4 Jan 2021

Dear Partners:

The Indian economy may de-grow by ~8-10% this year while markets have scaled new peaks and are up 64% YTD. What explains this dichotomy? What is the road ahead?

This letter has

- Performance update Pg 2
- Context to our Investment stance at present Pg 3-7
- Share some highlights of portfolio company performance in H1 FY21 Pg 8-9
- Explain rationale on positions where we are more optimistic than the market Pg 9-11
- Explain rationale underlying key actions taken this quarter Pg 11-12

Key messages

- Developed world Central Banks are committing to keep interest rates low for longer durations. ~4/5th of global Investment grade Debt yields ~1% or less at present[1]. Lower interest rates increase attractiveness of Equities relative to returns one can earn on Debt.
- One cannot be too conservatively positioned at present. Low interest rates in the developed can continue for longer than one envisages. The economy is showing resilience with stronger than expected recovery, profit margins have significant room to expand, and there is a flood of global liquidity and supportive policy from RBI. Historical valuation benchmarks could be misleading at moments when Earnings growth can be non-linear. Moreover, lower interest rates can justify higher valuations for companies whose Earnings growth expectations remain unaffected.
- However, one risks being too aggressive at the current juncture. Low interest rates globally and in India reflect significant economic challenges. Lower interest rates in India reflect surplus liquidity rather than structural decline in Cost of Capital. They should boost fair value only if growth expectations of companies remain unaffected. Valuations are already pricing in strong growth expectations and signals of valuation froth are visible in pockets. One needs to be cautious and selective.
- We are cautiously optimistic and deployed ~50% in recently signed accounts. We have a more optimistic view vs the market on a few names (Kotak Bank, ICICI Bank, ICICI Pru Life, Bharti Airtel, Privi Specialty Chemicals, Shaily Engineering, Mayur Uniquoters).
- We continue to recommend an exposure to Gold. No one understands the side effects of this scale of money printing. When inflation returns, which we think is a high probability event, the same factors which are boosting Asset prices will act as head winds when interest rates rise. Conditions are perfect for Gold to do well and provide both diversification and protection to portfolios.

Disclosures

- We construct customized portfolios. Hence, all positions may not be held in your account.
- Performance in individual accounts may vary a bit from aggregate performance shared above.
- We disclose position names for transparency and context. We reserve the right to change our minds and may not be in a position to inform you if we do.

[1] Source: Citibank

Performance update

For Anchor partner						Since PMS License (Aggregate across all accounts)				
DATE	NIFTY	NIFTY500	SOLIDARITY	Alpha		DATE	NIFTY	NIFTY500	SOLIDARITY	Alpha
FY15	26.8%	32.6%	67.2%	34.6%						
FY16	-9.9%	-8.6%	-0.1%	8.5%						
FY17	18.9%	24.0%	22.4%	-1.6%		FY17 (part year)	16.3%	20.8%	18.0%	-2.9%
FY18	10.2%	11.5%	18.4%	7.0%		FY18	10.2%	11.5%	19.2%	7.8%
FY19	14.9%	8.4%	6.0%	-2.5%		FY19	14.9%	8.4%	6.8%	-1.6%
FY20	-26.3%	-27.9%	-14.9%	13.0%		FY20	-26.3%	-27.9%	-15.4%	12.5%
FY21 YTD	62.6%	64.6%	79.9%	15.3%		FY21 YTD	62.6%	64.6%	80.5%	15.9%
Cumulative TWRR	**11.7%**	**12.5%**	**22.4%**	**9.9%**		**Cumulative TWRR**	**13.1%**	**12.7%**	**19.5%**	**6.8%**

Note: We operated with an Investment Advisory license till 11 May 2016 post which we migrated to a PMS License
Solidarity performance is post fees
Alpha: Solidarity performance over Nifty500
Data for FY21 updated till 31 Dec 20

As of 31 Dec 2020					
Performance (in TWRR)	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**Since Inception**
Anchor partner	31.7%	28.9%	14.8%	17.2%	**22.4%**
Index- Nifty50	14.9%	13.4%	9.9%	12.0%	**11.7%**

As of 31 Dec 2020					
Performance (in TWRR)	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**Since Inception**
Aggregate across all accounts	34.2%	30.1%	15.7%	NA	**19.5%**
Index- Nifty50	14.9%	13.4%	9.9%	NA	**13.1%**

Performance is healthy and aided by kindness of developed world Central Banks. While we are of course pleased with recent performance, we recommend measuring performance over rolling 5 year time horizons.

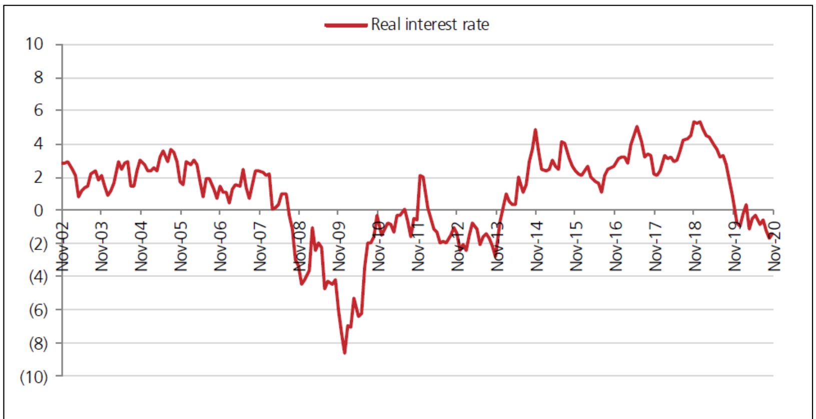
In the short term, it is hard to separate the role of luck and liquidity. In the medium term, results from a good process dominate as luck averages out.

Developed world Central Banks are interfering in the pricing of risk by suppressing interest rates
Developed world Central Banks are suppressing interest rates by willing to buy unlimited quantities of their own debt. Debt in the developed world is becoming a no yield asset class (over 3 Trillion USD debt is at a negative yield and ~4/5th of Investment grade debt yielding ~1% or less). Interest rates have been low before. What is different this time is that Central Banks are committing longer durations where they will keep interest rates low thereby encouraging risk taking.

One should not be too conservative despite the recent steep increase in stock prices
The search for higher yield is pushing all Emerging markets higher and India could continue to benefit from this trend. Low interest rates in the developed world can continue for longer than one envisages. The US Fed governor has explicitly communicated that he didn't think Equity valuations were unrealistic when compared to returns one can earn in Bonds.

> Asset prices is one thing that we look at... We published a report a few weeks ago on that... And I think you will find a mixed bag there... With equities, it depends on whether you're looking at PE's or whether you're looking at the premium over the risk-free return. If you look at PE's, they're historically high. But... in a world where the risk-free rate is going to be low for a sustained period, the equity premium, which is really the reward you get for taking equity risk, would be what you'd look at. And that's not at incredibly low levels, which would mean that they're not overpriced in that sense. Admittedly, PE's are high, but that's maybe not as relevant in a world where we think the 10-year Treasury is going to be lower than it's been historically, from a return perspective.
>
> –Jerome Powell, December 16, 2020

Even the RBI – which over the past few years has consistently over estimated inflation and kept real interest rates too high (see chart below) - seems to indicate it will support growth and tolerate a bit higher inflation (and hence keep real interest rates low).



Source: CEIC, Kotak Institutional Equities estimates

One needs to recalibrate valuation approach a bit when estimating fair value for well-run companies.

- Lower interest rates justify higher valuations "for some franchises" due to lower discount rates. High quality companies (high, predictable earnings growth at high ROE) can trade at very high valuations as they become Bond proxies and are discounted at lower Cost of Capital, especially if their growth expectations are not altered.

- Even valuations of lower ROE companies in Capital intensive sectors such as Specialty Chemical companies has justifiably increased this year as they have benefitted both from an inflection in growth rates and lower discount rates.

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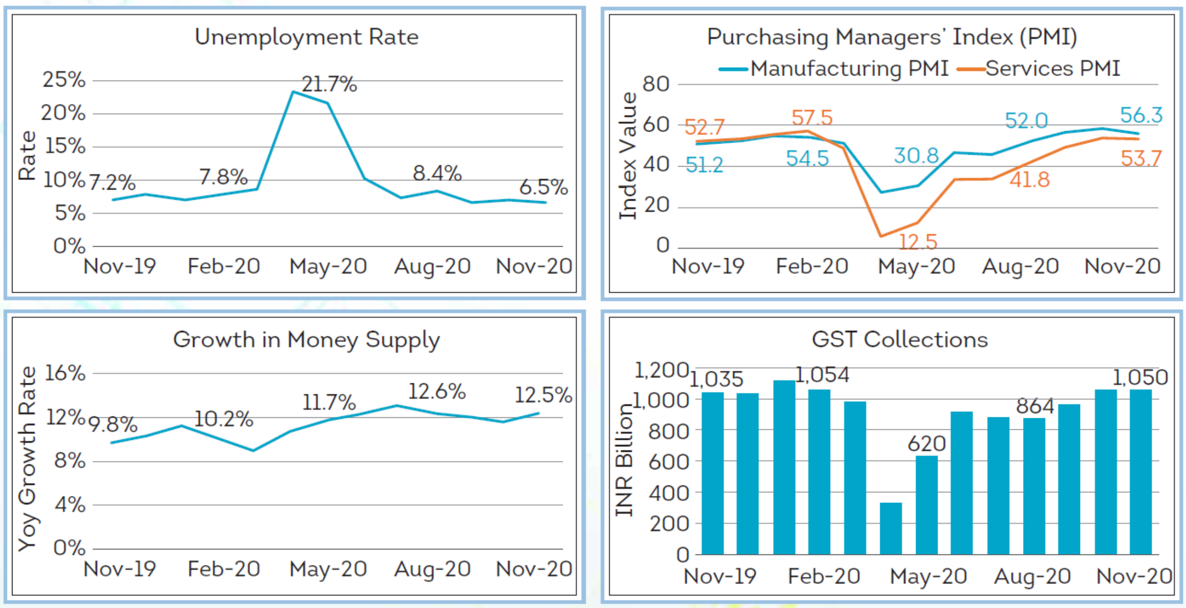
The gap between “main-street and stock markets” can continue to widen.

- “While we are in the same storm, we are not in the same boat[2]”. Covid-19 has resulted in a differential impact across industries, companies and individuals with the weaker sections getting disproportionately affected economically.
- Even as the economy improves, we could see shut down of many small businesses. Profit pools in many industries are getting even more concentrated with leaders.

One can be surprised on Earnings growth.

- High frequency indicators seem to suggest a faster recovery that initially estimated – GST collections, the PMI Index are increasing and demand for housing and WC loans is returning[3]. The Dec 2020 GST collections at 1.15 Lac Cr are the highest ever[4]. Low interest rates, example Home loans at ~7%, are acting as a stimulus to the economy.
- Profit margins have significant room to expand. Listed Co. PAT to GDP is at 16 year lows.[5]
- India’s economy, unlike the Western world, has not been supported as aggressively by stimulus. Hence, there is room for the Govt. to provide more stimulus. The economy could trend to higher growth from the benefit of reforms done over the past few years (GST, RERA, Labour laws….).
- While one may expect an increase in NPAs as the moratorium expires, a very large share has already been provided for by the leading Banks.
- Covid-19 has taught companies to do more will less. Many companies delivered strong Q2 earnings through cost cuts and some of these savings will be retained permanently.



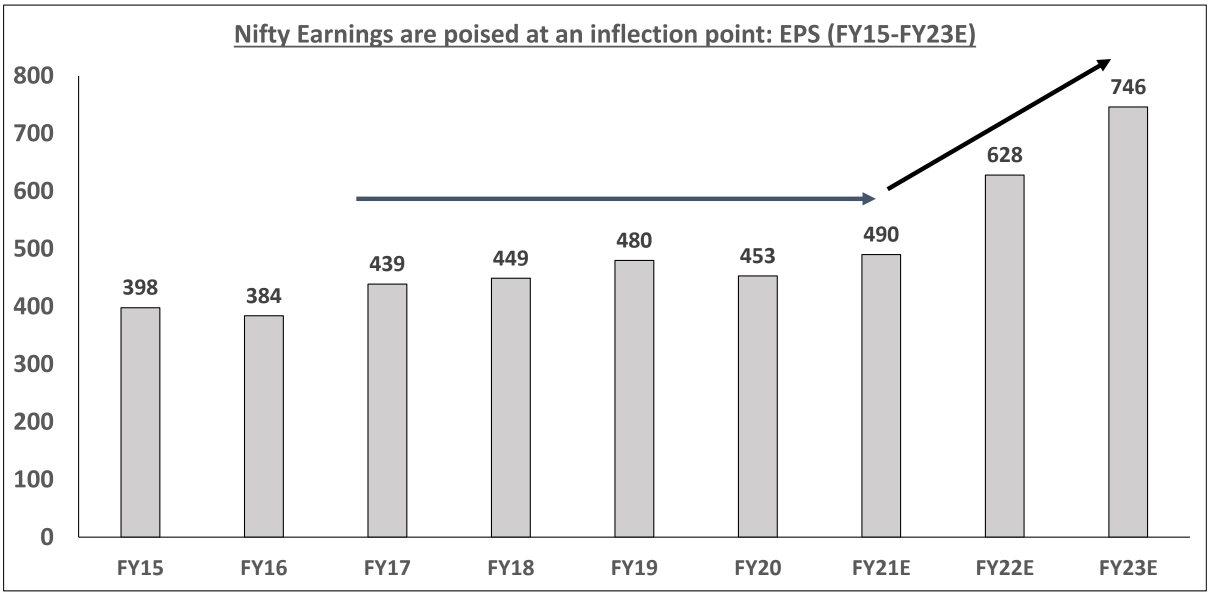
Source: CMIE

2 Quote of Manish Sabharwal, Chairman Team Lease

3 https://www.business-standard.com/article/economy-policy/working-capital-cycles-returning-especially-in-manufacturing-axis-bank-md-120120900023_1.html

4 https://www.business-standard.com/article/economy-policy/gst-mop-up-rose-to-highest-ever-level-at-over-rs-1-15-trillion-in-december-121010100523_1.html

5 Source: Motilal Oswal analysis



Source: Kotak Institutional Equities

However, one needs to be wary of being too aggressive at the current juncture
Stock markets in the developed world are not reflecting confidence in Equities, but rather "relative" attractiveness vs poor return prospects in Debt. An uptick in inflation (not a concern at present) can suddenly reverse the euphoric sentiment if interest rates start rising. And the flood of liquidity into Emerging markets can start reversing.

There are clear signals of excesses in the developed world.

- Special Purpose Acquisition Vehicles, ("SPACs[6]") have raised over $82 billion in 2020.[7] That's more than the previous decade combined. A recently listed SPAC traded at 20% above issue price implying investors were willing to pay a 20% premium just for cash on balance sheet.
- Tesla's stock has soared 665% this year, taking its market cap beyond $600 billion, which is more than the valuation of the top nine automakers combined, despite it having less than 2% of their combined revenue.
- Instead of encouraging people to invest, apps like Robinhood have "gamified trading[8]"
- Debt investors seem to be looking for capital gains rather than yield, perhaps betting rates will decline further. It is bizarre that someone would accept 1% yield for a 100 year bond.

A lot of the higher growth expectations seem to be priced in.

- For example, many Specialty Chemical companies, including some we own, are trading at FMCG valuations based on the expectations of very strong growth.
- Even as we are very confident about their growth prospects, we cannot forget that these are 20-25% ROE businesses who still need to execute on the growth promise.

There are signs of euphoria in many pockets.

- Burger King, owned by a Private Equity major Everstone, recently listed. Its IPO was priced at 60/share which included a secondary sale and shares rocketed to 180/share within a week. Everstone, with deep understanding of Capital markets, would not mis-price an IPO by such a wide margin.

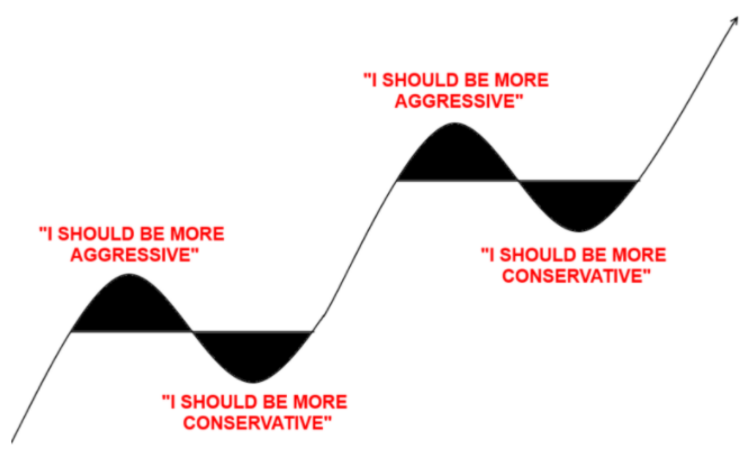
[6] SPACs are shell companies created specifically to raise capital, with the intent to buy private companies and take them public and by-pass the scrutiny of an IPO process.
[7] https://www.visualcapitalist.com/spacs-are-back-and-bigger-than-ever/
[8] Prof Scott Galloway

- The euphoria around PLI schemes and increased prospects for short term growth is driving valuations of beneficiaries to highly euphoric levels with price increases of ~2-3.5X since Jan 2020. These are businesses with narrow moats at present as their principal activity is assembly operations for OEMs with the edge being the ability to manage labour costs/productivity more efficiently vis-a-vis the OEMs. While they will benefit from a burst of growth, and many are attempting to do more value add activities like design, they will not be able to structurally expand margins/ROE as OEMs will encourage new entrants to prevent existing suppliers from getting excessive negotiating leverage. Most of the valuation component resides in Terminal Value and not in short term growth prospects.

Our stance is be cautiously optimistic and not to chase rising prices

Low interest rates in India reflect surplus liquidity amidst low demand for Credit rather than structurally lower Cost of Capital. Hence, while one should be willing to pay a small premium for select franchises, higher multiples across the board cannot be justified by lower interest rates. When interest rates start rising, the boost to valuation multiples will reverse.

Partners should remain disciplined on incremental allocations to Equities. During periods of swiftly rising prices, risk is forgotten. "Successful investing is mostly a battle between our ears … the key is, how disciplined can you remain through the boom, bust, boom and bust?"[9]



Source: Pragmatic Capitalism

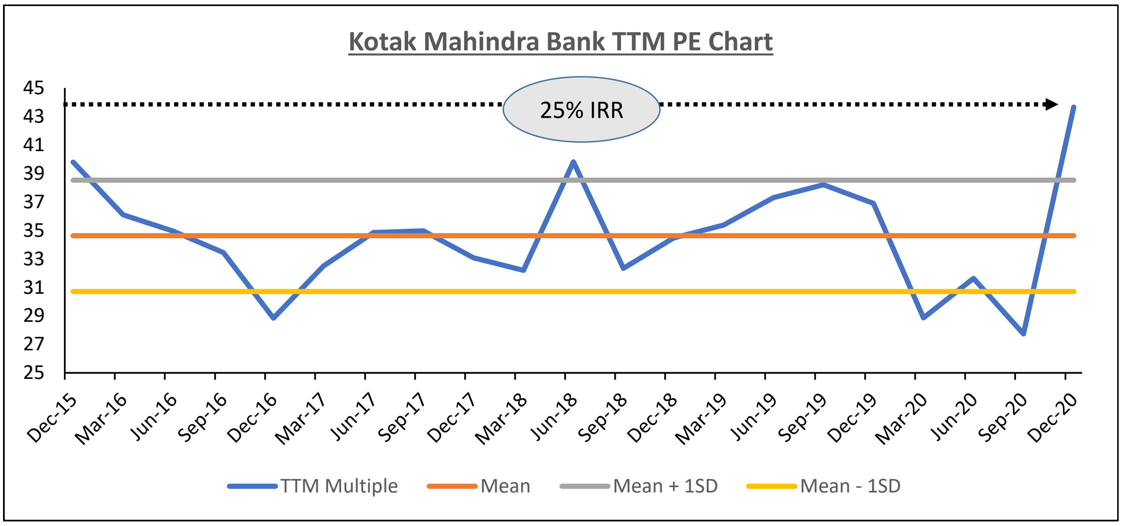
We are deployed ~ 50% in recently signed accounts. Our approach is to

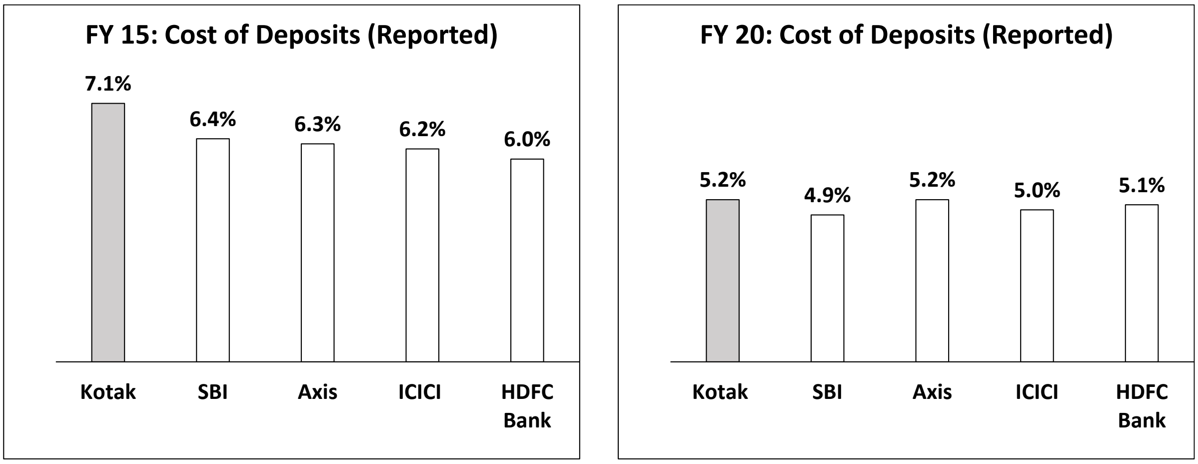
- Take close to full position sizes where growth and valuations are both in favour (example ICICI Bank, Bharti Airtel, ICICI Pru Life, Privi Fair Chem, Shaily Engineering, Mayur Uniquoters).
- Take smaller positions where we have belief in growth prospects and improving competitive positions but valuations appear rich (example Kotak Bank, HDFC Life, Neogen Chemicals).
- Wait for better entry points where valuations look very stretched.

One should be willing to risk over paying "a bit" when investing in companies with strong and predictable growth prospects if one is seeking long term compounding as whether one has over paid is only evident in hindsight.

[9] https://www.pragcap.com/the-psychology-of-the-stock-market-in-one-image/

- Fair valuations depend on future earnings which are estimates. One can be too conservative by looking at historical bands when companies have opportunity to gain market share and enhance margins (see charts below). For example, Kotak Bank's relative Cost of Funds vs peers has improved significantly since 2015, a key variable that no one forecast 5 years ago.
- Growth, if backed with longevity and a strong competitive position, will correct any valuation mistakes if one has marginally over paid. The bigger risk is missing out because one keeps waiting for a correction.
- The risk of overpaying should be managed by position sizing – taking smaller positions upfront and retaining the ability to add on declines by keeping some cash on the side lines.





Source: Morgan Stanley Research

One needs to be wary of buying into a narrative that valuations don't matter.

- Just because a style has worked for a while, it does not mean it is right. Valuation multiples eventually mean revert to fair value. When the going is good, we forget that sectors go through valuation cycles.
- If one significantly over pays on the promise of growth, the odds are stacked against you, not only because of mean reversion, but also the probability that actual growth may be significantly lower than estimated.

So when to wait for a better entry point, and when to risk over paying a bit? We look for whether competitive positions and/or growth trajectory is improving or are at status quo. We believe that for a vast range of FMCG/paint cos, the ROE/growth trajectory is as it was 5 years ago and the only lift to valuations is from a decline in interest rates; and this should reverse when interest rates rise.

Commentary on portfolio company performance

In our Q1 FY21 letter, we shared 10 secular themes that would guide portfolio construction based on how we saw the world post Covid-19.

- The world will look to aggressively de-risk supply chains from China. India has the opportunity to be a significant beneficiary.
- Success of working from home, need for social distancing will impact industries differently. Many small businesses will permanently close.
- Market share gains of digitally enabled business models will increase dramatically.
- Govts will become more protectionist.
- Climate change warnings may get taken more seriously. Environmental, Social and Governance (ESG) risks will come further into mainstream.
- More developmental spending will flow to the bottom of the pyramid as the pandemic worsens inequality.
- Industries will witness rising consolidation as the big get more powerful
- Impact on incomes and sentiment will impact discretionary spending and cause consumers to down trade to value for money brands.
- Health and Life Insurance uptake will rise.
- Rising Govt. debt burdens (Debt/GDP) will require them to tolerate higher inflation down the road. Gold will emerge as a store of value.

The above secular trends - that will enable compounding for long periods of time- will continue to guide our research efforts and portfolio choices along with a few new ones eg greater thrust in indigenization of Defence spending.

Portfolio companies continue to report robust growth and future prospects.

- HDFC limited has reported strong home loan demand with October growing 35% vs the previous year. We are "perhaps" witnessing the start of a new housing cycle. There is clearly increased demand for home ownership prompted by the triple benefits of lower real estate prices, stamp duty cuts and lower interest rates. We believe HDFC margins will expand over time from higher share of developer loans where competitive intensity has reduced with the exit of many players.
- Consolidation of market share in leading Banks continues unabated and the Banks we own (Kotak, HDFC, ICICI) surprised us positively with guided Asset Quality. It is very clear that financial institutions lending to non-prime customers have been impacted more than others.
- The pandemic has further enhanced awareness about need for Life Insurance. Intent to buy Life Insurance increased during the pandemic reflected in higher Google searches for Protection from April to July, but it hasn't translated to numbers due to the inability to do medical tests. Millennials are buying Insurance earlier than the previous generation did and also buying higher ticket size longer tenure plans[10]. HDFC Life in a recent interview has guided for ~17-20% top line growth for long periods of time (which would imply higher VNB growth) and ICICI Pru Life reiterated its guidance of doubling of FY 19 VNB over 4 years.
- Companies benefitting from tail winds of "de risking from China" have reported very strong growth and almost all companies we own will grow significantly in FY 21 vs FY 20 despite any lock down issues they faced during the pandemic. Divi's Labs surprised us with 60% profit growth in H1FY21 over last year. Neogen has guided for very strong revenue growth in FY 22/FY 23 as its new plant in Dahej comes on stream. Shaily continues to win new orders and has guided for growth in FY 21 despite H1 FY 21 being 15% lower vs H1 FY 20.
- India Mart is a B2B classified platform. Its long term success depends on creating a network effect. Its business has been impacted by the lockdown in Q1 as many customers stopped

[10] Interview of Vibha Padalkar in ET

using the platform in the absence of orders. However, it reported good growth in Q2 with 32% growth in buyer traffic and repeat purchase increasing to 60%. Many customers who had stopped paying reverted back to the platform and the number of buyers who were also sellers inched up to 36% from 30%.

Disappointment in results were primarily from

- Symphony, as a primarily Retail Air Cooler company, got significantly impacted due to the lock down resulting in abysmal sales in its peak season. Consequently, high channel inventory meant lower off take in Q2. Symphony's business model is now significantly more geographically diversified than few years ago and it has entered new segments of Commercial and Industrial Air Cooling. If the new segments start contributing meaningfully to earnings, its vulnerability to a good Indian summer can significantly reduce from a few years ago. This is a hypothesis that still needs to be proven.
- Bharti delivered strong operating results except for the critical increase in tariffs (ARPU). We believe this may be delayed, but is inevitable.

Companies where Solidarity is more optimistic than the market

Kotak, ICICI Bank
We believe current prices are still reasonable despite a steep run up in prices since our last update.

Kotak Bank has historically grown Earnings at 25% CAGR despite being disadvantaged on Cost of Funds and that trajectory can be maintained, or even exceeded, when its Cost of Funds is now at par with leaders. Hence, past valuation benchmarks could be misleading both due to a stronger competitive position and the benefit of lower discount rates. A push back one gets on Kotak Bank valuation is its low ROE. However, surplus capital can deflate true ROE which we believe are ~18-20%.

We believe that ICICI Bank will surprise the market positively on both growth and asset quality and its valuation gap with HDFC/Kotak Bank will narrow over time. Valuations in Banks are strongly correlated with Asset quality and consistency of reported profits. As the market gets more confidence on the cultural change at ICICI Bank, this will get reflected in a higher valuation multiple vs where the bank trades at present.

ICICI Pru Life
ICICI Pru Life has disappointed on growth vs peers over the last 2 years. ICICI Pru historically was very ULIP focused which was impacted by poor capital market performance and has taken a conservative approach to selling guaranteed return products which carries potential tail risk from large interest rate decline. Moreover, ICICI Bank's refusal to sell products it perceives as not being customer friendly has impacted ICICI Pru given ICICI Bank is its biggest channel partner. ICICI Pru Life has pivoted to a more balanced product mix (60% of VNB coming from protection), signed up additional distribution partners and at present has the highest market share of Retail Term Protection (which is the most profitable). Insurance profitability is calculated based on long term assumptions of mortality, persistency, interest rates etc. Hence, a conservative approach is something we welcome in a business with tail risks. We also believe that ICICI Pru Life is perhaps ahead of the curve among Life Insurers (alongside HDFC Life) in using Digital to transform the customer experience, improve channel productivity and manage costs. We believe ICICI Pru Life will surprise on VNB growth and its valuation discount to HDFC Life will narrow with time.

Bharti
Telecom services today are akin to FMCG, as in the demand is secular and uncorrelated with the environment. At present the market prefers Jio's narrative and is willing to take a big leap of faith in

future profits. We like Bharti's strategy of sticking to its core of being the Telco of choice to high value subscribers while have a partnership approach with other players in the eco system rather than build it all. While Digital tends to be "winner take all", the same is not true in Telecom due to regulatory caps in market share. Bharti is also executing brilliantly reflected in higher ARPU and margins vs peers. We believe Jio and Bharti will co-exist successfully and that the industry profit pool will reside principally with these 2 players. VI is challenged and promoters of VI have not yet explicitly stated intent to back the company with more Equity.

A common critique of the Telecom industry is that it does not generate any FCF. That would be looking at the rear view mirror when the industry structure and conditions are very different at present than what they were a few years ago. Telecom will surprise immensely on profitability – Indians consume the most amount of data in the world while paying the least for it – an untenable position when the industry is not even earning its Cost of Capital. A revenue starved Govt. should have no objection to rising tariffs as it shores up revenue. Rising ARPU and lower unit costs over time should result in substantive margin expansion and FCF generation.

One should have high allocations in names where probability of losing capital is very low. We believe risk reward is strongly in favour and hence Bharti has a high weight in our allocations.

Shaily Engineering
Most global procurement decisions are based on price and quality considerations. However, supply chain reliability is now getting as much prominence over price. Shaily is sitting at a cusp of a huge opportunity in not only its existing categories (Home Furnishings, Medical Devices, Steel Furniture) but new ones such as Toys where China exports USD 30 B annually. Shaily has signed orders with 2 of the 3 largest Toy companies in the world as leading players are aggressively moving production out of China.

The market has rightly punished Shaily for over promising and under delivering in the last 2 years.
Shaily has had issues in execution because of labour problems. But this is not an issue which is endemic to Shaily alone in Corporate India. Shaily has acted by hiring a CEO with a strong plant operating background and also replacing casual labour with ITI graduates.

Customers have kept faith in Shaily despite execution hiccups. That is reflected in continued new business wins. That is a huge vote of confidence on Shaily's competencies and is key to gauge prospects for a B2B business. If Shaily can execute well, it can become a significantly larger, more de-risked and higher ROCE business vs what it is today. We believe Revenue can grow 3X and Profits 4X by FY 25 from FY 20 levels. One has much to gain if the hypothesis turns out right and not much to lose if one is wrong. The uncertainty on execution is being reflected in the price.

Gold[11]
We continue to recommend a gradual increase in allocation to Gold with a minimum of 5% portfolio allocation to be increase gradually over time. The developed world has been trying to engineer growth since 2008 through fiscal and monetary stimulus and doubling down when the strategy is not working because a deflationary scenario is even worse where debts increase in real terms. While Covid-19 dominates the narrative at present, talk of "secular stagnation" in the developed world hung heavy in the air even pre Covid. In a world with widening inequality and unemployment, one wonders how one can stop stimulus as politicians need to get re-elected.

As fiscal stimulus is not proving enough, monetary policy is picking up the slack. The Japanese Central Bank is creating money and using it to buy Equities – it is currently the larger holder of Equities in

[11] We may not hold Gold ETFs in your account unless you have specifically given us the mandate to do so.

Japan and has a well communicated regular buying plan. The US Fed is at present buying bonds of barely profitable companies at any price by creating money. Over USD 3.2 Trillion has been created since the start of this year, most of which has gone in direct income support rather than productive investments like roads, airports and factories.

If money printing could solve humanity's problems, surely it would have been figured out much earlier. This will have consequences which we need to acknowledge that we do not understand (unknown unknowns). "Extend and pretend cannot continue forever". There is of course the known risk of runaway inflation on which there is widespread complacency at present because money printing post the 2008 crisis did not result in inflation as was predicted. Unlike the previous crisis however, Banks are being encouraged to lend money backed by sovereign guarantees. Hence, the velocity of money is increasing.

Equities, through Earnings power have value. But so do assets which are scarce. Gold has scarcity value and could offer good returns and diversification from Equities. Gold has performed as well relative to Indian Equities over 5, 10 and 20 year periods and tends to do even better during very inflationary phases.

Gold vs Indian Equities: IRR over time			
	5 Yrs	**10 yrs**	**20 yrs**
Gold	14.3%	8.3%	12.6%
Nifty 50	11.8%	8.8%	12.8%
Nifty 500	11.3%	9.0%	13.6%

Source: NSE, gold.org
Data as of 27 Dec 2020

Actions taken in the last quarter

CAMS
We initiated a position in CAMS in select partner accounts where we had un-deployed cash. This position has run up sharply since our purchase and we are not buyers at the current price. We will share a more detailed thesis when we own them more broadly across partner portfolios.

CAMS is play on increased Financialisation of savings in India.

- It is India's largest Registrar and Transfer Agent (RTA) of mutual funds (MFs) with ~70% market share in a duopoly industry. This segment is ~87% of their revenues.
- It also provides services to AIF and PMS firms and is 1 of the 4 licensed insurance repositories in India (~13% of revenues).
- It was recently selected as Central Record Keeping Agency under the National Pension Scheme.

Their core segment, RTA services to MFs, has strong entry barriers and high switching costs.

- A largely fixed cost model, its dominant scale provides a significant cost edge as the largest RTAs who have on boarded maximum Assets on their platform can offer lowest incremental price to all customers as the fixed costs are spread out over a large base.
- Switching costs are very high for customers - moving to another RTA is time-consuming and there is a high risk of business disruption and customer dissatisfaction.

Limited competition, an Asset light business model, no threat from MFs bringing CAMS offerings in-house results in CAMS earning high ROIC (>150%). The company will dividend out most of the cash generated as Cap ex requirements for growth are nominal. With Warburg Pincus as promoter and the HDFC Group having significant minority holding, there are no concerns around governance.

We believe this is a moderate but highly predictable growth business with high ROIC and one which we will look to add to at the right price.

Sequent

We trimmed Sequent in account where the position became over-weight. While there is a temptation to let winners run, we believe it is prudent risk management to trim over weight and expensive positions and re-allocate cash to other positions as we then reduce risk in the portfolio without compromising potential portfolio upside.

Fairchem Organics

We got free shares in Fairchem Organics due to the demerger of Fairchem Specialty into Privi Specialty Chemicals and Fairchem Organics. We sold shares in the latter as the number of positions in the portfolio crossed 20 and we did not want to hold onto a business we did not understand very well.

2020 has once again reminded us that we should not interrupt the process of compounding out of fear. Nobody predicted the virus in Dec 2019, that the markets would collapse like they did in March and recover as fast as they have done within the year. Nobody predicted the scale of intervention by the Central Banks. Variables that affect stock prices can only be understood with the benefit of hindsight as known risks are often countered with unknown tailwinds and supportive valuations.

Another crisis is inevitable. Another correction is inevitable. These are variables we cannot control. However, what is in our control is to exclusively play the long game, develop an understanding of what the journey entails, and cultivate a stillness to live through the draw-downs without panicking when they strike. We do not need to fear what we understand.

We look forward to speaking with you on the 9th of January at 12 PM

With our best wishes,

Manish Gupta	Manjeet Buaria	Anirudh Shetty
Chief Investment Officer	Principal	Principal