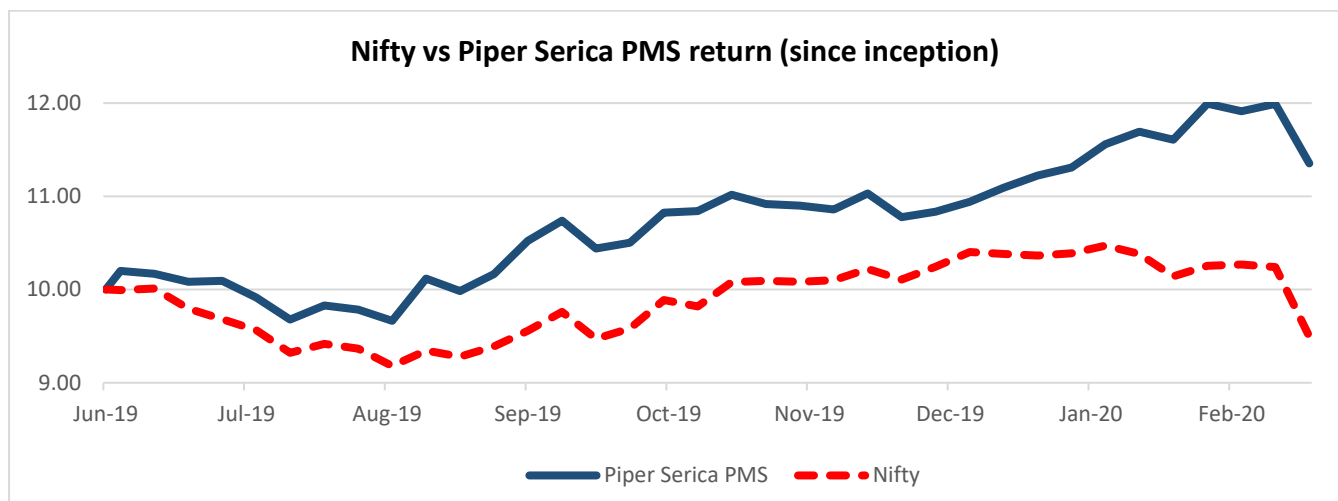




## First Things First

PMS level absolute return for February 2020 was -2.3%<sup>1&2</sup> against -6.0% for BSE Sensex, -6.4% for Nifty and -5.9% for mutual funds. While February was a very rough month for Indian as well as global markets, our portfolio held up pretty well. Nifty fell 7.3% and the S&P500 index fell almost 14% in the last week of February making it its worst week since the 2008 financial crisis. The bearishness driven largely by the uncertainty related to the impact of Coronavirus does not seem to abate. The relative outperformance of our portfolio was driven by absence of stocks most exposed to the coronavirus led slowdown, namely metals, generic pharma exporters, IT and media.

The last nine-month absolute return (since inception, not annualized) of the PMS is 13.4%, significantly higher than broad market indices for the same period, -3.6% for BSE Sensex and -6.0% for Nifty and 3.5% for average Large 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

The true test of an investment strategy and a disciplined investment process is in volatile times like these. Despite overall market weakness, 11 of our portfolio companies hit their 52-week high price in January, including Sanofi India, Apollo Hospital and United Spirits, after announcing excellent quarterly results. We have done an in-depth review of our portfolio to analyze which of our companies are exposed to an overall economic slowdown. We have exited a leading luggage maker that sources most of its products from China, a leading consumer electronics manufacturer that sources critical components from China and a leading airline that has 24% of its revenues from international operations. Our top holdings now are an MNC pharmaceutical company, a leading hospital company, two insurance companies and a consumer Internet company. We are maintaining our allocation in the QSR companies and other companies focused only on domestic consumption.

The short-term earnings of some of our portfolio companies will get impacted by lower consumption because of the threat of Coronavirus. However, we are not yet seeing a long-term damage to their business model. Some may actually benefit from a sharp fall in the price of crude oil and its derivatives. At the same time their valuations will drop because of the overall selloff in the market. This will give us a great opportunity to increase our allocation to these companies that rate very high on the Porter competitive edge model. We may also get an opportunity to



add companies that were so far trading at higher than our valuation range. However, we are in no hurry to jump in and bottom fish. We have increased our cash level in the portfolio to about 5.4% and intend to keep it around that to benefit from any further sharp selloffs.

Top 5 Stock Holdings	Weightage
Sanofi India	5.7%
Apollo Hospital Enterprises	5.7%
Info Edge	5.5%
ICICI Lombard Gen. Insurance	5.5%
HDFC Life Insurance	5.3%

Top 5 Sectors	Weightage
Consumer Discretionary	26.8%
Financials	22.6%
Healthcare	11.4%
Consumer Staples	9.8%
Real Estate	8.4%

Large Cap	Mid Cap	Small Cap
45.5%	30.8%	23.7%

Sharpe Ratio*	CAPM Beta*	Std deviation*
1.71	0.64	10.28

\* Since inception on June 24, 2019, not annualized

### Impact of Coronavirus on global markets

Unfortunately, the virus is spreading faster and farther than was earlier estimated. The discussion about financial markets becomes secondary when lives are at stake. There is tremendous uncertainty about the virus and its containment. There are no known antidotes yet and quarantine is the only favored tool of containment. It is difficult to believe the numbers when governments are trying to contain any panic. We believe that global markets will continue to be under pressure because longer the virus continues to spread more severe will be its economic and social impact. We see supply chains getting disrupted, especially since China has become the global supply hub for most supply chains. As leverage reduces in the system, we foresee an unwinding of long positions in many commodities like oil, steel, copper etc., driving their prices to multi-year lows. We also see an impact on consumption related demand as customers tighten the belt and hold the purse strings. While India has fortunately not yet felt the negative impact, it is not completely insulated from a global economic slowdown.

### Advice for investors

We are neither prescient nor brave enough to call a bottom on the market here. At best, this is a great opportunity for investors to do an in-depth review of their portfolio. They should exit all underperforming stocks and mutual funds and replace them with high quality stocks. High quality companies are rare and therefore always trade at a premium. It is at times like these that the difference between weak and strong companies becomes stark. We believe that all the Leaders will survive and thrive in this environment. Their weaker competitors will struggle to recover, and their stock should not be bought at any price. Rather, we would encourage you to exit the stocks of companies with broken business models at any price. We will be happy to have a look at your portfolio and advise you accordingly. You may also consider increasing your equity allocation marginally to add high quality stocks that are best bought in times like these when speculators are exiting all stocks irrespective of their quality.

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