

July 2023

Dear Limited Partner,

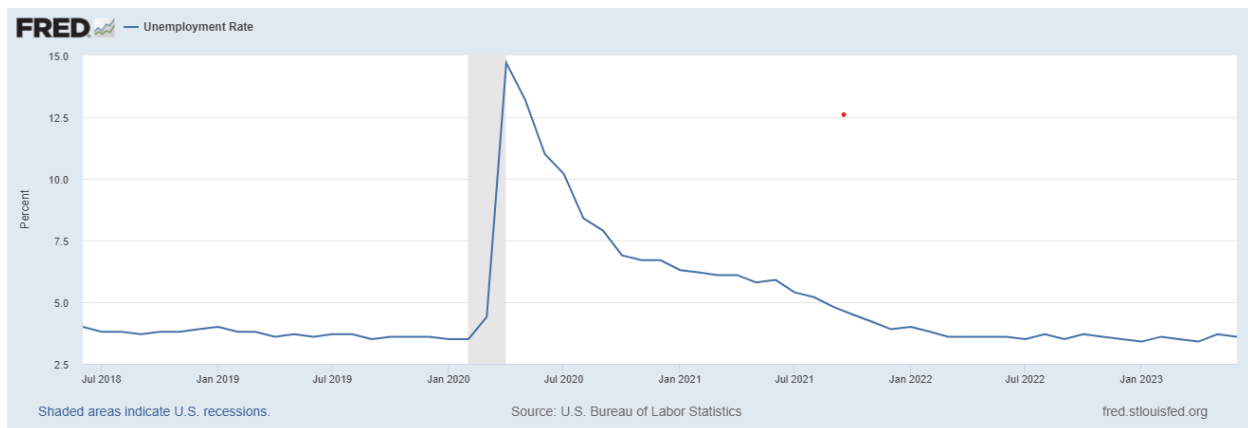
After declining sharply for most of 2022, the S&P500 ended last year at 3,840. Wall Street and the Financial news media were convinced that the US was headed into a recession. There were a long list of indicators that supported the recession argument ranging from the inverted yield curve, historic lows in consumer sentiment and the negative performance of the market itself.

The Recession that Forgot to Show Up

Despite the doom & gloom at the beginning of the year, the S&P500 had one of the best starts in its history. The S&P500 ended H1 2023 at 4,450.4, reflecting a 15.9% YTD increase. In light of the S&P500's turnaround, I need to repeat Peter Lynch's timeless maxim: "The real key to making money in stocks is not to get scared out of them."

If you had told me that the 2nd, 3rd and 4th largest US banks would fail in the first half of the year, I would never have guessed that the market would be up in double digits. Furthermore, with the market currently 20% above the October 2022 market lows, market technicians have confirmed that we're in a new bull market. Clearly, bull markets do climb a wall of worry.

In my view, the strength of the equity market is not so surprising given the underlying strength of the US economy. The unemployment rate hit a 54-year low of (3.4%) in April 2023.



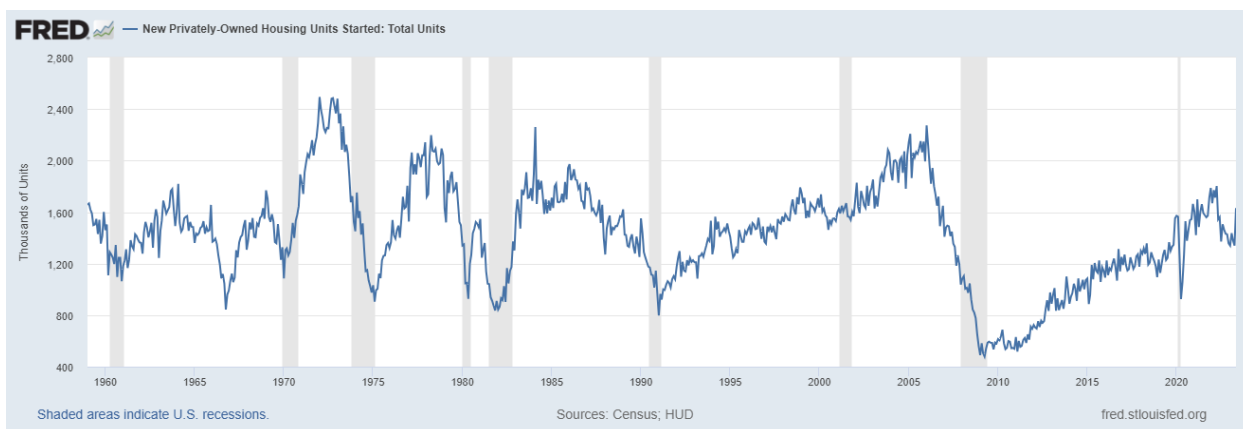


If you had told me at the end of 2022 that the Fed would hike interest rates to 5.2% and that the unemployment rate would be at its lowest levels in decades, I would've had a hearty laugh and possibly wondered what medicinal herbs you were using.

However, we're currently staring at a 5.2% Fed funds rate and the US economy is possibly powering into an expansion. Thus, I must once again emphasize a few of our core beliefs as investment managers. The economy can't be consistently forecasted and the market can't be timed. As a result, our best chance of capturing the fully cycle return of equities is to stay more or less fully invested in a portfolio of high quality enduringly successful companies.

A Generational Opportunity in the Housing Market?

One of the long-term impacts of the 2008 housing bubble is that the US has been underbuilding homes for more than a decade. Privately owned housing starts rebounded to a seasonally adjusted annual rate of 1.63 m in May 2023. However, this is still significantly below the 2.2 m peak achieved in January 2006. The result is that millennials, who are now reaching home ownership age face a shortage of housing and new starter homes. This shortage could last for decades.



Based on the continued undersupply of housing, we've added two new housing-related positions to our portfolio. We started a position in NVR, Inc., a high-quality home builder that's a component of the

S&P500 and Builders FirstSource, Inc. is a Fortune 500 company and a manufacturer and supplier of building materials.

Our Performance

The S&P500 increased by 15.9% in H1 2023. In comparison, the Ashva Capital LP fund increased by 13.5% net of fees over the same period. I continue to believe we own a portfolio of high-quality businesses that are trading at reasonable/cheap valuations, which should outperform over the course of the business/market cycle.

In my view, there is an extremely low probability that the US economy falls into a recession in the remainder of 2023. My base case assumption is that the US economy is most likely headed into a sustained expansion. Fortunately, 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
Managing Member
Ashva Capital Management LLC

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