

Old Bridge Mutual Fund Newsletter



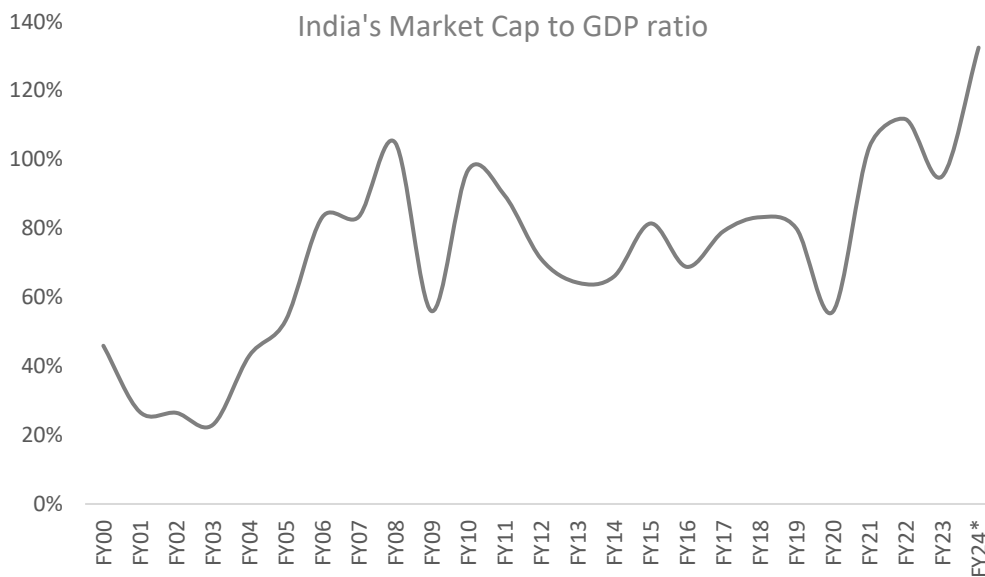
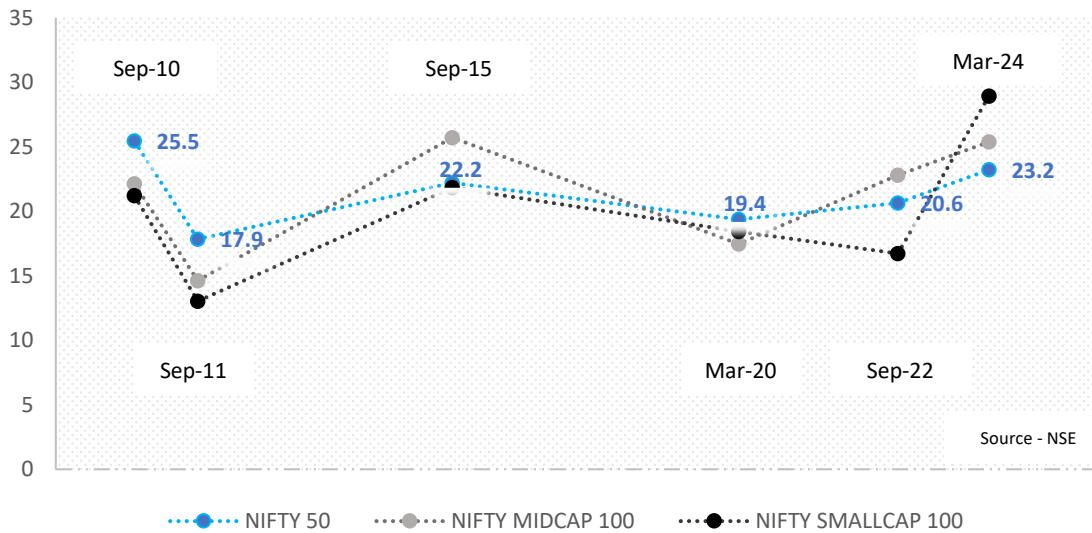
OLD BRIDGE
ASSET MANAGEMENT

Our first review of Old Bridge Focused Equity Fund. For a lot of us in the team, it's a new beginning – for a few it's a continuing journey in the mutual fund world. And to the investor community to whom this is addressed thank you for giving us a start.

Feb '2024, is the first full month of when we got down to put a portfolio together.

It's not the easiest part of an investment cycle to find conviction with where valuations stand. That seems to be the case with markets in general for the last year. From a standpoint, the chart below is how the PE multiples of various indices trended over the last ten-year period. Chart two talks about market cap to GDP ratios.

PE multiples of various indices



*FY24 market cap till 07-Mar-2024, FY24 GDP estimate per budget documents

This sets the context for 2024. It's never going to be easy navigating this one.

If you google search "favourite investment quotes" the top one that stands out looks quite contextual today.

"The stock market is filled with individuals who know the price of everything, but the value of nothing." – Philip Fisher.
Everyone, anything, and everything is having its capital gain moment!

Our journey with “A Focused Fund”

Old Bridge Capital Management Private Limited have been managers in equities for over 7 years in a very different format – AIFs and PMSs. Now we have extended our investment philosophy on the Mutual Fund vehicle as Old Bridge Mutual Fund, rather than reinvent any wheel, we put into practice what the group has learned and experienced through this timeline.

Our choice of product is what we effectively have managed in a similar format.

Structure and Portfolio – Old Bridge Focused Equity Fund

Our allocation is across 22 companies and 12 sectors. We are benchmarked to the S&P BSE500 TRI. 16 of our holdings are in the index. By weightage ~59% of our portfolio is in our represented index.

On comparison – 25 or 30 companies in a portfolio which is mapped to an index of 500 stocks won’t be representational of how the fund will map its benchmark. There will be large deviations/ tracking errors at points in time – and it all will come down to the allocation to weightages to the portfolio on the outcome of the output.

Allocations

We have kept the structure focused on a few industries:

Business	Portfolio Weight	AMFI Sector Classification	Old Bridge Theme	Theme Weight
Tata Steel Ltd.	4.26%	Metals and Mining	Commodities	11%
Hindalco Industries Ltd.	4.29%	Metals and Mining		
Gujarat Ambuja Exports Ltd.	2.48%	Fast Moving Consumer		
Gujarat State Petronet Ltd.	4.44%	Oli, Gas & Consumable	Energy	9%
Indian Energy Exchange Ltd.	4.23%	Financial Services		
Aurobindo Pharma Ltd.	4.47%	Healthcare	External Businesses	22%
HCL Technologies Ltd.	3.02%	Information Technology		
Syngene International Ltd.	2.46%	Healthcare		
Glenmark Life Sciences Ltd.	4.60%	Healthcare		
Marksans Pharma Ltd.	4.62%	Healthcare		
AIA Engineering Ltd.	2.44%	Capital Goods		
NCC Ltd.	4.02%	Construction	Infrastructure	8%
ITD Cementation India Ltd.	3.94%	Construction		
InterGlobe Aviation Ltd.	3.55%	Services	Urban Consumption	23%
Prestige Estates Projects Ltd.	4.23%	Realty		
Radico Khaitan Ltd.	2.93%	Fast Moving Consumer		
Redington Ltd.	4.44%	Services		
Antony Waste Handling Cell Ltd.	4.08%	Utilities		
Barbeque-Nation Hospitality Ltd.	4.16%	Consumer Services		
Indiamart Intermesh Ltd.	3.35%	Consumer Services	Others	13%
Shriram Finance Ltd.	4.45%	Financial Services		
Kaveri Seed Company Ltd.	5.34%	Fast Moving Consumer		
Cash & Cash Equivalent	14.19%			14%

Allocation as on: February 29, 2024

We have highlighted our sector preference above as per AMFI’s classification. We have further consolidated it into how we look at smaller parts of the portfolio from a thematic view. Every constituent shares some common threads. Our underlying investment thesis is rendered on these threads put together.

For instance, our investment in commodities theme largely stems from – probably for the first time, we are witnessing expansion of capacities in these businesses through internal cash generation. Volume growth and no incremental leverage cuts across all the businesses we have allocated capital toward. New capacity, static debt will drive volume growth and earnings. All of them are in a mid-cycle of margins.

Chart that drives our ideation to construct a portfolio:



Source: Bloomberg

*Significant correlation between stock performance of Indian origin global chem player & China Small Cap Index over the last 5 yrs

Ideating a change

No one doubts that the start of the decade belonged to India. The numbers state it all. Markets have been buoyed with favourable macros aligning the country – economic & political stability, bright outlook. Companies in India have taken market share and with the resilience of the economy, our weightage in the global economy and capital allocations has only increased. We have also been helped with benign inflation.

The cause of lower than anticipated inflation however remains to be debated. The benefits and perils were felt in different pockets by India Inc. as witnessed in the year so far.

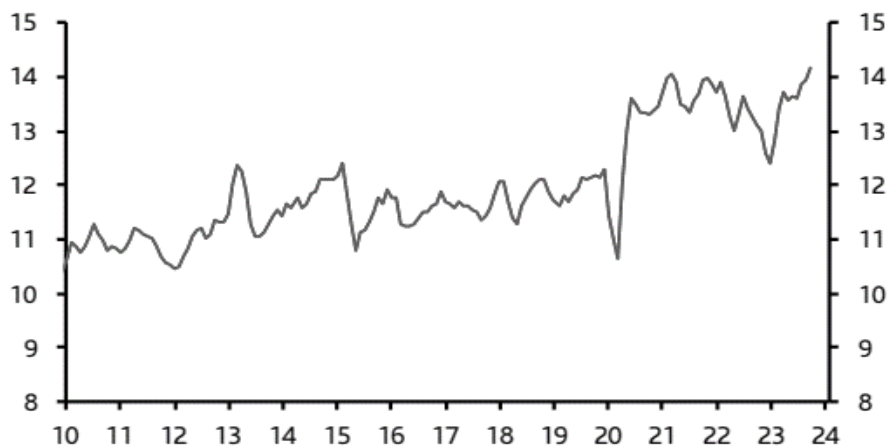
Producers of almost all commodities across the spectrum have borne the brunt of lower prices. Steel, Aluminum, Soda Ash, Caustic Soda, PVC resins, Solar modules, Broad basket of chemicals, electro minerals etc. Commodity prices have trended lower, impacting profitability of individual businesses.

On the other hand, Consumers, have benefited – FMCG, Autos, Auto-ancillaries, large distribution franchises consuming the commodities.

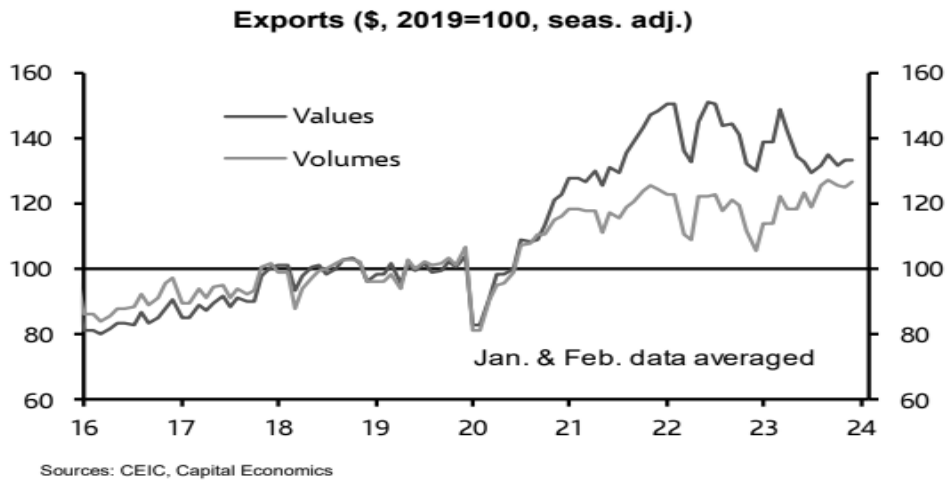
The mean reversion from peaks noticed in CY22 seem to be coming through, but in large parts, the massive deflation witnessed across commodities can be attributed to the rampant supply from China. Aggression originating from the East is clearly visible in their increased share in global trade, increased volume of exports, along with a steep reduction in the \$ value of their exports, suggesting higher volumes at lower prices.

We think it will be difficult to time, but we’re somewhere near the bottom in pricing for some of these commodities.

China's Share of Global Exports (% , 3m ave., 2010 prices, seas. adj.)



Sources: CEIC, Capital Economics



The conclusion was that the Chinese were the only supplier of deflation/ lower prices in the world. The rest of the world saw inflation – as noted by various capital projects being implemented which far exceed their original budgets.

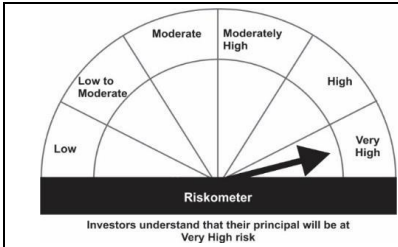
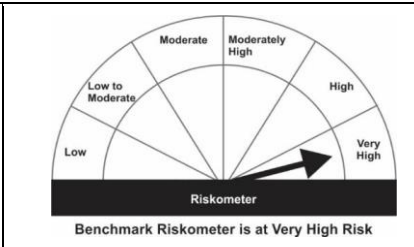
The way forward

The markets will find a cap on valuations – we can't stretch a rubber band without a limit. The best case for 2024 is to be ready for 2025. 2025 could be all the below playing out.

- The revival of commodity prices may be led by a return of profitability in the Chinese economy.
- If this happens, get prepared for a small inflation shock; and a return to the supply chain imbalances, this could be very similar to the post pandemic period.
- Businesses with pricing power likely to be the ones that have had absence of the same over the last three years. Commodities soft commodities, basic chemicals & Metals could lead.

A longer trend will be the continuation of Government spending and the alignments of businesses with these spenders. Tariffs and protectionism are one of the biggest impediments to free trade and we are seeing too many of these structures come up in all parts of the world. They are also disguised as inflation contributors.

Now to get this right. We do not know of 2024 which would be volatile – 2025 is expected to look better.

This product is suitable for investors who are seeking*:	*Risk-o-meter	
	Scheme	Benchmark (S&P BSE 500 TRI)
<ul style="list-style-type: none"> Capital appreciation over long-term Investing in a concentrated portfolio of equity and equity related instruments of upto 30 companies 		

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.oldbridgemma.com

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