

Dear Investors,

Greetings!! Our performance as of last month is as follows (Exhibit 1).

**Exhibit 1: TWRR Performance (after all fees and expenses) as of 31-Oct-2024**

| Investment Approach (Benchmark) | Inception Date   | AUM (INR cr) | 1M            | 3M            | 6M            | 1Y            | Since Inception (Annualized)* |
|---------------------------------|------------------|--------------|---------------|---------------|---------------|---------------|-------------------------------|
| <b>Flexicap</b>                 | <b>11-Apr-23</b> | <b>91</b>    | <b>-5.38%</b> | <b>-1.18%</b> | <b>12.64%</b> | <b>35.00%</b> | <b>30.90%</b>                 |
| (S&P BSE 500 TRI)               |                  |              | -6.45%        | -3.58%        | 8.71%         | 35.90%        | 32.49%                        |
| (Nifty 50 TRI)                  |                  |              | -6.12%        | -2.67%        | 8.10%         | 28.39%        | 24.19%                        |
| <b>Small MidCap</b>             | <b>11-Dec-23</b> | <b>154</b>   | <b>-3.99%</b> | <b>-2.11%</b> | <b>31.32%</b> | <b>NA</b>     | <b>54.04%</b>                 |
| (S&P BSE 500 TRI)               |                  |              | -6.45%        | -3.58%        | 8.71%         | NA            | 22.06%                        |
| (Nifty 50 TRI)                  |                  |              | -6.12%        | -2.67%        | 8.10%         | NA            | 16.74%                        |
| <b>Blend</b>                    | <b>11-Aug-24</b> | <b>3</b>     | <b>-5.89%</b> | <b>NA</b>     | <b>NA</b>     | <b>NA</b>     | <b>-5.29%</b>                 |
| (S&P BSE 500 TRI)               |                  |              | -6.45%        | NA            | NA            | NA            | -1.10%                        |
| (Nifty 50 TRI)                  |                  |              | -6.12%        | NA            | NA            | NA            | -0.43%                        |
| <b>Other AUM</b>                |                  | <b>182</b>   |               |               |               |               |                               |
| <b>Total AUM</b>                |                  | <b>430</b>   |               |               |               |               |                               |

*\*Returns for Flexicap are annualized as it has completed one full year. However, returns for Small Midcap and Blend are not annualized as they are yet to complete one full year.*

**Trump’s phenomenal comeback!!**

- With Trump coming back to power with a smooth landslide victory, one major uncertainty for world markets is addressed.
- Needless to mention, markets expect a strong focus on economic growth and resolution of the some of the international geopolitical conflicts. However, given the track record of the previous term of Trump, one must always be ready for volatility induced by his “confrontational” tweets. It will be a great idea if some of these confrontations shift from actual battleground to online, as that can prevent bloodshed of millions of innocent civilians!!
- We hope India should be a beneficiary of this development as Modi-Trump share an exceptionally close bonhomie and their primary focus has been economic growth. We feel that de-risking of supply chains from China should gain momentum under the new regime.

**Unprecedented FII selling in October**

- FIIs have offloaded nearly \$12.4 billion in the cash market this October, signalling a sharp reversal from the buying trend of recent months (Exhibit 2).
- This heavy sell-off has been largely absorbed by domestic institutional investors (DIIs), supported by robust inflows into mutual funds.
- It is always tough to pinpoint the exact cause of this significant sell-off, and there is uncertainty around when it will stop.

- Several factors may be driving this shift, including weak corporate earnings, stretched valuations, sluggish consumer demand, reallocation to other emerging markets like China, uncertainty around the U.S. elections, and heightened geopolitical risks.
- If retail investors, who have remained bullish and largely indifferent to prices, begin to change their behaviour, it could add further selling pressure, pushing the market toward a deeper correction.

**Exhibit 2: FPIs flows, Calendar Year-ends, 2014-24(US\$ mn)**

**Net investments by FPIs, DIIs and MFs in the cash market (US\$ mn)**

|               | FPIs          |                |            | DIIs          | MFs           |
|---------------|---------------|----------------|------------|---------------|---------------|
|               | P             | S              | Total      |               |               |
| CY2011        | (379)         | (133)          | (512)      | 5,943         | 1,295         |
| CY2012        | 2,075         | 22,473         | 24,548     | (10,854)      | (3,805)       |
| CY2013        | 1,973         | 17,781         | 19,754     | (12,942)      | (3,780)       |
| CY2014        | 2,095         | 14,067         | 16,162     | (5,090)       | 3,913         |
| CY2015        | 3,451         | (176)          | 3,274      | 10,315        | 10,806        |
| CY2016        | 1,269         | 1,634          | 2,903      | 5,425         | 6,988         |
| CY2017        | 6,298         | 1,654          | 7,951      | 14,043        | 18,267        |
| CY2018        | 2,845         | (7,462)        | (4,617)    | 15,896        | 17,302        |
| CY2019        | 3,978         | 10,256         | 14,234     | 5,971         | 7,509         |
| CY2020        | 9,778         | 13,595         | 23,373     | (4,910)       | (6,989)       |
| CY2021        | 10,830        | (7,069)        | 3,761      | 12,419        | 9,945         |
| CY2022        | 3,087         | (20,103)       | (17,016)   | 35,771        | 23,953        |
| CY2023        | 5,336         | 16,091         | 21,427     | 22,331        | 20,998        |
| <b>CY2024</b> | <b>10,181</b> | <b>(9,576)</b> | <b>605</b> | <b>53,608</b> | <b>43,958</b> |
| Jan           | 283           | (3,424)        | (3,141)    | 3,219         | 2,770         |
| Feb           | 571           | (88)           | 483        | 3,060         | 1,723         |
| Mar           | 791           | 3,225          | 4,016      | 6,783         | 5,329         |
| Apr           | 1,689         | (2,786)        | (1,097)    | 5,299         | 3,935         |
| May           | 616           | (3,639)        | (3,023)    | 6,684         | 5,769         |
| Jun           | 215           | 2,896          | 3,111      | 3,434         | 3,386         |
| Jul           | 787           | 2,560          | 3,347      | 2,807         | 2,999         |
| Aug           | 1,549         | (157)          | 1,393      | 5,754         | 3,776         |
| Sep           | 1,697         | 4,247          | 5,944      | 3,802         | 3,887         |
| Oct           | 1,982         | (12,410)       | (10,428)   | 12,767        | 10,384        |

Notes:

(a) DII -Domestic Institutional Investors (Includes Bank, DFIs, Insurance, New Pension Scheme and MF).

(b) 'P' stands for flow in primary markets while 'S' stands for flows in secondary markets.

(c) Primary data includes IPO, preferential allotment, buyback of shares, conversion of debenture into equity, open offer.

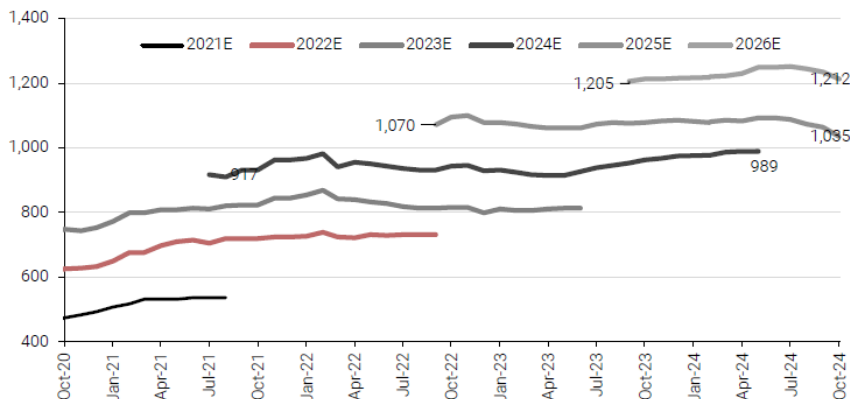
(d) FPI data is until Oct 30, MF data is until Oct 29 and DII data is until Oct 31.

Source: Bloomberg, Kotak Institutional Equities

**Weak Corporate Earnings**

- We were ourselves surprised to see weaker-than-expected results this time around. Consumption has been weak and rural distress is fairly evident. This has resulted in downward revision in EPS estimates across the board (Exhibit 3).

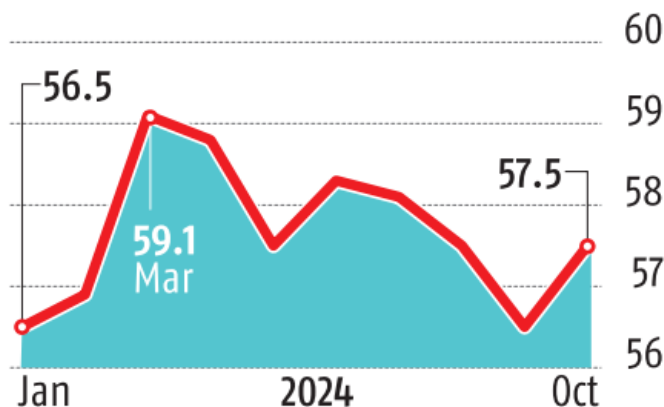
**Exhibit 3: Nifty 50 Index EPS estimates trend, 2021E-26E**



Source: Kotak Institutional Equities estimates

- Banks also increased their provisions in microfinance segment and overall credit growth has slowed.
- One common observation was that government spending has still not picked up to the extent one would have thought post the elections. While contract awarding picked up in Q2, but the actual implementation on the ground was sluggish. This should gain momentum in Q3 and Q4 as there are large budgets yet to be spent.
- Having said that, the HSBC final India manufacturing Purchasing Managers' Index (PMI), compiled by S&P Global, rose to 57.5 in October from an eight - month low of 56.5 in September. Companies noted a quicker increase in order book volumes that was stronger than the average seen in nearly 20 years of data collection (Exhibit 4).

**Exhibit 4: India Manufacturing Purchasing Managers' Index 2024**

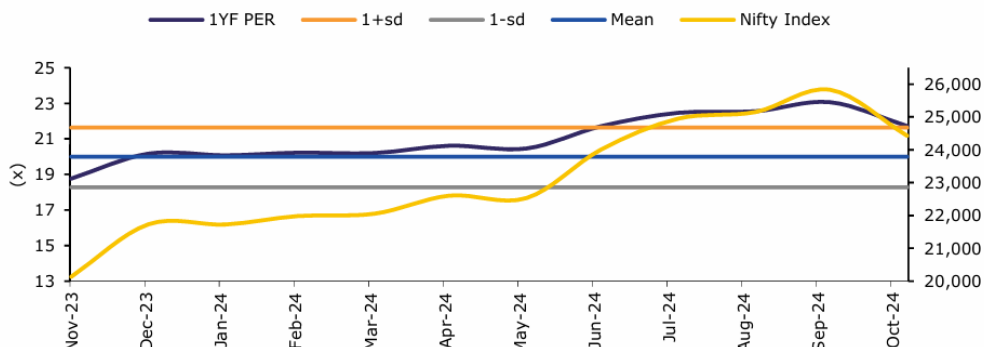


Source: HSBC

- In the past we have seen that these things do sort themselves out in a couple quarters. We hope this time will be no different as we do expect US and Indian rate cuts to boost overall demand in the economy.

- The silver lining is that valuations have corrected in this fall, especially for a lot of stocks outside the Nifty. While aggregate Nifty valuations are still high (Exhibit 5), but there are pockets of attractive valuation are visible, and we are adding to those stocks.

**Exhibit 5: Nifty Index Corrected ~8% from top, but Nifty 1Yr FW PE still above 1+sd**



Source: Bloomberg, Emkay Research; Note: The Mean, 1+sd and 1-sd are long-term averages

**Conclusion**

- We remain watchful of the global and domestic developments.
- In Large-caps, we continue to favour interest rate sensitive sectors, especially where valuations are more palatable e.g. Financials, Insurance etc sectors.
- In Small-caps, we continue to prune the richly valued end of the portfolio, increase weightage in companies with more reasonable valuations, get into some tactical interest rate sectors.
- In Blend, we continue to have the flexibility to shift weights between Large-caps and Small Mid-caps depending on where we see the best potential for price appreciation.

We will be happy to have a quick call with you to discuss your portfolio.

Also, we really appreciate the references you have shared thus far and would request you to continue to remain generous in sharing more references.

Warm regards,  
MoneyGrow Team

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