Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. XXVIII
September 2021

Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 29.7%. This compares favorably with our benchmark Nifty that returned 19.0% over the same period and multi-cap MFs that generated 19.7% 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.

Market commentary

Markets made an all-time high last month and caught most analysts by surprise. This reconfirms our view that predicting market levels is a mug's game. Equity investing should only be looked at as a way of long-term savings management. Trying to call for bear and bull markets disrupts compounding of wealth. An intelligent investor should spend a lot of time analyzing the companies that will compound earnings for a long period of time, investing in them and then ignoring the gyrations of the markets. Our advice to our investors always has been to first create their asset allocation plan, in consultation with their financial planner, and then stick to the plan. Empirically, the highest return is generated by portfolios that have the least amount of activity.

Upcoming regulations for protection of gig economy workers - risks and opportunity

The consumer Internet companies in India have had it very easy so far with regards to the regulations that protect the workers that they hire on a contract basis. "Gig Economy" comprises of short-term contracts or freelance work as opposed to permanent jobs. In such an arrangement, workers are not treated as employees, but as independent contractors.

Globally, this has led to scrutiny from regulators, who view this development as one that perpetuates a culture of poor working conditions while providing minimal benefits to workers. In recent months, both The United States and China are forming policies to bridge this regulatory gap for the protection of labour rights.

According to the International Labour Organization, there were 55 million gig workers in the United States in 2017, accounting for 34% of the workforce. The figure was expected to increase to 43% of the workforce by 2020. China's gig economy has seen tremendous growth too, with 200 million people involved in 'flexible employment' as of May 2021 according to China's Ministry of Human Resources and Social Security. It is estimated that India has around 15 million workers involved in its gig economy and this number is growing rapidly.

So far, the Internet platform companies in India have had no material regulations to contend with regarding the hiring of gig workers. There are rising grievances amongst gig workers mainly in relation to remuneration and working conditions.

The burgeoning Indian gig economy will soon be regulated by The Code on Social Security, 2020 which incorporates nine regulations relating to social security, retirement and employee benefits for gig and platform workers. The code, should it come into effect, would mandate registration of both gig workers and platform workers on an online portal to avail benefits under the Code, which shall be specified by the Central Government.

The List of aggregators to which The Code on Social Security, 2020 is applicable includes the following: (i) Ride sharing services (ii) Food and grocery delivery services (iii) Logistic services (iv) e-Market place (both marketplace and inventory model) for wholesale/ retail sale of goods and/or services (B2B/B2C) (v) Professional services provider (vi) Healthcare (vii) Travel and hospitality (viii) Content and media services, and (ix) Any other goods and services provider platform.

The social welfare schemes for the gig and platform workers proposed under the code may be partly funded by the beneficiaries of the schemes or the businesses themselves. The funding for any of these schemes can include between 1% and 2% of the annual turnover of the aggregator, provided that the contribution by an aggregator shall not exceed 5% of the amount paid or payable by an aggregator to gig workers and platform workers.

The business models of Internet platform businesses are extremely dependent on the gig workers. The proposed regulations will have a significant impact on such platform businesses and will inevitably lead to an increase in spending on their workforce bringing down operating margins.

Many of these companies are going to list on the stock exchange over the next year. The investors will need to assess the impact of these regulations on each company. While there will be a negative financial impact there will also be an opportunity for some of these companies to take leadership in protection of their gig workers that goes beyond the regulations. At Piper Serica, we closely analyze the HR practices of our portfolio companies because we believe that companies that systematically plan long-term protection of their workers create industry leadership because they can attract best talent while the exploitative employers never become industry leaders. This is now the time for the new-age companies to rise and shine. *(With inputs from Aditya Gudibande, Research Intern).*

Update on our model portfolios hosted on smallase.com

We had launched a model portfolio called FD+ (Formidable Dozen+) in September 2020. The objective of this portfolio is to provide another investment option to inventors who traditionally park most of their savings in bank fixed deposits. With a sharp fall in the FD rates to ~4%, and that also fully taxable, many investors are looking for investment options where they can invest their savings for higher returns without taking considerably higher risks. The FD+ model portfolio consists of 12 ultra-large-cap companies (minimum market cap of Rs. 1 lakh crore). Each company is part of the Nifty index, is profitable, dividend paying and has a dominating leadership position in its industry. This portfolio has generated a return of 46.4% since inception and generated a return of 12.8% last month. The portfolio is highly liquid because of its large average market capitalization.

We believe that investors who are looking for a low-volatility portfolio with expected return that is much higher than the FD rates should consider investing in FD+. While markets will remain volatile, for a long-term investor the volatility evens out with the duration of holding. With the high-quality portfolio, we are very confident that FD+ will significantly outperform FD returns over a 3–5-year timeframe. You can find more details here.

Abhay Agarwal, | Rajni Agarwal,

Founder & CIO | Director, Research