



Equirus Long Horizon Fund

Investor Communiqué - Jun'18

Dear Investor,

Financial year 2018-19 started off with strong macro headwinds. Even before business normalcy was restored post policy measures taken last year, crude oil prices have rallied, the currency has been depreciating, inflationary pressures have intensified, and the Central Bank has embarked on a rate-hike cycle. Additionally, this year will also be a buildup for next year's general elections leading to sentimental uncertainties.

All these factors combined are set to put significant pressure on government finances. With earnings growth still largely elusive for major part of markets, the volatility witnessed last quarter is here to stay. Our portfolio companies too have seen stock price drawdowns last quarter inspite of superior earnings growth. We however strongly believe that the intrinsic value of our businesses is far greater than current market prices, which in turn only reflect current market conditions rather than long-term business value. This may be painful, but it is only in such times that we get mispriced bets – both in the market as well as our own portfolio. In that sense, as discussed in our [last letter](#), volatility is our friend rather than foe. Such drawdowns should be used to load-up portfolio stocks – something which are currently doing.

Before we delve deeper, we wish to thank you for your unscathed faith in us, even during these turbulent and volatile times. We reassure you of our continued focus on creating/maintaining a portfolio of quality names at favorable prices and providing you with good risk-adjusted returns over a 3-5year horizon.

In this letter, we discuss our thought process and reasons behind our recent portfolio exits.



The Art of Selling

Investing is a collection of many aspects such as screening/scouting for ideas, research/scuttlebutt, valuation, portfolio allocation, and execution of trades in terms of buying and selling.

A lot of material has been dedicated to screening, research and the valuation part of investing – aspects which are much more scientific in nature. On the other hand, portfolio allocation and execution, especially selling, involve much more art. However, very few books have been written on the art of selling. Hardly any industry experts talk about it with the same confidence as they talk about research. We believe selling is an equally important aspect, if not more than research and buying.

As you must be aware, we have exited four positions in the last one year, primary due to the following reasons:

- Thesis playing out faster than expected with leading front-ended returns
- Initial thesis going wrong or not playing out as expected
- Changes in business environment making expected returns unattractive while stocks remained fairly valued
- Government policies or a changing economic environment leading to adverse changes in a company's business
- Very high capex funded with debt and/or external equity not resulting in growth
- A better opportunity coming up (in case portfolio is fully invested)

All of our 'sell' decisions can be classified into one or more of these categories. Investments are like motion pictures rather than still photographs. Business dynamics keep evolving for good or bad over a period of time. Our job is to keep a tab on this, remove the ones that are deteriorating and hold on to/add the ones which are on course or improving.

In our endeavor to stay on top of the game, we keep re-evaluating our portfolio companies and comparing them to the original thesis. Many a times, things in business do not change as fast as share prices. These are the times when we need to keep our composure, stay confident, be alert and wait for the market to correct the mispricing. While we constantly evaluate new investment ideas

Equirus Securities Private Limited



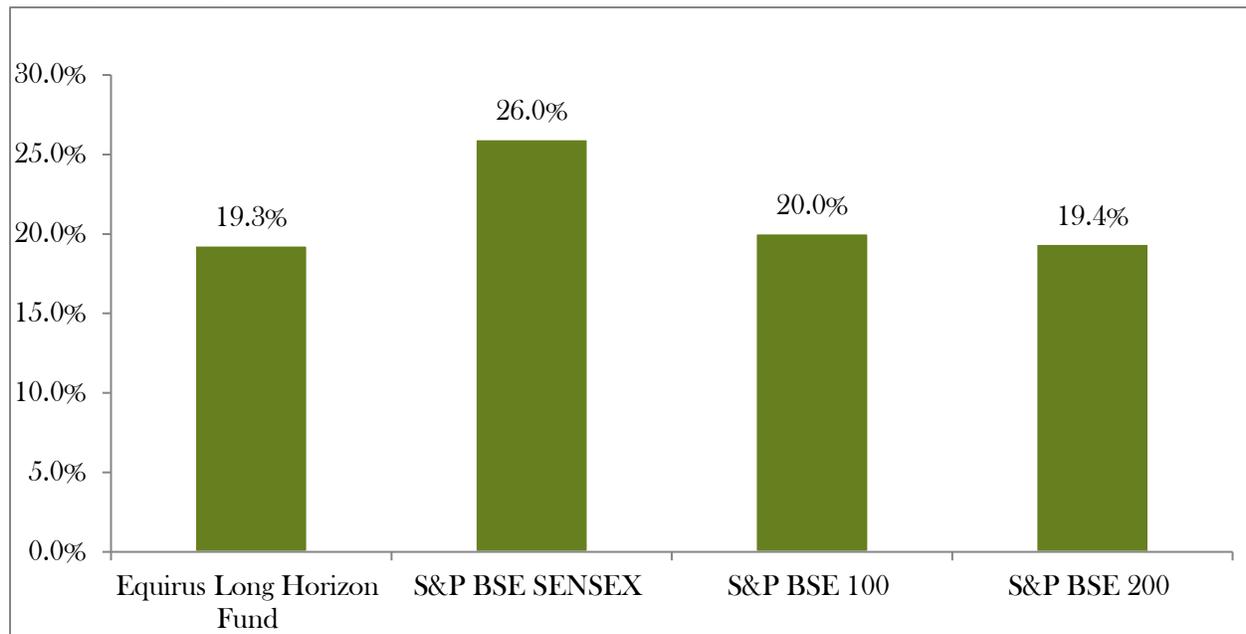
and compare them with our portfolio stocks in terms of investment attractiveness, there might be long periods characterized by lack of actionable insights. This period may last for a quarter or few. However, please be informed that we are constantly on a lookout to improve our portfolio composition.



Fund performance

The Equirus Long Horizon Fund, as the name suggests, invests in listed securities with a long-term horizon of 3-5 years. Our adherence to robust processes, prudent investment strategies along with flexibility to invest in strong businesses/franchises – while a perfect recipe for above-average long-term results – has already started yielding results. With over one year of our launch, **we have given a return of ~19%**. Returns vary across clients, depending upon their entry into the PMS.

Comparative performance of ELHF vs. benchmark indices¹ since launch (20Oct'16)



As discussed before, we think this is very good time to increase allocation to the existing portfolio stocks.

¹Return figures are net of fees and as of 30 Jun'18. Returns are adjusted for inflows/outflows and are TWRR



Current Aggregate Portfolio Characteristics

As a step towards greater transparency, we share our portfolio-level characteristics every quarter:

Number of businesses	11 companies
Current cash position	~ 22%
Last 3-year earnings CAGR	34%
Latest portfolio ROE	20%
TTM (trailing twelve month) portfolio PE	20.6x
Acquisition portfolio TTM PE	18.5x
Churn	35% (excluding the buying/selling of Liquid Mutual Funds, stocks given to us by our investors and capital redemption by investors).

I thank you for your valuable support and trust for investing in ELHF, and I reinforce our commitment to make your investment decision profitable.

For any queries, please feel free to get in touch with me or my team.

Thanking you,

Viraj Mehta
Managing Director
Equirus PMS



Annexure

And lastly, some articles we found interesting during the quarter. Hope you enjoy them!

- [Why Some Companies Need More Tortoises, Not Hares](#) on Knowledge @ Wharton
- [When Holding is the Hardest Part](#) by Ben Carlson
- [A Dent in the Universe](#) by Venkatesh Rao
- [The ultimate 3500-word guide in plain English to understand Blockchain](#) by Mohit Mamoria
- [The Nutella Billionaires: Inside The Ferrero Family's Secret Empire](#) by Noah Kirsch

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