



Long-Only, Indian Public Equities Strategy

February End 2023

STRICTLY FOR INVESTMENT PROFESSIONALS





Introduction

- Karma Capital is an employee-owned, equity boutique, founded in 2005.
- Based in Mumbai, with an investment team of eight, with more than 100 years of cumulative experience of research team.
- INR 3,714 crore assets under management - 90% of which is from offshore institutions, pensions and endowments. (As on February 28, 2023)
- Applies a disciplined bottom-up fundamental process, researching companies with growth potential and available at reasonable valuations.
- Concentrated all-cap portfolios that aim to deliver superior long-term returns for like minded investors .
- Compounded wealth by nearly 13% since its inception, 16 years and outperformed the benchmark index by approximately 2% annualized (as on February 2023).

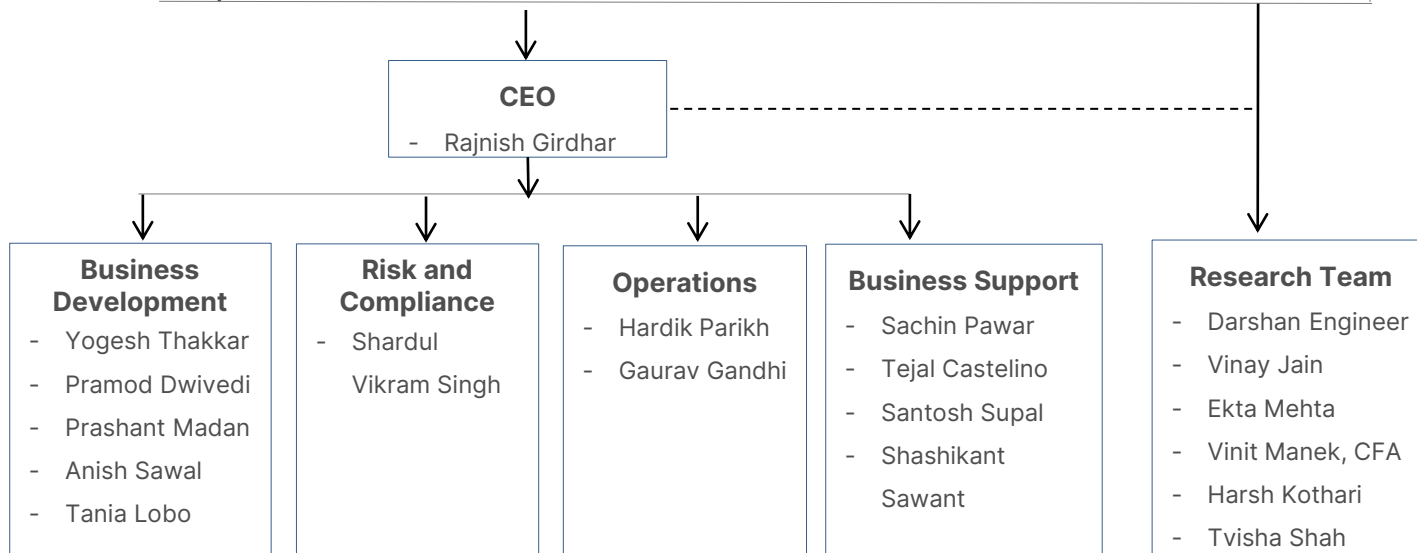
Organization



RUSHABH SHETH
Co-Founder, Director and Co-CIO



NIKHIL P DESAI
Co-Founder, Director and Co-CIO



INVESTMENT TEAM – A total of 8 professionals, including the Co-Founders



Indian – A Structural Growth Story

A DECADE OF REFORMS

- Goods & Services Tax (GST)
- Insolvency and Bankruptcy Code (IBC)
- Ease of Doing Business



RECENT ADVANCEMENTS

- Direct Tax Cuts
- Production Linked Incentive Scheme
- National Infrastructure Development Push



OTHER CATALYSTS

- Significant potential for growth from the current \$2000 GDP per capita.
- On the threshold of the “hockey stick” consumption growth curve.
- Digital Infrastructure/Adoption
- “China + 1” opportunity

RISKS: • Inflation • Supply Chain Disruption • Geopolitical Dynamics • Politics

A confluence of factors and a solid foundation will lead to sustained high growth.



Investment Philosophy

LONG TERM

Consistent application of a disciplined fundamental approach to create long term value for our clients

ALL-CAP

Finding candidates across the capitalization spectrum to maximize the opportunity set

CONCENTRATED PORTFOLIOS

Focused research leading to a portfolio of around 25 stocks

EARLY CYCLE

Identifying early cycle investment prospects in companies with high growth potential and reasonable valuations

INDEPENDENT THINKING

Ability to capitalize on opportunities by being contrarian at times, based on our in-house research depth

Patience and discipline are the hallmarks of our philosophy and we seek to partner with clients with a similar mindset

Investment Process

1st Screen – Acceptability

Liquidity | Minimum size | ESG

2nd Screen – Long term investment attributes

Management capability | Quantitative factors |

Sustainable and Scalable Growth

3rd Screen – High Conviction ideas

Management meetings | Network checks

Effective regular screening reduces the universe from 500 to a portfolio candidate list of ~100 stocks

LISTED UNIVERSE

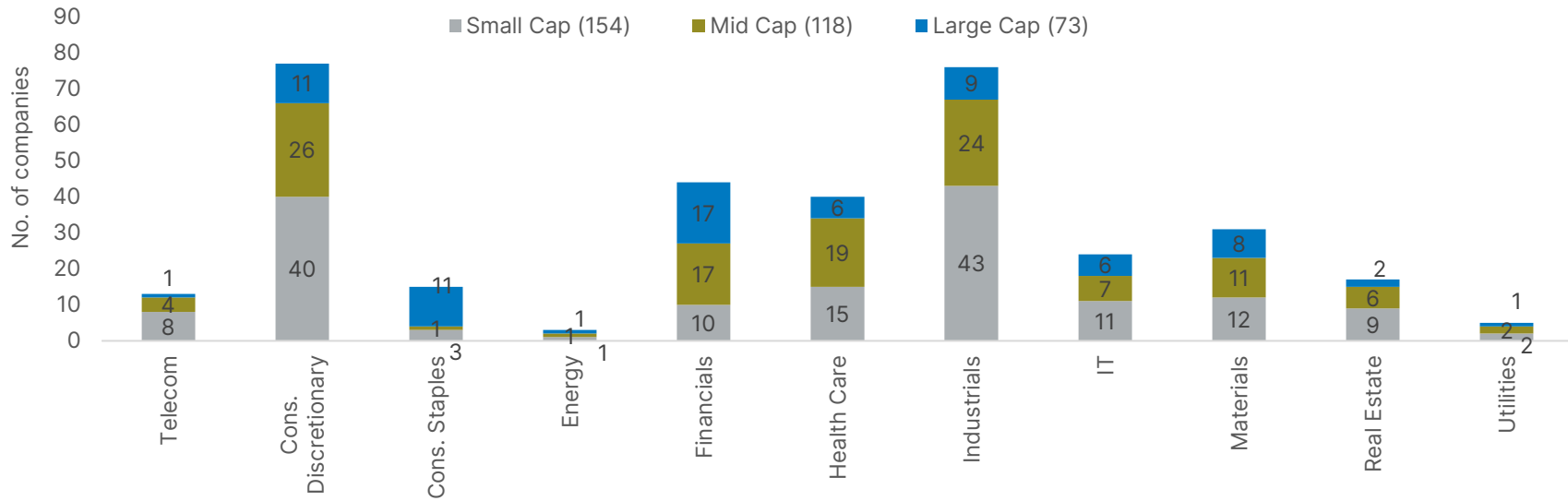
**ACCEPTABILITY
500**

**INVESTABLE ATTRIBUTES
300**

**CANDIDATES
100**

Portfolio ~25

Karma Capital – Research Universe



We believe the depth and breadth of the India opportunity is best captured by an active all-cap strategy

Note: KCA Universe as on December 31, 2022. MCAP as per SEBI's revised guidelines for MCAP Classification effective July 2018. Sector classification as per GICS.



Investment Process – Research

PROCESS

- 100 portfolio candidates, intensively researched by one primary and one back-up analyst
- Developments tracked closely
- Ideas presented and reviewed by investment team in research meetings on alternate days
- Detailed reports circulated for all meetings
- Candidate ideas may be sent back for more research
- Cross pollination of ideas across the research team
- Depth of knowledge on various industries
- Tracking companies over long term helps us build better understanding
- PM and primary analyst must agree for a stock to be bought

INVESTMENT TEAM FOCUS

- Growth potential and scalability of business
- Catalysts
- Market leadership
- High entry barrier
- Size of opportunity
- Rate of change in Return on Capital Employed and Return on Equity
- Balance Sheet Analysis and Capital Allocation efficiency
- Valuation metrics – Price to Earnings, Price to Book and other depending on suitability.
- Risk assessment and ESG analysis

SEEKING “HIGH CONVICTION STOCKS” WITH

- Growth Potential with Reasonable Valuations
- Early Business Cycle Characteristics

Idea generation and stock selection are underpinned by the rigor of the process, our collaborative approach and the experience of our team

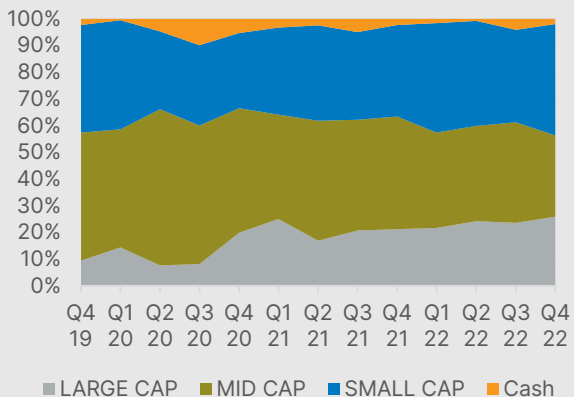


Portfolio Construction

- Position sizes are determined by portfolio manager, based on-
 - Growth potential
 - Size of the business
 - Liquidity
 - Risk diversification
- Long holding period (Avg. 3-5 years) and thus low turnover
- Unconstrained across all capitalization ranges with high active share
- Portfolio typically holds 20-25 positions
- Sizing positions, Starting positions may be as low as 1.5%
- Typically fully-invested (cash under 5%)
- Benchmark agnostic

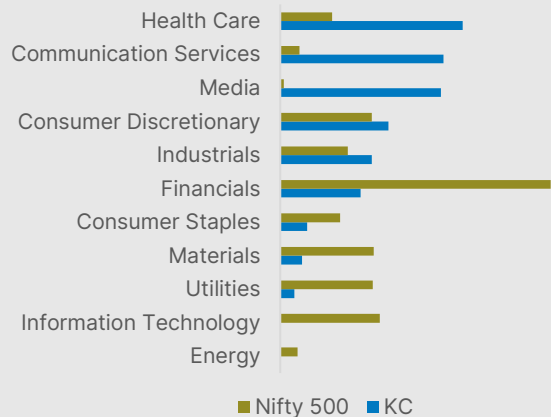
Portfolio Characteristics and Quants

An All-Cap Portfolio



Large cap is approx. >USD 6 Bn, Mid cap is approx. USD 2-6 Bn and Small cap is approx. < USD 2 Bn. As of 31 December 2022.

KC vs Index, Sector Weights



As on 31 December 2022.

Portfolio Quants

Standard Deviation	17.2%
Active Share	93.6%
Beta	1.02
Information Ratio	-1.36
Sharpe Ratio	-0.89
Average Portfolio Turnover	0.13x
Average Holding Period	5.4 years
Concentration - Top 10 holdings	66.9%

As on 31 December 2022.

Portfolio Statistics

	MCAP Average (Rs. Cr.)	CAGR (FY22-FY24E)				Return on Capital Employed		Return on Equity		Net D/E (x)	*Valuation (P/E)	
		Revenue	EBDITA@	Profit after Tax	EPS	FY 23E	FY 24E	FY 23E	FY 24E	FY 23E	FY 23E	FY 24E
Top Ten Stocks	1,17,019	12.1%	16.9%	24.9%	24.3%	15.3%	19.2%	13.5%	17.9%	0.65	17.1	13.1
Overall Portfolio (ex-cash)	91,834	12.7%	17.9%	23.5%	23.0%	14.7%	18.5%	13.0%	17.0%	0.43	22.7	16.7
Index-Nifty 500	4,16,644	12.7%	11.7%	15.5%	15.5%	NA	NA	13.3%	15.0%	25.6%	24.7	19.9

*For certain stocks like Tata Motors, GMR Infra and Bharti Airtel are valued on EV/EBITDA and stocks like SBI and Federal Bank are valued on P/BV for the valuation purpose, * For Tata Motors we have taken a combined MCAP of Ordinary shares + DVR shares for EV calculation and MCAP calculation. *For Banks in place of ROCE we have used ROE as the return ratio.

*Karma Estimates, Valuation as on 31 December 2022



Selling Strategy

- A sale may be because:
 - Company fundamentals have changed
 - Prices move materially
 - A more attractive replacement is available
 - Deterioration in operating environment or governance issues
- We can trade around our positions



Risk Management

Investment Risks

- Misreading the risk of the underlying business of the companies in which we invest. But, this risk is mitigated by following a detailed and evolving checklist of research parameters
- Some investee companies may be –
 - “early cycle”, which may cause short-term underperformance
 - not widely covered or contrarian to market views, which may lead to volatility

Portfolio Risks

- The strategy has 20-25 names, resulting in high concentration, and while we do not have a hard stop-loss policy, we review underperforming positions at various price levels. As a result, there is stock-specific concentration risk.
- Liquidity risk is managed by maintaining position limits (at time of purchase) and liquidity parameters
 - Sector limit 30%, stock limit 10%
 - Portfolio liquidity capability: 90% in one month, 100% by three months
- Maximum holding restricted to 10% of free float of a stock, given high promoter holdings.

-
- **Effective risk management requires experience and an understanding of qualitative factors at both portfolio and company level**
 - **We work closely with our clients to explain why we take a long-term perspective to reap superior returns**
-



ESG: An Indian Perspective

ENVIRONMENTAL

Ratings are still mostly voluntary and not yet regulated. Environment becoming a key focus but still restricted to larger companies. Investor pressure to make this trickle down to smaller companies. We engage with our investee companies to ensure greater focus on Environment



SOCIAL

Our experience and knowledge of Indian companies enables us to identify those with poor records. Social Responsibility is an integral part of company reporting in India.

GOVERNANCE

Governance track record of companies is an important filter for our Universe. We look at various aspects including management track record with respect to all stakeholders including minority shareholders, board composition, incentive structures and capital allocation.

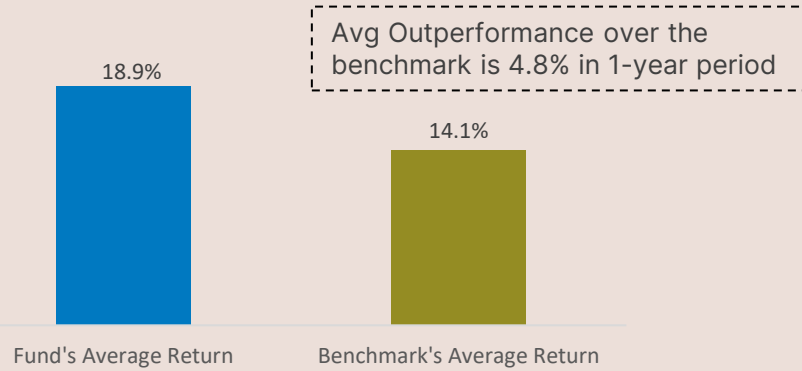


Why Karma Capital – Our Competitive advantage

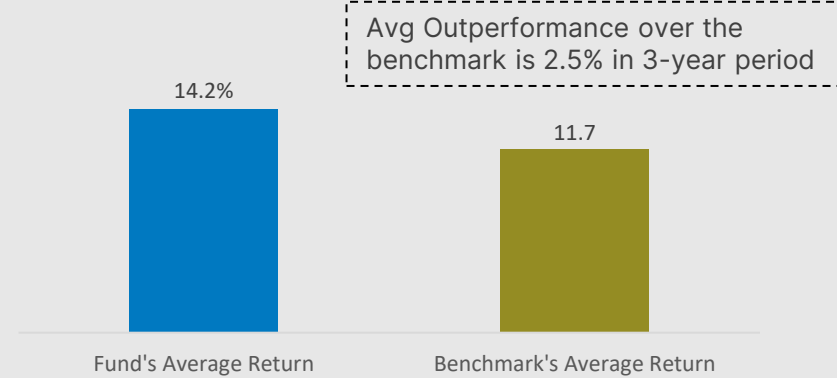
- **Employee-owned** with no conflicts of interest; we focus only on asset management
- Patient, **long-term investors** with a disciplined bottom-up fundamental process
- **High conviction all-cap** concentrated portfolio with high active share and low turnover
- Extensive **experience and long track record** of our investment team
- Deep knowledge of the Indian market, an **ability to think independently and can take a contrarian view**

Significant Long Term Outperformance Over The Index

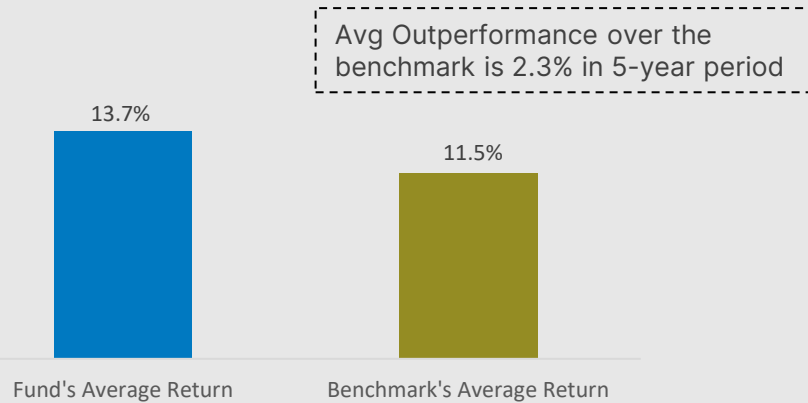
1 Year Rolling Return



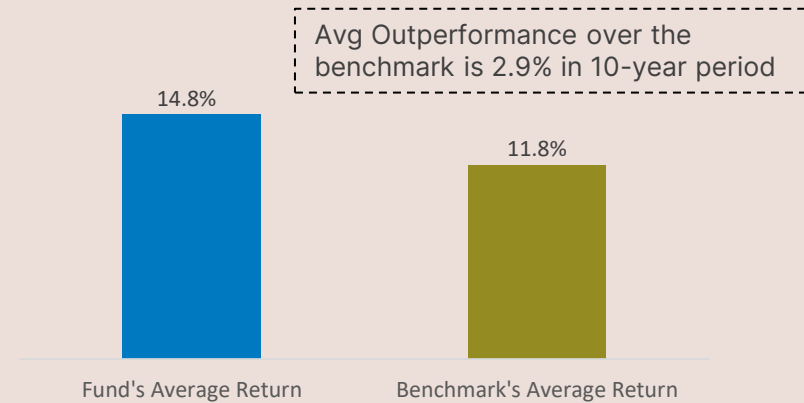
3 Year Rolling Return



5 Year Rolling Return



10 Year Rolling Return



Note: Returns as on February 28, 2023; INR returns are the primary returns. Inception Date – Dec 31 2006. Returns are based on net of fees & taxes since inception for discretionary portfolio. From March 2020 returns are based on TWRR method as per SEBI Regulation. Fund: Karma Wealth Builder. Benchmark: Nifty 500 TRI. The rolling return of the Karma Capital and benchmark is the average of all the rolling return calculated every month for the respective period since inception.

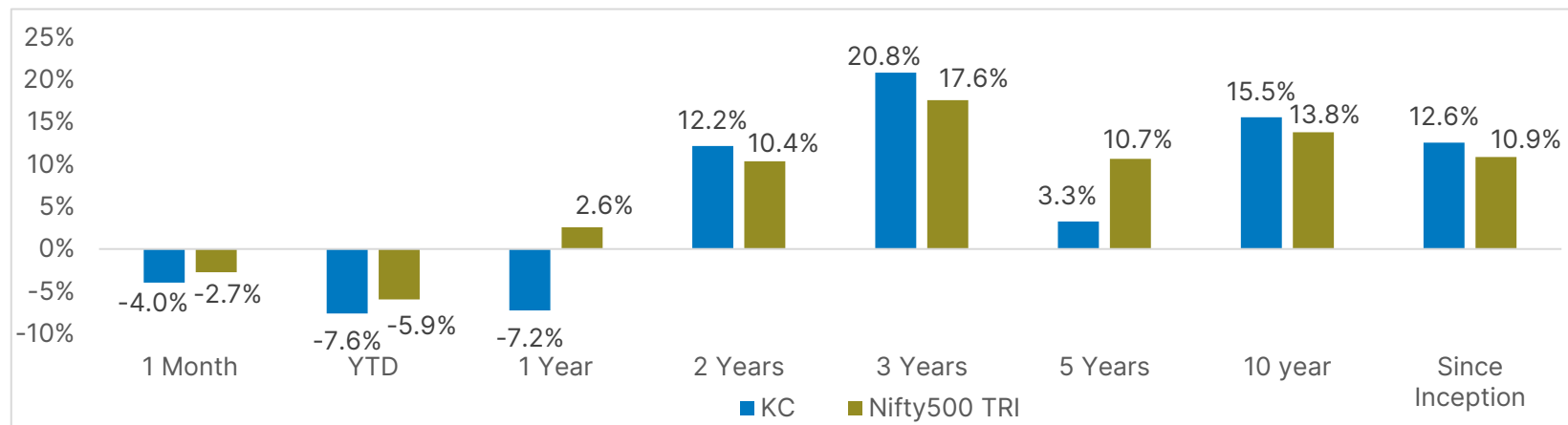
Performance Summary – Karma Wealth Builder

Calendar Year Returns in INR (%)

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	CY 2023
Karma Wealth Builder	-10.0	63.4	19.4	12.4	60.2	-24.5	-10.8	21.8	59.6	-8.0	-7.6
Nifty 500 TRI	4.8	39.3	0.2	5.1	37.7	-2.1	9.0	17.9	31.6	4.2	-5.9

Note: Returns as of February 28, 2023. Returns are based on net of fees & taxes since inception for discretionary portfolio. From March 2020 returns are based on TWRR method as per SEBI Regulation. Inception Date Dec 31 2006. Source: NIFTY 500 TRI data.

Returns in INR

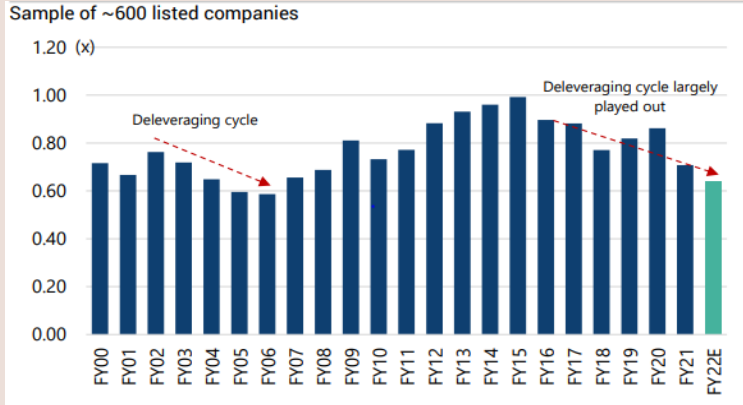


Note: Returns as on February 28, 2023; INR returns are the primary returns. Inception Date – Dec 31 2006. Returns are based on net of fees & taxes since inception for discretionary portfolio. From March 2020 returns are based on TWRR method as per SEBI Regulation. Returns > 1 year are annualized.

Appendix and Disclaimers

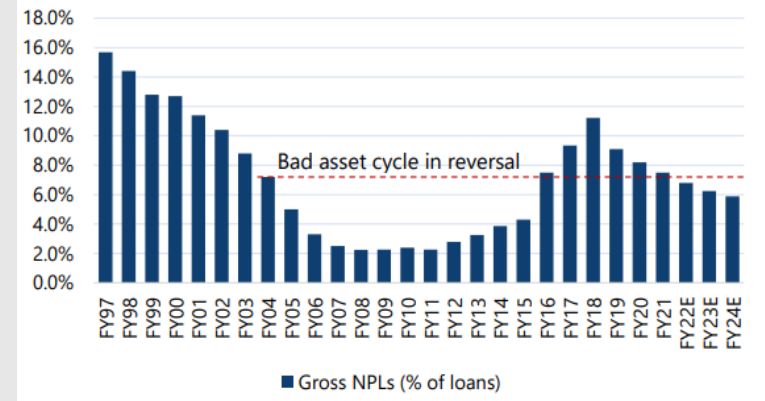
Economic Super Cycle Has Begun

Gross D/E Ratio of Large Listed Companies



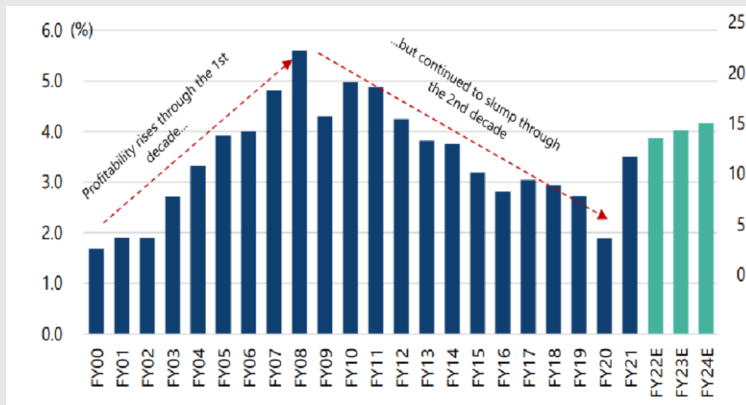
Source – ACE Equity and Jefferies

Gross NPLs for Banks as % of Loans



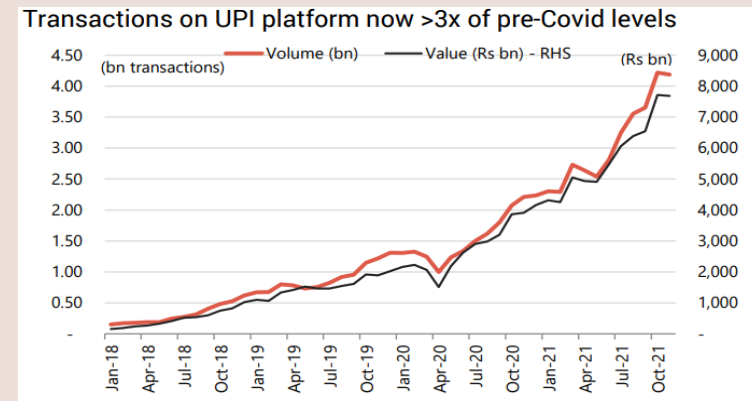
Source – RBI and Jefferies

Corporate Profits as % of GDP



Source – ACE Equity and Jefferies

Pace of Digitization



Source: NPCI, Jefferies

Founders, CIOs and CEO



RUSHABH SHETH
Co-Founder and Co-CIO

Overall buy side experience of 30 years.
17 Years with Karma Capital.

Education – Bachelor of Commerce from Sydenham College, University of Mumbai and a qualified Cost Accountant.



NIKHIL P DESAI
Co-Founder and Co-CIO

Overall buy side experience of 30 years.
17 Years with Karma Capital.

Education – MBA from Virginia Tech and Bachelor of Commerce from Sydenham College, University of Mumbai.



RAJNISH GIRDHAR
CEO

Overall Experience of 28 Years with 24 years in Financial Services: Banking, Wealth and Asset Management

Education – PGDBM from IMT Ghaziabad and Bachelors of Science, Delhi University.

Research Team



Darshan Engineer

Overall buy side research experience of 12 years.
2 Years with Karma Capital
Education - MBA from Jamnalal Bajaj Institute of Management Studies and Computer Engineering from Sardar Patel College of Engineering, Mumbai



Vinay Jain

Overall buy research experience of 11 years.
10 Years with Karma Capital
Education - MBA from N. L. Dalmia Institute of Management Studies and Electronics Engineering from Vidyalkar Institute of Technology, Mumbai University.



Ekta Mehta

Overall research experience of 12 years.
9 Years with Karma Capital
Education - MBA in Finance from N.L Dalmia Institute of Management studies and CFA from ICAI university



Vinit Manek, CFA

Overall research experience of 7 years.
6 Years with Karma Capital
Education - Chartered Financial Analyst and Bachelors in Financial Market



Harsh Kothari

Overall buy side research experience of 12 years
Education – MBA in Finance from MET’s Asian Management Development Centre and Bachelor in Management Studies (Finance) from Podar College, Mumbai University



Tvisha Shah

Overall research experience of 2 year.
1 Year with Karma Capital
Education – Bachelor of Science in Finance (B.Sc Finance) from Narsee Monjee institute of Management Studies (NMIMS).

Business Development



Yogesh Thakkar

Co Head, Business, Development

Overall Experience of 18 years.
2 year with Karma Capital

Education - MBA from National University of Singapore Business School and Bachelor of Mass Media from K.C College, Mumbai University.



Pramod Dwivedi, CIPM

Co Head, Business Development

Overall Experience of 17 years.
2 year with Karma Capital

Education - Bachelor of Technology in Computer Science from Kurukshetra University, MBA and Diploma in Investment Analysis from ICFAI, Business School Hyderabad



Prashant Madan

Zonal Head - BD (North) & Head - MFD Strategy

Overall experience of 17 years

Education - MBA in Finance from Apeejay Institute, Agra University and Bachelors of Commerce from Delhi University.



Anish Sawal

Zonal Head - BD (South) & Head - RIA Strategy

Overall Experience of 15 years

Education - MBA from ICFAI Business school and Bachelors of Commerce from Calcutta University.



Tania Lobo

Portfolio Analytics & Client Servicing

Overall Experience of 9 years
5 years with Karma Capital

Education - PGDM (in Finance) from Welingkar Institute and Bachelors in Accounts & Finance from Mumbai University



Compliance and Operations Team



Hardik Parikh
Vice President, Operations

Overall Experience of 21 years.
17 years with Karma Capital

Education - MBA in finance from Mumbai University.



Shardul Singh
Head Compliance and Risk

Overall Experience of 12 years.
6 years with Karma Capital

Education - Company Secretary and Bachelor Degree in Law from Government Law College, Mumbai and Bachelor of Business Administration, from Awadhesh Pratap Singh



Gaurav Gandhi
Manager Operations and Finance

Overall Experience of 16 years.
8 years with Karma Capital

Education - Bachelor of Commerce Mumbai University



Sachin Pawar
Manager Accounts and Finance

Overall Experience of 16 years
10 years with Karma Capital

Education - Bachelors in Accounts and Finance from Mumbai University

Karma Wealth Builder Fund Facts

Fund Facts

Investment Style	Growth At Reasonable Price			
Strategy	Market Cap and Benchmark Agnostic			
Benchmark	Nifty 500 TRI			
Investment Approach	<p>Karma Wealth Builder seeks to provide superior returns over longer time frames (5 to 7 years) and across market cycles. It aims to capture the India growth story by investing in listed equities by identifying investment ideas through bottom-up research. The bottom-up approach focuses its analysis on specific characteristics and micro attributes of an individual stock. The approach is benchmark agnostic with the aim to deliver superior risk adjusted returns through differentiated portfolio with high active share.</p> <p>Our 'Growth At Reasonable Price' (GARP) strategy is underpinned on constructing a high conviction concentrated market-cap agnostic portfolio investing across sectors. The appropriate benchmark to compare performance would be Nifty 500 TRI as it matches with our market- cap agnostic investment approach. The investment approach is subject to various risk like no assurance of investment returns, political, legal, social and economic considerations of investing in India, inflationary pressures and liquidity risk.</p>			
Number of Stocks	Typically 25-30			
Custodian	ICICI Bank			
Exit Loads	Within 2 Years – 1% After 2 Years – Nil			
Fees		Fixed Fee/PA	Hurdle Fee (If Any)	Performance Fee (If Any)
	Option 1	2.5	N.A.	No
	Option 2	1.5	10	20

For further information / direct investment contact:

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