Monthly Letter

August 2026

Invest well. Celebrate life.

We were +0.7% in July, versus +2.6% for the NIFTY50 TRI. Given the unsustainable extent of our outperformance in the preceding quarter, some give back or reversion to the mean was to be expected. The software/IT sector, which witnessed an extreme erosion in value over first half of this year, due to fears of its disruption by AI, saw a relief rally of +16%, which was the primary driver of the performance of the NIFTY50 this month. To us, this recovery is more tactical in nature, rather than structural. Post this recovery, this sector still trades below its long-term averages, suggesting the same.

Returns*	Prodigy Growth Strategy	NIFTY 50 TRI
1 Year	21.1%	-0.4%
3 Years	18.5%	8.6%
5 Years	16.2%	10.4%
Since Inception (1-Mar-12)	22.9%	12.4%

*Figures are annualised, are as of 31st July 2026, and are not verified by SEBI. The portfolio returns are post-fixed and performance fees. In line with SEBI guidelines, all the portfolio and benchmark returns are calculated using the TWRR method.

One thing this current earnings season is highlighting is that, notwithstanding the conflict in the Gulf, domestic consumer demand remains extremely robust across all sectors. This is something which high frequency indicators are also confirming as continuing into quarter two, despite the weaker monsoon season. Automobile sales, consumer goods sales, GST collections are all coming in at record levels. It would seem that the reforms on taxation and GST introduced in 2025 have really delivered on this front. Businesses benefiting from the China+1 play like speciality chemicals, pharmaceuticals and precision engineering are also witnessing healthy growth. While the conflict has impacted raw material costs and created logistical disruptions, it has not impacted the top line, which has come from underlying demand. While these costs may continue to impact margins in quarter two of this fiscal year as well, they are transient and we see the same ebbing in the second half of this fiscal year, as once again a resolution to the US-Iran conflict appears to be in the making. This time the resolution appears to be on more solid ground, and after much flip-flopping, crude oil prices are again below the USD 80/barrel level. Fingers crossed.

Over the last year, our market has been at the wrong end of the global AI trade. FPI money left our shores in droves to participate in the memory chip stocks and AI plays in Korea and Taiwan primarily. As a result, the Indian market, lacking in AI-related stocks, underperformed significantly. This also impacted our currency adversely. However, over the last month the AI play has unravelled sharply, and the deep correction in the theme, especially in the Korean market, has brought back the interest of FPIs towards 'traditional' growth-oriented markets like ours. This is evident from the shift in flows from negative to positive over the last few weeks, with FPIs turning net buyers of Indian equities to the tune of approximately ₹20,000 crore in July, after four months of heavy selling. While AI is here to stay, and will continue to draw disproportionate interest going forward, at least the euphoria surrounding it has subsided for now. India must find its own place in the AI value chain and give foreign capital a way to participate in it. The new FCNR-B scheme also seems to be gathering robust overseas deposits, and all these factors are helping the rupee to stabilise, which is extremely important if our market is to do well. The RBI has maintained interest rates at the same levels in its recent policy; however, the hardening of long-term interest rates in the US is of concern for all emerging markets. Hopefully the resolution of the conflict in the Middle East will also bring some relief here.

One debate that is becoming increasingly relevant is whether the NIFTY50 index now reflects the India which is a 'value' play rather than the India which is a 'growth' play. This is a valid question given how poorly the large cap NIFTY50 index has done relative to the mid cap and even the small cap indices over the last few years. It would appear that many of the traditional blue chips, on the back of which wealth was created in the decades past, are struggling to grow as new business models disrupt them and new verticals like AI grab investor attention. High-quality new-age digital businesses that are able to harness AI using their scale and data moats stand to be the blue chips of the future. We are well allocated to these promising business models. Unless the incumbents are able to pivot quickly to the frontier business models, they will continue to lose market share and investor mind share in the coming years. We believe one of the reasons we have done well is because our processes push us constantly towards these new market leaders and force us to shed the laggards.

Analysing the market internals and from management commentary we feel quite confident that a structural new bull market is taking root. We remain fully invested; in fact, the opportunities before us exceed the available funds we have to deploy — a good problem to have. Long term investors who have waited patiently over the last year should be rewarded now.

Thank you as always for your belief in us. We are at work for you.

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