KUVERA CAPITAL PARTNERS LLP

NEWSLETTER - MARCH 2021

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2020	0.11%	-3.85%	23.97%	7.66%	-0.69%	2.72%	5.27%	2.11%	2.49%	3.20%	5.43%	7.96	69.59%
2019	0.03%	0.71%	6.46%	1.42%	-0.42%	-0.98%	-2.88%	-0.88%	4.01%	2.93%	-1.70%	-0.05%	8.60%
2018	3.27%	-4.24%	-3.11%	5.30%	-4.22%	0.58%	3.70%	3.12%	-3.50%	-5.39%	5.91%	-0.49%	0.01%
2017	1.30%	2.85%	2.69%	2.29%	2.26%	0.79%	3.48%	2.58%	-2.04%	2.22%	0.18%	1.99%	22.51%
2016	1.28%	-0.60%	0.04%	0.54%	2.32%	-0.27%	2.26%	0.73%	-0.99%	1.44%	-3.89%	0.18%	2.91%
2015	4.01%	1.03%	-2.37%	-2.33%	1.32%	-0.29%	0.79%	-3.85%	0.15%	0.76%	0.30%	2.62%	1.89%
2014	-1.76%	1.90%	4.20%	-0.24%	4.71%	2.01%	0.32%	1.69%	-0.64%	2.92%	1.54%	-2.51%	14.79%
2013	2.10%	-2.89%	-0.23%	2.01%	-1.01%	-1.69%	-1.20%	-3.91%	3.16%	4.88%	-1.16%	1.19%	0.89%
2012	8.12%	2.01%	-1.80%	-1.42%	-4.39%	3.13%	-0.73%	0.45%	5.74%	-1.12%	1.60%	-0.23%	11.26%
2011	-3.18%	-0.92%	4.63%	-0.59%	-1.89%	1.03%	-0.72%	-4.14%	-1.65%	3.42%	-5.88%	-1.54%	-11.27%
2010	-2.61%	0.54%	3.19%	0.52%	-2.82%	2.27%	0.32%	-0.23%	6.32%	-0.08%	-0.17%	3.42%	10.81%
2009	-1.98%	-3.47%	4.99%	5.78%	5.28%	-2.29%	2.96%	-0.48%	6.19%	-2.61%	2.44%	0.65%	18.12%
2008	-2.46%	-2.41%	-6.25%	-0.13%	-4.95%	-6.49%	2.63%	-2.94%	-3.83%	-8.53%	-0.43%	10.58%	-23.56%
2007	0.96%	-2.54%	1.11%	3.93%	1.95%	0.08%	1.74%	-0.84%	4.79%	5.61%	-0.96%	2.19%	19.21%
2006	5.67%	1.25%	4.52%	3.17%	-3.41%	-1.95%	-1.08%	1.73%	2.04%	2.69%	4.71%	-1.33%	19.04%
2005	-1.47%	4.44%	2.49%	2.37%	-0.39%	3.16%	2.38%	0.94%	0.39%	-2.25%	2.63%	2.47%	18.32%
2004	-	-	-	-	-	-	-0.04%	0.10%	3.97%	-0.30%	4.10%	8.57%	17.22%

SUMMARY

1. YTD: KFL +69.59% vs. NIFTY +12.24%
2. KFL best performing year.
3. Fed continues to underwrite/distort markets.
4. Rates low "forever!".
5. COVID/Central Banks highlight failure of central planning.
6. Portfolio will relatively underperform in response to short term rally.
7. Portfolio positioning unchanged.

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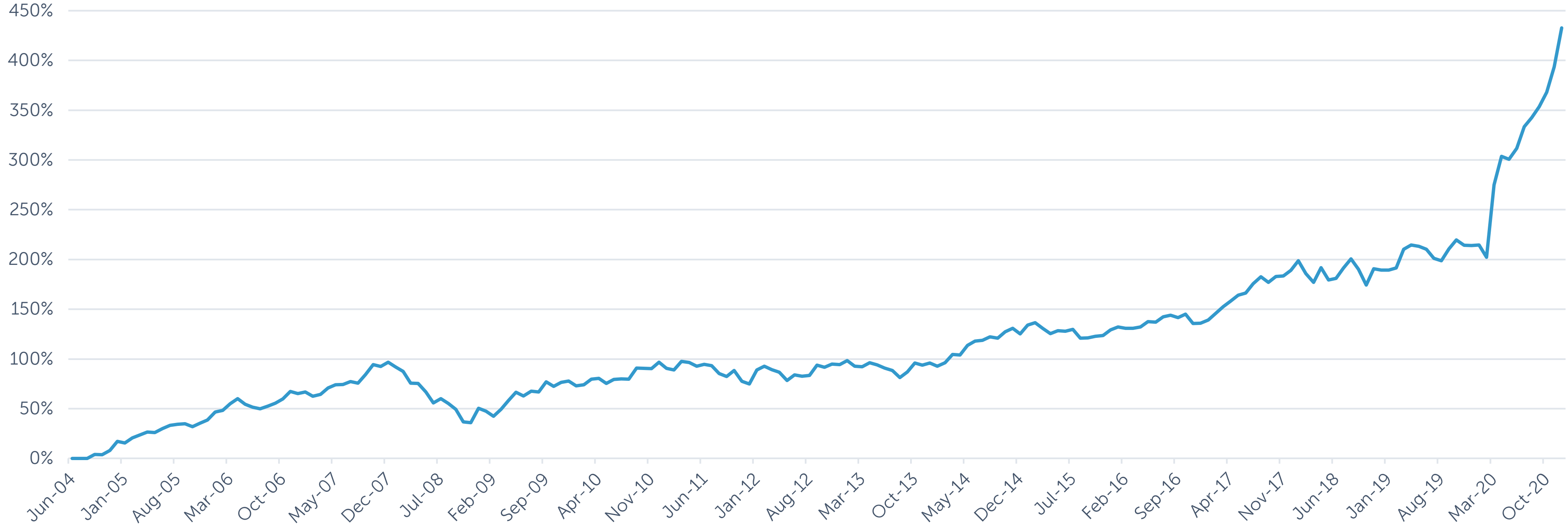
CUMULATIVE RETURNS



"They who can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety." *- Benjamin Franklin*

2020 was our best performing year (+70%), we significantly outperformed our benchmark generating alpha both from stock selection & more significantly from portfolio construction.

Two thirds of the years return was generated during the March market crash and though we did not (attempt to) forecast this, we benefitted significantly from our portfolio positioning – exploiting the distortions created by central banks and benefitting from the resultant risk/rewards offered by the markets. These distortions are no doubt storing significant future problems (more of that later), attempting to time this however would be futile.

At the beginning of March, the portfolio was (73%) long, together with long volatility positions. At the stock/sector level, the portfolio continued to be defensively positioned, with long positions in IT, pharma and government spending, short cyclicals and some intra sector relative value bets. With portfolio structuring largely rule based, outcomes are repeatable (and not forecast dependent).

Markets rallied strongly post the March crash and there was a predictable rotation into underperforming sectors (cyclicals & other short posi-

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tions). This resulted in some relative underperformance. Though we had anticipated this rotation into a strong market rally, it was not something that offered a sufficiently attractive risk/reward to play (the portfolio will relatively underperform if the market rallies strongly in the short term).

For 2021 as a whole, we nevertheless significantly outperformed our benchmark, generating alpha both from stock selection and more significantly from portfolio construction.

WHY LONG? – The failure of Central planning

Substitute "intellectuals" for "Bureaucrats", and we think the below provides a good explanation as to why central planning inevitably fails:

"intellectuals are people whose end products are intangible ideas, and they are usually judged by whether those ideas sound good to other intellectuals or resonate with the public. Whether their ideas turn out to work – whether they make life better or worse for others – is another question entirely."
- Thomas Sowell

The parallels between the management of the COVID pandemic and the management of economic crises are sadly all too similar (though not surprisingly so). It is essentially the same type of people, with similar incentives, managing both. COVID though, has provided us with a real time view of the inherent failings of central planning.

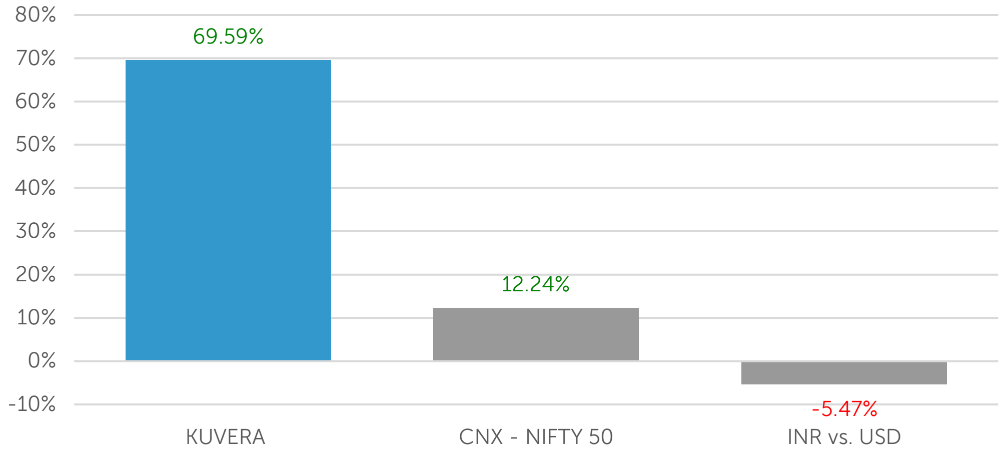
Unfortunately, the one thing that was all too predictable during 2020 was the abysmal handling of the global pandemic. Governments have in large part been only too willing to throw their economies "under a bus" and destroy thousands of small businesses without clear objectives or any real ability to balance the costs, analyse the data or consider the unintended consequences of their actions. All the while spurred on by unrealistic beliefs in their abilities, backed by little or no experience, guiding principles or even luck!! Confidence without clarity is indeed a dangerous combination.

Below, some quotes from an excellent article by David Mamet - November WSJ article. Which speak to this:

"....history is replete with examples of central planners who ruined economies through coercive policies..."

"...this is not a question of simple semantics. Whether the greatest economic collapse in modern history was caused by a virus or the government's response to the virus is not an incon-

KUVERA FUND vs. INDIA ASSET CLASS RETURNS 2020



PORTFOLIO ATTRIB. DEC 2020

SECTOR	CONTR.	NET EXP.
AUTOS	0.62%	4.14%
BANK	1.64%	17.22%
CAP GOODS	0.28%	5.11%
CEMENT	1.84%	9.68%
FMCG	2.71%	12.46%
IT	6.11%	18.04%
METALS	-0.68%	-3.17%
OIL AND GAS	0.44%	8.37%
OTHER	-0.24%	4.02%
PHARMA	7.40%	20.13%
REAL ESTATE	1.49%	4.79%
TELECOM	-0.25%	-1.92%
GROSS		125.06%
NET		98.86%
# of NAMES		54
# LONG		39
# SHORT		15

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sequential distinction..."

"...the unintended consequences of government lockdowns, which have included surging global poverty, mass job loss and business closures, spikes in depression and suicide, ,excess deaths, and other adverse social consequences..."

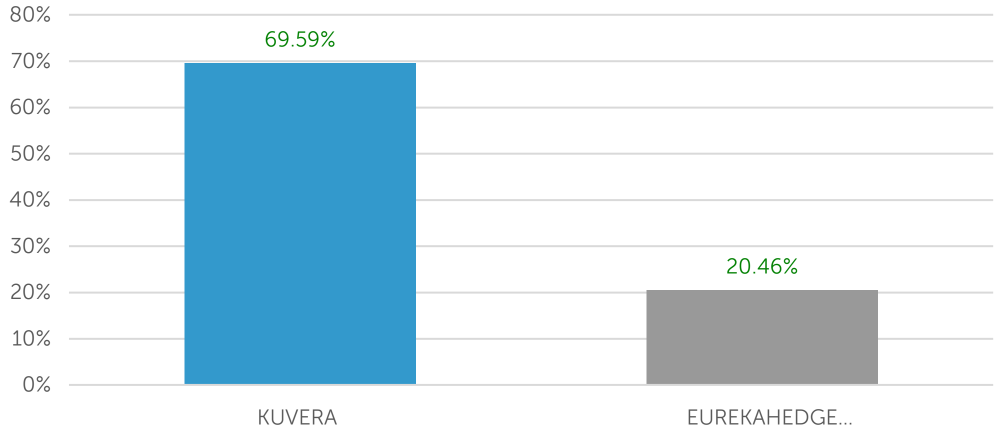
'...experts and defenders of the conflict (Iraq WMD war) spent years attempting to deny they were actually wrong. The lockdowns, which have been shown to be far less effective at protecting lives than destroying economies, will be no different..."

As for experts, they are not a homogenous group holding the same view, despite what we are led to believe. One of the UKs expert of choice was Neil Ferguson, professor of mathematical biology at Imperial College London. His track record:

EPIDEMIC	PREDICTION	ACTUAL
BIRD FLU	200 MILLION DEATHS	282
SWINE FLU	65,000 (UK) DEATHS	457
MAD COW DISEASE	150,000 DEATHS	177

"That prediction wasn't just nonsense was it? It was dangerous nonsense."
- Nick Robinson, BBC Presenter

KUVERA FUND vs. INDIA INDICES 2020



Meanwhile other equally, if not more eminent professors from Stanford, University of Pennsylvania and University of Mainz who warned about the global over reaction have had their voices drowned out.

Central banking too is afflicted by the same failures. Bureaucrats who bear little, if any consequences for their mistakes, but are so intrenched in the govt. machinery that they are called on time and again for their "sage" counsel, regardless of track records. Their prescriptions are not resource constrained but backed up the conjuring of gazillions of dollars from thin air and under the cover of some defunct economic theory – the latest being "not so" modern monetary theory (MMT), which is in all but name keynesism reheated.

For years now, central bankers have been destroying the normal functioning of markets, under the guise of sage economic management. From their exalted positions they mistakenly believe that they know better than the collective wisdom of markets in setting prices and allocating resources. The consequences are as bad, if not worse, than those from the mishandling of the pandemic – but central banking mistakes are not as easy to trace back.

2020 WINNERS

NAME	SECTOR	L/S	CON.
DR.REDDYS	PHARMA	LONG	2.13%
ASIAN PAINTS	FMCG	LONG	2.08%
HCLT	IT	LONG	1.72%
INFOSYS	IT	LONG	1.71%
CADILA	PHARMA	LONG	1.68%

2020 LOSERS

NAME	SECTOR	L/S	CON.
AXIS	BANK	LONG	-0.61%
BPCL	OIL AND GAS	LONG	-0.54%
SAIL	METALS	SHORT	-0.36%
HEROMOTO	AUTOS	SHORT	-0.32%
ITC	FMCG	LONG	-0.27%

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Some of the consequences of artificially low interest rates and unlimited liquidity have led to:

1. Greater inequality (a coincidence that extreme politics is on the rise?).
2. The longest bull run in history (09-20) underwritten by the Feds balance sheet (any doubts, see what happens when they try to unwind).
3. Resources have been diverted away from productive economy to monetizing government debt.
4. Bankruptcies and losses are important signals in allowing markets to work. These are no longer an allowable option, especially for larger connected companies, with government bailouts now on tap.
5. Companies encouraged into share buy backs – instead of real investments. Inflating short term EPS and enriching a very mediocre group of C-suite executives. $7 trillion of buybacks undertaken by S&P 500 companies – more than 90% of profits made.

And what about the architects of these failed policies, they appear on the front page of magazines and are hailed as world saving heroes. On leaving their posts, they then go onto high paying jobs as academics or civil servants where their speeches command $800K a pop with hedge fund clients!

What does the future hold? Well just look to Japan (Keynesian prescriptions on steroids), zombie companies being propped up by low rates, low productivity, low growth, decline in real wages and debt/GDP over 250% and rising.

How can we benefit? – STAY LONG

Just stay long and enjoy the ride. For the real economy, the outlook is dire, but as asset managers it really has not been easier to manage money – just stay long and enjoy the ride and even if you do not take the option of hedging cheaply (courtesy of market distortions). Just sit tight through the market wobbles, safe in the knowledge that markets will be bailed out.

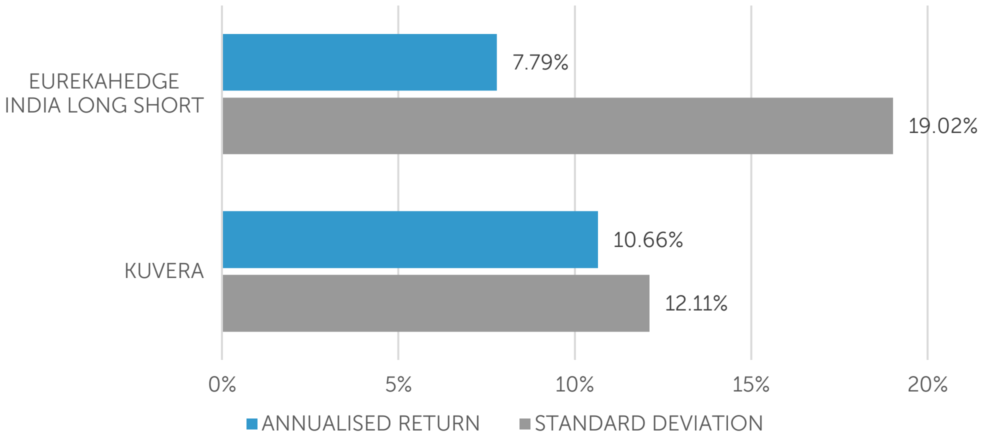
Stocks and sectors – No change

At the stock level, we continued with our themes from earlier in the year.

CORE

We continue to hold long core positions in 6 names which have proved to have a sustainable competitive advantage in their respective sectors over many years. These are names that have demonstrated an ability to allocate capital efficiently and over

KUVERA RISK RETURN vs. INDIA LONG SHORT INDEX (since inception)



L/S SECTOR CONTRIBUTION 2020

SECTOR	L/S	CONTR.
PHARMA	LONG	7.40%
IT	LONG	6.11%
FMCG	LONG	2.71%
CEMENT	LONG	1.84%
REAL ESTATE	LONG	1.49%
BANK	SHORT	1.11%
AUTOS	LONG	1.08%
BANK	LONG	0.53%
OIL AND GAS	LONG	0.44%
OTHER	LONG	0.39%
CAP GOODS	SHORT	0.14%
CAP GOODS	LONG	0.14%
TELECOM	SHORT	-0.25%
AUTOS	SHORT	-0.46%
OTHER	SHORT	-0.62%
METALS	SHORT	-0.68%

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decades have consistently generated a ROCE more than their cost of capital, earning an economic rent because of high barriers to entry. The barriers could be due several factors, ranging from regulation to their efficient business practises, but whatever they be, they are hard for competitors to replicate as demonstrated by decades of high (40%-60%) ROCE.

THEMATIC

The best performing sectors in 2020 were Pharma (7.35%) and IT (6.12%). We had long only exposures to these sectors before the March crash. We have previously documented our reasoning for these positions but briefly; the IT exposure was based both on valuations and the bet that they would successfully transform their business models (as they had done in 2008) to digital and cloud, thereby moving up the value chain – something which they are successfully doing and which the market has begun to realise and price in. In the case of Pharma, we took a similar bet. This was that Pharma companies would successfully realign businesses away from the US market which was becoming increasingly competitive. As these sectors outperformed, their weightings in the portfolio have significantly increased, and we will look to take profits and rebalance by reducing these exposures.

Outright short positions in Metals cost the portfolio 68bp. This move happened towards the end of the year because of sector rotation and a more bullish China view. We continue with these shorts though, as a hedge against continued global uncertainty.

The exposure to infrastructure spending delivered only 39 bp for the year. The bet here has been that government cannot but increase spending on infrastructure (regardless of economic downturns/pandemics). The recent (Feb 2021) budget though, has made a significant pivot to government spending on infrastructure (with an accompanying increase in the budget deficit from 3% to 9%) our exposure here should benefit significantly from this.

RELATIVE VALUE – Banks

Long private sector/short Public sector. This position generated 1.64%, making money on both the short and long side. The thesis here is that the public sector banks will ultimately be privatised either through the "back door" enabling competition form newer banks and NBFCs or by a sale to the private sector. Publicly owned banks have been riddled with corruption, political interference, and numerous bailouts. The government now has little choice but to "privatize" these entities. Once again, the budget laid down proposes to reduce the number of Public sector units from the current 300+ to just a few.

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