Equirus Core Equity

A Multicap Strategy

May 2022

Why Equities?

Equities as an asset class are the biggest wealth creator over time

Benefits Of Equities

Wealth Creation

- Equities have traditionally delivered much higher returns vs other asset classes
- Annualized return over 2001-2021: 15.2% in Nifty TRI, 12.7% in gold, 7% in fixed income (current SBI FD rate for 1-yr TD as proxy) and 8.2%/4.1% in Mumbai/Delhi real estate*
- Equities provide opportunity to generate huge wealth over long periods of time

Many ways to participate

- Investment into equities can be made through mutual funds, PMS strategies or direct stocks
- An investor can invest any amount that they want, unlike real estate

Higher Liquidity

- Equities are usually highly liquid and can be sold within a short span of time if required

Tax Advantage

- Equities in general enjoy a more favourable taxation structure in India

*Real estate return as per NHB's Residex index of respective cities and is from FY07 (14-year CAGR). Data prior to that is not published by NHB

Why Portfolio Management Services?

Mutual Funds are constrained by several factors; are increasingly becoming retail

Challenges with equity MFs

No differentiation

- Post regulatory changes in Apr 2018, many portfolios look alike
- Little lee way for the manager to go outside mandate; have to hug benchmark
- Can not build concentrated high conviction portfolio
- No customization or accommodation of preferred themes or sectors

Diminishing Alphas

- Beating benchmarks is becoming increasingly difficult for MFs
- Benchmarks now include dividend yield (Total Return Indices)
- Large size of funds - performance falls as size increases
- Information arbitrage is getting thinner as market is getting competitive

High Cost / Return Ratio

- Fees of 1.25-2% or more for an underperforming product is high

Sentiment Risk

- Greed and fear often drive the flows in retail investments like MFs: Inflows occur when least wanted and outflows when least desirable

Why Portfolio Management Services?

Mutual Funds have been underperforming

MFs as a category have been underperforming their benchmarks in recent years

Category	2021	2020	2019	2018	2017	2016	2015	2014
Equity: Large Cap	24.67	15.46	10.52	1.07	30.92	3.71	-1.06	36.18
Nifty 50 TRI	25.59	16.14	13.48	4.64	30.27	4.39	-3.01	32.90
Alpha	**-0.92**	**-0.68**	**-2.96**	**-3.57**	**0.65**	**-0.68**	**1.95**	**3.28**
Equity: Large & MidCap	37.25	16.67	7.91	-7.92	40.16	6.17	4.02	54.98
NIFTY Large Midcap 250 TRI	35.65	19.67	4.89	-6.21	42.43	4.70	2.80	46.18
Alpha	**1.60**	**-3.00**	**3.02**	**-1.71**	**-2.27**	**1.47**	**1.22**	**8.80**
Equity: Flexi Cap	32.08	15.49	9.7	-5.21	36.68	4.06	3.16	51.87
Nifty 500 TRI	31.60	17.89	8.97	-2.14	37.65	5.12	0.22	39.30
Alpha	**0.48**	**-2.40**	**0.73**	**-3.07**	**-0.97**	**-1.06**	**2.94**	**12.57**
Equity: Mid Cap	44.96	24.31	2.77	-12.16	43.15	4.8	8.76	73.11
Nifty Midcap 150 TRI	48.16	25.56	0.62	-12.62	55.73	6.53	9.70	62.67
Alpha	**-3.20**	**-1.25**	**2.15**	**0.46**	**-12.58**	**-1.73**	**-0.94**	**10.44**
Equity: Small Cap	63.15	30.48	-1.47	-18.63	54.8	5.61	10.32	87.19
Nifty Smallcap 250 TRI	63.34	26.46	-7.26	-26.15	58.47	1.39	11.27	71.66
Alpha	**-0.19**	**4.02**	**5.79**	**7.52**	**-3.67**	**4.22**	**-0.95**	**15.53**

Source: Bloomberg, valueresearchonline.com

A concentrated well-managed portfolio of high conviction stocks should be part of HNI portfolios

PMS strategies can offset some of the limitations and constraints of mutual funds

Plugging the gaps: Portfolio Management Services

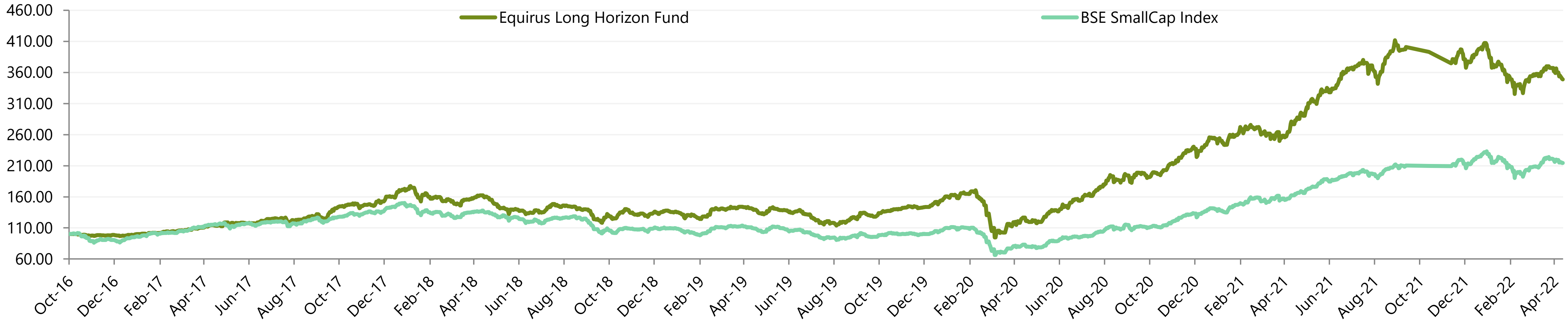
A portfolio of limited number of high-conviction stocks, built for long term, can:

- Outperform markets over time. Most returns are generated from limited number of high-conviction stocks
- Offer flexibility to play different themes at different times
- Help lower drawdowns by increasing cash percentage during times of extreme overvaluations
- Offer opportunity of outperformance through higher active share compared to mutual funds
- PMS strategies potentially offer better risk management due to flexibility to maneuver between market capitalizations

Equirus has a great track record in equity investing

Equirus Long Horizon Fund has delivered stellar returns since inception

	FY 16-17 (from Oct 20, 2016)	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	Since Inception (CAGR)
Equirus Long Horizon Fund	**6.9%**	**36.8%**	**-3.2%**	**-26.8%**	**144.2%**	**39.9%**	**25.3%**
BSE Small Cap	8.1%	17.7%	-11.6%	-36.1%	114.9%	36.6%	14.8%
BSE 200	6.0%	11.0%	10.7%	-26.4%	74.3%	19.9%	13.2%
BSE 100	6.1%	10.6%	12.4%	-26.6%	71.5%	19.2%	13.0%



Note: Return figures are post fees and as of Apr 30, 2022. Return data disclosed above in the table is TWRR,

Disclaimer: TWRR is calculated based on daily valuation of all the Clients. This may differ from individual client return as scheme return is combined for all the clients. Trading and investments in Equities are subject to market risk, there is no assurance or guarantee of the returns, it will be purely a target return rather than guaranteed return. Please read the Risk Disclosure Document carefully before investing. Performance related information provided therein is not verified by SEBI. All clients have an option to invest in the products / investment approaches directly without intermediation of persons engaged in distribution services.

Team with solid background and pedigree

Equirus boasts of a strong PMS team with wide and varied experience

Viraj Mehta
Fund Manager, Equirus Long Horizon Fund

- ELHF has delivered 25.3% CAGR since inception vs 14.8% for BSE Small Cap
- 13 years of investing experience; selected by WSJ as part of "Asia's Master Stock Picker" series for India
- Previously with Franklin Templeton as lead analyst for managing the small companies fund; Fund awarded the best small cap MF scheme by CRISIL & Business Standard. Also worked with ValueQuest Capital LLP
- MBA from MDI Gurgaon and Chemical Engineering from Nirma Institute of Technology, Ahmedabad

Gaurav Arora
Fund Manager, Equirus Core Equity

- 9 years of experience in the equity markets with excellent track record in investing
- Previously with Avendus Wealth Management managing client portfolios; beat benchmarks by a wide margin. Worked with Kotak Institutional Equities prior to that
- MBA from IIM Calcutta and Mechanical Engineering from BITS-Pilani

Neeraj Gaurh
Head of Research

- More than a decade of experience in finance across investment management, research, corporate banking
- Earlier VP, Equities in investment management team of Franklin Templeton. Also worked with ICICI Bank, Axis Bank, Lehman Brothers and Nomura Securities
- MBA from IIM Kozhikode; CFA charter holder from CFA Institute USA

Siddhartha Grover
Research Analyst

- 7.5 years of experience in equity research across sectors
- Part of Equirus PMS for more than 5 years; part of the team that delivered market bearing returns
- Previously with Banyan Capital Advisors
- BBE from University of Delhi; Cleared CFA Level II

Rushabh Sharedalal
Sr Associate, Research

- 3+ years of experience in equity research across sectors
- Previously with a reputed stock broking firm in Ahmedabad
- Chartered Accountant (CA) and M.Com. Currently pursuing CFA

Differentiated approach to portfolio management

Differentiated investments and non-model portfolio approach

What sets us apart

- Equirus does not follow a model portfolio for investments. We believe there is a buy zone, a hold zone and a sell zone where stocks trade and following a non-model-portfolio approach is the most optimum way
- Portfolios with different inception dates will likely have different stock weightages and even different stocks at times
- We look at overlooked/ignored/out-of-fashion businesses with solid and/or improving fundamentals. This, by definition, means that our portfolios are likely to have low overlap with other PMS / mutual fund portfolios

Equirus
onward upward

Illustration of investing thought process

Investment thesis behind some of the winners of recent past

SBI *(Initial purchase at Rs187)*

Bought when worries were pervasive and valuation was dirt cheap; asset quality held up better than expected

- Adjusted for valuation of subsidiaries, core book was valued at near-zero in the middle of 2020. Even back then, SBI was the best placed PSB in terms of capital and a solid liability franchise. Also it was coming out of a long corporate NPA cycle
- Market was overly worried about multiple Yes Bank type bailouts by SBI in the wake of the pandemic

Bajaj Finserv *(Initial purchase at Rs4,661)*

Triple play on NBFC + Life Insurance + General Insurance

- Bajaj Finance would have faced collection issues during the pandemic given the nature of the products. However, valuations more than discounted that. The assumption one had to make was that the disruption would not last beyond 2 years
- Bajaj Finance was being valued at ~2.7x 20yr forward P/B which was 2 standard deviations below its long-period average despite long term fundamentals remaining intact. Factoring those low multiples, Bajaj Finserv was trading even cheaper at ~25% discount to fair value. Thus, Bajaj Finserv offered twin advantages at the time: bounce back of Bajaj Finance and reduction of nearly 60% discount for Bajaj Finserv.

IEX *(Initial purchase at adj. price of Rs63)*

Monopoly, multiple avenues for robust transaction volume growth

- Rising share of electricity traded via exchanges (4% in Aug-20, 6% now)
- Multi-year growth trajectory – FY21 volume / PAT growth was 25% / 18%; 1HFY22 volume / PAT growth was 54% / 61% as new segments – RTM, TAM and GTAM ramped up well
- At the time of purchase, 1-yr fwd P/E was 28x, and 2-yr PEG of 1.7x, which were reasonable for a growing monopoly

KEI Industries *(Initial purchase at Rs508)*

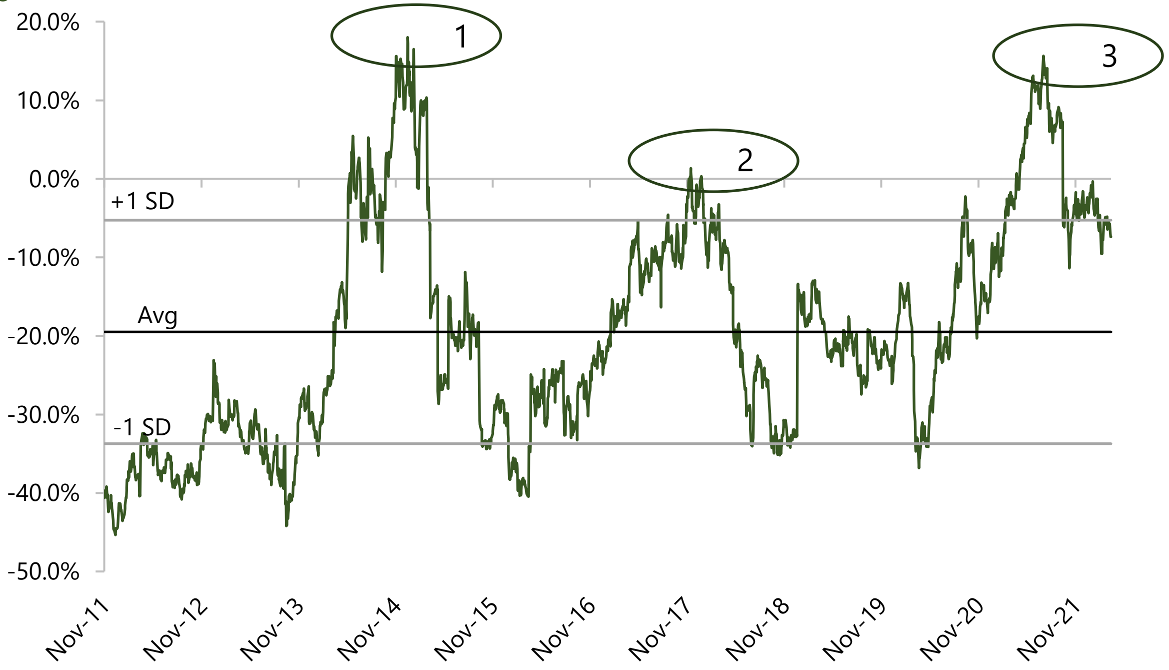
FMEG play with growing branded biz at attractive valuations

- Improving product mix and presence in dealer-distributor segment (29% of sales in FY20 to 40% of sales in FY22) Higher share of retail translated to higher margin, lower working capital intensity and hence better cash flow profile
- KEI was well positioned to maintain a mid-to-high teen earnings growth despite scaling down its EPC business as a result of increasing market penetration and branding
- Margin improvement + improving brand equity to attract higher multiple - was trading at ~9.5x FY23E P/E vs peers' 18.5-55x

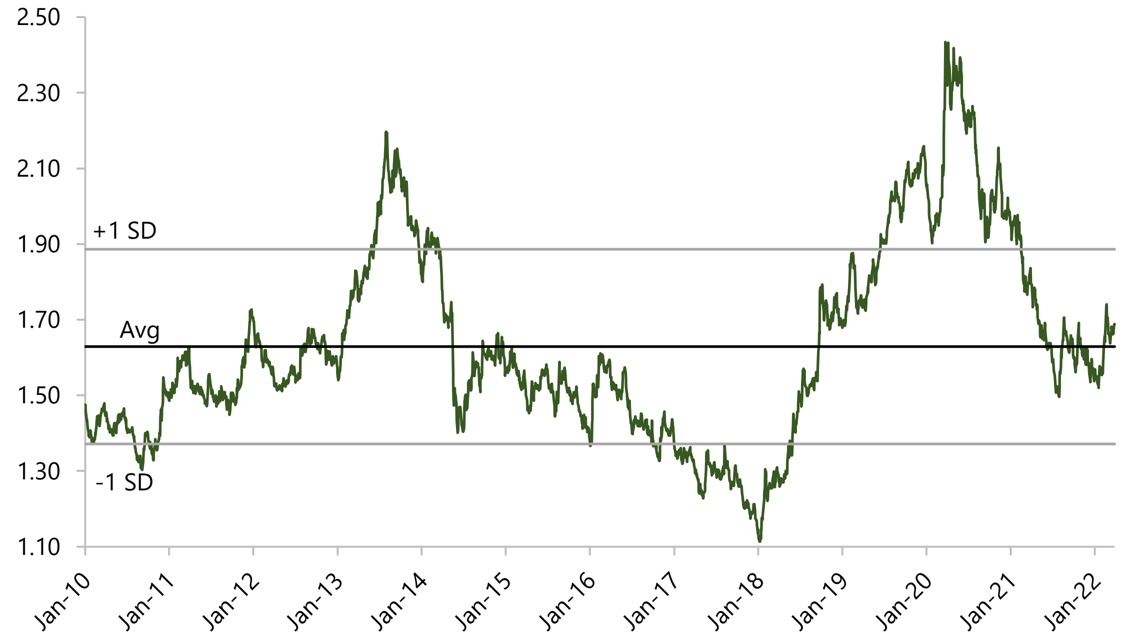
Why Multicap PMS?

Both small caps and mid/large caps have a place in the portfolio – while small caps can generate superior alpha over time, large/mid caps lend stability to the portfolio and at times, provide better risk-adjusted return

NSE Smallcap valuation premium over Nifty



Nifty / NSE Smallcap Ratio



1

- 1-Year Return – Nifty: -4.1%, NSE Smallcap: +7.2%
- 2-Year Return – Nifty: -1.2%, NSE Smallcap: +2.3%

2

- 1-Year Return – Nifty: +2.1%, NSE Smallcap: -33.0%
- 2-Year Return – Nifty: +14.8%, NSE Smallcap: -37.0%

3

- Return since then, till 30.03.22 – Nifty: +11.1%, NSE Smallcap: -0.8%

Equirus
onward upward

Why Multicap PMS?

Large cap companies have certain inherent advantages

Size

- Market Leadership in their sectors
- Institutionalized corporate structures
- Likely to have strong competitive advantages

Diversification

- Diversified products/services make them less prone to disruptions
- Geographical diversification acts as a shield against region-specific issues

Survivability

- Large companies usually have better access to relatively cheaper capital leading to better survival rates in tough times
- Ability to invest into newer areas is better

Technology/Human Capital

- Better access to technology and capability to attract skilled managerial/technological talent

Investment Philosophy

Profitable Growth and Longevity at a reasonable Price

Profitable

- High (and preferably increasing) returns on capital and equity
- Ability to grow without needing large amounts of capital

Growth

- Large opportunity size and runway for growth relative to current size
- Large market or share gains or product/market expansion

Longevity

- Sustainable competitive advantage over medium to long term
- Could be in many forms such as brand, network effects, regulations etc.

Reasonable Price

- Reasonable margin between market price and intrinsic value
- High cash generation preferred. DCF and P/OCF are useful tools

Investment Philosophy

Profitable Growth and Longevity at a reasonable Price

1

Growth vs Value

- We believe growth and value are intrinsically linked. Our endeavor is to find companies priced below their fair value by a reasonable margin
- We consider price to be as important as sustainability, pace & longevity of growth and return on capital. This is where we differ from many peers

2

What do we prefer

- Companies which require little capital to grow, have large headroom for growth and have durable competitive advantage
- All else being equal, we prefer promoter-run companies, disruptors or beneficiaries of disruption and companies seeing positive change(s)

3

What do we avoid

- PSUs except in select cases, companies prone to large scale disruptions and companies with questionable promoter/management behavior/intent

4

Momentum vs Contrarianism

- We believe outsized returns can be generated by taking contrarian calls at times. We carefully examine ignored and disliked industries

5

Stock Picking

- Mix of top-down and bottom-up. We look for pure bottom-up ideas as well as ideas within some preferred themes

Equirus
onward upward

Investment Philosophy

Profitable Growth and Longevity at a reasonable Price

6

Diversification/Concentration

- Relative concentration with around 20 stocks in a typical portfolio

7

Market Cap Split

- Typical market cap split: 50-60% large caps, 20-30% mid caps and 10-30% small caps. This split is purely indicative and may change substantially from time to time depending on market conditions and return expectations from individual ideas.

8

Market Timing and Cash Calls

- Fully invested usually, except at times of extreme overvaluation or overstretched markets

9

Time Horizon

- Typical holding period: 2 to 5 years with low portfolio turnover resultantly

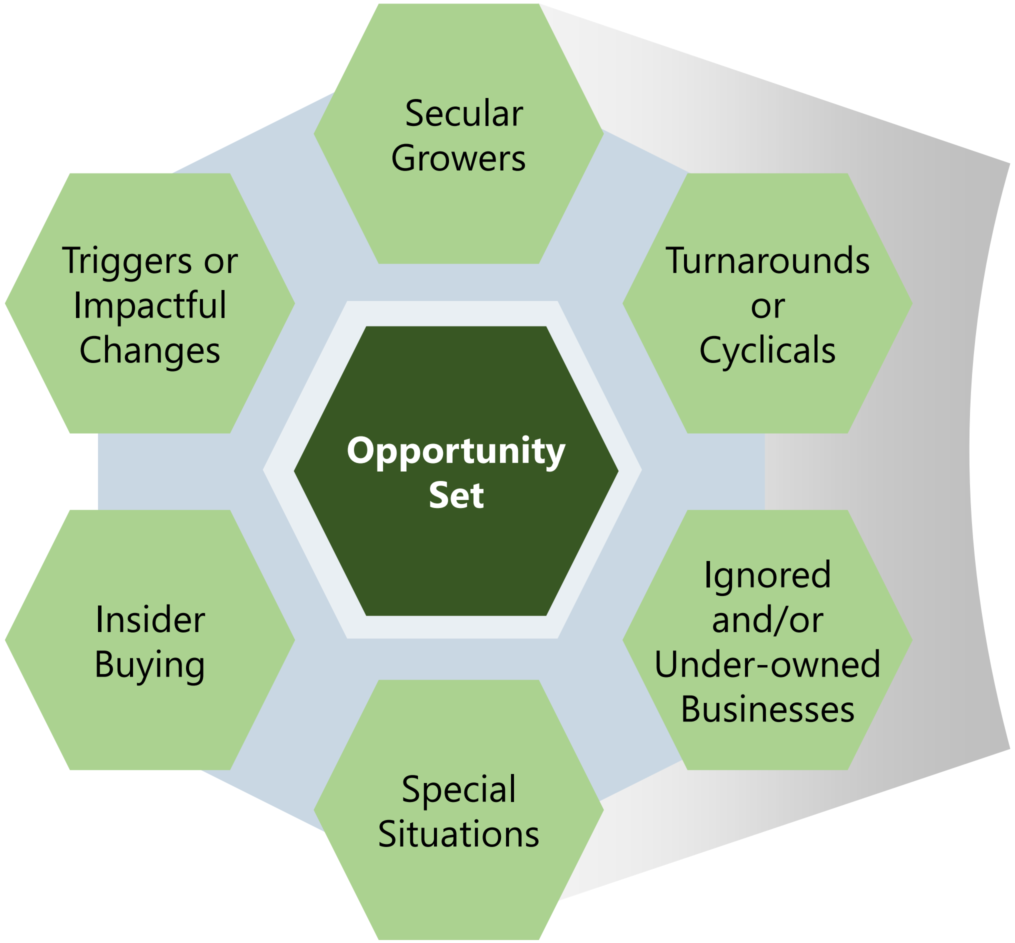
10

Risk Management

- Through continuous monitoring of invested companies' performance and trimming/exiting position when thesis goes wrong
- Individual stock and sector weights limited to less than 10% and 25% respectively at purchase

Investment Strategy

Investment Horizon: Minimum 3 years



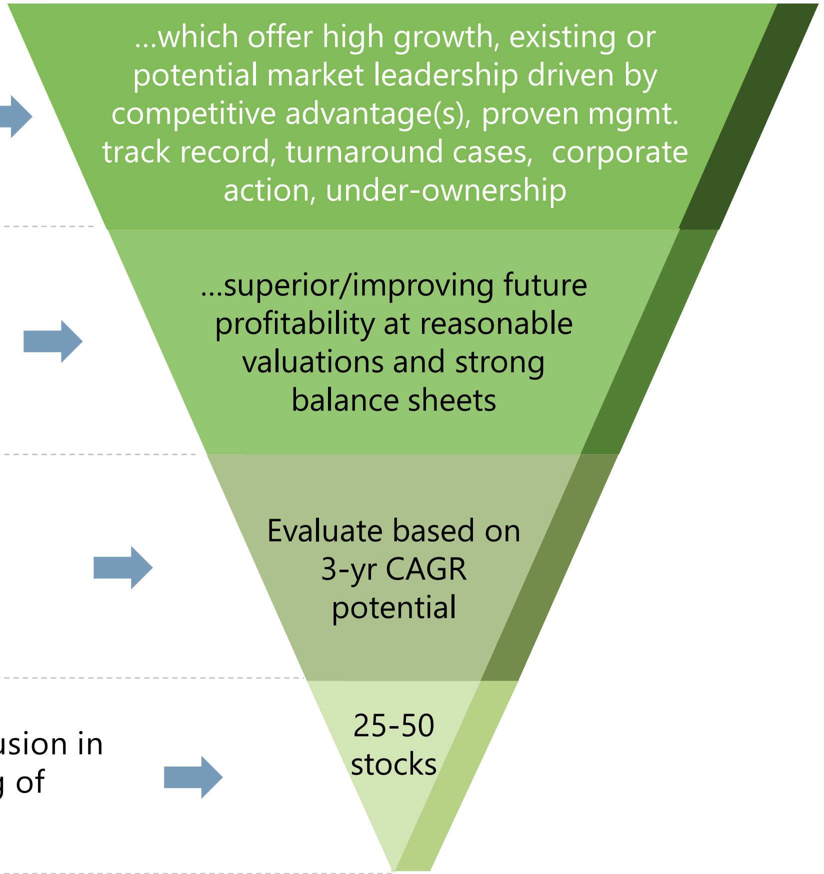
Stock Selection Framework

Universe is the listed Indian equity space with companies…

Screening, Research & Analysis for companies with…

Formulation of Investment Rationale

Acceptance of Stock Idea and inclusion in portfolios | Continuous monitoring of investment theses and weightages



Portfolio typically concentrated in 20-25 stocks

Investment Strategy

Our approach/offering

1

Investment Objective and Style

The investment objective is to generate capital appreciation predominantly through investments in equities with a long-term perspective.

Parameters for a potential investment:

- Secular growth at a reasonable price
- Existing leader or worthy competitor – sustainable competitive advantage
- Increasing profitability as a result of business turnaround and/or turn in cycle
- Try to avoid over-owned companies unless highly compelling opportunity. On the contrary, look for potentially ignored/under-owned companies
- Strong and/or improving balance sheet strength
- Strong management track record
- Fairly priced or undervalued opportunities. Avoid overpaying

2

Alpha generation opportunities for next 2-3 years

For the next 2-3 years, we see opportunity for alpha generation in:

- Companies benefitting from recovery in capex cycle. Companies in corporate lending, capital goods, infrastructure/EPC, power, building products should outperform the broader economy
- Traditional value outperforming traditional growth as interest rate cycle potentially turns after several years
- Long term secular themes such as increasing digitization & adoption of internet, financialization of economy, growth in exports (market share gains globally), urbanization, formalization of economy and increase in spending on discretionary/luxury/aspirational segments

3

Other areas

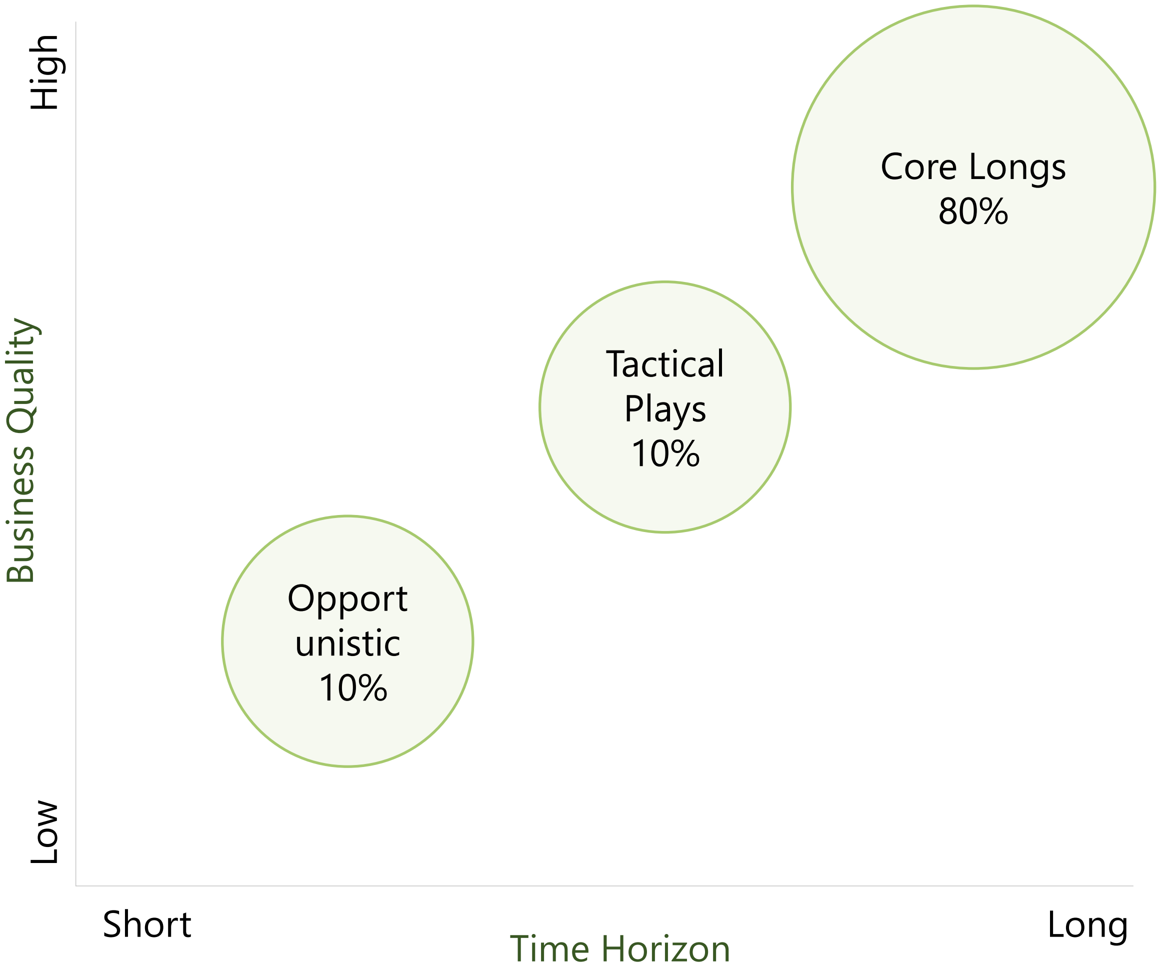
We also look for opportunities in the following areas, provided other parameters are met:

- Special situations such as spinoffs, M&A, management changes etc.
- Insider buying by management and employees
- Ignored IPOs, companies with scarcity premia etc.

Investment Strategy

Target Portfolio Plan

(% of Portfolio)



Core Longs

- High-quality, High-conviction long term (2-5 years) positions
- Relatively higher concentration per position at cost
- Low turnover

Tactical Plays

- Slightly lower quality usually vs Core Longs
- Medium concentration per position at cost
- Enhanced price discipline

Opportunistic

- Special situations, price/undervalued/oversold opportunities
- Undiscovered/low-coverage opportunities
- Moderate concentration per position at cost
- Asymmetric payoff potential

Note: This is an indicative allocation plan and might vary from time to time depending on market conditions and opportunities available.

Exit strategies

Partial Selling

- Fundamentals start to deteriorate and stock weightage is high
- Parabolic moves in stock prices will trigger review of position and weights
- A new investment idea with better risk-reward identified

Complete Exit

- On proof that investment thesis is unlikely to play out or that initial investment thesis was wrong
- Investment argument changes due to changes in environmental or company-specific factors
- Absolutely unfavorable risk reward after rapid rise in stock price and all scenarios fail to justify the valuations

Key details

Strategy Name	Equirus Core Equity
Portfolio Manager	Gaurav Arora
Date of Inception	15th May 2022
Applicable Regulations	SEBI (Portfolio Managers) Regulations, 2020
Investment Philosophy	Profitable Growth and Longevity at a reasonable Price
Management Fee	2.5% per annum charged on monthly basis based on average AUM of the month (i.e. average of starting and ending AUM of the month)
Exit Load	2% in Year 1, 1% in Year 2
Redemption Notice	At least 30 days
Minimum Investment Amount	INR 50 lakh
NAV Calculation	Daily
Reporting	Monthly account statement, quarterly letter, annual audit
PMS Administrator	Orbis Financial Corporation Ltd.
PMS Internal Auditor	Aneel Lasod and Associates

Disclaimer

Client has an option for direct onboarding and can directly approach us at pmsops@equirus.com. Past performance does not indicate its future performance and investors are not being offered any guaranteed returns. Performance related information provided herein is not verified by SEBI.

This presentation has been prepared by Equirus Wealth Private Limited (Equirus) for restricted distribution. Please read the Risk Disclosure Document carefully before investing. No representation or warranty, either expressed or implied, is made nor responsibility of any kind is accepted by Equirus or Group Companies or its Directors or employees either as to accuracy or completeness of any information stated in this document. Neither Equirus nor any of its affiliates and/or their directors, officers, employees, shall in any way be responsible or liable for any losses or damages whatsoever which any person may suffer or incur as a result of acting or otherwise relying upon anything stated or inferred in or omitted from this presentation
Opinions and projections found in this presentation reflect our opinion as of the presentation date and are subject to change without notice. This presentation is neither intended nor should be considered as an offer or solicitation or as the basis for any contract for purchase of any security, loan or other financial instrument.

For any other queries write to us at
contact@equirus.com

Corporate Office :

Equirus Capital Private Limited

12th Floor, C Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai - 400 013

Equirus Securities Private Limited

21st Floor, A Wing, A-2102, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai - 400013

3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas, Sola Bridge, S.G. Highway, Ahmedabad - 380 054

Equirus Wealth Private Limited

AMFI-registered Mutual Fund Distributor

21st Floor, A Wing, A-2102, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai - 400013

Equirus Insurance Broking Private Limited

12th Floor, C Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai - 400 013

IRDA Licensed Direct Insurance Broker (Life & General) | License # 763 License Validity: 1st August 2021 to 31st July 2024

CIN: U67100MH2008PTC185564