

Investor letter – Oct – Dec 2025

Results:

Rational Equity Flagship Fund Scheme 1 -

	REFF I	NIFTY 500 TRI	Outperformance
FY24	79.0%	40.5%	38.5%
FY25	11.3%	6.4%	4.9%
YTD FY26	6.6%	12.8%	-6.2%
Cumulative Return SI*	115.2%	72.6%	42.5%
Annualised Return SI*	32.1%	22.0%	10.2%

* Cumulative return for REFF I is from 28th March 2023 till end of Q3FY26.

Returns are post taxes and expenses and pre fees. Upon redemption, performance fees shall be deductible.

Rational Equity Scheme 2 –

	RES 2	NIFTY 500 TRI	Outperformance
YTD FY26	-1.6%	9.2%	-10.8%

* Cumulative return for RES 2 is from 22nd April 2025 till end of Q3FY26.

Returns are post taxes and expenses and pre fees. Upon redemption, performance fees shall be deductible.

Rational Asset Management Gold & Silver Fund –

	Gold Fund
YTD FY26	75.6%

* Returns for RAM is from 31st May 2025 till end of Q3FY26.

Returns are pre taxes post performance fees.

Doing nothing – easier said than done

The last 6 months have been especially difficult for Rational. Returns have severely lagged the benchmark. What is even more painful is that the punishment is very broad based - of the 20 stocks we hold, only 5 have positive returns in the past 6 months.

The reason is fairly straightforward - the bulk of our portfolio is in companies outside the top 500 by market capitalisation. This is a call I took when I reconstructed the portfolio in March 2025. We had moved to > 60 percent cash in December 2024 and while redeploying in March and April 2025, the best risk reward that I could see was in the micro and nano cap segment. Today, this is even more pronounced. The NIFTY Microcap Index trades at a valuation of 2.8

P/B, the NIFTY Smallcap 250 trades 30 percent more expensive at 3.7 P/B while the NIFTY Midcap 150 trades at a nosebleed level of 4.4 P/B.

Despite the attractive valuations, the punishment has been brutal for companies below INR 10,000 crore in market capitalisation. Nearly 30 percent of the listed companies in this segment are down over 30 percent in the last 12 months while nearly half are down more than 15 percent.

As I had shared in my previous communication, below is the comparison of our portfolio with the benchmark:

For Q2FY26	REFF 1	RES 2	NIFTY 500	NIFTY SMALLCAP 250
PE	26.1	18.3	24.3	28.5
Sales Growth	10.40%	12.40%	6.00%	10.60%
Profit Growth	29.30%	38.30%	10.20%	33.00%
Return on Equity	13.20%	13.90%	15.20%	12.70%
Returns since 30th June, 2025	-3.70%	-2.40%	0.90%	-4.00%

Our portfolios are cheaper and have demonstrated significantly superior sales and profit growth in the quarter gone by with comparable return on equity. Despite this, returns are not commensurate as small and microcaps are not finding favor with investors in the current environment.

However, I still remain confident that the potential for strong long term returns remains intact for our set of portfolio companies - in fact I believe the worst is past. This period is reminiscent of the bear market of 2018-2019 when smallcaps significantly underperformed largecaps.

However, sooner or later, earnings growth will overcome market pessimism as it has on every previous occasion.

We believe that over the next twelve months the cycle will turn as it did in 2020 and rising earnings and better sentiment will once again provide tailwinds for better returns.

Until then, doing nothing remains the best course of action both for you as investors and for me as the fund manager.

Nothing has changed fundamentally. We remain invested in a great set of businesses at low valuations that are clearly performing far better than the index in every parameter but price.

The unexpected decision of the management of KRBL to venture into real estate development compelled me to exit what was one of our largest positions. As a result, we now have ~ 15 percent cash positions in both schemes. Should any of you wish to redeem in the March window, please let us know as soon as possible before we redeploy this cash.

20% of our portfolio is now invested in IT / tech stocks and we have done a deep dive into the industry, please find attached our thesis on the same.

Gold & Silver Miners' Fund: The Bullion Bulletin

Market Overview: Record 2025 inflows, a renewed assault on Fed independence, Gold to \$5000/oz in 2026?

Gold's rally has been driven in large part by growing fears that Federal Reserve independence is under threat, concerns that intensified this week as Trump renewed attacks on Chair Jerome Powell and reports surfaced of a Justice Department probe touching the Fed. Markets have reacted swiftly, with gold surging past \$4,600/oz and momentum building toward \$5,000, reinforced by record inflows into physically backed gold ETFs and broad global demand, even as speculative positioning remains relatively restrained.

Federal Reserve of Turkey

One of the key pillars of the rally in gold has been mounting fear that the Federal Reserve's independence is no longer sacrosanct, and those concerns were reinforced again this week.

Trump's renewed attacks on Chair Powell have intensified fears that he would try to remake the Fed in the image of Turkey's central bank, where political interference stripped away independence and credibility and helped fuel chronic inflation. Those concerns escalated with reports of a Justice Department probe touching Powell, which critics argue risks weaponizing law enforcement against the central bank and blurring a line long treated as sacrosanct in U.S. governance.

Former Fed leaders have responded with unusually direct warnings: Ben Bernanke has cautioned that once markets believe monetary policy is subject to political or legal pressure, confidence evaporates and the result is higher inflation and economic instability, while Janet Yellen has said that even the perception of intimidation or investigation undermines the Fed's ability to anchor expectations and maintain financial stability.

We've seen this movie before. The rhetoric itself has also drawn uncomfortable comparisons to Turkish President Recep Tayyip Erdoğan, who famously denounced high interest rates as “the mother and father of all evil” and repeatedly attacked central bank governors before removing those who defied him. Trump's public browbeating of Powell, insistence that rates should serve political and growth goals, and framing of monetary policy as a personal grievance mirror Erdoğan's playbook, which culminated in a pliant central bank and a collapse in investor confidence.

Gold to \$5000/oz?

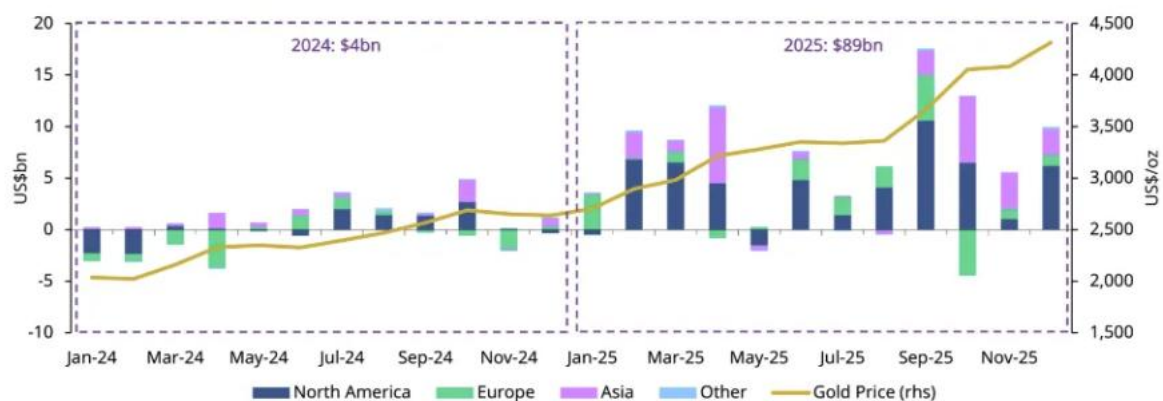
Gold responded promptly, breaching the \$4,600/oz mark and on its way to \$5,000/oz likely a lot earlier than a lot of sell-side firms prognosticated. Interestingly, despite a significant rise in the gold price, money manager net longs on COMEX were 30% lower than their end-2024 level.

World Gold Council: 2025 in review

As the gold price shattered records 53 times in 2025, global investors poured unprecedented capital into physically backed gold ETFs. Annual inflows surged to US\$89bn, the largest on record as the gold price delivered its strongest performance since 1979. In turn, global gold ETFs' AUM doubled to an all-time high of US\$559bn, with holdings reaching a historic peak of 4,025t, up from 3,224t in 2024. This was the second strongest annual demand.

North American funds drove most of the global inflows in 2025. Meanwhile, Asian holdings almost doubled, while Europe saw sizable demand.

Regional gold ETF flows and the gold price*



*As of 31 December 2025. Gold price based on the monthly average LBMA gold price PM in USD.

Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

Regards,
The Rational Team