

INVESTOR LETTER – JULY 2025

Let me take this opportunity to update you on the performance of both Shree Lakshmi and Shree Vriddhi funds for the Q1FY26. Shree Lakshmi fund is up 9.18% and Shree Vriddhi fund is up 1.94% versus 10.77% of the BSE500. We saw a strong turnaround in the performance in Shree Lakshmi in both May and June where it was up 2-3x of the benchmark. Shree Vriddhi, like nearly all momentum-oriented strategies continued to struggle and only in June did see a 40% outperformance over the benchmark.



Fig 1: Month-on-month performance

What happened in Q1?

In Q1, the markets begun recovering in fits and starts. There was a continuous overhang of fresh geopolitical tensions with Operation Sindoor and the Israel-Palestine-Iran-US war. The ongoing Ukraine-Russia war, which most people now have put behind them, continues unabated.

We have started seeing IPOs coming back to the markets and the fear and panic seen in the beginning of the year seems to have started receding. I had written the following in my previous letter, “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.” This seems to be playing out. The US-India FTA is close to getting signed as per media reports and could bring much needed stability to the Indian markets. Also, the passage of Donald Trump’s “The One Big Beautiful Bill Act” can bring down US policymaking through social media to a large extent.

Does it mean that the world will be calm, peaceful and business-as-usual once more? Far from it. I expect the entire Trump presidency period to be filled with continuous barrage of news flow. Our job as investors would essentially be to keep the noise out.

What will drive the next leg of growth?

The main factors that are likely to drive growth are:

1. Rate cuts by the RBI
2. Low inflation due to moderation of crude and food prices
3. Effect of income tax breaks announced in the budget
4. Improving sentiment in public sector employees due to announcement of Pay Commission (to be implemented from 1-Jan-2026)

Will India be able to dissociate from the US markets?

The US has been significantly outperforming Emerging Markets (EMs) since 2010 primarily due to the dominance of its tech companies. There is a possibility that this may change. With the larger European countries now realising that US is not a reliable security partner, have taken decisions to bolster their defence, power and industrial investments. This may mean significant opportunities for Indian companies, especially Indian subsidiaries of European companies, in the manufacturing sector.

This also implies that as US markets deal with debt deleveraging, global investors start looking for growth outside the US. This could spell big opportunity for India in the next 2-3 years.

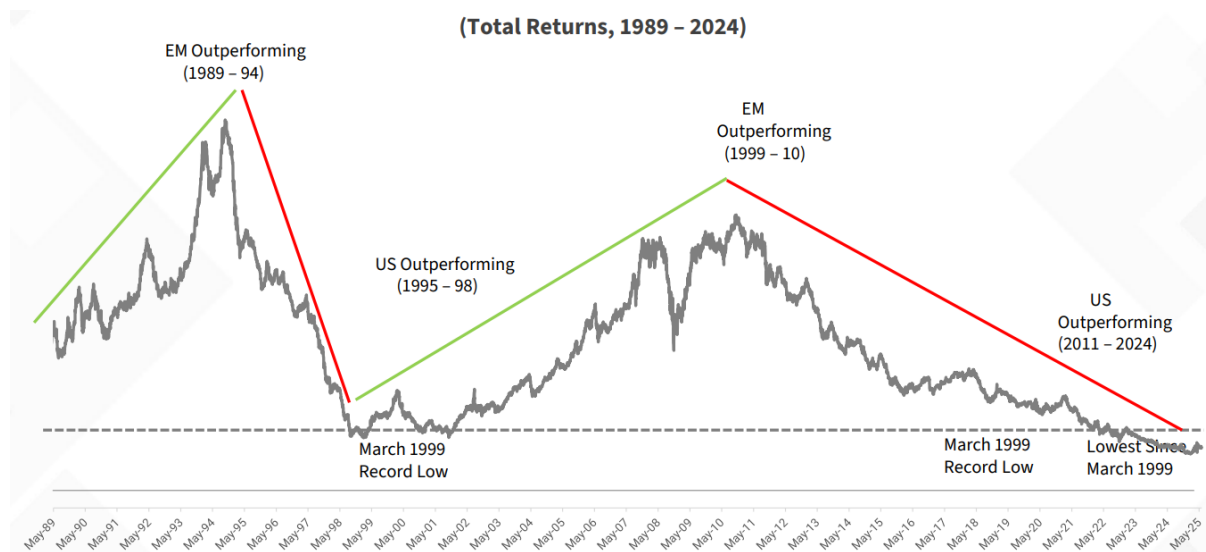


Fig 2: EMs are at a historical low w.r.t the US. Mean reversion imminent.

This could lead to a repeat of the 2000-2010 period where Emerging Markets like India significantly outperformed the US market.

Why is momentum strategy not working last few months?

In the last 6 months, the momentum style is out of favour as can be seen in the figure below. Different styles work during different times and phases of the market. Last year quality, low volatility types of strategies have been performing relatively better compared to

momentum. However, over extended periods of time, as shown in fig 5, momentum does have the best return profile.

Index Funds

Index Performance

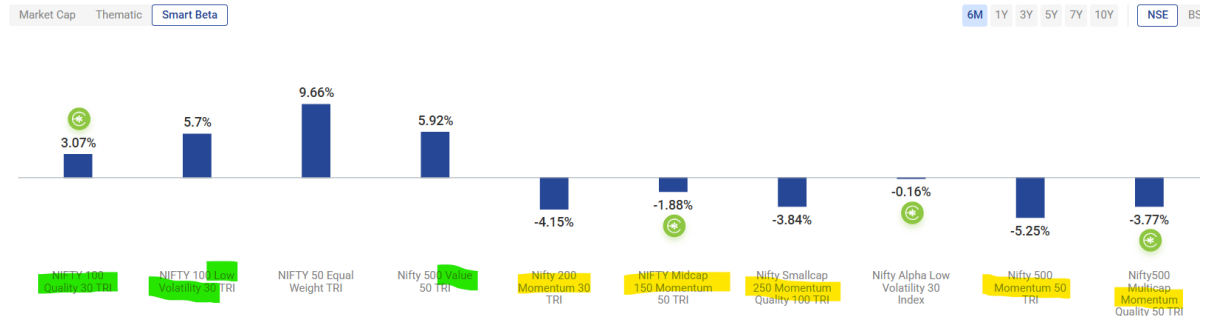


Fig 3: Momentum strategies underperform

Index Funds

Index Performance

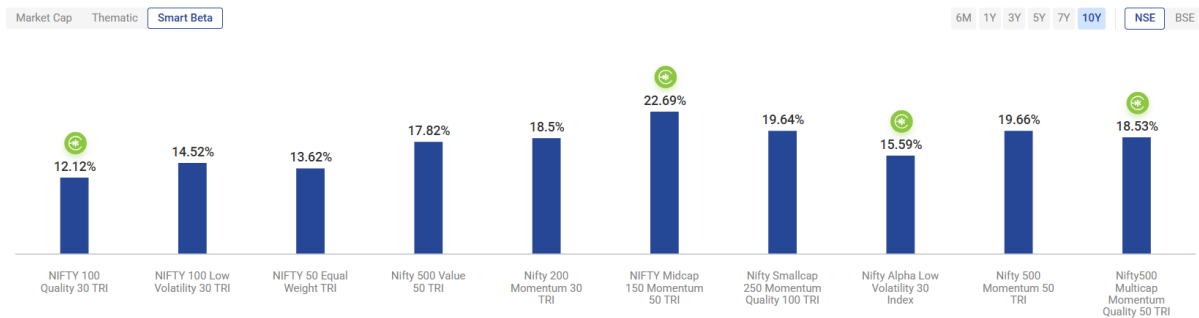


Fig 4: Long-term returns of momentum factor is the best

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.

Investor Strategy

I am of the belief that the next 12-18 months is likely to be good for the Indian markets. So, now may be a good time to become slightly aggressive in asset allocation and allocate additional savings to equity.

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 Rama Managers PMS

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