QUEST PMS PORTFOLIO UPDATE – SEP 2020

QUEST

Dear Investors,

First of all, would like to thank all our investors for the trust they have shown in us even in this difficult time and also for the encouraging feedback we keep getting over the last few months for the strong performance revival in all our portfolios. We are glad we have been able to deliver on our set goals at beginning of this year inspite of the challenges thrown at us by the pandemic and economic standstill.

Below is a snapshot of our portfolio performances over the years and in the first 9 months of CY2020:

	Calendar Year Absolute Returns %						
As on 30th Sep 2020	CY20	CY19	CY18	CY17	CY16	CY15	CY14
Quest Flagship PMS	7.2%	-0.7%	-15.7%	47.5%	8.1%	12.4%	77.0%
Quest Focus PMS	1.6%	-1.5%	-20.0%	85.2%	2.1%	NA	NA
Quest Multi PMS	10.4%	0.0%	-22.5%	53.2%	8.3%	14.5%	20.4%
NIFTY – 50	-7.6%	12.0%	3.2%	28.6%	3.0%	-4.1%	31.4%
NIFTY – 500	-5.4%	7.7%	-3.4%	35.9%	3.8%	-0.7%	37.8%

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves" – Peter Lynch

In our last few newsletters, we have been highlighting how **we do not see any reason for throwing in the towel yet and calling it quits on equities.** On the contrary **it was a time to cherry pick good businesses at throw away prices**. There have been too many voices calling for a crash in global and local markets for far too long and we believe predicting too much into the future does no good to anyone specially as an investor. At the same time, **throwing caution to the winds is also not something we suggest**. We need to weigh and decode each piece of new information and act accordingly without any prior preconceived biases in favour or against a rising market. **We have to be nimble footed with ears to the ground to sense the pulse of the economy.**

Nifty journey from 12000 to 12000 levels! Much ado about nothing or ignorance is bliss?

Let us step back for a minute and imagine that on the eve of New Years day on 31st Dec 2019 you see the Dow Jones Index at around 28500 levels and Indian Nifty-50 Index at around 12000 levels. You also happen to stumble upon a time machine which can take you at the flick of a switch 9 months ahead. You are very curious to see where the world would be 9 months from now. You take your chances and flick the switch and see yourself in a second passing through some flash which gives you a sense you have moved ahead in time by 9 months. Instantly you grab your phone to watch the date as 1st Oct 2020 and watch Dow Jones and Nifty-50. What do you see? To your surprise you see the indices at 28500 and 12000 levels respectively!! You realise seeing the indices that either the time machine is faulty or the world stood still these 9 months and nothing happened. However when you step out of your room, you notice the following to your surprise:

- People walking around wearing masks and there are fewer people outside. You also read of the over 35 million Covid-19 infected people around the world and around 1 million unfortunate deaths
- Most commercial establishments and shops, restaurants, malls and movie halls are shut.
- You grab the latest newspaper and you see World GDP would contract by 4.4% in 2020 as per the latest IMF predictions.
- You also realise that most manufacturing services were shut for the last few months and they are still at 60-70% capacity utilization to where they were last December.
- You also read about the joblessness in US and other countries being at historic highs not seen in the last few decades

All the above seems like fiction right? **Macro data in India and Globally is in shambles and index is at same levels where it was in Dec 2019.** Then your eyes fall on the US Fed data which shows after a USD 3 trillion stimulus package infused in last few months, the US congress is discussing for another USD 2 trillion package!! **So basically what we have done is BRIBED our way out of a recession and depression!** Then you realise that **markets being forward looking, are reflecting where the world and Indian economy would be in 6-9 months from now** and the market is factoring in a full return to pre-covid levels of economic activity.

Easy money making days are gone. Time for stock pickers to be rewarded with focus on earnings and demand revival. Some companies and sectors throwing a multi year bull run opportunities

So what lies next?

Volatility in the market is going to become the new normal and be prepared for 5-10% swings in market in short span of time. Going ahead it will be a stock pickers market and bottom up ideas would be rewarded rather than broad based top down approach. We are now in the midst of the crucial Medium Term phase which I had highlighted as Bucket 2 in our April 2020 newsletter. This would be characterised by a period of consolidation and 2nd & 3rd order impact of the repeated lockdowns hitting home globally and in India as it dawns on policy makers that we had been putting money in the hands of citizens in the name of stimulus but it was merely to meet their running expenses and not a stimulus to demand. It was rather a sustenance allowance. It is heartening to note that governments across the globe including in India are taking measures in their own way and scale to ensure the impact of income loss is minimised and economy gets back on its foot faster.

QUEST

We believe the following major events will keep markets wary in the near term and its important to see how we see each of these events impacting our markets:

To save the current US economy from getting into a recession, the next stimulus package is inevitable no matter who is elected to the white house.

- **Outcome of US elections** – The way Mr Biden has been continuously leading Mr Trump in all polls, the market seems to have more or less factored in a win for Biden. Though we would not take the risk of guessing who is going to win and leave it to the US citizens to decide, **there could be a knee jerk reaction in the US markets if the outcome is not clear** and the decision goes to SC, as Mr Trump has highlighted he would not trust the postal ballots. But whichever party wins, after the initial short term reaction, we see markets going back to their fundamentals. In case Mr Trump is back, then we could see a short term spike in the markets owing to continuity of the policies and "Make America Great" again campaign. **No matter who wins, the much awaited second stimulus package will also get cleared** which has been kept on hold just due to the elections. That should add to the fresh round of support for the markets and **we could see the global markets seeing another round of liquidity driven rally in the first half of CY 2021**.
- **Second wave of Covid-19 hitting Europe and rest of the world** – While most of Europe had opened up a couple of months back and life was getting back to normal, **the coming of a second wave was inevitable** as the virus still is at large out there. This fresh lockdowns in European countries **would hurt the revival of the economy and could again require more stimulus package from EU central bank**. Global markets would be impacted negatively as cases surge in these regions and would be a big drag on investor sentiment.

2nd wave of Covid-19 cases makes the case for another round of stimulus package in EU and US and hence further easy liquidity in global markets

- **Corona Vaccine timelines** – We have been waiting for the phase-3 trial outcomes of the various vaccine developments for long now and sooner or later over the next 3-6 months we should have more concrete visibility on its commercialization. **This would be a big positive trigger for world economy** and markets as it would fasten the pace of opening up of commercial establishments and resumption of regular activities.
- **Q2FY21 earnings** – This is going to be a big driver for the markets in the near term and **we see a strong recovery on earnings front across various sectors** from the troughs of last quarter. As we had said in our last newsletter, the worst is behind us and we need to now look or the green shoots and take exposure there. Our outlook on the various sectors is as follows in brief:

Sector	Outlook	Portfolio positioning
Banking & Financial Services	With moratoriums extended, the pain for the sector seems being extended without clear visibility. However Asset quality concerns in Banks and NBFCs are receding at the margin with improvement in collection efficiency but uncertainty continues to linger. In Financial services we see insurance and brokerage businesses to continue displaying their growth and resiliency	Underweight for now but gradually building up as we see green shoots. Overweight on insurance and NBFCs
IT & IT Services	The sector has been the fastest to bounce back to pre-covid levels and is now entering a structural growth story. Margins improvement, new deals being at highest ever levels for the large companies and coupled with newer clients opening up to cloud migration and digitalization, earnings would continue to be strong and guidance for full year FY21 and beyond would be upgraded for most players	Overweight and gradually adding some more names with a 2-3 year structural growth outlook
Pharma & Healthcare	We expect to see the companies in the sector deliver robust topline and bottom-line growth with some smaller pharma names in our portfolio actually delivering record profit numbers.	Overweight and will continue to remain overweight
Autos & Auto ancillaries	Auto companies exposed to tractors and passenger vehicles have seen strong rebound and would continue to deliver well. We see pickup in 2-wheelers also but on a slower pace. Commercial vehicles will remain a drag. Companies with large outside India presence like Tata Motors are expected to see strong revival.	Overweight on the sector with exposure to Agri and passenger vehicles
Cement	We have seen cement volumes picking up along with a steady pricing as economy is opening up. We see infrastructure projects getting back into focus and demand revival. Cost savings as seen in earlier quarters would continue to lead margin improvements	Equal weight with focus on players having best operational efficiencies
Telecom	Its another structural growth story which we remain bullish irrespective of the short term hiccups along the way. ARPU growth is given in coming quarters. New growth avenues opening up as digitalization and cloud becomes the norm.	Overweight and continue to remain invested in the space
Consumer Discretionary	Consumer companies would see their topline and bottom lines consolidating as consumption gradually moves from essentials to discretionary spending.	We remain underweight in the space on account of valuations

Q2FY21 is going to set the stage of earnings revival from the trough of Q1FY21 which has gone by

Apart from the sectors mentioned above, we remain underweight with negligible or Nil exposure in Metals, Capital Goods & Infra, Oil & Gas and Utilities. These all coming under cyclicals is something we are underweight currently and we would revisit in coming months as we await some more signs of revival for these sectors.

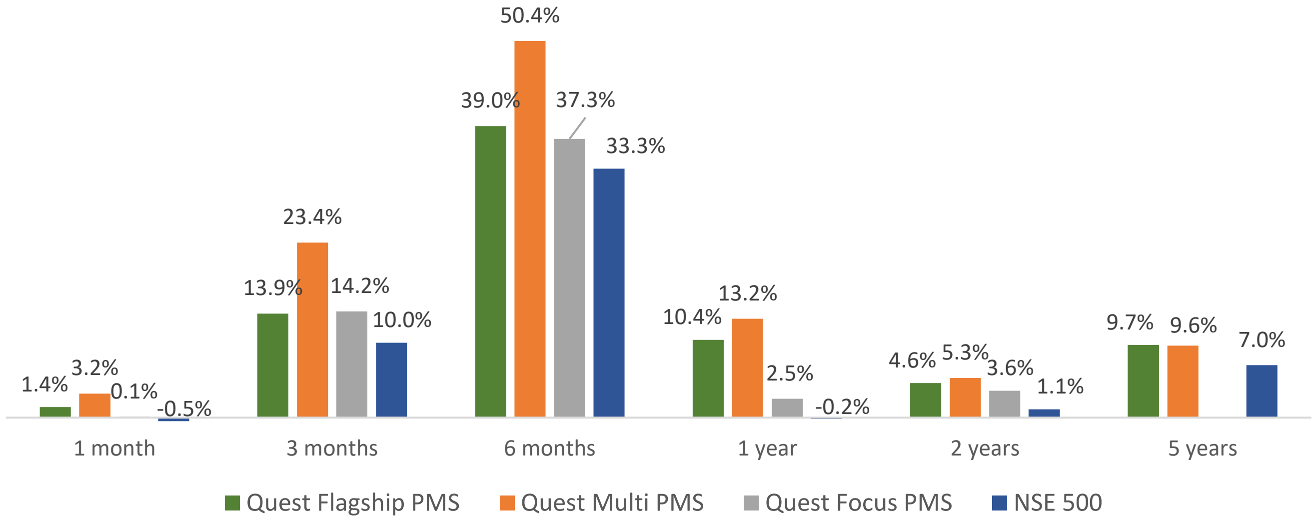
PORTFOLIO ACTIONS AND PERFORMANCE

During the last few months we have maintained the cash levels in our portfolios between 5-10% and continue to maintain the same now. We have done the following changes in our portfolios during the recent months and the investment rationales of the same would also be shared with you in a separate link along with this newsletter.

- We have **increased our exposure to Technology** space by adding the frontline names as we have said above that we are seeing the sector entering into a multi year structural growth story
- We have **re-aligned some exposure in the pharma** sector
- We have **increased our exposure to the Auto sector** as we see growth picking up there
- We have **added some new names in chemicals space** which is again a sunrise industry for India and we seeing these names emerging as big beneficiaries of China+1 strategy

All our portfolio strategies are now outperforming the benchmark indices in all the time periods under consideration

As for our portfolio strategies performance, we are glad to share that all our strategies are out-performing the benchmark indices as on 30th Sep'20 across various time periods as shown below.



Note: Above returns are as on 30th Sep 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

We would continue focusing on our task that we need to deliver the best risk adjusted return for our investors across different market cycles. We can see some short term under-performance in months ahead as its not always easy to be ahead of the pack, but then these are phases which the necessary milestones in the long term journey of wealth creation.

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 30th Sep 2020:

As on 30th Sep 2020	Peer Performance Comparison Snapshot										
Name of Fund house	**Strategy Name**	**3M**		**6M**		**1 year**		**3 years**		**5 years**	
		Return	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**
Average performance of comparable Peer Portfolios		**9.71%**		**27.15%**		**0.08%**		**3.18%**		**7.88%**	
Quest Investment Advisors	Flagship PMS	13.90%	4	39.00%	2	10.40%	3	1.20%	10	9.70%	3
Quest Investment Advisors	Multi PMS	23.40%	1	50.40%	1	13.20%	2	-0.70%	12	9.60%	4
Quest Investment Advisors	Focus PMS	14.20%	3	37.30%	3	2.50%	10	-3.30%	15	NA	NA
Aditya Birla Capital	Core Equity Portfolio	6.20%	17	27.20%	12	-5.00%	17	-3.90%	16	7.70%	7
Alchemy	Select Stock	10.80%	12	25.10%	15	-13.00%	19	-0.70%	12	7.10%	10
Alchemy	High Growth	7.50%	15	20.00%	18	-15.70%	20	-4.60%	17	3.80%	13
Alfaccurate Advisors	AAA India Opp	13.10%	6	35.20%	6	8.20%	6	2.00%	8	8.90%	5
Ambit	Coffee Can	6.00%	18	14.80%	20	3.50%	9	15.60%	1	NA	NA
ASK	IEP	11.40%	10	26.90%	13	-1.20%	9	6.20%	5	10.10%	2
ASK	India Select	7.70%	14	22.90%	17	-3.60%	14	2.20%	7	7.60%	8
AXIS	Brand Equity	11.20%	11	24.80%	16	-1.10%	12	7.50%	3	NA	NA
Carnellian Asset Advisors	Capital Compounder	5.80%	19	27.41%	11	9.15%	4	NA	NA	NA	NA
ICICI Pru	Flexicap	9.50%	13	33.40%	7	2.20%	11	3.00%	6	7.20%	9
IIFL AMC	Multicap PMS	11.98%	8	35.75%	5	3.63%	8	10.02%	2	14.77%	1
Invesco	Dawn	11.69%	9	31.26%	8	-3.70%	15	-2.24%	14	NA	NA
Marcellus	Consistent Compounders	7.50%	15	17.50%	19	8.60%	5	NA	NA	NA	NA
Motilal AMC	Value	4.65%	20	25.39%	14	-6.86%	18	1.76%	9	4.93%	12
Motilal AMC	NTDOP	12.02%	7	28.10%	10	-4.02%	16	0.12%	11	7.93%	6
Sundaram AMC	SISOP	13.30%	5	28.90%	9	5.70%	7	7.50%	3	6.70%	11
White Oak Capital	India Equity Portfolio	14.80%	2	36.90%	4	14.50%	1	NA	NA	NA	NA
NIFTY - 50	**Largecap**	9.20%		30.80%		-2.00%		4.70%		7.20%	
NIFTY MIDCAP - 100	**Midcap**	15.50%		45.10%		6.00%		-2.10%		5.50%	
BSE 500	**Multicap**	10.50%		33.80%		0.30%		2.90%		7.20%	
Source: PMS-AIF.com and PMSBazaar.com											