Dear Partner,

This is a special letter. We complete 10 years at CWC, and our deepest thanks for allowing us to be a fiduciary partner of your wealth over this period. Your patience (especially through the down years) has given us the courage to back our conviction. Over the past decade, our net[1] INR returns are 19.4% CAGR versus 9.4% for the Nifty. The table below has some more data on returns.

CAGR	CWC returns	Net Nifty
1-year return (2020)	49.7%	14.8%
3-years return (2018-2020)	10.9%	9.9%
5-years return (2016-2020)	14.1%	12.0%
10-years return (2011-2020)	19.4%	9.4%
Stdev (%)	6.0%	5.1%
Max draw-down	-38.5%	-29.3%

As promised, we have run a concentrated (median weight of the top 4 holdings has been ~52%), low churn (high teens) and a partnership driven portfolio.

In this letter we touch upon two things:

1) CWC today versus 10 years ago, and some thoughts on the way ahead; and

2) A discussion on team and culture – past letters were primarily about stocks and decisions. We haven't talked enough about the team behind these decisions.

<u>CWC's evolution and looking ahead</u>

The best way to discuss our evolution is to see what is constant and what has changed.

<u>What remains constant</u>:

Our commitment to: (1) a three-way partnership (LPs, team and investee companies); and (2) a concentrated, low churn, leadership focused portfolio has remained constant over the past decade.

1) **Partnership** – If there is one word to describe CWC, it is partnership. When we started out, we realised that long term returns were a function of luck, skill and alignment. Luck is out of our hands, skill would show up over time, and so we focused on alignment/ partnership. We wanted to create a three-way partnership between quality capital, our team and investee companies. We sought quality capital, and in return promised to be aligned and make CWC our sole focus, with bulk of our financial capital side-by-side with our investors. Today, we are thrilled with how this partnership has evolved, and believe it is a competitive strength going forward. Over the past decade we have had only one large LP, and one team member leave us (that too to start his own firm in a different city and focusing more on small/ mid-

[1] Net of fees and carry

caps). This strong partnership allows us to take tough decisions, and also be patient during challenging times.

2) **Highly concentrated, low churn portfolio focussed on leadership and themes** – Running such a portfolio essentially means absorbing near term volatility/ underperformance in return for longer term gains. Not everyone is willing to accept this, so the pre-condition of aligned capital is extremely important. Even with this capital, it is mentally taxing to watch large positions witness volatility/ underperform. Fortunately, we, as a team, have managed to hold on to our conviction, and that shows up in our concentration and low churn. We share an interesting table below which highlights how we have used volatility to our advantage for some of our top holdings.

Company	**HDFC Bank**	**TCOM**	**Jubilant Foodworks**
Position initiated	4-Aug-2011	3-Dec-2012	15-May-2015
Price at initiation#	238	140	876
Price as at Jan 31, 2021	1,391	1,006	2,590
Price CAGR	20.4%	27.3%	20.9%
XIRR on portfolio*	20.7%	40.5%	24.8%
Drawdown (no of times within each range)			
20%-40%	1	1	2
40%-60%	1	1	1

Split adjusted

* generated through re-balancing/ tactical actions due to volatility in the market

One other advantage of running a concentrated theme based portfolio (data, financial deepening and consumption) is that we have increased our circle of competence around these areas, gathered some interesting insights and are excited about the opportunities that lie ahead.

<u>What has changed</u>:

Implementing portfolio construct as part of our strategy is the biggest change over time.

3.5 years after we began, we firmed up our belief of the world pivoting from industrial to digital. 3 years after that we added a second axis (compounders and challengers) to our leadership axis to better reflect this belief in our portfolio. In hindsight, the implementation of sizing challengers could have been better, but we have fine-tuned this off late.

In the early days of change, challengers were a smaller weight than incumbents but were still oversized relative to what they should have been; this was due to two main reasons: (a) we were excited about the challenger stories, and took comfort in their reasonable valuations; and (b) we were worried about rising valuations of our compounders in a world pivoting to digital. We slowly reversed to an even larger share to compounders as we began to appreciate that the potential change to incumbents from digital was happening more slowly (allowing many of them to adapt), and also that execution challenges for the challengers meant that they needed more time. Today while we remain comfortable with our framework, we intend to build smaller challenger positions and size them as execution follows and milestones are met.

We are happy to have gone through this learning curve early in our journey. Our conviction on the digital pivot has only increased over time, but we are also more aware of the execution challenges faced by challengers (especially the smaller companies).

Looking ahead:

There are three points we would like to leave you with as we look ahead – liquidity, the emerging optionality bucket, and Environmental, Social and Governance (ESG).

1) **Liquidity and sizing** – In the early days, we had low tolerance for disappointment and our small AUM allowed us to cut positions quickly. Over time, we got the confidence to allow for near term disappointment, and began giving a longer rope to our companies (especially the smaller ones). However, what we did not anticipate was that after the long rope was exhausted, we had grown to an AUM size where liquidity for a potential trim/ exit became difficult. While we continue to believe in being multi-cap and giving a longer rope to our positions, we definitely will take liquidity into account in case things do not work out, and we will factor this in sizing.

2) **Emerging optionality** – Our compounders have been our biggest winners, but we have also seen good risk adjusted returns in path dependent companies. The jury is out though on the smaller challengers (emerging leaders and optionality) where risk adjusted returns are yet to fructify.

   As we reflect on these, there are three concrete lessons, and a key question that remains unanswered. The three lessons are: (a) we need to factor liquidity in sizing (above); (b) the Indian market does not always value improving optionality, but is usually more focused on actual results[2]; and (c) we probably need to give equal attention to the team and business while evaluating smaller companies – in several of our smaller companies, we used the traditional lens of business first, and when there were hiccups in execution, it was left for the team to adapt. We have come to acknowledge over time that, however interesting the business model, smaller companies (in a world of change) need a higher degree of adaptability and it is important to back a team that has the depth to make such changes.

   The bigger unanswered question though is that whether CWC should be partnering with emerging optionality. This is an ongoing debate and while we have our reasons (discussed below), we acknowledge that after some time (no matter how sound our rationale), if we do not see any success in this bucket, we will need to humbly lower the weight, and maybe even withdraw from this category.

[2] Across a few of our smaller companies, we observed that even if the narrative got better (good team coming together, order wins, etc.), the market did not reward the same by factoring in better optionality but waited for actual numbers to play out.

The biggest reason to not throw in the towel now is that the past 4-5 years have been really hard for smaller companies, and even more so for challengers working on unique business models. The combination of GST, demonetisation, poor monsoons and then COVID has significantly impacted their execution. Unlike larger companies, investors have not been kind enough to look through this pain, and this has meant crashing multiples for earnings that are below earning power. A few of our portfolio companies are at the cusp of significant improvement in fundamentals, and we want to see how this plays out. However, if for some reason they do not again execute to potential, we will recalibrate this portion of the portfolio.

3) **ESG** – We at CWC have always focused on leadership, adaptability and durability as part of our terminal value assessment. While we do not subscribe to a mechanical ESG checklist, we are increasingly thinking of how to incorporate environmental, social and governance principles as part of our durability study, especially after the pandemic. We would love your support and guidance on the best way to incorporate/ assess these issues as we look forward.

<u>Under the hood – Discussing team and culture</u>

<u>Team – carefully built and celebrating individuality and diversity</u>:

At its core, we are attempting to make non-frequent decisions with continuous assessment in a reflexive and path dependent world. At the time of our founding, we concluded that a diverse, empowered, intellectually honest and humble team was a better way to make these decisions, as opposed to individual geniuses (a genius reaches discrete answers quickly, and is not used to iterations, something that is important in a world where terminal value is dynamic and has a wide range of outcomes).

The way we went about building the team was unique – we took a disproportionate time ensuring we got the right person to the team, and after that they become a partner. There is no evaluation, and other than a common ethos (see culture below), we celebrate each individual's diversity and idiosyncrasy. I share below instances where individual members of the team have passionately and strongly stood their ground, but also other instances where a team huddle has helped navigate complex situations.

*<u>Passionately and fearlessly taking on responsibility despite scepticism</u>***:**

There are several instances of holding on strongly even when there is lower degree of conviction with other team members. The most recent was a team member's effort to maintain/ raise the financials weight by tirelessly pursuing every data point, understanding its implications on the portfolio companies and tracking their progress post the COVID driven lock downs. Other examples that come to mind are: backing Jubilant/ Maruti in their darkest of hours, holding to and absorbing near term pain in TCOM, nudging the team to move back to larger weights in compounders, and patiently sharing the excitement in complicated companies (UPL) or sectors (Insurance). While each example above highlights how a team member has individually stood his ground, there are also instances (below) where team huddles have helped navigate through complex situations.

Navigating complex situations:

The market often hits us with complex situations and that is when team huddles have worked best. Sharing a few examples: the ADR delisting and liquidity event in TCOM in 2013, a strike followed by a controversial decision by Suzuki for Maruti, the aggregator threat for QSRs and Jubilant, and finally the risk of potential contagion for financials during COVID. Each member brings their own perspective and these debates lead to decisions that are different from what any individual may have proposed.

This toggle between strong individual beliefs complemented with team debates has resulted in several unique insights over time. We have shared these insights with our investee companies and several of them have appreciated our perspective, further cementing our partnership with them.

We think we have achieved something special with our team – collaboration without the need to be competitive or seek consensus, and this can only happen when one lets go of the ego, has deep respect and trust for the team, and also has a common binding thread (culture).

Culture, the glue that binds us together:

While we celebrate team diversity, there are three pillars that bind the team together and these define our culture – these are intellectual curiosity and honesty, humility, and active waiting. We have often been asked to expand on what is active waiting. Recently I came across a beautiful message on Nandi (*Nandi bull is Lord Shiva's vehicle*[3]) that captures a lot of what active waiting is all about[4].

"Nandi is a symbolism of eternal waiting, because waiting is considered the greatest virtue in Indian culture. One who knows how to simply sit and wait is naturally meditative. He is not expecting Shiva to come out tomorrow. He will wait forever. That quality is the essence of receptivity. Before you go into a temple, you must have the quality of Nandi – to simply sit. You are not trying to go to heaven, you are not trying to get this or that – you go inside and simply sit. People have always misunderstood meditation as some kind of activity. No, it is a quality. That is a fundamental difference. Prayer means you are trying to talk to God. Meditation means you are willing to just listen to existence, to the ultimate nature of creation. You have nothing to say, you simply listen. That is the quality of Nandi – he just sits, alert. This is very important: he is alert. He is not sleepy or sitting in a passive way. He is sitting very active, full of alertness and life, but no expectation or anticipation. That is meditation."

Concluding thoughts

With full humility we would like to share with you that ours is a best effort profession in a path dependent world. While we will strive even harder to try and better our returns, there is no guarantee that we will be able to do so. The only promise we make is that we are focused and

[3] https://en.wikipedia.org/wiki/Nandi

[4] https://isha.sadhguru.org/mahashivratri/shiva/what-makes-nandi-a-meditative-bull/

aligned – this is all we do and each member of the team has a bulk of their financial wealth alongside you. Given that we are in the same boat, we can only say that we are extremely excited with the way the portfolio is today, and look forward to significant wealth creation in the years ahead.

For our 10 year letter, we leave you with a small poem we have put up in our CWC Mumbai office, something we believe in, and inspired from Rudyard Kipling's "If".

If you can remain steadfast when the tide is against you,
Yet be intellectually honest and adapt when you need to

If you can remain humble when all goes well,
And neither forget interdependence nor the role of luck to tell

If you can actively wait your turn, yet not let inactivity dull or distract,
But be ready for duty when the time comes to act

You will be prepared to evaluate opportunity cost amidst path dependency
You will be a better investor, my friend.

As always, thank you for your trust and patience, especially during a difficult year like this one.

Warm Regards
Nimit Tanna
Feb 2, 2021