

April 2023

Dear Limited Partner,

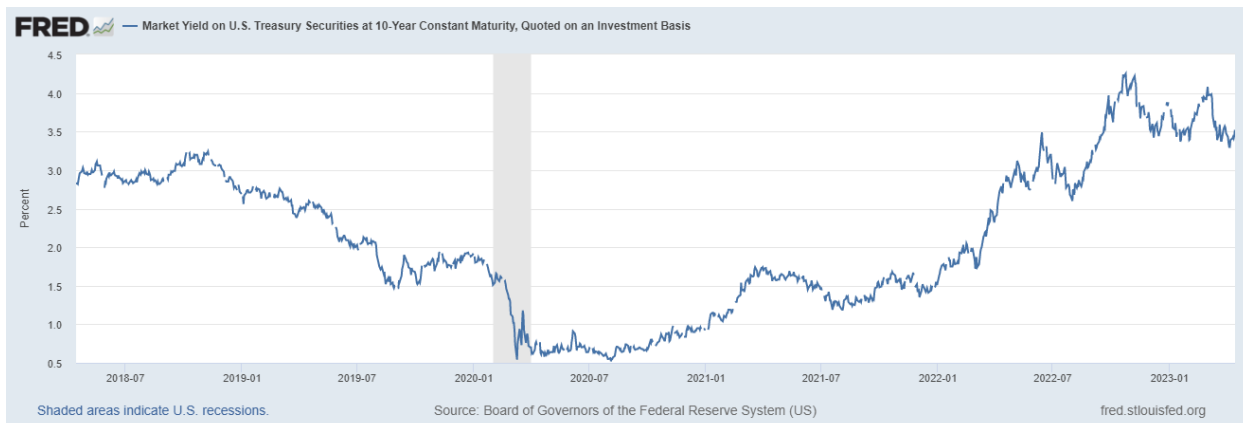
We currently have a fed funds rate of 5% and yet the most anticipated recession in history has yet to materialize. Despite the worst string of bank failures since the 2008 Financial Crisis the S&P500 was up 7% YTD, through the end of Q1 2023. Anecdotally, it appears a vast number of investors are still sitting on the sideline in cash waiting for an opportune time to reenter. It appears that the FOMO of the 2010s has quietly morphed into fear of loss in the 2020s. Many believe that waiting for the recession to hit is prudent, however, the reality is that it's a form of closet market timing. Successful market timing is virtually impossible and will most likely lead to subpar returns going forward.

### **The Waiting for Godot Market**

I had the good fortune to watch Ben Kingsley in Samuel Beckett's "Waiting for Godot" at the Old Vic in London. The entire play is essentially a conversation between two characters (Vladimir and Estragon) who are waiting for the arrival of the mysterious and mercurial Godot. Spoiler alert: If you don't want to know what eventually happens, skip ahead to the next paragraph. Ultimately, Godot never shows up. In my view, the so-called recession has become the equivalent of Godot. As more time passes, I'm becoming increasingly certain that inflation has peaked, the Fed will pause and a recession will never materialize.

The S&P500 bottomed at 3,577 on October 12 and the 10-year Treasury yield peaked at 4.25% on October 24, 2022. The stock market tends to bottom 3-6 months ahead of the economy and to the extent that the Fed has manufactured a recession, there is a significant likelihood that it will be a shallow one. The more important question to ask as an investor is whether you are fully positioned to benefit from the inevitable recovery. The US equity market has never failed to go on to higher levels following any crash or correction.





Assuming that you sold a meaningful portion of your portfolio during 2022 or the recent SVB crisis, you must naturally ask yourself the question as to whether we've already seen the low for this cycle. Many investors who ended up waiting for the recession to hit will compound their error by waiting for a pullback before reentering the market. The problem is that a pullback may never materialize and you'll end up missing out on significant gains. As Charlie Munger once said, "the first rule of compounding is to never interrupt it unnecessarily." Thus, the secret to earning superior returns in the stock market is to own a diversified portfolio of high-quality companies and to decide to ride out the periodic volatility that will inevitably occur.

### Our Performance

The S&P500 rose by 7.03% during Q1 2023. In comparison, the Ashva Capital LP fund increased by 5.35% net of fees. Although our performance trailed the market, I've used the recent weakness in the market due to the failure of Silicon Valley Bank to upgrade the portfolio. We now own more high-quality businesses that are trading at reasonable/cheap valuations.

If a recession does materialize, our portfolio of quality businesses will be able to weather the storm better than commoditized or cyclical businesses. If we avoid a recession, no matter how unlikely, I would expect our positions to outperform as the underlying fundamentals are strong and valuations return to more normalized levels. Essentially, our holdings are trading at a meaningful discount to their fair value but likely won't rebound until we get some confirmation that the rate of inflation is headed materially lower. In general, our QARP (Quality at a reasonable price) style of investing which focuses on well-run businesses that have some form of competitive advantage, generate strong free cash flow, and trade at reasonable valuations has performed well over the long run and in all market environments.

Sincerely,

Ankur Shah

Ankur Shah  
 Managing Member  
 Ashva Capital Management LLC

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