Dear Investor,

The investor sentiment in the market has oscillated from bullish to extremely bearish during varying times in the year. Taking a snapshot during the year, and freezing time, one would have seen an extremely optimistic view (at the time the current government won an overwhelming majority), to an extremely negative view (the time in the beginning of the year, where we were discussing uncertainty in the political regime or the crisis brewing in the Housing Finance sector). Through this period, the one thing that has not surprised is quality companies showing earnings growth.

Rewinding, 3 months back, one of my biggest worries was the governments view of the economy, with an extremely socialistic lens (I personally believe that the bedrock of growth, lies in a capitalistic mindset in the long term). With the announcement of the recent change in the corporate taxation structure, the government has shown two very important things : i) a signaling effect of intent, saying that they will take action where matters ii) increasing the demand side of the equation, will require putting money back into the economy (not just the monetary side, but fiscal side too).

While the quantitative aspects of the tax cuts, have been well discussed (around EPS numbers coming out better), to me the intent that the government has shown has more far-reaching consequences. I have been of the belief that the RBI will continue to be on an easing trajectory over the next few quarters and liquidity conditions will be loose. The biggest drag in the economy while India, as a country goes through a lending crisis in pockets, is the lack of growth of wage inflation, to boost the demand. However, as economics and market forces come into play, we are seeing the marginal player across sectors, shut down capacity and reduce inventory to balance the slowdown in demand.

Net net, I believe that we should see corporate profitability grow over the next few quarters, and the biggest beneficiaries I believe would be private sector banks, who selectively continue to gain market share.

Many of my current investors, tend to question us around the market cap of the companies we are holding – while, its unfortunate that media and the industry has benchmarked portfolios by market cap, I would urge my investors and readers to look at portfolios in terms of the nature of the business (For eg : the largest auto company be definition would be a large cap, but the largest auto-ancillary company by definition would be closer to a small cap. Understanding the underlying business, their ability to reinvest capital and generate Free cash flow, would be more important to shareholder returns than the categorization of the caps of the companies, one is investing in). I continue to be optimistic through this period and our portfolio companies continue to exhibit growth in earnings through the period of slowdown we are going through in most sectors of the economy.

During the quarter, our fund portfolio went through a few changes, were we added and increased exposure to HDFC and ICICI Bank to increase our exposure in private sector banks. We also increased our allocation to ITC, in the portfolio as a contra play in the consumption space.

As always, I take this opportunity to thank my investors who have placed their trust in us, and add capital through this period. We took a conscious decision to know each of our investors as we build out our fund AUM and its during period such as this, that our decision stands to be vindicated.

From the CEO's Desk