Cohesion MK Best Ideas

Investment Report

January 2025

Cohesion
Accessing India's Growth

2024 Annual Review and 2025 Preview

A very Happy New Year to all of our investors.

Cohesion MK Best Ideas had a very good year in 2024. **During the twelve months** ending 31 December, we delivered performance of **49.95% in USD**. This compares very well against MSCI India 8.99% in USD and MSCI All Country World Index (ACWI) 17.41%. **Since launch in August 2020**, we have delivered performance of **246.02% in USD** versus MSCI India 76.25% and MSCI All Country World Index (ACWI) of 63.59%. As Figure 1 below demonstrates, this return compares favorably with all major and emerging markets and peer comparators.

Figure 1

31 December 2024 (USD)	Performance (%)	
	2024	Since Inception 1 August 2020
Cohesion MK Best Ideas (USD)	**49.95**	**246.02**
Cohesion MK Best Ideas (GBP)	**52.53**	**261.75**
Nasdaq 100 *	26.30	96.51
Peer Performance**	14.03	94.37
S&P 500*	26.20	92.03
MSCI India*	8.99	76.25
MSCI All Country World Index (ACWI)*	17.41	63.59
Nifty 50*	3.85	63.24
MSCI Emerging Markets*	5.92	3.89
MSCI China*	19.16	-28.78

We thought it might be instructive to look back at a few of the themes that we have covered over the last twelve months and how they have played out.

Risk and return

Whilst it is always pleasing to deliver such strong returns again, we constantly assess our returns versus the risks we accept. There is little point in making a lot of money one year, only to hand it all back in the next. There will be some investors who also enjoyed a good 2024 but will only now be recovering from the heavy losses they incurred in 2022. We place just as much emphasis on capital preservation as on wealth creation as this is the key to long term compounding. We will return to this theme a little later.

Figure 2

	2020	2021	2022	2023	2024	2025
USD Performance (%)	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 2023 are bearing fruit, pushing performance to new highs	Our strategic focus on resilient companies, and a balanced emphasis on capital preservation delivered a robust 50% portfolio return, significantly outperforming local and international equity benchmarks as well as our peers.	We aim to preserve and grow capital in the most exciting economy in the world
Cohesion MK Best Ideas	**+15%** Data from 01/08/2020	**+42%**	**-2%**	**+43%**	**+50%**	
MSCI India*	24%	22%	-9%	18%	9%	
S&P 500*	15%	28%	-18%	26%	26%	

In previous newsletters we have commented that we approach risk management differently from some investors. When we are assessing any potential opportunity, we are seeking a highly **asymmetric investment return profile** with very substantial upside and limited downside. However, we aren't concerned about short term volatility; indeed, we embrace it. We define risk as the potential for permanent capital erosion and we accept that there will be times when we are a little early into an investment and other investors are yet to see the value or change that we have identified.

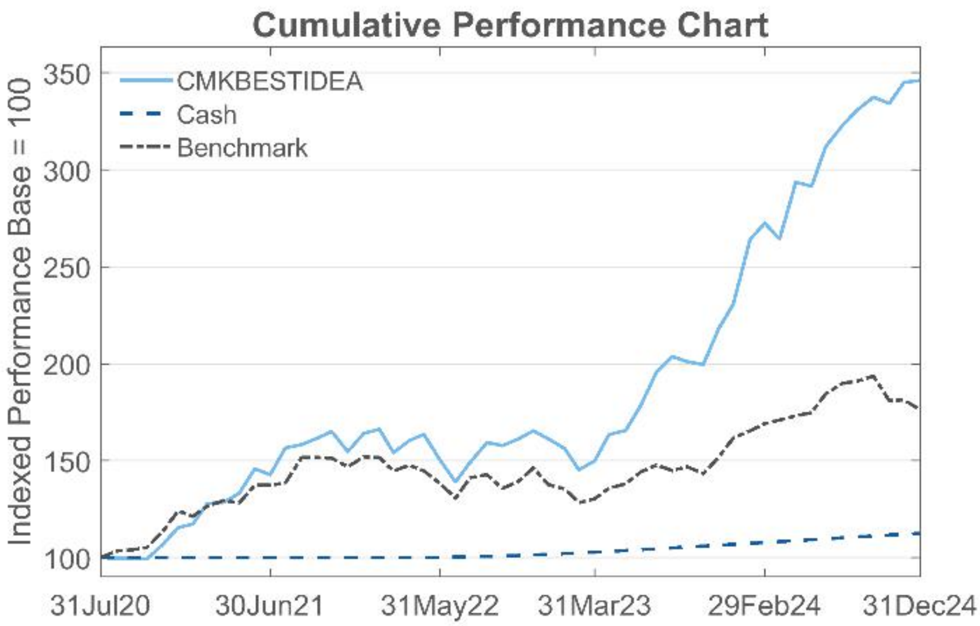
* iShares ETF, FE Analytics, Data as on 31st December 2024

Past performance is not indicative of future results

We spend very little time considering the traditional statistical measures of risk within our portfolios, not because we don't care about risk but because we don't see value in them in generating strong risk adjusted returns. In particular, we do not believe that tracking error and its cousin, the information ratio, is applicable to our approach. At any time, we are only looking for around 25 truly exceptional stocks and have no interest in holding big bell-weather index stocks just to reduce tracking error. We have done very well in large cap stocks such as **Larsen & Toubro, Bharti Airtel, ICICI Bank and Jio Financial**, but these were all chosen because they offered compelling upside, not to reduce tracking error. **We have eschewed index heavyweight stocks such as Kotak Bank, Bajaj Finance, Asian Paints and Hindustan Unilever which have gone on to perform relatively poorly. We would not consider these as "errors".**

Nevertheless, we recognise that many investors are interested in risk/reward ratios and have worked recently with leading analytics firm Clarus Risk to identify aspects of our returns that may be illuminating. Perhaps the best-known risk/reward ratio is the Sharpe. **Since launch, we have delivered a Sharpe of 1.54, comfortably ahead of the MSCI India ETF benchmark Sharpe of 0.82.** Although our Sharpe would be considered good by any measure, we believe that the Sortino is a better reflection. As readers of this newsletter doubtless know, the Sharpe treats both upside and downside volatility equally and punishes upward spikes. Upwards volatility should generally be welcomed by investors! We have regularly had such periods as per Figure 3.

Figure 3



The Sortino focuses on only downside volatility and is (at risk of arguing with a Nobel prize winner…), more representative of what we are seeking to achieve as it rewards capital preservation and upside volatility. **Our Sortino since launch of 3.20 is more than double that of the MSCI India ETF and something we feel very proud of.**

A small number of small losers

Si Ramo was a remarkable man. During his long life he excelled in many fields and could be reasonably attributed the title of the father of three fields; microwave technology, intercontinental ballistic missiles and electron microscopes. He also founded two different Fortune 500 companies. He authored many wonderful books not only in engineering but also in more recreational fields including the seminal *"Extraordinary Tennis For The Ordinary Player"* in which he turned his marvellously scientific mind to analysing how to win at tennis. In this book he examined the relative importance of trying to smash winning shots versus simply getting the ball back over the net. Although the book was aimed at aspiring tennis players, it has developed a cult following in investment management and is quoted regularly by the likes of Howard Marks and Charles Ellis. We see many parallels with what we seek to achieve. Indeed, we see parallels between investing and many sports. All truly great sports players will need to take the occasional calculated risk to win but above all, they make sure they are very, very hard to beat.

Sometimes, despite the most extensive diligence, we are wrong. We work in complicated economies with countless exogenous variables and occasionally, unforeseeable factors will knock our investment case off course. The critical action at this point is to critically assess the most appropriate action. If a changing environment has altered the investment case, we are quite prepared to take a small loss and move on to the next opportunity. Above all, we try to keep emotion out of our investment decisions. Often, our investee company has done nothing wrong, and we will keep in close touch with them and wait for the environment to be back in their favour once again.

Since we launched Cohesion MK Best Ideas in August 2020, we have made a total of 107 transactions. Out of these, 91 transactions have yielded positive returns, one flat. The next 6 transactions have not exceeded 10 bps drag on fund performance. Only 1 out of 107 stocks has close to 100 bps drag on the performance.

Whilst you will have seen us discuss our big winners (and we will touch on these again later), you won't have heard much about holdings such as Indusind Bank, Just Dial, Inox Green Energy Services or Bank of Baroda. All seemed like very strong ideas at the time but as their stories unfolded, we felt there were more compelling uses for our capital elsewhere and we were willing to accept small losses.

The only stock, in more than four years, to cost us close to 1% of our performance is **Adani Enterprises** (which cost us a total of 0.96%). However, our faith in the broader Adani family has been well rewarded over time as **Adani Ports** has delivered circa 74%, **Adani Wilmar** rose by circa 170%, **Ambuja Cements** gave us circa 26%. These equate to 3.50%, 2.22% and 1.01% respectively of our performance.

Old friends with new news

In April 2024 we talked about two of our favoured pharmaceutical companies, **Shilpa** and **Supriya**. We have undertaken massive amounts of due diligence on topped-up companies over several years involving not only their own management but also their customers, suppliers, regulators and former employees. The market was, unfairly in our view, focusing on previous problems in their sector and ignoring the latent value that had been created in recent years. We had been early into both companies but were happy to carry on buying shares from other investors who had failed to appreciate the likely good news around the corner. When shares are getting cheaper at the same time a company is becoming much more valuable, that can provide the classic "**cork underwater**" that we so love.

The newsflow from both companies has turned decidedly positive over the last six months. Shilpa has received a spate of regulatory approvals. Shilpa's JV Company has received approval for IMKELDI, the first oral liquid form of imatinib to treat certain forms of leukaemia and other cancers. They also received CEP approval allowing them to market Octreotide in Europe and are likely to begin delivery within six months, with annualised revenue potential of $100m+. Shilpa Medicare further got CEP for Desmopressin. This is their first peptide product to receive certification, but they have many others working their way towards approval. Outside Europe, Shilpa received approval from the USFDA for its Bortezomib product and is likely to be quickly onboarded to the Medicaid program. Shilpa also benefitted from new facilities receiving authorisation by local regulators, boosting their production capacity. Finally, their exciting new Recombinant Human Albumin has received approval from the Indian Regulatory Authority for Phase III clinical trials, making it the first Indian company to reach this milestone. As we have previously highlighted, there is a substantial unmet global demand for Albumin. Shilpa has a wide portfolio of excellent products that more than justify the current share price but an approval for their albumin product would be a game-changer.

Supriya had gone through a period of volatile operating margins, mainly due to its product mix. The company promised to address this and over the last year has delivered consistency in its operating margins. Operating margins had troughed at around 13% but over the last few quarters the company has delivered margins of around 35%. This has happened while Supriya has successfully expanded its manufacturing capacity with the commissioning of a new 335 kilolitre facility. Supriya Life received approval from Brazil's health authority for Esketamine Hydrochloride. Esketamine hydrochloride is a vital drug to be used for treating mental illness. The company has also filed a patent for its technique to allow low-cost manufacturing of Atorvastatin, used to treat high blood cholesterol. Currently China is the major supplier of ATS-8 products (the crucial intermediate to produce Atorvastatin, and many global buyers would welcome a new non-Chinese supplier.

We have been rewarded by a 100%+ lift in both share prices during the time we have been invested as Figures 4 and 5 show. Both have been meaningful holdings and thus our topped-up investments in Shilpa and staying invested in Supriya have contributed 3.34% and 3.13% respectively of our performance since launch and **both are now top 10 contributors since launch.**

Figure 4 – Shilpa Medicare

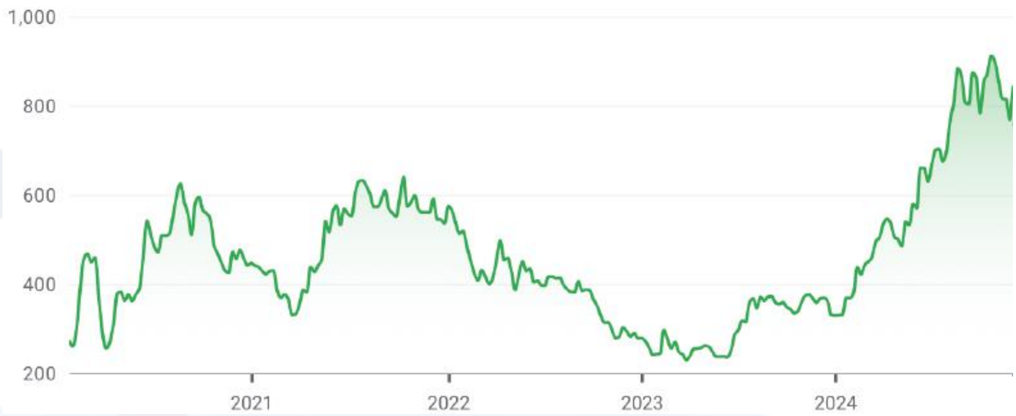
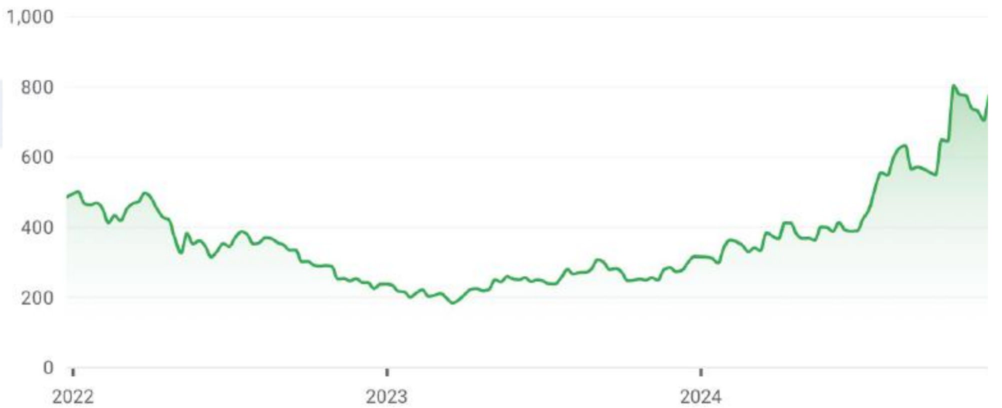


Figure 5 – Supriya Lifesciences



Winners have continued to win

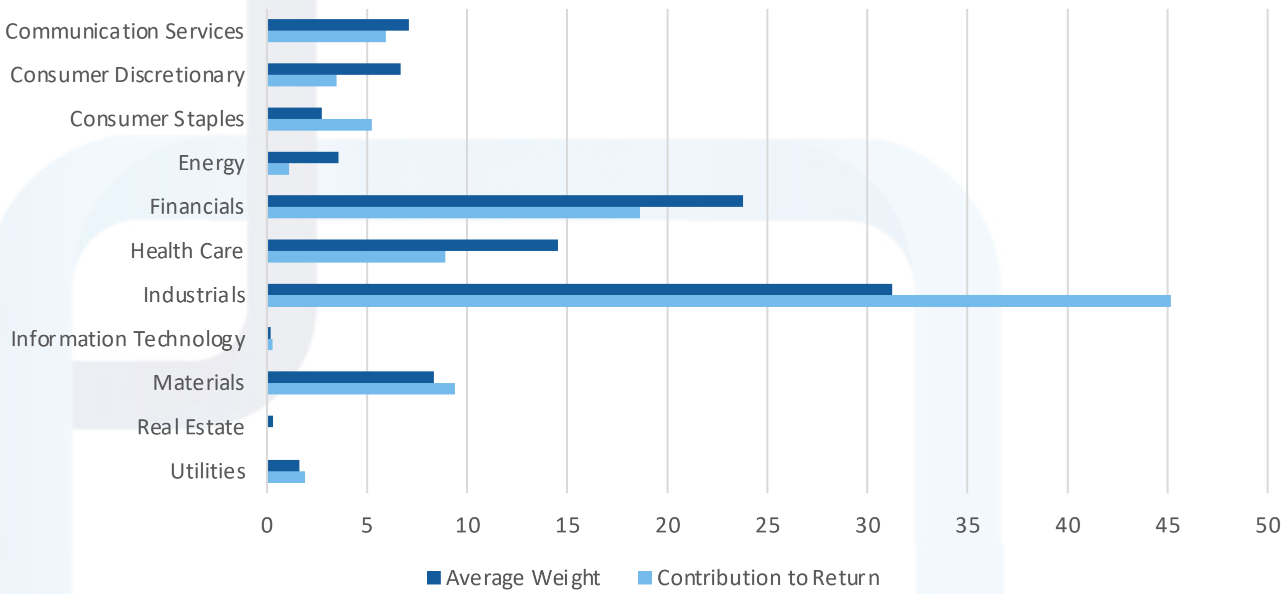
We have discussed **Transformers & Rectifiers (TRIL)** and **RK Forgings** extensively in previous newsletters. For any reader that has missed these, they can both be accessed on our website or please get in touch and we will happily send you the back issues. Both have added a lot to our returns and have delivered **652%** and **509%** respectively. After such meteoric rises, some Western investors may question whether there is any further to go. Whilst we are always alert to the potential of shares becoming over-loved and over-valued, we must always look at the prospects for companies in an Indian context, not a Western one. Many Western economies are much smaller than India. India's population is roughly double that of Europe and more than four times that of the US and growing much faster than either. With 900m Indians under the age of 35, India also has a very young population who are still to hit their peak productivity and consuming years. This dynamic population has embraced technology at every level and is using it to transform new and older industries. A young population and technological advancements must be key reasons why India's productivity has continued to improve whilst other export led emerging markets such as China, Vietnam and Bangladesh have gone into reverse.

India is still very much an emerging market and hungry for many of the things that the West is already satiated with. India is also blessed with much lower levels of government, corporate and personal debt than the West.

It might be rare to find Western companies that can grow their revenues at 20% per annum for decades and still believe that their best years lie ahead of them but in India, that really isn't uncommon.

It is pleasing to see a wide spread of big winners other than **RK Forgings, TRIL, Shilpa and Supriya** and from a diverse range of sectors as Figure 6 shows

Figure 6



A crucial part of our risk management framework is to ensure proper diversification within sectors as well as across them. Although winners such **RK Forgings, TRIL, NCC, Larsen & Toubro, JSW Infrastructure and Welspun** are all classified as "Industrials", they operate in very different spaces with unique drivers. However, when we identify a theme such as public sector banks or renewable energy, we are happy to double up our exposure to make sure we make the most of a very strong idea. **Sterling Wilson**, whilst not having run as hard as TRIL, has also added meaningfully to our return over the past year before its disposal in October.

Looking ahead with confidence

We have addressed the subject of valuation several times over the last couple of years. Our view remains the same. The Indian equity market is not cheap. They were not cheap at the start of 2023 but that did not prevent us from delivering 40%+ returns back-to-back over the next two years. Anyone who insists on buying only when PE ratios for the market are low would have missed these returns and quite possibly will never invest in India. When we look back at history, Indian equities have rarely been "cheap" when viewed purely through the lens of the PE ratio. As Figure 7 shows, the Indian market has typically traded in the range of 20-25x over the last decade and therefore, the current PE is firmly in the middle of the range. Not especially cheap, but not expensive either. What should be immediately apparent from this graph is that **anyone who chose not to hold Indian equities in 2014, 2016, 2017, 2018 etc, because Indian equities were trading on more than 20x would have missed out on some of the best returns available anywhere in the world.**

Figure 7

We believe that Indian valuations are on a par with the very best Western companies for a reason. **Predictable growth is scarce around the world.** Many Western economies have struggled for growth when they haven't been force-fed a diet of monetary stimulation and that has ended with the resurgence of inflation. In contrast, India is forecast to enjoy decades of strong growth under the stable government of Mr Modi. **Indeed, during his successful election campaign, his most frequently used line was "*The past decade was just a trailer. There is plenty more to come.*"**

When trying to understand the value of Indian equities, or indeed any investment, it is a mistake to start by looking at the price chart. If you do so, it inevitably leads to a hypothesis that a share that has risen has become more expensive and a share that has fallen has become cheaper. The price chart tells us nothing about the changes, for better or worse, that have happened in the business over time. When looking at the broad rise in Indian equities since we launched, at is vitally important to also consider the massive growth in profits over the same period. The Indian market has seen post-tax profits rise by 3.1x since 2020 with the mid-cap segment (one of our favoured hunting grounds) generating an astonishing 5.3x rise. Viewed in this way, the rise in Indian equity prices is much easier to justify.

There are several themes that we believe are the backbone of Indian investing. The "**Factory to the World**" and "**Office to the World**" are now woven into the fabric of India. In a recent survey by Nomura, India was the clear destination of choice when international companies chose to relocate their production. China didn't even make the top 10. In an uncertain world, Mr Modi has set India apart as a politically neutral country with excellent rule of law, a hard-working population and leadership in cutting edge technology.

If we had to choose between a tracker fund that mirrored the returns of the MSCI World Index or the MSCI India Index for the next 5 years, we would choose the latter every time because we would be choosing stronger and more predictable growth for a similar price.

Thankfully, we don't have to restrict ourselves to this choice though. Within the MSCI India Index there are many fine businesses that look over valued (as there are in the MSCI World Index too). We have the luxury of only selecting 20-30 exceptional businesses that offer far greater growth than the market and which can be bought at a discount to the market as Figure 8 demonstrates.

Figure 8

December 2024	PE Valuation		Earnings Growth (%)	PEG Ratio
	10YR PE	FY26E PE	FY26E	FY26E
Cohesion MK Best Ideas	**-**	**19.4**	**52.9**	**0.37**
Nifty 50	23.0	19.6	13.4	1.46
MSCI India	24.8	22.2	15.1	1.47
MSCI India Small Cap	34.4	25.3	25.4	1.00
S&P 500	21.3	21.7	14.9	1.45

Invexa Capital and Bloomberg, 31st December 2024

We try not to forecast the short term direction of markets. There will inevitably be plenty of twists and turns over the next 12 months but we regard these as opportunities to embrace, not fear. We are pleased to be immersed in the most vibrant economy on earth with an entrepreneurial spirit that is given to Indians at birth. We continue to look forward with confidence.

Strategy Performance: Data as at 31st December 2024

Discrete Performance (%)**

		Q1	Q2	Q3	Q4	YTD	Since Launch: Aug 2020*
USD	2024	14.49	18.08	8.14	2.56	49.95	246.02
	2023	-7.06	19.14	12.60	14.78	43.12	130.75
	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	2024	15.47	17.89	2.24	9.60	52.53	261.75
	2023	-8.98	15.71	17.25	9.99	35.83	137.17
	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	84%	16%

Portfolio – 31st December 2024

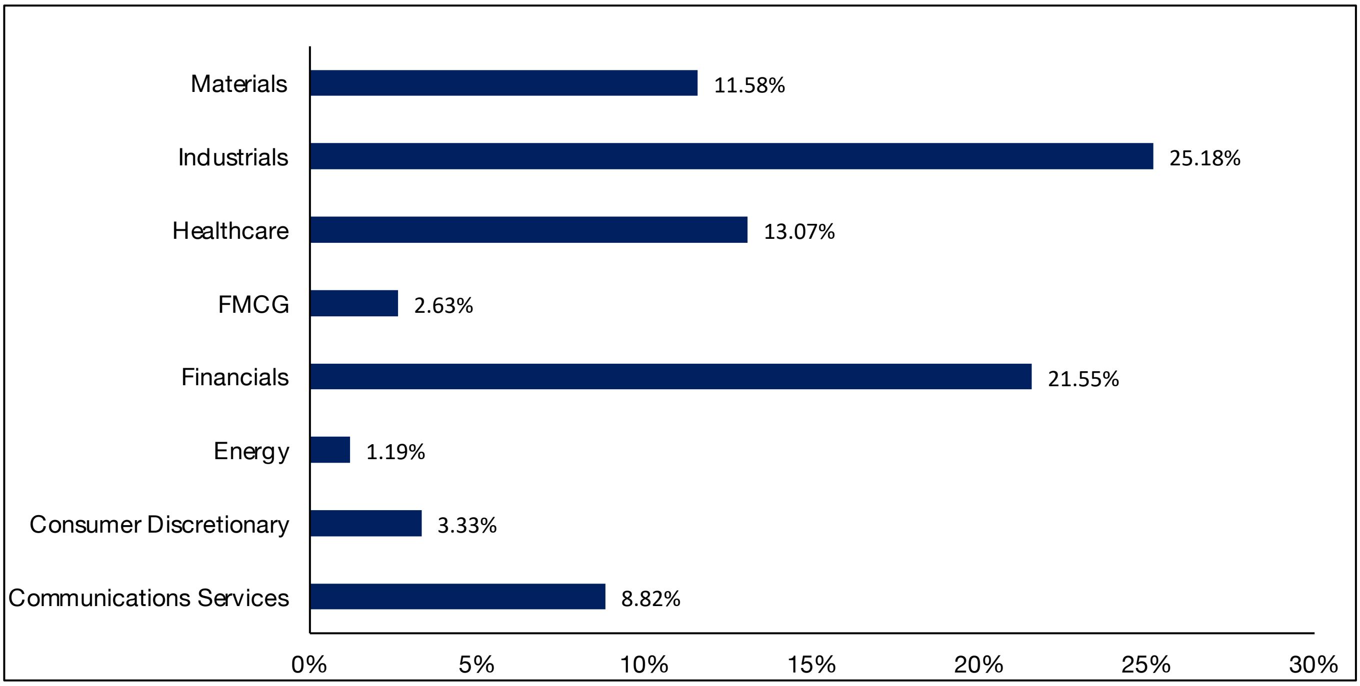
Top 5 Holdings

Security Name	% Holding of Portfolio
Shilpa Medicare Limited	5.99%
Transformers and Rectifiers Limited	5.15%
Lloyds Metals and Energy Limited	5.10%
Manappuram Finance Limited	4.88%
Dynamatic Technologies Limited	4.38%

Past performance is not indicative of future results.

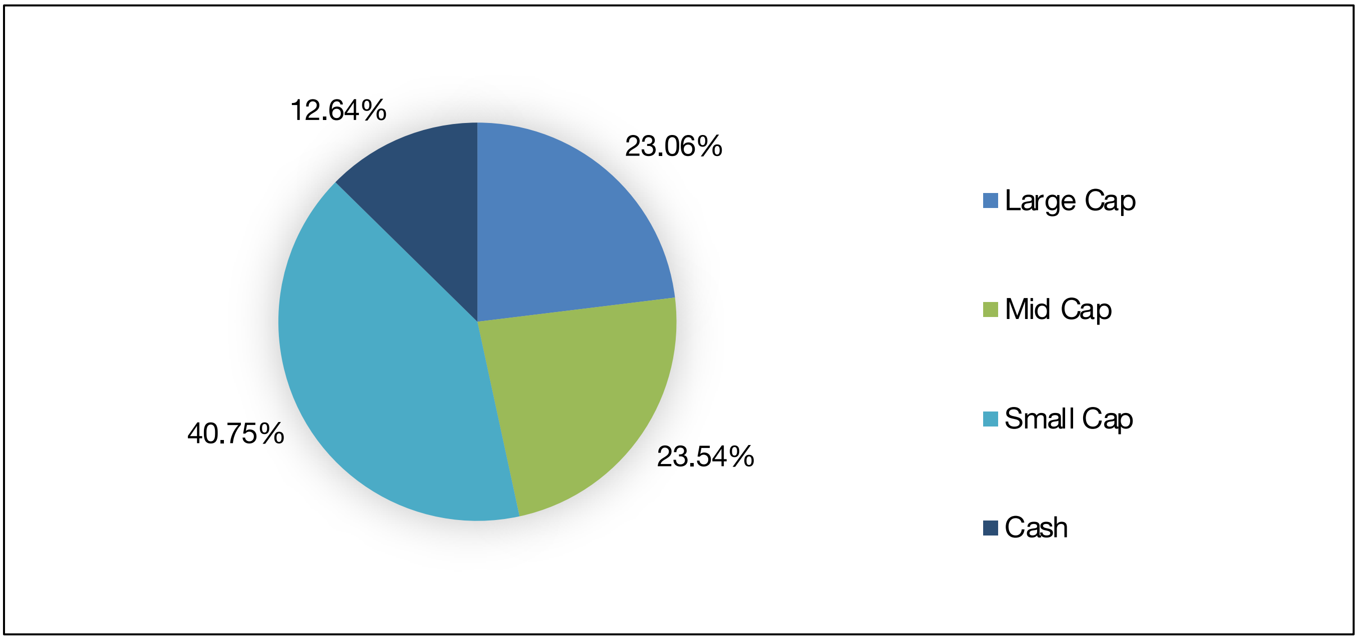
Portfolio – 31st December 2024

Sector Exposure



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

Market Cap Exposure



Market cap breakdown – **Large Cap**: Companies with a Market Cap above US$6 billion,
Mid Cap: Companies with a Market Cap between US$1.25 to US$6 billion, **Small Cap**: Companies below US$1.25 billion

Past performance is not indicative of future results.

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