Dear Investors!

The Covid situation in India is improving and we hope all are safe and sound. India has fully vaccinated 1/3rd of its eligible adult population. Adding previous infections to vaccinations, it can be said without a doubt that India is on the path to achieving herd immunity. The only thing that can derail India's Covid recovery is the emergence of a new deadlier variant.

The overall economy and markets are looking up; business growth is coming back in previously affected sectors. Indian domestic air traffic is back to ~80% of pre-Covid levels. Leisure and retail sectors are making a recovery as people get more and more comfortable in getting out of their homes.

At a macro level, India as a country is at an inflexion point in its economic history. Hardly any country among its peers has a combination of a stable democracy, growing economy, favourable demographics, robust domestic consumption and policy shift to free(er) markets. Because of these factors, it also gets investor preference among emerging market economies.

The role of the current government's policies cannot be understated in creating this environment. Government reform is generating the right vibes for the economy and the market. While noises about privatisation have been heard for the past few years, we are now seeing actual movement on this road. Case in point being the recent announcement of the successful privatisation of Air India. Ordnance Factory Board (OFB) corporatisation is another step in the right direction. One of the ghosts of the past, in terms of retrospective taxation, has been exorcised. Among the big future reforms on the anvil are changes to the Electricity Act, which aims to liberalise the entire electricity value chain from generation and transmission to distribution. Government's asset monetisation plans and the Gati Shakti plan to integrate infrastructure building are also salient positives.

From a stock market perspective, the outcome of all these actions/events is quite big. Many sectors have been in doldrums and out of most investors' radars for more than a decade due to uncertainty of earnings and bad balance sheets. These companies are now expected to make a giant comeback due to underlying earnings' recovery. In fact, as per one school of thought, these "boring" businesses/sectors like real estate, energy, PSU commodity companies may be amongst the leaders in terms of attractive return opportunities in next few quarters/years.

If this indeed happens, it will augur well for the health of the Indian stock markets. A broad based rally always has far more legs than a narrow rally in any stock market, as it allows for healthy rotation into different sectors/segments from time to time.

These positives are however accompanied by a few risks that need to be monitored.

A big risk masquerading as an opportunity is the global commodity inflation, which has hit the margins of all consumer and finished goods producers. This could be viewed as an opportunity as well in terms of buying commodity producers. But the uncertainty, risk and volatility of global commodity prices force us to not advise on this theme.

Now, logically, central banks around the world are expected to fight against this inflation through monetary policy changes including tapering bond purchases and raising interest rates. While the tapering in the US has started and the Fed has hinted at rate hikes by the end of 2021, we are yet to get a similar sense from the Reserve Bank of India (RBI). Since we invest in growing segments and companies, this bodes well to a certain extent. Persisting inflation also signifies growth in the economy, just that it shouldn't go out of hand.

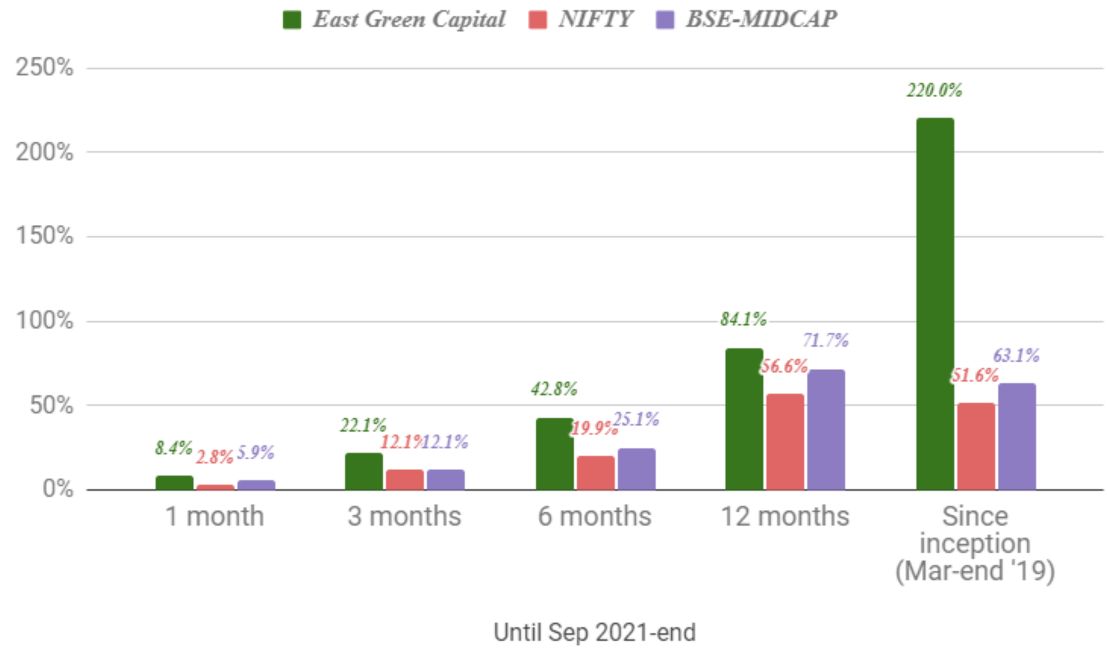
Noise around reduced outputs in China and the accompanying opportunities/risks keeps coming from time to time. But then again, their policies can change overnight and additionally India can face a situation similar to the current power usage curbs due to coal shortage. Reduced outputs in China also pose a risk for some producers such as generic pharma - reduced Chinese API (raw material for generic pharma) output could be a challenge for their production.

## Past performance:

We had a benchmark beating 22% return this quarter, continuing with our philosophy of investing in growing businesses in trending sectors. The economy and hence the market have been going through transition owing to Covid-19 recovery. The opening up of the economy has benefited businesses dependent on discretionary spending. Real estate also made a comeback with many developers reporting impressive off-take numbers. This transition was reflected in the EGC portfolio too - we added positions in real estate, travel, entertainment and retail in this quarter.

Underlying the whole process is robust risk management and accordingly we reduced the weightage of a few stocks that had run up during the quarter. We are ready to sacrifice a few basis points of our return to ensure capital protection - we believe this lets us and our investors sleep in peace while our capital compounds sustainably.

Please see below for our return across different time periods ending Sep 2021:

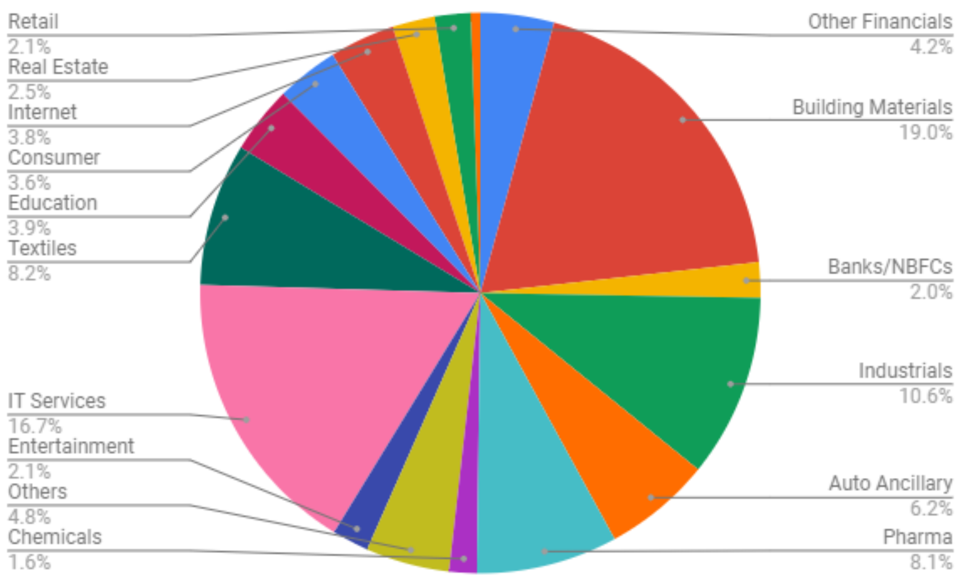



Note: *Individual portfolio returns may differ slightly depending on their time of investment and subsequent capital addition/withdrawals.*

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

## Present portfolio:

Here's how our model portfolio looks as on date (30th Sep 2021):




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

## Changes in this quarter:

1. Took positions in leisure, real estate and retail
2. Added on to IT sector and home building material positions
3. Rotated underperformers
4. Added a PSU bank and also watching the public sector space closely for any opportunities

## The way ahead:

Our focus in Q3 will remain as in Q2. That is, sectors and companies displaying secular growth as well as those that begin to benefit due to recovery from Covid-19, or are seeing a cyclical upturn. We also believe there is big money to be made in the public sector companies from here on. Hence, we may slowly add on such companies. We reiterate that there will be short-term market corrections from time to time but we believe that India is at an inflexion point in her history and the place to invest in for the next decade. On top of macro tailwinds, our robust risk management process and agile approach are geared to generate a sustainable return while protecting the portfolio from short-term adverse events.

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