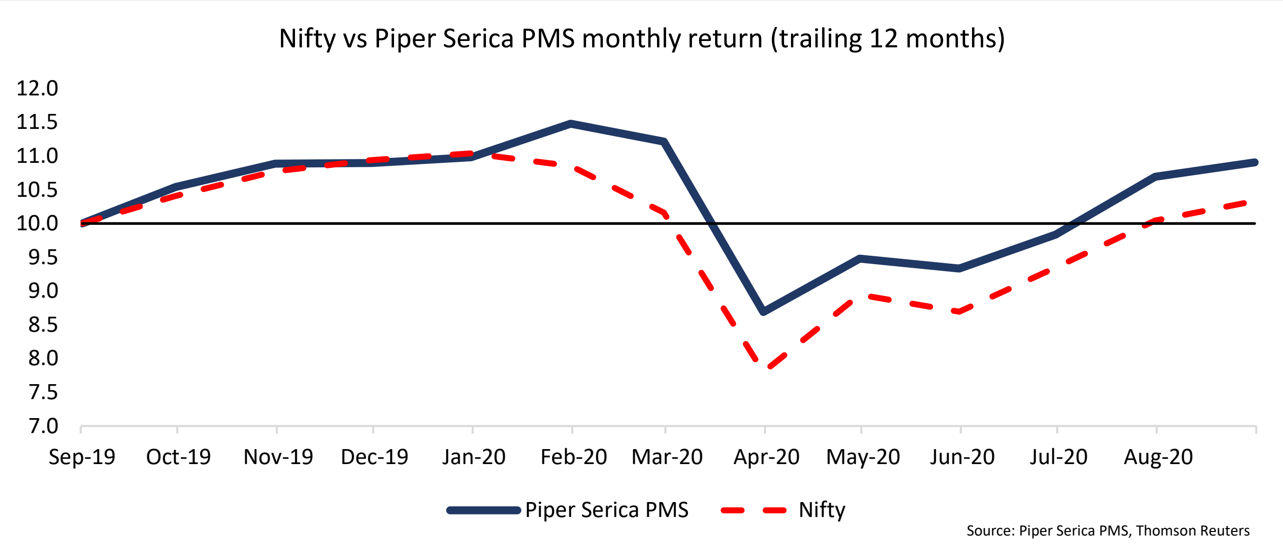
First Things First

PMS aggregate absolute return for August 2020 was 2.0%[1&2] against 2.8% for Nifty, 2.7% for BSE Sensex and 4.0% for multi-cap mutual funds. Nifty mid-cap index returned 7.8% during the same period. Trailing one-year return for the PMS is 9.0% compared to 3.3% for Nifty, 3.5% for BSE Sensex and 2.5% for average of multi-cap mutual funds.



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 continued to deploy our cash holding and ended the month with cash allocation of 5% compared to 8.6% 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 booked partial profit in the commodity exchange as the price crossed the upper end of our valuation range. We increased allocation to the EMS provider and the non-life insurer.

Top 5 Stock Holdings	Allocation*
Dixon Technologies India Ltd.	6.6%
MCX India Ltd.	6.5%
Apollo Hospitals Enterprises	6.2%
Hindustan Unilever Ltd.	6.1%
HDFC Bank Ltd.	6.0%

Top 5 Sectors	Allocation*
Financials	31.8%
Consumer Discretionary	23.8%
Consumer Staples	20.3%
Healthcare	12.0%
Industrials	7.2%

**including cash in the portfolio*

Large Cap	Mid Cap	Small Cap	Cash
60.3%	15.9%	18.8%	5.0%

Portfolio Strategy

The question asked most frequently these days is whether the markets are due for a steep correction. This question is predicated on the apparent chasm between the poor performance of the real economy and the continuous rise of stock markets.

Last quarter, the GDP contracted by a worse-than-expected 23.9%. Unemployment rate is sticky at uncomfortable levels. Malls, theatres and educational institutes remain shut. The government's gross tax revenue dropped 29.5% y-o-y to Rs 3.8 trillion in April-July. The net tax revenue stood at Rs 2.02 trillion during the period against Rs 3.39 trillion collected a year ago. Most worrisome is the continuous rise in the Covid-19 cases. What then explains the continuous rise of the stock market indices?

On the positive side, economic recovery is sharper than expected. Despite the rise in covid-19 cases, workplaces are opening up and more people are getting back to work. Businesses have rapidly adapted to digital technology thereby reducing the need for physical interactions. UPI made a new record of 1.61 billion transactions in August compared to 1.49 billion in July. Rainfall has been much better than expected leading to record sowing of Kharif crop at 10.95 crore hectares compared to the last record of 10.76 crore hectares in 2016. Manufacturing PMI for August came in at 52 compared to 46 in July. This puts manufacturing activity now in expansion phase after many months of contraction. GST collection was 88% of August 2019 level despite relaxation for many GST filers.

Some sectors have recovered quite rapidly, especially passenger vehicles. Volumes for market leaders Maruti and Hyundai were up by more than 20% in August on a y-o-y basis. Consumer electronic sales grew by more than 25% in August as claimed by multiple large format consumer electronics retailers.

The FPIs, who withdrew a record Rs. 619 billion from the Indian equities in March, registered the highest-ever monthly inflow of Rs 470 billion in August. These inflows are expected to continue barring short-term volatility due to sharp moves in the global markets.

Overall, the recovery outweighs the negative data. Still, it is not easy for investors to wrap their head around contradictory data and come up with a single investment thesis. There is no need to do so. An experienced investor, with practice, is easily able to hold contradictory thoughts without forming a single actionable thesis. This allows for better risk management at portfolio level.

While we maintain a positive bias, we are also cognisant of the sharp volatility that markets are bound to experience. Rather than shunning this volatility, long-term investors should use it to their advantage by building a portfolio of long-term winning stocks. This volatility will provide extremely lucrative entry points for many leading companies. However, to benefit from these opportunities one should have done his homework in advance and be ready to take action when the opportunity presents itself.

We are happy to inform you that our Wealth Compounder strategy on smallcase.com (piperserica.smallcase.com) has been extremely well received within a short period of its launch. The model portfolio was up 4.9% in August, first full month of the strategy. Enthused by the success, we are launching 2 new strategies soon – FD+ (mega-cap strategy) and ED+ (small and mid-cap strategy). Both strategies will have a concentrated portfolio of 12 stocks each. FD+ constituents will have a minimum market cap of Rs. 1 lakh crore while ED+ will have maximum market cap of Rs. 25 thousand crore and an average market cap not exceeding Rs. 15 thousand crore. We believe that these strategies will complement Wealth Compounder which is a multi-cap strategy. Investors will have the opportunity to now allocate capital across these 3 strategies based on their risk and return profile. We will be happy to discuss these strategies in greater detail with you.

We wish you and your loved ones the best of health and wellness!

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