

20 July 2021

Dear Investors,

Here is what we wrote in our previous letter:

*Currently, the so-called Second Wave of Pandemic is underway in India. From all the basic data we read, the second wave is much bigger than the first one and individual health tragedies are unprecedented. Obvious stress on the Indian healthcare system is visible and one can only wish and pray that – **This too shall pass.***

And all the data indicate that we are well past the wave two and severity of past wave has already pushed several authorities to start preparing for potential wave three of Covid infections. Our intuitive feel is that this heightened awareness, high level of infection & exposure during wave two combined with rising vaccination should hopefully result in control and manageable spread going forward. We are not experts on the subject; however, this is our current sentiment. **Broad lesson we have drawn from such externalities is that we should be focusing on what we can control and ignore what we cannot.**

**Value orientation is in our head and heart – Absolute Indices do not distract us from seeking value:** Markets have continued to be robust, and our sense is that the bullishness is not subsiding soon. However, having said that; we are not momentum chasers. We are long term value seekers. What is important to us are following broad questions.

1. Do we find value in individual companies (not in headline indices)?
2. Is “intrinsic value” (which is different from market prices) of companies, we own or intend to own, improving?
3. Do we have satisfactory “margin of safety” in our portfolio or fresh purchases?

Despite so called elevated indices, we are not worried on any of the above three counts. *We are paranoid about potential known or unknown risks but also pragmatically constructive on potential opportunities.*

**Evolution of EQ – in service of our investors:** At core we are making “Judgement under Uncertainty” all the time in stock market. Markets are uncertain, non-linear, and reflexive and there is no escape from this reality. No one, however resourceful or networked, can crystal gaze tomorrow. We have concluded that *intellectually diverse, honest, and humble team need to be empowered through right culture & environment to succeed consistently.* I humbly submit that our setbacks of the recent past have been meaningfully utilized to work on plugging holes and biases in our process and have taken us on path to build the right “*culture*” and “*team*” for consistent and superior performance of our investors.

Whereas such changes need to be evaluated on very long-term basis, our recent performance may have seen some benefits flowing from such “*organization evolution*”. After a weighted average return of 153% in FY21 (of course, on a beaten down low base) vs. 71% in Nifty, EQ PMS is up another 34% in FY22 till date vs 8% up in Nifty. This is a very encouraging trend that we wish to consolidate and continue.

**Compounding is unleashed by Margin of safety and Quality of business:** We aspire for superior returns, low risk and long duration. These three ensure compounding of wealth. Experience in markets have time and again taught us to focus on margin of safety to lower risk and quality of business and management to ensure long duration. Returns are function of these two in place over time. *We continue to get comfort from our assessment of margin of safety and are encouraged by the improved quality of our portfolios.*

**Another key to unleashing compounding is investor behavior.** Staying put in markets for long duration, especially during tough times and while coming out of a bad recent performance, is key to compounding. This is exactly what our investors have done. **We thank you for listening to us and staying invested in the drawdown phase. Special thanks to those of you who have been adding capital.** *Drawdown phases are inevitable and enduring them is key to long term compounding.*

We thank you once more for reposing faith in us. We are fanatically focused on compounding wealth for all of you. **We are skeptic 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.**

Take care and be safe.

Porinju Veliyath