Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. XXVI

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Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 24.9%. This compares favorably with our benchmark Nifty that returned 15.6% over the same period and multi-cap MFs that generated 17.6% return. Our standard deviation and CAPM beta continue to be well below that of the benchmark and our Sharpe ratio is well above.

Our monthly factsheet can be downloaded here.

As we had informed you in the last investor letter, we have made multiple changes to the portfolio strategy:

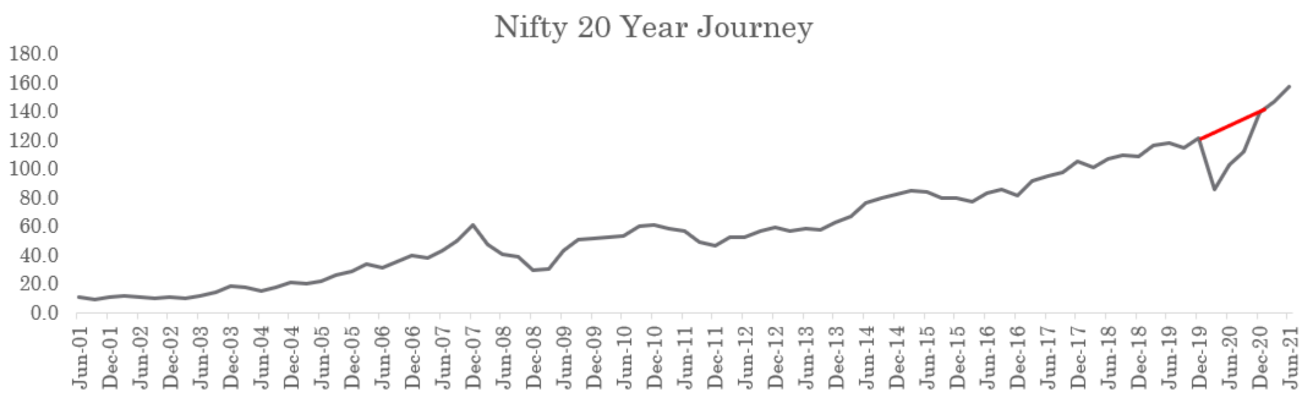
1. Increase in the share of "active" portfolio to 75%.
2. Equal weightage of large, mid and small caps.
3. Carve out of up to 8% of the portfolio for investing in one high-growth and profitable non-leader company.

We are happy to inform you that the portfolio is now compliant with this strategy. With this active management strategy, we are very confident that we will continue to significantly out-perform the passive benchmark.

The most asked question

"Is this the right time to enter the markets or increase allocation?" This question can only be answered by understanding the time horizon of an investor. Long-term investors are unfazed by market volatility. They stick to their asset allocation plans and look at equity investing as a long-term savings management tool. They understand that while markets will be volatile in the short term, they will reward patient investors in an extra-ordinary way. The following chart shows the return generated by the Nifty over a 20-year period. The 14.2% annual return easily beats all other asset classes. With the alpha generated by active management, the annual return would be closer to 20%. The caveat is that this is a simple analysis of point-to-point return while investors must make multiple decisions about changing asset allocations as their requirements change.

15X in 20 Yrs. a 14.2% CAGR.



This chart serves as a useful reminder that 'market risk' reduces dramatically over long holding periods. The thin red line smoothens the Covid related sharp correction in March 2020 and shows that the benchmark would have gone on its merry way for the long-term investors while the short-term investors would have got completely whip sawed.

The second point we would like to make is that if you are a long-term equity investor in India, you are already at the right place at the right time. The country is going through the virtuous cycle of value creation that is driven by rapid digitization, formalization of the economy and the demographic dividend in form of youngest population in the world. This virtuous cycle is providing investors with a once-in-a-generation opportunity to grow wealth by investing in companies that are capitalizing on this phenomenal value creation.

It is evident in the number of unicorns that have been created by the Indian start-up ecosystem. India already has 58 unicorns valued at an aggregate of USD 180 billion. Tracxn estimates that the number of unicorns will increase to 150 by 2025 and aggregate value created by them would be more than USD 600 billion.

The good news is that public equity markets are also giving an opportunity to investors to bet on emerging companies that will create similar or more value for their shareholders. We are seeing almost all our portfolio companies aggressively use digital technology to grow their business rapidly and improve their competitive edge. However, in many of these early-stage spaces the winner takes all. Therefore, it is extremely important for investors to choose the right company to invest in after analysing the vision, competence and intent of its leadership, its ability to fund its growth and its history of governance and shareholder friendliness. Having done that, take a seat, relax and let the companies compound their earnings and create wealth for you. Feel free to occasionally refer to Ben Graham when he said, "The individual investor should act consistently as an investor and not as a speculator."

We are also happy to inform you that our small and mid-cap model portfolio ED+, hosted on smallcase.com crossed 100% return since its inception in September 2020 compared to its benchmark that is up appx. 60% during the same period. Please feel free to reach out to our team if you would like to know more.

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