Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. 38

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Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 12.0%. This compares favorably with our benchmark Nifty that returned 10.3% over the same period and multi-cap MFs that generated 11.0% return. Our standard deviation is at the same level and CAPM beta is 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 update

"When the facts change, I change my mind - what do you do, sir?" If John Maynard Keynes had asked us his famous question, we would have replied that we rebalance our model portfolio. That is exactly what we did last month as part of our annual model portfolio rebalancing exercise. The objectives of this exercise are to:

- Benefit from sharp reduction in valuation of attractive companies. There are many companies that we track regularly as part of our investible universe. With the recent sharp correction in the market, the valuation of many of these companies have fallen within our fair value range giving us an opportunity to add them to the portfolio.
- Reduce portfolio risk by increasing the number of stocks. We believe that it is a good time to increase the breadth of the portfolio by introducing sectors where we had almost negligible presence like auto, energy and pharmaceuticals. This expansion of number of stocks in the portfolio to 23 from hitherto 18 will also bring down portfolio risk without sacrificing returns.
- Reduce overall portfolio valuation. With the rebalance, the valuation multiples of the portfolio have dropped by 31.0% on an average. This sets up the portfolio nicely for long term wealth creation.
- Equal weightage of large, mid and small caps. Over the last six months, our portfolio allocation had got skewed towards small caps at the cost of large caps. We have now fixed it and the portfolio is now almost equal weighted across market caps. This provides the portfolio with an ideal mix of growth and stability.
- Rebalance sectoral allocations. The portfolio had become heavily weighted towards financial services and consumer technology. That has been fixed now. We have increased allocation to IT services, pharma and energy sectors.

All the changes made to the portfolio will be visible in your June month-end portfolio statement.

This is also an opportune time for us to restate the fund management model that we follow:

- Our model portfolios are for a 5-year cycle. Therefore, the ideal way to judge our investment performance is 3-year rolling periods. Anything shorter than that will produce erratic results and may not provide any actionable data for your investment horizon.
- Model portfolio management is the sole responsibility of Piper Serica. We have the same model portfolio for every investor. We cannot make different portfolios for different investors.
- Piper Serica actively manages the risk and return profile of the model portfolio. However, the major change is made on an annual basis. We do not make short term investments. A very high churn rate ultimately reduces returns.
- We do not take cash calls in the portfolio. At the time of a major portfolio rebalance we may temporarily have a high cash balance. However, we typically hold not more than 5% cash in the portfolio across market cycles.

We would like to assure you the fund management team at Piper Serica is constantly reviewing new opportunities to improve the risk adjusted returns of the portfolio. We are happy to take exit calls when we see an investment thesis not working out as was the case with Zomato. While we continue to believe that the company's food delivery business has great long-term value, its recent decision to acquire a heavily loss-making quick commerce company flummoxed us and raised doubts over the management's intent to pursue profitability at the earliest. As Mr. Keynes posited, when facts changed we acted.

The recent market correction has been quite deep especially for small and mid-cap stocks. Markets have now discounted a lot of bad news and any concrete resolution of any of the key issues will lead to a sharp rally in the market. We believe that with its growth drivers and favorable demographics India is all set to take a leadership position in global growth over the decade. We believe that our model portfolio captures the upside of this growth very well and will reward patient long-term investors in a handsome way.

Abhay Agarwal,

Founder & Fund Manager

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Director, Research