Composite Investments
Private Limited

Composite India GARP Fund

Newsletter - March 2021

In this second edition of the scheme newsletter, we want to focus on some important questions

- How have we performed?
- Have we walked the talk?
- How consistent have we been in our thought process and execution?

Historical Scheme Performance

It has been almost two years since we launched the Composite India GARP Fund. In these two years the market has thrown a lot at us, the data tells us that we have managed to do things right more often than not.

	Absolute Return over the period in %			
	3 Months	6 Months	1 Year	Since Inception
Composite India GARP Fund				
Scheme Weighted Average Return	10.86%	29.39%	78.31%	92.00%
Scheme NAV Return	10.78%	29.61%	88.24%	70.42%
Benchmark				
S&P BSE 500	7.11%	31.99%	76.62%	27.10%

(Performance Data as of March 31, 2021, Inception Date 22 April 2019)

Capital preservation over the medium term continues to be one of our key objectives. ***Unless we can demonstrate success over the medium term, we are unlikely to succeed over the long term.*** The long term is a series of medium terms in our book, most investors in the Indian market would agree.

We continue to build up allocation to equities steadily, irrespective of how buoyant the market conditions are. We continue to be bottom-up stock pickers while we continue to closely monitor risk limits. In general, our alpha generation is driven off stock picking while risk mitigation is driven off the overall portfolio construct.

We continue to run differentiated portfolio with less than 12% overlap with the NIFTY50 index.

Walking the talk

Our first newsletter elaborated on our investment philosophy, summarizing the key messages from there

- Our portfolios are constructed to minimize balance sheet risks at all times
- Our portfolios are constructed to keep valuation risk within limits
- We do not go with a model portfolio approach
- We will sell/prune once the price crosses our limits of over valuation
- Our classification mechanism makes a clear distinction between core holdings and tactical holdings
- Our allocation to cash can be high at times

In this newsletter we look back at how we walked the talk on some of these central points through the tumultuous phase starting February 2020. Timely calibration was the need of the hour, though holding through the crisis was very important.

We did reduce positions to keep allocation in line with our risk management framework. For example, we have pruned our exposure to APL Apollo Tubes multiple times in response to the steep run up in the stock price over the past 6 months.

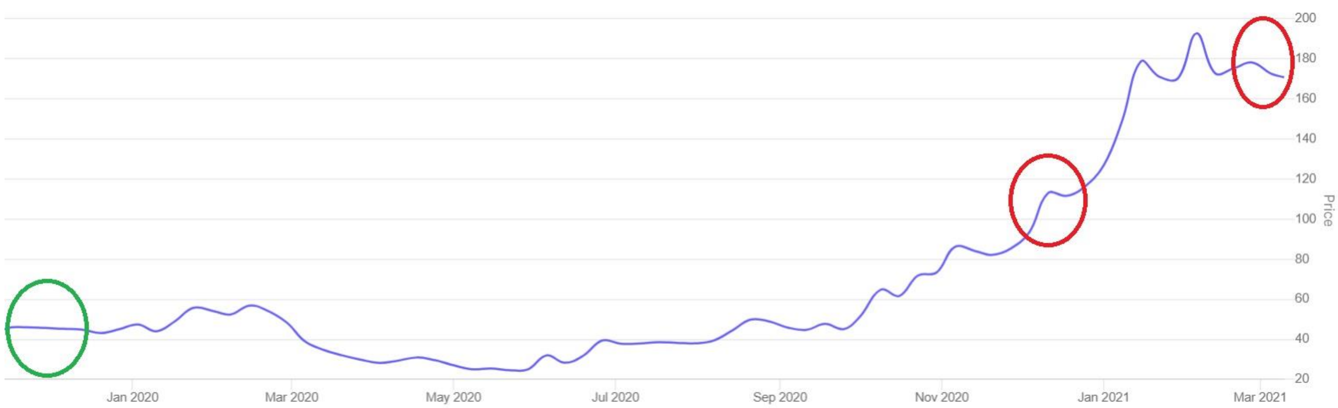
We continue to be positive on the business with a medium-term outlook, however our evaluation mechanism tells us that it is not prudent to have more than 6% exposure to the stock at current prices. If we had held onto our position in this stock without pruning, this alone would have accounted for almost 15% of the portfolio, in spite of having a few other multibaggers in the scheme.

In this newsletter, we focus on the SELL decisions where we exited completely. Timely selling is as important as buying the right business, especially if the specific business is not a core long-term holding for us.

In the charts below, green ovals refer to accumulation zones while the red ovals indicate the zones where we sold the position.

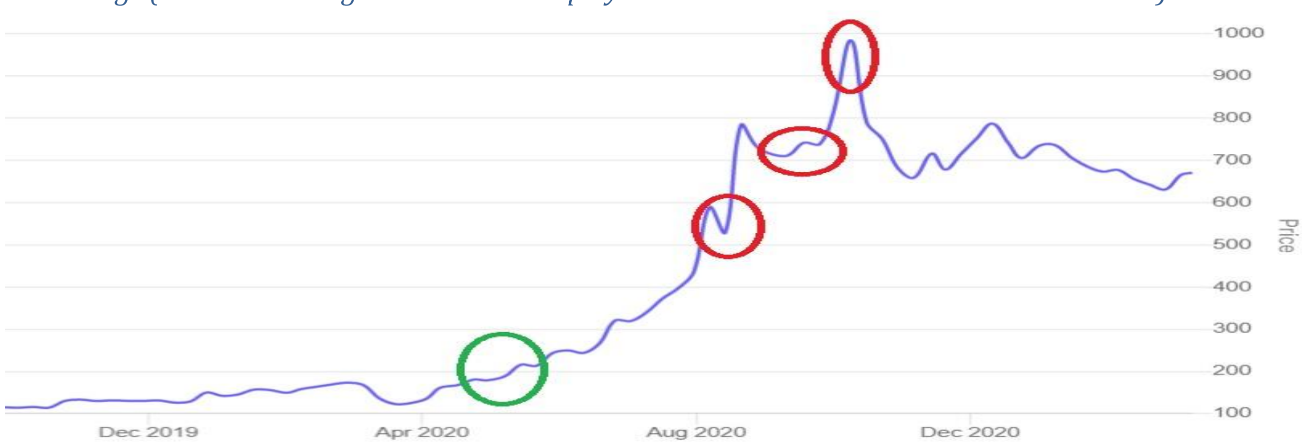
Abbott India (Core holding that crossed our valuation limits)

Greenpanel Industries (Tactical holding where the thesis played out sooner than we anticipated)



Kajaria Ceramics (Core holding that crossed our valuation limits)

Aarti Drugs (Tactical holding where the thesis played out and valuation limits were crossed too)



We aren't sure if we were able to time these exits perfectly right. Frankly, one can never know this real time; only with the benefit of hindsight can one comment. What we do know is that we were consistent in execution, that we stuck to our philosophy and that we acted in the best interests of our investors at all times.

We cannot get everything right; we want to do enough things right consistently so that a few mistakes don't matter too much.

We do not want to encourage a single point of failure by clustering into businesses that have the same characteristics. We are not a thematic fund; we want to be a fund that can perform well across market cycles by not having too much riding on a single factor.

For the record, we believe that Abbott India and Kajaria Ceramics are good businesses and we view them as core holdings. But when valuation runs up so much that it becomes increasingly difficult to justify prices given the medium-term business prospects, **our sense of responsibility towards our investors takes precedence over the love we have for these businesses.** At the right price, we will have no problems buying back these very same businesses.

Until then, we have twenty other businesses that offer better value in our assessment.

- Every time we felt that a business traded well beyond its business prospects over the medium term, we have SOLD/PRUNED exposure to that business to keep valuation risk in check.

- Every time a tactical holding saw our investment thesis play out much sooner than anticipated (or much better than anticipated), we have done the needful.

Investment philosophies don't count for much unless the fund manager executes the philosophy consistently. **Investors need to know what they are signing up for, gone are the days when investors were content handing over their money to fund managers based only on brand name and past performance.**

We have erred on the side of conservatism, especially when we were ahead of the market performance and the specific portfolios had substantial profits to preserve. The scheme return would have been 7-8% higher in an absolute sense had we not pruned exposure to a few stocks to stay within our risk management limits. No regrets here, we did exactly what we had set out to do.

We have not shied away from holding cash to the extent of more than 25%, even when markets were on a tear once the vaccine announcements came through. This was more pronounced in the first few accounts where the portfolios already had substantial accumulated profits. We do not follow a model portfolio approach; we also spend dedicated time on each investor portfolio.

We continue to stay away from businesses that have balance sheet risks, we have a lone lending business in the portfolio as of date.

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Our stock picking approach will stay bottom up while our portfolio management approach will continue to be risk based and top down. If we continue to manage risks well, the return should fall into place over the medium term.

We will continue to calibrate our approach based on the market conditions. This is one of the stated objectives of the scheme.

We don't have a crystal ball to look into the future but we have spent enough time in the market to be able to sense when to prioritize prudence over returns.

Hopefully we will turn out to be right often than not, time will tell.

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