ASHVA Capital Management LLC

April 2022

Dear Limited Partner,

Based on current global events, the gloom & doom overhanging the US equity markets appears to be justified. The tragic war in the Ukraine, which could escalate into global calamity combined with the highest inflation that I've seen in my own investing career and a hawkish Fed has caused a near-term correction in the US equity market. However, with the headline inflation in the US accelerating to 8.5% in March, every investor must now focus on real returns. There are very few assets globally that will be able to produce a positive real return at the current rates of inflation. In my view, equities will be one of the few asset classes that will be able to produce positive real returns in the current economic scenario.

Interest Rates and Quantitative Easing

The Federal Reserve and US government took bold actions during the Pandemic to forestall an economic crash. The combination of fiscal spending and quantitative easing averted an economic crash. Unfortunately, both fiscal spending and monetary policy are blunt tools. With the current rate of inflation it's relatively clear that the amount of fiscal spending was too high and the Fed eased monetary policy for too long. The Fed now has the unenvious position of scaling back liquidity through quantitative tightening. If the Fed can execute perfectly we'll get years of growth with slowly receding inflation. If the Fed makes a mistake we're looking at slowing growth and high inflation or a significant slowdown and a possible recession. The Fed's track record in this regard isn't great. Federal Reserve Chairman, Jerome Powell, recently defined a soft landing as achieving a reduction inflation without a significant increase in unemployment. Historically, the Fed has never been able to curb inflation without the unemployment rate to spike. Additionally, the inflation rate is materially higher now than in prior rate hiking cycles. The likely result is that the Fed will have to push interest rates significantly higher to bring inflation back to 2%. The higher the Fed pushes interest rates the greater the likelihood of a policy mistake and that they go too far. As a result, I expect the currently volatility we're experiencing in the equity market to continue indefinitely.

As the year progresses, we'll get a better idea of whether the Fed is going to be able to achieve its objective of controlling inflation without materially impacting unemployment. Furthermore, there are very few asset classes that can produce a real return. With short term interest rates effectively at zero, I prefer being fully invested rather than maintaining a significant cash buffer. Given the high rates of inflation, your purchasing power is being slowly eroded away. Additionally, we have the ability to deploy our capital in various options strategies that have a high statistical probability of success and can generate significant income through the sale of option premium.

As Warren Buffett stated in his recent 2021 annual investor letter, I'm also fundamentally not a stock-picker but a business-picker. My preference is to always own shares of high quality businesses with strong growth prospects. I believe there will be plenty of opportunities in the future to purchase great companies at reasonable prices due to the economic uncertainty and possibility of a recession.

Our Performance

In March 2022, the S&P500 rallied 3.58%, bringing its 1Q 22 return to (4.95%). The index started the year with back-to-back declines in both January and February of (5.26%) and (3.14%), respectively. In comparison, the Ashva Capital LP fund was down (5.55%) in 1Q 22. It's my expectation that the Fed will be aggressive in hiking interest rates to flex their inflation fighting credentials. Thus, it's likely that the volatility we experience in the beginning of the year will continue. I've implemented an options wheel strategy to capitalize on selling options premium. It's likely this strategy will pay off as the year progresses. Furthermore, I recently added both Adobe and Upstart to the portfolio. Adobe's software has long been the standard for artists and creators in the digital space. The shares recently corrected after the company reported 4Q 21 results, which gave us the opportunity to initiate a position in this wide moat business. Upstart is an AI platform that helps banks and credit unions to make better lending decisions. Traditionally, all consumer lending in the US has been based on the FICO score. Upstart has created a model that utilizes many more variables to help lending institutions make better decisions. It's an exciting company with significant growth prospects. I'm highlighting both of these investments to outline the competitively advantaged businesses that we like to own. Although the economic outlook is uncertain, I'm confident that we own high quality businesses that will perform well over the next three to five years.

Sincerely,

Ankur Shah

Ankur Shah
Managing Member
Ashva Capital Management LLC

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