FACTSHEET

December 2022

Renaissance

THE SCIENCE OF INVESTING

Renaissance Investment Managers

Dear investors,

Simplicity is about subtracting the obvious and adding the meaningful

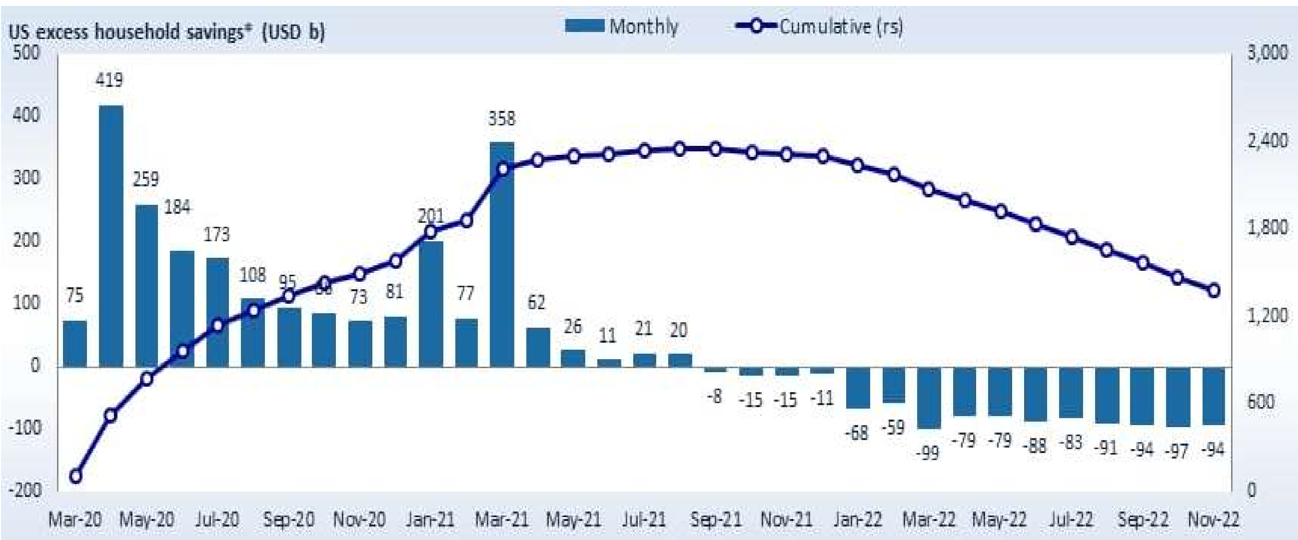
Capital markets are a volatile beast and the same will never change. What makes capital markets volatile is the reaction to consistent stream of news flows which by themselves are uncertain and live by every day, every week, every month. Such events can affect the imminent future but may or may not affect us much in the long term.

In this backdrop, let's consider the year which went by. Circa 2022 began with the threat of the Omicron variant but it died down in just few days. We were on the cusp of Russia-Ukraine conflict which most thought won't happen or if it were to happen, it would last for just few days. We are already more than 10 months into the war and still there is no visibility of the end. With so much of uncertainty around health and finance, any prediction of a positive return in 2022 would have been snubbed. But the reality is that we ended 2022 with a +4% return on Nifty50!

Likewise, we are beginning the new calendar year with new sets of uncertainties/ challenges around risk of recession in US and risk of new covid wave post unlocking in China amongst few others. While we would discuss these key concerns in the note below, the key thing to note is that these events are unlikely to alter some of significant economic developments (like pick up in manufacturing and recovery in capex cycle) that has started in India over the last 2-3 years.

The biggest conundrum with respect to the US economy has been that of inflation vs. tight labour market. Below is an interesting chart depicting US excess personal savings over last 2-3 years. Personal savings saw a sharp increase post the massive quantitative easing during covid. However, the same is now declining gradually. The cumulative excess savings are now down to $1.38t, from its peak of $2.35t in 3QCY21. At this pace, excess savings will likely disappear entirely by early-CY24. This possibly implies an increase in labour supply from mid-CY23 onwards. This should also help in easing inflation substantially in US. Whether it would imply a deep recession in US or not is not very clear but it will certainly end of the FED's rate hiking.

Excess household savings in US (an estimate)



Source: US Bureau of Economic Analysis

On Covid, another wave across the globe cannot be ruled out as the Chinese people travel across the world in huge numbers. However, unlike China, most parts of the world have an advantage of natural immunity and reliable vaccination. India had an extremely sore second wave of covid and also massive vaccination drive, which should help in having a modest wave with low death ratio this time around. In the event of covid wave, businesses have the learnings of previous waves to deal with both the health and economic situation. Importantly the practice of partial work for home is still prevalent in India across several offices.

While the inflation problem has been relatively mild in India, the impact of the same has been visible on rural consumption. Rural demand has continued to remain subdued for the entire of CY22. However, we believe, this is set to change for positive in CY23. Our optimistic view on revival in the rural economy stems on moderating consumer price inflation, sustained economic growth, expected budgetary push, and migration of the rural population back to urban areas (which would increase remittances from urban to rural India). Considering 2024 is a general election year, we are optimistic about the government spending in rural India, which would augur well for rural recovery.

India cannot remain immune from a global crisis but unlike the past India has the advantage of strong banking system, a nascent recovery in capex cycle, formalization of the economy and entrepreneurial drive to leverage on China+1 global theme. Most corporates have been busy deleveraging over the 2012-2020 period. Now the theme has shifted to capacity creation, while maintaining balance sheet discipline. This is secular trend across multiple sectors like Electronics manufacturing, Renewables, Data centres, Chemicals, Auto, Metals and several others. These investments are committed with a real long-term view and are unlikely to be perturbed in the short to medium term challenges. If one was to subtract the short-term volatility and add the long-term opportunities, we believe investing would appear relatively simple for CY23.

Happy investing!

Pawan Parakh

Portfolio Manager

Renaissance Alpha Portfolio

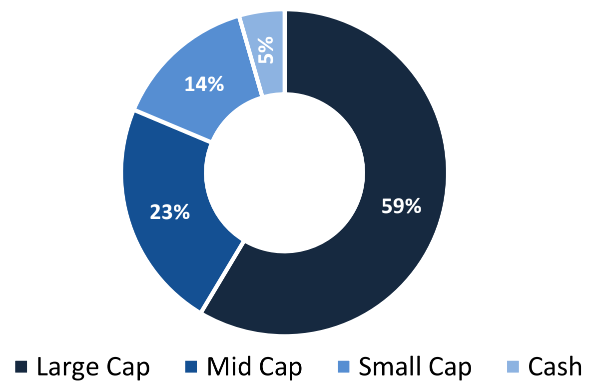
Inception Date: 20th January, 2020

Data as on 31st December 2022

Investment Strategy

- **Concentrated portfolio of 20-25 stocks.**
- **Focus on generating absolute returns over a 3 year period**
- **Market cap of more than INR 3000 Cr**
- **Capitalization Agnostic**
- **Additional layers apart from our SQGARP frame of low leverage (less than 0.5) and ROE>15%**

Portfolio Capitalization



Top Holdings

Company	Weight(%)
ICICI Bank	7.59%
HDFC Bank	7.38%
Larsen & Toubro	7.03%
Reliance Industries	5.92%
State Bank of India	5.81%

Top Sectorial Weights

Sector	Weight(%)
Banks & Finance	27.90%
FMCG	19.07%
IT Consulting & Software	11.81%
Capital Goods & Engineering	11.29%
Oil & Gas	5.92%

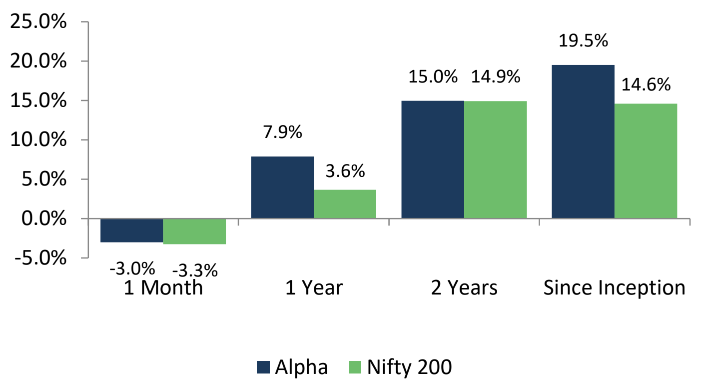
Portfolio – Fundamental Attributes

Particulars	FY23E	FY24E
PAT growth (%)	20.06%	26.7%
ROE (%)	18.1%	21.80%
P/E	30.0	26.6

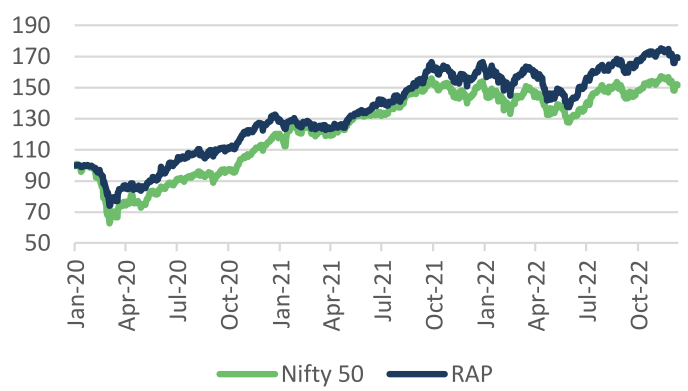
Portfolio – Risk Attributes (Last 12 Months)

	Portfolio	Index
Std Dev	16.92	17.35
Information Ratio	0.83	0.32
Sharpe Ratio	0.06	-0.19
Beta	0.93	0.08
Treynors Ratio	0.01	0.93

Returns



Returns



* Returns are for all clients on TWRR basis

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Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)

Sustainability	Companies with sustainable and durable business models.
Quality	Superior quality businesses as demonstrated by Competitive edge, Pricing power, ROE, FCF. Good quality and competent management teams.
Growth	Business that can deliver superior growth over medium term to long term.
Price	Ability to invest at reasonable valuations. Fair value approach to valuations. Focus on economic value of business.