The current quarter (Mar – Jun 2020) has been an inflection point in the markets. We ended the first quarter (Jan – Mar 2020) in a state of disbelief with a country-wide lockdown. The ramifications on businesses and the global supply chain was uncertain, and more importantly, there was no clear time-lines around what the next course of action would be. Markets, by its very definition have not liked uncertainty, and when an uncertain period is followed by a timeline with no clear definition, it's never a pleasant time for investing.

Three months into the lockdown, we have seen a host of measures by global central banks around the world, including India. The Fed and ECB have continued their unprecedented easing and RBI has cut rates further, alongside creating liquidity for Open Market Operations. While all of the above measures, do not give any certainty to the health care concerns we face, it brings in support into a system where there is a lack of confidence and liquidity. During the second quarter, many countries in Europe have opened up and so have selective countries like HongKong and Singapore. Closer home, in India, while the situation in terms of the actual number of affected people is on the rise, the government has taken a start-stop approach to business resumption. I personally feel, this will be the modus-operandi for the next few quarters.

Like in any crisis, there have been beneficiaries, and there has been businesses which have had a more permanent damage. Today, investors are making a beeline towards tech , pharma and consumer businesses (in that order) across US and China. Selective B2B businesses have delivered returns of 200% over the last 3 months (not annualized, but absolute).

Closer home, India has seen one of the biggest quarterly moves in the index since the Global Financial Crisis in 2008. However, my conversations with investors and other managers have been fairly surprising – I have heard a consistent bearish tone among investors across the board. I personally have had a bullish view on cash flow generating companies through this and we have been deploying capital through the fall.

Our Portfolio and Performance

Our portfolio generated a quarterly return of 27.5% vs 19.8% on the Index (Nifty 50). The outperformance in the portfolio came predominantly from our exposure in pharma, private sector banks and non-lending financials.

In this section, I would address at greater length, one of the pharma companies we own (we have held this for a while now) and what the opportunity we see in the company and the space they operate.

Syngene International is engaged in providing contract research and manufacturing services to pharma and biotech companies across the world. Syngene's services include integrated drug discovery and development capabilities in medicinal chemistry, biology along with clinical development services. The current market cap is USD 2.2bn and the space has significant regulatory and scientific moats around it. This year Syngene has been expanding on its capabilities in biologics manufacturing. The work in this area predominantly goes to enhance their services in pharmaceutical development. Biologics CDMO are particularly attractive to large clients in the pharma space as they offer broader, large scale infrastructure and more specialized bioprocessing and regulatory expertise. Syngene through this handles all services, from cell line development through packaging.

Whats interesting to us about Syngene?

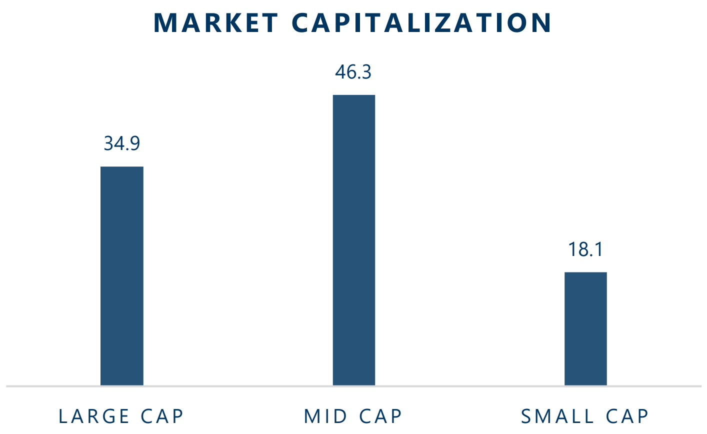
The company operates in a space, which requires significant technical expertise (the regulatory compliance is not trivial, and is difficult for another competitor to win the trust of the large pharma companies – many of the contracts at Syngene have scaled over the last 6 years, across discovery and development services), investment in R&D centres. The contract research and manufacturing market globally is pegged at a market size of USD 80bn, growing at 7% per year. With the cost advantages and the expertise set up at Syngene, I expect this to be a stable compounder in the next few years.

<u>The markets and positioning</u>

Today, we are in an environment of easy liquidity and low rates. It's never been sensible for any investor to fight this trend. My personal belief is that we are in an environment where the market recovery will precede the business sentiment. Analysts have been prompt in writing down the earnings this year, and I personally believe that many of them have priced the worst.

Our process as a firm, has revolved around protecting the downside by investing in quality companies in sectors which are primed for growth. True to this philosophy, our positioning in the last quarter has not changed significantly.

The portfolio has a large and mid cap bias to it with a smaller % of the allocation to small cap companies (market cap < 10,000 Cr)



At Itus Capital, we have outperformed the index (Nifty 50) by generating an IRR of 17.2% for the investors as against 6.2% on the benchmark. Our yearly performance alongside the index return has been broken down below.

PERFORMANCE PORTFOLIO (Yearly)

	Fund Return (%)	Benchmark - Nifty 50 (%)	Excess Return (%)
Jan-June 2020 (YTD)	3.3%	-16.5%	19.8%
2019	18.8%	12.1%	6.7%
2018	-8.4%	2.6%	-11.0%
2017	55.1%	28.6%	26.5%
Since Inception (Cumulative)	74.3%	23.5%	50.8%

I thank you for your trust placed in the firm and look forward to a long and successful journey together.

Naveen Chandramohan