east green

Dear Investor!

Hope this letter finds you and your family in the best of health. East Green began its PMS operations in July 2023 after running a successful advisory business for more than three years. We are happy to share our inaugural quarterly review here.

The East Green Story:

The founders of East Green are friends from business school who share a passion for investing and have been involved in the equity markets in various capacities for over a decade. East Green started operations as an investment advisory in February 2020. The advisory was run on a model portfolio basis for a period of more than three years during which our CAGR was 35% (pre fee) vs 13% for BSE 500 (benchmark).

During this period, the equity markets witnessed various crests and troughs. Right at the time of inception, we had to grapple with the COVID-19 pandemic with its negative impact on life, economy and markets. As concerns over COVID-19 abated and with various stimuli by governments globally, markets saw a sustained rise for multiple quarters. This was followed by expected inflation and monetary tightening resulting in a bear market in the next few quarters. It gives us satisfaction to report that our investment process backed by disciplined risk management was able to maximise on the upswings while protecting capital during periods of downturn.

The advisory was finally wound down as we transitioned to a PMS in 2023.

Our Investment Philosophy and Process:

East Green's investment philosophy is centred around buying quality growing businesses in trending sectors of the economy while maintaining extremely disciplined risk management. While selecting stocks for our portfolio we are on the lookout for high-quality companies with sustainable growth potential and good corporate governance. We avoid companies with complex business models or questionable management practices. We are also very quick to modify our portfolio as per market conditions - portfolio churn is not necessarily bad.

A. Portfolio process - Our portfolio process follows the below steps
    - Idea generation: Quantitative and qualitative analysis to identify potential investment ideas
    - Stock selection: Focus on market leadership, earnings growth, financial strength, and ethical management

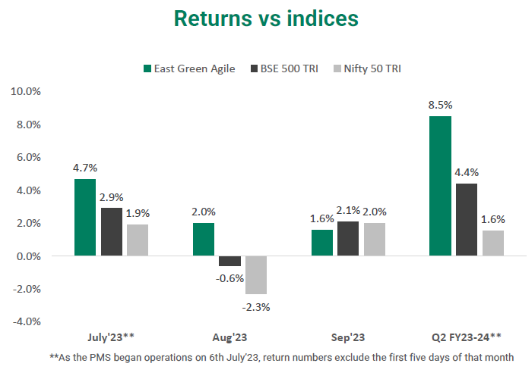
- Portfolio construction: Consider sectoral limits, risk management, and market conditions
- Exit position: Triggers include adverse fundamentals, risk management red flags, and better stock discoveries

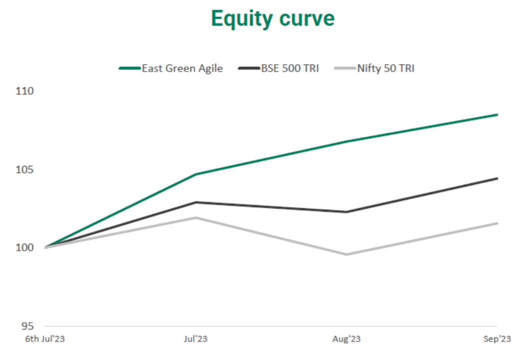
B. Risk management framework
   - Stock-specific risk: Avoid illiquid stocks and stocks that are highly overvalued/extended; exit positions before small downfalls turn big
   - Portfolio-level risk: Maintain sectoral caps and control the total risk of the portfolio to limit drawdowns; build individual portfolios in a staggered manner to mitigate impact of short term market variations

PMS Performance:

East Green's PMS began operations on 6th July 2023. Return for East Green's Agile strategy from inception till the end of September 2023 is 8.5% (post fee and expenses) vs 4.4% for S&P BSE 500 TRI (benchmark) and 1.6% for Nifty 50 TRI.

In this period, our Sharpe ratio was 3.96 and Sortino ratio was 4.51, implying a superior return not just when compared with major market indices but also on a risk weighted basis.





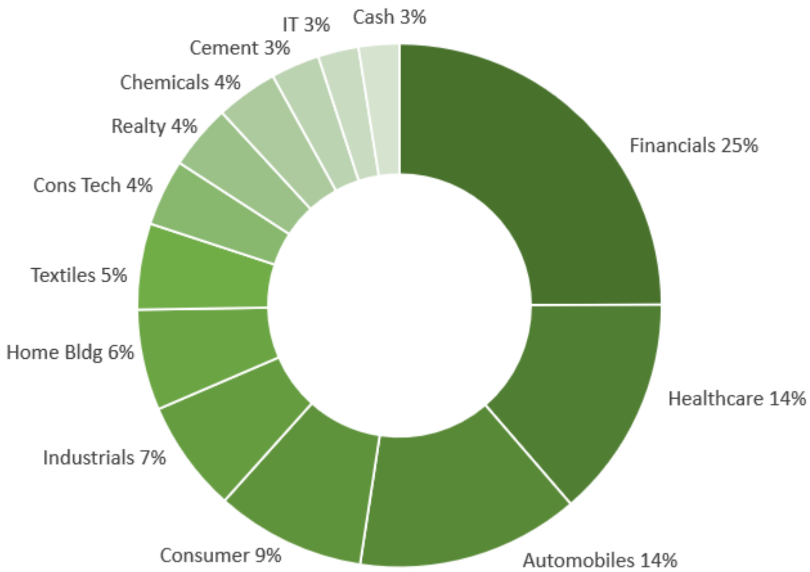
Beta: 0.79	Sharpe ratio: 3.96	Sortino ratio: 4.51	Max drawdown: 2.21%

Note: East Green return numbers mentioned here are time weighted and are calculated net of all fees and expenses. These have not been verified by SEBI. Additionally, performance of individual client portfolios may differ during the period.

Note: Individual portfolio returns may differ depending on time of investment and subsequent capital addition/withdrawals

Portfolio Overview:

East Green's client portfolios are invested across sectors and company sizes (multi-sector and multi-cap) at any given point of time. Our allocation is based on our reading of the earnings and valuation trends in respective sectors and stocks. Accordingly, at the end of the quarter, sectors with the largest allocation were financials, healthcare-pharma, automobiles and consumer. We had just one position in IT considering the headwinds to earnings reflected in muted guidance. We also had minimal allocation to some other sectors such as commodities and media.



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Some themes that we have invested in:

- Credit growth along with reduction in NPAs in the lending sector; our portfolio choices include lenders exposed to different sections of the economy
- Improving healthcare services in the country; our portfolio stocks include hospital chains with niches and/or significant capacity build such that operating leverage will help boost margins and ROCE
- Specialised API manufacturing and CDMO in the pharmaceuticals segment
- Upcycle in the textiles industry with reduction in channel inventory in the developed world; our stock picks are at different points in the value chain in textiles. Any FTA signed by India will act as a sweetener
- Bottoming of the chemical industry cycle; we have invested in two companies in the specialty chemicals space catering to the FMCG and textiles industries and hence different from the typical larger commodity players in the industry

Key Events and Data Points from this Quarter:

1. Positive GDP growth and robust earnings: India's GDP grew by 6%+ in Q2 FY 23-24. As per IMF projections, India's GDP growth rate is expected to be around 6.3% for FY 2023-24, which is highest among all major economies. The strong growth is reflected in business earnings.

2. Controlled domestic inflation: RBI's target inflation range is 2-6%, and the current rate of ~5% is well within the target band. Controlled inflation is a positive sign for the Indian economy and stock market. It means that the purchasing power of consumers is not being eroded, and that companies can plan their businesses more effectively.

3. Increase in IPOs: IPO filing saw an upswing this quarter. Increased IPO activity signifies a conducive investment environment and availability of capital. IPOs in new segments of the economy will lead to further strengthening of the market and will provide more choices for investors.

4. Geopolitical tensions between India & Canada: Geopolitical tensions lead to uncertainty in the markets. However, considering the relatively small size of our bilateral trade (<1% of India's total trade), the impact of India-Canada tensions was not very significant. Also, most investment from Canada to India is via their pension funds which represent patient capital and are not quick to enter/exit.

5. Improving global relations: Tensions with Canada notwithstanding, over decades India has strategically positioned itself as a partner to countries with varying ideologies and interests. The hosting of the G20 summit in India this year has further contributed to fostering improved relations with other nations. These developments bode well for the Indian economy and markets, as they create opportunities for increased trade (e.g. via Free Trade Agreements) and investments (e.g. via China+1 and India-Middle East-Europe Economic Corridor).

Market Outlook and Way Ahead:

The long term trajectories for the Indian economy and markets appear positive. The Indian economy is experiencing robust growth and is projected to become the third largest in the world by the end of this decade. Positive indicators including high GDP growth, controlled inflation, and strong investor interest in Indian markets highlight the strength and confidence in the country's economic prospects.The interest of retail investors has mirrored that of institutional investors in recent times.

Investments through mutual funds, particularly via SIPs, have remained strong even during volatile periods. Furthermore, India's favourable global relations and trade agreements contribute to the overall positive outlook for the economy.

However, it is essential to acknowledge the potential risks to the Indian economy and the equity market in the immediate future. Some of these are mentioned below.

- Global Inflation: Sustained high inflation globally can erode the purchasing power of consumers and reduce corporate profits. High inflation also forces central banks to tighten their monetary policies, resulting in higher yields.

- High and/or rising yields: The 10-year US yield is at its decadal high right now. This could remain high or even go up if inflation in the US does not come under control. Higher yields reduce economic activity (hence contractionary) and put pressure on financial institutions. There is also typically a fund outflow from emerging economies in such scenarios.

- US recession: Contractionary monetary policy is aimed at slowing down economic activity which can result in a recession. Although the US experienced a technical recession a year back (implying two consecutive quarters of negative growth), the real world impact of that was minimal. There is prediction of a strong recession (an actual one!) in the US in the next few quarters. If that happens, economies and equity markets globally will be negatively impacted.

- Geopolitical tensions: War in Ukraine continues while a new conflict has begun in the middle east. These situations are unpredictable and can spiral into larger conflicts if more countries get involved. Along with the obvious human tragedy these result in economic hardships and commodity price inflation.

- Elections: Markets love predictability and order. Lok Sabha elections are due in 2024 and this creates uncertainty about the new government and its economic policies. This can lead to short term volatility in the market.

As usual, the market offers multiple opportunities while certain risks remain on the horizon. At East Green, we diligently monitor market opportunities and risks to safeguard your investments and ensure sustainable portfolio returns.

We appreciate your trust and look forward to continuing our successful partnership of wealth creation.

Best Regards,
East Green Advisors LLP

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