**Disclaimer :- This was originally published on 5th Jan 2023 and is part of our Q3FY23 letter. Link to the letter [here]**

## Portfolio positioning and approach

Change in long term interest rates, and a potential recession in the developed world will affect different sectors and companies differently. Companies that are more mature stage of their life cycle (IT Services, FMCG) and those with more distant cash flows (B2C Digital business models) will be impacted more than companies that are early stage of life cycle and are cash flow positive today.

We have concentrated the portfolio in names where we expect 12-20%+ Earnings growth for long periods of time and where valuations are reasonable – Telecom, Banking, Life Insurance, Health Insurance, QSRs, Animal Vaccines. We remain very positive on the Manufacturing opportunity out of India. Many companies are witnessing market share gains in global markets and will benefit from new structural themes, for example the exponential growth expected in Electric Vehicles.

We continue to remain cautious on IT Services/Consumer/Digital B2C stories as valuation still do not provide attractive entry points. And we are generally more conservative on entry prices we are willing to pay today vs 18 months ago.

Fig. 23: IT - one-year forward P/E chart


Source: Bloomberg Finance L.P., Nomura research

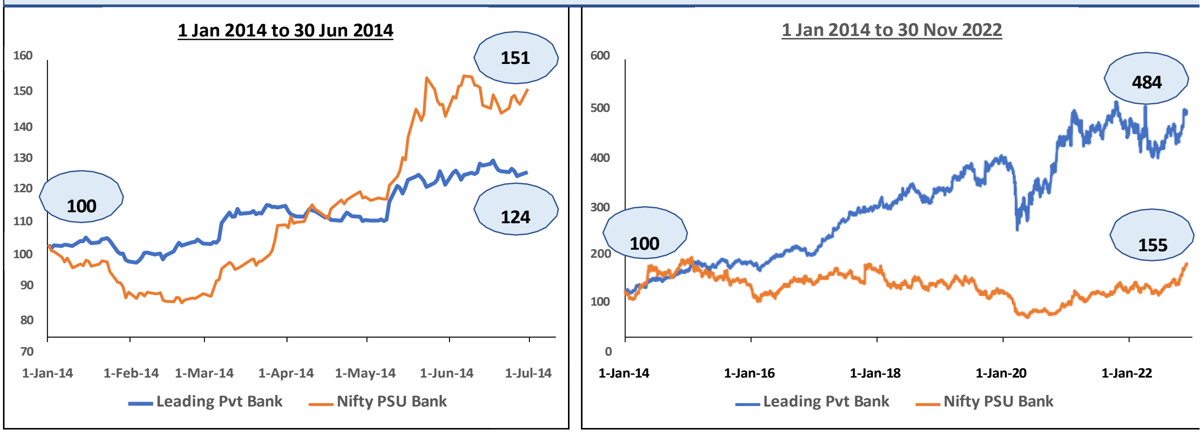
It can be tempting to have a more trading-oriented approach to navigate the current environment. One needs to resist this urge. If one wants to see the world with more clarity, one needs to shut out noise. Hence, stillness is the key. We prefer staying invested in long term themes for earnings compounding and accepting there will be time periods of poor performance due to mean reversion or because something else moves faster.

We appreciate there is no one right way to invest – "Investors play different games, and those games look irrational to people playing a different game[2]". However, one must make choices on whether one is playing the short or long game as time horizons influence portfolio choices and we don't believe one can play the two simultaneously.

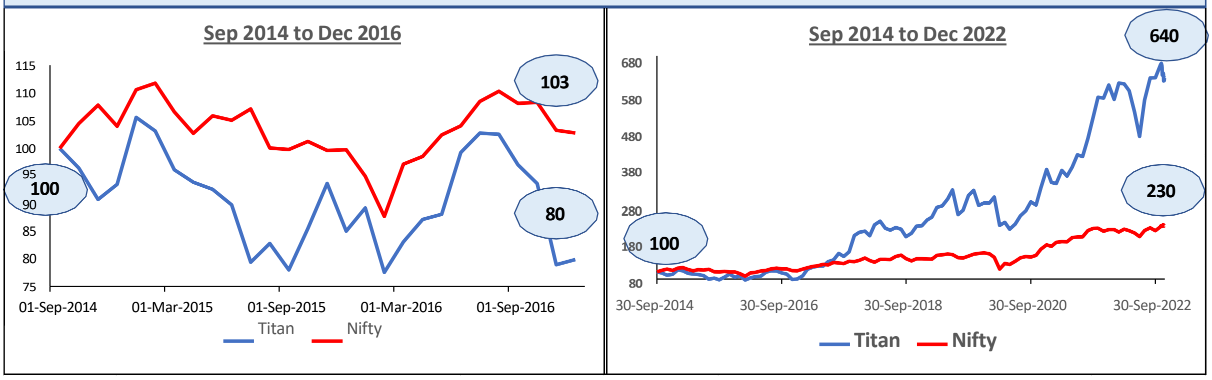
Consider two examples that illustrate the danger of a trading mindset.

- If one sold their TITAN holdings when the stock was underperforming the Index between Sep 2014 to Dec 2016, one missed a subsequent 6X move.
- If one bought into PSUs during 2014, one enjoyed a 20% outperformance for 6 months, but would have massively underperformed till date.

**Price performance across time: Leading Pvt Bank vs PSU Bank Index**




**Price performance across time: TITAN vs NIFTY**




Opportunism takes its toll in poorer longer-term performance. One needs to be willing to overlook risks to ride momentum and massive churn to enter the new hot theme. Significant churn results in high taxation which erodes returns. One exposes themselves to re-investment risks as it is impossible to re-time entry. Hence, our fundamental approach of thinking long term is unlikely to change. It may interest partners to note that trading is banned for all members of the Solidarity team.

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[2] Morgan Housel