



Tapasya

JANUARY 8, 2025

TAPASYA INVESTMENT FUND I

ANNUAL PARTNER LETTER 2024

INTRODUCTION

Since embarking on this journey over two years and four months ago, our goal has been for the fund to become one of the world's top-performing equity funds over the long term.

While we may experience periods of underperformance, particularly in the short term, this is not unexpected.

Staying true to our investment philosophy, we have resisted the temptation to be swayed by news media or popular opinion. Instead, we have continued to allocate capital to areas where we perceive value, confident that markets will eventually recognize and correct to these opportunities over time.

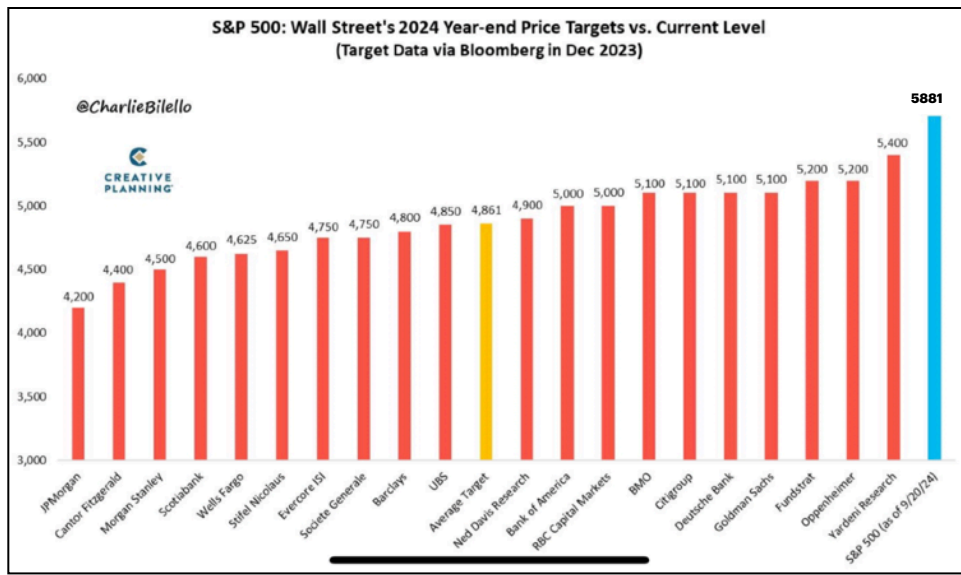
PERFORMANCE

Tapasya Investment Fund I (TIFI) results since inception

Date/Timeframe	Fund Returns	LP Returns	S&P 500 (with Dividends)
2024	23.9%	17.8%	25.0%
2023	44.7%	35.8%	26.3%
2022 (Since Aug 17th)	-6.8%	-6.8%	-11.0%
Since Inception	67.2%	49.3%	42.6%

Source: IBKR for Gross and NAV Consulting (Fund Administrator) for LP Returns

At the beginning of the year, major banks predicted a mild year for the stock markets, with the average S&P 500 target set at around 4861 by year-end. However, this forecast significantly missed the mark, as has been the case in many previous years. Historically, the S&P grows at approximately 10% annually, yet average yearly forecasts deviate from actual outcomes by a similar amount, rendering these predictions practically useless for investment purposes.



Source - Charlie Bilello from Creative Planning

Despite this, investors eagerly await future predictions, though it's crucial to approach them cautiously. Long-term investment strategies have consistently proven to be the most effective for financial success.

Artificial Intelligence captivated Wall Street investors' attention, making it a subject of significant interest. The S&P enjoyed a remarkable start to the year, building on a highly successful 2023. NVDA and the Magnificent 7 drove the market during the first half, while the rally became broad-based in the second half.

The Federal Reserve initiated an easing cycle in a relatively robust economy, although it was slowing down due to the lagging effects of a rate tightening cycle. While we are not macro investors, we recognize the importance of macro-awareness. Our investment decisions are based on micro factors, specifically the future expectations and value of businesses relative to their current prices. We acknowledge that macro factors are essential, but given their complexity and the challenge in accurately predicting outcomes, we believe it's challenging to make correct investment decisions solely based on them.

All but one of the S&P Sectors ended this year positive with Communication Services, Financials and Consumer Discretionary leading the pack. The laggard for this year was

Materials, Energy followed by Real Estate. Real Estate though performed better in the 2nd half vs. the first 6 months of the year.

The Fed's announcement of a 25 bps rate cut and 2025 guidance during their meeting coincided with our worst 10-day performance period of the year, where we lost 4.5% and our lead with the S&P 500. This decline was primarily driven by Real Estate and Auto businesses, which are most sensitive to the interest rate environment.

Turning to our global investments, we will briefly discuss the indices or markets in which we are invested. Europe has lagged behind the US markets for some time, with FTSE, DAX and AEX lagging the S&P 500 returns again, this year. Our European investments are now primarily concentrated in the Netherlands.

Regarding China, significant measures were announced in September fondly called "Bazooka," which boosted stock prices for Chinese companies and those in the US and elsewhere with significant exposure to the Chinese markets. The Chinese government's actions, impacts of Covid and its associated measures has resulted in absurdly low valuations, making many Chinese companies no-brainer investments, barring geopolitical issues.

Overall, we had a reasonably satisfactory year, delivering ~18% returns net of fees. Our aim is to consistently outperform the S&P returns net of fees over the long term. We have achieved this in 2022 and 2023, while in 2024 we have underperformed our benchmark (S&P 500).

We rank in the top quartile of Hedge fund performance based on HFRI data since inception. While this has been a great start, it prompts questions about whether this performance can be sustained, if our companies are fully priced or overpriced, and the need to make adjustments to maintain our outperformance.

A substantial portion of our portfolio (approximately 75%+) comprises of 10 companies that we consider to be "Steady Compounds." While valuations can occasionally deviate from intrinsic value in either direction, we anticipate long-term business growth and subsequent stock price appreciation. Therefore, we don't expect significant turnover in this part of the portfolio unless there is a change in business fundamentals. More on this a little later in this letter.

In contrast, the "Offense" portion of our portfolio, representing only 3.4% at cost, allows us to capitalize on major market dislocations, special situations, such as spinoff's, turnarounds , etc. ASOS, a British Retailer, once constituted approximately 1% of the portfolio and was fully exited when its thesis did not materialize. We took about a 50% loss on this stock. Its impact was limited on the total portfolio due to the sizing. We also sold out of AirBNB, this was also part of our offense portfolio. Given I have high expectations from this part of the portfolio, ABNB did not deliver to it. We did not lose money on it. I just believe there are better opportunities elsewhere for the time being.

Overall, our "Offense" part of the portfolio has done very well for us. Initial investments in Uber has 2x'ed from our original purchase price. It is now part of our "Steady Compounders" portion of the portfolio. Carvana has over 10x'ed from our original price. Its business will be closely monitored to make a decision of whether this truly ends up being a long-term holding and moves to the "Steady Compounders".

Our total portfolio turnover rate was 2.3%. While this may not directly contribute to outperformance, high turnovers often result in underperformance due to unnecessary activity, transactional costs, and taxes.

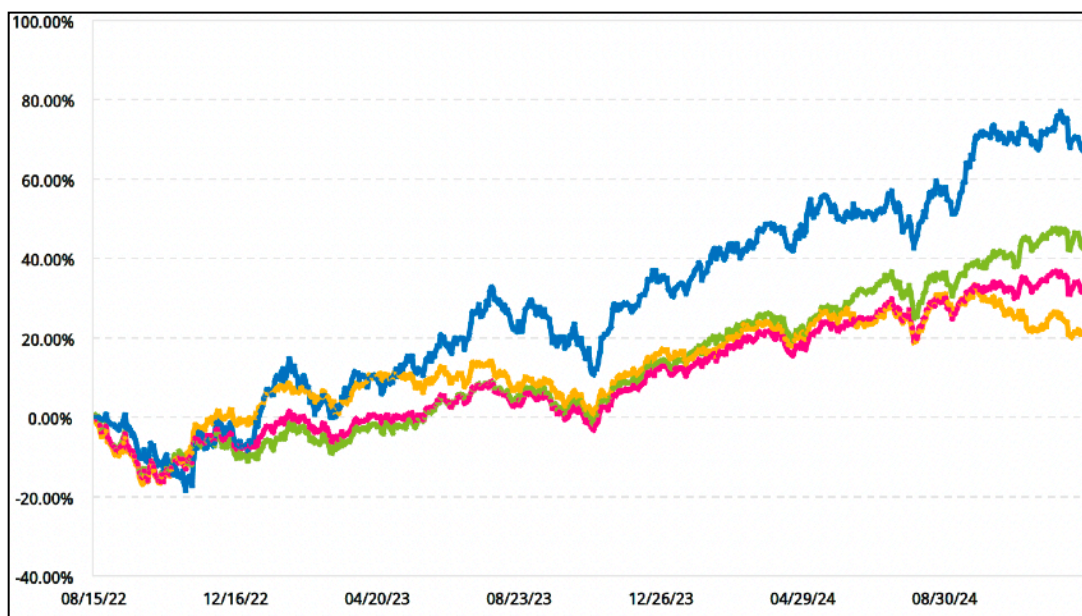
TAPASYA INVESTMENT FUND I (TIFI) MONTHLY RESULTS 2024 (NET OF FEES) IN '%'

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
TIFI	-0.14	4.39	3.17	-1.44	2.04	0.41	-0.18	3.73	6.16	-0.36	1.35	-2.33	17.93
S&P	1.68	5.34	3.22	-4.08	4.96	3.59	1.22	2.43	2.14	-0.91	5.87	-2.38	25.02

While we've selected the S&P 500 as our benchmark index, it's crucial to monitor other indices as well. Index investing offers an excellent alternative to actively managed funds, particularly if we struggle to outperform over the long term.

Comparing our fund's performance to indices such as the Vanguard Total World Index or the Developed Markets Index (excluding the US and Canada), it's evident that both the fund and the S&P 500 have outperformed these indices.

Gross Returns as of Dec 31' 2024



— SPXTR - S&P 500 Total Returns — EFA - Developed market, excl. US/Canada
— VT - Vanguard Total World — TIFI - Tapasya Investment Fund I

Top Performers and their Contribution

Our top contributors to our performance were Carvana, Prosus, and Google. On the other hand, our bottom performers were Universal Music Group, ASOS and Euro (the currency).

Company	Symbol	Contribution
Carvana	CVNA	5.6%
Alphabet	GOOG	5.2%
Prosus	PRX.AS	3.9%

Bottom Performers and their Contribution

Company	Symbol	Contribution
Builder First Source	BLDR	-0.8%
Universal Music Group	UMG	-0.3%
ASOS	ASC	-0.2%

A few lines about the 6 companies that made this list.

- **Carvana (CVNA):**

- Exceeded expectations, with the initial investment increasing almost tenfold.
- Could have allocated more funds in hindsight, given the significant growth.
- Has shown strength over the past two years and could potentially transition to the "steady compounders" part of the portfolio if its business continues to perform well.
- Thesis written about Carvana seems to be materializing.

- **Alphabet (Google):**

- Has become controversial due to potential challenges to its moat in the search business from new entrants like Open AI (Chat GPT) and Perplexity.
- My experience in marketing and familiarity with Google's moat suggest a cautious approach, as it is too early to make definitive conclusions.
- The cloud business is growing rapidly and profitably, adding to the strength of Google's position.
- Other businesses like Waymo and Verily Health have potential for success but are not being fully appreciated by the market.
- Bullish on Alphabet overall, but monitoring the search business closely

- **Prosus (PRX.AS):**

- Purchased to gain exposure to Tencent, with Prosus owning ~25% of Tencent and other companies.
- Its value is currently lower than the value of the Tencent stake it holds.
- Management is actively working to reduce this discrepancy and has made some progress in 2024.
- Tencent has substantial growth potential, with one of the strongest moats in the tech industry globally.
- Held as a long-term position and is one of the largest holdings in the portfolio.

The year's results were satisfactory, with minimal impact from underperforming assets. However, I would be more pleased if we outperformed the market, regardless of market direction. For instance, a fund return of -5% compared to an S&P of -15% would be preferable to a fund return of +20% compared to an S&P of +25%.

- **Builder First Source (BLDR):**

- Long-term compounder that lost 23% in December helping it make this list or wall of shame.
- It manufactures and supplies building materials to homebuilders
- Has great capital allocation, a 20%+ ROIC.
- High free cash flow generating company, that uses extra cash to acquire companies in a fragmented market.
- It also uses excess cash to retire stock (buy backs) and has retired a third of its stock.
- I expect to hold this company for the long-term.

- **Universal Music Group (UMG.AS):**

- A recession-resistant global leader in the music industry, UMG.AS is a steady compounder in our portfolio.
- Recent underperformance stemmed from market concerns about subscription numbers.
- There were temporary disruptions from TikTok and Facebook agreements.
- Confident in the company's continued success, we expect it to remain in our portfolio for the foreseeable future.

- **ASOS (ASC.L):**

- Originally part of our high-risk, high-return "Offense" portfolio, ASOS underperformed, halving our investment.
- The turnaround thesis did not materialize.
- We have sold our position entirely.

Moving to country allocation, the below chart provides more details. US will continue to be bulk of our holding for the foreseeable future. In Netherlands, we own Prosus, Adyen and Universal Music group and some cash. China holding here is primarily Alibaba.

Country	%
United States	63.7
Netherlands	23.4
China	6.7
Canada	4.9
Others	1.3
Total	100

This year, we introduced **4 new positions** to our portfolio: Howard Hughes Holding (HHH), Lululemon (LULU), Fannie Mae (FNMA) and Topgolf Callaway (MODG). My theses on HHH and Lululemon are available in the **Global Investment Review VIII** and **Global Investment Review IX**, respectively, as well as in the letters section of my website, **tapasyafunds.com**.

Fannie Mae (FNMA) represents a small portion of our portfolio, approximately 1% at cost. However, I anticipate it to be a multi-bagger. It has performed well and is already 3x+ from our original purchase price. FNMA is currently under government conservatorship, and my thesis revolves around its eventual exit from this conservatorship. While I believe this is inevitable, it could involve a lengthy wait.

During the Great Financial Crisis (2008), taxpayer money was used to bail out FNMA and other entities. This has been profitable for the government, as FNMA's profits are primarily distributed to the government as dividends. Fannie Mae, along with Freddie Mac, offers mortgage financing solutions in the United States through its Single Family and Multi Family segments. It buys single-family first-lien mortgages, providing liquidity to banks and playing a vital role in the mortgage and housing industries.

Given the current historically low levels of home affordability, privatizing FNMA could help reduce mortgage rates, which is crucial for the housing industry. A robust housing market is essential for a strong economy, benefiting various sectors such as financials (due to mortgages), retail, and employment (due to the number of people employed in the housing industry).

We expect the government to remove FNMA from conservatorship, allowing it to realize its intrinsic value. However, the downside is that this requires government intervention, which has not occurred since it was initially expected in 2013. Therefore, we may need to exercise patience or consider exiting the position.

Topgolf Callaway Brands (MODG) is a new position started in December, more to come on this one in the coming months. The intent though is quite simple, take advantage of any value unlocking due to the planned spinoff of Topgolf and Callaway as 2 separate business entities.

2025 - A LOOK FORWARD

With the returns of the past 2 years, the index as well as our fund, the question one should ask is whether such returns would continue.

I think it is 2 parts, will the rally continue and more importantly should the rally continue would the fund fair well once again?

To this, my response - There are 2 types of forecasters, 'ones who don't know' and the 'ones who don't know, they don't know'. It is very hard to forecast the future. With that preamble let me give you my views on the same (or should I even bother!!).

Outside of any geo-political shocks, the economy seems to be humming quite well. There are pockets of slowing that we can see but in general the Fed is better positioned now with more tools at its disposal than during the 'Zero Interest Rates' period.

I think there are clouds of tariff, immigration, etc., that are being talked about that could be inflationary. At the same time there are promises of de-regulation and DOGE (Department of Government Efficiency) that are being talked about that could potentially

reduce long term borrowing costs. We will keep a close watch on the implications especially in the context of the companies we are invested in.

What I do think is quite clear, the markets certainly in the US are not cheap. Unlike 2022 when we started the fund, there were few buyers and market were at multi-year lows. Now the markets are at close to all-time-high PE's (Price to Earning) ratios. I do expect the future returns to be lower than the last 2 years.

As far as our portfolio is concerned, I feel confident about the future primarily with the housing theme which I expect to take off further in 2025. I think there is significantly more upside in the Chinese stocks we own. This will not be devoid of controversy and volatility given all the rhetoric. At the same time, China is one of the biggest trade partners for USA.

Given some of our "Steady Compounds" are fully priced, our future allocations may look at more special situations and smaller market cap companies where there are still deals available. By special situations I mean spinoffs , etc. These will not be long-term holdings as once the thesis plays out we will exit. From a fund standpoint this will mean more companies in the portfolio than the typical 15 or so. We will probably end up taking smaller positions of 1%-2% at cost. Some of the recent purchases of Fannie Mae and Topgolf Callaway Brands is a reflection of the same.

It does not change our viewpoint on any companies invested in, just that we have to travel other areas of the market that are not 'overbought,' basically fish where the fish are.

Approximately 13% of our portfolio is allocated to the housing sector through Builder FirstSource (BLDR), Howard Hughes (HHH), and Fannie Mae (FNMA). United States faces a housing shortage of over 4 million homes. With stubbornly high-interest rates (10-year note), I do not foresee mortgage rates decreasing below 5% anytime soon.

The Fed has more control over short-term borrowing rates. Although their projections are often inaccurate, they expect interest rates to be around 3.8% by the end of 2025. Historically, the 10-year rate is typically 110-140 basis points higher than short-term rates, which is little lower than current 10-year (Vs. Fed projection). Mortgage rates follow the 10-year with a premium to the 'risk-free' treasury. As a result, I expect mortgage rates to range between 5% and 7% in the near term (2025 and 2026).

This scenario leads to a "lock-in" effect for existing homeowners, as the majority of existing loans (approximately 60%) are below 4%. This allows new home sales to fill the void by offering incentives, building smaller homes, etc. We are well-positioned in this market, and I anticipate appreciation in the companies mentioned above.

I also expect the Chinese companies we are invested in to perform well in 2025. Their business has continued to grow in a backdrop of a tough economic environment. With the stimuli that the government is providing should aid in addressing some of the real-estate and consumption issues the country is currently facing.

Hence overall I think we are positioned to have a strong 2025 and would expect us to outperform the broad based indices.

PARTNER COMMUNICATION

We added 13 Limited Partners this year taking our total count of investors to 22. This year has seen more growth than I was expecting both in terms of investors and dollar value.

Introduction of 2 share classes

This year (2025), we are introducing a new share class for investors. Details below

Class A (Existing) - \$100K investment

- Zero Management Fee
- 25% Performance fee after **6%** Hurdle Rate.

This mechanism has been place since inception and remains unchanged.

Class B (New & Limited Time Offer): \$500K+ investment

- Zero Management Fee
- 25% Performance fee after **8%** Hurdle Rate.

Investors who upgrade to Class B during this limited-time period will enjoy the higher hurdle rate of 8% as long as their capital invested remains at or above \$500K.

Investment Structure and Incentive Alignment

Our distinctive fee structure is inspired by the original Buffett partnership model, emphasizing performance-based incentives to align interests between our firm and investors. As a demonstration of this commitment, my family remains the fund's largest partner, and your capital is invested alongside our own.

Key Features of Our Fee Structure:

- Zero Management Fee
- Annual Hurdle Rate:

- Class A Investors: 6%
- Class B Investors: 8%
- Performance Incentive:
 - Earned only on profits exceeding the hurdle rate
 - Incentive fee of 25%
- High Watermark:
 - Incentive provisions apply only after reaching new all-time highs

The introduction of Class B shares aims to increase the fund's AUM (assets under management) while providing investors with a favorable fee structure. Class B investors benefit from performance fees only after achieving an 8% return, coupled with the high-watermark provision. We firmly believe this structure creates a mutually beneficial arrangement for both parties.

If you have any interest in exploring our investment opportunities further, please do not hesitate to contact me.

Our **partnership** with NAV Consulting, the Fund Administrator, has been invaluable. I have had the pleasure of working with them since the beginning and look forward to continuing our relationship for the foreseeable future.

Akram & Associates provides audit and tax services, and you can expect to receive your K1s from them this year.

We chose Interactive Brokers (IBKR) as our custodian and brokerage due to their low transaction fees, higher interest on cash, stock lending program, and international transaction capabilities, among other factors.

The fund's structure allows for scalability, enabling us to accommodate additional investors and funds without significantly increasing my workload. Thanks to our service

partners, I can focus on what I love most: researching companies worldwide to identify investment opportunities.

As the number of investors increases, I plan to transition from quarterly 1:1 meetings to an annual meeting format in the near future. I will remain available via phone and email as I have always been.

Our diverse group of accomplished investors has the potential to create synergies and opportunities that can benefit each of us individually. I will keep you updated as I work on the details of the annual meeting.

Thank you for entrusting me with your investments. I value your support and welcome any questions.

Yours sincerely,

Pratik Kodial