

Honesty and Integrity Investment (HNI Investment)

Email for Dec 2022

Dear Friends,

Here are the details of performance of Honesty and Integrity Investment based on the share prices as on 31st Dec 2022:

Annualised Returns (IRR) ^{(1) (2) (3) (4)(5)}	HNI Portfolio	Nifty	Sensex
FY13	-10.6%	-5.3%	-3.7%
FY14	112.2%	21.1%	21.3%
FY15	21.6%	25.0%	23.0%
FY16	86.0%	-7.0%	-7.7%
FY17	168.3%	21.9%	20.1%
FY18	66.4%	17.0%	18.8%
FY19	-19.2%	16.9%	18.3%
FY20	-45.8%	-28.6%	-26.9%
FY21	104.7%	71.1%	68.2%
FY22	15.6%	21.7%	20.7%
Q3FY23- IRR	-51.3%	26.4%	26.5%
Q3FY23- Absolute Change	-16.4%	6.0%	6.0%
From Inception till 30th Sep 2022	33.1%	15.5%	15.4%
From Inception till 31st Dec 2022	28.0%	15.9%	15.8%

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees (4) Return during the quarter is reported only when it's adverse i.e. negative or lower than Sensex/Nifty. Quarterly IRRs looks overblown due to compounding effects of short periods (5) Absolute change is calculated based on IRR numbers for the quarter

As can be seen from the numbers above, we have not done well during the quarter. Not only this, but our returns have also turned highly volatile recently. It's because we have a concentrated portfolio which has now reduced to only 2 stocks after we sold 2 of our holdings over last 1 year. The volatility will continue till we add more stocks.

But these volatile fluctuations has zero consideration in my decision to buy or sell something. We will buy only when it makes sense to buy and sell only when it makes sense to do so. We will have to accept volatility and it's rational to do so. **We will never act to reduce volatility in our portfolio performance.**

Admittedly, we have not been successful in finding good opportunities for deployment of capital. Extreme conservatism is one of the main reasons. When I look back, I find that there are just too many opportunities which we lost (errors of omission) because of extreme conservatism. We will change that for sure but slowly and carefully. After the change, we will still be conservative but not extremely conservative. It's a delicate change to make because we should be careful that we do not end up making new unidentified mistakes in trying to avoid identified ones. Hence it would be a slow change but the change we must and we will.

One another reason for the high volatility in our portfolio is that one of our portfolio company is rumoured to be up for sale. Whenever these rumours arise, stock prices rise a lot and if proven to

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be false, stock price fall sharply. This is happening with one of our stock. Having said that, I also believe that this company will be sold and it's just a question of when? Till the time ultimate sale happens, these fluctuations will continue. In the meantime, I believe business performance should also improve over next 2-3 years considerably.

I do not have any good story or views to share for the quarter and hence that's it for the quarter from my side. Happy to get onto a call with you if you need further clarifications. Wishing you all a very happy new year!!