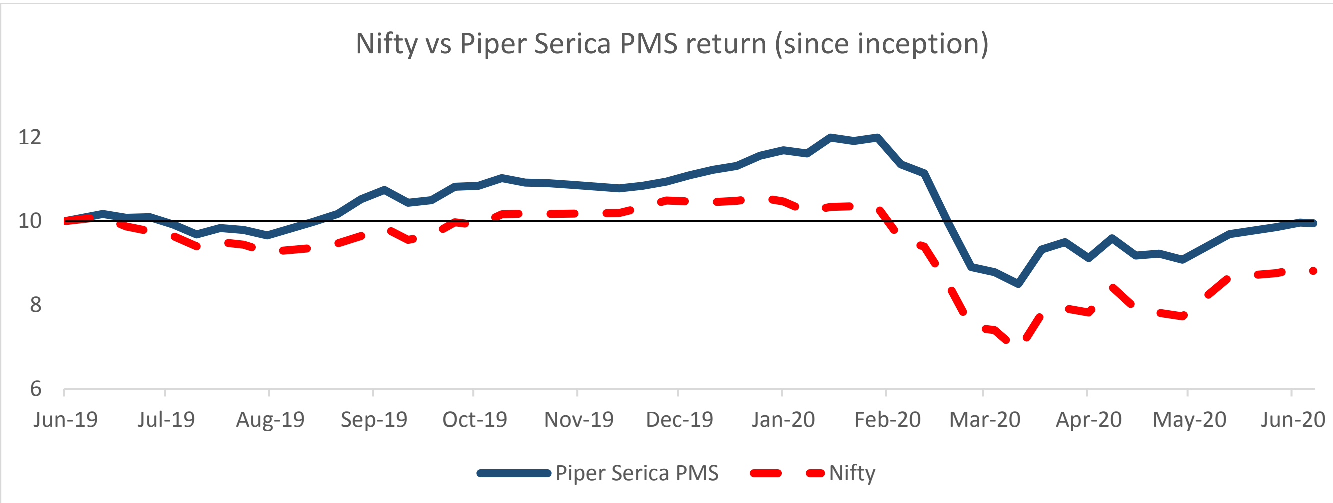
First Things First

PMS level absolute return for June 2020 was 5.4%[1&2] against 7.8% for BSE Sensex, 7.6% for Nifty and 3.1% for multi-cap mutual funds. Nifty mid- and small-cap indices returned 11.0% and 14.9% respectively during the same period. Trailing one-year return for the PMS is -2.5%, compared to -11.3% for BSE Sensex, -12.5% for Nifty and -16.5% for average multi-cap mutual funds.



Note:
1. This is the average absolute return for the entire portfolio. Individual portfolio returns will vary because of timing differences.
2. Calculated by an independent fund accountant on a TWRR basis after taking into account all fees and expenses.

Portfolio Activity

We deployed our cash holding fairly actively and ended the month with cash allocation of 13.2% compared to 33.0% at the end of last month (*this is the average cash holding for the entire PMS and individual accounts may have different levels of cash*). The reasons for this active deployment are discussed later in this letter. We added 3 new stocks to the portfolio. These include an MNC that is a leader in engines, an MNC that is a leader in providing automation services to the infrastructure industry and lastly, an Indian company that is a leader in the electronic manufacturing services (EMS) space. We further increased allocation to the commodity exchange, brewery, domestic pharma and a life insurer. The life insurer will be added to the Nifty 50 index at the end of this month. This is a very positive development for its stock since passive ETFs will have to allocate funds to it. We had forecasted in our annual investor letter (January 2020) that this was highly possible and it is heartening to see a stock that we have held since the inception of the PMS get included in the Nifty 50 index.

Top 5 Stock Holdings	Allocation*
Hindustan Unilever	7.0%
MCX India	6.7%
HDFC Bank	6.4%
United Breweries	6.0%
Bajaj Finance	5.6%

**including cash in the portfolio*

Top 5 Sectors	Allocation*
Financials	28.0%
Consumer Staples	21.2%
Consumer Discretionary	19.0%
Healthcare	10.3%
Industrials	6.4%

Large Cap	Mid Cap	Small Cap	Cash
56.3%	13.4%	17.2%	13.2%

Portfolio Strategy

Looking at the recent economic data we are getting more confident that the economic recovery is faster and sharper than we anticipated earlier. Here are some recent data points:

1. India's unemployment rate in June fell to 11% from 23.5% in May, according to data released by the CMIE. Migrant workers are returning to factories and construction sites thereby easing the shortage of skilled manpower.
2. Manufacturing Purchasing Managers' Index (PMI) increased to 47.2 in June from 30.8 in May. The index is at the cusp of moving into expansion zone.
3. E-way bill generation has increased from 0.86 crores in April to 3.99 crores in June.
4. GST collection in June increased to Rs. 90,000 crores from Rs. 32,000 crores in April though some of it was for earlier months since GST filing deadline for April and May was relaxed till June 30.
5. Auto sales have picked up. Tractor sales grew 21% for Escorts and 10% for M&M on a YoY basis. Two-wheeler sales were robust with most manufacturers claiming the sales to have reached 70-90% of pre-Covid levels. Four wheelers sales are about 50% of pre-Covid levels but manufacturers are blaming supply chain disruptions for lower sales rather than lack of demand. However, commercial vehicle sales continue to be very weak.
6. UPI transactions hit an all-time high in June. Transaction volumes in June grew 8.9% and value grew 20% over May after a sharp fall in April.
7. The trading volumes on all exchanges have picked up, quite dramatically in some cases. In June, daily cash volumes (ADTV) almost doubled for NSE and BSE on a YoY basis. NSE derivatives ADTV grew 23% YoY and MCX commodity ADTV ex-crude was up 44% YoY. Overall, MCX ADTV was almost flat YoY in June and most segments showed volume as well as value growth on a MoM basis.
8. India's current account turned a surplus of 0.1% of the GDP in the fourth quarter of FY2020 for the first time in more than a decade compared to a deficit of 0.7% for the same quarter a year ago.
9. All leading banks and NBFCs have announced a reduction in loans under moratorium in June. The sharp increase in loans under moratorium in April and May had caused a lot of anxiety to investors. Interest rates continue to fall as the RBI induced liquidity has started flowing into the system.

We are expecting the Q1 corporate earnings to be poor due to the negative impact of the lock-downs. However, we now expect the recovery thereafter to be sharper than expected earlier. While saying that we are cognizant of the risks:

1. Covid-19 cases continue to rise as the country starts to open up. However, 'R' has fallen to 1.09 from 1.22 a month back. The rate of recovery has improved to 59.4% and mortality rate is down to 2.9%. We do not foresee another national level lockdown. The hotspots are now localized and dealt firmly by the local governments.
2. Supply chains are disrupted across industries. While consumer demand is picking up, manufacturers are struggling to get capacity utilization back to pre-Covid levels.
3. The 'vocal-for-local' initiative has not led to any concrete steps by the government to support local manufacturing. Instead, with a 'go-slow' on clearing international consignments, many importers of critical components are struggling to complete their orders.
4. 43.7 million households have sought work under MNREGA – highest in last seven years. The Rs. 40,000 crores of extra allocation by the government will add barely 0.2 billion of extra days over the current 2.8 billion. Many households are close to completing their guaranteed annual quota of 100 days of work. This will necessitate a further hefty allocation by the government to MNREGA.
5. Global markets have recovered quite well backed by the unprecedented increase in global liquidity. However, any event that leads to a 'risk-off' scenario can drive the markets towards their March lows.

While balancing these risks with the recent flow of data, we are now of the opinion that recovery will be patchy but will continue to gain momentum. As a result, while the markets may look expensive from the near-term perspective, they are reasonably valued from a longer term perspective. We are using this opportunity to continue to invest in companies that fit into our Leader Portfolio strategy. Each of our portfolio company is a leader of its industry. We are pleased that because of the fall in markets we are getting to invest in them at attractive valuations.

Further update

We have received a lot of interest from international investors and NRI investors who want to participate in our Leader Portfolio strategy. To make it easy for them we have set-up a FPI sub-account in Mauritius. This sub-account has recently started investing. It will follow exactly the same Leader Portfolio strategy as the PMS.

We are also soon going to be live on the Smallcase platform. This will allow our distributors to onboard smaller investors who cannot participate in the PMS. Unlike the PMS and the FPI sub-account this portfolio will not be dynamically managed. It will be managed through a model portfolio that will be rebalanced on a monthly basis. Again, the model portfolio will largely reflect our Leader Portfolio strategy.

Our team will be happy to provide details on both these new initiatives. We are quite excited that we will be able to significantly widen our investor base by providing both the above-mentioned options to potential investors.

On behalf of all of my colleagues at Piper Serica, I wish you, and your loved ones health and safety.

Abhay Agarwal
Founder & CIO,
Piper Serica Leader Portfolio Strategy™ PMS
Piper Serica India Numero Uno Fund, Mauritius