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BizNotes
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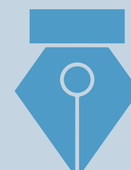
MONTHLY VIEW

FROM THE FUND MANAGER DESK



Are Emerging Markets set for a turn from a decadal low-tide?

It had been a dry run for emerging markets (EM) for a decade. It may come as a surprise to many that the emerging engines did not do much for the ten-year period ending December 2021. To be precise, MSCI EM index delivered a near-flattish annualized returns of 3% over that period. By contrast, in the same period, US markets (S&P) delivered a stunning outperformance by giving annualized returns of 14.2% in the same period. As happened in most decades in the past, whenever US markets outperformed by a significant margin, it always came at the expense of emerging markets. Last decade was no exception. At the same breath, reverse has also been true for many decades. That is, whenever US markets struggled with subpar returns, those decades belonged to emerging markets. Are we in for such a turn now for emerging markets? Let us find out.

To make the case for emerging markets, let us first look at certain key historical data points in terms of how US and EMs have done in terms of returns in the last decade. For US, last decade was a stellar one in terms of returns. S&P delivered annualized returns of over 16.6% (14.2% excluding dividends) in this period. No complaints. On the other hand, emerging markets, as measured by MSCI EM index, delivered paltry returns of 3% (without dividends) annualized over the same period. It was such a striking and stark difference that made them two different worlds at either end of the spectrum in the investment universe. More interesting data emerges if one breaks down the S&P returns data in terms of contributions from sales growth, margin expansion and multiple gains. Here, let us use data from the recent study done by Christopher Bloomstran in his recent annual letter (as captured brilliantly by Akash Prakash (Amansa Capital) in his latest piece). As per this, the overall return of 16.6% is made up of 3.8% sales growth, 4% margin expansion, 6.4% multiple expansion and finally 2.4% of dividend yield. This letter argues that, looking ahead into the next decade, even if one assumes that sales growth continues at 3% level, it is less likely that any gains will come from margin expansion or multiple gains, given that they are at more than peak on a cyclically adjusted basis. Adding another 2% growth from dividend yield, it projects a bleak prospects for the S&P annualized returns of near 5% in the

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coming decade. Taking it further, as a corollary, this would also mean that the emerging markets would shine brighter with a big out performance in the next decade. This assumption is supported by the historical data points.

Now coming to India, in addition to this expected turn in favor of EMs, what will make the medium/long term outlook more compelling bull case is the huge tailwinds it is likely to get from the larger trends that are brewing globally. Borrowing from Morgan Stanley's recent research note, larger global trends like ***Decarbonization, Deglobalization*** and ***Digitization*** are likely to disproportionately benefit India compared to any other country. It is difficult to spot any other country that will get a boost from all of these trends. While China+1 and Europe+1 are central to deglobalization, India's push in green energy and hydrogen initiative is likely to invigorate the revival in private capex cycle. In digitization, though it covers a big scope and large spectrum, if one specifically limits the focus to offshoring potential on India becoming office to the world, the prospects seem extremely bright, esp. with work-from-anywhere trend gathering traction across global corporations. Of course, all these will not happen overnight, but will evolve over time.

In addition to above, India's macro is also likely to gain momentum from the other cyclical trends listed below.

- Cumulative low base effect of slow growth for many years.
- Turn in property cycle having a multiplier effect on the economy.
- Revival in Private Investment Demand.
- Credit cycle turning in India on the back of clean-up of bank and corporate balance sheets.

Going by market actions in EMs and in India in particular over this down cycle, looks like, global investors are positioning themselves for leadership from these market segments in the next upcycle. As is well known, in markets, if a sector falls much less in a downturn or if a sector demonstrates a lot of resilience in a falling market, then such sectors lead in the following bull market. If one extends the same logic to the EM basket or to specific markets within the EM, going by India's convincing outperformance in the current down cycle, it will not be a surprise if India leads the next bull cycle within the emerging market basket which in all likelihood will out-shine markets like US where the returns are likely to subpar in the next decade, as argued in the opening section of this article. It is time for EMs to carry the baton!

Happy Value Investing!!

ArunaGiri N.

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CORPORATE NEWS

- **Tata Motors** has bagged an order for 1,000 buses from Haryana Roadways. The company will supply 52-seater fully built BS VI diesel buses in a phased manner, as per the contract.
- **Jagran Prakashan Ltd,** the publisher of the Hindi daily Dainik Jagran, announced that it will buyback 4.60 crore paid-up equity shares of the company aggregating Rs 345 crore.
- **Strides Pharma Science Limited** (Strides) announced that its subsidiary, Strides Pharma Global Pte. Limited, Singapore, has received approval for Potassium Chloride Oral Solution USP, 40 mEq/15mL (20%) from the United States Food & Drug Administration (USFDA). The entire Potassium Chloride range of products for the company has a cumulative market opportunity of ~USD 330 Mn as per IQVIA.
- **Kabra Extrusion Technik's** subsidiary Battrixx has inked a partnership for developing "Made in India" Lithium-ion battery packs with Hero Electric, the largest e2W Company in India. This partnership supports battery safety advancements, reliability, and performance and fully supports Hero's aggressive production line-up to meet the rising e2W demand. The target is to supply 300,000 battery packs and chargers in the next financial year based on Hero Electric's projections.
- **Voltamp Transformers** informed that the workmen employed through labour contractors have resumed their duty from 15th November, 2022 at Savli unit and the production activities at the Company's Savli unit are normal now.
- **Entertainment Network India Limited** (ENIL), which operates the top FM radio channel Mirchi, has acquired a significant minority stake in music e-learning startup Spardha. Founded in 2020, Spardha is a platform that caters to individuals with specific learning demands and aims to reinvent the music learning space by addressing problems in music education.
- DSP Investment Managers Private Ltd (DSPIM) will buy a nearly 10% stake in **Equitas Small Finance Bank** for an undisclosed amount, following approval from the Reserve Bank of India.
- **Shilpa Medicare** appointed o3 Capital Global Advisory Private Limited pursuant to the fund raising plan of the Shilpa Pharma Lifesciences Ltd (SPL), a wholly owned subsidiary of the Company, operating in Active Pharmaceutical Ingredient(s) business. o3 Capital will evaluate various monetization options for SPL including fund raising from potential investors.

MACRO NEWS

- Rating agency **Moody's** slashed India's gross domestic product (GDP) growth projections for 2022 calendar year to 7% from 7.7% estimated earlier citing global slowdown, elevated inflation, and rising domestic interest rates as dampeners for growth momentum in India.
- **Crisil Ratings** said in a report that the Indian hotel industry is likely to witness 23% growth in revenue this fiscal over the pre-pandemic level, driven by a strong recovery in business travel and continued traction in leisure travel. Higher average room rates (ARRs) and occupancy will help the hotel industry log a strong improvement in profitability to around 34% this fiscal compared to 24% in the pre-pandemic period (fiscal 2020).
- **GST Appellate Tribunals** likely to be set up by December 2023. The appellate body will be headed by a judge from the Supreme Court or the Chief Justice of a high court. These tribunals will help quickly resolve the disputes relating to the key indirect tax, and further

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improve ease of doing business and boost tax collections.

- **Government's** move to set up LNG storage facilities is also in line with India's increasing domestic natural gas requirement. LNG storage planned at major ports at Rs.20,000 crore investment.
- The number of **Demat accounts** rose to 10.4 crore in October, 41% higher from a year earlier, on attractive returns from the equity markets, even as incremental additions of such accounts have been on a declining trend for the past few months. Also, active user clients for the industry as a whole rose 30% year-on-year but fell 1.9% month-on-month to 3.6 crore. This was the fourth consecutive month of decline.
- **Crisil Ratings** report says that riding on a broad-based economic recovery and stronger, cleaner balance sheets, lenders are expected to see their credit growing at 15% this fiscal and the next fiscal. Already, large lenders have seen corporates flocking to banks for funds for capital expenditure and also for working capital as the demand side of the economy is faring better.

FUNDS FLOW DATA

Data as on 28th Nov 2022

FUNDS FLOW DATA (Rs in Cr)		
Category	**MTD**	**YTD**
FII	32,344	(1,36,453)
DII	(1,501)	2,57,340
Total	**30,843**	**1,20,887**

DEBT & FOREX MARKET

Data as on 28th Nov 2022

DEBT / FOREX MARKET			
Category	**Day**	**1 Mnth**	**3 Mnths**
10 Yr Yield	7.27	7.42	7.25
Re / US $	81.65	82.26	79.95

MARKET VIEW

MARKET VIEW

Sensex's new high: new leaders?

Sensex is back to the old high, but the underlying stocks and sectors show a very diverging trend. It took Sensex over twelve months to come back to the old high it touched in Oct'21. Much have churned in those twelve months within the Sensex. IT is no longer in the lead. It is Banks that are leading from the front. Breaking down the Sensex composition, between the two highs, few have managed to stay put. In terms of sectors, Banks, Auto, Telecom etc. have been the biggest contributors to the Sensex's rise, while the biggest drag has come from IT. Equally important in this Sensex journey of high to high is the comeback of value stocks.

Given this, it is no surprise that though Sensex has come back to new highs, much of the investor portfolios are yet to come back to the Oct'21 levels. The reason being the concentrated exposure to erstwhile momentum stocks which have lost shine now. Of course, broader markets like mid and small-cap indices are still trading far below their old highs and that has also contributed to portfolios' under performance. When these indices follow the Sensex act, new highs in portfolios will bring cheers to investors. May be that is what markets are likely to do in Dec, going by the actions in the last couple of days. With reversal in dollar index (fallen by over 6%+ from peak) and return of FII flows into Indian markets, markets are positioned well for momentum in the broader space. FIIs have infused over 4Bn dollars in the month of Nov. This is the first large positive inflow numbers after the month of Aug. With signs of easing inflation in US and the consequent fall in dollar index on expectations of fewer and smaller hikes by Fed, the tide may be turning for FII flows into emerging markets. If that happens, it is a question of time before the broader indices (small and mid-caps) breaches the old high and set a new record. Watch out for stronger action in broader markets!

VALUE EXTRACTS

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 article from Livewire titled ***"Howard Marks on what matters and what doesn't (and some rules to live by)"*** *by* ***"David Thornton".***

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

- Warren Buffett

Howard Marks on what matters and what doesn't (and some rules to live by)

If anyone has earned the title of market prophet, it's Howard Marks of Oaktree Capital.

Yet, he's opened his latest note acknowledging the most important and common quality found among the world's top investors: humility.

"The vast majority of investors can't know for sure what macro events lie just ahead or how the markets will react to the things that do happen," Marks explains.

In other words, you don't know what you don't know. Or as Mark Twain once wrote, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

But that doesn't mean you should put market engagement and participation in the too-hard basket.

The key, according to Marks, is knowing the difference between the things you can reliably shape your investment decisions on and those you can't.

Unsurprisingly, the insights in Mark's latest note are broken into two categories: what doesn't matter, and what does.

Marks' latest note is 14 pages long, and I implore you to set aside some time in your day to read it.

But if you're time-poor, here's a summary I've put together of his key takeaways and some strategies investors can use to implement them.

VALUE EXTRACTS

WHAT DOESN'T MATTER

Short-term events

The vast majority of investors can't know for sure what macro events lie just ahead or how the markets will react to the things that do happen.

This is not to say that forecasting is impossible. It's not.

"Most forecasts are extrapolations, and most of the time things don't change, so extrapolations are usually correct, but not particularly profitable," Marks says.

"On the other hand, accurate forecasts of deviations from trend can be very profitable, but they're hard to make and hard to act on."

But here's the problem - forecasting events is only half the challenge. The other, arguably harder part is trying to understand how much investor expectations have been baked into prices.

"It's very difficult to know which expectations regarding events are already incorporated in security prices," says Marks.

"Security prices are determined by events and how investors react to those events, which is largely a function of how the events stack up against investors' expectations."

We see this play out all the time. For example, a company posts good numbers in its financial reports, and the share price falls. Why? Because the good or bad development is only such through the lens of market expectations. As Marks says:

"It's not whether the event is simply positive or not, but how the event compares with what was expected."

The trading mentality

Marks believes most investors wrongly adopt a trader's mentality. That is, they buy securities with a view towards selling them rather than a view towards owning them.

If you own something that you plan to sell, then in essence you're admitting that it wouldn't be worth having in the future.

"To me, buying for a short-term trade equates to forgetting about your sports team's chances of winning the championship and instead betting on who's going to succeed in the next play, period, or inning," Marks says.

Rather, it's much better to be all in on the securities you own. That kind of emotional buy-in naturally raises the bar in terms of asset quality.

"Are the buyers buying because this is a company they'd like to own a piece of for years? Or are they merely betting that the price will go up?" Marks asks.

If it's the latter, what you're really doing is betting on two things: the quality of a stock and trends in popularity.

"Wanting to own a business for its commercial merit and long-term earnings potential is a good reason to be a stockholder, and if these expectations are borne out, a good reason to believe the stock price will rise," Marks says.

"In the absence of that, buying in the hope of appreciation merely amounts to trying to guess which industries and companies investors will favour in the future."

Short-term performance

If a company releases bad results in a given quarter, its stock will usually be sold off. It's objectively true, therefore, that investors are trading based on this short-term performance.

"Obviously, no one should attach much significance to returns in one quarter or year," says Marks.

"Investment performance is simply one result drawn from the full range of returns that could have materialised, and in the short term, it can be heavily influenced by random events."

It's much better, in Marks' view, to too at performance over the long term.

"Deciding whether a manager has special skill – or whether an asset allocation is appropriate for the long run – on the basis of one quarter or year is like forming an opinion of a baseball player on

VALUE EXTRACTS

the basis of one trip to the plate, or of a racehorse based on one race," he says.

Volatility

Protecting yourself from volatility shouldn't be viewed as a free lunch.

"Reducing volatility for its own sake is a sub-optimizing strategy: It should be presumed that favouring lower volatility assets and approaches will – all things being equal – lead to lower returns," Marks says.

He uses a bond yielding 8% as an example of this. Yes, you'll be assured an 8% yield until the note matures, but you're also investing, at least in part, in the fact that the market won't return more than this in the future.

"Volatility is just a temporary phenomenon (assuming you survive it financially), and most investors shouldn't attach as much importance to it as they seem to," Marks explains.

Hyper-activity

Investing is probably the one area where laziness pays off. Well, maybe laziness is the wrong word. Let's go with deliberate inactivity.

Investors in general are a restless bunch. And that's not hyperbole. Market sell-offs gain momentum because investors somewhere are getting scared they'll be left holding the bag.

"Develop the mind set that you don't make money on what you buy and sell; you make money (hopefully) on what you hold," Marks recommends.

He also notes that too much diversification isn't a good thing. The more stocks you hold, the less consequence to the portfolio each of them has, making them psychologically more tradable.

Indeed, almost all the world's top investors run concentrated portfolios for this reason.

"I'm not saying it's worth dying to improve investment performance, but it might be a good idea for investors to simulate that condition by sitting on their hands," Marks says.

WHAT MATTERS

Given everything discussed above, it should come as no surprise that the important thing, in Mark's view, is to play the long game.

"What really matters is the performance of your holdings over the next five or ten years (or more) and how the value at the end of the period compares to the amount you invested and to your needs," he says.

Of course, that's easier said than done. Investors are human and get sucked into cognitive biases.

So here are two simple strategic goals to live by:

"Equity investors should make their primary goals (a) participating in the secular growth of economies and companies and (b) benefiting from the wonder of compounding," Marks says.

Then on the tactical level Marks recommends investors:

- Study companies and securities, assessing things such as their earnings potential;
- Buy the ones that can be purchased at attractive prices relative to their potential;
- Hold onto them as long as the company's earnings outlook and the attractiveness of the price remain intact; and
- Make changes only when those things can't be reconfirmed, or when something better comes along.

- Article by David Thornton

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At TrustLine, we run a specialized PMS / AIF fund 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.700+ crores of AUM for over 550+ highly satisfied clients. This makes us among the top 25 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) / Alternative Investment Fund (AIF). Unlike our competition, we are a unique firm focused only on Asset Management Services (PMS / AIF). This sets us apart and gives us a competitive advantage in the Fund Management 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 & AIF 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 95%+, 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.

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- ***Intrinsic*** **Deep Alpha fund (AIF)**
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