JEETAY INVESTMENTS PVT. LTD.

Dear Fellow Investors,

At the outset we wish to thank you for the faith reposed in us by investing in our Plan.

We will communicate with you every quarter; in part to inform you about the quarterly performance, but also to elaborate on some aspect of our investment philosophy or process. Over the course of time you will observe that we emphasise as much, if not more on the latter as on the former. This is borne out of our belief that a sound investment philosophy executed through a process that is unfailingly adhered to, will over the long term, inevitably lead to satisfactory investment returns.

We would like to caution you against laying too much emphasis on the quarterly performance numbers. In compiling our quarterly scorecard we are obliged to measure our performance against the market. You will observe that there will be months where our performance will be superior to the market (as reflected by the 'Sensex') as well as months when our performance lags the market. This should come as no surprise. Short term movements of the market are capricious reflecting the unpredictable and often exaggerated sentiments of the sum total of market participants as they react to the sum total of developments in the political and economic fields. This by nature is a combination of an (un)healthy dose of impulse together with reason. Our struggle is to tune out precisely this 'noise' emanating from the market place, whilst we attempt to assay the intrinsic worth of individual securities. Quarterly performances vis-à-vis the market are therefore more a measure of how 'in sync' we are with the prevalent moods of Mr Market – a goal that we have no particular skill or desire to pursue.

Analytical Framework

It will be our endeavour in these letters to flesh out some aspect of our investment process. ***In this letter we will focus on our analytical methodology for valuing equities.*** Our methodology rests on a truism, that 'one size' does not fit all! We segregate companies into two 'piles'. In the first pile are companies that have the ability to pass on cost increases to their customers, and in doing so are able to preserve profit margins. We call companies in this pile 'moat' companies. Admittedly, there are very few companies that enjoy this characteristic. We put all companies that do not have this profit margin preservation ability in the second pile.

The prevailing norm for valuing most securities is to use P/E multiples or other earning based multiples e.g. EV/Ebit(da). A P/E multiple when multiplied by earnings estimates for the year, allows the determination of a target price at which the company's equities should trade after the announcement of the year's earnings. We are not fans of this approach. A P/E multiple is nothing but an abbreviation of the discounted cash flow method of valuing a security. The discounted cash flow method of valuation entails projecting cash flows out into the future – an exercise that is difficult if not impossible in the case of most businesses. There are a handful of companies where it is perhaps possible to make this 'leap of faith' and project out into the

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future. But typically these businesses are few and far in between and are concentrated in industries such as consumer staples, health care, specialty engineering where the businesses have created ‘moats’ that effectively ward of competition, and in doing so allow the preservation of profit margins. In our experience it is unlikely that there are more than a handful of companies in any market having business characteristics that permit the usage of this method of valuation (we are talking about numbers as low as perhaps a 100 odd companies in a population of a few thousands publicly listed entities in the Indian markets).

Given that we are valuation driven, our attempt is to quantify our appraisal of a company’s equity value. As we have pointed out above, very few companies have the stable characteristics which allow the projection of cash flows or profits out into the future. Therefore, cash flow statements and income statements are of limited use in appraising the value of securities of most companies in the market. We therefore have to rely on the only other statement a company publishes in its annual accounts – its balance sheet. Our attempt in such cases (the second pile referred to above or ‘commodity like’ companies) is to appraise on a conservative basis what it may cost to recreate the assets of the company. Our experience in using this yardstick suggests that companies in most commodity industries quote at between a fraction to a small multiple of their replacement cost of assets, depending on whether they are in a ‘down’ or an ‘up’ phase of the commodity cycle. Investments in and disposal of stocks in these industries are best made when they are counter cyclical. Again, since commodity cycles vary between commodities and even with the same commodity during different cycles, it is virtually impossible to predetermine the ‘holding period’ for such securities before the investment comes to fruition. In most if not all cases, returns in such situations are ‘lumpy’ and do not exhibit the relative ‘smoothness’ of returns enjoyed by ‘moat’ companies comprising the first pile referred to above.

The discussion above discusses the two principal approaches to valuation that we use depending on the security to be appraised. These approaches are supplemented in most cases by other methods of valuation, such as private market valuation, where data is available. Valuation of the security is then triangulated using as many relevant data points as we can gather.

In a subsequent letter we will dwell a bit more on the nature of the ‘moats’ of companies in the first pile, viz those companies which have the ability to preserve profit margins by passing on cost increases.

Performance: latest quarter

Whilst your individual returns are with you, we have given the weighted average results of all portfolios in the plan for December quarter (before our management fees but inclusive of all other expenses and charges). We would once again urge you to interpret quarter by quarter returns of any fund manager with some caution.

Benchmark (Sensex) returns	3.54%
Weighted average Portfolio Returns of Value Trek Plan	3.87%
Proportion of cash held at the beginning of period	35.67%
Proportion of cash held at end of Period	24.51%

- Weighted average portfolio return is for less than 1 year and is not annualized.
- The benchmark return is also for a period less than one year and is also not annualized. Benchmark return is absolute change between start of the period to end of the period without any adjustment for fund flows during period.
- Portfolio return is based on weighted average returns of portfolio compounded monthly.

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- The actual returns of clients may differ from client to client due to differences in composition of the portfolio and timing of investment/divestment.
- Past performance is not a guarantee for future performance.

Please do contact us for any further clarification.

Regards

Vinay Parikh
(Portfolio Manager)

Pramod Dangi, CA, CFA
(Portfolio Manager)

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General risk factors

i). Securities investments are subject to market risks and bear no assurance or guarantee that the objective of the investments will be achieved.

ii). Past performance does not guarantee future performance.

iii). Investors are not being offered any guaranteed or assured returns i.e either of principal or appreciation on the Portfolio.

iv). The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.

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