January 19, 2015

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 <u>your</u> 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 under the Jeetay Value Plan and allied Plans 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 March 31, 2011	29.09%	10.93%	Around 27%	Audited
April 01, 2011 to March 31, 2012	9.03%	-10.50%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to March 31, 2014	18.22%	18.85%	Around 15%	Audited
April 01, 2014 to June 30, 2014	31.78%	13.52%	Around 12%	Audited
July 01, 2014 to September 30, 2014	13.13%	4.79%	Around 12%	Audited
October 01, 2014 to December 31, 2014	9.02%	3.26%	Around 7%	Audited
Cumulative Return	**1489.28%**	**694.61%**		

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%	-10.50%	Around 10%	Audited
April 01, 2012 to March 31, 2013	-8.23%	8.23%	Around 9%	Audited
April 01, 2013 to March 31, 2014	18.22%	18.85%	Around 15%	Audited
April 01, 2014 to June 30, 2014	31.78%	13.52%	Around 12%	Audited
July 01, 2014 to September 30, 2014	13.13%	4.79%	Around 12%	Audited
October 01, 2014 to December 31, 2014	9.02%	3.26%	Around 7%	Audited
Cumulative Return	**257.24%**	**75.72%**		

Table 3

Since 2013				
Period	**Portfolio Returns (%)**	**Sensex Returns (%)**	**% in cash**	
April 01, 2013 to March 31, 2014	18.22%	18.85%	Around 15%	Audited
April 01, 2014 to June 30, 2014	31.78%	13.52%	Around 12%	Audited
July 01, 2014 to September 30, 2014	13.13%	4.79%	Around 12%	Audited
October 01, 2014 to December 31, 2014	9.02%	3.26%	Around 7%	Audited
Cumulative Return	**92.14%**	**45.99%**		

Table 4

Jeetay Returns** (Portfolios managed under the Jeetay Value Plan and allied Plans)

	"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%**
2013-2014	18.22%	**18.20%**	18.30%	**18.85%**
April 01, 2014 to December 31, 2014	62.53%	**53.82%**	54.25%	**22.84%**

**Returns are before fees but after all other expenses

--------------------*--------------------

Whilst cautioning against paying any serious attention to quarterly numbers, I would like to reiterate the firm's philosophy of viewing stock purchases as a way of securing partnership interests in well positioned companies with capable and trustworthy managements at fair to attractive valuations. By its very nature, our investment operations are for the long-term.

We like to protect against downsides in the market by focusing on three variables 1) the cash levels in the portfolio which has some correlation to broad market valuations 2) the degree of undervaluation, if any, in our portfolio positions and 3) the quality of the companies we buy into as demonstrated by their competitive positioning, their capital allocation policies and their corporate governance and as a corollary to 2) and 3) their position sizes in the portfolio. We view these three variables simultaneously and trade - offs are made on a holistic and on a portfolio basis.

Here are some details of some portfolio choices that Jeetay made. Since the focus is on what went into our thinking, rather than what went into our portfolio, no names are being divulged in this letter.

1. We bought into a cement manufacturer which historically has enjoyed high margins and return on capital employed. It had a "moat", albeit not a strong one, in its locational proximity to its raw material sources, which gave it a small cost advantage. Turmoil in one contiguous state caused pricing pressures in the market to which it largely catered, which should ease with the return of normalcy. We bought into the company at a huge discount to its private market value, which has since narrowed considerably. We believe that some of the cost advantages will remain in the greenfield expansion which should be commissioned in the near future. The company has ambitious plans for further capacity expansion, although since no locational details are currently available, it remains to be seen whether the moat narrows or not.

2. We bought into a NBFC which operates in a number of verticals. Successful finance companies usually have a significant moat in their cost of funds, and this company is no different. Moreover it operates in certain areas where it has a small advantage due to regulations. Furthermore, its ability to cross-sell new products because of its wide area of operations, distribution network and large customer base, reduces customer acquisition costs. Its focus on reducing credit costs due to its investments in technology and processes and its growing affluent client base mitigates risk and protects profitability. We bought it at the lower end of its historical trading band a few years ago. With the large growth in its balance sheet and valuation re-rating we have made a sizeable gain. Whilst we do not believe that most finance companies can have very wide moats, we would be monitoring to see whether this company can widen and deepen its existing moat in the coming years.

3. We had bought a small portfolio position into India's largest spirits manufacturer a year before it was taken over by a global giant. After the takeover, we have added significantly to the original position. We believe that the company will use its distribution network to increase the proportion of premium products of its parent, whilst shrinking working capital, divesting non-core assets and vacating unremunerative price points. The current valuation on a EV/sales basis is around the same levels as the parent. With the moat widening due to the introduction of

the global brands of the parent company, the valuation should get re-rated to a differential more in line with the differential enjoyed by other Indian subsidiaries in the FMCG space with those of their parent companies. Any adverse move due to government regulations or taxes would impact the moat and make us reconsider our investment thesis.

-------------------------*-------------------------

We have also invested in "no-moat" companies, more from a Grahamian and quantitative perspective. One of our portfolio companies has since become a thirty-bagger, although we did divest a part of the position on the price up-move, chiefly from a risk-control view point.

-------------------------*-------------------------

We continue to remain cautious and are currently playing with a defensive bat. We view the global macro-economy as challenging and believe that risks are not being appropriately priced in many asset markets, largely due to extremely low interest rates and ultra-loose monetary policies.

In a column, Satyajit Das wrote in the Financial Times (9th January 2015): "To paraphrase organisational theorist Russell Ackoff, authorities are trying to do the wrong things right, rather than the right things wrong."

Just before that, Ralph Atkins had written in the Financial Times (2nd January 2015):

"Global policy makers, meanwhile, recognise that the rapid growth of global capital flows has created an animal that can switch quickly from apparent stability to crisis mode. Much of the time the financial system acts as a "shock absorber, a network insurance device scattering risk to the four corners", as Andrew Haldane, the BoE's chief economist, observed in a recent speech. But large shocks could result in fundamental changes, as "the network flips to a zone of systemic instability" he noted. "It is now operating as a shock-transmitter, a network incendiary device".

-------------------*-------------------

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,

Vinay Parikh