GUARDIAN
CAPITAL PARTNERS

INVESTOR NEWSLETTER – QUARTER ENDED MARCH 2026

A. PAST PERFORMANCE:

Period:	Last 3 Months	Last 6 Months	Last 1 Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Since Inception
Cumulative Returns								
Portfolio	-14.4%	-10.5%	-0.9%	11.4%	50.2%	71.3%	90.2%	314.2%
Sensex TRI	-15.5%	-10.1%	-6.0%	0.0%	26.5%	29.1%	54.2%	87.7%
Outperformance	1.1%	-0.3%	5.1%	11.4%	23.7%	42.2%	36.0%	226.5%
Annualized Returns								
Portfolio			-0.9%	5.5%	14.5%	14.4%	13.7%	25.5%
Sensex TRI			-6.0%	0.0%	8.1%	6.6%	9.1%	10.6%
Outperformance			5.1%	5.5%	6.4%	7.8%	4.7%	14.9%

Notes:
1) Performance details for the Portfolio are before taxes, fees and expenses to make it comparable to Sensex TRI
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
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What a quarter! The commentators who thought we were past "peak Trump" risk have been silenced. From upending the global trade order, to physically toppling Venezuela's regime, and now to an outright war of aggression against Iran. I can't remember the last time the world saw so much geopolitical tension in my time as an investor. So much of the focus is on American aggression that it would be easy to forget that Russian aggression continues elsewhere. And the US equity markets have still not cared. SPX is down just 4.6% for the quarter and is up 16.3% for the last 12 months!

The Indian markets have taken the blow on the chin with Sensex down 15.6% for the quarter and 7.1% for the year. For dollar investors there is the double whammy of the INR meltdown of 4.4% for the quarter and 9.7% for the year, taking the dollar investor's Sensex return to -19.2% for the quarter and -16.1% for the year!

The main seller is the FII. The FII selling has accelerated sharply in the last month/quarter. The narrative to sell has been:

i. India is expensive (was true till Sep-24),
ii. Its macros are getting weaker with high crude and weaker fiscal discipline (only partially true),
iii. IT services, its main globally competitive industry, is redundant in the AI age which will have a negative ripple effect through the economy (at best a debate),
iv. It charges investors high taxes relative to most other countries (true), and
v. Other markets are more interesting (China cheaper and going through a cyclical rebound, and east Asia offering tech opportunities)

The good news is that all this selling pressure has now made India the cheapest it has been after the Covid crash, with Sensex now trading at 16.8x P/E fwd. That's below the 18x long term average. It's also easy to forget the positive narratives in moments like this. So here is a reminder:

i. India has the highest real growth rate of any large EM, and this translates closely to the EPS growth rates of its companies,
ii. This growth is achieved without comprising RoEs, which are amongst the best globally,
iii. Governance has continued to be on an improving arc, both in the government and in its companies,
iv. Macros have proved to be resilient and robust, albeit a tad weaker than one expected, and
v. Domestic savings being channelled into financial assets, especially equity, have gathered momentum to becoming the actual driving force of the equity market

Our performance through this chaos has been broadly in-line with indices. We were down 14.4% for the quarter, slightly better than Sensex TRI at -15.5%, and slightly worse than BSE500 TRI at -13.9%. Our behaviour through market chaos, like last quarter's, is to fall meaningfully less (our previous down capture ratio is ~60%). But this time around with almost all the selling come from FIIs, our low beta positions like banks and insurers (which are primarily FII owned) fell just as much as the market given the sharp FII selling. And then we had a specific negative event in HDFC Bank, one of our largest positions. At least looking back for the full year there was meaningful alpha, with our returns being -0.9%, as against Sensex TRI at -6.0% and BSE500 TRI at -3.1%.

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Key outperformers last quarter:

- ONGC: up 18%, on higher crude prices
- Star Health: up 0.5%, improving premium growth and loss ratios

Key underperformers last quarter:

- HDFC Bank: down 26%, Chairman quit citing ethical issues, our take based on enquiries is that it is probably a tempest in a teacup

Key changes to the Portfolio:

- Largely exited IOC: With the war starting we tactically exited IOC at 170-172 before it fell much. We had only bought IOC a year ago at 115 per share (0.8x P/B). Given the exaggerated marketing margins it was being allowed, along with the strong GRMs, the position did well. Even though our view of fair value was in the 200-220 range, we sold as the government usually uses OMC balance sheets as part of its shield against crude price shocks. We may re-enter if the stock price retreats back towards 120.
- Exited ABCap: We had bought ABCap as it was trading cheaply at 1.4x P/B (on a reverse SoTP basis for its key NBFC/HFC business) in Dec-24 at 175-190 per share. Strong loan growth and EPS growth led to a sharp price increase. We sold this at the beginning of this quarter when the price was 350-360, as it was no longer cheap (P/B of the key NBFC/HFC business well above 2.0x).
- Increased our position in ONGC: With the US-Iran war ongoing, crude prices have risen sharply. After our initial entry in Aug-25 in the 230-240 levels, we increased this position sharply in mid Mar-26 at 260-270 levels. Even if short term crude prices come down from the $100+ levels, given the level of physical disruption crude is likely to remain above $80 for the near term. At these levels we are pricing in at least 1 year of bumper profit for ONGC.
- Increased our position in Maruti and entered Hyundai: We had entered Maruti in Mar-25 at 11,900 at ~20x P/E fwd, well below its long term averages. The reason for cheapness was a demand slowdown and our thesis then was a gradual demand recovery. We got a shot in the arm with the GST reduction which spurned demand. The stock performed well post that. With the onset of the US-Iran war all auto OEMs fell and we took this opportunity to double down in the sector. We increased Maruti and also entered Hyundai. At our entry Hyundai was priced at 23x P/E fwd (given the short listed history here there is no long term average valuation, so one can only look at Maruti as a guide). Apart from the strong post GST reduction demand recovery, Hyundai also benefits from a strong product cycle, and a quick ramp up of its new Pune plant which removes the earlier capacity constraints.
- Entered Motilal Financial Services: Motilal is a strong capital market franchise and a leveraged high-beta play on Indian equities. Over the past 4 years Motilal has seen its operating PAT compound at 22% cagr (F22-26) and we anticipate it to continue growing at 17-18% over F26-29 as well. It corrected 36% from the highs of Oct-25 providing us an attractive entry point. At 670 per share, Motilal's key businesses were at a sharp discount to peers – i) asset management (~40% of SOTP) was at 19x P/E fwd vs 32-33x for peers, despite its AUM growing at 35% cagr and gaining market share in the MF space, and ii) the private wealth business (~20% of SOTP) was at 14x PE fwd vs peers at 25-30x, despite being another high-quality compounder (20%+ earnings cagr). Additionally, the business mix is improving with a rising share of recurring revenues (65% now vs 55% earlier).

- Entered EPL: EPL is amongst the world's largest flexible packaging companies servicing the consumer sector. Since Covid lows, the Company has delivered impressive operational performance in terms of revenue growth and margin expansion. Despite this, at 220 per share, the stock was trading at less than 7x EV/EBITDA fwd, meaningfully below its long-term average of 9x. Until recently, the majority stake in the company was held by Blackstone, posing a supply overhang. In May-25 Indorama entered with a sizable stake of 25% (providing Blackstone an exit to half their position) which made us believe that there was a larger strategic outcome in play. After our entry in early Feb-26, a merger with Indorama's rigid plastic packaging business (Indovida) has been announced, further validating our thesis, and we have increased our position.

- Entered Time Technoplast: This is a small cap focussed on industrial rigid plastic applications. The stock was trading cheaply at 16x P/E fwd. The key driver here is the ramp-up in composite cylinders, where the company has an early mover advantage and should benefit from increasing CNG adoption and the shift away from steel. The core polymer drums business continues to grow at a steady double-digit rate, supported by the ongoing move from metal to polymer packaging. Management has also been cleaning up the balance sheet and exiting non-core pieces, and with the recent fund raise of INR 8 bn the company is now close to a net cash position.

- Entered Greenpanel: This is India's largest MDF manufacturer, and a cyclical recovery play for us. The MDF industry has faced three key challenges in the recent years – i) a sharp rise in wood prices, ii) dumping of low-priced imports, and iii) significant domestic capacity additions. We believe these headwinds are now easing and the industry is approaching a cyclical recovery. Timber prices have started to soften. Implementation of mandatory BIS standards has curtailed the influx of low-quality imports. And while domestic overcapacity remains, several large projects have been delayed or shelved. As the largest manufacturer, Greenpanel is well positioned to benefit from an industry recovery supported by strong underlying demand growth. We expect earnings growth to improve meaningfully as these headwinds recede. We entered the stock at 13x Mar-29E P/E.

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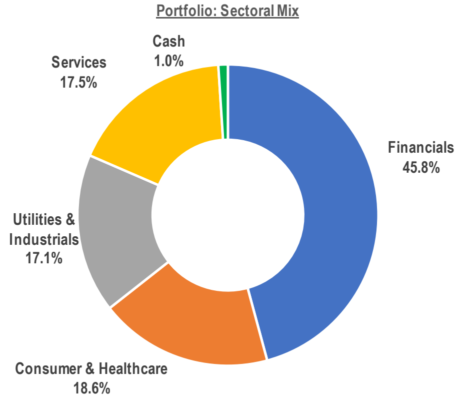
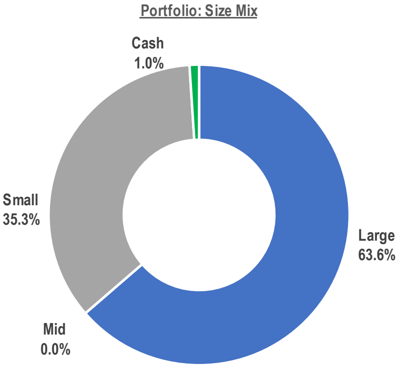
Portfolio characteristics:

	P/E (forward)	12m EPS Growth (consensus)	PEG Ratio	P/B (forward)	RoE % (forward)	Sharpe Ratio (3 yr)	Beta (3 yr)
Portfolio	15.9x	20.9%	0.8x	2.7x	18.6%	70%	0.7x
Sensex	16.8x	5.9%	2.9x	2.8x	14.8%	7%	1.0x

Note: Portfolio details are ex Life Insurance





Top 10 positions: *(of 28 total positions)*

Axis Bank	ONGC	Maruti Suzuki	SBI Life	Quess Corp
HDFC Bank	TCS	HDFC Life	ICICI Pru Life	PNB Housing

Annualized performance:

Period:	YTD CY26	CY25	CY24	CY23	CY22	CY21
Portfolio	-14.4%	12.5%	17.1%	32.7%	16.8%	33.2%
Sensex TRI	-15.5%	10.4%	9.5%	20.3%	5.8%	23.2%
Outperformance	1.1%	2.1%	7.6%	12.3%	11.0%	9.9%

Period:	FY26	FY25	FY24	FY23	FY22	FY21
Portfolio	-0.9%	12.4%	34.8%	14.0%	11.1%	120.6%
Sensex TRI	-6.0%	6.4%	26.5%	2.0%	19.5%	69.8%
Outperformance	5.1%	6.0%	8.3%	12.0%	-8.4%	50.8%

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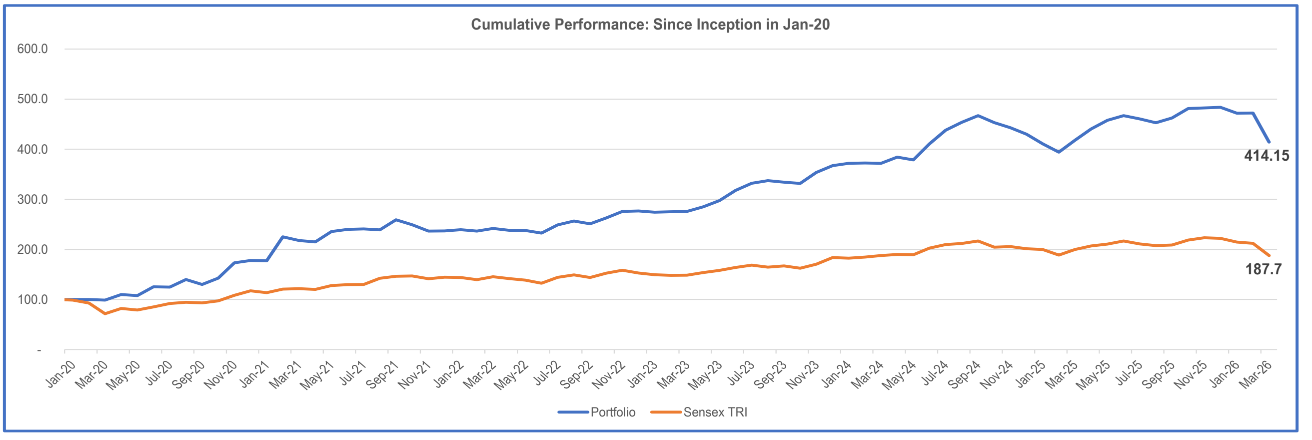
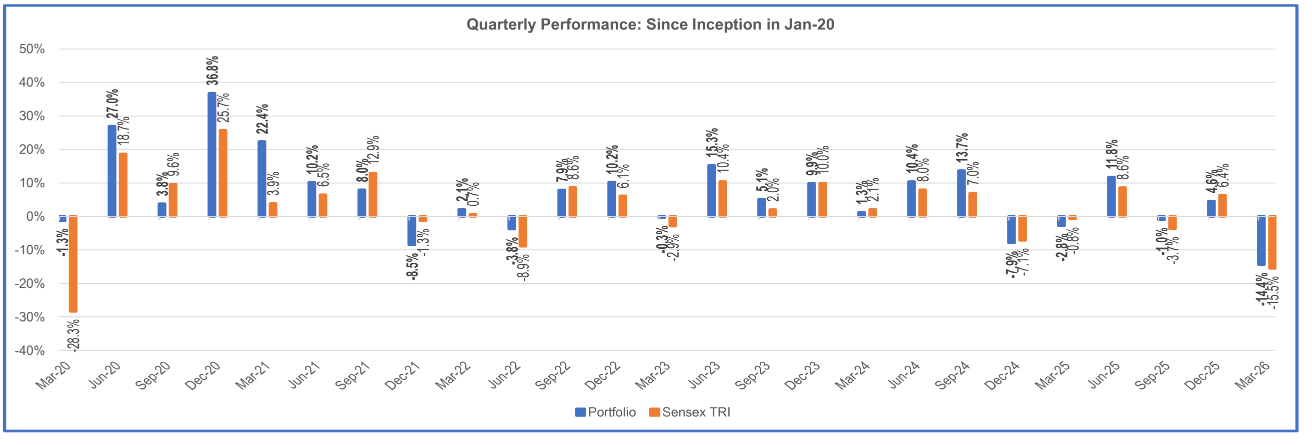
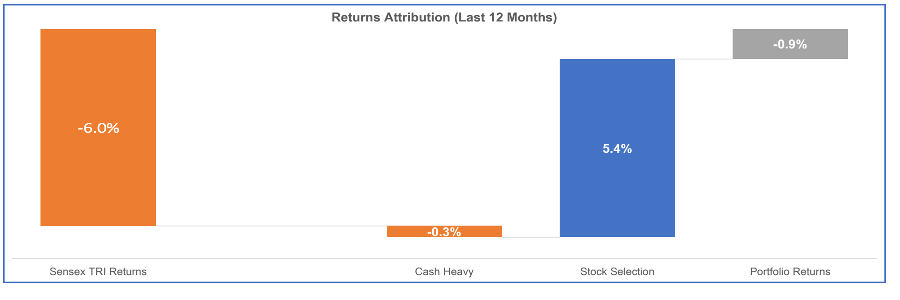
Performance charts:



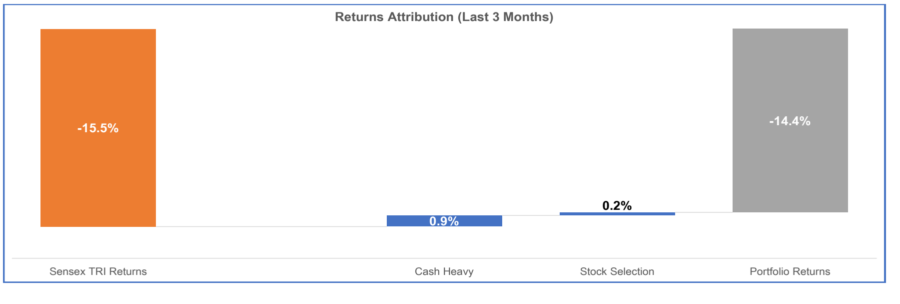


Returns attribution :

Outperformance
For Last Year:
5.1%



Outperformance
For Last Quarter:
1.1%



Notes:
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4) Certain approximations have been made in attribution calculations

Superior risk adjusted returns:

High Up Capture Ratio

- Our performance during up phases of the market has been strong, driven by stock selection
- Mar-20 to Oct-21: 145% Up Capture Ratio
  - Sensex TRI up 105%
  - Our Portfolio up 153%
- Jun-22 to Sep-24: 158% Up Capture Ratio
  - Sensex TRI up 64%
  - Our Portfolio up 101%

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Low Down Capture Ratio

- Defensive positioning through portfolio construction and cash on books helped our Portfolio fall less than the market during down phases of the market
- Oct-21 to Jun-22: 68% Down Capture Ratio
  - Sensex TRI down 10%
  - Our Portfolio down 7%
- Election day (4th June 2024): 64% Down Capture Ratio
  - Sensex TRI down 6%
  - Our Portfolio down 4%
  - More aggressive indices down a lot more (BSE Cap Goods Index down 12%!)
- Sep-24 onwards: 84% Down Capture Ratio
  - Sensex TRI down 13%
  - Our Portfolio down 11%

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High Risk Adjusted Returns

- Best in class risk adjusted returns relative to peers. We created a peer group list using Finalyca data of funds that had at least 60% large cap composition – about 40 such funds. Our performance relative to them (this is as of Dec-25 qtr):
  - Highest 3yr Treynor Ratio of 19.3
  - 2nd highest 3yr Sharpe Ratio of 128%

Superior rolling returns:

Regardless of when one entered GCP the minimum 3 yr return has been 14.5%, so far

- This is higher than the actual 3 year return of Sensex TRI at 8.1%
- The minimum 3 yr rolling return for Sensex TRI was just 8.1% and BSE500 TRI was just 12.6%

GCP Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	32%	26%	26%
Maximum	125%	57%	41%
Minimum	-3%	6%	15%

Sensex TRI Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	18%	16%	16%
Maximum	70%	42%	27%
Minimum	-6%	0%	8%

BSE 500 TRI Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	22%	20%	19%
Maximum	79%	48%	29%
Minimum	-6%	1%	13%

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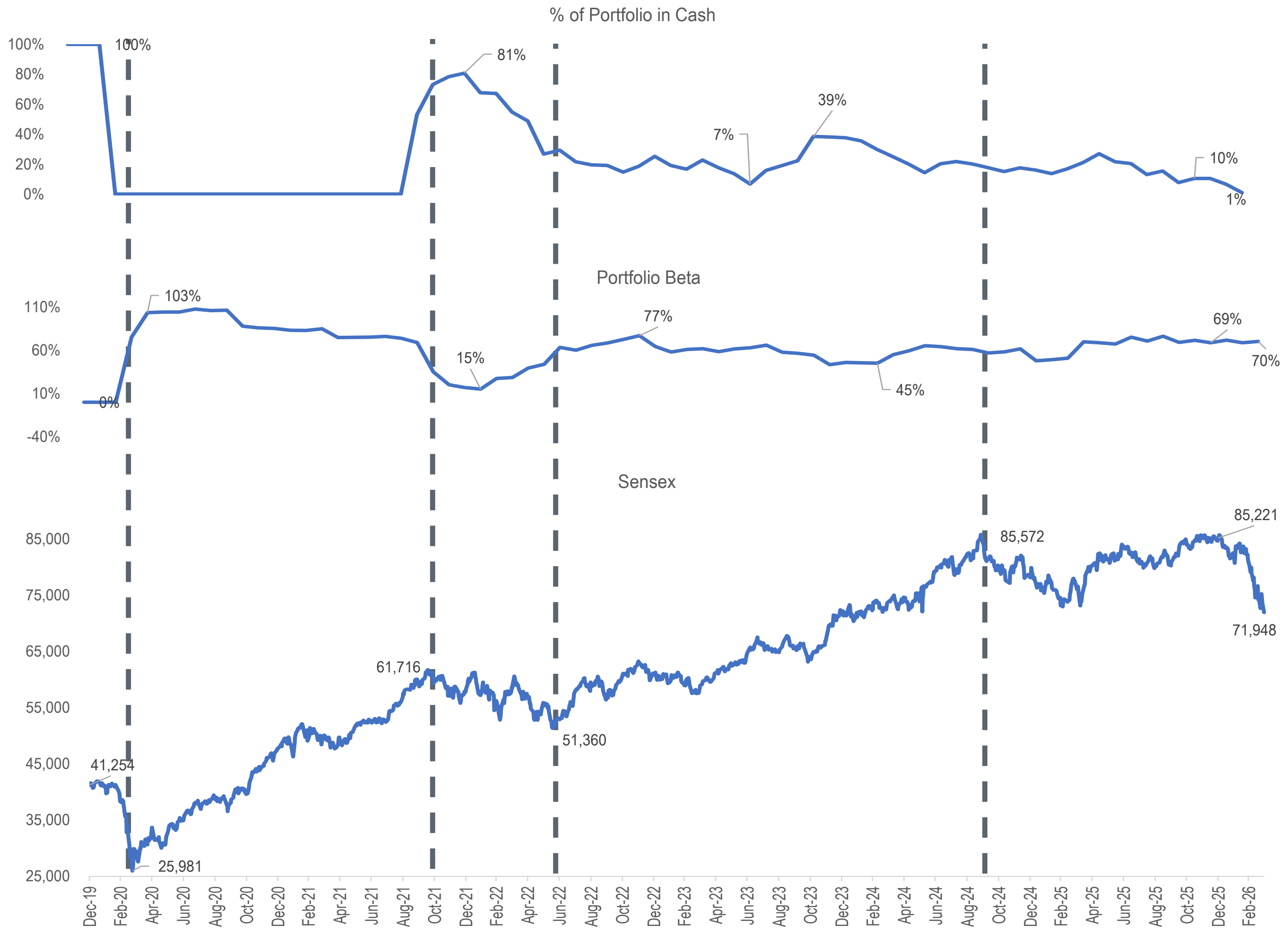
Our strategy in action:

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 3 down markets because of this strategy: i) before Covid, ii) from Oct-21 to Jun-22, and iii) from Sep-24 on. 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 TRI = 0% / -28%
Market Bounce Back (Mar-20 to Oct-21)	**100% in equity, with Portfolio beta gradually reduced as the markets rallied** Up Capture Ratio = 145% = Rise in Portfolio / Rise in Sensex TRI = 153% / 105%
Market Correction (Oct-21 to Jun-22)	**Up to 80% in cash** Down Capture Ratio = 68% = Fall in Portfolio / Fall in Sensex TRI = -7% / -10%
Market Bounce Back (Jun-22 to Sep-24)	**As low as 7% in cash** Up Capture Ratio = 158% = Rise in Portfolio / Rise in Sensex TRI = 101% / 64%
Market Correction (Sep-24 to Mar-26)	**Up to 27% in cash** Down Capture Ratio = 84% = Fall in Portfolio / Fall in Sensex TRI = -11% / -13%

B. OUTLOOK:

We have been nudging investors to invest since Mar-25 when valuations had become more reasonable. But now, we are strongly urging investors to deploy!

This is best visible through our cash percentage, which to us reflects the ability to deploy with margin of safety. In 2024 we had at peak 38% of cash (average of 27% in the 9 months leading up to the peak of the market in Sep-24). In 2025 this averaged 17%, reflecting the cheaper valuations. Now in Mar-26 we have nearly 0% cash.

Many, many sectors are flashing cheapness and this is happening for the first time since Covid. Yes, there is pandemonium in the markets due to US-Iran war and the outlook of the current truce is anything but clear. But in this chaos is the opportunity. It reminds me of a conversation with the Head of Products of a leading wealth manager in India. She asked me why we were buying in the midst of Covid and whether we had any ability to know either the bottom or the length of the drawdown. The answer was no, but I spoke of the margin of safety in valuations being near 2008 GFC lows. (Many quarters later she had empanelled us.)

As the table below highlights, investors during chaos periods earn superior returns (20%+ almost every time on a 3 year basis). This could easily be such a time!

Year **Crisis**	**2000** **Dot-com bubble**	**2008** **Global Financial Crisis**	**2012** **Coalgate scam**	**2015** **Commodities market plunge**	**2018** **IL&FS collapse**	**2020** **Covid**	**2022** **Ukraine war**	**2024** **Global uncertainty**
Pre-event Peak	5,934	20,873	18,429	29,682	38,897	41,953	61,309	85,836
Post-event Trough	2,600	8,160	15,948	25,742	33,349	25,981	51,360	71948?
Drawdown period	18m	14m	3m	7m	2m	2m	5m	18m
Drawdown %	**-56%**	**-61%**	**-13%**	**-16%**	**-14%**	**-38%**	**-16%**	**-16%**
Recovery period	25m	20m	4m	25m	5m	8m	5m	?
1 year IRR from trough	6%	81%	22%	7%	17%	68%	22%	?
2 year IRR from trough	26%	42%	22%	9%	7%	41%	22%	?
3 year IRR from trough	**26%**	**21%**	**20%**	**11%**	**20%**	**26%**	**16%**	**?**

Our Sectoral Outlook:

Sector	**P/E Mar-26**	**P/E Mar-25**	**P/E 10 Yr Avg**	**vs Mar-25**	**vs 10 yr Avg**	**Our View**
Auto	21.8x	20.6x	23.3x	6%	-6%	We caught the PV segment just before the GST annoucement last year. Despite renewed growth the sector has become cheap again due to the war. We now have positions in OEMs and auto comps
Banks - Private	13.5x	15.9x	21.0x	-15%	-36%	This is our largest sectoral position in the fund. While the real issue of deposit shortage has been improving, sharp FII selling due to the war has caused these to go back into VERY cheap zone
Cement	29.4x	34.2x	29.9x	-14%	-2%	Still expensive on an absolute basis
Consumer	34.6x	38.7x	42.5x	-11%	-19%	Consumer demand has leveled up after fiscal measures last year (GST cut, tax relief in previous budget). We have positions in consumer-facing industrials as they are cheaper on an absolute basis
Healthcare	30.5x	28.3x	27.3x	8%	12%	Exited pharma just after "liberation" day due to possibility of tariff risks. Revlimid sales run off impacting sector. We are looking at names that depend less on the US. We continue to be long the hospital sector
Infrastructure	16.2x	15.6x	14.2x	4%	14%	Very expensive, poor corporate governance, we are staying away
Media	14.6x	14.1x	24.5x	4%	-40%	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 concerns
Metals	11.8x	9.6x	10.3x	23%	15%	We analyzed steel names but stock prices need to correct a lot to reflect underlying commodity price. Some other sectors like aluminum maybe interesting
Oil & Gas (ex RIL)	8.3x	7.1x	8.3x	17%	0%	Exited OMCs (IOC) as the war started. Have increased our oil producer (ONGC) exposure. If OMCs become cheap enough due to the negative marketing margins, we may look at them again
Chemicals	26.0x	29.9x	27.9x	-13%	-7%	Many of the underlying chemical prices have settled back down to pre-Covid levels. Is part of our pipeline of research
IT Services	16.6x	24.0x	21.6x	-31%	-23%	While the sector has been hammered due to AI-linked terminal value issues, we have not doubled down on the sector. Clearly VERY cheap, and something which will remain on our radar

Data Source: Motilal Oswal