PRUDENCE • PATIENCE • PERFORMANCE

3P INVESTMENT MANAGERS

The 3P way. Simple but not easy.

3P INDIA EQUITY FUND 1

(An open Ended Scheme of 3P India Equity Fund, registered with Securities and Exchange Board of India (SEBI) as Category III Alternative Investment Fund)

(APRIL - JUNE 2025)

1P

Prudence of creating a portfolio of sustainable and reasonably valued businesses.

2P

Patience with businesses and markets. Risk in equities reduces as investment horizon increases.

3P

Performance is the outcome.

"The first rule of compounding is to never interrupt it unnecessarily."

- *Charlie Munger*

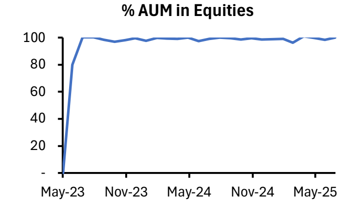
Dear Sir/Madam,

We are delighted to share the 9th quarterly update of 3P India Equity Fund 1 (3PIEF-1). This Fund was launched on 4th May 2023.

In investing, two years is a small period. Yet, we feel the journey so far has been rewarding for our investors, our partners and the 3P team. We are grateful to each of them for their support and confidence in us. We strongly believe that our interests reside in our customers' interests and we keep that uppermost in our decisions.

The Fund continues to run fully invested as we believe that over the medium to long term, equities should meaningfully outperform cash, especially on a tax adjusted basis. This view is supported by the strong growth prospects of the Indian economy. Interestingly, volatility of India's economic growth is one of the lowest, thus bolstering the case for equities.

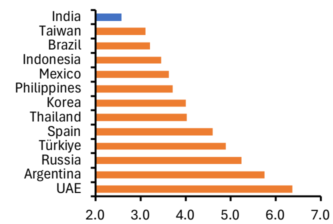
% AUM in Equities



Source: 3PIM

Fig. 1

Volatility of GDP growth

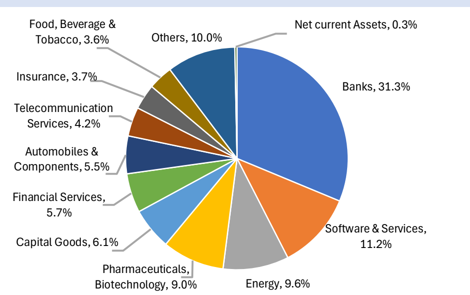


Source: IMF, 3PIM
Note: Volatility is standard deviation of annual GDP growth from 1980 to 2025

Fig. 2

The charts below summarise the key portfolio characteristics of 3PIEF-1 as of 30th June 2025.

Exposure by Sector (%)

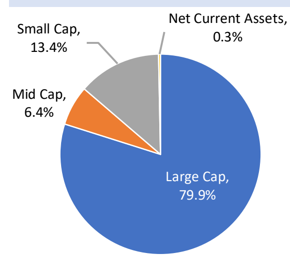


Source: 3PIM, Bloomberg, GICS classification
Note: ETFs are distributed into respective sectors

Exposure by constituents (%)

Constituents	Weight
Top 5	38
Top 10	57
Top 20	78
Top 30	88
Top 40	96
Top 50	100

Exposure by Market cap (%)



Source: 3PIM, AMFI
Note: As per AMFI classification. ETFs are distributed into respective classification

Fig. 3

The key changes of the last quarter are discussed in the portfolio strategy section.

Indian Economy: Growth Improves

Economic growth bounced back in H2FY25 as the impact of Union elections waned.

(%)	H1FY25	H2FY25	FY25	10Yr Avg
GDP Growth	6.1	6.9	6.5	6.1

Source: MOSPI, 3PIM *Fig. 4*

The pickup in growth is not surprising given the strong tailwinds of rising service exports (14% YoY in FY25), apart from multiple structural drivers of growth *(Fig 5)*.

The Structural Drivers of India's Growth

- Growing and young population
- Higher growth in number of families due to nuclearization
- Skilled, educated and cost competitive manpower
- Vast availability of natural resources (sunlight, arable land, water, minerals (ex-oil and gas))
- Entrepreneurship, stable social and political environment
- Low penetration of discretionary goods and services
- Shrinking product lifecycles
- Internet, digitalisation, acceptability of remote working

Fig. 5

India's macros are in excellent health too. Current Account Deficit (CAD) is running around 0.6% of GDP. This is due to rising service exports, rising remittances and continued low oil prices.

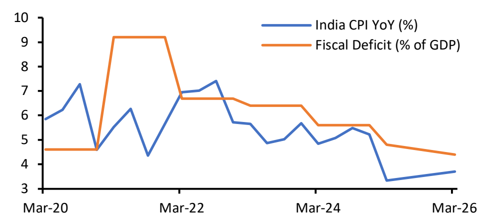
USD bn	FY20	FY21	FY22	FY23	FY24	FY25	5Y CAGR %
CAD	25	-24	39	67	26	23	-1.7
CAD (% GDP)	0.9	-0.9	1.2	2.0	0.7	0.6	
Gross Service Exports	213	206	255	325	341	388	13
Gross Inward Remittances	83	80	89	112	119	135	10

Source: RBI, 3PIM *Fig. 6*

Inflation and fiscal deficit also continue to trend lower. This has given confidence to RBI to front end rate cuts and to ease liquidity thus aiding growth.

On both inflation and growth fronts, the Indian economy is progressing well and broadly on expected lines. Strong macroeconomic fundamentals and benign inflation outlook provide space to monetary policy to support growth, while remaining consistent with the goal of price stability. As global environment remains uncertain, it has become even more important to focus on domestic growth amidst sustained price stability. Accordingly, today's monetary policy actions should be seen as a step towards propelling growth to a higher aspirational trajectory.

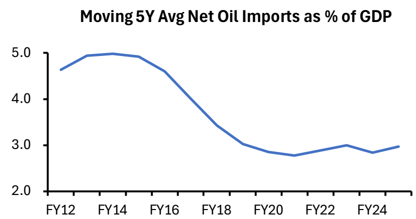
- ***Shri Sanjay Malhotra, RBI Governor***



Source: Bloomberg, RBI, 3PIM *Fig. 7*
Mar-26 CPI and FD data are RBI and GoI estimates respectively.

Given the post Covid tailwinds of rising service exports, improved prospects of manufacturing, supportive government and central bank policies, we feel India's growth should average higher over the medium term compared to the last 10-year average of 6.1%.

Not only should India's economic growth be strong, but it should also be less volatile. Falling net oil imports as % of GDP and a sharply lower CAD make the economy less dependent on external capital flows and reduce India's vulnerability to higher oil prices.



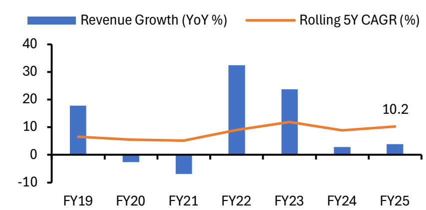
Source: PPAC, 3PIM

Fig. 8

Corporate India – In a Cruise Mode

The higher volatility in corporate performance induced by Covid, lockdown and its aftermath has waned. India Inc has now entered a cruise mode of growth.

Falling inflation also lowers revenue growth in INR terms. NIFTY 500's revenue is estimated to grow around 9% CAGR *(Bloomberg)* over the next two years.

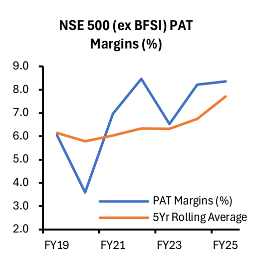


Source: FactSet, 3PIM
Note: NSE500 companies excluding BFSI

Fig. 9

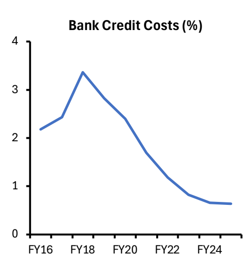
Corporate margins that have sharply improved in last 5 years should also stabilise. This improvement was a result of :

- A steady decline in provisioning costs in banks, that have the highest share (31%) of profits in NIFTY
- Cost focus by corporates in post Covid years
- Weak capex, higher free cash generation, fall in leverage led to lower interest costs and slower growth in depreciation vs revenue growth



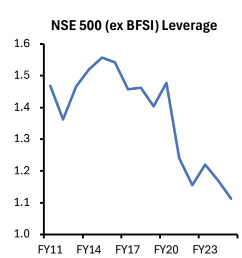
Source: FactSet, 3PIM Calculations

Fig. 10



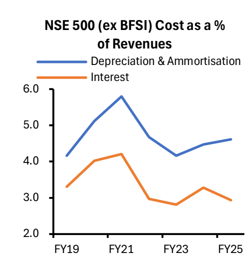
Source: FactSet, 3PIM Calculations

Fig. 11



Source: FactSet, 3PIM Calculations

Fig. 12



Source: FactSet, 3PIM Calculations

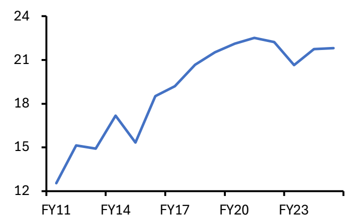
Fig. 13

After the sharp improvement over the last 5 years, a further improvement in margins appears difficult as :

- **Banks**, the largest component of markets experience a pressure in margins (NIMs) in a declining interest rate environment.

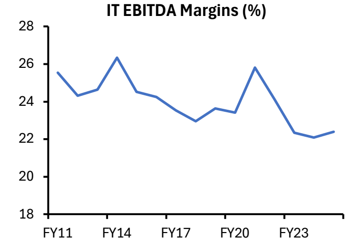
- **FMCG** sector has experienced a sharp improvement in margins in the last 10 years. This high base and the headwinds of slower growth, growing relevance of organised retail, private labels, D2C brands and an increasingly aware, demanding and diverse consumer who is eager to experiment make it difficult for the upward trajectory in margins to sustain.

FMCG EBITDA Margins (%)



Source: FactSet, 3PIM *Fig. 14*

IT EBITDA Margins (%)



Source: FactSet, 3PIM *Fig. 15*

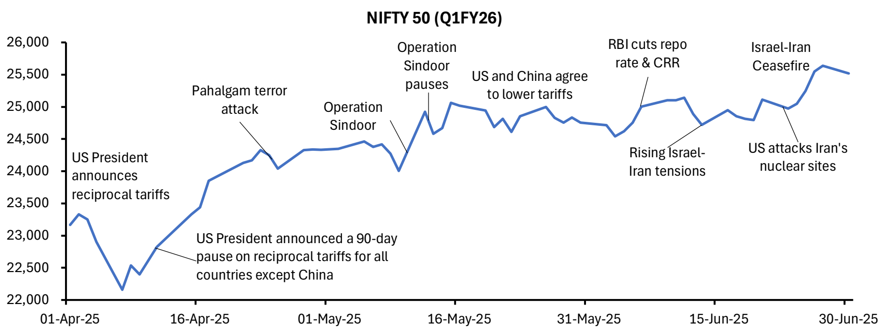
- **IT** sector has been battling falling margins and it is unlikely that this trend will reverse.

- **Oil and gas**, **metals**, **cement**, **automobiles** etc that account for 21% of Nifty are cyclical in varying degrees, thus unlikely to provide a sustained tailwind to margins.

The message is clear. Corporate profits are likely to grow in line with the revenue growth which in turn should grow close to nominal GDP growth.

Markets Review & Outlook

Indian markets displayed remarkable resilience in a very eventful quarter *(Fig 16)*.

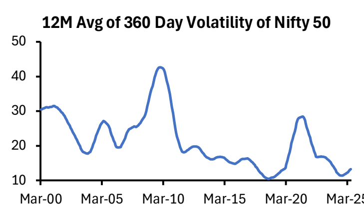


Source: KIE, NSE, 3PIM *Fig. 16*

This is largely due to the low impact of such events on Indian economy / corporate profits. Indian economy has a low correlation with the world economy (0.36*). Further, the influence of FIIs on capital markets is also waning in the face of large and sustained local flows, driving volatility lower.

	CY19	CY20	CY21	CY22	CY23	CY24	H1CY25
FII Flows (USD bn)	14	23	4	(17)	21	(1)	(8)
DII Flows (USD bn)	6	(5)	13	36	22	63	41
NIFTY 50 1Y Return (%)	*12*	*15*	*24*	*4*	*20*	*9*	*7*

Source: KIE, Bloomberg, 3PIM *Fig. 17*



Source: Bloomberg, 3PIM *Fig. 18*

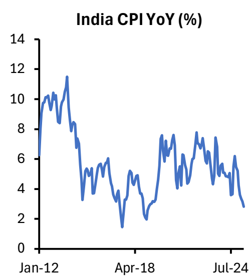
Nifty is presently trading at 22x FY26 earnings *(source: KIE)*, which is higher than 15 year average by 29% *(source: Bloomberg)*.

Are the significantly higher-than-average multiples a cause for worry for long term investors?

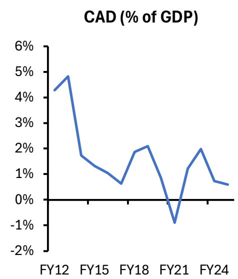
In our opinion, no.

Sustained fall in inflation, sharp fall in CAD have led to a sharp fall in USD / INR premium and a sharp fall in yield gap between Indian and US 10 year yields.

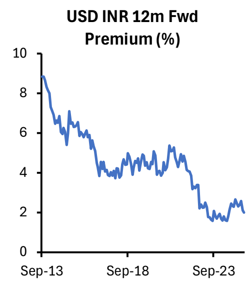
*Correlation of India's growth and world GDP growth since 1980. 2020 has been ignored due to Covid.



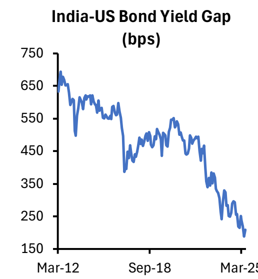
Source: RBI *Fig. 19*



Source: RBI *Fig. 20*



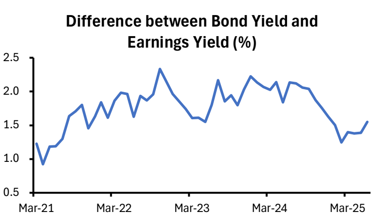
Source: Bloomberg, 3PIM *Fig. 21*



Source: Bloomberg, 3PIM *Fig. 22*

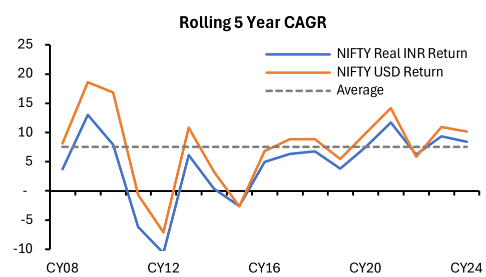
The consequent sharp fall in cost of capital is the key reason for our optimism about the markets over the medium to long term despite higher multiples. This is evident from the gap between Bond Yields (BY) and Earnings Yields (EY) which is low even at prevailing multiples.

The current multiples, however, leave little room for a further rerating. Return expectations should therefore be reset to low double digits in line with nominal GDP growth over the long term.



Source: Bloomberg, 3PIM *Fig. 23*

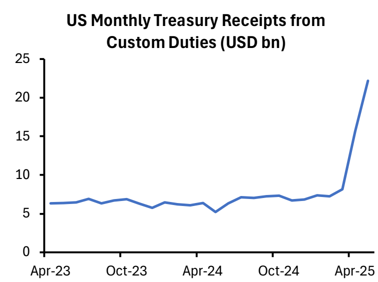
Interestingly, real returns / returns in USD terms should not be too different from the past. In other words, wealth may grow at a slower pace, but purchasing power should not.



Source: Bloomberg, 3PIM *Fig. 24*

One risk to the above argument is - what if the cost of capital moves up sharply? While the likelihood of this can be debated, the near-term impact of a rise in cost of capital on markets across the world should be negative. The rising US / European / Japanese yields, the continued high fiscal deficits in these countries (higher defence spending is also a headwind) need to be carefully watched.

Recent legislative changes in the United States, specifically the passage of the One Big Beautiful Bill Act, have made the 2017 Tax Cuts and Jobs Act provisions permanent. Independent estimates suggest that these measures could approximately add USD 3 trillion of deficit over the next decade. However, rising revenue contribution from custom duties (~USD 22 billion in May 2025 vs ~USD 5 billion in May 2024) will increase revenues significantly. Given the multiple factors at play, it is difficult to take a definitive view on US yields.



Source: Bloomberg, 3PIM *Fig. 25*

Indian economy however should not feel much impact of a rise in global yields given the sharply lower CAD. Capital markets in India should also not witness a major and sustained impact given the waning influence of foreign capital. However, a lower resetting of multiples especially in the richly valued pockets of markets is likely in such a scenario.

Charlie Munger famously said – *"Invert, always invert"*. These words emphasise the importance of deliberating on a counter viewpoint.

There is only one side to the stock market, and it is not the bull side or the bear side, but the right side.

*- **Jesse Livermore***

A counter to the earlier argument of little room for rerating of multiples would be that no bull market in India has ended below 25 P/E. So, why should this one!

If the above is confusing, please remember that capital markets thrive on opposites. After all, each trade represents the coming together of diametrically opposite views on a stock at the same time for the same fundamentals, valuations etc!

If the first scenario of higher cost of capital plays out, near term returns will be moderate, but long-term returns should still be low double digit CAGR since, in the long term, returns are primarily driven by growth and impact of changes in P/E multiples is small. If the second scenario plays out, high returns in the near term should be followed by a longish period of low returns, thus once again resulting in low double digit CAGR over the long term.

The destination is same; the paths are different. Which path the markets take, that only time will tell. Buying the dips / investing in phases is an appropriate strategy for these markets. Even a small correction of 3-5% correction can improve IRRs on investments by 1-2% in the medium term.

In the short run, the market is a voting machine, but in the long run, it is a weighing machine.

*- **Benjamin Graham***

Portfolio Strategy and Positioning

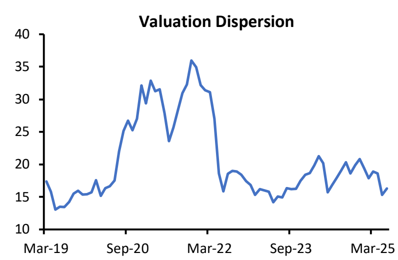
Sustainability of businesses and valuations are the two cornerstones of 3P Investment Philosophy. Avoiding weak businesses lowers the risk of permanent loss of capital and avoiding excessive valuations lowers the risk of poor long-term returns.

We continue to be steadfast in our investment approach that is grounded in reality and conservatism. Nearly 85% of the Fund, in our judgement, comprises of companies that enjoy leadership / strong positions in respective businesses and should be able to increase / maintain their market share. At the same time, we are avoiding pockets of excessive valuations or companies where implied growth expectations are unrealistic.

The portfolio continues to be well diversified across sectors and key economic variables. The Fund is overweight Insurance and Pharmaceuticals and is underweight Automobiles, Consumer Staples, Materials and Software & Services. Exposure to Banks & Financials and Telecom is close to market weights. Key portfolio changes made recently are:

- Increased exposure to Financial Services, Energy, etc.
- Reduced exposure to Software & Services and rationalized few small holdings
- Exposure to small caps has marginally increased based on bottom-up views.

Unique portfolio holdings have marginally reduced in the quarter. We think there should be some more consolidation in holdings over time. However, a meaningful reduction in number of holdings will have to wait till there is meaningful divergence in some pockets.



Source: FactSet, 3PIM calculations
Note: Valuation Dispersion is defined as the standard deviation of sector PE (ex-financials, oil & Gas, metals & mining) at a point in time. Data as of 30th June 2025.
Fig. 26

The performance of 3PIEF-1 is summarised in the adjoining table *(Fig. 27)*. While the returns of the first year had tailwinds of strong market returns, the second year was a year of lower absolute returns. The Fund's performance has been ahead of markets in both the years. The first year's performance was supported by an underweight position in consumer staples, overweight position in capital goods, utilities and some stock specific positions. The reduction in exposure to SMIDs, utilities, financial services and an increase in exposure to select pharmaceutical names aided relative performance in the second year.

	CAGR Returns (%)		
Fund	3PIEF-1	Nifty 50 TRI	Nifty 200 TRI
1 Year	10.6	7.5	6.0
2 Year	28.5	16.7	20.0
Since Inception	29.6	18.3	21.9

Source: Bloomberg, 3PIM | *Inception Date: 4th May 2023
Note: Pre-tax, pre-management fees returns.
Data as of 30th June 2025. *Fig. 27*

Other Matters

We would like to take this opportunity to congratulate Mr. N Srinivasan, Chairman, 3PIM, for being awarded the prestigious Financial Express CFO Lifetime Achievement Award 2025. This is a fitting tribute to a long, remarkable and yet a low-profile career. We are indeed privileged to have his leadership and guidance.

The Fund Managers of 3P Investment Managers have invested a sizeable part of their net worth in 3P Funds to align their interests with that of the customers. Further, under normal conditions, members of the 3P investment team will not purchase direct listed equities in the secondary market.

The 3P India Equity Fund 1 has grown to ₹14,849 crores ($1.7bn). The assets under management of 3P Investment Managers stand at ₹19,167 crores ($2.2bn). This growth is a result of our unitholders' trust in us for which we are grateful. Our long-term focus, disciplined approach, low costs and complete alignment of interests provide resilience to this partnership.

We plan to share the next Fund update around 1st week of October 2025.

Kindly note that 3P India Equity Fund 1 is an open-ended Fund with zero exit load. The Fund is available for transactions on every 15th and last day of the month (previous day if it is a non-business day). Kindly also note that the Fund’s NAV is on a post-tax basis.

Please feel free to reach out to the undersigned or services (*services@3pim.in*) for any clarifications, feedback or suggestions.

Warmly,

CIO and Fund Manager

(Prashant Jain)
Email: prashantj@3pim.in

Portfolio Strategist and Co-Fund Manager

(Ashwani Kumar)
Email: ashwanik@3pim.in

3P Investment Managers Private Limited
2nd Floor, Nirlon House, Dr. Annie Besant Road, Worli, Mumbai - 400030.
www.3pim.in services@3pim.in +91 (22)-69544454