3P INVESTMENT MANAGERS

Dear Sir/Madam,

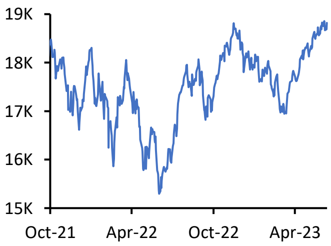
We are delighted to share the first update from 3P India Equity Fund.

3P India Equity Fund 1 units were allotted on 4th May 2023. The Nifty 50 index on 4th May 2023 closed at 18,256.

We were of the view that given the 2-year time correction in the market (fig 1), the consequent moderation in PE multiples and our clear long-term focus, the Fund must quickly get invested. We have done precisely the same.

The adjoining table depicts the trajectory of cash deployment (fig 2). As of June 30, the Fund is ~100% invested. The key portfolio characteristics of the Fund are presented below (fig 3).

Time correction in Nifty 50



Source: Bloomberg

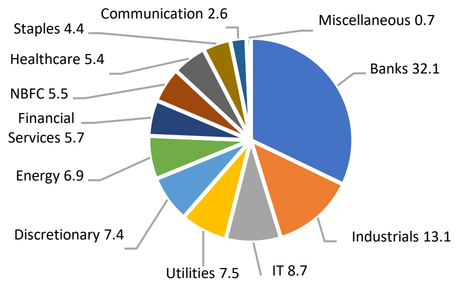
Fig 1

Trajectory of cash deployment

End of	% of Fund Invested
Week 1	29
Week 2	58
Week 3	70
Week 4	81
Week 5	94
Week 6	96

Fig 2

Exposure by Sector (%)



Note: ETFs are distributed into respective sectors | Large/Mid/Small classification as per AMFI | Total number of stocks includes 2 ETFs

Exposure by constituents (%)

Constituents	Weight
Top 5	34
Top 10	56
Top 20	82
Top 30	95

Total number of Stocks: 44

Fig 3

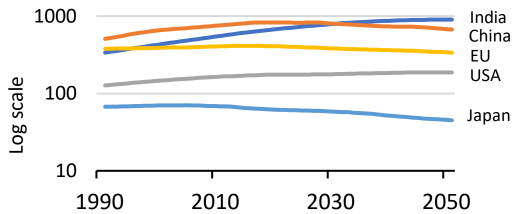
Tailwinds for India

India has grown at an average of 6.0% CAGR (real GDP) over last four decades. This was driven by demographics, opening up of the economy, availability of skilled, educated and cost-competitive manpower, abundant natural resources (ex-oil and gas), a stable social and political environment etc.

India now has two additional tailwinds.

– Broad basing of service exports driven by the acceptability of remote working and availability of large number of educated and young people, especially when working age population is not growing in other countries (fig 4).

Working age Population (mn)



Source: World Population Prospects

Fig 4

3P INVESTMENT MANAGERS

- Sharply lower wage inflation relative to other countries has made manufacturing in India cost-competitive (fig 5). Post Covid-19 and Ukraine war, MNCs also want to de-risk their supply chain on a priority basis. The above should enable India to grow its share of global manufacturing meaningfully. Interestingly, for exports, manufacturing is a larger opportunity than services.

*Statutory nominal gross monthly minimum wage | Source: ILO
Fig 5

A simultaneous increase in the global share of services and manufacturing should accelerate India's GDP growth in our judgement from 6% to 7-8% for the current and next decade. As per IMF forecast, India should be the 3rd largest economy in the world by 2027. India's share of World GDP should rise to 4.0% by then.

Positive Outlook for Domestic Capex

The outlook for the domestic capex is encouraging. Bank balance sheets are strong with low NPAs (fig 6 a) and healthy capital adequacy. This, along with 10-year low corporate leverage (fig 6 b) and broad-based recovery in corporate profitability is supportive of capex.

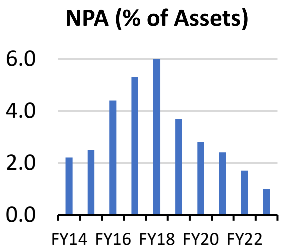


Fig 6 a
Source: ICICI Securities, Ace Equity

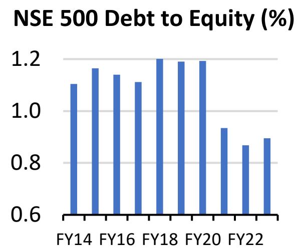


Fig 6 b

Corporate Profits

Over the past decade, corporate profits to GDP fell from ~4.0% to 1.1% on account of high NPAs, weak capex and low commodity prices etc. These factors have now reversed. Bank NPAs are now at a 10-year low, commodity prices are reasonable and capex is strong. Consequently, the ratio of profits to GDP has recovered sharply (fig 7). In our judgment, corporate profits should now grow 12-15% p.a. for the foreseeable future.

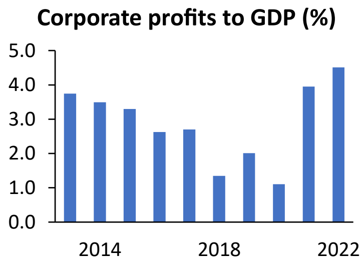


Fig 7

Notes: Corporate profit is for listed and unlisted companies. Data is for FY end. 2022 data is not available for all companies; it is subject to revision | Source: KIE, Bloomberg

Decadal inflation in India (%)

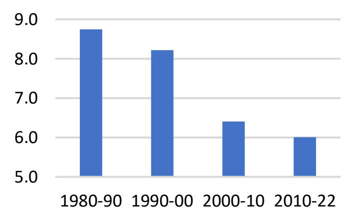


Fig 8

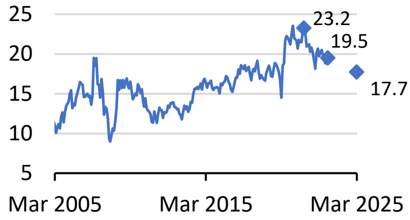
Source: RBI, Bloomberg

It is interesting to note that India is now a lower inflation country as compared to the past (fig 8). This is the result of the opening up of the economy, lower customs duties, reforms etc. This has resulted in lower interest rates and lower nominal GDP growth as well. In view of this, it is reasonable to expect ~12% CAGR from equity indices over the long term in our opinion. Breakup of these returns is 6-8% real growth and 4-6% inflation.

Markets Outlook

As mentioned earlier, Nifty 50 index has been rangebound between 15,000 to 19,000 over the past 2 years (fig 1). Due to this time correction, PE multiples have moderated from a peak of 23.2x in Sep 21 to 17.7x (fig 9). These are reasonable PEs and close to India's long-term average. Risk-reward of equities has thus improved.

Nifty 50 PE ratio (12m forward)



Source: KIE Estimates

Fig 9

An interesting development is the coming of age of domestic investors. Equities have evolved from a peripheral and seasonal asset class to a core and secular asset class. Domestic flows are now close to ₹3 lac crores/p.a. ($40bn). This includes Mutual Funds, NPS, Insurance, EPFO, PMS and direct equity investments etc. The effect of this was evident in CY2022 when markets remained steady despite selling of $17bn by FIIs (fig 10). We believe, this structural change should reduce the volatility of equities.

Reducing dependence on FII flows

USD Bn	CY19	CY20	CY21	CY22	CYTD
FII flows	14.2	23.3	3.7	-17.0	7.7
DII flows	5.9	-4.9	13.0	35.7	10.5
Nifty 50 (%)	12.0	14.9	24.1	4.3	6.0

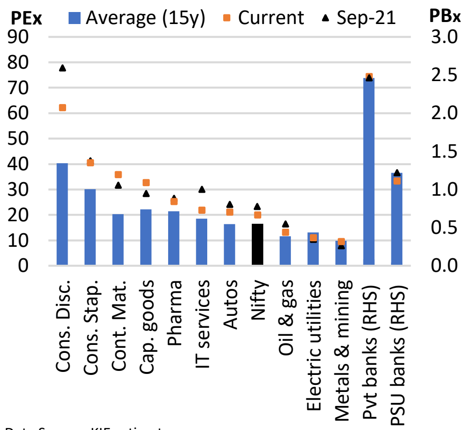
Source: KIE, Ace Equity

Fig 10

Sector Valuations

In the consolidation phase of markets over the last 2 years, overvaluation and undervaluation across sectors have moderated. Overvalued sectors like IT and consumer have de-rated while undervalued sectors like defence, corporate banks, tobacco and power utilities have re-rated. Fig 11 gives the 15-year average PE, current PE and PE around the market peak (Sep-21) for various sectors. Currently, only utilities and banks are trading below their 15-year average PE. Though consumer discretionary, consumer staples and construction material sector valuations have de-rated, they are still well above their long-term averages. Rest of the sectors are trading around their long-term average.

Sector Valuations



Data Source: KIE estimates

Fig 11

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/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 ~44 companies (including 2 ETFs). ~78% of investments are in large caps, ~14% in mid caps and ~8% in small caps. The portfolio is well diversified across sectors and key economic variables. The Fund is overweight financials, industrials, utilities & healthcare and is underweight IT, consumer and materials.

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

Given the recent outperformance of small and mid caps, the portfolio is tilted towards large caps. We will look to increase exposure to small and mid caps meaningfully during market downturns.

The 3P India Equity Fund had a decent start. Although 2 months is too short a period, we are glad to report that portfolio returns are marginally ahead of Nifty 50 TRI despite the cash drag from rising markets (Nifty 50 was up 2.6% in May and 3.5% in June 23). Fund returns from 4th May – 30th June are 5.81% vs Nifty 50 TRI returns of 5.56%, both pretax. 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. Besides this, the interest income on cash, which is taxed at a higher rate is likely to be much lower in future. Presently the Fund size is ~₹4000 crores (including 30 June flows).

In our endeavour to not only avoid conflict of interest between customers and 3P but to align their interests, the sponsor has invested ₹101 crores in this Fund. Further, under normal conditions, the 3P team will not purchase direct listed equities in the secondary market.

The attached annexures give a) sectoral composition of the Fund and a brief rationale for the same as of June 30th 2023 b) complete portfolio as of June 30th 2023 c) Financial information for the portfolio constituents.

We would like to express our deep gratitude for your support and participation in the Fund. As Lao Tzu said, "A journey of a thousand miles begins with a single step". Your support has enabled this first step in this journey.

We plan to share with you the next Fund update in the first week of October 2023. 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,

CIO and Fund Manager	Portfolio Strategist and Co-Fund Manager
(Prashant Jain)	(Ashwani Kumar)
Email: prashantj@3pim.in	Email: ashwanik@3pim.in