

Global Compounders (GCP) - Kristal

An investment strategy for
The United States public equities



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

For affluent Indians, at least a third of their 'liabilities' are effectively in \$ (USD) and growing ...



STANFORD
UNIVERSITY



Kellogg's



NETFLIX

Coca-Cola

WARNER BROS.

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... To offset, build 'assets' in USD by investing in the enduring strength of US stock market for long term....

Country	Index	TSR (30Y)	TSR (20Y)	TSR (10Y)	Rank (30Y)	Rank (20Y)	Rank (10Y)
US	S&P 500	10.4%	9.9%	12.8%	1	2	1
India	Nifty 50	7.6%	11.6%	11.8%	4	1	3
Australia	ASX 200	8.7%	9.3%	6.2%	2	4	6
Canada	TSX	8.0%	7.5%	5.3%	3	5	7
Hong Kong	Hang Seng	4.9%	4.3%	0.3%	10	13	13
Taiwan	TWSE	6.6%	9.5%	11.8%	7	3	2
Brazil	Bovespa^	6.7%	6.4%	2.6%	6	10	11
China	Shanghai Composite	7.0%	5.9%	4.7%	5	11	8
UK	FTSE 100	5.1%	4.5%	2.1%	9	12	12
South Korea	Kospi	3.5%	6.8%	2.6%	12	7	10
France	CAC*	5.3%	6.5%	6.6%	8	9	5
Germany	DAX*	4.6%	6.9%	3.6%	11	6	9
Japan	Nikkei 225	2.5%	6.7%	8.1%	13	8	4



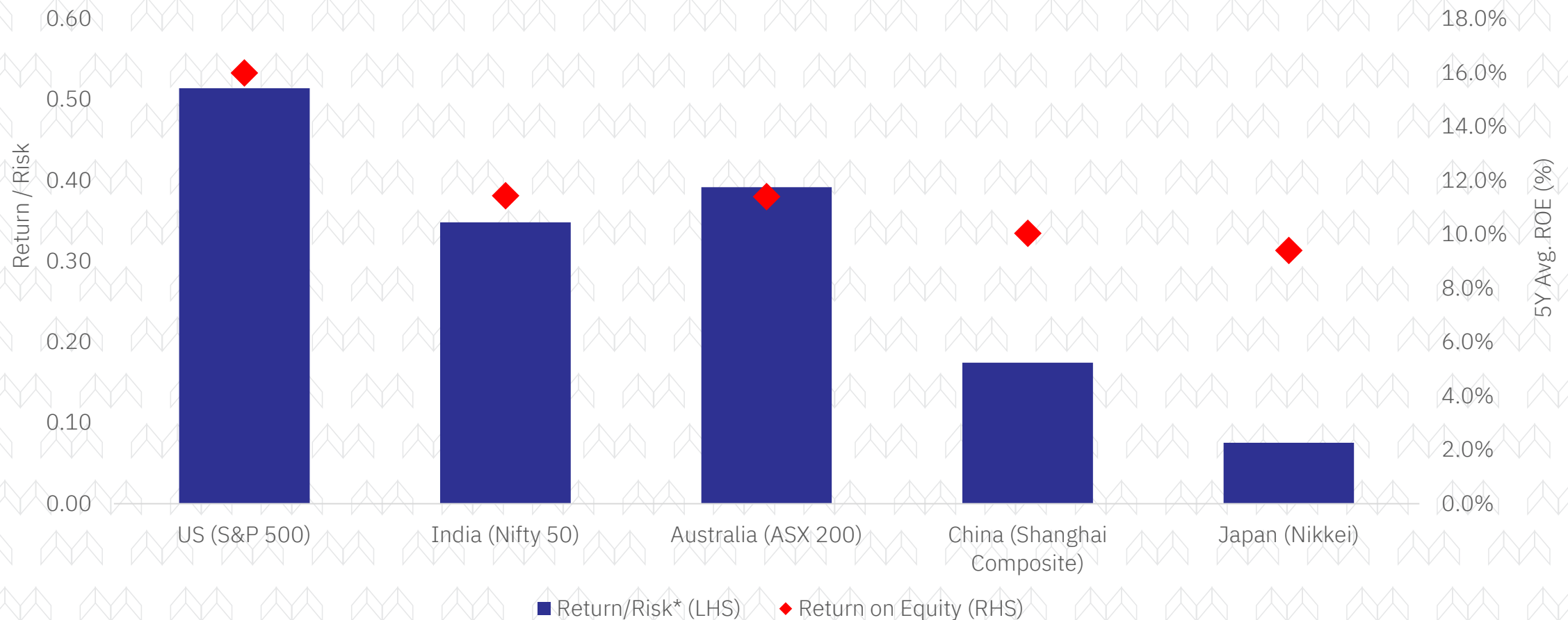
Source: Marcellus Investment Managers; Bloomberg LP

Note: 20-Year and 10-Year TSR in USD terms calculated period ending February' 2024, *Europe 30-Year return calculated from 1st Jan 1999 when Euro was adopted; ^Brazil 30-Year return calculated from 1st July 1994 when Real was adopted;

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... Optimal risk-adjusted returns and strong Return on Equity (RoE) which REDUCE dependence on Market Timing



Source: Bloomberg LP;

Note: Risk is calculated as annualized standard deviation of daily returns over a 30-year period; In India, there is no exact equivalent to the S&P 500, but the Nifty 50 is a similar index that is often used as a benchmark for the Indian stock market. The Nifty 50 is an index of 50 large-cap stocks traded on the National Stock Exchange of India (NSE);

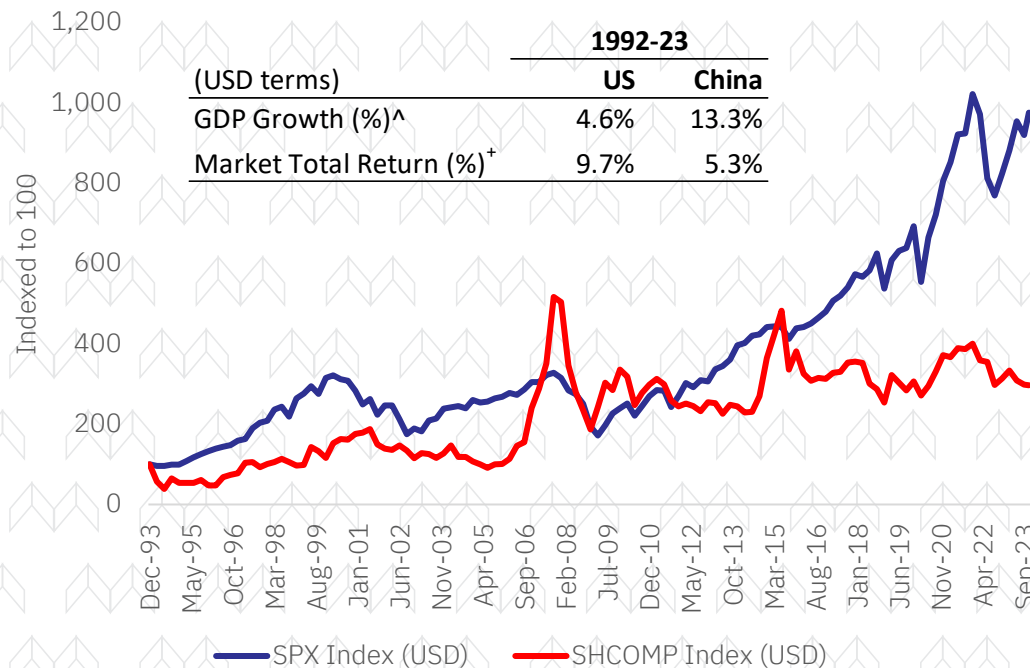
High return promises (hypes) of major countries (ex-US) are often short-lived. US is a 'must-own staple' in every investor's portfolio



High GDP growth DOES NOT ensure high stock market returns

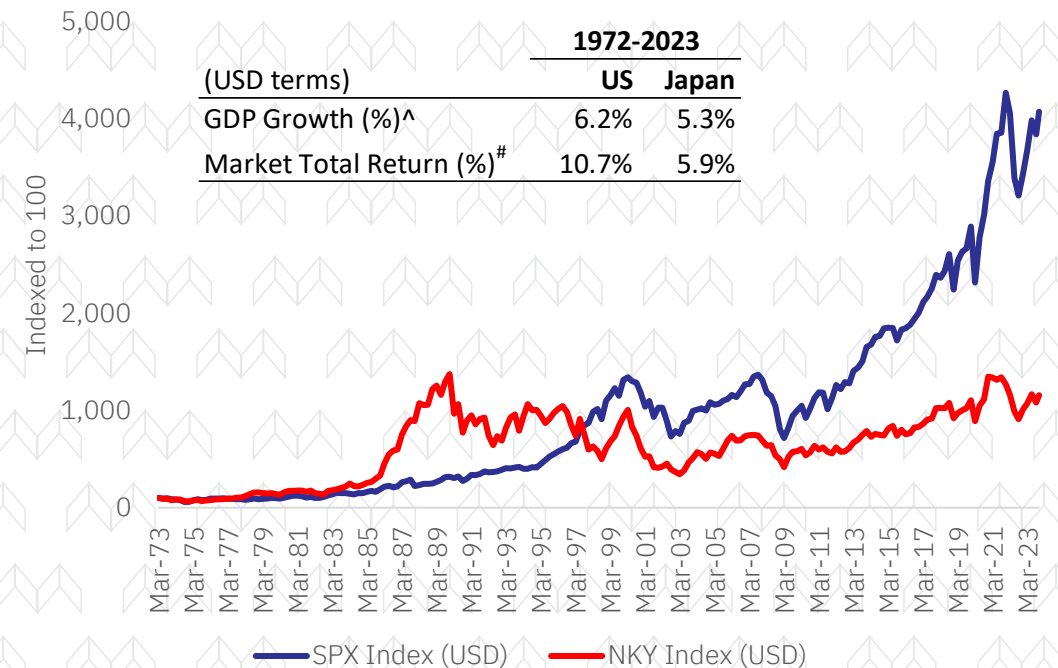
China (Shanghai Composite)

S&P 500 vs. Shanghai Composite (USD terms)*



Japan (Nikkei)

S&P 500 vs. Nikkei (USD terms)*



“Never bet against America” – Warren Buffet

Source: Bloomberg LP; Note: *Charts are based on index value in USD terms; ^GDP growth rate calculated using 2022 GDP figures; #Nikkei TSR is calculated for 50-year period ending Oct'23, +Shanghai Composite TSR is calculated for 30-year period ending Oct'23

ACTIVE investing CAN DO EVEN BETTER: But at-least three challenges exist for Indian households



For Indians & NRIs investing into US markets is not easy

High quality funds need > \$1 million in minimum investment amount

Investing directly through funds from mainland India attracts high tax rates

Successful US fund managers are not accessible to Indians & NRIs



Missing out on “significant wealth creation” through low-risk compounding

Lack of diversification

Assets and Liabilities
Currency Mismatch

Marcellus offers a solution – Global Compounders – Kristal (GCP)

**Marcellus' GCP
is the solution
to get access to
world's
high quality
compounders**

● **Highly
Accomplished
Team**

● **Simple Yet
Effective
Process**

● **Solid Track
Record**

**High Class Global
Equities
Investment
Product –
Made In India**

Highly accomplished team of five dedicated analysts



Arindam Mandal

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



ORACLE



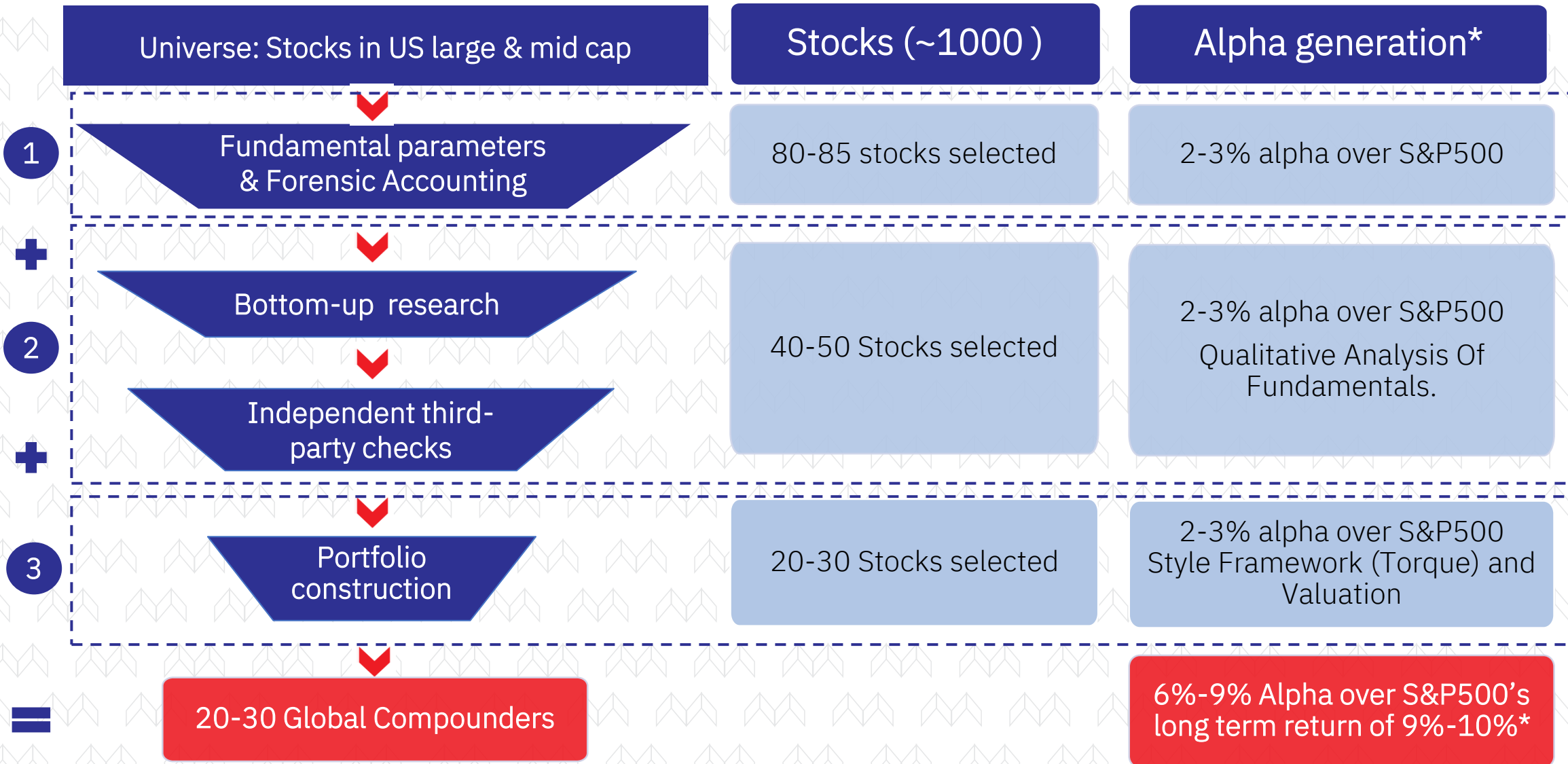
Jaibir Singh Sethi

- 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



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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 31st May 2015 to 30th Sep 2022. The results are gross of transaction cost, tax and brokerage expenses

GCP companies – Solid Moat + Longevity



R&D Strength

Operational Excellence

Capital Allocation

Pick & Shovel

ASML



HEICO

Utility

amazon



BERKSHIRE HATHAWAY INC.

Consumption

IDEXX



POOLCORP®

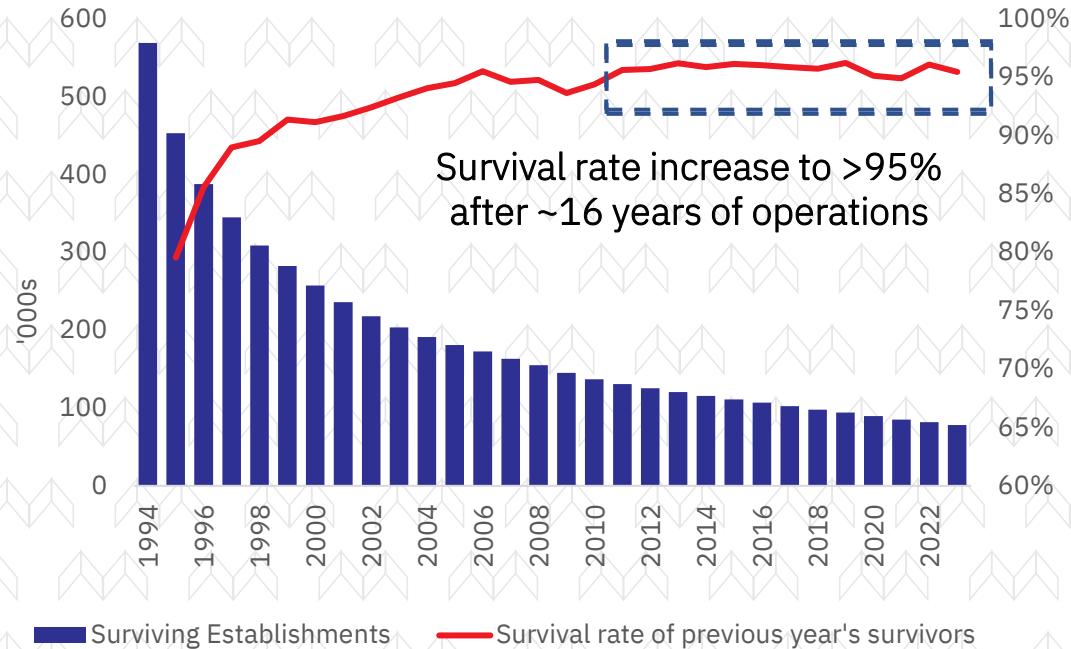
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GCP characteristics: Beyond Tech, High Longevity and Aligned Management



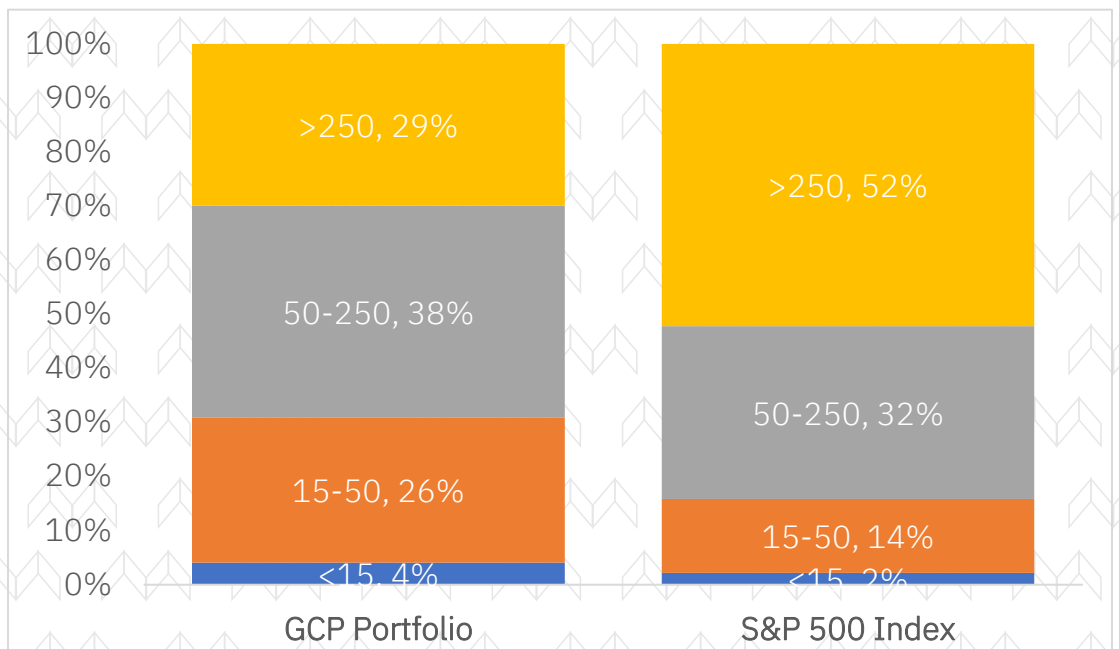
On average 60+ years of existence
30+ years of greatness

Allocation by market capitalization (USD bn)



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



Source: Bloomberg LP; Market capitalization taken as of 8th April 2024

- **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



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Average
GCP [all figures in USD and simple average basis*]								
ROIC	17%	18%	19%	19%	20%	19%	19%	19%
5-year FCFF/share CAGR	21%	22%	21%	25%	20%	16%	17%	20%
5-year EPS CAGR	19%	23%	17%	20%	20%	19%	15%	19%
S&P 500								
Average ROIC	10%	11%	13%	12%	10%	13%	13%	12%
5-year FCFF/share CAGR	4%	6%	6%	7%	11%	9%	5%	7%
5-year EPS CAGR	4%	8%	6%	4%	11%	12%	4%	7%

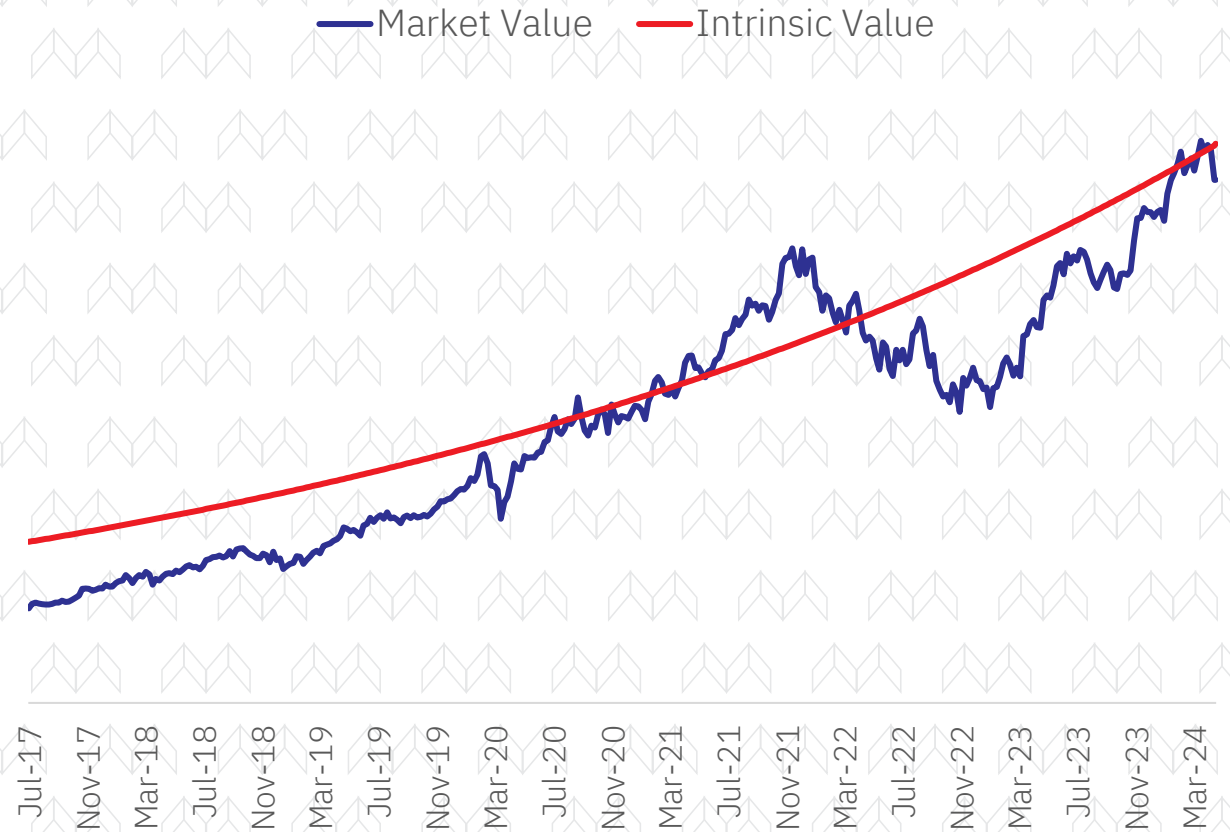
Source: Marcellus Investment Managers; Bloomberg LP: *Portfolio level numbers (ROIC) are average of portfolio constituents as of 31st May'24. EPS and FCFF/share CAGR for S&P are computed at index level. S&P 500 ROIC is simple average of the universe. EPS CAGR excludes DHR, ADDTB, AMZN, BRK/B. FCFF/share CAGR excludes DHR, ADDTB, FANG and BRK/B, excludes AMZN in 2021,22, ODFL in 2017 and CSU & AHT in 2023.

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.

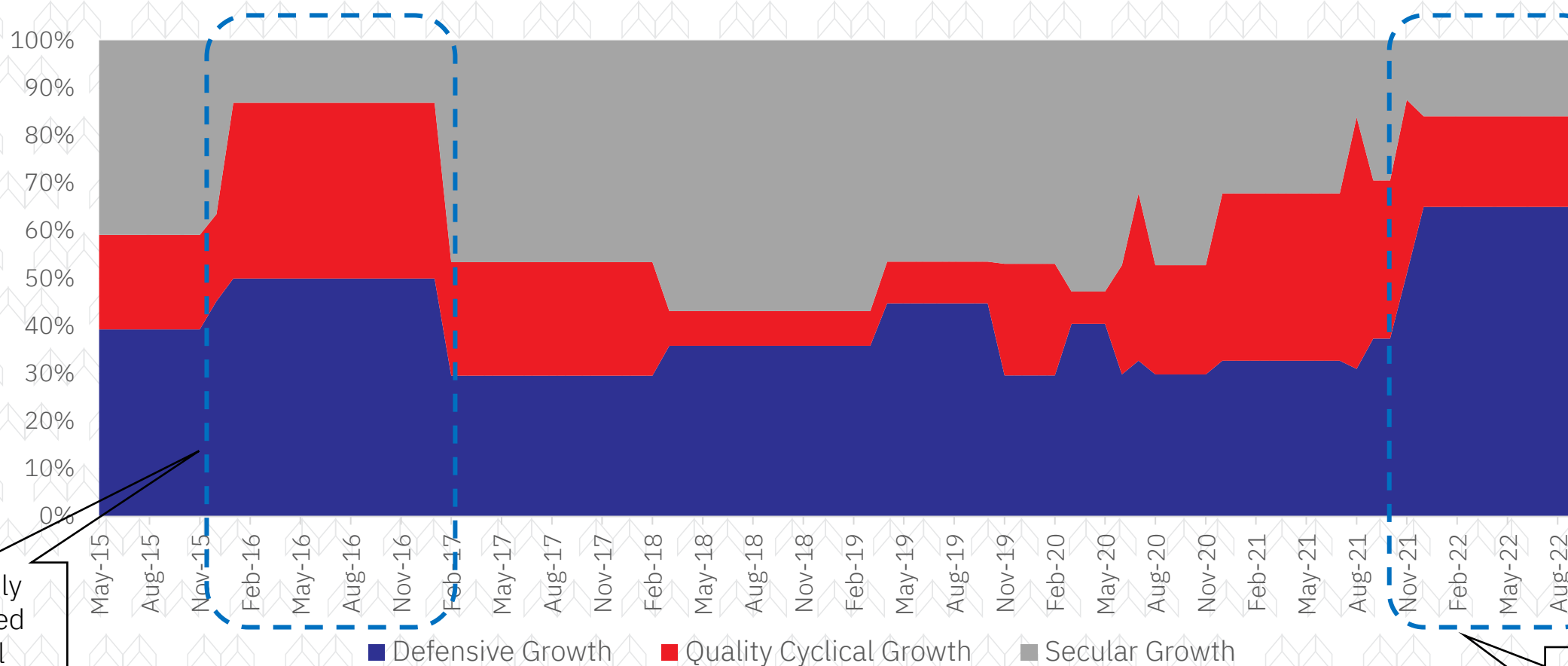


Source: Marcellus Investment Managers, Bloomberg LP

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

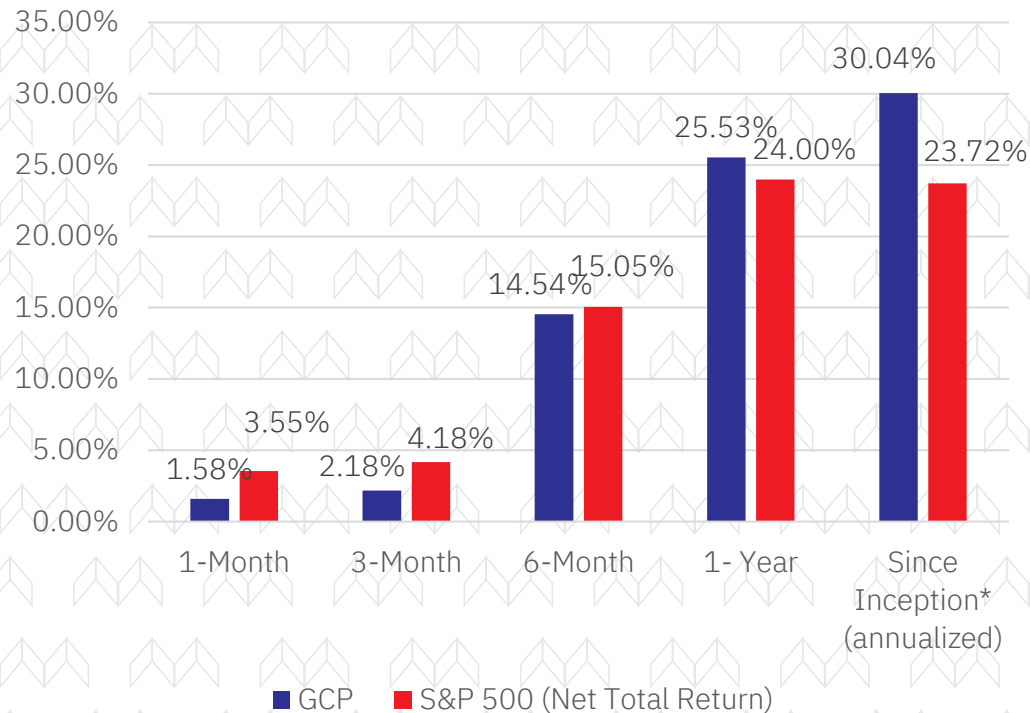
Extreme growth euphoria

Kristal GCP Portfolio (US Only) is a sister portfolio of Marcellus' GCP PMS

Marcellus GCP PMS - Live Performance

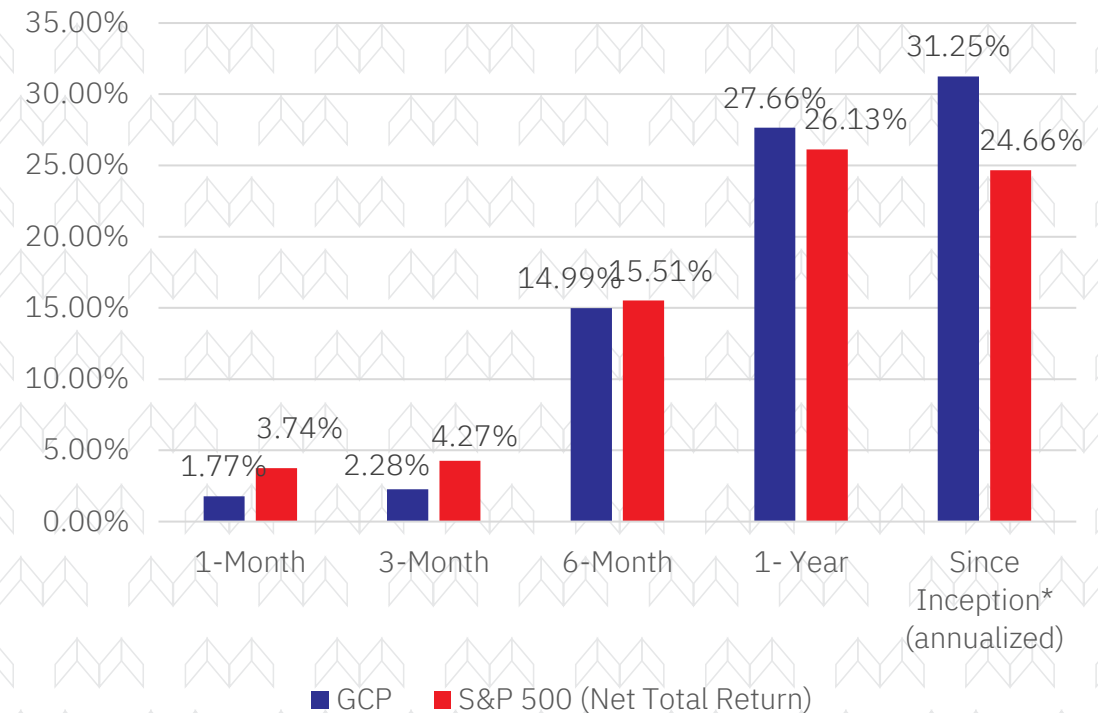


USD denominated returns



Source: Marcellus performance data is shown gross of taxes and net of fees & expenses charged till 30th June 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 30th June 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 31st Oct 2022. The inception date is 31st October 2022, being the next business day after the account got funded on 28th October 2022. S&P 500 net total return is calculated by considering both capital appreciation and dividend payouts.

CASE STUDY: HEICO [MKT CAP \$27 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.

NOTE: Heico is a part of the Marcellus’ GCP Portfolio thus our clients, employees and their immediate relatives may have interest in the said stocks.

Growth over years	Revenue Growth			Cash Flow (CFO) Growth		
	2003-13	2013-18	2013-23	2003-13	2013-18	2013-23
Boeing (BA)	5.5%	3.1%	-1.1%	7.7%	13.4%	-3.1%
Southwest (LUV)	11.5%	4.4%	4.0%	6.4%	14.6%	2.5%
Heico (HEI)	19.0%	12.0%	11.4%	16.8%	20.0%	13.0%

	2003-13	2013-18	2018-20	2020-22
Air Traffic Growth	6.0%	8.5%	-40.9%	42.1%

*2023 data not available yet

Results impacted from covid

CAGR	HEICO		
	2003-13	2013-18	2013-23
Revenue	19%	12%	11%
FCF	17%	20%	13%
EPS	22%	19%	14%
FCF on Tangible Capital	25%	36%	39%

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

Disclosures



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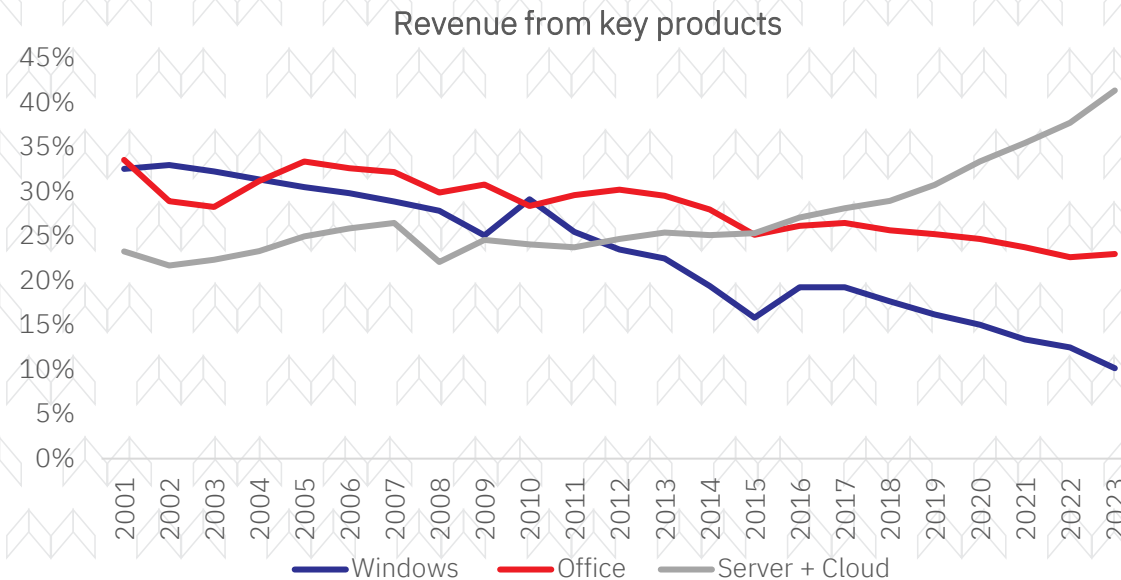
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CASE STUDY: MICROSOFT [MKT CAP \$3.5 TN]



- 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 thus our clients, employees and their immediate relatives may have interest in the said stocks.



CAGRs	1990-01	2001-14	2014-23
Revenue	32%	10%	10%
Op profit	36%	7%	14%
Op cashflow	42%	7%	12%
FCF	52%	6%	10%
FCF/share	48%	8%	12%

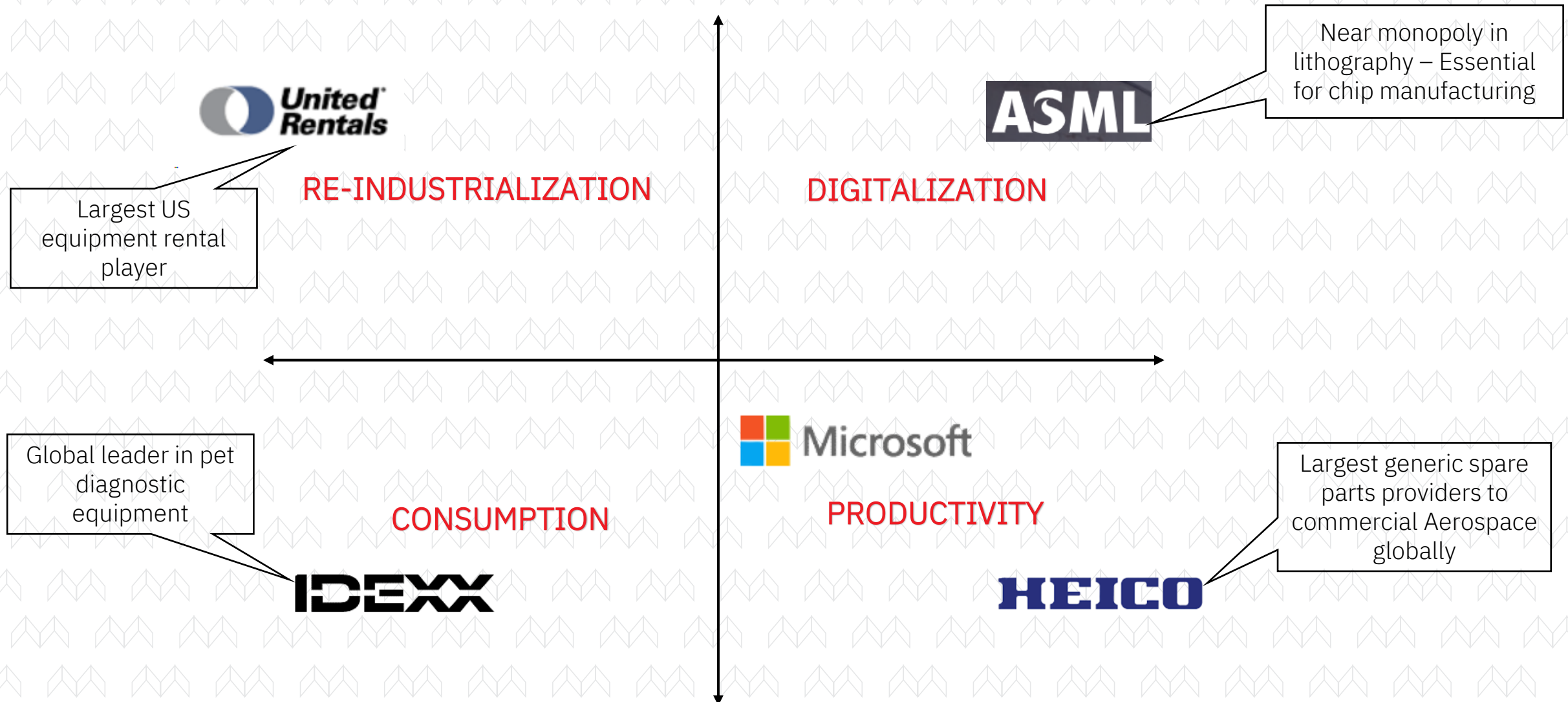
Source: Company Filings; Bloomberg LP; Company filings; FCF = Operating cash flow less Capex; Disclaimer: The mentioned security is for illustration/information purpose only and not recommendatory.



Appendix

GCP companies play on global megatrends

Digitalization, Productivity, Re-industrialization and Consumption



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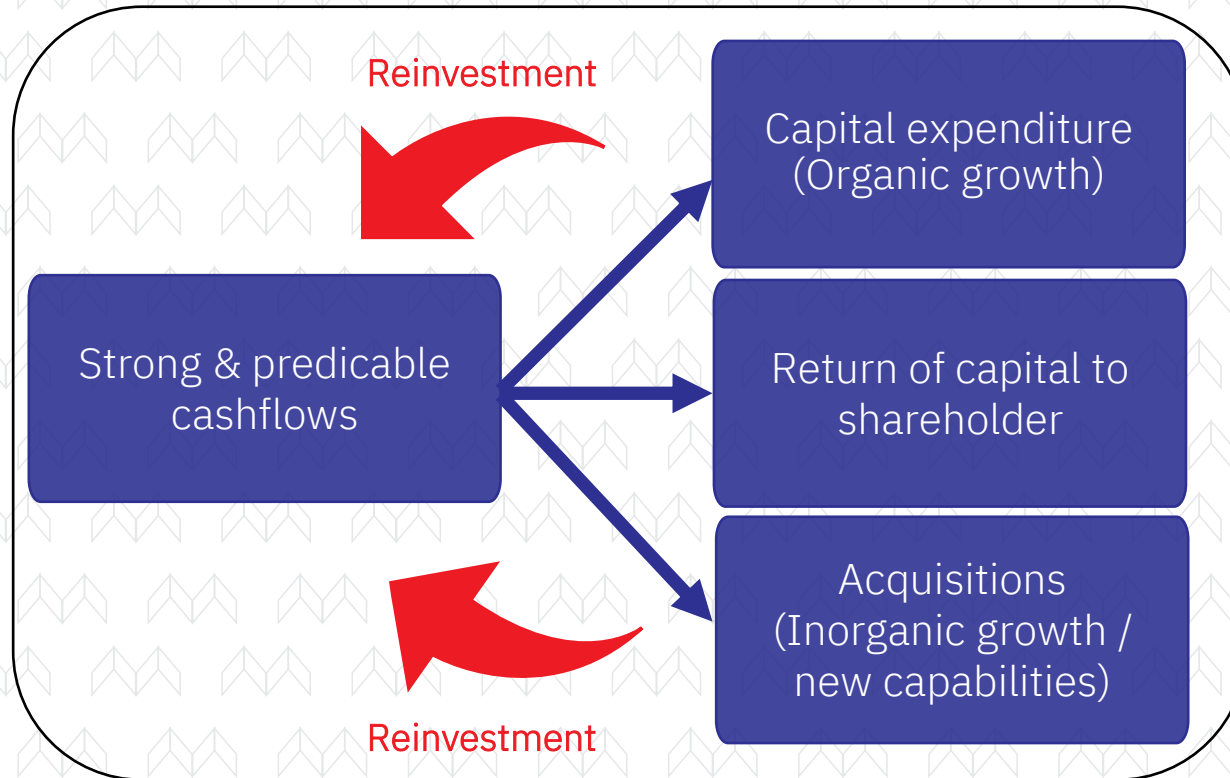
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High cash generation leads to virtuous cycle of wealth creation



GCP companies' long-term wealth creation engine through reinvestment and capital return

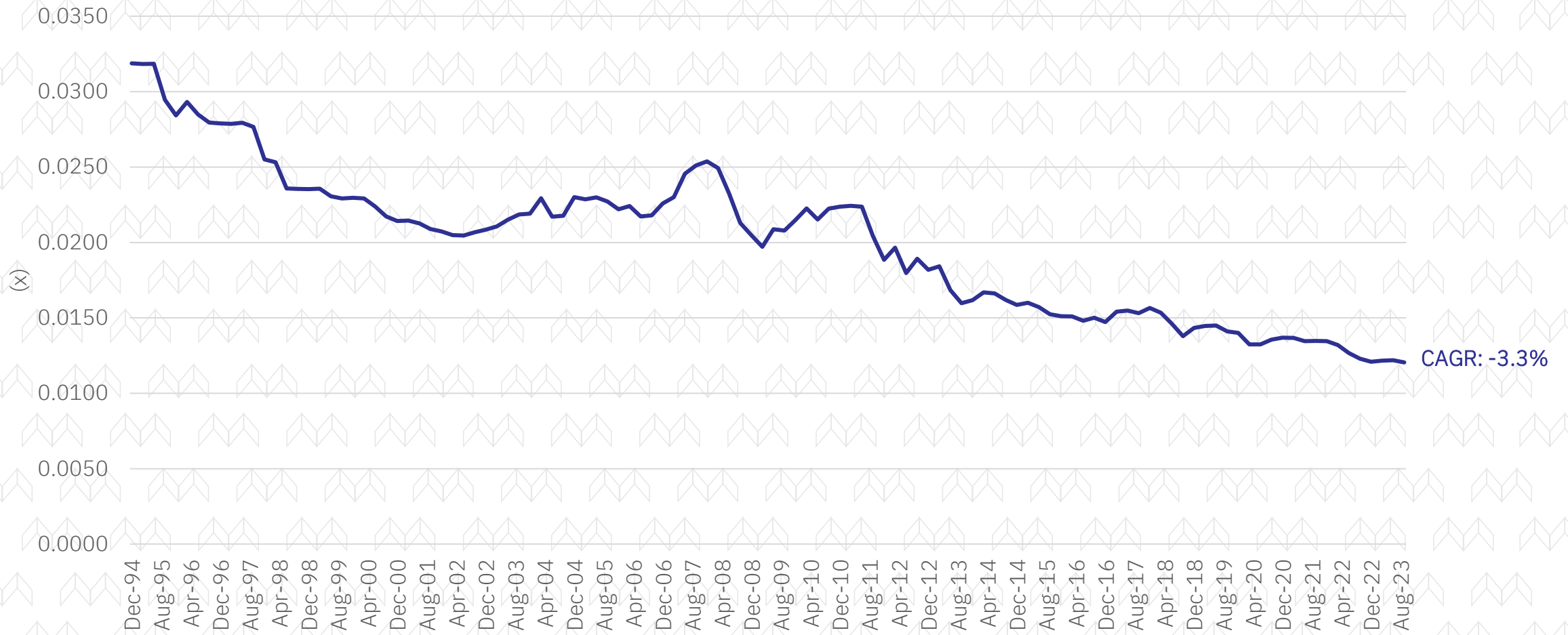
Shareholder wealth creation



- 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

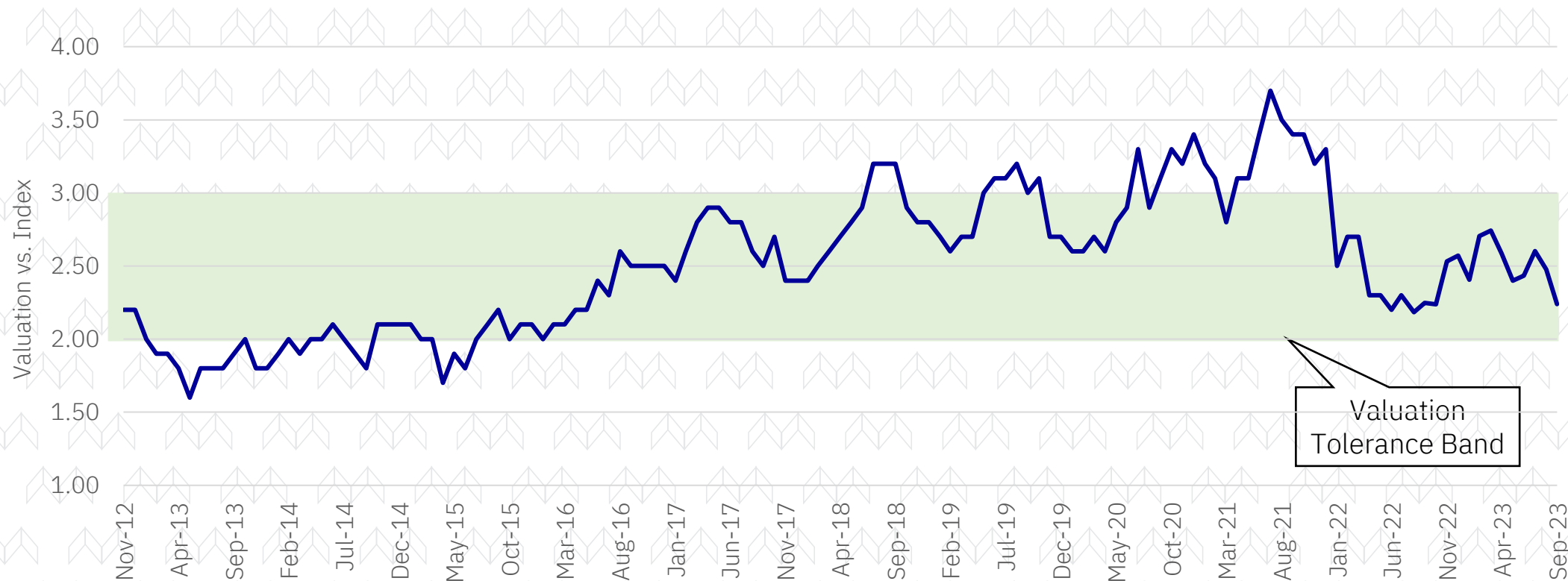
Asset Light + Predictable Cashflows + Efficient Capital Allocation = Maximum Value Creation

INR:USD exchange rate



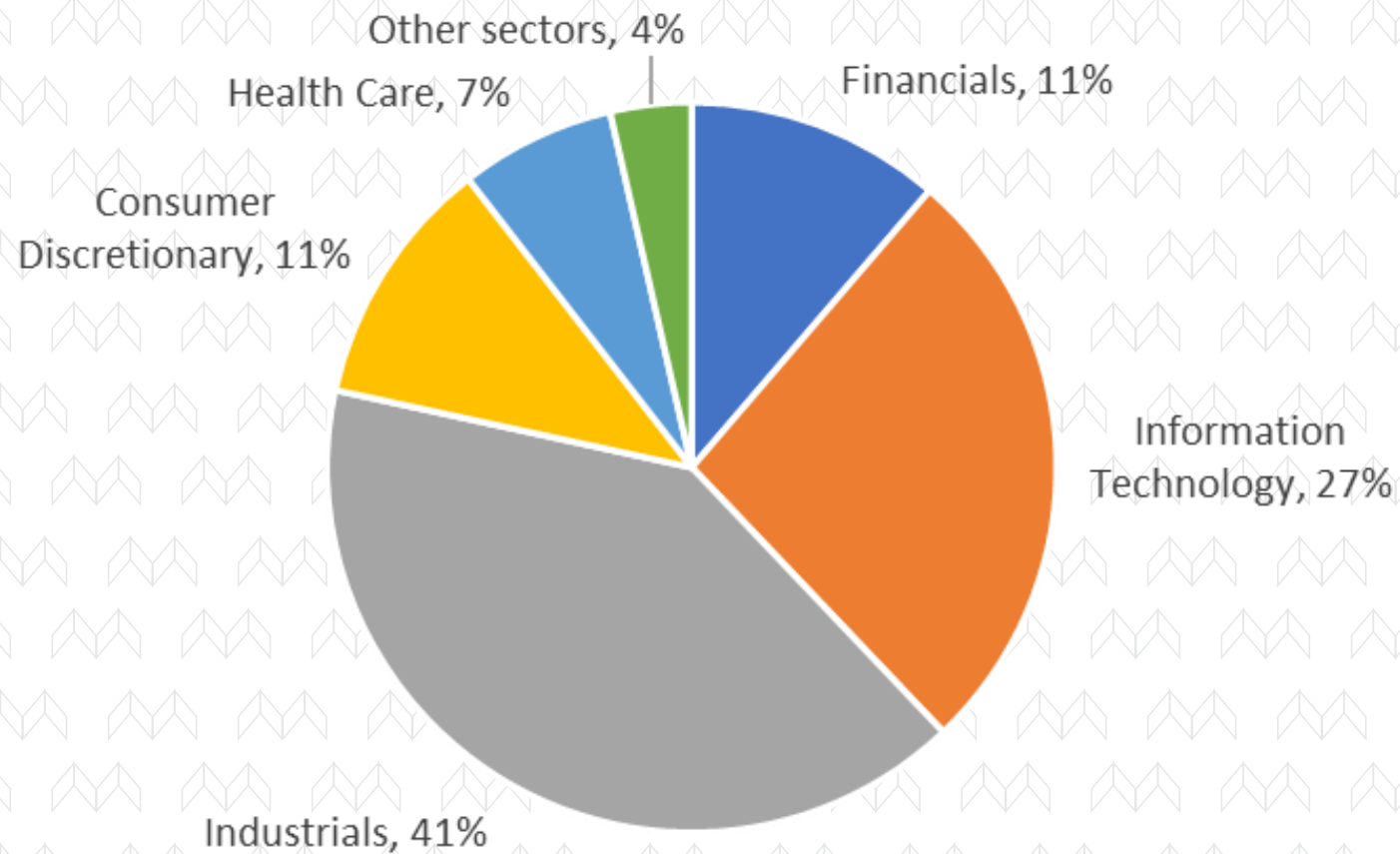
Source: Bloomberg LP

Valuation Framework



Source: Marcellus Investment Managers

GCP Kristal - Sectoral allocation



Source: Marcellus Investment Managers