Dwaith PMS Investment Letter: Q4 2024

Memo. 3 Jan 16, 2025

-Harsha Venkatesh, Portfolio Manager

Dwaith Advisory Private Limited is registered as Portfolio Management Services (PMS) with SEBI registration number INP000008516 since Feb 2024. We operated as an Investment Advisory (IA) with SEBI registration number INA000017329 until we transitioned customers over to the PMS in July 2024.

This investment memo provides an overview of the portfolio's returns and outlines my investment thesis for 2024. At Dwaith PMS, we now have 12 clients – up from 4 clients when I running the IA portfolio.

All returns are shown in INR unless noted otherwise. The returns are calculated as a Time Weighted Rate of Return (TWRR) for overall portfolio of all clients.

Year Returns	Dwaith Advisory Portfolio	Sensex India
2022 (From Nov 11: inception)	16.5%	-4.8%
2023	103.2%	24.9%

Note: Under Investment Advisory until FY23-24

Year Returns	Dwaith Advisory Portfolio	Sensex India
2024 (From July 7: inception)	-6.39%	-0.74%

Portfolio Allocation

Description	Market Value	% Assets
Equity	46,71,19,264.85	99.89%
Cash and Equivalent	5,06,627.07	0.11%
Total	**46,76,25,891.92**	**100.00%**

Portfolio Summary

Portfolio Inception Date	01/07/2024
Net Capital In (+) / Out (-)	49,93,04,120.34
Realized Gain	8,048.90
Unrealized Gain	10,57,59,615.58
Gain Prior to Take-over	13,82,70,610.96
Income Received	9,16,900.00
Fees and Expenses	92,181.94
Accrued Income	0
Portfolio Value On 31/12/2024	46,76,25,891.92

Portfolio Performance

Period	Portfolio
1 Month	-3.49%
3 Months	-5.59%
6 Months	-6.39%
Since inception date 01/07/2024	-6.39%

Returns over 1 year period are annualized.
Returns are adjusted for inflows/outflows.

Method: Time weighted - Daily valuation method is used for rate of return calculation. Portfolio valuation is done on the date of any external cash flow with daily weighted cash flows. Periodic returns are geometrically linked. Total return includes realized and unrealized gains and income. Calculations are after deduction of transaction charges.

Since the inception of the PMS, assets under management (AUM) have steadily grown, approaching Rs. 50 Cr. I am deeply grateful to each of you, my valued investors, for your trust and support. A substantial portion of the AUM is made up of the carried-forward portfolio from the IA.

I have never engaged in advertising, and all of my investors have come to me purely through referrals. I intend to continue growing in this manner, focusing on building relationships with investors who share a mindset aligned with mine.

It's important to note that individual client returns may differ significantly from the overall portfolio returns. This is because I have tailored stock purchases for each client based on the timing of their investments, rather than adopting a one-size-fits-all approach. Over time, as the portfolio matures, the overall returns are expected to align more closely with individual client returns.

Currently, every client holds a unique mix of stocks, with some overlaps, depending on their respective investment timelines.

A brief view of the portfolio:

During 2022 and 2023, my stock-picking thesis was based on the following factors:

1. **Low Ratings of Certain PSU Stocks** – Primarily railway stocks with high dividend yields and banks recovering from the COVID-19 pandemic lows and the NPA crisis that preceded COVID
2. **Industrial Stocks (Many of Them Also PSUs)** – Focused on private capex-heavy stocks where I anticipated demand would recover within 2–3 years, making them attractive
3. **Select Pharma, IT, and Chemical Companies** – Companies trading at attractive valuations

Many of these performed well, generating positive momentum in the portfolio for my first four clients. Some of these names have been retained for these clients based on their valuations.

Since the inception of the PMS in July 2024, I have purchased a different set of stocks, which have significantly underperformed, with some falling by 25% or more. The factors influencing these picks are as follows:

1. **Public Sector Banks and Private Financial Institutions** – Many of these were trading at low P/E and P/B ratios compared to private banks. I believe they are poised to grow as credit flows open up. Today we are in a liquidity constrained environment
2. **Holding Companies in Niche Segments** – While I generally avoid holding companies, I view the discounts they trade at relative to their assets as significant and likely to correct over time
3. **Commodities, Industrials, and Gaming Stocks** – Many of these are trading at very low multiples of their cash flows and are largely overlooked by most investors today

I am very confident that our set of stocks will perform well over a 3–5 year period. I request your patience and assure you that I am carefully considering portfolio construction on your behalf. The returns we achieved in 2023 were an anomaly. While such outcomes might occasionally occur, they are not typical, as 3–4 years' worth of returns was compressed into a single year.

Global market, US-China interplay:

The U.S. has outperformed most global indices in recent years due to two primary factors: its technology-heavy sector composition and increasing reliance on U.S. markets during times of global uncertainty, such as geopolitical tensions, Middle East unrest, and anti-China sentiments. Today, the S&P 500 accounts for over 50% of global equity market capitalization.

At a broader level, the U.S. contributes about 25% of global GDP while making up 50% of the world's equity markets. This situation is unlikely to remain sustainable in the long term. To balance this disparity, either the earnings of the S&P 500 must experience significant growth over the coming years, or U.S. equity markets will likely need to cool off.

The impact of strong U.S. market is – the FII's pull out money from India heavily, with many stocks in the unloved sectors getting hammered more than the stocks with stronger momentum or a rosy story-line.

U.S. policies—both economic and geopolitical—will play a pivotal role in shaping the global market environment this year. Trump had advocated aggressive tariffs to promote domestic manufacturing and counter China's (and to a lower extent, India's) growing influence.

If Trump delivers on his economic promises, it's not just about tariff protection. It's more about driving economic growth, focusing on domestic manufacturing, energy, technology, job creation, and market stability—not creating instability with large economies like China and India.

China, on its part, has been strategically preparing for prolonged economic and geopolitical tensions. It has implemented fiscal and monetary measures to shore up its economy, bolstered investments in defense, and made significant strides in futuristic technologies. Additionally, China recently imposed sanctions on U.S. companies, signaling its readiness to respond to potential confrontations.

What does this mean for us: This geopolitical ping pong will affect us and the rest of the world. Should the U.S. proceed with aggressive tariffs and China devalues its currency, the ripple effects will extend globally. The Indian rupee, for instance, would likely face downward pressure, as already evidenced by recent currency depreciation. A scenario akin to China's devaluation in 2015 could introduce significant volatility into India and the rest of the global markets.

What am I seeing in our market?

1. **Earnings Growth** – Corporate earnings have slowed, falling short of expectations in some sectors
2. **Liquidity** – Liquidity conditions remain tight, adding to market challenges
3. **Inflation** – Persistent inflationary pressures have led the RBI to pause its rate-cutting stance, maintaining a cautious outlook
4. **Valuation Concerns** – Recent market performance has pushed valuations to near-perfect levels, leaving little room for error. Hence my new investments in beaten down sectors

Despite these headwinds, India's structural growth story remains robust, driven by strong fundamentals and a resilient economy.

What am I doing?

Sadly, I cannot predict the behavior of stocks we buy in the short term. I will aim to buy reasonably safe stocks with enough margin of safety that has great prospects in 3 – 5 years. I will continue to look at buying

1. Unloved sectors, unloved companies that have strong balance sheets and good underlying customer demand for their products or services
2. Changing regulations, and market environments favoring certain sectors or groups of companies making them attractive over 3 – 5 years
3. Excellent manager operators who seem to be having the God-given gift of leadership. We will try to invest with them and give them time to do their magic

As French philosopher Blaise Pascal once said, “All of humanity’s problems stem from man’s inability to sit in a room and do nothing.” For me, this quote resonates deeply, and I’d paraphrase it as: “All portfolio managers' challenges stem from their inability to sit in a room and do nothing.”

At present, I plan to make minimal changes to the portfolio. However, with the market having weakened recently, I see potential opportunities and may look to purchase better-performing stocks if the risk-return looks much better to certain small percentage of cases.

Should you invest more?

This is the first year of the PMS operations and the 6 months returns have not been great. The past performance over 2 years has been excellent. I am disappointed with the negative start to the PMS; however, I am very confident about the prospects of our investee companies.

Volatile markets often present the best opportunities to invest in structural growth stories at attractive valuations. Stay patient, disciplined, and ready to act on the right opportunities despite challenging market conditions.

If you have excess capital to invest, I have good opportunities to buy. I look forward to speaking with you if there are any questions and I would love to invest more if you have capital on hand.

As I sign off this brief letter, I want to again thank you - my investors and friends who have trusted me with your monies and also recommended your friends to me! Rest assured; I am looking forward to a long-term happy association.

Wishing you and your families a wonderful 2025!

Harsha Venkatesh

Dwaith Advisory Private Limited Bangalore

(Harsha Venkatesh)
Director
DIN: 08282348

Website: www.dwaithfunds.com | Insights Member Login | User: Investor and Password: dwaithpartner |

-------- END OF MEMO ---------

Disclaimer: Dwaith Advisory Private Limited is currently registered as an PMS firm [SEBI registration number INP000008516](). Statements contained in this report that are not statements of historical fact are intended to be and are hereby identified as "forward-looking statements". Generally, forward-looking statements include expressed expectations of future events and the assumptions on which the expressed expectations are based. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected. Due to those uncertainties and risks, the investment community is urged not to place undue reliance on written or oral forward-looking statements. Moreover, wherever there is the potential for profit, there is also the possibility of loss.

In addition, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to future results over time.

The portfolio manager has a holding or position in the securities advised herein. The portfolio manager has no connection or association of any sort with any issuer of products/ securities advised herein. The portfolio manager has no actual or potential conflicts of interest arising from any connection to or association with any issuer of products/ securities, including any material information or facts that might compromise its objectivity or independence in the carrying on of investment advisory services.

To access the key features of the securities, particularly, performance track record please go to the below links:

www.moneycontrol.com

www.bseindia.com

www.nseindia.com

Portfolio manager draws the client's attention to the warnings, disclaimers in documents, advertising materials relating to an investment product/s which are being recommended to the client/s. A brief regarding the risk associated with the investment products are available in client agreement, same may be referred before investing in advised product or securities.

SEBI registration number INP000008516
Trade Name: Dwaith Advisory Private Limited, BASL Membership ID: BASL1909
Address: Ground Floor, Brigade MLR Centre, #50, Vanivilas road, Basavanagudi Bengaluru 560004
Contact No: 9108992346 Email: info@dwaithfunds.com
SEBI regional/local office address – SEBI Bangalore, Jeevan Mangal Building, Residency Road, Ashok Nagar, Bangalore 560025

Standard warning

"Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Disclaimer

"Registration granted by SEBI, membership of BASL and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors"