Tapasya

JANUARY 4, 2024

TAPASYA INVESTMENT FUND I

ANNUAL PARTNER LETTER 2023

INTRODUCTION

Hurray!! We have completed a full fiscal year and over 1 calendar year in operation. It's a dream that I always had. I appreciate your support in joining me in this journey and having the trust to invest in me.

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PERFORMANCE

Tapasya Investment Fund I (TIFI) results since inception

Date/Timeframe	Fund Returns	LP Returns	S&P 500 (with Dividends)
2023	44.7%	35.4%	26.3%
2022 (Since Aug 17th)	-6.8%	-6.8%	-11.0%
Inception through 2023	34.9%	30.0%	14.1%

Source: IBKR and NAV Consulting (Fund Administrator)

We have had strong results this year beating the S&P 500 by 18 points. The S&P performance was 26.3% of which ~2% was through dividends. Our comparison takes into account the dividends paid.

The goal of the fund is to beat the S&P 500 over the long term. My long term expectation for the fund is to deliver about 15% CAGR net of fees. This journey will not be smooth especially with the fact that we are a concentrated fund. The concentration does not increase risk but certainly increases volatility.

Tapasya Investment Fund I (TIFI) Monthly Results 2023 (Gross) in '%'

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
TIFI	18.25	-7.16	8.91	-2.10	1.37	8.23	10.93	-3.33	-6.35	-6.70	12.90	6.53	**44.76**
S&P	6.28	-2.44	3.67	1.56	0.43	6.61	3.21	-1.59	-4.77	-2.1	9.13	4.54	**26.29**

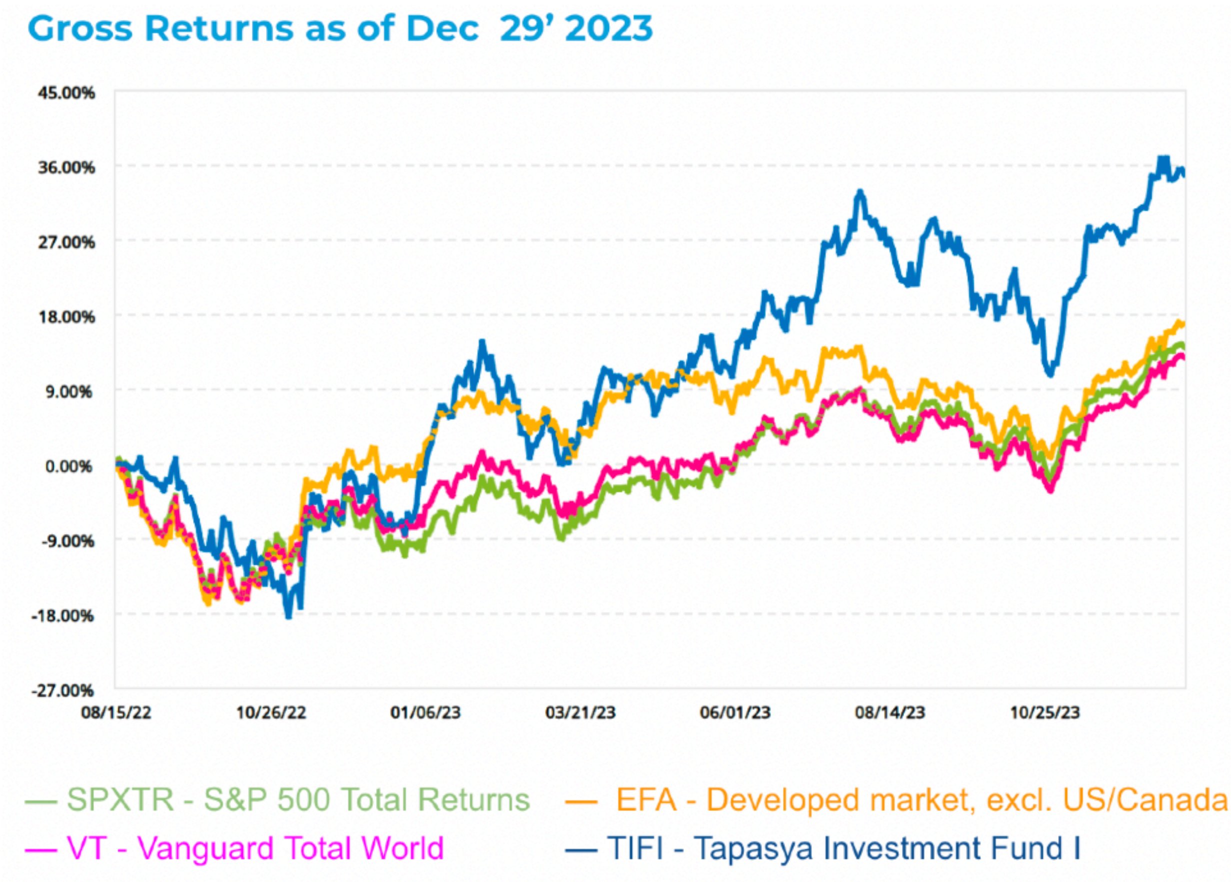
Source: IBKR

We had 7 positive months and 5 negative months in 2023. We beat the S&P in each of the positive months and trailed it in each of the negative months.

Hence reporting at the end of any specific month or period could make us look a lot better or worse depending on the timeframe/timing of the reporting. All this to say, I always prefer to look at longer time horizons where possible. For my purposes, I prefer to look at inception through date and for investors my recommendation is to look at quarters or higher.

As you would also see, there is a high degree of volatility month over month. This volatility was seen both in the fund and the index. That does not mean there is high risk in the portfolio, we do not SHORT and nor have we used any LEVERAGE.

Volatility along with the shorting or leverage adds to risk which we completely avoid. We are playing the long game. Our volatility is driven by the fact that we are a concentrated fund holding 13 securities vs. our benchmark that has about 500.



Comparing ourselves to other indices like Total World Index (VT) and Developed Market Excl. US/Canada (EFA), we can hold our heads high. Given we are a global fund, these are good benchmarks to look at.

I am generally more confident in beating markets when they move sideways or move lower, and almost certainly will trail markets when they are in a euphoric state like 2021. Hopefully, we don't have to deal with frothy markets all the time.

Looking at HFRI (Hedge Fund Index) we are in the Top Decile across all hedge funds being tracked in the US, for 2023.

THE YEAR GONE BY

The S&P 500 had its best start for the year since 1997. Amongst the best 15 starts since 1933 for the index, the back half has lagged the first half every year but once. This year was no different, we saw the back half lagging the first half.

As far as the fund was concerned, it was no different. We were up about 28% in the first 6 months. In July, we reached a peak of 42% and since then saw quite a correction in the markets and our fund. We trailed the market each of the next 3 months. We made up all the lost ground and more in the months of November and December.

We had 2 of our portfolio companies (BLDR and UBER) included in the S&P 500 Index on Dec' 18th. They were also amongst the biggest contributors to growth in our portfolio besides Alphabet (GOOG).

Top Performers and their Contribution

Company	Symbol	Contribution
Builder First Source	BLDR	10.5%
Alphabet	GOOG	10.2%
Uber	UBER	5.1%

Bottom Performers and their Contribution

Company	Symbol	Contribution
Alibaba	BABA	-0.5%
ASOS	ASC	-0.2%
EUR	EUR	-0.1%

I would also like to highlight some of the actions that would not be captured as part of the Global Investment Review documents. They are 2 SELL actions I took during the year.

The first one was **ILTB - iShares Core 10+ Year USD Bond ETF**. We had about 5% of our portfolio invested here. The reason for purchasing ILTB was primarily a hedge against the economy going into recession. A recession means slow consumer demand which usually after a lag is accompanied by lowering interest rates. Should a recession have occurred, we could have potentially seen a reduction in stock prices and an increase in the value of ILTB, softening the blow. The economy actually accelerated especially in Q3, I sold that position for a net loss of ~5%, net of dividends.

The other one that I bought and sold in short order was **GSM - Ferroglobe PLC**. This is a British mining company that offers silicone chemicals that are used in a range of applications such as personal care items, construction , etc. I sold this at a slight profit. The reason for selling was ‘Opportunity Cost’. I freed up some capital to purchase ‘Adyen’ which I believe will yield better results. Adyen is a company I have been tracking for over 2 years. It had a severe correction of about 50% bringing it into my ‘BUY’ range. I have provided my thesis for this company in Global Investment review VI.

Our overall portfolio turnover was ~6%. There are other metrics such as Beta , etc., that institutional investors request for. I have not included those here as I don’t believe they will bring significant value to this document or to investing per se.

2024 - WHAT TO EXPECT

As you may know by now, I don't believe in forecasts, especially macro. This by no means undermines the importance of macro, just that I think it is very hard to predict. That said, in investing one needs to have a view of what the future holds for the companies we own, or plan to own. Our ability to have a reasonably accurate estimate of cashflows relative to a company's current market value can open doors to great investment opportunities.

The economy is certainly slowing down, a tight labor market with unemployment at historic lows of about 3.7%. This should allow the economy to continue humming albeit at a slower pace. There is expectation of interest rates being lowered. That said, it will be interesting to see whether companies increase their investments or wait for rates to stabilize. Unless there are some severe shocks in the system, I expect the Fed's fund rate to between 3%-4% for the medium term.

I think this is quite ideal for the economy and the business environment. A stable rate environment is critical for making business decisions and investments. I do expect that to occur in 2024, leading to a continuation of the bull market.

For the companies we are invested in, they were resilient in a tough environment and I think they will continue to grow in strength.

Globally, China is certainly one to watch. Clearly their economy has slowed down, that said slow down in China means GDP growth of 5% with an economy size of $19 Trillion. With the actions the CCP - Chinese Communist Party has taken I am hoping it bears some fruit in 2024. Based on what has been said, clearly the government seems to be focusing more on technology than other infrastructure projects. One key difference that we need to note about China is that the government is the biggest and most important capital allocator. Given the geo-political tensions, the potential lack of AI chips etc, China clearly is making investments in more productive parts of the economy such as technology. This should pay big dividends for us, should we show the patience to hold onto our investments.

Most of our European investments are in the Netherlands, I feel good about the businesses we own there. The one business we have invested in the UK, seems like a mistake. It was a turnaround story that I was looking for - which like most turnarounds does not seem likely to take place. The company is ASOS where we had about 1.5% of capital invested at this time, so a very small allocation.

PARTNER COMMUNICATION

Achievements this Year

- 44%+ gains
- Added 5 new Limited Partners
- Certified as Minority Based Enterprise
- Active conversation with 4 institutions to be part of their Emerging Fund Manager/ DEI programs.

Reporting - The **portal gets updated on a monthly cadence** and reports are sent out every quarter. Should you have any questions please let me know.

Change in Minimum Commitment - We have changed minimum commitment from $50K to $100K. For existing investors, the minimum addition stays unchanged at $10K.

Operations and Incentive Structure

Our unique fee structure is based on the original Buffett partnership, placing incentives on performance to align interests. This is why my family is the largest partner in the fund and your capital is invested alongside our own.

- Zero Management Fee
- Annual Hurdle Rate of 6%
- Performance incentive of 25% earned only on profIt's after the hurdle rate
- High Water-mark (incentive provision only after reaching new all-time highs)

Thank you for your confidence, value your support and welcome any questions.

Yours sincerely,

Pratik Kodial