

### Why our portfolio does not invest in IPOs

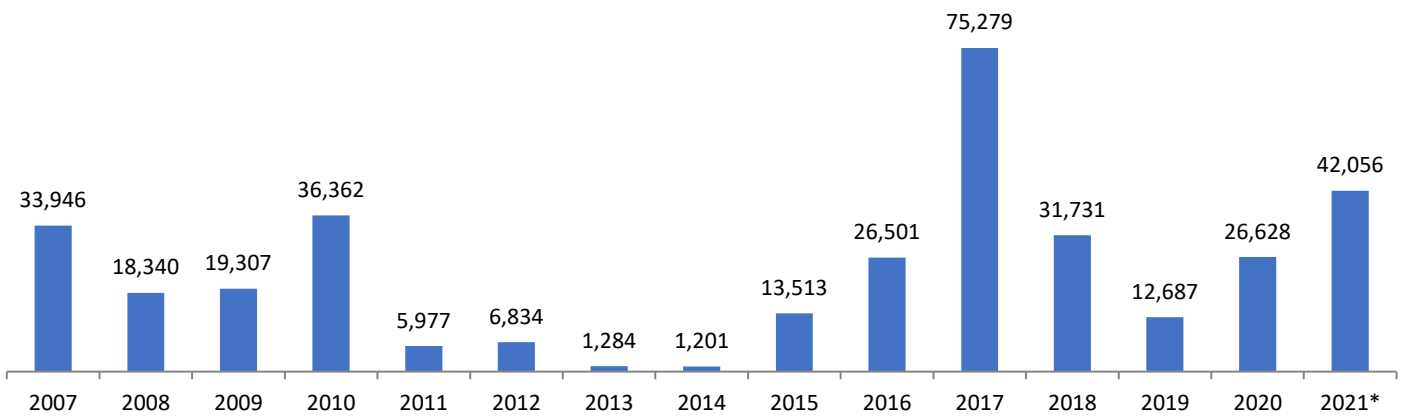
Dear Investor,

Recently, we have seen a spate of Initial Public Offerings (IPOs) that have hit the market. Some of them have given a very good return to those who have been lucky enough to receive allotments. You probably have wondered why our portfolio has not applied for or invested in any of them. Let us try and answer this question with these facts:

The IPO market is seasonal. Not in all years do IPOs become popular, but when they do, there is a frenzy to invest in them. Let us have a look at some IPO collection data in India over the last many years:

#### India – Annual collections in IPOs

India - collections in mainboard IPOs (Rs. crore)

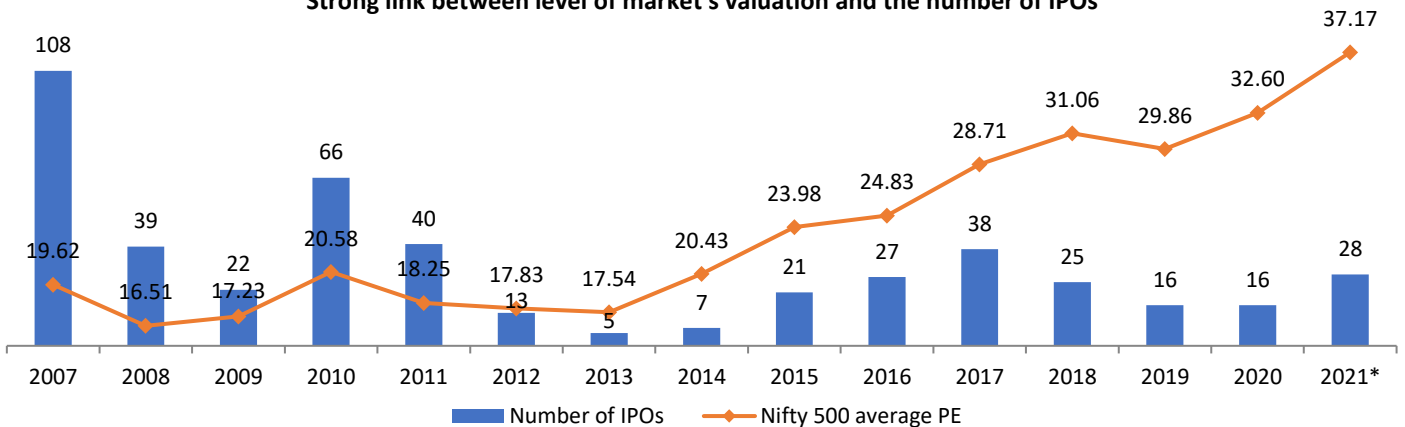


Sources: NSE and media reports Note: Figures for 2021 are until July only.

The data for 2021 is only for the period January-July. The country is expected to see a fresh rush of IPOs in the coming months, with companies like PayTM, Nykaa, LIC amongst others planning to issue fresh shares. As of today, it does seem that the collection figures in 2021 would exceed the numbers witnessed in 2017 (the previous record).

It is also interesting to see the link between the levels of market valuation and the number of IPOs each year.

Strong link between level of market's valuation and the number of IPOs



Sources: NSE and media reports Note: Figures for 2021 are until July only.

It is evident that an IPO has better chances of being successful when the general investing public is excited about the stock market. In other words, an IPO has more chances of being a success when the valuation level in the market is higher.

In addition, it is in the interest of the merchant bankers to maximize the issue price for their clients. The bullish market provides the opportunity to merchant bankers to create the buzz or hype around the companies to make the IPO more successful. This is another powerful reason why IPOs tend to succeed more in bullish markets.

It is our suggestion that Investors need to be aware of the type of company issuing the IPO. Some are very well-established companies that have been profitable for a long time, and there are others who are “conceptual” companies that are yet to prove themselves by traditional yardsticks. Investors also need to be aware of whether the proceeds of the IPO is going towards any productive use such as setting up new manufacturing facilities, reduction of debt, or is it primarily to provide an exit for earlier-tier investors such as private equity funds.

**There are investors like the Core Value PMS that seek to invest in good quality companies when they are not very popular.** This means that we naturally avoid situations of hype (situations of higher valuations) which are very much prevalent during successful IPO times.

Let us also not forget that for the HNI category or retail category, the ratio between the number of shares allotted in an IPO and the number of shares applied for, remains very marginal. In a good quality IPO, the ratio tends to be 1:30 or 1:40 or sometimes even lower. Added to that is the cost of borrowing from finance companies that help the investor leverage to invest larger sums. The price after listing needs to be sufficiently high to compensate the investor for these borrowing costs, and the low allocation.

After careful consideration of these factors, we think that it is very much in the investor’s interest to wait for the share to get listed on the exchange and, after a while, wait for the hype around the company to reduce significantly. This happens to ALL companies at varying points of time.

If the company continues to be competitive and profitable, we would like nothing more than buying up adequate quantities of the stock when it is not being “pushed”. Buying from the exchange allows us to buy all the quantities we want.

We are not saying that NOBODY should invest in IPOs. All that we are saying is that we will not, and that is not such a bad thing.

Warm regards,

Yours sincerely,

**(E A Sundaram)**

*Chief Investment Officer and Portfolio Manager*

“There are three ingredients for success – aggressiveness, timing and skill – and if you have enough aggressiveness at the right time, you don’t need that much skill.”

- Howard Marks

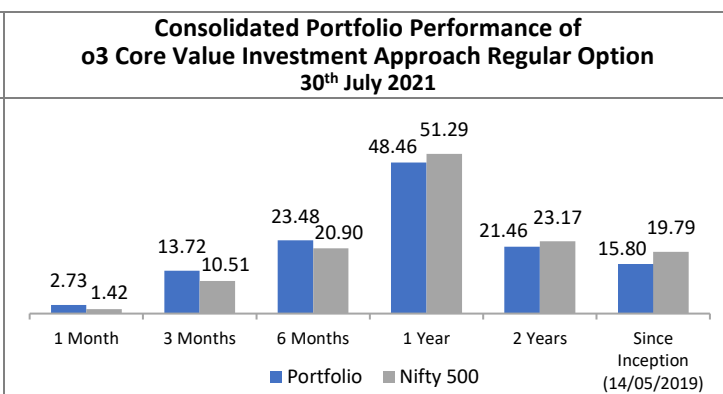
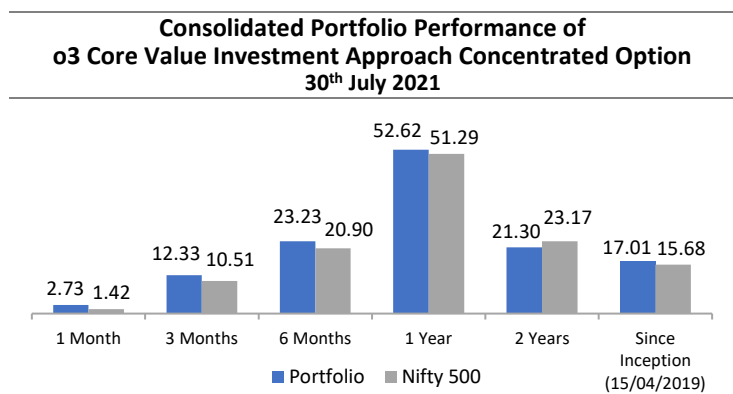
Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 30 <sup>th</sup> July 2021			Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 30 <sup>th</sup> July 2021	
Name	GICS Sector	Weight		
ITC	Consumer Staples	6.01%	Consumer Staples	9.99%
Oracle Financial Services Software	Information Tech	5.99%	Industrials	6.89%
Asian Paints Ltd	Materials	4.49%	Health Care	6.30%
Colgate-Palmolive (India)	Consumer Staples	4.11%	Consumer Discretionary	3.12%
Sanofi India	Health Care	3.98%	Utilities	0.32%
Computer Age Management Services	Information Tech	3.91%	Real Estate	(0.73%)
Sun Pharmaceutical	Health Care	3.91%	Communication Services	(2.57%)
Larsen & Toubro	Industrials	3.52%	Materials	(3.67%)
HDFC Bank	Financials	3.45%	Information Technology	(8.11%)
Bosch Ltd	Consumer Discre	3.42%	Energy	(8.16%)
		<b>42.79%</b>	Financials	(12.37%)

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

Regular Model Portfolio Details as on 30 <sup>th</sup> July 2021		Regular Model Portfolio Composition as on 30 <sup>th</sup> July 2021	
Weighted Average ROCE	25.53%	Large Cap	39.0%
Portfolio PE (1 year forward PE, Based on FY23)	25.45	Midcap	41.5%
Portfolio Dividend Yield	1.87%	Small Cap	10.5%
Average Age of companies	63 Years	Cash	9.0%

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

Regular Model Portfolio Composition as on 30 <sup>th</sup> July 2021	
Model Portfolio Overlap with Nifty 500	16.76%
Model Portfolio Overlap with Nifty 50	19.35%



- 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. *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.*

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