3P INVESTMENT MANAGERS

The 3P way. Simple but not easy.

3P INDIA EQUITY FUND 1

(An open Ended Scheme of 3P India Equity Fund, registered with Securities and Exchange Board of India (SEBI) as Category III Alternative Investment Fund)

(JULY - SEPTEMBER 2025)

1P

Prudence of creating a portfolio of sustainable and reasonably valued businesses.

2P

Patience with businesses and markets. Risk in equities reduces as investment horizon increases.

3P

Performance is the outcome.

"It's the waiting that helps you as an investor, and a lot of people can't stand to wait."

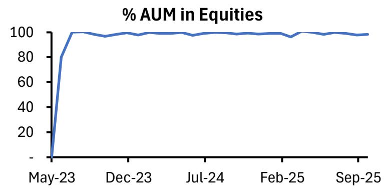
- Charlie Munger

Dear Sir/Madam,

We are delighted to share the 10th quarterly update of 3P India Equity Fund 1 (3PIEF-1). This Fund was launched on 4th May 2023.

2025 has turned out to be a year of incessant headlines – new & ongoing wars, trade & tariff wars, frequent policy announcements, quick reversals, unpredictable geopolitics & relationships, Artificial Intelligence (AI), etc. So much so, that nothing seems surprising anymore. In the midst of this noisy and fast changing world, India continues to move ahead both as a nation and as an economy, steadily and firmly. Ratings upgrade by S&P to BBB from BBB- is an acknowledgement of this. Government and regulators like RBI, SEBI etc are working in unison to reduce friction for businesses, accelerate economic growth and support sectors where India presently lacks competitive advantages and scale.

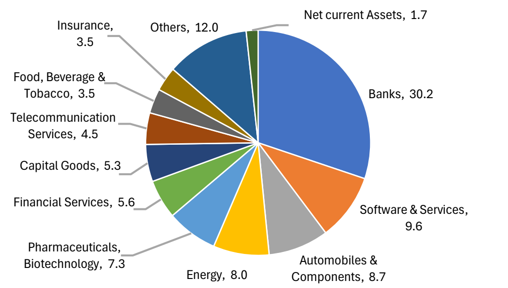
Markets have been been flat for over one year. In view of the consequent moderation in multiples, strong fundmentals & growth outlook of India and our clear long term focus, the Fund continues to be fully invested. This is discussed in more detail in the markets section.



Source: 3PIM *Fig. 1*

The charts below summarise the key portfolio characteristics of 3PIEF-1 as of 30th September 2025.

Exposure by Sector (%)



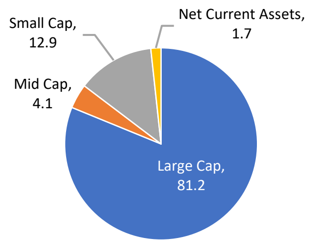
Source: 3PIM, Bloomberg, GICS classification
Note: ETF constituents are distributed into respective sectors

Exposure by constituents* (%)

Constituents	Weight
Top 5	37
Top 10	55
Top 20	78
Top 30	90
Top 45	100

*Does not include Net Current Assets

Exposure by Market cap (%)



Source: 3PIM, AMFI
Note: As per AMFI classification. ETF constituents are distributed into respective categories

Fig. 2

The key changes of the last quarter are discussed in the portfolio strategy section.

Indian Economy : Fiscal and Monetary Tailwinds

Moderation in inflation, weaker than desired growth in discretionary consumption (1.7% CAGR in passenger vehicles sales from pre-covid levels), fiscal and monetary space have prompted proactive steps by the Government and RBI.

In the current financial year, the total fiscal support on an annualised basis to the consumer aggregates to INR 3trn ($ 35bn, ~0.9% of GDP). This comprises of :

- Direct tax cuts worth INR 971bn
- Lower GST rates and cess rationalisation has led to savings worth INR 1.9trn for consumers.

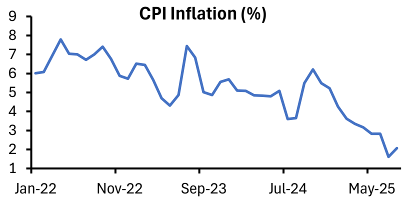
Interestingly, this is not at the cost of fiscal consolidation. It has been reiterated that the Government is committed to the fiscal deficit target of 4.4% in FY26 (4.8% in FY25).

The RBI too has eased monetary conditions :

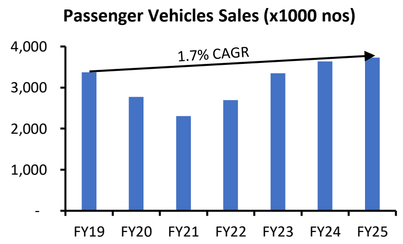
- Repo rates have been reduced to 5.5%.
- Reduction in Cash Reserve Ratio (CRR) by 1%.
- In the recent MPC meeting held on 1st October 2025, RBI has taken several steps to accelerate bank credit growth.

These steps should aid higher growth in consumption, especially of discretionary goods and services. Higher demand in turn should accelerate investments and job creation.

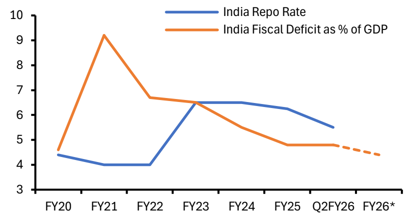
Automobiles should be one of the key beneficiaries. A low base of weak growth in volumes in recent years, lower EMIs - a result of lower prices (GST rate cuts) and interest rates should improve affordability and thus volumes. Automobiles and related sectors have a large weight in manufacturing (49%, *Source: PIB*). This amounts to nearly 7% to India's GDP. Growth in this important sector that has several forward and backward linkages should improve growth in manufacturing, incomes, job creation etc.



Source: Bloomberg *Fig. 3*



Source: AceEquity *Fig. 4*



Source: Bloomberg
*Target Fiscal Deficit for FY26 *Fig. 5*

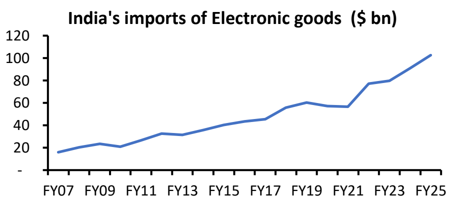
Measures to improve bank credit growth

- Review of capital market exposures guidelines for banks including providing an enabling framework for Indian banks to finance acquisitions by Indian corporates.
- Guidelines on enhancing credit supply for large borrowers through market mechanism.
- Proposed to ease some restrictions on the operation of transaction a/c (CA, CC and OD) to provide greater flexibility to the banks, particularly in case of borrowers being entities regulated by a financial sector regulator.

Source: RBI, KIE, 3PIM *Fig. 6*

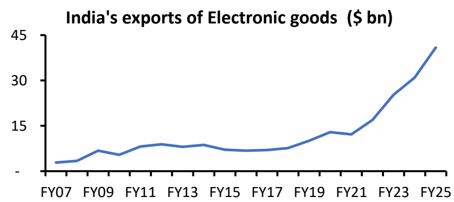
Looking ahead, there are reasons to be optimistic for more than 7% growth in the medium term.

It is well known that despite having significant strengths in software / coding etc, electronics manufacturing was India's Achilles' heel *(Fig. 7)*.



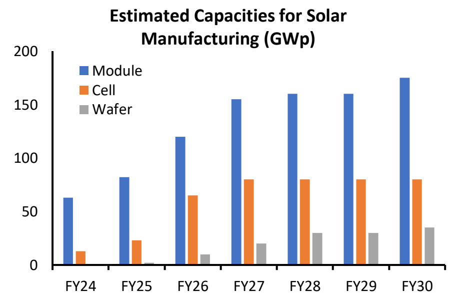
Source: CMIE *Fig. 7*

The good news is that following concerted efforts of the Government and industry, India is making quick progress in not just electronics manufacturing, but also in electric vehicles (EVs) and renewable energy (RE).



Source: CMIE *Fig. 8*

India is slated to assemble 25% of Apple iPhones next year with more than 20% value addition. This share and value addition should continue to improve. Indian OEMs have successfully designed and brought to market contemporary EVs in both two and four wheelers. As EV sales gain scale, local value addition should improve and costs should drop. Indigenisation and backward integration of solar panels (modules, cells, etc) is also progressing rapidly. In the medium term, India stands to gain immensely as solar energy and EVs scale up, as solar energy prices drop and as energy storage becomes cheaper.



Source: Industry *Fig. 9*
GWp is Gigawatt peak

Success in these areas of weakness gives confidence of progress in other areas like chemicals, pharma, CDMO, ICE automobiles, metals processing, manufacturing etc, where India has strengths.

Manufacturing is a large opportunity. Even a small success in this area can propel economic growth rates on a sustained basis. This is what makes us hopeful of more than 7% growth in India in the medium term.

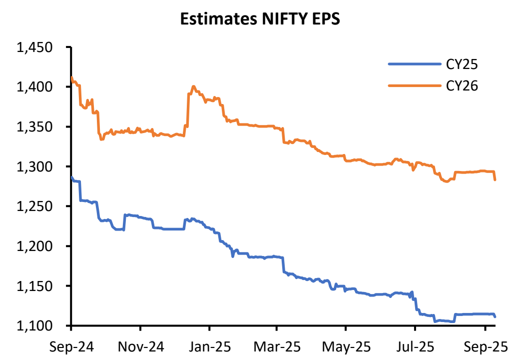
Earnings

Warren Buffett has said, *"If you want a marriage to last, look for someone with low expectations."* Similarly, low earnings expectations implied in stock prices typically lead to good investment outcomes and vice versa.

Earnings expectations were elevated last year. This was probably due to the high growth in earnings between FY22 – FY24, a result of the very low base of corporate margins / earnings in FY 21 in Covid. FY25 growth in NIFTY EPS of 12% brought in realism and earnings growth expectations have since been reset to realistic levels. Consensus EPS growth estimates for FY26, FY27 are presently 8%, 15% respectively.

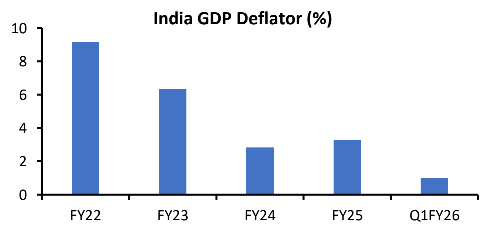
	YoY Earnings Growth (%)
FY20	3.3
FY21	1.7
FY22	**26.8**
FY23	**21.4**
FY24	**16.9**
FY25	11.7
FY26E	8.2
FY27E	14.5

Source: Bloomberg, FactSet, 3PIM *Fig. 10*



Source: Bloomberg, 3PIM *Fig. 11*

The sharp fall in GDP deflator that has driven down Nominal GDP growth also leaves room for upgrades in earnings if and when this rises / mean reverts.

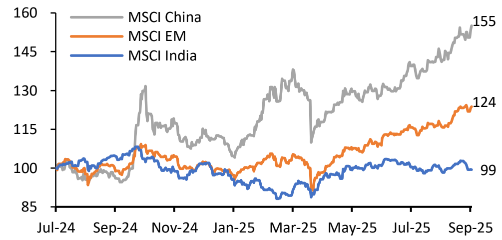


Source: CMIE *Fig. 12*

Earnings should grow faster in FY27. This is because FY26 growth is impacted due to NIL / low growth in profits of many banks as NIMs are under pressure due to rate cuts.

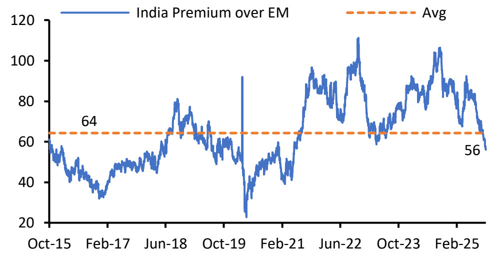
Markets Review & Outlook

Indian markets have been flat since July 2024. In the same period, MSCI EM and MSCI China have risen 24% and 55% respectively.



Source: Bloomberg, 3PIM *Fig. 13*

This time correction / sharp underperformance can be attributed to elevated earnings expectations & expensive multiples, high premium of India vs EMs prompting FII selling and a large supply of stock. Strong and sustained local flows have on the other hand prevented sharp price correction.



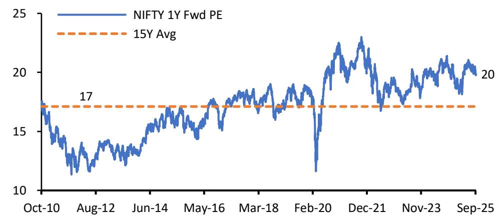
Source: Bloomberg, 3PIM *Fig. 14*

A result of this 15-month time correction is a moderation in valuations and a normalisation in India's premium over EMs. This has been accompanied by a moderation in earnings growth expectations as well.

NIFTY EPS Estimates			
INR	**CY26**	**CY27**	**CY28**
Today	1,115	1,283	1,450
1Y Ago	1,286	1,412	1,549
Change	-13%	-9%	-6%

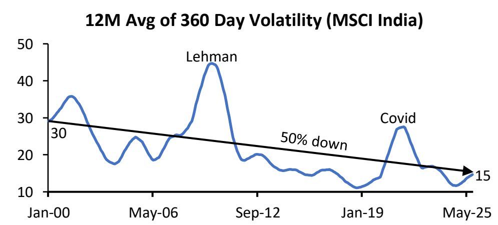
Source: Bloomberg, 3PIM *Fig. 15*

Presently, markets are trading at 20x, 18x on FY27, FY28 earnings respectively. Though current multiples are ~18% higher than past averages, these are reasonable in our opinion, given the lower cost of capital for both domestic investors and FIIs.



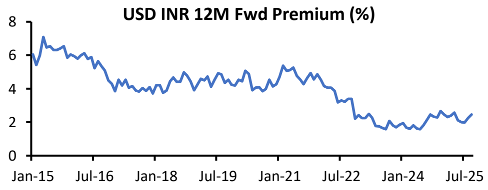
Source: Bloomberg, 3PIM *Fig. 16*

Large and sustained local flows to equity markets have sharply lowered the volatility of equities. Significant tax differential between income from equities and debt has also increased the attractiveness of equities. These have in our opinion lowered return expectations of local investors.



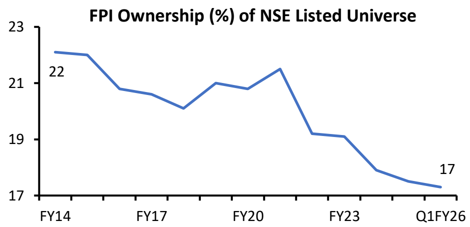
Source: Bloomberg, 3PIM *Fig. 17*

Lower volatility of markets, sharply lower impact on markets of selling by FIIs and a sharply lower USD premium have also lowered the cost of capital for FIIs.



Source: Bloomberg, 3PIM *Fig. 18*

In this 15-month time correction, FIIs have been net sellers to the tune of $ 18bn. Even prior to this, FII flows have been weak. FII ownership of India continues to move lower and FIIs are presently underweight India compared to a generally overweight stance in the past.



Source: NSE, 3PIM *Fig. 19*

Capital raising after a brief period of moderation has bounced back strongly. The pipeline is large and continues to grow. This large supply prevents a runaway market on one hand and is providing capital to entrepreneurs and businesses on the other. These market conditions are, in our opinion, creating opportunities in pockets for long term investors and are also good for economic growth & innovation. However, as suggested in our previous quarterly update, the long term outcome of most issuances is likely to be weak and below the expectations of participants in our opinion.

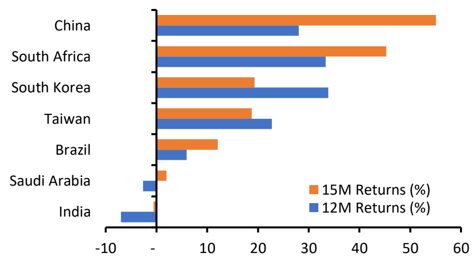
These rangebound markets remind us of a famous Hindi dialogue from a Bollywood movie – *"Isko liquid oxygen mein daal do. Liquid isko jeene nahi dega, aur oxygen isey marne nahi dega."* Similarly, the strong domestic flows are not allowing markets to fall and the large supply of stock is not allowing markets to move higher !

Eventually, in our opinion, markets will breakout and move higher. It has been observed that after prolonged periods of consolidation / time correction in an environment of growth, markets eventually breakout upwards.

Over time the issue of tariffs / trade treaty with US should also settle, hopefully in the not too distant future. In any case, the impact of this issue on earnings of NIFTY / broader markets is limited. Less than 4% of sales for all BSE500 companies come via exports of goods to the US *(source: HSBC)*.

We believe service exports will continue to be tariff free as the US enjoys a trade surplus (inclusive of foreign subsidiaries) of $ 1trn *(source: BCG)* with the world and US may not want to open this Pandora's box as it could be self-defeating.

In summary, NIL returns of last 5 quarters have moderated market multiples and improved the risk reward of equities over the medium term. Earnings expectations are also now realistic. India's sharp underperformance vs EMs (India is one of the worst performing markets in last 1 year) has also lowered India's premium over EMs to near long term averages.



Source: Bloomberg, 3PIM *Fig. 20*
Note: MSCI Indices of respective countries have been considered

Though it is hazardous to forecast markets, especially in the near term, yet we feel that corrections, if any, should materialise over the next 1-2 quarters. As we go into 2026 and as markets start trading based on CY27 earnings, valuations will look increasingly reasonable. FY27 earnings growth is also likely to be better than the current year.

It's tough to make predictions, especially about the future.

*- **Yogi Berra***

We would be buyers in this phase of markets. It would be advisable in our opinion, for investors with a medium to long term horizon to front load over next one / two quarters the planned incremental allocation to equities of next year. Long term return expectations of market returns should however be anchored to 12% CAGR in line with nominal GDP growth.

Portfolio Strategy and Positioning

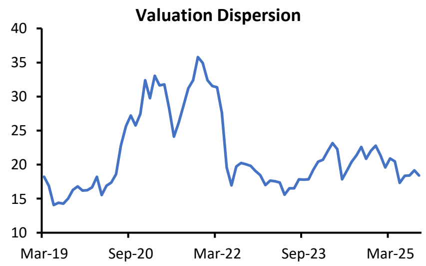
Sustainability of businesses and valuations are the two cornerstones of 3P Investment Philosophy. Avoiding weak businesses lowers the risk of permanent loss of capital and avoiding excessive valuations lowers the risk of poor long-term returns.

We continue to be steadfast in our investment approach that is grounded in reality and conservatism. Nearly 85% of the Fund, in our judgement, comprises of companies that enjoy leadership / strong positions in respective businesses and should be able to increase / maintain their market share. At the same time, we are avoiding pockets of excessive valuations or companies where implied growth expectations are unrealistic.

The portfolio continues to be well diversified across sectors and key economic variables. The Fund is overweight Automobiles, Financial Services, Insurance and Pharmaceuticals and is underweight Consumer Staples and Materials. Exposure to Banks, Software & Services and Telecom is close to market weights. Key portfolio changes made recently are :

- Increased exposure to Automobiles and to Software & Services.
- Reduced exposure to Energy, Pharmaceuticals and rationalized few small holdings.
- Exposure to largecaps has increased.

Unique portfolio holdings have marginally reduced in the quarter. We think there should be some more consolidation in holdings over time. However, a meaningful reduction in number of holdings will have to wait till there is meaningful divergence in some pockets.



Source: FactSet, 3PIM calculations
Note: Valuation Dispersion is defined as the standard deviation of sector PE (ex-financials, oil & Gas, metals & mining) at a point in time.
Data as of 30th September 2025. *Fig. 21*

The performance of 3PIEF-1 is summarised in the adjoining table *(Fig. 22)*. While the returns of the first year had tailwinds of strong market returns, the second year was a year of lower absolute returns. The Fund's performance has been ahead of markets in both the years. The first year's performance was supported by an underweight position in consumer staples, overweight position in capital goods, utilities and some stock specific positions. The reduction in exposure to SMIDs, utilities, financial services and an increase in exposure to select pharmaceutical names aided relative performance in the second year.

	CAGR Returns (%)		
Fund	3PIEF-1	Nifty 50 TRI	Nifty 200 TRI
1 Year	1.1	-3.5	-4.9
2 Year	21.2	13.3	15.5
Since Inception*	25.2	14.7	17.8

Source: Bloomberg, 3PIM | *Inception Date: 4th May 2023
Note: Pre-tax, pre-management fees returns.
Data as of 30th September 2025. *Fig. 22*

The Fund Managers of 3P Investment Managers have invested a sizeable part of their net worth in 3P Funds to align their interests with that of the customers. Further, under normal conditions, members of the 3P investment team will not purchase direct listed equities in the secondary market.

The 3P India Equity Fund 1 has grown to ₹15,135 crores ($1.7bn). The assets under management of 3P Investment Managers stand at ₹20,473 crores ($2.3bn). This growth is a result of our unitholders' trust in us for which we are grateful. Our long-term focus, disciplined approach, low costs and complete alignment of interests provide resilience to this partnership.

We are pleased to inform that a USD denominated fund (launched on 6th May 2025) that follows a similar strategy is now available for non-resident investors through 3PIM International (IFSC) LLP, a group entity of 3PIM, domiciled in GIFT City, India. For any information investors can reach out to *3pgiftservices@3pim.in*.

We plan to share the next Fund update around 1st week of January 2026.

Kindly note that 3P India Equity Fund 1 is an open-ended Fund with zero exit load. The Fund is available for transactions on every 15th and last day of the month (previous day if it is a non-business day). Kindly also note that the Fund's NAV is on a post-tax basis.

Please feel free to reach out to the undersigned or services (*services@3pim.in*) for any clarifications, feedback or suggestions.

Warmly,

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Portfolio Strategist and Co-Fund Manager

(Ashwani Kumar)
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