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MONTHLY VIEW

FROM THE FUND MANAGER DESK

Global Energy Crisis. What Triggered?

Is there a connecting story that runs across Coal, Natural Gas and Crude Oil shortages?

Lot has been written on the energy crisis and on the overall supply chain challenges in the post-pandemic world. But very few have focused on the connecting plot and much less on the root cause that triggered the energy crisis. We attempt to do that. Here we go.

One would have expected the world to emerge from Covid shock awash with oversupply, as would happen after any sharp and sudden slowdown. Far from that, the world is witnessing exactly the opposite, esp. in the fuel supplies. European and Asian gas prices are at an all-time high, the oil price is at a three-year high, and the price of coal is soaring on the back of energy shortages across China, India and Germany.

What went wrong and why?

It is fascinating to see the connection between seemingly unrelated events that have caused this crisis. Few would think that anything other than pandemic would be at the heart of the problem. But if one digs deeper, that is where one is led to. As one figures out, the crisis is not so much rooted in pandemic, but in geopolitics. It is another matter that this particular geopolitical issue of Australian coal ban by China got triggered by pandemic allegations.

Here is the sequence of events. All of a sudden, late last year, China announced the ban on Australian coal imports. It was a massive decision with huge implications for coal supply chain. Remember, China imported near 58% of its coal imports from Australia in 2019 and in 2020. This was like shutting the entire coal imports into China overnight. Since coal movements are freight intensive process, it is not easy and very time-consuming to reconfigure the shipping supply chain. So, what we ended up with was the huge pile of coal stocks in Chinese ports and a huge line-up of ships loaded with coal. As per some estimates, there are

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still over 50 loaded ships in Chinese ports in as late as September 2021.

The natural question that arises is, if the coal ban started a year back, why didn't the coal crisis start much earlier. One must thank the severe lockdowns in the first two quarters of this year for that. When the power demand came back in the third quarter with vengeance when the economy started opening up, depleting inventory in the supply chain started showing up in the form of surge in coal prices. In a normal low liquidity environment, the uptick in prices would have been manageable, given the short-term nature of the problem. Liquidity is anything but normal now. With momentum traders and punters (read hedge funds) awash with liquidity, anything that has reason to rise by X will be made to sky-rocket by 3X or 4X. It all boils down to whether one can spot and spin a story. That is all required in this highly speculative environment (high liquidity) to take any commodity to sky-high prices. That is the game hedge funds are good at, esp. when the liquidity taps are wide open. Look at what is happening to prices of many other commodities such as soda ash, palm oils, sugar and metals. No limits to where they can take the prices to.

Spinning story doesn't stop with just coal. It goes beyond that, as it is easy for the hedge funds that trade actively in futures market to stretch that story to the so called substitutes. If natural gas is a substitute to coal and crude is a substitute to gas, why not spin them into sky-high orbits as well. That is precisely what investment banks like Goldman in collusion with hedge funds do. For evidence, one doesn't need to look further than its recent report calling out for 110$ target price for crude oil. Of course, severe winters in Europe and gas supply hiccups from Russia to Europe couldn't have come at a better time for the hedge funds that watch like hawks for the next prey.

In summary, what started off as a geopolitical issue has morphed into a widespread global energy crisis by confluence of factors like shipping/container bottlenecks, surge in demand on opening-up, severe winter in Europe, Russia's reluctance to supply gas to Western Europe, China's stockpiling of domestic coal and gas reserves etc. Not to forget that the biggest role in this mayhem is being played by the hedge funds and investment banks in

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amplifying these short-term supply mismatch issues into a survival issue for many countries that are heavily import dependent for such commodities by jacking up the prices to unreasonable levels. But, if that is the nature of the beast (hedge funds), questioning their theatrics will be unwise.

Of course, one might argue that the chronic underinvestment in fossil fuels driven by ESG and EV frenzy etc. could structurally keep the oil prices high (as argued by leading magazines like Economist). But the counterpoint is that these pressures are not new and have been there for long time if one goes back in time (at least 4-5 years) and check. Current crazy trend is more of a "narrative following price action" than anything else. Only time will tell who is right.

Interesting times to watch out for!!

Happy Value Investing!!!

ArunaGiri. N

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CORPORATE NEWS

- **Tata Motors** on October 12 announced that private equity firm TPG Group would be investing Rs 7,500 crore in its new wholly-owned electric vehicle subsidiary. The investment will be in a newly formed subsidiary Tata Motors has formed for the EV business. The Rs 7,500 crore (close to $1 billion) will give a stake of 11-15 per cent stake to the TPG-ADQ combine in this subsidiary.

- **Equitas Small Finance Bank (SFB)** plans to raise up to Rs 1,000 crore in equity capital by issuing shares to institutional investors to meet minimum public shareholding (MPS) norms. The amount to be raised includes a premium on shares. The Company also announced that it will now enable users to open fixed deposits (FDs) on Google Pay.

- **Indian Bank** has expanded the partnership with Fisdom to add new digital products to widen the suite of wealth management products for its customers.

- The RBI said it has decided to retain the advisory committee of **Srei Infrastructure Finance Ltd (SIFL)** and Srei Equipment Finance Ltd (SEFL) to advise the administrator in the operations of the two Srei group companies during the corporate insolvency resolution process.

- The National Company Law Tribunal (NCLT) asked **Zee Entertainment** and its board to consider the requisition of Invesco Developing Markets Fund and OFI Global China Fund LLC, who hold 18 per cent stake in the company, to hold an extraordinary general meeting (EGM) of the company.

- Reliance New Energy Solar Ltd, a wholly-owned unit of Reliance Industries Ltd, has signed definitive agreements with Shapoorji Pallonji and Company Private Ltd (SPCPL), Khurshed Daruvala and **Sterling & Wilson Solar Ltd (SWSL)** to acquire 40 per cent stake in SWSL through multiple transactions.

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MACRO NEWS

- **The International Monetary Fund (IMF)** has retained India's economic growth forecast for financial year 2021-22 at 9.5 percent. The global GDP growth forecast for 2022 is also kept unchanged at 4.9 percent by the IMF.

- The government signed the share purchase agreement with Tata Sons for disinvestment of **Air India**. Talace Pvt Ltd, a wholly-owned subsidiary of Tata Sons had, emerged as the successful bidder at Rs 18,000 crore to buy out the government's share in the airline. The transaction is expected to close by the end of December 2021.

- Electricity will now be traded as other commodities with forward contracts and derivatives on exchanges with Supreme Court disposing of a decade-long jurisdictional spat between power regulator **Central Electricity Regulatory Commission** and the Securities & Exchange Board of India after they reached a mutual agreement.

- The union cabinet approved the **PM Gati Shakti National Master Plan**, Union Minister Anurag Thakur said. The Rs 100 lakh-crore Gati Shakti plan envisages a centralised portal comprising all existing and planned infrastructure initiatives of as many as 16 central ministries and departments for integrated planning and coordinated implementation of infra connectivity projects.

- The International Monetary Fund has cautioned that any tapering by the **US Federal Reserve** and similar action by other central bankers would lead to some capital flow out of India even as the country has enough foreign exchange at the moment, amid high foreign direct and portfolio investments.

- **Coal shortage** at several power plants continues to linger despite record production by state-run producer Coal India. The threat of power outages looms as almost 73% of power capacities have less than 5 days stock, a report by Crisil revealed. It noted that of the total 135 plants with a capacity of 165 GW, nearly 70 per cent were at a critical stage with less than 10 days of coal stocks.

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- The Centre has infused Rs 1,31,000 crore to boost **agriculture and allied sectors** with special emphasis on becoming an export-oriented economy as India has tremendous potential to satiate global demand, Union Minister Shobha Karandlaje said.

FUNDS FLOW DATA

Data as on 27th Oct 2021		
FUNDS FLOW DATA (Rs in Cr)		
Category	***MTD***	***YTD***
FII	(16,611)	(8,373)
DII	(708)	27,604
Total	**(17,319)**	**19,231**

DEBT & FOREX MARKET

Data as on 27th Oct 2021			
Debt / Forex Market			
Category	***Day***	***1 Mnth***	***3 Mnths***
10 Yr Yield	6.3	6.2	6.3
Re/ US $	75.1	73.8	73.5

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MARKET VIEW*

Is taper getting discounted in the market?

Markets do not wait for the events to respond. They discount events far in advance. If everyone knows that Fed is going to start taper by this year-end, it should be already in the price, right? Can we say with confidence that taper is at least in the process of getting priced-in if not fully discounted? For that, let us look at some data points to get evidence on what markets are up to.

First, let us go back to 2013 and see how taper impacted markets. As anyone would know, the impact was more pronounced in emerging markets, esp. in EM currencies. In 2013, EM currencies took most of the brunt. Freefall in rupee in the month of May that year is still vivid in memories for many close market watchers. Going by this, to gather evidence on whether the markets are already in the process of discounting taper, EM currencies are the best place to look for. While doing this, one has to keep in mind the key difference between 2013 and now. Back then, forex reserves in emerging countries were fragile and were hardly enough for few months of imports. Currently, that is not the case. Central banks in emerging markets have learnt their lessons from 2013 mayhem and as a result, have proactively built a substantially higher level of reserves. Taking India as an example, it is currently sitting on $640Bn+ forex reserves that could cover over fifteen months of imports. Given the strength of reserves, currencies may not be as vulnerable to flows as was in 2013 and hence may not be the best place to look at, though marginal weakness across emerging market currencies over last three months do indicate some level of taper discounting that is currently on in the markets. The next best place probably could be to look at what is happening to FII flows since the time Fed sounded on the taper. Here we can see some tantrums being played since early April. After the whopping 7.5Bn dollar inflows in the first three months of the calendar year, FII flows dried up significantly in the subsequent months to result in net negative flows since April. In the current month of Oct (till 27th Oct), it has been negative at over 2Bn dollars.

Going by outflows, looks like, FIIs are already preparing themselves for the eventual taper towards the end of this year. This means, markets are discounting the taper impact, at least partially, if not fully. Sooner than later, taper risks will be out of the way for the markets. This does not mean that there are no other risks to the markets. All that it means is, market is unlikely to go through a huge taper tantrums like the one that was witnessed in 2013.

*We stay away from giving market outlook (except reporting the consensus view) as we believe that the short-term market movements are function of innumerable rational and irrational parameters and hence any attempt to predict the next market move would be a futile exercise. Hence, we would like to qualify the above consensus view on outlook with a clear caution that TrustLine does not have any specific view on the outlook and does not necessarily subscribe to that.

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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 blog titled **"The Imminent Collapse of Digital Advertising"** *by* ***"Scott Galloway"***

"Assiduity is the ability to sit on your ass and do nothing until a great opportunities presents itself."

– Charlie Munger

The Imminent Collapse of Digital Advertising

Digital ad fraud could be a $150 billion business by 2025, which would make it the largest criminal enterprise after the drug trade

If Edward Snowden was injected with a megadose of Super Soldier Serum, he'd look something like Frances Haugen. Perhaps Haugen's disclosures — that among so many other evils, Zuckerberg knew Facebook's products "harm children" — means that Facebook has crossed the wrong cowboys, specifically … cowgirls who are moms. MADD (Mothers Against Drunk Driving) finally galvanized the nation against the scourge of drunk driving in the 1980s — will MAMS (Mothers Against Mark and Sheryl) bring down the Zuck and his merry band of mendacious fucks?

But that is not what this post is about.

Facebook — all social media, really — is the nicotine, the dopa drip of outrage and baby pictures that keeps us coming back for more. But the carcinogen, the thing that should have warning

labels slapped all over it and congressional hearings devoted to it, is … an algorithm-driven advertising model.

Ad-supported media has a long history, and it's not all bad. Alcoa paid for Edward R. Murrow's airtime, Woodward and Bernstein's Washington Post relied on advertisers, and on Sunday night, Frances Haugen waited patiently for a Jack in the Box ad to run before she stepped out of the 60 Minutes phone booth in her superhero cape.

Even in traditional media, advertising has always been a problem — what stories did Murrow avoid while Alcoa was paying the bills? But on digital media, advertising has more potential and more power, and it corrupts the media businesses that rely on it. Digital advertising has exploded; even after a Covid-19 dip, it accounts for nearly half of all U.S. advertising spend.

Big Little Lies

This torrent of money is what fuels Facebook, YouTube, and the rest of the teenage-dystopia-industrial-complex. The transformation of media into social media into a surveillance-based attention economy is a direct result of the digital ad model. But there's a second externality, and while it's historically received less attention than the ill effects of algorithmic enragement bias, it's a problem that's grown in the shadows into a multibillion-dollar beast. Fraud.

The digital advertising industry is a Rube Goldberg machine of platforms, agencies, exchanges, and other middlemen. I'd explain it to you here, but a) I don't understand it, and b) you don't want me to. The number that matters is 89%. That's the percentage of dollars spent on "programmatic" advertising. Ads bought by algorithm.

In a programmatic ad buy, the client — Nike or Nissan or Novartis, acting through an agency, the first of many middlemen — provides the ad itself and sets up criteria for who it wants to see it (e.g. 36- to 42-year-old Hispanic males with Crohn's disease in the final year of their auto lease). Then a series of automated processes place many thousands of copies of the ad on many

different websites, anywhere the algorithms believe the ad will be seen by people meeting the target profile.

That's lots of palms to be greased. Lots of opportunities for people to cheat, and enough complexity that this cheating is difficult to detect. Especially if the cheating only makes the system more money.

The basic cheat is the fake view. An ad is reported as being served to humans, when it was actually only "seen" by a bot, or by a person in a "click farm" tapping at dozens of screens, or by nothing at all. Networks of fake websites fool the algorithms into believing they are real publications. Measurements of the impact are all over the map, but we know fraud is pervasive. By one estimate, 88% of digital ad clicks are fake.

Publishers and the middlemen who place ads with them tout all sorts of supposed fraud-detection technology, but industry experts say it's largely worthless. Of course it is. These players benefit from inflated ad views — why would they suppress them? In 2008, Newsweek Media Group infected its own fraud-detection system with malware so it could charge advertisers for bot-generated traffic on some of its websites. Recently collapsed Ozy Media was a heavy buyer of fake traffic, and we haven't seen the last Ozy-type scandal.

Even ads that do make it to real humans are not all that likely to be seen by the people the advertiser is looking for. This was the core promise of digital advertising — saving modern-day John Wannamakers the half of their ad budget that was wasted on uninterested consumers. But there's increasing evidence that this promise was the biggest fraud of all.

A study by MIT professor Catherine Tucker found that even targeting something as basic as gender was unsuccessful more than half the time (i.e., it was worse than random). A Nielsen analysis of a household-income-adjusted ad campaign found that only 25% of its ads were reaching the right households. As much as 65% of location-targeted ad spend is wasted. Plaintiffs in a class-action suit against Facebook have alleged its targeting algorithm's "accuracy" was between 9% and 41%, and quoted

internal Facebook emails describing the company’s targeting as “crap” and “abysmal.”

And the technology that enables even this lousy tracking, the digital cookie, is on the way out. Cookies are short pieces of code websites leave behind on your computer so they can follow you across the Internet. But one adtech firm found that 64% of its tracking cookies are either blocked or deleted by web browsers. Apple recently updated iOS to require would-be ad trackers to obtain a user’s permission before dropping a cookie. Google’s Chrome (which commands 60% of the browser market) will block third-party cookies altogether by 2023. Although that cloud has a dark lining: Google is replacing cookies with its own proprietary system that will centralize ad tracking under its exclusive control. What could possibly go wrong?

Google and Facebook are the dominant players in this business. They’re huge publishers (capturing over half the digital ad dollars), and also the leaders in many of the upstream categories in the programmatic ad infrastructure. Google, for example, owns the largest digital ad marketplace, DoubleClick Ad Exchange.

Fraud is rampant in other areas of the digital ad business. Influencers can buy fake followers by the truckload — roughly 20% of them are fake. Approximately 40% of Donald Trump’s followers are likely bots. Social media platforms are rife with cats and bots: Facebook admits to shutting down billions of fake accounts on its platform every year. Even app store installs are fake. Bots/click-farmers download 1 in 5 iOS apps. On the Android platform it’s 1 in 4.

Given all this additional power, institutional investors have to exercise their vote carefully, while the proxy advisory firms have little choice but to be mechanistic and rule-based in their recommendations, given the number of companies and resolutions they have to opine on. Institutional investors have to build the internal capability to exercise independent judgement on controversial issues. One may not always agree with the point of view of proxy advisory firms, and need the conviction, capability and independent judgement to disagree.

This problem pales in comparison to Facebook's rage and confirmation bias debacle, but it's still a serious economic issue. Criminality is a cost ultimately borne by consumers, and crime begets crime. Digital ad fraud could be a $150 billion business by 2025, which would make it the largest criminal enterprise after the drug trade — and it fuels the same digital criminal underground responsible for industrial espionage, ransomware, and identity theft.

We need externally imposed and enforced industry standards on transparency in advertising. Expecting these conflicted middlemen to self-regulate is (generously) naïve.

And we should consider taxing algorithms that serve ads and content. We tax cigarettes and alcohol to suppress their use and fund policies to address some of their externalities. Programmatic ad buying, similar to other media buys, can be good/bad, and that's a component of business. But this is addiction, and it's hurting all of us. It's time for an intervention.

Don Draper, RIP

That's what should happen. What will happen? The edifice of digital advertising is unstable and likely to collapse. The promise of measurable ad spend has been crack for chief marketing officers. That algorithm-driven media was destroying our commonwealth by accelerating the spread of misinformation and division wasn't enough to give them pause. But now that they're realizing that promise was a lie, some are putting down the pipe. Several large advertisers have made deep cuts in their digital ad budget — including Procter & Gamble (cut $200M), JPMorgan Chase (slashed ad reach by 99%), Uber (cut $200M), and eBay (cut $100M) — and seen little or no measurable impact on their business. Other large companies are building programmatic ad capabilities in house, figuring they can trust the tech if they built it.

These firms already have huge brands and global distribution, partnerships, and other means to sustain awareness. It's possible to build a strong brand without advertising. Tesla is the most recent example, but not every company makes a revolutionary product in a highly visible consumer category.

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Digital advertising promised small and mid-size businesses a way to take a small ad budget and increase efficiency. And where do these businesses feel they have to spend their money? The Facebook and Google duopoly. Which brings us back to where we started: mendacious …

Life is so rich.

- Blog by Scott Galloway for Marker by Medium

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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.

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