

**FUND PHILOSOPHY AND APPROACH - EQUITY**

**Philosophy**

- Portfolio construction with lowest probability of risk
- Focus on strong risk adjusted returns with highest level of focus on quality of business and management track record

**Approach &  
Style**

- Portfolio would be driven by mix of top-down and bottom-up analysis
- While the bed-rock of our approach would be investment into good quality businesses, the style would have a mix of growth and value investing depending on fund strategy and market environment
- The choice of companies would be determined based on quality parameters, earnings growth outlook and valuations

**Risk mitigation &  
Avoidance**

- Endeavour would be to avoid stocks having any concerns on corporate governance or misallocation of capital or having balance sheet risk
- Constantly review portfolio for changes in business and macro environment and new risks emerging from the same

**GCMV PROCESS FOR STOCK SELECTION**

**Growth (G)**

**Evaluating the growth opportunity for the business**

- ✓ **Market size**
- ✓ **Business Growth**
  - Geographical Coverage (more customer)
  - Penetration (more consumption per capita)
  - Premiumisation opportunity (higher quality/valued products based on income affordability)
  - Global expansion (serving global customer – quality, cost competitiveness, natural advantage)
- ✓ **Profit Growth**
  - Pricing power
  - Cost efficiency

**Cashflow (C)**

**Evaluating the strength of the business based on Cash Flow generation**

- “Free Cash Flow for shareholders” adjusted for capital needed to meet growth potential/aspirations
- ✓ Capital structure: Businesses with low/ nil debt levels support higher income distribution to shareholders
  - ✓ Focus on Cash generation vis a vis Accounting Profits
  - ✓ Capital efficiency
    - Businesses that consume cash in working capital v/s those who do not
    - Businesses that require low capex v/s those which require high capex (initial as well as maintenance)
  - ✓ Dividends and/or Buybacks

**Management (M)**

**Evaluating the quality of Management**

- ✓ Management Matrix
  - Ability to execute
  - Integrity/credibility
- ✓ Historical actions for Corporate Governance & transparency
- ✓ Value creation and sharing with shareholders
- ✓ Related party transactions

**Valuation (V)**

**Evaluation of key financial metrics**

- ✓ Historical Value creation
  - ROEs / ROCEs
  - Asset Turns & Margin
  - Peer comparison
- ✓ Fair value Analysis based on
  - Growth
  - Cash Flow
  - Management
- ✓ Gap analysis
  - What’s priced in vis a vis the fair value ?

ROE : Return on Equity, ROCE : Return on Capital Employed

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**