PĀRI WASHINGTON

INVESTOR’S MANUAL

DISCLAIMER

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An enterprise is best measured by its culture: A high quality, sustainable culture can enduringly create value for a firm's stakeholders. So, what's Pāri Washington's culture? Our culture is open-ended but founded on certain defining principles; it's something we work on together as a team all the time. For we must continuously work to create our culture, to preserve its vitality, to root out that which is sub-optimal, and to renew and reaffirm the principles we care deeply about and know to be right. In so doing, we seek to build a firm of enduring values, and thereby a firm that can enduringly create value. While I've sought to describe our culture on multiple occasions (see our Investment Philosophy video here and also refer to the Appendix here), I'm sure a discussion of what's important to us, as seen from the vantage point of our investors, will prove helpful as you assess our firm.

The following represents the Pāri Washington Investor's Manual:

1. *Partnership*: We operate in partnership with our investors. We recognize that this confers upon us both rights and responsibilities: We have a right to invest your capital, and a responsibility to do so prudently. While we do not commit to achieving a target level of return over any period of time, we endeavour to ensure that our success is proportional to yours. The very idea of a partnership signifies the coming together of two or more parties to achieve common ends: The means to achieving such ends, and the ends themselves—that is, both the journey and the destination—are important to us. When done right, we know that our quest for value has the potential to be fruitful, intellectually stimulating, and enduring. We see the process of investing not just as a conduit to making money alone but as a conduit to intellectual enrichment as well; the existence of the latter, we believe, is what makes the former possible, and even enduring.

2. *Business Excellence*: We aspire to operate at a level of excellence as measured by world standards. This is important to us. It's not sufficient to say that our processes are superior to those of our local peers or that our returns are acceptable when measured by relative yardsticks such as the Indian markets. It's the world of Graham and Doddsville[1] that we wish to be measured by. To this end, we look not at the operational efficiency of our process at a given point in time alone but also at its sustainability over time; we look not at the absolute return we generate alone but also at the risk we incur to generate this return. Naturally, our process is important to us. Our analysts are not sector specialists but rather, are generalists, primarily focused on understanding businesses, determining the existence (or lack thereof) of moats, evaluating decision makers, and ultimately, determining business value. A foundation of liberal learning and thinking, eclectic reading, travel, extensive discussion and incisive debate is what our process is built on: Every effort must be made to generate an idea—and kill it—before it can go on to live in our portfolio.

3. *Common Sense*: In our view, the only way we can sustainably operate at a level of excellence as measured by global standards is if our very approach to business is founded in common sense.

The late Thomas S. Murphy, the legendary Chairman and CEO of Capital Cities/ABC, Inc., a long-time friend of Warren Buffett, and director of Berkshire Hathaway, observed thus: "One of the most uncommon things in life is common sense."[2] Said differently, we work hard to keep things simple. Therefore, we generally only do what we understand even if this means we may appear to be slow in the face of a competitive environment that is hurtling ahead at breakneck speed, consummating deal after deal. There is a difference between keeping things 'simple' and being 'simplistic'. We believe even the most complex of issues, after digging into details and comprehending their underlying nuances, can and should be distilled into the answering of two simple but fundamental questions:

a. Is the business being evaluated likely to be around 10 years from today with its vitality intact, at a minimum? Is this vitality growing, even accelerating?

b. Is it available today at a price we deem acceptable in relation to its intrinsic value?

In engineering parlance, we try to build our investment thesis much like a machine built to last: We typically eschew designs with too many moving parts (and too much hope). Instead, we embrace existing and working but, perhaps, misunderstood devices that are grounded in common sense and therefore, ultimately, will prove to be robust, durable, and capable of delivering sustainable growth.

4. *Long-Term Orientation*: Our quest for value is not complete when we're able to find businesses we understand, with enduring moats, run by trustworthy and capable decision-makers, at prices we deem acceptable.[3] Indeed, our journey, piloted by our ability and willingness to hold onto such a business for the long-term, will have just begun. Unequivocally, we have the will; as for ability, our investor-partners too must be aligned with us on our long-term orientation. So, why are we long-term oriented in our approach to owning the stocks of good businesses? For one, we subscribe to Warren Buffett's view that stock certificates represent not pieces of paper (or holdings in a depository) but fractional interests in a real, live business.[4] In our view, the power of a great business is best unleashed over the long-term through the power of compounding. Great businesses do not come along very often: So, we seek to make—and hold onto—a concentrated bet when the opportunity presents itself. Thereafter, our ability to enhance returns by trading around the core is currently modest, at best (we're still learning). This said, it's important to note that, in our experience, a great business, when purchased early and held over the long-term, has the unique ability to forgive an early error we may make with respect to our entry price, so long as this error is not egregious. Why? Because a great business, much like a high quality, but market purchased Mango sapling, growing in red earth laden soil conditions under the watchful eye of a competent arborist, recoups its costs quickly, and compounds steadily to reach maturity, and even thereafter, bestows its fruit and shade on a grateful owner and her descendants over many productive decades.

5. *Wealth Creation Via Investment Returns*: Our firm profits and our intellectual gratification are better placed when our investment philosophy and returns—not asset gathering—form the basis of our wealth creation.

6. *Cost Control*: Ordinary operating costs are within our control whereas very little else is. We, therefore, believe that a firm wide focus on costs is essential: We aim to exercise due care to know what our costs are and why we incur them. To be sure, certain costs are essential: such as having on hand the right number of the right people. Such people costs should be incurred in good measure and aligned to long-term wealth creation. Other costs, we'll endeavor to thoughtfully incur: For instance, clean, high quality, and centrally located but not ostentatious office space; firm wide coach class travel within the country; etc. While the word 'thrifty' does have a certain positive ring to it for us, we also recognize that it doesn't pay to be penny-wise and pound-foolish. To reiterate, it is essential we know our costs and why we incur them. Costs, when under control, provide us with staying power and thus, the ability to think and invest for the long-term.

7. *Alignment*: In his manual, Warren Buffet has said, "noble intentions should be checked periodically…".[5] Therefore, as our investor-partners measure our long-term net performance levels to certain absolute and relative yardsticks, it's also important to us that we be measured for alignment of interests. We ask that our partners read the fine print: How much does Pāri Washington expense to its funds, directly and indirectly, and for what purposes? We're proud of our track record in this regard: It's always been our goal to invest client capital as though it were our own.

To the extent you have any questions about the contents of this manual or about anything else, my colleagues and I'll be happy to hear from you. In the meantime, we thank you for your investment.

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APPENDIX 1: the following was first written prior to the establishment of the firm.

PĀRI WASHINGTON

Firm Principles

The guiding principles of Pāri Washington are:

1. OUR PEOPLE ARE OUR ULTIMATE ASSETS. We take great care to hire only those that personify professional excellence while caring deeply about our principles, personally. The key attributes that our people and, thereby, our firm bring to everything we do are our integrity, grit[*], and our ability to work as a team.

2. BE THE FIRST TO ANTICIPATE CHANGE. Change is life's only constant. So, through a disciplined, research-intensive investment process, we seek to consistently anticipate business inflection points ahead of our peers. We cultivate an environment where our people are rewarded to be innovative and assume calculated risks when making decisions, recognizing that many of these decisions can initially be contrary to prevailing views.

3. CLIENT-FIRST INVESTING. Every assessment begins with the same question: *Is this right for our clients?* Our next question: *Do we have a right to win?* These simple presets guide the design of our products and services.

4. PHILOSOPHY DRIVEN PROFITS. We believe our investment philosophy and returns—not asset gathering—should be the basis for our profits.

5. OUR INTEGRITY MUST BE UNIMPEACHABLE. We believe in the phrase "let right be done."[#] We will stand up for our principles and maintain the highest levels of ethical standards in everything we do.

* Angela Duckworth, Grit: The Power of Passion and Perseverance, Scribner, 2016
# Terrence Rattigan, The Winslow Boy, Thomas Hern Books, 1994

APPENDIX 2: the following was first written prior to the establishment of the firm.

PĀRI WASHINGTON

The Story Behind Our Name

Pari, a first-generation entrepreneur-prince and Tamilakam hill country resident from about 2,000 years ago, is renowned for his fairness and generosity even today. History, the ultimate judge, however, also records that his then fledgling government didn't outlast him and didn't provide a sustainable return to his constituents. Washington, in contrast, also a first-generation entrepreneur but with republican ideals, is renowned for having created what is arguably the world's most successful enterprise: the United States. While Washington is recognized for his vision and execution capabilities as a military leader, the history books revere him for having surrounded himself with peers that were his intellectual equals, if not, superiors; for the sound and autonomous institutions he built; and, for implementing a succession plan even while at the top of his game. His singular pursuit: the building of an enduring institution of excellence. Operating under the guidelines of our value-oriented investment process, Pāri Washington aims to invest primarily in businesses at the Pari stage of growth, businesses that can transcend themselves to the Washington stage of life over time. This process, we believe, will be both intellectually stimulating and deliver sustainable investment returns over the long-term.

APPENDIX 3: the following was first written post the establishment of the firm.

PĀRI WASHINGTON

Our Mission

1. To build a firm that will outlast those running it today;
2. To consistently operate at a degree of excellence, as measured by world standards; and
3. To be a force of good within our community.

NOTES

1. Warren E. Buffett, "The Super Investors of Graham-and-Doddsville", Hermes, The Columbia Business School Magazine, 1984
2. Thomas S. Murphy, Interview to Amy Blitz, Director of Media Development for Entrepreneurial Management, Harvard Business School, 2000
3. As enunciated by the late Charlie Munger, former Vice Chairman of Berkshire Hathaway, Inc.
4. Alice Schroeder, The Snowball, Bantam, 2008
5. Warren E. Buffett, Owner's Manual, www.berkshirehathaway.com, 1996