

Renaissance Investment Managers

Dear Investors,

FED Rate Cuts and Chinese Stimulus fueling global risk-on sentiment

The US Federal Reserve (FED) embarked on the rate cut cycle, with a jumbo 50bps cut, noting progress on disinflation and a softening labor market (4.2% unemployment rate in Aug’24 versus 3.8% in Mar’24). Markets expect another 50bps cut by end-2024, and a 100bps cut in 2025.

Further, China has unveiled its most aggressive stimulus-package since the pandemic to support the flagging property market, counter domestic disinflationary pressures, and boost consumer confidence and demand. The package includes cutting repo rate, easing liquidity, easing capital market financing, cutting interest rate and down-payment requirements on mortgages, and targeted fiscal support to households. These measure have sparked a nearly 25% rally in the CSI-300 index and the Hang Seng index within a week. We note the global risk-on sentiment is also supported by a dovish Bank of Japan (BoJ), after the pushback from newly elected Prime Minister (Ishiba) against further rate hikes.

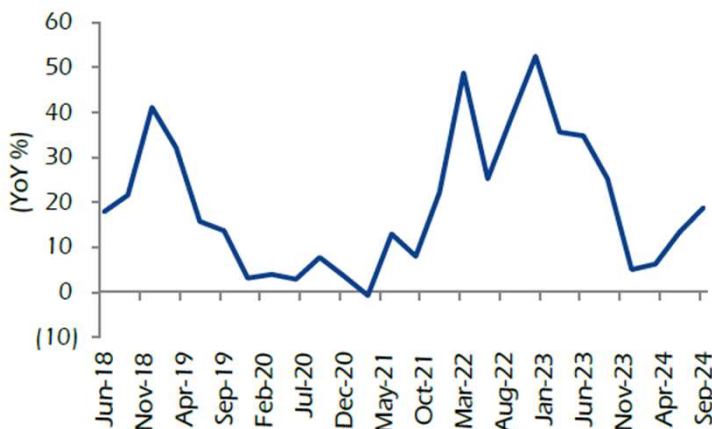
The latest US rate cut cycle is in response to disinflation, unlike the previous three cycles (since 2000) that were a result of either rapid economic-slowdown or crises. This time around, US economic conditions remain broadly stable, and while growth will gradually weaken, we believe a soft-landing remains the most likely outcome for the US economy.

Growth moderation ahead of festive season – likely to be temporary

Despite above-average monsoons (108% of long-period-average), decent Kharif-sowing (2% acreage growth) and good reservoir-levels (+16% yoy; bodes well for Rabi sowing), India’s economic indicators suggest some demand softness in the near-term, probably based on: (1) lack of meaningful pick up in government’s capex post elections—Centre’s capex was down 19% yoy during 5M-FY25; (2) moderation in unsecured (consumption) credit growth; and (3) slowdown in retail sales momentum (premium two-wheelers, PVs, gold jewellery etc.).

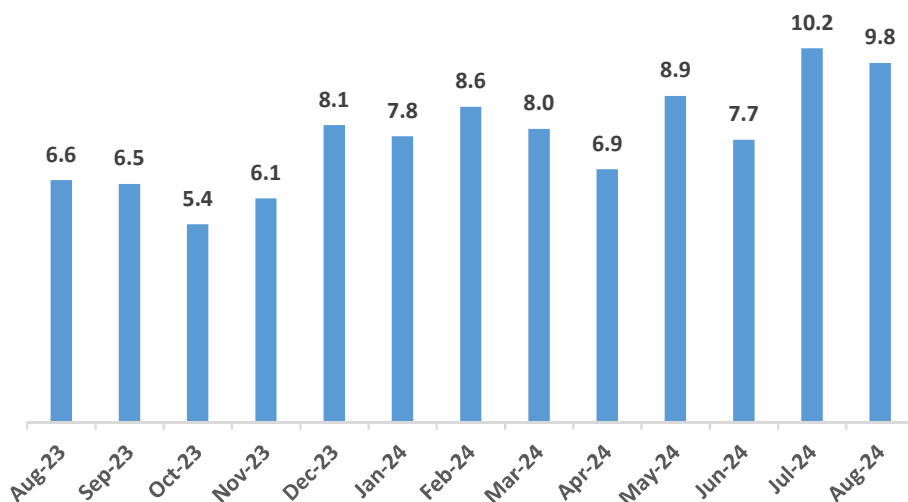
Nonetheless, manufacturing remains in expansionary mode (July PMI of 58.1 vs 58.3 in June as per CMIE) and green shoots are visible in corporate capex that should get further impetus from recent liquidity easing by the RBI and the start of rate cut cycle from December. Capacity utilization of manufacturing companies continues to rise (76.8% in 4QFY24 as per RBI), and new project announcements in private manufacturing sector were up c.19% yoy in 2QFY25 [Source: CMIE]. We therefore, continue to expect a pickup in corporate profit growth from 2HFY25.

New project announcements in private manufacturing sector



Source: Broker Report

Industrial credit growth (% YoY)



Source: Broker Reports

Market valuations, outlook and portfolio positioning

Nifty-50 index is down about 4% or 1000 points from its peak of 26,300. At 25,250 currently, Nifty-50 is priced at a 1-year forward P/E of just under 22x on the consensus earnings estimates, which is about 10% ahead of the last 10-years average valuations (20x).

Broader market may remain range-bound in the very near-term, driven by volatility in FPI flows (China stimulus) and temporary moderation corporate earnings growth. Nonetheless, we remain bullish from a medium to long-term perspective, and believe that markets now primarily offer a compounding opportunity, driven by earnings growth.

We remain invested in quality companies, which offer good growth-certainty over the medium to long-term. We are invested in pockets having attractive valuations (e.g. private sector financials, housing NBFCs, select PSUs), as well as pockets that we expect would deliver higher amount and/or longevity of earnings growth at reasonable prices (such as IT, Pharma, Industrials & Capital Goods, Telecoms, Capital Markets etc.). This should protect our portfolio in the events of any intermittent corrections. We continue to maintain our disciplined and stock selection process to ensure long term, sustainable returns for our investors.

Happy Investing

Pankaj Murarka
Founder & CIO

Pre-Tax Returns

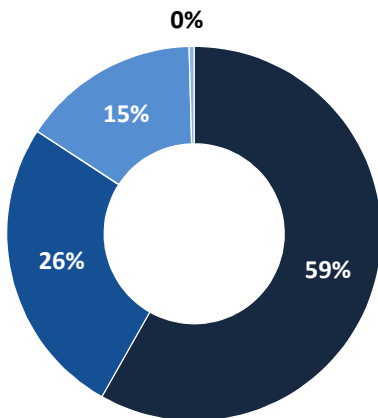
(As on 30th September 2023)

| Fund / Index | 1 Year | 2 Years | 3 Years | 5 Years |
|----------------------------------|--------|---------|---------|---------|
| CRISIL AIF Index – CAT III (INR) | 15.5% | 7.0% | 20.6% | 13.5% |
| INDIA NEXT FUND II | 15.1% | N/A | N/A | N/A |
| INDIA NEXT FUND III | N/A | N/A | N/A | N/A |

N/A – As the respective fund has not completed 1yr, 2yr, 3yr and 5yr as on 30th September 2023. Returns for more than one year are annualized.

Theme: Brand, Internet, Technology & Science (BITS)

Portfolio Capitalization



■ Large Cap ■ Mid Cap ■ Small Cap ■ Cash

Portfolio Highlights

| Particulars | FY24 | FY25E | FY26E |
|----------------|------|-------|-------|
| PAT growth (%) | 29.8 | 37.8 | 27.3 |
| ROE (%) | 13.9 | 14.0 | 16.4 |
| P/E | 48.0 | 45.2 | 35.4 |

Top Holdings

| Company | Weight(%) |
|--------------------------------------|-----------|
| Info Edge (India) Ltd | 7.82% |
| Tech Mahindra Ltd | 7.62% |
| Motilal Oswal Financial Services Ltd | 6.62% |
| HDFC Bank Ltd | 5.86% |
| Infosys Ltd | 4.53% |

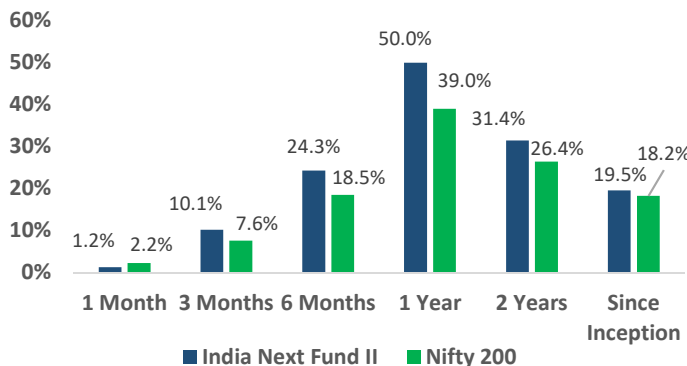
Renaissance India Next Fund II - Risk

Time Period: Last 12 Months
 Calculation Benchmark: IISL Nifty 200

| | Portfolio | Index |
|-------------------|-----------|--------|
| Std Dev | 16.60% | 14.14% |
| Sharpe Ratio | 2.60 | 2.30 |
| Beta | 1.04 | 1.00 |
| Treynors Ratio | 0.42 | - |
| Information Ratio | 1.37 | - |

Returns

Calculation Benchmark: IISL Nifty 200



■ India Next Fund II ■ Nifty 200

Sectoral Weights

| Sector | Weight(%) |
|------------------------|-----------|
| IT & Tech | 31.36% |
| BFSI | 26.91% |
| Consumer Discretionary | 13.33% |
| Pharma & Chemicals | 11.70% |
| Auto & Logistics | 5.49% |

Fund and Benchmarks returns are Pre-tax

Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)

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

Statutory Details: Renaissance Investment Mangers Private Limited ("RIMPL") is registered under SEBI (Portfolio Managers) Regulations, 1993 as a Portfolio Manager vide Registration No. INP000005455. RIMPL is also an Investment Manager to Renaissance Alternate Investment Fund – Category III which is registered with SEBI as Alternate Investment Fund under SEBI (Alternative Investment Funds) Regulations, 2012 vide Registration No: IN/AIF3/18-19/0549.

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