Electrum Portfolio Managers Private Limited*

Electrum S.C.A.L.E Strategy – January 2026

Objective

Electrum SCALE strategy is designed to capture young, yet established businesses positioned for significant expansion. We focus on companies that have successfully navigated their early growth stages and are now poised to become market leaders or challengers. This allows us to mitigate the execution risk associated with earlier-stage growth. We find these opportunities mostly among small and mid-sized companies, with a few notable exceptions among larger companies.

S.C.A.L.E stands for:

Scalability
Cash Generation Potential
Agility to navigate a dynamic business landscape
Longevity
Execution track record

Key terms

Scheme: Electrum S.C.A.L.E
Benchmark: BSE 500 TRI
Min. Investment: Rs 50 lakhs
Strategy type: Open ended
Exit Load : 2% in case of partial / complete withdrawal before 1 year of account opening

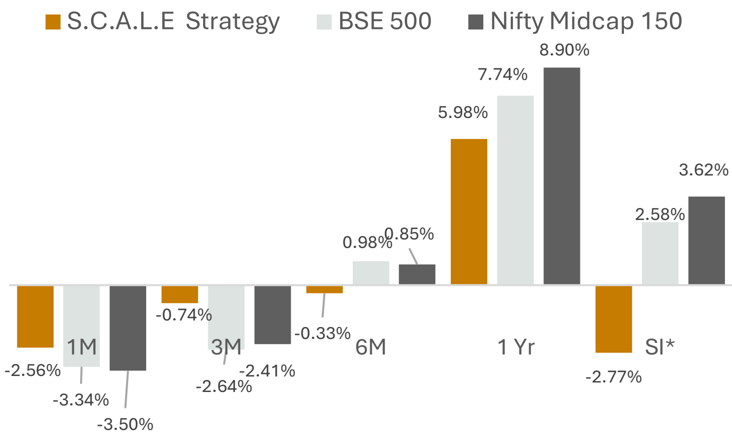
Market Summary

Market Overview

January month was another difficult and volatile month based on various macro factors mainly US invasion on Venezuela, increased ownership narratives on Greenland and heightened issues between US and Iran. This led to decline in markets in January month mainly due to heightened geopolitical uncertainty. This led to sharp outflows by FII's leading to Rupee falling to all time low of Rs 92. The FII's were net sellers of -$3260 mn while so far in Feb 2026 they turned net buyers as soon as we saw US India agreed for a trade deal.

On the positive side India and USA agreed to sign FTA with rates coming down to 18% from present 50%. Headline index rallied 2.5% while small caps rallied around 3%. The deal signing is yet to happen and sector wise details are yet to come out. We believe markets will need further clarity sector wise for the rally to sustain. However, this news changes the market sentiment, and we believe we may now start seeing sustained inflows by FII's too. This agreement clears up a major hangover on the market. With lower tariffs, we expect capital flows to recover, ease current account deficit and ease pressure on rupee. Going ahead while the US India FTA may get concluded however we need to see the fine prints. Till the time geopolitical uncertainty remains markets may remain worried and volatility may continue although with lower intensity.

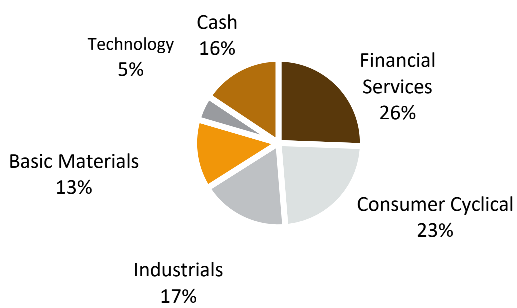
Electrum S.C.A.L.E Performance:



Returns as on January 31, 2026	1M	3M	6M	1 Year*	Since Inception**
S.C.A.L.E Strategy	-2.56%	-0.74%	-0.33%	5.98%	-2.77%
BSE 500 (TRI)	-3.34%	-2.64%	0.98%	7.74%	2.58%
Out/(under) performance	0.78%	1.90%	-1.31%	-1.76%	-5.35%
Nifty Midcap 150 (TRI)	-3.50%	-2.41%	0.85%	8.90%	3.62%
Out/(under) performance	0.94%	1.67%	-1.18%	-2.92%	-6.39%

Annualized Return* * Since Inception Date 27/11/2024*

Top Sectors



Portfolio Attributes	FY26E	FY27E	FY28E
PE	28.3	18.6	14.5
ROE	15%	17%	21%
D/E	1.79	1.63	1.49

Union Budget key takeaways

On the Budget front, the Union Budget stayed the course on fiscal consolidation, even as the pace of capex moderated, given the revenue constraints. The capital expenditure is budgeted to grow at 11.5% to Rs12.2 lakh crore for FY2027BE. Lower tax revenues have led to slightly below estimated capex expenditure. Below tables shows the capex growth in important segments:

Capital Outlay Budget 2026	FY25A	FY26RE	FY27BE	*%Change*
Defence Services	1,59,768	1,86,454	2,19,306	*18%*
Ministry of Railways	2,69,259	2,65,000	2,92,830	*11%*
Ministry of Road Transport and Highways	2,85,344	2,72,051	2,94,167	*8%*
Ministry of Power	19,714	21,588	29,997	*39%*
Department of Water Resources, River Development and Ganga Rejuvenation	20,867	18,406	19,913	*8%*
Department of Drinking Water and Sanitation	25,853	23,031	74,895	*225%*
Nuclear Power Projects	2,244	1,333	2,500	*88%*

There were no major changes in direct taxes or capital gains which may have benefitted the middle class and investors, however a sudden increase in STT on F&O impacted the already weak market sentiments. This will lead to negative impact on volumes for exchanges and broking companies alike.

Portfolio review

The ongoing market correction has been most severely felt in smaller companies. The below table shows the median, average, best, and worst returns of the constituents of the Nifty Smallcap 250 Index bucketed by their market capitalisation:

Market Cap	No. of Stocks	Median	Average	Best	Worst	% of stocks with negative returns
>20k cr	60	6.3%	16.5%	140%	-42%	42%
15-20k cr	50	-12.0%	-2.6%	183%	-46%	62%
10-15k cr	76	-12.9%	-11.1%	86%	-60%	75%
0-10k cr	50	-37.6%	-36.3%	-4%	-79%	100%

Note: *Returns for the period 02-Sep-2024 to 31-Dec-2025; excluding for 14 stocks for which beginning of period price data was not available. Market capitalisation as on Jan 13, 2026. Source of underlying price data: Google Finance*

As the table above shows, larger (higher market-cap) stocks in the index ended the year with positive median and average returns, while smaller stocks ended the year with negative returns. Importantly, both the proportion of stocks with losses and the depth of those losses increase lower down the market-cap spectrum. Thus, the correction was severely felt in smaller market-cap stocks within the index which is more representative of a small-cap portfolio like ours.

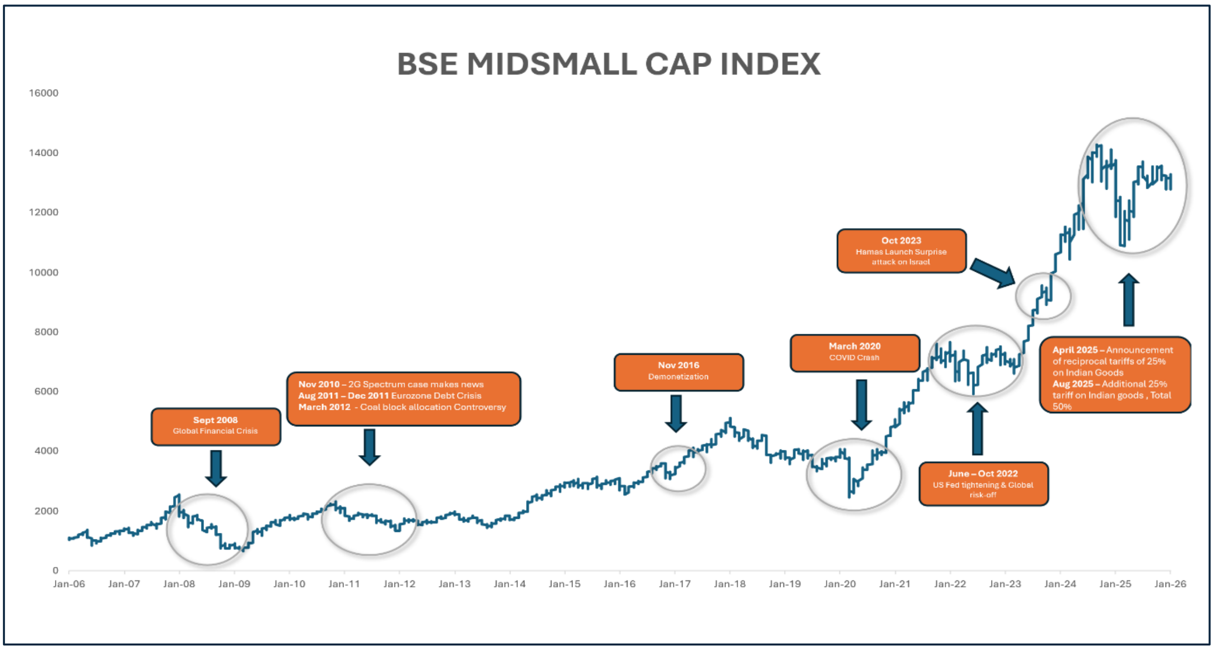
In our view, current prices in the small cap segment offer attractive risk-reward opportunities compared to most midcaps. Therefore, our portfolio is tilted more towards small cap holdings compared to midcap names, with the weighted average portfolio market cap being in the mid-to-late 20,000cr bracket.

Our current holdings are a good mix of businesses with steady earnings growth and some with an expected turnaround in the earnings trajectory. Steady earnings growth with reasonable starting valuations provides a compounding characteristic to the portfolio over time. Opportunities with anticipated turnaround in earnings usually tend to be mis-priced by the market due to its focus on the near-term earnings trajectory which may be below par. This provides investors with a long-term horizon the opportunity to enter such positions at relatively low multiples of earnings. Thus, when the earnings turn, there is a dual benefit of a sharp growth in earnings as well as a re-rating of valuation multiples. Such opportunities demand a longer investment horizon as a turnaround in earnings usually takes time, and the market also waits for consistent delivery of a few quarter before re-rating such stocks meaningfully.

Thus, with a combination of steady earnings growth and few turnaround cases, we believe that portfolio is well position to deliver strong long-term returns, although in the short term the returns may be more volatile.

Historical negative events and indices in charts

As we can see from the chart below the midsmall cap index has been volatile and experienced sharp drawdowns in negative events (which cannot be timed), but the subsequent rallies in ensuing years have been sharper than earlier rallies and after all major negative event indices have made new highs.



We have seen various negative events since 2000. All these events were different from each other and had varied complexities. These instances have seen equity markets correct with small midcaps witnessing greater fall. However, as stocks became attractive and these events passed, equity markets witnessed substantial gains in ensuing years and every time indices made a new high. We would like to offer a similar takeaway in the current scenario. Every negative event will look scary and complex at the same time and will offer similar uncertainty while we are in it. However rather than panicking out of the situation one can learn from past events and stay put. Every time some negative event happens, small caps will go down the most due to low liquidity (there may not be any problem in respective companies) and every negative event will look more dangerous than earlier one. Hence buying with conviction and staying put during the event becomes difficult.

Conclusion

We urge investors not to look at last 1-year returns as they can be misleading. We are passing through an uncertain and crisis situation and hence abnormal in nature. Markets do correct in such period with small midcaps performing even worse. *Legendary investor John Bogle has said "If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks." A 3 year view at least is necessary for judging the performance.* The objective of our fund is to compound at reasonable rate of return for long periods like 5-10 years rather than 1-2 year perspective. In the long term any negative issues even out (like tariff issue currently, these may not be permanent) and markets dance to the tune of earnings growth, longevity of earnings, balance sheet strength and strength of the management.

"There are decades where nothing happens; and there are weeks where decades happen"
--Vladimir Ilyich Lenin. J Hepatol.