Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. 33
February 2022

Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 22.5%. This compares favorably with our benchmark Nifty that returned 16.2% 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.

Our monthly factsheet can be downloaded here.

Portfolio and market update

Global markets saw a sharp selloff in January. Nasdaq was down almost 10% and broad-based S&P was down more than 5%. Surprisingly, Nifty ended almost flat for the month despite sharp corrections in stocks where FPIs have large holdings. FPIs were net sellers of Rs.33000 crore in January. This global sell off was driven primarily by a very hawkish US Fed preparing the markets for a faster than expected increase in interest rates. The markets threw a taper tantrum even while the global scare of Omicron has receded, and life seems to be getting back to normal.

With aggressive FPI sales and Nasdaq correction, our portfolio fell by 7.5% at an aggregate level. Most of the pain was in leading digital tech companies in the portfolio that saw price falls in line with the Nasdaq correction. However, the solid operating performance of our portfolio companies for the last quarter, each one a leader in a high growth industry, gives us great confidence that these companies will not only survive the sharp market volatility but create significant value for their shareholders over the long term. Many of our investors used this dip to increase their allocation in the PMS and in the Piper Serica Numero Uno India Fund based in Mauritius.

We are happy to see that as we write this letter, a significant part of the drawdown has already been reversed in February. This shows that the portfolio NAV is not immune to the gyrations of the global markets. As the taper tantrum plays out and investors once again start seeking out returns, we are quite confident that our portfolio will continue to beat its benchmark in a handy manner.

We are of the view that as the global investors remain on the edge of their seats, the markets will continue to be volatile in the near term. While market volatility impacts short term traders negatively, it is a great friend of long-term investors who use these dips to add high quality companies to their portfolio. No one articulated this wisdom better than Ben Graham, the granddaddy of investing, when he wrote in his seminal book, The Intelligent Investor,

> "The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment."

Our cash holding is ~4% 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 completely exited MCX and ICICI Lombard. While we believe that they are competent leaders we are not very comfortable with the chronic weakness in the ADTO of MCX and we do not believe that the valuation of ICICI Lombard justifies its near-term low growth. We are not expecting to make any major changes to the portfolio soon.

A quick note on the Union Budget. We like the way the government has expressed its strong intent to pursue economic growth for next 25 years. It has recognized the policy support needed to create a virtuous cycle of growth. It has identified the right focus areas – infrastructure, healthcare, education, renewables, and self-dependence. However, we would have liked to see more tangible steps. We are hopeful the intent will soon translate into effective execution. At the same time, it is heartening to see the recognition of digital technology as a growth agent. UPI payment system has been a game changer and we are hopeful that many more such bold initiatives are on the way. It is also positive to see the focus on and support for the Start-up ecosystem and its recognition for value creation and contribution to GDP.

On Start-ups, we are happy to inform you that we have filed our application with SEBI for launching Piper Serica Angel Fund, a Category 1 AIF. The fund will invest in early-stage companies that are using deep tech to pursue exponential growth. We will shortly be in touch with you with more details. This fund is a great opportunity for our investors to benefit from the rapid growth of Start-ups in India. We believe that with our deep understanding of tech businesses and a strong presence in the Start-up ecosystem, we are well positioned to capture this opportunity. Since this is not envisaged to be a large fund, we are limiting the access to this fund to only our existing investors.

We wish you and your family a great February. With lockdowns receding we look forward to meeting you soon!

Abhay Agarwal,

Founder & Fund Manager

Rajni Agarwal,

Director, Research