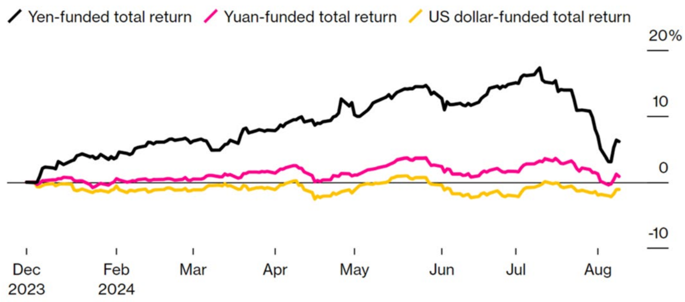
Dear Investor,

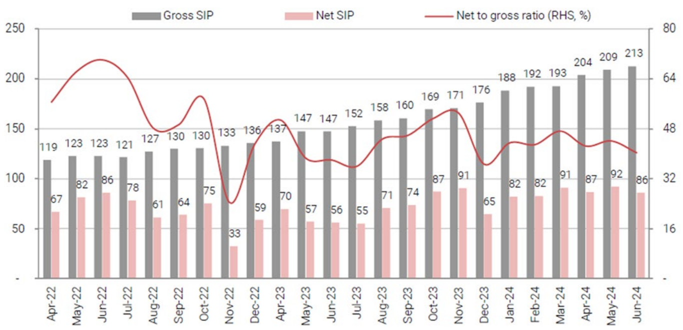
As I write this memo, the global markets have witnessed an extreme bout of volatility caused by unwinding of the infamous "carry trade". The yen carry trade, as it was commonly known, meant to simply borrow at rock-bottom interest rates in Japan and invest in high-yielding bonds, equities or even crypto currencies. Various factors led to the unwinding process. The pressure on mega tech stocks in Nasdaq and finally an interest rate hike from the bank of Japan resulted in a near capitulation (Exhibit 1).

Exhibit 1: Yen Funded Carry Trades Have Capitulated
Yen-funded returns have given up most of the year's gain



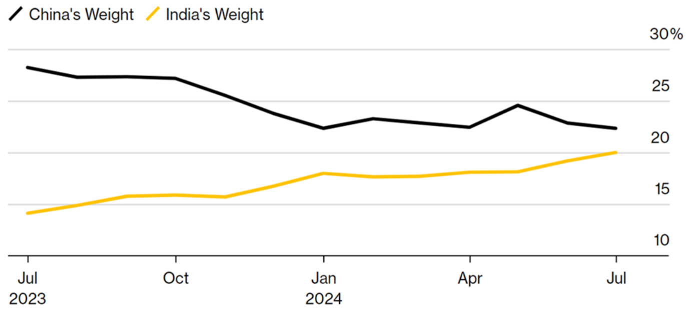
Source: Bloomberg. Figures represent the cumulative total return of eight EM currencies – BRI, MXN, INR, IDR, ZAR, TRY, HUF, PLN – that are short JPY, CNH or USD

Exhibit 2: Gross and net SIP flows, April 2022-June 2024 (Rs bn)



Source: Bloomberg

Exhibit 3: India's Growing Heft in Emerging Market Basket
Weight of Indian & Chinese stocks is converging in MSCI's EM Index



Source: Bloomberg. Data as on July 31, 2024

Exhibit 4: Diverging Performance of Indian & Chinese Stocks

Source: Bloomberg

Indian markets, however, have withstood this dramatic increase in volatility rather well. One of the reasons for this has been the strong domestic liquidity support provided by the SIP flows into equity mutual funds (Exhibit 2).

The relative strength of Indian equities has also helped in increasing India's weightage in the MSCI Emerging Market Index which is likely to bring India closer to China which leads the weight table (Exhibits 3 & 4). This is indeed a remarkable development with positive implications for the Indian markets as this would drive increased foreign flows into Indian equities.

The Q1FY25 earnings season was below par for most sectors due to general elections and the intense heat wave. This affected the demand for many consumer facing businesses. The demand environment for offshore focussed IT services was also lacklustre with continued pressure on discretionary spends. Lending businesses that focus on low income borrowers stepped up their provisions on unsecured consumer loans in the microfinance segments. There was a distinct increase in stress due to "over-leveraging" in the low income households.

However, the capital markets segment of the market was quite buyoyant. Stock exchanges, asset and wealth managers, depositories, registrars & transfer agents, etc. showed strong growth. The life insurance industry saw an increased momentum on the back of strong market performance.

The auto sector witnessed mixed trends with 2Ws reporting strong growth while passenger & commercial vehicles and farm equipment were flat. However, above average monsoons, good kharif harvest and the upcoming festive season is likely to trigger much stronger growth for the sector.

Power & Telecom witnessed steady demand in the quarter. Power generating companies benefited due to a hot summer and improving industrial activity. The impact of tariff hikes for telecom companies will be seen in the coming quarters.

We remain constructive on the Indian markets and continue to focus on select themes within sectors such as BFSI, Auto, Consumer Discretionary, IT Services & Telecom.

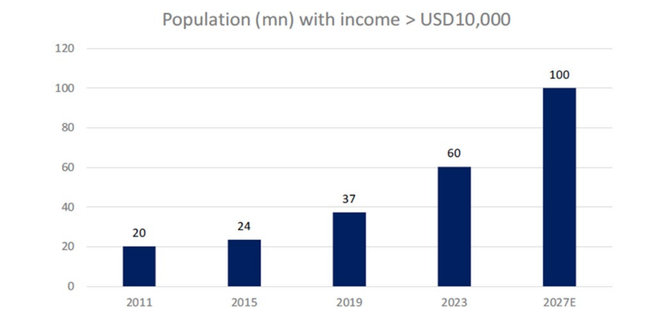
Our Thematic Approach to Portfolio Construction

As part of our investment process, we identify 'themes' that we believe are likely to play out favourably in the next 3 to 5 years followed by an evaluation of a range of sectors and stocks that are poised to benefit within these themes.

One such theme that we have identified is the "**Rising Affluence / Premiumisation in Consumption in India**". This theme is being propelled by three key developments:

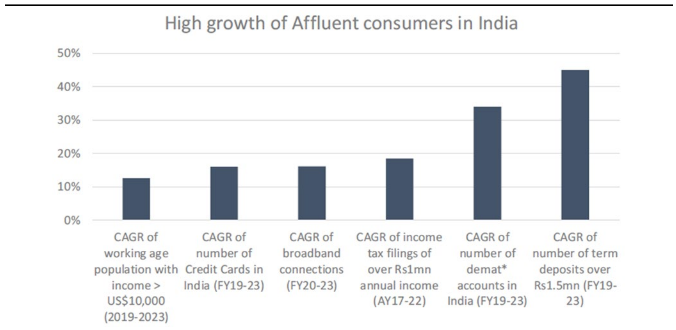
1. The proportion of "affluent' consumers in India as defined by per capita income of > USD10,000 per year has grown at a CAGR of >12% between FY19-23 as compared to the overall population CAGR in India of about 1%.

Exhibit 5: The population with income of more than US$ 10,000 to rise to over 100mn by 2027, growing at a 13% CAGR



Source: Goldman Sachs Global Investment Research, January 2024

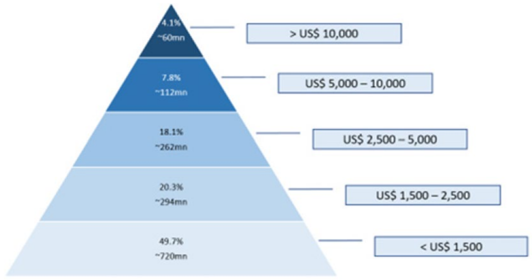
Exhibit 6: Mutiple data points corroborate mid teens growth in number of 'Affluent' consumers in India



Source: Goldman Sachs Global Investment Research, January 2024. * Demat accounts are stock trading accounts.

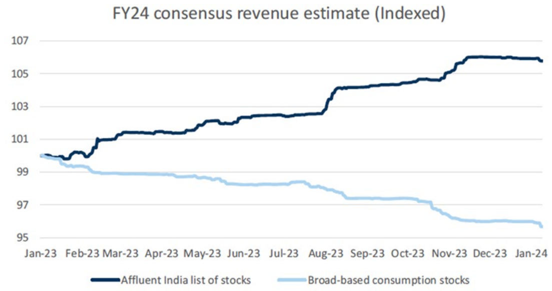
2. There has been a material increase in the value of financial and physical assets in India over the past 3 years which is driving the 'wealth effect' in affluent India.

Exhibit 7: India's income pyramid - ~4% of the working age population at an income level of over US$ 10,000/annum (2022)



Source: Goldman Sachs Global Investment Research, January 2024

Exhibit 8: 'Affluent India' list of stocks has seen consensus upgrades, compared to downgrades for broad-based consumption stocks



Source: Goldman Sachs Global Investment Research, January 2024

3. Flowing from the above, it is quite understandable that companies focussed on premiumized consumption have grown faster than those tragetting mass retail consumption.

The sectors benefiting from the rising affluence trend are Travel / Leisure / Hospitality, Jewellery, Premium Automobiles, Retail, Healthcare, etc.

Based on this, the stocks mentioned in Exhibit 9 were identified to be a part of our flagship diversified portfolios.

The 1-year and 3-year performance of these stocks vs. the benchmark Nifty 50 Index is shown alongside.

The rapid growth of 'Affluent India' is likely to have a disproportionate impact on categories which derive a large part of their consumption from the top 50-60mn consumers in India. Also, as the size of Affluent India expands to ~100mn over the next 4 years, more categories could become net beneficiaries.

Exhibit 9: Stocks in our portfolio that are well-poised to benefit from the Rising Affluence / Premiumisation in Consumption in India

	1 Year	3 Years
Trent	239%	674%
Indian Hotels	60%	378%
M&M	79%	251%
360 One WAM	112%	188%
Titan	16%	90%
Nifty 50	28%	51%
Apollo Hospitals	39%	45%

Performance is in % absolute. As of 23 August 2024. Source: Trivantage Capital

We continue to identify similar trends for our portfolios and will highlights such themes in our subsequent investor communication.

From all of us at Trivantage Capital, we wish you and your family a festive season filled with good health, joy and prosperity.

Regards,

Nikhil Johri
Founder & Chief Investment Officer