2Point2 Capital Investor Update Q4 FY25

Dear Investors,

This is the thirty-fifth quarterly letter to our Investors. Our letters to you will provide an update on our investment performance and present our views on relevant topics.

PERFORMANCE

2Point2 Long Term Value Fund

The 2Point2 Long Term Value Fund (launched in July 2016) is our only strategy under the PMS license granted to us by SEBI. This strategy focuses on generating long term returns by holding a concentrated portfolio of investments (15-18 stocks).

Returns Summary

	2Point2	BSE 500 TRI#	Out-performance
FY17*	26.8%	12.2%	+14.6%
FY18	16.6%	13.2%	+3.4%
FY19	14.4%	9.7%	+4.7%
FY20	-24.6%	-26.5%	+1.9%
FY21	73.9%	78.6%	-4.7%
FY22	17.8%	22.3%	-4.5%
FY23	10.0%	-0.9%	+10.9%
FY24	45.2%	40.2%	+5.0%
FY25	11.0%	6.0%	+5.0%
CAGR Return	**19.3%**	**14.7%**	**+4.6%**
Cumulative Return*	**363.7%**	**229.4%**	**+134.3%**

**FY17 returns are for an 8-month period. Cumulative returns are from 20th July 2016 to 31st March 2025. As mandated by SEBI, returns are calculated on a time-weighted basis (TWRR) on aggregate portfolio. Returns are net of expenses and fees. Performance related information provided here is not verified by SEBI.*
#TRI is Total Return Index – includes returns from dividends received

"Link to performance relative to other portfolio managers" - https://tinyurl.com/549h8kb6

Note: Returns of individual clients will differ from the above numbers based on the timing of their investments. The above returns are on the consolidated pool of capital.

Commentary

Our portfolio returned -1.0% in Q4 FY25. The BSE 500, Nifty 50 and Nifty Midcap 100 index generated returns of -4.4%, -0.3% and -9.6% in this period. As of 31st March 2025, we had an 87.1% equity exposure (ex of REITs) in the PMS on a consolidated basis (new portfolios would have lower exposure), with the rest lying in interest earning assets. Our portfolio companies reported a median YoY profit growth of 8% in Q3 FY25.

The Barrage of Bullish Influence

The Indian markets have fallen **17%**[1] from the top and many stocks have fallen significantly more than the headline indices. After a long time, investors are wishing they had done independent work on their investments. This may be a good time to step back and reflect on how investors are constantly influenced by a "barrage of bullish influence". Without a healthy dose of scepticism, one may be sucked into making avoidable mistakes.

Investors operate in an environment where number of voices seek to influence their "buy" decisions. The vast majority—company management, sell-side analysts, financial media, fund managers, social media influencers, and even fellow investors—are all pushing one dominant narrative: **why you should buy.** In such an environment, it is imperative that an investor must always keep their "bullshit detector" on when interacting with any of these participants.

The Ecosystem of Bullish Influence

1. Promoters/Management

Earnings calls, investor presentations, and media interviews all highlight strengths and downplay weaknesses. Even when things are deteriorating, you'll often hear:

> *"This is a temporary headwind."*
>
> *"We are investing for long-term growth."*
>
> *"The market doesn't yet appreciate our true potential."*

Promoters/Management of a company are natural cheerleaders for their stock. They want the stock to work more than anyone else. A large part of their personal net worth is dependent on the stock working and therefore it is rare that a CEO or a Promoter will admit that *"Our business model is unsustainable,"* or *"We face serious competitive threats."* Many Promoters/Managements will willingly misrepresent adverse information so that their stock doesn't tank. They are either looking to liquidate their holdings, or they may want to do a primary fund raise before the bad news is known and priced in.

For instance, Yes Bank's Founder-CEO repeatedly gave optimistic assurances even as problems brewed. In 2018, after regulators cut short his tenure, Kapoor tweeted *"Even after I demit office as MD & CEO of YES BANK, I will never ever sell my @YESBANK shares"*, calling his stock "*Diamonds are Forever*". By 2020, Yes Bank required a bailout; the stock fell over 90%.

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[1] BSE 500 TRI returns as of 9th April 2025

Future Group Founder-CEO painted a rosy picture and gave aggressive growth plans as late as 2019. In 2018, despite mounting debt, he announced an "audacious plan" to expand from 666 stores to 10,000 small-format stores by 2022. We all know what happened subsequently.

Even honest Promoters/Management may unknowingly paint a much better picture than the reality as they refuse to see the writing on the wall.

2. The Sell-Side

The primary job of the Sell-Side is to "Sell" you stocks in secondary or primary transactions. They work for investment banks that seek business from the same companies they cover. They fear being cut off from management access if they're too critical.

As a result, negative reports are rare, and even downgrades often come with excuses like *"short-term concerns"* rather than outright warnings. They would rather drop coverage on the stock than say bad things about the company. These reports are published with heavy inputs from the management and are more likely to focus on the bull case without talking about the risks.

Sell-side research reports are often crafted with a clickbait tone, exaggerating narratives to grab investor attention. Average businesses with limited track records are frequently portrayed as the "next big thing," not because of their fundamentals, but because bold claims get noticed by their clients and drive transactions. After all, there's little excitement in reiterating the merits of companies that are already widely recognized as market leaders. At different points in time, sell-side analysts have touted PC Jewellers as a superior alternative to Titan, dubbed Shankara Building Products as the next Home Depot, and were fawning over the industry leading growth at Yes Bank and Indiabulls Housing.

While there are also analysts who conduct deep fundamental research and offer well-balanced insights, industry incentives rarely reward independent and contrarian work. Critical and bearish reports hurt sell-side income and are often seen as career suicide.

3. The Financial Media and Finfluencers

News outlets thrive on attention and the need for sensationalism. Stories of explosive growth and "the next big thing" drive more engagement than cautious, nuanced analysis. Headlines like:

> *"This Stock Could Be a 10X Opportunity"*
>
> *"You Won't Believe What This Billionaire Investor Just Bought*" are far more common than:
>
> *"This Company's Balance Sheet Could Spell Trouble"*

Raging bull markets lead to soaring TRPs. This is why we see cake-cutting celebrations for Sensex milestones. Recent short-term performance of Stocks or Fund Managers is celebrated with little concern for long-term track record.

Furthermore, platforms like Twitter, YouTube, WhatsApp, and Telegram have made it easier than ever for narratives to spread rapidly. A bullish post, a viral video, or a message in a large chat group can instantly create a sense of urgency and belief. These narratives are often built around turnaround stories, or big-name backers—and they attract investors not through careful financial analysis but through a shared sense of optimism and FOMO. Bearish takes exist but are often buried beneath the noise of hype and FOMO-driven narratives.

4. The Herd Mentality of Investors

Social media and investing forums amplify groupthink in investors. Stocks that are "going to the moon" get overwhelming support in both traditional media and social media, while dissenting opinions are drowned out or ridiculed. The investing herd exerts a powerful psychological influence on investors, often driving them to follow the crowd rather than rely on their own independent analysis. Investors assume that if many people are buying, the opportunity must be a no-brainer. The challenge with herd behaviour is that it can create a disconnect between stock price and fundamentals. As a result, some stocks with questionable fundamentals see euphoric rallies once they catch the herd's fancy.

Many IPOs (including shady SME IPOs) get oversubscribed because some notable investors have invested in the anchor book or because the Grey Market Premium is high. Even companies with stressed balance sheets and serious business issues like Spicejet, Vodafone Idea and Jet Airways have seen tremendous investor interest based on hearsay and turnaround stories.

How to Avoid Falling Prey to Bullish Influence

1. Do Primary Research

In today's world, where there is no dearth of ready-made research and easy access to company management, it's natural for investors to begin their analysis there. However, this approach often leads to a distorted view, as these sources tend to be heavily biased—often merely echoing the management's narrative. We've written earlier about the limited value of management meetings here. A more effective starting point is independent, primary research: reading annual reports, analysing historical financials, studying competitors, and building a view grounded in first principles. This foundation can then be supplemented with scuttlebutt and channel checks—conversations with competitors, customers, suppliers, ex-employees, and distributors—to gain a more objective perspective. Management interactions and sell-side insights can still play a role, but with a solid research base, one is far less likely to be swayed by overly optimistic narratives.

2. Build a network of "Sceptics"

Cultivate a network of "sceptics" that will challenge your thesis and provide alternative perspectives. These may be independent thinkers who have no direct financial incentive to push a bullish case. Most of the market will always try to convince you to buy. The few who raise doubts may seem like pessimists, but their insights could save you from costly mistakes. Seek out these voices, challenge your own biases.

These sceptics could include fellow fund managers, the rare sell side analyst that has a "Sell" call, or sector experts.

3. Be aware of Cognitive biases

It may not be practical to completely avoid the bullish narrative that surrounds a stock. But being aware of common cognitive biases can keep investors from being influenced by the voices surrounding them. We discuss some of these biases below.

Confirmation bias is one of the most common: we seek information that supports what we already believe and ignore anything that challenges it. This bias is especially dangerous when combined with authority bias—where investors give undue weight to the opinions of CEOs, prominent fund managers, or analysts. Just because someone is influential doesn't mean they're right.

We wrote about herd mentality earlier which gets further compounded by recency bias, where we overvalue recent events or performance and forget longer-term fundamentals. A stock that has rallied recently suddenly looks safer, even if the business model is flawed. Narrative fallacy also plays a role: we're drawn to compelling stories—turnarounds, tech disruptions, once-in-a-lifetime opportunities—even when the numbers don't support them.

Final Thoughts: Keep Your Guard Up

Especially during bull markets, investors lose their scepticism and get heavily influenced by the bullish narrative that surrounds them. The Fear of Missing Out in the face of constantly rising stock prices makes them lose their guard. It is especially important during such times to discern factual information from fluff and make decisions based on logic rather than groupthink.

If you have any queries (about your portfolio, 2Point2 Capital or investing in general), do reach out to us at the below coordinates. We would love to talk.

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Thanks and Regards,
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