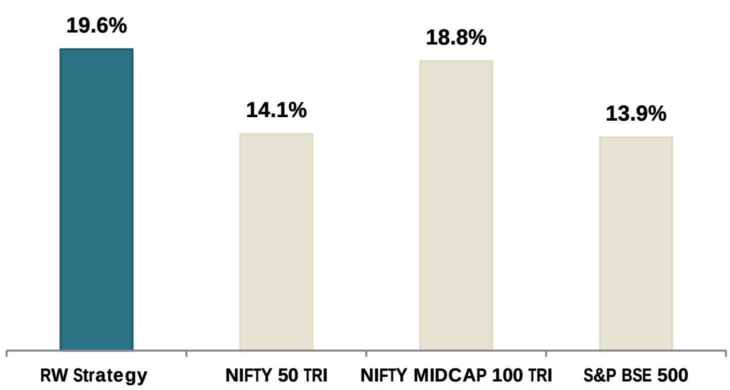
Quarterly Update   June 2023

Investment Objective

RW Investment Advisors uses a proprietary framework that combines fundamental and technical factors to identify businesses that can create long term wealth. The guiding philosophy is capital protection and compounding over longer periods.

Chart 1: RW Strategy TWRR* (Since Inception)



**Strategy returns shown above are post fees and expenses.*

Top Performers

Scrip Name	Purchase Date	Adj. Purchase Price (Rs.)	CMP (Rs.) as of 30-06-2023)	Growth (%)
ASIANPAINT	01-Sep-2017	1,550	3,362	116.9%
INDUSINDBK	07-July-2022	950	1,375	44.8%
ICICI BANK	23-Dec-2020	646	935	44.8%
FUSION MFIN	03-Mar-2023	406	549	35.4%
HOMEFIRST	05-May-2021	598	784	31.1%

Holding Companies

Asset Concentration	Holding
No. of Companies	31
Top 5 Company Holdings	30.2%
Top 10 Company Holdings	50.9%
Highest Exposure	ICICIBANK (6.7%)

Sector Allocation

Sectors	Allocation (%)
BFSI	32.2%
Consumer	27.7%
Healthcare & Pharma	11.7%
Technology & Services	11.6%
Auto & Others	16.8%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	45.5%
Mid Cap	14.9%
Small Cap	39.6%
Avg. Market Cap (Rs. Bn)	2,353

Qualitative Analysis

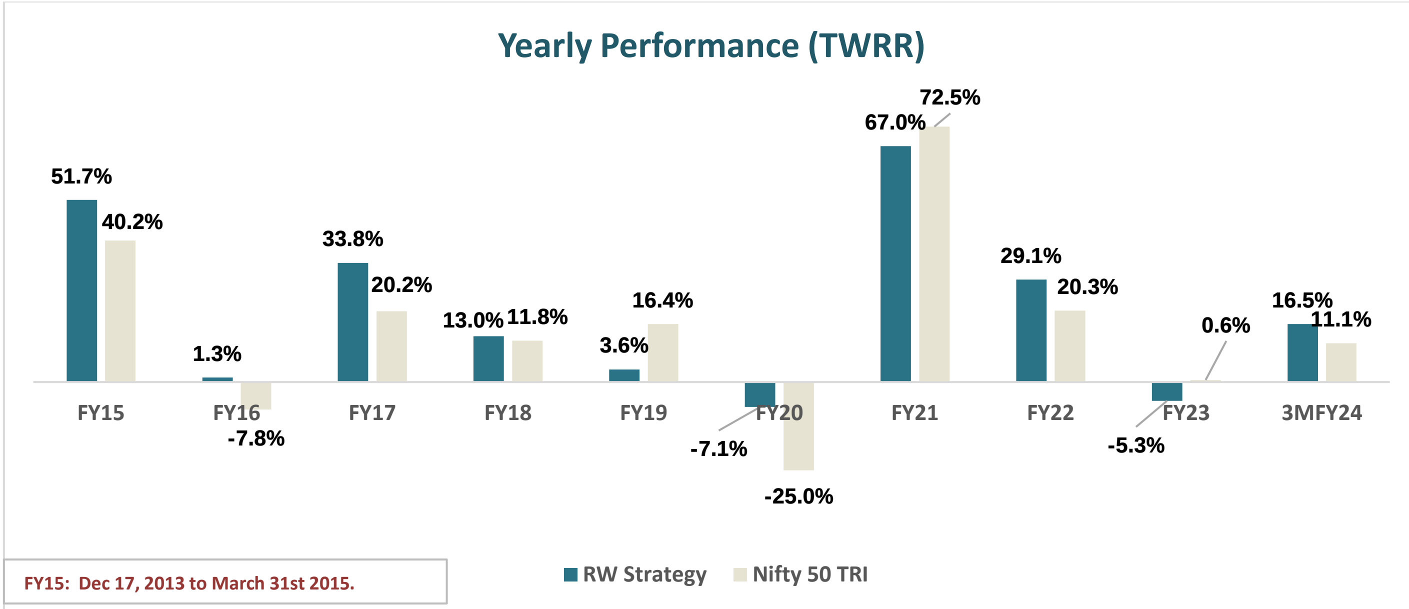
Parameters	TTM
PAT Growth	28.2%
PE	38.4x
ROE	19.5%

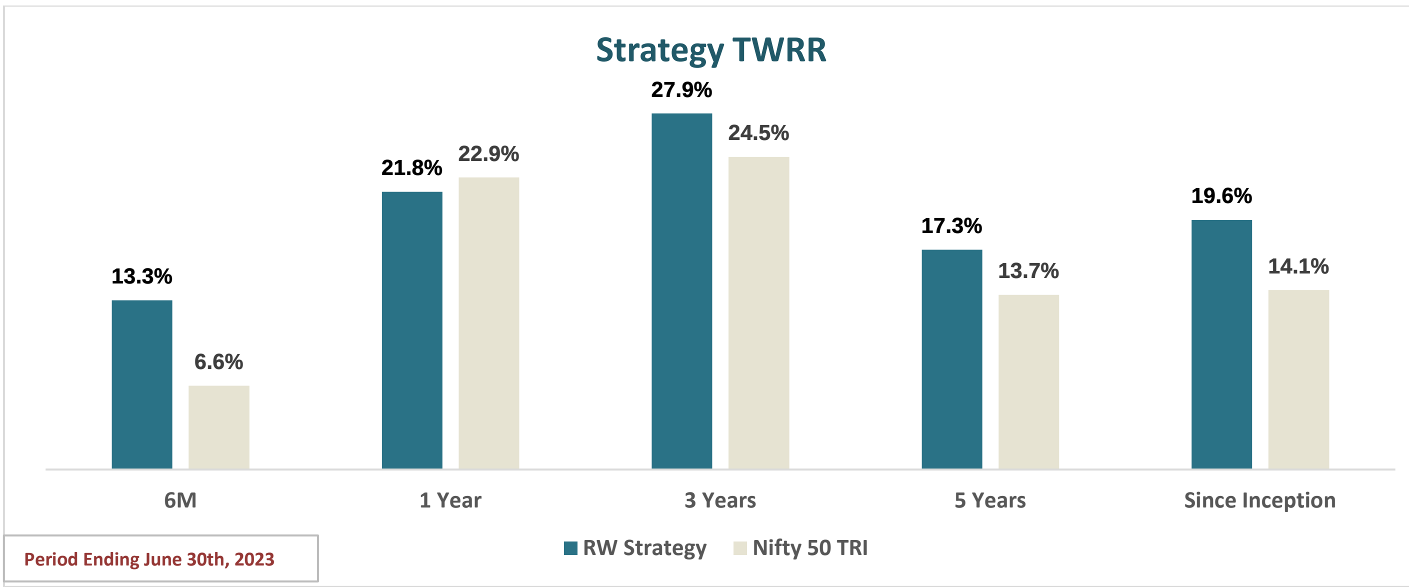
Holding Period

Holding Period	No. Of Scrips
Less than 1 Year	21
Between 1 to 3 Years	7
More than 3 Years	3

Disclaimers and Risk Factors

RW Strategy Inception Date: 17th December, 2013, Data as on 30th June, 2023. Data Source: RW Internal Research. RW Strategy results are for an actual Client as on 30th June, 2023. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The stocks forming part of the existing portfolio under RW Strategy may or may not be bought for new client. The Company names mentioned above is only for the purpose of explaining the concept and should not be construed as recommendations from RW Advisors.





Strategy returns shown above are post fees and expenses

Portfolios came back strongly in the last quarter from what felt like a never-ending sideways market – we have covered most of our underperformance that started from Jan 2022. It has become tough to explain these vicious rallies and drawdowns in the markets especially with such short cycles, hence we remain focused on businesses and valuations. Relative performance in the 3 year and 5 year buckets are back in the green, something to cherish about.

Last decade has been extremely kind with near 20% return and 5%+ alpha, we hope to continue the good work going into the next one.

Continuing from the previous newsletter, this one finetunes some of the strategy part that we spelt out earlier, picking on some of the best practices from other best investors.

"Trust the exponential, be patient, and be pleasantly surprised"- Sam Altman

"Five years ago we had no thought of getting into shoes. Now we have 7,200 employees in that industry, and I sing 'There's No Business Like Shoe Business' as I drive to work. So much for strategic plans. At Berkshire, we have no view of the future that dictates what businesses or industries we will enter. Indeed, we think it's usually poison for a corporate giant's shareholders if it embarks upon new ventures pursuant to some grand vision. We prefer instead to focus on the economic characteristics of businesses that we wish to own and the personal characteristics of managers with whom we wish to associate - and then to hope we get lucky in finding the two in combination." – **Berkshire Hathway's Annual letter from 1993**

Despite following the process and being confident about the investment, Dexter Shoes went bust due to competition from cheap Chinese imports.

"I was too dumb to appreciate Amazon's potential."
"I should have had better insight into Google."
"I was reluctant to invest in technology stocks because I didn't understand their business models."
"These companies are 'extraordinary businesses' with 'some aspects of a natural monopoly.'"
"I have been a 'fan' of Amazon for years."
"I have been an idiot for not buying."

Despite the apparent lack of expertise and all the "missing out" talk, Buffett hit a home run by investing in Apple –he considers it more as a consumer play than a tech play (although Ted Weschler's media disclosure points to app ecosystem play with network effects).

Flexibility seems like a double edged sword. Curious about Buffett's ability to stretch from investing in Japanese trading houses to a quick flip from TSMC in Taiwan on one end vs holding onto long term winners like Coke, we delved deeper into Buffett's holding period in the public portfolio (which is 40% of his overall portfolio).

Results came as a surprise to us:

Table 1: Analysis of 275 stocks held by Berkshire between 1965 to 2006

Holding Period	Percentage
< 1 year	60.4
< 2.5 years	75.2
> 10 years	3.9

Source: Overconfidence, Under-Reaction, and Warren Buffett's Investments (link)

He changed his mind on 60% of the portfolio within a year, while holding 5% of the portfolio for a very long time. Since his average holding was about 25 stocks through 1980 to 2006, 1/3rd of this holding essentially would be permanent. Closer home, Mr Rakesh Jhunjhunwala exhibited a similar mindset with respect to his long term winners, while being very agile in the short term. <u>This combination of investing in workouts in the short run and the ability to ride on long term winners strikes a chord with our approach too</u>.

Observations from his portfolio held between 2001 to 2022:

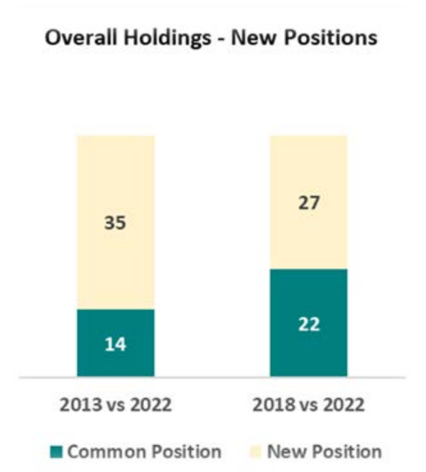
BRK [2001-2022]	Quarterly Average	Annualized
Number of Positions	41	
New	2	
Sold Out	2	
Volume Turover	9.9%	39.8%
Value Turnover	3.8%	15.1%
Top 10 Holdings (Value wis	85.6%	

- Very high concentration with 86% held in top 10 holdings
- Contrary to popular perception, churn was close to 40% by volume and 15% by value
- On an average he held 41 positions

Source: whalewisdom.com, RW Analysis

Observations from his top 10 holdings and overall holdings between 2013 until 2022:

Top 10 Holdings - Q4 BRK									
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
WFC	WFC	WFC	KHC	AAPL	AAPL	AAPL	AAPL	AAPL	AAPL
KO	KO	KHC	WFC	WFC	BAC	BAC	BAC	BAC	BAC
AXP	AXP	KO	KO	KHC	WFC	KO	KO	AXP	CVX
IBM	IBM	IBM	IBM	BAC	KO	AXP	AXP	KO	KO
PG	WMT	AXP	AXP	KO	AXP	WFC	KHC	KHC	AXP
XOM	PG	PSX	PSX	AXP	KHC	KHC	VZ	MCO	KHC
WMT	USB	PG	AAPL	PSX	USB	JPM	MCO	VZ	OXY
USB	DVA	USB	USB	USB	JPM	USB	USB	USB	MCO
DTV	DTV	WMT	DAL	MCO	BK	MCO	DVA	CVX	ATVI
DVA	GS	DVA	CHTR	BK	MCO	DAL	CVX	BK	HPQ



Source: whalewisdom.com, RW analysis

- In Top 10 holdings – only 2 names appear in both 2013 and 2022 portfolio (80% turnover) and 4 names appear in both 2018 & 2022 (60% churn)
- In Overall holdings – only 14 names appear in both 2013 & 2022 portfolios (67% churn) and 22 names in both 2018 & 2022 portfolio (54% churn)

Buffett is a concentrated investor with 86% of the wealth held in just 10 securities. It appears that he holds a small minority of investments for a long long time while churning rest of the book to find newer picks . Big learnings from the above analysis are:

1) hold onto category leaders/winners unless there are strong reasons to sell and
2) churn is an error term in the portfolio construction process i.e. we should not worry about it

At RW, Banking, Consumer and IT Services/Tech are the core sectors around which we have built 75% of our portfolio. These are the segments we are likely to have long term compounders, as and when they are available at reasonable valuations. Most of the firm's energy will be spent in spotting opportunities in this segment. The build-out of the remaining 25% helps us in exploring other sectors which may hold promise, but we may not fully understand yet. In the past, it also helped us in exploring new market niches, where fundamentals were good but the market opportunity was tough to ascertain. SJS enterprises, MapmyIndia, Shaily Engineering, Hindustan Foods, Polymedicure are cases in point.

In addition, for some of the small cap companies, we feel that it is always better to start out with a small position (2.5%), despite all the diligence we usually do. Although, there are innumerable ways to cut the cookie, this risk-first approach suits our mindset. It also helps us in correcting our errors of judgement early, restricting capital at risk.

As a team, we have always followed the philosophy of the Santiago from The Old Man and the Sea. Go as far and persevere in order to unearth new opportunities. This leads us to building out portfolios which simultaneously have companies such as Infoedge (Best internet conglomerate in India) on one hand - and companies like Justdial (deep value with 70% in cash at the time of investment) and Zensar (deep value with turnaround firmly entrenched). As we study a larger universe of companies, we also have a very strong anti-portfolio including the likes of Mrs Bector, Avalon Tech and other companies, which we may have studied but did not act because of conservative estimates on either valuation or financials.

As we enter the next decade in investing, we believe that we should spread our efforts across finding great businesses, harvesting the growth anomaly and extreme mispricing in valuations - all leading towards capital protection with healthy returns. Given the egregious valuations most of the great/"moat" companies trade at today, a buy and hold strategy is likely to come into play only when the market presents an opportunity, during dislocations such as Covid. For instance, Berger and PI industries were both available at sub 20 P/E in 2012 after years of scandals and bad headlines about India.

Should such a scenario reappear again, we will put in our best efforts to get a large proportion of the book in the buy and hold category. Until then, our strategy is likely to be centered around a mix of value, moat and earnings anomaly. In our opinion, given the shift in geopolitics and the resultant high rate environment, a strategy which mixes all the 3 factors is likely to outperform other strategies.

In summary, as we see the next decade of investing at Courser Park/RW:

- Banking, Consumer and Tech will remain the core sectors
- We will continue to do sound business diligence, no matter the nature of investment
- We will be flexible to move across moat, value and relative growth strategies
- Have more patience to hold onto permanent compounders, despite the valuations

After spending around two decades in the capital markets, the significance of the Delphic maxims remains increasingly clear to us: "know yourself," "everything in moderation," and "don't overcommit."

As we embark on our second innings, these are the cardinal principles we will adhere to.

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