

Investor letter – Oct - Dec 2024

Results:

| | REFF I | NIFTY 500 TRI |
|---|---------------|----------------------|
| FY24 post tax | 79% | 39.3% |
| YTD FY25 | 15.8% | 12.2% |
| Cumulative Return* Since Inception | 110.1% | 60.2% |
| Annualised Return Since Inception | 52.9% | 30.9% |

* Cumulative return for REFF I is from 28th March 2023 till end of Q2FY25.

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

Circle of competence

"I think about things where I have an advantage over other people. I don't play in a game where the other people are wise and I'm stupid. I look for a place where I'm wise and they're stupid. You have to know the edge of your own competency. I'm very good at knowing when I can't handle something." - Charlie Munger

"Rule no. 1: Never lose money. Rule no. 2 is never forget rule no. 1" - Warren Buffett

Every investor has a finite circle of competence - it may be larger for some than others but no investor can claim to be omniscient. Our circle of competence started small with a few consumer companies and over the years has grown slowly to now include nearly 150 companies across 20 sectors. We believe that we are able to judge the capital cycle for the sectors as well as for the companies allocating capital in these sectors to a reasonable extent so as to make educated guesses of future prospects.

Perhaps the best test of knowing that a company is in our circle of competence is our reaction to a sharp fall in its stock price - does it make us happy or worried? If we have truly understood the company and its prospects, we are excited by the idea of being able to buy at lower prices. If the crash in price worries us, clearly it has not yet entered our circle of competence.

Occasionally we stray outside these sectors when we find valuations extremely compelling. An example of this is the pharma sector. Although not in our circle of competence, we made significant investments last year which were rewarded simply because the valuations were in our favour.

At the end of this quarter, we find ourselves bereft of new ideas. The vast majority of companies in our circle of competence trade at nosebleed valuations. There are pockets of value in the rest of the listed universe but not with enough margin of safety that we can make significant new investments. As a result of selling triggered by a combination of high valuations and poor business performance relative to those valuations, we find ourselves for the first time in four years with over 60 percent in cash levels.

It is typically at such times that fear kicks in. The fear of missing out. The fear of underperforming a rising index. These fears are surpassed however by the fear of breaking rule number one of investing - Never lose money. We will wait patiently for the market to give us opportunities within our circle of competence at valuations that we find attractive.

Regards,
The Rational Team