



## BayFort Capital: May 2025 Portfolio Review

“If you spend more than 13 minutes analyzing economic and market forecasts, you’ve wasted 10 minutes.” – Peter Lynch

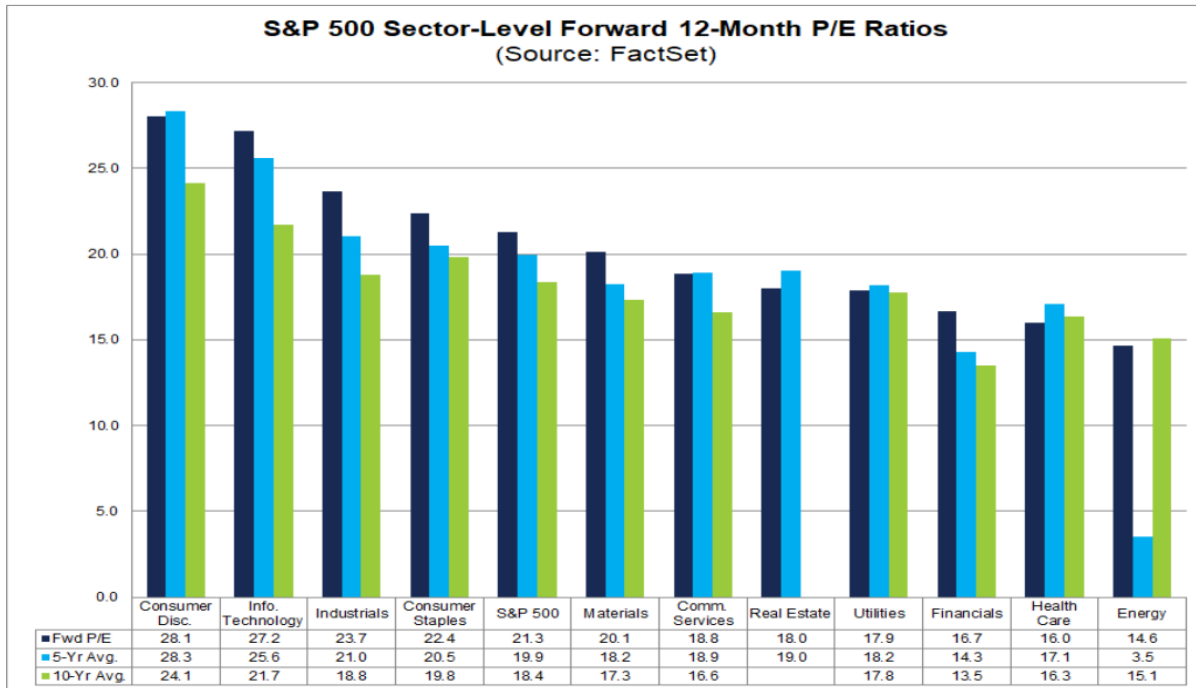
BayFort Capital's Global Leaders Portfolio delivered a 10.16% return in USD (10.56% in INR) for May. In comparison, the large-cap S&P 500 index gained 6.15% (USD), while the small-cap Russell 2000 returned 4.9% (USD). The market is in a Schrödinger’s Cat moment — tariffs both exist and don’t. Just like Schrödinger’s quantum thought experiment where the cat that’s both alive and dead until observed; tariff policy is caught between enforcement and delay, keeping markets in suspense. While some sectors have seen earnings revisions, others remain relatively stable, underscoring the importance of selective positioning. AI is rapidly expanding beyond the traditional tech sector, penetrating new and unexpected frontiers such as cosmetics and skincare. Adoption in these areas is accelerating, and we are actively investing across sectors where we see strong long-term revenue potential from innovation. Several of our portfolio companies are already reporting better-than-expected margins, driven by significant productivity gains enabled by AI. Our portfolio remains resilient, with no material earnings downgrades reported and no further downward revisions anticipated.

Net Returns, INR (May 31, 2025)	1 Month	YTD	1 Year	2 Years Annualized	Inception* Annualized	Inception* Cumulative
BayFort Capital Global Leaders Advisory Portfolio (INR)	10.56%	2.86%	12.01%	24.90%	27.27%	102.05%
S&P 500 (INR)	6.54%	0.14%	15.03%	20.98%	19.84%	69.53%
NIFTY 50 (INR)	1.71%	4.68%	9.85%	15.56%	16.69%	56.85%

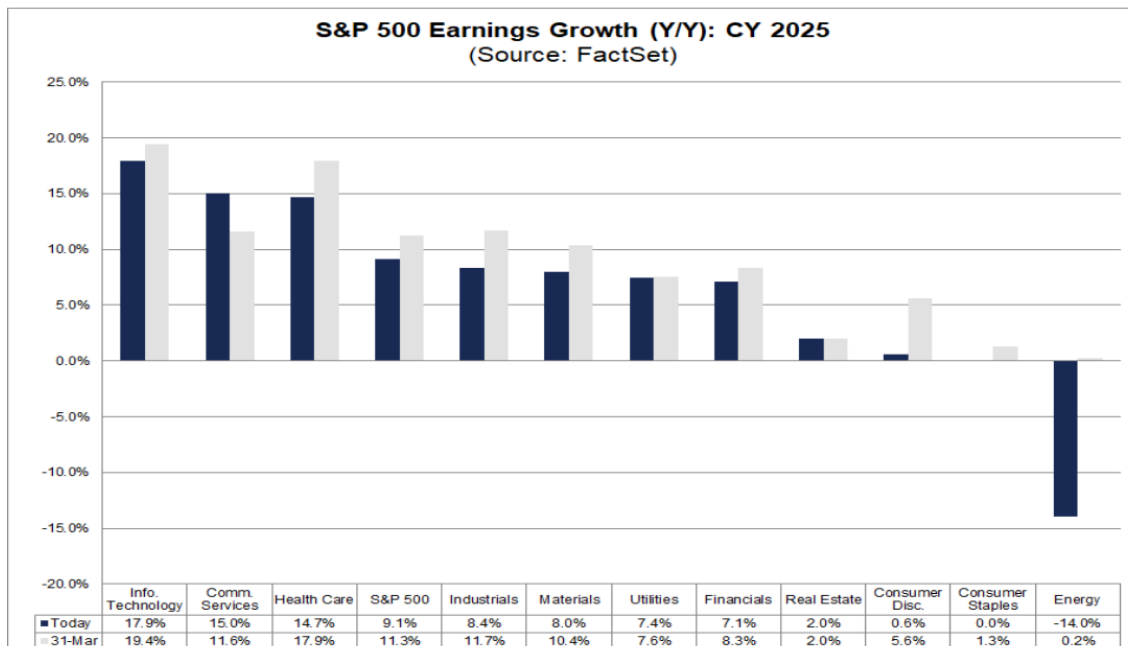
\*All returns are net of fees \* Inception is July 1, 2022 \* S&P 500 is the Portfolio Benchmark

A few important points to consider as we think about the rest of the year.

- 1) Valuations:** The S&P 500's forward P/E ratio of 21x indicates that valuations are not at expensive levels, reducing the likelihood of a market downturn triggered by valuation concerns. Moreover, earnings for the S&P 500 index are expected to increase by 9% in 2025, compared with a 10.4% growth in CY-24. Furthermore, a reduction in interest rates benefits growth stocks. If the Fed cuts rates by 100 basis points by December 2025 as anticipated, the resulting decrease in discount rates on future cash flows could lead to a significant increase in valuations for high-growth companies.



**2) Tariff Risk:** Select sectors, notably energy, have undergone substantial earnings revisions in the wake of the recently imposed tariffs, as depicted in the accompanying chart. In contrast, other sectors have exhibited only modest adjustments since April 2, 2025. Our portfolio companies have not reported any material earnings revisions to date, nor do we anticipate any further downward revisions.





- 3) Economic Outlook and Fed Policy:** Inflation remains the biggest concern for the Fed to cut interest rates. If tariffs lead to higher prices, the Federal Reserve may have limited flexibility to cut interest rates. However, as Chairman Powell stated in the last conference call, tariff-induced inflation is transitory. In the short to medium term, the Fed may still proceed with rate cuts to support the U.S. economy, particularly to mitigate inflation's impact on employment—one of its two mandates. The critical factor influencing rate cuts will be employment data. If job growth slows, the Fed will have room to lower interest rates to fulfill its mandate of promoting maximum employment. . As long as the Fed is not worried about transitory inflation, the next macro economic indicator to watch out would be job growth. We expect the net new job growth to falter due to all the government job cuts as well as a slowdown in hiring from the Tariff induced uncertainty in Q1CY25. Consequently, we increased our rate cut expectations from 50 bps to 100 bps in CY25 post the April 2 tariff announcements.
- 4) Inflation Risk in the US:** Concerns over inflation resulting from tariffs are now largely priced into the market, as maximum tariff levels for each country have already been announced. The decline in 10-year Treasury yields following the announcements reflects this sentiment. While part of the move was driven by a short-term risk-off reaction, it's important to note that bond investors in 10-year maturities take a long-term view. Their response suggests that any inflation from tariffs is expected to be transitory.

**Investment Strategy:** Our Global Leaders Portfolio continues to invest in companies that are at the forefront of innovation, generate robust cash flows, and have demonstrated resilience in challenging market environments. We believe that the current market conditions present a compelling opportunity for both new and existing investors to participate in the long-term growth of the global knowledge economy.