

Marcellus MeritorQ

July, 2024



This circulation is NOT intended for US Clients

Some timeless principles for successful investing



Buy Good Companies

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

At prices below intrinsic value

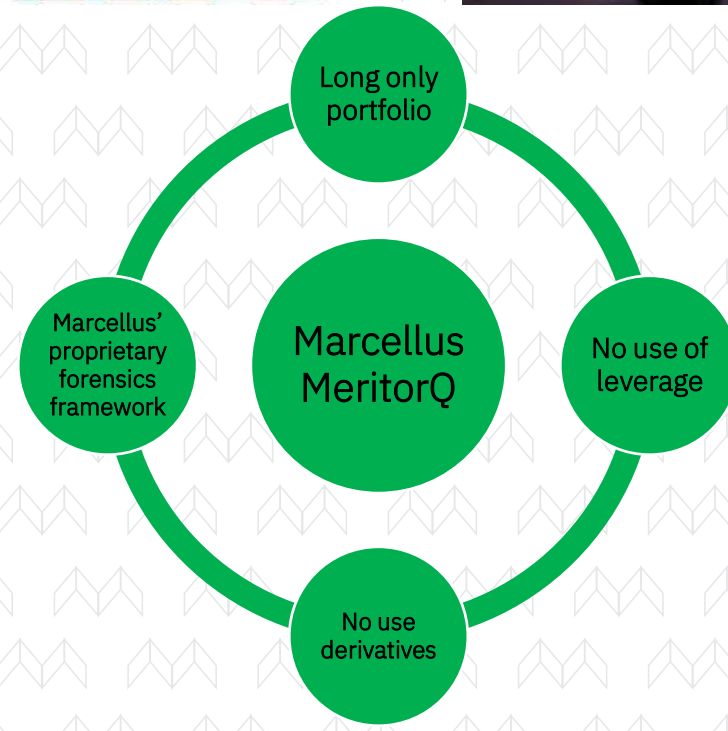
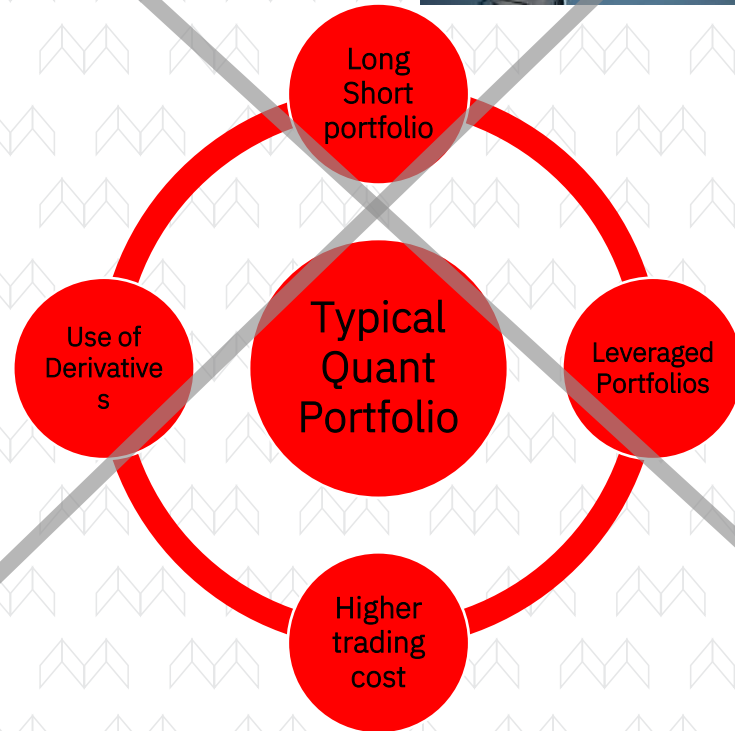
- *Discount to intrinsic value compared to rest of the market*
- *Intrinsic value based on free cash flow*

Mitigate human biases

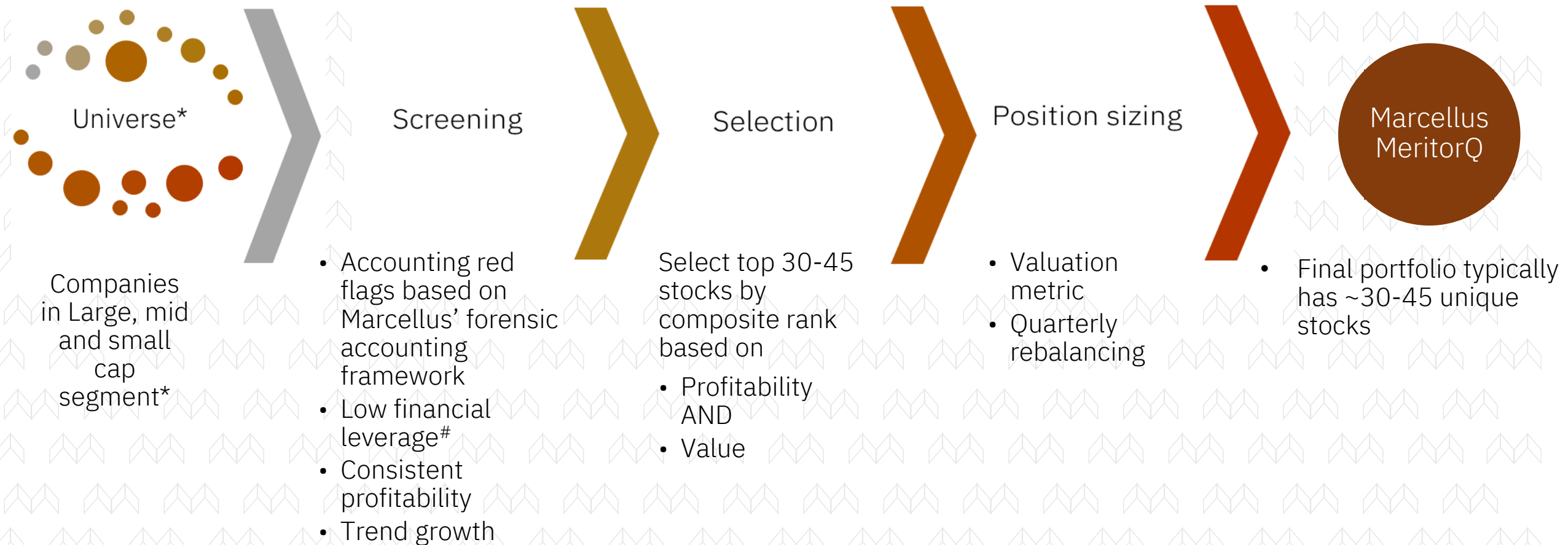
- *Avoid behavioural biases*
- *Process over discretion**

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

MeritorQ sticks to good investing principles



Our investment process combines Marcellus' forensic framework with a rules-based approach



Source: Marcellus Investment Managers.

*Life insurance companies not considered

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

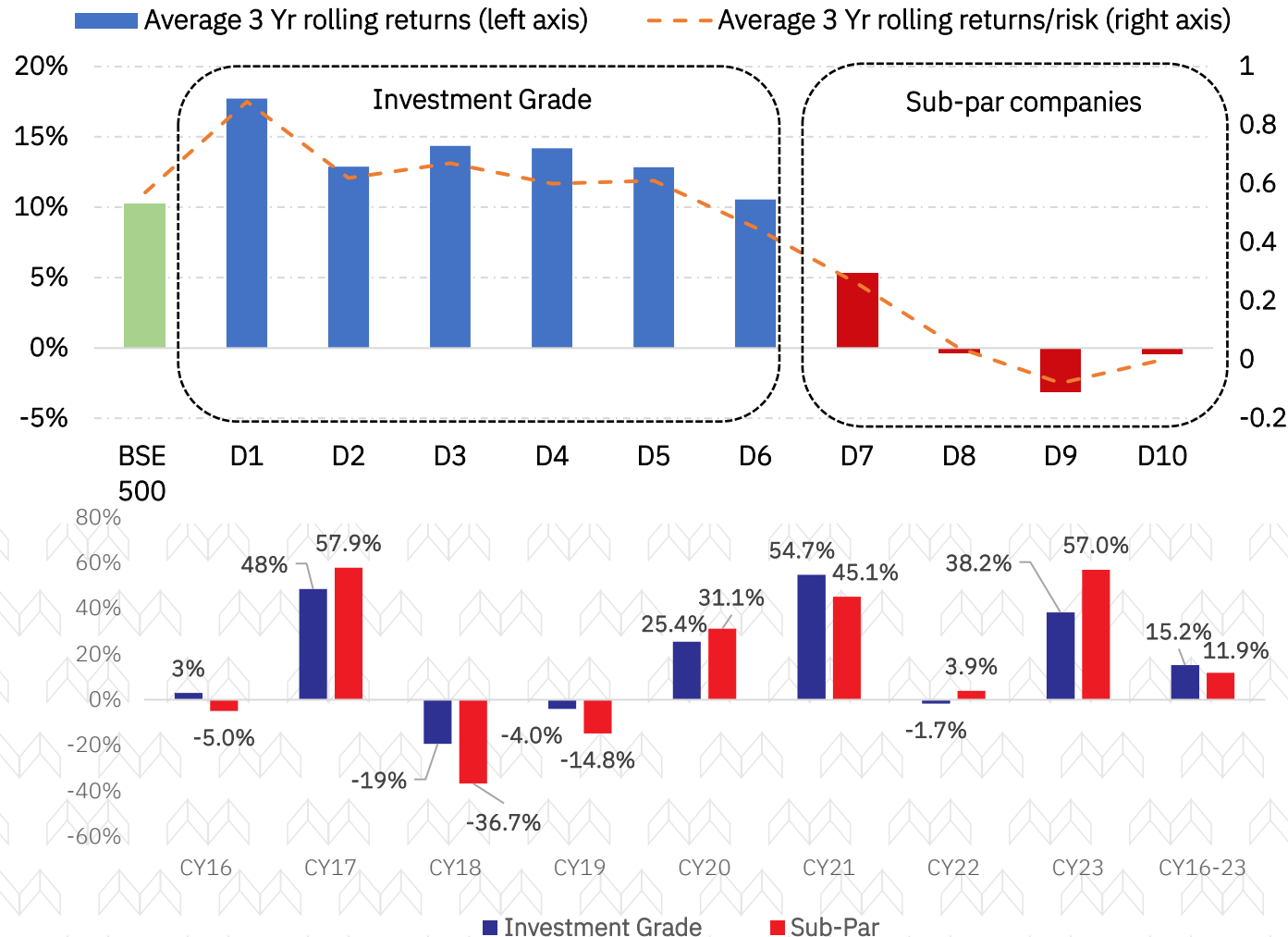


Private and Confidential – FOR INTENDED RECIPIENT ONLY.

Forensic screen is the first screening step followed by profit consistency



Accounting quality directly impacts investment returns



Some sample ratios considered for non-financial companies

Income statement checks

- CFO as % of EBITDA: To check aggressive revenue and earning recognition

Balance sheet checks

- Contingent liabilities as a % of net worth (for the latest available year): Indicative of the extent of off-balance sheet risks

Cash theft checks

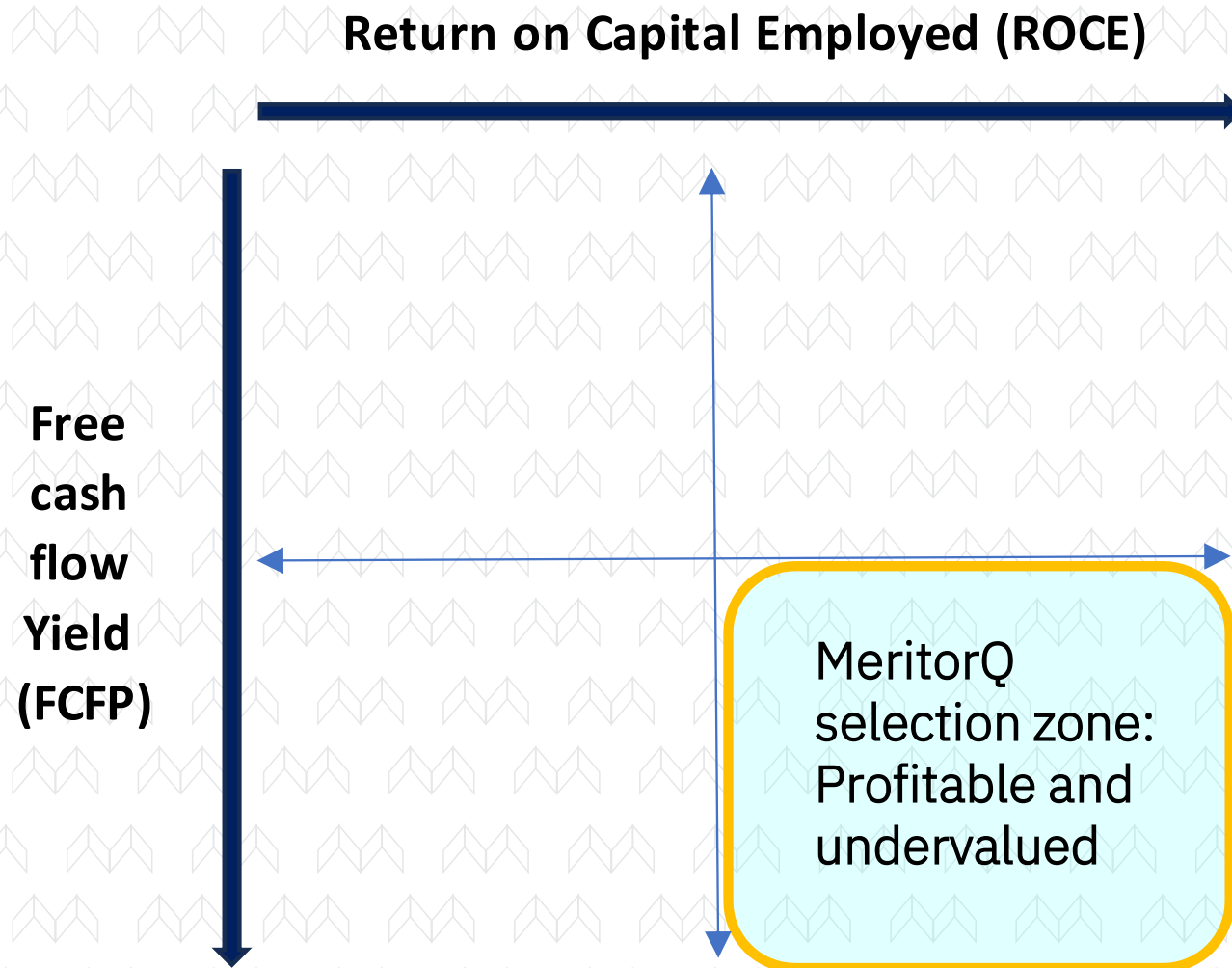
- CWIP to gross block: A high number would indicate unsubstantiated capex

Auditor checks

- Growth in auditors' remuneration to growth in revenues: Faster growth in auditors' remuneration vs company's operations raises concerns surrounding auditors' objectivity

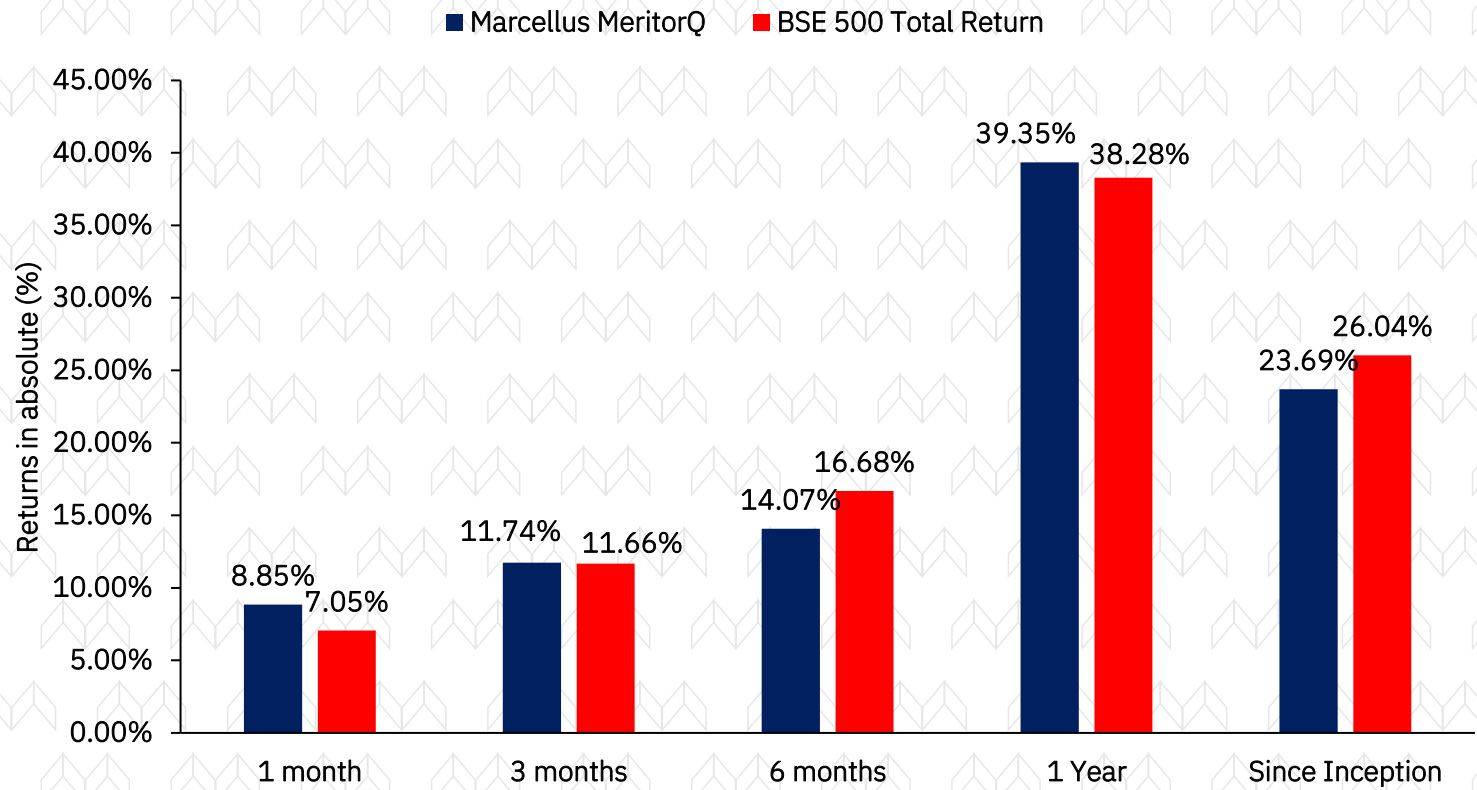
Source: Ace Equity, Bloomberg. Analysis period : July 2006 to September 2022; Decile portfolio are formed from BSE 500 universe in September every year over the analysis period and equal weighted.

Post-screening, we move to the “selection step”



Source: Marcellus Investment Managers; For financials Return on Equity (ROE) and Book Yield (BP) is considered.

MeritorQ PMS Live performance vs. BSE 500 total return index (till 30th June 2024)*



Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is November 15, 2022. (ii) Returns as of June 30, 2024. (iii) Performance data is net of fixed fees and expenses charged on a quarterly basis, the effect of the same has been incorporated up to June 31, 2024. Performance data is not verified either by Securities and Exchange Board of India or U.S. Securities and Exchange Commission. (iv) Total returns index considered for BSE500 above.

*For relative performance of particular Investment Approach to other Portfolio Managers within the selected strategy, please refer this [link](#). Under PMS Provider Name please select Marcellus Investment Managers Private Limited & select your Investment Approach Name for viewing the stated disclosure.



Sector and Size distribution: We are underweight smidcaps



Sector Allocation	MeritorQ	BSE 500 Equal Wtd [^]
IT	14%	5%
Consumer Discretionary	16%	14%
Materials	11%	18%
Health Care	15%	9%
Industrials	17%	18%
Consumer Staples	12%	7%
Financials	15%	18%
Utilities	0%	4%
Comm. Svcs	0%	3%
Energy	0%	2%
Real Estate	0%	2%

Size Allocation	MeritorQ	BSE 500 Equal Wtd [^]
Large cap	42%	20%
Mid cap	18%	30%
Small cap	40%	50%

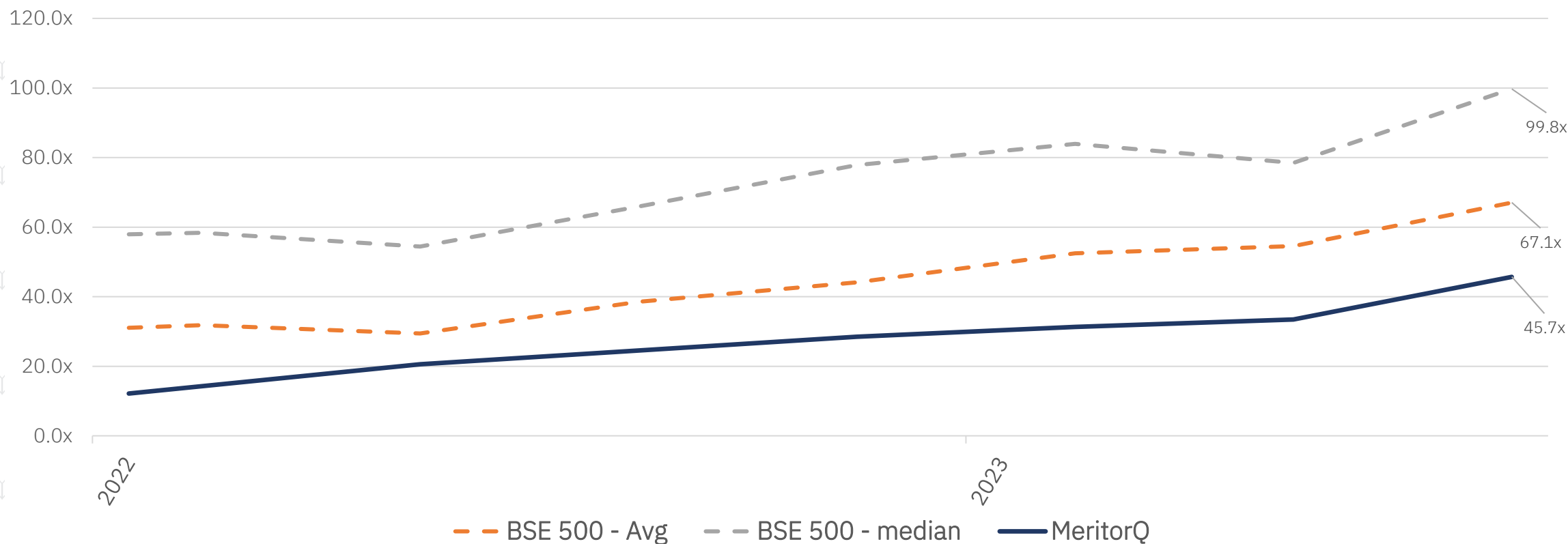
Source: Bloomberg, Ace Equity; BSE 500 constituents as of 20th December, 2023 have been considered for showing BSE 500 Equal weighted allocations. Large, mid and small cap categorization of stocks within BSE 500 is based on membership of BSE 100, BSE 150 mid cap and BSE 250 small cap index respectively.

MeritorQ is consistently cheaper than the benchmark...



Despite screening checks for quality and selecting stocks with higher profitability, MeritorQ is consistently cheaper than benchmark

Free Cash flow yield comparison MeritorQ vs BSE 500



Source: Ace Equity, Marcellus Investment Managers; Price to FCF is calculated as Mkt cap/3- year average free cash flow to firm value; average calculated on MeritorQ and BSE 500 constituents quarterly *MeritorQ portfolio constituents are considered from launch date of Nov-2022 to June-2024; only non-lending companies in BSE500 and MeritorQ are considered.



Private and Confidential – FOR INTENDED RECIPIENT ONLY.

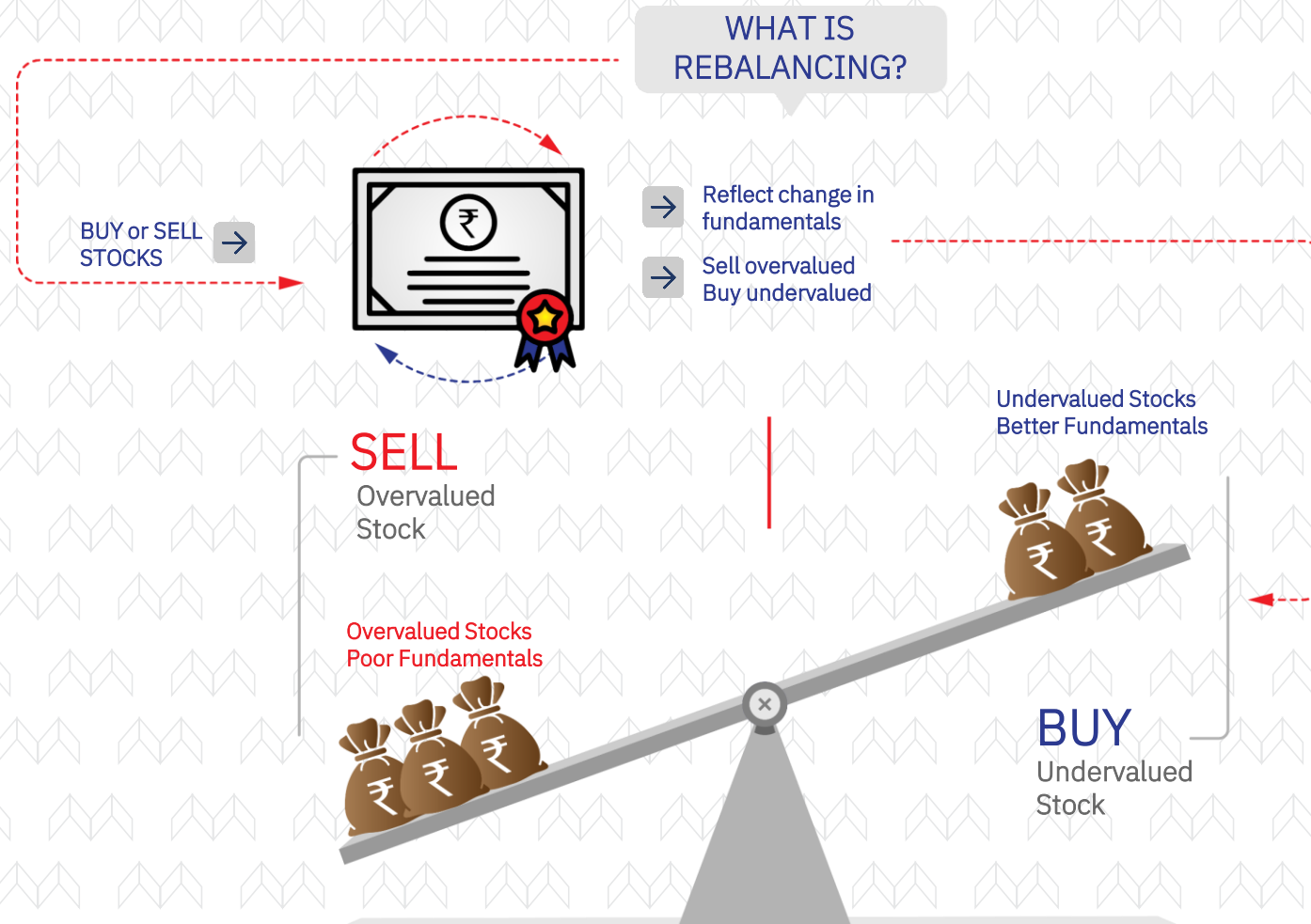
...and yet has significantly stronger fundamentals



Metrics	MeritorQ	BSE 500 Equal Weighted^
Number of stocks	34	500
Allocation to top 5	35%	1%
Allocation to top 10	54%	2%
ROCE*	30%	21%
ROE	20%	17.5%
Price/Earnings	34.5x	36.4x
P/FCF*	45.5x	66.7x
Dividend Yield	1.1%	0.8%

Source: Bloomberg, Ace Equity; * - data considered only for non-financials; Portfolio Stats are calculated on weighted averages of corresponding metrics for portfolio stocks. ^BSE 500 constituents considered as of 20th June, 2024

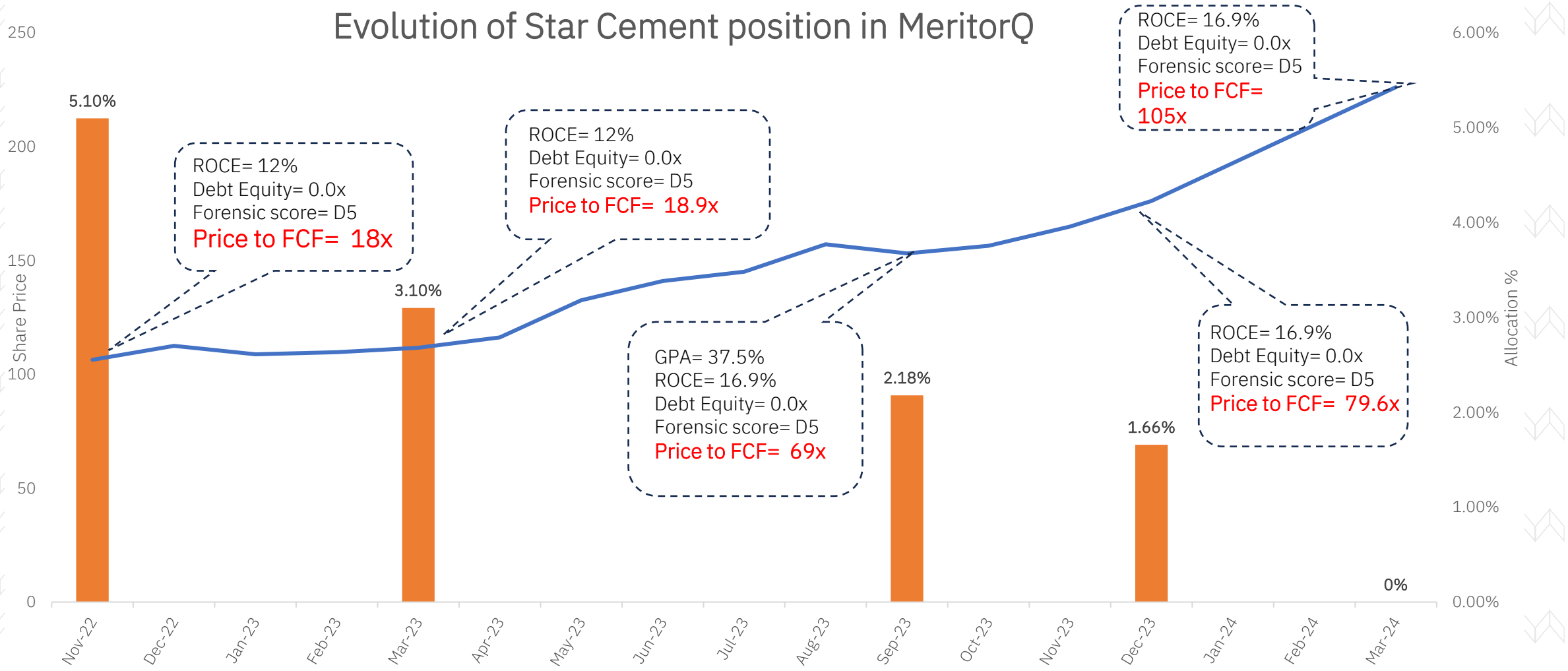
Quarterly rebalancing is an important driver of returns



Rules in action: Benefits of disciplined rules-based investing + regular rebalancing



Evolution of Star Cement position in MeritorQ

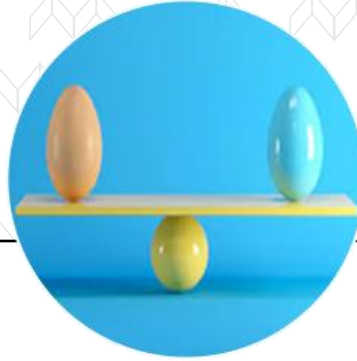


Closing thoughts



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.*

Fee Structure



Fixed Fee: 2.00% p.a.

Minimum investment: INR 50 lacs

- We also have an STP (Systematic Transfer Plan) plan using which clients can stagger their investment in tranches spread over 5 months :- <https://marcellus.helpscoutdocs.com/article/96-stp>
- Existing Investors have the option to save and invest regularly in Marcellus Funds through Systematic Investment Plan (SIP) :- <https://marcellus.helpscoutdocs.com/article/100-systematic-investment-plansipfaqs>

Fund Management Team



Omkar Sawant, CA

Omkar is the Fund Manager of Marcellus' MeritorQ PMS. Prior to joining Marcellus, he worked with a CA firm in statutory audit departments from 2017 to 2020 gaining extensive experience across Indian accounting standards, financial statement analysis & taxation. He is a BCom graduate from Mumbai University. He is a qualified Chartered Accountant (ICAI India).



Thank You!

Marcellus Investment Managers
929, DBS Business Centre, Kanakia Wall Street
Andheri-Kurla Road, Andheri – East, Mumbai - 400 093
☎ +91-2262676872

Disclosures



Note: The above material is neither investment research, nor investment advice. Marcellus Investment Managers Private Limited (“Marcellus”) is regulated by the Securities and Exchange Board of India (“SEBI”) as a provider of Portfolio Management Services and an Alternative Investments Manager. 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 SEBI 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.

This material may contain confidential or proprietary information and user shall take prior written consent from Marcellus before any reproduction in any form.

Data/information used in the preparation of this material is dated and may or may not be relevant any time after the issuance of this material. Marcellus takes no responsibility of updating any data/information in this material from time to time. The recipient of this material is solely responsible for any action taken based on this material. The recipient of this material is urged to read the Private Placement Memorandum/Disclosure Document/Form ADV, Form CRS and any other documents or disclosures provided to them by Marcellus, as applicable, and is advised to consult their own legal and tax consultants/advisors before making any investment in the Alternative Investment Fund.

All recipients of this material must before dealing and or transacting in any of the products referred to in this material must make their own investigation, seek appropriate professional advice and carefully read the Private Placement Memorandum/Disclosure Document, Form ADV, Form CRS and any other documents or disclosures provided to them by Marcellus, as applicable. Actual results may differ materially from those suggested in this note due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, inflation, etc. There is no assurance or guarantee that the objectives of the investment strategy/approach will be achieved.

This material may include “forward looking statements”. All forward-looking statements involve risk and uncertainty. 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. Marcellus and any of its directors, officers, employees and any other persons associated with this shall not be liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner whatsoever and shall not be liable for updating the document.