Samco ELSS Tax Saver Fund

(An open-ended Equity Linked Saving Scheme with a statutory lock-in of 3 years and tax benefit.)

Aim to outperform benchmark by investing predominantly in high potential mid sized and small sized companies while you avail tax benefits under Section 80C of the Income Tax Act.

Unitholders Handbook

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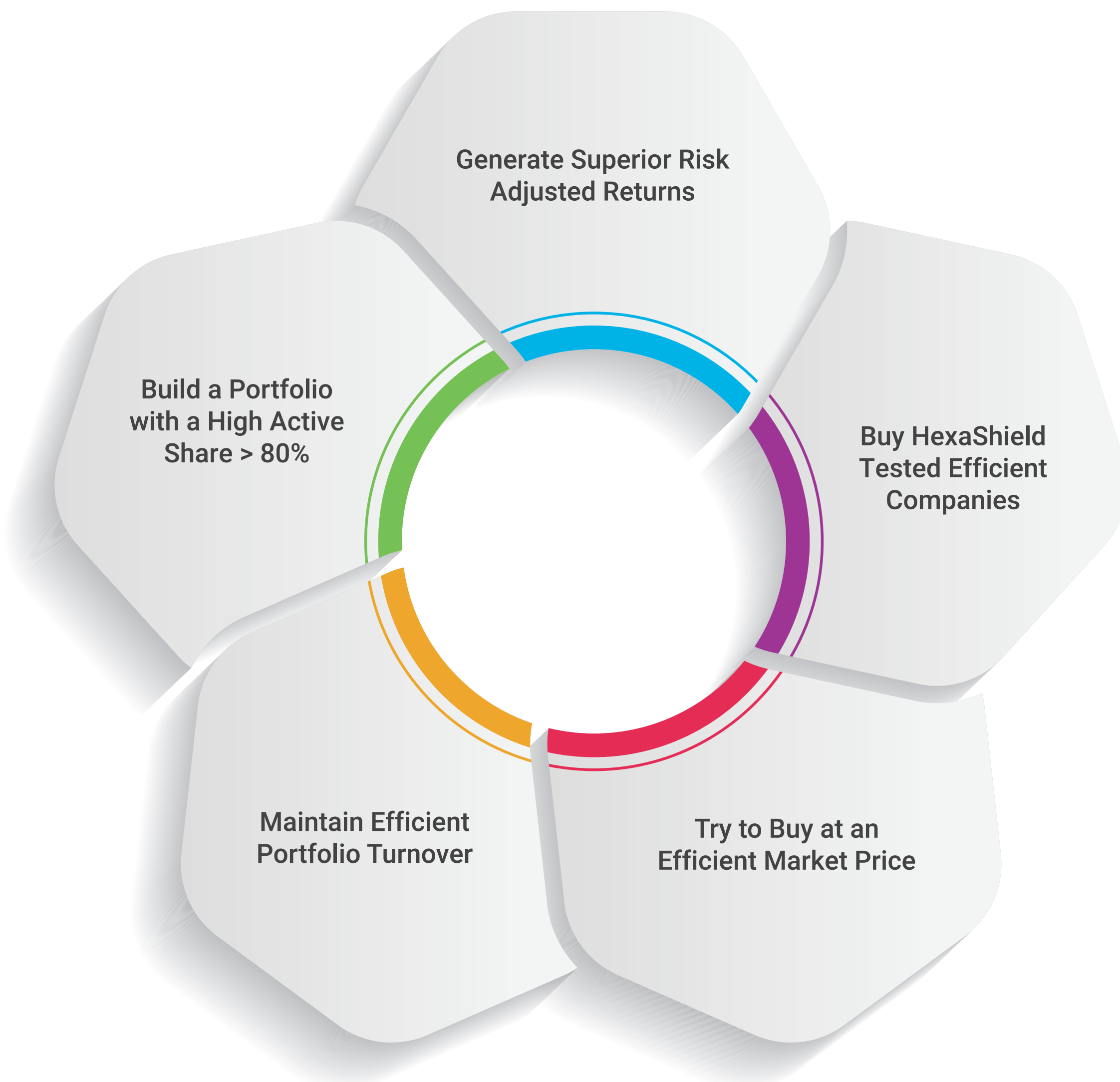
Introduction to the Unitholders Handbook

To manage our weight, we need to eat right, eat healthy and stick to a disciplined diet plan. A good diet plan clearly entails what you can do, what you should not and what you definitely cannot do and this discipline ensures that your goals are achieved. Similarly, our vision and aim with Samco ELSS Tax Saver Fund is to offer a unique Tax Saver Fund composed predominantly of MidCap and SmallCap companies unlike any in the industry currently. With this fund the endeavour is to generate risk-adjusted superior returns on a 3-year rolling period for an investor. We have designed this Samco ELSS Tax Saver Fund's unitholder's handbook to clearly outline what we will do, what we won't do and how we will stick to the discipline of a plan to achieve our objective.



Invest in high quality mid sized and small sized companies with higher return potential and get ELSS tax saving benefits under Section 80C of Income Tax Act.

Objective of a Unitholders Handbook

We want all our unitholders to have a deep understanding of what we are trying to do. This will make sure that we are truly able to stick to our aim of being an ELSS Fund which invests predominantly in MidCap and SmallCap companies in India.

We will stick to a diet and hence avoid looking at the sweet drawer

We will only invest in the equity of companies which we believe can compound in value over many years, if not decades, where we can remain a happy owner, safe in the knowledge that in 3 years' time our investment is likely to be worth significantly more than what we paid for. We work on the principle that in order to maximise long term profits, we should choose investments with the highest probability of an acceptable profit, rather than those with a small probability of a very high profit (and therefore a much larger probability of a loss). Rick Mears, a three-time Indycar World Series Champion and one of the only three men to have won the Indianapolis 500 race four times, put it rather more eloquently: "To finish first, you must first finish".

The HexaShield Tested process we use is to ensure that every company we invest in must be of the highest quality. This framework identifies warning signs and helps us avoid poor quality investments. Most importantly, we only look for investments in industries which we know from experience will create shareholder value over the long term, while avoiding the temptation of looking at companies in industries which will not. We figured that if you want to stick to your diet, you should not look into the sweets drawer.

There are many fads in investing which come and go: the Dotcom boom; the infra "supercycle" (which turned out to be just a plain old cycle); the credit bubble; and most recently the cryptocurrency craze, one more example in a continuous stream of 'new' ways to make money. There are no new ways to make money. It is now a subject over which people have obsessed for centuries and so radical discoveries are unlikely. We need you, our investors, to understand that we would never knowingly take part in any fads. Although we may as a result miss out on seemingly high returns in the short term, you can be rest assured that we will be nowhere near the assets in question when the speculative bubble bursts, which it always does.

We need you to understand this, since we wish to concentrate all our efforts on making the fund work for you in a 3-year time horizon, and don't want to deal with endless queries about why we are not following a particular investment fad.

Who are we?

Samco Mutual Fund - A HexaShield Tested mutual fund is a fund managed by Samco Asset Management Private Limited which is sponsored by one of India's leading equity brokerage firms, Samco Securities Limited.

At Samco Mutual Fund, we aim to execute our vision by pioneering the concept of HexaShield Tested investing and truly active investing in India and in the process offer a methodology of investing in the ELSS category of mutual funds that Indian retail investors have not been able to access before.

What is HexaShield Tested investing?

HexaShield Tested investing is a strategy to put your money to work with businesses that can endure and survive in a variety of stressful situations and generate superior long term risk adjusted returns.

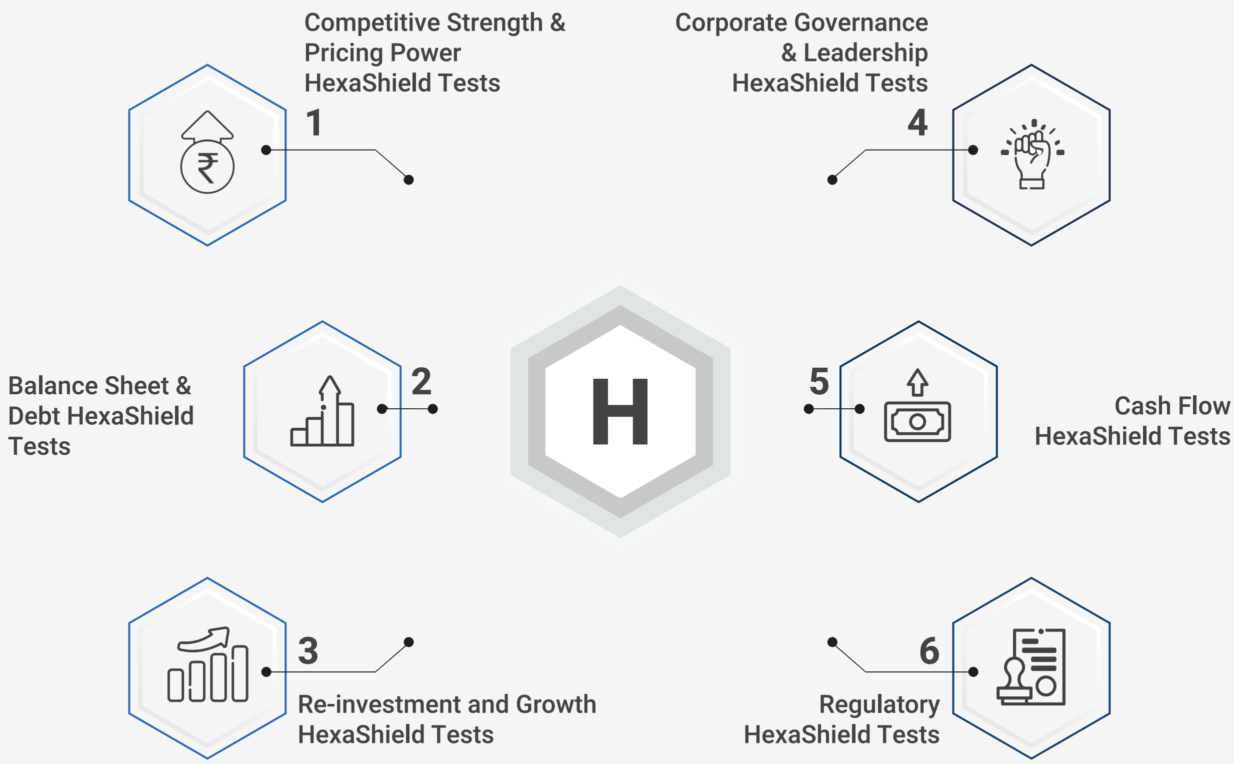
It relies on understanding the resilience of companies based on Samco's HexaShield Framework which tests and evaluates every company and institution on 6 most important facets of risks and stress. These tests are meant to measure every company's ability to maintain enough buffer to stay afloat under extremely stressful scenarios. The HexaShield tests are also designed to understand if these companies can generate high cash returns on capital employed in a variety of economic conditions including extremely adverse economic conditions. This rigorous scientific and statistical process helps get a deep understanding of risks, reduces room for bias and personal beliefs, inculcates discipline and enhances the probability of success.

Companies that pass the HexaShield test often exhibit 2 characteristics - they survive as a going concern during severe economic distress and operate as true compounding machines in normal economic cycles.

HexaShield Tested investing is only investing in companies that pass these rigorous tests and score highly under the HexaShield Framework.

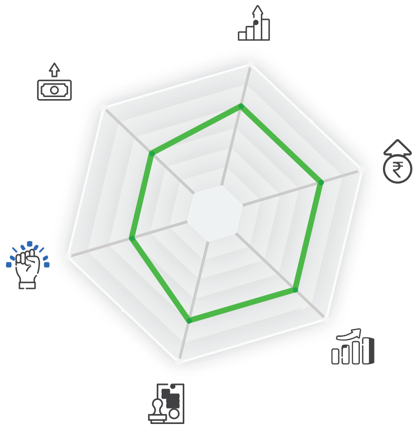
The underlying premise of HexaShield tested investing is that we live in an increasingly disruptive world where lives of businesses have gotten shorter and that the source of all long term returns is simple - businesses generating high returns on capital and their ability to reinvest at incrementally high rates.

The 6 Facets of the HexaShield Framework:



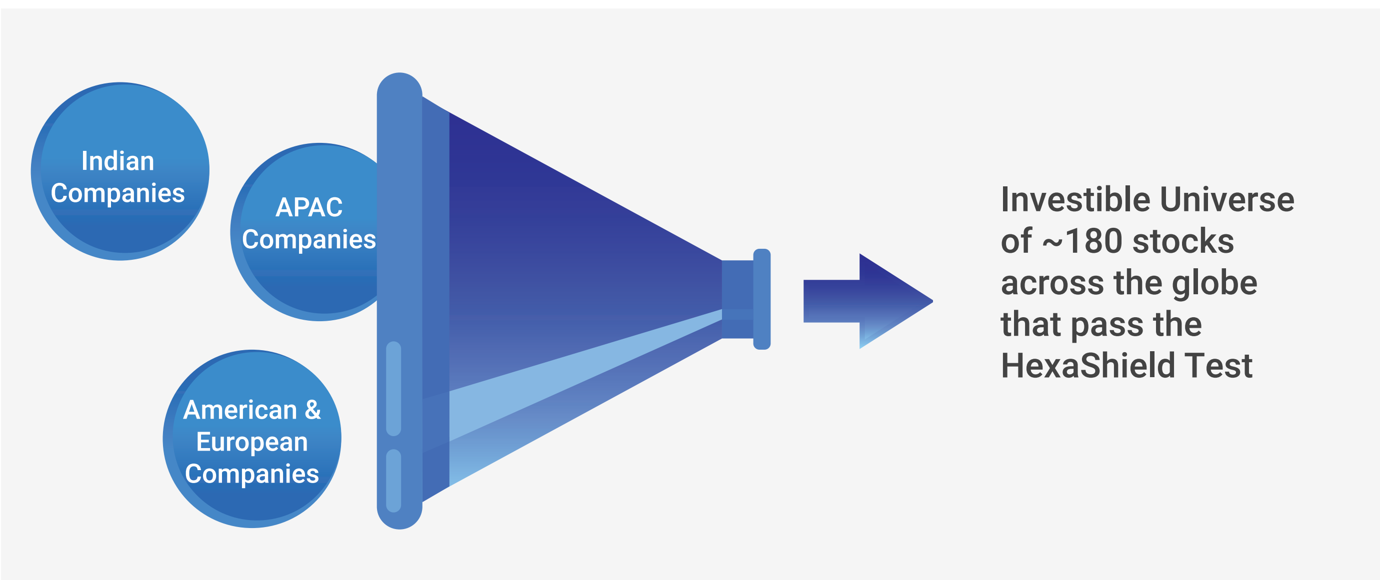
Like humans, companies also chase excellence in order to be successful therefore being an average player in a competitive landscape rarely enables a business to generate consistent above average returns. The HexaShield Tested Framework therefore puts businesses through extreme pressure scenarios to filter out the businesses that stand tall and emanate excellence despite any adversity. It observes if companies pass the test on various fundamental factors and only the ones that cross the benchmark percentage hurdle in all 6 pillars will be eligible to be a part of our investment universe. The companies which fail to cross the benchmark level on even a single pillar will fail the test.

HexaShield Test : Pass



HexaShield Test : Fail

Out of a universe of over 67,000 listed Global and Indian equities, our investible universe is narrowed down to a select group of 180+ stocks from across the world, because of the rigorous HexaShield Tested process.



As an asset manager, Samco is committed to offering products that are truly HexaShield Tested that can generate superior risk adjusted returns over the long term.

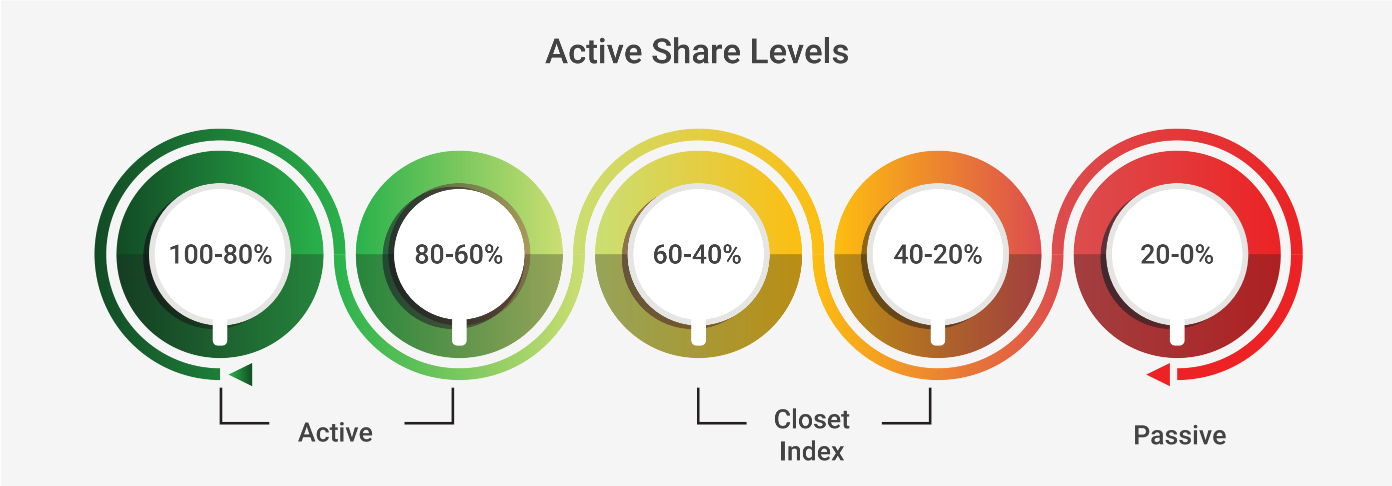
Pioneering transparency and truly active funds

The average equity fund manager owns far too many stocks and in effect tracks the index. So, the result is that investors are getting an index fund less the manager's fees and costs of dealing, which are also expensive. This structure makes underperformance against the index inevitable.

Why do fund managers do this? Because for them, the greatest risk is not underperforming the index with investors money, it is stepping out of line with their peers, especially if they fail. Warren Buffett famously said, 'Failing conventionally is the route to go; as a group lemmings may have a rotten image, but no individual lemming has ever received bad press.'

Moving away from the crowd, Samco Mutual Fund transparently discloses Active Share to Indian investors, so they know that when they are paying a fee, it's certainly for buying something widely different from the Index.

Active Share measures the fraction of a portfolio (based on position weights) that differs from the benchmark index. The only way an equity fund manager can outperform a given benchmark is by taking positions that differ from those in the benchmark. Active Share will always fall between 0% and 100% where 0% will indicate a truly passive index fund and a higher percentage closer to 100% will show true active management with portfolio stocks diverging from the benchmark. The Active Share measure was developed by Martijn Cremers and Antti Petajisto, both Yale professors.



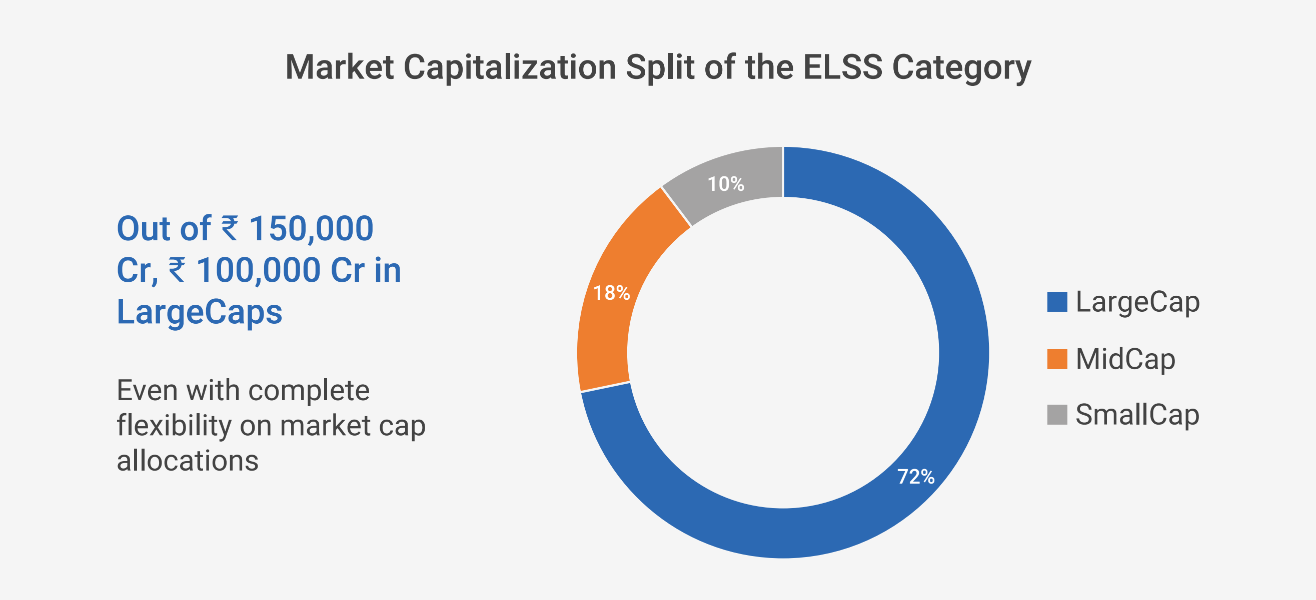
A high level of Active Share demonstrates that we manage a truly distinctive portfolio. Our value offering to our investors is building a sufficiently diversified portfolio while pursuing our goal to outperform the benchmark over the long-term. To this end, our ELSS Fund's portfolio will have high conviction investments in 35 companies that we believe have significant potential and are truly HexaShield Tested.

Effort to create a unique portfolio to generate higher risk-adjusted returns

Just imagine, if you want to invest in an ELSS scheme today, you would find that there are 39 schemes available for you to choose from. But, when you dig a bit deeper, you will be surprised to find that these schemes are not very different from each other. This is because of primarily two reasons -

1. **The majority of their holdings are predominantly invested in LargeCap businesses.**

   Currently on an average about 70% of the total holdings of all ELSS schemes are in just LargeCap businesses, while the exposure in MidCap and SmallCap is significantly lower. *(Data as of Sep, 2022).*



Source: NGen, as on September 30, 2022

Even if we split the total AUM of the ELSS category in terms of market cap, LargeCaps constitute the biggest piece of the pie with 72%, MidCap and SmallCaps encompass ~28% a smaller component of the total. This is the situation, despite there being full flexibility on market cap allocations under Equity Linked Savings Scheme, 2005.

2. **Most of them own the same set of stocks.**

   About 40% of the holdings of these funds are in the same set of stocks; and from this 40% again, a significant contribution is ONLY by 3 stocks i.e. ICICI Bank, HDFC Bank and Infosys. *(Source: NGen, as on September 30, 2022)*

   Because the constituents of all ELSS funds are more or less the same, it is difficult for an investor to choose from amongst them.

   Samco Mutual Fund therefore introduces an ELSS product with a predominantly MidCap and SmallCap exposure.

Why a 3-year mandatory lock-in ELSS Product of MidCap and SmallCap businesses is a solid combination?

A calendar year-wise return comparison of Nifty50 index with Nifty MidCap 150 and Nifty SmallCap 250 shows that MidCap and SmallCap indices beat LargeCaps by an average of 8% and 9% respectively for a period of 16 years (CY 2006 to CY 2021).

Year	Nifty50	MidCap 150	SmallCap 250
CY-2006	41%	27%	31%
CY-2007	53%	79%	99%
CY-2008	-51%	-63%	-66%
CY-2009	72%	113%	116%
CY-2010	18%	15%	14%
CY-2011	-25%	-31%	-35%
CY-2012	28%	42%	36%
CY-2013	6%	-4%	-8%
CY-2014	31%	64%	76%
CY-2015	-4%	11%	13%
CY-2016	3%	7%	3%
CY-2017	28%	55%	60%
CY-2018	5%	-12%	-26%
CY-2019	12%	2%	-6%
CY-2020	15%	24%	23%
CY-2021	26%	49%	64%
Average	**16%**	**24%**	**25%**

Source: NSE, SamcoMF internal research. Past performance may or may not sustain in future. Returns are absolute. MidCap and SmallCap stocks carry a higher risk of market fluctuations and are also prone to higher liquidity risks than LargeCap stocks.

Even on a rolling returns comparison, a 3-year average rolling return of Nifty MidSmallCap 400 was **48.91%**, much higher than a 3-year average rolling return delivered by Nifty 500, which was **40.92%**. MidCaps, yet again, delivered a **8% higher** return in 3 years!

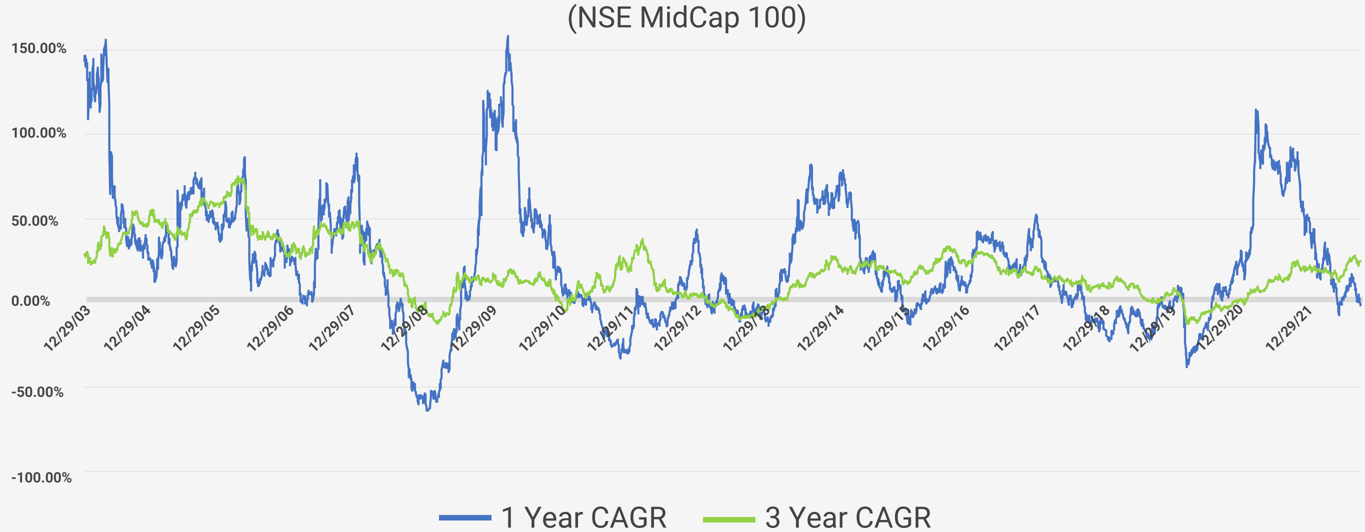
3 - Year Avg. Rolling Return Comparison

Source: NSE since April, 2005. Please note that above indicate 3 years average rolling return for Nifty MidSmallCap 400 and NIFTY 500 index from April 01, 2005 till October 13, 2022. The above returns are of index and do not indicate returns of the scheme. Past performance may or may not sustain in future. MidCap and SmallCap stocks carry a higher risk of market fluctuations and are also prone to higher liquidity risks than LargeCap stocks.

These higher returns do come with some caveats - First, MidCaps and SmallCaps may not outperform in every time period but the performance is clearly visible over a longer period of time; Second, Higher volatility. While the volatility in MidCaps may be higher in a shorter horizon of 1 year, it definitely smoothens out when these same stocks are held for a longer time horizon of 3 years.

Over a 3-year period, Volatility smoothens significantly

(NSE MidCap 100)



Source: NSE, Samco Mutual Fund internal research. Note - Past performance does not guarantee future results.

This lower returns volatility in a 3-year timeframe, make MidCap and SmallCap businesses best suited for ELSS schemes (which by default has a lock-in of 3 years). So, all-in-all, a 3-year lock-in and a MidCap and SmallCap portfolio is a solid combination for an investor.

The Strategy

E3 Strategy

Step 01	Step 02	Step 03
Buy only Efficient HexaShield Tested Companies	Try to buy at an Efficient Market Price	Efficient Turnover

1. Invest only in efficient HexaShield Tested companies

Our strategy aims to invest in only the most efficient HexaShield tested companies. Samco's HexaShield tested framework strictly defines and quantifies the definition of a high quality business. Our investible universe is restricted to a limited set of 80-100 businesses from India that pass our stringent HexaShield tests and we will construct a portfolio of 35 stocks from this universe.

A. Breaking the Myth - All MidCaps and SmallCaps are poor quality businesses

There is a myth that all MidCaps and SmallCaps are poor quality businesses just because of their size! The fact is quite the contrary because some MidCap and SmallCap businesses have extremely robust earnings growth, high stickability, strong intangible value, high pricing power and hence they are leaders in their respective niche sectors despite their smaller size.

- Page Industries – Leading premium innerwear
- Kajaria Ceramics – Largest Tile Manufacturer
- Fine Organics – Leader in additives
- Jubilant Foodworks – Leading QSR
- CDSL – Largest Securities Depository

Note - The Stock(s)/Issuers(s) mentioned are only for the purpose of illustration and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned from time to time.

India’s leading premium innerwear and athleisure company is MidCap. India’s largest tile manufacturer is a MidCap stock. A leader in additives, largest securities depository, largest QSR player all are MidCap or SmallCap stocks! Thus, MYTH BUSTED!!!

There are enough and more examples of fine businesses such as Nestle, Bajaj Finance, Asian Paints, Godrej Consumer Products etc. who are LargeCaps currently but have been both MidCaps and category leaders earlier. In their transition process from MidCaps to LargeCaps they have delivered amazing CAGR returns of around 20% or more to an investor in a 15 year time period.

To invest in the right businesses which can become leaders of tomorrow, we need to understand several traits of MidCap businesses.

Nestlé	BAJAJ FINANCE LIMITED	TITAN COMPANY
19.65%	42.76%	26.91%
asianpaints	BRITANNIA	godrej CONSUMER PRODUCTS
26.65%	24.46%	22.01%

Source: Refinitiv, Internal Research. Note - Returns mentioned are 15-Year CAGR. The above return do not indicate returns of the scheme. The stock(s) mentioned above do not constitute any recommendation and Samco Mutual Fund may or may not have any future position in this stock(s).

B. What can happen to a MidCap Business?

It can become a LargeCap business

It can become a SmallCap business

Note - The Stock(s)/Issuers(s) mentioned are for the purpose of illustration and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned from time to time.

Every MidCap stock faces one of two outcomes:

1. A MidCap becomes a LargeCap - Examples of Wealth creators are Asian Paints, Bajaj Finance, Godrej Consumer Products, Britannia, Titan. They show very similar traits such as sustainable growth, no regulatory overhang, high entry barriers, strong corporate governance, healthy cash flow management and low debt. These characteristics have enabled them to become the LargeCaps and make wealth for investors.

   OR

2. A MidCap becomes a SmallCap - Examples of Wealth destructors are Manappuram Finance, Dhani, Future Group, MRPL, Amara Raja Batteries and Apollo Tyres. They also show very similar traits such as inconsistent to no growth, high regulatory overhang, low entry barriers, poor corporate governance and cash flow management and high debt.

These characteristics have led to a significant deterioration in their business

Parameter	MidCap becomes SmallCap	MidCap becomes LargeCap
Sustainable Growth	✗	✓
Regulatory Overhang	✓	✗
Entry Barriers	✗	✓
Corporate Governance	✗	✓
Cashflow Management	✗	✓
High Debt	✓	✗

Therefore, the one thing that decides the fate between a MidCap growing to become a LargeCap or a MidCap de-growing to become a SmallCap is only one word - **QUALITY**

To filter the quality of a business is exactly where there is need for technology and process driven tools such as the HexaShield Framework.

C. What is an efficient HexaShield tested MidCap and SmallCap company?

It is a company that has an ability to sustainably generate a high return on capital in cash adjusted for discretionary growth expenditures. We typically seek businesses that make above average adjusted return on capital and are within a market cap of ₹ 47,000 Cr.

Let's break this down:

i. **We are looking for MidCap and SmallCap businesses that are growing and are leaders in their respective niche sectors**

Contrary to belief that only LargeCap businesses can be leaders in their sectors, India has a number of mid sized and small sized companies which are dominant in their respective sectors. India's leading premium wear and athleisure company is a mid-sized stock; India's largest tile manufacturer is also a mid-sized stock; Leader in additives, Leader in agro-chemicals, Leader in Formulation Pharma all belong to either a MidCap or SmallCap universe.

The table below gives a sneak peak into the kind of market cap growth these businesses have delivered over a longer time period. Not only have they grown in terms of Market cap but their earnings growth have also compounded significantly in the past few years.

Company		MidCap/SmallCap	Market Cap CAGR	Horizon
Kajaria TRANSFORM YOUR WORLD	Kajaria Ceramics	MidCap	31%	10 years
FINE ORGANICS	Fine Organics	MidCap	53%	4 years
PI Inspired by Science	PI Industries	MidCap	42%	10 years
Unique	J.B. Chem	SmallCap	38%	10 years

Note - The Stock(s)/Issuers(s) mentioned are for the purpose of illustration and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned from time to time.

ii. **We are seeking a high return on capital business that generates its returns in cash and on an un-levered basis.**

Return on capital employed is the single most important financial metric while evaluating a business. Not EPS, Not ROE, but ROCE.

If you invest in a fixed deposit you want to know the rate of interest. If you own a bond, you want to know the redemption yield. If you invest in a fund, you want to know what sort of returns it can deliver. The same is applicable while evaluating a company as well where you ought to know what returns it makes on the capital employed.

Additionally, if you own shares for long periods of time, the returns they deliver will move towards the company's return on capital. This is a simple mathematical equation as we will explain in subsequent sections.

Also, it's important for the business to generate most of its return in the form of free cash because if there's no cash, how does one even judge if the return is real or not? Companies can do all sorts of accounting gimmickry to demonstrate an accounting return on capital but unless we see that in cash, it's a pass for us.

It's also important that companies earn a high return on their capital on an un-leveraged basis. Companies that need a disproportionate amount of debt to generate returns, usually end up having stressed balance sheets with no room for error and consequently, extremely high risk. Companies that form a part of our portfolios survive our HexaShield tests with an excellent score. These businesses can function without debt as well and are likely to have no impact even if lines of credits were withdrawn any time. Companies such as Suven Pharma, IEX or Dr. Lal Pathlabs in the MidCap and SmallCap space have excellent balance sheet strength and will remain solvent even in extremely stressful situations. On the other hand, a lot of companies in the telecom, textiles, aviation space amongst others have balance sheets that are barely solvent and any exogenous shock puts them on the brink of bankruptcy.

iii. We are seeking businesses that make investments for growth and therefore we look at adjusted return on capital employed

Traditional accounting return on capital employed ignores one important aspect. Very often, a lot of revenue expenditures that are made through the P&L are actually of a capital expenditure nature. These usually are R&D expenses, discretionary advertising and promotional expenses and even salaries paid to technology teams like developers. Usually these expenses are incurred and debited to the Income Statement, however, these outflows are made for building intangible assets which enable future growth and compounding of returns. Now, we wouldn't want to penalize companies for investing in R&D and building their brand right?

We therefore rely on a metric we call the adjusted return on capital employed.

We estimate the amount of these expenses that are essentially of capital nature, we notionally capitalize them, apply an amortization factor and adjust earnings to derive the Adjusted Return on capital employed.

So, even while companies may appear to be losing money basis traditional accounting methodology, its core business generates a ton of free cash flow which is re-invested for R&D or brand building. These kinds of businesses do pass our HexaShield tests and form a part of our investible universe.

Our process clearly implies and demonstrates that we are looking for companies with growth potential.

We firmly believe that the holy grail in investing is companies not only being able to generate a high return on capital, but also have a high reinvestment rate, also at an incrementally similar or higher RoCE. What this means is, while we are happy that our companies may generate ₹ 25 on every ₹ 100 invested, we also want our companies to retain a large part of these earnings (ideally 100% of ₹ 25) and generate a 25% return in the following year on a invested capital base at ₹ 125 i.e. generate ₹ 31.25 in earnings the next year. Over time, this should compound shareholders' wealth by generating more than a rupee of stock market value for each rupee reinvested.

It's pretty obvious from the above, unlike most investors, we absolutely hate it when our companies declare dividends, instead of reinvesting earnings back into the business.

This does not mean growth at any cost. The growth must be profitable of course, generating high returns on the additional capital invested into the business to enable this growth.

The growth that we look for is achieved through either increases in volume or increases in price. We prefer a mixture of both. The ability to increase product prices above the rate of inflation is the most profitable way to grow, and communicates to us that the company has a healthy competitive position selling products or services which are strongly desired by their customers. However, growth through price increases alone can result in undesired competition for weaker players or the unorganised sector as well.

On the other hand, growth through additional unit volumes almost always requires more cost, in manufacturing capacity, volume of materials used to produce the products, as well as distribution to customers. But increasing scale in this way will eventually make your market position more difficult to compete against, unlike growing through price alone, with the further benefit that volume growth can sometimes continue almost indefinitely. Several companies operating in the MidCap and SmallCap consumer space such as VRL Logistics have high returns on capital but usually fail growth and re-investment HexaShield tests due to their inability to grow volumes in already well penetrated markets.

Usually the source of growth and large reinvestment opportunities that we seek come from playing out trends/themes such as - New product & Category development, Globalisation of local products or services, Under penetrated consumption of essential goods/services, Ageing population, Urbanisation of rural markets, shift to premiumization, etc.

iv. We are looking for businesses that can sustain their returns on capital across cycles

It is important to note that we are not just looking for a high rate of return on capital. We are seeking a **sustainably** high rate of return which means we would like our businesses to sustain these returns across cycles and time periods.

What contributes to sustainability of these high returns?

- **Repeat purchases from consumers**

An important contributor to sustainable returns is repeat business from consumers. A company that sells many small items each day is better able to earn more consistent returns over the years than a company whose business is cyclical, like a "lumpy" property developer.

Even business services companies may have a source of consistent repeat business like fast food items, Pizzas (Eg. Jubilant Foodworks Ltd. etc) earn much of their revenue from value added food services. These companies very well clear our HexaShield Tests.

- **Essential nature of products or services**

The source of high sustainable returns is the fact that consumers do feel the need to consume products or services even in tough times due to the essential nature. This is why we don't prefer companies with products/services that have a life which can be extended. When consumers hit hard times, they can defer replacing their cars, houses and appliances, but not food and toiletries. You could always not go to the movies (PVR, Inox Leisure) or defer buying a home from Godrej Properties, but if you need to take a blood test, you cannot defer the same and would have to go to a Dr. Lal Pathlabs or a Metropolis without much choice.

This rules out most businesses that do not sell direct to consumers or which make goods which are not consumed at short and regular intervals. Capital goods companies sell to businesses; business buyers are able to defer purchases of such products when the business cycle turns down. Moreover, business buyers employ staff whose sole raison d'être is to drive down the cost of purchase and lengthen their payment terms.

However, not all companies which sell capital goods or which sell to businesses are outside our investible universe as we discussed cases of services companies or capital goods companies with installed bases as above.

- **Intangible Asset base**

There are 2 types of businesses in the world. One where returns on capital are subject to law of mean reversion and other where they are not. The law of mean reversion states that returns must revert to the average as new capital is attracted to business activities earning super-normal returns.

Companies that have sustainably high returns can do this because their most important assets are intangible assets which can be very difficult to replicate, no matter how much capital a competitor is willing to spend. These companies do not over rely on physical assets, which can be replicated by anyone with access to capital. Moreover, it's hard for companies to replicate these intangible assets using borrowed funds, as banks tend to favour businesses with tangible assets. This means that the business does not suffer from economically irrational (or at least innumerate) competitors when credit is freely available.

The kinds of intangible assets we seek are brand names (Colgate, Relaxo Footwear and Crompton Greaves Consumer Electrical in consumer durables), dominant market share (Crisil in Credit Rating), patents, distribution networks (Dr. Lal PathLabs, Glaxosmithkline Pharma), installed capacity (Abbott India) and client relationships (Balkrishna Industries, Grindwell Norton, etc). Some combination of such intangibles defines a company's franchise.

- **Management with astute business acumen**

One of the most important sources of long term sustainable returns is the management's strategic and executional abilities to operate a business in a competitive environment. We look for able managers who have the experience needed and the capability to make efficient capital allocation decisions. An appropriate capital allocation strategy is extremely essential for expansion and growth of a business and to steer the Company in the right direction. The CEO of a Company is the driver of the car and his/her decisions are paramount to the future returns a business can deliver.

- **Laser sharp focus & no conglomerate structures**

It's important for the businesses that we invest in to be laser sharp focused on the products and services that they build and the business segments that they operate in.

It is important that the organizations not only know what they can be best in the world at but also know what they cannot be best in the world at. The idea is to find the competency at which you can truly be the best in the world and then discard any other competencies. There are only a few things that businesses can be best at and we prefer our companies to stick to their core business competency. Only when the companies indulge in things that they are best at and really passionate about, can they produce results that exceed expectations that we set. Natural extensions to product segments are fine but we definitely are not fans of unrelated diversification. This rules out conglomerates engaged in every business. How often can you be the best at and passionate if you are in the cement, oil & gas, telecom and retail business at the same time?

D. What may not form a part of the portfolio?

As a result of our stringent investible universe, a lot of sectors/themes/stories may not form a part of our portfolio. These may include cyclical and commoditized businesses, short term investment fads relying on the greater fool theory, capital intensive sectors like power, etc.

One of the most fundamental reasons why we may avoid these are due to what we call the 50/80 rule. The 50/80 rule implies that there is a 50% chance that stock prices of these companies will fall by 80% and there is an 80% chance that stock prices will fall 50%. We typically are trying to avoid such businesses with such deep drawdowns for the simple reason that deeper the drawdown, harder is the road to recovery.

2. Try to buy at an efficient price

Even for the highest quality companies there will be a valuation at which they are no longer attractive investments which is why it's important that we don't end up paying inefficient prices for our wonderful HexaShield tested efficient businesses. We understand that our universe of companies could sometimes be more expensive than the rest of the market and we are willing to pay that premium for the quality, but we constantly remind ourselves of trying to avoid paying too large a premium. This is important because we want our companies to invest for growth and not refrain from making growth expenditures.

We try to value companies based on a metric we refer to as the Adjusted Free Cash Flow Yield. The adjusted free cash flow yield is derived by computing the free cash flow to equity shareholders but after adding Capex like revenue expenditures (like R&D, advertising, technology costs) and capital expenditures which are not needed to maintain the business.

We compare this adjusted free cash flow yield (the free cash flow as a percentage of the company's market value) across a universe of listed peers in local/global markets and also to other assets classes like bonds and will only buy when we believe that the relative yield is justified vis-a-vis the rest of the comparative universe.

We also look for businesses with a high compounding ability and a strong relative performance compared to its peers. Together after considering all factors, we narrow down the efficient price of a particular business.

A well defined exit framework

A lot of emphasis in the investment process is laid on what are the kind of stocks that should be bought or when should a stock be bought but very little is said or written about when you should exit a stock. At Samco, we follow a few strict and well defined exit framework and will only exit when one of the following exit criteria is met.

i. **A business subsequently fails the HexaShield test as a part of our ongoing evaluations:** While we believe in investing in efficient businesses, we definitely do not buy and forget about them. There will be plenty of action in terms of continually testing our HexaShield test results against new information we discover while constantly reviewing the news and results concerning the companies we invest in. If as a part of our ongoing evaluations, a company that had passed the HexaShield test earlier subsequently fails the HexaShield test, we will exit the same irrespective of what weight it may carry as a part of our portfolios.

ii. **We end up finding an extremely compelling opportunity from our HexaShield tested investible universe:** Our aim is to run a portfolio of 35 MidCap and SmallCap names to strike a balance between concentration and diversification. This means that if at all, we do end up finding an extremely compelling opportunity from our investible universe, we will exit our lowest ranked idea to make space for a new idea.

iii. **Our winners hit the prescribed 10% ceiling:** Our fund strategy relies on the framework of letting our winners run. However, if there is a soft breach where our winners exceed 10% of the assets of the fund, as prescribed by SEBI, we will trim our exposure to comply and bring our holdings back to permissible levels.

iv. **MidCaps turning into LargeCaps/MegaCaps:** Given that the fund invests predominantly in MidCap and SmallCap businesses, any MidCap company(s) turning into LargeCaps/MegaCaps could be rejigged depending on its valuation and ability to compound returns then, in order to maintain an optimum mix of the portfolio.

v. **Significant Relative Underperformance:** There may be times when a stock significantly underperforms its peers. We aim to cut our losses short by exiting such a stock because more often than not prices are the first to capture any material deterioration in fundamentals of a business, after considering and taking market cycles into account.

3. Maintain an Efficient Portfolio Turnover

We aim to maintain an efficient portfolio turnover with 35 HexaShield Tested businesses. We will predominantly invest in MidCap and SmallCap stocks and they will be actively monitored to maintain the right balance between diversification and risks.

Portfolio Construction

Portfolio of 35 stocks

We aim to build a portfolio of 35 HexaShield Tested efficient businesses because of the inherent peculiarities of owning MidCaps and SmallCaps businesses listed below, we can achieve an optimal diversification with 35 stocks in the portfolio.

1. No geographic diversification: ELSS category currently allows investment predominantly in the Indian listed stock market. In order to mitigate the geographical concentration, a portfolio of 35 stocks does suffice.
2. Relatively Lower Liquidity: Given that LargeCap stocks are well-known, they are heavily traded which makes them highly liquid. However, MidCaps have lesser volumes than LargeCaps i.e. less liquid whereas SmallCaps are the least liquid.
3. Higher Price Volatility: LargeCap companies tend to be less volatile, i.e. their prices remain relatively stable even amid turbulence. On the other hand, MidCap and SmallCap stocks are more volatile than LargeCap stocks and in turn carry more risk.
4. Higher Business Risks: There exists a higher probability of a MidCap player turning into a SmallCap than turning into a LargeCap player.

ELSS with a predominant exposure to MidCap and SmallCaps

Within the portfolio, majority exposure will be of MidCap and SmallCap businesses and we will hold our winners and let them turn into LargeCaps.

We seek high growth businesses in India

We firmly believe that India being the fastest growing young economy has some of the best investment opportunities for decades to come. MidCap and SmallCap businesses are uniquely positioned to capitalize on major shifts in a growing economy.

Benefits of Samco ELSS Tax Saver Fund

1. Differentiated product offering with higher potential to generate alpha due to a predominantly MidCap and SmallCap portfolio.
2. Higher risks and volatility which can efficiently be managed due to a 3-year lock-in.
3. Qualifies for Tax Deduction under Section 80C of Income Tax Act, 1961.
4. Long Term Capital Gains of up to ₹ 1 lakh are tax-exempt.

Governance Structure & Management Team

All investment decisions of the Samco ELSS Tax Sever Fund are governed by an Investment Committee composed of Samco AMC's leadership team.

Jimeet Modi

Non-Executive Director of Samco Asset Management Private Limited

Mr. Modi is a rank holder Chartered Accountant (All India Rank - 9) and Founder & CEO of the Samco Group. Under his leadership, Samco operates under a wide range of financial services business including equity and commodity broking, depository services, equity research, mutual fund research and distribution. He has a career spanning over 15+ years with rich experience in equity research, investment analysis and technology.

Viraj Gandhi

CEO of Samco Asset Management Private Limited

Viraj Gandhi has graduated with an MBA in Capital Markets from NMIMS University. Prior to joining Samco Group, he has been associated with ICICI Securities and ASK Investments as research analyst specializing in the BFSI segment. He has been a regular face on news channels for his far-sighted views on the BFSI sector and his expertise has always been well appreciated. A dynamic combination of research and marketing background has made him a great value addition to Samco Mutual Fund to take the journey forward.

Umeshkumar Mehta

CIO of Samco Asset Management Private Limited

Umeshkumar Mehta has over 20 years of experience in the financial services industry. Prior to Samco AMC, he headed Samco Group Research Team and managed Public Relations through regular interaction in Business Channels and Print Media. He has extensive experience in analysing Business Models, assessing Balance Sheets, Profit and Loss accounts and has rated and ranked almost all companies listed on the National Stock Exchange. He has been associated with the group for the last fifteen years in various capacities.

Nirali Bhansali

Fund Manager

Nirali Bhansali (B.E., MBA-Finance) has 7+ years of experience in capital markets and investment research. She has cleared 2 levels of CFA and was a key member in developing Samco's stock rating matrix. Her active involvement in creating StockBaskets has enabled the baskets to outperform benchmarks. She has appeared as a market expert on many media & business news platforms such as Bloomberg Quint, Money9 Live, CNBC TV18. Her deep understanding of fundamentals has enabled her to provide cutting edge insights.

Dhawal Dhanani

Fund Manager

Dhawal Dhanani is a Chartered Accountant from the Institute of Chartered Accountants of India. He is an expert at reviewing company reports and analysing financial statements. He has developed comprehensive understanding of Fortune 500 companies across industries.

Paras Matalia

Head of Equity Research

Paras Matalia (B.Com, C.A.) has a rich experience of 6+ years in capital markets and auditing large MNCs. He started his career as an equity research analyst for creating StockBasket and went on to be a key member in creating the stock rating matrix and MosDex with Samco. He also assisted with the creation of the proprietary HexaShield Framework. He has a good understanding of fundamental analysis and is a focused long-term oriented person.

SAMCO MUTUAL FUND
HEXASHIELD TESTED INVESTMENTS

Invest in

Samco ELSS Tax Saver Fund

(An open-ended Equity Linked Saving Scheme with a statutory lock-in of 3 years and tax benefit.)

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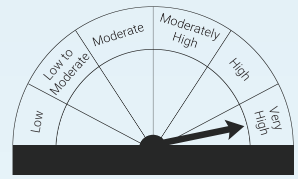
This product is suitable for investors who are seeking* :	Risk-o-meter
• Long Term Capital Appreciation • Invests predominantly in equity and equity related instruments and provide tax benefits under Section 80C of the Income Tax Act, 1961 *Investors should consult their financial advisers if in doubt about whether the product is suitable for them. (The product labelling assigned during the New Fund Offer is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made)	 Investors understand that their principal will be at very high risk

Mutual fund investments are subject to market risks, read all scheme related documents carefully.