Now for some Ground Rules: As most of you know, I am a fan of the legendary pair, Charlie Munger and Warren Buffett. A lesser known fact about Buffett is that when he ran his own investment fund, he insisted that each of his investors completely agree with his core principles, which he termed "Ground Rules".

In that same spirit and influenced heavily by the original, here are **the Ground Rules for Eternity Capital Fund**, which we would want you to read very carefully and hope you will agree to wholeheartedly:

1. As you would have noted, in no sense is any rate of return guaranteed to investors. What we do re-affirm is a hurdle rate of 10% IRR, below which we will not get any profit-share from your allocation. Moreover, while we will attempt to target investments at 25% IRR, if we are unable to find enough such opportunities, we fully intend to not draw down the entire commitment of the investors.

2. Patience, discipline and intelligence (in that order) are core to our investment philosophy. This manifests in a long-term long-only fund that intends to be the long-term owner of 10-20 high quality businesses listed in India, likely small and mid cap companies, that are bought at reasonable valuations. As an explicit corollary, we are not here to make a "quick buck" even in a small portion of the portfolio, especially by drifting away from the core philosophy.

3. The first 3 years of the fund will be relatively unique because capital deployment and portfolio build-up will take time. During this period, total market value of investments may be volatile given limited businesses owned, though this should be balanced out by the substantial "cash" component, both in actual cash equivalents of the portfolio and your commitments that are yet to be drawn down (ideally invested in a mix of bank deposits and equity funds, as is the likely case of the founder's undrawn commitment). So, the effective IRR of your total commitment should not be affected as much as the invested capital, for better or worse. This is a feature, not a bug, of the strategy, in order to try to smoothen out the role of luck in the early years, where the impact of luck is possibly the highest as we first build out the portfolio. At the end of 3 years, it is expected that the portfolio will be a healthy mix of "mature" investments and "new" investments. From thereon, performance should be easier to analyse and judge, as mentioned in the next two points below.

4. While we much prefer a five-year test, we feel three years is an absolute minimum for judging performance. It is a certainty that we will have years when the fund performance is poor, perhaps much lower than the indices. If any three-year or longer period produces poor results, we all should start looking around for other places to have our money. An exception to the latter statement would be three years covering a speculative explosion in a bull market.

5. After the first three years, our yearly performance is much better understood on a relative basis, which is to say, that whether we do a good job is not to be measured by whether we are plus or minus for the year but is instead to be measured against the general experience in equities as measured by indices like Nifty 50, MSCI India or Nifty 500 and competition like equity mutual funds, AIFs with listed strategy and similar PMSs. If our record is better than that of these yardsticks, we consider it a good period, whether we are plus or minus. If we

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do poorer, we deserve the tomatoes. To be clear, we consider performance in a period less than a year to have limited information.

6. We are not in the business of predicting general stock market or business fluctuations. If you think I can do this, or think it is essential to an investment program, you should reconsider your commitment to the fund.

7. To repeat, we cannot promise results to investors. What we can promise is that:
    1. Our investments will be chosen on the basis of value, not popularity
    2. That we will attempt to bring risk of permanent capital loss (not short-term quotational loss) to an absolute minimum by obtaining a wide margin of safety in each investment and a diversity of investments, and
    3. We have skin in the game alongside you as a substantial portion of the founder (and family) net worth will be committed to the fund.

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