Tamohara Investment Managers - Monthly Newsletter **January 2016**

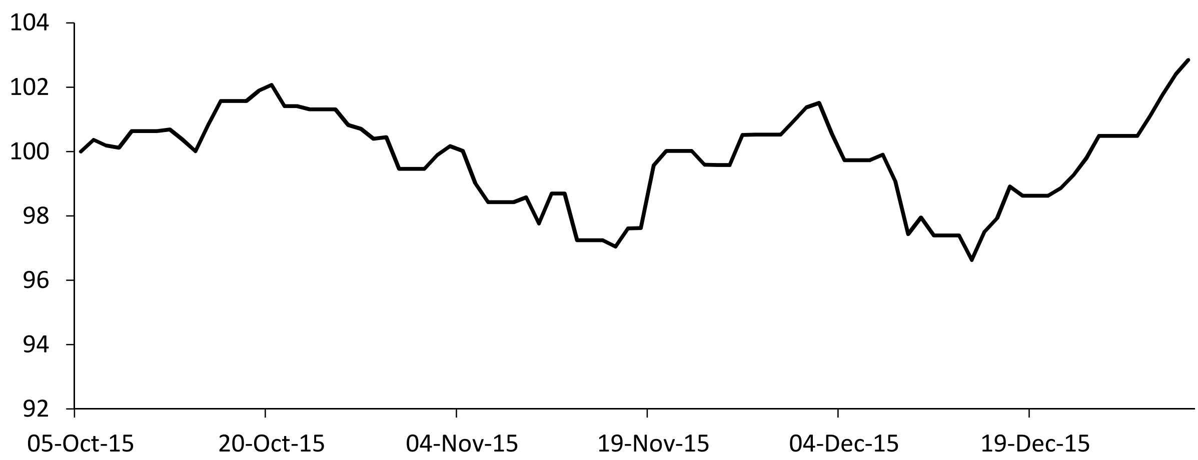
At the onset, here's wishing you a very happy new year. We wish for further addition to your joys, good luck, well-being, and prosperity in 2016.

In addition to the festive cheers, the turn of the year holds significance to us as it marks the end of the first quarter of our portfolio – Tamohara Long Term Equity Strategy (TLES) – going live. A quarter down is no major milestone to measure performance (*unless, of course, it involves ending up high-spirited!!*); nevertheless, we take this opportunity to provide an update on the portfolio. Given the sharp volatility in the markets, we also ramble a little about them – thus this communiqué starts with narcissism and ends in a sermon.

Portfolio Performance

Our first portfolio was seeded on October 05, 2015 and equity investments were made between October 06, 2015 and October 13, 2015 (refer to our October 2015 communiqué for a snapshot of the portfolio). Like a toddler taking its first steps, the portfolio dwindled between profit and losses amid choppy global markets, as shown in the chart below*.

Tamohara Long Term Equity Strategy – Portfolio Value Movement (rebased to 100)



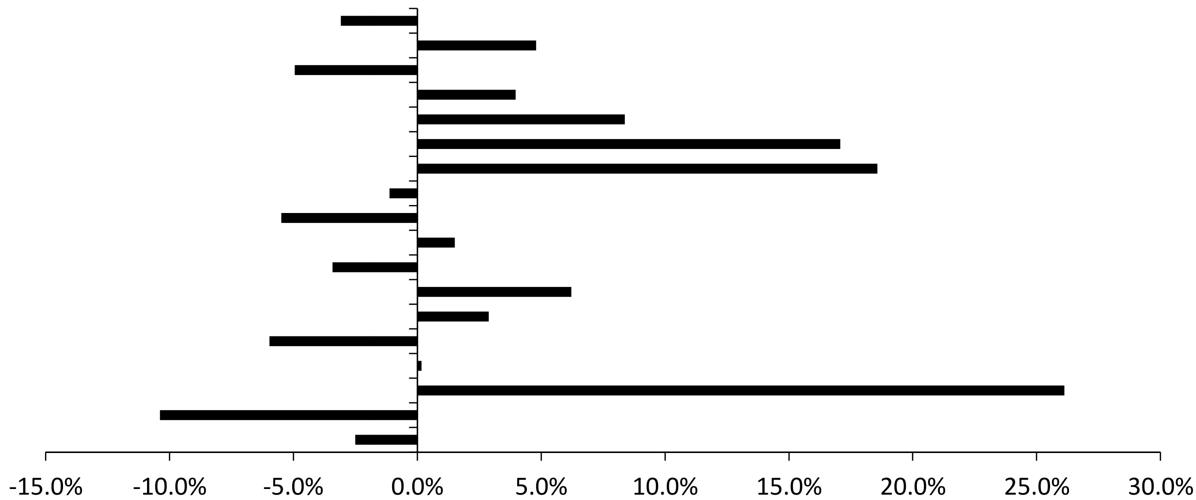
Source: Tamohara

Before the mind confuses between price swings and risks, let us quickly direct you to our April 2015 communiqué wherein we had attempted to differentiate between volatility and risk. We believe that investment risk is primarily the probability of permanently losing invested capital rather than the temporary fluctuations in the price of an asset. In our view, there are two steps in avoiding a permanent loss of capital: (a) creating a portfolio of diversified good quality businesses run by efficient managers; and (b) being right more often that you are wrong, while at the same time, making more money when you are right compared to losing money when you are wrong. This is the cornerstone of our portfolio construction process, and the benchmark for evaluating our own performance. The first step was demonstrated in our October 2015 communiqué; thus we jump straight to the second step.

* ***All performance data is excluding fee and profit share deduction. The stated performance is neither a guarantee nor an indication of future performance.***

The following chart represents the performance of each of the equity holdings in the portfolio from the day they entered the portfolio till the end of the quarter (December 31, 2015).

Holding-wise Returns

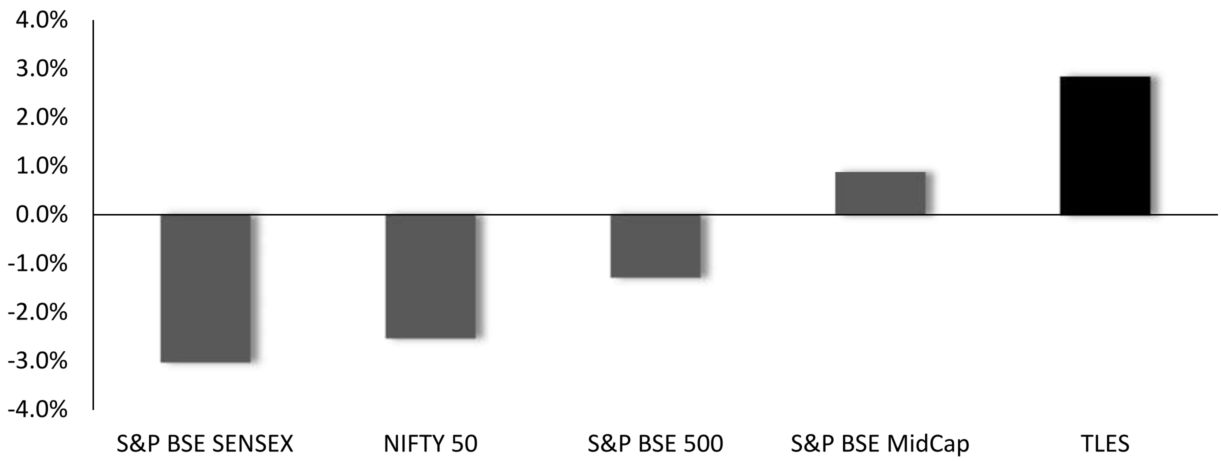


Source: Tamohara

Around 10 holdings ended the quarter higher than their purchase price, while 8 were lower than the carry cost – a close call. We expect (and not forecast!) a larger proportion of securities to be represented on the right hand side over time, maybe 5-6 quarters down the line. Further, while winners to losers was a close call, positive returns out-weighed negative ones – weighted average positive returns was ~4.8% compared to a weighted average negative return of 1.9%. This, in our view, is reasonable start to our journey; one that we hope will be long, enriching, and rewarding!!

Oh, and by the way, the following is the performance compared to some indices:

Performance of TLES* compared to select indices



Source: BSE, NSE, Tamohara

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Market Chatter

Predicting the behaviour of markets or their short term direction is an exercise in understanding many complex variables and their interactions – something that the human mind in not capable of. Our views (and that of a many renowned investors) are succinctly captured in the following:

> *"The idea that any of us know what the future holds is just supremely arrogant. So we need to stop pretending that we can divine the future, and instead concentrate on understanding the present, and preparing for the unknown. That's why we should invest with a margin of safety (buying an asset significantly below its intrinsic value) so that we are protecting against errors, mistakes and bad luck... Valuation is the closest thing to the law of gravity that we have in finance. It is the primary determinant of long-term returns."*
>
> **- James Montier.**

We started the year 2015 with huge enthusiasm and a large section of market positive about the anticipated opportunities to be created by the new Government's policies and stable global macro environment. Most of the experts had stellar targets on indices for the year; markets however did not oblige.

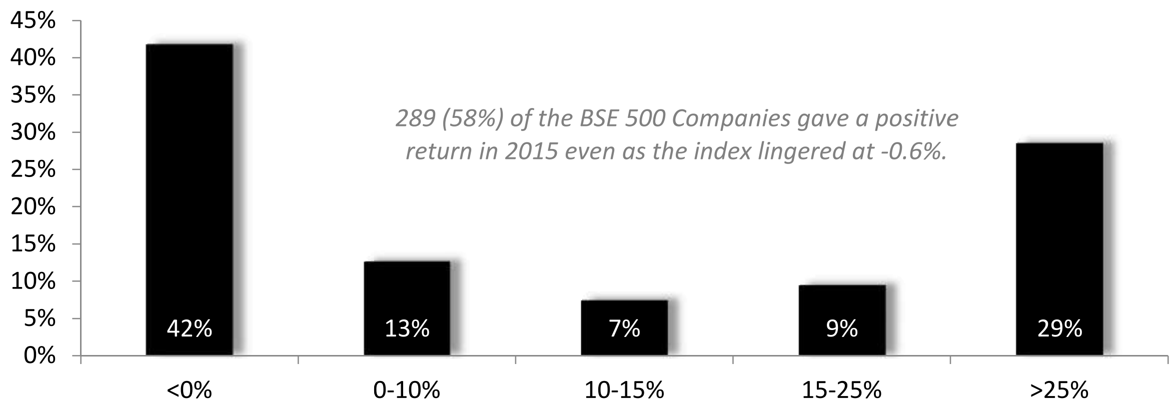
Performance of select indices and commodities:

Index / Commodity	31-Dec-14	31-Dec-15	*Returns*
S&P BSE SENSEX	27,508	26,161	*-4.9%*
NIFTY 50	8,284	7,963	*-3.9%*
S&P BSE 500	10,745	10,680	*-0.6%*
Gold (INR/10gm)	26,710	24,950	*-6.6%*
WTI (USD/bbl.)	54.73	39.10	*-28.6%*
Brent (USD/bbl.)	59.45	37.89	*-36.3%*

Source: BSE, NSE, Bloomberg, Tamohara

However one thing which differentiated 2015 was the performance of individual companies.

Returns Distribution of BSE-500 Companies:



Source: BSE, NSE, Bloomberg, Tamohara

2015 clearly rewarded individual businesses and ignored market chatter, leading to huge wealth creation for investors focussing on companies rather than markets. Thus, we will refrain from making any predictions on the directions of the market or comment on the quantum of returns that one can expect this year. Rather, we would like to discuss on segments where we think winds have started blowing in the right direction and where we could see some opportunities to create wealth as well as pockets of risks.

2016 has started with huge scepticism on the street with mounting global uncertainties - specifically emanating from China and Middle East. Expectations from Modi Government have become sombre and political environment does not remain the most conducive. Even as we refrain for calling the direction of the market, we firmly believe that global risks are real and reactions in the intermittent periods can swing on both sides.

In the midst of these uncertainties, we believe that there are some pockets of opportunities, where the tailwinds are in favour, and which can be source of wealth creation. For instance, consumer discretionary could be an interesting space driven by falling inflation and interest rates, pay commission hike and reducing opportunities to block money in real estate (RE). Similarly, financial savings could also see an uptick with hard assets like RE and Gold taking a knock. With improving Government finances, helped by reducing subsidies (crude itself added USD80-90bn), we see opportunities in sectors like Roads, Power, and Defence where government capex should pick up. In power, specifically, UDAY seems to be step in the right direction and we think the same could a go a long way in improving power transmission and distribution. We look forward to opportunities created by improved data penetration and speed, as we think that will definitely continue to change the way we live. We already see many changes happening in everything be it retail, media, financial services, travel etc as we go digital (could the entry of Netflix be a game changer for cable and satellite?).

As for risks, we believe that global currency fluctuations can throw lot of challenges for many businesses and will separate men from boys. We think that the fall in crude oil prices will have its ramifications on many countries and will alter the basic dynamics of their functioning; we would keep a watch on Middle-Eastern economies and would like to see how they cope with the new environment.

To sum it up, 2015 was a reminder that focusing on businesses is more rewarding than focusing on indices. Global worries on currency, commodities, and geopolitics, along with domestic political environment will continue to sway markets in either direction. However, we continue to see a number of opportunities amidst these uncertainties; investors that capitalise on these opportunities will reap the rewards, irrespective of market movements (as long as valuations are reasonable).

Until next month,

Team Tamohara

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