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Dear Investor,

We hope this letter finds you and your family in the best of health. FY23-24 saw robust returns across various sectors reflected in the leading indices as well. This was welcome after a rather tepid FY22-23 and came on the back of improved earnings as well as investor interest. To end the fiscal, we had a somewhat volatile fourth quarter. The volatility wasn't very high from the vantage point of the Nifty, but in the broader markets there were significant corrections in many names. Multiple uncertainties led to this, which we will talk about below, but important in such circumstances is the approach of the fund manager. At East Green, we lay a great emphasis on risk management and capital protection and hence are ready to sacrifice a few bps of performance in such circumstances which we can more than make up as the market uncertainties subside.

With that in mind, let us look at the key themes impacting the markets this quarter:

<u>Macroeconomic and geopolitical uncertainty</u>: US inflation has remained unrelenting and in such a situation, the Fed has been unable to reduce rates. The ripples of high yields have in turn been felt globally, e.g. the Yen has depreciated considerably, and commodity prices have rallied. The yield curve stays inverted, and this has never ended well! There are increasing noises about stagflation in the US. Meanwhile there is always some geopolitical crisis looming on the horizon. If not in Ukraine, then in the Middle East.

<u>Growth and capital expenditure</u>: India is the fastest growing major economy right now with FY24 and FY25 GDP growth expected to be between 6.5-7%. This is reflected in the earnings of many sectors. Capex by both government and industry has also been strong. However, consumption, particularly in rural India remained subdued.

<u>Financial system's health</u>: The health of India's financial system has never been better. From record high NPAs a decade ago, our lenders are now sitting with record low NPAs. This augurs well for continuation of capex led growth. The regulators have been extra cautious and have been quick to penalise lenders for any deviations.

<u>Foreign Institutional Investor (FII) selling and rise of the domestic investor</u>: In the past, individual investors were often ridiculed for pulling money from the market at exactly the wrong times. However, in the past few years, retail investment in equity markets has shown signs of maturity, evidenced by regular SIPs in mutual

funds. Domestic money has been driving the market for many quarters now and FIIs have been net sellers. In the short term, there are two sides to this coin – (i) The run up in stocks will lose steam soon because domestic money can only do so much, (ii) It's only a matter of time before FIIs return and then the real rally will begin. However, structurally, rising participation of households in the equity market is certainly a massive positive.

Elections: As we write this, Lok Sabha elections have begun. Any prospective change in political leadership or a lack of clear mandate creates short term uncertainties, which markets universally dislike.

For the ~9 months under operation in FY24, East Green PMS posted a robust post fee return of 19.8% (since July 2023, when we began operations). This is 2.8% points lower than BSE500 TRI, but 3.9%points higher than Nifty50 TRI. The underperformance vs BSE500 TRI is mainly due to the emphasis on risk management this quarter, as explained in the first paragraph. We stayed true to not going below a certain threshold in business quality and growth prospects while selecting stocks for the portfolio. There were some things that we did well this financial year and there were certainly some misses too.

What we did well?

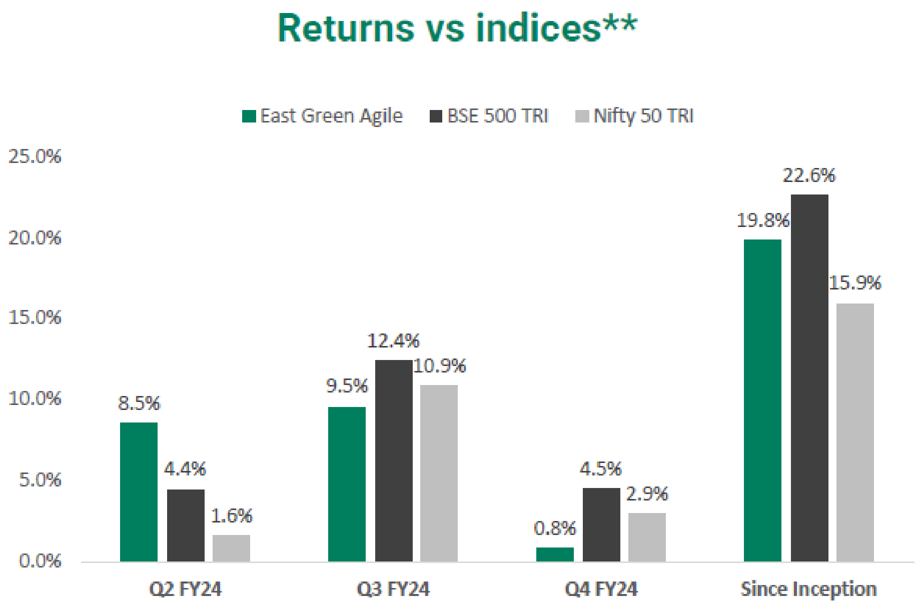
- We dynamically trimmed or added weights to existing positions based on risk-reward presented by individual stocks
- We were ruthless in exiting stocks where fundamentals/regulations changed for the negative
- We were able to pick good winners and ride them in banking, healthcare-pharma and real estate

What could have been better?

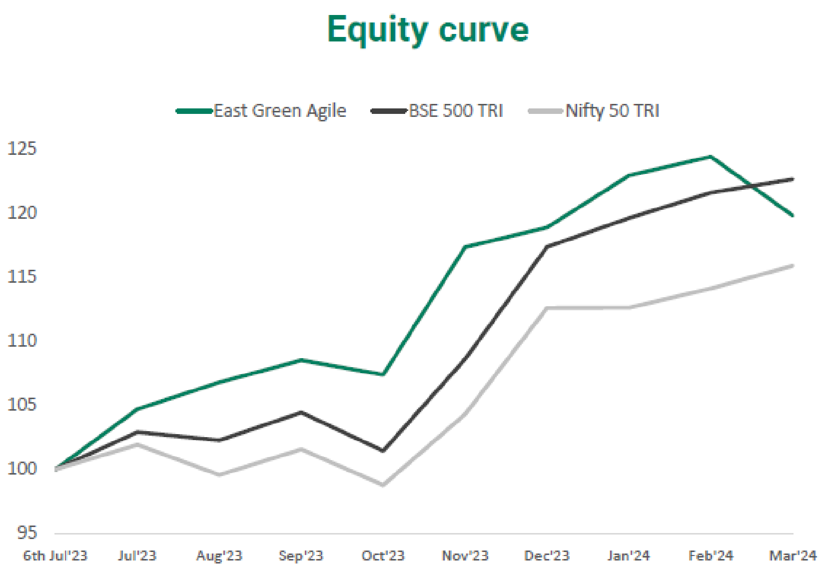
- We completely exited some winners when their valuations got stretched avoiding some correction but, in the process, missed out on further upside; as a process we will try to avoid this unless the fundamentals themselves completely change
- We may have been a little early in entering a couple of stocks, where the recovery prospects flattered to deceive for 1-2 more quarters than what we had expected
- Since our investing framework lays great emphasis on growth prospects and efficient capital utilisation, our allocation to public sector enterprises was low, where we missed out on some upside due to their drastic re-rating particularly in the third quarter

## PMS Performance

East Green's Agile strategy has delivered a return of 19.8% (post fee and expenses) over the period of 6th July 2023 (inception) to 31st March 2024. This is a little shy of the 22.6% return for the S&P BSE 500 TRI (benchmark) in the same period but higher than the 15.9% return for Nifty 50 TRI. Our Sharpe ratio for this period was 1.56 and Sortino ratio was 1.75, implying a superior return on a risk weighted basis.




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




*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.*

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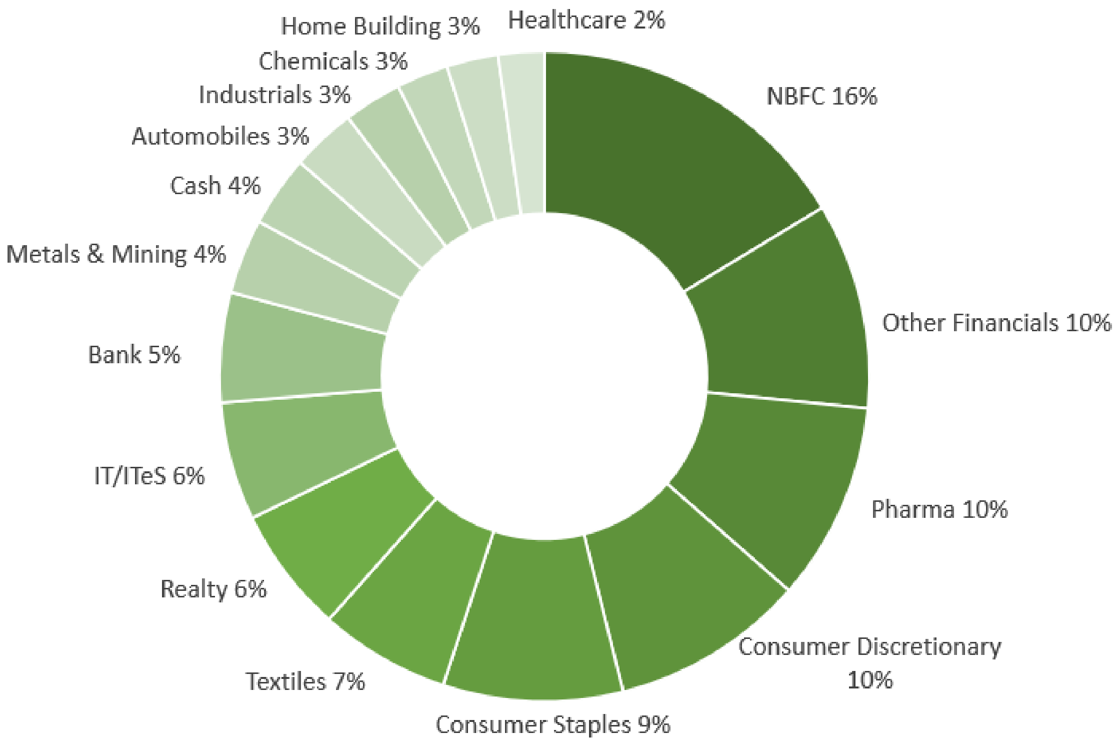
## Portfolio Overview

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 and 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 added a company providing services to the healthcare insurance sector. This is a way to play the health insurance growth story via the picks and shovels strategy rather than taking a bet directly. The company is the leading and only listed player in its space.

2. To benefit from the rising metal prices, we added a player with captive iron ore mines. Due to the backward integration, rise in iron ore prices will significantly add to the bottom-line of this company.

3. In the NBFC space, we exited a position where the company faced regulatory observations on its gold loan book, impacting its stock price. In such

situations, it typically takes time before the observations are resolved and the stock price suffers in the interim. We replaced this with another NBFC with a diversified portfolio mix. Additionally, we added a public sector company that is into financing projects in the power sector. Although the stock price of this company has moved significantly in the past year, valuation remains attractive – hence, we added this when a price correction presented the right opportunity.

4. We reduced our exposure to the hospitals space by exiting one position and reducing another. The Supreme Court has taken notice of high fees charged by private hospitals and this could create an overhang on the stock prices in the sector till this issue is resolved. Both of our positions have generated good returns for the portfolio, due to the good growth prospects of their businesses and we might have a look at these again once the matter is settled in the courts and if the entry points in these stocks are reasonably attractive.

5. Real estate sector has performed well in the past few quarters with strong demand across major cities. We booked profits in a home developer stock that had moved up sharply and initiated a position in another stock in the same space where we believe there is a better risk-reward from hereon. We maintain our position in a commercial real estate developer-operator as it continues to deliver.

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

7. Finally, we exited stocks which had a downgrade in their growth guidance to create room for those with stronger near to medium term prospects.

## Market Outlook and Way Ahead

Movement towards macroeconomic and political (election) stability will be critical for equity markets in the financial year 2024-25. While the macro picture unfolds, as fund managers, we will continue to do our job of finding good businesses at attractive prices.

One thing that we will certainly avoid is style drift. This is when fund managers waver from their stated investment strategy and objective to chase short term performance. The Indian market offers attractive opportunities for East Green's agile strategy of buying growing businesses with good corporate governance!

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

Best Regards,
East Green Advisors LLP