Dear Investor,

I would like to express my gratitude to you for entrusting your capital to us through these times of great volatility.

Investing in common stocks is like running a marathon. It requires a clear definition of objective, preparation, patience, fortitude and above all the ability to block noise. Those who treat this marathon as a sprint perish very early.

Most market participants, including technical analysts, financial journalists and other Intellectual-Yet-Idiots (a term coined by Nassim Taleb) would make you believe that investing in stocks is all about reveling in neurotic head-banging based on short term noise. It appeals to the gambling instincts of speculators looking for that quick adrenaline rush and not for meticulous and patient long term wealth creation.

Sadly, this section of the market participants owns almost all the media airtime. It over focuses on the short-term events with an objective to create sensationalism. Every morning it polls market pundits, white haired economists and technical analysts. Nonevents are discussed in excruciating detail. Hourly trends are extrapolated to create long term forecasts. Any market downtick leads to prediction of imminent death and any uptick is forecasted as the beginning of a rally to heaven. Unfortunately, there is no penalty imposed on it for being wrong. They display their OCD in full glory and pray on weak minds like a baba builds his cult.

Simultaneously, there are entrepreneurs and professional managers who work diligently, tirelessly, take calculated business risks, use capital judiciously, make great personal sacrifices, away from this noise with the single-minded focus on creating value for their stakeholders. They are difficult to find and that is what makes long term investing rewarding and challenging.

In my 22 years of investment experience I have never met anyone who told me that he became rich by speculating. At the same time, I have met many who have become fabulously wealthy by focusing on long term wealth creation by investing in and backing the entrepreneurs and managers mentioned above.

Indian Stock Market in 2016

You would be forgiven if you believe that Indian stock market went to sleep in 2016. Nifty closed 2015 at 7946 and at the time of writing this letter towards end of December 2016 it is at 7908. While it stayed flat the market survived multiple forecasts of imminent death based on China slowdown, Brexit, Raghuram Rajan exit, Trump election, demonetization and Fed rate hike.

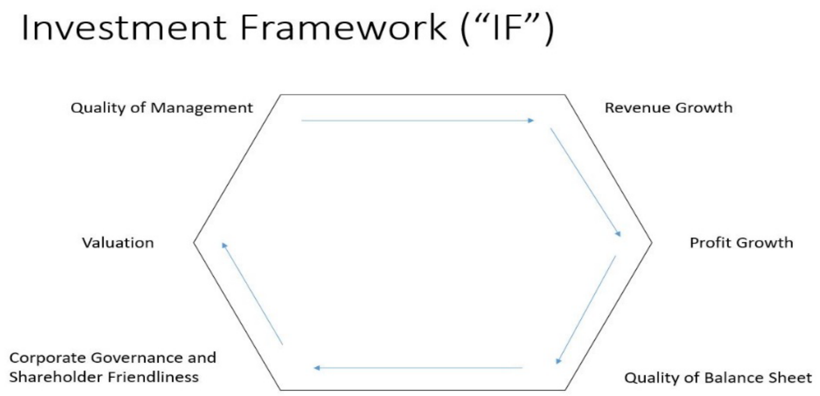
What really happened in 2016 is that the Indian economy added $221 billion to its GDP, inflation fell from 5.6% to 3.6%, RBI cut interest rates from 6.75% to 6.25%, corporate earnings (excluding financial sector) grew by 13%, money under management by equity mutual funds grew by $10 billion and the forward P/E multiple of Nifty fell from 17.3 times to 15.6 times. *So, everything got better but the market got cheaper!*

To put it in context, just the GDP addition in 2016 by India is bigger than the annual GDP of the 47th largest country in the world. India adds a Portugal to its GDP every year.

FII flows in 2016 have been anemic at $3.6 billion compared to $19 billion in 2013 and $16 billion in 2014. The last 3 months of 2016 saw net FII outflow of $4.2 billion damaging the indices of a capital starved market. It is anyone's guess when will the FII flows become positive again. In the meanwhile, all we can do is seek out great companies to invest in and use this softness in the market to buy their stock at attractive valuation.

Our performance in 2016

We continued to focus on identifying investment opportunities that pass through our rigorous six-parameter based investment framework. Each of our investments is tested across these six parameters and in the sequence mentioned in the picture below. This framework has worked for us across market cycles and even across asset classes. If you look at it closely it is a common-sense approach to investing but it is worth its weight in gold only if it is followed in a disciplined manner. There is no room for emotions to override any of these 6 parameters.



New additions to our portfolio in 2016 include Equitas and Ujjivan, both newly listed MFIs transitioning into bank, Trident, an extremely efficient exporter of bed and bath linen, Mercator, with a deleveraged balance sheet and focus on port dredging, Infosys and HCL Tech, both large cap IT companies that have maintained margins in a business downcycle and should emerge stronger as the business picks up, Sun Pharma, recovering from USFDA observations and well placed to start reaping the benefits of Ranbaxy integration, Career Point, a leader in classroom based K-to-university education, GE Shipping, the best play on a recovery in shipping industry and oil prices and L&T Infotech, a spin-off with a solid new leadership team that is reimagining its business. We also invested small amounts of capital in in a couple of micro-caps and turnaround situations. It is too early to pronounce their success though they seem to be moving in the right direction led by enterprising leadership.

Overall, those of our investors who are with us since the beginning of 2016 would have noticed positive returns in their portfolio in addition to the tax-free dividends from portfolio companies. This should be compared with the marginal negative returns of the Nifty. We had no portfolio blow outs. Only 2 of our exits were made at a marginal loss while all other exits were at a profit.

2017 Outlook

When the overall market is trending down portfolio returns exhibit the condition of a person running a marathon while carrying an equal weighted person on the back. Short term volatility of prices tests the mental fortitude of all investors. This is where the importance of a disciplined approach to long term investing becomes even more important.

Different investors react to volatility in different ways. Some reduce allocation to equity, some shift to large cap defensive stocks, many increase the number of stocks in the portfolio to reduce portfolio risk and a surprisingly large number of investors completely exit the market.

Risk comes from not knowing what you are doing or where you are investing. Our investment framework forces us to rigorously test each investment opportunity across 6 different parameters. This gives me the confidence to say that as we head into 2017 we have invested in some great companies at attractive valuations. These companies have a solid business model, enduring franchise, great management team and shareholder friendly practices. We have effectively used the market volatility to create some great entry points.

We are now well placed to benefit from an improvement in investor sentiment and the resultant increase in flow of funds into the stock market. I do not want to get into the trap of forecasting the Nifty levels. But please rest assured that business performance of the portfolio companies will continue to improve leading to compounding of returns over a long period. With very low churn your transaction costs will be minimal and so will be your capital gain taxes.

I wish you and your loved ones the very best of everything in 2017.

Best Regards,

Abhay Agarwal

Managing Director and Investment Advisor

Piper Serica Advisors Pvt. Ltd.

December 26, 2016