Tapasya

JULY 10, 2023

TAPASYA INVESTMENT FUND I

BI-ANNUAL PARTNER LETTER 2023

INTRODUCTION

We are **coming close to completion of 1 year** since the fund started. Since inception we have added 5 new limited partners. The focus on the fund is long term and collectively we have stayed true to it.

In this document I will **focus on our performance** this year. The goal continues to beat the S&P 500 over the long term with the vision of converting every $1 invested to $16 in about 20 years.

Besides a quick look back on the first 6 months of the year, in this letter, I will also address some questions that I have got from my investors and topics that I think could be relevant to you. One of our partners asked me “**When is the right time to Sell**”. I will give you a view on how I think about it.

Another topic called “**Needle in the Haystack**” is to recognize the complexity in beating the index as a reminder to me and all of us of recognizing the long game in order to beat the index.

I will refrain from detailing our investments in this letter as I do that through the Global Investment Review documents.

If there are any questions please do not hesitate to reach out.

PERFORMANCE

Tapasya Investment Fund I (TIFI) results since inception and 2023 through June is shown below alongside the S&P 500 Index performance.

Date/Timeframe	Fund Returns	LP Returns	S&P 500
2022 - Since Inception	**-6.8%**	**-6.8%**	**-11.0'%**
2023 - Through June	**28.4%**	**23.14%**	**16.89%**

This year has been good so far, not because we grew 28.4% on our beginning net assets, as pleasant as that may be. Rather it was a good year because our performance was substantially better than that of our yardstick S&P 500.

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 is just to state to temper expectations both from the market and the fund. It unlikely we will have such a big second half for the fund.

We will continue to focus on the long term. That said, over time very few (approx. 5% of fund managers) have been able to beat the index. I have a separate section on this later in this document - subject "Needle in the Haystack".

LOOK BACK - A RECESSION IN THE WAITING!

2023 in some ways has been unique as it was going to be the start of one of the most anticipated recessions we have ever come across in our recent history. Experts overwhelmingly had predicted a recession or suggested we were already in one.

The famous FAANG stocks were proclaimed to be leaders of the past and the next uptrend in the market would be led by new leaders in the stock market. Inflation was suggested to be staying high through the year. Inverted yield curve was another strong indicator, which had never been wrong in the past. The Ukraine war that was expected to be a short war in 2022 and cause for inflation as some politicians had suggested still continues till this day.

To add to all of this, we had a 'run on the banks' rekindling fears of 2008. The KRE (Regional Bank Index) was down 29% for the first half.

With all this we saw a significant rise in the S&P, 13th best start to the year since 1928. Unemployment at 3.4% is at a 54 year low.

This all is just to suggest that predicting the future is extremely hard if at all possible.

LOOK BACK - QUICK SUMMARY

It's easier to write this part when we have significantly outperformed the S&P, I dread the day when that's not the case. I am certain we would see one of those days, hopefully not many.

On a gross basis, we beat the S&P 4 of the 6 months of the year. This just suggests that we have to continue to focus on the long term. Any interim result could have been bad.

The other highlight here is that we did not own any of the top 10 S&P performers for the year.

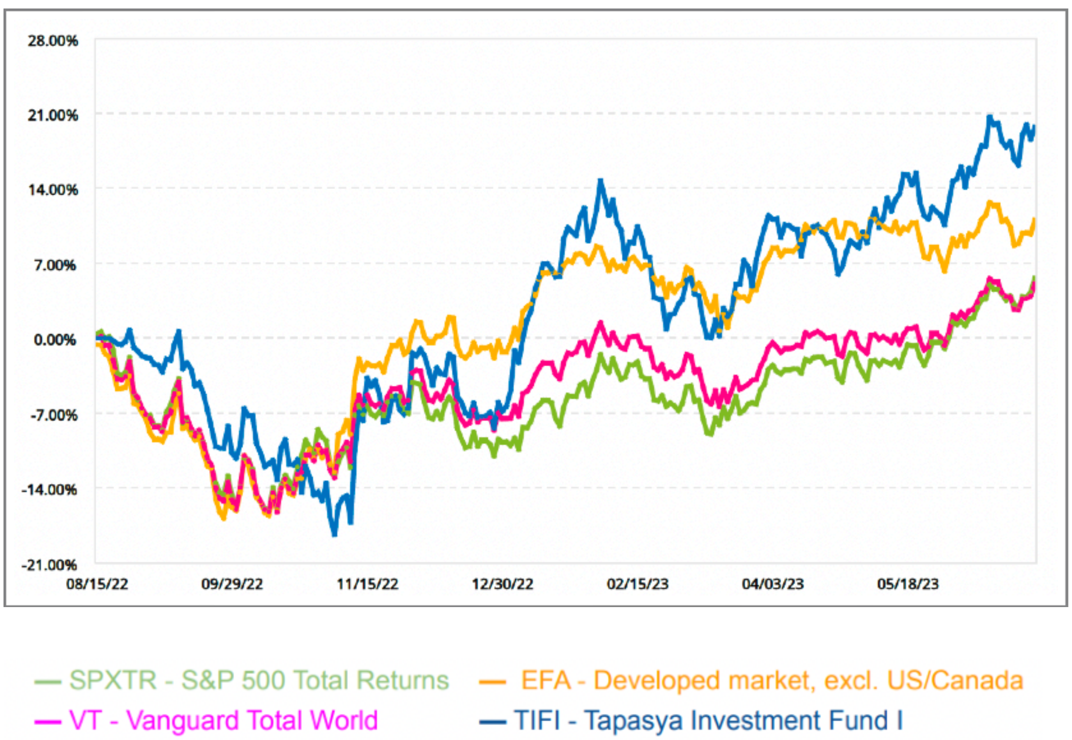
We also had our first multi-bagger in the fund in this case a 2x — just feels better to call it a multi-bagger. It was Builder FirstSource (BLDR) which is a company I have shared my thesis on in my Global Investment Review - IV.

Our top 3 performers that contributed to the performance was BLDR, Alphabet/Google and Uber collectively making up about 18% of the 28%. The bottom performers for the year collectively contributed less than 1% decline in the portfolio.

We continue to have a very concentrated portfolio especially by industry standards with 12 companies and 1 long term debt ETF. Our country allocation below along with a comparison of our performance along with some key indices we track.

Country	%
United States	66.0
Netherlands	20.5
China	11.5
Britain	1.7
Eurozone	0.3
Total	**100**

Gross Returns as of June 30' 2023



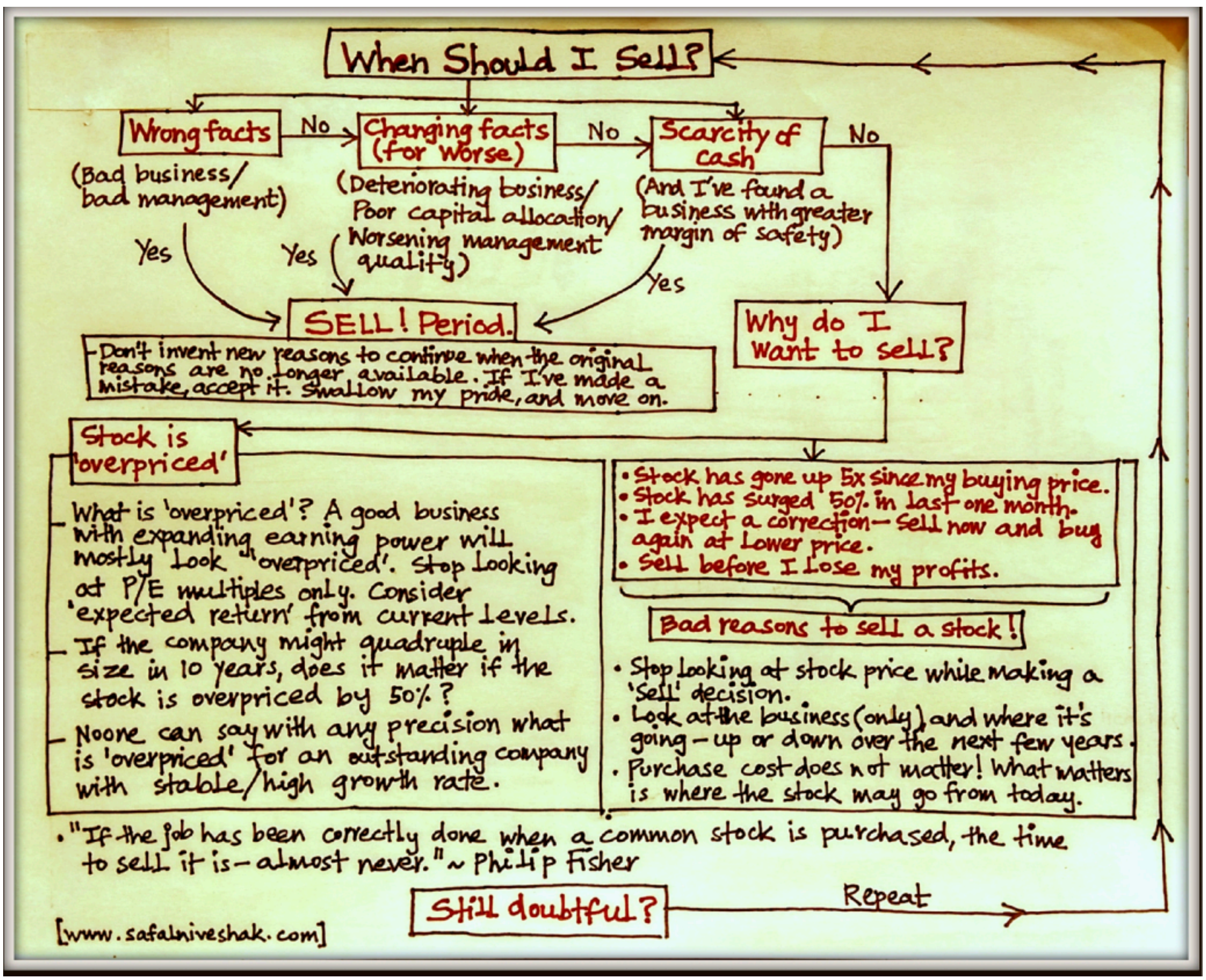
In the remaining part of the year, I don't expect a lot of churn in our portfolio with the exception of a potential addition of one stock.

Historically of the best 15 starts we have had since 1928, 7 had a positive back half and 7 had a negative back half. We will have to see how 2023 ends, one thing is certain it will definitely break this tie.

WHEN TO SELL

This was a question asked by one of the partners. I think it's a very pertinent question and you need to know my views on the same. ***Selling is a much harder decision than buying***, reason being when you buy a stock it boils down to your belief that at a later point you would make more money.

As far as selling is concerned, there could be many reasons. You could need the money for certain purposes, you had a price target in mind, the company fundamentals have changed, you see a better opportunity and so on.



Source: https://www.safalniveshak.com/when-to-sell-a-stock/

As I explain my views, I will use Vishal Khandelwal's visual on this. My views match his and where it differs I will highlight that. For those who do not know Vishal, I think he is a great individual and someone who each of us could learn from. His website is safalniveshak.com , I would highly recommend visiting the website.

Most people invest with a reason to use that money at a later time, such as education, house , etc. Hence to start with, if one is selling to fulfill such a need which is totally understandable, the question is what part of the portfolio to sell. It is VERY common that individuals sell stocks in their portfolio that are doing well, to avoid selling ones in a loss. This is a **cardinal sin that one should avoid**. Each "sell" decision should be looked at on its own merit.

As Peter Lynch has said, "**Selling your winners and holding your losers is like cutting the flowers and watering the weeds**."

As shown in the picture above, evaluate whether the original thesis that you bought the stock for has changed or there has been **significant and lasting shifts in the underlying business**. Chances are that if you were able to identify those so has the market in which case the price would have already come down. In any case this is one reason to sell.

The other reason would be **Opportunity Cost,** this would be defined as '$' differential between future expected gains of two investment choices.

As an example, if I need $1000 and I expect STOCK 'A' to deliver 2x or $2K vs. STOCK 'B' expected to return 1.5x or $1500 in 3 years net of taxes , etc. The choice in this case is quite clear. This evaluation must be done when one is selling and ideally even more important is when one is buying.

Stock is significantly overpriced. This has to be carefully assessed of what overpriced means. Vishal has done a great job above. There are times, when in euphoric markets the stock price may be completely detached to fundamentals. Even in that case, if the underlying company is a 'quality' company I resist the urge to sell. If it was a speculative buy then one should certainly book profits e.g. GameStop (we have never owned GME).

Reasons such as stock price has moved up, play with house money recovering initial investment are not great reasons to sell a stock.

The purchase price of the stock does not matter, this is often a common mistake made. We find it very hard to sell anything at a loss as it feels painful. What one should consider is where things are headed, not where they stand today.

To sum it all up, **I am constantly looking at opportunity cost**. Anytime there is an influx of new money into the fund, this comes in very handy for me to allocate capital.

Generally speaking though, selling attracts taxes, which is usually one of the reasons funds are unable to beat indices. Hence **I take a SELL activity very seriously and keep turnover at a minimum.**

NEEDLE IN THE HAYSTACK

The reason for this section is more a reminder for me and all of us to play the long term game. **It is very hard to beat the index**. I will highlight my views on why that's the case.

S&P Dow Jones has released its updated scorecard on active mutual funds (link) . What this data shows and has been **widely known is the 'odds are not in your favor' in picking an active fund manager** that outperforms the benchmark over long periods of time. The odds of finding someone who can is like finding a 'needle in the haystack'

Report 1a: Percentage of U.S. Equity Funds Underperforming Their Benchmarks (Based on Absolute Return)

SPIVA Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
All Domestic Funds	S&P Composite 1500	50.29	78.69	88.01	93.14	93.95	92.14
All Large-Cap Funds	S&P 500	51.08	74.27	86.51	91.41	93.40	94.79
All Mid-Cap Funds	S&P MidCap 400	62.60	77.97	64.78	81.51	93.22	94.04
All Small-Cap Funds	S&P SmallCap 600	56.91	66.92	70.54	89.11	94.35	93.67
All Multi-Cap Funds	S&P Composite 1500	50.75	81.02	87.55	93.20	94.58	93.54
Large-Cap Growth Funds	S&P 500 Growth	73.85	88.94	86.09	95.89	98.15	97.65
Large-Cap Core Funds	S&P 500	54.30	68.27	84.01	95.91	95.69	96.38
Large-Cap Value Funds	S&P 500 Value	58.70	39.46	69.02	84.90	79.13	86.51
Mid-Cap Growth Funds	S&P MidCap 400 Growth	91.23	78.36	38.89	65.87	91.00	91.58
Mid-Cap Core Funds	S&P MidCap 400	53.66	70.75	78.15	88.43	96.49	97.03
Mid-Cap Value Funds	S&P MidCap 400 Value	72.73	81.82	83.93	95.65	93.00	92.16
Small-Cap Growth Funds	S&P SmallCap 600 Growth	79.60	75.76	58.60	84.50	95.43	96.67
Small-Cap Core Funds	S&P SmallCap 600	39.83	65.48	76.33	95.26	94.81	95.12
Small-Cap Value Funds	S&P SmallCap 600 Value	40.63	43.84	80.65	90.99	91.43	92.16
Multi-Cap Growth Funds	S&P Composite 1500 Growth	56.21	85.00	84.36	89.55	96.05	91.36
Multi-Cap Core Funds	S&P Composite 1500	58.38	79.43	90.20	96.69	93.48	95.36
Multi-Cap Value Funds	S&P Composite 1500 Value	58.16	58.04	86.84	91.23	90.60	88.89
Real Estate Funds	S&P United States REIT	87.67	58.44	61.90	74.03	87.25	87.10

Sources: S&P Dow Jones Indices LLC, CRSP. Data as of Dec. 31, 2022. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

This hopefully does not prompt you to redeem but more a reminder for me to stick to my task and achieve what is seemingly very hard. What I also take away from this information is there are **about 5% of the fund managers who have been able to do it**.

There are many reasons why I think funds are unable to beat the index which include the **incentive systems which typically tend to be AUM** (Assets Under Management) **as opposed to Returns**. The 'returns' as far as they are close enough to the index that it is being compared to usually helps these managers keep their jobs.

Investors hate volatility, by becoming closet-indexers fund managers solve this problem. The average number of stocks in a mutual fund in the US is approx. 180. This is another reason to underperform i.e. **mimic the returns of index and minimize volatility.**

I embrace volatility, hence have generally been reluctant to share short term performance results at it is counter productive in my opinion. That said at this time I have given-in to the industry norm of monthly dissemination of performance results.

Another reason for underperformance is the investors. It's a well known fact that we all want to perfectly time the market, Sell High and Buy Low. Unfortunately **investors (Institutional or Individual) are very poor judges of timing** putting significant pressure on the fund to sell assets at exactly the wrong times besides incurring taxes and other expenses.

To address the above we have **structured the fund**, where performance is incentivized and not AUM. Annual redemptions help with redemptions at the wrong times. Having a concentrated portfolio with a global view **increases our chances to beat the market**. It is no easy task, but should we do it over the next 20 years or so; we would all be very happy that we started this journey together.

PARTNER COMMUNICATION

We are coming close to completing our first year, started Aug 17th' 2022. I am very happy I started this journey and have some partners (you) alongside. I am positive that this will lead to a favorable outcome over the long run.

Reporting: The **portal gets updated on a monthly cadence** and reports are sent out every quarter. Should you have any questions or wish to see the account statement in email instead of the portal please let me know.

Change in Minimum Commitment: I am working towards changing the minimum commitment from $50K to $100K. This will be implemented shortly. The additional minimum contribution for existing limited partner stays unchanged at $10K

A reminder on the 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

7/5/2023