QUEST PMS PORTFOLIO UPDATE – AUG 2020

QUEST

Dear Investors,

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

"When a long-term trend losses it's momentum, short-term volatility tends to rise. It is easy to see why that should be so; the trend following crowd is disoriented" -- George Soros

Seeing the volatility that investors are witnessing globally on a daily basis, one cannot forget some life lessons for investors which stems from volatility. It's a known fact that **fear tends to manifest itself much more quickly than greed**, hence we see more volatile markets on the downside. During the periods of rising markets, volatility tends to gradually decline. When we speak to marketmen and investors, we get a sense that **many people are sceptical of the current levels of the market** and almost as a consensus people believe that markets would fall sharply! **When was the last time a consensus view on market worked**? On the contrary, we as long term wealth creators believe in these golden words of wisdom from Mr Buffett - " The true investor welcomes volatility… a wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses".

Below is a snapshot of performance of our portfolio strategies and how they fare compared to the benchmark indices. As can be seen, **we have built up a steady 11-12% out-performance over the benchmark indices in the first 8 months of 2020**, and believe we would be able to build up on it further in the remaining 4 months of 2020 to close the year with significant out-performance. Our core philosophy of picking up companies and sectors which have better risk-reward framework, continues to play out well in current market conditions and also in the long run.

Our portfolios have outperformed broader market by ~11% on an average in the first 8 months of 2020 so far

	Calendar Year Absolute Returns %						
As on 31st Aug 2020	**CY20**	**CY19**	**CY18**	**CY17**	**CY16**	**CY15**	**CY14**
Quest Flagship PMS	5.9%	-0.7%	-15.7%	47.5%	8.1%	12.4%	77.0%
Quest Focus PMS	1.7%	-1.5%	-20.0%	85.2%	2.1%	NA	NA
Quest Multi PMS	7.2%	0.0%	-22.5%	53.2%	8.3%	14.5%	20.4%
NIFTY – 50	-6.4%	12.0%	3.2%	28.6%	3.0%	-4.1%	31.4%
NIFTY – 500	-5.1%	7.7%	-3.4%	35.9%	3.8%	-0.7%	37.8%

In the last several months, we have been interacting with several investors and we thought it would be a good idea to put down some of the common questions we get and what is our take on the same as it addresses much of the dilemma which investors have in todays market:

Is the recent decline in global markets the first signs of the next crash coming?

A lot of people have lost a lot of money anticipating the next crash. We believe its better to take it as it comes rather than predicting too much into the future. Very few people have ever got it right and it is a wasteful exercise. US markets are going through a much needed consolidation and profit taking in technology stocks after their gravity defying move in last few months. This was very much needed and is rather a good thing for stability to emerge in longer term. This decline has its rub off in other global markets including India and the volatility is hence helping us as long term investors to pick up quality businesses at valuations which have better risk-reward payoff.

Do we see the Indian markets being expensive and over-heated and falling back to the recent March lows as economic fundamentals are weak on the ground and nothing has improved on the ground?

Economic indicators suggest, the worst is behind us and we can only get better from here on. The rise might be slow but will be steady

Based on various high frequency indicators like petroleum demand, e-way bill generation, GST collection, electricity demand, rail freight, Fastag toll payment, Kharif crop sowing etc, we believe that **the business activity has recovered to ~80-90% of pre-Covid levels** but the pace of recovery has now flattened after the initial pent-up demand seen. While consumer confidence remains weak owing to job losses and salary cuts, but we see these being addressed soon as economy opens up and businesses resume. Pace of opening up could be different as new Covid cases surge but we do not see this is as a structural problem. **The brighter side remain the hinterlands and rural areas** where demand has been rising even during the pandemic and have been relatively resilient. **Equity markets look 4-6 months ahead and what we are pricing in the markets currently are FY22 earnings** which looks would be higher than FY19 numbers. A low base of FY20 and FY21 will be supportive of market valuations looking reasonable and not expensive when seen over FY22 earnings.

Should an investor exit from markets at these levels and wait to re-enter at lower levels?

Benjamin Graham famously was quoted saying – "In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus for most investors, **market timing is a practical and emotional impossibility**". We have time and again re-iterated this that there is no good level and bad level to remain invested in the market. Investors who sold out in the panic of March or April hoping to re-enter at lower levels, have been still waiting while markets have rallied 30-40%. However that doesn't mean we cant fall from the current levels of the market. Small corrections of 5-10% are always found along the way but are not reasons for quitting the market all together, but rather of topping up more. Over the last few months **we have been suggesting investors that this is a good time to add into equities as we see plenty of quality names at deep discount valuations from a 2-3 year perspective**. The same has been bearing fruits in the near term too. Its not uncommon to find new sectors like we have been highlighting in our past newsletters which have been doing better than the broader market and hence we as portfolio managers have our task cut out of finding these outliers amidst the crowd. At the same time **we as active portfolio managers do take active cash calls also within the portfolio** and would not hesitate to raise cash levels if we see extreme sell-off evident due to some new event.

We have constructed a portfolio of high ROE, low P/E, high earnings growth and low Debt/Equity which will ride well in current market conditions

Does it mean all is well and there is no concern for any recession in world markets and India?

There are definitely risks attached to every asset class and equities is no different. There are enough unknowns at this point of time on the global and local scale. Unknowns like will it be Mr Biden or Mr Trump taking the next oath as US president? Will India China tensions escalate further or we will find amicable solution? Will Vaccine for covid-19 get delayed beyond 6 months or will it be mass produced in the next 6 months? Will China+1 strategy really make the big difference for other emerging countries like India or is it just a flash in the pan? Will inflation and global liquidity turn its tide and harm equities? Will Indian GDP grow at 18% in FY22 as expected on the low base of FY21 or is it going to get extended into FY23? All these questions and many more have no clear cut answers right now so basing our investment decisions on these uncertainties is nothing short of throwing a dart in the dark room with a hope that we will hit bulls eye!

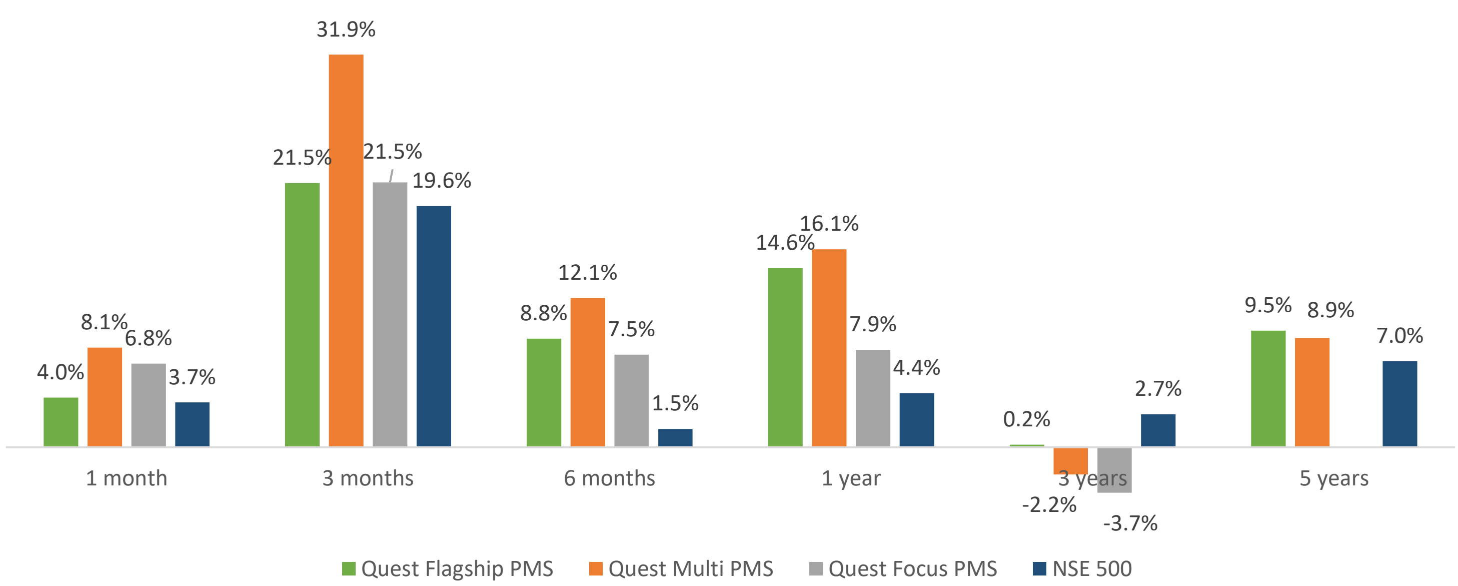
However if one has to look at our portfolio and then ask that will my portfolio consolidated earnings grow more than 18% in FY22, the answer is yes. Our portfolio FY22 earnings growth is ~21%. If one has to ask that is my portfolio forward P/B (Price/Book) and P/E (Price/ Earnings) multiples lower than the Index ratios, the answer is yes. Our portfolio forward P/B stands at 3.05x and forward P/E stands at 21.5x. If one has to ask that is my portfolio forward ROE higher than that of the broader market, the answer is yes. Our portfolio forward ROE stands at 17% as compared to around 12.5% for the market. Thus **we believe investing in the knowns is where we have an expertise and that is where we spend our bandwidth on rather than fearing the unknowns**.

PORTFOLIO ACTIONS AND PERFORMANCE

We continue to have around 5-8% cash levels in our portfolios and also at the same time have a balanced large-cap, mid-cap and small-cap allocation in the different strategies. In recent months we have done the following changes in our portfolios:

- Increased IT & IT services exposure in the portfolio
- Reallocated our allocation within the Pharma space by booking some gains and replacing with new names
- Taken some profits in Auto sector and realigned the allocation within the sector
- Booked partial gains in chemical sector

Though we are maintaining 5-8% cash levels currently but would not hesitate to raise the same in case we see increased turmoil in global markets around US elections



Note: Above returns are as on 31st Aug 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

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

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

As on 31st Aug 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		**3.59%**		**16.62%**		**-6.02%**		**5.32%**		**1.57%**		**6.32%**	
Quest Investment Advisors	Flagship PMS	4.04%	9	21.50%	3	8.83%	2	14.56%	4	0.20%	9	9.50%	2
Quest Investment Advisors	Multi PMS	8.11%	1	31.91%	1	12.13%	1	16.10%	3	-2.20%	12	8.90%	4
Quest Investment Advisors	Focus PMS	6.81%	2	21.48%	4	7.54%	3	7.93%	10	-3.70%	14	NA	NA
Aditya Birla Capital	Core Equity Portfolio	1.39%	20	10.01%	19	-8.62%	17	-0.76%	17	-4.94%	16	2.66%	12
Alchemy	Select Stock	4.80%	7	17.20%	13	-14.00%	19	-8.40%	19	-1.00%	11	6.80%	8
Alchemy	High Growth	3.20%	14	15.10%	15	-14.00%	19	-11.10%	20	-4.40%	15	4.10%	11
Ambit	Coffee Can	2.10%	18	4.40%	20	-2.20%	7	11.30%	7	14.40%	1	NA	NA
ASK	IEP	3.00%	15	18.00%	12	-6.80%	16	5.20%	9	5.40%	5	9.00%	3
ASK	India Select	1.50%	19	13.90%	17	-6.40%	14	5.00%	13	1.70%	8	7.30%	6
AXIS	Brand Equity	6.20%	3	18.50%	10	-4.00%	9	5.50%	11	7.10%	3	NA	NA
Carnellian Asset Advisors	Capital Compounder	3.28%	12	14.60%	16	-5.39%	10	11.97%	6	NA	NA	NA	NA
ICICI Pru	Flexicap	5.43%	5	18.50%	10	-1.00%	5	8.30%	9	3.10%	6	7.60%	5
IIFL AMC	Multicap PMS	3.34%	11	21.02%	6	-5.75%	13	10.66%	8	9.19%	2	14.42%	1
Invesco	Dawn	3.26%	13	18.74%	9	-3.46%	8	0.95%	16	-2.95%	13	NA	NA
Kotak AMC	SSV Series 1	5.90%	4	21.45%	5	-11.80%	18	-5.70%	18	-13.00%	17	0.00%	13
Marcellus	Consistent Compounders	3.60%	10	10.20%	18	-1.90%	6	20.10%	1	NA	NA	NA	NA
Motilal AMC	Value	2.45%	16	15.88%	14	-5.72%	12	3.28%	14	1.82%	7	5.26%	10
Motilal AMC	NTDOP	4.82%	6	20.28%	7	-5.69%	11	2.36%	15	-0.45%	10	6.97%	7
Sundaram AMC	SISOP	4.40%	8	25.40%	2	-6.70%	15	14.00%	5	6.00%	4	5.40%	9
White Oak Capital	India Equity Portfolio	2.40%	17	19.40%	8	1.10%	4	17.70%	2	NA	NA	NA	NA
NIFTY - 50	**Largecap**	2.80%		18.90%		1.70%		3.30%		4.70%		7.40%	
NIFTY MIDCAP - 100	**Midcap**	7.80%		25.70%		-0.60%		6.60%		-3.00%		5.00%	
BSE 500	**Multicap**	3.80%		19.90%		1.80%		4.60%		2.70%		7.20%	

Source: PMS-AIF.com and PMSBazaar.com

Disclaimer:

The purpose of this Letter is to provide general information of the market and the house view of Quest Investment Advisors Pvt Ltd. to existing and prospective investors in a manner to assist them in understanding the market and equity products. The Letter is purely for information purposes and should not be construed to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. This letter is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without prior permission of Quest Investment Advisors Pvt Ltd. While reasonable endeavors have been made to present reliable data in the communication, but Quest PMS does not guarantee the accuracy or completeness of the data in the same. Quest Investment Advisors Pvt Ltd or any of its connected persons including its subsidiaries or associates or partners or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this Presentation. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this Presentation reflect a judgment of its original date of publication by Quest Investment Advisors Pvt Ltd and are subject to change without notice.

The performance comparison shown with peer strategies is just for illustration purpose and data has been taken from www.pmsbazaar.com and www.pms-aif.com which are available in public domain. The objective of showing the performance is merely for the benefit of the investors to provide them transparent information of strategy performances and where does Quest strategies stand vis-à-vis industry peers.

This Letter is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject Quest Investment Advisors Pvt Ltd and its affiliates to any registration or licensing requirement within such jurisdiction. The product described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report/Presentation may come are required to inform themselves of and to observe such restrictions.

This letter is qualified in its entirety by the Terms of Agreement and other related documents, copies of which will be provided to prospective investors. All investors must read the detailed Terms of Agreement including the Risk Factors and consult their tax advisors, before making any investment decision/contribution to be managed under the Portfolio Management Services offered by Quest Investment Advisory Pvt Ltd.