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CIN: U67120PN1993PTC074692

Date: 8th Jan 2018

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 31st December 2017.

Portfolio Performance	Equity Allocation as on 31.12.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		17.1%	12.4%
December Quarter	~87%	10.2%	12.8%
1st April 2017 – 31st December 2017		18.3%	22.6%

- Benchmark is an average of the BSE 500 and BSE Mid Cap index.
- Equity allocation mentioned above is for older accounts. For new accounts, equity allocation would be lower.
- Returns are time weighted and after management and performance expenses.
- The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
- Past performance is no guarantee for future performance.
- Inception Date is 27th January 2011.

Markets continued their strong momentum in the quarter with the nifty moving up by around 7.6% & the benchmark by around 12.8% in the quarter. The bull market has shown considerable strength driven by the continuing gush of liquidity.

This quarter saw a major development in terms of reforms in the banking sector with a proposed recapitalization of PSU banks (similar move in the 1990's). Basically there will be a capital infusion of INR 2.1 lakh crore. Out of the total planned infusion, INR 1.35 lakh crore will be in the form of recapitalization bonds & INR 76,000 crore in form of budgetary & fresh capital issuance in the market. This definitely gave a boost to sentiment since public sector banks profitability has been under pressure, continuing high credit costs and therefore a desperate need for capital.

The government also has made sure that healthy banks are major beneficiaries of the reforms. This is a continuation of a bold step by the government and in our mind certainly not the end of it. They also followed this up by announcing projects in the road/infra sector.

Additionally, we had the keenly followed Gujarat elections where the BJP retained power in Gujarat in spite of its share of challenges due to demonetization, GST implementation & continuing rural distress. The contest turned out to be much tighter than expected and results were at the lower end of the exit polls. This election may turn out to be a milestone for the Modi government with some introspection for shifting their focus on a less conservative fiscal approach and greater emphasis on rural activity.
In spite of all the challenges being faced so far, having a majority is certainly an indication that the public wants a government which is progressive in nature.

Last four years we have seen a strong market performance which has largely been driven by sentiment and liquidity without much improvement in earnings. But we are seeing "green shoots" emerging in certain pockets of the economy based on our interaction with companies. We believe from a corporate earnings perspective we might be relatively better placed today than at any point in the last four years.

But corporate earnings momentum has to be seen in conjunction with the valuations that are being factored in. If we look at overall market, the mid and small cap stocks have run much ahead of underlying improvement in earnings, while some of the large caps are still available at reasonable valuations. With improving earnings visibility we feel the downside in some of these large cap stocks is limited while the risk in mid and small cap space still prevails. We have discussed our outlook on the SENSEX in a separate note, which would be available on the website.

Improving Visibility!

Short to medium term performance of the market (or for that matter the portfolio itself) is driven largely by sentiment, liquidity and fundamental momentum (or earnings momentum). Sentiment and liquidity are interrelated to a large extent and are cyclical. Since mid-2014 we have largely been in a market driven by positive sentiment and strong liquidity without the support of broader fundamental earnings momentum. Thus valuations have continued to rise and in some pockets have gone to extremes. Secondly stocks which have had shown good earnings momentum have seen a significant valuation rerating. If the sentiment/liquidity turns negative, mark-to-market returns which are not driven by fundamental improvement in the businesses would reverse. As discussed in our September quarter newsletter we need to focus on the intrinsic value of the portfolio to truly understand what proportion of the portfolio is at the mercy of sentiment/liquidity.

As value conscious investors we have seen our opportunity set shrink over time. We have been buying businesses that are fundamentally strong but which are experiencing short term issues and thus are available at good valuations OR those businesses that are seeing good fundamental momentum and still available at reasonable valuations. We don't consider positive sentiment/liquidity as a given and construct our portfolios accordingly, by keeping a close eye on the intrinsic value. Some of our portfolio holdings where we had invested based on short term issues that the businesses were facing, have started to see an improvement/resolution of those issues. Overall visibility in terms of earnings momentum has improved for the majority of the portfolio. And since our portfolio is not so much at the mercy of positive sentiment or liquidity, we feel we should be least affected, in our opinion, if the winds change.

<u>Asset Allocation:</u>

Our overall equity weights in the quarter have inched up from 80 – 87% in the older accounts. This has partially to do with some of our equity holdings doing well which has led to the overall weights going up purely on account of price appreciation. At the same time we have increased weights in few stocks (one major increase in a Pharmaceutical stock). 9-12 months ago we were building initiating positions in good quality businesses which, in our view, were going through temporary issues. Based on our investment process, we structure our weights in such a manner that purely based on valuation we would not initiate the full potential weight in the stock. Our caution is predicated by the fact that "value" can remain "value" for a long time. Only when we are able to get higher confidence that there is strong visibility for near term earnings momentum, is when we would commit fully to that stock. In the past quarter we have seen an improvement in earnings visibility in a few of our stocks and thus seen an increase in weights.

That said, in the newer accounts we are able to find opportunities to invest only 45% in equity as the indices have been moving up and some of our existing stocks have moved beyond the buy zone.

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Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Mar-17	Jun-17	Sep-17	Dec-17
Moat	37%	34%	33%	38%
Limited Moat	39%	39%	41%	37%
Moat + Limited Moats	***76%***	***73%***	***74%***	***75%***
Special Situations	17%	20%	20%	19%
Regulated Utility	7%	7%	7%	6%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-17	Jun-17	Sep-17	Dec-17
Information Technology	19%	21%	21%	21%
FMCG	20%	16%	18%	18%
Financials & Financial Services	20%	20%	18%	16%
Pharma	9%	11%	11%	15%
Auto & Auto Ancillaries	12%	12%	12%	11%
Capital Goods	4%	6%	8%	7%
Utility	7%	7%	7%	6%
Materials	7%	6%	6%	6%
Industrials	3%	2%	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

In some of our portfolio positions we have started to see the first signs of a cyclical up tick, there are a few positive developments that have taken place in some of the other names which has significantly improved earnings visibility. We would like to discuss some of these developments in brief.

We increased our weights in Sanofi India in the quarter. We believe majority of the MNC domestic pharma companies, post the new policy regime in FY2018 fiscal have been permitted price hikes. There was some uncertainty earlier with respect to the price hikes. But the company has actually followed through on the pricing adjustment in the last quarter. Besides the benefit of restocking, there is a genuine case of volume growth reverting to mean along with earnings improvement due to the pricing action. Almost 45-50% of their portfolio has seen a price increase which we believe is very positive and would help see a good recovery in profitability for Sanofi India.

Divi's Laboratories which we had bought a year back when it had received a form 483 i.e. observations and post which it got an import alert. When we had initiated we had assumed that the import alert would get resolved over a period of 2 years. But the company was able to resolve the issue in record time of less than a year. This quick resolution was also a result of strong support lent by its customers to get its plant cleared. This event also highlights the strong relationships that the company has built with its customers over time. Post this resolution, they would want to get back their focus on growth.

We had initiated an investment in Chembond Chemicals couple of quarters back as a special situation. The company had exited a long term JV with Henkel and had received significant cash from the sale. We had seen their past track record of capital allocation and were of the view that they would be deploying the cash over couple of years in profitable ventures. They made couple of acquisitions in the last 6 months; one in which they bought out their water treatment business JV partner which is their most profitable business. Another investment recently was in an adhesives/sealants company which too is highly profitable business and is a great synergistic & cultural fit. Most importantly they managed to get a very good price in case of both the acquisitions in our opinion. In addition to this they have decided to go ahead with capex in polymer business. The product that they have developed over last couple of years has now been approved by customers. This is a critical product for customers and is being currently imported in India. They would be highly cost competitive as the raw material for this product is abundantly available in India. We believe the strategic capital investments that they have done in the last few months, has not only reduced the uncertainty with respect to utilization of cash but also improved visibility with respect to growth that the company can deliver in the next cycle.

DISA India which is the leader in foundry automation saw some organization structure changes at its Denmark based Parent (Norican Group). The parent is consolidating its manufacturing locations with lowest cost units supplying to the entire group. As per our assessment, Disa India has one of the lowest cost operations within the Group and thus there is huge potential export market that has opened up for the company. This is in addition to Indian foundry automation opportunity for which we had invested in this business in the first place.

We have seen similar export opportunity build up post our initiation in another MNC company that we own in the Power Equipment space.

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (Registration No. INP000002965)

The information is meant for general reading purpose and is not meant to serve as a professional guide. The client may or may not be holding the Stocks mentioned in the newsletter in its/his/her PMS portfolio as the portfolio will vary from client to client depending upon the investment strategy followed by the Portfolio Manager for each client.

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Risk factors
General risk factors

a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.

b. Past performance of the Portfolio Manager or its affiliates does not indicate its future performance.

c. Investors are not being offered any guaranteed or assured returns i.e. either of principal or appreciation on the Portfolio.

d. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.

e. The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.

f. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.

g. The Portfolio Manager has renewed SEBI PMS registration effective October 14, 2014 and has commenced its portfolio management activities with effect from January 2011. However, the Portfolio Manager has more than 10 years of experience in managing its own funds invested in the domestic market.