

August 2021

Dear Limited Partner,

This letter is organized into two main sections. The first section deals with our general investing principles, which serve as the basis for the investing strategy that we utilize. The second section deals with my current observations on the US economy and the US equity market. The section on our General Principles helps new Limited Partners come up to speed on our fund strategy but also serves as a reminder for our long-term Limited Partners on why we invest the way that we do.

General Principles

I begin with the premise that mainstream US equities have functioned as an extremely efficient hedge against inflation and a generator of real wealth over time. Since, 1960 the S&P500 Index has appreciated approximately 70 times and the cash dividend on the index has gone up about 30 times. Over the same period the Consumer Price Index has gone up approximately 9 times. Thus, equities have far outpaced inflation in the US historically. As a result, the core of our portfolio is based on US equities.

Additionally, I believe that nobody can consistently time either the US economy or the market. As a result, the best strategy is to stay close to fully invested unless the valuation of the market happens to be excessive and at historically unprecedented levels. A good example of excessive valuation levels would be 1999.

In the Q1 2021 investor letter I discussed that we've implemented a strategy called the Poor Man's Covered Call (PMCC). Mechanically it's the same as writing a covered call but instead of owning the underlying shares you take a long position in a far-dated call option at a lower strike price than the one you're selling. The main benefit of the Poor Man's Covered Call position is that it requires significantly less capital than buying shares outright. Our Poor Man's Covered Call positions have all contributed materially to our strong portfolio performance in 1H 2021.

US Equity Market Observations

The American economy continued its dramatic recovery in the first half of 2021, spurred by (a) the proliferation of effective vaccines against COVID-19 and the retreat of the pandemic, (b) massive monetary and fiscal accommodation, and (c) its own deep fundamental resilience, which ought never to be underestimated.

The S&P500 ended the 1H 2021 at 4,297.5 a 14.4% increase over its close at the end of 2020. It was one of the strongest first halves of the year in the history of the market. Despite the significant amount of attention being heaped upon esoteric assets classes such as bitcoin and meme stocks in 2021. The stodgy US equity market continues to power forward driven by solid earnings growth. Coming into the year, the consensus earnings estimate for the Index in 2021 was around \$165; as I write, the consensus for the next 12 months has reached \$200 and continues to rise.

On February 19, 2020—the market's peak just before the pandemic took hold—the S&P 500 closed at 3,386. It then proceeded to decline 34% in 33 days, amid the worst global health crisis in a century. But if you bought the Index at that epic top, and were still holding it on June 30 of this year, your total return

with reinvested dividends has been close to 28%. I've never seen—and don't expect to ever see again—a more vivid demonstration of Peter Lynch's dictum that “The real key to making money in stocks is not to get scared out of them.”

Our Performance

As of June 30, 2021 the Ashva Capital LP fund was up 4.87% (net) and 7.15% (gross) basis. Our underperformance relative to the S&P500 was largely a function of the portfolio not being fully invested. Due to the switch in strategy, it will take some time to get the portfolio invested. Obviously, it's difficult to outperform in strongly upward trending markets if your portfolio is not fully invested. However, I believe that in the long-term you only want to own positions that make sense from both a growth and valuation perspective. Furthermore, the portfolio is now approximately fully invested and I expect the performance gap to narrow over time with the index. We appreciate that you have chose to allocate your hard earned money with us and it's our goal to help you grow that wealth over time.

Sincerely,



Ankur Shah
Managing Member
Ashva Capital Management LLC

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