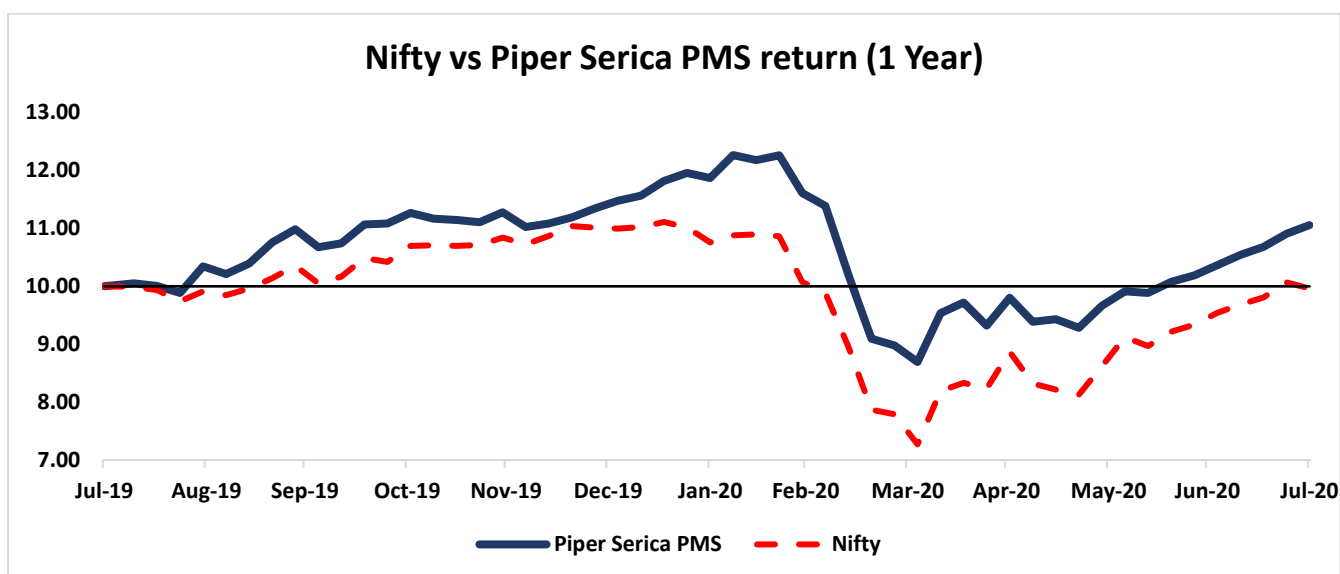




First Things First

PMS level absolute return for July 2020 was 8.7%^{1&2} against 7.5% for Nifty, 8.1% for BSE Sensex and 5.5% for multi-cap mutual funds. Nifty mid-cap index returned 4.8% during the same period. Trailing one-year return for the PMS is 10.6% compared to -0.4% for Nifty, 0.7% for BSE Sensex and -3.5% 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.

Source: Piper Serica PMS, Thomson Reuters

Portfolio Activity

We continued to deploy our cash holding and ended the month with cash allocation of 8.6% compared to 13.2% 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 increased our allocation to the commodity exchange, EMS provider and MNC with domestic pharma business. We added one of the largest non-life insurers to the portfolio. We used to have this company in the pre-covid period but we exited it on the assumption that there will be a fall in renewals especially in the auto insurance. However, like a typical strong leader, the company used the crisis to further build its digital channels and has increased its market share during the lock-down. We continue to believe that life and non-life insurance is a secular growth story for next 15-20 years and the leaders will create tremendous shareholder value.

Top 5 Stock Holdings	Allocation*
MCX India Ltd	7.9%
Hindustan Unilever Ltd	6.5%
Apollo Hospitals Enterprises	6.4%
Dixon Technologies India Ltd	6.3%
Westlife Development Ltd	5.8%

*including cash in the portfolio

Top 5 Sectors	Allocation*
Financials	29.0%
Consumer Discretionary	23.6%
Consumer Staples	20.0%
Healthcare	12.1%
Industrials	6.7%

Large Cap	Mid Cap	Small Cap	Cash
55.3%	15.5%	20.6%	8.6%



Portfolio Strategy

So far, the results for Q1 FY21 are better than our expectations. The financial performance was expected to be a complete washout due to national lock-down. However, many of our portfolio companies like HDFC Bank, HUL, Maruti, MCX and Sanofi have announced results that are far better than expectations. Almost all of portfolio companies have increased their market share in Q1 at the cost of their weaker competitors.

Even as Covid-19 cases continue to rise at a record pace there seems to be a general confidence that the worst is behind us. There is no panic or stigma attached to a patient anymore. Asymptomatic patients are being treated at home. Country is opening up gradually. Offices and shops are mostly open barring local lock-downs.

In times like these it is very difficult to draw a simple conclusion from highly contradictory data points. Supply chains are still not fully functional putting pressure on manufacturers. Migrant laborers are returning to factories but there is still a gap. Real estate is in complete doldrums. Developers, even the large ones, are technical defaulters as they struggle to liquidate residential inventory even at discounted prices. PMI has turned down again in July. While deposits at banks have doubled the credit growth rate has halved. It is not possible to get a sense of real percentage of loans under moratorium as each bank and NBFC has come up with its own method of calculating the amount that the borrowers have asked to be put under moratorium. Demand for diesel is at an all-time low providing some indication of reduced transportation activity. Air traffic continues to be highly restricted and large malls as well as theatres continue to be under lock-down. Public transport in most cities is curtailed making it very difficult for people to travel.

At the same time, auto sales, long believed to be one of the best leading economic indicators, have turned up sharply in the month of July led by passenger vehicles and tractors. GST collection was 90% of pre-Covid levels in July. Employment numbers continue to improve. Consumer electronics are flying off the shelf. There is enough credit available for anyone who wants to borrow. Interest rates continue to trend down. Rupee has shown remarkable stability throughout the crisis largely because of the surpluses in trade and current accounts. FPIs continue to be net investors even as domestic mutual funds continue to lose investors. Domestic manufacturing is getting help from the government for the first time through the PLI scheme that will help our companies compete with the Chinese companies.

As a result of this contradictory data, markets have become very news driven and highly volatile. It is easy to have more than 1% movement of indices on a daily basis, sometimes even higher. This volatility attracts traders who soon get whipsawed and then exit the market. Then a new set of traders take over. You will find many of them touting their wares on Twitter and other social media.

We have no problem with this volatility. We actually welcome it. As traders panic and exit even high-quality stocks we get an opportunity to add to our positions. We see this story play out repeatedly. Once we have established a fair value range for each of our portfolio companies it is easy for us to allocate more to them as they trade close to the lower end and reduce allocation as they get to the higher end of the valuation range. This dynamic allocation is one of the reasons behind our outperformance. We are quite confident that this outperformance will continue since it is an outcome of a very well-defined investment strategy and process and is not due to any individual brilliance.

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

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