

Dear Investors!

After the Covid-19 and lockdown induced crash in March 2020, followed by the bottoming out of world markets, we have just gone past one of the most volatile quarters in recent times. The Nifty has moved up significantly in this quarter (~8600-10300), although not without a good number of volatile up & down moves within this range in this quarter. India VIX (the volatility index) has slowly gone down from all-time high levels near the start of the quarter (70s) to near-above normal levels now (late 20s).

What we do here, at East Green Capital, is first ensure the risk of individual accounts is limited and managed. Absolute returns are a function of how much capital remains in one's account and percentage returns are not plain additive (e.g., a 20% loss needs a 25% gain to breakeven). So accordingly, in order to decrease risk exposure on our accounts, we sold everything in March and decided to sit out the first half of April, and then slowly get in with half the 'per trade risk' that we used to take before March. Also, it took the markets a while to generate a significant number of good investing opportunities that conforms to our investing philosophy. These were clearly not there at the start of the quarter. Eventually, we became fully invested some time in June.

What you have in your portfolios today is a reflection of the recovery and growth of rural India (agro-chemicals, two wheelers) due to a good crop season and expectation of a normal monsoon along with good reservoir water levels, growth in pharma/API/chemicals, manufacturing shift back to India and other beneficiaries of the lockdown like telecom/internet stocks. Some of these themes are also being seen as multi-year opportunities for Indian businesses to gain market share from the global pie. It would be very interesting to watch how these themes progress from here.

Past performance:

Our returns (since inception, Apr 2019 - Jun 2020):

Model Portfolio	Nifty 50	NSE Midcap 100	NSE Small 100
29.30%	-11.40%	-19.50%	-30.80%

Our returns (Apr 2020-June 2020):

Model Portfolio	Nifty 50	NSE Midcap 100	NSE Small 100
6.27%	19.82%	25.63%	28.38%

The relative underperformance in this quarter is a result of sitting out and not being fully invested for the majority of the quarter as a risk mitigation measure and not because of inferior stock selection.

If we have to look at the impact/importance of risk management and sitting out, we have to check returns for the entire crash and recovery cycle, which is roughly the Feb-end to Jun-end period:

Model Portfolio	Nifty 50	NSE Midcap 100	NSE Small 100
-1.80%	-8.03%	-12.41%	-18.68%

What this tells you: while we have almost reached our all-time portfolio highs, the broad market has still got a long way to go.

Present portfolio:

Here's how our model portfolio looks like at the end of June (we've sold a stock since then):

Sector	Present Allocation
Chemicals	33.1%
Pharma/Healthcare	20.4%
Internet/Telecom	10.8%
Consumer	9.5%
Financials	7.5%
Gold	5.8%
Manufacturing	5.2%
Energy	4.4%
IT Services	3.1%

The way ahead:

In spite of the index looking optically elevated, and fears of another lockdown-induced correction/crash abound, the market participants have already begun to look beyond FY21 earnings. Sectors like chemical, pharma, manufacturing, internet, non-discretionary consumption should grow at a fast pace in the next few quarters. Except a tiny position in one bank, we are still not keen to buy lending businesses as the true impact of the moratorium is yet to be seen.

Having said that, there would always be good opportunities in some trending sectors, irrespective of where the broad markets and the global/local macros are. We are always on the lookout for newer sectors and better investments to emerge. We are continuing to keep our risks per stock small to prepare for every eventuality and staying true to our investment philosophy in spite of lesser quality, beaten down companies' stocks flying across the board.

Vinay Arya
vinay@eastgreencapital.com

Pratik Karmakar
pratik@eastgreencapital.com

Advisory updates:

1. We keep updating the model portfolio after every change on our website as well. You can access it here after logging in - <https://eastgreencapital.com/our-portfolio/>
2. You can refer us to any of your colleagues/friends/family and get 1 month added for free to both of your subscription periods. Just ask them to mention your user ID in the 'Referred By' box on the signup form