

# Global Compounders (GCP)

An investment strategy for  
Developed Public Equities (ex-India)



*Note: The stocks described/spoken about in the presentation/webinar do form the part of our Marcellus' portfolio so we as Marcellus, our clients and our immediate relatives do have interest and stakes in the described stocks*

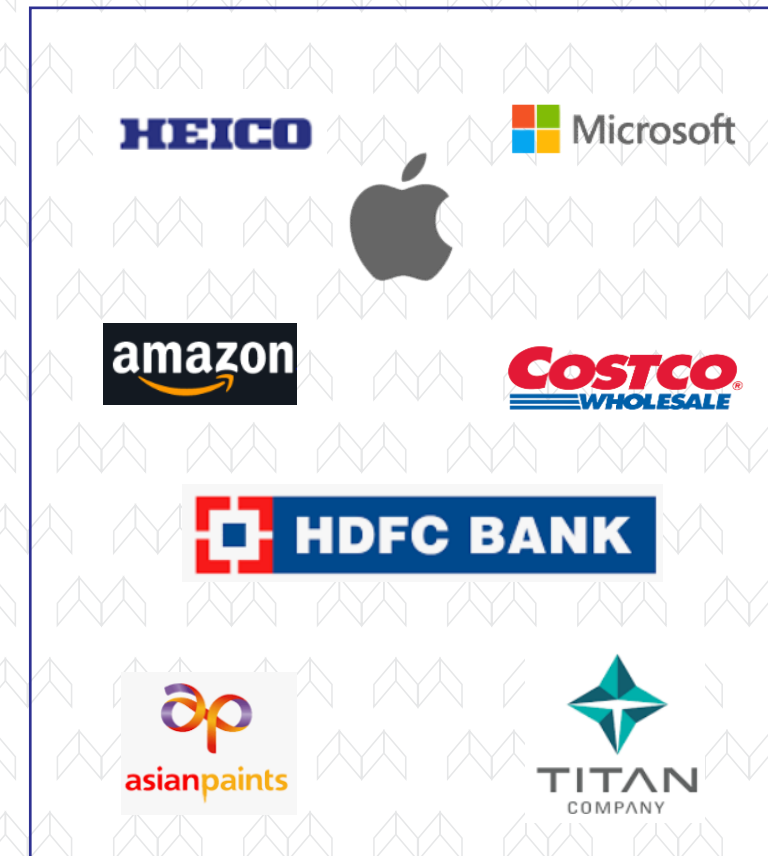
*This circulation is not intended for US Clients*

# A small group of globally dominant companies supply our necessities



# Over the long term, US and India are the best performing markets

	TSR (30Y)	TSR (20Y)	TSR (10Y)	Rank (30Y)	Rank (20Y)	Rank (10Y)
<b>US</b>	<b>10.0%</b>	<b>9.9%</b>	<b>12.8%</b>	<b>1</b>	<b>3</b>	<b>1</b>
<b>India</b>	<b>9.0%</b>	<b>12.5%</b>	<b>12.6%</b>	<b>2</b>	<b>1</b>	<b>2</b>
Australia	8.9%	10.2%	6.0%	3	2	5
Canada	8.0%	8.2%	5.4%	4	5	7
Taiwan	7.3%	9.8%	10.9%	5	4	3
Brazil^	6.6%	7.9%	1.1%	6	6	10
China	5.1%	6.9%	4.7%	7	9	8
Europe*	5.0%	7.5%	5.9%	8	8	6
Korea	4.5%	7.6%	3.0%	9	7	9
Japan	1.8%	6.6%	7.1%	10	10	4



Source: Marcellus Investment Managers; Bloomberg LP

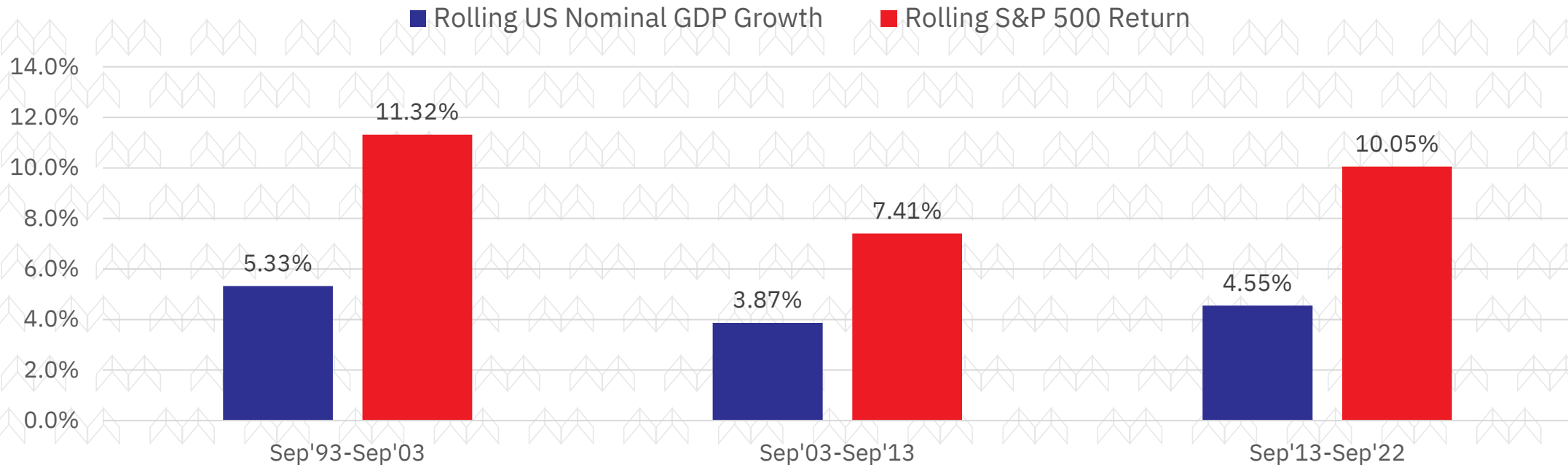
Note: 20-Year and 10-Year TSR in USD terms calculated period ending Aug'2023, \*Europe 30-Year return calculated from 1<sup>st</sup> Jan 1999 when Euro was adopted; ^Brazil 30-Year return calculated from 1<sup>st</sup> July 1994 when Real was adopted;

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# S&P 500 Index returns disassociated with nominal US GDP growth



US listed equities: 75%+ of Global Compounders Portfolio



Source: Marcellus Investment Managers; Bloomberg LP

**“Never bet against America” – Warren Buffett**

*“For 240 years it’s been a terrible mistake to bet against America, and now is no time to start. America’s golden goose of commerce and innovation will continue to lay more and larger eggs. America’s social security promises will be honored and perhaps made more generous. And, yes, America’s kids will live far better than their parents did.” – 2015 Annual Letter*



# Highly Accomplished Team



**Arindam Mandal**  
Global Investment Team

- Global Equities at Principal Global Investors (PGI), New York
- MBA from Duke University. Highest Honors in Finance
- Engineering Leader at Oracle



**Jaibir Singh Sethi**  
Global Investment Team

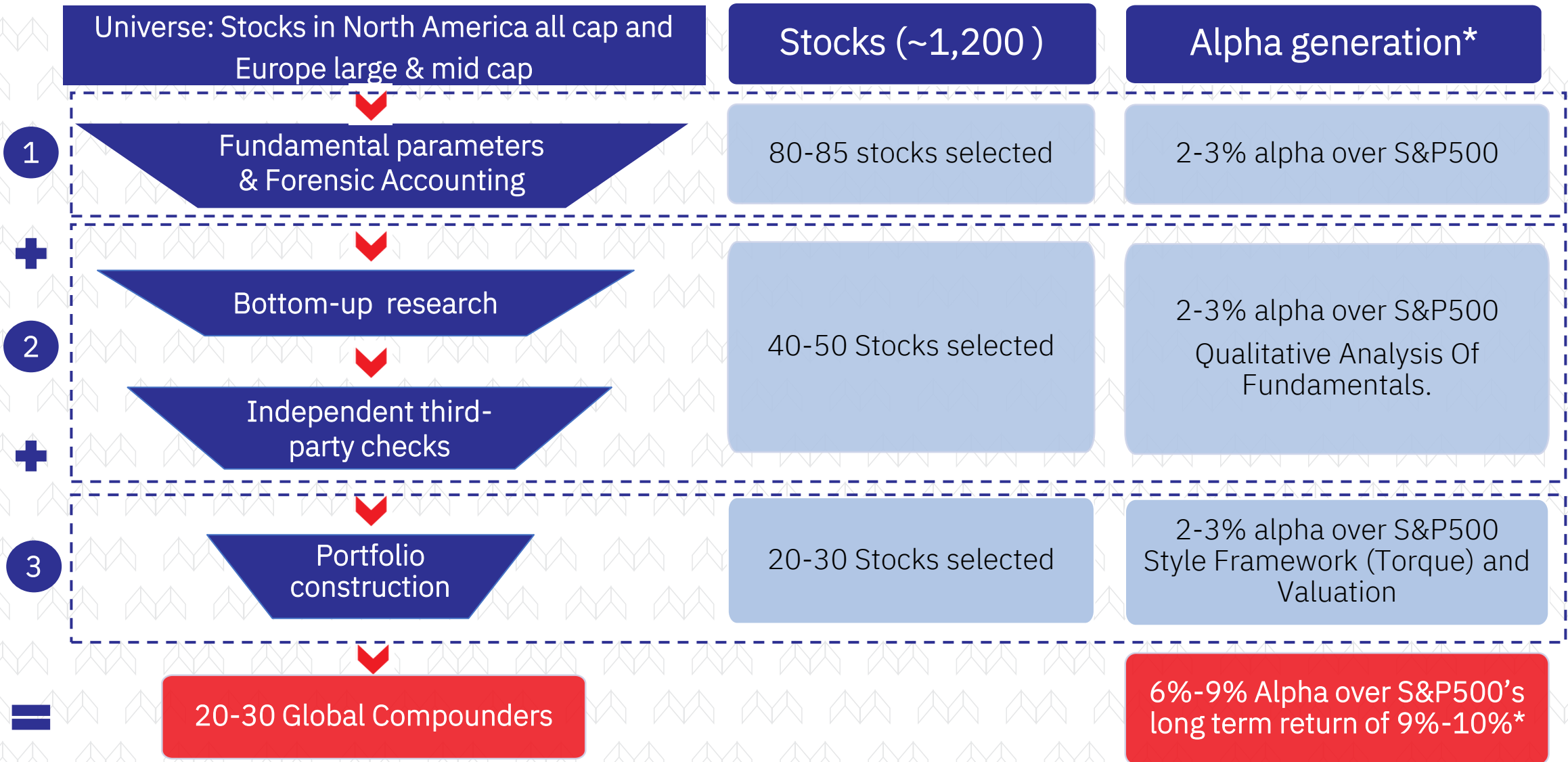
- Principal and Head of Research, Public Markets at Premji Invest
- Investment Analyst at CLSA, Noble Group and Clear Capital
- Post-graduate Diploma in Management from the IIM Bangalore



*\*GCP has a dedicated research team of 5 members*

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# Simple Yet Effective Investment Process

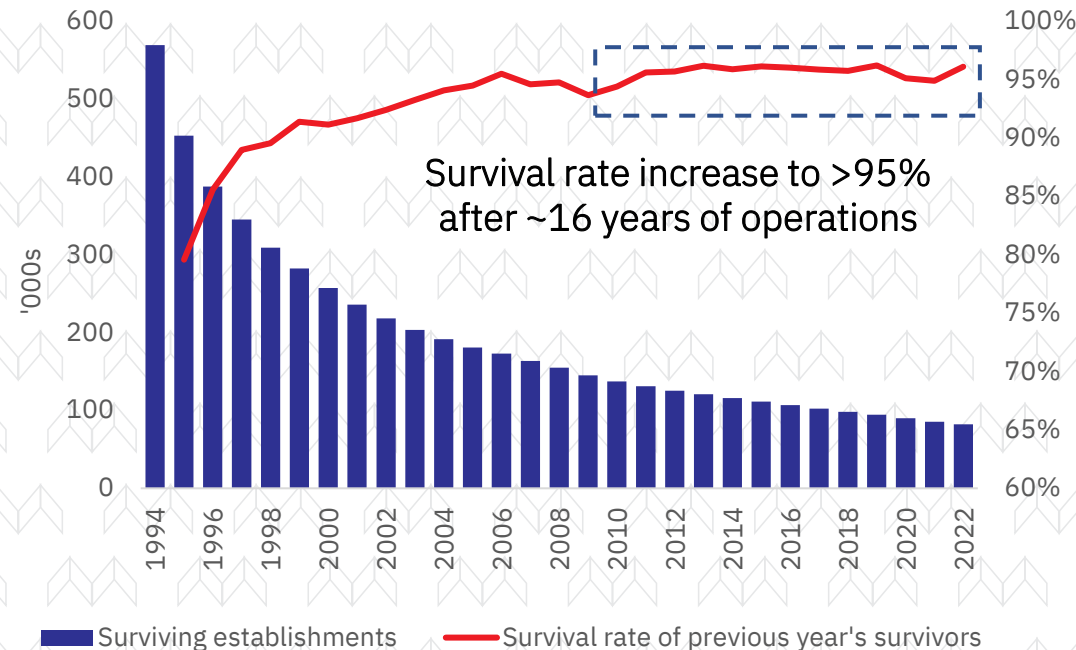


Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval with the reasons for such inclusion; Any forward-looking statements contained in this document speak only as of the date on which they are made. Further, past performance is not indicative of future results. \*Based on back-test results from 31<sup>st</sup> May 2015 to 30<sup>th</sup> Sep 2022. The results are gross of transaction cost, tax and brokerage expenses

# GCP characteristics: Beyond Tech, High Longevity and Aligned Management



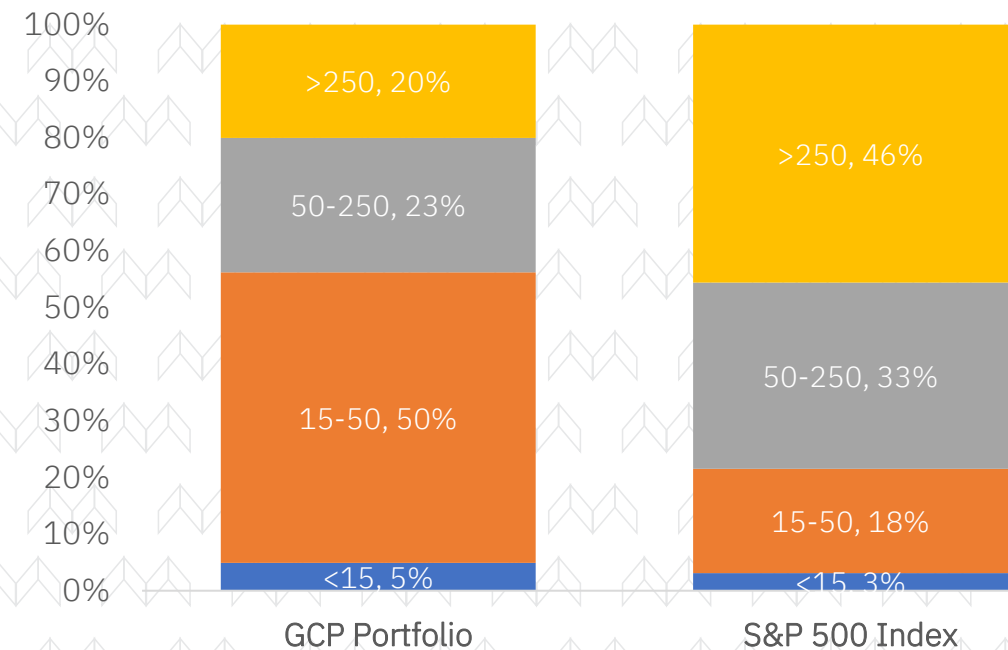
On average 60+ years of existence  
30+ years of greatness



Source: Bureau of Labor Statistics

- Oldest Company in GCP Portfolio 180+ years
- Youngest Company in GCP Portfolio 25+ years
- Majority of GCP type companies have **30-60% higher longevity** than average S&P 500 company
- GCP Companies have Staples/Utility Characteristics

Allocation by market capitalization (USD bn)



Source: Bloomberg LP; Market capitalization taken as of 6<sup>th</sup> May 2023

- **Family Run Businesses:** 40%+ of GCP are family run
- **Aligned Management:** GCP companies' mgmt. teams heavily incentivised through stocks
- **Sector Exposure:** Tech 15-25% though cycle
- **Market Cap:** Unconstrained. Concentration in High Quality midcaps leaves long growth runway

# GCP companies – consistent & healthy fundamentals



	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Average
<b>GCP [all figures for GCP utilities are on a simple average basis*]</b>								
ROIC	19%	20%	21%	21%	20%	22%	21%	21%
5-year FCFF/share CAGR	16%	18%	21%	20%	25%	21%	16%	20%
5-year EPS CAGR	16%	16%	19%	18%	17%	18%	18%	17%
<b>S&amp;P 500</b>								
Average ROIC	10%	10%	11%	13%	12%	10%	13%	11%
5-year FCFF/share CAGR	4%	4%	6%	7%	7%	11%	9%	7%
5-year EPS CAGR	4%	4%	8%	6%	4%	11%	12%	7%

Source: Marcellus Investment Managers; Bloomberg LP: \*Portfolio level numbers (ROIC) are average of portfolio constituents as of 30th November'23. EPS and FCFF/share CAGR for S&P are computed at index level. S&P 500 ROIC is simple average of the universe. EPS CAGR excludes DHR, ADDTB, AMZN and BRK/B. FCFF/share CAGR excludes DHR, ADDTB, and BRK/B, excludes AMZN in 2021,22 and ODFL in 2017.

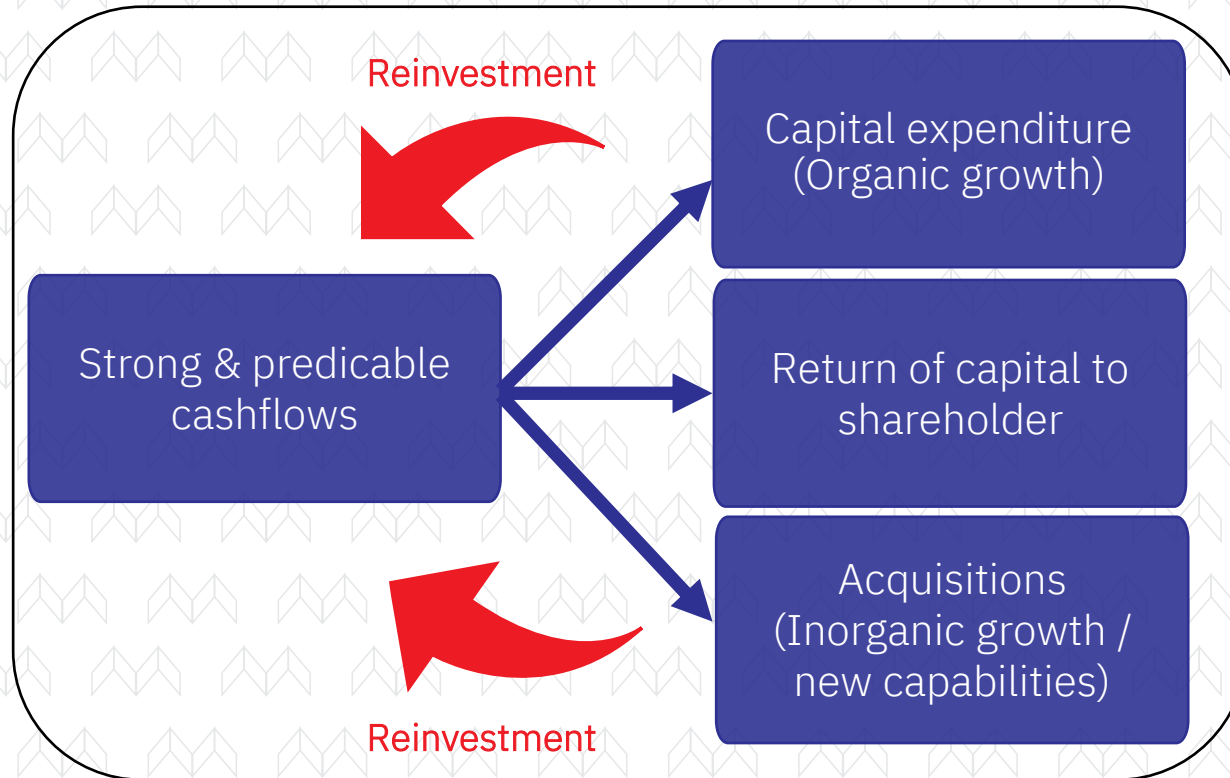


# High cash generation leads to virtuous cycle of wealth creation



GCP companies wealth creation engine through reinvestment and capital return

## Shareholder wealth creation



- Thorough, independent primary data checks help deepen understanding of moats, capital allocation and governance
- Quantitative scoring of qualitative factors as well as potential risk factors
- Complemented by quantification and longevity of growth
- This drives final stock selection for inclusion in the portfolio

Asset Light + Predictable Cashflows + Efficient Capital Allocation = Maximum Value Creation

# GCP companies have three sources of moats



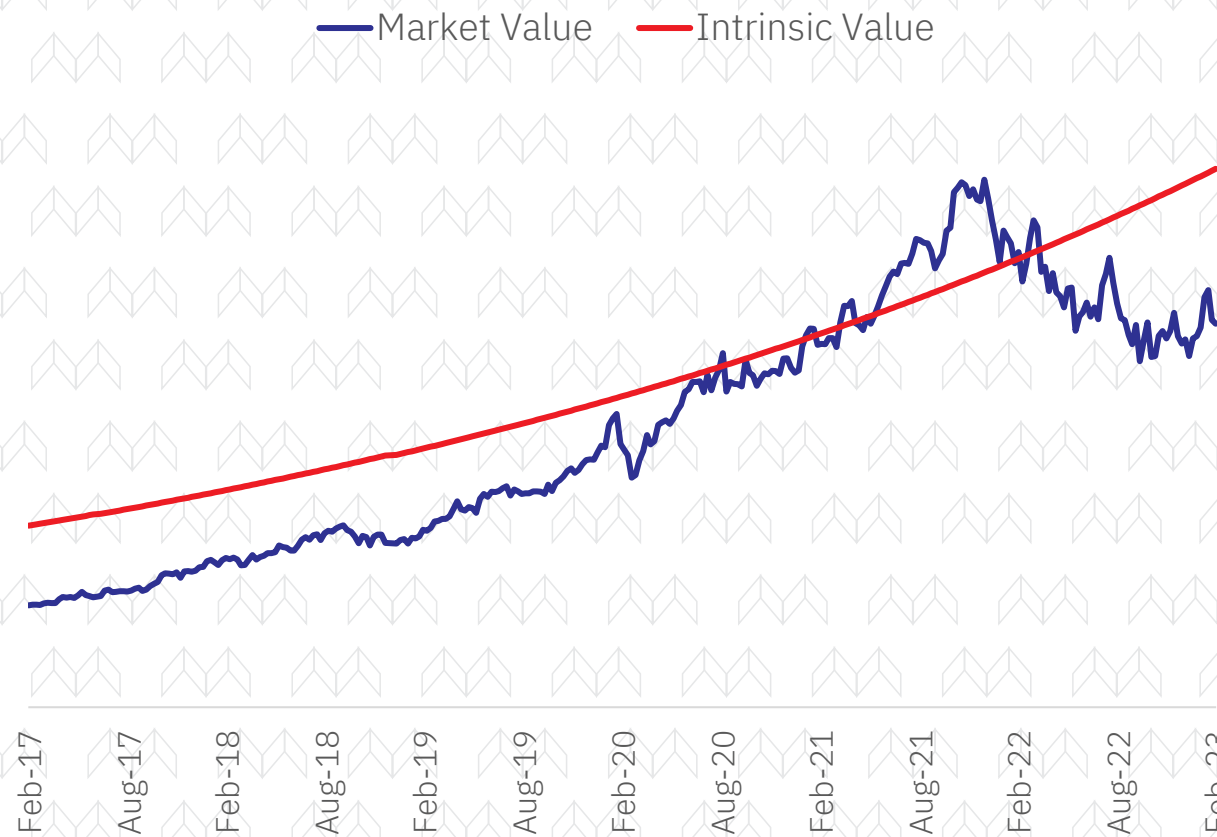
Source: Marcellus Investment Managers, Company website

# TORQUE: Proprietary framework to benefit from extreme dislocations



Market perception of businesses is volatile

- The actual intrinsic value of quality companies changes at a relatively predictable rate.
- However, market perception of fair value goes through extremes every now and then.
- Torque attempts to benefit from these extreme changes in perception.

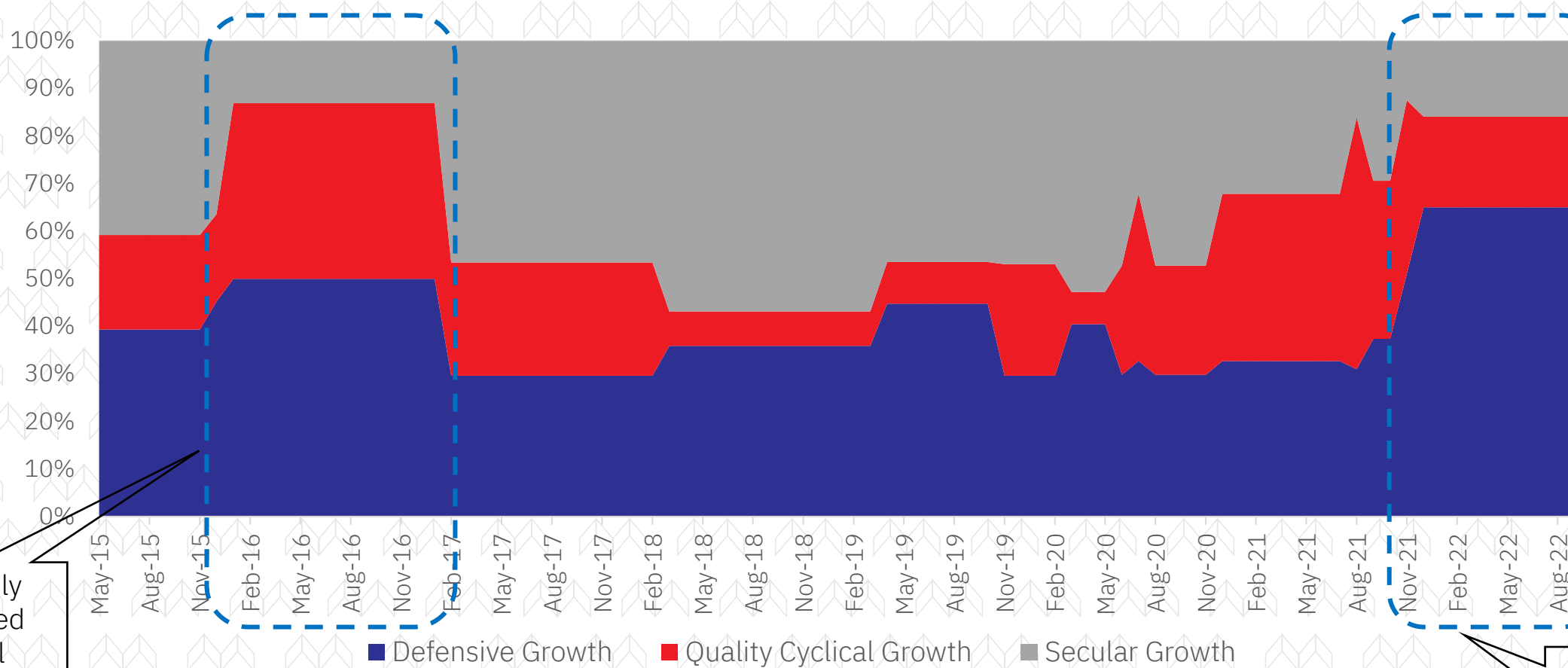


Source: Marcellus Investment Managers, Bloomberg LP

# TORQUE Framework impact on portfolio allocation



Torque driven by two sets of factors – Macro economic factors (housing etc.) and Style based factors (momentum, value etc.)



Extremely depressed cyclical valuations

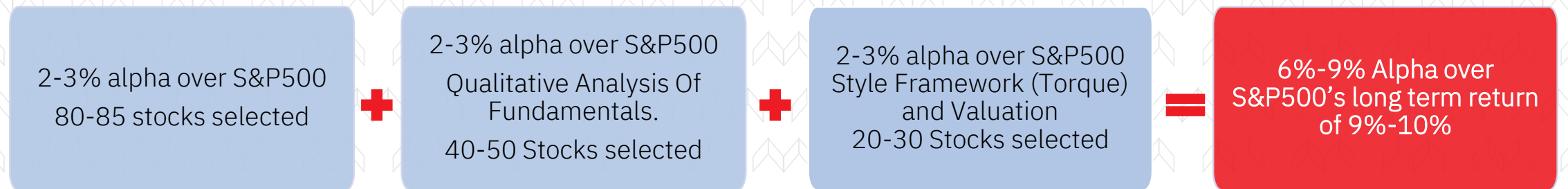
Source: Marcellus Investment Managers

Extreme growth euphoria



# Portfolio strategy back-test performance\*

	Annual Returns							Avg. Return	Avg. Stdev.
	2016	2017	2018	2019	2020	2021	YTD Sep-22	June-15 to Sep-22	
Business Score Portfolio (Buy & Hold)	19.5%	40.5%	9.8%	53.6%	49.4%	43.0%	(31.8%)	22.6%	18.9%
Equal Weighted (Monthly Rebalancing)	22.2%	43.1%	6.5%	54.8%	49.4%	45.8%	(33.6%)	22.1%	19.4%
Rebalancing Alpha								0.6%	
Torque Enhanced Portfolio	23.7%	41.7%	12.6%	54.2%	49.4%	44.2%	(23.2%)	25.7%	18.2%
Torque Alpha (over Buy & Hold)								3.1%	
Torque Alpha (over Monthly Rebalancing)								3.7%	
S&P 500	11.9%	21.8%	(4.4%)	31.5%	18.4%	28.7%	(23.8%)	9.5%	15.8%
Nasdaq	7.3%	33.0%	0.0%	39.5%	48.9%	27.5%	(33.4%)	13.7%	19.1%



**Portfolio Annual Turnover ~25-30%**

Source: Marcellus Investment Managers, Bloomberg LP

Note: \*Data presented is based on back-test results from 31<sup>st</sup> May 2015 to 30<sup>th</sup> Sep 2022. The results are gross of transaction cost, tax and brokerage expenses

Disclaimer - Any forward-looking statements contained in this document speak only as of the date on which they are made. Further, past performance is not indicative of future results

# CASE STUDY: HEICO [MKT CAP \$21 BN]



- “I remind you that I think, and upper Management feels, that HEICO is really a vehicle for generating strong cash flow. The methodology that we use are in two groups: Aviation and Electronic Technologies, where we get very, very strong margins on products which are protected mainly from excessive competition. - Q4 2016 Earnings Call” — Larry Mendelson – CEO, HEICO
- Component / parts supplier for Airlines, Aerospace companies, and defense contractors. Established monopoly for certain defense components; 60% market share in aerospace generic spare parts.
- Growth drivers:
  - Moats built predominantly around regulatory (FAA) hurdles and solid customer relationships.** Takes years to develop and get parts approved. Even harder to achieve scale. Heico nailed it with 60% + market share in generic equivalent spare parts (PMA).
  - House of Entrepreneurs:** 80+ M&As over last 30 years. It is an acquirer of choice. Uniquely designed acquisition framework in a decentralized set up is hard to replicate.
  - Focused R&D investments:** Long lasting customer relationships help understand the needs. Heico’s absolute R&D spend is hard to match for smaller players – fortifying Heico’s lead even further.
  - Significant Growth Runway:** In Aerospace side, penetration of generic parts is ~4%, implying massive “organic” growth opportunity ahead. In Defense side, inorganic opportunities are plenty as Heico is likely 3-4% of the addressable market.

Growth over years	Revenue Growth			Cash Flow (CFO) Growth		
	2003-12	2003-18	2012-22	2003-12	2003-18	2012-22
Boeing (BA)	5.5%	4.7%	-2.0%	7.6%	10%	-7.3%
Southwest (LUV)	12.5%	9.1%	3.4%	5.0%	9.0%	6.3%
Heico (HEI)	19.8%	16.6%	9.4%	19.5%	17.9%	12.9%

	2003-12	2003-18	2013-22
Air Traffic Growth	6.20%	6.50%	**

\*2022 - No Data Yet

Results impacted from covid

HEICO	2003-12	2012-18	2012-22
Revenue Growth	19.8%	16.6%	9.4%
FCF Growth	20%	15%	13.5%
EPS Growth	23%	20%	14.7%
FCF on Tangible Capital	30%	39%	41%

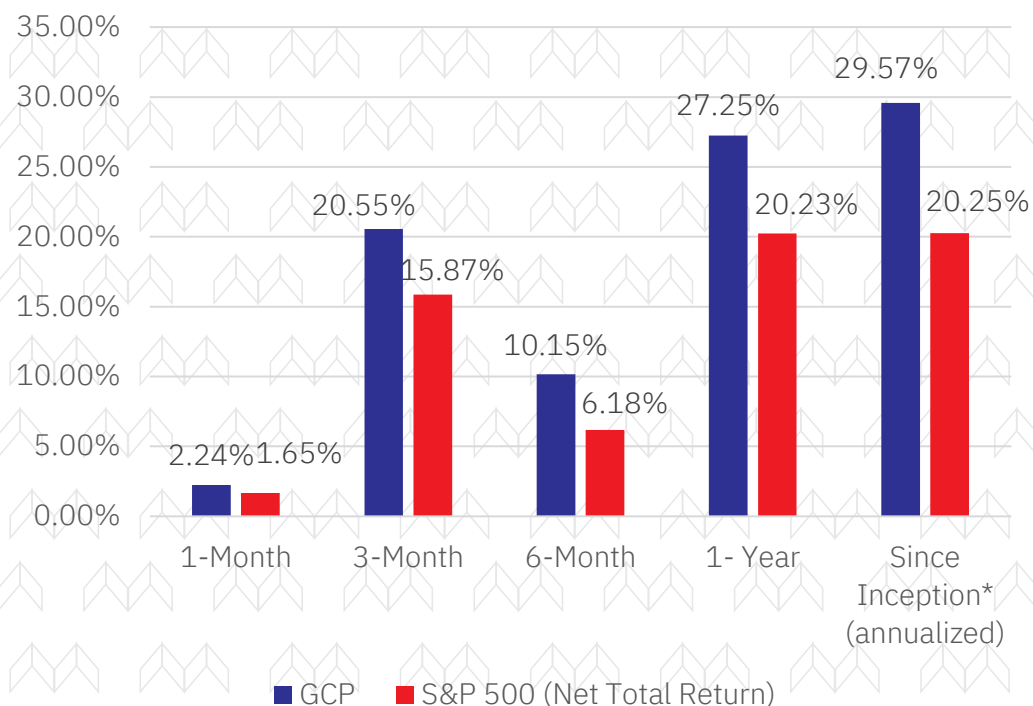
**NOTE: Heico is a part of the Marcellus’ GCP Portfolio**

Source: Company filings and reports; ROIC.ai; FCF = Operating cash flow less Capex  
Disclaimer: The mentioned security is for illustration/information purpose only and not recommendatory.

# Marcellus's GCP live performance

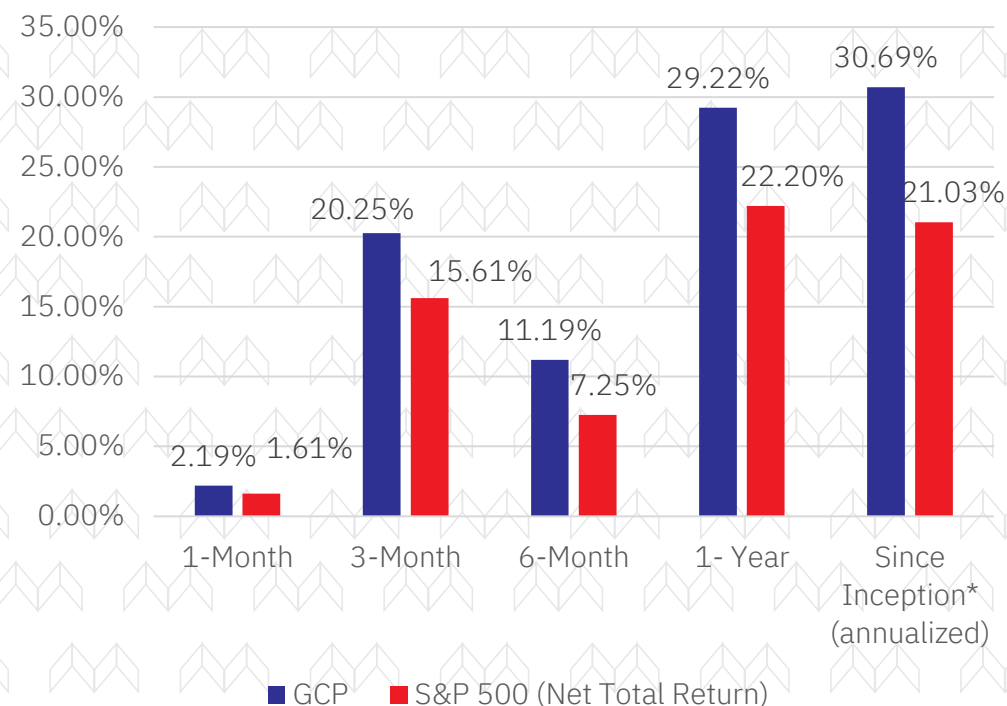


USD denominated returns



Source: Marcellus performance data is shown gross of taxes and net of fees & expenses charged till 31<sup>st</sup> January 2024 on client account. Time period returns are absolute.

INR denominated returns



Source: Marcellus performance data is shown gross of taxes and net of fees & expenses charged till 31<sup>st</sup> January 2024 on client account. Time period returns are absolute. Marcellus' GCP USD returns are converted into INR using USD:INR exchange rate from NSE

Note: \* Since Inception performance calculated from 31<sup>st</sup> Oct 2022. The inception date is 31<sup>st</sup> October 2022, being the next business day after the account got funded on 28<sup>th</sup> October 2022. S&P 500 net total return is calculated by considering both capital appreciation and dividend payouts.

# Key Information - Structure



- Investment Manager- Marcellus Investment Managers GIFT City branch
- Regulator – International Financial Services Centres Authority (IFSCA) formed under Act of Parliament viz. International Financial Services Centres Authority Act, 2019
- Indian Residents can remit upto USD 2,50,000 per year per person under the Liberalised Remittance Scheme (LRS) of RBI.
- Tax Collected at Source (TCS) by the remitting bank for LRS is 5% of the remitted amount (20% with effect from October 1, 2023).
- **Minimum Ticket Size for investment in GCP for an Accredited Investor is USD 25,000 & for Non-Accredited Investor is USD 1,50,000.**
- Tax related information: For any foreign security held for not more than 24 months, tax on STCG shall be payable @ highest slab rate as applicable + surcharge & cess. For foreign securities held for more than 24 months, gains shall qualify as LTCG and shall be taxable @ 20% with indexation benefit. Dividend shall be subject to tax at tax rates applicable to respective investors. Foreign jurisdictions where securities are traded may also withhold taxes. Credit of such taxes will depend on the tax treaties India may have with such countries and tax credit rules in India. Please consult your tax advisor for assessing the tax implications applicable to you.
- Preferred mode of holding: Joint holding (to avoid any estate tax implications in US in case of death of the single holder). However single account establishment is allowed under this strategy.



# Fee Structure (USD)



- Marcellus offers Global Compounders Portfolio with a zero fixed fees option
- The Global Compounders Portfolio comes with ZERO entry load/exit load and with no lock-in. Our clients can choose any of the following fee structures:
  1. A fixed fees model (2% p.a. fixed fees + zero performance fees) or
  2. A performance fees model (zero fixed fees + performance fees of 20% profit share above a hurdle of 5% p.a., no catch-up) or
  3. A hybrid model (1% p.a. fixed fees + performance fees of 15% profit share above a hurdle of 9% p.a., no catch-up).
- *High water mark applies for performance fees*
- Fees are subject to 18% GST for Resident Indian client

# Disclosures



Note: The above material is neither investment research, nor investment advice. Marcellus Investment Managers Private Limited (“Marcellus”) is regulated by the International Financial Service Centre Authority (Fund Management) Regulations, 2022 (“IFSCA”) as Fund Management Entity – Non retail, rendering Portfolio Management Services. Marcellus is also registered with US Securities and Exchange Commission (“US SEC”) as an Investment Advisor. No content of this publication including the performance related information is verified by IFSCA or US SEC. If any recipient or reader of this material is based outside India or US, please note that Marcellus may not be regulated in such jurisdiction and this material is not a solicitation to use Marcellus’s services. This communication is confidential and privileged and is directed to and for the use of the addressee only. The recipient, if not the addressee, should not use this material if erroneously received, and access and use of this material in any manner by anyone other than the addressee is unauthorized. If you are not the intended recipient, please notify the sender by return email and immediately destroy all copies of this message and any attachments and delete it from your computer system, permanently. No liability whatsoever is assumed by Marcellus as a result of the recipient or any other person relying upon the opinion unless otherwise agreed in writing. The recipient acknowledges that Marcellus may be unable to exercise control or ensure or guarantee the integrity of the text of the material/email message and the text is not warranted as to its completeness and accuracy. The material, names and branding of the investment style do not provide any impression or a claim that these products/strategies achieve the respective objectives. Marcellus and/or its associates, employees, the authors of this material (including their relatives) may have financial interest by way of investments in the companies covered in this material.

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# Appendix

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# GCP companies play on global megatrends

## Digitalization, Productivity, Re-industrialization and Consumption



**Ashtead group**

**RE-INDUSTRIALIZATION**

**ASML**

Near monopoly in lithography – Essential for chip manufacturing

**DIGITALIZATION**

**INTUITIVE**

Near monopoly in robotic surgery

Iconic and coveted global luxury brand

**HERMÈS**  
PARIS

**CONSUMPTION**

 **Microsoft**

**PRODUCTIVITY**

Largest generic spare parts providers to commercial Aerospace globally

**HEICO**

Source: Marcellus Investment Managers, Company website

Private and confidential

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# Business Score – quantify qualitative aspects



Historical fundamental filters – Consistency of growth and returns

Marcellus Forensic Accounting

Moat score

Strength of today's pricing power

FCF (CFO – Capex) return on invested capital > Cost of equity

Stewardship score

Execution, Capital Allocation

Decentralized execution  
Consistent deepening of moat  
Quantify revenue growth related to expected market share gains  
Profitability and asset turns - expected to improve meaningfully  
Drivers of compensation

Growth score

Normalized FCF growth and growth durability

Total return potential for next 5-15 years  
How long it can outgrow an average company in S&P 500  
Nature of compounding – Cyclical (Specific Drivers)/Growth

Terminal risk score

Disruption risk

Internal: Experimentation / investments towards adding new moated revenue growth drivers  
External: Attempts at radical disruption of the industry's future  
How conducive are external and internal parameters to ensure a predictable future?

Idiosyncratic risk score

Softer risk aspects

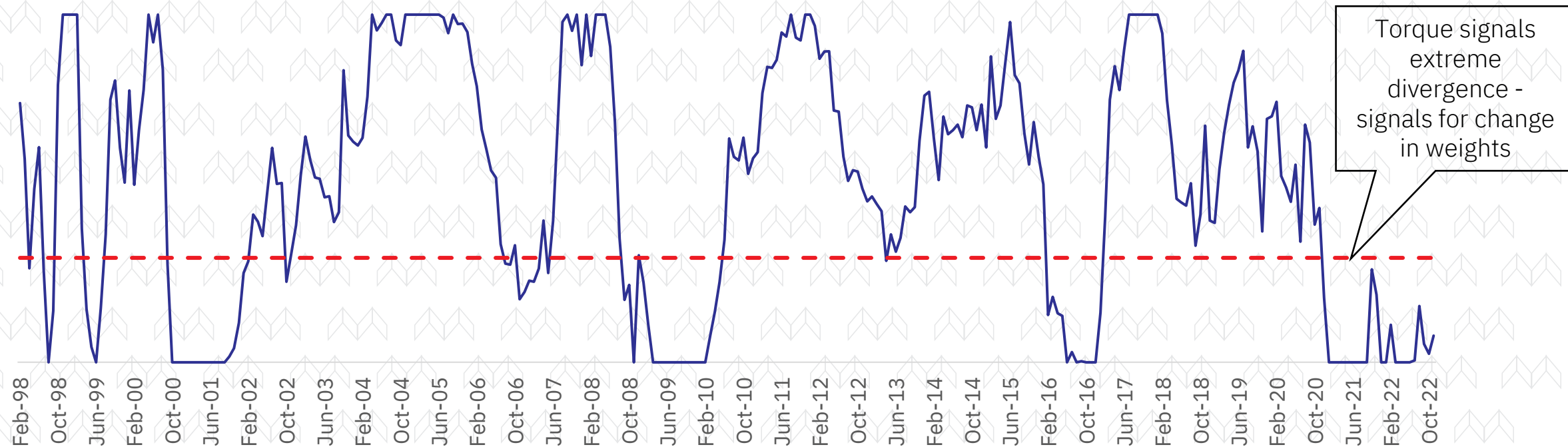
CXOs - quality and tenure  
Historical evidence of succession planning in CXO roles  
Independence of Board of Directors  
Predictability of Cash Flows  
Financial Engineering / Leverage

Buy and Sell decisions

# TORQUE – Style framework for risk management



Identifies extreme style exposure of Portfolio – Triggers Torque driven rebalancing



Source: Bloomberg and Marcellus proprietary model generated data

Heterogeneous mix of stocks in the portfolio allows position sizing to take care of the “Systematic Extremes”

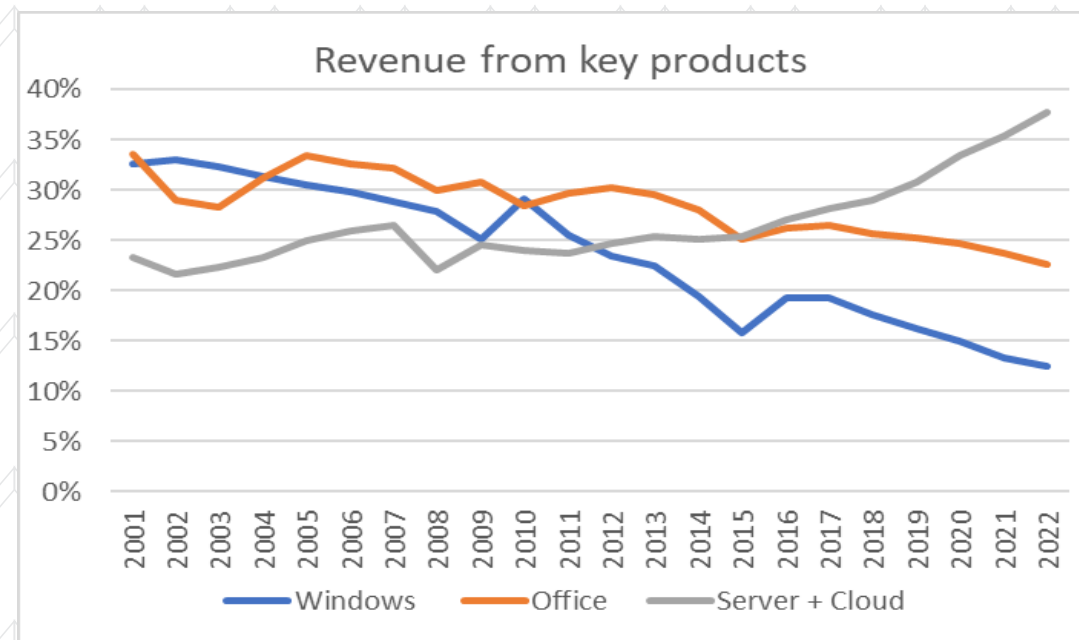
Top 13 stocks constitute ~75% of the portfolio. Remaining positions provide cushion for extreme systematic risks through TORQUE

# CASE STUDY: MICROSOFT [MKT CAP \$2.6 TN]



- Microsoft has evolved from a Windows/Office business into a strong enterprise tech player with nearly half the revenue coming from cloud and another 15% from servers, enterprise services.
- It is also a rare tech company that recovered from over a decade of lethargy following a change in management. As a result, over the past eight years, Microsoft has seen its culture become more growth oriented and uniquely collaborative among tech majors.
- This cultural shift helped deliver on the cloud opportunity and build non-cloud growth levers (LinkedIn, gaming). Microsoft leveraged its enterprise tech legacy to emerge as a strong no 2 in the public cloud market with margins higher than the leader (AWS).
- Microsoft also enjoys network benefits in the non-cloud business (Windows, server, gaming, LinkedIn, GitHub).
- In our view Cloud business has strong growth runway (23% CAGR ahead), we anchor to 15% revenue/PAT growth and 17% FCF growth.

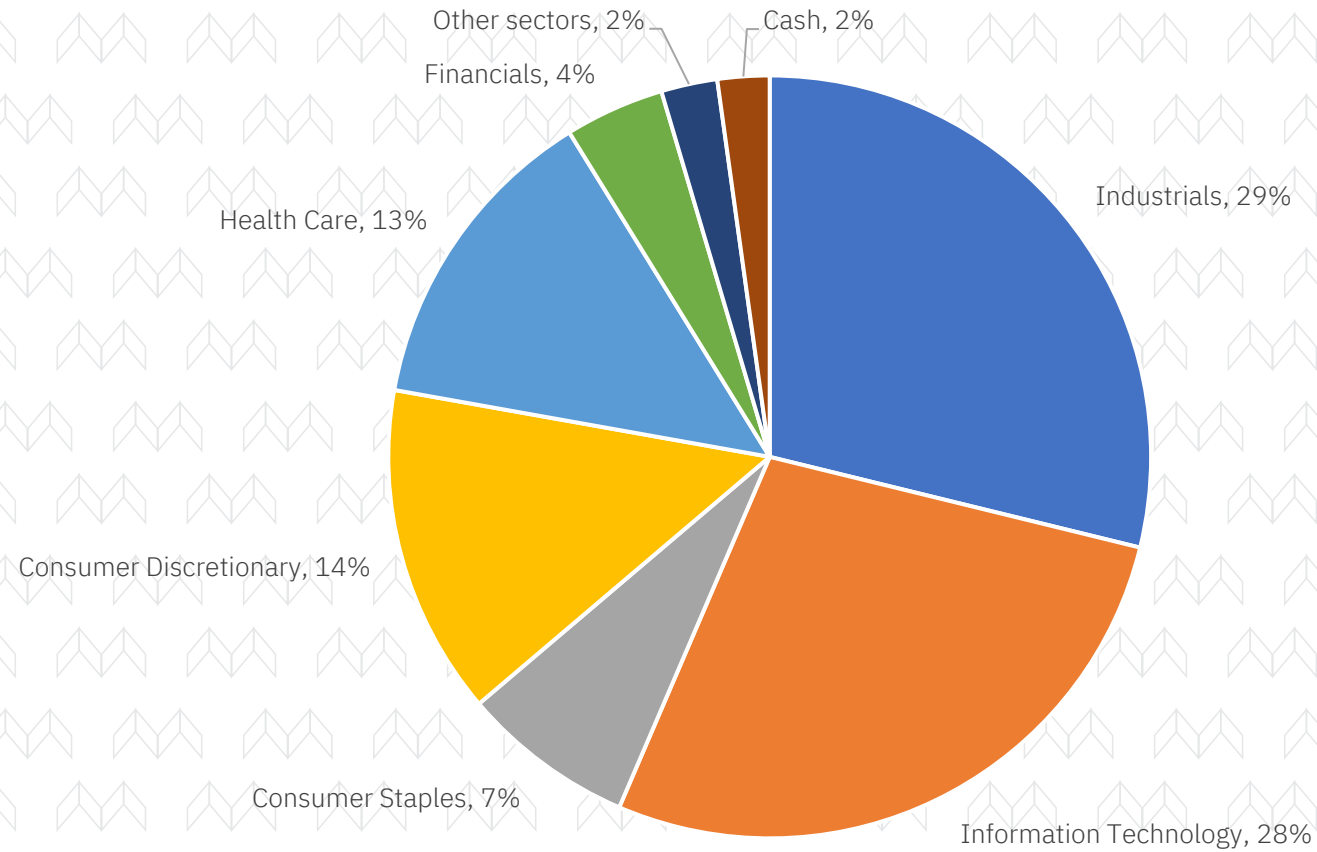
**NOTE: Microsoft is a part of Marcellus' GCP portfolio**



	1990-2001	2001-14	2014-22
Revenue	32%	10%	11%
Op profit	36%	7%	15%
Op cashflow	42%	7%	13%
FCF	52%	6%	12%
FCF/share	48%	8%	13%

Source: Company Filings; Bloomberg LP; Company filings; FCF = Operating cash flow less Capex; Disclaimer: The mentioned security is for illustration/information purpose only and not recommendatory.

# GCP's Sectoral Allocation



Source: Marcellus Investment Managers

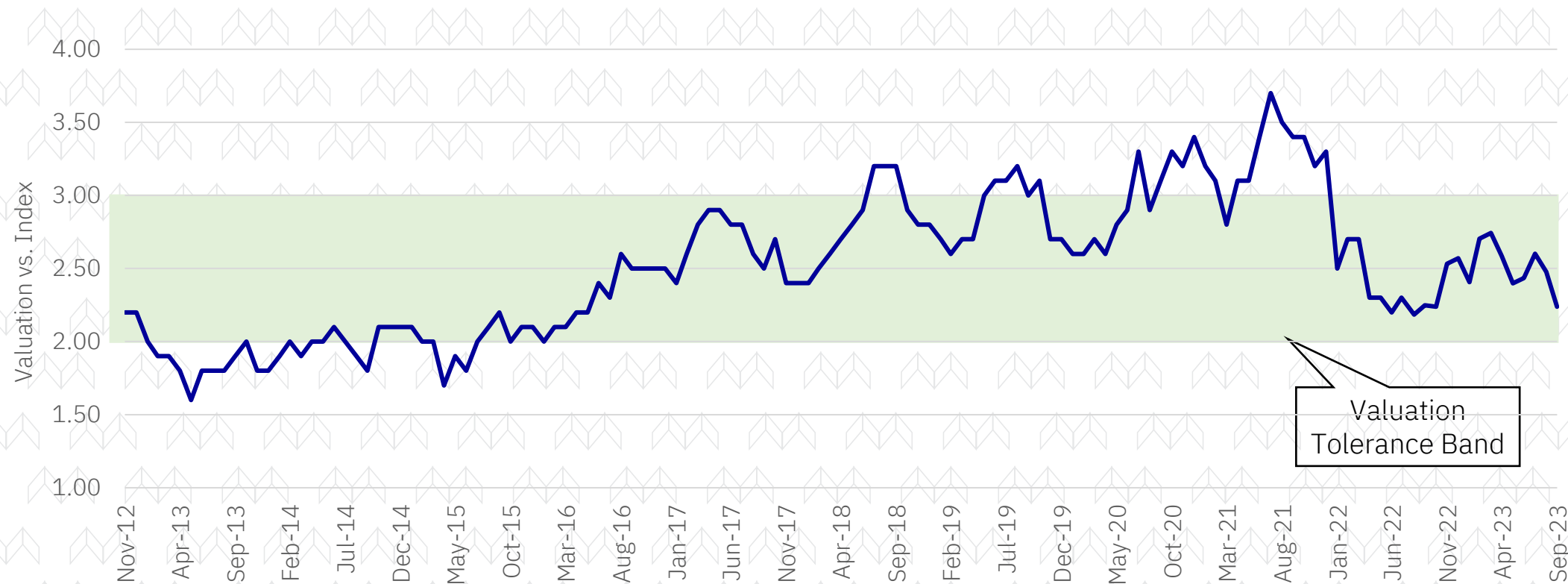


# INR:USD exchange rate



Source: Bloomberg LP

# Valuation Framework



Source: Marcellus Investment Managers