Letter To Partners

11/06/2026

Dear Partners,

On June 11, 2026, we completed the second year of the partnership. For the year, our net return, after taxes and fees, was 30.53%. The S&P 500 (with dividends) returned 24.28%. We outperformed the index by 6.25 percentage points.

Our strategy remains unchanged. We try to buy businesses that we understand and can reasonably value, at prices that offer us a sufficient margin of safety. This margin is important because my estimates, expectations, and assumptions about the future will inevitably be wrong from time to time. When they are, the price we paid should protect us from substantial permanent losses.

Period	**Portfolio Return**	**S&P 500 Return**	**Delta (pp)**
2024–2025	23.05%	13.85%	+9.20
2025–2026	30.53%	24.28%	+6.25
Cumulative	**60.62%**	**41.49%**	**+19.12**

Drawdowns and Volatility

At the beginning of the year, one of our largest holdings reported a significant decline in net income.

The quality of the results was a point of significant concern. Several of the company's operating indicators had deteriorated to their weakest relative levels since the business was listed more than a decade ago. More importantly, I came to believe that what we were seeing was not merely a temporary slowdown. The underlying economics of the business seemed to have changed.

One of the great advantages of investing in public markets is liquidity. We are usually able to change our minds without being permanently tied to an asset. As my view of the company deteriorated, we gradually reduced our position. Within three months, we had sold the entire holding and redeployed the capital elsewhere.

This episode, together with the geopolitical volatility we experienced during the year, was another reminder of how unpredictable public markets can be. Company-specific problems, conflicts, recessions, regulation, and changes in investor sentiment can drive prices considerably higher or lower over short periods of time.

Our job is not to avoid volatility. It is to respond to it rationally.

If the long-term economics of a business deteriorate, we should be prepared to sell, even if that means accepting a loss. The price we originally paid is irrelevant to what the business is worth today. On the other hand, if the underlying business remains healthy, a falling share price by itself should not bother us. In some cases, it may even give us an opportunity to buy more.

The opposite is also true. A wonderful business can become a poor investment if the price becomes sufficiently disconnected from its earning power. When valuations become egregious, reducing our position may be the rational thing to do even if our opinion of the business itself has not changed.

Business Cycles

We have spent a considerable amount of time this year thinking about business cycles. A useful way of visualizing a cycle is as a wave. A wave has two important characteristics: its *amplitude*, or how far it moves from top to bottom, and its *wavelength*, or how long it takes before the pattern repeats. Businesses behave in a similar way.

Highly cyclical industries tend to experience large swings in profitability over relatively short periods of time. Earnings can rise enormously during favourable conditions and fall just as quickly when those conditions reverse. Businesses that we describe as "non-cyclical" are rarely completely immune from cycles. Their cycles simply tend to have smaller amplitudes, longer wavelengths, or both. This distinction matters because a short and violent cycle can be destructive to an enterprise, particularly when the company carries substantial debt or has high fixed costs. A mild cycle spread over many years is much easier for a business to survive.

Unfortunately, business cycles are considerably less predictable than waves. It is extremely difficult to identify the exact peak or trough of a cycle. Industry conditions depend on many variables: supply, demand, regulation, competition, technological change, interest rates, and sometimes consumer behaviour. Even after these factors begin to change, it may take months or years before their effects become visible in a company's earnings. Unlike waves, no two business cycles are exactly the same.

This creates two opportunities for us as investors. The first is in deeply cyclical businesses. There are periods when an industry moves from unusually poor conditions to unusually favourable ones. During these periods, earnings can increase dramatically. Even a business with mediocre long-term economics can produce attractive investment returns if we purchase it at the right point in the cycle and remain disciplined about when we leave.

The second opportunity is almost the opposite. Occasionally, an exceptional business experiences a cyclical downturn of its own. Earnings temporarily decline, sentiment deteriorates, and the market begins valuing the company as though the difficult conditions will break the business model. If the company's competitive advantages remain intact and it can continue reinvesting capital at high rates of return, these periods offer awesome returns on investments.

The difficulty, of course, is distinguishing between a *cycle* and a *structural decline*. That is something we will inevitably get wrong from time to time. Our job is to make sure that when we are wrong, the consequences are manageable—and when we are right, we allow the investment enough time to matter.

This year has been eventful, and I have learned a lot in the process. Thank you for entrusting me with your capital.

Thank You,

Ronit S. Kothari

For any inquiries regarding the letter, please contact me at ronit@aarvigrowth.in.