July 27, 2013

Whilst your individual returns are with you, I would like to share how we think about on performance on the portfolios managed by me at Jeetay.

1) We look at a "representative" portfolio. Most of the older portfolios usually have in the past had performance numbers clinging around the numbers of the "representative" portfolio. Newer portfolios take time to build up and usually mask true performance and may even distort it. This "representative" portfolio is that of our oldest client.

2) We benchmark our returns against the Sensex. We are size agnostic but usually find values in the mid-cap space. However we carry fairly large amounts of cash and so a mid-cap index may not be the right benchmark. We have chosen the Sensex to give you a sense of the "opportunity cost" of not being in the market and not as some sort of a competitor with whom we are in a quarterly rat race.

3) Short-term underperformance does not bother us and short-term outperformance does not excite us. What should count are long-term figures. Our idea of the long-term is <u>very</u> long. We will be honest – we do not have

performance figures for our definition of the long-term. So we have sliced the performance figures into various shorter-term horizons, to suit your perspective of what should be a sensible investment horizon.

4) We usually measure the cheapness of our portfolio in relation to each security's historical valuations and not against the current market valuation i.e. we would like to have some sort of absolute cheapness and not relative cheapness.

5) The figures cited are before taxes and fees. This is because the taxes are paid by you and vary depending on whether you have short-term capital losses and the quantum of short term gains. The fee structure varies due to 1) different plans 2) different entry points (high watermarks). These should shrink the magnitude of outperformance, although not eliminate it.

6) We do not only look at returns, but at risk-adjusted returns. We do not measure risk by simple volatility, but by downside volatility, drawdowns and portfolio cheapness. On a risk-adjusted basis, our returns, even after taxes and fees, should compare well with the Sensex. Since we believe that markets are unforecastable, we usually hedge our positions by carrying fairly large amounts of cash.

7) We continue to use the "representative" account methodology so as to be consistent (Tables 1, 2 and 3).

8) We have found that the "representative" account, which has been that of our oldest account, now has a different portfolio composition from newer accounts and even some of the older accounts. It may thus in the future not properly track overall performance. We have included Table 4 in which four sets of figures are shown:

a) The "representative" portfolio returns.

b) The weighted average returns of all the discretionary portfolios managed by Mr. Chetan Parikh in the Jeetay PMS.

c) The weighted average returns of those portfolios with over 60% equity at any point since inception. These may be generically thought to be the "older" portfolios since "newer" portfolios take some time to build up and may not be representative of portfolio performance. They are of course included in the weighted average returns of all the portfolios.

d) The Sensex returns.

9) We will therefore be reporting "weighted average" returns along with those of the "representative" portfolio.

10) Should you find all these numbers too intimidating but want to focus only on a few, just look at the second and fourth columns of Table 4. That summarizes the overall performance of portfolios managed by me at Jeetay and the Sensex.

Table 1

Since Inception				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
June 07, 2003 to June 07, 2004	80.80%	48.00%	Almost fully invested	Audited
July 05, 2004 to June 30, 2005	31.45%	42.10%	Around 65%	Audited
July 01, 2005 to March 31, 2006	30.32%	56.80%	Around 40%	Audited
April 01, 2006 to March 31, 2007	33.73%	15.62%	Around 20%	Audited
April 01, 2007 to March 31, 2008	7.41%	18.60%	Around 30%	Audited
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited
*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to	29.09%	10.93%	Around	Audited

March 31, 2011			27%	
April 01, 2011 to March 31, 2012	9.03%	-10.5%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
Cumulative Return	**717.87%**	**460.45%**		

Table 2

Since 2008				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
April 01, 2008 to March 31, 2009	-22.26%	-37.94%	Around 35%	Audited
*April 01, 2009 to March 31, 2010	85.16%	80.50%	Around 30%	Audited
April 01, 2010 to March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.5%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
Cumulative Return	**83.84%**	**23.94%**		

Table 3

Since 2012				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to June 30, 2013	-1.12%	2.97%	Around 13%	Audited
Cumulative Return	**-9.25%**	**11.44%**		

*A mistake we hope never to make again – at low levels of the market, do not wait for even lower prices. Ignore all the negatives, because they usually are already in the prices. Mark-to-market losses should not hurt, only permanent losses of capital.

Table 4

Jeetay Returns** (Portfolios managed by Mr. Chetan Parikh)

	"Representative" portfolio	**Weighted average returns of all discretionary portfolios**	**Weighted average returns of "older" portfolios**	**Sensex Returns**
2006-2007	33.73%	**28.66%**	30.11%	**15.62%**
2007-2008	7.41%	**7.12%**	8.68%	**18.60%**
2008-2009	-22.26%	**-23.85%**	-23.85%	**-37.94%**
2009-2010	85.16%	**78.40%**	79.00%	**80.50%**
2010-2011	29.09%	**18.57%**	18.40%	**10.93%**
2011-2012	9.03%	**3.32%**	3.07%	**-10.50%**
2012-2013	-8.23%	**-2.12%**	-2.77%	**8.23%**
April 01, 2013 to June 30, 2013	-1.12%	**-1.16%**	-1.50%	**2.97%**

**Returns are before fees but after all other expenses

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<u>Have I been "wrong"?</u>

The performance numbers over the past five quarters have shown underperformance. Five quarters is not the time horizon over which I personally gauge portfolio performance.

Let me give you an example. My family portfolio, which is predominantly tilted towards FGCG companies, massively underperformed the markets from 2003-2007, before significantly outperforming it in the period till date, with the result that the ten year period 2003-2013 has shown large outperformance compared to market indices.

It would be easy on my part to state that I was convinced that this would happen during 2003-2007. To be honest, I was deeply perturbed and on the verge of capitulation by the end of 2006. It would have been a terrible mistake if indeed I had capitulated. Luck, my brother Vinay's insistence and an inexplicable sixth sense gave me the extra patience not to throw in the towel.

Over shorter time frames we all underestimate the power of the reversion-to-the-mean and we tend to confuse poor outcomes with poor decision making. Sometimes mean-reversion happens quickly and sometimes it seems like it will never happen. Now I spend some time thinking of when the underperformance on my family portfolio is going to start and whether I would be psychologically able not to feel too stressed about it. For I still believe in the long-term power of buying and holding compounding machines.

The question that you have a right to ask is how "long" is this mythical "long-term"? The honest answer again is that I do not know.

It would, I think, be useful if I reviewed the process of stock selection with specific examples of where things at the moment do not seem to be working out. I will again not name the companies, although some of you may guess which companies I'm writing about.

An auto ancillary player whose competitive advantage of scale and technology seems to be on the wane. A large part of its product range is commoditized. It is facing the worst downturn that the commercial vehicle industry has seen for a long time. In hindsight, it was a mistake not to sell it when it was quoting at almost three times its current price some time ago. For the moment, I think the pessimism is overdone. But I've certainly not anchored myself to any particular price. I would like to sell under more optimistic conditions, but I've no clue when that will happen. For the moment, the current price looks cheap.

An oil exploration company in the small-cap space which has an honest management and is quoting at low valuations in relation to earnings and its proven and probable reserves. The concerns relating to execution strategies of monetizing the reserves seem to be in the price. Another concern could be the direction of crude prices globally, although that is a variable I do not think I'm competent to forecast, except to make the rather trite observation that if oil prices were to come down, some of the pressures on the Indian economy would be removed. Hopefully the rest of the portfolio should fare better under those conditions. Further confidence on what seem to be cheap valuations is an ongoing buyback program.

Some of the companies are in the capital goods sector. They are also caught in a ferocious downturn. The prices reflect short-term pessimism, although I'm optimistic about their long – term resilience if an assumption is made on the reversion-to-mean of the investment component of India's GDP. I cannot predict turning points, although I believe that the pessimism is overdone. I must frankly admit that it has been painful to see the mark-to-market losses.

Some of our positions may well turn out to be "value-traps" although ex-ante I've no way of predicting them, or else I would have avoided them altogether. If they continue to underperform with no visible catalyst except cheapness, I may have to take some hard decisions.

The two qualities that probably differentiate good from mediocre long-term performance is stock selection and patience. I've taken responsibility for the first component. I only request you to indulge me with the latter.

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Should there be any queries, I'm always available. Please do not hesitate to contact me or members of the Jeetay team who look after the administration at the office – Divya, Rashmi or Prem!

Warm Regards,

Chetan Parikh