

Dear Shareholders and Investors,

The environment of Liquidity

The first nine months of CY 2024 have been exceptionally strong for our fund, which has delivered a return of 23.95% (post fees and expenses), outperforming the index's 19.9% gain during the same period. This brings our cumulative return since-inception to 361.5%, compared to 247% for the index, with an annualized IRR of 21.8% for our investors (net of fees and expenses).

This consistent outperformance reflects our focus on identifying quality companies, disciplined capital allocation, and robust risk management. Our portfolio is positioned with a strong bias towards large-cap companies, with a weighted average market capitalization of INR 3.05L Cr (USD 28 billion). This large-cap focus, particularly in Pharmaceuticals, Auto, Consumer Staples, Power, and Insurance, provides a well-diversified portfolio and a hedge against the market's heavy tilt towards banks.

As we assess the current market, we believe returns will continue to be shaped by three critical factors:

- Earnings growth (driven by domestic fundamentals),
- Liquidity (both global and domestic), and
- Valuation (relative to historical and global levels).

To expect above average (mean returns for the Indian markets has annualized at 14% over decadal periods), one needs to have uncertainty over one or more of the three factors above. Today, all 3 of the above are robust (earnings are strong, liquidity is robust and valuation vs historical are at its highest – not just in India, but globally). In such a market, a strong focus on positioning, downside protection and risk management will drive incremental returns, and, in this letter, my endeavor is to cover each of the aspects in further detail.

Earnings growth: Strength in the Micro

The public market in India continues to show strong growth aided by fiscal prudence which has meant that the RoE of the companies across market caps has seen a significant expansion. While, as an investor, one looks at India as a proxy for growth, it's important to appreciate that not all growth is value accretive. To measure sustainable growth, it must be accompanied by margins expanding and more importantly disciplined capital allocation (capital structure mix of how growth is financed). When the three ingredients are sustainably done well, this consistently results in RoE to expand which is what the markets reward through PE expansion. Historically, large caps in India have done this consistently whereas small caps tend to be a lot more cyclical around the RoE numbers (this has to do with any 3 of the levers – growth, margins and balance sheet – not being managed well. The three graphs (Fig 1,2,3) show the sustainable RoEs of the companies in India across cycles. While we have equal weighted this to remove the effect of any sector to have a significant bias during any period, there will always be sectoral cyclicalities that come through during periods (Sectors tend to operate in cycles as much as valuations)

Fig 1: Equal weighted RoE of the Top 100 companies by Market Cap measured each year (Below)

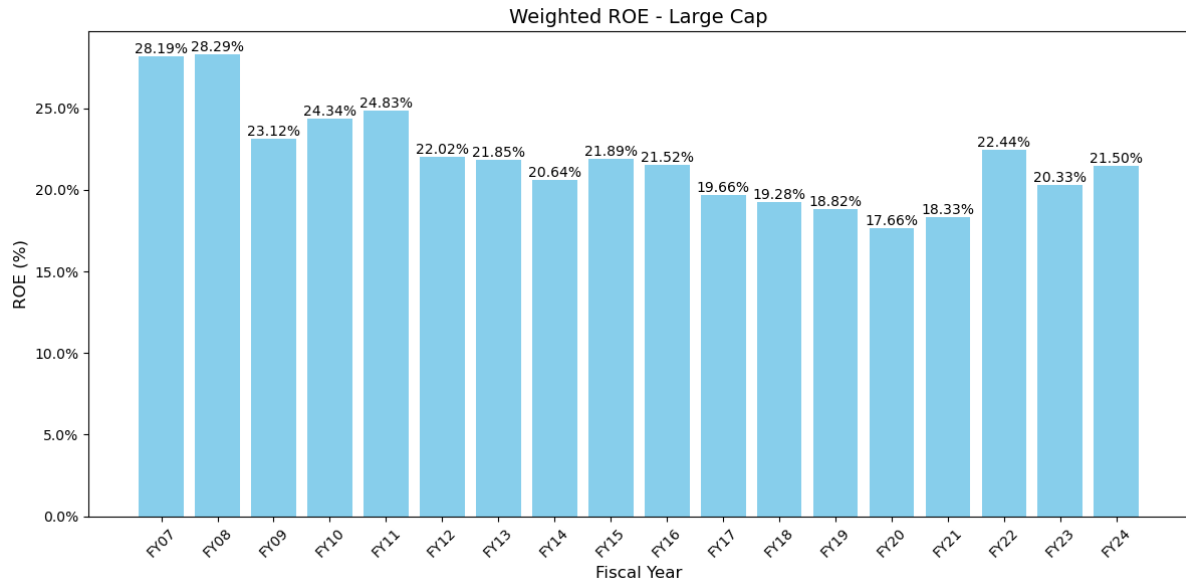


Fig 2: Equal weighted RoE of the 101-250 companies by Market Cap measured each year (Below)

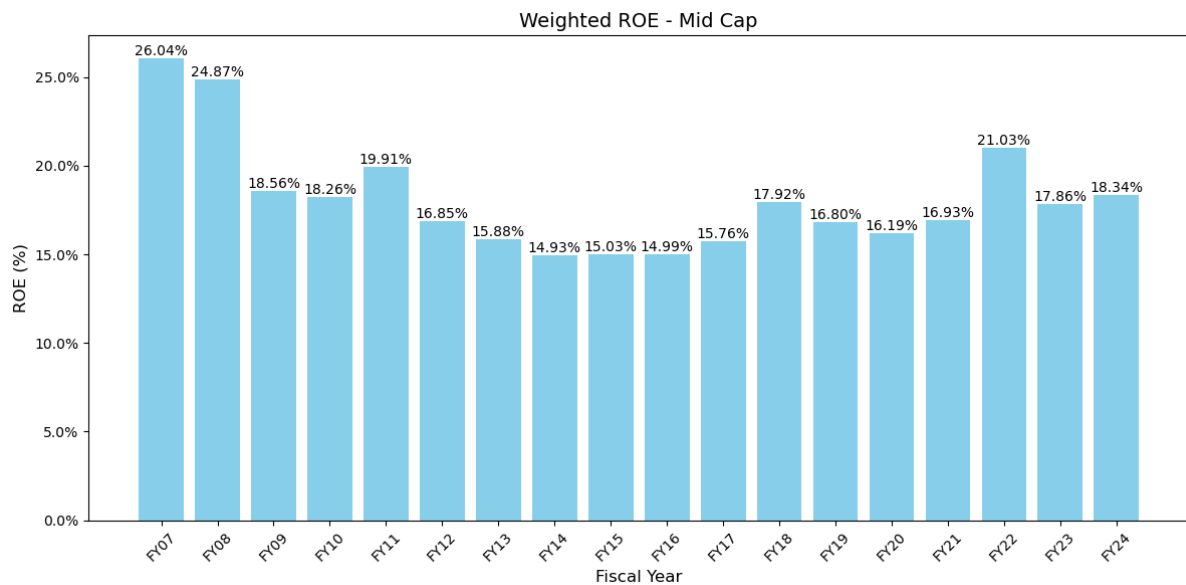
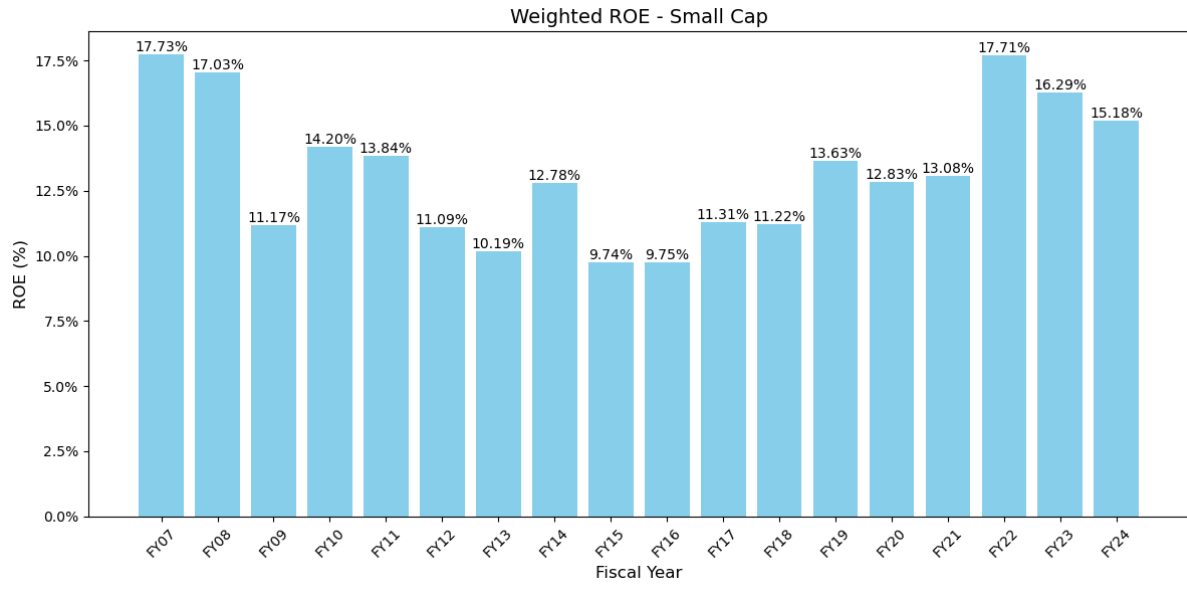


Fig 3: Equal weighted RoE of the 250-500 companies by Market Cap measured each year (Below)



One of the reasons for the lower volatility in the Top 100 companies is their structural RoE across cycles is more than 1.5x the cost of capital alongside providing stable growth. The same for small caps cannot be said and hence the volatility is 2 times the large cap index.

Another important aspect to note is that structural improvement in RoEs for the top 500 companies in India over the last 4 years which has resulted in a strong performance of the Indian markets.

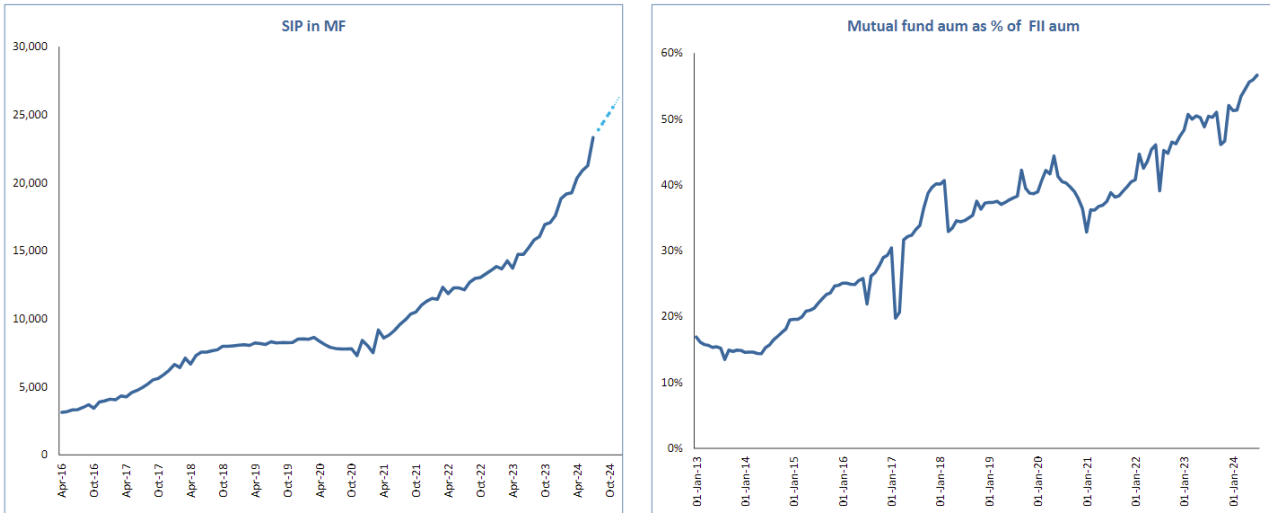
The structural trend of strong growth translating into an increasing RoE provides structural robustness in portfolios. While earnings growth has been strong, incrementally positioning ourselves in this bucket becomes increasingly more important than ever.

Liquidity (Global and Domestic): The power of domestic flows

We continue to be in an environment of easy liquidity. The Fed has been behind the curve in terms of cutting rates and their fiscal situation in terms of interest payments continues to increase (currently at 3.5%, this number is expected to go up to above 4% in the next 5 years). China, the next largest economy has also showed intent now by cutting rates, reducing RRR and continues to work on additional fiscal packages to boost the growth of the economy. In India, inflation continues to be benign and while the RBI has been prudent around monetary policy (the need to cut rates is not immediate), the liquidity in the markets continues to disproportionately increase.

These continue to create an environment where the domestic participation of equity funds and retail money in the markets are robust.

Fig 4: Domestic flow into the equity markets measured by Mutual Fund Flows (See Below)



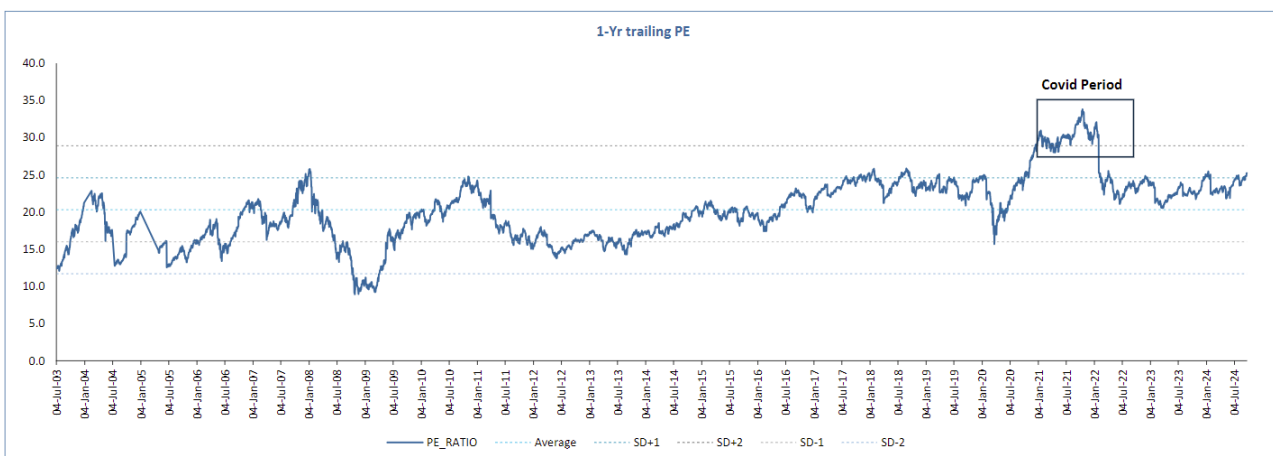
Source: Bloomberg, Avendus Spark, ACE Equity

The above figure shows the domestic money continuing to support the market incrementally, which has led to new supply absorption in a significant way.

Valuations: Above mean but justified in pockets

In a market where growth is robust, liquidity is supportive, one would not expect cheap valuations. Currently India is trading at the median end of the range (measured by trailing valuations). However, as with any market the mid cap and small cap valuation are trading at a 2-standard deviation above the mean.

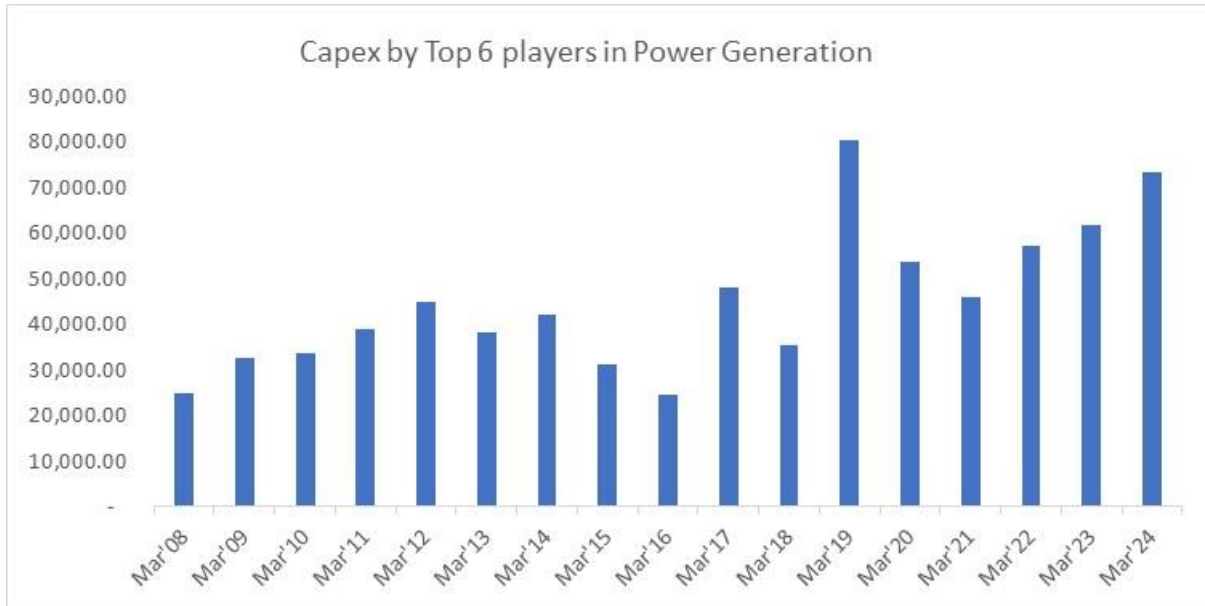
Fig 5: 12 Month Trailing PE for Nifty50



Again, purely looking at valuation as a stand-alone data point does not paint the full picture but it gives context to where risk-reward is in the market today.

Combining the above together, our positioning is driven towards areas where we see earnings growth accompanied by RoE expanding. To manage risk in a prudent way, we want to ensure the portfolio valuations are within reason and not overpay for these businesses. One such area where we continue to see levers for this is in Power (where our exposure has increased in the last 6 quarters).

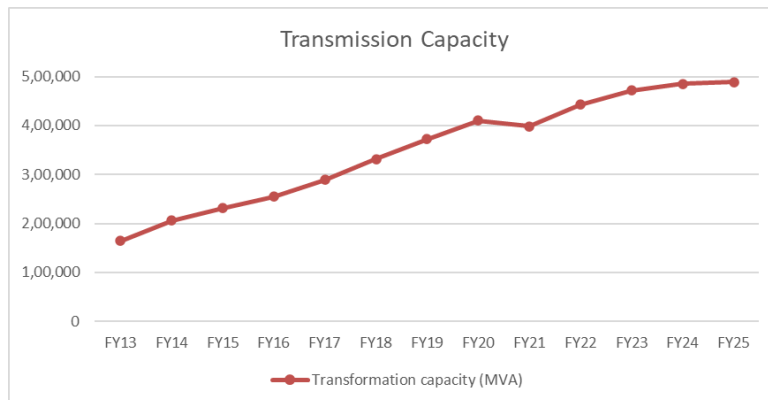
Fig 6: Capex by Top 6 players in Power Generation



While there was an increase in capex in 2019, due to NTPCs expansion, majority of the capex for power has been set up in the last 4 years.

This has been accompanied by a corresponding increase in transmission capacity as the supply capex has come through with a lag on the back of a strong demand, this time around. This has translated into sub-station capacity going up 4x over the same period.

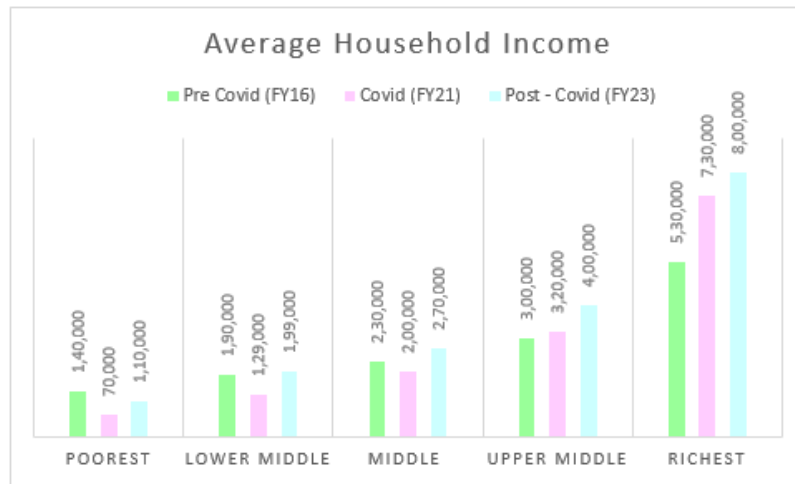
Fig 7: Transmission Capacity over the last decade



The second area of focus where the fund had invested in earlier in the year was rural consumption. This was the first time in more than 6 years that our allocation of staples had increased significantly. Consumer staples is a low growth area (relatively speaking) and we had to think through our rationale for investing in the sector and increasing our allocation here.

Mass consumption categories were impacted after Covid as first-time buyers of these products have been missing from the market. These customers have been impacted due to higher inflation post the pandemic (income growth < inflation rate) and pressure of EMIs for multiple loans resulting in lower demand for entry level products.

Fig 8: Average Household Income trend



Source: Avendus Spark

Lower demand for these products has impacted companies catering to these segments, however certain current developments on the ground made us confident of the recovery.

- Farm realization has been higher this Rabi season on the back of improved yield, higher prices and lower input costs. MSPs for crops such as wheat, paddy, cotton and soyabean has increased by 6-10% this year, this trend is expected to continue in the upcoming Kharif season. All of this should lead to higher agri income, this constitutes 32% of rural income
- States have announced Rs 2.1 trillion worth of welfare schemes (freebies) in FY25, these will lead to higher wage growth as people will demand higher wages to work when they get freebies
- Agri and rural spends for FY25 are budgeted at 3.9 trillion, growth of 11% over FY24. Higher spends will lead to pick up in non-farm income
- Domestic 2W sales are strong, domestic wholesale volumes in FY24 were 17.97 million versus 15.86 million in FY23

At ITUS, we are positioned in ITC and Marico to capture this change.

Our Return & Portfolio Profile – Sep 2024

At Itus, our fund has delivered an IRR since inception (Annualized) of 21.8% (net of fees) (Jan 17 – Sep 2024) as against Nifty which has delivered an IRR (Annualized) of 17.4% over the same period. This healthy outperformance of 4.4% (since inception CAGR) is net of fees and expenses. The detailed performance of our fund is shown below in the table in a granular form:

Table 3: Breakdown of CY returns of the fund vs Nifty 50 on a yearly basis since inception of the fund

Today, the weighted average market cap of our portfolio is INR 3.05L Cr (USD 28 bn), which reflects our bias towards where we want to position ourselves from a liquidity perspective.

Portfolio Health and Its Measure

	Fund (%)	Benchmark - Nifty 50 TRI (%)
2024	23.95%	19.99%
2023	25.61%	21.30%
2022	-2.83%	5.69%
2021	29.26%	25.59%
2020	40.32%	16.14%
2019	17.31%	13.48%
2018	-7.31%	4.64%
2017	54.66%	30.27%
Since Inception (Cumulative)	361.5%	247.1%

The portfolio continues to have a strong earnings trajectory expanding the EPS by 30.6% on a yoy basis. As of the June (1QFY25) quarter, the health of the portfolio as measured by the earnings growth and the Return on capital is as shown below.

Portfolio Metrics	ITUS (Rolling 4Q)
GP Margin (TTM)	56.1%
ROCE (TTM)	22.4%

Our portfolio positioning has a strong forward growth estimate with the 1Y forward PE at 26.7. This brings our PEG (1Y forward) at 1.32

Our portfolio is positioned to navigate the current market environment, with a strong focus on earnings growth, liquidity, and prudent valuation management. We remain committed to identifying secular growth trends and sectors where we see significant upside potential, while continuing to protect against downside risk through disciplined portfolio construction.

To summarise, the below table gives an overview of our portfolio as of September 2024

Name	Sector	Position	Weight	Comments
Dr. Reddy's Laboratories Ltd. Ipca Laboratories Ltd. Aurobindo Pharma Ltd. Others Total	Healthcare	<i>Overweight</i>	14.5%	<i>Strong growth outlook benefiting from low-cost manufacturing; lower price erosion in US pharma</i>
Maruti Suzuki India Ltd. Bajaj Auto Ltd. Eicher Motors Ltd. Others Total	Auto & Auto Components	<i>Overweight</i>	11.5%	<i>Strong OEM volume growth in 2Ws and PV</i>
Reliance Industries Ltd. Petronet LNG Ltd. GAIL (India) Ltd. Total	Oil & Gas	<i>Neutral</i>	8.9%	<i>New pipelines, gas field discoveries and imports to aid volume growth</i>
NTPC Ltd. Indian Energy Exchange Ltd. Power Grid Corporation of India Ltd. Total	Power	<i>Overweight</i>	7.6%	<i>Growing power consumption trend; thermal generation capacity increase</i>
SBI Life Insurance Company Ltd. ICICI Lombard General Insurance Company Ltd. Total	Insurance	<i>Overweight</i>	7.0%	<i>Low penetration of financial products; good growth prospects</i>
ITC Ltd. Marico Ltd. Total	FMCG	<i>Underweight</i>	6.0%	<i>Expecting Rural recovery to drive volume growth</i>
Havells India Ltd. Blue Star Ltd. Total	Consumer Durables	<i>Neutral</i>	4.5%	<i>Strong volume growth across appliances</i>
ABB India Ltd. Bharat Forge Ltd. Total	Capital Goods	<i>Overweight</i>	4.4%	<i>Good outlook for capex. Supportive policies, operating leverage</i>
Tata Consultancy Services Ltd. Total	IT	<i>Underweight</i>	4.0%	<i>Strong infra spends by Centre and State governments</i>
Computer Age Management Services Ltd. HDFC Asset Management Co Ltd. Total	Financial Services	<i>Neutral</i>	4.0%	<i>Growing financialisation in the country</i>

Name	Sector	Position	Weight	Comments
Advanced Enzyme Technologies Ltd. PI Industries Ltd. Total	Chemicals	<i>Neutral</i>	3.8%	<i>Benefit from low cost of production and exports</i>
Hindustan Copper Ltd. Total	Mining & Minerals	<i>Underweight</i>	3.0%	<i>Rising demand for copper in manufacturing, batteries, etc.</i>
HDFC Bank Ltd. Total	Banks	<i>Underweight</i>	2.5%	<i>Bottoms-up outlook on lending growth</i>
Adani Ports and Special Economic Zones Ltd. Total	Logistics	<i>Neutral</i>	2.5%	<i>Manufacturing facing sectors to drive ExIm volumes</i>
Interglobe Aviation Ltd. Total	Hotels & Travel	<i>Overweight</i>	2.5%	<i>Significant fleet addition; aided by economy growth</i>
Avenue Supermarts Ltd. Total	Consumer Decretionary	<i>Underweight</i>	2.5%	<i>Stronger rural consumption growth along with store expansions</i>
Indus Towers Ltd. Total	Telecom	<i>Neutral</i>	2.0%	<i>ARPU growth should lead to increased Capex by Telecom providers</i>
Ambuja Cements Ltd. Total	Building Materials	<i>Neutral</i>	2.0%	<i>Healthy Unit sales across real-estate developers; Should lead to volume growth.</i>

Note: The sum of the above weights would not total up to 100%; remaining would be our cash holdings.

We look forward to speaking with you on our call at 9:30 AM on the 12th of October 2024. Thank you for your continued trust and partnership.

From the desk of the CEO

Naveen Chandramohan