

# 'We have an undiluted focus on value'

'Heads you win, tails you do not lose approach' is central to our stock selection

**LOKESHWARRI S K**

Every investor dreams of following in the footsteps of Warren Buffet to rake in millions. Arunagiri N, founder and CEO of TrustLine Holdings, is one such investor who has gone by the principles laid down by the investment guru while dealing with his portfolio management fund, Deep Value Fund. Excerpts:

**When did you start investing in stocks, what was the motivation?**

It all started way back in the early '90s when I was introduced to Buffett's books. I connected with Buffett's teachings early on and got deeply inspired by his model.

My initial interest in investing was sparked by the simplicity in his investment approach. If my memory is right, the first stock where I had reasonable allocation was Advani Oerilikon (re-named later as Ador Welding).

**You are a believer in value investing; so how do you go about selecting stocks?**

Our stock selection strategy revolves around two critical components of value investing – intrinsic worth and margin of

safety. We look for intrinsically sound businesses, mainly in the small- and mid-cap space which, being under-researched, trade at significant discount to intrinsic value (margin of safety).

Durable economics (moat) is another factor that is exciting. It gets reflected in the high return on capital (ROCE), high free cash flow, strong pricing power, predictability of revenue stream, and so on.

Key focus in value investing is downside protection. 'Heads you win, tails you do not lose,' approach is central to our stock selection.

**Value investing as a strategy has not performed over the last two years. Do you increase**

**allocation to growth stocks at such times?**

No, we have an undiluted focus on value. Fortunately, it has never been dry for too long. There will always be vicious bear cycles in a structural bull market and virtuous bull cycles within every bear market. Value opportunities therefore, keep cropping up, the way they happened in August 2015 and, more recently, in February 2016 in an otherwise structural bull market.

**Which sectors offer value at this point in time? What is your view on the e-commerce sector?**

With the market gathering steam, value opportunities are dwindling by the day. That said, our approach is more bottom up, stock specific and, hence, we rarely look at top down sector trends for stock selections. On e-commerce, long-term sustainability of the business model is suspect, given the weak financial health and cash flows.

How one values an e-commerce business rationally is a key challenge. When the funding tap dries up, consolidation and business closure will be the natural outcome. Early trends are already visible.

**Can you explain how your PMS fund operates?**

Ours is a long-only fund that carries a lock-in of three years after which there is no exit load. It comes with a low fixed management fee coupled with nominal profit sharing fee above a threshold (hurdle) return. Our cost is one of the lowest in the industry.

We build individual portfolios in a gradual manner, based on the entry time of investors, from the base "model portfolio" that is common for all investors.

**What would you advice those wanting to do direct investing?**

Buffett claims gleefully that in investing, odds are stacked in your favour. While factually he is right, he may be making it sound too simple. That could lay a trap for ordinary investors. Superior

skill and extraordinary nerve are needed to achieve above average results. Investing isn't easy. Unless one can put reasonable amount of time for research, one should choose professional managers or mutual funds.

**Are there books that you would recommend to a beginner?**

"Intelligent Investor" by Benjamin Graham is a great one to start with. Most of my learning came from Buffett's partnership and annual letters. They continue to inspire us. Same is the case with the annual letters of other value investors like Howard Marks and Seth Klarman.

**Any investment mistakes...?**

As someone famous put it, market is supreme and it humbles you every time you think you have mastered it. So mistakes are part of investing. I have had my share of them; most were made in my early days of investing.

In hindsight, they helped us evolve a robust proprietary framework for the stock selection process.

This has enabled us to deliver outstanding performance of 25 per cent + compounded returns over nine plus years since the launch of our flagship Intrinsic Deep Value fund in 2007, beating benchmark indices handsomely.

**Work profile**

Arunagiri is the CIO and founder of TrustLine Holdings that runs specialised PMS funds for high networth clients. An engineering graduate from REC, Trichy, Arunagiri has another degree from ICAI



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