QUEST PMS PORTFOLIO UPDATE – JULY 2020

QUEST

Dear Investors,

Hope my letter finds you all in the best of health and safe & secure along with your family members.

"The worse a situation becomes the less it takes to turn it around, the bigger the upside" -- George Soros

The endurance of the human mind is tested best in the difficult times and it's **the decisions one makes in those difficult times that shows the strength of the mind**. Where can you get a better place to put your mind to test than in the live equity markets. **Perceptions of people change with changing price movements** and volatilities add to the deceptions. What looks like a safe and good investment in a stable business environment suddenly looks risky when the world turns upside down in a crisis. On the other hand what seems like a risky avoidable investment in a tough time turns out to be one of your best and lowest risk investment over a period of time. Last 6 months have been the verbatim of these realities unfolding in front of us.

Beginning of this year, **we had set upon ourselves the responsibility to ensure** that our valued investors who have entrusted their wealth with us, should see their **portfolios getting back their old distinctiveness of being among the top quartile performer** in the industry and also outperforming the broader market. In view of this we changed our style of investing from focusing only on smallcaps and midcaps **to a broader multicap approach that helped us to balance risk and returns** and give the best risk adjusted returns to our investors. We believe there is no shame in accepting that our view did not play out in some sectors which hurt our portfolios in 2018. Taking a corrective action on the same is what is key and we have surely come around strongly on that front. We also became **more agile in identifying trends in the market and used it to our advantage to add alpha** to the portfolios. As can be seen in the table below, except for the last two years and mainly CY2018, we have been able to outperform the market consistently and now in 2020 we are back on the same trajectory with our portfolios on an average outperforming the broader markets by ~7.5% on an average in the first 7 months of this year so far.

Our portfolios have outperformed broader market by ~7.5% on an average in the first 7 months of 2020 so far

	Calendar Year Absolute Returns %						
As on 31st July 2020	**CY20**	**CY19**	**CY18**	**CY17**	**CY16**	**CY15**	**CY14**
Quest Flagship PMS	1.8%	-0.7%	-15.7%	47.5%	8.1%	12.4%	77.0%
Quest Focus PMS	-4.8%	-1.5%	-20.0%	85.2%	2.1%	0.0%	0.0%
Quest Multi PMS	-0.9%	0.0%	-22.5%	53.2%	8.3%	14.5%	20.4%
NIFTY – 50	-9.0%	12.0%	3.2%	28.6%	3.0%	-4.1%	31.4%
NIFTY – 500	-8.5%	7.7%	-3.4%	35.9%	3.8%	-0.7%	37.8%

Going back to our March'20 letter to investors amidst the pandemic storm and severe melt-downs in world markets, we had said **one thing common to all bear markets are that they come to an end and how they come to an end is also different each time**. Also we have repeatedly highlighted in our subsequent investor letters over the last 6 months two key pointers which I think would be good to revisit as our thesis remains unchanged even now:

- **New leaders always emerge in the next rally in the market** – this is something which we have been highlighting for quite sometime in our communications and also forms the corner stone of our portfolio strategy which is sector rotation. We are seeing this unfolding as Pharma, Specialty chemicals, Autos, Telecom and IT stocks have been leading from the front while Capital goods & Infra, Banking & financials and capex heavy cyclicals continue to under-perform. **Earnings drive stock prices and this time its no different**. Resiliency of earnings and strong visibility and management commentary in these sectors have been the reason for their out-performance. Just for a reference to make our this point we can see that last time Nifty was at 12000 levels, most banking stocks and NBFCs were almost 30-40% higher than where they are now whereas Nifty is now just 8-9% away from its all time highs. Most financial companies have been hurt the hardest in the lock-downs and moratoriums. On the other hand most pharma companies, specialty chemical companies and IT stocks have reported strong set of margin improvements and earnings growth and have been making new highs.

- **Valuations don't look stretched** – In our May 2020 **we had highlighted how valuations look compelling for a midcap and smallcap rally** in coming quarters. We have been adding selective names in midcaps and smallcaps in last few months and continue to do the same now as we see the current market to be a stock pickers paradise as great businesses are available at throw away prices and have also been responsible for super normal returns and will continue to do so as earnings growth and stability are supporting their price trajectory. Many people have been sounding the caution bell saying Nifty P/E (Price to Earnings) has crossed 30x. However I would say looking at P/E in an environment where last 5 months earnings is a washout will only lead you to take wrong decisions. We have always believed **Price to Book Value (P/B) gives a better picture and going by that we are at 3.15x P/B** and that's marginally above the historical average P/B of 3.05 of last 10 years which gives us comfort that valuations are not stretched. We too measure the risk and reward in every move but **sometimes being over-cautious and fearful is detrimental to long term wealth creation from equities.**

"The stock market has predicted 9 of the past 5 recessions" – Paul Samuelson

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Looking ahead from the drivers seat, we see the pace of broader market rally calming down and action moving to selective sectors and companies which would be driven by new developments in their sector either owing to policy changes from the government or with regard to new growth drivers within the company. Our outlook on the different sectors is summarised below which gives a good picture of how our current portfolios also look like:

BANKING & FINANCIAL SERVICES

Financial services are better placed over pure play banks owing to lesser impact from the pandemic and lockdowns

- We remain **underweight on banks** and **overweight on the other financial services** like Insurance, Broking, Asset Management where we see earnings resilience.
- **Lower loan growth among banks and extended moratoriums** would continue to be hurdles for banks earnings in coming quarters too. However within the banks the larger names like ICICI Bank, HDFC Bank, Kotak Bank and SBI have been able to steer better than expected the whole crisis and that is where our exposure remains
- The **insurance sector has been seeing its business back to pre-covid levels** with higher trends towards protection and non-participating products. HDFC Life and SBI Life have been seeing steady growth in recent months.
- **Within the NBFC space**, we remain focussed the leader Bajaj Finance who has been going cautious with its disbursements and **focussing more on quality than on growth** which gives us comfort.

PHARMA & CHEMICALS

- We remain **overweight on both Pharma and Chemicals** space as we see multiple triggers in the space. On one hand strict cost controls have helped the recent quarterly earnings and helped in improving the EBITDA margins significantly. On the other hand new growth markets and product launches are opening up greater scope for most Indian Pharma and Chemical companies. **Demand resiliency is a key factor** working in favour for these sectors.
- Government's focus on making India self reliant and also a global export hub in Pharma & Chemicals bodes well for the long term growth trajectory for the companies in the sector. Most **companies have already chalked out aggressive expansion plans** which will start reflecting in their numbers in next few years.

AUTOMOBILES

Inspite of a decent run-up in pharma and chemical space we see it as a multi-year secular bull run for these sectors

- After almost 2 years of slow growth the industry seems to be coming out of hibernation. We have been bullish on the revival of this sector since the last few months and took the opportunity of depressed valuations to add leaders in the sector both OEM and Auto ancillary.
- **Rural demand continues to remain steady** and is likely to outpace urban demand. Host of government incentives for agri reforms and increasing Agri income is the big trigger there. Demand for tractors and 2-Wheelers remains strong. Passenger Vehicles demand will follow and finally demand for Commercial vehicles will revive in later half of FY21.

IT & IT SERVICES

- With the initial fear of disruption for the IT sector owing to lack of travel to client locations now completely abated, the new normal of delivery and working from home seems to have gone down very well with clients and all IT companies have been able to smoothly transition to this.
- **Large deal wins for almost all the major IT players and also many by the Tier-2 IT companies** has been a very pleasant surprise. We have been building up some positions in the sector as we see Indian IT being a big beneficiary of larger digitalization of systems and processes at client sites. Though currency benefits might not be a thing in recent future but the broader trend for the sector looks bright.
- Within the Technology space, **we would like to club Telecom** as well as we see it being a facilitator of the whole ecosystem and are very bullish on the rising ARPUs and increasing bandwidth consumption in the country. We have exposure in both the leaders in the sector, namely Bharti and Reliance.

CONSUMPTION

- Within the consumption basket we believe the **staples and essentials category will continue to dominate** in the next few quarters till normalcy is restored. Pent up demand in the discretionary category is something which might not be long lived and could see tapering down.
- We remain very **bullish on the potential for the consumer durables** space and continue to look for ideas there which meet our risk-reward framework.
- Paints and Personal care products indirectly remain our overweight positions in the portfolio

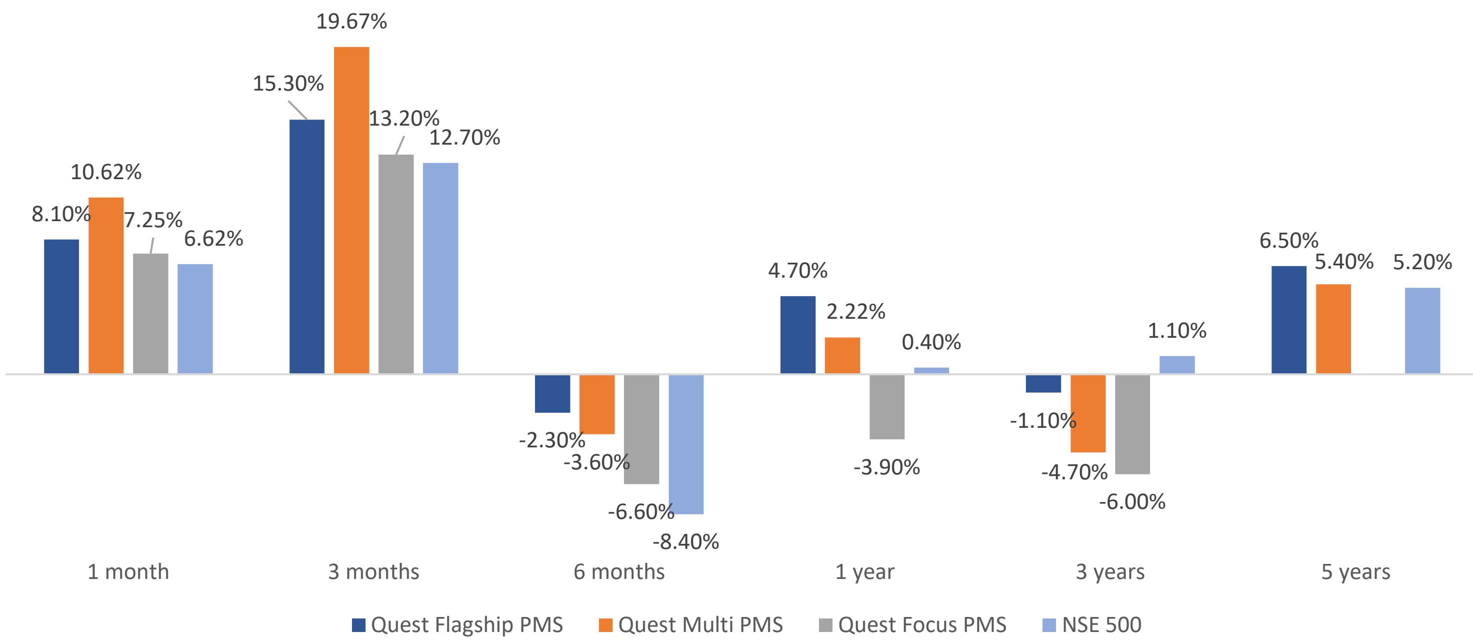
CEMENT & INFRASTRUCTURE

- We remain **positive on the Cement sector on expectations of sharp demand recovery** in FY22E and coupled with resilient pricing and benign fuel prices, profitability is expected to remain high.
- In the recent quarterly numbers we were pleasantly surprised to see **prudent cost controls and strong realizations** which would go a long way in improving the health of the industry going ahead.
- In the **infrastructure space**, though Q1FY21 has been a washout quarter owing to lockdowns and absence of labour on project sites, **we see green shoots for the sector** and would see strong revival in FY22. However we remain underweight on the space as of now.

PORTFOLIO ACTIONS AND PERFORMANCE

In line with our recent views wherein we had said, midcaps and smallcaps look more attractive on valuations front than compared to large-caps, we continue to look for interesting ideas in the space. Nevertheless our multicap allocation remains with nearly 40-55% into large-caps and rest in midcaps and smallcaps. We have been on an average maintaining 5-8% cash levels in recent times and look forward to maintain the same in coming months and finance a new stock addition with some profit taking in an existing holding mostly.

No one has ever got it perfect with timing the market. So a staggered way of additional deployment into the market is ideal in such uncertain times



Note: Above returns are as on 31st July 2020. Returns for period of 1 year and less are absolute while for periods more than 1 year are annualized IRR returns. Quest PMS portfolio returns are for Model portfolio client. Considering different clients would have joined at different time frame, their returns could be different from this

During the month:

- We have increased our Auto exposure by adding M&M in the portfolios
- We have increased our IT exposure by adding onto Infosys and HCL tech in our portfolios.
- We have booked some gains in Reliance Industries and also in Laurus Labs as they have given us over 60-100% gains in a short span of time
- We are adding onto some names in the home improvement, specialty chemicals and animal pharma company in the midcap smallcap space where we are seeing significant valuation comfort and favourable risk reward payoff.

Looking forward to some exciting times for stock selection and wealth creation ahead. Happy Investing and be safe and stay healthy!

Aniruddha Sarkar
Chief Investment Officer & Portfolio Manager

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Annexure 1: Comparison among peer strategies as on 31st July 2020:

As on 31st July 2020		Peer Performance Comparison Snapshot											
Name of Fund house	Strategy Name	1M		3M		6M		1 year		3 years		5 years	
		Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Average performance of comparable Peer Portfolios		5.11%		9.23%		-12.47%		3.53%		0.24%		5.29%	
Quest Investment Advisors	Flagship PMS	8.10%	3	15.30%	3	-2.30%	2	4.70%	9	-1.10%	11	6.50%	6
Quest Investment Advisors	Multi PMS	10.62%	1	19.67%	1	-3.60%	3	2.22%	11	-4.70%	14	5.40%	8
Quest Investment Advisors	Focus PMS	7.25%	4	13.20%	4	-6.60%	4	-3.90%	18	-6.00%	16	NA	NA
Aditya Birla Capital	Core Equity Portfolio	3.45%	18	7.32%	17	-14.64%	17	-0.68%	15	-6.22%	17	1.88%	14
Aditya Birla Capital	SSP	5.85%	10	8.29%	15	-17.58%	18	-1.90%	17	-8.82%	18	1.37%	15
Alchemy	Select Stock	5.60%	13	9.10%	11	-19.80%	19	-10.90%	19	-2.20%	13	4.70%	11
Alchemy	High Growth	4.20%	16	7.80%	16	-20.10%	20	-14.10%	21	-5.10%	15	2.30%	13
Alfa Accurate	AAA Focus Plan	6.10%	9	12.40%	8	-7.30%	6	7.00%	6	0.00%	10	6.30%	7
Ambit	Coffee Can	1.90%	21	2.00%	21	-8.50%	7	15.90%	3	14.40%	1	NA	NA
ASK	IEP	6.20%	7	8.90%	13	-11.40%	11	5.30%	9	4.50%	5	8.20%	3
ASK	India Select	5.70%	11	8.50%	14	-9.30%	8	7.50%	5	1.90%	6	7.00%	4
AXIS	Brand Equity	3.47%	17	6.31%	19	-12.38%	13	1.80%	13	5.12%	4	NA	NA
ICICI Pru	Flexicap	4.59%	15	12.70%	7	-12.30%	12	3.80%	10	1.60%	8	5.40%	8
IIFL AMC	Multicap PMS	7.12%	5	13.06%	6	-10.73%	10	5.40%	7	7.48%	2	15.35%	1
Kotak AMC	SSV Series 1	6.53%	6	11.09%	9	-21.91%	21	-13.19%	20	-14.94%	19	-2.66%	16
Marcellus	Consistent Compounders	3.00%	19	3.70%	20	-6.80%	5	22.70%	1	NA	NA	NA	NA
Motilal AMC	Value	4.60%	14	8.97%	12	-13.30%	15	1.90%	12	0.87%	9	3.90%	12
Motilal AMC	NTDOP	5.68%	12	10.68%	10	-13.86%	16	-1.86%	16	-2.03%	12	5.08%	10
Sundaram AMC	SISOP	6.20%	7	13.10%	5	-10.10%	9	13.70%	4	5.30%	3	6.60%	5
Tata PMS	Emerging Opportunities	2.60%	20	6.40%	18	-12.90%	14	1.20%	14	1.90%	6	8.60%	2
White Oak Capital	India Equity Portfolio	9.22%	2	15.81%	2	-1.56%	1	19.94%	2	NA	NA	NA	NA
NIFTY - 50	**Largecap**	7.50%		12.30%		-7.40%		-0.40%		3.20%		5.40%	
NIFTY MIDCAP - 100	**Midcap**	5.20%		14.60%		-14.10%		-2.80%		-5.80%		2.40%	
BSE 500	**Multicap**	6.80%		12.80%		-8.30%		0.20%		1.10%		5.00%	

Source: PMS-AIF.com and PMSBazaar.com