



Dear Investor,

Happy New Year!

Trust this finds you in good health and spirits.

In 2012, EQ PMS had gained 54.5% against SENSEX return of 25.7%.

During the year FIIs bought Indian stocks worth \$24 billion, while domestic institutions and mutual funds remained net sellers. Domestic investors seem to be still waiting to enter equities, being apprehensive about the politics and the macro economic factors. However I feel the market is poised to make significant gains in 2013, considering the attractive valuation of listed companies in a beaten-down environment.

Inflationary pressure on economy is likely to ease in 2013, leading to lower rates and faster growth. Market is likely to be stable and healthy attracting more investors. We are a nation of savers. At close to 30% of GDP, Indian savings rate is among the highest in the world. Yet, we are not a nation of investors. Over 90% of our annual ~\$500 billion savings, are either being held in bank deposits or being channelized into non-financial assets like real estate and gold. There is a huge potential of domestic savings flowing to equities in the future due to the current high prices of real estate and gold.

It is a good time to invest in equities. Going forward, I am confident of significant out-performance of equities as an asset class. Let us continue to focus on high quality mid-cap companies as part of Value Investing.

Best regards,

Porinju Veliyath
Portfolio Manager