



“ Building wealth is a
MARATHON,
not a sprint.
DISCIPLINE
is the key ingredient ”

- DAVE RAMSEY



Exclusive
PMS Coverage


sameeksha.capital

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Economic outlook & Indian equity market analysis - March 2021

Global Economy: The U.S. economy has roared back to life in 2021. First-quarter growth is set to defy even the rosiest expectations as another fresh influx of cash looms. Manufacturing data has already shown the sector at its highest growth level since August 2018. The Atlanta Federal Reserve, which tracks data in real time to estimate changes in gross domestic product, now is indicating a 10 per cent gain for the first three months of the year. Personal income surged in January, thanks largely to \$600 stimulus checks from the government. Those numbers, along with a burst of nearly \$4 trillion in savings, pointed to an economy not only growing powerfully but also one that is poised to continue that path through the year. Economists previously hadn't expected the \$21.5 trillion U.S. economy to regain its pandemic-related losses until at least the second or third quarter of this year, if not later.

Unfortunately, Europe bucks the trend. Vaccine delays and skimpy stimulus are holding back Europe's recovery. The 27 countries that make up the European Union, as well as Iceland, Liechtenstein and Norway, have collectively covered roughly 6 per cent of the population, according to the European Centre for Disease Prevention and Control as on March 2. In the United States, 15 per cent of the population has received at least one dose. Meanwhile, employment across the eurozone fell for a twelfth straight month in February. Given the size of the economic contraction, stimulus measures in Europe in recent times have not been large enough to jumpstart a speedy recovery.

China has set a modest annual economic growth target, at above 6 percent. China's GDP expanded 2.3 per cent last year, the only major economy to see growth. But the 2021 target of 6 per cent was significantly below the consensus of analysts, who expect growth could beat 8 per cent this year. The Chinese government has set its 2021 target for consumer price inflation at around 3 per cent, compared with a target of around 3.5 percent last year. China spent hundreds of billions of dollars last year on programs to stimulate economic activity, including major infrastructure projects and cash handouts for its citizens. That amount of spending isn't carrying over to 2021.

Indian Economy: Q3FY21 GDP growth has come in at 0.4 per cent versus consensus expectation of 0.6%. This implies that higher subsidies payout impinged on net indirect taxes growth. The supply side depicted that Q3FY21 growth was led by agriculture and manufacturing. Public admin and other services remained in the contractionary mode. Now one can expect the sequential momentum to continue, with services and public spending being the frontrunners.

Equity benchmarks trade at 41 times trailing twelve-month earnings, but this will drop from March 31 as the NSE calculates the PE based on consolidated earnings. The 'bond bears vs equity bulls' game continues in the US market with similar reverberations in other developed and emerging markets. The Indian market remains 'buy on dips' since the growth & earnings recovery story is intact and ample liquidity is available waiting to be invested. The outperformance of mid- and small-caps is likely to continue. Investors with a minimum 5 years horizon should invest in high-quality portfolios through PMS and AIF products, who are driven by the right processes, solid security selection and active portfolio management.

Happy Investing!!

PMS Bazaar Research Team.

A BRIEF INTRODUCTION OF SAMEEKSHA CAPITAL



Sameeksha Capital has the expertise to help HNI and Institutional investors for their entire range of investment needs. As of now they offer the following key services: (1) a multi-cap equity strategy as PMS available to domestic and NRI investors and (2) Global and domestic portfolio management service focussed on ETFs and mutual funds for international investors as well as domestic investors.

Sameeksha (meaning ‘Thorough Analysis’) Capital, was set up in 2015 by its founder, Bhavin Shah to invest and manage his personal savings parked inside and outside India in a professional setup and use this setup to enable other investors to also benefit from work carried out by him. As such, Bhavin is managing his entire Indian equity portfolio through the same investment scheme that Sameeksha offers to external investors and his investments represent more than 15% of the AUM of the PMS. This commitment is rare and true to the spirit of “putting your money where your mouth is”. They believe in doing for investors what would make sense for them.

Sameeksha does not believe in promoting fancy slogans, buzzwords, punch lines or “easy” themes. Sameeksha does not wish to glamorize or trivialize stock picking and portfolio management. Sameeksha does not believe in shortcuts, and is quite wary of Formula based scorecards that tend to generate false positives. For them, investing is about rolling up the sleeves and doing a lot of detailed intense work every day to ensure they avoid the landmines and find genuine investment opportunities that they are comfortable putting their own money in.

Investment team at Sameeksha has a combined experience in the relevant field of over 70 years. Detailed profile of their founder and fund manager Bhavin Shah as well as their advisor Eswar Menon is available on the website sameeksha.capital. Bhavin and Eswar have strong track records of excellence in equity research and portfolio management respectively. Over the last 30 years, Bhavin has proved himself through each of his stints in Asian, Global and Indian context and is well regarded for his ability to make prescient calls as well as for his integrity, leadership, innovation and excellence. Because of their prior education and experience in the high-tech sector, both Bhavin and Eswar are very comfortable understanding complex industry dynamics and disruptions that may shape the future of companies available for investment and also understand the importance of use of technology in the field of investing. Research is at the heart of everything Sameeksha does and their research team consists of individuals having backgrounds in diverse areas from pharmaceuticals to engineering who are passionate about research, respect Sameeksha’s processes and carry out detailed analysis from which they make investment recommendations that Bhavin and Eswar must rely on.

Sameeksha has been able to deliver industry leading absolute and risk-adjusted performance over the last just under five years as well as for shorter durations of the last one, two and three years on aggregate basis. Using technology, they are able to customize investment decisions for each of their investors so that they do not suffer from the drawbacks of model portfolio approach. This is well reflected in excellent performance delivered by Sameeksha to their investors irrespective of when they invested with Sameeksha.



Mr. Bhavin Shah
Founder- Fund Manager

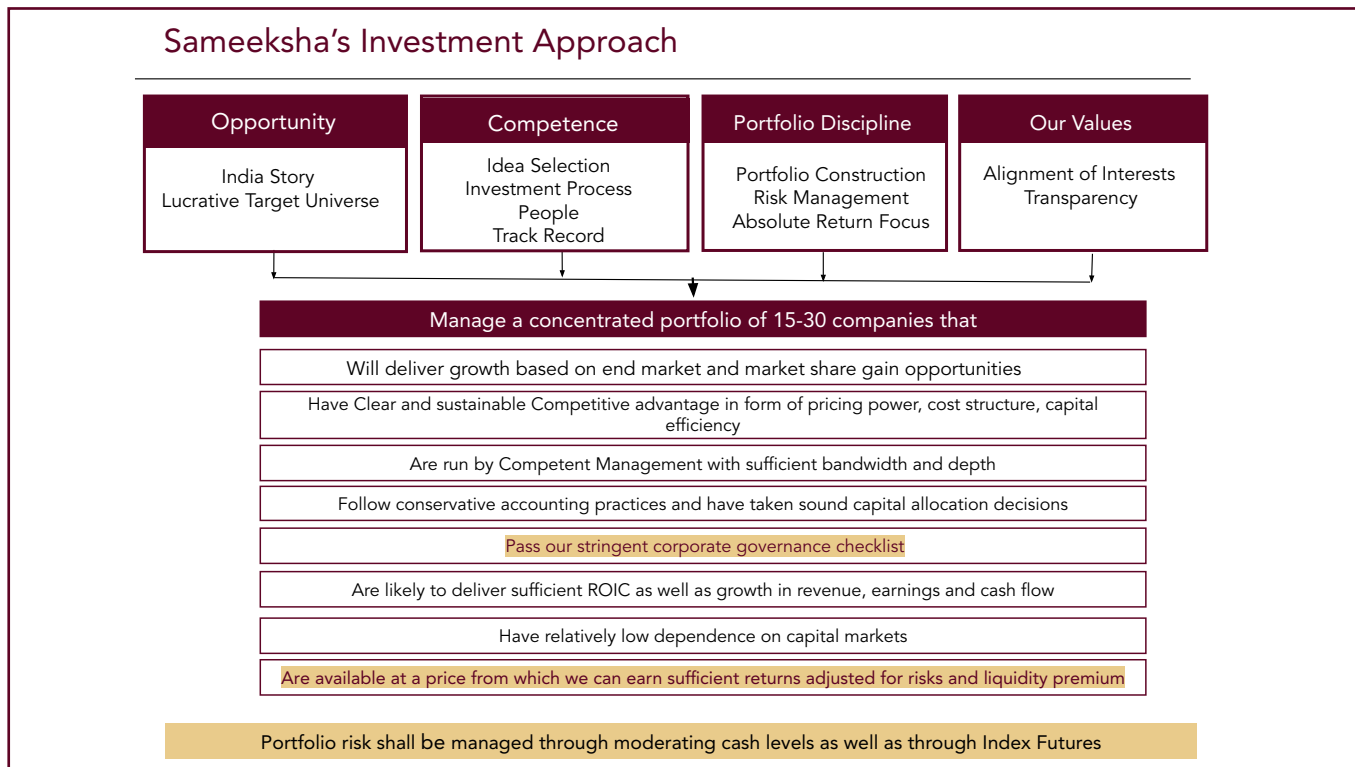


Mr. Eswar Menon
Fund Advisor

INVESTMENT APPROACH

Sameeksha is focussed on investing in Indian companies across market capitalization (with greater emphasis on mid and small cap companies that are not fully discovered) that meet their stringent investment criteria. (Exhibit A)

Exhibit A : Sameeksha's Investment Approach



While Sameeksha's investment approach may sound similar in many aspects to other funds, there are a few key aspects that seem to define their approach.

First, Sameeksha pays huge importance to the corporate governance track record of any company they invest in. Companies that may be attractive otherwise but have a questionable past track record are generally avoided. Also, if a corporate governance red flag is later identified, Sameeksha may choose to exit the position.

Second, Sameeksha invests only at a price from which sufficient risk adjusted returns (i.e. greater than 10% CAGR depending on nature of the business, size of the company and liquidity in the stock) can be expected over next two to three years. This determination of expected return is done using a very elaborate and proprietary dynamic discounted free cash flow model and is triangulated using traditional valuation measures. When such returns are materialized, a position is exited unless new information since the initial determination suggests holding the name for a further period of time.

Third, Sameeksha manages individual company and overall portfolio liquidity risks through a set of rules that leaves room to buy relatively small but attractively priced companies and yet limit the exposure in the portfolio to the huge volatility in prices that such companies tend to exhibit. As a result, investors benefit not just from Sameeksha's ability to identify and take large bets on good large cap ideas but also excellent small and mid cap opportunities which are not yet fully discovered. Sameeksha invests in a somewhat larger number of companies relative to many other PMSes - i.e. upto 30 in general versus 10-15 in many cases and that is deliberately done to optimize portfolio risk.

Fourth, Sameeksha is able to find companies that despite being relatively large are under-researched or not well understood, or are relatively small and hence not fully discovered. Such companies provide the highest potential for generating outperformance.

INVESTMENT APPROACH

Fifth, Sameeksha chooses to manage market exposure both by modulating the cash position in the portfolio depending on the opportunity set and attractiveness of investment ideas as well as by taking active cash calls based on macro factors.

Sixth, Sameeksha does not follow the widely prevalent model portfolio approach adopted by many PMSes, especially the large ones. Sameeksha team believes that such an approach essentially means replicating the mutual fund strategy in which any investor adding fresh money to the pool ends up owning all the existing stocks irrespective of their attractiveness at the time of injecting money into the pool. Instead, Sameeksha essentially treats contribution from a new investor or additional contribution from an existing investor as unique and buys only those stocks in the portfolio that are available at the price determined by Sameeksha to be attractive enough to have potential to generate the required rate of return. To make this happen efficiently and at scale, Sameeksha has invested in developing in-house software and this shows both the commitment as well as capability of Sameeksha in using technology to deliver value to its investors.

Seventh, Personal financial commitment of the fund manager brings a very different type of mindset to investing. Sameeksha is not afraid of taking investment decisions that could be frowned upon by some, especially those responsible for evaluating fund managers but are actually good long term decisions. Investors who have stayed with Sameeksha over a longer period of time have clearly seen this in the returns they have earned **(23.6% CAGR, 21.1% CAGR and 28.4% CAGR versus benchmark returns of 15.2% 13.8% and 11.3% for periods of ~5 years , ~4 years and ~3 years respectively.)**

Eighth, having interacted with top management of companies with market cap ranging from \$50 mn to \$100 bn and being the first call for global Institutional Investors on some of biggest tech companies in Asia (TSMC, Infosys), Sameeksha fund managers are able to succeed in getting time from business owners and CEOs to engage in two-way discussion on their business and on wide ranging issues such as financing option, capital allocation, dividend policy and other topics. Such interactions may prove very valuable not only in decision making but also in sourcing liquidity at times.

Ninth, Sameeksha team including the fund manager believe in “rolling up the sleeves” to do what it takes to learn and understand any company and not rely on being spoon fed by the brokers. They have no qualms about standing in a queue to get into an auditorium packed with hundreds of retail investors or travel to a far away location without official appointment with the company and engage with people on the ground to get to the bottom of a situation or sit through a totally procedural AGM just to get a chance to ask key questions directly to the owner of a business who is otherwise not accessible. Sameeksha team does find some of their peers taking such pains but not many.

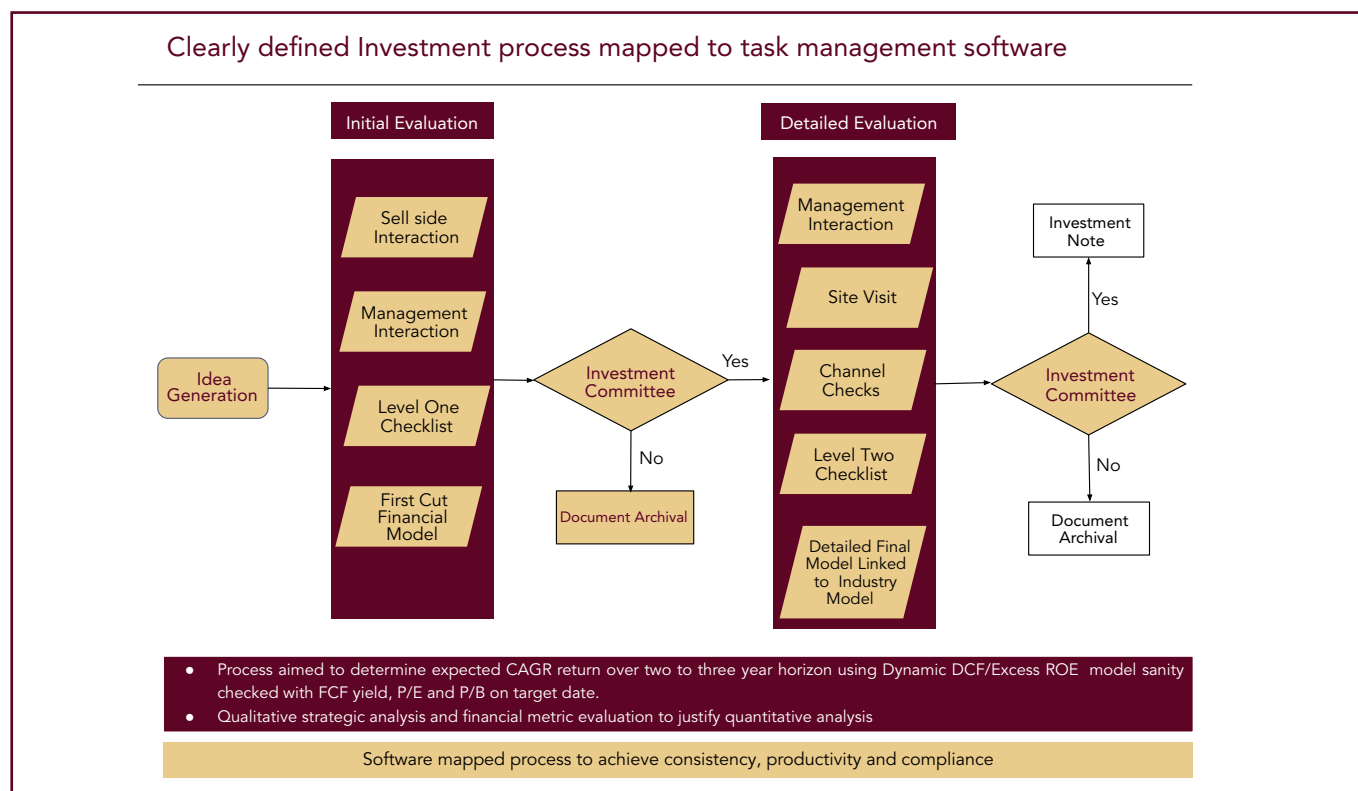
Tenth, in every aspect, Sameeksha strives to be a learning and technology focussed organization seeking continuous improvement to the ways of doing things. Because of their investment process, they are able to create an ever-expanding knowledge database of investible companies in India and such a database is immensely useful when revisiting an opportunity as well as working on new investment ideas. Sameeksha team recognizes and is fully aware that mistakes are made and many. However key for them is how to learn from such mistakes. Because Sameeksha uses technology to document the work, they are also able to do a thorough analysis of their past investment decisions and from that identify the nature of mistakes made and hence identify possible ways to avoid them in future.

Finally, because Sameeksha invests across market-caps and sectors, the investment approach is scalable. The portfolio of Sameeksha’s largest client has seen total returns of 21% on a CAGR basis over 4.75 years.

INVESTMENT PROCESS

Sameeksha follows a research-driven, rule based investment process. Their process entails a set of rules that are followed religiously to ensure that all the relevant factors important to the process of equity analysis are looked at. And yet, there is enough room for creativity and ingenuity that is required to develop a clear understanding of any investment opportunity. The rules as well as the processes of compliance are improved based on the learnings from past investment decisions. Ample use of technology ensures proper implementation of such rules and results in higher productivity and consistency and helps them avoid the pitfalls related to individual biases and mistakes (Exhibit B)

Exhibit B : Sameeksha's Investment Process

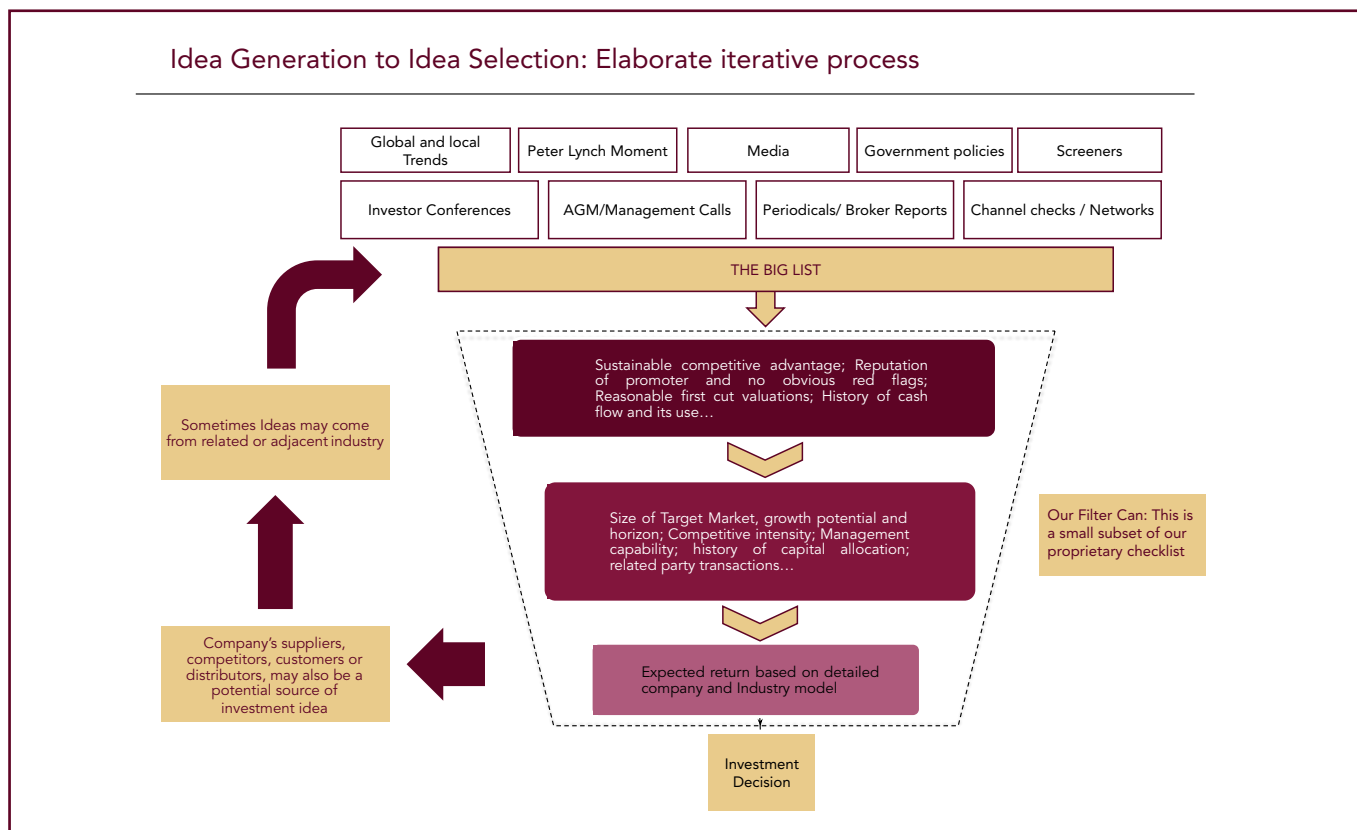


Sameeksha's Investment process entails interactions with the companies through common as well as uncommon means, the building of detailed financial model on the company as well as the industry to properly size up the growth opportunity, completion of a detailed investment check-list and review of investment argument at initial and final stage of the process by the entire research team.

The investment team (fund manager, fund advisor and research team) are focussed on staying on top of developments related to invested companies and identifying new possible investment ideas. Ideas are identified through a variety of means - Global, India or company specific developments, quantitative screeners, quarterly results, investor events, discussions with peers, sell side reports, Peter Lynch Moment (from use of a product or service) and so on (Exhibit C). Some very preliminary screening work is done to determine the priority - what to work first. Ideas selected from this step go through an initial evaluation process involving management interaction, part 1 of their very long proprietary checklist that emphasizes understanding the key aspects of the business, as well as track record of the company and overall potential of the business and first level valuation work, done using very sophisticated tools that provide powerful insights without having to build very detailed financial model. This stage may also include interaction with people outside Sameeksha to gain necessary insights. This work is presented to the entire investment team, not just the fund manager in order to determine what additional work should be done or should the idea be discarded.

INVESTMENT PROCESS

Exhibit C : Sameeksha’s Elaborative Stock Selection Process



The research process continues for ideas that pass the initial level work and detailed financial model and company analysis is carried out which is then presented again to the Investment team. The fund manager takes the final call on investment and in some cases, he may require additional field work to strengthen conviction. Portfolio sizing is done based on multiple factors including liquidity, attractiveness of the idea and their conviction level. This entire process is mapped on a task management tool to ensure compliance and to aid the individuals in working through the process.

Sameeksha team continues to monitor the companies in which investment is made and these names are reviewed on a periodic basis. The tasks related to invested companies are also mapped on the task management software. The manner of documenting all the work is clearly defined and required to be followed.

Stocks that define Sameeksha’s investment universe are classified based on whether they are currently held or could be a potential candidate for investment in future. Sameeksha team prioritizes what companies to do more work on based on both ongoing developments in the economy, changes in particular sectors or industries, as well as company specific developments including quarterly results.

TOP HOLDINGS /SECTOR, ALLOCATION & TRAILING RETURNS



Allocation (cap) in %			
Large Cap	Mid Cap	Small Cap	Cash/Equivalent
46.90%	23.10%	29.40%	0.60%

* As on 28th Feb 2021

Trailing returns


Period	Portfolio ^{1 2}	CNX 500 TRI	MidCap 100 TRI	SmallCap 100 TRI
Since Inception (~ 5 years) ³	20.90%	15.20%	14.10%	11.40%
3 Years	18.60%	10.90%	6.80%	-0.20%
2 Years	40.30%	17.90%	19.10%	17.80%
1 Year	51.20%	33.40%	39.80%	43.40%
6 Months	37.20%	30.50%	40.00%	44.70%
3 Months	16.70%	13.80%	18.20%	22.70%
1 Month	8.10%	7.90%	11.40%	12.30%

1 Aggregate Portfolio 2. Post fees and expenses 3. From (01/04/2016 - 28/02/2021)


EXCLUSIVE INTERVIEW WITH MR. BHAVIN SHAH - FOUNDER & FUND MANAGER

We have conducted an exclusive interview with Mr. Bhavin Shah, Founder & Fund Manager in order to know the Sameeksha Capital in depth and enable our investors to make informed decisions. The questions and answers are reproduced verbatim:

 ***Tell us about the rigorous investment process followed by Sameeksha. What role does automation and engineering research mindset play in that?***


 My first job was to work as a microprocessor design engineer with a team designing the world's fastest microprocessor at Digital Equipment Corporation. In order to ensure success of such a complex engineering product, they had developed very elaborate design rules and a large number of verification tools to ensure that the semiconductor chip comprising millions of transistors actually works. As a new team member, I was given plenty of opportunity to learn about the intricacies of chip design and had a lot of freedom to come up with a solution for a given task provided I complied with the design rules and my design passed the verification checks. Though I moved on to the field of investing, some of those engineering colleagues from Digital who continued to work as engineers are today responsible for the processors that power the latest macbooks and iphones. The engineering approach followed by these former colleagues was key to coming up with high quality outcomes in spite of such a complex nature of the task. I developed huge respect for such an engineering approach and have tried to bring it into the field of investing right from my first stint as head of Asian technology research at Credit Suisse back in the late 1990's. At Sameeksha, we have standardised and templatised key qualitative and quantitative aspects of the research process. Our process entails analysts filling out a detailed checklist (like an exam paper) and using standard templates to build financial models that provide us the kind of insights we need to make investment decisions. At the same time, just like the chip designers at Digital, our analysts continue to have enough flexibility to study and incorporate the unique nature of every company and industry into the model. Templatisation also allows us to automate some of the regular clerical work involved in maintaining models and the analyst can dedicate the time thus saved into more resourceful work. This has helped us look at more number of companies in detail.

 ***Why do you call your corporate governance checklist stringent?***

 So as mentioned above, we have a 140-pointer proprietary checklist. Out of these 140 pointers, we have ~30-pointers dedicated towards corporate governance which is mandatory for any company we study. Through these checklist pointers, we not only do first order checks on promoters, related party transactions, suspicious insider trading, auditors etc but also second/third order checks on the board members and their association with other businesses, other promoter group entities, relatives and business interests which are not enlisted under related parties.

We also check the capital allocation decisions and try to gauge the merit of such decisions from a minority shareholder perspective.

We also put a lot of emphasis on what management has said in the past and what they have delivered.

 ***How does Sameeksha differentiate its PMS offering on flexibility, customization and value focus versus its peers?***

 These are some of the key factors that helps us differentiate from our peers :

Flexibility : There are three parts to this as to what we mean by flexibility :

EXCLUSIVE INTERVIEW WITH MR. BHAVIN SHAH - FOUNDER & FUND MANAGER

- 1. Invest across the market cap:** We believe that the stock market offers opportunities across the entire market cap spectrum. We have the capability to analyze small mid size or large companies and we want to put that to use in building our portfolio. This flexibility allows us to strive for boosting returns compared to pure large cap focus because of the higher upside potential offered by many small or mid size companies and at the same time achieve lower portfolio volatility than a pure small/mid cap fund because of the stability offered by the large cap names. This combination is key to us aiming for superior risk adjusted returns and our track record of the last five years seems to confirm that hypothesis.
- 2. Willing to take a cash call or reverse it:** Periods such as covid driven market crash require a nimble footed approach to investing in our view. Simply doing buy and hold may generate beautiful looking portfolio turnover figures that some observers love to zoom in on but not necessarily generate superior returns for investors. We are running this PMS for the benefit of our main stakeholders - our investors including ourselves and not to fit into specific selection criteria of some experts who generally loathe upon funds having higher turnover. As such, we are not afraid of either increasing cash position or taking a portfolio hedge, if we anticipate a meaningful fall in the market that is driven not by very temporary factors but a factor that could have a lasting impact on the market. We realize this calls for having an ability to take a judgement call on market direction and could induce unnecessary trading in our portfolio. As such, we strive to exercise such options only when we deem it to be very very necessary. So far, we have taken only one major cash call in the last five years and that was in early March 2020. Based on a series of developments in late March 2020, we also realized that we ought to redeploy the cash. This increased our portfolio turnover but also helped us generate meaningful outperformance which is likely to have pleased our investors.
- 3. Buy Sell Framework:** For each of the stocks that we invest in, we have "Buy Below" and "Sell above" levels. These levels are set such that we can expect absolute return over a horizon of two to three years that meets our risk and liquidity adjusted return target for a given stock. Once a stock reaches its sell above level, we review the information we have at hand to decide on an investment action. If we see no reason to revise that target price and implied return is far too low for us to continue holding the stock, we consider reducing our position size or exit from it completely. In essence, we would rather be in cash than continue holding a stock that we can not justify holding based on our view of the fundamentals. This approach may indirectly help us move out of frothy areas of the market.

Customization: One clear strategy that we have followed since inception is to not adopt the mass-market/mutual fund type "model portfolio" strategy that can save us time and effort but result in suboptimal investment decisions for our investors. Instead, we treat every new capital contribution to our fund as unique. For every new account, we buy stocks that are still available at a price meeting our return expectations rather than simply copying our existing portfolio. We feel that investors in our fund deserve such customization and buying only what is available at the right price is the most sensible way to invest. This approach requires both more work as well as build out of internal capability to handle this at scale (as the number of clients increases). This is why we have developed our own PMS order management software instead of using the one given to us for free by our custodian. This software allows us to ensure we do not lose the ability to customize investment decisions as we scale up. Based on the performance data of clients with varied durations over the last five years, we can safely say that our approach has paid off very well.

EXCLUSIVE INTERVIEW WITH MR. BHAVIN SHAH - FOUNDER & FUND MANAGER

Value Focus : Value investing is a highly abused term and it means different things to different people. Without claiming our version is right, we like to state that for us value investing means being able to explain value based on the present value of future cash flows derived using a reasonable set of assumptions that can be justified using sound logic. To do that, we deploy our proprietary dynamic DCF/ERoE methodology for valuations in addition to traditional methods. Every company that we invest must meet our expectations of returns based on our dynamic DCF/ERoE framework. Using this framework, we set Buy Below and Sell above levels and these levels are regularly updated based on changes to the assumptions driven by change in macro variables as well as company specific factors including quarterly results. Our framework allows us to buy not only the stocks which appear undervalued based on traditional valuation measures such as P/E or P/CF or P/B but also the stocks which may not appear undervalued based on such traditional measures but are actually good investments considering long term prospects of the company. Inevitably, our approach precludes us from buying a lot of popular names trading at very high valuations based on earnings momentum or other temporary factors, but where long-term cash flow generation is not necessarily strong.



Tell us how Sameeksha has aligned its interests with investors.



First and foremost, We have our skin in the game. Sameeksha started with me pooling all my equity investments into our PMS scheme and since then that commitment has only grown. I do not draw any salary but instead rely on returns generated from my own investments in the PMS as my reward for my effort. Today, more than 15% of our AUM is due to my funds. I don't have any side pocket in Indian Equities. As such, I sink or swim together with my investors. Second, our performance-based fee structure means the firm's revenue generation is primarily from long-term performance. What this means is that over time, our clients are likely to pay fees only based on CAGR returns earned. We negotiate with our third party service providers to keep expenses as low as possible and also we do not charge any markup on any such third party charges. Some PMSes charge 25 bps as custody fee for example.



How does the cumulative hurdle rate work mechanism to the benefit of Sameeksha investors?



We believe that investors should only pay for long term performance. SEBI has a high water mark concept but we like to go one step further. For a year in which performance is below the hurdle, we carry the hurdle forward. We believe it is only fair that investors pay for performance only after covering for the total aggregate hurdle of current and previous years in which performance was below the hurdle. This way, investors are paying for us achieving long-term performance and are not subjected to paying for fees in a windfall year like FY21 may turn out to be without adjusting for lack of performance in previous years. The benefit to investors can be easily demonstrated through an example based on this concept.



How do you manage portfolio risk through moderation cash level and use of index futures?



We have already mentioned managing risk through moderation in cash level. However there are times where we like the long term story of a stock and do not want to sell it, or if we would want to sell it but unable to sell it due to low liquidity, in such cases, we may use index futures to protect from downturn and hedge the current long positions. Both cash calls and hedging are like weapons at our disposal which we aim to use only when we deem to be really necessary.



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