

# Marcellus MeritorQ\*

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The stocks described in the presentation do form the part of Marcellus' portfolio so we as Marcellus, our clients and our immediate relatives do have interest and stakes in the described stocks

\*MeritorQ is a strategy of Marcellus capital partners LLP.

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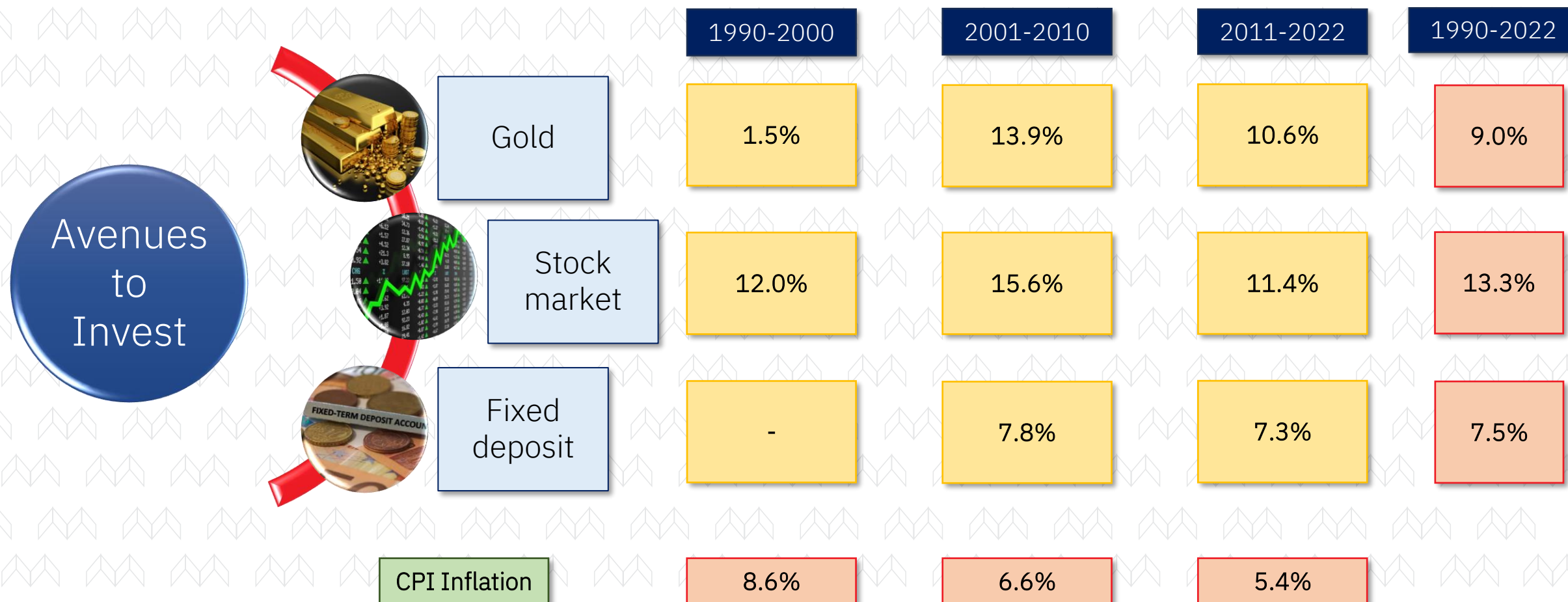
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# Equity returns have been ahead of Gold and Fixed deposits in India over last 3 decades

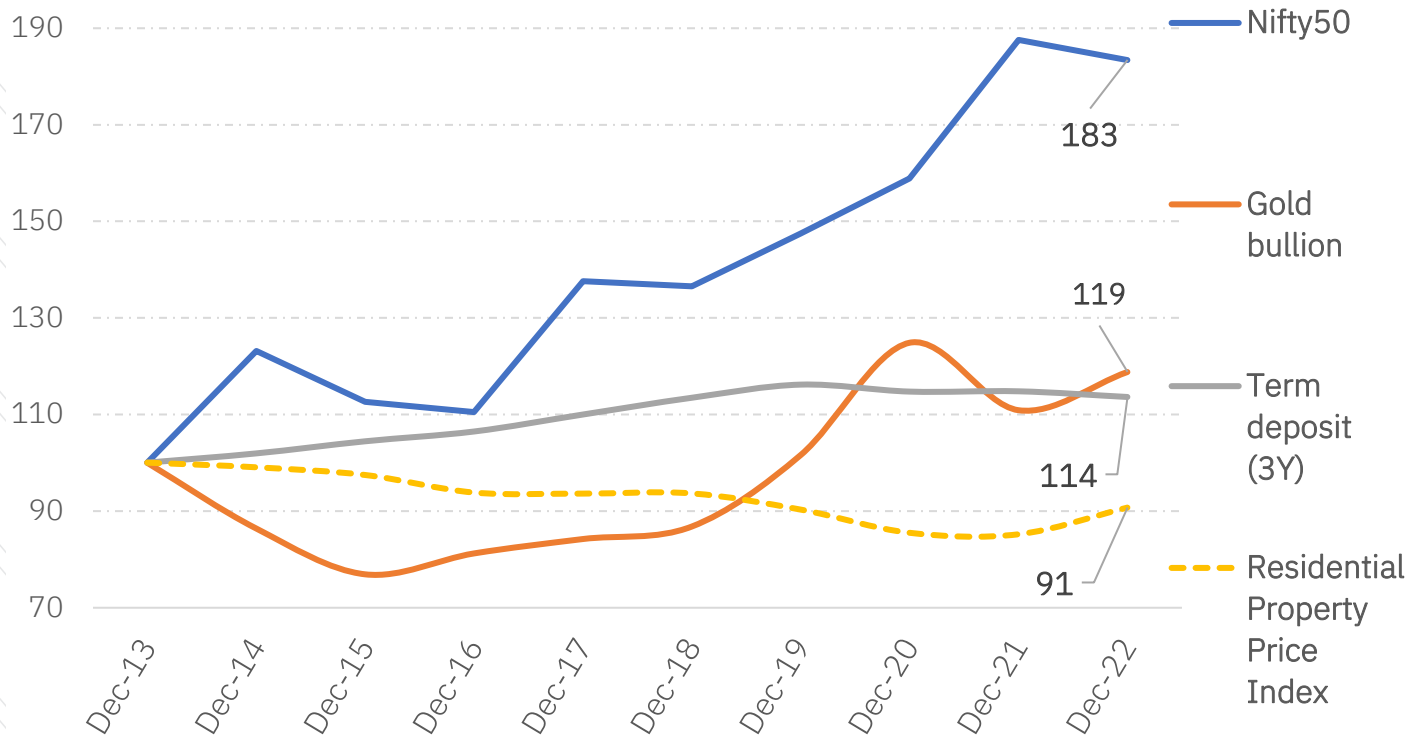


Source: Bloomberg, RBI, ACE Equity, Marcellus Capital Partners LLP; Returns calculated on a 3Y rolling basis within each decade; average of these 3Y rolls are shown for each decade and asset class. All data is between Dec-1990 and Dec-2022. Stock market returns are represented by Nifty 50 PR index.

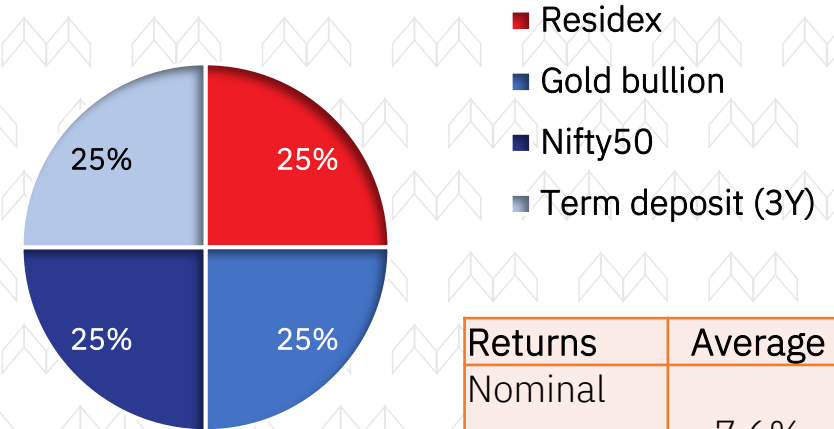
# However, on an Inflation-Adjusted Basis, Their Returns Have Been Poor



Inflation-adjusted (Real) returns

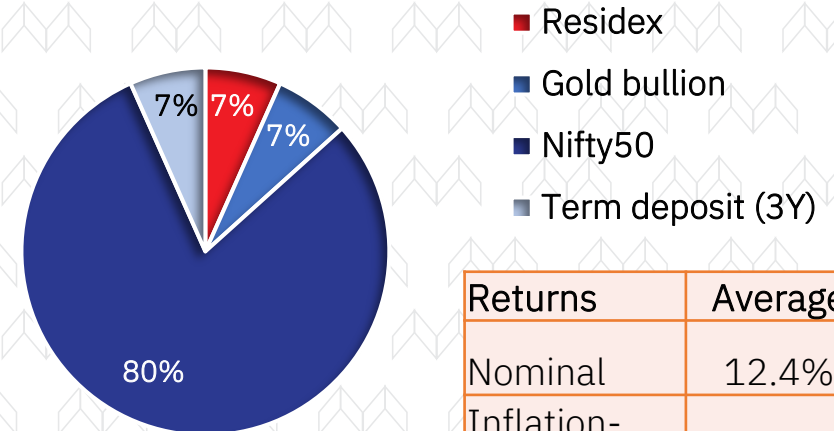


Hypothetical Portfolio #1



Returns	Average	Median
Nominal	7.6%	8.7%
Inflation-Adjusted	2.3%	2.6%

Hypothetical Portfolio #2



Returns	Average	Median
Nominal	12.4%	10.2%
Inflation-Adjusted	6.9%	5.8%

Source: Bloomberg, RBI, National Housing Bank

The hypothetical portfolio presented in the slide are for illustration/understanding only and the portfolio is not selection for MeritorQ.

# Compounding is the Eighth Wonder of the World



- Compounding is said to be the eighth wonder of the world
- Longer the period, bigger is the impact of compounding
- Eg: For Rs 100,000 invested, following is the pay-off matrix-

Years	10%	15%	20%
5	1,61,051	2,01,136	2,48,832
10	2,59,374	4,04,555	6,19,174
15	4,17,725	8,13,706	15,40,702
20	6,72,750	16,36,654	38,33,760
25	10,83,470	32,91,895	95,39,621
30	17,44,940	66,21,177	2,37,37,631

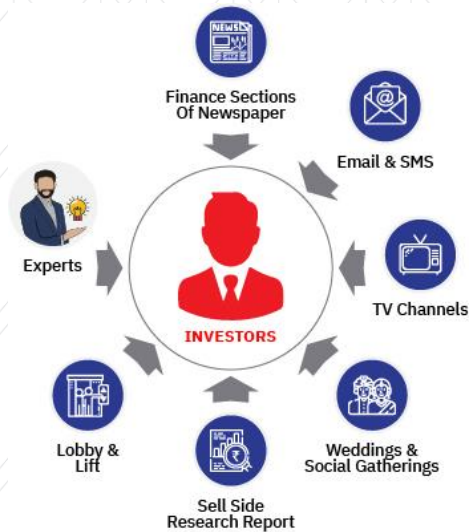
*The figures presented in the slide are for illustration/understanding only and do not guarantee any future returns*



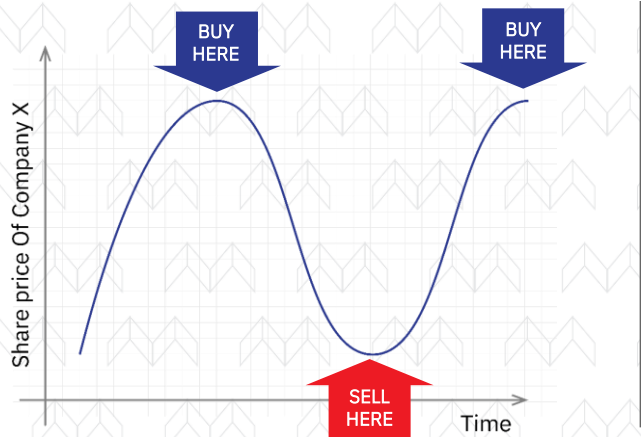
# Our investment process reduces chance of bad investment decisions



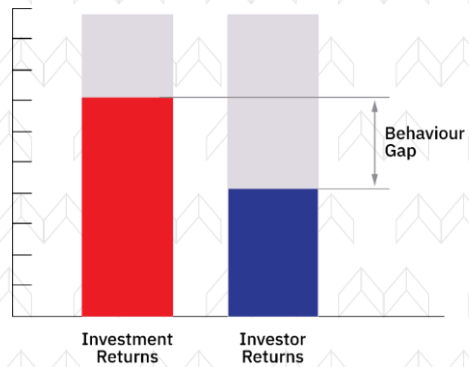
## Ideal Investor Behavior



## Emotional Bias May Lead To Reverse



## Resulting In Lower Investment Returns



# Some timeless principles for successful investing



## Buy Good Companies

- *High return on capital*
- *Solid financial condition*
- *Clean accounts*

## At prices below intrinsic value

- *Discount to intrinsic value compared to rest of the market*
- *Intrinsic value based on free cash flow*

## Mitigate human biases

- *Avoid behavioural biases*
- *Process over discretion\**

*\*Except where Marcellus has concerns over governance issues in selected stocks.*

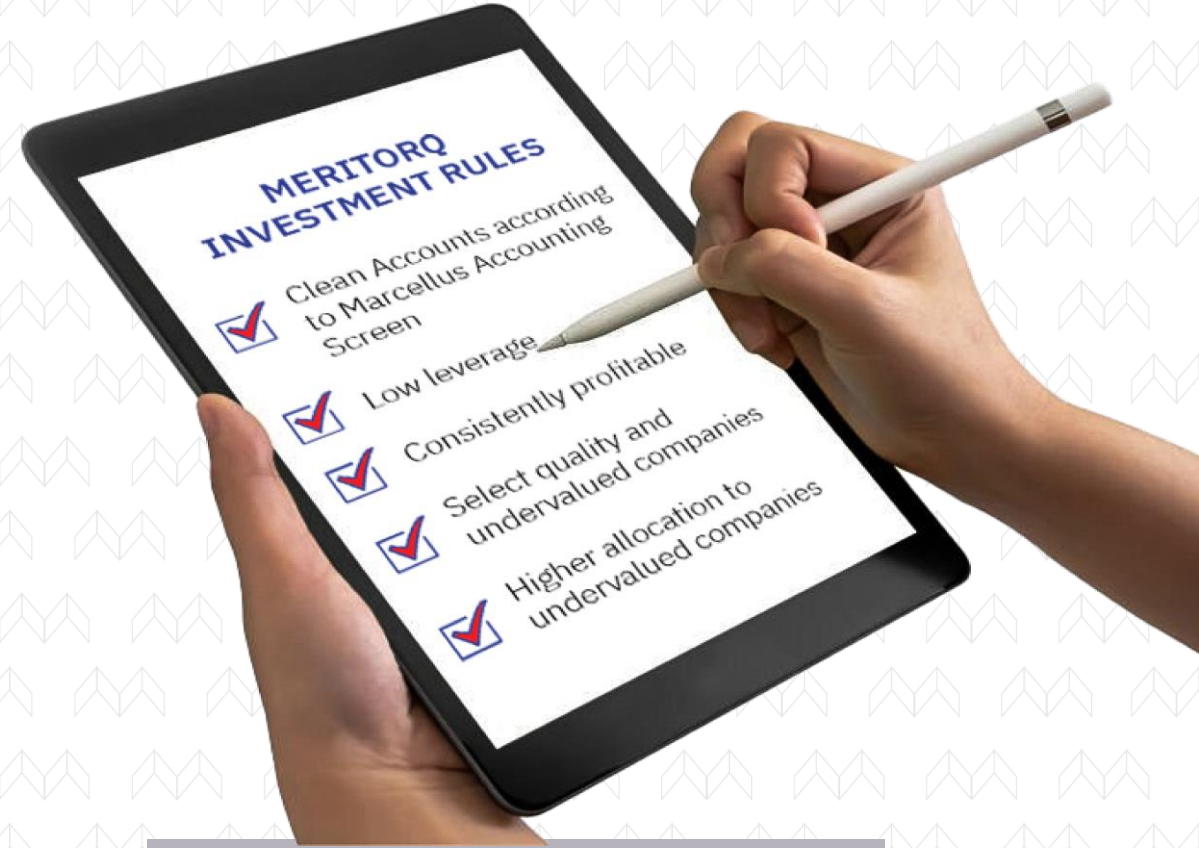
# Our investment approach is similar to a checklist



AVIATION

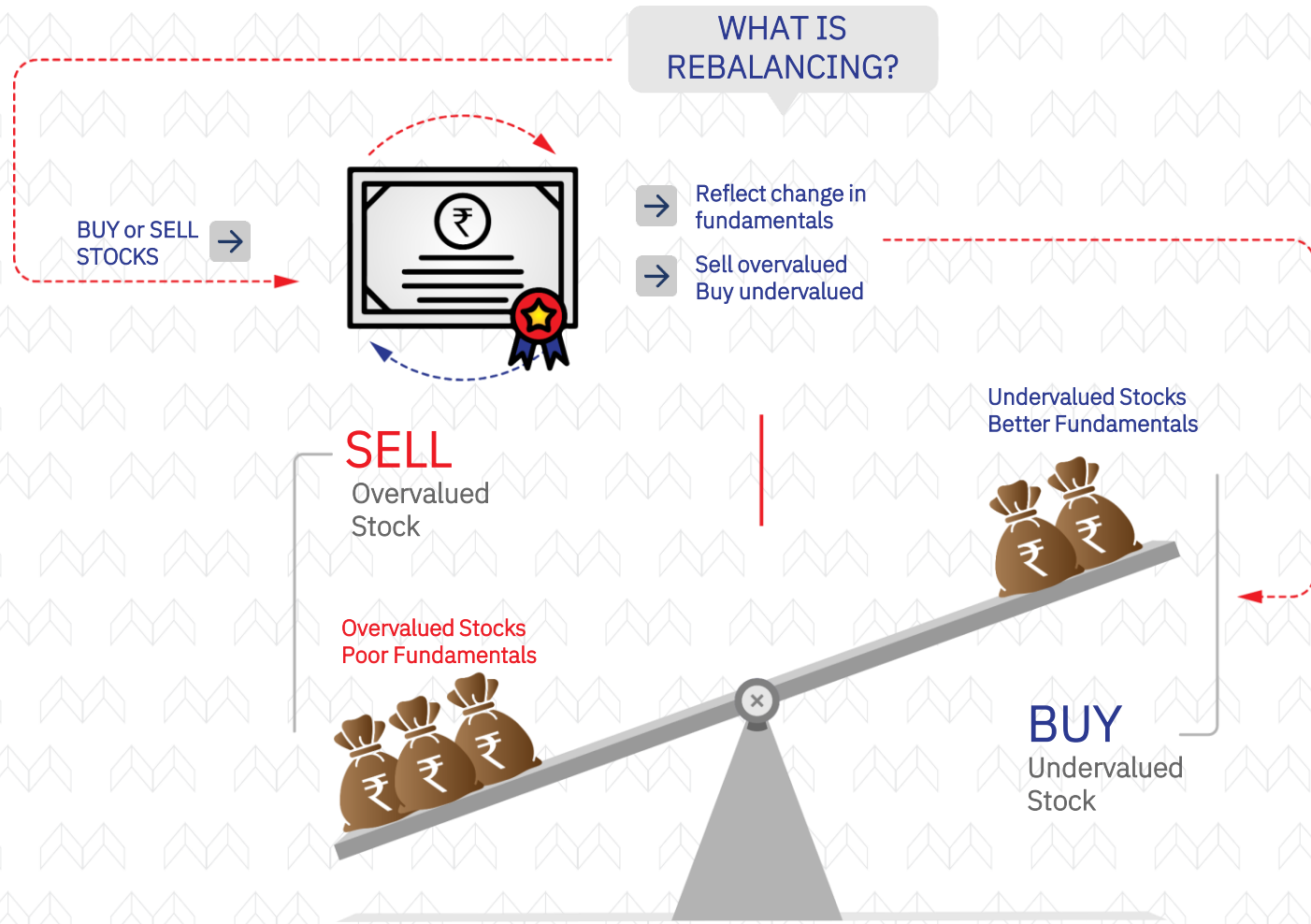


SURGERIES





# We rebalance the portfolio every three months



# Fee Structure



Marcellus Meritor Q has two fee option to select from.

- Fixed Fee: Rs 2500 per quarter\*
- AUA fees of 2.25% pa charged on monthly basis on the daily average value of the portfolio.

Recommended Minimum investment: INR 10 lacs.

SIP option available on Smallcase.

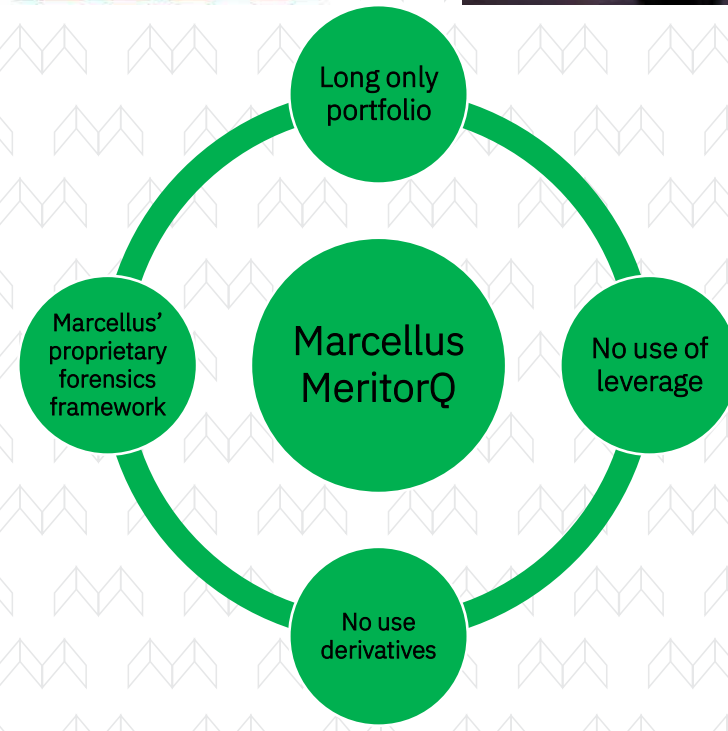
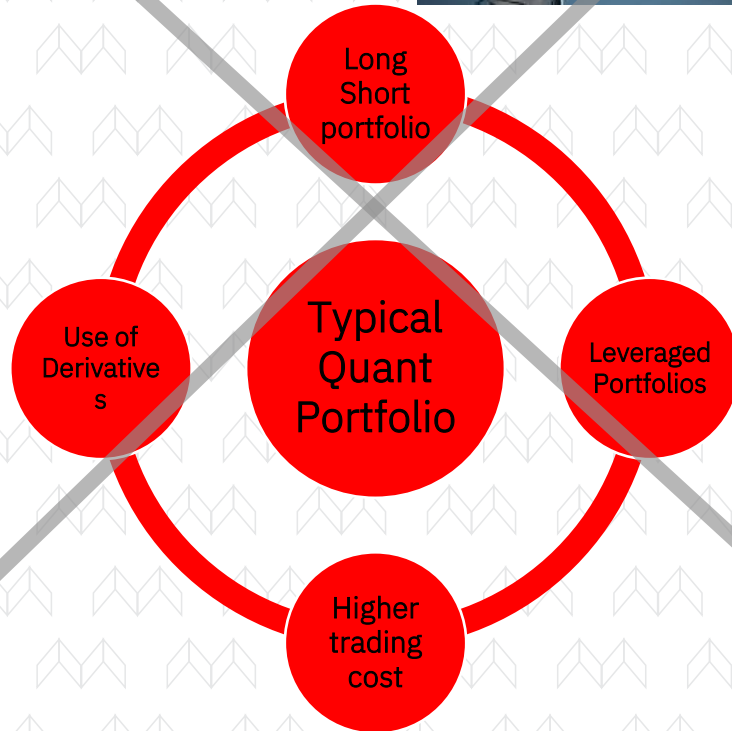
For more information on the product visit: <https://marcellus.in/meritorq-advisory/>

\* Before GST



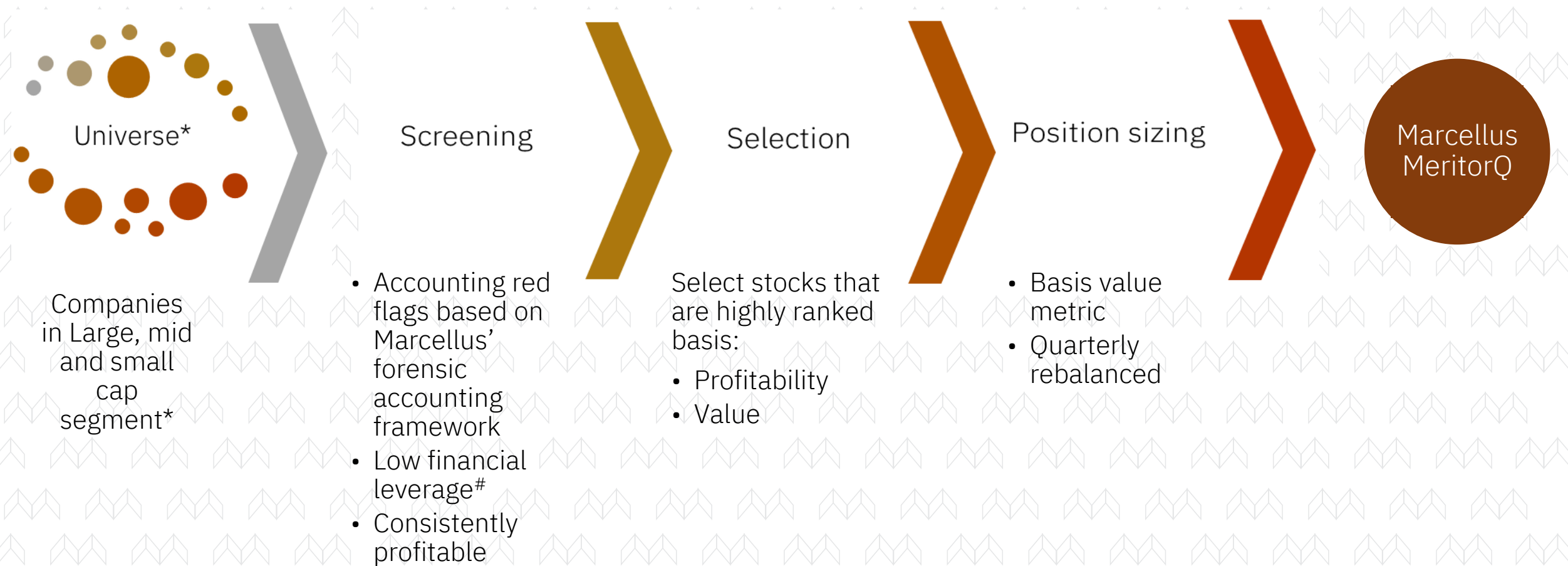
# ANNEXURES

# MeritorQ sticks to good investing principles





# Marcellus' forensic framework combined with rules based approach



*\*Life insurance companies not considered*

*#For debt-equity screening - Financials (Lenders & Non-lenders are considered separately)*

# Portfolio Characteristics



Sector Name	Sector Weight#
Consumer Staples	21.2%
Consumer Discretionary	18.4%
Materials	18.2%
Information Technology	17.2%
Health Care	8.9%
Industrials	6.5%
Communication Services	5.1%
Financials	2.7%
Utilities	1.2%
Others	0.6%
Total	100%



30-45 Stocks\*



20-40% Weightage in Top 5 stocks

Small-Midcaps constitute 40-62%\*



~60% Average Turnover\*

Source: Ace Equity, Marcellus Capital Partners LLP.

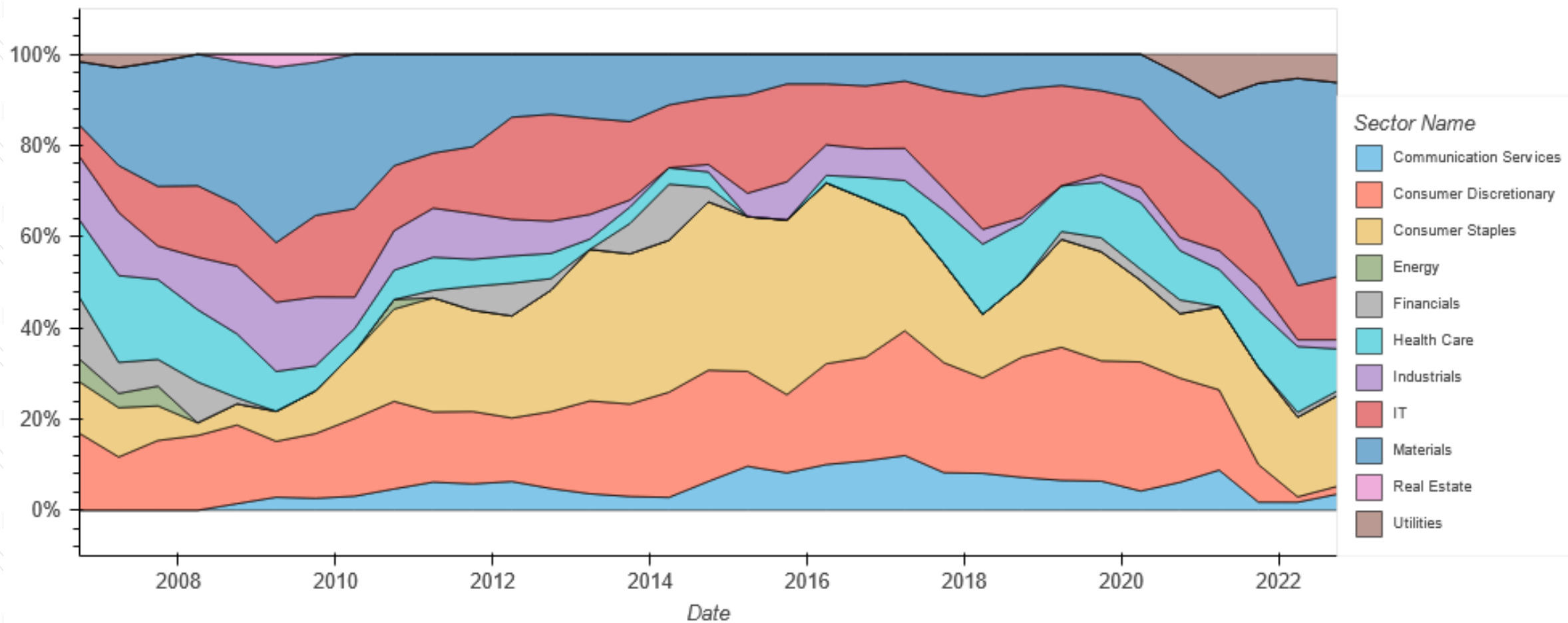
\*Based on backtested results from July-2006 to September-2022

# This represents the average sector weight over the backtested period.

Small and midcaps defined as companies falling in bottom 300 in terms of market capitalisation within BSE 500 index

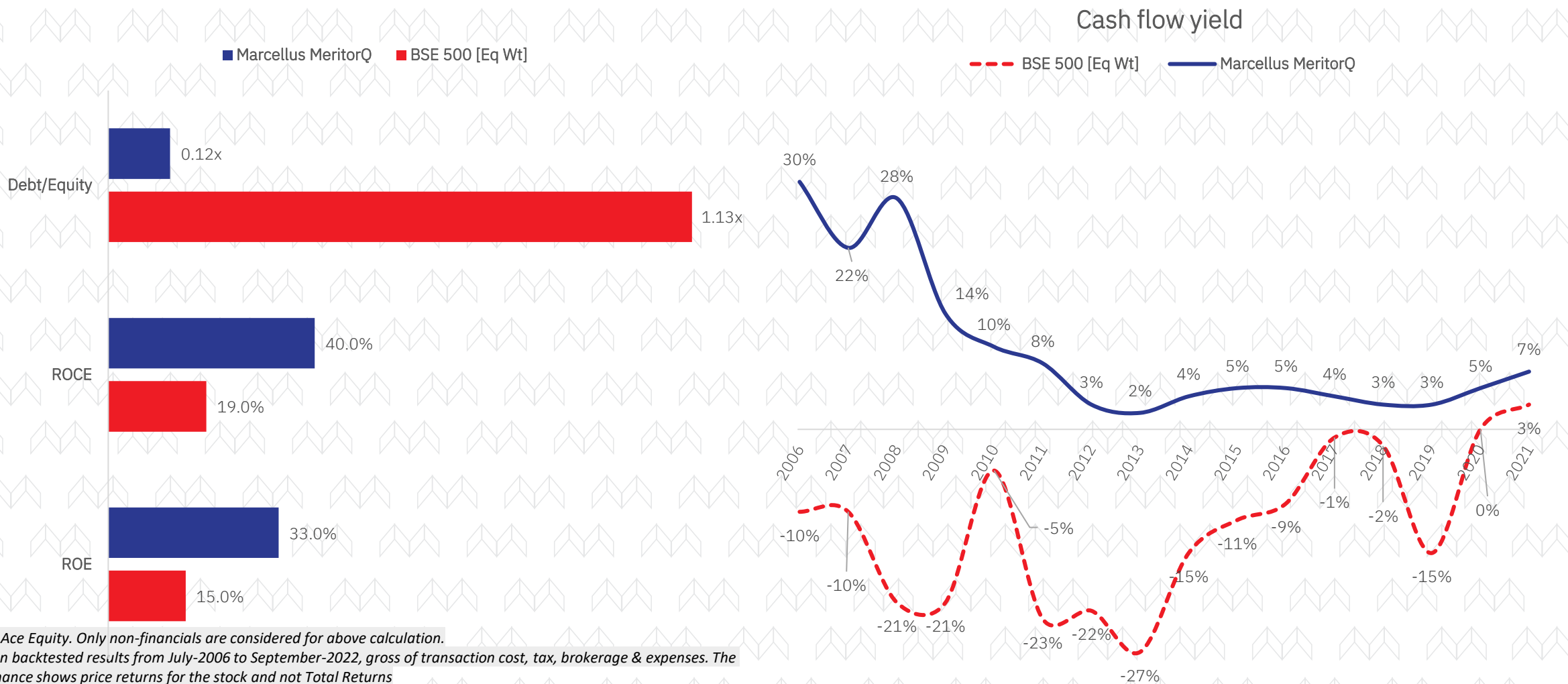
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# Sector distribution



Source: Ace Equity. Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses.

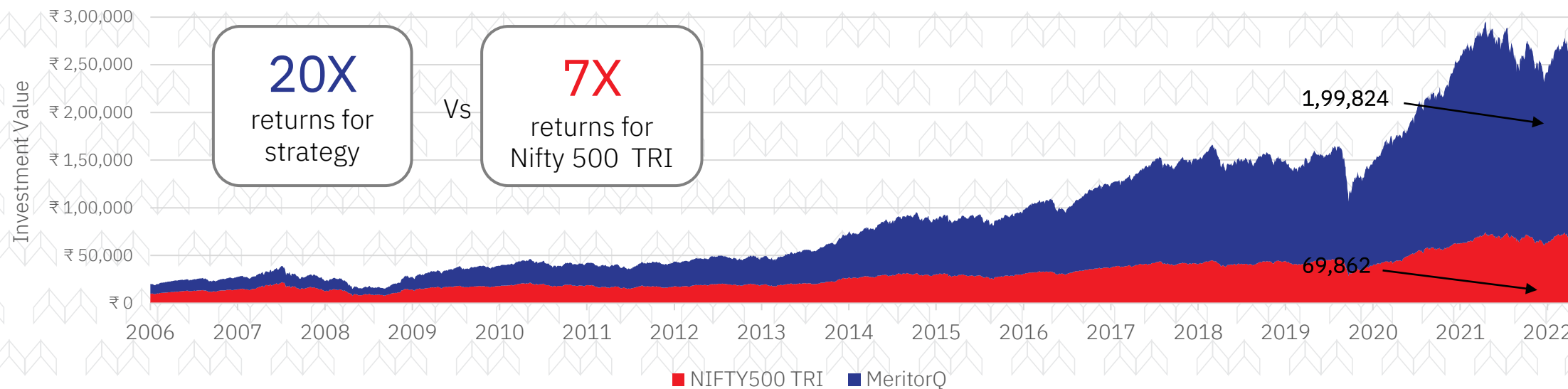
# Portfolio Characteristics (Contd.)



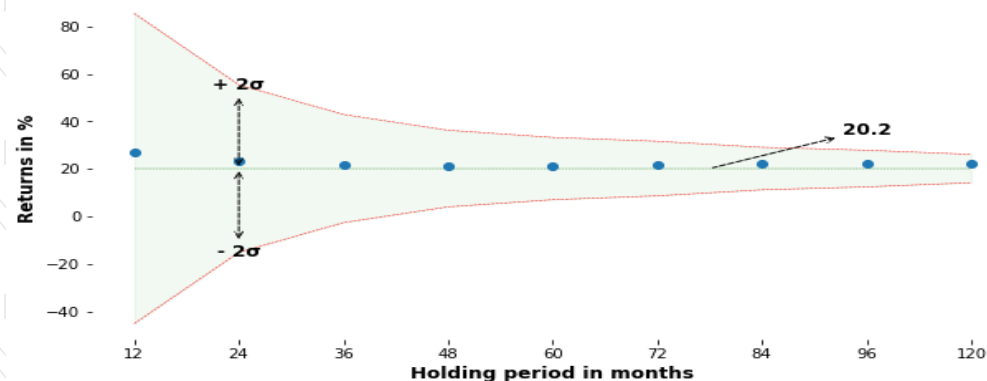


# Backtested performance\*

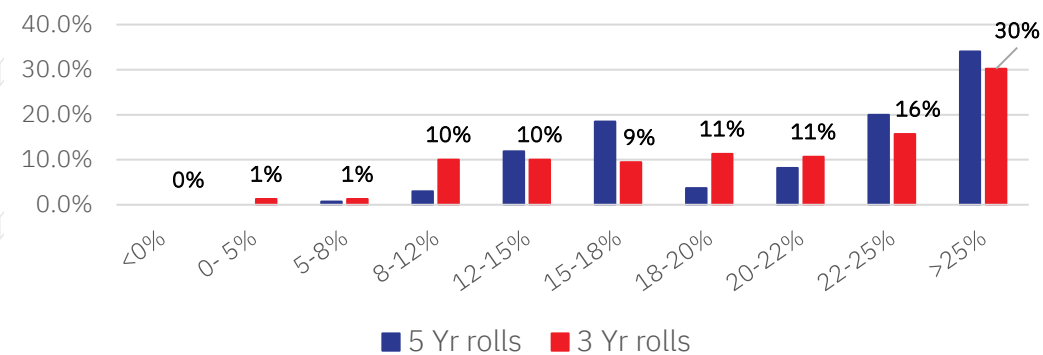
Growth of ₹10,000



Distribution of portfolio rolling returns with holding period



Distribution of rolling returns



Source: Ace Equity, Vidal, Marcellus Capital Partners LLP.

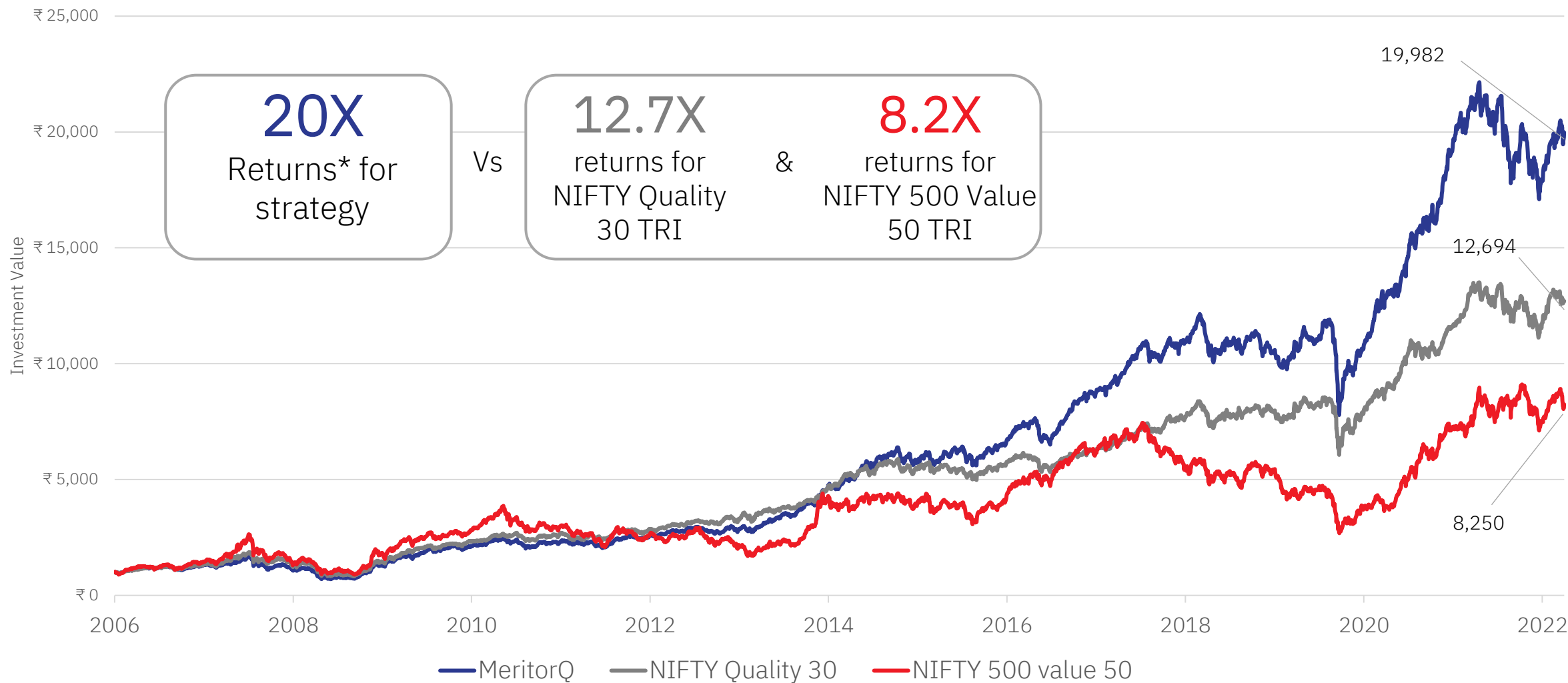
\*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns

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# Comparison with factor indices



Source: Ace Equity, Vidal.

Note: Factor Indices NIFTY 200 Quality 30 TRI and NIFTY 500 Value TRI are used to merely represent the model portfolios' performance synergies to Quality and value representation

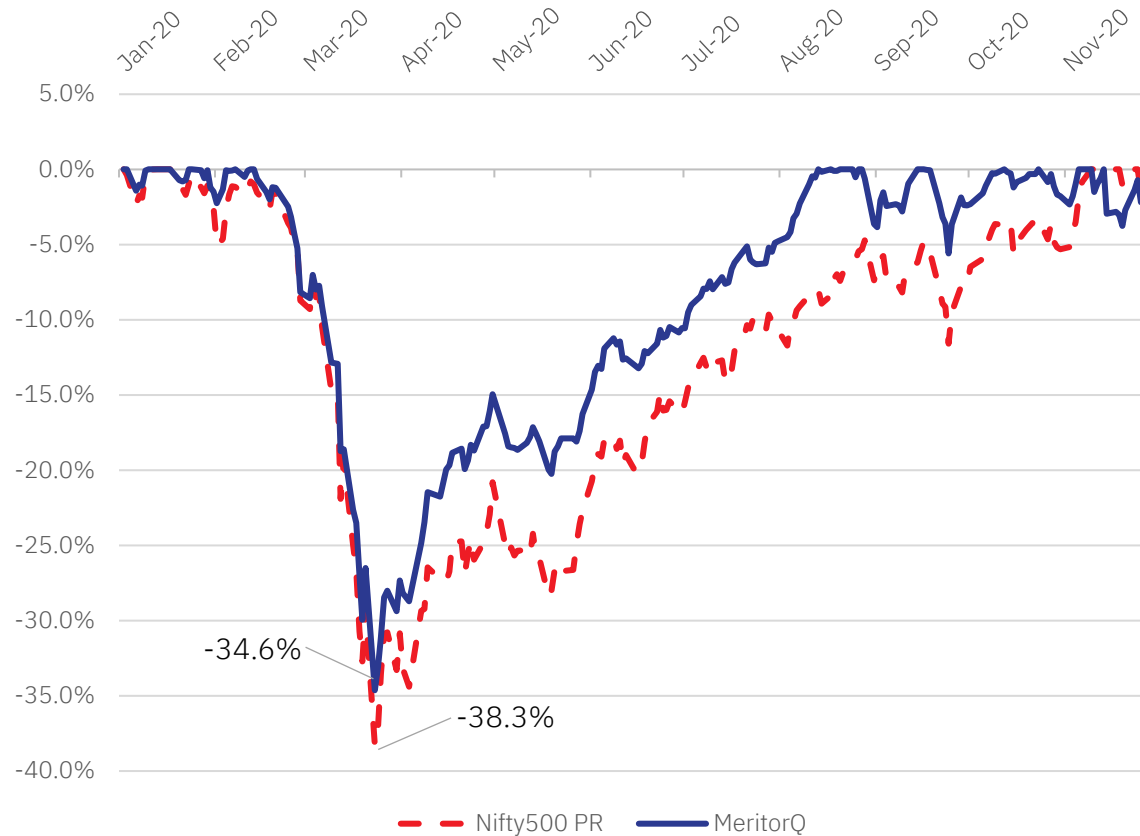
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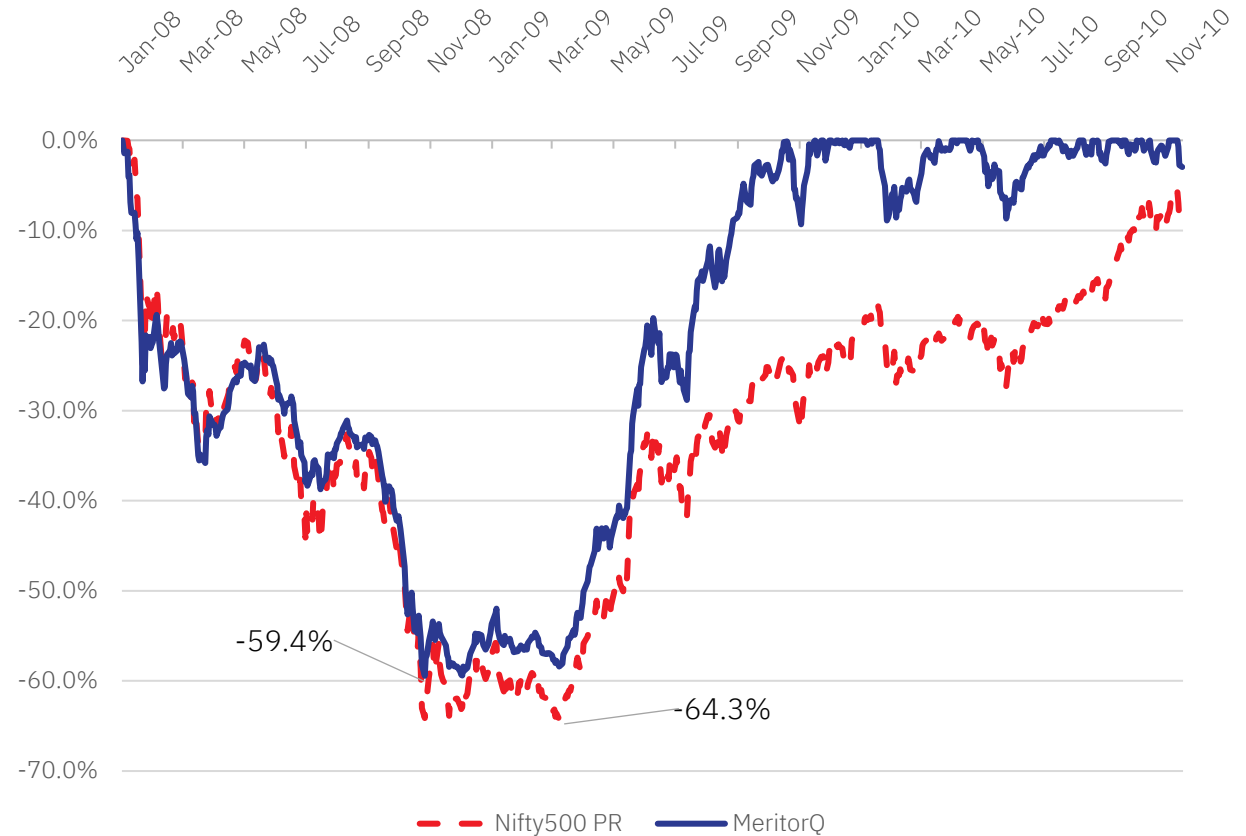
# MeritorQ had lower drawdowns and recovered faster during both Global financial crisis (GFC) and Covid Crisis



## Corona crisis – March 2020



## GFC



Source: Ace Equity, Vidal

*\*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns. The figures presented in the slide are for illustration/understanding only and do not guarantee any future returns*



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# Model Back tested performance: Annual Returns



Year	Nifty 500 PR	Marcellus MeritorQ*
2007	62.5	42.3
2008	-57.1	-53.5
2009	88.6	144.4
2010	14.1	24.2
2011	-27.2	-12.4
2012	31.8	38.6
2013	3.6	21.5
2014	37.8	59.5
2015	-0.7	14.2
2016	3.8	5.6
2017	35.9	58.5
2018	-3.4	2.0
2019	7.7	1.1
2020	16.7	32.4
2021	30.2	44.1
2022 -YTD	-1.1	-5.3
CAGR (July-2006 to September-2022)	11.4	20.2

Source: Ace Equity, Vidal. \*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns

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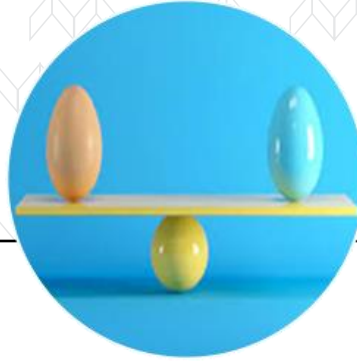


# Closing thoughts



## Diversification

- Diversified exposure to uncorrelated factors like value and quality
- Possibility to capture performance from smaller companies. No market cap bias



## Periodic Rebalancing

- Quarterly portfolio rebalancing and review according to rules
- Ensures portfolio is aligned to investment objectives
- Balance between portfolio churn and picking up undervalued stocks regularly



## Rules based

- Method and portfolio construction tested across ~16 years of history
- Investment process over discretion\*
- No portfolio manager risk
- Final portfolio and rules are actively monitored to ensure alignment with investment objectives

*\*Except where Marcellus has concerns over governance issues in selected stocks.*

# Stepwise Attribution to overall returns



Universe – BSE 500 equal weighted

Forensic Screen

- Companies in Deciles 7 to 10 not considered

Companies with low financial leverage & which are consistently profitable

Selection

- Based on composite factor score that relies on profitability and value metrics

Position Sizing

- Portfolio weighted basis value factor

Avg, 3Y rolling returns

3Y rolling Risk-adjusted returns

Number of stocks

7.9%

0.33

~500

12.8%

0.58

~270-300

17.8%

0.96

~80-100

21.4%

1.21

~30-50

22.0%

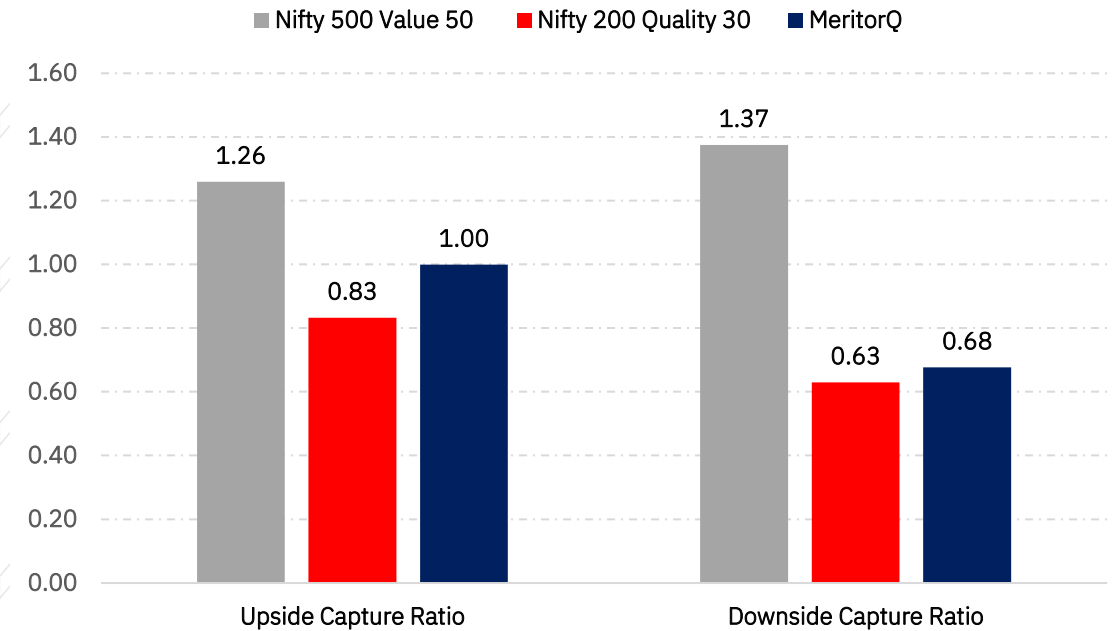
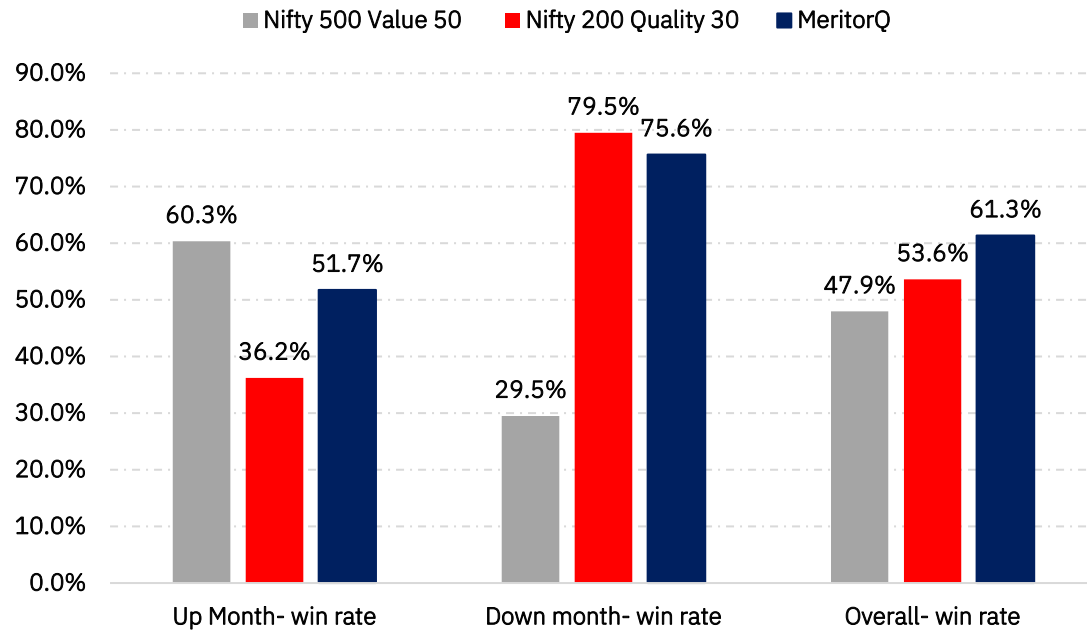
1.22

~30-50

Source: Ace Equity, Vidal, Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns  
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# MeritorQ's Ability to Combine Best of Both Worlds



Source: Ace Equity, Vidal, Marcellus Capital Partners LLP. Based on backtested results from July-2006 to September-2022

All measures are calculated on price returns gross of transaction cost, tax, brokerage & expenses.

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MERITORQ

# Thank You!

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# Investment Advisor



## Krishnan V R, CFA



Krishnan has roughly 10 years of experience spanning both equity and fixed income research. Before joining Marcellus, he was involved with the New Indexes Development team at Morningstar where he used to create quantitative rules-based equity and multi-asset investment products. Prior to Morningstar, he was an equity analyst with D.E. Shaw & Co. and a credit analyst at Goldman Sachs Asset Management (GSAM) EM Corporate Debt Team. Krishnan has a Masters in Financial Engineering from Worldquant University and a PGDM from IIM, Kozhikode.

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