EAST GREEN CAPITAL

Dear Investors!

The shadow of uncertainty of where the bull market slows down / tops out was all but evident at the start of the 4th quarter of FY 2020-21. Broadly, we had the following open questions at the end of December 2020:

1. Will India be successful in defeating Covid-19?
2. Will the Union Budget be negative for the stock market due to increased need for tax collection?
3. Will travel/leisure/consumer become new 'opening up' themes in place of the 'stay-at-home' theme?
4. Will the stimulus package by the new US government lead to increased inflation and bond yields, leading to valuation de-rating of equities?
5. Will the pickup in economic growth lead to a significant commodity price inflation?

Investor positioning to these questions shaped up the quarter. However, answers to such questions are hardly ever straightforward because what may appear academically correct and/or logical at first glance, may not be the appropriate practical stance from investment perspective! You see - the present state of markets is a weighted average of opinion of every market participant (Note: It is not a plain summation and not a democratic vote but depends on the size of your portfolio; in the markets, you vote with your money).

Let us have a look at what the investors were broadly anticipating and what actually happened.

	Market positioning	**Actual impact**
1. Will India be successful in defeating Covid-19?	Yes, India will defeat it because of climate/immunity/BCG vaccination/ use of turmeric etc. (Take your pick!)	The second wave of Covid-19 came five months after the peak of the first wave; the time gap between the waves was the same as in US, UK and Europe
2. Will the Union Budget be negative for the stock market due to increased need for tax collection?	Yes, because the government needs revenues badly to make up for the increased deficit due to welfare spending	Probably one of the most business-friendly budgets was presented and the market moved 10% in a week post announcement. Also, there was no increase in taxes
3. Will travel/leisure/consumer become new 'opening up' themes in place of the 'stay-at-home' theme?	Yes, because of #1	The second wave of Covid-19 brought with it increased restrictions on retail, travel and leisure
4. Will the stimulus package by the new US government lead to increased inflation and bond yields, leading to valuation de-rating of equities?	Yes, because, equity valuations as per Discounted Cash Flow (DCF) analyses would be negatively impacted by rising bond yields	Increased probability of inflation indicates better growth prospects for the economy, counterweighting the rise in interest rates
5. Will the pickup in economic growth lead to a significant commodity price inflation?	Yes, crude oil and metal prices should move up with improving prospects of economic growth	There has indeed been a robust uptick in metal prices, however, increase in the price of crude oil has been lower than anticipated

Overall, the Nifty50 moved largely sideways in the three months of Q4-FY21, except for the two weeks around the Union Budget, which saw increased temporary volatility. The smallcap and midcap indices continued to advance strongly during this period though.

Post a very strong rally in February and early March in multiple segments of the market, the sudden pick up in US 10-year bond yields spooked the global markets for some time. However, with the US Federal Reserve's assurance of benign inflation expectations, the bond yields quickly cooled down, reducing anxiety in the Indian market as well.

An indication of the overall stability of the market was the reason we made very little changes to your model portfolio. We continued to have the highest weight in IT services and increased our Home Improvement/Building Materials weight in lieu of Pharma.

As we had spoken in the last two quarterly letters,

"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."

Hence, we will continue to be positive on IT Services for the next few quarters as well, unless we get a major negative surprise in the quarterly earnings of IT services companies.

We also continue to monitor the commodity sector. Its cyclical nature, high sensitivity to global geopolitics and fluctuations based on data from China (supply/demand changes) make it structurally less attractive in our eyes. However, we are open to changing our opinion in the near future based on our risk/reward analysis.

From here on, we see favourable GDP growth enabling earnings growth in many sections of the Indian economy. This, combined with the continued global benign monetary policy should lead to advances in stock prices in our sectors/companies of interest.

A key risk is the impact of the second wave of Covid-19 in India and the policy response to it. On similar lines, a key positive metric to monitor is the pace of vaccinations in India. At the time of writing this, we already have a daily run-rate of 30-35L vaccinations/day, which is expected to go up from here. Once the number of vaccinated individuals reaches a critical mass, the next few names to invest in will emerge from travel/leisure/lending themes.

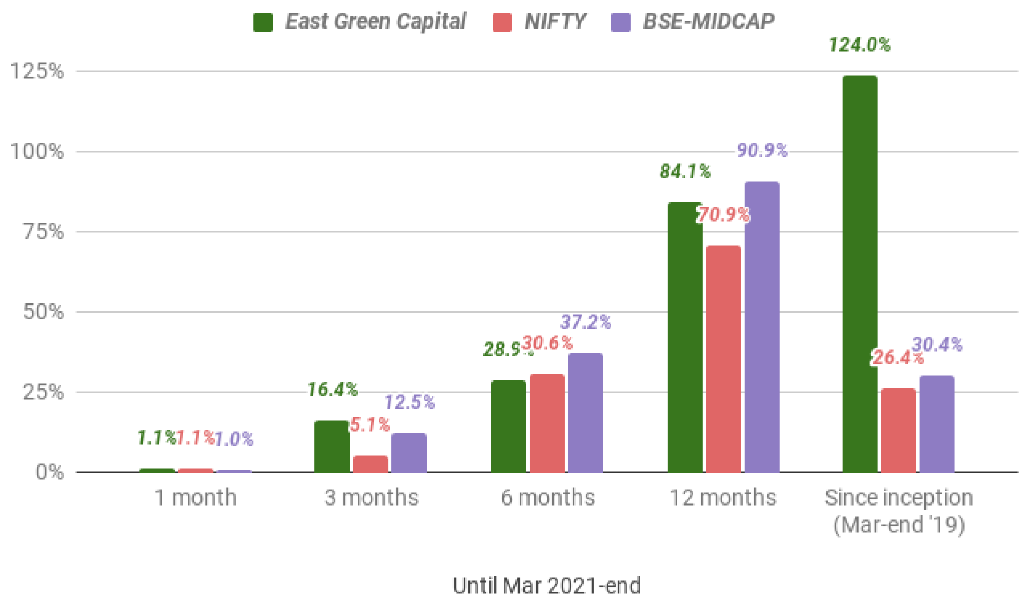
Past performance:

We had a better Q4 FY 2020-21 than the benchmarks, since we were already positioned in spaces which came back strongly after the 'old economy stocks' led the market in Q3.

However, the market has been in a bull run for the last year, and just as a rising tide lifts all boats, most Advisor/PMS/MF/index portfolios would have benefited and would be looking good as of today. The big differentiator from here on will be the ability to hold on to gains when the good times stop. And that's where multiple year CAGR returns start mattering.

Although we have a short two-year history, it has already seen two full bull and bear cycles: Apr-Sep 2019 bear, Sep 2019-Feb 2020 bull, Feb 2020-Apr 2020 bear, Apr 2020-now bull. We have a 50% CAGR for this entire period, and the corresponding number for Nifty is 12.5%.

Return across different time periods ending Mar 2021:

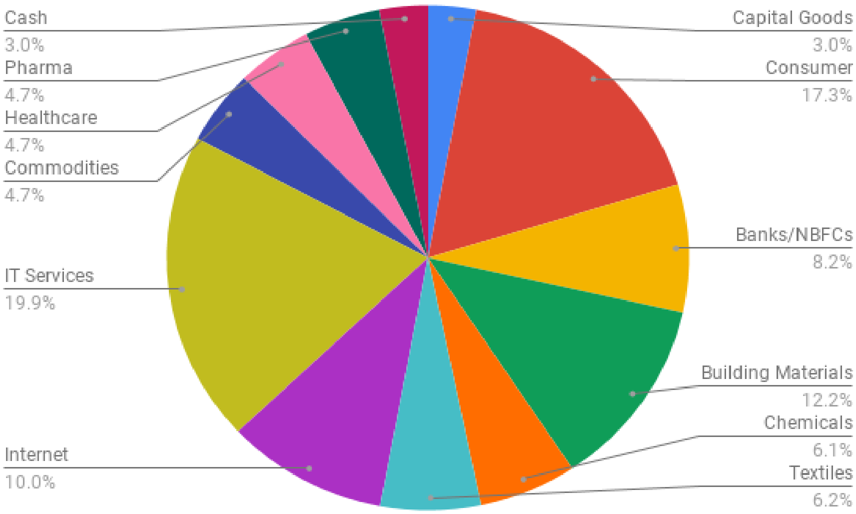


Note: *Individual portfolio returns may differ slightly depending on their time of investment and subsequent capital addition/withdrawals.*

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

Present portfolio:

Here's how our model portfolio looks as on date (10th Apr 2021):



Please visit https://eastgreencapital.com/our-portfolio/ for exact stock weights

Changes in Q3:

1. Reduced the weights of two e-commerce plays in order to reduce portfolio risk
2. Sold a CDMO company because of growth and management uncertainty
3. Rotated out of pharma and OTC stocks as they were lagging the rest of the broad market
4. Sold some companies which had lukewarm quarterly numbers, with uncertain future growth
5. Bought more leaders in Home Improvement theme, with good growth outlook

The way ahead:

As always, we continue to track our portfolios with a keen eye on unfolding sectoral/stock themes as well as risks lurking on the horizon - global and domestic inflationary expectations, a risk of less than expected performance on the growth front in the coming quarters, spikes in Covid-19 numbers etc.

The key from here on is to be agile and continue to look for new and better emerging themes.

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