buoyant

PORTFOLIO FACTSHEET

February 2024

“A number from today multiplied by the story from tomorrow” is how we determine the true value of any company, sector or market. While India’s “numbers today” are decent, it is the “story from tomorrow” that is truly exciting. This optimism has propelled markets to new heights and triggered some remarkable investor behaviour. While we have largely benefited from this trend, our strategy now emphasizes resilience against the fear of missing out, despite potential short-term sacrifices. As we delve into our February fact sheet, we delve into discussions surrounding sustainability and the concept of self-organized criticality, among other topics.

Today’s numbers + Tomorrow’s story!

“To suppose that the value of a common stock is determined purely by a corporation’s earnings discounted by the relevant interest rates and adjusted for the marginal tax rate is to forget that people have burned witches, gone to war on a whim, risen to the defence of Joseph Stalin and believed Orson Welles when he told them over the radio that the Martians had landed” investor Jim Grant once said!

Grant’s words may appear truer today than any time before, but Morgan Housel cautions in his book that “That’s always been the case. And it will always be the case.” He adds that “Every investment price, every market valuation, is just a number from today multiplied by a story about tomorrow”.

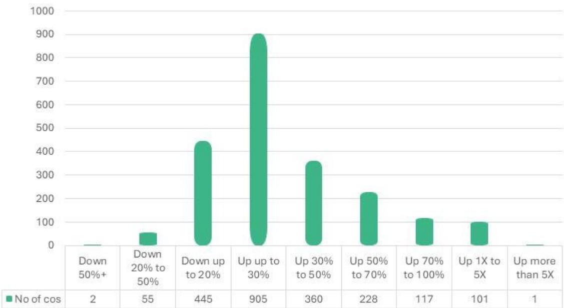
And India’s story about tomorrow cannot be any stronger. The consensus opinion now stands: (a) the Federal Reserve has adopted a dovish stance earlier than anticipated, potentially leading to multiple rate cuts in CY24, and (b) the BJP government's victories in three state elections indicate ongoing policy initiatives at the central government level.

It can be argued that the exceptionally high debt-to-GDP ratio in the US will likely lead to prolonged elevated interest rates.

Additionally, the likelihood of the BJP forming the next central government was relatively high and possibly already factored into market pricing prior to the recent state election victories. However, continuing the analogy, although the current figures remained unchanged, investors' perceptions of future prospects significantly improved.

Now how has that played out? Between November 2023 and February 2024, (a) the BSE PSU Index has risen 59%, and (b) 102 stocks have more than doubled in price. In under four months! And 90% of them are small-cap stocks.

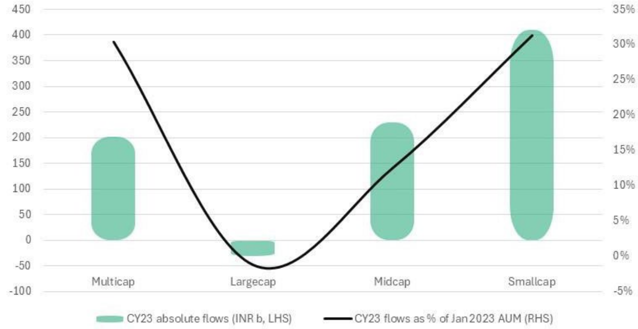
Exhibit 1



The rally has been fierce enough to push the valuations of PSU banks, power financiers, upstream oil, and oil marketing companies at a level higher than certain private banks and global peers. Similarly, PSU metals and mining companies and engineering and infrastructure businesses are also valued higher, on average, compared to their global and private counterparts.

Determining whether flows are influencing valuations or vice versa poses a challenge. Nonetheless, investors have notably directed substantial inflows into small and mid-cap funds, as illustrated below.

Exhibit 2



So, how are we approaching it?

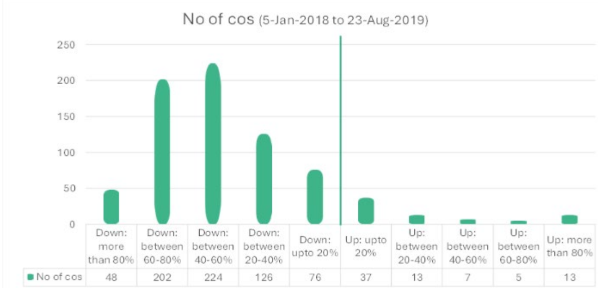
The problem with stories, nevertheless, is that it takes precious little for the plot to change completely.

On 10th September 2008, Lehman Brothers' tier 1 capital ratio, at 11.7%, was higher than the previous quarter, and higher than Goldman Sachs or Bank of America. It was more capital than Lehman needed. Seventy-two hours later, Lehman was bankrupt. The only thing that changed during that time was the investors' faith in the company.

Stories have changed in India too; quite often. Reflecting on the past few years, 2016 and 2017 witnessed notable growth in the small and mid-cap sectors. However, by 2018, several pivotal changes occurred. The introduction of long-term capital gains tax initially had limited impact, as gains until January 2018 were grandfathered. Subsequently, mutual funds were mandated to realign to true-to-label status in the middle of the year, primarily a flow-related issue rather than a fundamental concern. Lastly, towards the year's end, the IL&FS crisis surfaced, further shaping the investment landscape.

By August 2019, the repercussions were evident: 48 companies experienced a decline exceeding 80%, while 250 companies saw their values plummet by over 60% from their highs in January 2018.

Exhibit 3



The most common inquiry we receive is about the trigger for a market decline. The simple response is that the trigger is typically only discernible in hindsight. But suffice to state that whatever is unsustainable will find a way to topple; self-organized criticality eventually takes over.

Ant colonies offer a compelling illustration of self-organization, where structures emerge without centralized authority. We posit that markets operate similarly, notwithstanding the recent predominant role of central banks. When ants forage for food, they initially disperse randomly. However, upon discovering food, they return to the nest, leaving a pheromone trail. As ants find the shortest path and return quicker, they reinforce the pheromone concentration, guiding others to follow suit. This collective behaviour prioritizes colony survival over individual ant survival, resulting in an optimal solution to a fundamental problem.

Whenever a large-scale event happens, it is a human tendency to gravitate to one specific, easily identifiable cause as being the sole responsible factor. However, numerous scientists, including Per Bak, a Danish theoretical physicist, argue that such events often result from the culmination of many smaller occurrences, akin to an avalanche effect. Bak's concept of "self-organized criticality" offers a comprehensive understanding of the behaviour of such systems.

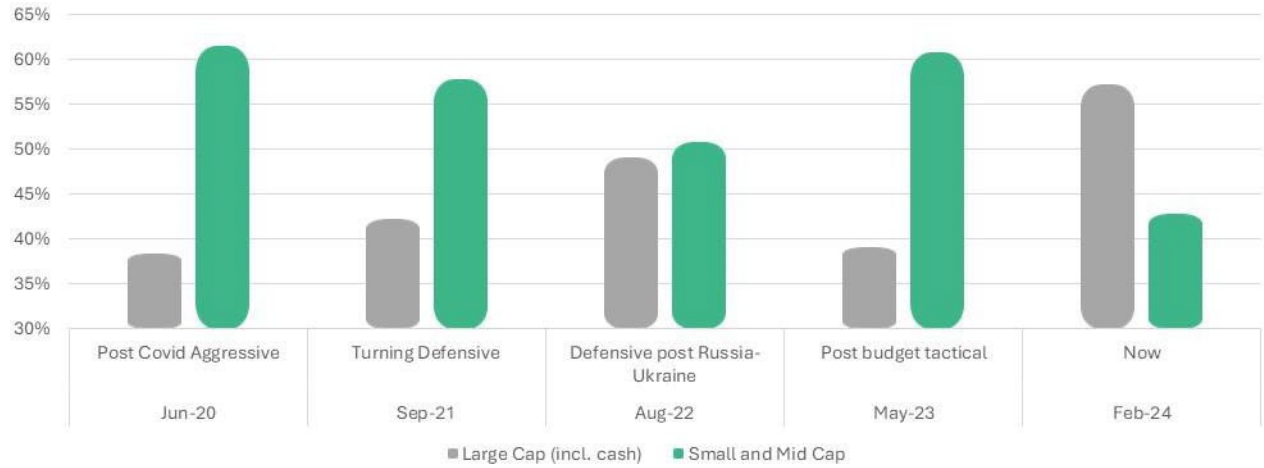
Consider an apparatus dropping a single grain of sand onto a large flat table. Initially, the sand spreads out, gradually forming a small pile. As more grains accumulate, the pile grows, forming slopes on either side. Eventually, the pile reaches a critical point where it cannot support additional grains. At this juncture, even the slightest disturbance can trigger an avalanche, with sand cascading down the slopes faster than it's added on top. The system reaches a state of criticality when the pile is on the brink of instability. The avalanche isn't caused by the last grain; rather, the system was already teetering on the edge of instability, awaiting a triggering event.

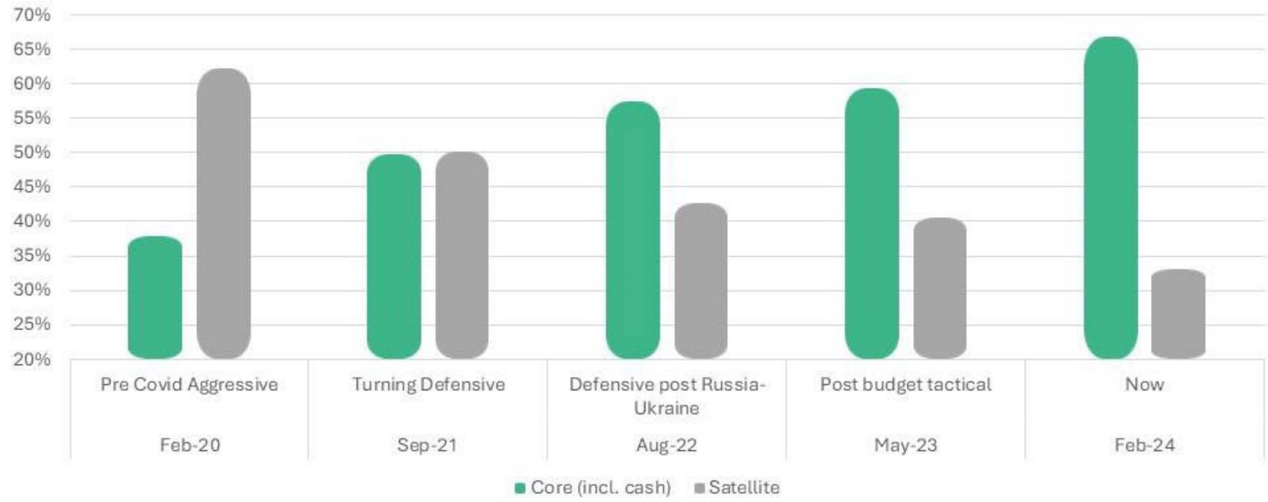
Howard Marks of Oaktree shared an anecdote about a fund manager who, despite never ranking in the top quartile for any individual year during his fourteen-year tenure, ended up in the top 4 per cent of all investors over the cumulative period. A remarkable achievement indeed, underscoring the importance of consistent performance over time. FOUR PER CENT!

If we understand the math behind "fewer losers, or more winners" (the title of the Marks' memo), we realize that the most important question is not "How do we earn the highest possible returns?" It is "What are the best returns we can sustain for the longest period of time?"

Consequently, we have reduced the exposure to small-cap stocks in the portfolio while continuing to strengthen the Core vertical. As stewards of investors' funds, we face a choice: either follow the prevailing trend and trust in its continuation or persist in the strategies that have proven effective over the past eight years. As reiterated frequently, we observe that stocks, sectors, market caps, overall markets, regimes, species, and life itself follow cycles. There's no compelling reason to believe this principle no longer applies.

Exhibit 4


65%
60%
55%
50%
45%
40%
35%
30%
Post Covid Aggressive
Jun-20
Turning Defensive
Sep-21
Defensive post Russia-Ukraine
Aug-22
Post budget tactical
May-23
Now
Feb-24
Large Cap (incl. cash)
Small and Mid Cap


70%
65%
60%
55%
50%
45%
40%
35%
30%
25%
20%
Pre Covid Aggressive
Feb-20
Turning Defensive
Sep-21
Defensive post Russia-Ukraine
Aug-22
Post budget tactical
May-23
Now
Feb-24
Core (incl. cash)
Satellite

Sectoral allocation

Banking	28%
Insurance	12%
Automobiles	8%
Health Care	7%
Telecom	6%
Industrials	5%
Chemicals	3%
NBFC	3%
Building materials	3%
Information Technology	2%
Retail	1%
Textiles	1%
Materials	1%
Miscellaneous	1%
Others	0%
Cash and equivalents	19%

Core vs. Satellite / Market-cap

Core (incl. cash)	67%
Satellite	33%
Cyclicals	*12%*
Turnaround	*10%*
Value	*11%*

Large Cap and cash	57%
Mid Cap	16%
Small Cap	27%

Returns

For the month of February 2024, the Buoyant portfolio achieved a 1.7% return compared to BSE 500 Total Returns Index of 1.7%. In compliance with SEBI regulations, Buoyant returns are calculated post fees and expenses. The performance chart is presented below.

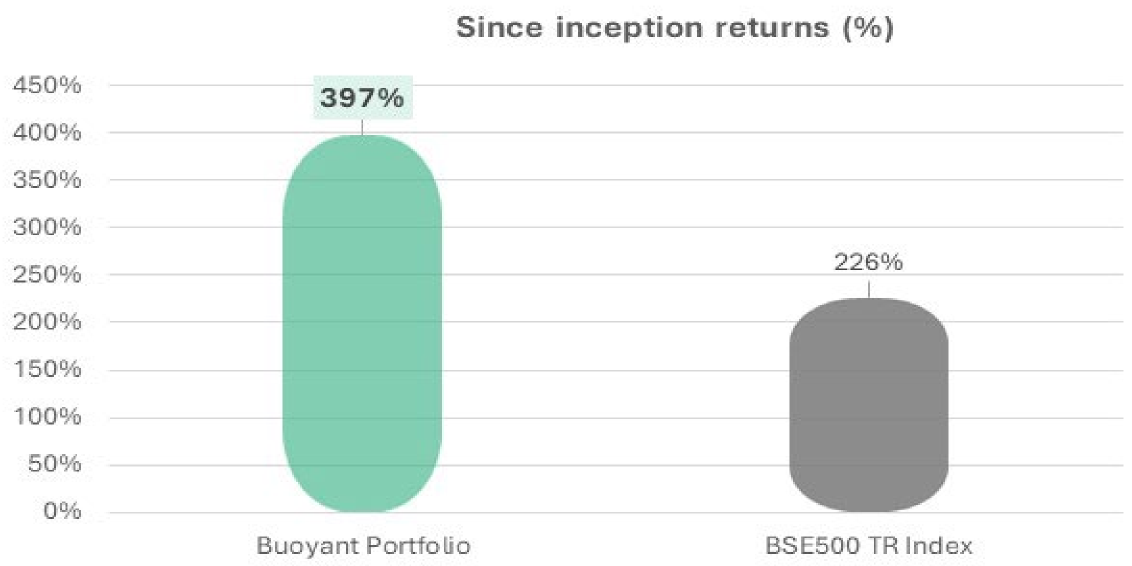
External publications rate the Buoyant portfolio as a top quartile fund across periods (1 year, 3 years, 5 years and 7 years). However, our primary objective is not to generate the highest possible returns. We rather seek to generate superior risk-adjusted returns across market cycles. One part of that product promise is risk-adjusted returns, and as is evident from the table below, as the markets have risen, we have reduced the risk in the portfolio (to 0.6X as measured by beta). The second part of the product promise is across market cycles. The Buoyant portfolio outperformed when the markets have risen sharply post-COVID. We intend to keep this up should the markets correct in the ensuing cycle.

Relative performance

Note: BSE500, BSE100 and Nifty returns include dividends. More than one year returns are annualized. Buoyant returns are post fees and expenses. Source: Bloomberg

29-Feb-24	1 month	6 months	1 year	2 years	3 years	5 years	Since Inception
CAGR (%)							
Buoyant Portfolio	**1.7%**	**10.6%**	**47.1%**	**25.6%**	**29.4%**	**25.7%**	**23.0%**
BSE-500 TR Index	1.7%	18.9%	39.5%	19.8%	19.5%	19.0%	16.5%
Absolute (%)							
Buoyant Portfolio				58%	117%	215%	397%
BSE-500 TR Index				44%	71%	139%	226%

Source: Bloomberg for Indices. Buoyant portfolio returns are post-fees and expenses. Returns are for Buoyant Opportunities Scheme - Discretionary portfolio. More than one year returns are annualized.



Risk metrics

	1-yr	2-yr	3-yr
Sharpe ratio (X)	3.7	1.2	1.4
Information ratio (X)	0.5	0.5	0.9
Standard deviation (%)	9.9	13.9	15.3
Beta (X)	0.6	0.8	0.9
Sortino (X)	22.0	2.5	2.9

Blogs and Media

Our recent blogs and media appearances

Blogs

- Ten-billion-dollar lesson – The Economic Times 22 February 2024
- Habit loop – Moneycontrol 15 January 2024
- Small cap cycles – Moneycontrol 15 November 2023
- Privileging the hypothesis – Moneycontrol 5 September 2023
- Credit cards – Moneycontrol 18 July 2023
- Junk bonds and market cycles – The Economic Times 26 Jun 2023
- Network effects: a double-edged sword – Moneycontrol 12 Jun 2023

Media Appearances

- Jigar Mistry (CNBC TV18) 29 February 2024
- Jigar Mistry (ET Now) 28 February 2024
- Jigar Mistry (CNBC TV18) 11 December 2023
- Jigar Mistry (CNBC TV18) 16 November 2023
- Jigar Mistry (CNBC TV18) 8 November 2023
- Jigar Mistry (ET Now) 9 October 2023
- Jigar Mistry (CNBC TV18) 29 September 2023
- Viral Berawala (ET Now) 12 September 2023
- Jigar Mistry (CNBC TV18) 1 September 2023
- Jigar Mistry (CNBC TV18) 1 August 2023

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