Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. 31

December 2021

Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 28.9%. This compares favorably with our benchmark Nifty that returned 16.5% over the same period and multi-cap MFs that generated 20.2% return. The PMS generated a positive return of 0.9% in November against a fall of 3.9% in Nifty. Our standard deviation and CAPM beta continue to be well below that of the benchmark and our Sharpe ratio is well above, as detailed in the factsheet.

Our monthly factsheet can be downloaded here.

Portfolio and market update

Markets continued their volatile moves. FPIs continued to sell primarily because of year-end profit booking, worry about increasing cases of Covid in the west and perceived expensive valuation of Indian stocks. We believe that most of this selling will abate in December as FPIs start investing their allocations for 2022. However, we expect the markets to stay volatile for the next couple of months as global investors are very skittish about any negative news linked to Covid and inflation.

While volatility whipsaws short term traders and speculators it is a friend of long-term investors as it weeds out the weak hands and gives an opportunity to long-term investors to increase their allocation to high quality stocks.

Our cash holding continues to be ~5% at the PMS level. Older accounts are almost fully invested while we are investing the funds received in new accounts in a staggered manner. We are heartened by the response of our investors to the recent correction. Almost every investor chose this as an opportunity to increase their allocation.

We have exited our investment in the largest private life insurance company. We held the stock since its IPO and it rates very high on our Porter model. However, we believe that the expected growth of the company does not justify its valuation. While we expect that the company will continue to grow, we do not believe that the stock will give us the kind of return that we expect to make at the portfolio level. We have added two new stocks to the portfolio. It is quite rare that we add two stocks to the portfolio at the same time. One is India's largest QSR and a darling brand of pizza aficionados. We like its massive leadership in the space, efforts made to expand horizontally and vertically and use of technology. We believe that it is the best play in the fast-growing QSR space. The management of the company has proved its chops during the lockdowns by increasing its market share and expanding its footprint. The other company we have added is India's largest ad-tech company. It has a robust technology platform that sits right in the middle of rapidly growing digital advertising budgets and increasing use of apps by mobile phone users. It generates almost 90% of its revenue from a success fee-based model while most of its competitors are still using the cost-per-impression model. We believe that with its deep tech capabilities the company will maintain its leadership in the ad-tech space and generate exponential growth.

This letter is incomplete without discussing the hot IPO market. PayTM had a disastrous listing. It was a wake-up call for short-term punters who invest solely on the basis of grey market premium. The stock traded down as much as 40% within two days of listing and even now trades at more than 20% discount. We had looked at the company in detail and had shared our negative views on the business model ahead of the IPO (here). Investors need to understand that not all IPOs are equal. In the long-term the odds are against IPO investors as barely 25% of IPOs trade at above their issue price after 7-8 years. Unfortunately, a hot IPO market is misused by greedy promoters and investment bankers to separate retail investors from their money. There are a number of IPOs lined up in the next couple of months. We will analyze most of them but will participate only when the company ticks all our boxes including valuation.

Our recent discussions with investors and distributors have revealed that investors are seeking a substitute to the following:

1. Underperforming large cap mutual funds and balanced funds that optically seem defensive but also underperform the benchmark due to excessive diversification.
2. Fixed deposits and other fixed income products where the post-tax return is now well below inflation level.

To address this requirement, we are happy to announce that we are launching a new scheme under our PMS called Piper Serica's Kuber Portfolio. This strategy is defensive in nature with lower volatility. It has a large-cap and large-mid cap orientation. It is an ideal strategy for investors who are not satisfied with low returns from their fixed deposits and other fixed income investments. With a five-year holding period, we are confident that this strategy will outperform all fixed income options while providing high liquidity. We believe that with a judicious selection of stocks from our coverage universe this strategy will outperform large cap funds, balanced funds and balanced advantage funds.

We request you to review your mutual fund and fixed income investments in consultation with your financial planner. As part of your overall asset allocation plan, we encourage you to invest in the Piper Serica's Kuber Portfolio to improve your returns without materially increasing your overall portfolio risk.

Our team is always available to provide you more details. Please reach out to Ajay Modi (ajay@piperserica.com) or Ketan Tubhe (ketan@piperserica.com) to know how you can benefit from this strategy.

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