east green

Dear Investor,

We hope this letter finds you and your family in the best of health. As we begin the final quarter of the financial year 2023-24, we are pleased to share our performance and discuss the state of the market.

The Indian equity markets right now are at an all-time high, with almost every alternate day marking a new high for Nifty and other indices. While there are some small cap funds which are proactively stopping new inflows, we prefer to adopt a more informed approach.

It is like the story of two explorers venturing into the unknown: one, a lone ranger relying on maps and gut instinct. The other, part of a buzzing beehive, navigating with shared maps and synchronised dances. Both seek the hidden treasure, but their tactics differ wildly.

Independent investors, like lone rangers, rely on personal research and instincts. They sift through news, hunt for hidden gems, and take calculated risks. Success hinges on their personal compass and the courage to forge their own path. But navigating alone can be perilous. Blind spots abound, whispering rumours might go unheard, and sudden storms can leave them exposed.

The beehive, on the other hand, represents the power of collective intelligence. Each bee, though limited in knowledge individually, contributes to a synchronised dance, sharing information through subtle vibrations and harmonious movements. This hive mind paints a richer picture of the jungle, revealing hidden paths and potential dangers far beyond any single bee's reach.

Investors who listen to this market buzz, analyse data, and collaborate with fellow participants, benefit from shared awareness. It's not about abandoning all individuality. Each investor brings their unique set of skills and critical thinking to the table. But within the beehive, insights are amplified, blind spots minimised, and the chances of reaching the treasure are exponentially increased.

At East Green PMS, we embrace both solo spirit and hive wisdom, encouraging independent analysis in a collaborative environment. Remember, in this jungle, even the most resourceful loner can benefit from the harmonious wisdom of the beehive. That’s why we don’t discount what other investors are doing and we also actively listen to what the market tells us.

Let’s look at an example of how this pans out in real life.

Many investors rotate their portfolio between large caps and mid caps based on the ratio chart of Nifty50:CNXMidcap. This means that they buy mid caps when they are relatively weaker than large caps and buy large caps when the conditions are reversed. The following chart shows the tight range in which this ratio moved between 2021 and 2023.

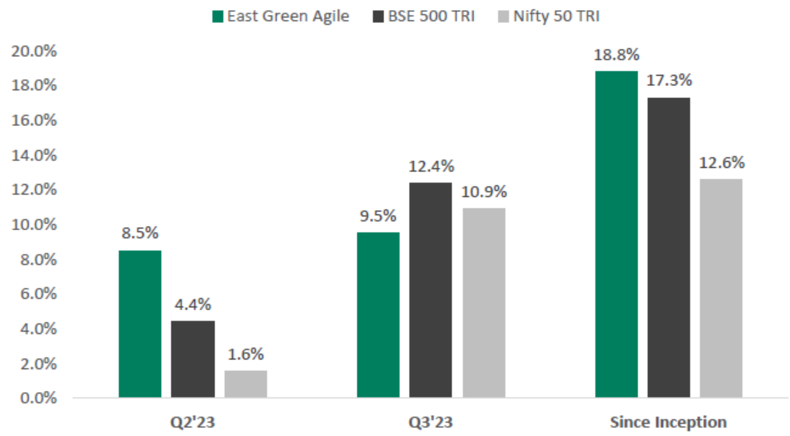
As shown in this chart, one would have shifted from mid caps to large caps in the first week of June 2023. Now, let’s see how Nifty and Midcaps moved after this.

Nifty return from the 1st week of June 2023 to 2nd week of Jan 2024 is 16.5% whereas for CNX Midcap it is 39%. So, if one behaved like an independent investor a.k.a. lone ranger, this contrarian thought would have yielded subpar returns, compared to the scenario where the investor had listened to the market and had just followed the trend.

PMS Performance

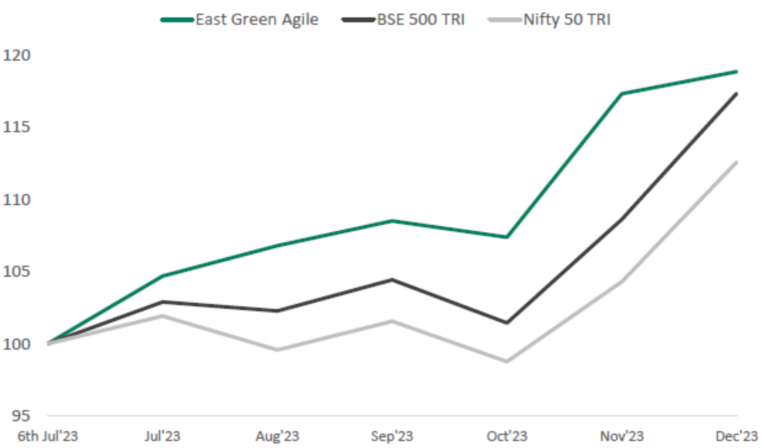
East Green's Agile strategy continued its strong performance in the third quarter of 2023 (October to December), delivering a return of 9.5% (post fee and expenses). Since inception in July 2023, our Agile strategy has delivered a return of 18.8% (post fee and expenses) compared with 17.3% for the S&P BSE 500 TRI (benchmark) and 12.6% for the Nifty 50 TRI in the same period. Our Sharpe ratio for these two quarters was 3.33 and Sortino ratio was 3.49, implying a superior return not just when compared with major market indices but also on a risk weighted basis.

Returns vs indices**



**As the PMS began operations on 6th July'23, return numbers exclude the first five days of that month.

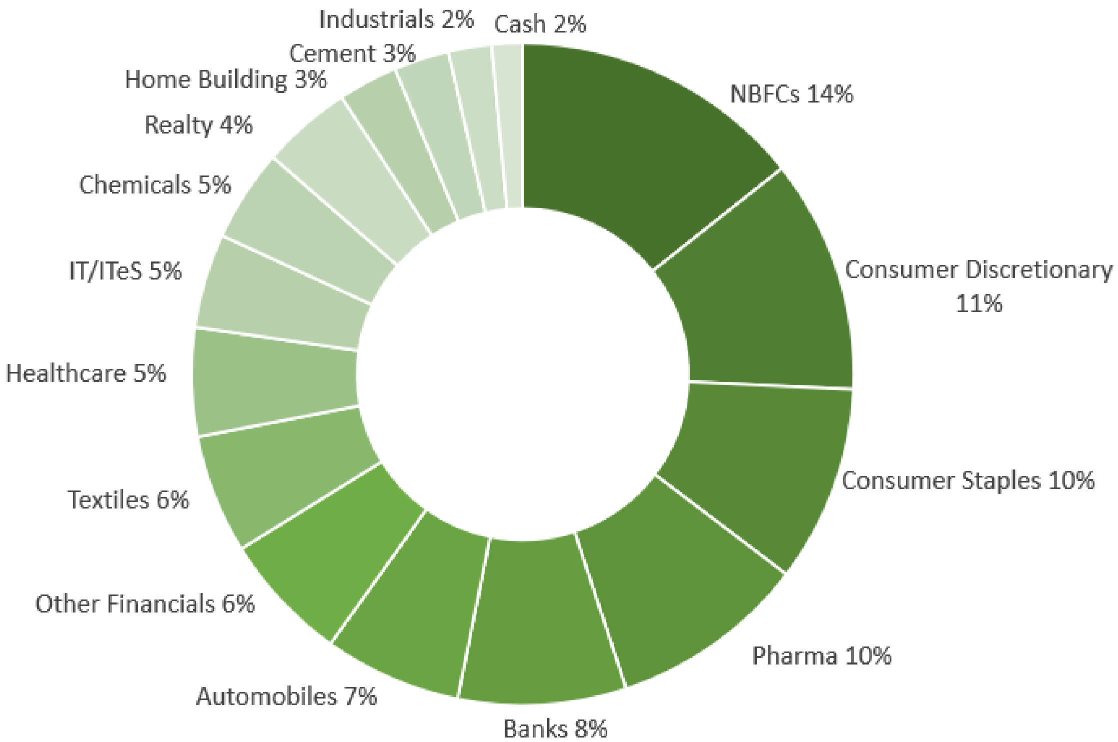
Equity curve



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.

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 earnings growth and sectoral trends. Accordingly, at the end of the quarter, sectors with the largest allocation were financials, consumer, and healthcare-pharma.



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

Key changes to the portfolio this quarter:

1. We invested in a dairy products company to benefit from the rebound in milk prices and stabilisation of costs.

2. In the finance space, we added a large player in the home finance segment that has historically enjoyed best in class asset quality and was available at an attractive price due to a temporary business hiccup. We also invested in a company that caters to the mutual fund industry and is likely to benefit from increasing equity fund flows.

3. In the consumption theme, we invested in (i) a fashion/apparel company, (ii) a footwear and lifestyle brand that was spun off from its parent company, and (iii) a north India based packaged foods maker that is increasing its distribution and brand footprint.

4. As a part of our risk management process, we booked partial profits in a few stocks which had run up quickly. We will continue to maintain our remaining positions in these till the businesses keep performing and valuations are not stretched.

5. Finally, we exited stocks which had a downgrade in their growth guidance due to challenges in sections of their business.

Key Events and Data Points from this Quarter

1. Positive GDP growth and robust earnings: India's FY 23-24 Q3 GDP growth is estimated at 6.5%. As per projections, GDP growth for India is expected to be above 7% for FY 23-24, which is the highest among all major economies. The strong growth will be reflected in business earnings.

2. Controlled inflation: Projected inflation rate for India in FY 23-24 Q3 is 5.6%, which is within RBI's target range of 2-6%. Inflation in the US is also showing signs of plateauing although it is still above the stated target of 2%.

3. Continued strength in IPO filing: 25 new companies got listed this quarter and barring a few, all listed at a good premium to their offer price. Increased IPO activity signifies a conducive investment environment and availability of capital, although there are signs of irrational exuberance as well. IPOs in new segments of the economy will also provide more choices for investors.

4. State Elections: Elections were held in Rajasthan, Chhattisgarh, Madhya Pradesh, Telangana, and Mizoram. The results of these elections positively impacted the stock market as the ruling government at the centre got elected in three states out of five.

Market Outlook and Way Ahead

As we reflect on the last quarter’s robust performance in the Indian equity markets, the burning question for most investors remains: "How long will this rally last?" December witnessed consistent highs for Nifty and other indices, underscoring the market's strength and resilience.

The optimism in the markets is rooted in various factors pointing towards a positive trajectory for the Indian economy and markets. Projections indicate India becoming the world's third-largest economy by the end of the decade. This will be driven by robust growth, controlled inflation, and sustained investor interest. Both retail and institutional investors demonstrate confidence, with mutual fund investments, particularly through SIPs, maintaining strength even during volatile periods. Additionally, favourable global relations and trade agreements contribute to the overall positive economic outlook.

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

- Global Inflation: Recent data from the US suggests softening of inflation. Commodity prices have reduced. However, increase in public spending around elections in the US and/or unresolved geopolitical crises could lead to a rebound in inflation.

- Possibility of US recession: There is typically a lag between initiation of monetary contraction and the beginning of recession. In the past, recessions have begun when the yields started falling. Due to this, many analysts are fearful that a major US recession might be ahead of us. Although the US GDP growth rate continues to be robust (above 5% for the recent quarter) for now, the risk of a US recession remains.

- Froth in certain sections of the market: Stocks in many segments have seen a sharp upswing in this financial year and there is a high probability of correction in such names.

- 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 is likely to 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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