

Global Compounders (GCP)

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

Contact : Invest@marcellus.in

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

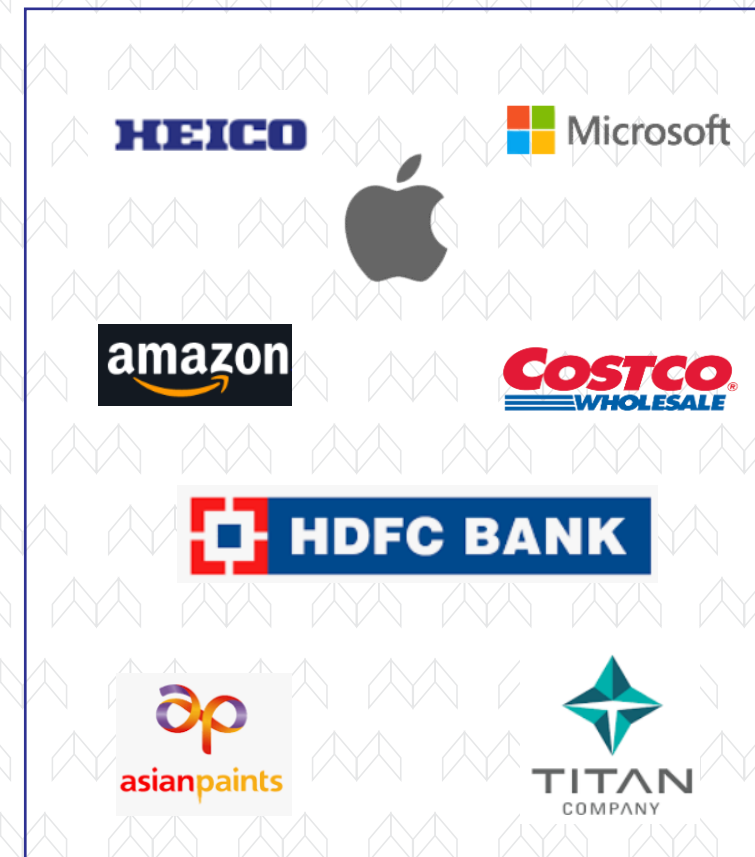


Google Cloud



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

| 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

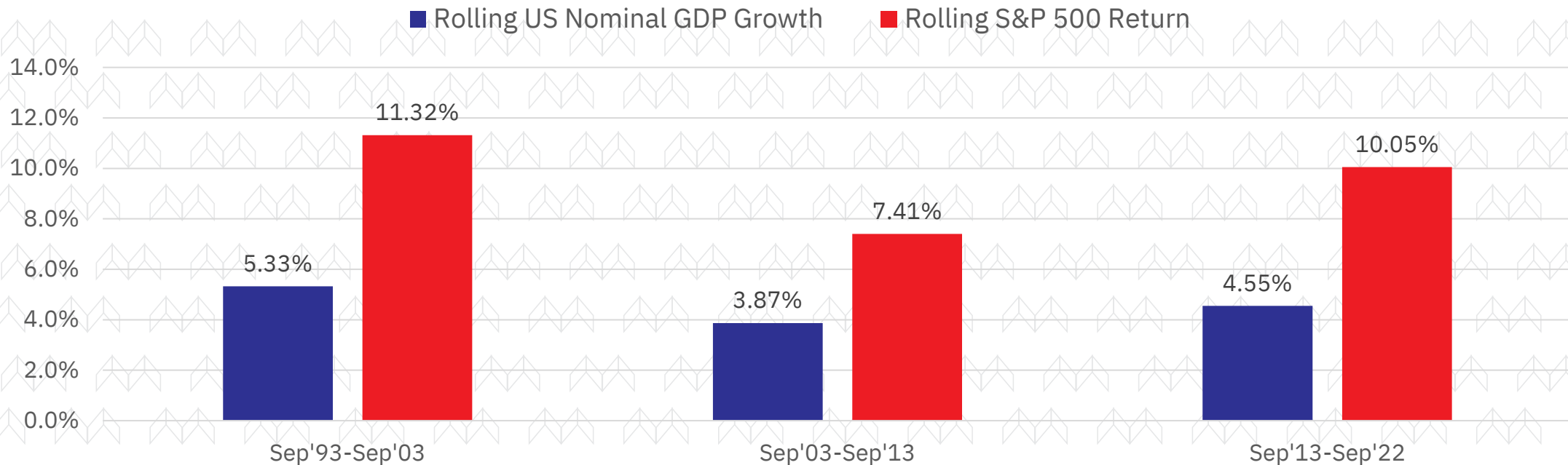
Note: 20-Year and 10-Year TSR in USD terms calculated period ending Feb'2024, *Europe 30-Year return calculated from 1st Jan 1999 when Euro was adopted; ^Brazil 30-Year return calculated from 1st July 1994 when Real was adopted;

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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 Buffet

“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

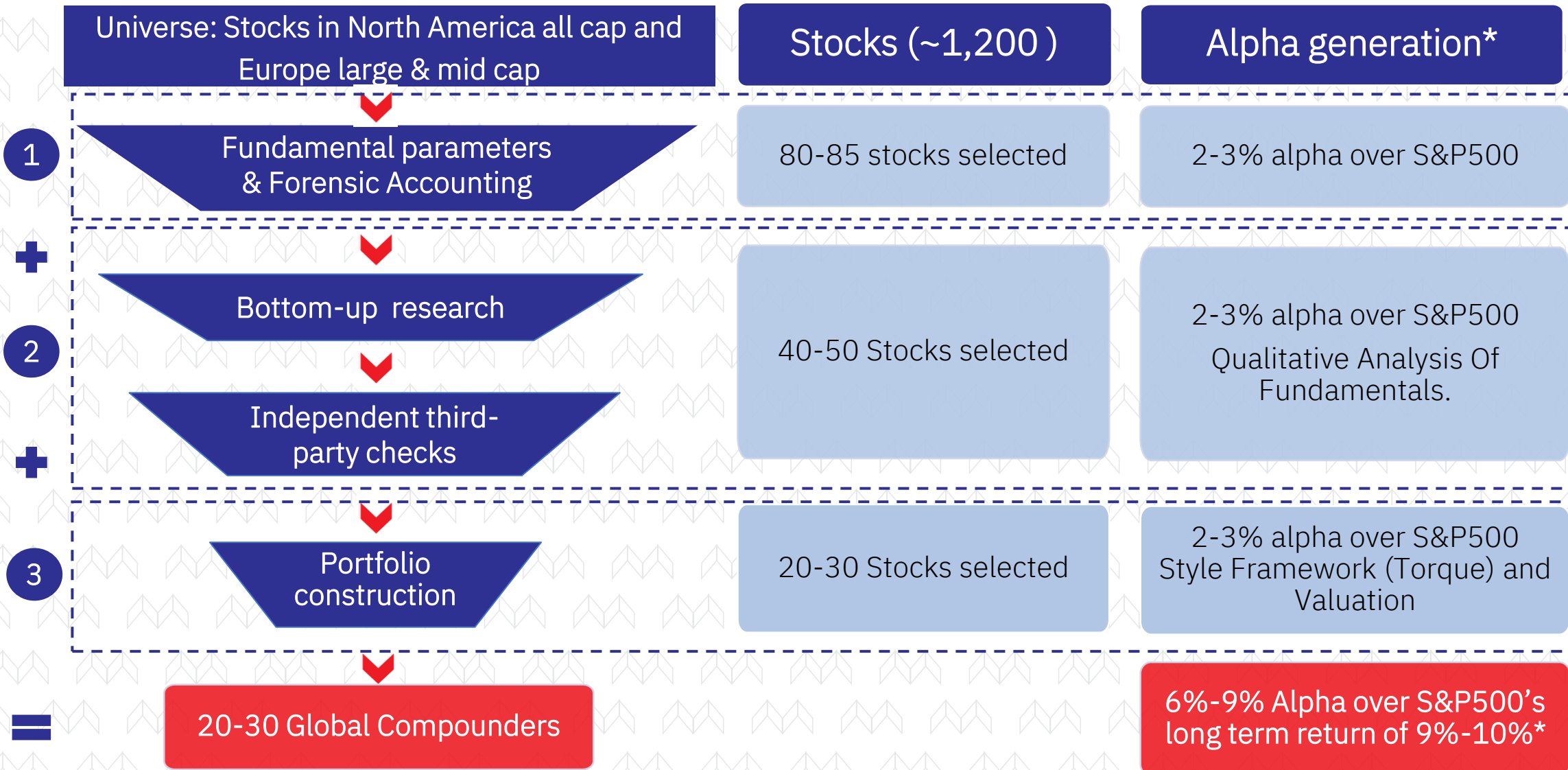
- Principal and Head of Research, Public Markets at Premji Invest
- Investment Analyst at CLSA, Noble Group and Clear Capital
- Post-graduate Diploma in Management from the IIM Bangalore



*GCP has a dedicated research team of 5 members

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Simple Yet Effective Investment Process



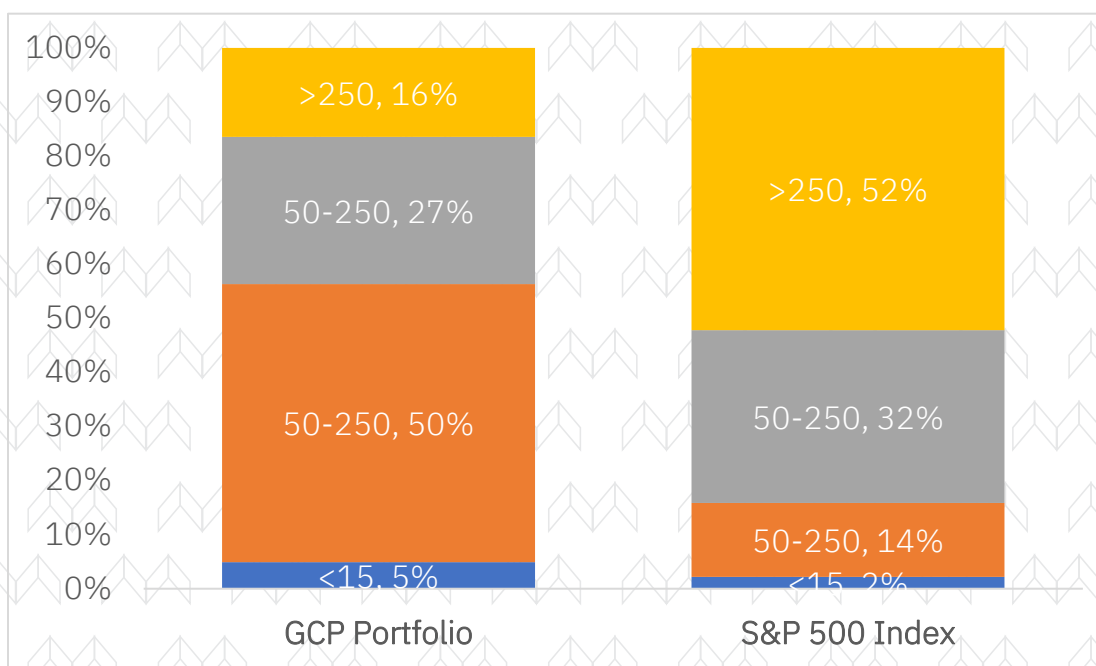
Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval with the reasons for such inclusion; Any forward-looking statements contained in this document 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 31st May 2015 to 30th 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

Allocation by market capitalization (USD bn)



Source: Bureau of Labor Statistics

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

- 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

- **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 | 20% | 21% | 21% | 20% | 21% | 20% | 20% | 20% |
| 5-year FCFF/share CAGR | 18% | 21% | 21% | 26% | 22% | 16% | 15% | 20% |
| 5-year EPS CAGR | 16% | 19% | 19% | 17% | 18% | 18% | 15% | 17% |
| 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% |

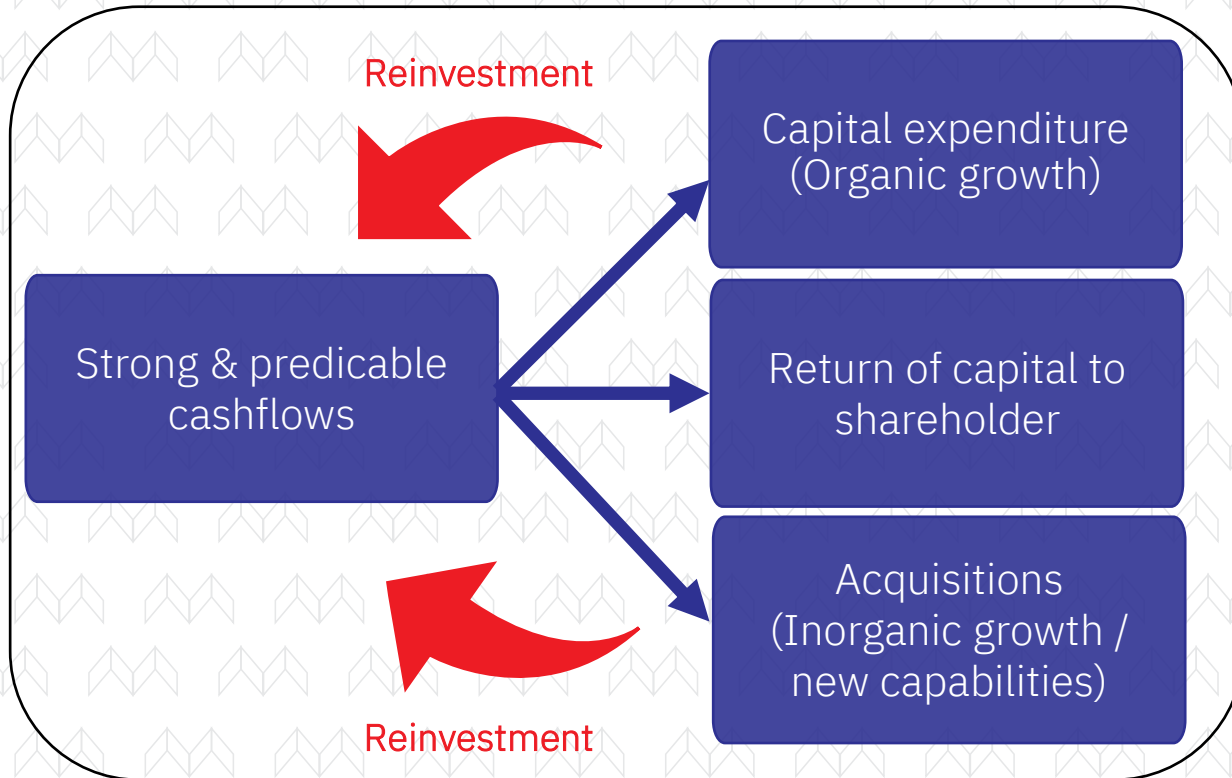
Source: Marcellus Investment Managers; Bloomberg LP: *Portfolio level numbers (ROIC) are average of portfolio constituents as of 29th February'24. EPS and FCFF/share CAGR for S&P are computed at index level. S&P 500 ROIC is simple average of the universe. EPS CAGR excludes DHR, ADDTB, AMZN, BRK/B and CSU in 2023. FCFF/share CAGR excludes DHR, ADDTB, and BRK/B, excludes AMZN in 2021,22, ODFL in 2017 and CSU & AHT in 2023.

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 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



R&D Strength

Operational Excellence

Capital Allocation

Pick and shovel companies provide essential tools and services for specific industries – insulated from market share vagaries

Pick & Shovel



Modern utilities are unregulated essential services with a sticky user base, high pricing power and recurring revenues

Utility



Consumption themes focused at the premium end, benefiting from a rising share of wealthy households

Consumption



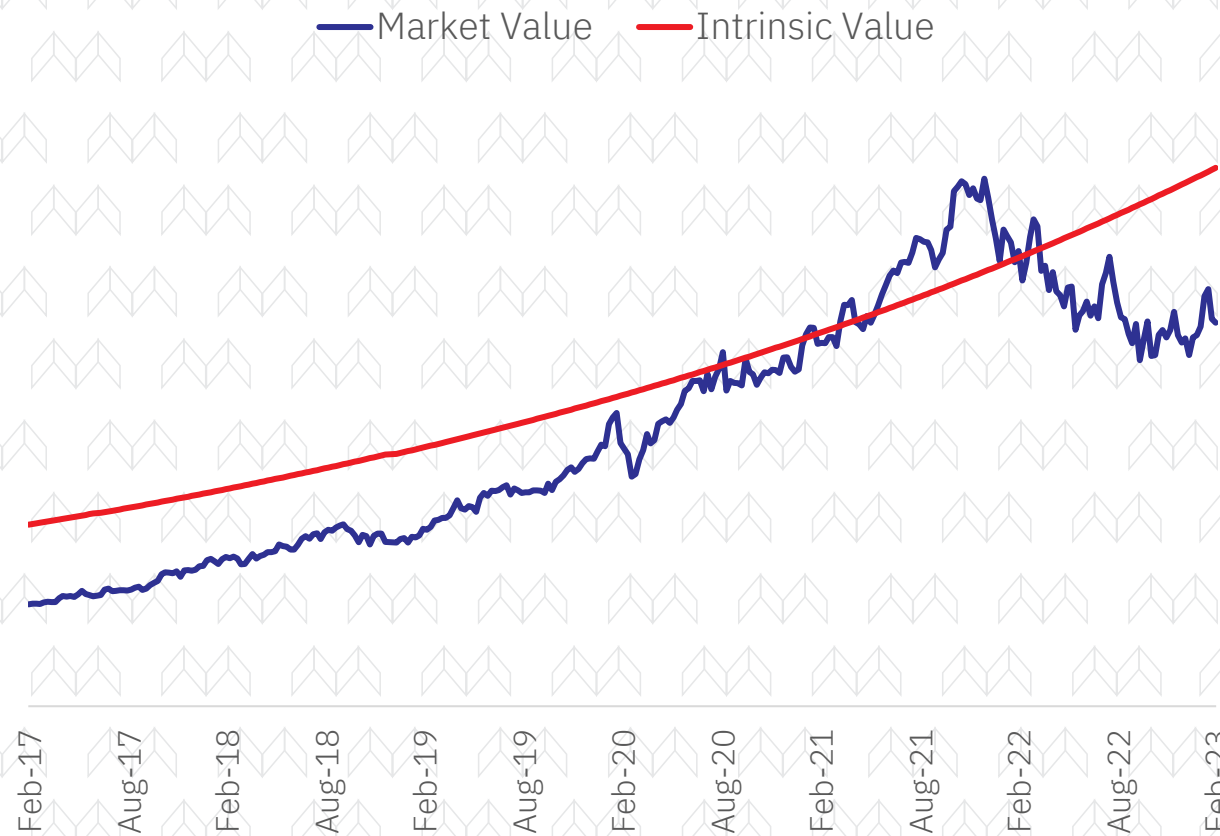
Source: Marcellus Investment Managers, Company website

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.

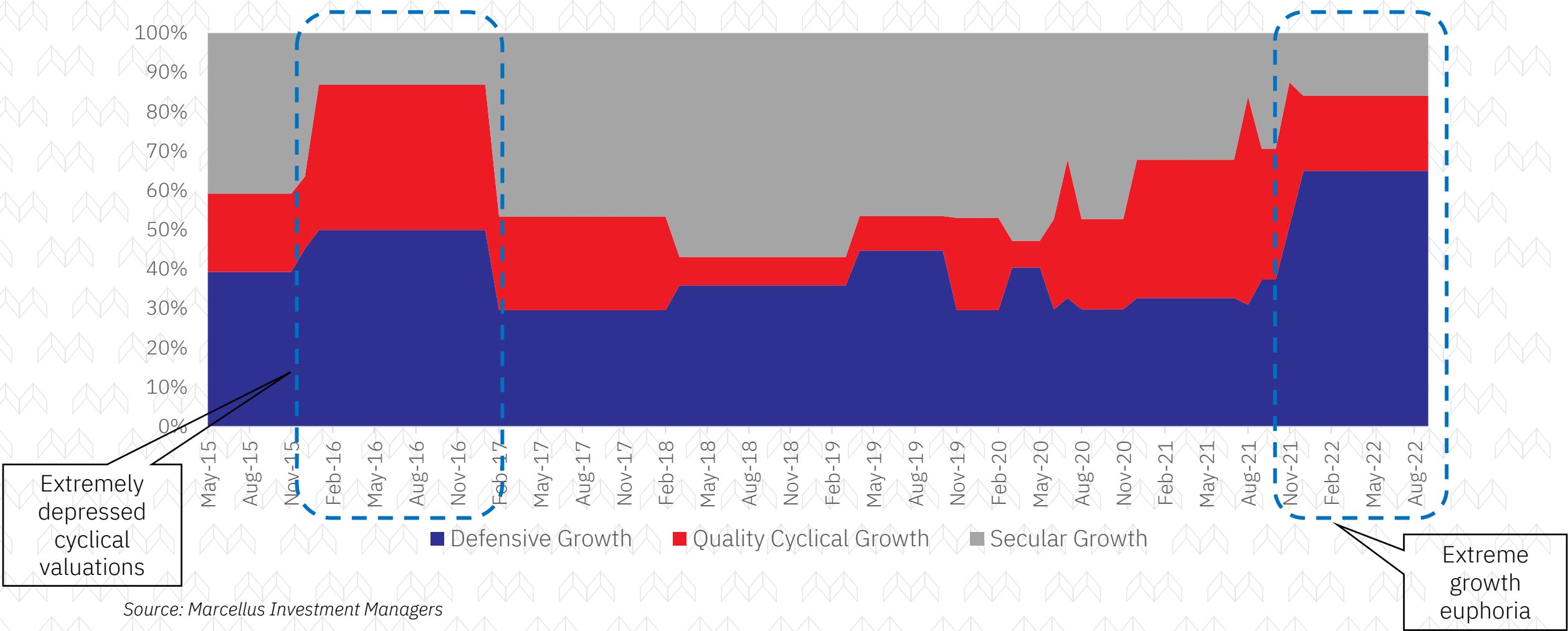


Source: Marcellus Investment Managers, Bloomberg LP

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.)



Source: Marcellus Investment Managers

Portfolio strategy back-test performance*

| | Annual Returns | | | | | | | YTD Sep-22 | Avg. Return | Avg. Stdev. |
|---|----------------|-------|--------|-------|-------|-------|-------------------|------------|-------------|-------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 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%

Note: *Data presented is based on back-test results from 31st May 2015 to 30th Sep 2022. The results are gross of transaction cost, tax and brokerage expenses
Source: Marcellus Investment Managers, Bloomberg LP

CASE STUDY: HEICO [MKT CAP \$23 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% |

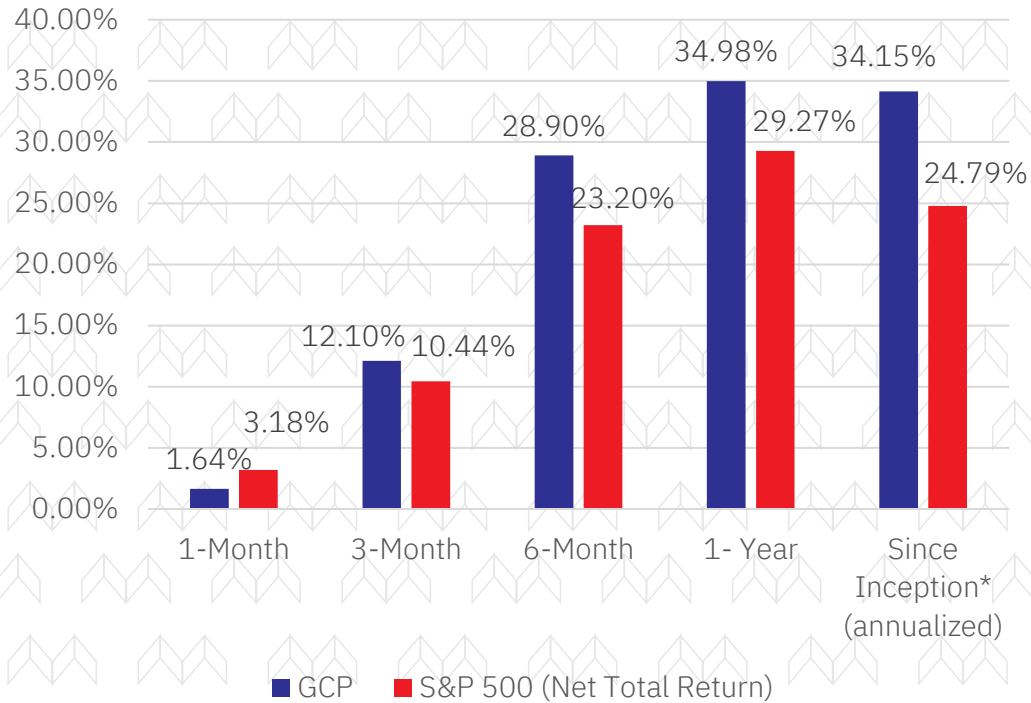
NOTE: Heico is a part of the Marcellus’ GCP Portfolio

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.

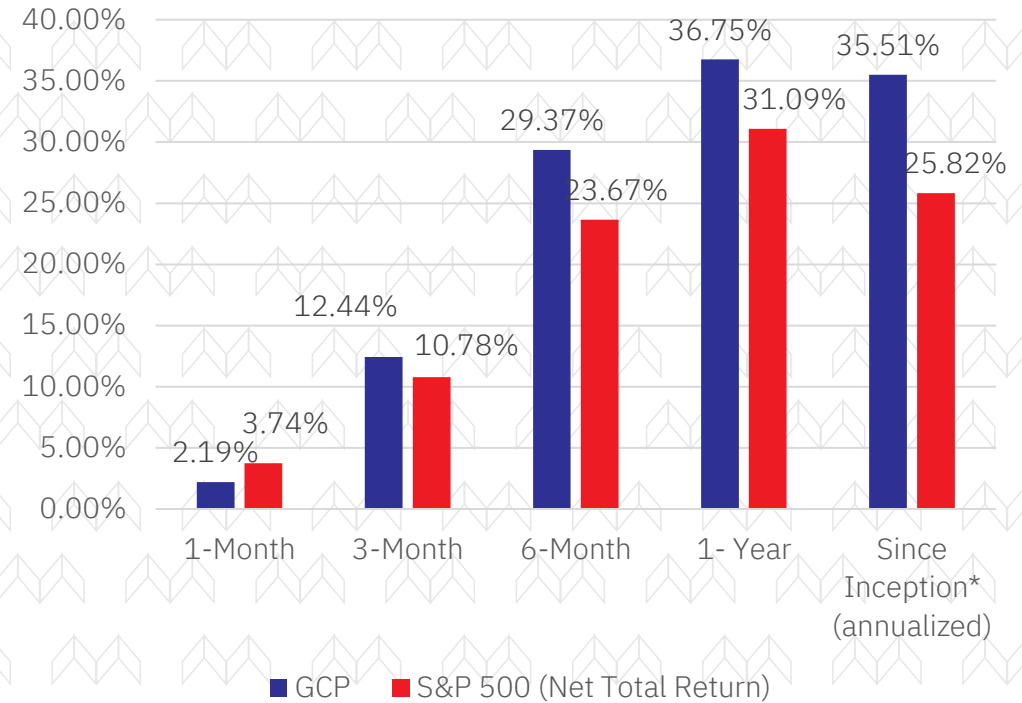
Marcellus's GCP live performance



USD denominated returns



INR denominated returns



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

Source: Marcellus performance data is shown gross of taxes and net of fees & expenses charged till 31st March 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.

Key Information - Structure



- Investment Manager- Marcellus Investment Managers private Limited - 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 and minimum ticket size through GIFT City is USD 1,50,000 for Non-Accredited Investor.**
- 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 (1.5% 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 (0.75% 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



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Appendix

GCP companies play on global megatrends

Digitalization, Productivity, Re-industrialization and Consumption



RE-INDUSTRIALIZATION



Near monopoly in lithography – Essential for chip manufacturing

DIGITALIZATION

INTUITIVE

Near monopoly in robotic surgery

Iconic and coveted global luxury brand



CONSUMPTION



PRODUCTIVITY

Largest generic spare parts providers to commercial Aerospace globally



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

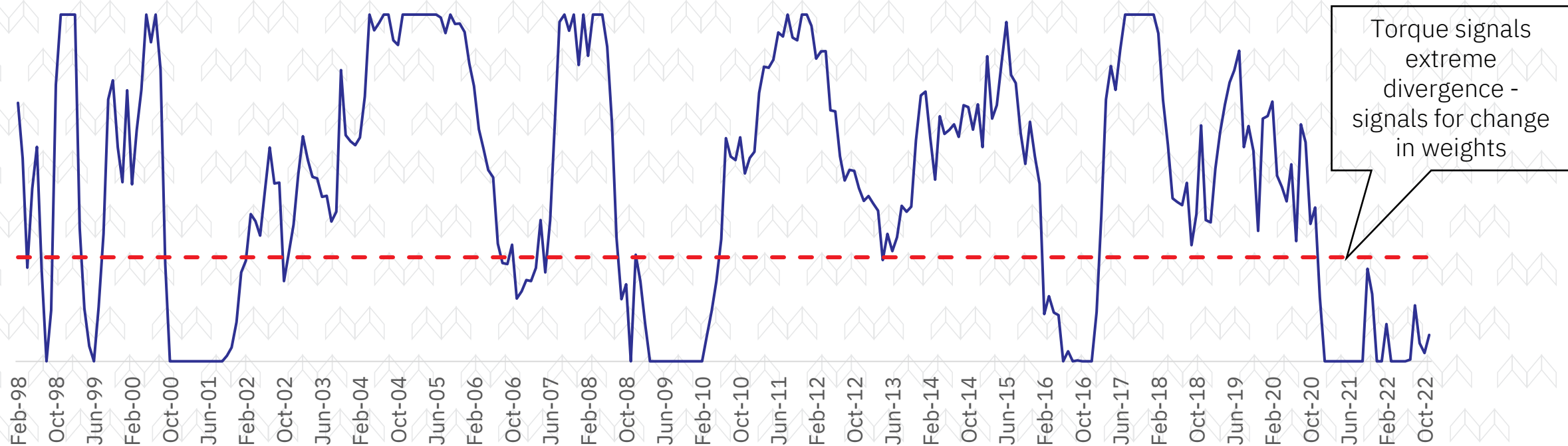
Financial Engineering / Leverage

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”

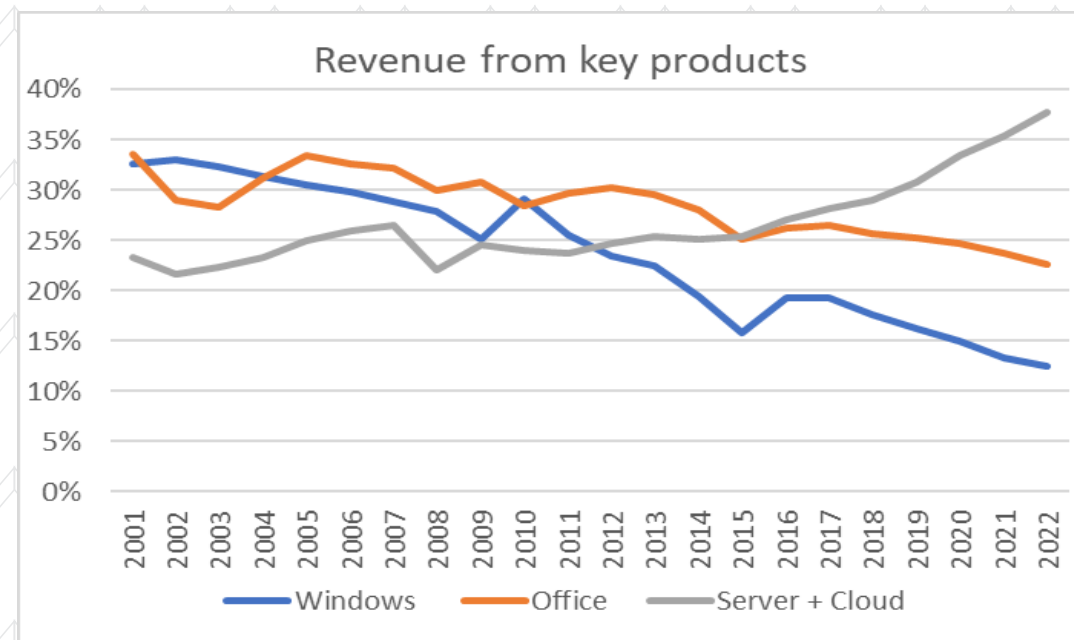
Top 13 stocks constitute ~75% of the portfolio. Remaining positions provide cushion for extreme systematic risks through TORQUE

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.

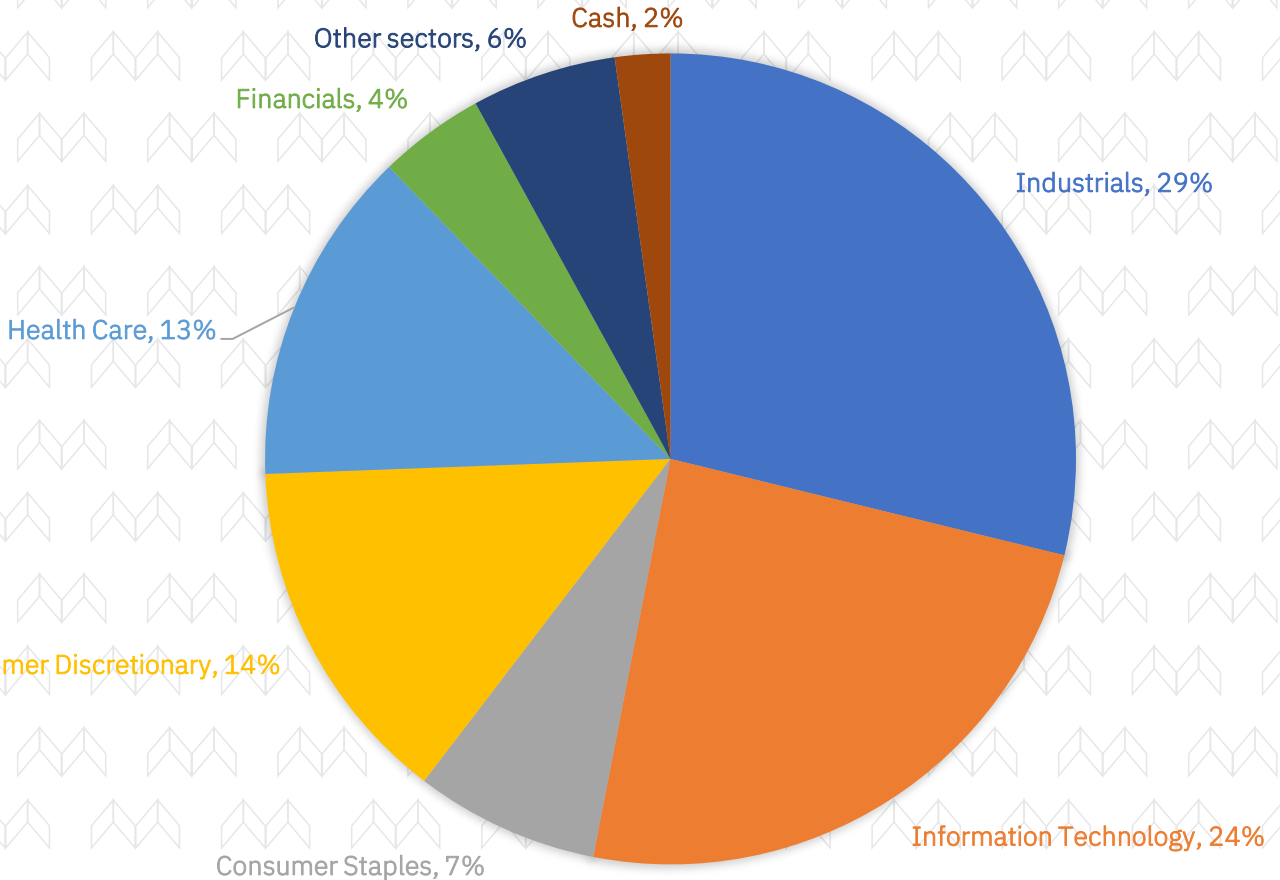
NOTE: Microsoft is a part of Marcellus' GCP portfolio



| | 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



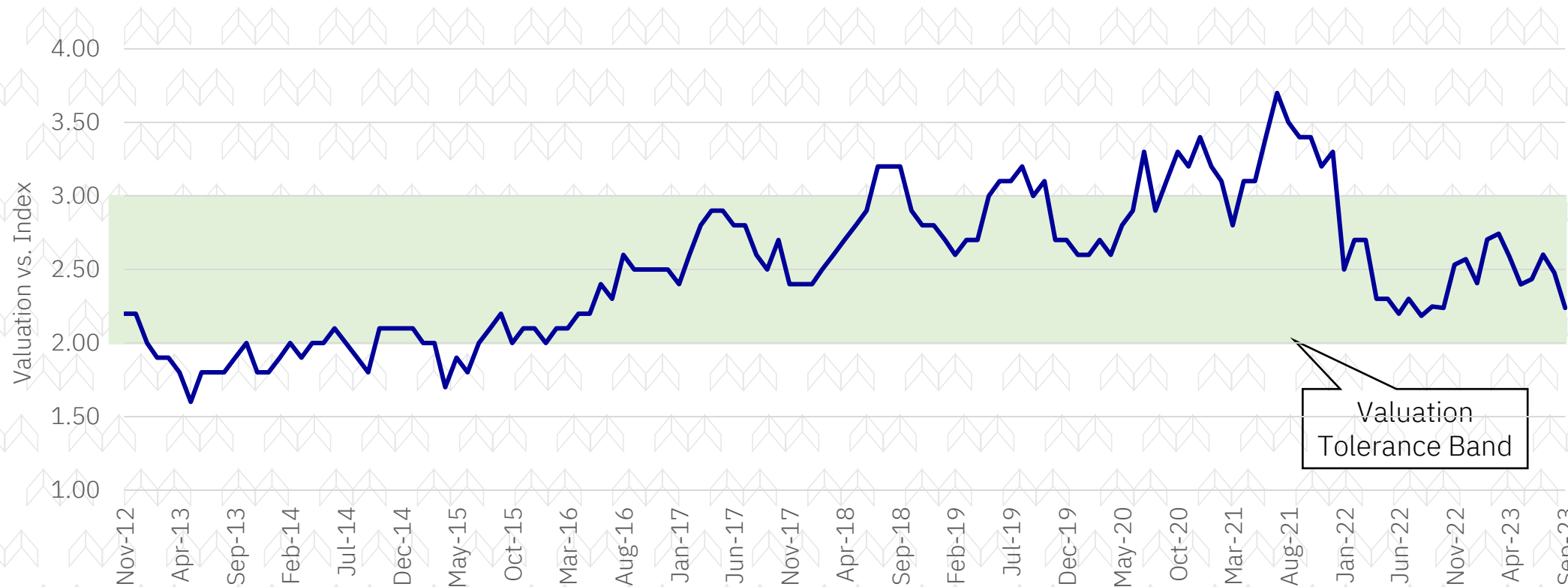
Source: Marcellus Investment Managers

INR:USD exchange rate



Source: Bloomberg LP

Valuation Framework



Source: Marcellus Investment Managers