From the Fund Manager's desk…

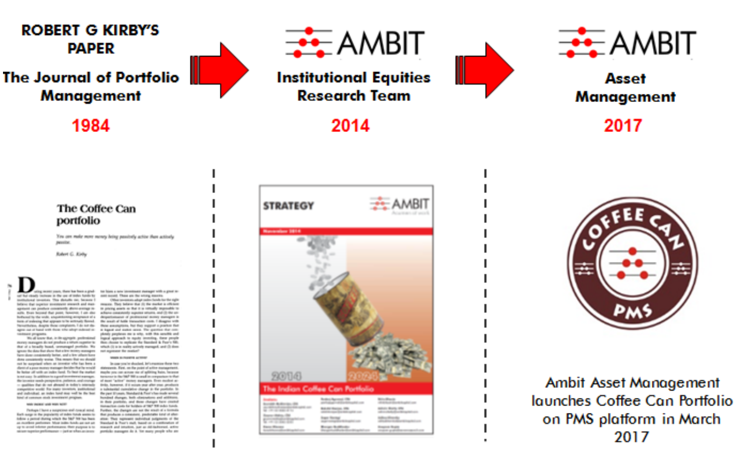
Lessons from history…

The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in their 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.

The initial idea of Coffee Can Investing was backed by Robert Kirby's paper on the subject first published in the Journal of Portfolio management in 1984. This paper shines light on the power of (1) Long term investing with a concentrated portfolio (2) Minimising transaction costs and churn (3) and of course the power of compounding. The idea is to select stocks smartly and hold them for long periods of time. In a way buy your stocks put them in your coffee can and forget about them.

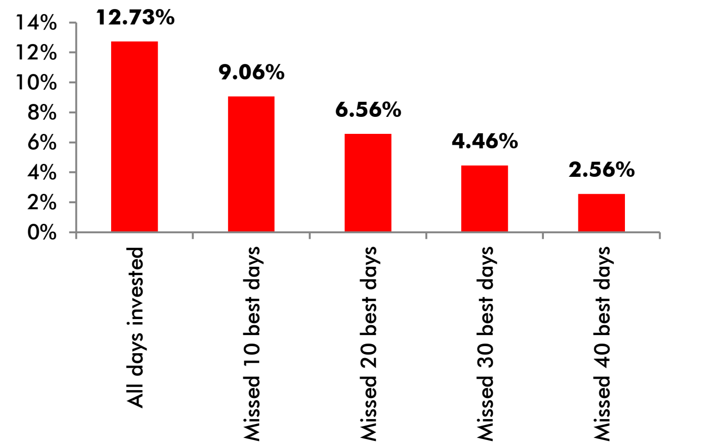
The great importance of time in the market rather than timing the market is a cornerstone of the philosophy based on which the Coffee can fund is set up. Timing can give you some lucky returns over shorter spans of times but the misses by far shadow the hits in the long run. This is directly observable in Exhibit 2 which shows long range Sensex data, what this really goes to say is just 40 days of best returns missed over 40 years would have had a devastating impact on one's return profile.

Exhibit 1: CCP PMS has evolved from the sound framework developed by Robert Kirby and refined by Ambit to its current form for investment in Indian companies…



Source: Ambit Asset Management

Exhibit 2: Staying invested allows us to maximize return + minimize risk post stock selection



Source: Ambit Asset Management, Sensex data spanning 40 years upto March 2020

This time is different…Is it different?

While although it is true we have not faced such a disruption (pandemic) before. History is no stranger to periods of disproportionate market rally despite occurrence of large scale disruptions. Be it bull markets in periods such as 1993-2001 which saw catastrophic events such as the 93 blasts as well as the Kargil war but moved up anyways or periods such as 2001-2009 which saw communal riots or 26/11 terror attacks or then periods such as 2009-2019 which have seen periods of great disruption including Demonetization, GST, RERA to name a few. The clear message that emerges in ***Exhibit 3 to 6*** is that:

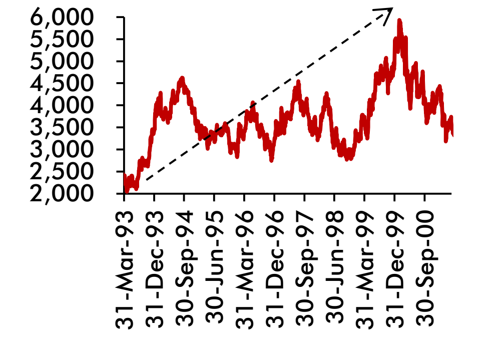
Investing over longer periods of time can be fruitful despite disruptions in the near term and helps us avoid drawdowns which can be tough to recover from ***(Ref to Exhibit 2&9).*** Markets can behave seemingly irrational in short term and move up ferociously (just like they have moved through this pandemic) and a huge chance to make returns can be lost if one had decided to time the market for reasons such as "cases are rising and so market should crash". This is more important now especially since we know how important the top few days of earning in a year or decade are in contributing disproportionately to overall returns ***(Ref to Exhibit 2)***

Exhibit 3: History is no stranger to periods of disproportionate market rally despite occurrence of large scale disruptions

1993-2001		2001-2009		2009-2019	
Year	**Event**	**Year**	**Event**	**Year**	**Event**
Mar-93	Bombay blasts	May-02	Communal riots	Jan/ Sep-16	Pathankot/ Surgical strikes 2
Jun-96	Vajpayee government falls	May-04	BJP loses elections	Nov-16	Demonetization
May-98	Nuclear tests	Nov-08	26/11 attacks	May/Jun-17	RERA/GST
May-99	Kargil war	Sep-08	Lehman Brothers	Dec-19	Covid 19

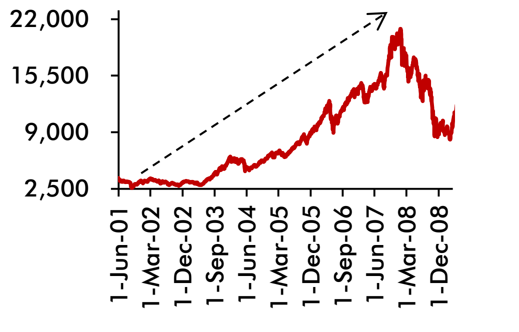
Source: Ambit Asset Management

Exhibit 4: 1993-2001 saw many catastrophes upto the dotcom crash



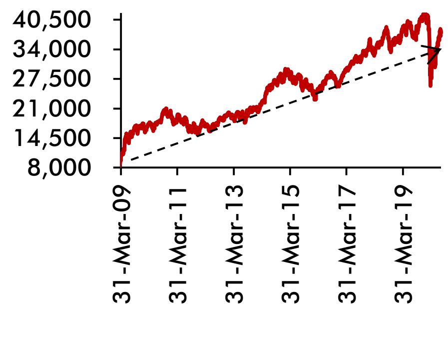
Source: Ambit Asset Management

Exhibit 5: 2001-2009 markets soared right upto 2008 GFC weathering many big events along the way



Source: Ambit Asset Management

Exhibit 6: 2009-2020 markets have given phenomenal returns despite covid



Source: Ambit Asset Management

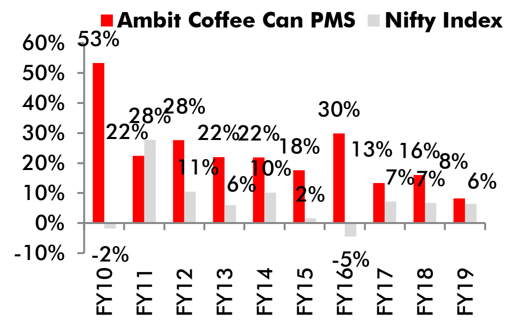
When long term investing can do wonders…

Over the long run we have found that the bottom line is that timing is futile and has a high level of risk and cost associated with it. Introducing discipline to your approach is the only way to successfully and consistently generate healthy returns.

An investor should keep in mind three things:

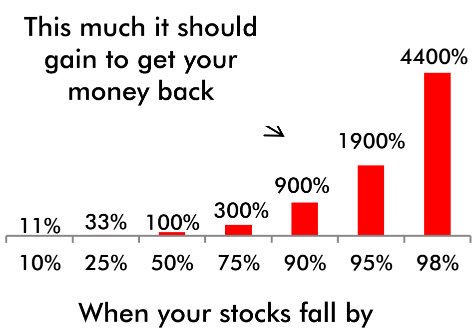
- **Invest into a portfolio of Quality names** (Good earnings growth, clean accounts and *backed by thorough research/channel checks while meeting the Coffee Can's stringent frameworks*) with superior earning growth. *(Ref to Exhibit 8)*
- **Lower drawdowns + Continue SIPs**: The focus on clean accounting 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. When stocks fall less, you gain (much) more! ***(Ref to Exhibit 8).***
- *It is also equally important to continue your SIP or even increase investment when stock prices fall rather than when they rise. Trying to time your SIP is just like trying to time the market.* It is futile.
- **Reduce churn:** Once you have selected and identified good stocks to add to your diversified portfolio stay out of the way and stay committed to the Investment goal. Avoid temptation to time the market and similarly avoid frequent buys/sells as they add costs and sometimes come in the way of compounded growth. ***(Ref to Exhibit 9)***

Exhibit 7: Price appreciation is largely driven by earnings and so one must pick consistent earners…



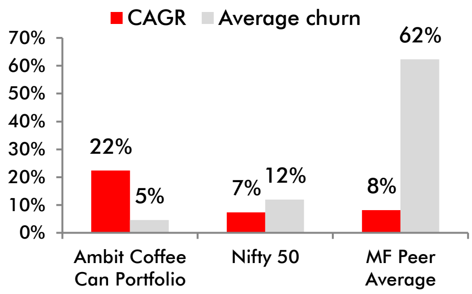
Source: Ambit Asset Management

Exhibit 8: When stocks correct it takes much more to get back to where they were pre fall. Lower distress sell and high quality lower drawdowns



Source: Ambit Asset Management

Exhibit 9: High churn leads to "too much timing" and also increases risk and costs



Source: Returns are net of all fees and expenses since inception date 6th Mar-17 as on 31st July, 2020; Regular growth schemes considered for peer group comparison;

The MF Peers considered are: ABSL Focused, Franklin India Bluechip, HDFC Large Cap, ICICI Pru Focused, SBI Blue Chip.

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