OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

March 2022

OmniScience Strategies US Annual Update for 2021

Global Multi-Thematic Investment Opportunities

Enhance Safety, Enhance Growth, Enhance Returns

Contents

OmniScience Strategies US Annual Update for 2021 3
Global Multi-Thematic Investment Opportunities 3
In 2021 Mr. Market delivered fantastic returns, with Asian exception 3
...rewarding Scientific Investors who embodied Originality, Character and Patience 3
Scientific Investing: Surviving and Thriving 4
How to invest in OmniScience Strategies? 4
Scientific Alpha Series for UHNWI, Family Offices and Institutions 5
Outlook 2022 and Beyond—the Scientific Way 6
Impact of US Fed rate increases 6
Introduction to OmniScience Capital 7
OmniScience Investment Focus 8
US Equities 8
Indian Equities 8
AI Revolution 9
Investment opportunities from 3 focus areas 9
Scientific Investing Philosophy 10
Scientific Investing Framework 11
Scientific Investing—Enhance Safety, Enhance Returns 12
Thematic Investing—Enhance Growth, Enhance Returns 12
Detailed review of the US Investment Offerings 14
Omni Supreme US 14
Omni AIoT US 18

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"In 2021 S&P 500 delivered 28.71%, while Nasdaq-100 27.51%, MSCI Europe 16.97% and Nifty 25.59%, total returns, respectively."

In 2021 Mr. Market delivered fantastic returns, with Asian exception

2021 has been a fantastic year for equity investors across many markets across the World. S&P 500 delivered 28.71%, Nasdaq-100 27.51%, MSCI Europe 16.97%, Sensex 23.23%, and Nifty 25.59%, total returns, respectively. Meanwhile, other major Asian markets were flat to bear territory, for example, in USD, MSCI Japan (2%), MSCI Hong Kong (-4%), Korea (-8%) and China (-22%).

...rewarding Scientific Investors who embodied Originality, Character and Patience

Without getting into the specifics of how well OmniScience strategies did in 2021, it can be surmised that OmniScience's Scientific Investors got "satisfactory returns" as Benjamin Graham would have put it. Definitely, we as fund managers were quite "satisfied".

What one will miss from the above performance is that equity markets do not deliver performance consistently but rather in bursts. There are years of negative performance too. For example, 2018 was a negative performance year. But those who had the patience - a majority of OmniScience Scientific Investors - were rewarded in 2019, 2020 and 2021.

OmniScience's Scientific Investors—were rewarded in 2021. The requirement that the Scientific Investor should have Originality, Character and Patience is again reinforced. The OmniScience investment managers must focus on the Originality aspect and the Character aspect, while the Client has to focus on the Character and Patience aspect. This partnership between the managers and the clients leads to the performance and alpha generation as a result of Scientific Investing.

Scientific Investing: Surviving and Thriving

Scientific Investing Philosophy is the Science of Alpha from Safety. What Scientific Investing Framework does is: Enhance Safety, Enhance Growth, Enhance Returns. Scientific Investing focuses on building a portfolio which can survive and thrive in the always uncertain future. For example, survive crises like Covid-19 lockdowns and thrive in ensuing economic booms. The focus on identifying below-the-radar growth vectors helps uncover extraordinary investment opportunities. You can learn more about this in the section on Scientific Investing.

How to invest in OmniScience Strategies?

OmniScience's US strategies are available on the Stockal platform at
https://www.stockal.com/stacks/stackdetail?name=OMNIUSS and
https://www.stockal.com/stacks/stackdetail?name=OMNIAIT

OmniScience strategies are also available on Custodian platforms for both Indian and US strategies.

OmniScience's Indian strategies are also available on the smallcase platform at https://omniscience.smallcase.com/

Scientific Alpha Series for UHNWI, Family Offices and Institutions

OmniScience also developed the Scientific Alpha (SA) series of strategies targeted to Ultra-High Net Worth individuals and Family Offices. The Scientific Alpha series is a Smart Beta approach based on the Scientific Investing Framework. 5 variants have been developed, viz., Scientific Alpha Core, Scientific Alpha Growth, Scientific Alpha Value, Scientific Alpha Quality, and Scientific Alpha Dividend.

One of the key differences in this series compared to the conventional classification of companies as Core, Growth, and Value, is the recognition that Growth is a fundamental dimension driven by revenue growth while Value is a price vs. fundamental dimension which means companies which are at a discount to their intrinsic values.

This means that companies which are growth companies can also be available at a discount to their intrinsic values and hence be Value companies.

While SA Core is a portfolio of growing companies which are mispriced, SA Growth has a strong growth bias and SA Value has a strong bias towards the highest discount to intrinsic value. SA Core, SA Growth, and SA Value are selected from the highly liquid large cap universe of the Top 500 stocks, which are also, typically, part of the S&P 500.

SA Quality is a portfolio of mispriced companies selected from the universe of high-quality companies with persistent competitive advantages. SA Dividend is a portfolio of mispriced companies selected from the universe of dividend paying companies. SA Quality and SA Dividend are selected from the Top 1500 stocks which includes Top 500 large caps, Top 400 midcaps and Top 600 smallcaps. The full universe is represented, typically, by S&P 1500 which is a composite of the S&P 500 (largecaps), S&P 400 (midcaps), and, S&P 600 (smallcaps).

Another product launched was Scientific Alpha Super Stable. The objective of this strategy was to design a portfolio which is much more stable compared to a pure equity portfolio but could generate much higher returns compared to fixed income. This has multiple instruments and securities which are likely to behave in a manner negatively correlated, uncorrelated or less correlated to equities in the short term while still generating positive returns in the long term.

Impact of US Fed rate increases

Forecasters have predicted 15 out of the last 3 crashes. There is a class of forecasters who predict a bear market every year. Typically, once in 3-5 years it turns out true and then these forecasters can claim their forecast came true.

At OmniScience, we believe that no one can predict the future. However, one can work with logic to estimate and understand possible future scenarios which could evolve.

According to the Bureau of Economic Analysis[1], the US economy grew at 10% in nominal US Dollar terms in 2021. According to the Fed dotplot, it is likely to continue growing at 6%-7% in 2022 and at 4%-5% 2023 and at around 4% beyond that in the long term[2].

Further, the unemployment rate is at 3.5% and is expected to remain at this level until 2024, according to the Fed dotplot, going up to 4% in the long-term.

Inflation in 2021 was 7% according to Bureau of Labor Statistics[3]. This is very high and way more than the Fed's target rate of 2%. Most of it is, quite likely, due to the global supply chain disruptions and the US port congestions. However, there does seem to be some component of inherent inflation due to the strong economic demand.

Given the strong economic growth, low unemployment and high inflation, the Fed has to take appropriate actions. The US Fed has indicated in their December 2021 meeting and reinforced in the Jan 2022 meeting that they are going to stop increasing the balance sheet size from March 2022. Further, around 3 to 9 rate hikes are expected in 2022-23 and more could be expected if inflation remains a concern.

The Fed dotplot expects that the Fed funds rates will be normalized by 2024 to 2% and beyond that to 2.5% in the long run.

In reaction to the above Fed communications, the US markets have reacted to the Fed and fallen downwards. Currently, the S&P 500 forward PE ratio is 20. This is equivalent to an earnings yield of 5%. Based on the historical data, this earnings yield appears fair for—based on the Fed dotplot data—an expected long-term inflation rate of 2%.

However, one should remember that the Fed is very clear that it will increase interest rates only if the unemployment numbers remain low at 4% or lower, economy is growing strongly and inflation remains high, especially, wage inflation, which is a better indicator of mid-term inflation entrenchment. The thing to remember is that rate hikes are going to happen only if the economy remains strong.

This means that revenues and earnings are likely to continue growing, in general, barring specific sectors which are directly impacted by inflation or rate hikes. *The impact of the Russia-Ukraine War on global GDP and inflation remains to be seen. The Fed might also change its stance depending on the impact of the war.*

For Scientific Investing these rate hikes do not mean much since the hurdle rates used for stock selection were not influenced by the near-term fed rates but rather by the long-term inflation and bond rates, and consequently, the long-term expected returns from equities in the US markets. Of course, the Omni portfolios would also fall in the near-term as the markets fall. But portfolios bought at reasonable prices should deliver adequate returns in the long-term, as Benjamin Graham would put it.

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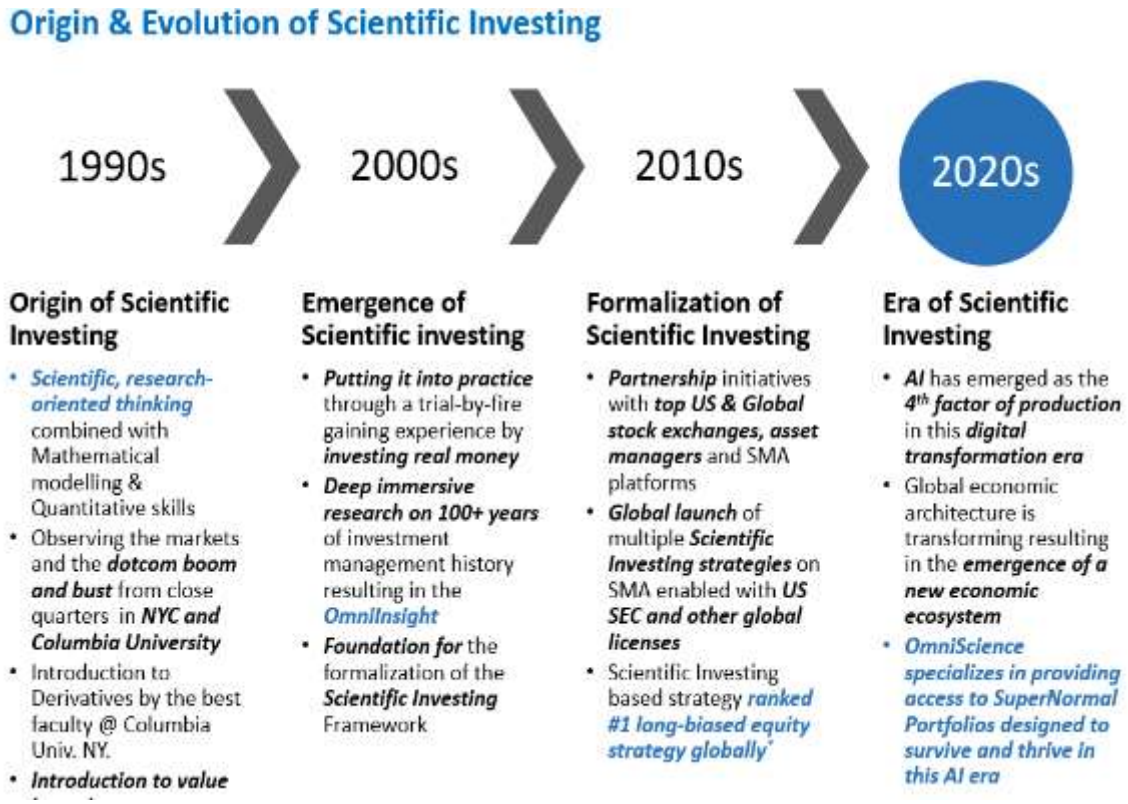
[1] https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate#:~:text=Current%2Ddollar%20GDP%20increased%2010.0,(tables%201%20and%203)
[2] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20211215.pdf
[3] https://www.bls.gov/news.release/cpi.nr0.htm

Introduction to OmniScience Capital

The founding team of OmniScience has now been working together on managing Global and Indian strategies using the core concepts of the Scientific Investing Philosophy for a decade. The Scientific Investing Framework has a 'Safety-first' approach at its core. This approach is required in a risky asset class like equities so that once the risk is mitigated one can focus on enhancing the upside and generating alpha over the long term by investing in fundamentally strong companies available at a significant discount to their intrinsic values.



The Scientific Investing Framework is the culmination of decades of experiences and expertise across multiple fields. The Scientific, research-oriented and quantitative thought process at the core of all thinking at OmniScience Capital originates from the STEM (Science, Technology, Engineering, and Mathematics) education, training and experiences which the core team received in their early days.

This was followed by exposure to the concepts of value investing and deep immersive research on more than 100 years of investment management practice and knowledge. The use of these concepts in live investment portfolios lead to further evolution of the philosophy and understanding what works and what doesn't in real life investing and, most importantly, the why—the scientific quest.

The advantage of the scientific approach is that it is not satisfied just with *how* unless the *why* is also answered. When fundamental aspects of why something works and doesn't work are understood, and there is a framework which integrates all of this, then the investment process can become quite flexible while the philosophy doesn't have to change. The process can be adapted to different markets and conditions even though the core concepts remain same.

The core team has been working together for nearly a decade to develop and practice the Scientific Investing philosophy. It is applied to the developed as well as emerging markets equities and has got a good response from various global institutional investors and partners.

OmniScience specializes in providing access to SuperNormal Portfolios designed to survive and thrive in this era of Artificial Intelligence revolution and changing global economic architecture.

OmniScience Investment Focus

The changing economic architecture and the AI revolution provide attractive investment opportunities which OmniScience Capital intends to bring to the investor community. Thus, OmniScience has 3 focus areas: US, India and AI Revolution.

US: Largest Economy & Equity Market		Transformative Technologies		India: Fastest Growing Major Economy	
24% Share of the global economy	**40%** International markets revenue	**$100 trillion** Economic Impact in next 10 years	**10+** Transformative Technologies including AI, IoT, 5G, Cloud, Big Data, Metaverse	**13.2%** 10-year annualised GDP Growth	**₹100** lac crore 5yr Capital expenditure Plan
35% of Global Market Cap	**100+** cos with 20%+ 10yr CAGR				
A truly global investment universe of **technology innovators, disruptors,** firms with best corporate governance practices and **leading enterprises** having operations in **developed & fast-growing emerging economies**		New-age digital technologies are changing every aspect of the human life and in the process creating a **multi-trillion-dollar** global **business transformation** opportunity		India is exposed to **3 transformative** themes, viz., a huge capex of **INR100 trillion** over next five years, a **shift in global manufacturing** supply chain towards India & the **global digital transformation** tailwind	

US Equities

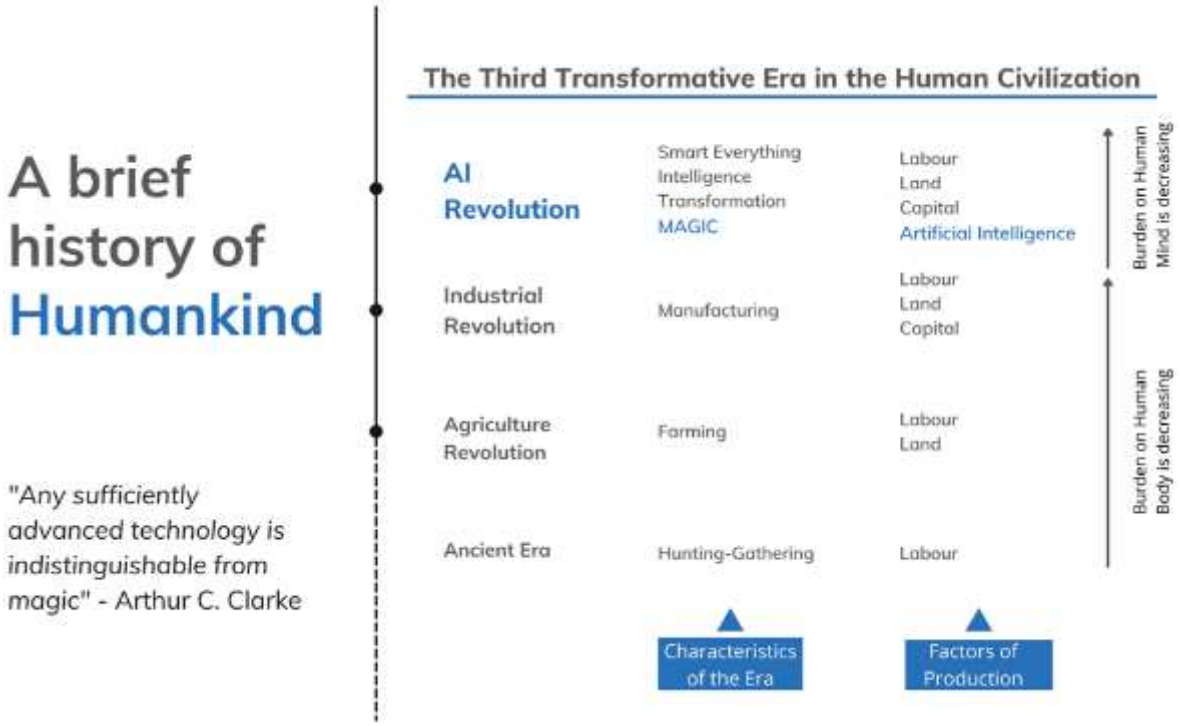
US, because it is the largest economy expected to grow at around $1 Trillion every year over the next decade with 100s of companies growing at more than 10%-20% in the past decade. It is no surprise since it is the capital of capitalism and free enterprise and a hub of technology and innovations. It is likely to bring back numerous manufacturing facilities onshore catalyzed by industry 4.0 and robotics. Also, the global supply chains are likely to be rearchitected to reduce dependency on China and diversify supply sources.

Indian Equities

India, because it is the fastest growing large economy across the World which is likely to cross $8 Trillion over the next decade. The Government of India is doing one of the largest capital expenditures on infrastructure, technology. education, healthcare and climate providing a foundation for the growth during Amrit Kaal—India@75 to India@100. Over the next 3-5 years more than 100 lakh crores will be invested under the National Infrastructure Pipeline by the Government of India. In addition, the capital investments from the private sector and the private consumption expenditure would give a further fillip to the economy. There are numerous growth vectors which are quite promising. India is also likely to benefit from the changing global economic architecture.

AI Revolution

Artificial Intelligence (AI) Revolution is bringing in a new era on the back of Digital Transformation (DX). Digital Transformation is the evolution of new business models to address customer needs built on the availability of transformative technologies, such as IoT, Cloud, Big Data, 5G, Metaverse, Blockchain, Cybersecurity, Robotics, and Industry 4.0. On top of these technologies and the availability of large amounts of data, Artificial Intelligence can add a lot of value and also provide the opportunity to enable innovative new business models.



Investment opportunities from 3 focus areas

Within these broad categories there are dozens of strategies that OmniScience manages.

US Strategies: OmniScience manages Omni Supreme US, which is a portfolio of multiple growth vectors providing exposure to multiple themes in the US and global markets. This strategy picks stocks from the Top 1500 stocks (S&P 500 large caps, S&P 400 midcaps, and S&P 600 smallcaps indices) listed on the US stock markets.

Scientific Alpha series of 5 products (Largecaps—SA Core, SA Growth, SA Value and Multicap—SA Quality & SA Dividend) intended for family offices and institutional clients also provide direct equity exposure to the US markets. Another institutional product is SA Super Stable.

India Strategies: The Indian strategies from OmniScience have been discussed in an earlier report which can be read here.

AI Revolution: Omni AIoT US (Artificial Intelligence and Internet of Things), focused on the AI Revolution, is based on a proprietary investment universe of nearly 180-200 US companies developing different products, platforms and solutions related to Artificial Intelligence. These companies are instrumental in bringing the AI Revolution to the global economy. The strategy picks around 15-25 stocks which are available at the highest discount to intrinsic value.

Scientific Investing Philosophy

A robust investment strategy edifice has to be based on a structure shown in the chart below. The foundation of the edifice is based on fundamental *insights* about investing. An investment *philosophy* forms the next layer. This is then formulated into *principles*. Using these principles different investment *processes* can be crafted. The implementation of these processes can involve the development of *rules*.

While the lower, foundational rungs are more stable and should, ideally, not change in decades or even centuries, the upper rungs can be more flexible and can evolve and adapt to changing circumstances. For example, the use of different rules for implementing the same investment process can result in differing investment portfolios. Even using the same investment principles different investment processes can be formulated. All of these investment processes will be true to the investment philosophy and principles, but the resulting portfolios could be quite different.

The core insight at OmniScience Capital is:

OmniInsight

"Most market participants chase alpha but get risks, while one could chase safety and get alpha"

Based on this insight the Scientific Investing Philosophy of OmniScience is focused on a "Safety First" approach. The idea is that since one is operating in a risky asset class like equities, the focus should be on reducing those risks and chasing safety. Once all the ways in which one can lose capital permanently are understood and the ways of guarding against them are developed, then one can freely concentrate on enhancing returns and generating alpha without worrying about high risks, i.e., chances of losing capital permanently. Of course, the philosophy recognizes that any approach can only reduce the probability of permanent loss of capital but cannot make it impossible.

An investment strategy should include the *Investment Analytics*, *Portfolio Synthetics* and an *Investment Framework* integrating the two. Investment Analytics focuses on developing analytical toolkits that can be used to best understand

the known information. Portfolio Synthetics should be aimed at helping the portfolio survive and thrive in the always uncertain future. The future has some knowns, many unknowns and even more unknowables. A robust portfolio synthetics thought process understands that the portfolio should be designed to survive those unfavourable unknowns and thrive on the favourable unknowns.

Our philosophy recognizes that a strong, cash-rich, balance sheet provides the primary shield against unfavourable unknowns and powers the company to thrive on favourable unknowns that the future might throw at it. The fundamental reason behind the strong balance sheet is the persistent competitive advantage which also translates, typically, in strong, positive cash flows. The management decisions involved in raising new capital through appropriate structures and allocating the capital as well as the cash flows prudently also results in a strong balance sheet.

Portfolio Synthetics also recognizes that no single investment can be perfect, and something can go wrong. Hence, diversification in terms of holding a number of stocks, number of sectors, number of growth themes and also diversification in terms of catalysts is required to have a robust portfolio.

The Investment Framework has to balance the Analytics with the Synthetics. For example, as the Investment Analytics and due diligence gets stronger, a more concentrated portfolio might be acceptable at the portfolio synthetics. However, there is a limit to concentration. Investing in less than 10 companies in an overall portfolio can hardly make sense for a core investment. Ideally, a core portfolio should have 20-30 stocks, and even up to 50 stocks for an institutional portfolio.

Similarly, in this fast-changing and disruptive world there can be no buy-and-hold forever. One has to continuously review and realign the portfolio as Mr. Market recognizes the discounts in the existing portfolio and is willing to buy them at fair price, i.e., at their intrinsic value, or higher. The portfolio has to continuously realign to exit the stocks which are becoming overvalued and move into stocks which are undervalued.

Scientific Investing Framework

The focus of Scientific Investing can be framed as follows:

Enhance Safety, Enhance Growth, Enhance Returns

How these three objectives are met in the Scientific Investing Framework is detailed below. See the chart below too.

As shown in the chart, the Scientific Investing Framework starts from the full investment universe. The investment universe is cleaned up with the aim of enhancing safety. There are companies with weak business operations and weak balance sheets. Many of these companies might be making consistent losses and negative cash flows, consequently resulting in high debt on the balance sheets. These companies are destroying the shareholder capital, i.e., the net worth of the company. These companies are labelled as *Capital Destroyers*. The Capital Destroyers are eliminated from the investment universe.

Next step is to focus on companies which might be showing profits and even paying taxes. However, these companies are consistently earning below the cost of capital. These companies are either at a significant competitive disadvantage or the corporate governance is not good. In either case, these companies are eroding the shareholder capital, consequently, reducing the purchasing power of the shareholder capital. The longer one stays invested in these companies the more the capital erosion. These are called *Capital Eroders* and are eliminated from the investment universe.

Now the investment universe is quite clean. However, there is one more category of companies that needs to be guarded against. Many of these companies have strong balance sheets, persistent competitive advantages, and are generating significantly more than the cost of capital. However, these companies are well-recognized by Mr. Market and hence are priced such that they are at a premium to their conservatively determined intrinsic value ranges. Their market prices

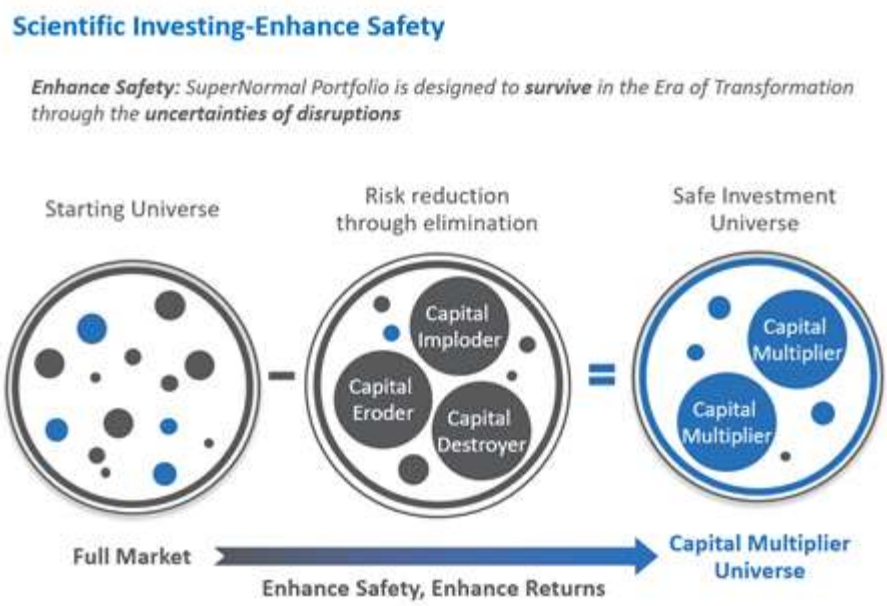
appear justified to Mr. Market when he takes a highly optimistic view of the future cash flows and the duration of these cash flows over next decade or two or more at high growth rates.

If any of those optimistic assumptions becomes untrue, then the market price turns out to be too optimistic and the price implodes. These companies are called *Capital Imploders*. So optimistic and heroic assumptions of high margins, high returns on capital, large positive cash flows, growing at high rates for decades, all together can justify very high market prices. However, the pricing is such that *even with all the assumption working out*, which is very unlikely, the *investor will end up with the discount rate* the market is using, which is not an alpha generating return. *If anything goes wrong,* which means even one of the assumptions turns out not be true, which is very likely in a fast-changing world when the time horizon is decades, the intrinsic value turns out to be much lower, *the price implodes, and the investor ends up with negative or sub-par returns*.

These Capital Imploders are also eliminated from the investment universe. Thus, we end up with a cleaned-up investment universe of *Capital Multipliers*.

Scientific Investing—Enhance Safety, Enhance Returns

The Capital Multipliers are companies with strong balance sheets, persistent competitive advantages, earning more than their cost of capital (on a normalized basis) and are available at a significant discount to their intrinsic values. The total portfolio returns are thus significantly enhanced since the loss of capital from Capital Destroyers, Capital Eroders and Capital Imploders has been minimized. Thus, "Enhance Safety, Enhance Returns" leg of the Scientific Investing Framework is complete.



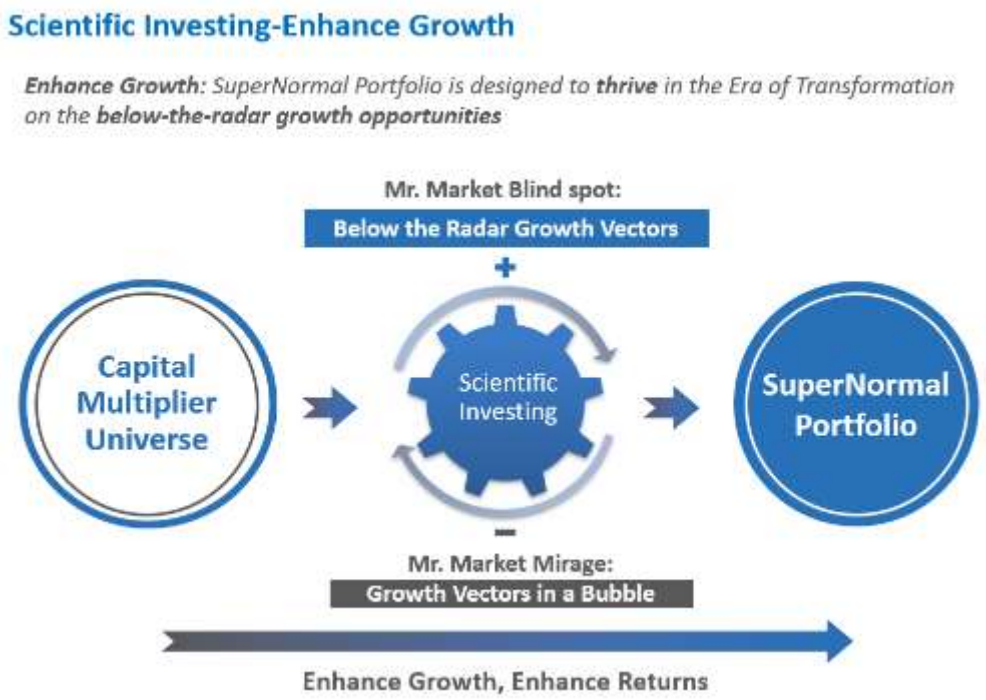
Thematic Investing—Enhance Growth, Enhance Returns

Next, step is to "Enhance Growth, Enhance Returns". The Capital Multiplier Universe is then analyzed further to identify companies which have the opportunity to grow at high rates due to exposure to growth vectors driven by long-lasting themes. These are themes which are, typically, driven by technology or social trends. Sometimes these could also be driven by political, legal, economic or environmental trends.

However, the key idea behind selecting these companies is to focus on growth vectors which are in Mr. Market's Blind Spot. These are the companies which are exposed to below-the-radar growth vectors and become part of the SuperNormal Portfolio. Over a period of quarters to years, Mr. Market recognizes these companies or the whole growth vector. Once the companies are no longer available at a significant discount to their intrinsic values, they can be either assigned to lower weights or might be completely sold off.

Mr. Market's Mirage is when the whole theme or growth vector is now in bubble territory and nearly all companies are in bubble territory. This is when it one has to be satisfied with the discount rate or lower.

Typically, the Scientific Investing framework would suggest buying companies participating in themes (and growth vectors) which are in Mr. Market's Blind-spot and selling those companies when the theme is in Mr. Market's Mirage. Sometimes, some themes might be in Mr. Market's Mirage but there might be a several companies participating in the theme which are still in Mr. Market's Blind-spot. Scientific Investing framework would then suggest buying those companies and selling them when they are in Mr. Market's Mirage and replacing them with other companies which are now in Mr. Market's Blind-spot.



OmniScience designs core portfolios which provide exposure to multiple themes and growth vectors which provides another dimension of diversification and enhances growth exposure of the portfolio. Further, OmniScience also designs theme-specific portfolios.

In summary, this focus on first enhancing safety, then enhancing growth and overall, thus, enhancing returns in the long-term as the expected outcome of following the Scientific Investing Framework. Of course, there can be no guarantee of the outcome over any specific time frame.

Detailed review of the US Investment Offerings

Omni Supreme US

- A US multi-cap investment strategy that provides exposure to the largest economy and the largest equity market in the world with the most innovative companies having global presence, best corporate practices and successful business models that are replicated around the world.
- The strategy creates a SuperNormal Portfolio of US companies with SuperNormal profitability available at SuperNormal Prices significantly below their intrinsic values selected from US's largest 1500 stocks of the total-cap universe of Large, Mid and Small capitalizations companies using the Scientific Investing framework.

Portfolio Review:

AAPL

This consumer electronics company and the owner of the most iconic smartphone brand in the world, is close to touching $400 billion in revenues and $100 billion in profits and operating cash flows. The company is fast diversifying its revenues away from the flagship phone brand. Services contribute nearly 20% of overall revenues and wearables, home and accessories more than 10% of revenues, while both are growing at 16%-25% range.

This company can be viewed as a conglomerate which competes in numerous markets. For example, it competes with Netflix in the entertainment market, producing original content. The original content has already won 200 awards and nearly 900 nominations in its first two years. The App store generates large revenues for itself and its partners while maintaining itself as the keystone species which is at the center of the ecosystem, thus maintaining bargaining power across the network of customers and partners.

The company spends nearly $15-20 billion on R&D every year. This is invested to develop new products and services. The company has made more than 100 acquisitions in AI over the last 6-7 years. The result of this R&D and acquisitions is likely to be new products and services which are likely to continue generating higher revenues in the future. On the back of numerous patents, acquisitions and hiring of key personnel, it is speculated that the company is also working on an autonomous vehicle.

Even at a $2.7 trillion market cap, the company is available at nearly 3.3% FCF/EV yield.

BBBY

This omni-channel retailer of home furnishing and domestic merchandise is on track with its 3-year turnaround plan, having completed year 1. It faced lost sales last quarter due to supply chain issues which were common across the industry. According to the company management, their supply chain issues should be solved by first half 2022, probably earlier than their peers. A combination of the lower sales guidance for the year and expectations of a Fed rate hike caused the share price to fall significantly. A large, short interest in the stock has exacerbated the fall. However, the balance sheet remains strong with $700 million of net debt. At these lower prices the shares have become even more attractive and at a much higher discount to their intrinsic values. The normalization of the supply chain and consequently achieving the targeted sales levels are likely to be the catalyst for the stock price. However, the full value of the stock is likely to be realized as the turnaround takes shape throughout 2022 and 2023.

BBY

This consumer electronics and technology retailer is on track to grow at around 11% for FY22. While the stock price has reacted negatively as with most retailers, the company maintains a strong balance sheet and strong cash flow. It is innovating in numerous ways for the future and is likely to play an important in the metaverse in terms of being a principal provider of the metaverse-enabling equipment. In terms of innovation, it is trying out a virtual store where customers can interact with expert associates via audio, video, chat and screen sharing and able to see live product demos and physical products. It is experimenting with experiential stores with areas devoted to gaming, fitness and home theater. It is adding ads which help vendors and customers find each other and adds a new revenue stream to the company.

DFS

Discover Financial Services is a leading digital banking and payment services company. Its main business is credit cards. It also provides student loans, personal loans, and home loans. The company started focusing on new account acquisition growth once the strong economic recovery was evident in late 2020 and early 2021. Consequently, the company experienced strong loan growth in the second half of 2021. In payments, the company forged new alliances in Portugal, Bahrain, Jordan and Malaysia. The benefits from this should be observed once cross-border travel recovers. The company is growing at mid-to-high single digits and available at a forward earnings yield of 11% which makes it an attractive proposition.

FN

Fabrinet is a leading provider of manufacturing services to OEMs in the areas of advanced precision optical, electronic, and mechanical process technologies. This company is focused on large and growing addressable markets, such as, optical communications, automotive—including, EV charging and LIDAR, optical sensing—including, AR/VR & Medical diagnostics, and industrial lasers.

Total revenues have now crossed $2 billion, and it is growing in double digits. The company is available at a PE (Non-GAAP FWD) of 17, which is an earnings yield of 6%.

FOSL

This luxury watchmaker delivered strong growth. With nearly 40% digital sales, the company is close to transitioning to a digital-first organization. The traditional luxury watches are in high demand, especially from China and India while the latest smartwatch has also gotten a good market response. The company was not affected much by the supply chain disruptions. Because of the small formfactor and high value, most of the products except leather are shipped via air. The company is available at nearly 4 times its adjusted EBITDA. The addressable markets for the categories in which it operates, i.e., traditional watches, jewelry and leather are all growing at 6% to 8% while the smartwatch category is growing at nearly 14%+. The digital channel is growing at very high rates and the traditional store fleet is now nearly optimized with the remaining stores being much more productive. The company is cash-rich with no net debt.

GPS

The largest specialty apparel company and the second-largest apparel ecommerce business in the US was severely hit due to the global supply chain and production disruptions. It estimates lost sales of nearly $600 million for FY 2021. Despite this it is expected to end the year with a growth of 20% over the previous year. Athleta, the athleisure brand, is

the fastest growing brand in the portfolio with 48% growth over 2019. It is likely to continue growing at high rates and rivalling Lululemon. At a price to sales similar to Lululemon, of 6.4, Athleta itself would be valued at around $8 to $10 billion. The other three brands, i.e., Old Navy with more than $8 billion in revenues, and Gap and Banana Republic which are multi-billion-dollar brands are available virtually free.

GOOG

This is the largest advertising and media company in the world, in the garb of a search engine, with more than $200 billion in advertising revenue. However, it is properly viewed as a Big Tech conglomerate participating in numerous businesses. For example, YouTube has nearly 10 times more users than Netflix. YouTube ad revenue is growing at 30%-45% annually. Google Cloud is one of the top 3 cloud vendors with revenues growing at nearly 45%. With an R&D budget of nearly $30 billion annually it is exploring and developing numerous new products and technologies. It has numerous subsidiaries which are underappreciated. For example, Waymo is one of the most advanced autonomous car companies in the world. It has driven more than 20 million miles which is the equivalent of nearly 40 trips to the moon and back.

Another initiative of the conglomerate is to become a leader in Artificial Intelligence and Quantum Computing. This will have foundational benefits in the evolving, technologically dominant economy of the future. It also sits at the heart of the mobile ecosystem with Android.

The company continues growing at high double digits and is available at an FCF to EV yield of 4%.

IRBT

iRobot is the global leader in home robots with 50%-75% segment share with the company. The company has developed a strong omni-channel distribution network with around 40% online sales. The ongoing semiconductor chip shortage and supply chain challenges have impacted the company's growth. However, this is expected to be just a near term concern as the company anticipates that supply chain issues will only dampen the performance in the first two quarters in 2022, followed by much stronger revenue growth in the second half of the year. Full year 2022 revenue is expected to grow in the range of 12% to 18% (9% to 16% excluding Aeris acquisition) with 2/3 of the full year revenue coming in the 2nd half. The company has a strong balance sheet with $234mn in cash, cash eq. & investment with no net-debt. The tariff costs are expected to be $42-$44mn which are expected to decline as the company expects nearly 75% of the manufacturing to move to Malaysia by end of 2022 which will add directly to the FCF.

MED

Medifast is a leading manufacturer and distributor of clinically proven healthy living products and programs for weight loss and other health-related conditions. It is the brand recommended by more than 20,000 Doctors. OPTAVIA is its exclusive brand and product line sold through a community of 60K independent Coaches. Nearly 90% of the revenue comes from subscription-based meal-plan orders. It has a large addressable market as nearly 70% of US population is obese or overweight. Out of this 75% US adults want to lose weight and are open to dieting. Health and wellness market in the US is estimated to be $230bn. Capitalizing on this large TAM, it has been delivering exceptionally high growth rates in the past (last 5-year CAGR is 40%) and guides for 13%-17% growth for the full year 2022. The company has invested in capacity expansion to ~2.5bn of annual sales. It is available at mid to high single-digit normalized free cash flow yield on conservative basis.

MU

Micron Technology, Inc. offers memory and storage solutions. The Company's portfolio of memory and storage technologies, includes dynamic random-access memory (DRAM), negative-AND (NAND), three-dimensional (3D)

XPoint memory, and NOR. The company has entered into strategic agreements to secure supply of certain input components to tide over the current tight supply environment. Mobile, Autonomous Vehicle and Industrial IoT are delivering strong growth for the company with revenue growing 25%-80% range. The company has a wide spectrum of end market that includes data centers, PCs, 5G phones, EVs, Automation devices, Security systems, VR Headsets & smart home devices. The company expects the long-term demand growth for DRAM to be at mid-to-high teens and for NAND at approx. 30%.

RJF

RJF has four main verticals which include private client group, capital markets, asset management and banking. The company has reported record numbers for the first fiscal quarter of 2022. PCG and Capital market revenues were highest ever which are the two main segments accounting for nearly 90% of the total revenues with PCG contributing 2/3rd of the total revenues & Capital markets 20%. Client assets under administration, assets in fee-based accounts and assets under management all hit record high levels. While Capital market segment revenue may vary with market levels and transaction volumes, PCG segment revenues are stickier and have inherent multiple growth vectors that include new net assets inflow from existing and new clients and market appreciation of the existing asset base. The PGC financial advisors base has also grown and continues to provide strong competitive advantage to the company.

SKX

Skechers is a designer and marketer of lifestyle and performance footwear. It has a strong global brand with 65% revenues from international markets and presence in 180+ countries, 4300+ stores and more than $6 billion total revenue for 2021. It operates through three segments: Domestic Wholesale, International Wholesale, and Direct-to-Consumer. The Direct-to-Consumer segment which includes e-commerce & factory and warehouse outlet stores grew 30%+ in Q4. The company has delivered strong double-digit growth over the last 5 years and has guided for 11%-15% growth for the year 2022. It continues to hold a strong balance sheet position with more than $1bn in cash & cash equivalents and investments with a favorable capital allocation strategy with a $500mn repurchase program.

XPER

Xperi offerings include licensing of its internally developed audio, digital radio, imaging, edge-based machine learning and multi-channel video user experience (UX) solutions to consumer electronics (CE) customers, automotive manufacturers or their supply chain partners. In media, its licensees include multichannel video programming distributors, consumer electronics manufacturers, social media and other new media companies. In semiconductor its licensees include memory, sensors, radio frequency (RF) component and foundry companies. It has more than 11,000 patents and applications, 30 million household subscriptions and 400 million radio listeners. The company has a mid-single digit growth forecast with a high-single digit to double digit free cash flow yield.

The company announced a multi-year agreement with Micron to provide access to its hybrid bonding IP – advanced 3D technology and architecture to scale performance and functionality.

Omni AIoT US

- AIoT sits at the heart of disruptive technology infrastructure (AI, IoT, Cloud, 5G, Metaverse, Big Data, Robotics, Analytics, Cybersecurity, AR/VR & Blockchain) and their use cases (Industry 4.0, Autonomous Cars, Smart Home, Wearables, etc)
- This is a direct exposure via a SuperNormal portfolio to the multi-trillion-dollar global business transformation. The portfolio is created from a proprietary investment universe of nearly 200 US-listed companies focused on above technologies.

Portfolio Review:

AAPL

This consumer electronics company and the owner of the most iconic smartphone brand in the world, is close to touching $400 billion in revenues and $100 billion in profits and operating cash flows. The company is fast diversifying its revenues away from the flagship phone brand. Services is now nearly 20% of overall revenues and wearables, home and accessories is now more than 10%, both growing at 16%-25% range.

This company can be viewed as a conglomerate which competes in numerous markets. For example, it competes with Netflix in the entertainment market, producing original content. The original content has already won 200 awards and nearly 900 nominations in its first two years. The App store generates large revenues for itself and its partners while maintaining itself as the keystone species which is at the center of the ecosystem, thus maintaining bargaining power across the network of customers and partners.

The company spends nearly $15-20 billion on R&D every year. This is invested to develop new products and services. The company has made more than 100 acquisitions in AI over the last 6-7 years, more than any other Big Tech companies. The result of this R&D is likely to be new products and services which are likely to continue generating higher revenues in the future. On the back of numerous patents, acquisitions and hiring of key personnel, it is speculated that the company is also working on an autonomous vehicle.

Even at a $2.7 trillion market cap, the company is available at nearly 3.3% FCF/EV yield.

CSCO

This networking technology company powers the internet. It operates in the networking, hybrid work, security, internet for the future, optimized application experiences and services markets. It has transitioned from a pure hardware seller to a company where software and service revenue is now more than 50% of the revenues. It is participating in large TAMs and expects to grow at around 5%-7% over the next several years. With nearly $15 billion FCF, the FCF/EV yield is nearly 6% which signifies significant discount to intrinsic value. With nearly 98% of Fortune 500 as customers, more than 25000 patents and $6.5 billion in R&D spend, the company is likely to continue powering the Internet in the future.

FB

This leading social media company had a sharp sell-off as it indicated a slowdown in its growth rate. The slowdown is because of increased competition and the related transition towards short-form video which is currently less monetized. Daily Active Users and impressions are also slowing down. These combined with near-term pressure from the advertisers who are impacted by changes in the Apple iOS, especially small businesses, supply chain disruptions, inflationary

pressures, and labor shortages are likely to put pressure on near-term advertising revenue growth. Markets have reacted to these issues and the stock has dropped significantly.

However, our analysis suggests that this company is going to be one of the keystone species in the evolving Metaverse ecosystem. On a more near-term basis, it has transitioned to different product formats several times and the move to short-from videos and their monetization should not be too challenging. Further, the focus of the company on doing the trade-off of slowing near-term revenue to engage more with the young adults will prove beneficial in the long run. The company continues to generate strong free cash flow of nearly $40 billion. At the current price, it is trading at a significant discount to its intrinsic value. The unlocking is likely to happen as the monetization of the new short-form video proves successful and as the advertisers start spending more once the supply chain disruptions are over. As the understanding of the Metaverse starts percolating across the industry, this factor will start building more and more into the valuations.

FN

Fabrinet is a leading provider of manufacturing services to OEMs in the areas of advanced precision optical, electronic and mechanical process technologies. This company is focused on large and growing addressable markets, such as, optical communications, automotive—including, EV charging and LIDAR, optical sensing—including, AR/VR & Medical diagnostics, and, industrial lasers.

Total revenues have now crossed $2 billion, and it is growing in double digits. The company is available at a PE (Non-GAAP FWD) of 17, which is an earnings yield of 6%.

GOOG

This is the largest advertising and media company in the world, in the garb of a search engine, with more than $200 billion in advertising revenue. However, it is properly viewed as a Big Tech conglomerate participating in numerous businesses. For example, YouTube has nearly 10 times more users than Netflix. YouTube ad revenue is growing at 30%-45% annually. It is one of the top 3 cloud vendors with revenues growing at nearly 45%. With an R&D budget of nearly $30 billion annually it is exploring and developing numerous new products and technologies. It has numerous subsidiaries which are underappreciated. For example, Waymo is one of the most advanced autonomous car companies in the world. It has driven more than 20 million miles which is the equivalent of nearly 40 trips to the moon and back.

Another initiative of the conglomerate is to become a leader in Artificial Intelligence and Quantum Computing. This will have foundational benefits in the evolving, technologically dominant economy of the future. It also sits at the heart of the mobile ecosystem with Android.

The company continues growing at high double digits and is available at an FCF to EV yield of 4%.

INTC

This company, which is one of the largest semiconductor companies in the world and a leader in server and PC chips, has always been an integrated device manufacturer (IDM). This year it announced a new IDM 2.0 strategy where it will provide foundry services to other fabless chip makers. This includes investing $20 billion in Arizona to build two new factories. To unlock shareholder value, it is planning an IPO for Mobileye, it's autonomous driving unit. Some sources estimate that the expected valuation for the IPO is at $50 billion. The remaining company is available at a value of $150 billion for a revenue of $73 billion and operating profit of $21.5 billion.

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MSFT

Microsoft develops and supports a range of software products, services, devices, and solutions. The Company's segments include Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. The Company recently announced its plans to acquire Activision Blizzard for $68.7 billion as a building block for the Metaverse. It is a high potential growth vector of the company with various entities estimating metaverse to be a nearly $8 trillion opportunity. Further, the acquisition of Xandr, an ad tech company, will help Microsoft to offer more advertising solutions. The current advertising revenue crossed $10 billion mark for the company in the last 12 months. Some of the growth areas include Windows where the company has observed structural shift in PC demand, MS Teams with more than 270 million monthly active users and with more than 90% of Fortune 500 companies using Teams Phone for unified communications in the last quarter. Company posted a 20% yoy growth in 2021 and continues to be on a growth trajectory with significant growth guidance numbers for this year.

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QCOM

Qualcomm Incorporated is a wireless technology company and is specialized in offering 5G wireless technologies. Its offered technologies and products are used in mobile devices, broadband gateway equipment, consumer electronic devices, and Automotive, IoT, Computing & network equipment. With the strategy to diversify away from only mobile handset, IoT, Automotive and other segments now account for nearly 1/3rd of the QCT revenues.

The Company announced its collaboration with Renault on Snapdragon Digital Chassis offering which includes telematics, 5G connectivity, digital cockpit and Arriver Computer vision & ADAS. The company now has General Motors, BMW and Renault Group as key customers.

Capitalizing on the metaverse opportunity, it has collaborated with Microsoft on custom AR chips to enable a new wave of power-efficient, lightweight AR glasses and further, it plans to integrate its Snapdragon Spaces XR developer platform

into Microsoft mesh. The Snapdragon XR2 platform was rated as one of the best inventions of 2021 by the Time magazine.

QRVO

Qorvo provides technologies and radio frequency (RF) solutions for mobile, defense, and aerospace applications. Its mobile segment provides solutions for smartphones, wearables, laptops, tablets, and the Internet of Things (IoT) devices. The other segment, Infrastructure & Defense Products (IDP) is a supplier of radio frequency (RF), system-on-a-chip (SoC), and power management solutions for applications in wireless infrastructure, defense, Wi-Fi, smart home, automotive, and IoT. For the fiscal 2022 the company has guided for around 15% revenue growth, and it is available at conservatively estimated FCF yield of ~6%. Given the large TAM for the company offerings targeted to segments that include Mobile, Wi-Fi, IoT and 5G and its leading position in these segments, it is attractively priced with a strong growth outlook.

SSTK

Shutterstock, Inc. is a provider of a global creative platform that offers full-service solutions, content, and tools for brands, businesses, and media companies. It offers various contents such as image, footage, editorial, music and studios. Over the last one year the company has spent significantly on acquisitions to drive growth. Acquisitions included TurboSquid, PicMonkey, Pattern89, Datasine and assets from Shotzr, Inc. It is integrating its offerings with client's workflow applications and building 3D graphics and 3D models capabilities for Metaverse applications opening growth frontiers for the firm. For instance, TurboSquid acquisition has positioned Shutterstock as the world's largest 3D marketplace. The company has guided for a revenue growth of 8-10% which is in line with its historical revenue growth. The current yield is around mid-single digit.

TWTR

Twitter, Inc. offers products and services for users, advertisers, developers and data partners. The Company's products and services include Twitter, Twitter Space, Promoted Ads and Twitter Amplify, Follower Ads and Twitter Takeover. The company is working on the aggressive growth plans with a target of $7.5 bn revenue by 2023. It clocked $5.08 bn in 2021 and gave a 2022 revenue growth guidance of low to mid 20% range. It also intends to take mDAU in Q4'23 to 315 mn from the current 217 mn level.

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OmniInsight

"Most market participants chase alpha but get risks, while one could chase safety and get alpha"

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A Global Investment Management firm focused on global equity investments empowered by its proprietary Scientific Investing philosophy. OmniScience Capital is a joint initiative of Team OmniScience and the financial services conglomerate Asit C Mehta Group (35+ years, AUM: 3000 crores) to bring Scientific Investing to Indian and Global investors. Read more…

Global Investment Focus

OmniScience's vision is to provide global investors with global opportunities via SuperNormal Portfolios for US, India and Transformative Technologies. Our Omni Supreme US and AIoT investment strategies help clients take exposure to US markets. Read more…

Scientific Investing

Scientific Investing creates a SuperNormal Portfolio designed to survive and thrive through uncertainties, delivering optimal "Return on Safety". Read more…

Investment Platform

Investors can explore and invest in OmniScience strategies on omniscience.smallcase.com

Dr. Vikas V. Gupta

CEO & Chief Investment Strategist

- Founder of OmniScience Capital & Inventor of Scientific Investing concept
- At an earlier firm he incubated the global equity vertical with US SEC license. The firm won international awards and rankings
  Former Professor/faculty at IIT Kharagpur & University of California and B.Tech (IIT Bombay), Masters and Doctorate, Columbia University, NY

Ashwini Kr. Shami

EVP & Portfolio Manager

- Co-founder OmniScience Capital & leads advisory services and manages US, India & Tech portfolios
- At an earlier firm he set up one of the first Indian US SEC registered global money managers on the Interactive Brokers platform
- Previously worked at Goldman Sachs covering US and International stocks
- B.Tech and M.Tech from IIT Bombay; MBA from IIM Lucknow and Toulouse Business School, France

Varun Sood

VP Quantitative Research

- Co-founder OmniScience Capital & heads investment research
- At a previous asset management firm, he developed 12 global strategies for US, UK & EU
- Earlier, at ING, Trefis and Masan group he covered US and International markets
- B.Tech from IIT Roorkee and earned his MBA

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