Disclaimer :- This was originally published on 3rd April 2019 and is part of our Q4FY19 letter. Link to the letter here

Our approach to portfolio design is guided by the following beliefs

We believe protection and compounding of Capital is best obtained by buying companies whose longterm growth and Operating Cash Flow are fairly predictable within a band.

- We hence, seek to be overweight on companies serving a Large Market opportunity, benefitting from structural tail winds of growth, have leadership of their industry or dominatea niche, are run by disciplined management teams and are available at a broadly fair price range relative to their growth rates and cash generation.
- We classify them as "Clear and Emerging" Leaders based on the maturity of their business models, predictability of earnings and use of debt
- Clear and Emerging Leaders always get top priority in capital deployment and account for ~85% of the aggregate portfolio at present

We believe in mean reversion of valuation multiples.

- A great company may not be a great Investment over a 5 year horizon if bought at the wrongprice as earnings growth will be negated by valuation multiple decline.
- However, great companies in the past few years have seldom been available cheap. Successmeans learning to manage this paradox, especially so in the current environment. When valuations for Clear and Emerging Leaders are not in favour, rather than sitting on cash, we believe one should be flexible and adapt to prevailing market conditions.
- This does not imply compromising on Governance, or attempting to generate trading profits. Rather, casting the net wider for other opportunities which may not be compounding storiesat present, but permit a healthy risk adjusted return. Hence, we also seek value in "Transformations" and "Cyclical" plays.
- Transformations are potential Clear Leaders who are working through errors made in the past. These are often available at significant discount to fair value as the market waits for clear evidence of a turnaround.
- Cyclical companies are in industries whose economics are more vulnerable to a business cycle as industry demand/supply gaps are not in their control and can affect margins significantly.

Our bias is to invest in companies who have leadership positions in their industry or those that dominate a niche. Leaders with significant market share advantages over other players enjoy a disproportionate share of the industry profit pool which propels a virtuous cycle leading to unchallenged dominance.

We prefer companies who are focused rather than those who are diversified.

- Focused companies are more disciplined on Capital allocation which results in higher ROE. They diversify into adjacencies only when they believe they can build winning positions and not be also ran players
- Diversified companies run the risk of empire building and getting distracted from their core. It's rare to find diversified companies with high ROE as Capital allocation discipline tends to be poor.

We manage risks by investing in what we understand and by sizing positions relative to quality of franchise, growth outlook and entry valuations.

- The future is uncertain and hence risk cannot completely be eliminated. Our position sizes reflect our confidence in expected outcomes.
- We believe one should take concentrated positions when circumstances are deeply in

- favour.However, we cap position weights at cost at 15% for Clear Leaders, 8% for Emerging Leadersand have lower weights for Transformations and Cyclicals due to higher uncertainty implicit in these companies

We seek compounding. However, we believe it is prudent to start taking capital off the table when multiples get exuberant – especially if the stock is relatively illiquid and if alternative opportunities forInvestment are available.