



2Point2 Capital Investor Update Q2 FY17

Dear Investors,

We are LIVE. After spending several months on setting up our operations, applying for the SEBI PMS license and then waiting forever for the PMS license – we are finally live. We received our PMS license in July 2016 and immediately went live with our PMS investment portfolio (“2POINT2 Long Term Value Fund”) with a core set of investors. Since then, we have been constantly onboarding new investors. We have also simultaneously launched our long/short equity strategy with proprietary capital (“2POINT2 Long Short Value Fund”).

We are humbled by the interest shown by you in our work. This is our first letter to our Investors. Our letters to you will seek to inform you of our activities, provide an update on our performance and present our views on issues we feel worth discussing.

INVESTMENT STRATEGIES

2Point2 Long Term Value Fund

The 2Point2 Long Term Value Fund 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 stocks). The typical company stock in this strategy will have the following characteristics -

- Strong competitive advantage
- High standards of corporate governance
- Available at a reasonable price
- Operating in industries that we understand fairly well and with good long term prospects

For investors to judge our performance relative to the market, the NIFTY 50 and NIFTY Midcap 100 indices will serve as benchmarks for the 2Point2 Long Term Value Fund. The performance track record is generated by Orbis (PMS Custodian), is audited half yearly and is subjected to SEBI’s review.

2Point2 Long Short Value Fund

The 2Point2 Long Short Value Fund (launched in August 2016) is our long/short equity strategy using only proprietary capital. The “long” part of this strategy is similar to our 2Point2 Long Term Value Fund portfolio. In addition to the long portfolio, this strategy also uses futures to “short” stocks on which we have a fundamental negative view. The typical stock in our short portfolio will have at least a few of the following characteristics –

- Structurally challenged/broken business models
- Frauds/Serious governance issues
- High valuations not justified by business fundamentals

The 2Point2 Long Short Value Fund is an absolute return strategy and does not have a benchmark.

PERFORMANCE

These are still early days for us. However, we now have a performance track record which is periodically audited and is subjected to SEBI's review (only the 2Point2 Long Term Value Fund).

2Point2 Long Term Value Fund

| | YTD Returns* |
|------------------------------|--------------|
| 2Point2 Long Term Value Fund | 4.78% |
| Benchmark - NIFTY 50 | -1.26% |
| Benchmark - MIDCAP 100 | 4.89% |

**Beginning 20th July 2016 till 30th September 2016. As mandated by SEBI, YTD Returns are calculated on a weighted average basis. YTD Returns are net of expenses and management fees but excluding performance fees and are on a pre-tax basis.*

As of 30th September, only 50% of the total capital was deployed in equities with the rest lying in interest earning assets. **Note:** YTD 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.

2Point2 Long Short Value Fund

| | YTD Returns* |
|-------------------------------|--------------|
| 2Point2 Long Short Value Fund | 12.85% |

**Beginning 4th August 2016 till 30th September 2016. YTD Returns are calculated on a weighted average basis on only the invested corpus (gross long + gross short). YTD Returns are net of all expenses and are on a pre-tax basis.*

COMMENTARY

Studying our performance over such a short-term is of little value. "Luck" (good or bad) plays a much larger role in short-term returns but its role typically diminishes over the long-term. We would urge you to not read too much in our short term performance. We will start commenting about our performance only after generating a few more quarters of track record.

As of September 2016, our 2Point2 Long Term Value Fund had only a 50% equity exposure with the rest invested in liquid funds generating a modest return. The recent sharp run-up in the equity markets has significantly reduced the investment universe of good businesses available at a reasonable valuation. Especially in the small and mid-cap space, valuations seem to completely ignore serious governance issues as well as the weak underlying business fundamentals. Despite holding a large cash position, we will continue to resist the temptation to deploy capital in sub-par ideas. We will continue to spend our time turning over as many rocks as we can in the hopes of finding the gems that we really want to buy.

Meanwhile, high overall valuations have resulted in a large set of attractive ideas for our "short" portfolio in the 2Point2 Long Short Value Fund. The increasing importance of internet as a commerce channel has led to rapid shrinkage of profit pools for several consumer facing companies that have not been able to adapt to the new reality. We had discussed one such idea on Just Dial in our blog

post in April 2016 (click here – [India's First Unicorpse](#)). Since the publication of the blog post, Just Dial stock has fallen by over 45%.

As investment managers, our primary goal is to protect capital followed by our goal to generate returns that exceed the equity index return over the long term. We will strive to achieve both these goals.

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,
Savi Jain & Amit Mantri