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Dear Investors,

Eighteen months since the sell-off in broader markets began and yet there has been no respite to small and mid-cap investors like us. All the recovery we made from February 2019 lows has been sold into and we are back to the February levels. Longevity of the ongoing bear market in mid and small caps - of this magnitude has been astounding to even the most seasoned equity investors. I had felt elections could be the turning point for investors to come back to equities. Unfortunately, the positives of the continuity in government has been lost with the market unfriendly provisions in Budget, at least for the near term.

Though the maiden budget of Modi 2.0 laid out a long-term vision that the government aims to achieve, some provisions in it has been disappointing from a near term stock market perspective. While the monetary impact of these changes is minimal, the message it gives to the larger investment community is rather regressive. Intentions of the present government without doubt have been good and their efficiency in utilizing tax revenues has been excellent, but these factors aside, it seems that policy makers are not acknowledging the cardinal principles of a free market economy.

Past few years saw several challenges emerging in the economy. Though we were cognisant of many of them, we underestimated the extent of the first and second order consequences of some. Government's noble and welcome efforts to strengthen tax base, improve traceability, reduce black money and corruption seem to have choked the economy for the near term, more than anyone anticipated. Despite RBI repo rate cuts, transmission of the reduction has not happened and the cost of capital to corporates have remained tight, thereby delaying any major industrial recovery.

IL&FS scam, instead of getting resolved, have spread to other major NBFCs and banks. IBC process has been entangled in judicial processes and is frustratingly slow. Broader markets are yet to recover from the forceful selling in small and midcap companies triggered by SEBI directives on reclassification to mutual funds industry. Overall, there has been a divergent and narrow market performance for a long time now. Though Nifty has held up, broader markets

have shaved off 50% or more in this period. Close to 90% of listed stocks are down anywhere from 30% to 90% whereas top 10% large companies have not fallen much.

All the matters above that has affected the universe of the companies in which we have been investing in and for which our clients have entrusted us the funds, sadly, are beyond our control. Most of the stocks in our portfolio are fundamentally strong and some of them are industry leaders with the potential to create wealth. But when will the market acknowledge the underlying value of these companies and reflect them in the stock prices? Having experienced the vagaries of markets for the past three decades, I see a significant recovery going forward, that looks inevitable to me, but I cannot give a time frame for this - I have gone wrong many times earlier in this regard.

Many of you would be wondering why we are holding on few underperformers in the portfolio. After a significant draw-down, to sell any under-performing company and shift to alternate opportunities, we need to take a call on many aspects, including:

- Has the original investment thesis been permanently jeopardized or delayed indefinitely, that makes shifting a better decision than waiting?
- What would be the implicit costs of liquidating these investments in a sentimentally depressed market devoid of buyer participation?
- Is there an alternate opportunity with potential upside that can compensate the draw-down in these stocks available?
- What is the further downside in these stocks and what is the probability that when market sentiment turns around these stocks would perform better than the available alternatives?

Considering all the above and a host of other factors in a dynamic and evolving environment, we have been doing whatever in our opinion is best possible. Hoping for better times and waiting patiently for the sentiments to change.

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