GUARDIAN CAPITAL PARTNERS

INVESTOR NEWSLETTER – QUARTER ENDED JUNE 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	12.4%	-3.8%	-0.4%	13.3%	46.4%	100.0%	94.0%	365.4%
Sensex TRI	6.8%	-9.7%	-7.6%	-1.0%	22.4%	51.4%	54.7%	100.5%
Outperformance	5.5%	5.9%	7.2%	14.4%	24.0%	48.7%	39.3%	264.9%
Annualized Returns								
Portfolio			-0.4%	6.5%	13.5%	18.9%	14.2%	26.7%
Sensex TRI			-7.6%	-0.5%	7.0%	10.9%	9.1%	11.3%
Outperformance			7.2%	7.0%	6.6%	8.0%	5.0%	15.4%

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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After the brutal fall in Mar-26, Indian equity markets began normalizing this quarter. FII selling has reduced and companies with low FII ownership have bounced meaningfully. In general, this is true for small caps, and they have outperformed strongly this quarter. In the next section, we argue that the reduced FII selling is a clear signal for an imminent sharp catch-up in large caps as well.

The good news is that all this FII selling pressure has made India the cheapest it has been after the Covid crash, with Sensex now trading at 18.2x P/E fwd. That is close to its 18x long term average.

We have been patient in deploying our dry powder. Lack of opportunities in 2024 caused cash to peak at 38% before the market highs in Sep-24. When markets corrected into Mar-25 opportunities emerged and we deployed, leaving us with an average of 17% cash through 2025. The sharp fall again in Mar-26 made even more sectors cheap, and we aggressively deployed that month. For the first time in 3 years our cash levels are at 0%.

Our performance was steady this quarter. We outperformed the Sensex TRI (12.4% up, as against 6.8% up) but were in line with BSE500 TRI (12.4% up, as against 12.1% up). Importantly, our 3-yr rolling returns remain superior. They are higher than Sensex TRI 100% of the time, and higher than BSE500 TRI 90% of the time! (see page 7)

Key outperformers last quarter:

•Biz Services: Quess up 58%, makes up all the loss of previous year
•PNB Housing: up 37%, good operating performance last qtrly
•Motilal Financial Services: up 53%, good entry price in Mar-26
•Star Health: up 29%, improving premium growth and loss ratios
•Yatharth: up 39%, strong operating results continue
•Auto OEMs & Ancs: Maruti up 15%, SJS up 43%, strong revenue growth
•Big Banks: DII buying on extreme cheapness, Axis up 16%, HDFC up 9%

Key underperformers last quarter:

•ONGC: down 18%, poor volume growth last qtr
•IT Services: down 14-20%, continuing pressure on AI narrative
•Life Insurers: down 1-4%, still underperforming given FII selling

Is a large cap bounce back imminent?

Last newsletter we noted that the key arguments for India's sharp underperformance to other EMs were:

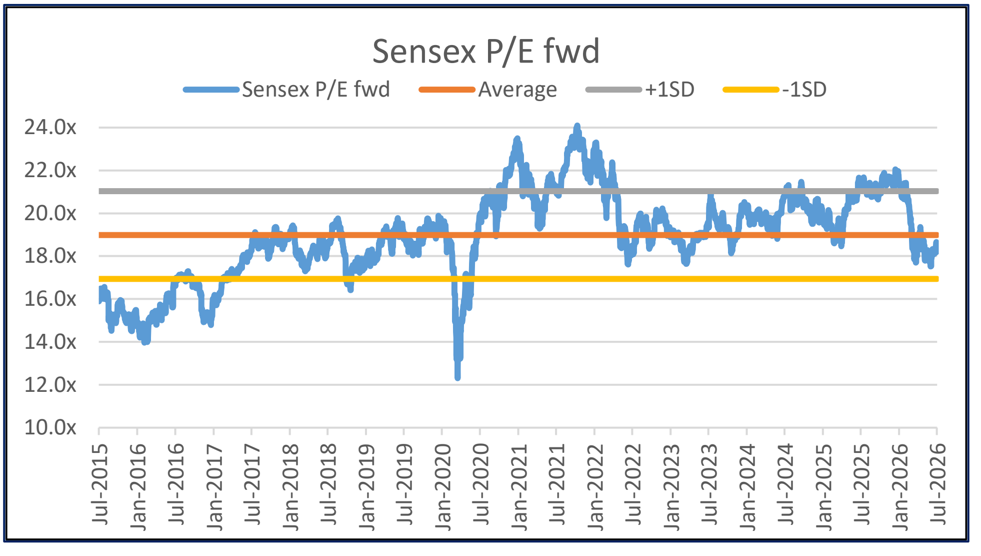
1) Sensex was expensive relative to other EMs

2) India is disproportionately impacted by high crude prices

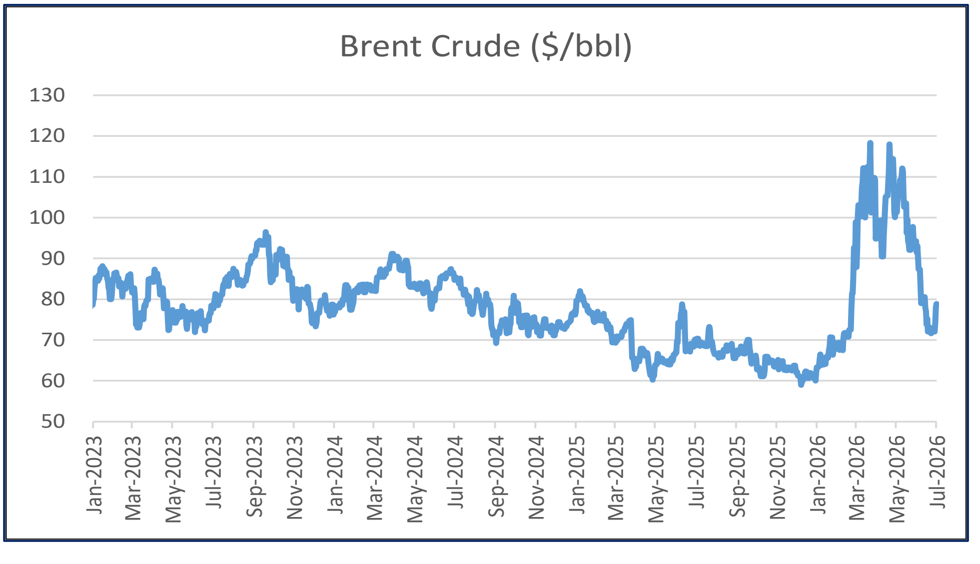
3) India is seen as an AI short, first because its largest exporting industry (IT Services) is seen as direct impacted, and the broader narrative of it affecting the countries overall macro

Some of these arguments are reversing, or at least showing encouraging prospects.

1) Sensex is now below its average valuations, and sharply below its post Covid valuations.



2) Crude fell sharply post the ceasefire (albeit has moved up while writing this as the war "may be" back on again.



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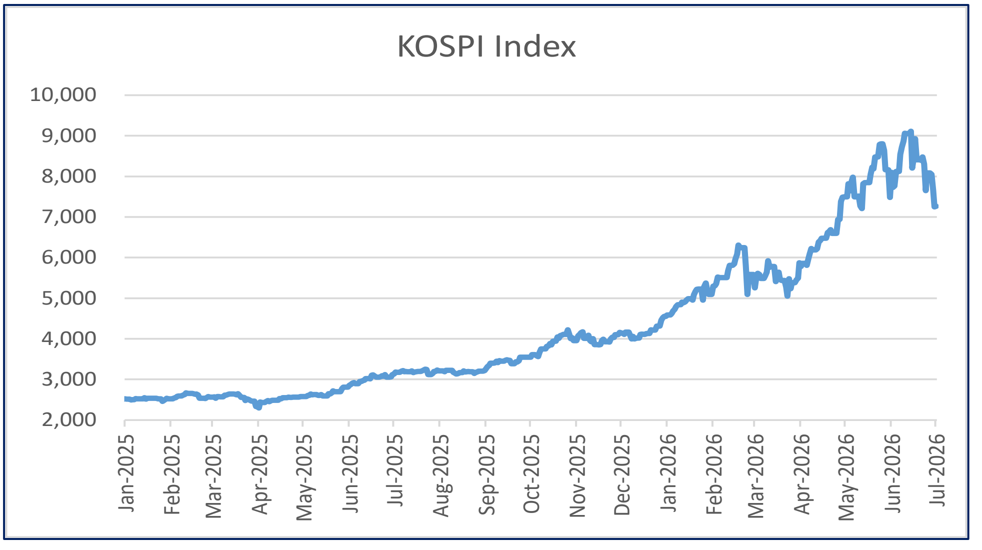
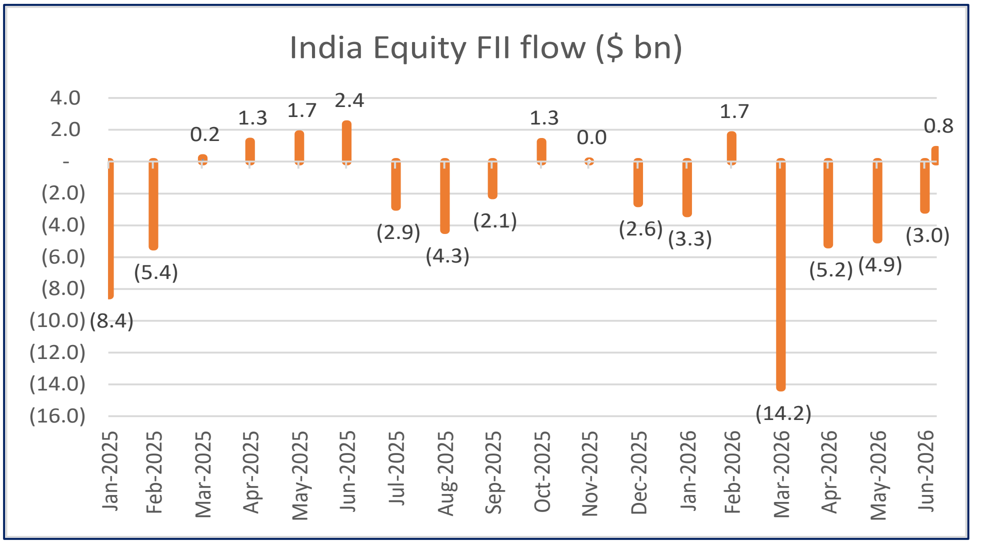
3) The AI narrative may be over stretched and reversing. We can see early signs in the sharp pullback in Korean equities.



FII net outflows are beginning to reverse.



This last quarter saw a sharp underperformance of large caps. Sensex was up 6.3%, relative to BSE Small Cap Index which was up 29.1%. The key difference is large caps are heavily owned by FIIs while small caps are not.

With FIIs returning, or even just stopping the selling we are likely to see a valuation bounce in large caps. And within large caps, large private sector banks and life insurers are likely to be the biggest beneficiaries (and were the largest dis-beneficiaries on the way down).

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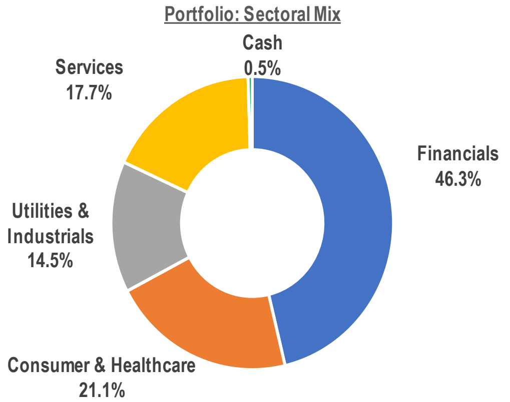
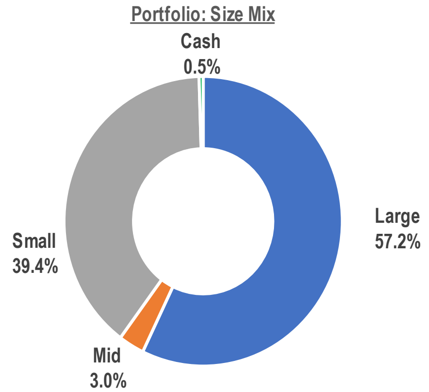
Portfolio characteristics:

	P/E (forward)	12m EPS Growth (consensus)	PEG Ratio	P/B (forward)	RoE % (forward)	Sharpe Ratio (3 yr)	Beta (3 yr)
Portfolio	18.2x	17.9%	1.0x	3.0x	17.6%	59%	0.8x
Sensex	18.2x	5.7%	3.2x	2.8x	15.1%	-2%	1.0x

Note: Portfolio details are ex Life Insurance





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

Axis Bank	Quess Corp	Maruti Suzuki	Star Health	Hyundai
HDFC Bank	ONGC	PNB Housing	EPL	SBI Life

Annualized performance:

Period:	YTD CY26	CY25	CY24	CY23	CY22	CY21
Portfolio	-3.8%	12.5%	17.1%	32.7%	16.8%	33.2%
Sensex TRI	-9.7%	10.4%	9.5%	20.3%	5.8%	23.2%
Outperformance	5.9%	2.1%	7.6%	12.3%	11.0%	9.9%

Period:	YTD FY27	FY26	FY25	FY24	FY23	FY22	FY21
Portfolio	12.4%	-0.9%	12.4%	34.8%	14.0%	11.1%	120.6%
Sensex TRI	6.8%	-6.0%	6.4%	26.5%	2.0%	19.5%	69.8%
Outperformance	5.5%	5.1%	6.0%	8.3%	12.0%	-8.4%	50.8%

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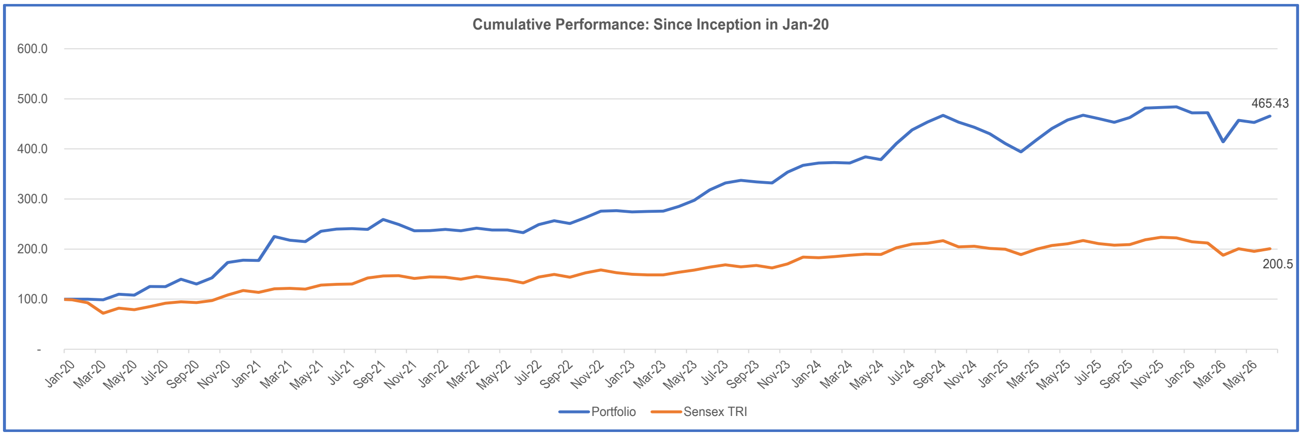
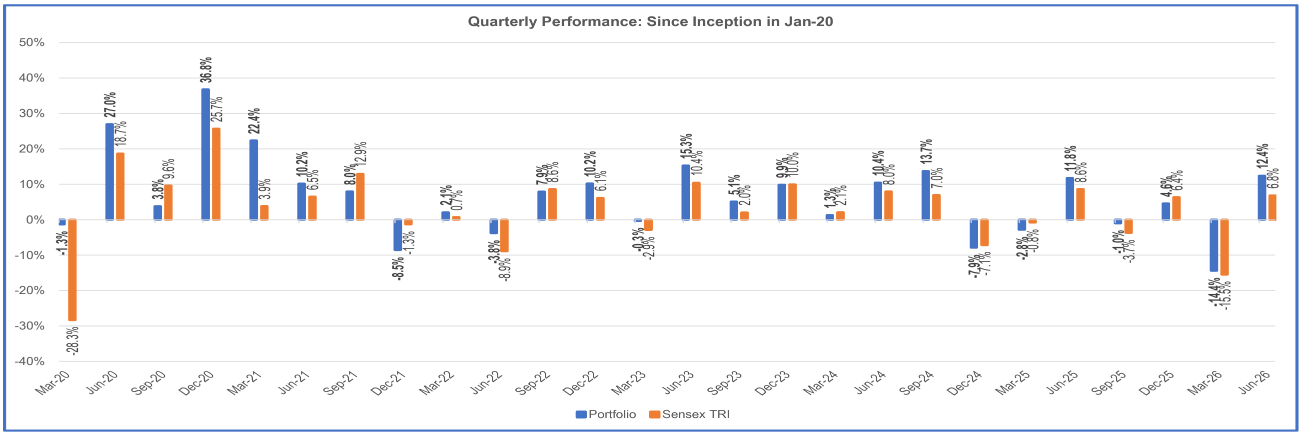
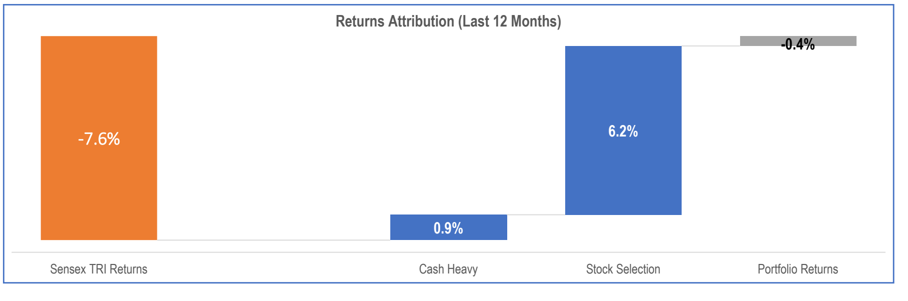
Performance charts:



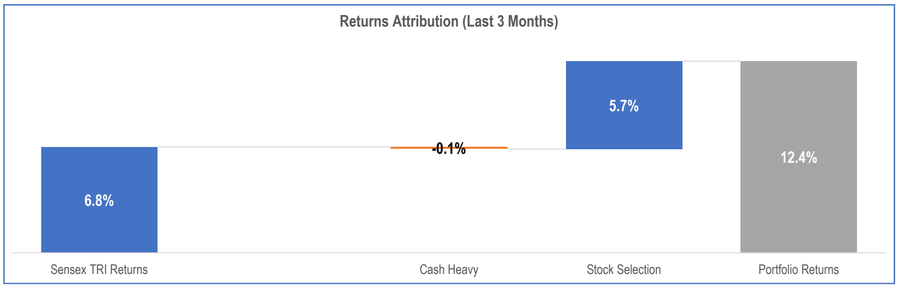


Returns attribution :

Outperformance For Last Year: 7.2%



Outperformance For Last Quarter: 5.5%



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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%

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: 4% Down Capture Ratio
  - Sensex TRI down 7%
  - Our Portfolio was flat

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 Mar-26 qtr):
  - 3yr Treynor Ratio of 10.2
  - 3yr Sharpe Ratio of 70%

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Superior rolling returns:

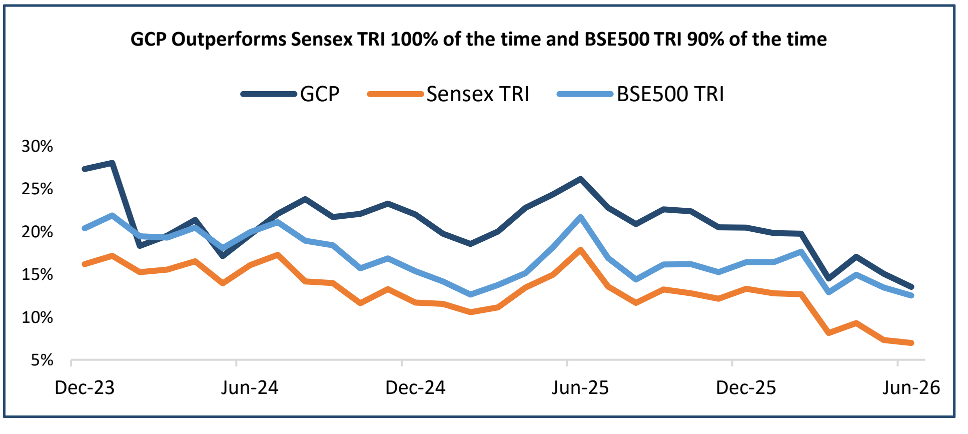
Regardless of when one entered GCP the minimum 3 yr return has been 13.5%, so far

- This is higher than the actual 3 year return of Sensex TRI at 7.0%
- The minimum 3 yr rolling return for Sensex TRI was just 7.0% and BSE500 TRI was just 12.5%

GCP Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	31%	25%	25%
Maximum	125%	57%	41%
Minimum	-3%	6%	14%

Sensex TRI Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	17%	15%	15%
Maximum	70%	42%	27%
Minimum	-8%	-1%	7%

BSE 500 TRI Rolling Returns	1 Yr	2 Yrs	3 Yrs
Mean	21%	19%	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%
Flat Market (Sep-24 to June-26)	**Up to 27% in cash** Down Capture Ratio = 4% = Fall in Portfolio / Fall in Sensex TRI = -0.3% / -7.5%

B. OUTLOOK:

At time of writing this, the war "may be" on again, but our crystal ball gazing suggests that the US has tipped its hand a long time ago and as such, whatever the outcome of ongoing tensions, oil will continue to sputter out of the Middle East, and the worst of the geopolitical impact on macros may now be behind us.

We have been fully deployed after aggressively deploying in Mar-26. From having a skewed portfolio in 2024 in financial services, we have deployed in Autos, Oil & Gas, and Consumer linked companies, as these sectors became cheaper.

From being asked why we had cash in 2024, we now feel like we are evangelists for Indian equities in every pitch we do. 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 Jun-26	P/E Jun-25	P/E 10 Yr Avg	vs Jun-25	vs 10 yr Avg	Our View
Auto	25.7x	24.9x	23.7x	3%	8%	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 have positions in OEMs and auto comps
Banks - Private	15.1x	18.0x	20.9x	-16%	-28%	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	32.4x	39.1x	30.2x	-17%	7%	Still expensive on an absolute basis
Consumer	38.3x	41.5x	42.7x	-8%	-10%	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	35.5x	32.2x	27.9x	10%	27%	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	15.2x	19.2x	14.3x	-21%	6%	Very expensive, poor corporate governance, we are staying away
Media	15.2x	16.5x	24.7x	-8%	-38%	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	12.0x	11.1x	10.5x	8%	14%	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)	8.9x	9.6x	8.3x	-7%	7%	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	30.0x	36.6x	30.2x	-18%	-1%	Many of the underlying chemical prices have settled back down to pre-Covid levels. Is part of our pipeline of research
IT Services	14.3x	24.8x	21.5x	-42%	-33%	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