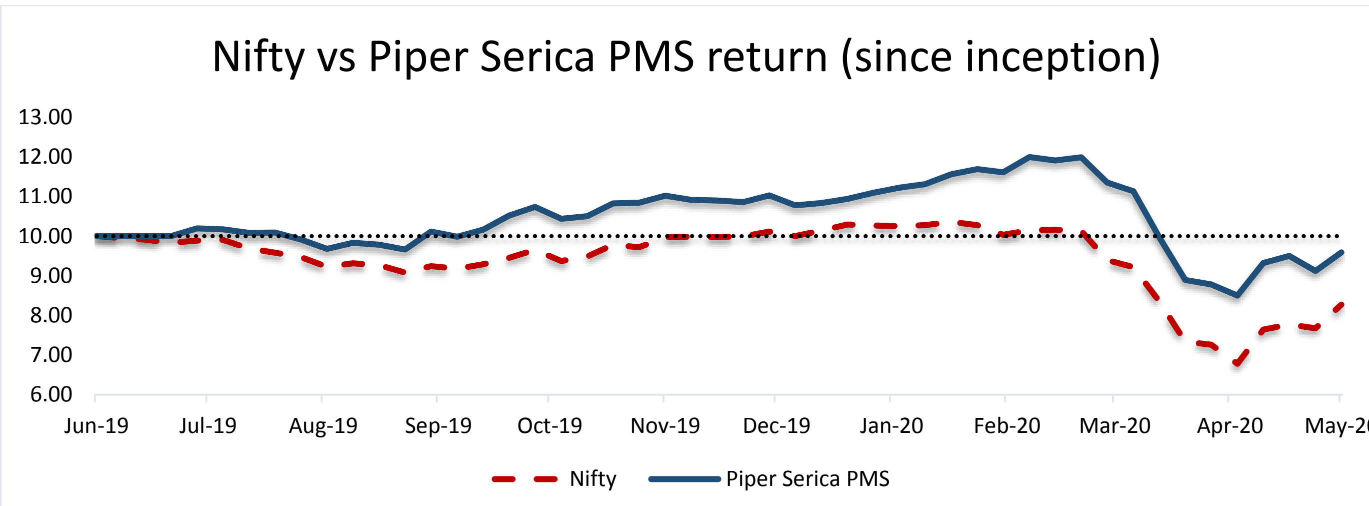
"When the Facts Change, I Change My Mind. What Do You Do, Sir?"
— John Maynard Keynes

First Things First

PMS level absolute return for April 2020 was 9.1%[1&2] against 14.4% for BSE Sensex, 14.7% for Nifty and 14.6% for multi-cap mutual funds. Nifty mid- and small-cap indices returned 15.4% and 13.4% respectively during the same period. Global markets rallied strongly driven by fiscal stimulus and in the hope that there will be a quick resolution to the Covid-19 related uncertainty. Metals and generic pharma export stocks rose sharply leading to our underperformance compared to the indices. We do not have either of the sectors in our portfolio and have no plans of adding them. Our high cash holding of about 25% also contributed to the underperformance.

The last eleven-month absolute return (since inception, not annualized) of the PMS is -4.1%, compared to -15.1% for BSE Sensex, -17.3% for Nifty and -16.2% for average multi-cap mutual funds for the same period.



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 are all good companies that fit into our thesis of leadership and competitive edge. However, we believe that the extended lock-down will impact their earnings for the next 12 months. As a result, our revised valuation model shows them to be significantly overpriced compared to their intrinsic value. We will consider adding them to the portfolio once their market valuation adjusts to fit into our valuation range. These three companies include a QSR, a mattress company and a structural steel manufacturer. We have also reduced our allocation to a couple of companies where we expect a short to medium term negative impact on earnings. With these adjustments the number of stocks in the portfolio has reduced to 17 and the cash allocation has increased to 25% (*this is the average cash holding for the entire PMS and individual accounts may have different levels of cash*). This high level of cash will enable us to use the sharp corrections in the markets to selectively add stocks or increase allocation to existing stocks. Over the next couple of months, as and when the lock-downs ease and there is better visibility to a resolution of the Covid-19 we will bring down our cash allocation to below 10%.

Top 5 Stock Holdings	Allocation*
HDFC Bank	6.1%
Apollo Hospital Enterprises	5.5%
Sanofi India	5.3%
United Breweries	5.2%
HDFC Ltd.	5.1%

including cash in the portfolio

Top 5 Sectors	Allocation*
Financials	28.5%
Consumer Staples	15.9%
Consumer Discretionary	13.5%
Healthcare	10.8%
Materials	3.9%

Large Cap	Mid Cap	Small Cap
69.4%	14.5%	16.1%

Peak of uncertainty

Sharp recovery in the markets last month surprised everyone. A large part of it was probably a correction for the over-sold positions in March. Then there was a flow of cheap liquidity into global equity markets. While there was some buying based on the hope that Covid-19 will be resolved soon and the world will get back to normal we do not share this optimism. Based on the data currently available, we do not expect a quick resolution to the Covid-19. The extended lock-downs have left the global political leaders with the Sophie's choice of saving lives or saving the economy. Since politicians need to be populist we expect them to decide, rightly, to save lives. In such a situation, lock-downs will extend thereby negatively impacting global consumer demand and supply chains.

We expect the global recession to deepen. Infusion of cheap liquidity by central banks will do little to increase consumer demand as unemployment will rise and consumers will tighten the purse strings. It is becoming fashionable to compare the current situation with the 1929 depression but we do not think things are as bad yet. Covid-19 resolution and a drop in number of cases can also kick-start a recovery, especially in a country like India backed by availability of cheap capital.

As an investor this is probably the period of peak uncertainty and confusion. Therefore, we are hedging our bets by increasing the cash allocation so we can tactically benefit from sell-offs as bullish investors get tired of reduction in estimates of corporate earnings. When we deploy this cash it will be only in the companies that fit into our Leader portfolio strategy. These are the companies that will emerge stronger from this downturn and will reward their shareholders in a handsome manner.

"Successful Investing takes time, discipline and patience.
No matter how great the talent or effort, some things just take time:
You can't produce a baby in one month by getting nine women pregnant." – Warren Buffet

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