

19th October 2020

Dear Investors,

After six months of significant rebound, small/midcaps have been lagging Nifty for last few weeks. We understand, many of you are disappointed and are fearful if it is the end of recovery in broader markets. The memory of the significant underperformance in broader markets versus blue-chips and benchmarks which has only ended recently, remains very alive in all of us.

Let me re-iterate, the broader markets have bottomed out and the worst is behind us. Occasionally, the Nifty may outperform midcaps/small caps like the past few weeks, this is normal. However, in the next few years value investing in broader markets would outperform indices significantly. At least this is what we strongly believe. With all these years of experience in stock-markets, let me tell you, the chance that we go wrong this time, is extremely low.

Our performance in the preceding 6 months has been very encouraging. While there is a long way to go and a lot of lost ground to cover for us, it seems that the trend has finally turned in favour of our strategy. The extreme, irrational, and technical sell off, mainly by institutions, along with the cyclical downturn over the last two years, had driven the non-blue-chip stocks down to illogically low levels. This, I am confident, has ended and the broader markets have bottomed out. We believe, if the current recovery and up-trend sustains (history suggests it would), in the next couple of years we would compensate enough for the draw-down of last two years and catchup with the benchmarks, and perhaps even out-perform them.

I know that many portfolios, where we had invested in our failed turnaround theme, is yet to recover though we have course corrected and restructured the portfolios. At the same time, as a fund manager it is comforting and motivating to see that many of the portfolios have also recovered and started outperforming benchmarks in the last six months. We are confident that our holdings have enough and more value unlocking potential to eventually reward and create alpha for all our investors, even those who joined us at the peak of the small/midcap bull cycle.

Importantly, we are seeing values and earnings visibility in our focus area - small/midcaps. Most of our portfolio companies are leaders in niche segments with continuing business relevance and have significant potential to unlock value. Our confidence level in the portfolio companies is far higher today, say, than a year ago. Few of our core holdings which were facing temporary headwinds has emerged stronger and looks set to do well going ahead. More importantly the pandemic has levelled the playing field for broader markets

and value investors like us. We find evident signs on ground indicating that the small/midcap space has turned around.

Disruption in many businesses, especially after the pandemic, is a reality and could continue to impact many companies, including few of our investee companies. We believe, our companies being leaders in their respective areas would ultimately emerge stronger.

Regardless of what we feel and communicate, ultimately it is performance that matters to you and for that we need time. Thanks for your patience and time, we are confident that in the coming years, we will deliver our gratitude to you in kind, through portfolio performance.

Porinju Veliyath