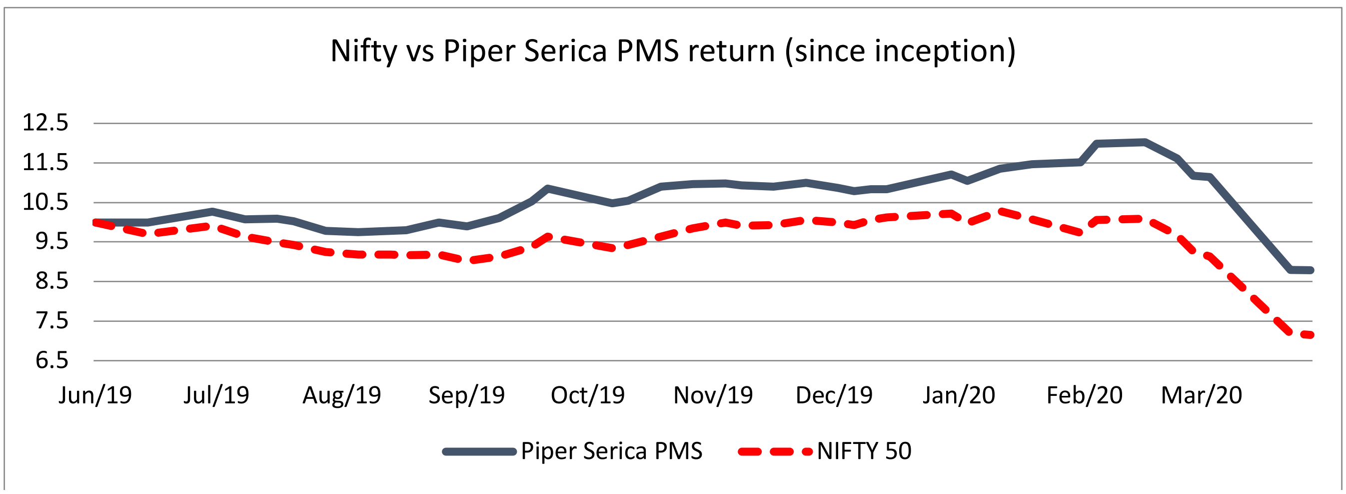
"There are decades where nothing happens; and there are weeks where decades happen."
— Vladimir Ilyich Lenin

First Things First

PMS level absolute return for March 2020 was -22.5%[1&2] against -23.1% for BSE Sensex,-23.2% for Nifty and -30.3% for multi-cap mutual funds. Nifty mid- and small-cap indices fell 30.3% and 36.7% respectively during the same period. For equity markets around the world, March was the month that nightmares are made of. Global markets saw the single biggest monthly fall ever since the Great Depression of 1929. There was no safe haven left. Asset prices fell across the board as investors rushed to get into cash. The sharp correction was the result of a perfect storm created by Covid-19, unwinding of low-quality debt and fear of a deep global recession.

The last ten-month absolute return (since inception, not annualized) of the PMS is -12.1%, negative now but better than broad market indices for the same period, -25.8% for BSE Sensex and -27.9% for Nifty and -27.8% for average Multi-Cap Mutual Funds.



Note:
1. This is the average absolute return for the entire portfolio. Individual portfolio returns will vary because of timing differences.
2. Calculated by an independent fund accountant on a TWRR basis after taking into account all fees and expenses.

Portfolio Activity

We fully exited three of our holdings that we believe are going to be negatively impacted by the lockdown in a material way. These include a multiplex operator, a mall operator and a real estate company. We have also reduced allocation to the QSRs and couple of other companies that are dependent on discretionary consumer spending. We have increased allocation two large FMCG companies and we have added a leading NBFC that we did not invest in earlier because of its high valuation. We have also increased cash holding in the portfolio to 17.8% so that we can opportunistically add stocks or increase allocation in case of sharp selloff in any stock in our portfolio. As you can see from the table below, our top holdings now are two insurance companies, a leading hospital company, an MNC pharmaceutical company and a leading FMCG company.

We continue to believe that a high-quality equity portfolio will generate higher returns than any other asset class over a long period of time. We see the current fall as an opportunity to build a very solid portfolio of companies that have the following three characteristics:

1. Their earnings are protected because they sell products or services that are non-discretionary and perishable in nature. They also have highest market share in their respective verticals.
2. They have negligible debt and a rock-solid balance sheet. This allows them to extend financial support to their supply and distribution chain during tough times.
3. They have a digital strategy so they can acquire customers, deliver product or service and / or get paid in a digital manner. This allows them to keep servicing their customers across market disruptions. This also allows them to generate positive cash flows as collections are not hampered.

We believe that verticals that exhibit these characteristics are FMCG, hospitals, consumer Internet, insurance, domestic branded pharmaceuticals and very high-quality financial services providers. The market selloff has significantly reduced the premium valuations of leaders in these verticals. For instance, the Bank Nifty index is down 43% year to date. Therefore, we are going to very tactically use our cash holdings to invest in some of these companies at a lower price. We believe that these companies will emerge stronger and with higher market share once the recession is over.

Top 5 Stock Holdings	Allocation*
ICICI Lombard Gen. Insurance	5.6%
Apollo Hospital Enterprises	5.4%
HDFC Life Insurance	5.1%
Sanofi India	4.8%
Hindustan Unilever	4.7%

**including cash in the portfolio*

Top 5 Sectors	Allocation
Financials	26.5%
Consumer Discretionary	18.5%
Consumer Staples	16.1%
Healthcare	10.2%
Materials	6.4%

Large Cap	Mid Cap	Small Cap
60.8%	15.9%	22.5%

Recession and its impact on equity market

Covid-19 driven lockdowns have already pushed global economies into a recession. India will not be immune to this. We are staring at our own recession that will be driven by a high rate of job-losses and slowdown in consumption and manufacturing activity. Even as countries open up the domestic lockdown the borders will continue to be sealed thereby reducing global trade. Global supply chains are broken, and that impact will reveal itself as inventory of raw material and critical components is run down over the coming months. Central banks will flood the system with liquidity but right now it is difficult to see how this will pump-prime consumer demand. Highly leveraged companies are already defaulting and yields on below-investment grade bonds are close to their highest ever. As risk capital rushes into safer havens a recession will become a self-fulfilling prophecy. The severity of this recession will depend on the intensity of Covid-19.

The most typical behaviour of consumers in a recession is trading down their consumption items. They will still cover the same distance but in smaller cars, eat out but at less fancy restaurants and try and save on monthly grocery and personal care bills. Value-for-money becomes very important. There is a fall in factory outputs and commodities like oil and metals hit their cyclical low prices. There is an increase in bankruptcies which will put pressure on weak lenders. Credit growth slows down as lenders tighten their lending norms. A normal recession typically takes 12-18 months to work itself out as the economy develops a new equilibrium. There is a reduction in supply as factories shut down, an increase in savings rate and optimization of capacity utilization. Supply and distribution chains become very lean and cost efficient. Towards the end of the recession there is an uptick in consumer demand leading to higher employment, private capital expenditure and re-inflation of all asset prices.

Investments made in the times of a recession have historically been the most rewarding. However, the current recession is driven by a pandemic and it is still early to say how and when it will end. Investors will need to be patient and deploy new capital judiciously and only in very high-quality companies. This is a good time to have a look at your overall asset allocation and increase your equity allocation marginally. This is also a good time to switch from laggards in your portfolio to high-quality companies. This will not increase your overall equity allocation but will improve the quality of your portfolio and thereby, the quality of your sleep.

We join the rest of the world in praying for a quick end to the Covid-19 pandemic. Right now the world is still at the early stages of containment and number of cases continues to rise. Only the development of a vaccine and a pharmaceutical protocol can end this pandemic. As and when that happens the markets will find new confidence and will rally. It is currently difficult to say when exactly that will happen. The earnings estimates of Nifty companies are still to see sharp cuts because analysts have no idea right now how badly will earnings get impacted. The longer the lockdown continues more will be the cut in earnings forecast. Therefore there is no point in calling for a market bottom at the current levels. All we can say is that going by history we are closer to a bottom now than we were last month. Our endeavour is to stick to our investment strategy in a disciplined manner, benefit from the severe drop in prices of high quality stocks in a tactical manner and hope for the valuations to recover.

“Hope
Smiles from the threshold of the year to come,
Whispering 'it will be happier'...”
— Alfred Lord Tennyson

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