Cohesion MK Best Ideas

Investment Report

October 2023

Cohesion®
Accessing Superior Growth

Another strong quarter, building on a strong first three years

We are pleased to report that Cohesion MK Best Ideas enjoyed another quarter of strong absolute and relative returns. **During the three months ending 30th September, we delivered GAV returns of 12.6% in USD or 17.3% in GBP. Virtually every major equity index fell during the same period**, represented by the MSCI World Index falling 3.4% in USD. Indian equities fared better than other international markets, with MSCI India rising by 2.9% in USD. Although we do not actively set out to beat indices or peers, we comfortably outpaced every other fund in the peer group, the average of which rose by just 2.8% in USD.

We recently passed the third anniversary of Cohesion MK Best Ideas. **Since launch, we have grown the GAV in USD by 101% and in GBP by 116%.** As Table 1 below shows, that's approximately 3x the return of international markets as measured by MSCI World and more than 2x the return that would have been made in an India ETF.

Table 1

Index	Since Inception USD Performance (01/08/2020)
Cohesion MK Best Ideas (GBP)	**115.64**
Cohesion MK Best Ideas (USD)	**101.03**
MSCI India	60.22
Nifty 50	59.88
Sector : FO Equity India	56.13
MSCI India ETF	46.94
Nasdaq 100	38.40
S&P 500	37.81
MSCI World	32.02
MSCI All Country World Index (ACWI)	27.30
MSCI Emerging Markets	-3.38
MSCI China	-34.94

Our special edition third anniversary newsletter discussed the "all-weather" nature of our returns. We launched into the face of the tornado of Covid-19 and the US presidential election. Whilst taking a prudent approach, we ended the year having got off to a great start and making a lot of money despite only being partly invested. After the rollout of the Covid-19 vaccine, markets performed well and we had a terrific 2021, making hay whilst the sun shone. The following year, 2022 was an awful year for most investors. The darling growth stocks were hammered and the safe haven of bonds proved to be one of the riskiest places to be. Against that environment, we protected investors capital. So far, 2023 might best be described as "sunshine and showers". For most investors, it's been less painful than 2022 but certainly not a vintage year. Despite this tricky year for global investors, we are having an excellent year so far.

2020	2021	2022	2023
			
Cautiously deployed capital during Covid and US Presidential elections Got off to a strong start, banking a return of 15%	Post Covid-19 vaccination, markets performed well We delivered 42%, significantly outperforming most local and international markets and our peers	As inflation pressures mounted, equity and bond markets took fright. Many markets down 30-40% Through a risk averse approach, we preserved investors capital	Markets remain choppy due to conflicting inflation data Investment ideas sown in 2022 are bearing fruit, pushing performance to new highs
+15% Data from 01/08/2020	**+42%**	**-2%**	**+25%** Data to 30/09/2023

USD Performance (%)

Access is key

Delivering such returns simply by sticking to one style or following consensus is impossible. For investors who take such an inflexible approach, the Indian economy is vibrant enough to give long-term returns that are still likely to be pretty good. However, delivering exceptional returns requires a fund manager to be nimble and free-spirited, which requires one thing above all else.

So, for this quarter's newsletter, we will return to a theme we have explored in the past, the importance of access to the best information. There is an old adage *"It's not what you know, it's who you know."* In our experience, the two are closely related. By cultivating enduring relationships with business leaders, academics, policy makers and investment bankers, we are in a privileged position to share, compare and test our investment ideas with subject-matter experts, which translates into far **superior risk-adjusted investment returns**. We see the economy as an interconnected, organic system in which a vast amount of information is waiting to be shared if you just know who to ask.

Our whole team bears the responsibility for maintaining these relationships. There are many people we have known since they were young, rising stars in their first job. Today, they may be board members of the same company they started out with or have struck out on their own and founded their own company. In some cases, they will have switched sides and become suppliers to their original industry or become customers. Some will have moved to the public sector and become involved in policy making for the industry they grew up in. Wherever they have landed, they can provide us with a 360o view that is simply impossible just by reading sell-side research notes.

For some, fund management is a transactional business in which any relationships with company management are maintained only during the weeks or months the shares are owned. We have never subscribed to that view. We view ourselves as true partners, always willing to give our advice to management whether we are currently shareholders or not. If we spot an opportunity that may benefit a business, we will happily pass it along, even if there is no short-term benefit. For us, fund management is not a zero-sum game of winners and losers; we genuinely want all of the companies we interact with to do really well for their stakeholders and we will help where possible. That help comes back to us multiplied many times over.

By being open and honest with people, our relationships persist after selling. Company owners know that we are in the business of making money for our investors and sometimes we sell shares simply because we believe they have risen too far. There is no reason for companies to feel jilted when we sell shares that look expensive. That the shares have risen so far is probably a testament to the great job that management has done. We will make sure that we keep in close contact with the company after we have sold as we may well be buyers of their shares in the future, or they may share some insight that leads us to look at the shares of their suppliers, customers, competitors, or something in an adjacent industry.

There are of course, limits as to what any company is allowed to share. They know that they are not allowed to share anything which is non-public information, but we are constantly surprised as to how much useful publicly available information never reaches the desk of other fund managers. We get sent all manner of published academic papers, government reports and industry publications that give incredible insights. We can then follow these up with meetings and calls to clarify any gaps in our understanding. Sometimes, these calls can be concise, but **we have always believed it is better to ask the right question to the right person for one minute rather than asking the wrong person for an hour.**

To illustrate the benefits of such access, we can look at some of the stocks we have held and those that we continue to hold. In previous newsletters we have talked about **Ramkrishna Forgings** and our view that most investors had entirely overlooked this company despite it not being a hard business to understand. Since then, **we have enjoyed a return around 300%** and believe there may still be more to come. There are no major international investors on the share register of RK Forgings and it was only through our web of local contacts that we were able to identify such a fabulous business.

Sometimes our access allows us to get sizeable allocations of new issue equity. We are very discerning in the IPOs that we support. Sadly, many IPOs are of poor quality or are priced too richly. Nevertheless, carefully identifying the right IPOs can make a lot of money quickly if you can get a meaningful amount of stock. **Adani Wilmar** ticked all of the boxes for us. Our relationships across the company allowed us to conduct extensive diligence and identify that other investors were underestimating the vast potential of the combined distribution network. We backed our conviction with a sizeable position and earned a **return averaging 170%,** exiting in only a few months.

Access is a two-way street

We want access to smart, trustworthy people who can help us understand industry dynamics, but they also wish to have access to us. We have a track record of helping company executives maximise shareholder value. There is a classic symbiosis at work here. Whatever obstacles they may be facing, we will likely have seen something similar in another company or another sector and we will be able to share our thoughts on how best to overcome these. This desire to have us on the share register can offer us some wonderful opportunities.

Niyogin Fintech Ltd is a fintech NBFC which caters to India's underserved MSMEs (micro/small/medium enterprises) and rural individuals and is engaged in diversified segments such as rural-tech, credit, and wealth-tech. Niyogin provides its technology platform for micro banking services and earns a spread income on the overall transaction value, giving it the benefit of banking revenues without banking risk. The company has grown exponentially its GTV (Gross Transaction Value). This business has enormous potential given India's vast, underserved and underpenetrated microcredit market. We believe Niyogin has the potential to grow its AUM by 4-5x from current levels in the next 2 years. We were able to access this opportunity through a special issuance of warrants. The company raised circa $10m by issuing warrants to investors convertible into fully paid-up equity shares at Rs. 45.62/share. We were allocated a substantial tranche of this along with the founder of the business. Niyogin's shares have been very strong recently, more than doubling over the last six months and putting our warrants firmly in-the-money. Interestingly, the founder of Niyogin is himself a well-known investment manager, actively managing more than $10 bn of assets. He may have regarded himself well enough versed in how asset markets work but still wanted to have the benefit of being closely aligned with us.

We have benefited from a similar opportunity in **Sun Pharma Advanced Research Company (SPARC),** India's leading clinical-stage biopharmaceutical company focused on continuously improving standards of care for patients globally through innovation in therapeutics and delivery. SPARC was formed in 2007 through a demerger from another company that was well-known to us, SUN PHARMA, India's largest listed pharmaceutical company and a global leader in speciality generics. In recent years, SPARC has changed its business strategy to a more aggressive approach to building its product pipeline. Among its portfolio, 43% have "best-in-class" status and 57% have " first-in-class " position. The company's leading drug Vodobatinib, is a selective c-ABL inhibitor with good brain penetration and a superior safety profile for Parkinson's Disease. It is currently in a Phase 2 clinical study; pivotal data is expected in the next 6 months. A successful Phase 2 trial could mean 1bn USD+ licensing opportunity for SPARC, or an even more commercially attractive outcome possible if they pursue (and clear) the Phase 3 trials on their own. SPARC is at the cutting edge of innovation work being done in India, with significant upside optionality. The company raised around $140mn through preferential warrants, where a "select group of high-profile investors" were invited to participate. Despite significantly greater demand for the offering, we got the chance to participate in this round. We invested in SPARC at Rs. 178 through preferential warrants, taking about 1.4mn shares. This investment is up about 33% so far, with a significant optionality event over the next year, which could lead to a potential multi-bagger return.

Lastly, we will mention **Dynamatic Technology (DTL).** DTL is a leading engineering ancillary company catering to three major segments: Hydraulics, Aerospace and Automotive Foundry. DTL is amongst the few Indian Companies who have attained Tier 1 supplier status with Global Aerospace giants such as Airbus, Boeing, Bell Helicopters and other marquee customers like Mahindra Tractors, Escorts Kubota, Tafe, Same Deutz, John Deere, Volkswagen, BMW, and Daimler. We believe that all three segments will likely enjoy strong revenue growth and margin improvement aided by operating leverage and better product mix. DTL can potentially trade at a premium P/E Multiple of 20+ over the medium term, led by multi-year revenue growth opportunities in existing and new products. We are forecasting 18-20%+ revenue CAGR for the next 4-5 Years and strong return and cash generation ratios. DTL has very low exchange trading volumes and building a substantial holding in the company from the market would have been challenging for us. Even though DTL had no real urgency to raise funds, they recognized the value we could bring as investors and proceeded with a fund raise specifically to bring us in to the cap table.

Conclusion

Plenty of external factors may buffer global markets over the coming months. Whilst we have our own views about the direction of international interest rates, the oil price and geopolitics, we do not believe we (or anyone else) add much value in making such calls. Our skill is in gathering diverse sources of expert information in the Indian economy, applying our experience and using this to create **investment opportunities with asymmetric payoffs that contain the potential for far greater upside than downside.** Having our fingers on the pulse, we can quickly adapt the portfolio to be more defensive when we believe caution is required. Despite the unsettled macro-outlook, we continue to find far more than the 20-30 highly attractive stocks we need to build a diversified portfolio.

We look forward to further progressing the performance over the coming months.

Strategy Performance: Data as at 30th September (Q3) 2023

Discrete Performance (%)**

		Q1	Q2	Q3	Q4	YTD	Since Launch: Aug 2020*
USD	2023	-7.06	19.14	12.60	-	24.69	101.03
	2022	-2.22	-13.25	13.45	2.18	-1.68	61.23
	2021	11.31	11.01	13.13	1.58	42.00	63.98
	2020	-	-	-0.19	15.70	15.48*	15.48
		Q1	Q2	Q3	Q4	YTD	Since Launch: Aug 2020*
GBP	2023	-8.98	15.71	17.25	-	23.50	115.64
	2022	0.71	-6.41	23.69	-5.54	10.12	74.60
	2021	10.40	10.63	16.12	1.15	43.45	58.56
	2020	-	-	1.08	9.35	10.54*	10.54

*August 1st 2020
**net of taxes and fees, gross of performance fees

*Cash deployed cautiously during COVID-19 outbreak and 90% deployment reached by end of February 2021

	Equity	Cash
1st 6 months	45%	55%
1st 12 months	68%	32%
Since Inception	83%	17%

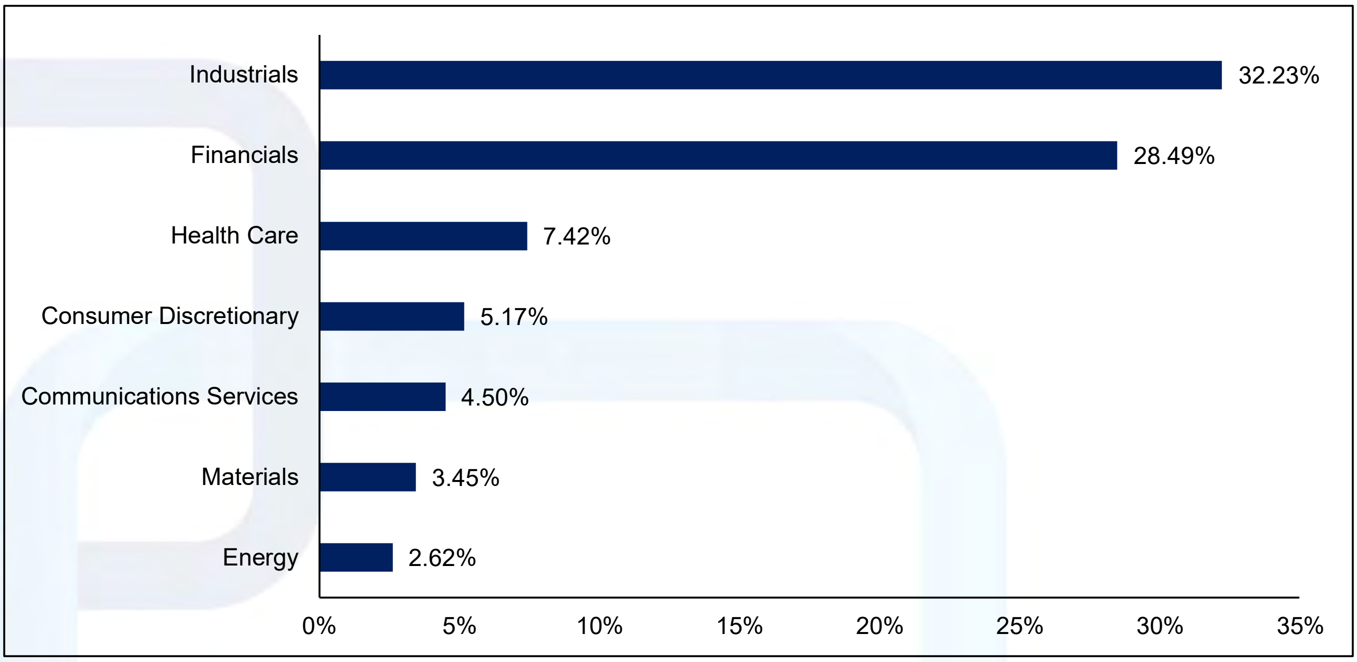
Portfolio – 30th September 2023

Top 5 Holdings

Security Name	% Holding of Portfolio
[redacted]	
Ramkrishna Forgings	7.31%
State Bank of India	6.48%
NCC Limited	6.21%
IIFL Finance Limited	5.20%
Larsen & Toubro	5.11%

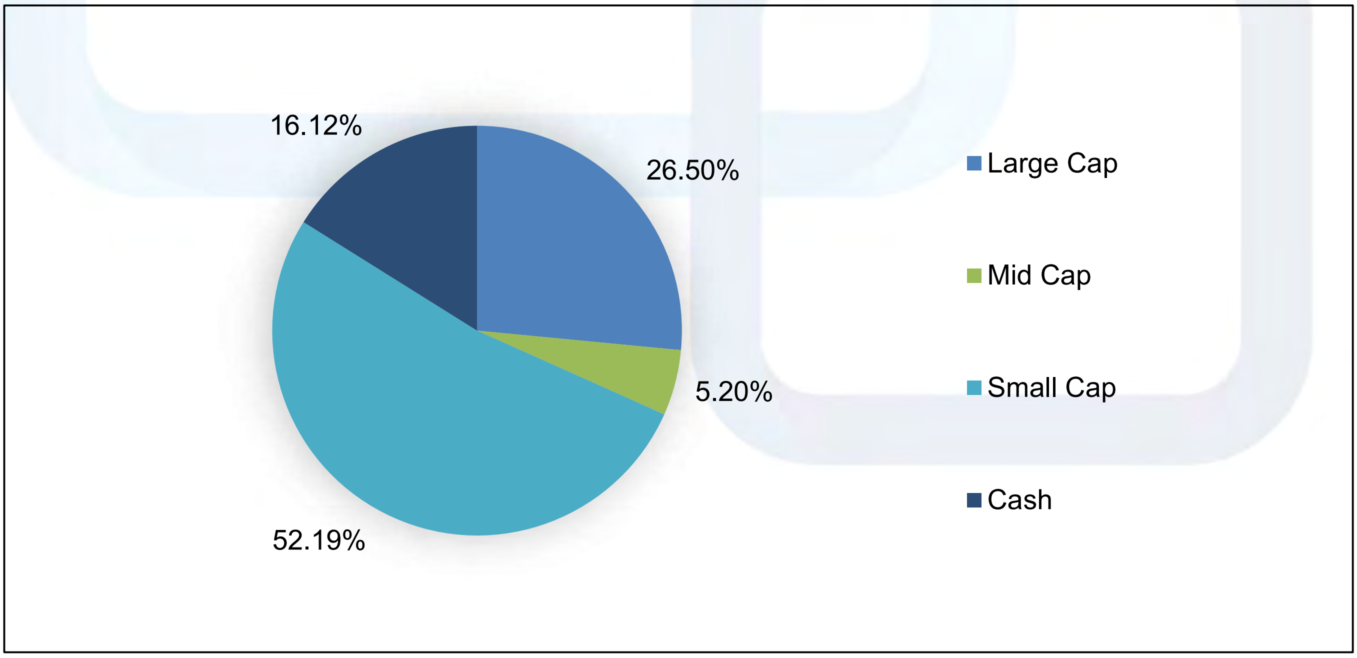
Portfolio – 30th September 2023

Sector Exposure



Portfolio allocations may not add to 100% due to rounding and cash holding

Market Cap Exposure



SEBI market cap breakdown – **Large Cap**: top 100 largest companies ranked by market cap, **Mid Cap**: 101-250 companies ranked by market cap, **Small Cap**: companies ranked 251 and onwards

For further information:

Website: www.cohesioninvestments.com

Email: investor@cohesioninvestments.com

Mobile/WhatsApp: +971 555 102 622

Disclaimer