Performance Update

WhiteOak India Business Leaders PMS

WHITEOAK CAPITAL MANAGEMENT

THE ART AND SCIENCE OF INVESTING

May 2023

Four Important Pillars of WhiteOak Investment Process:

1) **Team:** A deep bench of seasoned professionals with multiple people having 15-25 years of experience; a team within team approach with two or more team members covering each sector to enable depth of coverage and width of perspectives for a large universe and a wealth of global investing experience which provides pattern recognition abilities that are especially empowering for investing in an emerging market like India.

2) **Bottom-up Stock Selection Philosophy** – Identifying *'Great Businesses'* with superior returns on incremental capital, scalable long term opportunity, and led by management teams that have strong track record of execution and who demonstrate the highest standards of corporate governance.

3) **Balanced Portfolio Construction** – WhiteOak follows a balanced portfolio construction approach with no top-down allocation bias of growth, value, contra cyclical etc.; no thematic biases like domestic vs. exports, defensive vs. cyclical or market cap biases like large cap or SMID (small and midcap) focus. Following any of such narrow strategy may result in exaggerated cycles of outperformance and underperformance. This is why it is commonly said that ***"Winners Rotate"*** and the strategies that perform keep changing every year or two only to be replaced by some other strategy.

4) **Proprietary Valuation Framework – OpcoFinco^{TM} Framework** that values invested capital separately and the operating businesses separately. Value of the operating business is the present value of excess returns in free cash flow terms produced over and above cost of capital, thus providing an insight into economic cash flow generation characteristics and the intrinsic value of a business.

WhiteOak India Business Leaders PMS Performance

The Portfolio has **underperformed the benchmark by 3.37% CAGR** as of April 30, 2023 since its inception.

Performance (%)	April 2023	CTYD 2023	CY 2022	Part CY 2021	Inception	
					CAGR	Absolute
Portfolio	5.0	-0.6	-6.1	28.8	8.4	20.1
S&P BSE 500 TRI	4.6	-1.3	4.8	27.8	12.4	30.3
Outperformance (%)	**0.36**	**0.71**	**-10.9**	**0.98**	**-3.97**	**-10.22**

Source: WhiteOak Capital. Inception Date: 21 January 2021. All indices are Net Total Return in INR. Performance shown since 21 January 2021 as client monies were managed from this date. Performance is net of all fees and expenses. Performance related information provided herein is not verified by SEBI. Past performance is not a reliable indicator of future results. Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of 1) the timing of inflows and outflows of funds; and 2) differences in the portfolio composition because of restrictions and other constraints. Performance relative to other Portfolio Managers within the selected Strategy : Click Here

What factors Can Cause Negative Alpha Despite a Balanced Portfolio Construction Approach?

While we have a balanced portfolio that is more broad-based, representative as well as amenable to capturing wider market opportunities, there are still two factor risks that we willingly tolerate in the interest of long-term sustainability of performance:

1. Relatively higher exposure to small and mid-caps (SMID caps) compared to large caps.
2. We are substantially underweight or even absent in sectors like energy, utilities, and global commodities and, by and large, avoid government-owned companies (or PSUs).

Why?

We have higher exposure to SMIDs because they form a relatively inefficient segment of the market. India presents the highest alpha-generating potential, and SMIDs have the highest potential within the market. If one has well-resourced research capabilities as we do, it is possible to create sizeable alpha in this segment. Large Caps also have alpha-generating potential, but it is present only to a lesser degree when compared to SMIDs.

Further, specific sectors like consumer staples and discretionary, private sector banks, healthcare, chemicals, IT Services, etc., tend to have heterogeneous business models and provide more opportunities for alpha generation. On the other hand, companies in sectors like energy, utilities, global commodities, and PSUs, to an extent, tend to have homogenous business models or a common set of drivers grounded in macros and hence do not lend themselves to alpha generation from a stock selection perspective.

With this background, there are two scenarios where WhiteOak India Investment Approach may underperform in the short term despite a balanced portfolio and long-term solid track record, more so if both these scenarios were to play out concurrently:

1. When Small and MidCap continue to underperform large cap for a prolonged period. Because we believe we can add alpha through stock picking and small and midcap affords the maximum alpha potential, and we strive for balance – we are perpetually around 30-50% in small and midcap
2. We believe in owning high governance businesses – so whenever sectors associated with low governance (PSU entities, energy, utilities, global commodities) outperform sectors associated with high governance (private sector financials, IT/ITES, consumer, pharma, chemicals, etc.) we stand to underperform.

It is worth noting that SMID cap underperforming large cap and low governance companies outperforming good governance companies is mean-reverting or cyclical and is unlikely to sustain.

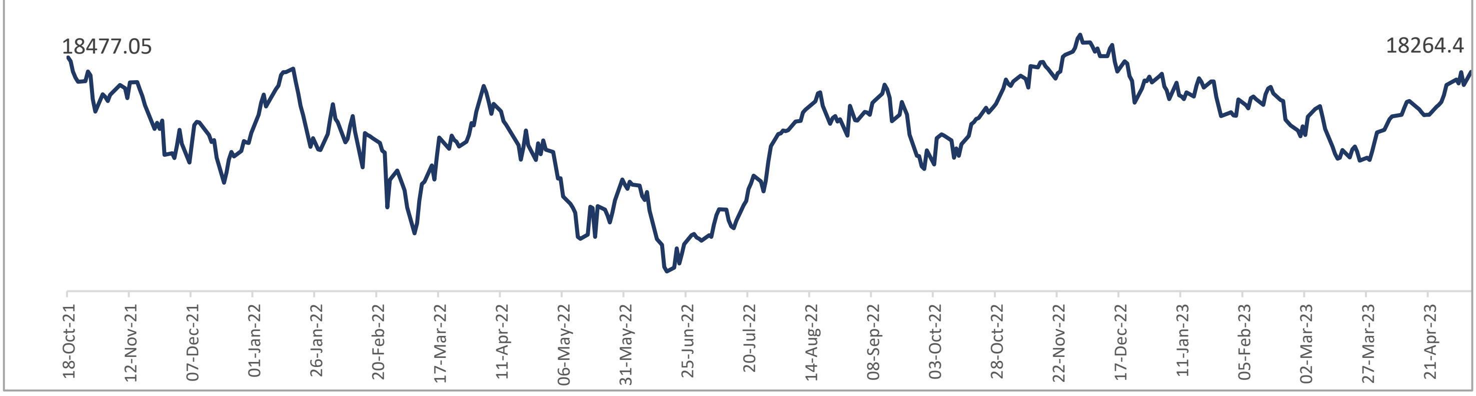
There is a phase of underperformance when both of these scenarios occur together. These two scenarios playing out at the same time is rather exceptional; hence, we remain confident that WhiteOak's stock selection has the ability to over-power the headwinds caused by these allocational biases. As can be noted from the past performances, over time, the strategy has outperformed irrespective of such factor risks.

Thriving in a Flat Market: Strengthening Fundamentals

	Oct-21	Apr-23*
Nifty EPS	582	820
GST Collection	1300 bn	1870 bn
Credit Growth	6.30%	15.9%
Manufacturing PMI	55.9	57.2
Services PMI	58.4	62

	Oct-21	Apr-23*
CPI	4.48%	4.70%
WPI	13.83%	-0.92%
10 Year Gsec	6.4%	7.1%
Brent Crude (USD/BBL)	84.4	79.5
Fiscal Deficit	6.4%	6.4%

Nifty 50 Movement from October 18, 2021 to May 7, 2023



Source : WhiteOak. *Latest Available data as of Apr 2023

Fundamentals such as free cash flows, earnings, revenue growth, and operating margins are the underlying factors that drive a company's performance. When these metrics improve, it is typically seen as a positive signal for investors, and stock prices are expected to rise accordingly. However, even when the fundamentals are strong, the stock market may still experience periods of stagnation or decline because of various short-term factors.

In the last 18 months, the equity market has remained relatively flat to bearish because of various global and geopolitical problems. But the fundamentals have mostly improved when we look at the domestic factors.

We can observe from the above table that Nifty 50 on October 18, 2021, traded at an high of 18477, and as of May 7, 2023, Nifty again reached almost the same level. But the factors impacting growth and inflation have improved significantly (except Consumer Price Index (CPI) and 10-Year G-Sec. However, they have also started to soften over the last one year).

WhiteOak India Business Leaders Portfolio Valuation

	Portfolio	S&P BSE Sensex
FY23 ROE	19.4%	13.5%
FY24 OpcoFinco™ P/FCF	33.9x	33.1x
FY25 OpcoFinco™ P/FCF	27.9x	28.6x
FY24 P/E	22.1x	20.1x
FY25 P/E	18.6x	17.7x
Projected Revenue 3 year CAGR	15.4%	9.5%
Projected Earnings 3 year CAGR	18.1%	13.3%

Source : WhiteOak Research, Bloomberg

The valuations reflect value of a portfolio on the basis of its fundamentals

At WhiteOak, our analytical framework and valuation approach is cash flow centric and we pay special attention to cash-flow based metrics such as free cash flow conversion, unlevered free cash flow, capital light cash flows, and multiples based on these cash flows.

Our proprietary OpcoFinco™ valuation framework and bottom-up research is the foundation of our process and we seek to generate vast majority of our returns from our rigorous stock selection process.

As can be seen from the table alongside, on a Price to Free Cashflow basis, the portfolio is almost at par to S&P BSE SENSEX, while the return on equity of the portfolio is significantly higher than S&P BSE SENSEX.