Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 15.6%. This compares favorably with our benchmark Nifty that returned 12.53% over the same period and multi-cap MFs that generated 15.1% 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

"Sell in May and go away" was probably spoken for this month of May. Markets got clobbered across the board. Global indices like Nasdaq and S&P 500 fell 25.9% and 14.2% respectively from the peak levels. The relatively small fall last month of 3.1% in Nifty masked the 5.3% fall in midcap and 10.2% fall in small cap index. The correction was not limited to equity markets. Cryptos fell 14.7% and hedge funds like Tiger Global saw a fall of more than 14%. The reason for this sharp fall is the culmination of easy liquidity cycle that started post global financial crisis in 2008 and continued unabated. The exceptionally low interest rates led to negative real interest rates all over the world and drove savings into speculative assets chasing better yields. The aggressive flow of money into high-risk assets like cryptos and start-ups created bubbles that are now bursting and causing wide-spread pain. Risk capital is getting pulled back sharply despite the Fed and most other central banks telegraphing their intent to raise interest rates for many months now. Maybe the markets so far ignored that as a mere threat. The sharp spike in global inflation, and the fact that it is proving to be sticky, has finally forced the central banks, including the Fed and the RBI to raise interest rates and to guide to a path of a series of hikes culminating only in 2023.

The FPI exit picked up further pace with record net selling of Rs. 44,000 crores taking the last 8-month figure to USD 32 billion. While the selling seems to have slowed down, it is still not showing any signs of a reversal. The selling is not specific to India. Almost all global markets have seen outflows.

We believe that this decisive reversal of interest rate cycle will reset many equations in the investment world. Investors are going to seek a higher risk premium as the cost of capital rises. This has already led to downward adjustment of P/E multiples. At the same time, savers and long-term investors will benefit as they will get better real returns.

While our portfolio also saw a fall in NAV, we have taken the opportunity to exit from a couple of companies and have started deploying the capital in two new companies. We have exited Equitas completely due to very soft business performance that does not seem to be reversing. We are reducing our exposure to the real estate company as we worry about the impact on demand for residential property in a rising interest rate scenario. We have added CMS Info Systems to the portfolio. It is India's largest cash management company. It listed earlier this year and we have been tracking it since then. The price correction last month has given us an opportunity to add it to the portfolio. We have covered our investment thesis in a concise manner here. We are also adding to Lemon Tree as we see it benefit from the capex done during covid lockdown and the sharp uptick in business travel.

The PMS completed 3 years last month marking a major milestone for us. We tell our investors to measure our performance over at least a 3-year cycle. Despite the two sharp drawdowns during this period, the PMS generated a net annual return of 15.3% compared to 11.6% by Nifty. We are quite hopeful that the investors who have joined the PMS since October last year will also see their NAV recover as the market sell-off eases and valuations catch up with the earnings growth.

It is heartening to see that the operating performance of almost all our portfolio companies has improved in Q4. In the annexure, we have provided a summary of the Q4 performance of each portfolio company. We will be happy to discuss the portfolio with you and answer any questions that you may have.

We expect the markets to stay volatile in the near future as the world grapples with high inflation and rising interest rates. While this volatility will adversely impact short term investors and traders, it will also provide a great opportunity to long-term investors to add more high-quality companies to their portfolio at very attractive valuations. But investors need to be ready to act when an opportunity like this presents itself. Our advice to our investors is to not engage in the fruitless exercise of timing the market to increase their allocation. Work with your financial advisor to explore opportunities of increasing your equity allocation in a gradual manner to benefit from the volatility.

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