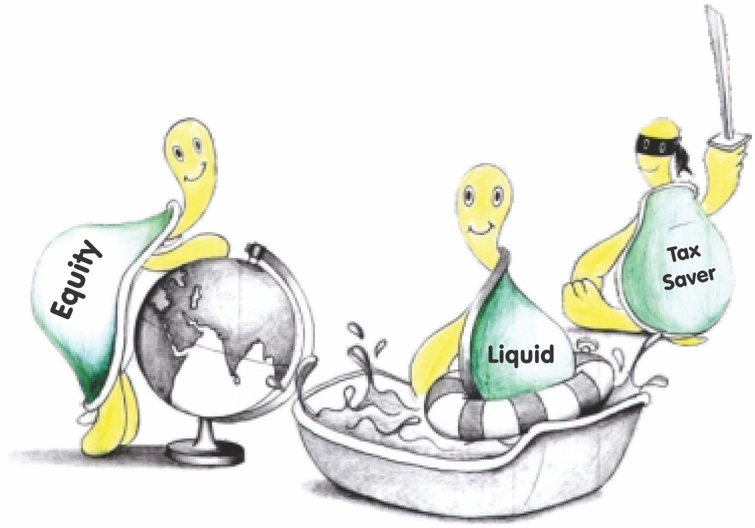
PPFAS MUTUAL FUND
There's only one right way©

Managing your money using **Value Investing** principles!



Market Outlook and Investment Stance

March, April and May of 2021 are very different from March, April and May of 2020. While in 2020 it was all gloom and doom and it almost seemed that the end of the world was near, in the current times equity markets almost seem to be saying "What Covid?".

I feel that it is important to communicate certain things to investors at this point in time.

In 2020, like everyone else, we were worried about COVID and were figuring out how to take precautions on the health front and cope with the lockdowns. What we did estimate at that time was that the fall in equity prices was way overdone and that many securities were valued at very attractive levels. Our estimate was that the duration of the disease is unknown but eventually things will get back to more or less normal conditions.

At that time, in the marketplace, popular opinion was that only Pharma and FMCG companies were worth investing in and that the rest of the sectors had a very poor outlook. Today the popular opinion is that these sectors are over and done with and now the latest market jargon is *"The Re-Open Trade"*

Today there is unbounded optimism, and there is a big up move in many sectors, segments and stocks where we are NOT invested in.

Some of these are

- Metal Stocks (narrative being China shutdown of capacity and rising prices)
- PSU Stocks (disinvestment / privatisation narrative)
- Airlines, Hotels, Footwear, Apparel (Re-opening trade)
- Speciality Chemicals (China +1 or replacement of China capacity)
- PSU & Corporate Banks (clean balance sheets, lower than expected NPAs etc.)
- Obscure Small and Mid Cap companies (individual narrative for each stock)

We, like everyone else, are hopeful that we are in the endgame as far as COVID goes. Vaccines are here and sooner rather than later, we will have normalcy and that the massive amounts of fiscal and monetary stimulus the world over and in India will result in a quick economic recovery. However that does not mean that our portfolio will look dramatically different that what it did in 2020 or for that matter in 2019. Our attempt is to buy businesses which have demonstrated earning power and good business economics, which employ low leverage, which are run by honest and competent management and where valuations are reasonable.

We are NOT fans of the concept of *Sector Rotation* or transitory market jargons like the *Re-Open Trade.*

Indeed some of the narratives do not make any sense to us, a popular airline stock is trading close to all time high prices last seen in 2019. It is almost as if COVID never happened and that the financials of the company are in the best of health. Reality of course is different.

The flip side to the *Re-open Trade* is that sectors and companies which did well in the lockdowns are assumed to do poorly in the future. We have been owning companies like Amazon, Alphabet and Facebook before the lockdowns, during the lockdowns and continue to hold them today. The trends favouring e-commerce, digital advertising, cloud computing, streaming services and so on are multi year / decade trends and withdrawals of lockdowns will not cause us to discard such companies. (Sure some temporary shifts may be there from e-commerce to physical stores immediately on opening up as is to be expected.)

When we invest in a company, we are typically looking to stay invested for a minimum of 5 years. Investors in our fund should have a similar approach to investing. We also do not force ourselves to be fully invested at all points in time and may have cash equivalents and / or arbitrage positions in our fund.

We do not expect our stocks to outperform the indices on a weekly, monthly or yearly basis and the comparison comes into picture only over a longer time horizon. There have been numerous occasions in the past where our fund has lagged the indices and there will surely be such occasions in the future.

To the extent that we are not in the hottest sectors of the moment and that we may see some build up of cash in the portfolio, the fund could see some underperformance in the near term.