

Dear Fellow Investor,

We hope this message finds you well. In this note, we discuss our performance, our approach to making investments and assessing risk in the current market situation.

Our Performance and Market Context

We started PMS Operations on the 04 Jul 2023. For the period ending 30 Jun 2024, we have completed almost full year of PMS Operations as Team Fortuna. Since inception, the returns at our Equity Strategy “Fortuna One” have been **+56.5%** (post fees and expenses), generating **+19.1% alpha** over the Benchmark BSE S&P 500. This places us amongst the **top quartile** of the operating PMS Strategies in India.

The markets have delivered good returns and are richly valued. The Sensex is at more than 1 standard deviation over its historical levels. The Small Cap Index is close to 2 standard deviations over its historical levels. New thematic strategies are being launched by Mutual Funds and domestic capital is flowing to both the Small Cap and Thematic universe.

The union budget continued its focus on fiscal consolidation and capital expenditure but added tax burden on investors and traders. The focus on skill development and jobs is a long term positive, but support to rural consumption has not been material.

With large pools of domestic capital chasing investment opportunities, valuations have gone up, making our job as portfolio managers a lot more difficult.

Our Approach to Making Investments in the Current Market

In our portfolio, we see several of our positions are at valuations where it will not be wise to deploy fresh capital at current price points. Even so, except in cases where valuations are factoring in irrational expectations, we prefer to hold and not take cash off the table. Our investment style is to avoid market timing, remain tax efficient, and do not disrupt the long-term compounding thesis on our conviction bets. We remain investors who hold on to well-run strong businesses over a long period of time.

As our core process, we maintain a decision journal (a record of each of our investments decisions, the thesis, the risk assessment and the portfolio position) to keep ourselves disciplined when deploying or taking off capital. We work on building investment cases where we see market opportunity over the medium to long term.

We outline below Core Areas where we are working deep to identify and make investments.

1. Transition to renewable energy. We find businesses in Transmission EPC and Renewable Energy value chain of specific interest. Several businesses in this filed are richly valued, but there are still opportunities at reasonable valuations if we work hard and search deeper. We intend to hold our investments over the medium to long term.
2. Credit growth. Bank balance sheets have been very strong, possibly the strongest over the last 10 years. We see this is an area of consistent compounding over the medium to long term. We are invested, and also find good quality growth franchisees are available at more reasonable valuation multiples in this space.

3. Outsourcing of Research Services. We see several well-run businesses in India who partner with leading innovators in Pharma and Agrochemicals globally. This field has a very long runway, and we find good quality opportunities here. If we are willing to tolerate interim volatility, we believe there is wealth creation opportunity here.
4. Indigenization of Defense Production Capability. This has been a theme for the markets over the last year. Our work has been long and deep to identify relevant opportunities, and steer clear of pockets of overvaluation. Our investment cases are ready, and we will add to our positions when we see better entry points.
5. Infrastructure. Physical and Digital. We have been investors with strong conviction in good quality businesses focused on building Physical Infrastructure. We have added businesses focused on Digital Infrastructure. In our view, these are available at reasonable valuations and offer strong growth opportunities in the long run.

While we are finding opportunities of interest, we are finding some challenges in deploying capital in a valuation sensible way. We also think about which potential risks may play out, several of which are global geopolitical politics / events with no clear call out.

We are onboarding fresh clients but taking 4-6 weeks to deploy the fresh capital pool. This has resulted in close to 30% of our total portfolio invested in cash or G-Sec / AAA bonds (as on 30 Jun 2024). While this is a drag on our short-term performance, it also brings us the opportunity to deploy capital at more reasonable entry valuations.

Our Approach to Portfolio Construction

Our portfolio strategy remains anchored in fundamental analysis, concentrating on 16 core stocks that make up 85% of our equity investments in the portfolio (net of cash and debt).

Our investment case for each stock includes a core set of operating and financial metrics that we understand well, track diligently, and benchmark with competition.

We have, during H2 FY23-24, added a Debt Strategy “Fortuna Two”. This strategy focuses on constructing a portfolio of G-Sec, AAA, AA+ Listed Debt, and listed InvIT / REIT Securities to target inflation beating low volatility returns.

We believe a balance of Fortuna One [our Equity long-term focused compounding strategy] and Fortuna Two [our Debt strategy] works better for our clients, especially in these markets.

Helping Investors Do the Right Thing

Our Partner Vishal Khandelwal is a veteran in investor education. We are responsible investors and keen to do our bit as Team Fortuna to help investors take the right financial decisions, whether when investing with us or elsewhere. Vishal helps us remain grounded and works with us to be the trusted partner to our clients and potential clients.

Thank you for your trust in us. Please feel free to visit our website (www.fortunaadvisors.in) or get in touch if you have any questions or need further information.

Warm regards,

Gurvinder Juneja

Jasmeen Kaur

Vishal Khandelwal