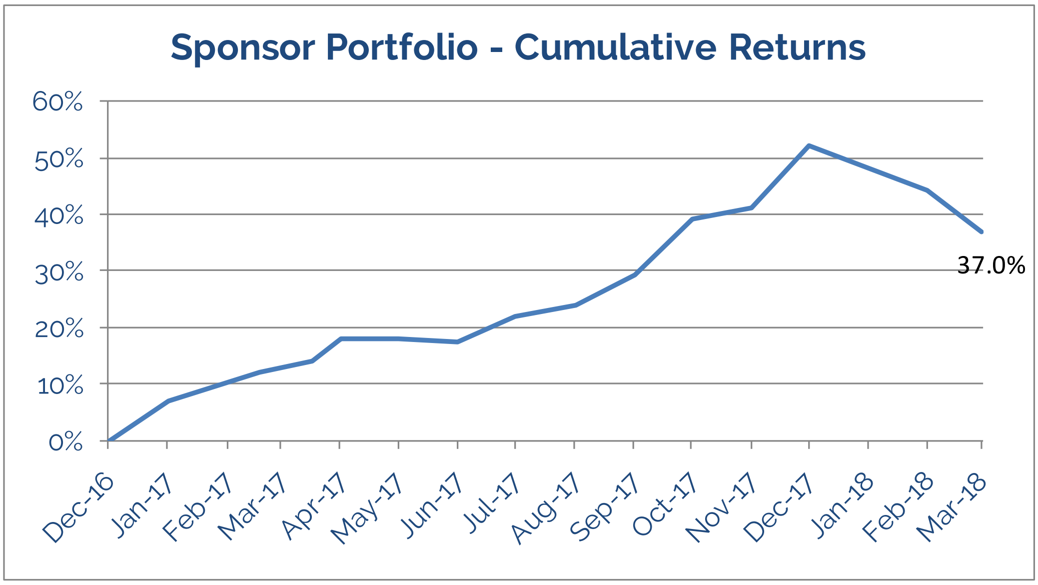
Quarterly Letter –March'18

GROSS PORTFOLIO RETURNS



Fee Structure & Terms

MINIMUM INVESTMENT	: INR 2 cr
MANAGEMENT FEE	: 0%
PERFORMANCE FEE	: 25%, calculated over a hurdle rate of 10%
NUMBER OF SECURITIES HELD	: 16
CASH BALANCE	: 10%
INVESTMENT STYLE	: Concentrated Long-term value , market cap agnostic

Monthly Returns - 2018

2018 YTD Returns	: -10%
JAN 2018	: -2.3%
FEB 2018	: -2.84%
MAR 2018	: -5.03%

Dear Investors and Shareholders

Post the smooth return profile that investors saw in 2017, the equity markets in 2018 have had a weak first quarter. Depending on the kind of person, you talk to the variations in answers and reasoning would be stark

For a banker : the reasons would revolve around the stress in the bad loans from the PSUs especially post the fallout from PNB

For a CA : the reasons would pivot around the imposition of the Long term capital gains tax of 10%

For a global investor : the conversation would revolve around the trade wars and the tensions going on centered around US and China

For a value investor : the conversation would centre around valuations being too expensive.

Irrespective of what the conversation centres around, these are post-dated, and are ways to justify the result, rather than a forward-thinking way of looking at the markets. More importantly, the way our human reasoning is wired, we have an inherent bias to weigh the short term and look at first-order effects, and to give less importance to the long term and try and weigh the second-order effects.

If I take a step back, the broad macro risks the Indian economy is faced with are real – the same reasons that gave a huge tailwind to the markets over the last 4 years, through an easing RBI and low oil prices are showing signs of reversing and this I believe will be a headwind over the next few years. However, there has been growth shown in select sectors namely :

i) Infrastructure : Road – projects which were bid for by more than 12 companies 7 years back, are currently seeing bids from 3-4 companies with a stronger balance sheet

ii) Consumer durables – the consumption story in our country which has predominantly been a growth economy is being seen at close to double digits as a sector, and is bound to continue though the valuations of companies are not cheap

iii) Metals – Being a cyclical industry, this sector has always been a tough investment opportunity, however I see this as a contra play over the next 2-3 years considering we are going through an inflationary environment, and with consolidation coming through in specific sectors like steel and resolutions through NCLT.

iv) Banking – Uday Kotak recently made a statement saying that he expects the private sector banks to grow from 30% of the market today to 50% over the next 5 years (which would be a very significant move from a market-share shift) and amount to a growth of 20% in some of the top private sector banks. However, the valuations at which banks currently trade (private sector) does not make me interested here (While there have been select funds calling for a once in a lifetime trading opportunity in beaten down PSUs , that's a sector I would not want to get into, be it for trading or investing – however one chooses to define it)

While sentiment in the market continues to be weak and we could see volatility continuing into the rest of 2018, I personally do not believe that we are heading into a bear market, anytime soon. I would continue to use this sell off to buy intrinsically growing companies, which have corrected 20-30% from their valuations a few months ago.

From the Office of the CIO

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