GUARDIAN CAPITAL PARTNERS

INVESTOR NEWSLETTER – QUARTER ENDED MARCH 2023

A. PAST PERFORMANCE:

Period:	Last 3 Months	Last 6 Months	Last 1 Year	Last 2 Years	Last 3 Years	Since Inception
						Jan-20 to Mar-23
Cumulative Returns						
Portfolio	-0.3%	9.8%	14.0%	26.7%	179.4%	175.8%
Sensex	-3.0%	2.7%	0.7%	19.2%	100.2%	43.0%
Outperformance	2.7%	7.1%	13.3%	7.5%	79.3%	132.8%
Annualized Returns						
Portfolio			14.0%	12.6%	40.9%	36.6%
Sensex			0.7%	9.2%	26.0%	11.6%
Outperformance			13.3%	3.4%	14.8%	25.0%

What a quarter it has been! A 3% down Sensex does not capture the emotions and turmoil experienced by the market through this quarter. We witnessed financial stability risks in the west with large banks disappearing for the first time since the Global Financial Crisis in 2008, and allegations of fraud in the Adani Group causing one of India's largest conglomerates to crash. Despite the turbulent market environment, the domestic equity flows have remained strong, especially the SIP market, and this is probably the reason the markets didn't fall further.

We were able to stay nearly flat (down 0.3%) and squeeze out some alpha relative to the market. Most of this came from our stock selection. This quarter we used some of our cash pile to buy into the weakness, and initiated new positions in the Life Insurance sector, which corrected sharply post the budget announcements relating to the sector.

The other important aspect to talk about this quarter is the collapse of "decoupling" thoughts which we referred to in our earlier newsletters. Through 2022 many market commentators talked about how India's markets were decoupling with western markets in terms of valuations and that a much higher than average valuation for the Indian markets was warranted due to higher growth outlook relative to the western markets facing inflation and consequent interest rate driven growth risks. We did not agree with this view. This quarter the S&P 500 went up 7% while the Sensex fell 3%. Despite this, Indian markets remain at higher than their average P/E levels, creating an environment for lower equity market returns than the average historical returns of 10-12%. One way to look at it is that the market's returns in 2020 and 2021 borrowed returns from the future!

We have received 2 questions from investors on performance regularly:

1) A lot of funds did well during the Covid period (2020-21), will you be able to follow this up in a more normal environment?

Answer: Our performance of Fy Mar-23, a more normal year, has been meaningfully better than both the market and our peers. We returned 14% in Fy Mar-23, Sensex returned nearly nil (0.7%) while most of our peers struggled to be positive.

2) Is your performance replicable as your size grows?

Answer: We strongly believe that we would be able to generate these returns on much larger AUMs. The investment style has been designed to be able to absorb billions of dollars in AUM by limiting exposure to small caps both in aggregate and on a single name basis. We have never had more than 40% in small caps, and this has averaged around 23% of our Portfolio over time. Even within small caps, we have tended to buy larger small caps. The average market cap of our small cap names is ~$900m, and the minimum market capitalization is ~$200 million (for all but one name). We think we could replicate our Portfolio for $1 billion AUM fund in a few days of buying.

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Benchmarking our performance:

The data presented below is sourced from PMS AIF World Newsletter and Finalyca and is as of Mar-23.

Fund House	Fund Strategy	3M	6M	1Y	3Y	Mcap
Guardian Capital	**Opportunities Scheme**	-0.3%	9.8%	14.0%	40.9%	Multi Cap
Sensex		-3.0%	2.7%	0.7%	26.0%	
Guardian - Outperformance vs benchmark		***2.7%***	***7.1%***	***13.3%***	***14.8%***	

Most Popular Funds

Fund House	Fund Strategy	3M	6M	1Y	3Y	Mcap
White Oak	India Pioneers Equity	-6.2%	-6.3%	-7.8%	24.7%	Multi Cap
ASK	Indian Entrepreneur Portfolio	-8.1%	-12.0%	-12.6%	21.2%	Multi Cap
Marcellus	Consistent Compounders	-9.3%	-12.2%	-11.2%	15.3%	Multi Cap
Abakkus	All Cap Approach	-2.5%	5.9%	-0.6%	NA	Multi Cap
Peer group average		**-6.5%**	**-6.1%**	**-8.1%**	**20.4%**	
Guardian Capital	**Opportunities Scheme**	**-0.3%**	**9.8%**	**14.0%**	**40.9%**	**Multi Cap**
Guardian - Outperformance vs peer group avg.		***6.2%***	***16.0%***	***22.1%***	***20.5%***	

Leading Funds With 10+ Years Existence

Fund House	Fund Strategy	3M	6M	1Y	3Y	Mcap
Accuracap	Picopower	-5.6%	-6.2%	-9.2%	41.3%	Small Cap
ValueQuest	Growth Scheme	0.8%	-2.0%	-2.5%	40.4%	Multi Cap
Alfaccurate	IOP	-2.6%	-1.9%	0.7%	29.2%	Multi Cap
Alchemy	High Growth Select Stock	-5.7%	-10.0%	-11.2%	25.8%	Multi Cap
Sundaram	SELF	-9.8%	-12.7%	-13.8%	27.9%	Mid & Small
Girik Capital	MultiCap	-6.7%	-8.4%	-10.2%	21.2%	Multi Cap
Sundaram	SISOP	-5.7%	-6.9%	-8.4%	23.9%	Multi Cap
ASK	IEP	-8.1%	-12.0%	-12.6%	21.2%	Multi Cap
ASK	Growth	-8.3%	-11.6%	-9.3%	19.2%	Multi Cap
Motilal	Value	-5.2%	-6.1%	-1.9%	20.4%	Large Cap
Peer group average		**-5.7%**	**-7.8%**	**-7.8%**	**27.1%**	
Guardian Capital	**Opportunities Scheme**	**-0.3%**	**9.8%**	**14.0%**	**40.9%**	**Multi Cap**
Guardian - Outperformance vs peer group avg.		***5.3%***	***17.6%***	***21.9%***	***13.8%***	

Leading Funds With 5+ Years Existence

Fund House	Fund Strategy	3M	6M	1Y	3Y	Mcap
Sage One^	Core	-2.8%	-7.7%	-16.0%	33.7%	Mid & Small
Buoyant	Opportunities Multicap	-1.9%	3.5%	6.4%	47.8%	Multi Cap
Valentis	Rising Star Opportunity	-4.1%	4.1%	3.5%	55.6%	Small Cap
ValueQuest	Platinum Scheme	-0.6%	-1.6%	-4.7%	44.8%	Multi Cap
Sameeksha	Equity	-1.2%	4.4%	4.5%	38.6%	Multi Cap
Ambit	Emerging Giants	-0.4%	-1.0%	6.9%	37.6%	Small Cap
SBI	ESG Portfolio	-2.3%	-5.3%	3.7%	37.2%	Multi Cap
2Point2	Long Term Value Fund	-2.9%	5.5%	10.0%	31.1%	Multi Cap
Negen Capital	Special Situations Fund	-10.7%	-14.5%	-11.8%	57.2%	Multi Cap
Equirus	Long Horizon	-10.0%	-13.1%	-14.4%	43.0%	Multi Cap
Peer group average		**-3.7%**	**-2.6%**	**-1.2%**	**42.7%**	
Guardian Capital	**Opportunities Scheme**	**-0.3%**	**9.8%**	**14.0%**	**40.9%**	**Multi Cap**
Guardian - Outperformance vs peer group avg.		***3.3%***	***12.4%***	***15.2%***	***-1.8%***	

Leading Funds With 3+ Years Existence

Fund House	Fund Strategy	3M	6M	1Y	3Y	Mcap
ICICI	PIPE	-0.8%	3.4%	10.1%	45.7%	Small Cap
Sage One	Small Cap	-5.4%	-7.6%	-9.8%	44.2%	Multi Cap
Green	Special	-9.4%	-12.3%	-3.7%	36.0%	Small Cap
ICICI	Contra	-5.9%	4.5%	6.4%	36.7%	Multi Cap
Valentis	Multi Cap	-3.8%	1.3%	-0.8%	30.7%	Multi Cap
Wize Market Analytics	Capital Mind Momentum	-6.7%	-5.8%	-8.9%	29.7%	Multi Cap
Stallion	Core Fund	-0.4%	-2.1%	-0.8%	29.3%	Multi Cap
Aditya Birla	India Special Opportunity	-0.9%	1.7%	6.1%	29.2%	Multi Cap
Turtle Wealth	Wealth Mantra	-3.3%	0.1%	4.2%	22.9%	Multi Cap
TATA	ACT	-2.6%	-2.4%	4.2%	26.6%	Multi Cap
Peer group average		**-3.9%**	**-1.9%**	**0.7%**	**33.1%**	
Guardian Capital	**Opportunities Scheme**	**-0.3%**	**9.8%**	**14.0%**	**40.9%**	**Multi Cap**
Guardian - Outperformance vs peer group avg.		***3.6%***	***11.8%***	***13.3%***	***7.8%***	

Notes:
1) Performance details for Guardian Capital are before expenses and tax to make it comparable to Sensex
2) AIF license received in Q3 C21. Assets have been transferred into AIF as of 01/11/2021. Returns from Nov-21 onwards are for assets in the AIF
3) Before Nov-11 returns are for capital invested through the Sponsors' personal account, with HDFC Bank as Custodian providing performance statements

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Key reasons for outperformance in Fy Mar-23:

1) Given our investment strategy (see section labelled "Our Strategy in Action") we had almost 80% in cash at the beginning of 2022 which allowed us to take advantage of cheaper valuations in the middle of 2022 when the markets corrected.

2) We have been overweight Financials through the last year given their low valuations, solid growth in loans, benign credit cost environment and improving RoE profiles. This is the single largest contributor to Fy Mar-23 returns.

3) We took a contrarian view on commodity prices, expressed by being invested in commodity consumers (FMCG companies, oil marketing companies and gas distribution companies). This has partly played out and provided returns especially in months when the market was weak, reducing the overall risk levels in our Portfolio.

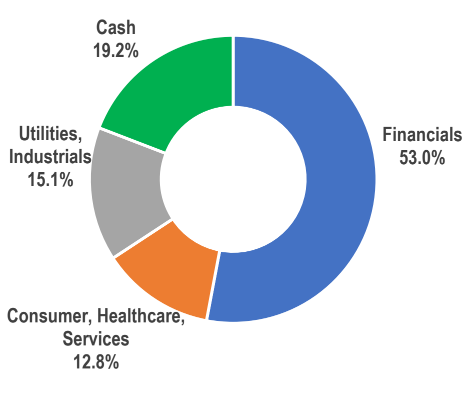
Changes to the Portfolio in the last quarter:

Bought Life Insurance sector: The Life Insurance sector has been correcting downwards through much of 2022 and we had initiated our work. The final catalyst for our investment came through the breakdown in valuations post the budget announcement which removed tax benefits for non-ULIP life insurance policies with annual premiums of more than Rs5 lakhs. We do not believe this changes the longer term growth outlook of the sector. Analyzing the direct impact of the new regulation we see that just 5-10% of the annual premiums fall in the affected category. It is also worth mentioning that for the below INR 5 Lakh ticket segment the highest post-tax return method of participating in the Indian debt markets remains the insurance sector, after the changes made to the tax structure for debt mutual funds recently.

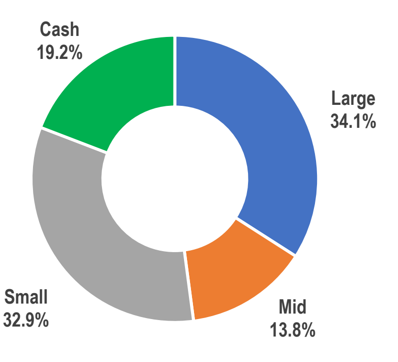
Portfolio Characteristics:

	P/E Fy 24e	EPS Growth Fy 24e (consensus)	PEG Ratio
Portfolio	16.6x	28.1%	0.6x
Sensex	19.3x	21.1%	0.9x

Portfolio: Sectoral Mix



Portfolio: Size Mix



Top 10 Positions:

HDFC Bank	Shriram Finance	PNB Housing	Manapurram	IOC Ltd
HDFC	Axis Bank	Equitas Holdings	Aster DM	Mahanagar Gas

Notes:
1) Market Cap Definitions: Large = largest 100 market cap companies, Mid = Between 101 and 250, Small = 251st and smaller. The average market cap of the small caps in the Portfolio is ~$900 mn

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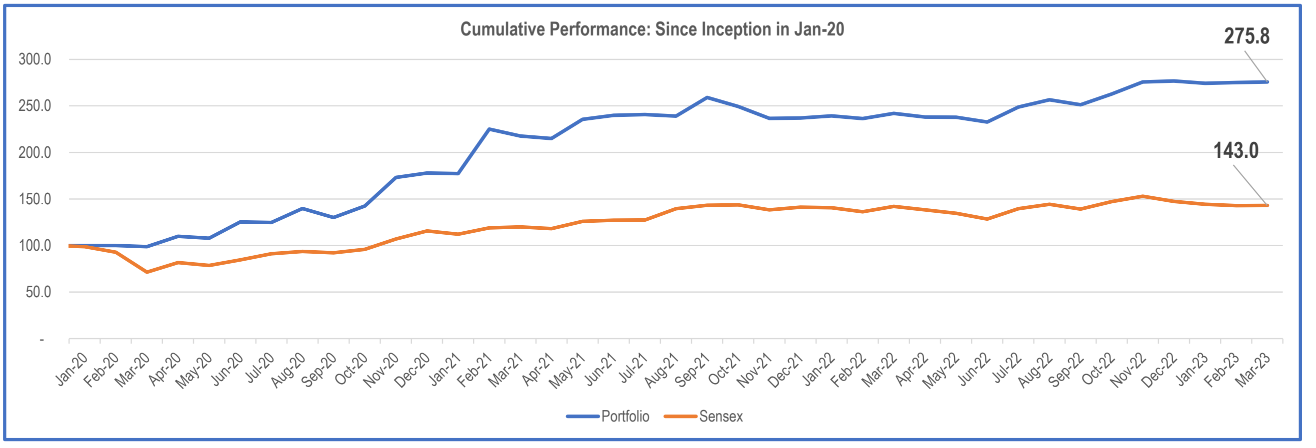
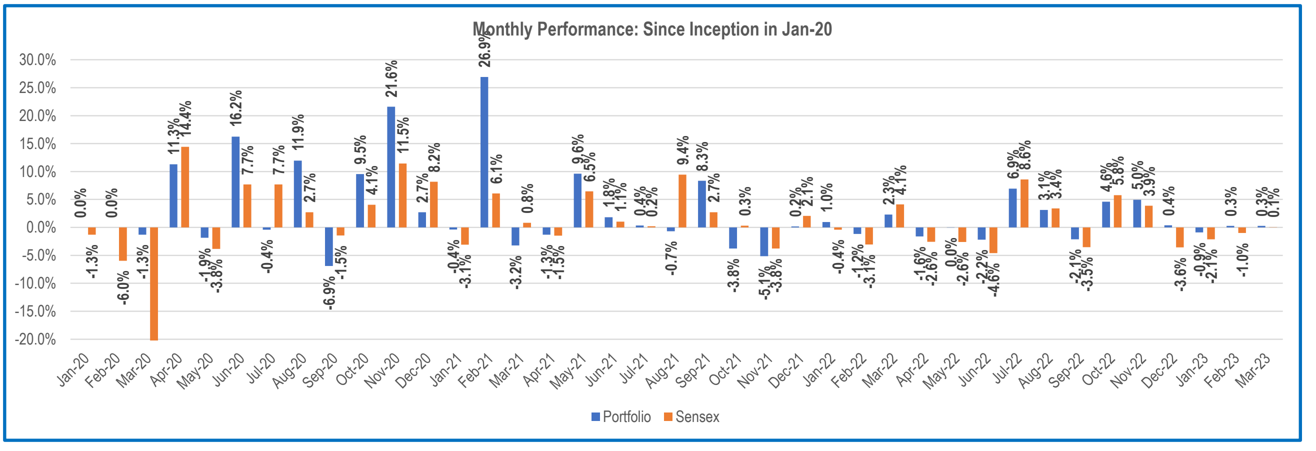
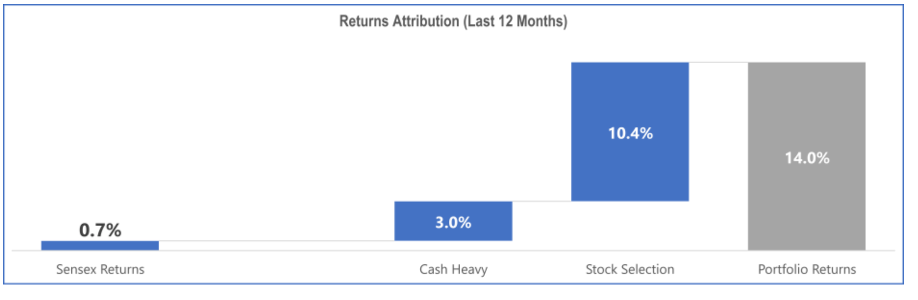
Detailed performance charts:



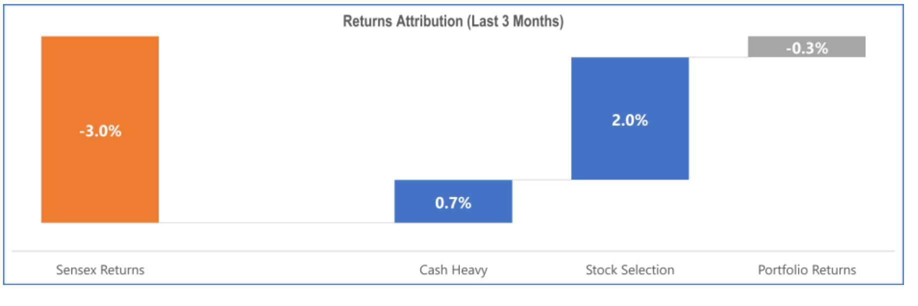


Returns attribution:

Outperformance For Last Year: +13.3%



Outperformance For Last Quarter: +2.7%



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Our strategy in action:

Our strategy is to buy good companies if they are cheap, and ONLY if they are cheap. If they are not cheap we stay on the side-lines in cash for periods. Especially for large cap companies we buy them when they trade at discounts to their long term average valuations and exit them when they start trading above long term average valuations without waiting for peak valuations.

This allows us to capture up market moves (High Up Capture Ratio), reduce our risk positions when markets are expensive, and wait in cash for opportunities when markets become cheap. We have been able to remain in cash for 2 down markets because of this strategy: i) before Covid, and ii) From Oct-21 onwards. And this ensures that in down market moves our Portfolio falls less than the market (Low Down Capture Ratio). A high Up Capture Ratio and a low Down Capture Ratio combine to provide our Portfolio with meaningfully higher returns than the market and a high Sharpe Ratio.

Pre-Covid (Jan-20 to Mar-20)	**100% in cash before Covid** Down Capture Ratio = 0% = Fall in Portfolio / Fall in Sensex = 0% / -29%
Market Bounce Back (Mar-20 to Oct-21)	**100% in equity, with Portfolio beta gradually reduced as the markets rallied** Up Capture Ratio = 151% = Rise in Portfolio / Rise in Sensex = 153% / 101%
Market Correction (Oct-21 to Jun-22)	**Up to 80% in cash** Down Capture Ratio = 63% = Fall in Portfolio / Fall in Sensex = -6.7% / -10.6%
Market Bounce Back (Jun-22 to Mar-23)	**22% in cash on average** Up Capture Ratio = 165% = Rise in Portfolio / Rise in Sensex = 18.5% / 11.3%

B. OUTLOOK:

While the Sensex has remained flat to slightly negative in the last 18 months, the earnings of the underlying companies continue to go up, and the P/E ratio is normalizing towards its long term average of 17-18x. However, it is still above average at 19.3x.

Some of the macroeconomic headwinds remain:

1) The debate on US peak rates, near-term US inflation outlook, and near-term recession outlook continues to create a volatile environment for global equities. The emergence of full scale financial instability due to the higher interest rates was on display this last quarter, and we remain watchful for further financial instability risks.

2) War in Ukraine continues, and though some of its inflationary impact on commodities have been absorbed, the outlook for inflation could be impacted further yet.

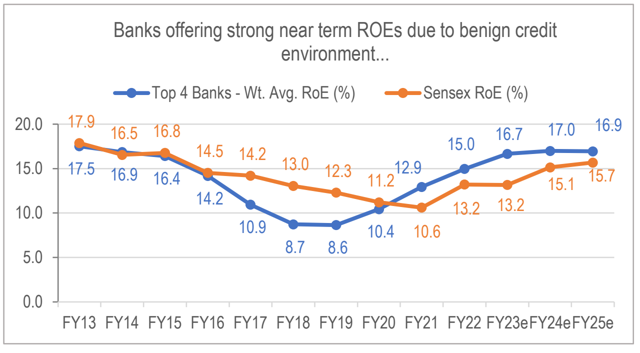
The good news here is that the normalizing of market valuations towards mean has thrown up even more sectors that are now becoming cheap relative to their own history. This is keeping our team extremely busy, and we see an opportunity in the near term to be fully deployed again.

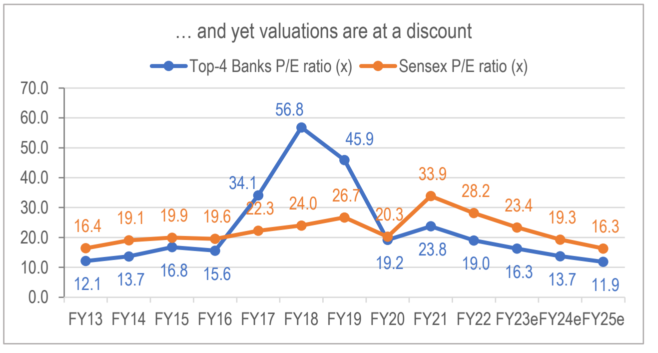
Sector	P/E Mar-23	P/E Mar-22	P/E 10 Yr Avg	vs Mar-22	vs 10 yr Avg	Our View
Auto	19.6x	24.0x	26.7x	-18%	-27%	Cheapness has finally emerged, especially in 2W segment due to weakness in demand. We have recently started our deep dive research
Banks - Private	14.9x	17.6x	20.8x	-15%	-28%	This is our largest sectoral position in the fund
Cement	27.7x	23.7x	25.9x	17%	7%	Still expensive
Consumer	40.2x	42.3x	39.6x	-5%	2%	Very expensive, but we have positions in the cheaper names positioned to benefit from reduction in raw material prices and a subsequent margin improvement
Healthcare	22.4x	24.9x	25.9x	-10%	-14%	We have been researching this sector since last quarter and will likely put on positions in the near term in the pharma sector
Infrastructure	14.3x	16.7x	8.7x	-14%	64%	Still expensive
Media	16.8x	16.1x	25.1x	4%	-33%	While it looks cheap we have studied the companies here and have decided to pass due to risk in business models and / or due to corporate governance
Metals	8.8x	7.7x	11.0x	14%	-20%	We have studied the names here, and the cheapness is an illusion due to high commodity prices. Once normalized these names are not cheap
Oil & Gas (ex RIL)	11.5x	12.2x	9.4x	-6%	22%	We have positions in the sector in O&G consuming / distributing companies as beneficiaries or normalizing commodity prices
Specialty Chemicals	28.1x	37.5x	18.7x	-25%	50%	Very expensive, we are staying away
IT Services	21.3x	27.8x	19.0x	-23%	12%	Has corrected a lot but still expensive. We think that this will correct further in the short run and we will then focus on the sector

Data Source: Motilal Oswal

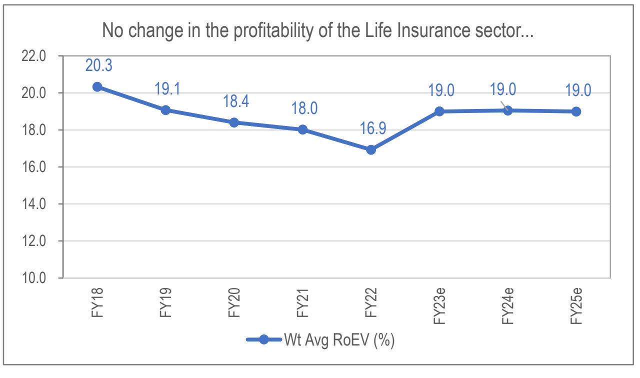
Portfolio positioning:

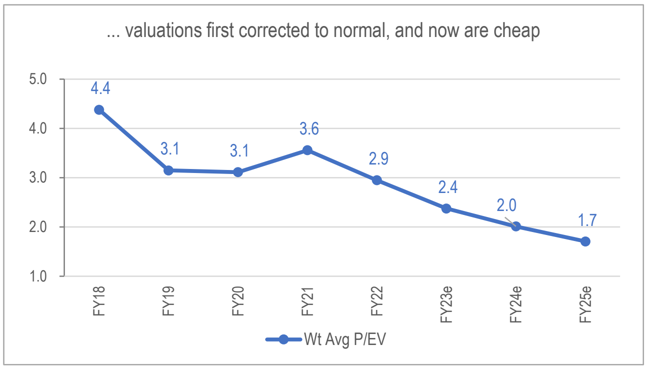
1) Continue to be long Big Banks and select NBFCs: Despite strong returns in the last year we think there is a long way to go on many Financials. You will see below that the credit cost environment in the near term is benign, keeping risks low in the sector. And given our investment style of investing in names trading at discounts to their long term valuations, we believe that the risk adjusted return profile of our Financials names is very attractive still.



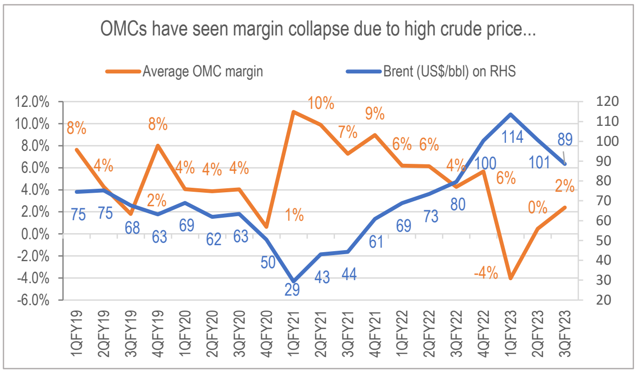


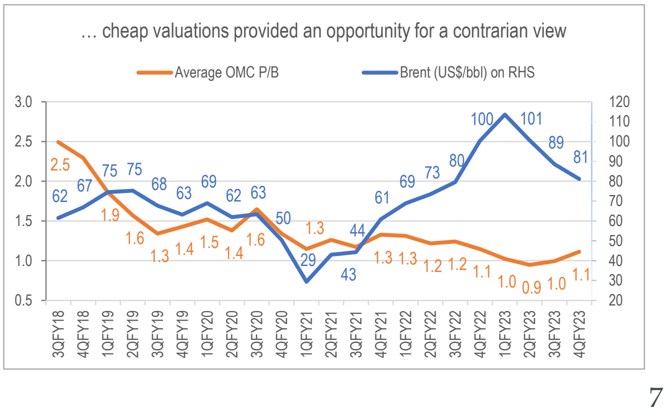
2) Recent entry into Life Insurance: As discussed earlier, you will in the charts below that valuations have crashed, even though long term profitability is intact. There is likely to be 1-2 years of slightly lower growth in premiums but that is more than priced in.





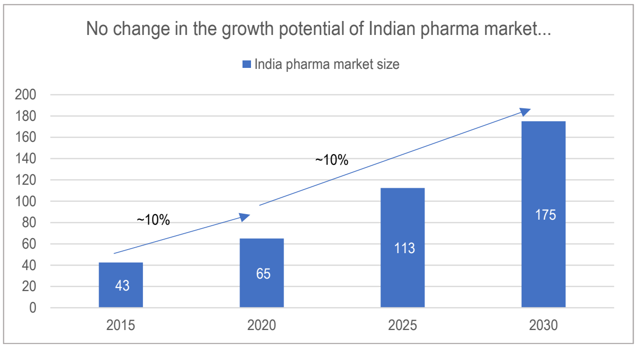
3) Continue to be long commodity consumers: While commodities have corrected across the board, there is further room for this to normalize. Additionally, the passthrough to the ultimate consumers takes many quarters and we believe the equity markets will reward these companies when they see this come through the numbers over the next few quarters. It is worth mentioning that our positions in FMCG companies have not worked yet, as the benefit of commodity price reductions have been passed on to consumers through lower price increases in order to stimulate demand, which has been weak especially in rural India.

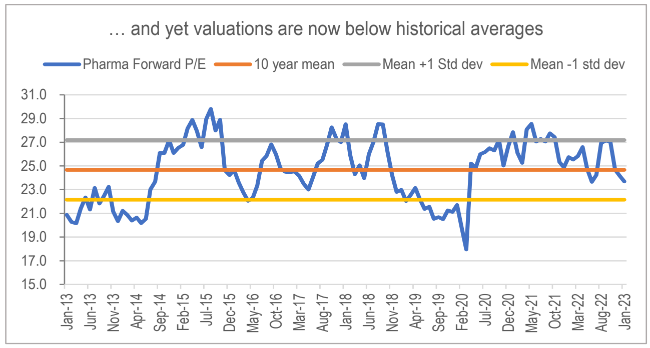




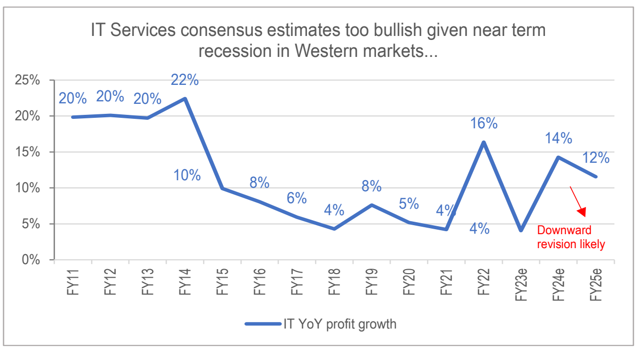
Portfolio positioning (continued):

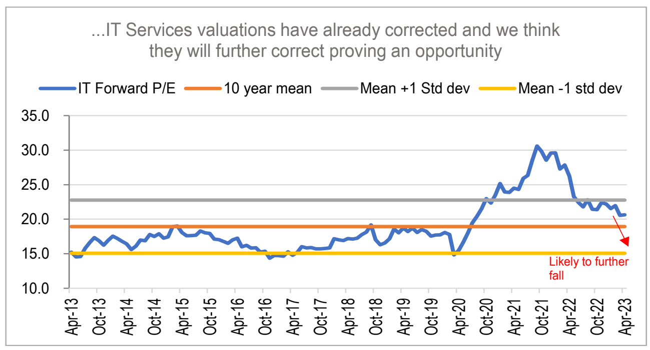
4) We are deep in research mode in the Pharma sector: Valuations are now below long term averages for some of the players and growth prospects remain robust over the foreseeable future.





5) We are beginning our work on IT Services: We think that the recessionary environment in the Western markets could lead to a meaningful further correction in IT Services, making it attractive to us in the later stages of this year. IT Services company have corrected but further corrections are warranted.





6) We are also beginning our work on the Auto sector: Cheapness has recently emerged, and we are sharpening our pencils.