# Piper Serica Leader Portfolio Strategy™

Investor Letter Vol. 48

April 2024

## Portfolio performance

The PMS return since-inception is at 18.8%. This is higher than the return generated by Nifty at 16.7%. The PMS return for last financial year ending March 2024 was 54.4% compared to 38.4% for Nifty. The PMS level cash holding is at appx. 3.3% (may vary for individual accounts).

## Market update

Global and Indian indices made new highs in the quarter. While investors are cautious it is clear that all dips in the markets are being bought into. This has created pockets of overvaluation but we believe that overall markets are still in the fair value range. India continues to trade well within its forward multiple range basis of the forecasted 10-15% growth in Nifty EPS annually over the next couple of years.

India's macroeconomic situation is probably at its best ever. Current account and fiscal deficits are well within target range and borrowing plan is comfortable. As a result, interest rates are stable and expected to trend down over the next couple of quarters. Higher food prices and spike in crude oil could put some pressure on inflation in the near term but is balanced by higher growth in PMI. Private capex cycle has started to pick up. Long term investments by large international companies like Apple, Foxconn, AMD, Micron etc. have already started to create a very large number of high quality blue collared jobs.

We expect some volatility in the markets when the polling starts. At the same time we believe that astute investors will use this volatility to their advantage by adding high quality stocks to their portfolio. The incumbent government's economic agenda and policy direction are looked at favourably by the markets. A continuation of the same will not only bring relief but also the expectation that reforms will further pick up pace over the next five years. We stay positive on the markets despite the sharp run up over the last 12 months. At the same time we are making changes to the model portfolio to protect our returns, manage the volatility and reduce portfolio valuation and risk.

To summarise, investors should not cut their allocation to stocks just because of recent outperformance and high returns. As per our models, the expected return from the portfolio is lower than what was forecast same time last year but still better than any other asset class.

## Model Portfolio Rebalancing

In the recent portfolio rebalance we have increased our allocation to large caps to 50% from earlier 40%. We have added 3 new large cap stocks that you will see in your portfolio soon. Each of these is a leader in its respective sector. A long time correction in the valuation has them now trading at the low end of their historical multiples. At some point of time each of these stocks was a darling of investors in 'high quality' companies. However, many times, consensus driven buying takes valuation to a level that does not leave any return on the table for investors. When the tide turns and the same stocks get into a long drawn correction mode, even the most faithful get tired of seeing no returns and start exiting them. We believe that with low participation and interest, these stocks are very attractively priced. We never had any doubt about the quality of their business. We are confident that we are adding them to the model portfolio at the right time.

To make space for them in the portfolio we are exiting one mid cap and one small cap stock. Our recent channel checks show that the mid cap company is losing market share and the management is not responding to increased competitive threat. The small cap stock on the other hand has done very well for us but now trades significantly above our fair value estimate. We are also cutting our allocation to Jio Financial marginally from 5% to 3.5%. We believe that the company is building an amazing financial services franchise. However, the stock is already up by more than 60% since we first added it in October 2023. We are happy to book some profit and redeploy. Other than these changes we are not expecting any big changes to the model portfolio over the current quarter unless we are suddenly presented with a very attractive opportunity.

The rebalanced model portfolio is forecasting a 17.5% return over the next year based on our estimate of earnings. The estimate at the same time last year was 40% against which the actual return was 54.4%. The forecasted annualized return over next three years is 19.7%.

**Note on Zee Entertainment**

Our investors have been curious about our addition of Zee Entertainment. Zee's stock price corrected sharply after its merger with Sony fell apart. Sony backed out citing SEBI ban on the MD of Zee from holding any director position due to financial irregularities at Zee. Zee has always been under the cloud and we have no data to say that the founders are better than their market reputation. At the same time, we see Zee as a heavily mis-priced stock even after building in these concerns. Our model shows a value that is more than double the current valuation with conservative assumptions. We are not fans of Zee management but we are big fans of mis-priced stocks. Zee is a tactical investment for us with a 5% allocation. We need to have a few such investments in our portfolio to continue to generate the alpha. At the same time we have a strict stop loss on such investments in case our call has gone wrong. We believe that with its strong presence in general entertainment channels, business news, news and the OTT app Zee has a very solid business. Typically, in an election year media businesses benefit from higher ad spends. The company is profitable with low debt. It had a bloated cost structure but the management is fixing that by taking cost cutting measures. An improved financial performance coupled with higher participation in the stock will rerate the stock from its current multiple that is at its lifetime low. We will watch the performance closely.

We would like to end with a quote from Marty Whitman that resonates with our investment philosophy.

"We get protection by being price-conscious and by being
extremely knowledgeable about our holdings."

Abhay Agarwal,
Founder & Fund Manager

Rajni Agarwal,
Director, Research