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MONTHLY VIEW

FROM THE FUND MANAGER DESK

It is time to Under-perform….

When liquidity is awash, it isn't time to chase performance!

Financial world seems divided. On one hand, we have treasury yields near multi-year lows with some even braving the negative side. On the other hand, equities never had it so good, hitting all time highs in many markets. Take the case of US markets. S&P is near all time high while ten year US yield was near multi-decade low just a couple of weeks ago, though has recovered since then. Contradicting signals, isn't it? One is hinting at flight to safety (risk-off) and other is pointing to reckless risk-taking. Negative yields in Japanese, German and Swiss bonds have only added to the puzzle.

In simple terms, negative or low yields in general mean increased risk perception (volatility and flight to safety) or expectation of weak growth in future (low interest rates in future). Of course, that doesn't tally with the exuberant equities that are extrapolating extraordinary growth or betting on a much saner world. One of them, of course, is getting the future wrong. It is difficult to say which one. Bond king Bill Gross calls it a Supernova in bond markets waiting to be exploded. But he has been saying it for many years now with bond markets proving him wrong for long. Same is the case for bears on the equity side. Markets will eventually see reasons, but in short-term, it is anyone's guess. As someone famous said, markets can remain irrational longer than you can remain solvent.

While this irrationality lasts, strange things happen. It gives rise to new breed of short-term flows that drives the distortion to devious levels. Some call it "Liquidity" and others call it smart "Carry-trade". But these are short-term phenomena that vault the valuations to frenetic levels. Power of liquidity can never be questioned and it is unwise to fight liquidity.

That said, fundamentals have much less to inspire. Take the case of Q-1 earnings in India. The season is already midway. Nothing spectacular so far. If anything, it has been a disappointing start with lackluster results from IT behemoths and consumer staples. Woes in private sector banks have worsened with Axis bank's asset troubles refusing to abate. With telecom expected to follow suit with its

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dwindling fortunes, earning season may not play to the sentiment of bulls. But that hasn't stopped them from taking markets to new highs. When liquidity rules, fickle fundamentals hardly matter. When NBFCs are showcased as next sun risers, micro-finances as next master blasters and staffing companies are chased by 150+ times over-subscriptions (in IPOs), you know who rules.

What do long-term value investors do in such an irrational setting? No prize for guessing. Stay away and sit tight. It is time for under-performance. By choosing not to chase liquidity/ momentum, one gives up on the short-term performance. In a way, short-term underperformance is the price, an investor pays for the long-term ***out-performance***. Investing is often compared metaphorically to Marathon. As in Marathon, these are times to slow down the pace to get prepared for the longer haul. As Buffett quipped, the trait that builds durable success in investing is the ability to focus on process than on proceeds. No better time to remember this than now when greed meter is gyrating high.

Happy Value Investing!!!

ArunaGiri. N

CORPORATE DEVELOPMENTS

- **Wipro** bought back shares worth Rs. 19.8 bn from two trusts owned by the company's billionaire chairman **Azim H Premji**, as part of the company's share repurchase program earlier in June.
- **Tata Motors** plans to raise Rs. 30 bn in the next 12 months through nonconvertible debentures (NCDs) or rupee denominated non-convertible foreign currency bonds on a private placement basis.
- Private sector lender **IDFC Bank** bought South India-based lender **Grama Vidiyal Microfinance** for an undisclosed amount.
- Drug firm **Dishman Pharmaceuticals** has said inspection of its Bavla plant has been successfully completed by the USFDA.

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- **Mahindra & Mahindra (M&M)** said it was restructuring its two-wheeler business, as the vertical was not giving the results that it had expected earlier. The company has already given voluntary retirement scheme (VRS) to 250 employees as part of this rejig.

- **State Bank of India (SBI)** has sold 5% stake in NSE to Mauritius-based Veracity Investments for Rs.9.11 bn, valuing the exchange at over Rs.182 bn.

- **Nirma**, among the world's largest soda ash manufacturer but a small, regional cement player in the country trumped far bigger rivals **Ajay Piramal and Sajjan Jindal** led JSW Cement to bag **Lafarge's** 11 mn tones per annum (MTPA) India portfolio, for an enterprise value of approximately $1.4 billion.

- **YES Bank** has chalked out plans to expand its branch banking business aggressively across the country in the next four years. As per the management it will increase its branch strength to 2,500 by 2020 from the current 900 and there will be a considerable increase in business from the current Rs. 1.65 Trn.

- **Sun Pharma** said it has launched a ready-to-administer version of chemotherapy drug gemcitabine in Europe. Gemcitabine is indicated in the treatment of ovarian, lung, breast and pancreatic cancers.

- **Maruti Suzuki India** said its mid-sized sedan, Ciaz, has crossed the one lakh cumulative sales mark in the domestic market in June, nearly two years after its launch. Launched in October 2014, Ciaz sold a total of 1,00,272 units till June 2016.

- **Insecticides (India)** has entered into an agreement with **Momentive Performance Materials Inc**., USA for getting the product 'AGROSPREC MAX' on exclusive basis for territory of India.

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M O N T H L Y V I E W

MACRO NEWS

- **The Centre** formally notified its acceptance of the **Seventh Pay Commission** recommendations, clearing the way for the payment of increased salaries and pensions to around 10 million employees and pensioners with effect from August. Arrears dating back to January 2016 are expected to be paid before 31 March 2017.

- **The IMF** slightly trimmed India's growth projections to 7.4 per cent for 2016 and 2017, a drop of 0.1 per cent from its previous forecast, attributing it to a more sluggish investment recovery while declaring Brexit as a "spanner" in the global economic recovery.

- **The Centre** allocated Rs 229.15 bn as capital infusion (in 2016-17) in 13 public sector banks that are burdened with **non-performing loans**, to help improve their liquidity and support lending operations.

- The **South-West monsoon**, which arrived late by about eight days this year, has delivered an 11 per cent deficit rainfall for the month of June across the country. The country as a whole received 145.4 mm rainfall in June, about 11 per cent lower than the normal of 163.6 mm for the period, according to the data from **Indian Metrological Department**.

- **Cotton production** is estimated to drop to 338 lakh bales in the 2015-16 season from 386 lakh bales in previous year as farmers are shifting to crops like pulses due to higher incentives.

- **Revenue Department** has slapped **anti-dumping duty** of up to USD 168.76 per tonne on import of a chemical used in textile industry from five countries, including China and Iran, to protect domestic manufacturers.

- **New residential project** launches slumped to their lowest in three years in the first half of 2016 as the huge unsold inventory forced developers in the country's top eight cities to turn cautious.

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- Pushed up by food prices such as vegetables and fruits, **Wholesale Price Index (WPI)**-based inflation rose to 1.62 per cent in June, which was double the rate recorded (0.79 per cent) in each of the previous two months.

- **Domestic air traffic** rose 20.81% in June on the back of low fares and peak season demand. Carriers flew 7.9 million passengers last month in comparison to 6.6 million passengers in June 2015.

FUNDS FLOW DATA

Data as on 26th July 2016		
FUNDS FLOW DATA (Rs in Cr)		
Category	***MTD***	***YTD***
FII	7926	27837
Mutual Funds	498	9117
Total	**8424**	**36954**

DEBT & FOREX MARKET

Data as on 26th July 2016			
Debt / Forex Market			
Category	***Day***	***1 mnth***	***3 Mnths***
10 Yr Yield	7.3	7.5	7.5
Re / US $	67.3	67.9	66.5

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MARKET VIEW*.

Liquidity galore!

Markets love central banks. Every time, there is crisis, global central banks come to market's rescue with their open arms. Be it China chinks or Brexit, central banks come condescending to bless the markets with their all powerful bazooka (monetary stimulus/ quantitative easing etc). Like a child who exhibits behavioral problems from being over-indulged by parents, market is degrading into a spoiled brat. Now it is taking liquidity for granted. So is the risk-on trade that has come to engulf the emerging markets. EM allocations are on a high and have driven the indices to new highs in Emerging markets including India. What added fuel to the fire in India were the strong pick up in monsoon and rising hopes on policy actions. Given this, it is no surprise that bench mark indices are frantically close to all time highs.

In the process, blinded by liquidity, Indian markets have begun to ignore some potential risks. First and foremost, liquidity could reverse as quickly as it comes. Exuberant markets attract attention of central banks esp. US Fed which has been holding up hikes fearing volatility in global markets, though jobs data has been favoring hikes for a while. On taking comfort from rising markets, if Fed decides to push ahead with its rate hikes, it could potentially upset the ongoing rally by puncturing the liquidity bubble. Second, with earnings failing to recover in a meaningful manner, going by current earning season, markets have run far ahead of fundamentals. It is a question of time before it hits the speed bumps.

Third and more importantly, the oozing confidence (of market participants) on policy actions might fizzle out if the ongoing parliamentary log-jam persists. Market will watch out very closely on Govt's ability to push thro' GST. If it gets scuttled by the continuing log-jam, GST might never see the light till 2019. That will be a serious setback for the markets as well to the Govt. as it is in the fag end of the policy/ reform window with major state election looming next year. Investors can ill afford to ignore such risks, though markets habitually get mired in such risks blinded by liquidity. It is time to ignore markets, *not the rising risks*.

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VALUE EXTRACTS

- In this section of the newsletter, we attach an extract / write-up that we believe can add value to the readers from the "***VALUE INVESTMENT***" point of view or others that offer interesting perspective.

- Enclosed section carries an interesting interview of Ted Weschler (Warren Buffett's Investment Manager) titled **"The recipe for financial success"** by Mr. Christin Martens.

"High-risk investments can't be counted on for high returns. If they could, they wouldn't be high-risk"

- Howard Marks

Interview with Warren Buffett's investment manager Ted Weschler: The recipe for financial success

He is one of the most important managers working for Warren Buffett's Berkshire Hathaway.

Ted Weschler (55), alongside Todd Combs, is one of the two investment managers that Buffett (85) hired to help oversee Berkshire's portfolio.

The former hedge fund manager Weschler, who joined Omaha, Nebraska-based Berkshire in 2012, sat down with BI Germany's editor-in-chief Christin Martens for an interview.

Business Insider: By auctioning for a private lunch with Warren Buffett in two consecutive years you basically paid $5,252,722 to get a job. What is the interest rate on that investment?

Ted Weschler: People love that story. Let me get this clear though. It was on my bucket list that I always wanted to meet Warren Buffett.

I happened to be in San Francisco for a board meeting of a foundation I am affiliated with. And I knew that I wanted to visit Glide, a San Francisco church and mission, whose foundation is the charity that benefits from this lunch.

And basically you make a donation for this charity. And if you make the biggest one you also get the 'free' lunch. And I ended up winning that lunch. We actually did it as a dinner in Omaha. And we had a terrific time. And the following year I did not intend to do it again. But I did not want the value of the lunch to drop. So I bid 100 $ more than the year before and I ended up winning it again.

At the end of the lunch and a very interesting conversation he, out of nowhere, said: 'Is there any way I can encourage you to come to Berkshire Hathaway?' And that was the last thing I ever expected. I was running a 2 billion-dollar hedge-fund, just myself, my secretary and a research assistant. I lived in Charlottesville, Virginia. I had a nice set up. And then I had the opportunity to work with somebody I had a great deal of respect for. I wrestled through it, talked to my family and ultimately thought it was the right combination. Now, I still live in Charlottesville, Virginia, that is where my family is, and I commute on a regular base every week to Omaha for a couple of days a week.

BI: It takes a lot to impress the Oracle of Omaha. How did you do it?

TW: I don't know. We hit it off and talked about so many different subjects. I am obsessed with stocks and investing — I read everything. And it was one of these things. The conversation was very fast and for whatever reason, we had a lot of in common, for example the structure we think about investing and that was it. For whatever reason he thought I would be a good fit. It has been terrific. It has been almost five years and I really enjoy the place.

BI: As you have been a very successful investor for years: Is there a recipe to it?

TW: There is one, but I am not telling you [laughing]. Investing is kind of a game of connecting the dots. The nice thing about it is the longer you are in the business, as long as you are intellectually curious, your collection of data points of dots gets bigger and bigger. That is where someone like Warren is just incredible. He has had a

passion for investing for well over 70 years. He started by the age of 10 or 12. He keeps building that library of data, the ability to recognize patterns in data. Being a successful investor you need to be hungry, intellectually curious, interested, read all the time. Read a lot of newspapers. You need a certain level of randomness in order to connect things that might give you an insight into where a business is going in five years that somebody else might not see.

When it comes to wholly owned businesses among other factors it is about pricing power. You have something that is so attractive to the consumer that they pay a premium to walk into your store and do something. There is a number of attributes like that. But you can never just point to one thing. It is a mosaic of all sort of different things. If then you read the book of a business you can pretty quickly find out if that is a good business or not.

BI: You said you read a lot. What do you recommend?

TW: I am a big fan of newspapers. I read at least one or two in paper form, the other ones on my iPad. We own a lot of newspaper at Berkshire Hathaway. I am always intrigued by who is doing what in the online business. Because everybody is coming up with presenting things in a better format. I read at least five newspapers a day.

BI: And which newspapers do you read on a regular basis?

TW: I have a tradition. I always start each day with reading the local paper of the town I wake up in. Then next one would be USA Today. That gets you a general feeling for the Zeitgeist. They package the news for the entire population. From an investing standpoint it is relevant to understand what everybody is thinking. Then I generally move up to the New York Times, then the Wall Street Journal and then I end with the Financial Times. And actually I recently just started reading the Handelsblatt global edition.

BI: And what about books? Is there a favorite one?

TW: Really no. There is a lot I read over the years. But there is not one I would say which made the difference in investing.

BI: If I had 5000 Euros. Where should I invest?

TW: In a perfect world you could buy a good business with long term prospects at that price. I am a big fan of investing in what people do from day to day. But there are only little enterprises for that amount of money. With interest rates being historically low right now I would not want to invest in bonds. Also a bond is a contract and you can't do anything with that. The appeal businesses is that they have the ability to change and frequently do just fine because of this. To be more specific. If I was living in Europe I would probably put that 5000 Euro in a European based index fund to keep transaction costs very low and then I forget about it for a long time.

BI: And if you were situated in the States?

TW: I would do the similar thing and probably put it in something like the Vanguard index fund. The expense on that is very, very low and it is tax efficient. And personally I buy Berkshire stocks.

(Interview excerpts from Business Insider)

Ist August' 2016

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About TrustLine

At TrustLine, we run a specialized PMS fund (Portfolio Management) for exclusive set of high net-worth clients (long only value based fund). We are a company with a single mission- to deliver superior long-term returns to our clients. We are managing over Rs.150+ crores of AUM for over 250+ highly satisfied clients. This makes us among the top 20 discretionary portfolio managers in India, with industry leading performance.

Over the years we, at TrustLine, have gained rich domain expertise by focusing and specializing in Portfolio Management Services (PMS).Unlike our competition, we are a unique firm focused only on PMS. This sets us apart and gives us a competitive advantage in the PMS space. At TrustLine we believe, the quality of "Research" is fundamental to delivering out-sized returns. When research is complemented by contrarian investment approach, the rewards can be dis-proportional. This forms the foundation of our investment choices and stock selection in our core PMS business. Our disciplined practice of this "Value Investment" principle has enabled us to deliver superior risk adjusted returns with significant out-performance over bench-mark indices.

With a client retention rate in excess of 99%+ , we have grown as an organization through strong references, primarily driven by solid track record of building wealth across good and bad market cycles, through focused and disciplined approach to investing.

TrustLine products include:

- ***Intrinsic*** (Deep Value fund)
- ***Intrinsic*** Floater (Arbitrage Fund)

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