Dear Investors!

The Indian stock market continued its upward rise in the 2nd quarter of FY 2020-21, in line with the global markets. All this while, the Covid-19 pandemic has continued to rage in India and in some other countries, forcing the entire world to hope for a vaccine to be developed as soon as possible.

2Q2021 was a very interesting quarter. It provided the right momentum for us to continue to fish in the favoured pockets of sectors and stocks. While the Nifty50 has taken a breather towards the fag end of the quarter, the rise in select midcaps and small caps has broadly continued (except some pockets like lending financials, travel, retail and the like).

A couple of regulatory developments deserve a mention in this quarter. One is the new margin rule (introduced from Sep 1), which now seems to be settling down after first few days of hiccups. Though, the daily average trading volumes in the lower end of small caps continue to be a lot less in the month of September as compared to previous months. The second development is the SEBI circular for multi-cap funds to either allocate 25% of their corpus to midcaps and small caps, or change their names, or merge the schemes. A simple interpretation of this suggests that the flows to these categories should increase manifold in the next few months thereby indicating a possible appreciation in their stock prices, but it remains to be seen as to how the 2nd and 3rd order impact of such a readjustment would impact each segment of the market.

We have continued to focus on finding proven businesses/sector leaders in the sectors that have been beneficiaries of the pandemic. It has given us the required momentum in this quarter as well.

We have been holding pharma/chemical/internet stocks since they were being seen as key beneficiaries (in India) of the Covid-19 pandemic. One additional interesting beneficiary of Covid-19 and the subsequent 'Work-From-Home' theme that has emerged in this quarter, is the IT services sector. Indian IT services companies have long been growth laggards for the last few years, but the forced digitalization of multiple industries has provided a big boost to the Indian ITeS companies. Most IT sector managements have raised their earnings/growth guidance, in addition to the good earnings growth that they have seen in their Q1 results. As a result, you also may have noticed that we have been increasing our allocation in this sector.

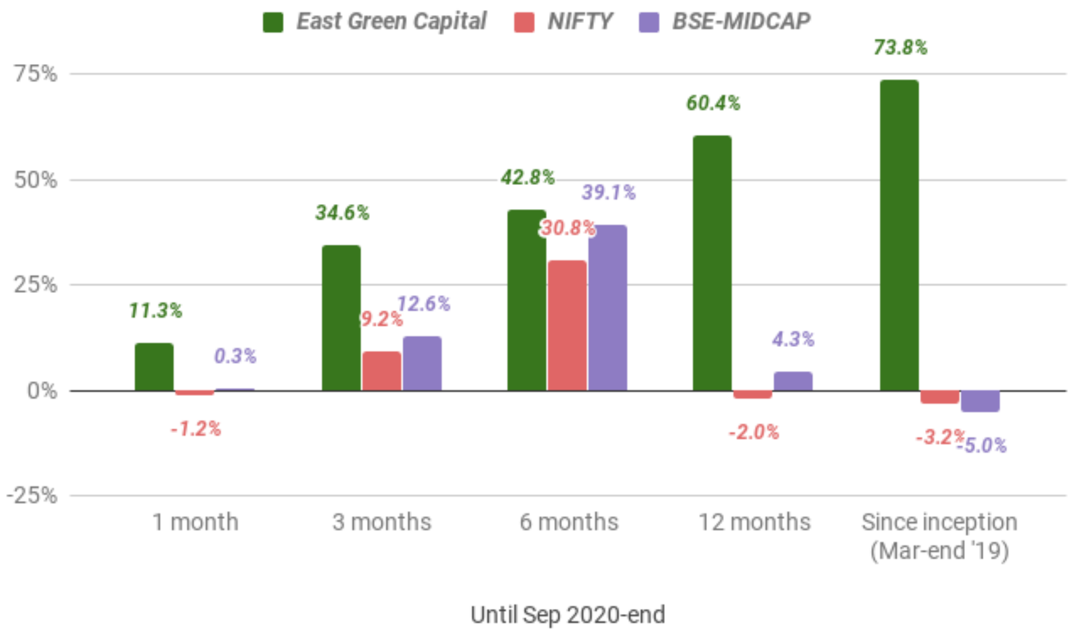
Past performance:

Our strong performance continued in the month of September, and in this quarter. We made a +11.3% return in Sep, whereas the indices were flat to negative for the month.

The return for the quarter stood at 34.6% and the FY 2020-21 YTD return was at 42.8%.

One interesting point to note is that in spite of sitting out during the month of April 2020 in order to ride out the period of extreme volatility, we have managed to overtake Nifty already in case one considers returns for the selective period of FY2020-21. Nifty 50 was +15% in the month of April 2020.

Return across different time periods ending Sep 2020:

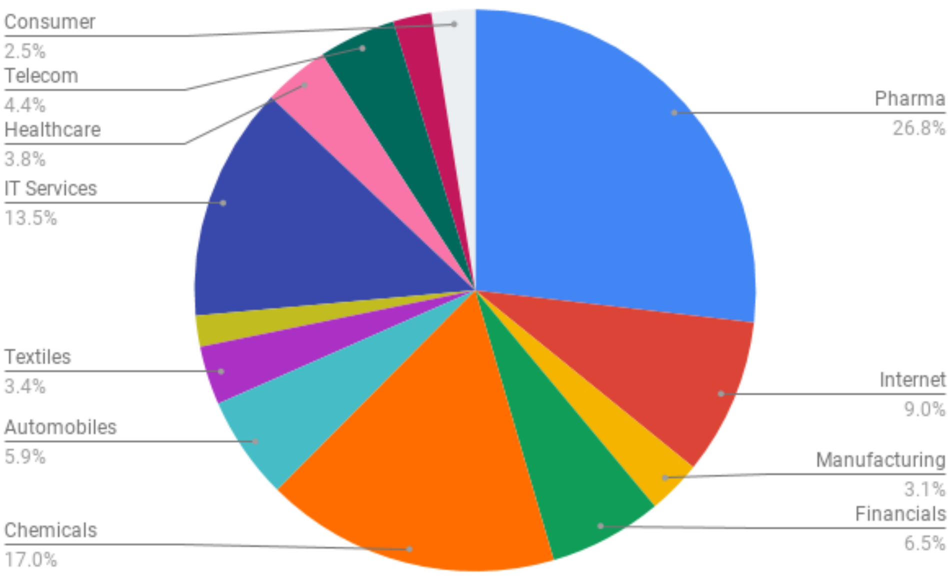


Note: *Individual portfolio returns may differ slightly depending on their time of investment and subsequent capital addition/withdrawals.*

Please visit https://eastgreencapital.com/historical-performance/ for more performance metrics

Present portfolio:

Here's how our model portfolio looks like at the end of Q2-FY21:



The way ahead:

In the next quarter, the focus will remain on all major economies' recovery (including India's economic recovery) as they continue to unlock. Also, there would be more clarity on the fate of the financial services sector as better data about their asset quality starts to emerge following the end of the moratorium on repayments. The markets are expected to remain volatile at least till the mid of December when the results of the US presidential elections are expected to be declared. As always, our controlled risk management process is geared to safeguard the portfolio in the event of any adverse outcome.

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