First Things First
Our average return for month of August 2019 was **3.43%**[1]. This compares favourably with the broad market indices **(-0.4%** for BSE Sensex and **-0.9%** for Nifty) and average of Mutual Funds (**-1.1%**) for the same period. Our last three-month return is **1.4%**, again higher than broad market indices (**-6.0%** for BSE Sensex and **-7.5%** for Nifty) and average of Mutual Funds (**-3.3%**).

Portfolio Activity
The portfolio is well-diversified and top holdings continue to do well. 12 of our stocks hit their 52-week high in August – HDFC Life, Bata, Asian Paints, MCX, HDFC AMC, HUL, Apollo Hospital, ICICI Lombard, Interglobe Aviation, Marico, Phoenix Mills, & Nestle. This compares favourably with BSE universe where only 5% stocks made new 52-week high while 39% stocks made new low in the month of August.

We have increased allocation to insurance stocks. We have only one auto stock and we have reduced allocation to it since we believe that the recovery in auto sector is still some distance away.

Commentary on Auto Sector
The debate about whether there is a slowdown in the economy is over. The recent print of 5% GDP growth has concluded the debate. We saw the early signs of slack in consumer demand in the festive season of 2018. While interacting with auto OEMs, dealers and financiers we realized inventory is building up rapidly. Using that as a leading indicator we reduced our allocation to auto sector to 2% of the portfolio and have reduced it further.

Our recent interactions with auto dealers show cautious optimism. A few passenger vehicle manufacturers are seeing better demand than expected. Light commercial vehicles are also seeing good demand. There is reduction in inventory at dealer level because of production cuts. At the same time, there is no improvement in demand for HCVs, two-wheelers and tractors. Confusing state of BS VI regulation, weak financing and expectations of GST cuts are all holding back demand. We will not increase allocation to autos till we see actual pick-up in demand in the forthcoming festive season.

Outlook
The 12-month forward P/E multiple of NIFTY has fallen to 16.8x from the peak of about 20x. It is currently trading at the lower end of its trading range. We are using the market correction as an opportunity to add to our Leader Portfolio stocks. Our cash holding continues to be low at about 3%.

We are seeing the Leader companies use this downturn to expand their market share by using their strong balance sheet to support their distributors, investing in marketing and promotions and widening the distribution network. They are sacrificing margin growth in the short-term for gaining higher market share for the long-term. We fully support this strategy because the market will pay a premium for such companies when they emerge from the downturn with a much stronger market share. Therefore, we are encouraging our investors to increase allocation to equity at this point of time. Quality will never be cheap and quality stocks always outperform once the market correction is over. This is as good as time as any to add high-quality Leader stocks to your portfolio.

"You make most of your money in a bear market, you just don't realize it at the time." - Shelby Davis.

Abhay Agarwal | Ajay Modi
Portfolio Manager
Piper Serica Leader Portfolio Strategy ™ PMS.

(1. This is the average return for the entire portfolio. Individual returns will vary because of different allocation to same stocks in different portfolios. Calculated by independent fund accountant on a TWRR basis after taking into account all fees and expenses)