



Quarterly Performance Update – Q4 2022

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™ 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.

Alpha generation by the White Oak India Pioneers Equity Portfolio

The Portfolio has **outperformed the benchmark by 2.09% CAGR** as of December 31, 2022 since its inception.

For the period between Jan 2022 - Jun 2022, the portfolio underperformed because the sectors we have been typically overweight have substantially underperformed the underweight sectors. In this period, the underperformance of these sectors has been very acute and sharp.

Performance (%)	Q4 2022	2022	2021	2020	Part 2019	Inception	
						Absolute	CAGR
Portfolio	-0.1%	-6.6	34.4	34.9	6.7	80.8	17.2
S&P BSE 500 TRI	4.3%	4.8	31.6	18.4	3.5	69.1	15.1
Outperformance (bps)	-440	-1137	+281	+1651	+320	+1176	+209

Source: WhiteOak Capital. Inception Date: 08 April 2019. All indices are Net Total Return in INR. Performance is net of all fees and expenses (including taxes). Performance shown since 8 April 2019 as client monies were managed from this date. Performance related information provided herein is not verified by SEBI. Past performance is not a reliable indicator of future results.

What factors can cause negative alpha despite a balanced portfolio construction approach?

While we have a balanced portfolio which 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, global commodities and by and large avoid government-owned companies (or PSUs).

Why?

The reason we have a higher exposure in SMIDs is that they form the relatively inefficient segment of the market. India presents the highest alpha generating potential, and SMIDs have the highest potential within the market. So, 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 heterogenous 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.



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The fate of such companies is thus decided mainly by the macros or externalities and to the extent that the locus of the business lies in macros, an understanding of management quality is not enough to infer sound execution on the opportunities. It is like a batsman claiming to score many centuries but only provided when the pitch is flat, the opponent is weak, and the boundaries are shorter.

And it is impossible to predict those macros consistently. Hence over a long period, it doesn't add any value.

With this background, there are two scenarios where White Oak India Pioneers Equity Portfolio may underperform in short term despite balanced portfolio and strong long-term track record; more so if both these scenarios were to play out concurrently:

1. When Small and MidCap continues to underperform large cap for prolonged time 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.

When both of these happen together there is a phase of underperformance but it is a one to two quarter phenomena, as seen in the recent under performance. It is worth noting here that these two phenomenon playing out together is rather exceptional and hence WhiteOak strategy having underperformance for prolonged period is exceptional. Cyclical and PSUs are the high beta component of the market and when these rally, it is accompanied by small and midcap (which are also high beta vis-à-vis broader market) outperforming large cap. Calendar year 2022 is a one off where cyclicals have outperformed and yet small and midcap underperformed large cap; mainly due to the Russia-Ukraine conflict and its perceived corollary effects.

We remain confident that stock selection has the ability to over-power the headwinds caused by these two allocational biases and at the same time 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.

Has the strategy underperformed for the first time?

White Oak Pioneers Equity Portfolio has a history of outperforming the benchmark in each of the calendar years (Part 2019, 2020 and 2021), but there were intermittent short periods where it did underperform. Whenever this has occurred, over the next 12 months, the strategy outperformed the benchmark by a wide margin, as can be inferred from the above explanation. The same is shown in the below table:

Time period	Underperformance	Duration (days)	12 month Outperformance post worst drawdown
17 Mar 2020 – 06 Jul 2020	-8.15%	111	8.9%
31 Dec 2021 – 19 Dec 2022	-11.6%	353	?

Source: WhiteOak Capital. CY : Calendar Year. Past performance is not a reliable indicator of future results.

Valuation Discount

Usually, most investors focus on the discounts created by price correction and may miss the bigger picture – “The Valuation”.

What if there is decline in the underlying asset value? In that case, the Asset has become even more expensive at a current price

And consider the opposite. What if, there is a improvement in the underlying Asset’s Fundamental Value. As a result, even at the current price the assets has become even more valuable. So what has happened this time? Value addition or reduction?

	Total Valuation Discount		
	October 31, 2021	December 31, 2022	Valuation Discount
FY 23 OpcoFinco™ P/FCF : Sensex	51.2	41.0	20%
FY23 OpcoFinco™P/FCF : Portfolio	46.7	34.6	26%

Source: WhiteOak Capital. Past performance is not a reliable indicator of future results.

The Portfolio is still cheaper by 15.6% than S&P BSE Sensex

	OpcoFinco™ P/FCF Multiple
S&P BSE Sensex	41.0
White Oak Pioneers Equity Portfolio	34.6

Source: WhiteOak Capital



Sustainable Track Record of a Balanced Portfolio Construction Approach

Part 2017	2018	2019	2020	2021	2022	Since Inception
White Oak Strategy	Portfolio 3	Portfolio 9	White Oak Strategy	Portfolio 8	Portfolio 1	White Oak Strategy
Portfolio 8	White Oak Strategy	Portfolio 2	Portfolio 9	Portfolio 4	S&P BSE 500 TRI	Portfolio 1
Portfolio 1	Portfolio 2	Portfolio 6	Portfolio 8	White Oak Strategy	Portfolio 2	Portfolio 2
Portfolio 4	Portfolio 4	White Oak Strategy	Portfolio 2	Portfolio 1	Portfolio 4	S&P BSE 500 TRI
S&P BSE 500 TRI	S&P BSE 500 TRI	Portfolio 5	Portfolio 3	Portfolio 3	Portfolio 5	Portfolio 3
Portfolio 7	Portfolio 5	Portfolio 3	Portfolio 1	Portfolio 7	White Oak Strategy	Portfolio 4
Portfolio 3	Portfolio 7	S&P BSE 500 TRI	S&P BSE 500 TRI	Portfolio 2	Portfolio 6	Portfolio 5
Portfolio 2	Portfolio 6	Portfolio 7	Portfolio 5	S&P BSE 500 TRI	Portfolio 8	Portfolio 6
Portfolio 6	Portfolio 1	Portfolio 4	Portfolio 6	Portfolio 5	Portfolio 3	Portfolio 7
Portfolio 5	Portfolio 8	Portfolio 1	Portfolio 7	Portfolio 6	Portfolio 9	Portfolio 8
		Portfolio 8	Portfolio 4	Portfolio 9	Portfolio 7	

Since Inception : 31 August 2017, Part 2017 : From August 31, 2017 till December 31, 2017. Peer Group source: PMS Bazaar. Besides White Oak, Peer Group includes benchmark and Multicap portfolios with AUM over INR 2,000 Cr, making a total of eleven data points. 2022 data is till December 2022. For White Oak Strategy : Performance between September 2017 to March 2019: India Acorn Fund, Performance from April 2019 onwards: White Oak Pioneers Equity Portfolio

A Factor Diversified Balanced Portfolio has a proven track record of delivering a sustainable S&P performance over each calendar year and its associated market cycle

Long term track record of the Portfolio

Rolling returns show how the portfolio has performed consistently over a long period of time. Point-to-point returns don't tell anything about what happened in the period between the two dates.

When a portfolio's 1-year/ 3-year/ 5-year returns look better (or worse) than others, it doesn't tell if the portfolio has always been better. Since rolling returns look at returns over a period, they are better able to capture trends in performance and average out the swings in returns.

The White Oak India Pioneers Equity Portfolio has **outperformed the Benchmark in 100% of the times on a 3-Years CAGR basis**, measured daily, since inception.

Rolling Return Period	3 Years	
Rolling Frequency	Daily	
Period in Consideration	8-April-2019 to 31-Dec-2022	
First Observation Date	08-Apr-22	
Total Observations	268	
Portfolio / Index Name --->	White Oak India Pioneers Equity Portfolio	S&P BSE 500 TRI
Minimum Return (% CAGR)	15.1	12.0
Maximum Return (% CAGR)	24.5	22.1
Median Return (% CAGR)	21.0	18.4
Average Return (% CAGR)	20.6	17.7
Less than 10% return observations	0	0
10 to 15% return observations	0	55
15 to 20% return observations	87	157
Above 20% return observations	181	56

Source: WhiteOak Capital. Above numbers are rounded-off to nearest decimal. Returns are in % CAGR. Source: MFIE and Internal Research. PMS returns are estimates and net of fees and expenses. Returns for PMS have been calculated using Time Weighted Rate of Return (TWRR) method as prescribed by SEBI. Individual client performance (in PMS) may differ. Past performance is not indicative of future results. Performance related information provided herein is not verified by SEBI. 3 Years % CAGR is on any observable date during the above mentioned period.

Disclaimers:

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