ITUS CAPITAL

Annual Investor Letter 2025

ITUS CAPITAL Multicap fund

A multi-cap PMS Registered with Securities and Exchange Board of India (SEBI)

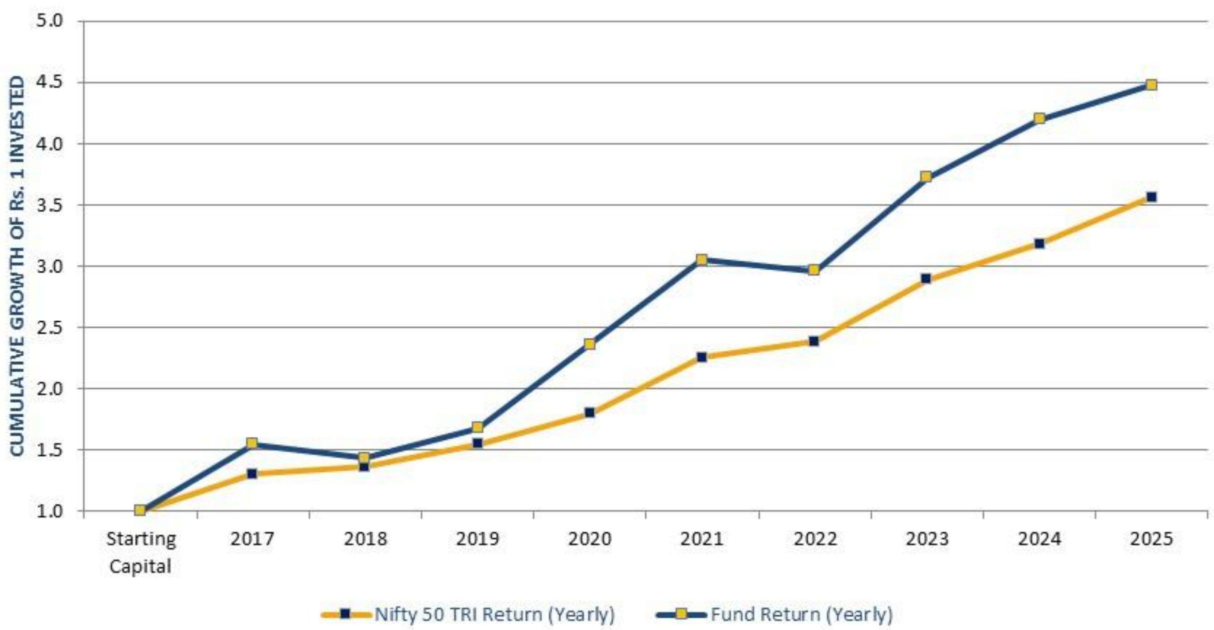
Dear Investor,

The month of December saw our PMS generate a return of 3.11% for the month as against the benchmark which had a -0.28% return during the month. As we end the year in 2025, our fund had an absolute CY return of 6.64% post all fees and expenses.

This puts the fund return since inception annualized return at 18.12% as against the benchmark at 15.16% over the same period (Jan 17 – Dec 2025: Returns represented in INR post fees and expenses)

The figure below (Fig 1) illustrates the compounding of invested capital in the fund since inception relative to the benchmark. An investment of INR 1 crore in the fund at inception would be worth approximately INR 4.47 crore over this period.

Fig 1: Cumulative Growth of INR 1 Cr invested in the fund against the benchmark



In this letter, we look to cover the following:

a) The year that was, a post-mortem from our lens
b) The current positioning of the fund
c) Our view on the current India macro environment
d) Expectations from 2026
e) New Developments within Itus
f) A compendium of frequently asked questions from investors

The year that was

Just as markets operate in cycles, capital flows across countries and investor cohorts also move in cycles, with meaningful implications for incremental returns for active investors over time. As discussed in 2024 (in our annual letter), 2025 unfolded as a year shaped by a distinct shift in market ownership and flows, characterised by three key developments:

a) Foreign Institutional Investors (FIIs) were net sellers of approximately INR 2.3 lakh crore in the secondary market during the year. Including both primary and secondary markets, total FII outflows stood at around INR 1.56 lakh crore.
b) Domestic investors contributed net inflows of approximately INR 7.7 lakh crore into equities over the course of the year.
c) Systematic Investment Plan (SIP) inflows remained structurally strong and stable, forming an important component of domestic participation. This trend has structural implications on the allocations and how we look to construct bottom-up portfolios in the fund.

For the first time in over two decades, we have observed both the Reserve Bank of India and the Ministry of Finance acting decisively to support growth, addressing constraints on both the supply and demand sides of the economy. These policy actions have important implications for medium-term growth drivers.

Market performance during 2025 remained narrow, with returns concentrated in a limited set of companies. At the same time, the absolute magnitude of capital flowing into equities — even as a percentage of market capitalisation — has reached levels not seen in the past 15 years. In such an environment, categorising markets as broadly "cheap" or "expensive" becomes increasingly less meaningful.

While certain sectors and companies appear overvalued and, in pockets, borderline frothy, there remain opportunities to allocate capital to businesses growing meaningfully above their base rates without materially overpaying for growth. This environment reinforces the importance of selectivity, discipline, and a bottom-up approach to portfolio construction.

A postmortem from our lens

In this section, we review the key sectoral contributors and detractors to portfolio performance in 2025 and assess whether returns were driven by allocation decisions or stock selection.

Top Performers:

Table 1: Contribution of our returns in 2025

Sector	Allocation Effect	Selection Effect	Total Effect
Mining & Minerals	0.59%	2.77%	3.36%
IT	2.44%	-0.11%	2.33%

FMCG	0.03%	1.46%	1.49%
Auto and Auto Components	-0.11%	1.57%	1.46%

Commentary on our sector positioning (Performers) – (Table 1 Above):

Table 1 highlights that the majority of our outperformance in 2025 was driven by stock selection rather than only sector allocation, reinforcing the effectiveness of our bottom-up approach. IT was the only sector where relative underweighting contributed meaningfully to returns.

- Mining & Minerals: Performance was largely driven by strong stock selection within the sector. While we continue to remain overweight, we are cautious on incremental additions at current valuations and are focused on selectively managing risk.
- IT: Relative performance in 2025 benefited primarily from being underweight. As we enter 2026, we are gradually increasing exposure to reduce this underweight, in a measured manner.
- FMCG: Returns were again driven by stock selection rather than sector exposure. We remain selective, preferring businesses that control distribution channels over traditional brand-led models.
- Auto & Auto Components: Despite being underweight at a sector level, stock-specific positions contributed meaningfully. Given the sector's strong performance over the past five years, our approach remains selective rather than directional.

Table 2: Detractors of our returns in 2025

Sector	Allocation Effect	Selection Effect	Total Effect
Capital Goods	-0.30%	-1.96%	-2.26%
Healthcare	-1.82%	-0.20%	-2.01%
Building Materials	0.12%	-1.85%	-1.74%
Oil & Gas	-1.10%	-0.63%	-1.73%

Commentary on our sector positioning (Detractors) – (Table 2 Above):

Table 2 summarises the sectors that detracted from performance during the year.

- Capital Goods: Underperformance was largely attributable to our exposure to ABB, which was a strong contributor in 2024. We began trimming the position during the first quarter of 2025 as valuations expanded.
- Healthcare: The sector detracted due to tariff-related concerns that led to a sharp, knee-jerk correction early in the year. However, the relatively muted selection effect reflects the resilience of earnings quality across our holdings, with several businesses recovering over time.
- Oil & Gas: Underperformance was driven by both allocation and selection effects. Looking ahead, we believe incremental opportunities may emerge across select parts of the value chain, particularly in refining, though exposure will be built selectively.

Current positioning of the fund

Based on the market dynamics observed over the past year and the earnings characteristics we are seeing across our holdings, the fund is currently positioned around five core themes:

- Consumer and spending: Our exposure in this theme is less focused on brands and more on businesses that control distribution channels. We believe this segment has the potential to drive incremental growth, particularly as consumption normalises and pricing power becomes more relevant.
- Mining & Metals: We continue to maintain an overweight position in the sector, while actively managing risk given ongoing price volatility. At current valuations, which are above long-term averages, we are cautious on incremental additions and are focused on optimising existing exposure.
- Financials: Our exposure spans banks, NBFCs, and select non-lending financial institutions. We remain opportunistic in adding risk selectively, guided by valuation discipline and balance sheet strength.
- Healthcare and Pharma: Despite a challenging year for the sector in 2025, many businesses continue to invest meaningfully in their core franchises and R&D capabilities. Our exposure is aligned toward such companies, where earnings quality and long-term visibility remain intact.
- Industrialisation and GDP-facing sectors: This theme represents a potential multi-year opportunity. We continue to focus on businesses that have maintained balance sheet discipline through the recent slowdown, positioning them well for a recovery phase.

The portfolio's positioning is closely linked to the earnings strength we are observing across our holdings. As discussed in *previous commentaries*, FY25 was characterised by muted revenue growth due to a higher base. Against this backdrop, we have consciously constructed the portfolio to emphasise operating leverage — businesses capable of translating modest revenue growth into disproportionately stronger earnings and cash flows, typically supported by pricing power and resilient margin profiles.

During Q2 FY26 (September 2025 quarter), the portfolio delivered strong year-on-year growth in both revenues and profitability, with margin expansion accompanying robust top-line growth. Several common trends are emerging across our holdings, which are highlighted in further detail below.

Table 3: Portfolio Metrics of Itus vs the Benchmark (Measured by growth)

Portfolio Metrics (for Quarter ended Q2FY26)	*Revenue (YoY)*	*PAT (YoY)*
Itus Portfolio	*17.2%*	*19.2%*
Nifty 50 (Benchmark)	*12.8%*	*24.8%*
Nifty 50 (excl. Bharti Airtel)	*11.5%*	*9.1%*

P.S: We are segregating the earnings ex-Bharti due to a one-off provision by the company in the prior year, that depressed the earnings and hence inflated the YoY growth (365% for Bharti) this year.

Based on current visibility, we expect the strength in portfolio earnings growth and margins to extend through the remainder of CY26, subject to the macro volatility.

Current India Macro

Understanding the macro gives a top-down view of the positioning of the country from a relative risk-reward perspective. To have a view of the macro, we look at the country's balance sheet as the first point of reference.

Table 4: Current and Historical Balance sheet numbers of India

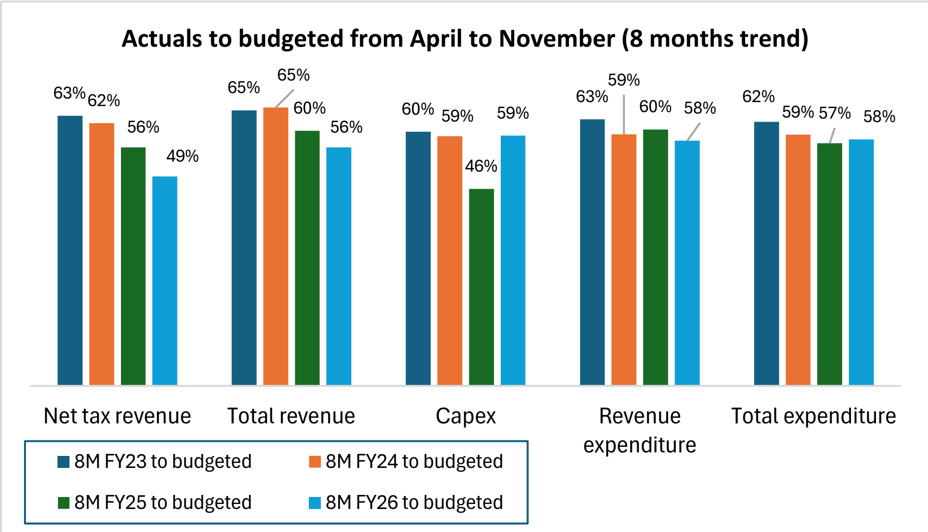
All numbers (in INR Bn)

Revenue	8M FY23	8M FY24	8M FY25	8M FY26
Direct tax (A)	8,668	10,818	12,125	12,997
YoY growth		25%	12%	7%
Indirect tax (B)	8,926	9,357	10,074	9,976
YoY growth		5%	8%	-1%
Gross tax revenue (A+B)	**17,594**	**20,175**	**22,609**	**23,313**
YoY growth		15%	12%	3%
Devolvement to States (C)	4,198	5,115	8,174	9,374
YoY growth		22%	60%	15%
Net tax revenue, D = (A+B-C)	**12,248**	**14,358**	**14,435**	**13,939**
YoY growth		17%	1%	-3%
Non-tax revenue (E)	1,983	2,844	4,270	5,164
YoY growth		43%	50%	21%
Total revenue, F = (D+E)	**14,232**	**17,201**	**18,705**	**19,103**
YoY growth		21%	9%	2%

Expenditure	8M FY23	8M FY24	8M FY25	8M FY26
Capex (i)	4,471	5,856	5,135	6,582
YoY growth		31%	-12%	28%
Revenue expenditure (ii)	19,957	20,665	22,275	22,677
YoY growth		4%	8%	2%
Total expenditure, G = (i) +(ii)	**24,428**	**26,522**	**27,410**	**29,259**
YoY growth		9%	3%	7%

Fiscal deficit (F-G)	**10,196**	**9,320**	**8,705**	**10,156**

Fig 2: Trend of Actual to budgeted across time



There are 3 key salient takeaways by looking at the PL statement of the country today (for the first 8 months of FY26)

- The capex spending has been strong and is in line with the budget
- The revenue is tracking at a slower rate driven by lower personal tax and GST
- Our fisc has not deteriorated and how we end the year will depend on the revenue growth in the latter half of the year.

Assuming our capex spends continue as per the budget, we may undershoot our revenue estimate this year which could have an impact on the fisc. While there are a few upside surprises that can come from GST Collections (due to a robust spending festive season), it is hard to foresee the growth to be made up by this. This is the base case estimate to work with for the rest of the year. The reason this would not be worrying immediately is because our inflation is contained which gives a room for us to cut rates further this year. This is the base case for us to work with around the potential path of how the P&L would end up in FY26. Separately, this sets the trend for a stronger FY27 due to the policy decisions taken through the year.

Expectations from 2026

As we look ahead to 2026, our base case is shaped by the interaction between a growth recovery from a muted 2025, policy actions already undertaken, and the evolving earnings profile across corporate India.

Economic growth slowed through parts of 2025, largely driven by a high base and uneven demand conditions. This has been met with policy responses on both the supply and demand sides, creating a foundation for a pickup in activity. Against this backdrop, we expect growth in 2026 to improve relative to 2025, supported by a recovery in consumption and a gradual acceleration in credit growth.

From a valuation perspective, headline indices have largely time-corrected, and currently trade slightly above long-term median levels. As a result, the probability of a broad-based, index-led rally appears limited. Instead, we expect returns to remain selective, with outcomes increasingly dependent on earnings delivery and balance sheet strength.

In such an environment, market dispersion is likely to remain elevated. Companies with clear earnings visibility, operating leverage, and pricing power are likely to continue differentiating themselves, while businesses with weaker fundamentals may see limited participation despite supportive macro conditions. We also expect periodic volatility, driven by global macro developments and geopolitical events, even as domestic fundamentals remain relatively stable.

For the portfolio, this implies an emphasis on selectivity over direction. Our positioning continues to reflect a bias toward businesses with strong earnings trajectories rather than an outright view on market levels. Portfolio exposures will remain dynamic and will be adjusted as valuations, earnings visibility, and risk-reward considerations evolve through the year.

New Developments within Itus

We are pleased to share that we received the necessary approvals and licenses for our new AIF, which was launched in December 2025. The AIF extends the same investment philosophy and discipline that we have followed across our portfolios over the past nine years. While the structure differs from our other strategies, our approach to business quality, market cycles, and capital allocation remains unchanged.

At its core, the AIF is designed as an all-weather, multi-cap strategy, with the flexibility to invest across market cycles and capitalisations. Our focus continues to be on identifying high-quality growth businesses at reasonable valuations, supported by long-term themes such as consumption, industrialisation, financialisation, healthcare, and technology. The objective remains to compound capital responsibly over full market cycles, with a consistent emphasis on downside protection.

In parallel, over the last few years we have invested meaningfully in building a technology-enabled research infrastructure that strengthens and scales our fundamental research process. Technology at Itus is not used to replace judgment, but to improve the quality, consistency, and speed of decision-making.

Broadly, this effort spans two key layers:

- Data aggregation and analysis: Technology is deeply integrated into how we collect, organise, and analyse data, fundamentally strengthening our internal database and analytical framework.

- Research assistance: Technology acts as a research aide, enabling analysts to access relevant information and historical context more efficiently, allowing greater focus on judgment-driven analysis.

Our objective through these initiatives is to ensure that research quality scales with the firm, while maintaining discipline and consistency in decision-making. We will continue to invest in these capabilities as part of building a resilient, institution-grade investment platform.

Compendium of the FAQ we have received from investors

1. Why were markets so narrow in 2025, and do you expect this to change?

   Market returns in 2025 were driven by a relatively small set of companies, largely influenced by the interaction of capital flows, earnings visibility, and balance sheet strength. As domestic capital became a more dominant marginal buyer, leadership gravitated toward businesses with scale, liquidity, and predictable earnings.
   While headline growth may improve in 2026, we do not expect leadership to broaden materially in the near term. Market dispersion is likely to remain elevated, making stock selection more important than index direction.

2. How do you think about valuations today — are markets expensive?

   We find it increasingly less useful to label markets as broadly "cheap" or "expensive." With capital flows at levels not seen in over a decade, valuation outcomes are becoming more segmented.
   Certain sectors and companies are clearly overvalued, while others continue to offer reasonable entry points relative to their growth and earnings durability. Our focus remains on identifying businesses growing meaningfully above their base rates without overpaying for that growth.

3. Why do you sometimes hold cash instead of being fully invested?

   Cash is not a structural allocation but a by-product of valuation discipline. We would rather hold temporary cash than deploy capital into opportunities where risk-reward is unfavourable.

   Holding cash also provides flexibility — allowing us to add exposure during periods of volatility without being forced sellers elsewhere in the portfolio.

4. What would cause you to materially change portfolio positioning?

   We typically reassess positioning when there is a meaningful change in one or more of the following:

- Earnings visibility or quality
- Balance sheet strength
- Valuation relative to growth
- Policy or regulatory developments that alter industry economics

Positioning evolves continuously; however, material shifts occur only when the underlying risk-reward equation changes.

5. How does the launch of the AIF impact existing PMS investors?

   The AIF is an extension of the same philosophy and process that underpins our existing strategies. The launch does not dilute focus; rather, it strengthens the platform by allowing capital to be deployed through structures best suited to different investor needs.
   Our research process, risk framework, and decision-making discipline remain unified across strategies.

6. What were the learnings from 2025 you take forward?

2025 was a year with two distinct phases for the portfolio. The first phase, spanning the initial months of the year, saw a period of relative underperformance. This was followed by a second phase from March through December, during which the portfolio delivered consistent outperformance.

The primary learning from the year relates to position sizing and allocation discipline in the presence of headline-driven risk. Our overweight exposure to healthcare and pharma detracted from returns, as the sector was impacted by adverse headlines and tariff-related developments from the US. While the underlying business fundamentals across several holdings remained intact, the timing and magnitude of the allocation could have been better calibrated.

This experience reinforced the importance of balancing conviction with portfolio-level risk management, particularly in sectors susceptible to policy or regulatory shocks. While we remain comfortable owning high-quality businesses through volatility, we have incorporated this learning into how we size positions and manage exposure when uncertainty is elevated.

Importantly, the portfolio's recovery and subsequent performance through the remainder of the year reaffirmed our belief in earnings quality and bottom-up stock selection as durable drivers of long-term returns.

Our portfolio across all clients as of December 2025 is shown below:

Name	Sector	Position	Weight	Comments
ICICI Bank Ltd. HDFC Bank Ltd. City Union Bank Ltd. State Bank of India Ltd. **Total**	***Banks***	*Underweight*	**16.3%**	*Bottoms-up outlook on lending growth*
Hindustan Copper Ltd. Vedanta Ltd. Hindustan Zinc Ltd. **Total**	***Mining & Minerals***	*Overweight*	**12.0%**	*Rising demand for copper in manufacturing, batteries, etc.*
Eris Lifesciences Ltd. Piramal Pharma Ltd. Dr. Reddy's Laboratories Ltd. *Others* **Total**	***Healthcare***	*Overweight*	**11.0%**	*Strong growth outlook benefitting from low-cost manufacturing; lower price erosion in US pharma*
SRF Ltd. Navin Fluorine Ltd. **Total**	***Chemicals***	*Overweight*	**7.0%**	*Benefit from low cost of production and exports*
Titan Company Ltd. Swiggy Ltd. **Total**	***Consumer Discretionary***	*Overweight*	**5.8%**	*Growth in discretionary consumption of jewellery in gold and LGD categories*
ICICI Lombard General Insurance Company Ltd. HDFC Life Insurance Company Ltd. **Total**	***Insurance***	*Overweight*	**5.8%**	*Strong underwriting along with normalization in growth*
HDFC Asset Management Company Ltd. PB Fintech Ltd. One 97 Communications Ltd. **Total**	***Financial Services***	*Overweight*	**5.3%**	*Growing financialisation in the country*
Eicher Motors Ltd. TVS Motors Ltd. **Total**	***Auto & Auto Components***	*Underweight*	**4.7%**	*Strong OEM volume growth in 2Ws*
Adani Ports & Special Economic Zone Ltd. **Total**	***Logistics***	*Overweight*	**4.3%**	*Proxy for GDP Growth - multiple levers for margin expansion from international business*
Marico Ltd. Gillette India Ltd. **Total**	***FMCG***	*Neutral*	**3.7%**	*Seeing Rural recovery on the ground to drive volume growth*
Oil India Ltd. Reliance Industries Ltd. **Total**	***Oil & Gas***	*Underweight*	**3.5%**	*Refining Capacity addition and stable Crude prices to drive growth*
ABB India Ltd. CG Power & Industrial Solutions Ltd. **Total**	***Capital Goods***	*Overweight*	**3.2%**	*Bottom up bet on capex with digitisation of grid acting as tailwinds*
Le Travenues Technology Ltd. Indian Hotels Company Ltd. **Total**	***Hotels & Travel***	*Overweight*	**2.8%**	*Global rebound in tourism and rising consumer demand for experiences over goods.*
Bajaj Finance Ltd. **Total**	***NBFCs***	*Underweight*	**2.8%**	*Bottoms-up outlook on lending growth*
KPIT Ltd. **Total**	***IT***	*Underweight*	**2.5%**	*Orderbook growth slowdown balanced by valuation comfort*
Ultratech Cement Ltd. **Total**	***Construction Materials***	*Neutral*	**1.8%**	*Proxy through cement volume growth*
Max Healthcare Institute Ltd. **Total**	***Hospitals & Diagnostics***	*Underweight*	**1.3%**	*Bed Capacity addition; Relatively peak occpancy%*

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

We look forward to speaking with you **on our call at 9:30 AM on the 17th January 2026. Thank you for your continued trust and partnership.**

Naveen Chandramohan

Risks Foreseen

The equity investments could witness price fluctuations in line with market movements

There could be a delay in the earnings growth which may cause price fluctuations versus our expectations.

Performance Risk could arise due to delay in portfolio manager’s views playing out.

Disclaimer

Securities, investments are subject to market risks and there can be no assurance or guarantee that the objectives will be achieved. As with any investment in securities, the value of the portfolio under management may go up or down, depending on the various factors and forces affecting the capital market. Past performance of the Portfolio Managers is not an indication of the future performance of the Portfolio Managers. Investors in the strategy are not being offered any guaranteed/assured returns. This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. References to actions of specific companies have been made as a matter of fact but the comments on such actions represent only our judgment and analysis and not that of the specific companies. This material is not an offer to sell or a solicitation to buy any securities or any financial instruments mentioned in the report. All opinions and estimations included in this report constitute our judgment as of this date and are subject to change without notice.

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ITUS
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II Floor, No.40, II Main Road, R.A.Puram,Chennai - 600 028.
email - info@ituscapital.com | website - www.ituscapital.com