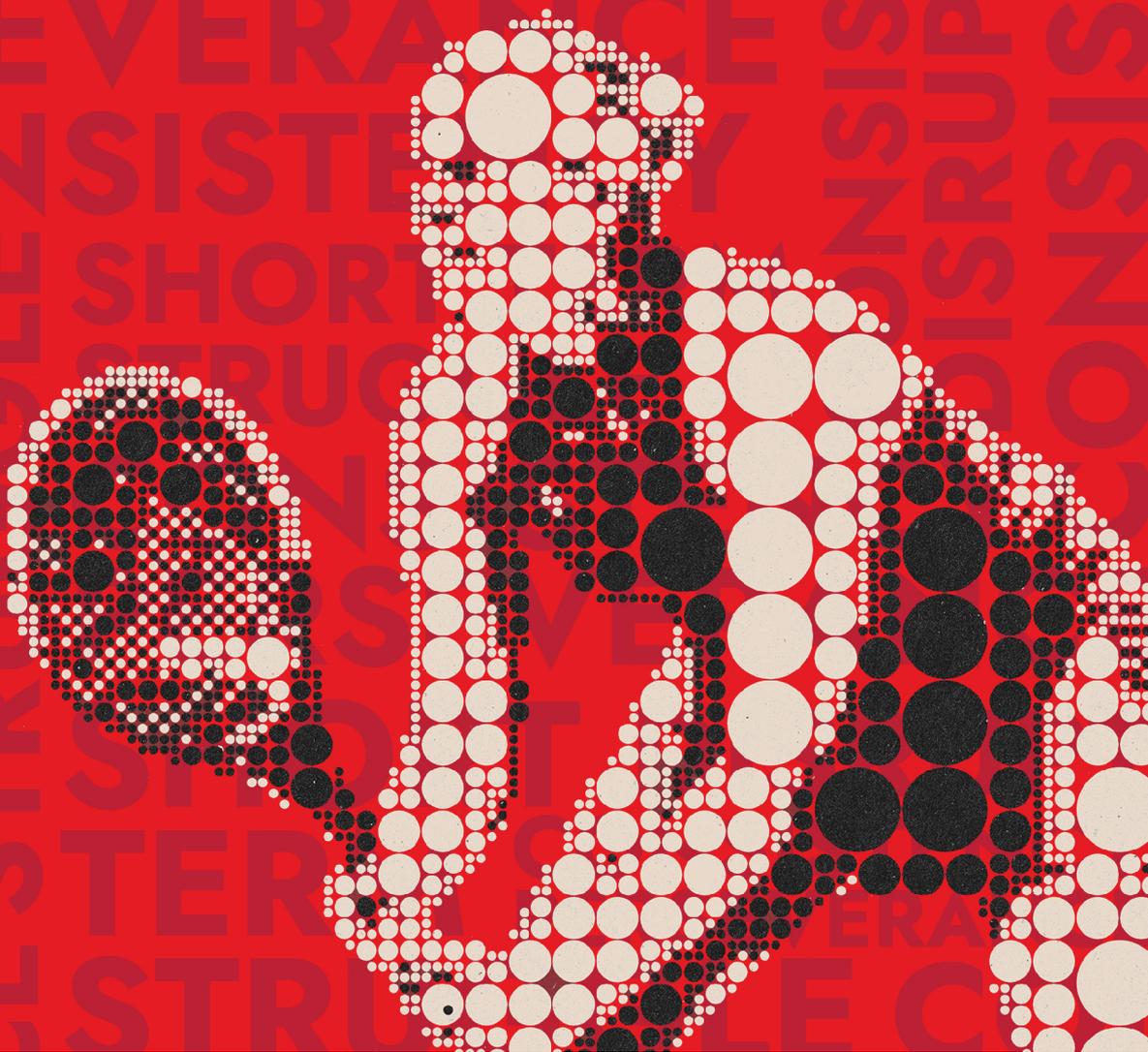


MONTHLY NEWSLETTER

JULY 2021

'ACING' INVESTING!



EXECUTIVE SUMMARY

It is often said that investing is more of an Art rather than Science which includes learning from different disciplines and areas of life and implementing those effectively. In today's world where most of the information and data is easily accessible, soft skills, especially Behavioural aspects, are very important.

The recently concluded French Open Men's Final between Novak Djokovic and Stefanos Tsitsipas was nerve-wracking, to say the least. That match, and the entire tournament, was full of surprises and upsets, grit and determination and most importantly about perseverance consistency. In this month's newsletter, we look at the game of tennis and the investing lessons that we investors can learn from this sport, with some anecdotes from our portfolios.

To Ace something or Acing it implies accomplishing something with great success. The verb Ace originated from tennis which means a legal serve which an opponent is unable to return, thus winning the point for the server.

As swift as stable

Long-term stability or agility in service?

What would you rather choose, when it comes to investing your hard-earned money?

With Ambit Asset Management, you won't have to.

While it uses its deep-dive research and disciplined approach to lend stability to your portfolio, its strong digital outreach ensures an agile and transparent service.

The result?

Consistent growth with an always-available service.

Now, that's what 'acumen at work' helps you achieve.

INVESTING LESSONS FROM THE GAME OF TENNIS

1. Perseverance and Consistency

Tennis is played in points: Four points win a Game, six Games win a Set, and two (or three) Sets win a Match. A single Game or Set won is not the same as the Match won. The player has to start each Game, Set and Match afresh, regardless of whether she is 2-0 up, like Tsitsipas was in the recently concluded French Open final; or tied 2-2 after losing a 2-0 lead, like Rafael Nadal in 2008 Wimbledon Final vs Roger Federer.

Hence, Perseverance and Consistency is paramount.

Similarly, in investing, it is consistent outperformance over the longer term – navigating a Bull AND a Bear cycle – that results in long-term compounded returns, and not the short-term upswing / downswing. This outperformance, compounded over a decade or two, results in tremendous absolute wealth creation. Investors that may have entered the market in the last one year may have won only a ‘Game’ or a ‘Set’ yet, while the complete ‘Match’ – the ensuing market cycle – is yet to play out.

6-7, 2-6, 6-3, 6-2, 6-4

Score of 2021 French Open final where Tsitsipas lost a 2 Set lead (and the match) to Djokovic

6-4, 6-4, 6-7, 6-7, 9-7

That’s the score of 2008 Wimbledon final between Rafael Nadal and Roger Federer, which Nadal turned around after giving up a 2-Set lead

Exhibit 1: Ambit Coffee Can Portfolio NAV

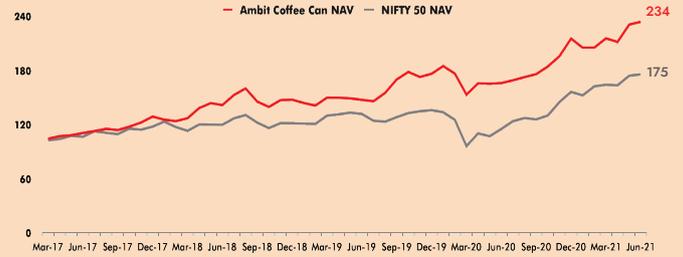


Exhibit 2: Ambit Good & Clean MidCap Portfolio NAV

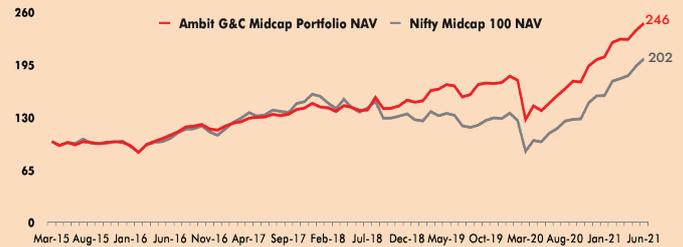
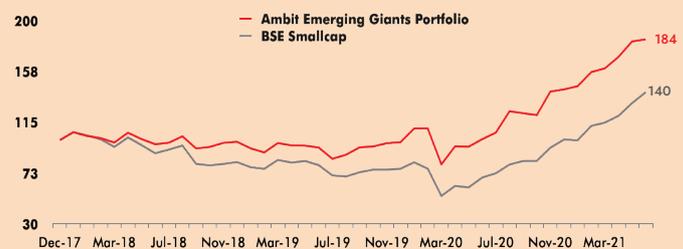


Exhibit 3: Ambit Emerging Giants Portfolio NAV



Source: Ambit Asset Management

2. Staying Focused and operating within the Circle of Competence

There are three main types of Courts in Tennis – Grass (Wimbledon), Clay (French Open) and Hard Court (US and Australian Open) (Refer to Exhibit: 6,7 & 8).

In Cricket parlance, one could think of these as different types of ‘Pitch’ with each having different characteristics and suiting specific players.

Rafael Nadal is famously known as the ‘King of Clay’, while Roger Federer has the best record in Wimbledon Championships (Grass court).

Federer withdrew from the 2021 French Open, having reached the 4th round, because he wanted to focus on Wimbledon – which is his forte – and not push his body to limits on a clay court where he did not have a competitive advantage or Right-To-Win. Similarly, Nadal too recently withdrew from the Wimbledon and Summer Olympics to be able to recover physically from a grueling French Open Semi-Final defeat.

What is a Grand Slam tournament?

The Grand Slam tournaments or majors, are the world’s four most important annual tennis events. It is held as follows: Australian Open (Mid January), French Open (May – June), Wimbledon (June – July), US Open (Aug–Sept)

We derive two important investing lessons from this instance –

I. Circle of Competence: It is important to define one’s Circle of Competence, what one knows the best; and focus on operating within that. Warren Buffett and Charlie Munger have been big proponents of this concept. Partnering/ investing with managements that operate within their circle of competence, has handsomely rewarded shareholders. As investors, we try to identify such managements running businesses that can compound earnings every year, while staying away from cyclical businesses/ industries which need be timed (Refer to Exhibit: 4), as that is not our forte.

II. Taking a step back in order to make a leap forward: Prudent risk management by looking at the bigger, longer term picture and sacrificing near term gains in favor of opportunities where one has a ‘Right-To-Win’. Just like Federer using his advantage where he has a right to win so do we focus our energies on identifying opportunities and maximizing Risk-Reward (Refer to Exhibit: 5).

The importance of Circle of Competence in investing can be gauged from a famous quote by legendary investor Peter Lynch –

“Know what you own & know why you own it”

Exhibit 4: Timing/duration in a cyclical stock/earnings compounder is a key factor in generating alpha



Source: Ambit Asset Management, in.investing.com

Exhibit 5: Higher Sharpe Ratio/ Lower SD across portfolios a result of prudent Risk management

Product/ Benchmark	Standard Deviation	Max. Month-end Drawdown	Sharpe Ratio
Ambit Coffee Can Portfolio	16%	-17%	0.92
Nifty	19%	-29%	0.35
Ambit Good & Clean Midcap Portfolio	19%	-30%	0.43
Nifty Midcap 100	23%	-45%	0.21
Ambit Emerging Giants Portfolio	27%	-27%	0.43
BSE Small Cap	29%	-50%	0.10

3. Importance of diversification

There are two important things for a player to remember on the tennis court:

Proper Positioning (Refer to Exhibit: 9,10): Stand too close to the net and the opponent may play a lob-shot. Stand too far away from the net and they may surprise with a drop-shot.

The right mix of shots (Refer to Exhibit: 11): Have a weak back-hand and the opponent will keep hitting on your left (If you're a

right-handed player, and vice-versa).

Proper positioning on the tennis court with the right mix of shots is important for a good tennis player. Similarly, in the investing parlance, diversification across (1) Asset Classes (2) Sector / Industry (3) Market Capitalization, helps position the investor to be able to 'hit' any opportunity that comes their way with the right strategy (Hint: Ambit Asset Management Portfolios) (Refer to Exhibit: 12, 13 and 14).

Exhibit 12: Ambit Coffee Can Portfolio Sector allocation

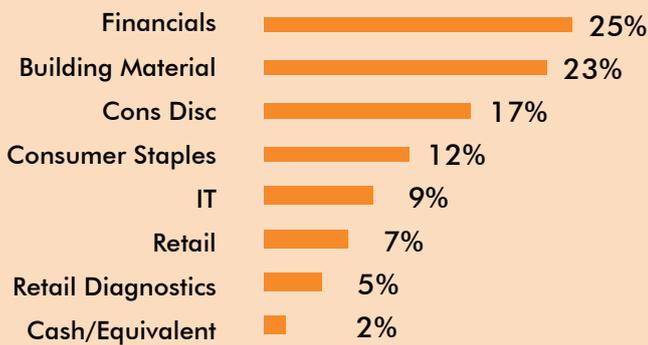


Exhibit 13: Ambit Good & Clean Midcap Portfolio Sector allocation

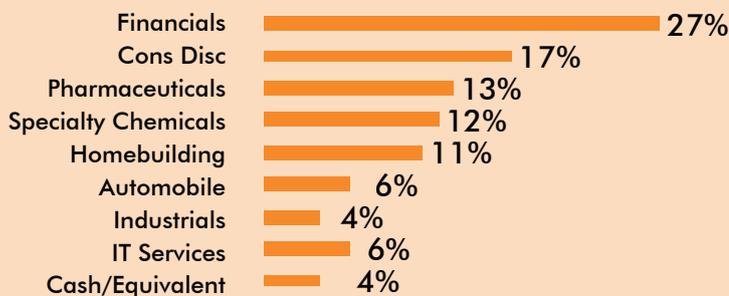


Exhibit 14: Ambit Emerging Giants Portfolio Sector allocation



Exhibit 6: Clay Court



Exhibit 7: Grass Court



Exhibit 8: Hard Surface Court



Exhibit 9: A Lob shot



Exhibit 10: A Drop Shot

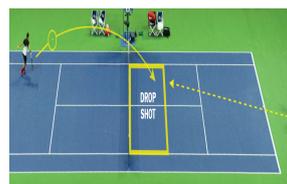
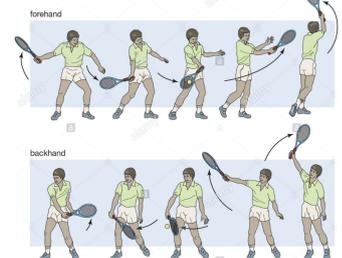


Exhibit 11: Forehand and Backhand



4. The Crowd and the Noise

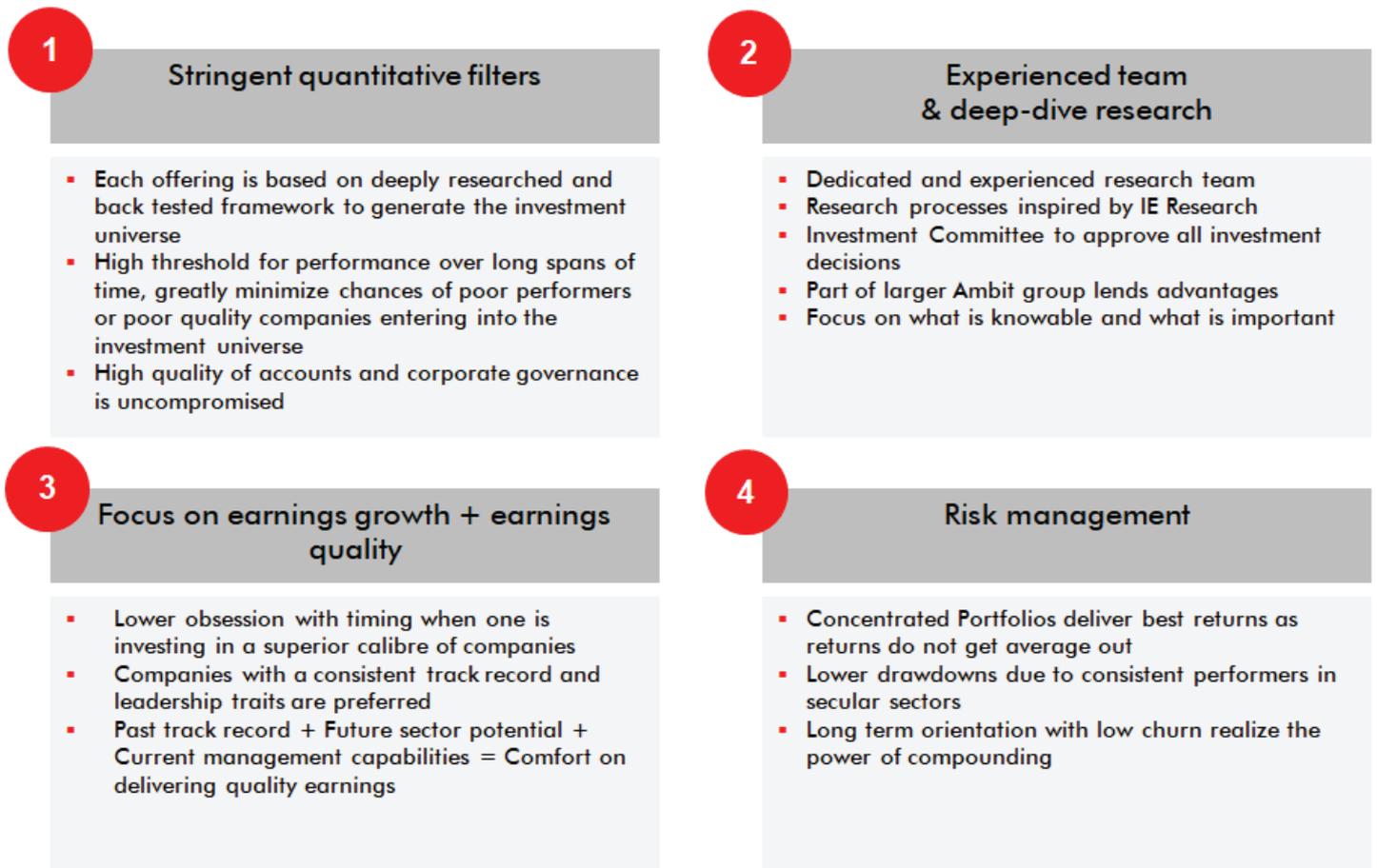
Tennis is also famously known for its crowd, especially the French Open and the Wimbledon. Although silence is encouraged between points, the occasional boos and jeers can be mentally testing for any player, especially when playing against a Home player or using an unconventional style.

In investing, one could refer to the index / benchmark as 'The Crowd' against which the performance will constantly be gauged. At times, the crowd (Index) may behave irrationally influenced by human psychology and behavior resulting in near-term relative underper-

formance, thus encouraging the investor to change her style. But the successful investor stands her ground and sticks to her long tested investment philosophy just like a successful tennis player will not change her strategy due to cheers/boos.

The 'Noise' or demands of the crowd may cause inexperienced Tennis players or investors to give-in and possibly target short term-gains to seek instant gratification abandoning from a well set-out strategy. That's why experience in tennis and investing is critical to stay the course and succeed.

Exhibit 15: Good performance is an outcome of consistent good process and long term focus



Source: Ambit Asset Management

5. The Incessant Disruption

Since Tennis is usually not a team sport, the dynamics are slightly different. An emerging, young player can seriously challenge a top-ranking player in a major tournament and even dethrone them from their ranking.

Eg, 20 year old Jelena Ostapenko became the first ever Latvian to win a Grand Slam. She was ranked 47th in the world heading into the 2017 French Open when she shocked 3rd seed Simona Halep in the final. Therefore, the Top-Rankers need to constantly keep innovating and evolving their game.

Likewise, the similar holds true for companies and corporates. The current leaders need to constantly innovate and protect the 'moat' around their business to keep the 'Emerging Giants' from destroying their competitive advantage. While the likes of Asian Paints and Pidilite have been doing this for decades, the new entrants like Laurus Labs and AAVAS Financiers have been trying to make a 'dent'. As an investor, it would pay handsomely to identify companies at both ends of the spectrum – the emerging disruptors and the legends!

What is a 'Seed'?

A 'seed' is a preliminary ranking of a player in a tournament for the purposes of the draw. Players/teams are "planted" into the bracket in a manner that is typically intended so that the best do not meet until later in the competition.

Exhibit 16: 20 year Old, 20th seed Naomi Osaka defeated her idol Serena Williams to win her first Grand Slam



Exhibit 17: As Investors we try to identify possible long-term disruptions faced by our investee companies in our disruption series to keep us prepared & 2 steps ahead



Source: Ambit Asset Management, Google / NYTNAV

Exhibit 18: Tennis Men's Singles Ranking – Only Nadal and Djokovic are aged 30+

ATP Rankings (Singles) as of 21 June 2021			
Ranking	Country	Player	Age
1	Serbia	Novak Djokovic	34
2	Russia	Daniil Medvedev	25
3	Spain	Rafael Nadal	35
4	Greece	Stefanos Tsitsipas	22
5	Austria	Dominic Thiem	27

Exhibit 19: Tennis Women's Singles Ranking – Young Players leading the way

WTA Rankings (Singles) as of 21 June 2021			
Ranking	Country	Player	Age
1	Australia	Ashleigh Barty	25
2	Japan	Naomi Osaka	23
3	Romania	Simona Halep	29
4	Belarus	Aryna Sabalenka	23
5	Ukraine	Elina Svitolina	26

Source: Ambit Asset Management, Wikipedia

AMBIT COFFEE CAN PORTFOLIO

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail & consumption oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite

being faced by disruptions at regular intervals. As the industry evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 20: Ambit Coffee Can Portfolio point to point performance.

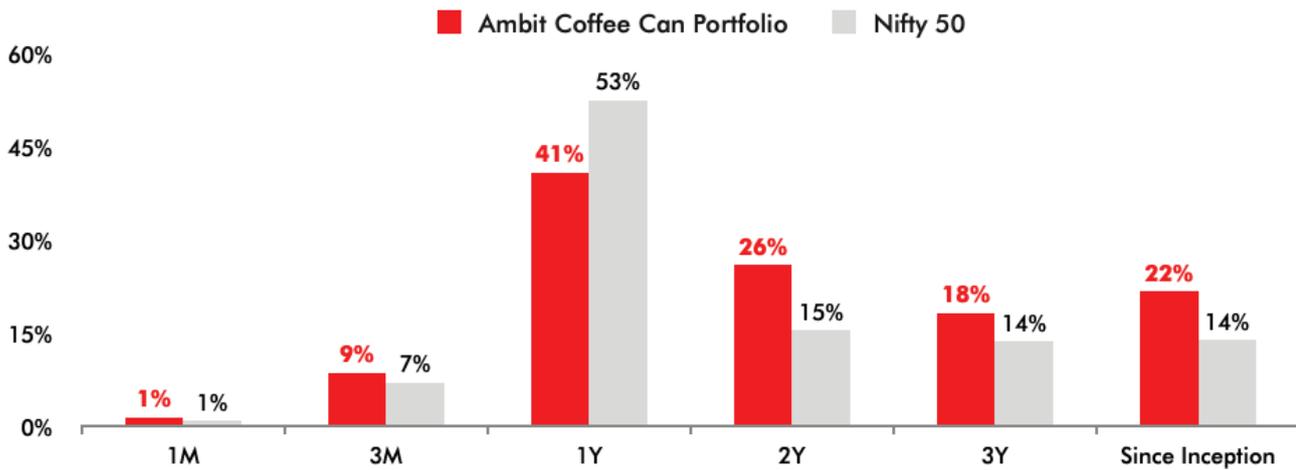
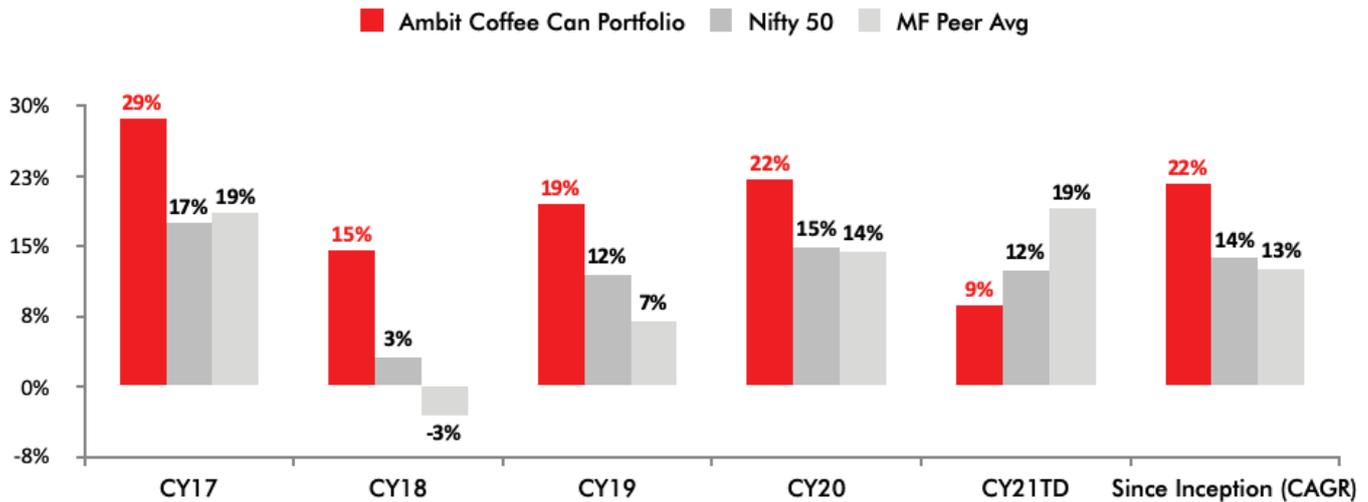


Exhibit 21: Ambit Coffee Can Portfolio calendar year performance.



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 30th June, 2021; All returns are post fees and expenses; Returns above 1 year are annualized; Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts. 1 year are annualized. Returns are net of all fees and expenses

AMBIT GOOD & CLEAN MIDCAP PORTFOLIO

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while our proprietary 'greatness' framework helps identify efficient capital allocators with a holistic approach for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

Process-oriented approach to investing: Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This

shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.

Long-term horizon and low churn: Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with this compounding earnings acting as the primary driver of investment returns over long periods.

Low drawdowns: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

Exhibit 22: Ambit Good & Clean Midcap Portfolio point to point performance.

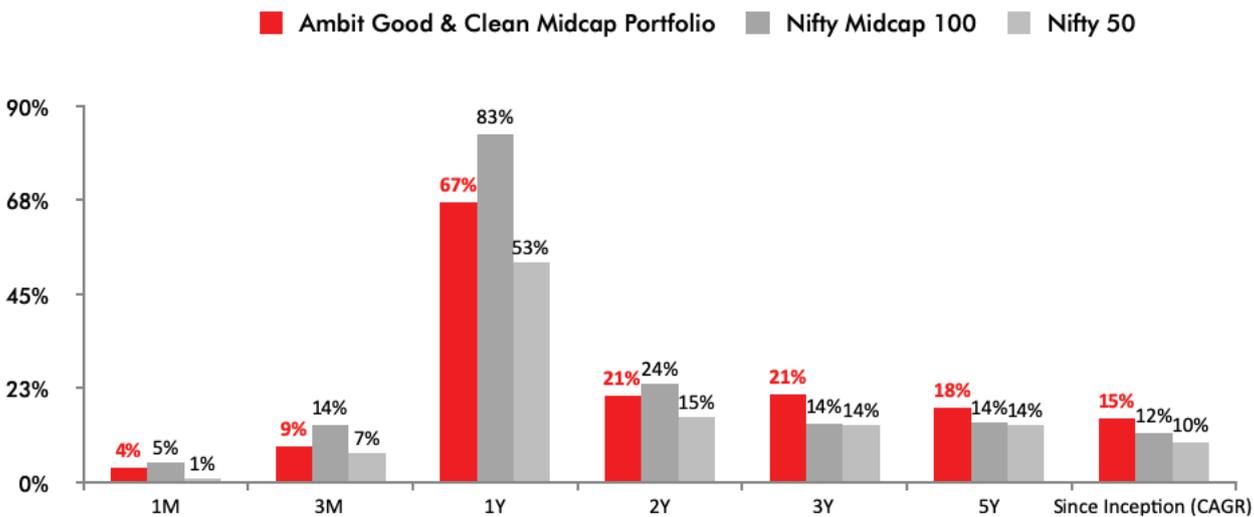
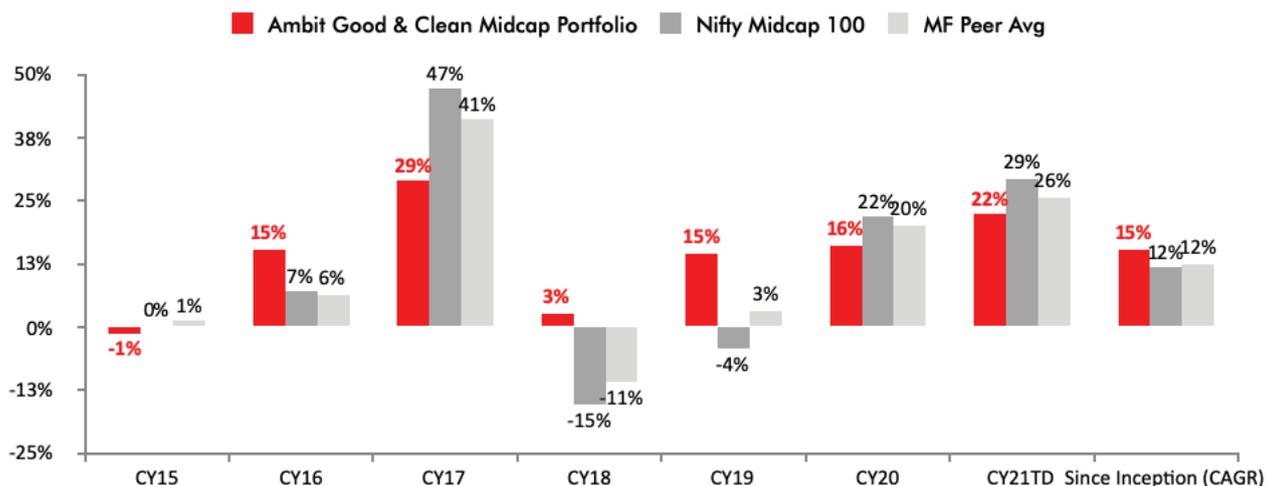


Exhibit 23: Ambit Good & Clean Midcap Portfolio calendar year performance.



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th June, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses

AMBIT EMERGING GIANTS PORTFOLIO

Smallcaps with secular growth, superior return ratios and no leverage. Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs. 4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt) and ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes these companies are not well discovered, owing to lower

institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Five advantages in core businesses despite being faced by disruptions at regular intervals. As the industry evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 24: Ambit Emerging Giants Portfolio point to point performance.

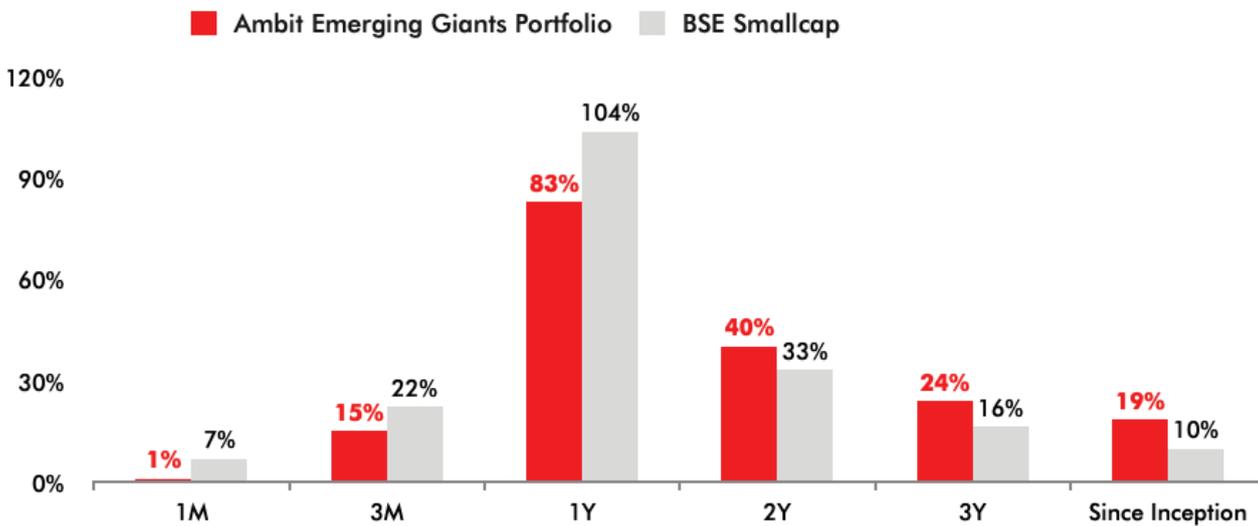
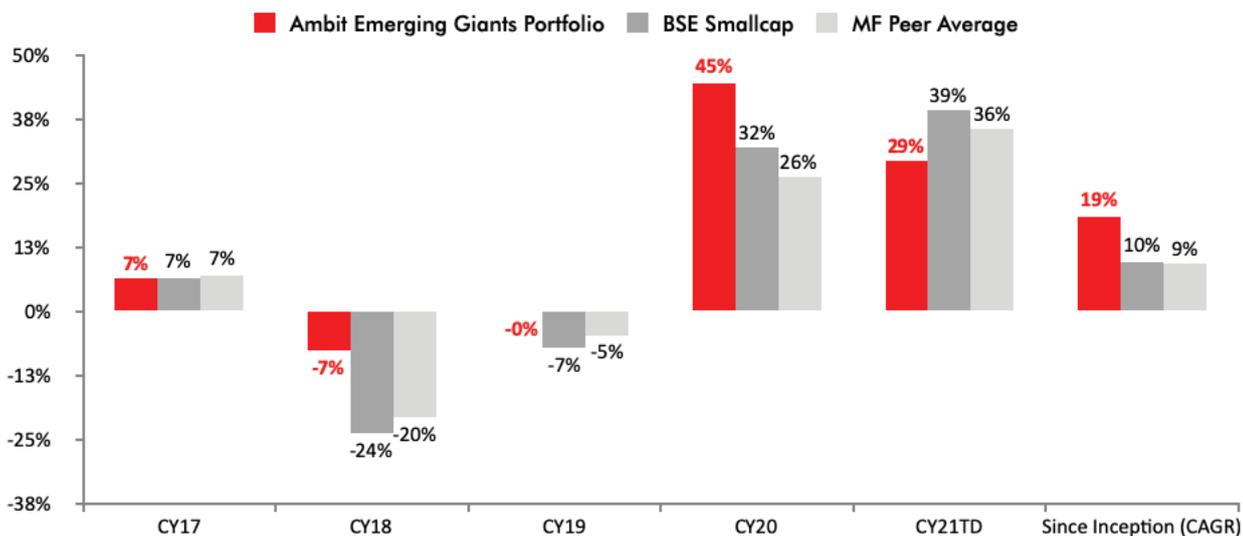


Exhibit 25: Ambit Emerging Giants Portfolio calendar year performance.



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th June, 2021; All returns above 1 year are annualized. Returns are net of all fees and expenses.

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