

# Marcellus MeritorQ

February, 2023

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**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

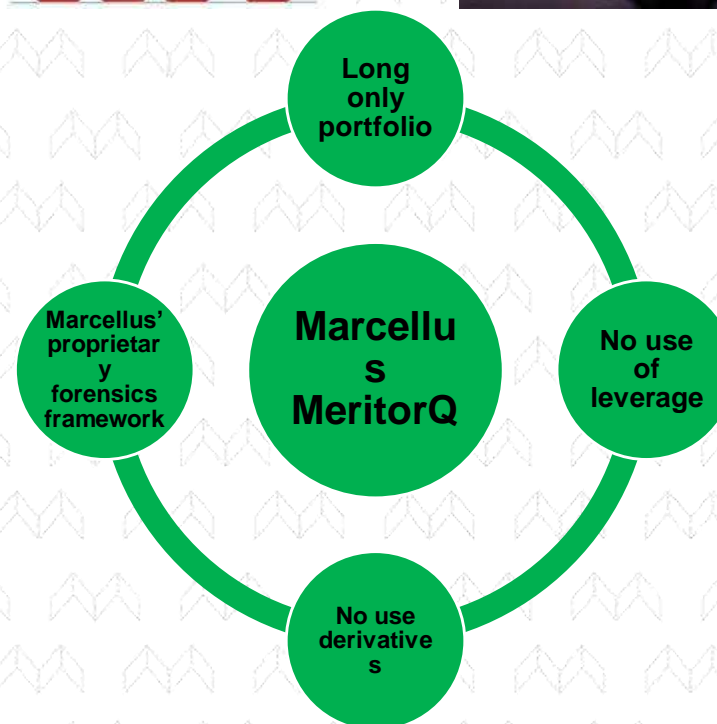
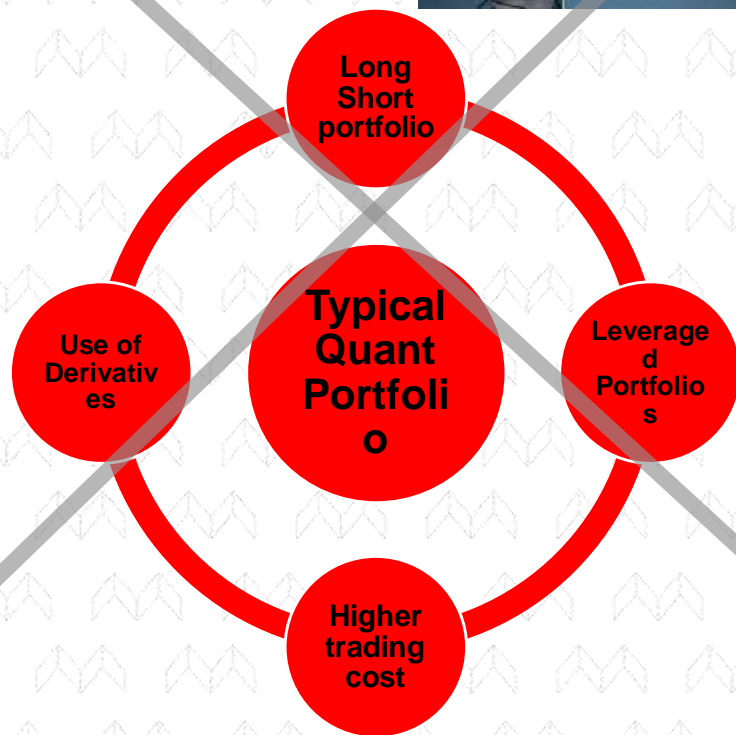
- *Discount to intrinsic value compared to rest of the market*
- *Intrinsic value based on free cash flow*

## Mitigate human biases

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

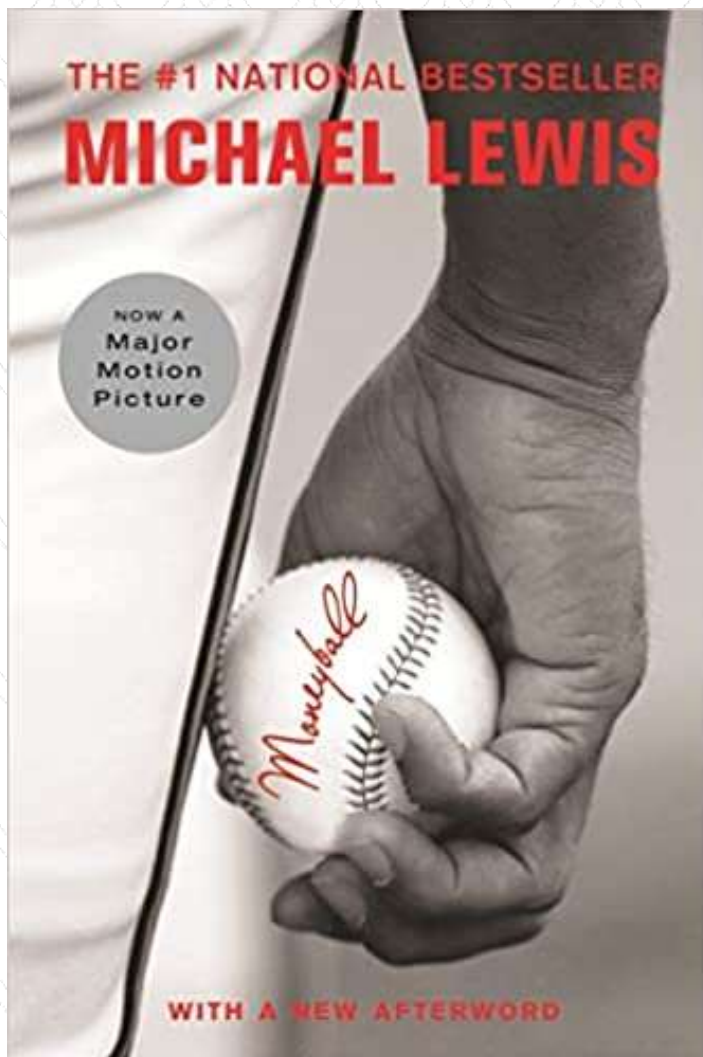
*\*Except where Marcellus has concerns over governance issues in selected stocks.*

# MeritorQ sticks to good investing principles





# Michael Lewis' bestseller contains lessons for investors



Source: Moneyball by Michael Lewis  
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Author/Publisher of the above book.

## Moneyball approach in baseball

Data and statistics to select players  
instead of scouts; avoid subjectivity

Select players who are relatively  
under priced versus their skill

Focus on building team of players  
who can win matches instead of team  
of superstars

Not afraid to exchange players if  
better fit is available

## Marcellus MeritorQ

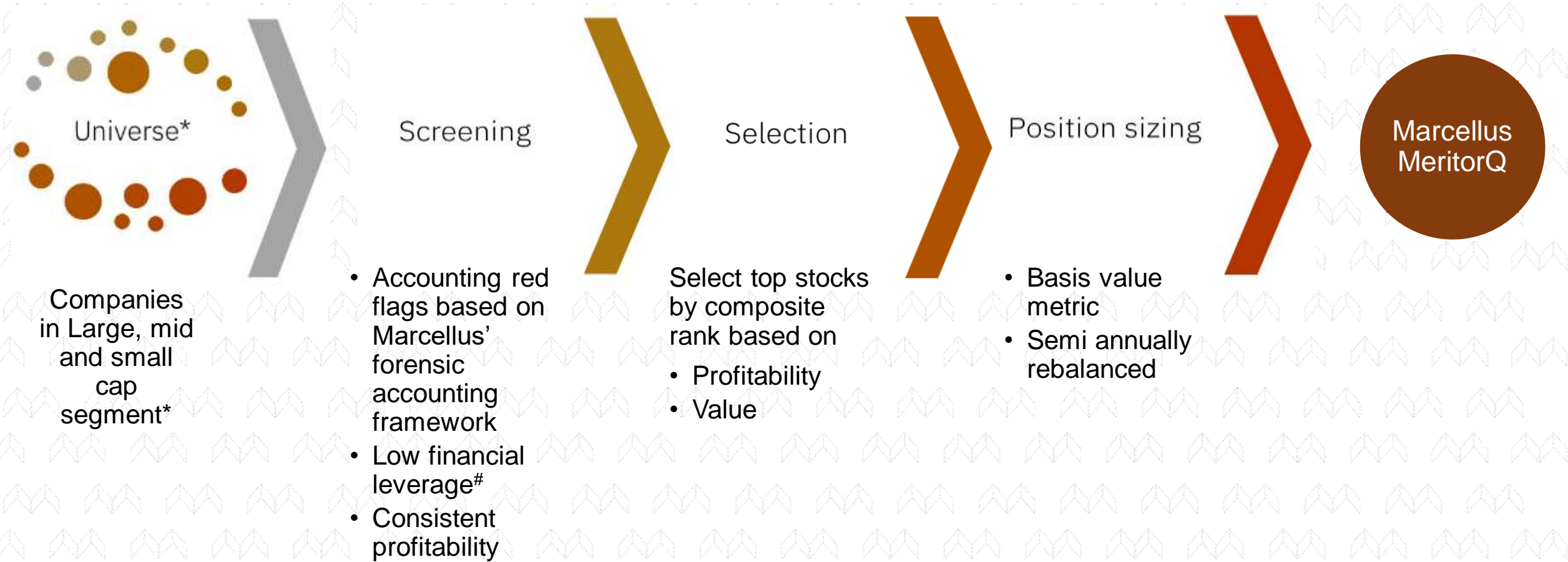
Rules based portfolio construction  
basis company fundamentals

Select quality companies which are  
relatively undervalued versus rest  
of the market

Focus on portfolio which delivers  
superior risk adjusted returns  
instead of individual stocks

Refresh portfolio semi-annually to  
include undervalued companies

# Marcellus' forensic framework combined with rules based approach



Source: Marcellus Investment Managers.

\*Life insurance companies not considered

<sup>#</sup>For debt-equity screening - Financials (Lenders & Non-lenders are considered separately)

# Portfolio Characteristics



Sector Name	Sector Weight <sup>#</sup>
Consumer Staples	21.2%
Consumer Discretionary	18.4%
Materials	18.2%
Information Technology	17.2%
Health Care	8.9%
Industrials	6.5%
Communication Services	5.1%
Financials	2.7%
Utilities	1.2%
Others	0.6%
<b>Total</b>	<b>100%</b>



**35-45 Stocks\***



**20-30% Weightage in Top 5 stocks**

**Small-Midcaps constitute 40-62%\***



**~50% Average Turnover\***

Source: Ace Equity, Marcellus Investment Managers.

\*Based on backtested results from July-2006 to September-2022

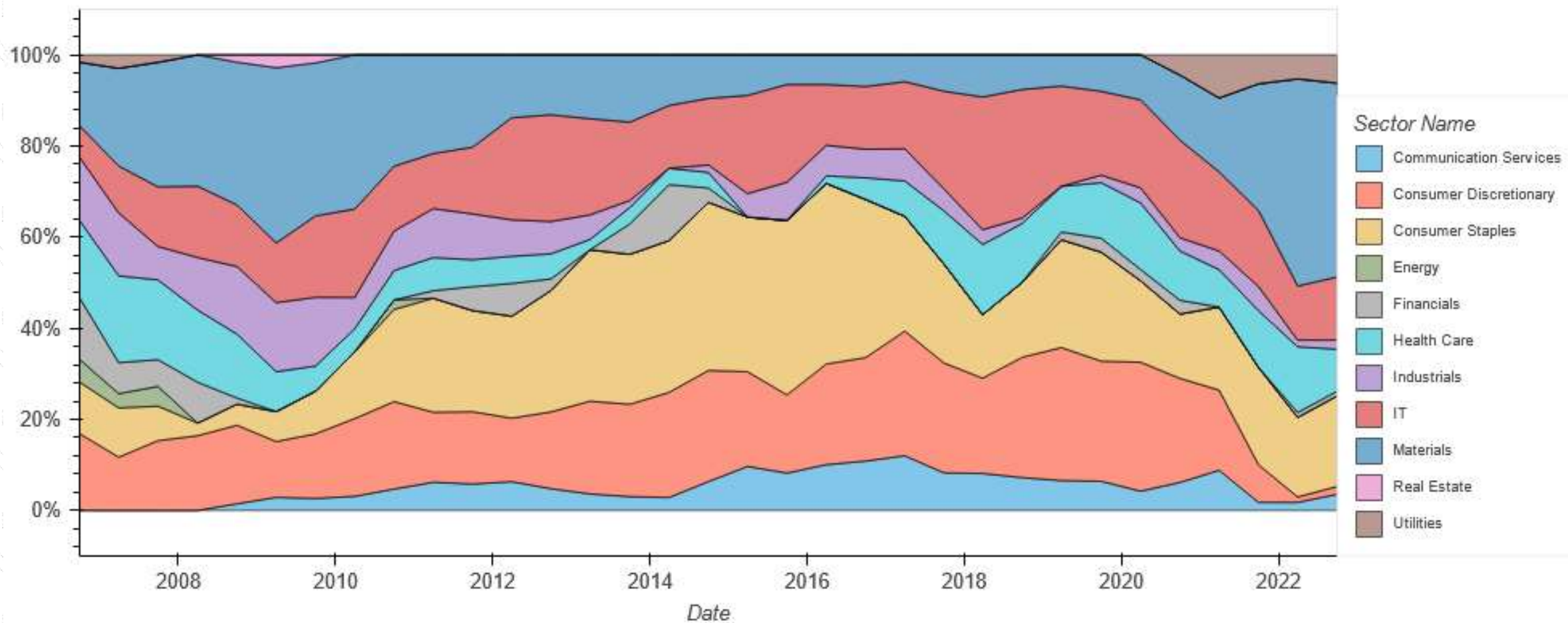
# This represents the average sector weight over the backtested period.

Small and midcaps defined as companies falling in bottom 300 in terms of market capitalisation within BSE 500 index

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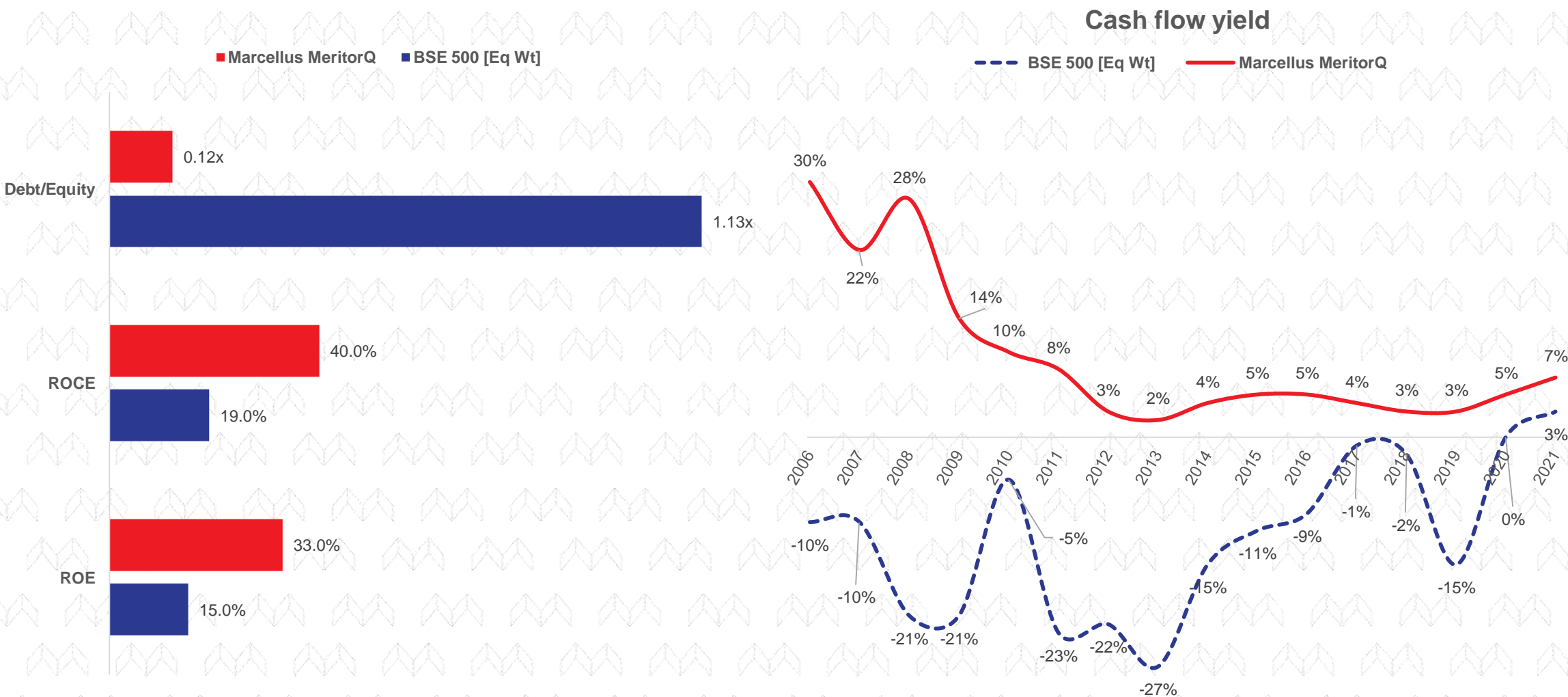


# Sector distribution



Source: Ace Equity, Marcellus Investment Managers.  
Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses.

# Portfolio Characteristics (Contd.)

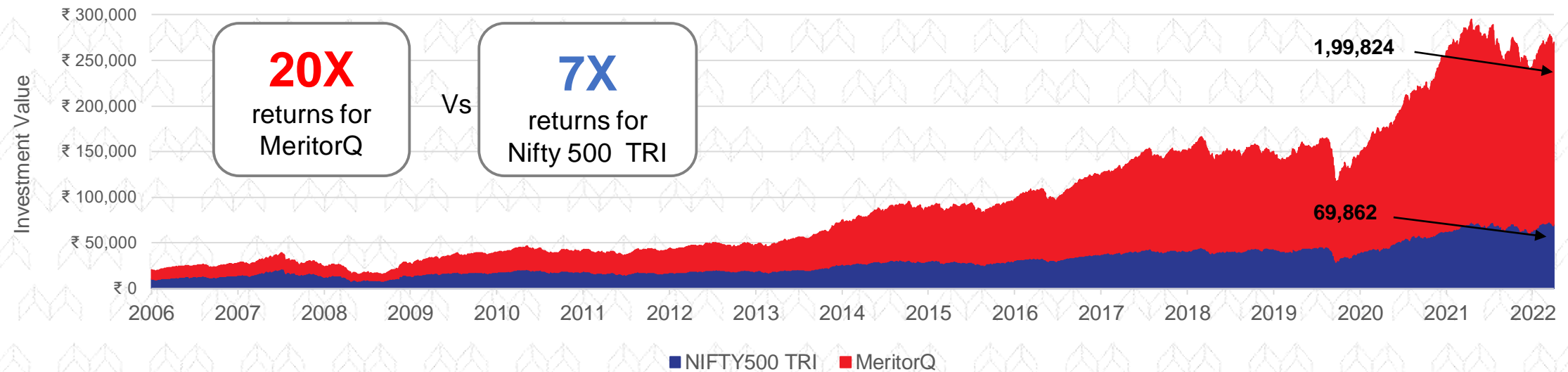


Source: Ace Equity, Marcellus Investment Managers. Only non-financials are considered for above calculation. Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns

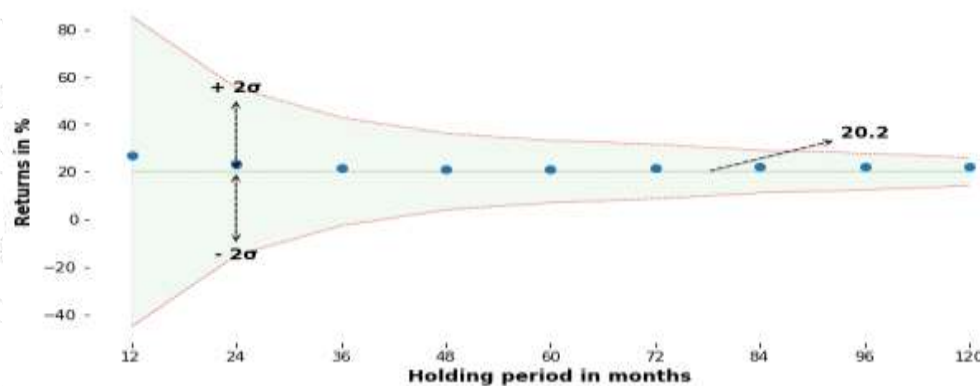


# Backtested performance\*

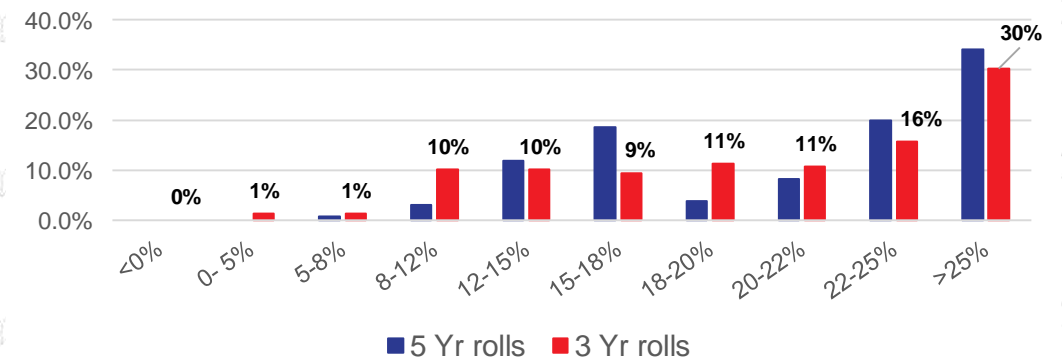
Growth of ₹10,000



Distribution of portfolio rolling returns with holding period



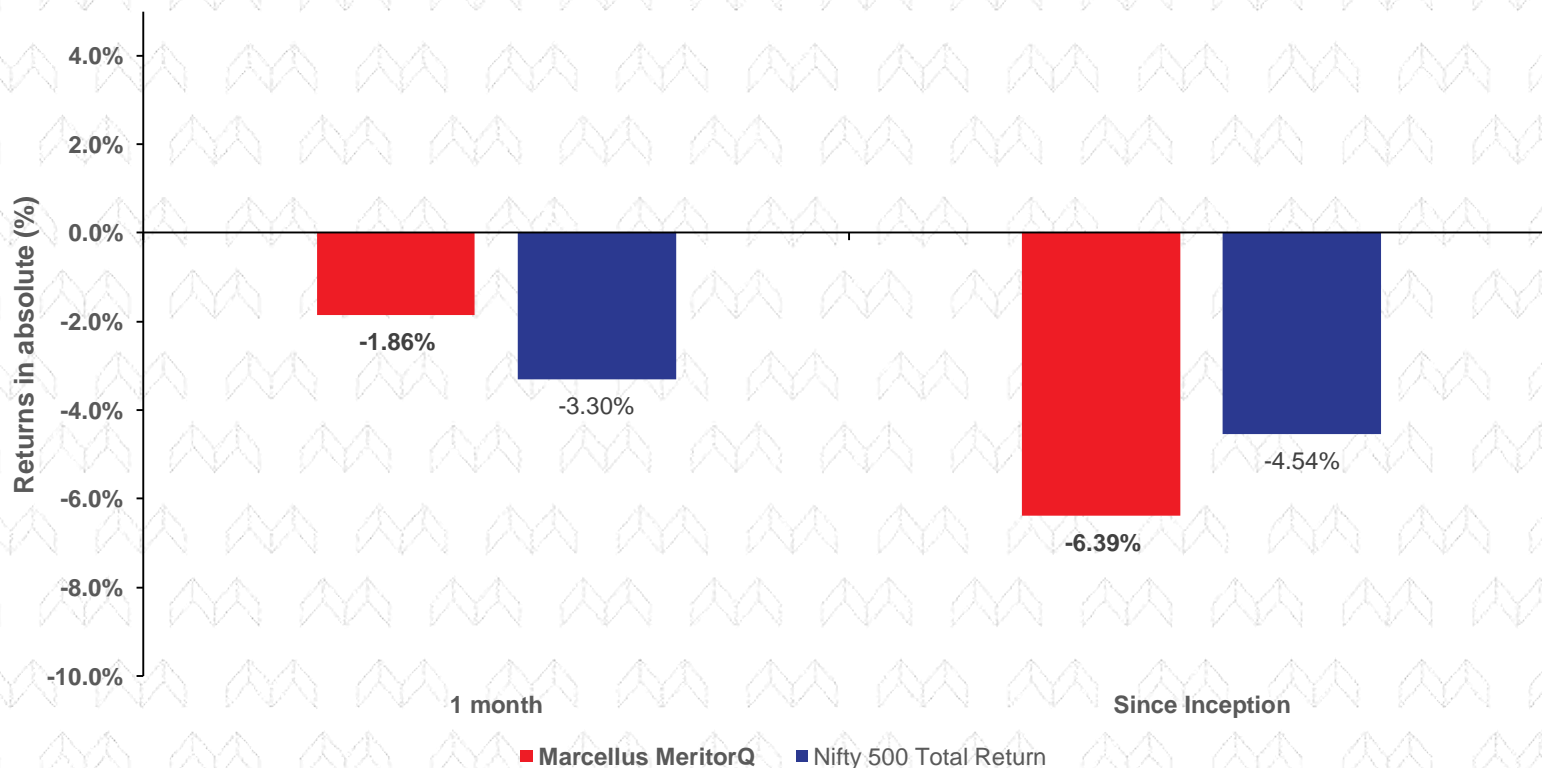
Distribution of rolling returns



Source: Ace Equity, Vidal, Marcellus Investment Managers.

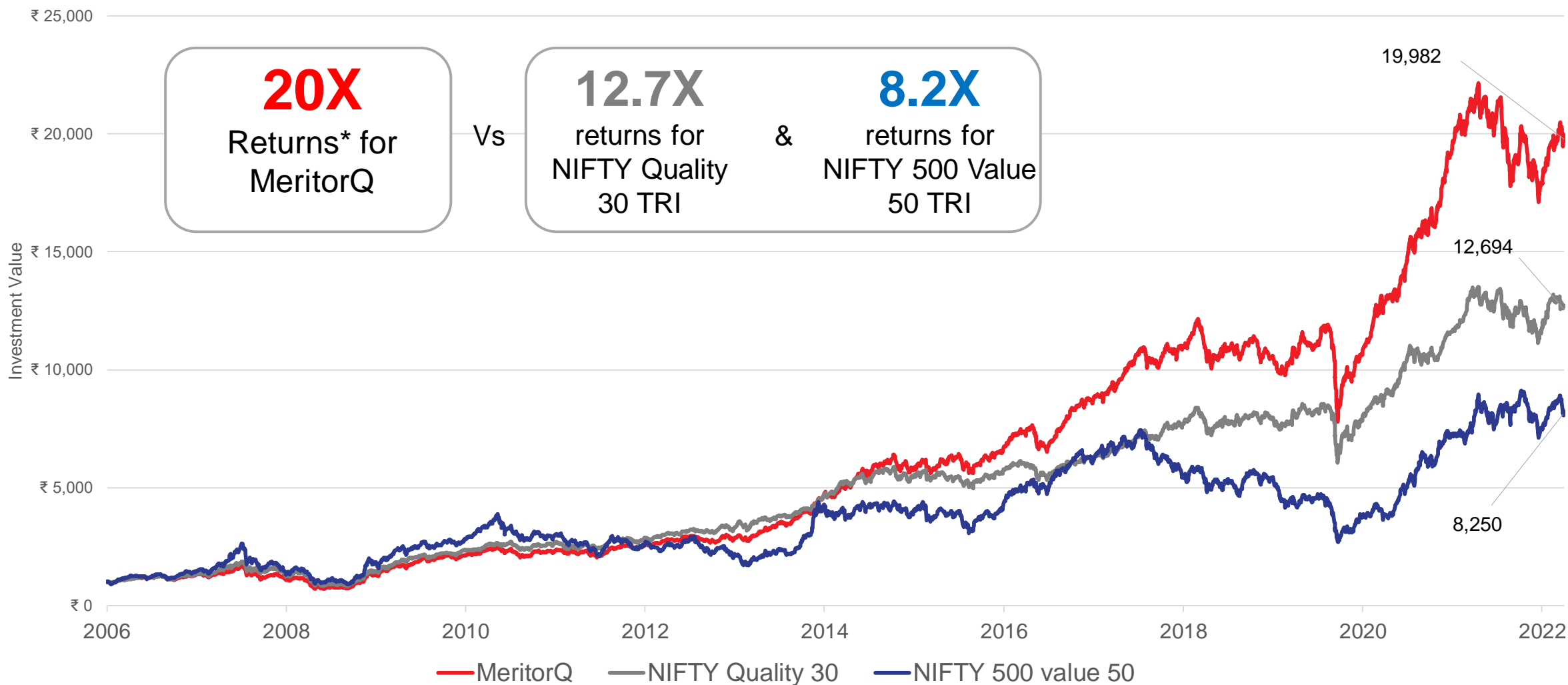
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# MeritorQ PMS Live performance vs. Nifty 500 total return index (till 31st January 2023)



Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is November 15, 2022. (ii) Returns as of January 31, 2023. (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 December 31, 2022. 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 Nifty500 above.

# Comparison with factor indices



Source: Ace Equity, Vidal, Marcellus Investment Managers.

Note: Factor Indices NIFTY 200 Quality 30 TRI and NIFTY 500 Value TRI are used to merely represent the model portfolios' performance synergies to Quality and value representation

\*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total



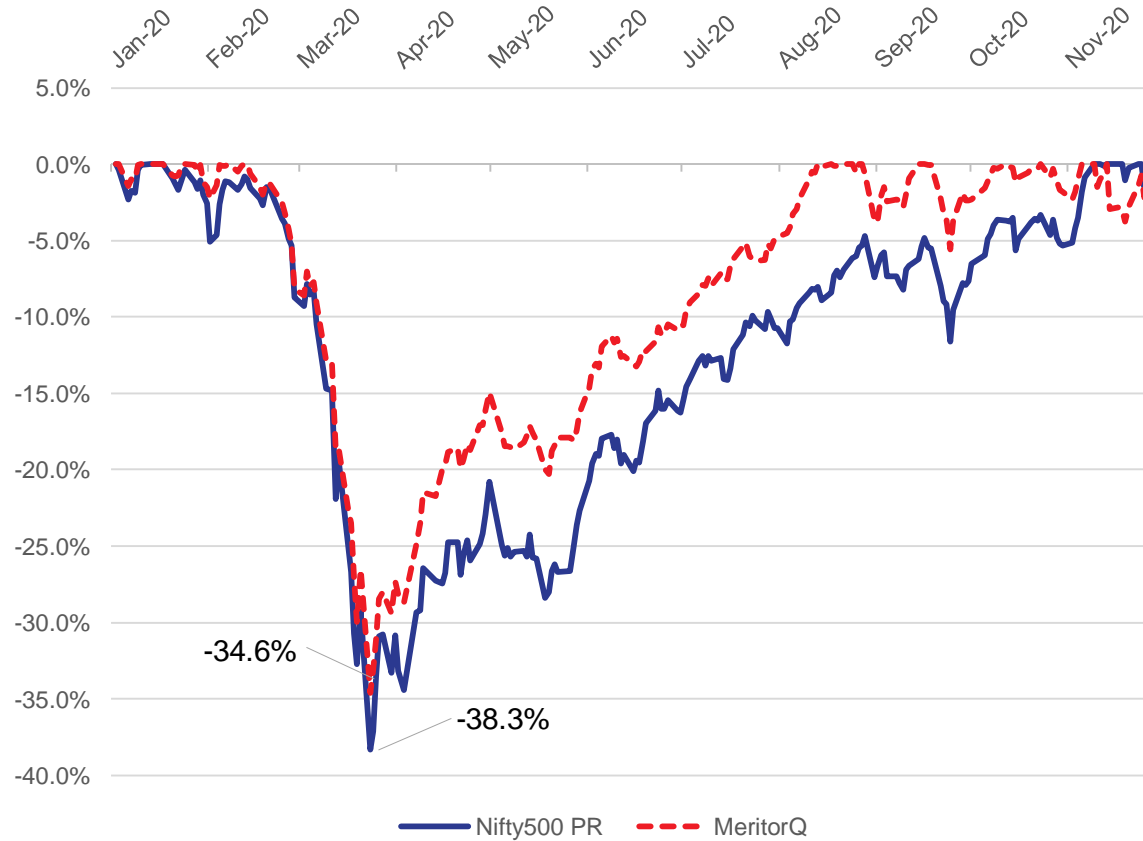
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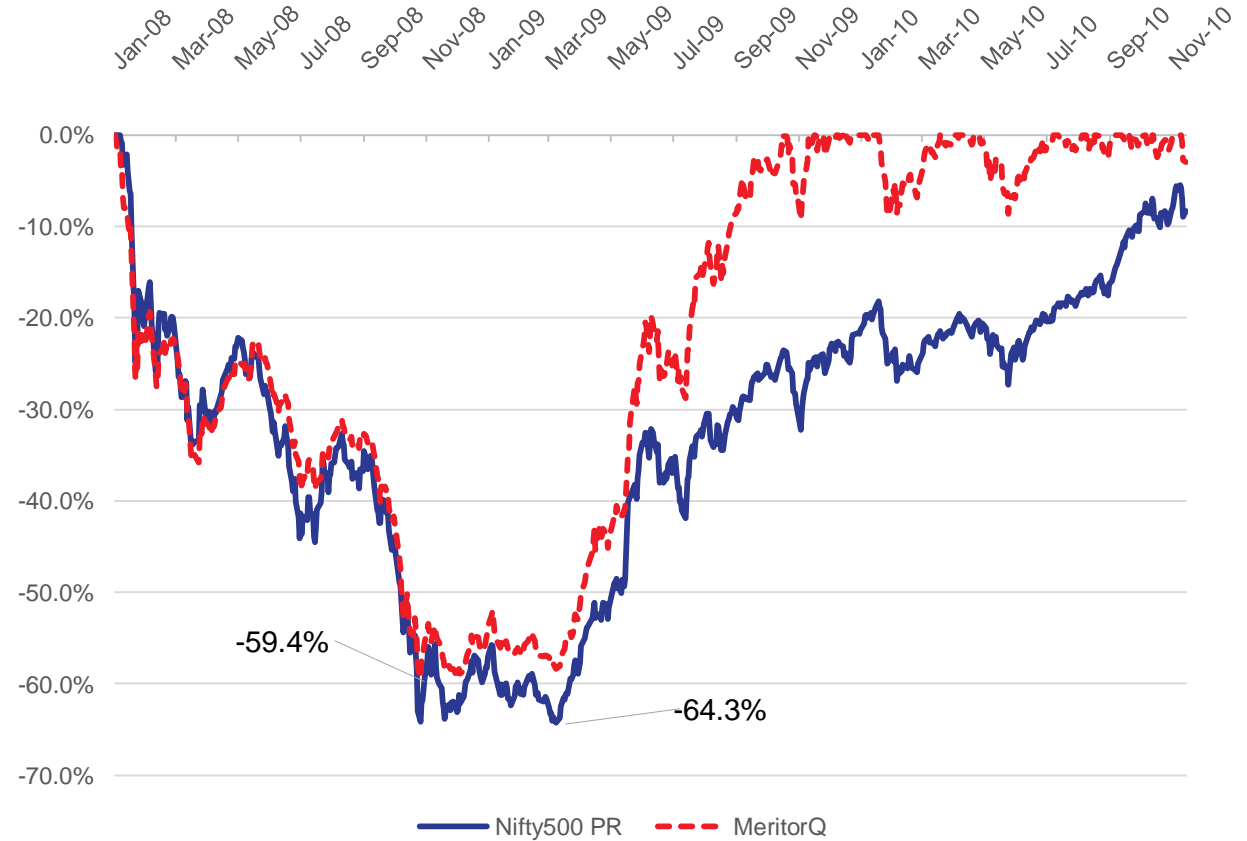
# MeritorQ had lower drawdowns and recovered faster during both Global financial crisis (GFC) and Covid Crisis



**Corona crisis –March 2020**



**GFC**



Source: Ace Equity, Vidal, Marcellus Investment Managers

\*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not

Total Returns



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# Model Back tested performance: Annual Returns



Year	Nifty 500 PR	Marcellus MeritorQ*
2007	62.5	42.3
2008	-57.1	-53.5
2009	88.6	144.4
2010	14.1	24.2
2011	-27.2	-12.4
2012	31.8	38.6
2013	3.6	21.5
2014	37.8	59.5
2015	-0.7	14.2
2016	3.8	5.6
2017	35.9	58.5
2018	-3.4	2.0
2019	7.7	1.1
2020	16.7	32.4
2021	30.2	44.1
2022 -YTD	-1.1	-5.3
<b>CAGR (July-2006 to September-2022)</b>	<b>11.4</b>	<b>20.2</b>

Source: Ace Equity, Vidal, Marcellus Investment Managers.

\*Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns



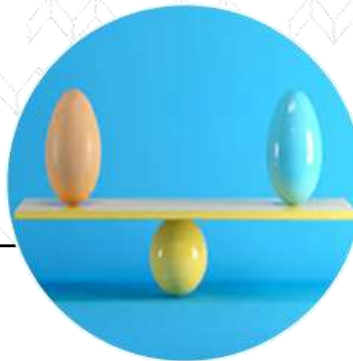
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# Closing thoughts



## Diversification

- Diversified exposure to uncorrelated factors like value and quality
- Possibility to capture performance from smaller companies. No market cap bias



## Periodic Rebalancing

- Semi annual 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 star 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: 1.5% 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).



## **Krishnan V R, CFA**

Krishnan has roughly 10 years of experience spanning both equity and fixed income research. Before Marcellus, he was involved with the New Indexes Development team at Morningstar where he used to create quantitative rules-based equity and multi-asset investment products. Prior to Morningstar, he was an equity analyst with D.E. Shaw & Co. and a credit analyst at Goldman Sachs Asset Management (GSAM) EM Corporate Debt Team. Krishnan has a Masters in Financial Engineering from Worldquant University and a PGDM from IIM, Kozhikode.

# ANNEXUR ES



# Stepwise Attribution to overall returns



Universe – BSE 500 equal weighted

Forensic Screen

- Companies in Deciles 7 to 10 not considered

Financial Leverage and Consistent Profitability Screen

Selection

- Based on composite factor score that relies on profitability and value metrics

Position Sizing

- Portfolio weighted basis value factor

Avg, 3Y rolling  
returns

3Y rolling Risk-  
adjusted returns

Number of stocks

7.9%

0.33

~500

12.8%

0.58

~270-300

17.8%

0.96

~80-100

21.4%

1.21

~30-50

22.0%

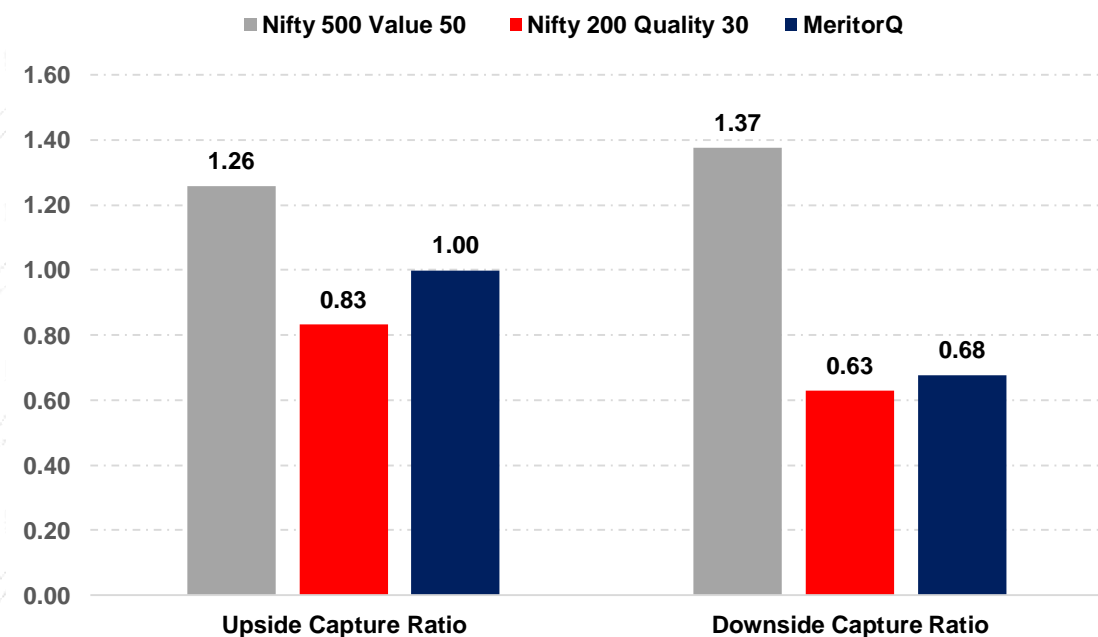
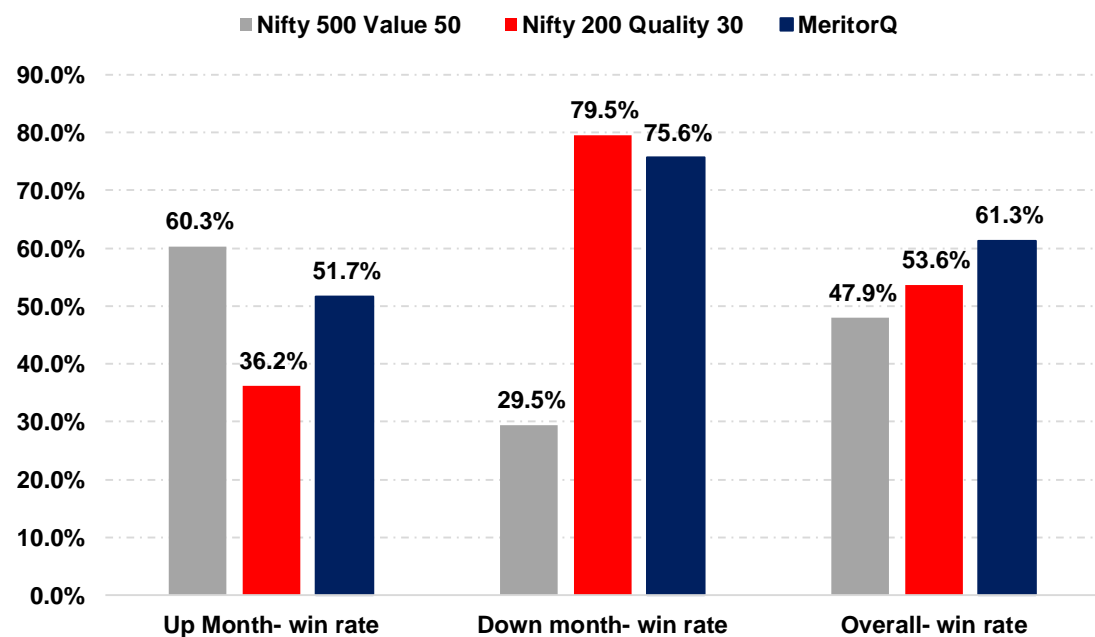
1.22

~30-50

Source: Ace Equity, Vidal, Based on backtested results from July-2006 to September-2022, gross of transaction cost, tax, brokerage & expenses. The performance shows price returns for the stock and not Total Returns

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# MeritorQ's Superior Ability to Combine Best of Both Worlds



Source: Ace Equity, Vidal, Marcellus Investment Managers. Based on backtested results from July-2006 to September-2022  
All measures are calculated on price returns gross of transaction cost, tax, brokerage & expenses.



# Thank You!

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