Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. 32

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Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 27.3%. This compares favorably with our benchmark Nifty that returned 16.8% over the same period and multi-cap MFs that generated 18.6% return. 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.

The PMS generated a return of 31.8% in calendar year 2021 compared to 24.1% for Nifty.

Our monthly factsheet can be downloaded here.

Portfolio and market update

Markets continued to be volatile in December. FPIs continued to sell throughout the month and the flows are expected to reverse in the month of January. However, we expect the markets to stay volatile as the extent of damage from the third wave of Covid-19 becomes clear.

Our cash holding is ~3.8% 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 continue to add to our latest additions – Jubilant Foodworks and Affle. We see both as very strong leaders in their fast growth industry.

Review of 2021

Despite all the challenges it faced in form of a debilitating second wave and rising inflation, 2021 turned out to be a good year for long-term equity investors. Equity indices outperformed all other assets classes (we do not consider cryptos as an asset class just yet) by a big margin.

HOW KEY ASSET CLASSES FARED IN 2021

	Returns (%)
Equities*	22-24
Debt Funds**	<4
Fixed Deposits***	<5
Gold#	-4.2
Silver#	-12.3
Real Estate##	1-3
* Sensex and Nifty returned 22% and 24.2% respectively	
** excludes credit risk funds	
*** excludes rate for senior citizens	
# based on prices from London Metal Exchange	
## average returns for residential property for top 7 cities. Source: Exchanges, Value research, Bloomberg, Anarock, Business Standard	

The 'unlock trade' rewarded investors. Companies that gained market share during lockdowns emerged very strong as the economy opened. Companies using digital tech to improve products and services were handsomely rewarded by the markets. The relentless selling by the FPIs in the last quarter was balanced out by the domestic investors.

Prognosis 2022

There are multiple factors that make us believe that 2022 will see the equity markets continue to do well:

1. 2 key reasons for the recent sharp correction in the markets, interest rate hikes and a bad third wave, are now discounted by the markets. Fed has promised a soft landing and analysts are discounting 3 rate hikes in 2022. While there is a perception that equity markets will correct when interest rates are raised, the data is contrary. In fact, equity markets have done very well in the last two rate hike cycles. The Fed raised interest rates 17 times from 1% to 5.25% between June 04 and June 06 and Nifty increased by a CAGR of 41% in the same period. Similarly, Fed raised interest rates 8 times from 0.5% to 2.5% between Dec 16 and Dec 18 and Nifty grew at a CAGR of 14% during the period. So a rate hike cycle is actually good for Nifty as it is followed by an economic expansion.

   The fear of Omicron has also mellowed despite a very sharp increase in number of Covid-19 cases across the world. There is a general feeling that while the virus has become more contagious it has also become less potent leading to faster recovery rates and lower hospitalisations.

2. India is expected to be one to the fastest growing large economies over this decade with an annual GDP growth rate of 7-8%. This GDP growth will create its own virtuous cycle of generating returns for long term investors.

3. Our dependence on FPIs to propel the domestic market has come down significantly. With strong flows from domestic investors we are able to shield our market from any incessant selling by FPIs. For instance, FPIs sold USD 5.1 billion in Q4 while DIIs invested USD 8.8 billion leading to only 1.5% correction in Nifty.

4. There has been a remarkable demographic shift in the Indian stock market. In 2008, BSE had 1 crore registered investors of which 43% were below 40 years of age. BSE now has 9 crore registered investors of which 73% are below 40 years of age. Even our markets are getting younger. This set of young investors will continue to deploy a large part of their savings into equity investments as against their parents who preferred the optical security of real estate and bullion.

5. New IPOs are expected to provide exciting opportunities for investors to invest in fast growing new economy companies that are going to list in 2022. These listings will lower the average age of listed Indian companies from current 20 years. The average age of listed Chinese companies is 9 years.

At the same time, investors should be mindful of the following caveats:

1. There will be bouts of sharp volatility driven by skittish institutional investors. We have seen recently that there is sharp over-reaction to any kind of unexpected news from large institutional investors.
2. A more damaging than expected third and possibly fourth waves of Covid-19. Any global level lockdowns will put an end to nascent economic recovery.
3. Higher than expected consumer inflation leading to sharp rate hikes and a hard landing.

Overall, investors will do well to ignore short term volatility. The BSE Sensex has returned positive returns in 31 out of last 43 calendar years. The odds are in favour of investors who stick to their asset allocation plan and invest for the long-term.

We wish you the best of everything in 2022!

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