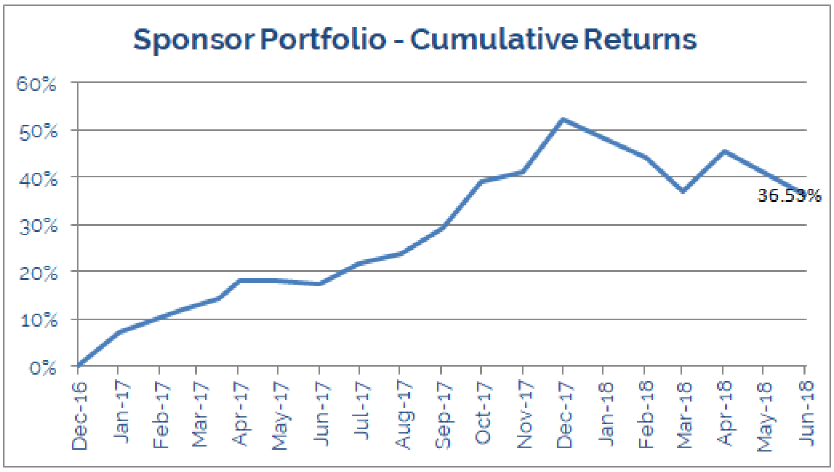
ITUS CAPITAL

Quarterly Letter : 2Q 2018

GROSS PORTFOLIO RETURNS



Fee Structure & Terms

MINIMUM INVESTMENT	: INR 2 cr
MANAGEMENT FEE	: 0%
PERFORMANCE FEE	: 25%, calculated over a hurdle rate of 10%
NUMBER OF SECURITIES HELD	: 16
INVESTMENT STYLE	: Concentrated Long-term value , market cap agnostic

Monthly Returns - 2018

YEAR	JAN	FEB	MAR	APR	MAY	JUN	2018 (YTD)
Return (Before Fees)	-2.5%	-2.84%	-5.03%	+6.32%	-3.3%	-3%	-10.3%

Dear Investors and Shareholders

We are half-way through Calendar year in 2018, and I can safely say that this has been unlike any year I have seen in the last 12 years investing in the markets. If I look at the benchmark index in India today (namely NIFTY), 35% of the index is constituted by 5 stocks (HDFC Bank, Reliance Industries, HDFC, Infosys and ITC), which has held the broad index into being positive YTD.

Looking further beyond the bell-weather market leaders, the sell-off in the broad market has varied anywhere between 30% to 90% (The median fall for the 1584 stocks listed on the BSE from their highs in the last 6 months is at 34%). The objective of stating the same and quantifying this is to give a perspective of the underlying fear in the market (the reasons for which the media does a better job than me in providing a cause and effect relationship to).

I have always believed in staying flexible in one's views, and changing when the facts change. However, I do not believe that we are in the beginning of a bear market correction where in investors need to liquidate their investments and move to cash. In fact, I would push my neck out and say that there are some good quality growth stories in small companies (sub 2000 cr market cap) that are available at reasonable valuations today (something that was rare 6 months back). I have consciously avoided calling these companies, as small-caps, because the word is synonymous with a taboo investment today. I hear many pundits talking about completely avoiding 'small-caps' and staying with safe large-caps – I find this statement a tad towards the ironic side, when quality companies are being bought at valuations hard to justify as they are 'safe' – however 2018 has vindicated the statement with returns but again it's a bit of a merry go round argument on cause and effect.

Today, investors are comfortable investing in startups and ventures going after 'disruptive trends' at valuations hard to justify, but would want to shy away from listed small companies with growth, available at reasonable valuations in the public market with tailwinds behind them. The only question one needs to think about here is – "Does price justify the investment, or does inherent value?"

I have stated in my previous letters that we do have quite a number of headwinds facing the global economies today, India notwithstanding, including a tightening interest rate environment, rising oil prices and a tightening credit environment in China (which to me is one of the biggest risks), apart from India faced with political uncertainties over the next year. However, I do believe that such times offer opportunities to invest in companies at valuations that adequately compensate the investor for the uncertainty they are faced with, and we are getting there in some of the companies. I do believe that India is at a cusp of an inflection point in the growth story and while we could have near term headwinds, the longer-term story remains very much intact.

From the Office of the CIO

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