



2Point2 Capital Investor Update Q2 FY27

Dear Investors,

This is the forty-first quarterly letter to our Investors. Our letters to you will provide an update on our investment performance and present our views on relevant topics.

PERFORMANCE

2Point2 Long Term Value Fund

The 2Point2 Long Term Value Fund (launched in July 2016) is our only strategy under the PMS license granted to us by SEBI. This strategy focuses on generating long term returns by holding a concentrated portfolio of investments (15-18 stocks).

Returns Summary

	2Point2	BSE 500 TRI[#]	Out-performance
FY17*	26.8%	12.2%	+14.6%
FY18	16.6%	13.2%	+3.4%
FY19	14.4%	9.7%	+4.7%
FY20	-24.6%	-26.5%	+1.9%
FY21	73.9%	78.6%	-4.7%
FY22	17.8%	22.3%	-4.5%
FY23	10.0%	-0.9%	+10.9%
FY24	45.2%	40.2%	+5.0%
FY25	11.0%	6.0%	+5.0%
FY26	7.4%	-3.1%	+10.5%
YTD FY27	9.8%	8.1%	+1.7%
CAGR Return	18.1%	12.9%	+5.2%
Cumulative Return*	446.7%	244.9%	+201.8%

*FY17 returns are for an 8-month period. Cumulative returns are from 20th July 2016 to 30th September 2026. As mandated by SEBI, returns are calculated on a time-weighted basis (TWRR) on aggregate portfolio. Returns are net of expenses and fees. Performance related information provided here is not verified by SEBI.

[#]TRI is Total Return Index – includes returns from dividends received

“Link to performance relative to other portfolio managers” - <https://tinyurl.com/549h8kb6>

Note: Returns of individual clients will differ from the above numbers based on the timing of their investments. The above returns are on the consolidated pool of capital.

COMMENTARY

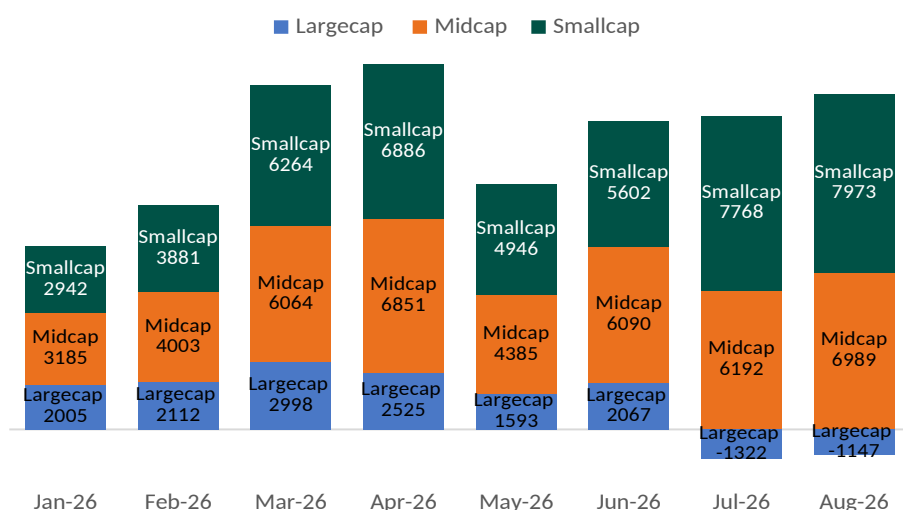
Our portfolio returned -2.5% in Q2 FY27. During the same period, the BSE 500, Nifty 50, and Nifty Midcap 100 indices generated returns of -3.6%, -4.9%, and -3.8%, respectively. As of 30th September 2026, we had a 93.4% equity exposure in the PMS on a consolidated basis. Our portfolio companies reported a median YoY profit growth of 19.4% in Q1 FY27.

THE IRRESISTIBLE SIREN SONG OF RECENT RETURNS

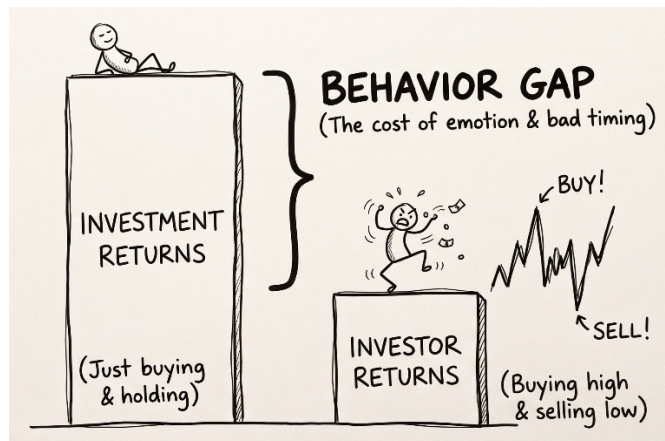
In Homer's Odyssey, the Sirens used their beautiful, enchanting music to lure sailors to shipwreck their boats on rocky coasts. In financial markets, recent returns act as a siren song for investors. Every few years, a specific sector or theme catches fire and funds exposed to it post jaw-dropping returns (AI-capex now, IT/Pharma during Covid). Inevitably, a wave of capital flows into these "hot" funds while funds going through a period of underperformance see capital redemptions. We see this happening currently, with small and mid-cap funds attracting disproportionately large inflows while large-cap funds see little interest from investors.



Monthly Mutual Fund Inflows (₹ Crores) - Source: AMFI



This behavior is the financial equivalent of driving by looking only in the rearview mirror. It has a devastating impact on investor wealth, a phenomenon known as the "Behavior Gap". The Behavior Gap is the difference between the returns a fund generates and the returns investors actually take home. Because investors pour money in after the fund has already gone up (buying high) and pull their money out after the fund has suffered a drawdown (selling low), the average investor's return is almost always significantly lower than the fund's reported time-weighted return.



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Below, we discuss why this happens and what investors and fund managers can do to minimize it.

The Making of a “Hot” Fund

When a fund posts exceptional returns, it triggers a self-reinforcing flywheel of attention and capital.

When an investor sees a fund up 40% over the last year, their first reaction isn't usually a sober analysis of the source of the fund's strong returns. It's the painful realization that someone else is getting rich while they are not. Good recent performance attracts significant attention from the financial media, existing investors, and industry peers. Social media and dinner-table conversations become dominated by the fund's stellar performance. The buzz forces everyone to sit up and take notice. It creates intense FOMO, leading investors to blindly pour money into the fund simply because “everyone else is doing it”. Tech platforms with features like “Top Performing Funds” leaderboards and 1-click investment options act as algorithmic amplifiers, making it easier for investors to impulsively chase recent performance.

Fund managers also use the opportunity generated by the media and investor attention to drive flows. The marketing department shifts into overdrive to capitalize on the buzz. Suddenly, the fund manager is everywhere, from CNBC shows and popular financial podcasts to conference panel discussions. The fund's top ranking over the short-term is widely marketed for everyone to take note of. The communication often seems to suggest that the fund's success is driven by the presence of some secret sauce that others lack. In reality, recent strong performance is often driven more by luck than by skill. However, the role of luck is rarely emphasized.

Institutional constraints of wealth managers and financial advisors also drive flows into ‘hot’ funds. As their employees are evaluated mostly on short-term returns, it is a “career risk” to not allocate capital to the currently most popular funds. Relationship managers also face similar pressure from clients.

The Brutal Punishment of the Unpopular

On the flip side is the harsh treatment meted out to funds experiencing a dip in performance. The financial industry is unforgiving of short-term underperformance, even when evaluating managers with decades of proven success.

When a fund underperforms for a few quarters or a couple of years, the narrative changes with dizzying speed. Investors lose faith. The manager is suddenly branded a "has-been", someone who is "behind the 8-ball", or too "rigid" in their thinking. The consensus becomes that they have "missed the bus" on the new wave of innovation or the new market paradigm. We have seen this happen even to legendary investors with stellar long-term track records.

In the late 1990s, Warren Buffett significantly underperformed the market as loss-making or barely profitable tech companies soared. The business news media suggested that the Oracle of Omaha had lost his touch and didn't understand the wonders of the internet. Barron's ran a cover story titled "What's Wrong, Warren?" in December 1999. The dot-com bubble burst shortly thereafter.



In India, Prashant Jain, the former CIO of HDFC AMC, faced similar questioning when his funds underperformed due to high exposure to PSUs. His approach was considered outdated in a world where quality was all that mattered. He was eventually vindicated when the cycle turned. However, this was only after impatient investors pulled out thousands of crores from HDFC AMC's funds.

Another reason for this behavior is that many investors suffer from outcome bias. They judge the quality of a decision purely by its recent outcome, completely ignoring the underlying process. Investing is probabilistic. A fundamentally sound investment process that does well over the long-term will still have long periods of underperformance. Meanwhile, even a bad process will often deliver superior returns over shorter periods. Investors who cannot judge the quality of the process end up relying on flawed metrics like 1-year or 3-year returns to make decisions.

Bridging the Behavior Gap

To survive the Sirens, Odysseus ordered his crew to plug their ears with beeswax to block the siren song, and he had them tie him tightly to the ship's mast. Investors and fund managers must apply similar discipline to minimize the behavior gap.

Investors can apply the metaphorical “beeswax” by shutting off financial news media that amplifies short-term noise. Investing using automated plans like SIPs can potentially reduce the impact of impulsive FOMO-driven decisions. Pre-committing to redeem from a fund only after a sufficiently long investment period (~10 years) will ensure that short-term underperformance doesn’t impact redemption decisions.

Fund managers also have a fiduciary duty to protect investors from their own behavioral biases. They can do this by aggressively managing expectations. They should use their communication to educate, not to boast. They can consistently stress to their investors that recent outperformance involves luck, that short-term returns are largely noise, and that large drawdowns are inevitable. If the market is frothy and they cannot find enough attractive opportunities, they can communicate this clearly. This will reduce the speculative capital inflows that merely chase recent strong performance. If even this proves inadequate, fund managers have the most powerful tool of saying “no” to investors and hard-closing the fund.

For fund managers, some of these options are difficult to implement because they conflict with their personal goal of maximising assets. However, in our view, fund managers who do this will, over time, earn greater trust of investors. They will also be spared the wrath of investors who get lured into investing by the siren song of recent returns and suffer subsequently.

If you have any queries (about your portfolio, 2Point2 Capital or investing in general), do reach out to us at the below coordinates. We would love to talk.

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Thanks and Regards,
Savi Jain & Amit Mantri