Dear Investor,

The first quarter of FY 2024-25 was a rollercoaster ride for investors. The results of general elections and the guesswork on the economic aftermath loomed large over the entire quarter, leading to high market volatility in the result announcement week. This event is, of course, behind us and now the eyeballs will be on budget announcements and the usual macroeconomic data prints.

East Green PMS also completed its first year of operations as a SEBI registered PMS. This is a good opportunity for us to express gratitude to our clients, many of whom have been with us from our advisory days. We will continue to work hard to deliver superior returns for you in every kind of market environment.

As lifelong students of the market, we continuously refine our approach and explore new avenues for growth. This letter talks about two significant steps we've taken to navigate this dynamic environment.

First, we've further fine-tuned our existing East Green Agile strategy. The Agile strategy marries fundamental analysis and trend following to deliver robust, sustainable returns. The strategy is now even more tilted in favour of businesses showing high growth, to benefit from the rising Indian economy. Due to favourable demographics, political stability and positive geopolitical alignment, India is expected to be amongst the fastest growing major economies in the near future too.

Second, we're thrilled to announce the launch of our East Green Quant strategy, a novel approach designed to exploit quantitative investment techniques to generate returns. This innovative strategy stems from our deep research into data driven investing - a trend that has accelerated throughout the world, although still nascent in India. In the next few pages, we discuss a bit more about quantitative investing and East Green's Quant strategy.

By taking a proactive approach, we aim to position our funds for success in this ever-evolving market environment.

Quantitative Investing and East Green's Quant Strategy

East Green initiated its Quant strategy this quarter. We, therefore, now have two investment strategies - Agile and Quant under our umbrella. Our Quant strategy uses data science to uncover profitable trends, safeguard investments, and deliver steady returns. But first let's understand what quantitative investing actually means.

Traditional Investing

For decades, investing has been largely a human-driven process. Professional investors, or stock pickers, would:

- Read company reports and financial news
- Meet with company executives
- Analyse industry trends
- Use their experience and intuition to make investment decisions

This approach relies on the knowledge and judgement of the fund manager. The experience of having seen different types of businesses over market cycles is utilised to choose winners and avoid mistakes. While this approach has its merits, it is limited by human capabilities.

Quantitative Investing: The New Frontier

Quantitative investing is like having a set of smart algorithms as your fund manager. Instead of relying solely on human analysis, we use mathematics and data science to crunch vast amounts of market and financial data.

How Does Our Quant Strategy Work?

- Gathering Data: We collect information on stocks, indices and other traded instruments from numerous sources
- Analysing Patterns: We use machine learning and data science to find patterns and opportunities in the data set
- Making Decisions: Based on this analysis, we decide what to buy, sell, hold or switch in our investment portfolios

The Key Ingredient: Factor Investing

One important component of our Quant strategy is factor investing. Think of factors as characteristics that can affect how an investment performs. For example, traditionally, the investment world recognizes four or five main factors (depending on whom you speak to) that drive future returns:

- Value: Is the company priced lower than it should be?
- Momentum: Has the investment been performing well recently?
- Quality: Is it a stable, well-managed company?

- Size: Is it a big company or a small one?
- Volatility: Does the investment's price jump around a lot?

Now, these are by no means an exhaustive list of factors that drive returns. Moreover, each of these factors have their own characteristic advantages and disadvantages in a portfolio. There is no golden rule that one can just choose the value factor or the size factor and hope to consistently outperform the market over time. The key here is to choose which factors you want to focus on, and also, when. The dominant/leading factor varies from time to time. Therefore, in our Quant strategy, we continuously analyse factors and modify the portfolio based on the dominant factor of the time. Parallelly, we continue to identify new and proprietary minor factors as well.

Why Choose Quantitative Investing?

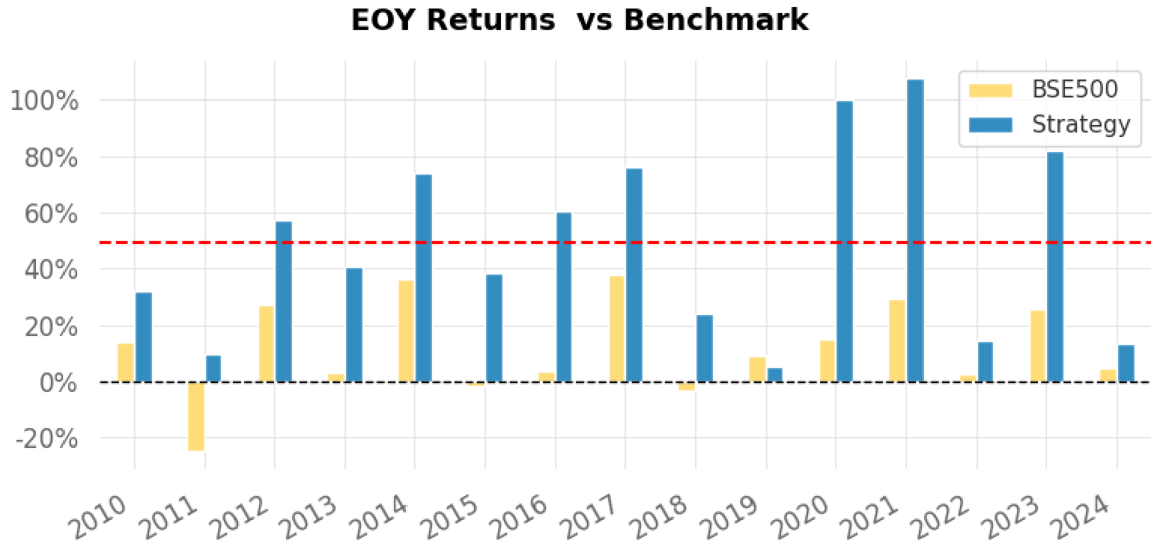
- Emotionless investing: Less human intervention means the strategy doesn't panic during market dips or get overly excited during booms (or vice versa!)
- Broader view: We can analyse thousands of investments quickly, spotting opportunities a human might overlook
- Adaptive approach: Our investment models constantly update and improve to handle changing market conditions
- Better risk management: If one analyses thousands of investment options, one can also spread the investments across multiple stocks, sectors, and asset classes, and adjust them as necessary. Quickly exiting and entering stock markets, whenever necessary, is also easier in a rule-based strategy

Who Should Consider This?

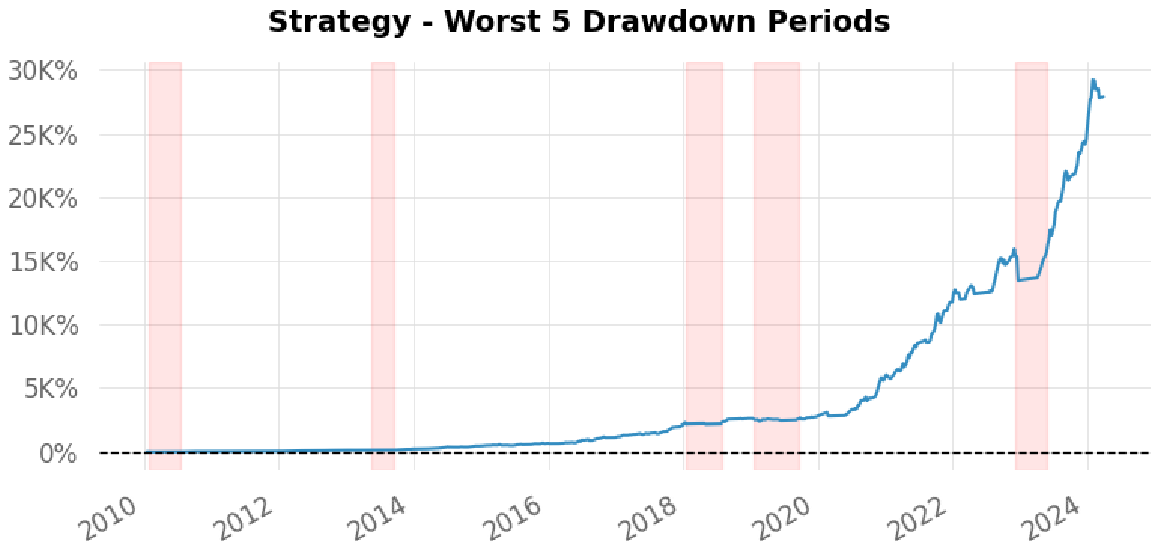
- Investors seeking a diversified, asset class agnostic, data-driven investment approach
- Those looking for long-term benchmark beating returns with potentially lower drawdowns than the benchmark
- Anyone who wants to complement their existing portfolio with quantitative investing

Backtesting performance

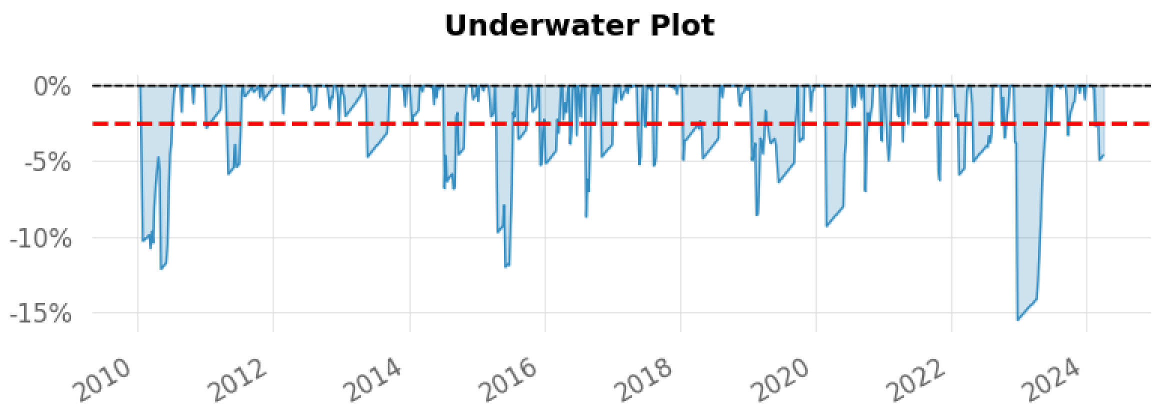
Since the Quant strategy is based on a set of mathematical rules, one can go back in time to test how this strategy would have worked historically. We did the same for the period Jan 2010 - Mar 2024 and the strategy outperformed BSE 500 and Nifty 50 by a long margin, with small drawdowns. It had a CAGR of 48% vs 11% for both BSE500 and Nifty 50 in the same period.



This shows the calendar year returns vs BSE500. It has beaten the benchmark 14 out of 15 times in this period.



The worst drawdown periods are marked on this chart.



The average drawdown is marked by the red dotted line. It had a 10%+ drawdown only 3 times in this period and took less than 6 months to recover back to a new high each time. Comparatively, the benchmark had 10%+ drawdowns 8 times and 30%+ twice, with the maximum being 34.5%.

Current performance

The Quant strategy has been live for around two and a half months since May 2024. The return in this period has been 15.6% vs 11% for BSE 500 TRI and 9.5% for Nifty 50 TRI.

Is It Perfect?

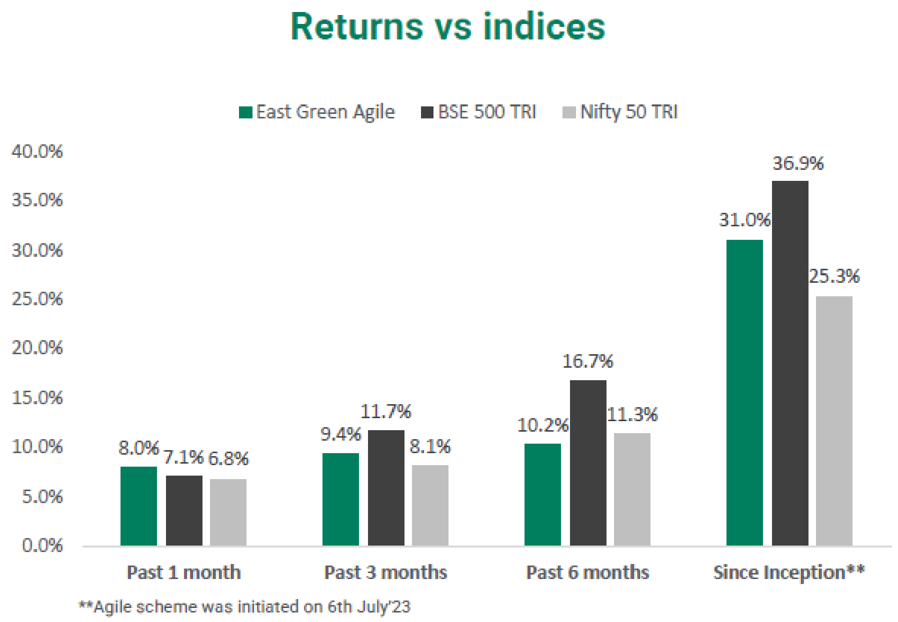
While quantitative investing has many advantages, it is not foolproof. Markets can be unpredictable, and even the best models can't foresee every possibility. That's why we constantly review and improve our methods, taking cues from the market. And having a kill switch (exit and move into cash) as part of the strategy also helps.

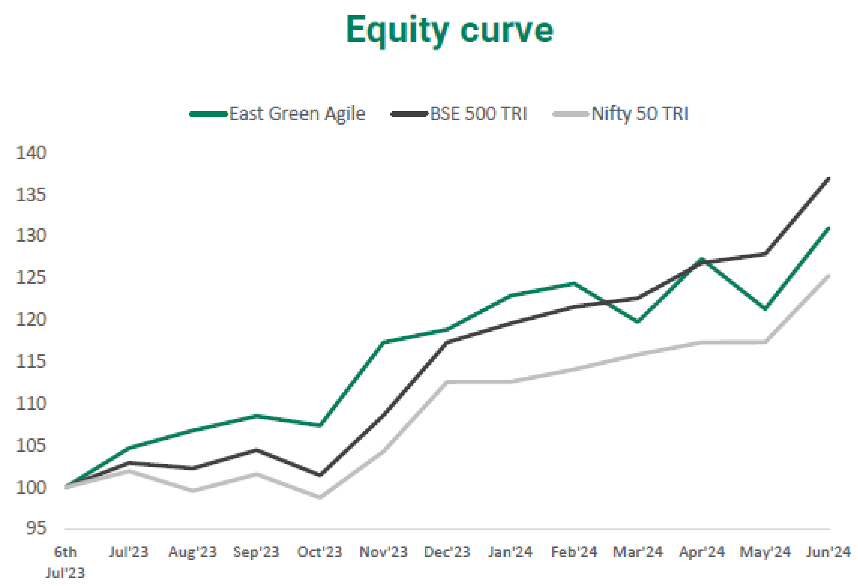
The Bottom Line

At East Green, we have combined advanced data science and our experience in financial markets. While the technology behind it may be complex, our mission is simple – help our clients achieve their financial goals.

Agile Strategy Performance

East Green's Agile strategy has delivered a return of 31.0% (post fee and expenses) since its inception i.e. over the period of 6th July 2023 (inception) to 30th June 2024. Over the same period, the return for S&P BSE 500 TRI was 36.9% and for Nifty 50 TRI was 25.3%. Our Sharpe ratio for this period was 1.55 and Sortino ratio was 1.63, implying a superior return on a risk weighted basis.





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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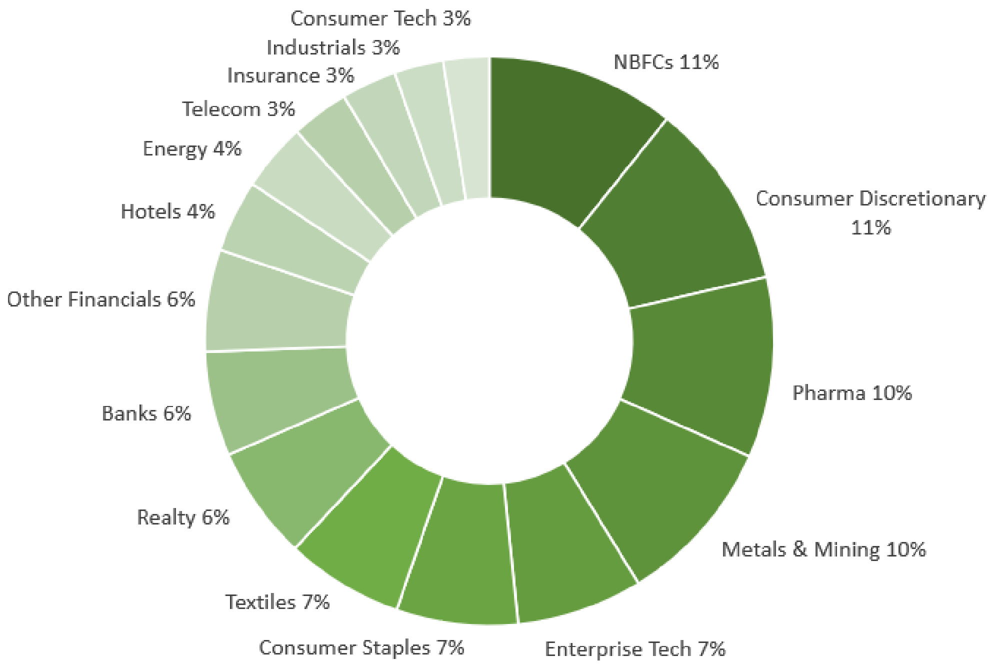
Agile Portfolio Overview

At the end of the quarter, the highest allocation was in NBFCs, consumer discretionary, pharma and metals and mining. This allocation keeps on getting changed dynamically based on sectoral trends and earnings reports.



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 in the metal recycling business. This segment is benefitting from major tailwinds due to favourable regulations and this is reflected in the aggressive growth guidance of the company. Recycling and waste management will remain an important growth area and we will keep watching this space for further opportunities as they arise.

2. We reduced our exposure to the consumer staples space by exiting an FMCG company which had delivered good returns for the portfolio. Much of the upside due to improving margins was already captured in the price, hence the exit. We also exited a company in the apparel-retailing business, as its quarterly earnings were not up to our expectations. This was replaced by a fast growing, recently listed, jewellery business.

3. In the pharmaceutical space, we exited a CDMO company whose growth guidance was below street expectations. Improvement in US biotech, a major source of revenue for the company, is likely to take longer than expected. In its place, we added an API manufacturer which presents a lucrative risk-reward opportunity from here given that negatives are already priced in and any upswing in revenue will boost profits due to operating leverage.

4. The telecom sector is seeing positivity with ARPUs rising after an almost flat decade. Also, there is some optimism that the struggles of the third player in this space might reduce due to government support and capital raising. To benefit from this trend, we have bought a position in a company that is poised to benefit from the revival of the entire sector.

5. We exited a company each in the IT and chemicals industries. In both cases, the companies had initiated raising of capital (via QIP and warrants respectively) and this action seems to have found less favour with the street.

6. We completely exited the hospital space after having reduced our exposure to this segment in the previous quarter. This is due to the Supreme Court taking notice of high fees being charged by private hospitals. Till this gets resolved in the court, there will be uncertainty impacting the businesses and hence stock prices.

7. We added positions in two asset-light platform companies with aggressive growth targets.

Market Outlook and Way Ahead

For some time now, there has been talk about high valuation multiples of the Indian market. Nifty50 is currently trading at ~21 times one year forward earnings. This is on the higher side of its usual range of 18-22x. There are certainly pockets in the market where prices seem to have run ahead of fundamentals. However, considering the strong growth prospects of the Indian economy and the increasing capital flows (led by SIPs) into the market, the upward trend may just continue further unabated. Political continuity is an added positive. There can, of course, be corrections from time to time but investors may see them as buying opportunities if the macro environment stays stable.

Barring any strong negative policy announcements, major risks to the Indian market are outside the country. We have been writing about US inflation and Fed action for some time now and that risk is not yet over since the yield curve has remained inverted for many quarters now. As investors, our job is to not pre-empt but to keep managing the portfolio in the most risk efficient manner. We will continue to do so irrespective of the market environment.

Best Regards,
East Green Advisors LLP