Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 20.1%. This compares favorably with our benchmark Nifty that returned 14.6% 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, as detailed in the factsheet.

Our monthly factsheet can be downloaded here.

Portfolio and market update

The data we are seeing suggests that the Covid related lockdowns are now firmly behind us. The state governments have started removing restrictions and our expectation is that economy will open very rapidly. While the Covid threat is behind us, the Ukraine war situation has led to a sharp inflation in the price of crude oil. We expect the crude prices to stay elevated till Russia is sanctioned by the west. This will put pressure on Indian fiscal deficit since crude is the largest import and can lead to a spike in inflation. The nascent recovery in the economy is not fully geared for a resultant hike in interest rates. RBI will have its hands full in balancing growth and inflation in the upcoming policy meets. Whatever the RBI does will not negatively impact the discretionary demand. We are seeing robust demand for real estate, travel, home improvement, white goods and autos. Manufacturers have so far shied away from passing on the entire increase in raw materials. We will watch out for the impact of potential price hikes on customer demand.

We have already shared with you the happy news of Apollo Hospital's inclusion in the prestigious Nifty 50 index effective March 31. We had first bought the stock when it was a small cap company and have closely seen it go through its journey of wealth creation for its shareholders. We believe that it is a leading healthcare player and has made all the right investments in its business and people that will continue to drive its growth and reward its shareholders.

A big global theme that we are seeing play out is the 'unbundling' of banks and large financial institutions. Scale is suddenly being usurped by tech as the key competitive edge. Different businesses of banks are under attack from fintech players. The impact can be seen immediately in the cash cow business of credit cards. With UPI and Rupay, we have now started to believe that the returns on the credit card business will diminish significantly over the next 3-5 years. The same goes for SME and personal loans. Fintechs are waging a war there with tech-enabled BNPL solutions. While not all of them will succeed, it will cause enduring damage to this high-profit business currently monopolized by banks and large NBFCs. With these kind of rapid changes in the financial services industry, we are questioning the future of large private banks, especially the ones with low spends on tech development.

Talking about wars, the unfortunate situation in Ukraine has disrupted global supply chains and caused a spike in commodity prices. This will impact the cost structures of all large consumer goods manufacturers. We are not geopolitical experts but it looks like this situation will last for a while and no one should expect a quick resolution. India has so far been able to take a neutral stance, but we are not sure how long it will be before every country is forced to take sides.

Warren Buffet has just released the annual letter of Berkshire Hathaway. All his annual letters, including this one, should be read by anyone who has even a passing interest in investing. They teach the reader all the correct investing habits and behavior when faced by a volatile and noisy global environment. The latest letter has a gem from The Oracle of Omaha:

> "Whatever our form of ownership, our goal is to have meaningful investments in *businesses* with both durable economic advantages and a first-class CEO. Please note particularly that we own stocks based upon our expectations about their long-term *business* performance and *not* because we view them as vehicles for timely market moves. That point is crucial: Charlie and I are *not* stock-pickers; we are business-pickers."

This simple para comes from more than 150 years of cumulative investment experience. No one could have said it more succinctly. Returns are made by investing in right businesses and then holding on to them patiently. Not by investing in 'markets'. Market volatility is a red herring, best ignored by astute investors.

We are fortunate that our investors understand and agree with this perspective. We did not see a single outflow or redemption during the sharp market correction over the past few months. In fact, many of our investors used the opportunity to add to their portfolios. We applaud their savviness!

Abhay Agarwal,
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