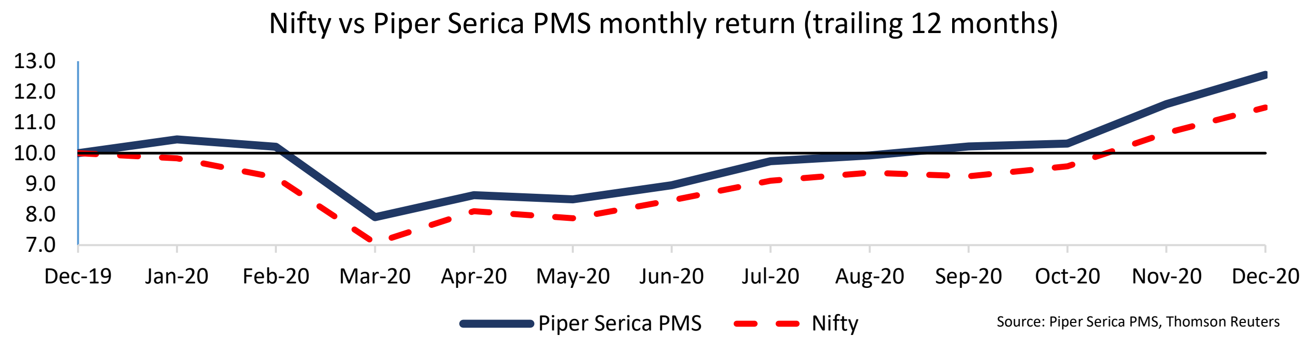
First Things First

PMS level aggregate absolute return for the month of December 2020 was 8.3%[1&2] against 7.8% for Nifty, 8.2% for BSE Sensex and 7.6% for multi-cap mutual funds. Nifty 500 index returned 7.5% during the same period. Trailing one-year return for the PMS is 25.7% compared to 16.4% for Nifty, 15.8% for BSE Sensex and 11.8% for average of multi-cap mutual funds. The annualized TWRR for the PMS since inception is 24.4% compared to 12.2% for the Nifty. We closed the year with our highest ever NAV and AUM.



1. This is the average TWRR for the entire portfolio. Individual portfolio returns will vary because of timing and allocation differences.
2. Calculated by an independent fund accountant on a TWRR basis after considering all fees and expenses.

Portfolio Activity

There were no major changes to the portfolio in December. We increased allocation to the consumer Internet company, the real estate developer and the structural steel manufacturer. We have reduced our allocation to the domestic pharma company and may exit it all together. We have done extensive research on India's largest online B2B platform company and also an online marketing service provider. We believe that these businesses have very strong growth prospects, however they are nascent businesses and exposed to the risk of digital disruption and competition. We will decide whether to add them to the portfolio after completing our Porter model scoring that will give us an indication of their competitive strength.

We are very positive on the emerging digital business space in India. We are quite amazed by the speed at which our Leader portfolio companies have adopted digital technologies to disrupt their industries to gain market share and / or enter new business spaces. We believe this is a long term theme where digitally savvy companies will become stronger at the cost of their competitors.

We ended the month with a comfortable cash holding of ~6.3% that we will deploy tactically (*this is the average cash holding for the entire PMS and individual accounts may have different levels of cash*).

Top 5 Stock Holdings	Allocation*
Dixon Technologies	7.8%
Apollo Hospital Enterprises	6.5%
Info Edge India	6.2%
Titan Company	6.0%
HDFC Ltd	5.9%

**including cash in the portfolio*

Top 5 Sectors	Allocation*
Financials	27.8%
Consumer Staples	15.1%
Consumer Discretionary	11.0%
Healthcare	9.3%
Industrials	7.8%

Large Cap	Mid Cap	Small Cap	Cash
60.9%	9.3%	23.5%	6.3%

Risk Adjusted Performance *(since inception in June 2019)*:

	Annualized Return %	Ann. Std. Dev.	R-Squared	Sharpe Ratio	CAPM Beta	Treynor ratio	Jensen's Alpha
PMS	24.4%	24.6	0.9	1.0	0.9	28.8	11.6
Nifty	12.2%	27.2	1.0	0.6	1.0	15.1	0.0

Note: Risk adjusted performance gives a complete picture of the PMS performance by measuring the amount of risk taken for the return generated.

Where do we go from here?

Facts were stranger than fiction in the year 2020. Markets closed at an all-time high in a year the world was ravaged by the worst pandemic in the last hundred years. Businesses shut down across the world and many will not open up. At the same time big companies got bigger and the ultra-rich got richer. Old industries were suddenly forced to reinvent themselves to survive. Digital adaption grew rapidly and so did the value of businesses that provide digital tools.

Vaccine led optimism and central bank stimulus created a tsunami of liquidity that lifted all markets across the world. Indian stock market received an inflow of $23 billion from FPIs last year of which $16.8 billion came in the last two months. This more than made up for the net sales of almost $5 billion by the domestic funds through the year. Currently, more than $18 trillion of global debt is trading at negative yields and more is getting added everyday as central banks add to the stimulus. There are now clear signs of rotation of funds from negative yielding debt to higher yielding assets including equity and a further rotation of funds from Developed Markets to Emerging Markets. We believe that India will continue to get its fair share of FPI flows as the macros improve and corporate earnings pick up steam. The higher-than-average Nifty PE multiple can be justified as resulting from all-time low interest rates.

India's macros have continued to improve at an increasingly fast pace. GST collections hit a record high in December. As e-invoicing becomes mandatory for even small companies one can expect the GST collections to continue to improve as evasion will become extremely difficult. The toll collection through FASTag crossed Rs 80 crore per day for the first time on December 24, with record 50 lakh FASTag transactions in a day. 223 crore UPI transactions aggregating Rs. 4.16 lakh crore in December set a new record. This shows that the entire economy is digitalising rapidly, thereby increasing business velocity, reducing friction costs and removing leakages. Auto sales at wholesale level hit a record high in December. Our portfolio company Maruti Suzuki saw a volume growth of 14.6% in its despatches. Increase in consumption demand led to merchandise imports in December increasing by 7.6% to $42.6 billion.

Almost all of our portfolio companies did robust business in December. Our interaction with the management teams shows that now the industry leaders are less cautious and focusing more on capturing the expected growth. There is a unanimous view that the worst is behind us.

At the same time there are some worrying signs like sticky high unemployment in urban areas, potential spike in inflation driven by the recent rally in commodity prices and resurgence of Covid-19 through the new UK strain. Each of these factors can slow down the recovery which is still in a nascent phase.

Winston Churchill famously said "I always avoid prophesying beforehand because it is much better to prophesy after the event has already taken place." While politicians have that luxury, investors have to come up with a forecasting framework that leads to investment decisions. These frameworks typically are based on a latticework of models that take into account multiple variables and attach probabilities. They need to be dynamic since the probabilities change as new events take place. This makes forecasting as much of art as science. Philip Tetlock said it well, "beliefs are hypotheses to be tested, not treasures to be guarded." With that spirit we share with you what our framework is telling us about the year 2021.

1. Continuous stimulus by central banks. Protection of the vulnerable will take precedence over fiscal prudence. There will be no roll backs till inflation level crosses the danger mark.
2. This will lead to a 5-10% weakening of the USD and sticky low interest rates. Savers will have a tough time as their savings will yield negative real returns.
3. Prices of alternate assets like crypto currencies and precious metals may sky-rocket as investors chase returns across the world. Anything that has a limited supply will be bid-up.
4. Real estate prices in India will finally pick up after flatlining for almost 10 years. Reduced inventory, low interest rates, higher affordability and need for protection will drive the millennials to buy real estate.

Government policies will turn finally supportive of the industry after it realizes that more transactions mean more revenues.

5. Digital adaption will pick up further pace as small businesses adapt cheap technology to increase their margins and volumes.
6. Protection will continue to be a strong theme. Sale of insurance products and automobiles will hit an all-time high.
7. Government will provide further stimulus to the economy by extending the allocation to welfare schemes like MNREGA and Ayushman Bharat. Rural economy will continue to recover faster than the urban economy.
8. FPI inflows of at least $25 billion will keep the stock markets steady and take them to new highs. Nifty will hit 15,000 during the year. Better than expected corporate earnings will lead to earnings upgrades by analysts and higher forecasts for Nifty.
9. However, there will be high volatility during the year driven by the skittish behavior of investors. We will have an all-time high number of trading days where markets will move by more than 1% either way during the year. The volatility will test the temperament of the best of investors.
10. Finally, the dreaded Covid-19 will lose potency through a global coordinated effort of vaccination and natural weakening of the strain. However, new strains will emerge leading to localized lockdowns.

We would like to caution the reader that this forecast is based on what our framework is telling us right now. Any new unforeseen event can materially alter the forecasts.

Lastly, the PMS generated a return of 25.7% in the calendar year 2020 compared to 16.4% for Nifty. Each of our portfolio companies has emerged stronger from the downturn and is well positioned to capture the growth in 2021. We are quite hopeful that the markets will continue to reward the business outperformance of our portfolio companies.

The team at Piper Serica wishes you a great 2021!

Abhay Agarwal,
Founder & CIO

Rajni Agarwal,
Director, Research