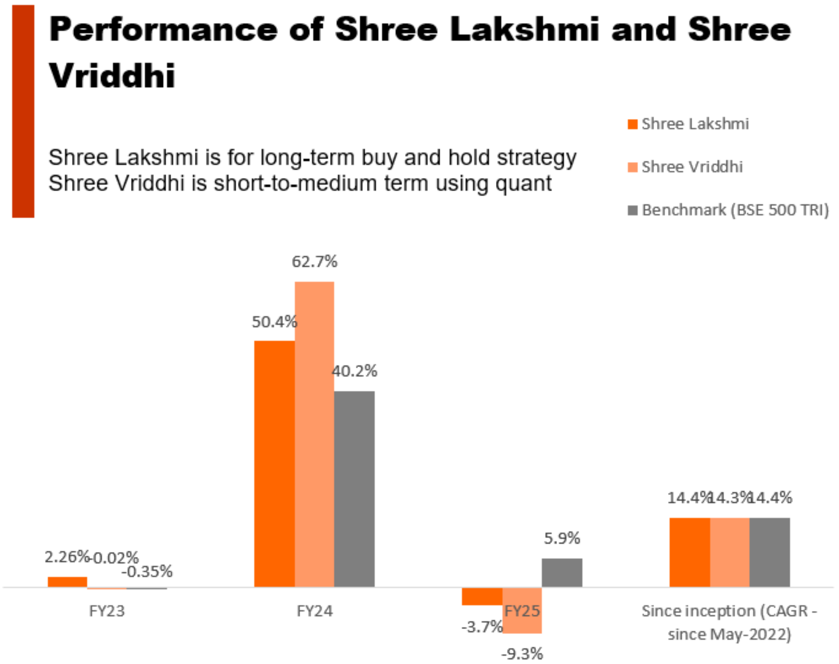
Let me take this opportunity to update you on the performance of both Shree Lakshmi and Shree Vriddhi funds for the FY25.

Second half of FY25 was led by a broad-based correction



FY25 (April 2024 to Mar 2025) was not good for us. We started the year strong and even though the markets started correcting from August, both our portfolios were initially quite resistant to the fall. If you see Fig 1 and Fig 2, you can see that Shree Lakshmi was outperforming its corresponding benchmark till the beginning of January 2025. Shree Vriddhi, being a more short-term momentum-oriented fund, held peaked in August 2024, while the market was strong and then corrected.

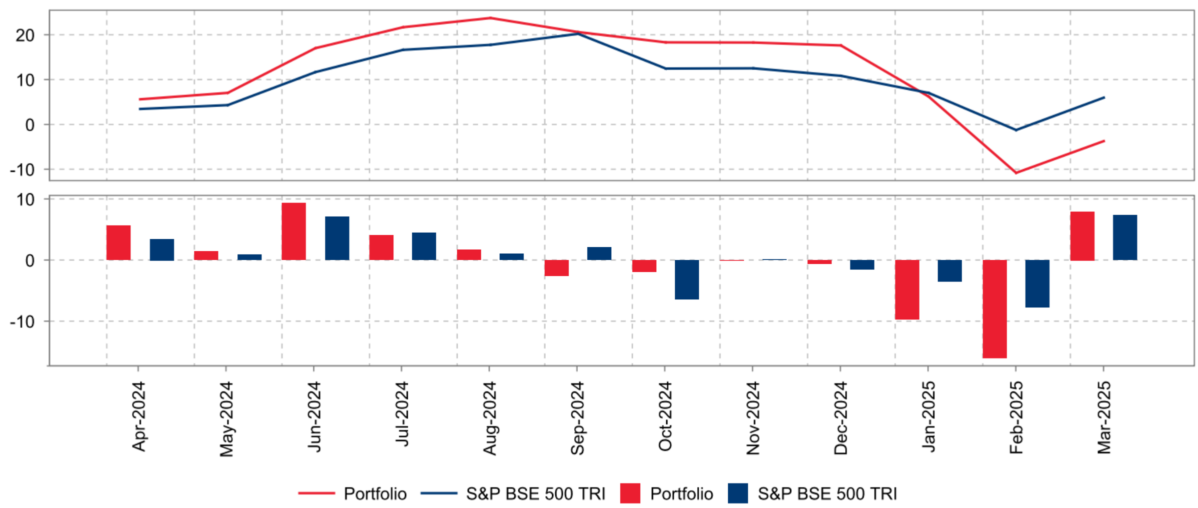


Fig 1: Month-on-month performance of Shree Lakshmi

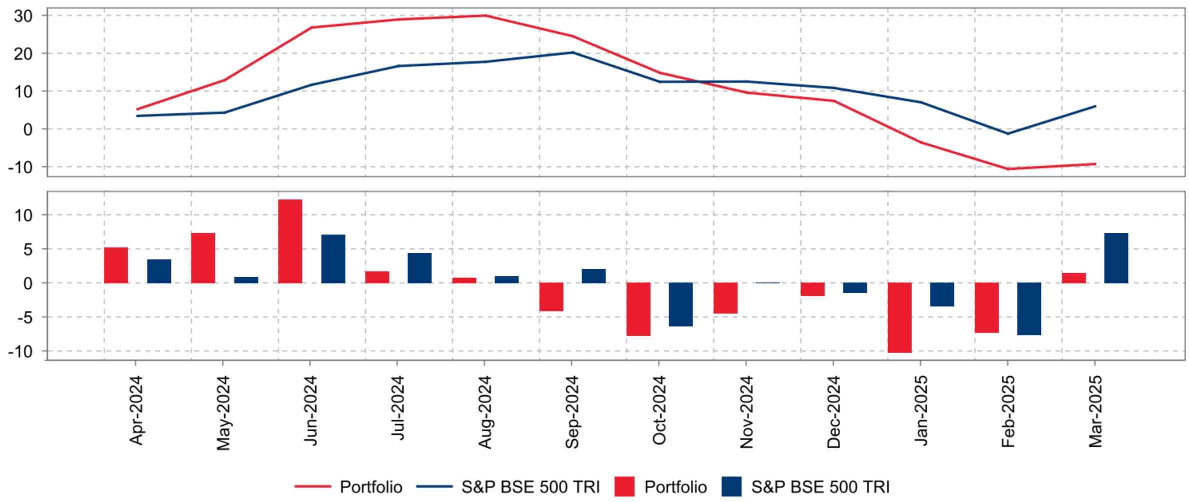


Fig 2: Month-on-month performance of Shree Vriddhi

<u>What happened?</u>

From April onwards, the economy started slowing down as the government and the country got into the election mode. Over the last few years, government capex has been one of the primary drivers of growth in the economy and due to the elections, sanctioning of all new projects or extensions came to an abrupt halt due to kicking in of the code of conduct of the Election Commission. New order flows in major expense heads including railways, defence etc took a backseat.

In a corrective or bear phase, the best stocks are often the last to fall. Market participants hold on as long possible, but due to many factors like margin calls, inability to bear the pain of further quotational loss investors fold in the towel and sell. This is precisely why our portfolio held firm till January when most indices had already undergone a fair bit of correction. I continue to believe in the stocks we hold in Shree Lakshmi (SL) fund and are expected to produce good results in the next couple of years and I am hopeful of them giving us good gains for our portfolio.

As you can see in Fig 2 above, Shree Vriddhi (SV) had a brilliant run till late July before the real drawdown started. It was in the top 10 best performing funds in India during this period. A strategy like works brilliantly in a trending market and gives very high returns compared to the broader markets, something that we have witnessed in the last two years. But, in a sideways or corrective market, momentum-oriented strategies tend to suffer. This is because trends or bursts of momentum do not last long enough to benefit from. By the time the stock comes into the system, the momentum is fading and reversing causing stop losses to get triggered. This means during times of consolidation or correction in the broader markets, momentum strategies die by a thousand cuts. This is apparent in the results of all momentum-oriented funds and ETFs.

The important thing to remember however is that momentum is the one of the most prominent factors in investing with a history of outperformance over very long periods of time. These are testing times for all momentum strategies, but I am convinced that once we pass through this period, we will get back to strong growth.

When and how do we decide to go to cash?

Selling is one of the most difficult disciplines in investing. At Shree Rama, we have simple rules to sell. They are as follows:

1) When we find a better company to switch
2) When the management does something negative that we did not anticipate
3) If there is headwind in the industry
4) If our stop loss is hit

In a very choppy market, stop losses are usually not hit and the stock keeps going up and down before the major fall comes in. We exit at the major fall. This, at times, is also very close to the short-term bottom. And the stock can then slowly recover after we have exited fully or partially.

When we go to cash there are no main considerations:

1) If can protect for catastrophic losses.
2) We miss out on part of the recovery when it starts

When the market is falling, no one knows how far and for how long it will fall. So, at some point, when the protective stop losses are triggered, it could very well be near the bottom. But that can be only known in hindsight. The objective is always to protect from large losses. Also, when the recovery starts, and we are in cash, the portfolio tends to underperform for a while because the cash component acts as a drag. This is a trade-off that we need to make. There is no optimum way of handling this problem. Some managers decide to sit through the entire drawdown. I prefer getting out and then getting back in when things are slightly clearer.

Future Outlook – FY26

The global markets are in turmoil because of the continuous tweets from the US President Donald Trump. His tirade against various countries, leaders, institutions have impacted the markets. On and off tariffs, trade war with China have created havoc in the markets. It is still not clear to me what the actual endgame of all this is. We will get to know that only in hindsight.

In the meantime, the US Dollar has fallen, so has crude, gold has rocketed and European stocks have moved up. Both US and China are threatening other countries of grave consequences for siding with the other side.

There is also pressure on India to sign a trade deal with US quickly, which may require a fair deal of give and take. We are seeing a possible realignment of global politics and economics in front of our eyes. The effect and impact of which will be roll out slowly over the next couple of decades.

I think the rate of change will start going down within another 1-2 months and thus June-July seems to be a timeframe when we could start seeing a significant upmove in the markets. We are also likely to see healthy foreign capital flows and a stabilising or increasing markets will see domestic participation also return.

I am focusing on domestic focused businesses which have the possibility of good growth in the next cycle.

When the dust settles, India could actually end up being in a better position than before, as a global supplier of both services and manufactured goods.

Investor Strategy

As an investor the best option is to use these periods of market consolidation and correction to bolster our portfolio by sipping into it regularly (monthly is the best, failing which quarterly). The reason this works well is, although the portfolio may be volatile in the short term, the capital infused during this period will be ready to earn handsome rewards when the tide turns.

And lastly, like always, let me reiterate the 1-in-4 rule.

The 1-in-4 Rule: Best to remind ourselves frequently

I have this rule that I always keep at the back of my mind. It goes like this.

- 1 in 4 years will be bad where we will lose money.
- 1 in 4 stocks will not play out the way we thought it would.
- 1 in 4 stocks we will get in or out too early or too late.

In addition, once every year, we are likely to see a 10% fall in the markets. Once every 2-3 years, a 20% fall and once every 8-10 years a 30%+ fall.

The problem is we don’t really know which of these we are in now. Is this the one year where we will lose money? Or is this the stock in which we are making a mistake on?

Since we don’t know if this year will be that bumper year or that bad year, the most rational thing to do, if we have a long-term horizon is to remain invested.

Once we understand this, it is easier to handle the ups and downs. Plan for the occasional speed breaker on the road. It is not that you leave your house only when you know that the road to your destination is all clear with zero traffic. You get out on the road and make the journey. Along the way, sometimes the traffic is slow, sometimes fast and if there are diversions you take them as long as they take you towards the destination.

It is exactly the same here. Just keep in mind the destination in this journey is to compound your capital at a reasonable rate over your investment horizon and not make large capital losses.

Thank you once again for being part of our journey of wealth creation.

Abhishek
Co-Founder and Fund Manager
Shree Lakhsmi & Shree Vriddhi

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