Piper Serica

Piper Serica Leader Portfolio Strategy™

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Portfolio performance

The since-inception (June 2019) TWRR for the PMS is 15.1%. This compares favorably with our benchmark Nifty that returned 13% over the same period and multi-cap MFs that generated 13.8% 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

The month of July saw a sharp recovery across global markets. Indian markets recovered from the yearly lows as investors started betting that inflation has peaked and interest rates will not rise to astronomical levels. It was also a month when FPI selling abated and there were signs of inflows after 9 months of outflows. We expect the next six months to be volatile for the markets.

The rebalancing of model portfolio done in the month of June led to an outperformance by the PMS over Nifty in spite of holding 10.5% cash. We are confident that the portfolio is now well positioned to provide alpha returns to our long-term investors. We made one exit this month from an underperforming B2B Internet company. Its quarterly results were not up to the mark and its execution is falling behind its schedule. We are going to replace it with another company that we have been looking to add to the portfolio for over a year. We are not expecting any other portfolio activity.

We are amidst the results season for Q1 FY23. The results announced by our portfolio companies so far have been better than estimated, barring one. Consumer demand has stayed strong despite the marginal price hikes taken by manufacturers to offset the input price increases. There is pressure on the margins even as the volumes have expanded. Companies are hopeful that margins will revert to normal once input prices cool off. With a sharp correction in commodity prices this seems to be an intelligent bet.

We have shared our analysis of the quarterly results of each company with our investors over our WhatsApp channel and will share the consolidated analysis in the next quarterly letter.

Competitive Advantage and its assessment

Warren Buffett uses the term "moat" for explaining Competitive Advantage. "Widening the moat" is the management action of protecting and extending a company's Competitive Advantage over rivals, the result of which is a high Return on Invested Capital (RoIC) % spread above Cost of Capital. In 1999, Buffett was interviewed by Carol Loomis for Fortune Magazine when he said "The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage. The products or services that have wide, sustainable moats around them are the ones that deliver rewards to investors."

He further elaborated in his 2005 letter to his shareholders:

"Every day, in countless ways, the competitive position of each of our businesses grows either weaker or stronger. If we are delighting customers, eliminating unnecessary costs and improving our products and services, we gain strength. But if we treat customers with indifference or tolerate bloat, our businesses will wither. On a daily basis, the effects of our actions are imperceptible; cumulatively, though, their consequences are enormous. When our long-term competitive position improves as a result of these almost unnoticeable actions, we describe the phenomenon as "widening the moat." And doing that is essential if we are to have the kind of business we want a decade or two from now. We always, of course, hope to earn more money in the short-term. But when short-term and long-term conflict, widening the moat must take precedence. If a management makes bad decisions in order to hit short-term earnings targets, and consequently gets behind the eight-ball in terms of costs, customer satisfaction or brand strength, no amount of subsequent brilliance will overcome the damage that has been inflicted".

At Piper Serica, assessing the competitive advantage of a company is the bedrock of our research process. Our investors are aware that we use the 5 Forces Competitive Edge Model developed by Professor Michael Porter to assess the competitiveness of a company. We have further developed this framework and converted it into a decision-making tool by quantitatively rating each of the 35 sub-parameters that define competitiveness. We update this model score every quarter for each company that we track and assess whether there is any deterioration in the competitiveness of a company. The advantage of using this framework is that it forces our research team to do a full 360-degree research of a company. As part of this exercise we meet the suppliers, distributors, customers, competitors, management and all relevant stakeholders of a company. After completing this exercise the company is added to our model portfolio only if it scores higher than our threshold level. As a result all our portfolio companies are very competitive players in high growth industries.

Research by itself is a very amorphous process with no well-defined end to it. At the same time that research needs to lead to prudent investment decisions. Therefore a quantitative methodology provides a sharp definition to the research process.

We are happy to say that over the years our ability to use this framework has improved and we continue to build on our strength. By using this tool over many years our research team has built an intuitive understanding of how to assess the competitive advantage of a company and its durability. This is quite a unique approach to research that we bring to the table for our investors.

Lastly

Our young country is celebrating its 75th year of independence this month. It is a solemn moment to express our gratitude to those who gave up everything so that we can live their dream of an independent India. It is also the time to celebrate our freedom and the distance we have covered in the short tenure of independence. We have our internal issues, strife and disagreements. But none that can stand in our way as we become a global powerhouse over this decade. We are truly honored when we meet our investors who are doing so much for the benefit of the society by supporting different causes. The way they spend their time and resources helping the needy through initiatives linked to literacy, healthcare, infrastructure, food and clothing etc. is humbling as well as inspirational. After meeting our investors who come from diverse backgrounds, we realize that India is not just a country but a culture. Generosity and helping the needy is embedded in this culture. Despite the challenges highlighted by the media, this culture will help us become an inclusive and plural society, essential for our growth.

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