EAS Invest o3

o3capital

"All intelligent investing is value investing" - Charlie Munger

Dear Investor,

We had touched upon this topic in one of our Newsletters last year, and because we think it is important enough, we would like to elaborate on this topic again.

You would recall that we had described the debate around the relative merits of "growth investing" and "value investing" as one that was unnecessary. We still feel that way.

As we have been saying repeatedly in the past, different styles of investing display different trajectories of performance. The important thing is to clearly state the style that one would be following and stick to it.

Until sometime ago, the popular perception was that the "value style" of investing has no place in the modern world. That perception has been more or less put to rest in the last year and a half. Please take a look at the following table that gives the comparative performances of the Growth style and Value style over the last decade or so.

Table 1. Returns from the S&P 500 Pure Growth Index and the S&P 500 Pure Value Index.

	Total Return		
Calendar Year	**S&P 500 Pure Growth Index**	**S&P 500 Pure Value Index**	**Outperformer**
2012	15.43%	25.59%	Value
2013	43.85%	48.11%	Value
2014	14.29%	12.69%	Growth
2015	2.71%	(8.14%)	Growth
2016	4.22%	19.62%	Value
2017	26.76%	17.73%	Growth
2018	(4.22%)	(12.00%)	Growth
2019	28.99%	25.45%	Growth
2020	29.66%	(8.71%)	Growth
2021	29.81%	34.63%	Value
YTD 2022 (*)	(30.94%)	(11.92%)	Value

Source: www.spglobal.com

(*) Data for 2022 is updated till 30th September 2022.

After seeing this data presented above, how can anyone conclude that "value investing" is irrelevant?

Our portfolio does not fit the general misperceptions around "value investing" - We follow common-sense investing

Value investing has been described as "buying cheap stocks" based on either price earnings multiple, or price/book value multiple. In our scheme of things however, buying something simply because it came cheap is not what value investing is all about. We cannot buy junk quality assets just because they came cheap, or because we expect someone else to buy them from us at a higher price. Nor do we ignore the importance of intangible assets. We prefer to call our style **common-sense investing**.

The important thing is to remember that **in any form of economic activity, the price at which the asset is purchased has a bearing on the returns or profits we can expect to make out of it**, and this aspect of buying should not be ignored while buying stocks.

We do not subscribe to the view that "the market" is the final arbiter about what is worth buying. There have been many instances in several bull markets, where stocks of companies with clearly inferior business models and/or balance sheets race well ahead of the stocks of companies with much stronger balance sheets. We also see many instances when stocks of excellent quality businesses remain depressed for a long time. We simply cannot accept that whatever is going up represents a good investment, nor accept that whatever has lagged behind in stock price movement is not a good business to invest in.

We would like to quote Seth Klarman who has described sensible investing in a most succinct manner:

"The line that I draw in the sand is that if an asset has cash flow or the likelihood of cash flow in the near term and is not purely dependent on what a future buyer might pay, then it is an investment. If an asset's value is totally dependent on the amount a future buyer might pay, then its purchase is speculation"

There are, we believe, only two things that any good investing program should focus upon:

- WHAT we buy, and
- HOW MUCH are we willing to pay for it.

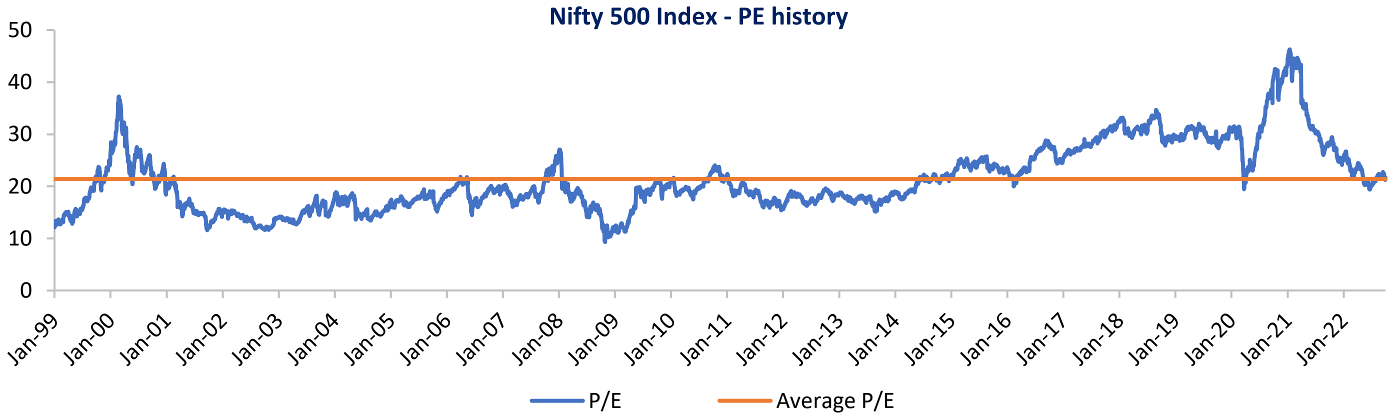
Both these points are extremely important. We cannot buy even the best of assets at ANY price, and this problem will be faced increasingly in a highly bullish environment. Sometimes, the best thing to do is not do anything at all.

A bit about "outperforming" - In a bullish environment, if a portfolio is outperforming, what it really means is that the portfolio has overweight positions on stocks that are already overvalued. Buying under such conditions would mean that one is dependent on some other person willing to buy the same stocks at even higher prices. Such a scenario thrives when availability of funds is plenty and at cheaper rates.

Alas, availability of cheap and easy funds is not a permanent feature. When liquidity becomes tighter, naturally the focus turns to better quality businesses and the focus on valuation becomes sharper. That is when portfolios with focus on valuation tend to do better.

A word about the overall index valuations:

We believe that for a stock picker, the overall market index is of less relevance, because the index is not a monolithic entity. There are parts of the market that are very expensive, and parts of the market that are not. That said, a look at the valuation level of the index makes interesting reading:



Source: www.nseindia.com

The chart above shows the PE history of the Nifty 500 index from January 1999 till September 2022. The PE valuation of the Nifty 500 Index (on a trailing 12-month earnings basis) is very close to its long-term average valuation.

However, as we have stated, there are companies who are far more competitive than the average, and stocks that are far more attractively valued than the average. It is our job as investors to seek opportunities of this kind, irrespective of the level at which the Index is trading.

We seek to do just that.

Warm regards

Yours sincerely,

E A Sundaram
Chief Investment Officer and Portfolio Manager

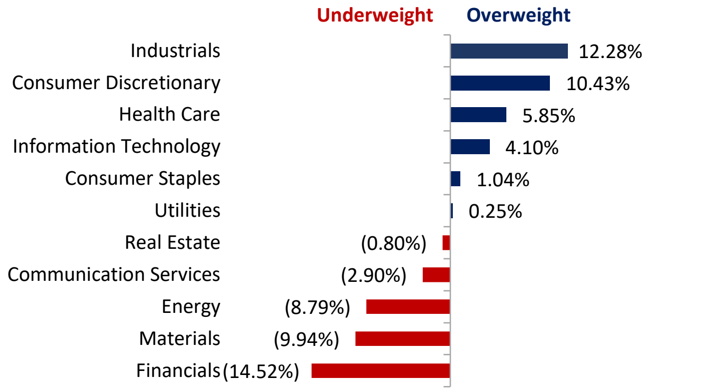
"We don't have to be smarter than the rest. We have to be more disciplined than the rest"
- Warren Buffett

Investment Objective: The investment objective is to achieves capital appreciation through investment in a diversified portfolio of high-quality companies, purchased at reasonable valuation.

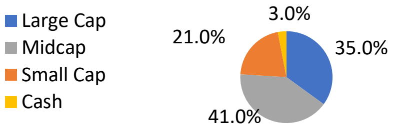
o3 Core Value Investment Approach

Name	GICS Sector	Weight
ITC	Consumer Staples	6.95%
HDFC Ltd	Financials	4.75%
Indraprastha Gas Ltd	Utilities	4.40%
Bosch Ltd	Consumer Discretionary	4.32%
Asian Paints Ltd	Materials	4.30%
Titan Company Ltd	Consumer Discretionary	4.07%
Cummins India	Industrials	3.82%
Larsen & Toubro Ltd	Industrials	3.64%
Sun Pharmaceutical	Health Care	3.57%
Honeywell Automation	Information Technology	3.50%
		43.32%

Regular Model Portfolio Data



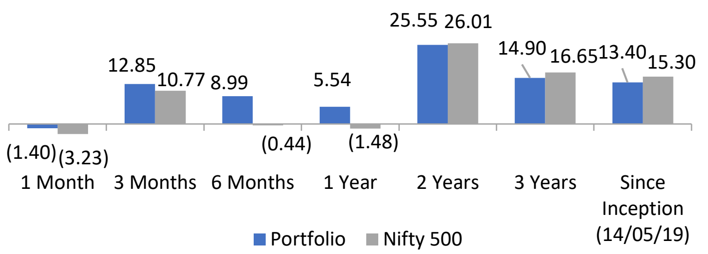
Performance Description	Regular	Concentrated	Nifty 500
Largest Monthly Gain	12.51	11.41	14.52
Largest Monthly Loss	(20.53)	(19.19)	(24.25)
Beta of Portfolio	0.76	0.74	
Standard Deviation (Annualised)	17.15	16.69	
Correlation	0.93	0.92	



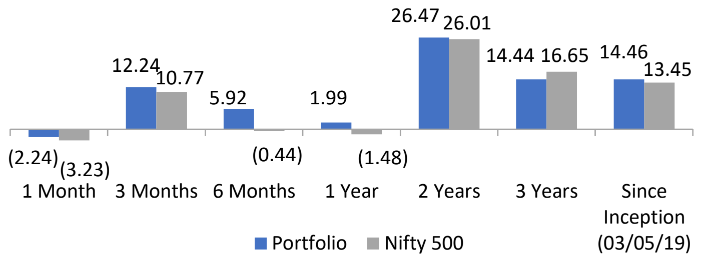
Regular Model Portfolio Composition

Weighted Average ROCE	23.76%
Portfolio PE (1 year forward PE, based on FY24)	25.55
Portfolio Dividend Yield	2.13%
Average Age of companies	59 Years
Overlap with Nifty 500	18.43%
Total Debt/Equity	0.42
Debt/Equity (Excluding Financial Stocks)	0.10
Sales Growth	19.70%
EPS Growth (FY24 over FY22)	19.88%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 30th September 2022



Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 30th September 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 active client investment was made under the investment approach
- Industry Classification as recommended by AMFI, all the above data are as of 30th September 2022

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 investment approach. 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. Beta, Standard Deviation & Correlation are from Since Inception period.*

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