Performance Update

White Oak India Pioneers Equity Portfolio

WHITEOAK CAPITAL MANAGEMENT
THE ART AND SCIENCE OF INVESTING

June 2023

Granular Positions Can Help Generate Sizeable Alpha

A commonly asked question is how do stocks with 0.5% or 0.6% weightage add to overall performance of the portfolio. There are two things to keep in mind:

- If a stock has 0.5% weight in the Pioneers portfolio it doesn't have to remain there. As corporate performance plays out, as market capitalization and liquidity and breadth of holding rises, nothing stops WhiteOak team from increasing allocation over the years. There was a point in time a specialty chemical manufacturer or a midcap IT company may have been under 0.5% to 1% allocation of the portfolio but ultimately they did go to 3-5% of the portfolio; we still own the chemical company and have exited the IT name quoted above.

- A stock with 0.5% weight may be perceived to add negligible % points to the overall return but if that stock is not part of the benchmark or has much lower weight in the benchmark, what matters is how much alpha it adds. Let us say a stock is 3% of benchmark and 5% of our portfolio a 100% move in the stock will add 2% to alpha; 2% active position in a single stock imparts high active risk and at the same time such a large move is improbable for a large index stock in any year. But if a stock has 0.1% weight in benchmark and 0.75% weight in our portfolio a 100% move will add 0.65% to the alpha, statistically more probable for a portfolio with high number of well researched small and midcap allocations and at lower active risk.

In the table alongside, we have highlighted some of the portfolio stocks which were among the top contributors during the respective calendar years and their weights.

As can be seen, we have had positions where the weight of the stock has ranged from <1% to between 5-7%, yet they were the top contributors to the alpha.

Stocks with low exposure may not contribute significantly to overall performance to begin with but contribute significantly to outperformance at all times.

	Total Return	Contribution to Alpha	Min Weight (%)	Max Weight (%)	Port. Ending Weight (%)
CY 2018 (Portfolio Return : 1.3% Alpha : 3.12%)					
Vinati Organics	66.5%	0.9%	0.8	1.9	1.3
Fine Organic Industries	52.7%	0.7%	0.6	2.3	1.3
Mahindra Logistics	18.3%	0.6%	0.7	2.8	0.7
Garware Technical Fibres	19.2%	0.4%	0.5	1.8	1.6
Aarti Industries	31.3%	0.3%	0.2	1.4	1.2
CY 2019 (Portfolio Return : 13.3% Alpha : 4.34%)					
AstraZeneca Pharma	61.2%	1.0%	0.8	3.0	1.2
Coforge	39.2%	1.0%	0.5	7.3	1.8
Dr. Lal PathLabs	59.2%	0.7%	1.0	2.4	1.5
Mindtree	5.4%	0.4%	0.1	7.0	0.0
Trent	27.4%	0.2%	1.0	3.2	3.1
CY 2020 (Portfolio Return : 34.9% Alpha : 16.51%)					
Coforge	72.5%	2.0%	0.3	5.7	4.6
Ipca Laboratories	92.2%	1.9%	0.9	6.4	0.0
Muthoot Finance	55.8%	1.4%	0.5	3.7	0.0
JB Chemicals & Pharma	83.9%	1.3%	0.7	2.0	0.0
Avenue Supermarts	50.3%	0.9%	0.5	2.7	0.6
CY 2021 (Portfolio Return : 34.4% Alpha : 2.81%)					
Persistent Systems	226.6%	2.5%	1.0	4.2	4.2
Intellect Design Arena	135.6%	1.8%	0.9	3.8	1.9
L&T Technology Services.	141.0%	0.7%	0.9	1.6	1.6
Titan	61.3%	0.6%	0.9	3.8	3.8
CAMS	49.5%	0.4%	0.1	1.8	1.1

Source : White Oak. Year 2018 details are of India Acorn Fund. Year 2019, 2020, 2021 details are for White Oak India Pioneers Equity PMS

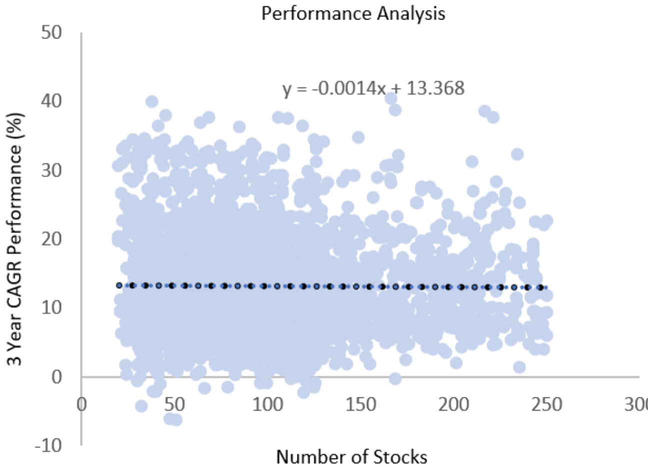
Do Number of Stocks in a Portfolio Matter for Alpha Generation ?

- The primary goal of investing is to generate the highest returns or outperformance. Metrics such as 'number of holdings', 'turnover', 'concentration, focus or diversification' are by-products of the investment approach chosen to achieve this goal. Amount of risk taken to generate that outperformance is also an accompanying consequence that must be paid heed to, even if it is not the primary goal.

- India has a large number of opportunities in the small and mid caps (SMIDs) space which also has the highest alpha generating opportunity vis-à-vis broader benchmark. Portfolio with larger number of names can potentially harness higher alpha from SMIDs than portfolios with limited names because all else being equal, concentrated portfolios do reduce the investible universe which is sub-optimal compared to the much larger universe of companies that we are able to select from.

- Empirical evidence from major global markets such as the US with a similarly high number of investable names, suggests that there is absolutely no correlation between alpha generation and number of stocks in the portfolio. There is no evidence to suggest that concentrated portfolios would have higher alpha or that diversified portfolios would have lower alpha.

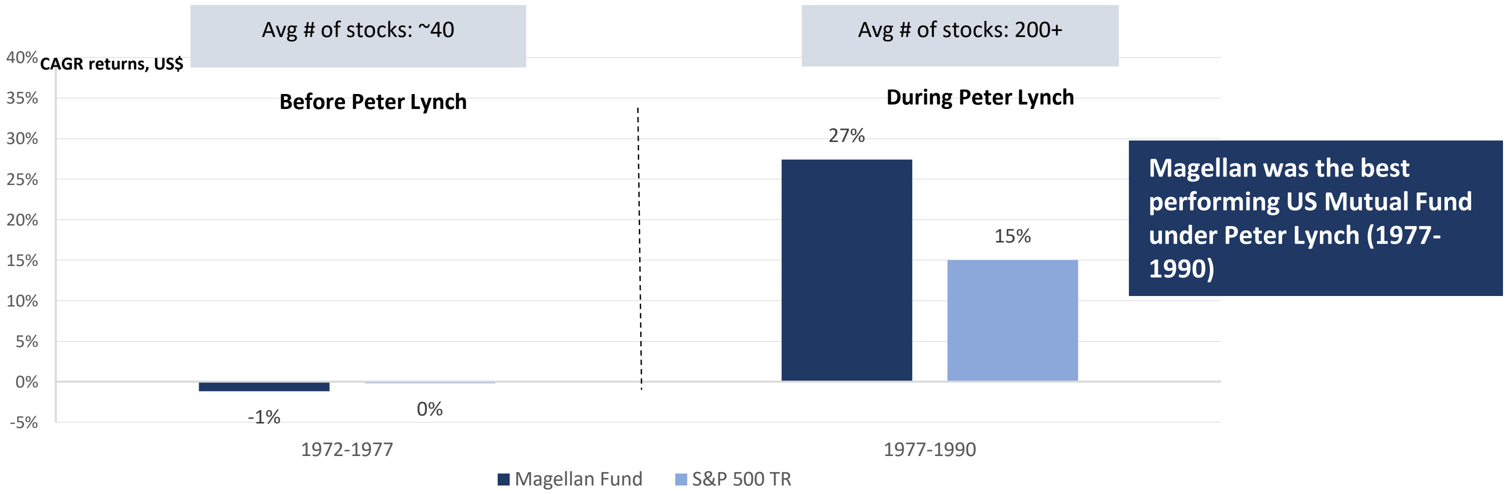
US Equity Mutual Funds : Number of Stocks and 3 Year CAGR Performance Analysis



An upward sloping trend line : As the number of stocks increase, the performance increases.
A downward sloping trend line : As the number of stocks increase, the performance decrease
A horizontal trend line : No correlation between number of stocks and performance
Source : WhiteOak, Morningstar. US Mutual Funds with AUM greater than USD 500 Mn. From CY 2011 till CY 2019

- At White Oak, we believe that larger number of names provides greater flexibility to generate alpha with possible risk mitigation. To select a large number of stocks is a luxury which we can afford by virtue of our well-resourced team of high caliber investors.

- Peter Lynch, among the most well-regarded fund managers globally, is his famous book “One up on Wall Street”, highlighted the secret of the peer group leading alpha generation of his strategy for more than decade. “The point is not to rely on any fixed number of stocks but rather to investigate how good they are, on a case by case basis.” Just by way of example, The Magellan Fund, under Peter Lynch (1977-1990), with more than 200+ holdings on an average has amongst the best long-standing track record in US Mutual Fund history.



Source: ‘One Up on Wall Street’ (Sections: How Many Stocks is Too Many?, Random Walk and Maine Sugar), Morningstar, Factset, White Oak

Consider a practical example where a manager manages a portfolio worth Rs 15,000 crores. If this manager is running a concentrated portfolio, say of 15 names, then on average, investment in each stock is likely to be ~Rs 1,000 crores. Thus, for an investment of Rs 1,000 crore, keeping in mind the liquidity and float constraints, from a risk management perspective, it is likely that the stock ought to have a market cap in excess of Rs 15,000-20,000 crores. There are ~260 such companies in India (the majority of them are Midcaps and Largecaps). So, in effect, one would limit themselves to a limited universe of ~260 companies, which the manager's peers would also be focused on, thereby missing out on huge opportunity beyond this limited set of stocks. When one has fewer companies in the portfolio, each company is most likely to have a 4% or 5% position, making it practically difficult to invest in small caps. This is the surest way of missing out on capturing winners early and, in some cases excluding the proverbial multi-baggers from the consideration set.

For markets like India, the small caps are typically less well-researched and hence more inefficient, thereby providing a more fertile ground for stock picking and strong alpha generation potential. **Moreover, having a well-diversified portfolio allows one to build granular positions as well.** For example, in 2018, our team invested in a specialty chemicals manufacturer when the company's market cap was ~Rs 3,000 crore. Since then, its market cap is up 7x. At the time of the initial investment, it had a weight of ~1% in the portfolio. However, if one is managing a 15-20 name portfolio, there would have been no flexibility to invest 1% in a single name. A 5% holding in 1 stock, as compared to a 1% holding in 5 stocks, where all are expected to compound at a higher CAGR than the broader market, the latter one has an equal potential return with much lesser risk.

To summarise, the goal is to generate highest alpha for clients over reasonable time frames. Metrics such as ‘Number of holdings’ or ‘Turnover’ are by products of investment approach. They are neither the means to achieve the goal nor themselves the goal.

White Oak India Pioneers Equity Portfolio Performance

The Portfolio has **outperformed the benchmark by 3.2% CAGR** as of June 30, 2023 since its inception.

Performance (%)	June 2023	3 Months	6 Months	1 Year	3 Year	CYTD 2023	CY 2022	CY 2021	CY 2020	CY 2019	Since Inception	
											CAGR	Absolute
Portfolio	4.6	15.0	7.9	22.6	23.7	7.9	-6.6	34.4	34.9	13.3	17.6	116.1
S&P BSE 500 TRI	4.3	13.2	6.8	24.0	26.4	6.8	4.8	31.6	18.4	9.0	14.4	89.8
Excess Returns (%)	**0.3**	**1.8**	**1.1**	**-1.3**	**-2.6**	**1.1**	**-11.4**	**2.8**	**16.5**	**4.3**	**3.2**	**26.4**

Source: WhiteOak Capital. Inception Date: 27 September 2018. All indices are Net Total Return in INR. Partial 2018 : Performance shown since 27 September 2018 as client monies were managed from this date. Performance is net of all fees and expenses. Performance related information provided herein is not verified by SEBI. Past performance is not a reliable indicator of future results. Returns less than one Year are Absolute Return and more than one year are CAGR. Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of 1) the timing of inflows and outflows of funds; and 2) differences in the portfolio composition because of restrictions and other constraints. Performance relative to other Portfolio Managers within the selected Strategy : Click Here

WhiteOak Strategy : Peer-Group Leading Consistent Performance

Until a few years back, Mutual Funds were the mainstay of wealth management and client portfolio allocations. However, over the years, mutual funds have become straight-jacketed with limitations on the investment universe. For instance, Pioneers Equity PMS is MultiCap, yet we retain the flexibility to allocate bottom-up across Large, Mid, and Small Cap stocks. If this were a Multicap mutual fund, we would have had to allocate a minimum of 25% in small caps. Similarly, FlexiCap Funds were once the most popular MF category but the outsized inflows of the last few years have meant FlexiCap Funds are now, on average, 70% in large cap.

Given this scenario and the evolution of investment products over the years, it is not necessarily a rule or custom that PMS have to run narrow mandates. In fact, narrow mandates have led to high active risk without commensurate alpha, resulting in winners rotating year to year.

Pioneers Equity PMS is meant to be a long-term core allocation in clients' portfolios with an aim to outperform the broader market represented by S&P BSE 500 without participating in the violent "Winner Rotation" phenomenon. The accompanying performance heat-map clearly shows that in our best years, we are amongst the top, but in our worst years, we are average or above compared to PMS peers.

Part 2017	2018	2019	2020	2021	2022	Since Inception[1]
Portfolio 9	White Oak Strategy	Portfolio 3	Portfolio 9	Portfolio 4	Portfolio 10	White Oak Strategy
White Oak Strategy	Portfolio 1	Portfolio 6	White Oak Strategy	Portfolio 9	S&P BSE 500 TRI	Portfolio 9
Portfolio 4	Portfolio 7	Portfolio 5	Portfolio 3	Portfolio 7	Portfolio 6	S&P BSE 500 TRI
Portfolio 10	S&P BSE 500 TRI	White Oak Strategy	Portfolio 4	Portfolio 10	Portfolio 7	Portfolio 10
Portfolio 7	Portfolio 8	Portfolio 8	Portfolio 6	White Oak Strategy	Portfolio 8	Portfolio 1
S&P BSE 500 TRI	Portfolio 2	Portfolio 1	Portfolio 1	Portfolio 1	White Oak Strategy	Portfolio 6
Portfolio 2	Portfolio 6	S&P BSE 500 TRI	Portfolio 10	Portfolio 2	Portfolio 5	Portfolio 7
Portfolio 1	Portfolio 5	Portfolio 9	S&P BSE 500 TRI	Portfolio 6	Portfolio 4	Portfolio 8
Portfolio 5	Portfolio 10	Portfolio 2	Portfolio 8	S&P BSE 500 TRI	Portfolio 1	Portfolio 5
Portfolio 8	Portfolio 9	Portfolio 7	Portfolio 5	Portfolio 8	Portfolio 3	Portfolio 2
Portfolio 6	Portfolio 4	Portfolio 10	Portfolio 2	Portfolio 5	Portfolio 2	Portfolio 4
		Portfolio 4	Portfolio 7	Portfolio 3	Portfolio 9	

[1]Since 31 August 2017, Peer Group source: PMS Bazaar. Besides White Oak, Peer Group includes benchmark and Flexicap portfolios with AUM over INR 1,950 Cr and 3 years of investment horizon, making a total of twelve data points. Data is till 31 March 2023. Performance between August 31, 2017 till September 30, 2018: India Acorn Fund, Performance from September 30, 2018 onwards: White Oak India Pioneers Equity Portfolio

A large number of stocks, to some extent, is a by-product of our balanced portfolio construction approach. We seek to maintain a balanced portfolio reflecting the stock selection capabilities and views of the team rather than being driven by non-stock specific macro factors such as market timing, sector, currency, or other such factor exposures. To a certain manageable extent, we may tolerate some of these factor risks (for example, higher allocation to mid-cap stocks), but only if such risks are more than commensurately compensated by the increased potential for superior stock selection returns. This balanced approach fits exceptionally well with our bottom-up philosophy and process and aligns the portfolio risks to the same.

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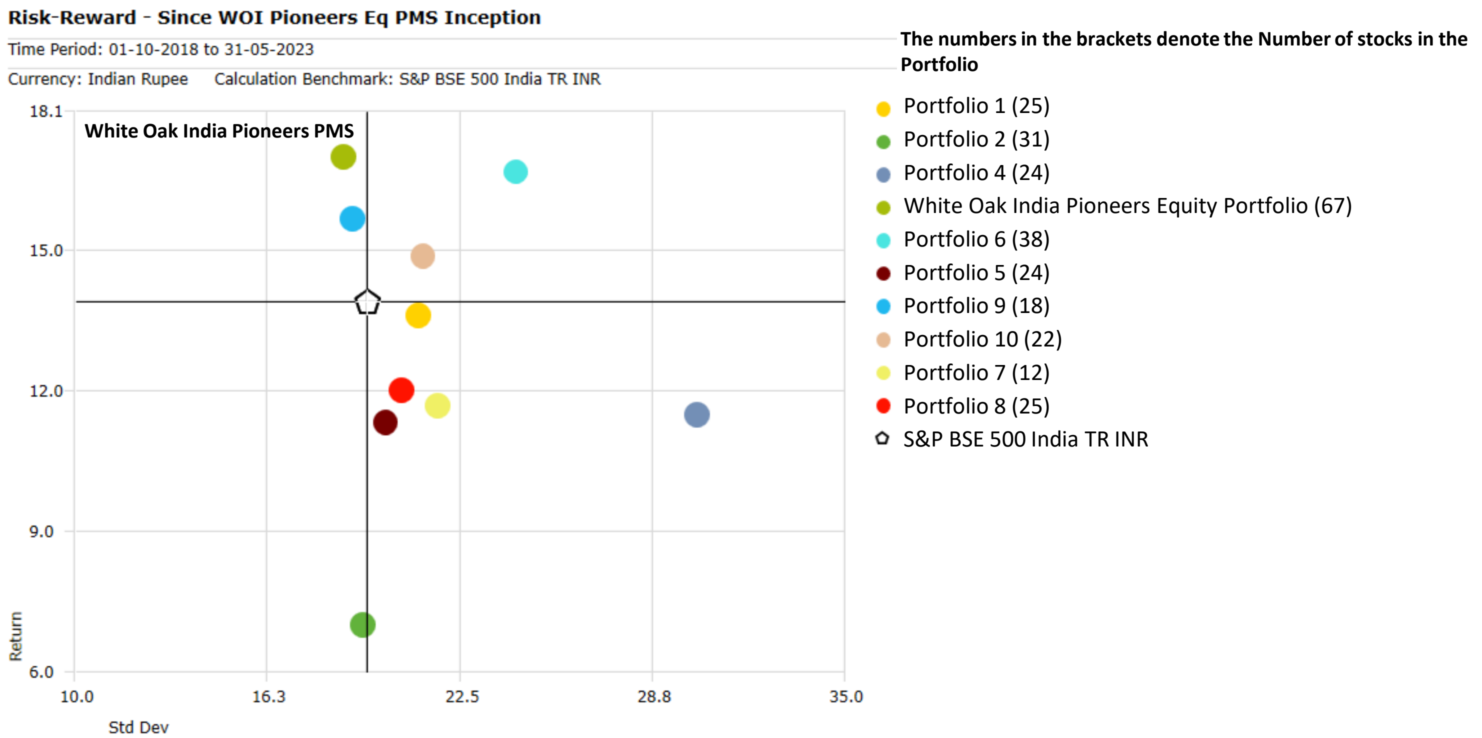
White Oak India Pioneers Equity Portfolio Risk Reward

Investing in the stock markets can be a rollercoaster ride, and with so much at stake, making informed investment decisions is essential. One way to do that is by evaluating the performance of the portfolio relative to the risks it has undertaken.

The chart below highlights the Return – Standard Deviation mapping of White Oak India Pioneers Equity PMS vs its Peers. The White Oak India Pioneers Equity PMS has delivered a higher return relative to the underlying risk. We have also highlighted the number of stocks for the competition, which signifies that White Oak PMS delivered industry leading performance despite holding a higher number of stocks relative to its peers.



Since 30 September 2018, Chart Calculation Source : Morningstar. Peer Group source: PMS Bazaar. Peer Group includes benchmark and Flexicap portfolios with AUM over INR 1,950 Cr and three years of investment horizon. Data is till 31 May 2023. The numbers in the brackets denote the Number of stocks in the Portfolios

What matters is the Active Share

Active Share is the measure of the percentage of security holdings in a manager's portfolio that differs from the benchmark. It tracks the disparity between a portfolio manager's holdings and its benchmark.

A low Active Share score indicates that a portfolio manager is **closely replicating** the Benchmark and engaging in a **passive investment strategy**. **A high Active Share** score suggests that a portfolio's holdings diverge from the Benchmark, and the portfolio manager actively manages the portfolio. As a result, managers with reasonably high Active Share have a higher potential **to outperform the benchmark**.

As the table below illustrates, White Oak strategy has historically had a higher active share.

Portfolio Component Compared ->	Entire Portfolio	Large Cap Portion of the Portfolio	Mid Cap Portion of the Portfolio	Small Cap Portion of the Portfolio
Index, the Portfolio component compared with ->	S&P BSE 500	S&P BSE 100	S&P BSE Midcap 150	S&P BSE Small Cap 250
Calendar Year	Active Share			
2019	79.6%	78.9%	90.7%	90.2%
2020	65.4%	60.9%	89.1%	88.2%
2021	65.6%	60.4%	85.2%	82.7%
2022	67.3%	63.9%	89.3%	82.7%

Source : WhiteOak

High Active Share in each Market Cap Bucket

Click Here to view our note on Active Share

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White Oak India Pioneers Equity Portfolio Valuation

	Portfolio	S&P BSE Sensex
FY23 ROE	18.8%	13.5%
FY24 OpcoFinco™ P/FCF	31.0x	35.7x
FY25 OpcoFinco™ P/FCF	26.4x	30.9x
FY24 P/E	22.1x	21.3x
FY25 P/E	19.0x	18.7x
Projected Revenue 3 year CAGR	14.2%	9.5%
Projected Earnings 3 year CAGR	16.2%	12.9%

Source : WhiteOak Research, Bloomberg

The valuations reflect value of a portfolio on the basis of its fundamentals

At WhiteOak, our analytical framework and valuation approach is cash flow centric and we pay special attention to cash-flow based metrics such as free cash flow conversion, unlevered free cash flow, capital light cash flows, and multiples based on these cash flows.

Our proprietary OpcoFinco™ valuation framework and bottom-up research is the foundation of our process and we seek to generate vast majority of our returns from our rigorous stock selection process.

As the table alongside illustrates, on a P/FCF basis, the portfolio is cheaper to S&P BSE SENSEX for both FY24 and FY25, while the ROE and growth profile is markedly better than the S&P BSE SENSEX.

White Oak Quarterly Connect

To listen to the views shared by our Founder, Mr. Prashant Khemka on the "Myths of Concentrated Portfolios" Click Here

White Oak Quarterly Connect is our Quarterly Leadership Webinar wherein Mr. Prashant Khemka, and Senior Investment Team members share portfolio update, their view on markets and current investment trends.