

3rd January 2022

Dear Investors,

New Year Greetings from EQ team.

Come year-end and we see host of experts giving prognosis for New Year. We would resist doing that. One lesson which we have learnt again and again is ***forecast don't work; at least about future!***

It is rather pragmatic to divert that calendar year tendency to review the past and learn valuable lessons which could help us handle future in whichever way it chooses to unfold. ***Idea always should be about building a sturdy roof and not get busy predicting winds.***

CY 2021 broadly has been story of contrasting two halves. Whereas first half we reeled under Covid-19 second wave, which unfortunately was quite severe. Desperation to get beds in hospital and an oxygen cylinder for loved ones; spread an environment of despair and disappointment across society. Second half was filled with much more positive enthusiasm as we saw scrambling to buy all kinds of stuffs from food to houses to cryptos. Post taming of second wave consumption in India as well as across the globe have been surging. Overall year seems to have ended on positive note.

Markets on the other hand had a steady climb through the year. Following are calendar year returns of Nifty and EQ PMS:

CY 2021	Returns
EQ PMS	54.5%
NIFTY	24.2%

We would encourage all to view recent 12 months returns with what we pointed in our previous letter:

....we want you to look at the long-term trends and not get swayed by inevitable yearly ups and downs. Investors who have kept faith with us since our inception have seen Rs 1 lakh become Rs 35 lakhs compared to what would have been Rs 19 lakhs in Sensex.

What matters is long term wealth creation and not few quarters up and down.

Here we want to point out another feature of equities - **“Asymmetric returns”**. Simply put it is important to remember following two points about portfolio returns:

- 1. Few stocks deliver bulk of the portfolio returns - say, 20% stocks would give 80% returns.**
- 2. Returns accrue in small time of the holding period. – say, a portfolio held for five years may see most of the returns coming in the last one year.**

(P.T.O.)

As the fund manager, we strive to focus on the first point – running long with the winners and managing the losers well. Doing both together is not an easy thing psychologically. Nevertheless, we aspire to do our best on that front. We have had our share of learnings here in past and would reassure our investors that we are entering 2022 more wiser than say we were a year before. We are self-aware about our ego and take the below observation made by legendary investor Philip Fisher very seriously:

“There is a complicating factor that makes the handling of investment mistakes more difficult. This is the ego in each of us”

Second point is what we would like our investors to be very much aware about. Equities is not only a very long-term asset class (i.e., best returns accrue over decades) but also a non-linear (i.e., bulk of that return may accrue in the 5th year or 6th year) - no one knows exactly which year, but that’s how the nature of this asset class is. Hence **only antidote for investors is - “Stay Invested”**.

Our constant focus is to increase the “Intrinsic Value” and build higher “Margin of Safety” to your portfolios and letting market give us gains according to its own “schedule and rhythm”.

As we enter 2022, we want to re-iterate what we have said before:

We are fanatically focused on compounding wealth for all of you. We are sceptic as value investors and optimistic as long-term equity investors. We believe in Indian entrepreneurs in general and have faith in the growing economic prosperity of our nation. These are the tailwinds which will sail us ahead long and high in our view.

We do things as we know best. The path to true success is through authenticity. Investing isn’t game of perfection but it’s game of continuous improvement. Here we take Ernest Hemingway’s words very seriously - *“There is nothing noble in being superior to your fellow man; true nobility is being superior to your former self”*

Wish you and all your loved ones a healthy, harmonious & happy 2022.

Porinju Veliyath