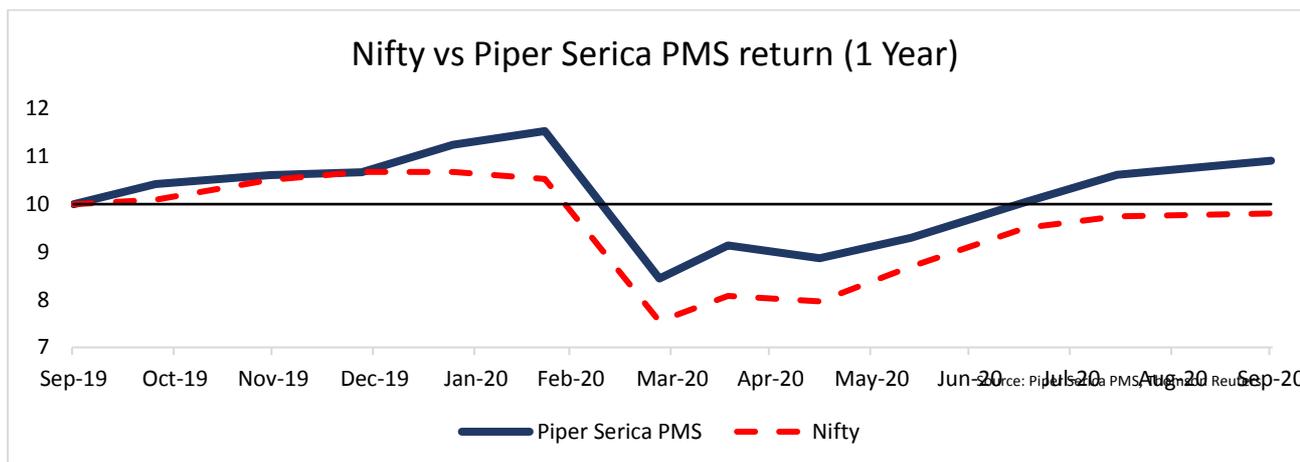




First Things First

PMS level aggregate absolute return for September 2020 was 2.9%^{1&2} against -1.2% for Nifty, -1.5% for BSE Sensex and -2.1% for multi-cap mutual funds. Nifty 500 (multi-cap) index returned -0.3% during the same period. Trailing one-year return for the PMS is 9.0% compared to -2.0% for Nifty, -1.6% for BSE Sensex and -2.0% for average of multi-cap mutual funds. The annualized TWRR for the PMS since inception is 10.4% compared to -3.7% for Nifty.



Note:

1. This is the average absolute return 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 taking into account all fees and expenses.

Portfolio Activity

We exited 2 of our positions completely. Our research concluded that both the companies will face slowdown of customer demand for at least next one year. Also, there was a sharp run up in the price of both companies bringing their valuation to the upper end of our valuation range. As a result of these exits, our PMS level cash holding has increased to ~15% compared to 5% at the end of last month (*this is the average cash holding for the entire PMS and individual accounts may have different levels of cash*). We have identified 2 new investment opportunities and we will add these companies to the portfolio at an appropriate time thereby reducing the our cash holding. Four of our portfolio companies hit their all-time high prices in September. More importantly, our research shows that almost all our portfolio companies have improved their market share and competitive edge in the last quarter.

Top 5 Stock Holdings	Allocation*
Apollo Hospital Enterprises	7.6%
Dixon Technologies	6.5%
MCX India	6.4%
Titan Company	5.9%
Sanofi India	5.8%

*including cash in the portfolio

Top 5 Sectors	Allocation*
Financials	29.4%
Consumer Discretionary	23.1%
Consumer Staples	18.5%
Healthcare	13.4%
Telecom, Media & Technology	1.0%

Large Cap	Mid Cap	Small Cap	Cash
53.5%	13.4%	18.3%	14.8%

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	10.4%	24.3	0.9	0.5	0.8	15.3	12.0
Nifty	-3.7%	27.3	1.0	0.0	1.0	0.9	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.

Great Horse Manure Crisis of 1894 and why it auto-plays on a loop

Towards the end of 1800's there were 50,000 horses in London and 100,000 in New York drawing cabs, buses and carts. With each horse producing more than 10 kgs of manure and 1 litre of urine every day, large cities around the world were drowning in manure. With the average life expectancy of only 3 years for a working horse, streets were littered with putrefying horse carcasses.

In 1894, The Times newspaper predicted, "In 50 years, every street in London will be buried under nine feet of manure." This became known as the 'Great Horse Manure Crisis of 1894'. The terrible situation was debated in 1898 at the world's first international urban planning conference in New York, but no solution could be found. It seemed urban civilisation was doomed.

The problem resolved itself when Henry Ford launched Ford Quadricycle Runabout, his first attempt to build a gasoline-powered automobile. By 1912, all major cities had replaced horses with motorized vehicles and doom was avoided.

Modern history is full of such instances where new inventions suddenly changed the world for the better. But while in infancy, almost all of them were predicted to be either of no use or doomed to fail by the experts. In October 1903, just two months before the Wright brothers successfully flew their first plane at Kitty Hawk, New York Times predicted that it would take up to 10 million years for planes to fly. In 1992, Andy Grove, CEO of Intel said, "the idea of a wireless personal communicator in every pocket is 'a pipe dream driven by greed'." Here are some more gems:

1876: "This 'telephone' has too many shortcomings to be seriously considered as a means of communication." — William Orton, President of Western Union.

1936: "A rocket will never be able to leave the Earth's atmosphere." — New York Times.

1943: "I think there is a world market for maybe five computers." — Thomas Watson, chairman of IBM.

1959: "The world potential market for copying machines is 5,000 at most." IBM to the founders of Xerox.

1961: "There is practically no chance communications space satellites will be used to provide better telephone, telegraph, television or radio service inside the United States." — T.A.M. Craven, FCC Commissioner.

1977: "There is no reason for any individual to have a computer in his home." — Ken Olsen, founder of DEC.

1995: "I predict the Internet will soon go spectacularly supernova and in 1996 catastrophically collapse." — Robert Metcalfe, founder of 3Com.

2006: "Everyone's always asking me when Apple will come out with a cell phone. My answer is, 'Probably never.'" — David Pogue, The New York Times.

2011: "You don't need to be a computer scientist to use a Windows Phone. I think you do to use an Android phone ... It is hard for me to be excited about the Android phones." — Steve Ballmer, CEO of Microsoft.

The reason that most people are quick to dismiss new technology and innovation is that they are more comfortable with known problems than unknown solutions. They prefer the technological changes to be linear rather than disruptive. That is what Henry Ford alluded to when he said, *"If I had asked people what they wanted, they would have said faster horses."*

Rapid change, driven by technology, also creates a fear of rising unemployment. However all studies done in this regard show that right from early 1900's, in rolling 10-year periods, increase in productivity and employment have kept pace. Every time an existing industry is disrupted it creates a new industry and better jobs for new classes of workers.

To give credit to the sceptics, a fair number of businesses based on new technology have failed in a spectacular manner. A prime example being that of Iridium which went bankrupt in 1999, losing \$5 billion after failing to build and launch its infrastructure of satellites to provide worldwide wireless phone services. Its business was disrupted by cheaper and more convenient cellular phone networks. But despite its business failure it created



a large global satellite industry that has had a significant impact on how we consume data on the Internet. The cost per launch for small satellites in Low Earth Orbit is now down to \$100,000 from the \$1 billion that was paid by Iridium. These new satellites also have 100 times better performance. Even when the business of Iridium failed its technology succeeded.

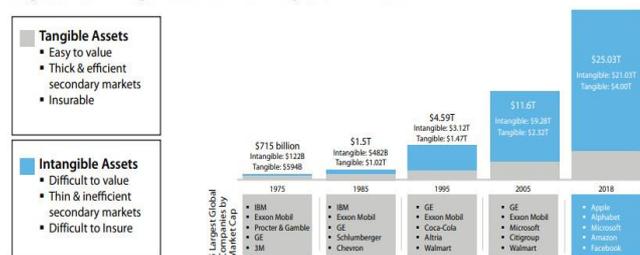
Technological changes are already providing solutions to many of our existing problems. Clean energy is here to save us from climate change. Global airline industry is responsible for 2.5% of global carbon emissions. It is expected that by 2035 commercial flights will be able to fly solely on hydrogen based fuel cells. There are similar expectations for all kinds of urban transport as vehicles increasingly become electric. Technology is disrupting R&D in medical sciences, democratizing access to information through Internet, reducing cost of doing business, providing more intelligent mobility solutions, removing flab from supply and distribution chains and generally improving living standards around the world. It is empowering small business by letting them bypass middlemen and directly reach and service their customers. The pace of technology led disruption will most likely increase across industries and will put a lot of pressure on old-world companies that are either not willing or are not able to keep pace.

At Piper Serica, we can clearly see the digital divide that is rapidly emerging between companies that are embracing technology to digitalize their business versus companies that see technology as a menace. As we meet companies and research them, we have observed the following ways through which the leading companies are using technology to become more competitive and gain higher market share:

1. Integrating digitalization at the strategy level itself. This requires the commitment of the business leader and the entire leadership team. Every functional head signs on to the digitalization roadmap.
2. Assessing the impact of new technology on each process of the company. This makes it a companywide exercise and touches the daily life of each employee.
3. Spend on technology is seen as an investment and not as an expense. As a result, there is greater focus on creation of intangible value rather than tangible value.
4. Creating awareness with external stakeholders. This impacts suppliers, distributors etc. who are critical part of the eco-system. Digitally savvy companies invest in the technological upgrade of each of their external stakeholders.
5. Commitment to higher transparency which is the natural outcome of digitalization.
6. Significant changes to the HR practices, especially those related to hiring, training and assessing employees. Digital scorecard becomes an essential part of assessment process.

Aon and the Ponemon Institute studied the changing ratio of intangible and tangible assets of the S&P 500. In just 43 years, intangibles make up 84% of all enterprise value of the S&P 500, a massive increase from just 17% in 1975. Old valuation methodologies overfocus on tangible value based metrics and therefore are unable to appropriately value companies that have built significant intangible value.

Tangible Assets vs. Intangible Assets for S&P 500 Companies, 1975 - 2018



At Piper Serica, we critically examine the digitalization roadmap of each company and we have developed a methodology to appropriately value the intangible value created by it. We will be happy discuss it in detail with you if you find it of interest. We believe that true leader companies have a very strong commitment to digitalization backed by a deep belief that it will make them more competitive and help them grow faster.

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