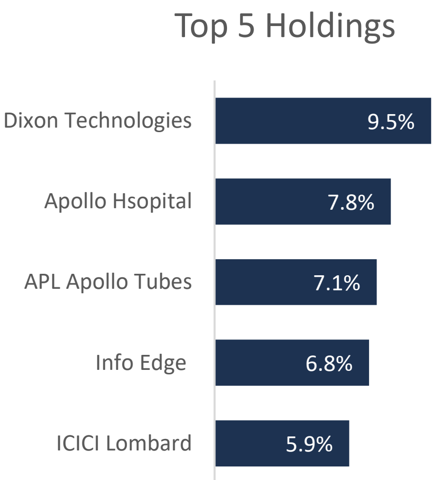
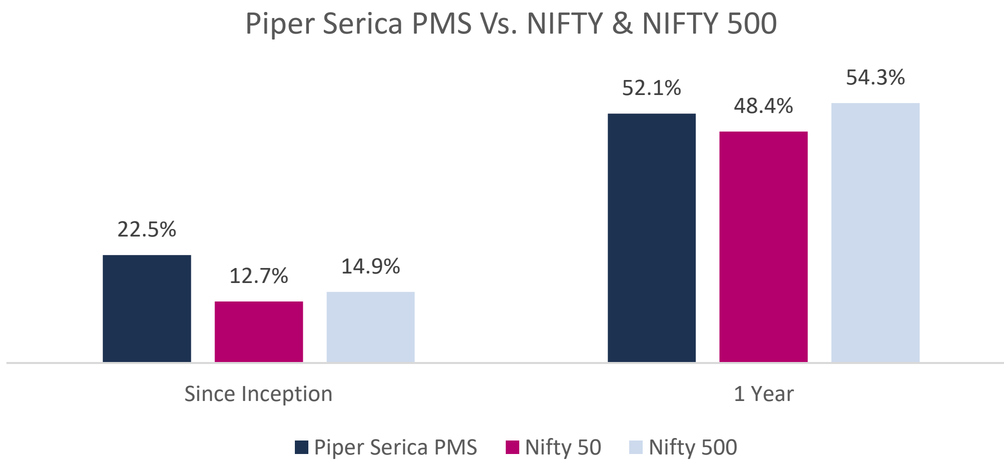
Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. XXIV
May 2021



First Things First

PMS-level aggregate absolute return for the month of April 2021 was 0.2%[1&2] against -0.4% for Nifty and -1.5% for BSE Sensex. Nifty 500 index returned 0.4% during the same period. Trailing one-year return for the PMS is 52.1% compared to 48.4% for Nifty, and 44.7% for BSE Sensex. The annualized TWRR for the PMS since inception is 22.5% compared to 12.7% for the Nifty.



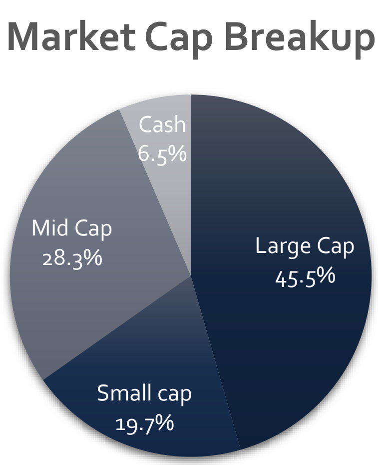
Source: Piper Serica PMS, Thomson Reuters

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.

Top 5 Sectors	Allocation*
Financials	29.6%
Consumer Staples	14.7%
Technology	13.8%
Industrials	9.5%
Healthcare	7.8%

**including cash in the portfolio*

Market Cap Breakup



Portfolio Activity

We fully exited our passenger vehicle company. Though the company is a clear leader in the industry and ranks highly on the Porter model, we are very concerned about its inability to pass on the raw material price increases to its customers. As a result, we expect the company to report below-normal margins in the foreseeable future. Its ability to increase prices is also highly compromised by regional lockdowns. We will watch out for signs of recovery.

We continue to increase allocation to our recently added stock- India's only listed depository. We are seeing a paradigm shift in customer adaption and expect the company to benefit significantly from the recent rapid pace of new customer sign ups. These new customers have a very high LTV.

With these changes, the overall market capitalization of the portfolio has reduced. Our cash balance at PMS level is 6.5%, though it is much lower in older accounts that are almost fully invested. We may increase our cash allocation to double digits in case the pandemic worsens.

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	22.5%	23.3	0.9	1.0	0.9	26.1	9.7
Nifty	12.7%	25.2	1.0	0.6	1.0	14.9	0.0

Market musings at the time of Pandemic

The second wave of Covid-19 is nowhere yet near a peak against earlier expectations of a peak in April. The number of daily new cases at the national level continue to rise and recently crossed an all-time high of 4 lakhs. While it is worrisome to see such large number of active cases, even more worrisome is the complete inability of the medical infrastructure of the country to cope with basic requirements like hospital beds, medicines, oxygen, plasma and medical staff. While everyone agrees that rapid vaccination is the only way out of this pandemic the system has failed to an extent that there is little visibility of new production and distribution of vaccines.

The compliance with regional lockdowns is sketchy at best. Government has refrained from strict lockdowns unlike last year. This approach has its merits because it allows people to continue to go about their work and make a living but at the same time the government grossly underestimated the resultant pressure on medical infrastructure. We believe that if the number of cases does not plateau soon there will be national level lockdown. There will be no other option.

All is not lost. States like Maharashtra that were the first ones to face the second wave are seeing a reduction in number of new cases. Positivity rates are also declining there. The medical fraternity, thoroughly overworked and exhausted, continues to serve humanity with utmost courage. Our deepest gratitude to the Corona warriors who have stood like a rock during the pandemic.

It is with reluctance that we discuss the markets and our portfolio strategy at this somber time. We expect the markets to be range bound with a negative bias till there is visibility of a peak of daily new cases. The near-term macro data has been better than expected. GST collections hit an all-time high in April at Rs. 1.4 lakh crore. Direct tax collection was higher than estimates. Real estate sales continue to show positive trend. Auto sales seem to have stabilized and quarterly corporate earnings have been better than expected. Government finances do not seem to be stretched and are helped by all-time low interest rates.

At the same time, we are seeing a sharp escalation in commodity prices. Companies are not able to pass it on to customers immediately as they do not want to negatively impact volumes during these tough times. As a result, we are bound to see some sub-par profitability in the next couple of quarters. Smaller companies will feel this impact even more since they do not have the same balance-sheet strength as the industry leaders. We also saw net sales by FPIs after many months of strong inflows which shows they are worried about the short-term impact of the second wave on earnings.

The silver lining amongst the gloom is that consumer demand has held up pretty well. We think that, at worst, the second wave will only postpone the demand. We have also seen that the companies that have invested in digital technology to boost their business model, for customer acquisition, delivery and collections, are being handsomely rewarded. Most importantly, consumers seem to have rapidly adapted digital technology thereby cutting distribution costs and making the whole country a large homogenous market. It is heartening to see a large company like HUL scale up its digital initiative for Kirana stores, called Shikhar, to more than 5 lakh stores in a very short period of time.

While the markets will continue to be volatile in the short term, they will also give very good entry opportunities to long-term investors to build a portfolio of high-quality companies that normally become expensive in bullish markets. We would strongly advise investors to use this opportunity to reduce their under-allocation of equity. Any sign of recovery will take the markets to new highs as we have recently seen in the US markets.

We wish you and your family the best of health and safety in this tough time.

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Founder & CIO

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