



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)

(OCTOBER - DECEMBER 2023)

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.



Charlie Munger

1924 - 2023

Charlie Munger was a teacher of life and of investments. His life radiated wisdom, enriching not just investment managers like us but everyone seeking to navigate life with integrity and character. His lessons extend far beyond the realm of finance, shaping our values and guiding us towards a fulfilling life. Here we present a handful of his gems, hoping you find them as valuable as we do.

“Those who keep learning will keep rising in life”

“People calculate too much and think too little”

“Always take the high road, it's far less crowded”

“If people weren't so often wrong, we wouldn't be so rich”

“Opportunity comes to the prepared mind”

“The big money is not in buying or selling, but in the waiting”

“Acknowledging what you don't know is the dawning of wisdom”

“All intelligent investing is value investing, acquiring more than you are paying for”

“Secret to Happiness? Lower Your Expectations”

“We have three baskets for investing: yes, no, and too tough to understand”

“Invert, always invert: Turn a situation or problem upside down. Look at it backward”

“A great business at a fair price is superior to a fair business at a great price”

“Everyone is trying to be smart, I'm just trying NOT to be stupid”

The 3P way. Simple but not easy.



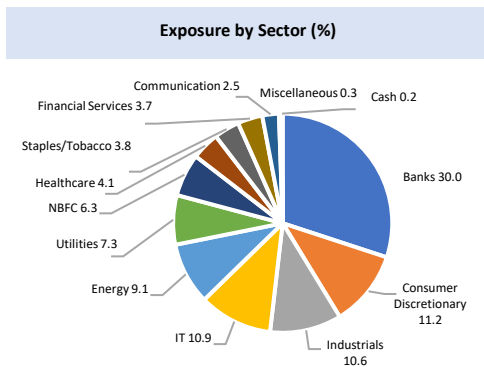
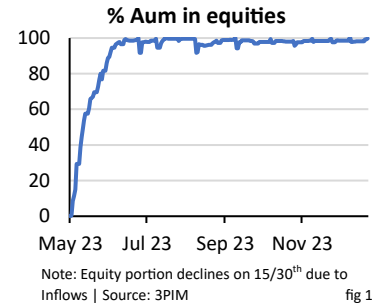
Dear Sir/Madam,

We are delighted to share the 3rd update of 3P India Equity Fund.

You would recall, 3P India Equity Fund 1 units were allotted on 4th May 2023 at a Nifty 50 index of 18,256.

The Fund was fully invested by June 30th 2023 and has remained 98-100% invested since then (fig 1).

The key portfolio characteristics of the Fund as of December 29th are presented below (fig 2). Given our low churn strategy, these have largely remained stable.



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

Constituents	Weight (%)
Top 5	37
Top 10	57
Top 20	82
Top 30	93
Top 40	98

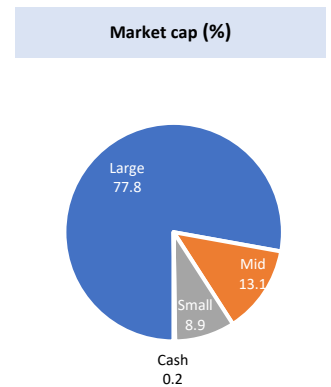


fig 2

The Virtuous Indian Economic Cycle

We believe the Indian economy is entering a higher growth phase. This view is based on the confluence of the following factors.

- The acceptability of remote working post-COVID has created a supportive environment to shift a large number of global jobs across functions to India. As a result, there is rapid growth in number of Global Capability Centers (GCCs) and their headcount (fig 3). This is positive for white-collar job creation and has boosted non-software business service* exports to ~0.6% of GDP in FY23 which should in turn reduce current account deficit (CAD) on a sustained basis.

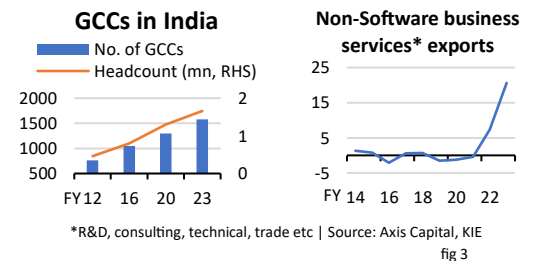
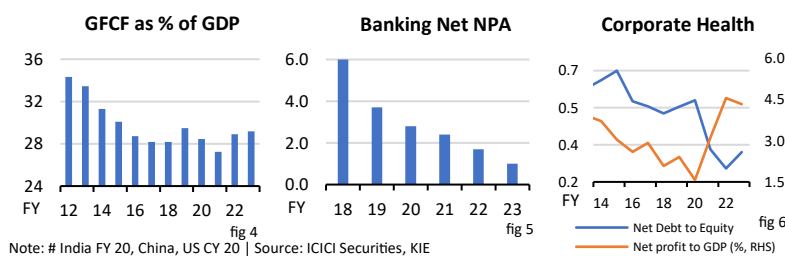


fig 3

- Disruption of supply chain due to China lockdowns and geopolitical factors are encouraging companies to diversify their manufacturing footprint. Competitive Indian wages, improved infrastructure and business environment, large size of the economy and supportive government policies make India a preferred alternative. Interestingly, manufacturing is a large opportunity - a mere 0.5% of global manufactured exports is USD95bn (3% of India's GDP). In the past, countries that gained share in manufacturing witnessed faster economic growth.
- Over the last 10 years, Gross fixed capital formation (GFCF) to GDP fell from 34% to 27% in FY2021 (fig 4). Conditions are now conducive for this to reverse. Low banking NPA's, low corporate leverage and healthy corporate profitability are supportive of capex and should accelerate India's GDP growth (fig 5,6).

Recent manufacturing announcements

- Apple
- Airbus
- Foxconn
- Daiken
- Suzuki
- Lenovo



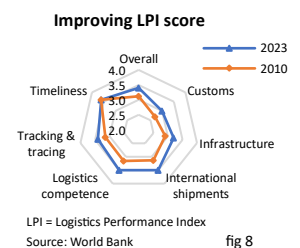
Discretionary penetration#

Indicator	India	China	USA
Cars (per 1000)	30	160	600
Aircon (% of HH)	6	60	90
Airline Tkts (mn/p.a)	204	660	1010
Urbanisation* (%)	35	63	83

fig 7

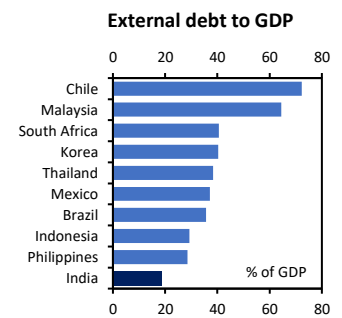
- India has a low penetration of discretionary products and services (fig 7). Faster white and blue-collar job creation should accelerate discretionary spending.

- India's advancements in physical and digital infrastructure coupled with recent reforms have fostered a favourable business climate (fig 8).



- India has a stable political and macroeconomic environment that provides a strong foundation for economic growth.
 - Fiscal deficit (FD) is moderating driven by tax buoyancy and lower subsidies as % of GDP. FD: FY21 (9.2) > FY23 (6.4) > FY24BE (5.9) > FY26 target (4.5)
 - CAD at 1.6% of GDP (FY24E*) is lower than in the past.
 - Low external debt (fig 9).
 - Healthy FX reserves at USD ~600bn.

*Source: KIE



Source: Goldman Sachs Global Investment Research fig 9



India has grown at a CAGR of 6.5% for the last two decades. Over the next two decades, in our opinion, supported by the above factors, a growth of 7-8% is not unreasonable to expect.

Recent economic data is encouraging as well. Real GDP growth of 7.7% (YoY) in first half FY2024 has surpassed estimates. RBI has revised the GDP growth forecast for FY24 to 7.0% from 6.5%.

Chief Economic Advisor V Anantha Nageswaran commented "Strong tax collections, both direct and indirect, suggest the economy might be doing better than what is being currently measured. If tax collection is growing at 16.3 per cent in the first half when the nominal GDP of the economy is growing at 8.6 per cent, and given that these kinds of buoyancy numbers have not been seen in a very, very long time if at all any time in the past, then it behoves us to consider the possibility that the economy could be growing far better than what we are actually measuring."

Source: The Indian Express

Markets review and outlook

Markets continue to do well. In the last quarter, Nifty 50 moved up 10.7% and Small and Mid-cap indices (SMID) 18.8% and 13.9% respectively. A ~110bps decline in US yields from peak, ~20% fall in oil prices, state election results and positive FII flows, were supportive. SMID indices continue to outperform Nifty despite strong returns over the last 3.5 years and demanding valuations. In the last 1 year, defence, realty, auto sectors have outperformed while oil & gas and banks have underperformed (fig 10).

Sector Performance (%) (Oct–Dec 23)

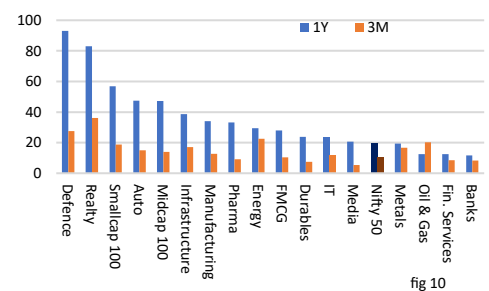


fig 10

In our judgment, large caps are offering better value. The adjoining chart depicts that large and small caps have alternating periods of outperformance (fig 11). Given the significant outperformance of small caps over the past 3.5 years and higher valuations, risk-reward in large caps appears favourable over the medium to long term.

Nifty 50 relative to Nifty Small Cap



fig 11

PSU - Darlings of the Street !

"The market is a pendulum that forever swings between unsustainable optimism and unjustified pessimism. The intelligent investor is a realist who sells to optimists and buys from pessimists" (The Intelligent Investor).

PSUs are a good example of the above. They were the ugly ducklings few years back and now they are darlings of the street ! (fig 12)

The above is a good validation of 3P's investment philosophy.

- **Prudence** – Purchase good businesses at attractive valuations
- **Patience** – Stick with them
- **Performance** – Markets eventually reward for the entire holding period

Challenge is, such opportunities are often available when popular sentiment is against them. **That's why 3P investment philosophy is Simple but not easy.**

Nifty PSE Index



Source: Ace Equities, 3PIM

fig 12



IPO Frenzy

“An IPO is like a negotiated transaction – the seller chooses when to come public – and it’s unlikely to be a time that’s favourable to you” - Warren Buffett

In our view, IPO markets are experiencing a period of excessive optimism. Several companies with average fundamentals are attracting heavy oversubscription even at expensive valuations and are yet listing higher. While there is momentum in this space, in our judgement, the long-term outcomes are likely to be disappointing in many cases. As Warren Buffett famously said, *“You only find out who is swimming naked when the tide goes out”*.

Conclusion

Robust economic outlook, reasonable valuations, falling US yields & oil prices, state election outcomes and positive FII flows are supportive of markets. In our view, markets hold promise over the medium to long term driven by large caps that account for ~70% of the market cap. We believe Nifty should compound around 12% CAGR over the long term. These returns broadly comprise of 6-8% real growth and 4-6% inflation. **These markets thus offer a compounding opportunity and are suitable for Long Term investors.**

Flows and Market returns

USD Bn	CY19	CY20	CY21	CY22	CY23
FII	14.2	23.4	3.8	-17.0	20.5
DII	6.0	-4.9	13.0	35.8	22.3
Nifty 50 (%)	12.0	14.9	24.1	4.3	19.5

Source: KIE

fig 13

Portfolio Strategy and Positioning

Creating a portfolio of sustainable and reasonably valued businesses represents the core of 3P Investment Philosophy. Avoiding weak businesses lowers the risk of permanent loss of capital and avoiding excessive valuations lower the risk of poor long-term returns. Effective diversification across key economic and business variables reduces portfolio risk. Further, risk in equities reduces as the time horizon increases, hence we aim to follow a low churn strategy. A low churn strategy also reduces costs.

In line with the above, ~90% 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. The portfolio currently has 47 investments. Incrementally, most of the flows are being invested in large caps. The portfolio is well diversified across sectors and key economic variables. The Fund is overweight consumer discretionary, financials, industrials, utilities and is underweight consumer staples, IT, materials and oil & gas.

In our opinion, portfolio companies follow good ESG practices. Interestingly, companies in conventional power have plans to rapidly scale up their renewables portfolio.





**3P INVESTMENT
MANAGERS**

The Fund has participated on a selective basis in IPOs. Due to oversubscription, the allocation is small. Nevertheless, we believe that such allocations in aggregate will be value accretive. Tata Technologies, Inox India, etc. were notable anchor allocations in the last quarter.

The 3P India Equity Fund 1 continues to perform well. Fund returns from 4th May to 29th December are 32.96% (pre-tax, pre-management fees) vs Nifty 50 TRI and Nifty 100 TRI returns of 20.14% and 22.13% respectively. The Fund NAV is on a post-tax basis. Currently, the provision for tax on gains is on short term basis. We expect the provision for tax to moderate as short-term capital gains convert to long term capital gains over time. Presently the Fund size is ~₹7620 crores (including 29 December flows).

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

Annexure A details the Fund Portfolio as of December 31st 2023, sectoral composition and a brief rationale for the same. Annexure B contains regulatory disclosures.

We wish you and your loved ones a very happy and prosperous New Year. We also thank you for your continued support to the 3P India Equity Fund. We are grateful for your trust and partnership and are confident that our relationship will strengthen over time. As Charlie Munger said, “Those who keep learning will keep rising in life.” We strive to be a little better each day and continue to manage your investments with a long-term focus, discipline, low costs, and complete alignment of interest.

We plan to share the next Fund update around 1st week of April 2024.

Kindly note that 3P India Equity Fund 1 is an open-ended Fund with no entry or exit load. The Fund is available for transactions on every 15th/last working day of the month.

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

Warmly,

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Annexure A: Detailed portfolio positions

Name	Sector		Weight (%)	Comment
HDFC	Banks	Neutral	9.9	Healthy credit growth outlook, low NPAs, rising digitalisation, underperformance relative to nifty, large weight in Nifty
ICICI			8.9	
SBI			6.4	
Axis			4.8	
Total Banks			30.0	
M&M	Consumer Discretionary	Overweight	2.6	Per capita income above \$2000 and a strong growth outlook are supportive of discretionary consumption. Likely EV transition creates uncertainty
Maruti Suzuki			1.5	
Zomato			1.8	
Indigo			1.7	
Mahindra Holidays			0.9	
Senco Gold			0.9	
Tata Motors			0.9	
Landmark Cars			0.5	
Wonderla Holidays			0.4	
Total Consumer Discretionary			11.2	
Larsen & Toubro	Industrials	Overweight	4.1	Good outlook for capex, supportive government policies, operating leverage
3M India			1.4	
Kalpataru Projects			1.0	
J.Kumar Infraprojects			0.9	
Industrial weight of CPSE ETF			0.6	
Ashoka Buildcon			0.6	
Centum Electronics			0.5	
AIA Engineering			0.4	
The Anup Engineering			0.4	
Ashok Leyland			0.3	
Tega Industries			0.2	
Dynumatic Technologies			0.2	
Inox India			0.1	
Ask Automotive			0.1	
Total Industrials			10.6	
Infosys			IT	
Nippon India ETF Nifty IT	3.9			
Tata Consultancy Services	2.7			
Tata Technologies	0.2			
Total IT	10.9			
Reliance Industries	Energy	Underweight	6.9	Energy demand in India is expected to increase, Sector has large weight in index.
Energy weight of CPSE ETF			1.7	
Coal India			0.5	
Total Energy	9.1			
NTPC	Utilities	Overweight	3.0	Steady growth outlook, reasonable valuations
Utilities weight of CPSE ETF			1.9	
NLC India			1.7	
Power Grid			0.8	
Total Utilities	7.3			
REC	NBFC	Overweight	3.3	Good growth prospects, reasonable valuations
Power Finance Corporation			3.0	
Total NBFC	6.3			
Sun Pharma	Healthcare	Neutral	1.5	10-year underperformance relative to Nifty, good businesses, reasonable valuations
Cipla			1.1	
IPCA Laboratories			0.9	
Aurobindo Pharma			0.7	
Total Healthcare	4.1			
ITC	Consumer Staples/Tobacco	Underweight	3.8	Tobacco business has high entry barriers, good returns ratios, reasonable valuations and a large index weight. Consumer Staples – Expensive Valuations relative to growth
Total Consumer Staples/Tobacco	3.8			
HDFC AMC	Financial Services	Overweight	2.4	Low penetration of financial products, good growth prospects, reasonable valuations
SBI Life			1.3	
Total Financial Services	3.7			
Bharti Airtel	Communication	Neutral	2.5	Attractive industry structure, ARPU should continue to rise, reasonable valuations
Total Communication	2.5			
Time Technoplast	Miscellaneous		0.3	Company specific position, reasonable valuations
Total Miscellaneous	0.3			
Total Cash			0.2	Cash includes provision for taxes
Total			100.00	

Note: Positions with a weight of +/-10% relative to Nifty are considered Neutral, Individual sectors may not sum up to 100 due to rounding off

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