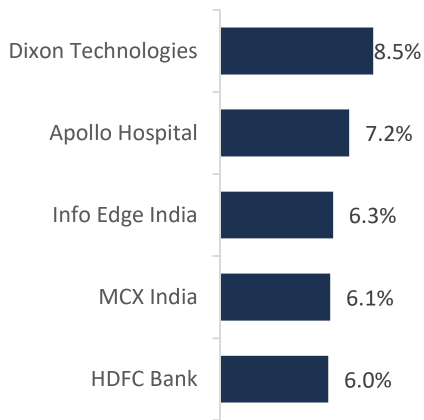
Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. XXI

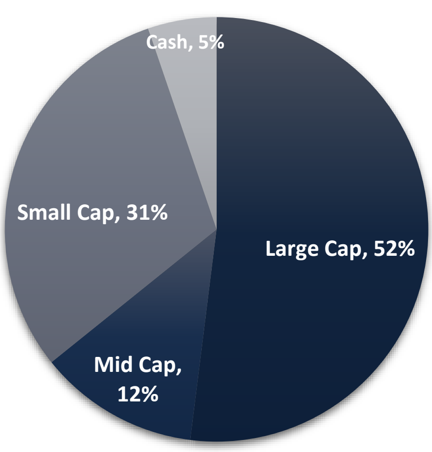
February 2021

Top 5 Holdings



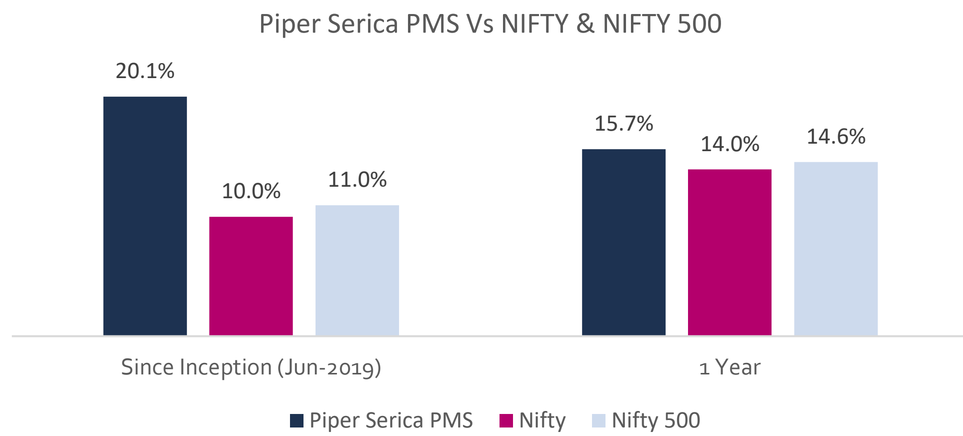
Top 5 Sectors	Allocation*
Financials	29.7%
Consumer Staples	16.6%
Technology	11.0%
Consumer Discretionary	10.8%
Industrials	8.5%

**including cash in the portfolio*



First Things First

PMS level aggregate absolute return for the month of January 2021 was -3.8%[1&2] against -2.5% for Nifty, -3.1% for BSE Sensex and -0.1% for multi-cap mutual funds. Nifty 500 index returned -1.9% during the same period. Trailing one-year return for the PMS is 15.7% compared to 14.0% for Nifty, 13.7% for BSE Sensex and 11.1% for average of multi-cap mutual funds. The annualized TWRR for the PMS since inception is 20.0% compared to 9.8% for the Nifty.



Source: Piper Serica PMS, Thomson Reuters

1. Average TWRR 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 considering all fees and expenses.

Portfolio Activity

We have updated the Porter model scores for our portfolio companies that have announced results in January. While the quarterly results were better than expected indicating good near-term recovery, the model scores went up for each company indicating improvement in long term competitiveness also. We fully exited the MNC pharma company and the largest NBFC. Our valuation model indicates a much lower fair value for the NBFC after taking into account the recent pressure on retail loans. The company has also indicated that it will focus on recovery over the next year and will slow its growth. While the quality of the management and franchise is impeccable, we will await a lower price to add it back to the portfolio. We have increased allocation to India's largest online B2B platform company and the consumer Internet company. We are very positive on the emerging digital business space in India.

Our cash balance at PMS level is 5.2%, though it is much lower in older accounts that are almost fully invested. We do not plan to increase cash allocation.

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	20.0%	24.3	0.9	0.9	0.9	24.4	9.9
Nifty	9.8%	26.6	1.0	0.5	1.0	12.9	0.0

The Union Budget and its long-term impact

Rarely has so much been achieved by doing so little. This is not an indictment of the budget. On the contrary, it is a big compliment to the Finance Minister that she refrained from doing any minor and major tinkering and instead focused on reducing the role of government in private business.

The fine print will continue to be analyzed and analysts will look for budget provisions that have specific impacts. However, for a long-term investor it is more important to understand the long-term intent indicated by the government through the budget. This is where this budget scores over its predecessors. The government has clearly indicated its intent to:

1. Get out of businesses by selling and privatizing the public sector enterprises. It was refreshing to hear the FM say that she does not see any merit in investing further funds in lost causes just to keep them alive. The government seems to be committed to divestments as the means to fund the 9% fiscal deficit. We expect that many weak PSUs will be merged with their stronger peers and lost causes will be either shut down or disposed for paltry sums just so that the government is not on the hook for continuous funding. In the past, the government has struggled with divestments as the PSU stocks have significantly underperformed the broader markets and trade in the ‘deep-value’ zone. The threat of continuous supply from the government has put a cap on price rise in these stocks. Therefore, the government will be better off using the recent spikes in the markets to go for one-time divestments rather than dripping the stock in the market through Offers for Sale.

2. Invest in infrastructure development to support economic growth. This will be funded largely through the proceeds of the divestments and domestic borrowing and not by increasing direct taxes.

3. Support the development of large exporters through extension of the PLI scheme for domestic manufacturing and increasing customs duties to make them cost competitive. Once these companies get the right scale, they will also become cost competitive at the international level. Government sees an opportunity to create a large number of blue-collar jobs through a manufacturing revolution.

4. Build a predictable tax regime to support capex by foreign and domestic investors. For probably the first time there was no significant change to direct tax related provisions for corporates and individuals. Constantly changing tax laws and their retrospective application has been a major bug bear for foreign investors. A steady and predictable tax regime will give them more confidence.

The budget math has been helped by a sharp improvement in economic recovery that is manifesting itself in various forms. GST collection hit an all-time high in January. There is an improvement in urban employment. Covid-19 cases continue to drop even as the government has rolled out vaccination plan. Domestic consumption continues to be strong especially in discretionary segments like automobiles and real estate despite some recent price hikes. While we see near-term risks in the form of an uptick in inflation due to increase in commodity prices and an increase in interest rates due to government borrowings, we are quite confident that the country will see at least a couple of years of more than 10% GDP growth. We expect our portfolio companies to grow at a rate of 1.5-2 x the rate of GDP growth thereby delivering substantial returns for patient long-term investors. While markets will have bouts of extreme volatility in the short-term the long-term investors should look at benefitting from it rather than becoming a victim of volatility.

"The individual investor should act consistently as an investor and not as a speculator." — Ben Graham

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