First Things First

Our portfolio return for November 2019 was 0.1%[1&2]. This was lower than market indices (1.66% for BSE Sensex and 1.50% for Nifty) and Mutual Funds (2.18%) for the same period. Our last six-month absolute return is 10.22%, significantly higher than broad market indices (2.72% for BSE Sensex and 1.12% for Nifty) and average of Mutual Funds (4.10%).

Portfolio Activity

The portfolio is well-diversified and top holdings continue to do well. 7 of our portfolio stocks hit their 52-week high in November. We have increased allocation to a domestic branded formulation MNC, life and non-life insurance companies, a mattress manufacturer and a structural steel manufacturer. We booked partial profits in an AMC that has doubled in last 6 months and completely exited a leading FMCG company and a branded tiles manufacturer. Our cash holding is below 2% of the total AUM and we have no plans to increase it. We continue to see ample long-term opportunities to deploy incremental capital.

Top 5 Stock Holdings	%
Info Edge	5.38%
ICICI Lombard	5.14%
Apollo Hospital	4.88%
Interglobe Aviation	4.53%
HDFC Standard Life	4.31%

Subsequent to the recent quarterly results we updated the Porter Model scores of each of the companies in our investible universe. 7 companies had their score fall below 7 as a result of their weakened competitive edge, largely driven by lower scores on customer competitiveness. As a result, our investible universe has shrunk from 45 companies to 38 companies. We are not worried about this because many of the remaining companies have seen their score improve and we are happy to increase allocation to them.

Thoughts on allocating fresh capital when markets are at an all-time high

Almost all of the new investors we meet want to know if this is the right time to be investing in equities since the markets are at an all-time high. I will use the following chart to make some observations:

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

1. The markets have been trending up and have made new highs regularly despite periodical volatile corrections. There is a high degree of co-relationship with the GDP growth of the country.
2. The current highs of the market have been made without any euphoria or mass participation. It would not be wrong to say that this is probably the most unloved rally in the recent past. It has happened despite weak economic data, threat of global trade wars, weakening fiscal situation, rural stress and anemic retail and FPI participation. In fact, there has been poor participation in this rally from the mid-cap and small-cap index, down 1.2% and 6.5% respectively over the last 12-months while NIFTY is up 10.8%.
3. With a slight improvement in the macro indicators, liquidity and corporate earnings the markets may continue to rally higher as the participation by investors will improve. The Fear-of-missing-out has still not kicked in and cash allocations of mutual funds continue to be higher than average.
4. A weakening USD and topping out of US stock markets may drive FPI inflows into Emerging Markets taking them to new highs in 2020. This reversal is long-pending and predicated on search-for-yield by large global investors. India will get its fair share of these inflows through country specific ETFs.
5. We have been positive on the broad market-level valuations and continue to maintain the twelve-month NIFTY target of 13500. The back-ended impact of corporate tax cuts will kick-in in FY2021 and will tremendously improve the P/E multiple of NIFTY.

Ultimately, a disciplined adherence to asset allocation strategy is required by an investor to realize her long-term financial goals. As Peter Lynch said, ""Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

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