st August 2020
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on 31st August 2020

Model Portfolio Composition as on 31st August 2020	
Model Portfolio Over Lap with Nifty 500	13.43%
Model Portfolio Over Lap with Nifty 50	14.01%

Consolidated Portfolio Performance of Core Value Concentrated Strategy		
Period	31st August 2020	
	Portfolio	Nifty 500
1 Months	3.12	3.72
3 Months	11.20	19.81
6 Months	(1.09)	1.47
1 Year	(1.06)	4.39
Since Inception (15/04/2019)	(3.13)	(3.05)

Consolidated Portfolio Performance of Core Value Regular Strategy		
Period	31st August 2020	
	Portfolio	Nifty 500
1 Months	4.09	3.72
3 Months	13.79	19.81
6 Months	0.80	1.47
1 Year	3.15	4.39
Since Inception (14/05/2019)	0.05	1.77

- Since inception date stated is considered to be the date on which the first client investment was made under the strategy

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.