Monthly Letter

September 2024

Invest well. Celebrate life.

We were +3.0% vs + 1.4% for the NIFTY50 TRI in August 2024. While conventional valuation methodology would peg the broad market as overvalued, the mid and small-cap indices continued to outperform the NIFTY50 on the back of persistent and strong inflows from retail investors into the market. We too believe that valuations are elevated, and have pruned positions that appear to have run ahead of their fundamentals. However, new ideas keep coming and the funds are getting redeployed almost immediately. Indeed, the pace of new listings, many with unique business models and many being the first listing in entirely new industry sub-sectors, is keeping us extremely busy. These are indeed exciting times to be a market participant, albeit with a healthy dose of caution too.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	32.6%	41.1%
3 Years	15.2%	23.7%
5 Years	19.4%	33.9%
Since Inception (1-Mar-12)	14.6%	26.0%

*Figures are annualised, are as of 31st August 2024, 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.

The US Fed has now clearly indicated that the interest rate cycle has peaked and is now pivoting towards expansionary policy, after a period of two and a half years; with the first rate cut possibly coming as early as mid-September. However, recent data of manufacturers suggests that the slowdown in the US economy may be more than what a 'soft landing' would warrant. Thus, the US market, after rebounding to its previous all-time high on the expectation of a rate cycle reversal, has receded on the fears of a not-so-soft landing. From our perspective (and of all emerging markets), the easing cycle of the US Federal Reserve is an extremely positive development. It will encourage capital flows towards the emerging markets and allow for an easing of interest rates here as well, giving growth an impetus. Markets that have attracted inflows due to their performance in the past, viz the US and China, are now underperforming the Indian market meaningfully, which would be another factor attracting inflows. This is becoming evident in the FPI data, which shows strong inflows into our bond market, and we believe the same will also be reflected in our equity market in the coming months.

As the developed world and China continue to show signs of struggling with growth, India will increasingly stand out. The softening of commodity prices due to the global slowdown, especially of crude oil, is also a positive for our economy. We have, in our last Monthly Letter, alluded to the strength of our economy and fiscal situation relative to other markets. We see this gap continuing to widen in the years to come, as India gains in economic strength. Some like the US, will be hobbled by the fiscal profligacy of the past, while others like China, Korea and Japan, will be bogged down by adverse demographics. If India is able to continue on the path of reform (in areas like skill development, labour reform, manufacturing growth etc.), then this is likely to be a

historic period of growth in per capita income for us, with huge spinoff benefits in consumption growth. Fortunately, we have also managed to keep inflation under control (thanks to fiscal rectitude), and thus we are indeed a 'Goldilocks Economy 'today (high growth with low inflation). The RBI deserves some credit for the robust position our market finds itself in, steering the country through what has been an unprecedentedly challenging time for central banks globally. In fact, Shaktikanta Das, the RBI governor was ranked the top central banker globally for the second year running in 2024 - a recognition of the adeptness and prudence of India's Central Bank. The fiscal glide path provided in the recent budget is further icing on the cake provides comfort in India's continued fiscal discipline.

The biggest strength for our market today is the strong domestic inflows, whether directly, or through mutual funds. As the balance between domestic institutional holdings and foreign holdings shifts towards the former, we become more resilient against global news flows. Thus, the real worry for our market now is - what can slow this domestic inflow? With our own interest rate cycle also likely to turn towards a softer regime in the near term, given that inflation data and monsoons are both beneficial and the US Fed has indicated its intent to start easing; equities will continue to appear more attractive a choice than competing asset classes. The factor that we believe may impact the rally going forward, and is arising from the elevated valuations, is the supply of 'paper 'from promoters, private equity investors, and huge raisings in the form of QIPs (likely to be a record this financial year) and the swollen IPO pipeline. High valuations are tempting many stakeholders to liquidate or issue fresh capital. While one of the primary purposes of the capital market is capital formation, this is also a balancing factor to markets becoming over-valued, which is a good thing. So, it is likely that the liquidity coming into the market will be balanced out by the supply of fresh paper going forward. Many bull markets in India have ended, temporarily at least, by this happening.

The US election has now become too close to call. A Democratic win, we believe, would be better for the world geo-politically and for climate change policy. Fingers crossed.

Thank you as always for your support. Thank you to everyone who graced our 20th Anniversary function last Sunday.

Warm regards.

RC

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