Dear Shareholders and Investors,

The first quarter of 2023 (January – March 2023) saw the fund deliver a return of –3.91% as against Nifty which had a return of -4.12% over the same period.

During the first quarter of the year, we added exposure to financials and increased our weights in a few auto-ancillary companies who continue to see strong order book growth through both the export and the domestic market.

Today, our highest exposures are across manufacturing (focused on B2B businesses with both a domestic and export oriented focus), auto ancillaries, Financials (on a bottoms-up focus) and niche IT services.

Our view of the world today

In this section, I want to zoom out a bit to present what we think of the world, macro-economic factors and how we translate into our portfolio positioning today.

I believe that the government debt on the balance sheet of the Central banks has reached a level where it is not going to be easy to de-lever. Studying history suggests that central banks would pursue inflationary policies aimed at stimulating economic growth and reducing debt through capex spending over the next few years. This could involve increasing government spending on infrastructure, education, and other capital expenditures financed through borrowing. One potential implication of this approach is that it could lead to higher inflation, as increased demand for goods and services could put upward pressure on prices. This, in turn, could lead to higher interest rates and a potential period of higher commodity prices which could be structural in nature.

There are 3-4 broad themes I believe one would see structurally from here in the next 3-5 year cycle

a) Capex-driven growth globally.
b) A focus on manufacturing led growth for economies to sustain the supply chain.
c) Inflation being structural rather than temporal.
d) A regime of higher interest rates

Our construct of the portfolio today is predicated on the above and our exposures reflect the above thought process. While I would like to buy metals, it is rare to find such companies in India which have balance sheets financed with a higher percentage of cash accruals vs debt and are run well with a good track record of capital allocation. This is one segment where we wish we have additional risk in, but we do not for the above-mentioned reason.

Our portfolio positioning.

Manufacturing focused theme

Under this theme, our investments across the following sectors : agri-chemicals, auto ancillaries, pharma CDMO, refractories that provide inputs to cement and steel.

Financials

I have maintained that financials will never be a structural part of our portfolio as the business to me is inherently cyclical. Hence buying the following 2 aspects to me is paramount.

i) The management team and their execution
ii) Valuation

When both of these fit our framework, we invest in financials. As written earlier, we have exposures across HDFC Bank and IndusInd bank and any marginal increase in exposure would be across the latter. We sold out of our position in ICICI Bank late last year purely on the basis of opportunity cost today and the expected IRR it could add to the portfolio at the current valuation.

Auto Ancillaries

While I have touched upon auto-ancillaries under the B2B manufacturing segment, I believe it is important to highlight Auto ancillaries as a separate section here due to our exposure in this segment. Today, we own businesses across the following domains manufacturing.

a) *CV power trains and crank shafts*
b) *Transmission gears*
c) *Braking systems, Control Cables, and Telematics*

The companies we own are all promoter-run, been in business for over 30 years (on average) and have deep relationships with their end clients (predominantly export oriented) which gives them the ability to maintain their margin profile across inflationary cycles.

The above exposures would combine up to 75% of our equity exposure today. While we have investments across 3-4 themes, they would all be married by a common set of characteristics :

i) Promoter run or Managements who have a track record of allocating capital sensibly
ii) Companies which have the largest market share in their domain or in the Top 3 and whose market share is expanding
iii) Businesses who continue to grow their cash flows and re-invest them in incremental growth in the business (their addressable market is expanding)

Portfolio Fundamentals

Table 1: Summary of our Portfolio growth as of 3QFY23

Portfolio Metrics (for Quarter ended Q3FY23)	*Revenue (QoQ)*	*PAT (QoQ)*	*Revenue (YoY)*	*PAT (YoY)*
Itus Portfolio	*0.7%*	*-6.1%*	*17.6%*	*28.5%*

We look at the fundamentals of our portfolio by measuring the rolling 4Q growth of both the Revenue and PAT to understand a simplified version of the health of the portfolio. While looking at the two metrics mentioned, does not give the full picture, we report the Gross margin profile of our portfolio alongside the Cash Flow growth of the portfolio to understand the strength of the pricing power of the business (indicated by the gross margin) and the working capital cycle of the business (measured by cash flow growth).

Our Gross Margin at the portfolio level is at 59% (over a rolling 4Q basis) and has increased from 55% over the last 3 years. Our cash flow growth of the portfolio over the last 1Y is at 24.5% and the last 3Y CAGR is at 22.2%.

Overall, the portfolio fundamentals continues to be strong and our investments continue to show inherent strength during difficult times of macro and global headwinds.

Portfolio Performance and Attribution

At Itus, our fund has delivered an IRR (Annualized) of 18.2% (net of fees) since inception (Jan 17 – Mar 2023) as against Nifty which has delivered an IRR (Annualized) of 12.8% over the same period. The detailed performance of our fund is shown below in the table in a granular form:

Table 2: Breakdown of CY returns of the fund vs Nifty 50 on a yearly basis.

	Itus Fund (%)	**Benchmark - Nifty 50 (%)**	**Excess Return (%)**
2023	-3.91%	-4.12%	0.22%
2022	-2.83%	4.32%	-7.14%
2021	29.3%	24.1%	5.2%
2020	40.3%	14.9%	25.4%
2019	17.3%	12.0%	5.3%
2018	-7.3%	3.2%	-10.5%
2017	54.7%	28.7%	26.0%
Since Inception (Cumulative)	184.8%	111.9%	72.8%

Portfolio Summary:

We had significantly overweighted cash going into the second half of 2022, and the end of the year, due to lack of investable opportunities at the desired IRR we wanted as a threshold for putting money to work in the investable universe of ours.

We deployed ~28% of the cash in this quarter (in the market volatility we saw in Feb 2023) for new clients and for capital deployed with us on the back of capital calls we made. Our weighted average cash balance across all clients in the portfolio has reduced to 14% as of March 2023. We will continue to be prudent in terms of capital allocation over the next few quarters as we potentially look at raising our equity exposure and reducing our cash balance further.

I continue to maintain that 2023 would be a great year to deploy capital on a purely bottoms-up basis into volatility that we see in the year. I look forward to speaking with you on our call at 9:30 AM on the 15th of Apr 2023.

From the desk of the CEO

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