EQUITY FUND

OWNER'S MANUAL

ITUS CAPITAL

Buy Growth
Do not Overpay
Corporate Governance is key

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Why is an Owner’s Manual necessary?

Investing in a fund is an experience and a joyful one. It's important for each of our investors and partners to understand this experience and we aim to explain the same through the Owner’s Manual. Reading our Manual will give our investors and partners a complete breakdown of what they would own at Itus and if the fund suits their risk tolerance and if Itus’s style matches the investor's expectation.

What is our goal?

We aim to be the most consistent fund in the country, where we grow capital at an excess return of 5-6% over the benchmark index. Through our investment process, we always aim to minimise the downside. We want our investors to measure us over 3-year buckets to ensure there is no deviation from our goal. Anything lesser, would not be doing justice to our process and the money we are fiduciaries of.

Our Fund would invest across sectors and market caps in businesses where we see growth. The fund would take exposure across ~20 businesses at any point of time and would maintain adequate cash if necessary, depending on the valuation of the underlying businesses that are available for us to buy.

We are active managers, and do not believe in a buy-hold and forget philosophy.

How we Invest at ITUS

We are not buy, hold and forget investors

Our portfolio is constructed to own quality companies, which have sustainable growth in free cash generated.

It's important to remember that the work of a fund manager does not end at selecting companies, quite the contrary, that's when it begins, where we monitor the growth of the company along with changes in corporate governance. Our due diligence on companies is continuous and you will find us exiting companies if we believe that the structural pricing power or edge that the company owns starts to falter. We would own ~20 companies in our portfolio and we are judicious around the opportunity cost of owning any of our investments alongside the companies we evaluate at any point in time.

Our discipline comes from our process

Our process is guided by our internal framework called GPCG
G : We are fundamentally growth investors who look for growth in free cash flows of the business. Our investments should be able to reinvest the cash generated into the business and generate a return greater than the cost of capital.

P : We care about the price at which we want to own a business. There are times where we would pay up to own businesses, however, these are cases where the underlying business has a structural moat (either from distribution, pricing power, network effects, or a monopolistic nature of the business).

CG : Businesses are entities run by humans (be it the original promoters or management). Humans function on the nature of fear and greed and it's important for us to understand the people behind the firm we are investing in. We spend a significant amount of time on the ground understanding the various touchpoints of the business – distributors, retailers, agents, channel partners, sourcing vendors, and talking to ex-employees of the company to understand the culture of the firm.

We are growth Investors

It's important for our investors to understand what growth means. Businesses could show revenue growth, EBITDA growth, or earnings growth. While this is good to see, it does not give us an indication of the health of the growth which is important to understand.

In our view, growth has to be thought of in conjunction with returns. For us, the business has to be able to translate the growth into cash flows, and then have the ability to reinvest it back into the business to generate a return over the cost of capital. Studying history, very few businesses have this inherent characteristic and when we find such businesses, we would want to own them for long periods of time.

Growth is one of the sustainable ways to protect the downside of an investor. While markets can fall in the short term and uncertainties are a part of an investor's journey, the minority shareholder return will normalise towards the growth the business sees through its cash flows and reinvestment potential.

We care about the price at which we buy a business

It's important to understand as investors when we buy an asset, are we buying it through an auction driven mechanism or a fixed price mechanism.

Let's say we buy a car, the prices are fixed – our ability to get the company/dealer to give us a discount is the option we have to buy it cheaper to the 'market'. However, when we buy businesses in the listed markets, the prices fluctuate based on a price discovery that happens daily. It's during such auctions that investors can buy businesses at discounts / lower than intrinsic value. Markets are meant to test our patience and discipline making it hard for investors to compound wealth. If prices did not matter, every investor would own good quality companies, but we know that most underperform because they consistently overpay to own businesses.

Poor Corporate Governance is a deal breaker for us

Investing in growth ensures shareholder wealth creation. Investing at the right price ensures that the odds turn in your favour. However, investing in poorly run companies destroy capital. Our responsibility is around minimising downside, rather than maximising upside. Focussing on the latter, makes us take undue risks which turns out to be suboptimal for the investors in the long run.

We have seen innumerable examples of poorly run companies (be it from a management quality or from a capital allocation perspective) that have destroyed capital for the shareholder. We want to be avoiding such companies at any cost. As analysts, we spend 80% of the time, studying the people behind the business and the capital allocation decisions to give us a better insight around how the business is run, and the internal culture that is built. It's important to realise that in the life cycle of business cycles, every business we own will go through hard times – it's ultimately the people, management, and the culture that helps companies out of this.

Evaluating the company culture is of utmost importance

We spend a fair portion of time as analysts talking to ex-employees at senior management of businesses we evaluate. While everyone we want to speak to may not give us time, we get valuable insights when we do manage to speak to the ex-senior management when they give us time.

Imagine, if you are a leader in a company you left and speak highly of your ex-company, as an analyst you realise that there is something special about the culture of the business. Few people have good things to say about a culture they left unless there is something truly special about it. We want to understand the details of such culture and look at owning such businesses.

We are extremely cautious about companies that expand only with debt

Businesses need capital to grow – this can be deployed in the form of new capacity, assets, or manufacturing plants. However, it matters to us how this capital is funded. Borrowing money is a quick way to fund growth but can stress the balance sheet. We are weary of businesses who resort to only debt for expansion. The businesses we invest in use debt but are predominantly funded through internal accruals of the business. This provides an inherent safety net to us as investors. It's exciting to get the investment thesis right when companies over-leverage and come out of it through growth, but we rather avoid this excitement in our portfolio investments.

We do not have the ability to time markets

It is not our endeavour to time the markets. We take our time to construct a portfolio and get a new investor fully deployed. This has varied between 15 days to 5 months in the past, and it's a function of the valuations of individual businesses we like, not a function of our view on the market. We will never claim to have any predictive power of a market bottom or top – we only pay attention to valuation and aim to own good businesses by constructing a growth-oriented diversified portfolio.

We do not believe in model portfolios

We run the fund structured as a Portfolio Management Service (PMS). Most PMS funds in the country are run as a model portfolio – meaning, investors irrespective of when they come into the fund, get the same allocations. This is extremely detrimental to investors in the long run as it does not account for valuations. As investment managers, it's our fundamental responsibility to invest and allocate capital in businesses based on the valuation at any point and our weights would adjust dynamically depending on when the investors enter the fund. In the long run, this is the only way to ensure risk discipline to protect investors.

Fund Manager

The fund will be managed by Naveen Chandramohan based in Chennai, assisted by a team of analysts

Itus Capital will be employee-owned and each employee of the firm will have 50% of their bonus invested in the fund.

Itus Capital will always be the main vehicle to manage all of the partner's and Naveen's investments.

Itus Capital is focused on delivering superior investment performance at a reasonable cost.

It was established to be different from its peers so as to achieve a different result in line with Sir John Templeton's axiom that "If you want to have a better performance than the crowd, you must do things differently from the crowd." The GPCG Framework and our research process are central to what we do. Minimising the costs we incur on behalf of our customers in implementing our strategy also sits at the heart of our philosophy. Itus Capital was established in 2017 by Naveen Chandramohan. The business is owned and controlled by its partners, who have worked closely together over many years, and is headquartered in Chennai with an office in Houston, Texas, USA.

What do we charge you?

We believe in simplicity as far as the fees are concerned.

We charge a 1% p.a. management fee on the AUM managed. We have a performance-based fee over a hurdle rate of 15%, which is charged at 15% over the hurdle rate. The performance-based fees are charged with a high watermark and with no catchup – this has again been set up to protect the investors.

We do not have any setup fees or exit loads in our fund. Itus is set up as a traditional long-only fund. We do not run any leverage in the fund.

We place a great deal of emphasis on minimising the total cost of investment in our fund as this is a vital contribution to achieving a satisfactory outcome as an investor. Minimising portfolio turnover is key to fulfilling this objective.

Most funds you evaluate or see will not talk about their transaction costs and their turnover ratio which has a direct impact on the costs of dealing, which is again borne by the investor. At Itus, the approximate cost of brokerage would be at 0.1%

At the above cost structure, we want to remove the friction for investors and make it easy to move their portfolios from existing Mutual Funds to a more actively managed portfolio at Itus.

At Itus, we manage the money of domestic residents, NRIs (Non-Resident Indians), and FPIs (Foreign Portfolio Investors). You can reach out to us to understand the nuances of each based on the kind of investor you are.

ITUS CAPITAL

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