Dear Fellow Investor,

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

In the last four newsletters we have sketched out our investment philosophy and the broad framework of our investment process in as much as it applies to the methodology for valuing individual stocks. As a value investing shop, we are bottom-up investors and our endeavour is to value individual stocks using a methodology which is appropriate to them. Our valuation encompasses a range of value within which we believe the business value of the company resides. It might be worth quoting from our letter to investors for the quarter ended September 2012, where we have dwelt at some length on our notion of valuation: "That said, we would like to talk about our perception of valuation. What is the intrinsic worth that we are trying to assay? Our point of departure on this lies in a landscape that is marked by uncertainty. In this landscape there is not much about the future that is deterministic. And it is in this landscape that we are trying to assay the 'intrinsic worth' of individual securities. Given this 'probabilistic' environment, we are more comfortable with an 'interval' valuation as opposed to a 'point' valuation. Our 'interval valuations' do not seek to determine one single number as the fair value of the company (the 'point ' valuation referred to previously) but rather a range of values within which we believe the fair value of the business resides. This range of values reflects a continuum of assumptions regarding growth rates and profitability in the underlying businesses of the securities. Our intervals are wide enough to encompass prudent assumptions

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regarding these variables, but not wide enough to be 'meaningless' (think zero and infinity!). In most cases we allow the range to capture a spread which approximates the historical volatility exhibited by the security in question." Our attempt is to purchase individual stocks at prices which are around the lower end of our estimated valuation range (EVR), thereby introducing a degree of conservatism in the underlying assumptions surrounding individual stock valuation. The stocks purchased then become a part of a portfolio.

Portfolio construction and asset allocation

Portfolio construction as an exercise is distinct from valuation of individual stocks, and embraces a different set of considerations. One consideration (perhaps, even the principal consideration) is the asset allocation decision which addresses the issue of the proportion of funds that are allocated to equities vis-à-vis the proportion that is kept as 'cash' (to be made available for further investment as and when suitable opportunities present themselves). There are many considerations which drive this decision and most of them are subjective reflecting the circumstances and risk appetite of the individual making the asset allocation decision. However the broad principle remains the same. When the market as a whole is frothy (as revealed by high levels of the market index), it pays to pare exposure to equities in the aggregate in the portfolio. On the other hand when the market as a whole is depressed it is prudent to increase the exposure to equities in the aggregate. This of course pre supposes an ability to assess the extent to which the market as a whole (as reflected in the value of the index) is frothy or depressed. It is to this assessment of the market valuation which we now turn our attention to.

Estimated Market Valuation Range

Our valuation of the market rests on the same notions that we use while valuing individual securities. We use an interval estimate for assessing the range within which we believe the fair value of the market resides. We also use different tools to arrive at this range of valuation, and then triangulate the data from these different valuation tools to arrive at an estimate of the market valuation at that point in time.

The three principal tools that we use while valuing the index are:

i. Historical analysis,
ii. Trend analysis, and
iii. Discounted cash flow valuation

The first two tools are based on the premise that over reasonable periods of time, valuations in the market revert to the average (which at an intuitive level may be thought of as fair value). These tools are rooted in the past to arrive at market valuation. The third tool, discounted cash flow analysis, is more a peep into the future (albeit based on assumptions that are, in turn, shaped by the experience of the past!). While a detailed exposition of these methods is unwieldy in the context of a quarterly newsletter, what follows is a glimpse of each of these tools.

Historical analysis:

In this analysis we use our past experience of how the index has behaved vis-à-vis certain parameters. More specifically, we observe the valuations at which the index has peaked and bottomed out during the year in

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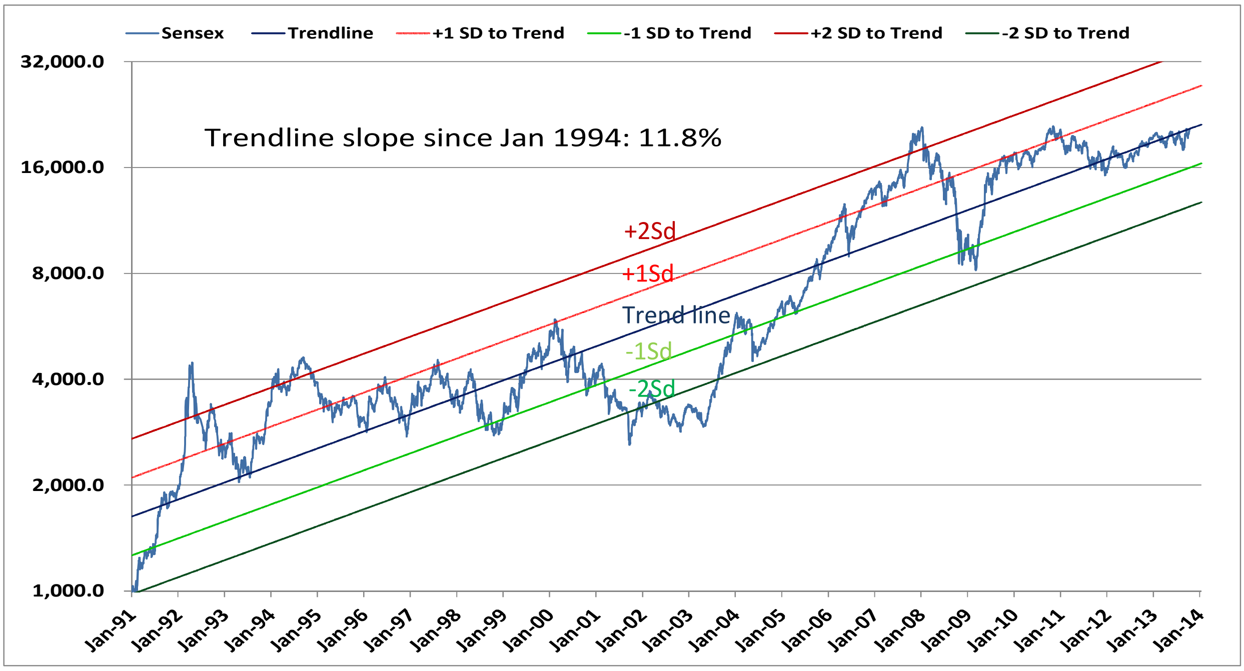
respect of each of the parameters studied. These are labelled as P/E (high), P/E (low) or P/B (high), P/B (low) etc. By using the average (cleaned up for any obvious outliers) for each of these measures, we arrive at what the valuation for the index should be at the peak or bottom in respect of the year under consideration. This of course necessitates making estimates of the EPS or book value of the index for the year under consideration. (These numbers are readily available from the providers of the index). Data points across the peak and bottom are then averaged to arrive at the estimated high value and low value for the index for the year under consideration.

Year Ended Dec	1995	1996	...	...	2009	2010	2011	2012	2013 e	2014 e	Ratio Used	Average Multiple (1995 - 2012)	Adj. Multiple removing outliers
Sensex level at high	3,944	4,131	...	...	17,531	21,109	20,665	19,612	20,760				
Sensex Level at low	2,891	2,713	...	...	8,047	15,652	15,136	15,358	17,760				
Dividend Yield at High	1.2%	1.4%	...	...	1.1%	1.0%	1.2%	1.5%	26,119	28,731	1.4%	1.3%	1.4%
Dividend Yield at Low	1.7%	2.1%	...	...	2.4%	1.3%	1.7%	2.0%	16,028	17,630	2.2%	2.1%	2.2%
P/E at High	20.1	15.9	...	...	21.3	23.0	21.1	17.6	25,285	28,699	20.0	21.0	20.0
P/E at Low	14.8	10.5	...	...	9.8	17.0	15.5	13.8	15,803	17,937	12.5	12.9	12.7
Normalised PE at High	20.6	17.2	...	...	21.4	21.8	22.5	16.6	26,834	30,456	20.0	22.0	19.7
Normalised PE at Low	15.1	11.3	...	...	9.8	16.1	16.5	13.0	16,771	19,035	12.5	13.5	12.6
P/B at high	3.7	3.1	...	...	3.9	4.0	4.1	3.0	26,539	30,122	3.6	4.0	3.6
P/B at Low	2.7	2.1	...	...	1.8	2.9	3.0	2.4	16,955	19,244	2.3	2.5	2.3
									26,194	29,502			
									16,389	18,462			

Trend analysis:

In this analysis we use a time series plot of how the index has moved over time. More specifically, we use the data to arrive at the line of best fit (through statistical regression analysis). You will notice two other lines immediately above and below the trend line. These encompass the +1 and – 1 standard deviation (SD) limits (SD is a measure of the spread of observations or the variability of the data). The +1 and -1 SD's therefore account for a measure of spread of the data points that make up the aggregate of daily observations of the index that has gone into making this chart.



You will notice that a large part of the line that actually traces the index resides within this +1 and -1 SD (this is to be expected given the way in which these +1 and – 1 SD limits are constructed). Therefore the +1 and -1 SD values at a particular point (reflected by the date on the X axis) give the upper and lower bounds of the range within which the fair value of the index is estimated to reside. The + and – 2 SD bounds capture those rare instances of unbridled exuberance and abject despondence.

Discounted cash flow:

In this analysis an estimate is made of the earnings (EPS) of the index over the next ten years. After this a residual value is computed, which values the index for the period beyond the explicit forecasted period of ten years. These values are 'discounted' to the present on the basis that a rupee available today is more valuable than a rupee available in the future. These values available in the future (the ten explicit estimates of earnings and the residual value) are aggregated to arrive at an estimate of the value of the index. We arrive at a range of index values by specifying different values in respect of the key drivers of this valuation.

The table below gives the valuation range using each of these three tools as well as the composite valuation arrived at by triangulating the data points. This interval estimation of the index is referred to at the commencement of this discussion and is an important data point while determining asset allocation.

Index's Estimated Valuation Range(EVR) CY 2013

	Low	High
Historic Analysis	16,389	26,194
DCF Analysis	16,779	27,018
Trend Analysis	16,375	27,247
Sensex EVR Dec 13	16,500	26,500

(All analysis has been done in respect of the BSE Sensex and is based on publicly available data available on its web site)

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.

	Sep-13 Quarter
Benchmark (Sensex) returns	(0.08)%
Weighted average Portfolio Returns of Value Trek Plan	(1.21)%
Proportion of cash held at the beginning of period	40.87%
Proportion of cash held at end of Period	41.37%

- 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.
- 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.

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We have in the past sought not to elaborate on quarterly performance. However given the large 'draw down' in past nine months we believe that a few words are in order. We have chosen the Sensex as the benchmark index for comparison purposes largely due to the ease of interpretation. Simply put, it is a widely followed and disseminated index. However, at this point our portfolio composition comprises of many mid cap stocks mainly in the financial sector and other cyclical sectors. These have been out of favour in the recent past, but especially so in the last three quarters as is evident from the table below:

	Return for the quarter ended		
Index	31st March 2013	30th June 2013	30th Sep 2013
BSE Mid Cap	-13.6%	-2.9%	-6.0%
BSE Metals	-20.9%	-11.5%	8.0%
BSE Capital goods	-17.0%	1.0%	-15.4%
BSE Bankex	-9.1%	1.7%	-17.3%

It is not uncommon for out of favour sectors (which is why they are cheap) to experience marked downside volatility and become cheaper. We have examined our holdings and are satisfied that none of the diminution in value represents permanent destruction of capital.

Please do contact us for any further clarification.

Regards

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investor is advised to exercise independent judgment and act upon the same based on its/his/her sole discretion based on their own investigations and risk-reward preferences.

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Individual returns of Clients for a particular portfolio may vary significantly from the performance of the other portfolios. This is due to factors such as timing of entry and exit, timing of additional flows and redemptions, individual client mandates, specific portfolio construction characteristics or structural parameters, which may have a bearing on individual portfolio performance. No claims may be made or entertained for any variances between the performance depictions and individual portfolio performance. Neither the Portfolio Manager nor its Directors or Employees shall be in any way liable for any variations noticed in the returns of individual portfolios.

In the preparation of this material the Portfolio Manager has used information that is publicly available, including information developed in-house. Some of the material used herein may have been obtained from members/persons other than the Portfolio Manager and/or its affiliates and which may have been made available to the Portfolio Manager and/or to its affiliates. Information gathered and material used herein is believed to be from reliable sources. The Portfolio Manager however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same.

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.