

11 November 2019

Dear KIP Investor,

In this letter, I state certain principles which I will abide by at KIP. These will help you understand my investing approach and my relationship with you.

1. *My approach is to make you an owner-partner of businesses.* When I invest in a stock of a company on your behalf, I would not like you to think of merely owning a piece of paper whose price wiggles around daily and that is a candidate for sale when some economic or political event makes you nervous. I hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely, much as you might if you owned a farm or an apartment house. In fact, I would not care in the least if several years went by in which there was no trading, or quotation of prices, in the stocks of those companies. If I have good long-term expectations, short-term price changes are meaningless except to the extent they offer me an opportunity to increase your ownership of the business at an attractive price. I would hope that both you and I will keep ourselves aligned with this 'business owner' mindset (as opposed to those of a trader or a speculator).

2. *I have two aims. My first aim is to preserve your capital. I will focus on risk first before I do on returns. I will focus on the return of your capital before the return on your capital. My second aim is for you to own parts of a diversified group of businesses attained through purchases of marketable common stocks that generate cash and consistently earn above-average returns on capital.*

I would like to add a note here on markets. With my approach, a depressed stock market is likely to present us with significant advantages. For one thing, it tends to reduce the prices at which businesses become available for purchase. It makes it easier for me to buy small pieces of wonderful businesses on your behalf - including additional pieces of businesses of what you may already own - at attractive prices. Some of those same wonderful businesses may be consistent buyers of their own shares, which means that they (and therefore you) gain from the cheaper prices at which they can buy.

Overall, you will benefit from a sinking stock market much as a regular purchaser of food benefits from declining food prices. So when the market plummets - as it will from time to time - neither panic nor mourn. It's good news at KIP.

3. *I will not use debt. I will reject interesting opportunities rather than leverage your investments. This conservatism will penalize your investment results but it is the only behavior that leaves me comfortable, considering my fiduciary obligations to you. (As one of the Indianapolis "500" winners said: "To finish first, you must first finish.")*

I would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my family and friends 'have and need' in order to pursue 'what they don't have and don't need'.

4. *I will not use shorting, futures, derivatives or margin financing.*

As long-term owners of businesses, we do not speculate or gamble in the stock market. Predicting and guessing future prices of stocks is not our game. Simplicity protects us from errors full of risk.

5. *My single, long-term economic goal is to maximize the average annual rate of gain of the capital you entrust me with. I do not measure the economic significance or performance of KIP by the size of its AUM; I measure it by compounded annual rate of growth of your wealth.*

High fees and expenses hurt your returns. I will therefore keep the management fee you pay me to a minimum and use it primarily to “*keep the lights ON*” at KIP. I have no intention of paying myself a large salary or options. Nor will you find me paying for swanky offices or an army of traders and analysts. A managerial “wish list” will not be filled at your expense. I will remain focused on keeping the operating expenses you incur down to a minimum. As for performance fees, I will first set a high-bar for myself and then keep it modest. I intend to make money only when you do first.

6. *I will be candid in my reporting to you.*

I will tell you in an open and transparent way how I have invested your money and then lay out the rationale behind my decisions. So that you can verify that my track record has been generated through a plausible methodology as I promised and which I strictly adhered to (as opposed to a streak of lucky coin flips). I aim to be always reporting good news to you but when I occasionally have any disappointments, I will be as candid in informing you about these as I will be in describing the happier experiences. My guideline is to tell you the facts about your investments that I would want to know if our positions were reversed. I owe you no less. I believe candor benefits me as a manager: As the wisdom goes: *‘the CEO who misleads others in public may eventually mislead himself in private’*.

7. *Along with a first-class financial return, I aim to give you ‘peace of mind’, a positive ‘emotional’ return.* I believe both are equally important. I will do so by first ensuring that you know at all times exactly *where your money is, why it is there and how it is doing*. Secondly, you will keep total ownership of your assets in your personal account with a custodian of your choice. Lastly, you will have complete control & liquidity of the assets in your account. At any time, if and when you choose, you will be able to take control of your account and easily liquidate the assets which will be shareholdings in highly liquid, publicly listed companies. I will therefore offer you 100% Transparency, 100% Ownership and 100% Control & Liquidity of your money at all times.

8. *A word on my relationship with you.* I can only invest well for you if you ‘get’ my investing philosophy, strategy and process. When we are aligned and like-minded as client and manager, it gives me a truly superior edge towards growing your wealth in a manner that I have promised. To do so, I would ask you to clearly see the importance and the benefit of my *independence* as your manager. I would hope that you will not be looking to place a substantial burden on my time or hoping to attempt to influence my investing process. I would like to think that you pay me to manage your money, not you.

Husain Kothari

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