Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W),
Mumbai- 400028,
Tel +9122 61408989
www.multi-act.com
CIN: U67120PN1993PTC074692

Date: 4th January 2019

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 31st December 2018.

Portfolio Performance	Equity Allocation as on 31.12.2018	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.9%	11.8%
December 2018 Quarter	81%	0.3%	2.4%
1st April 2018 – 31st December 2018		6.6%	0.4%

• Benchmark is an average of the BSE 500 and BSE Mid Cap index. Benchmark Performance is calculated using Total Return Indices.
• Equity allocation mentioned above is for older accounts.
• The above returns are consolidated for all clients, time weighted and post 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.

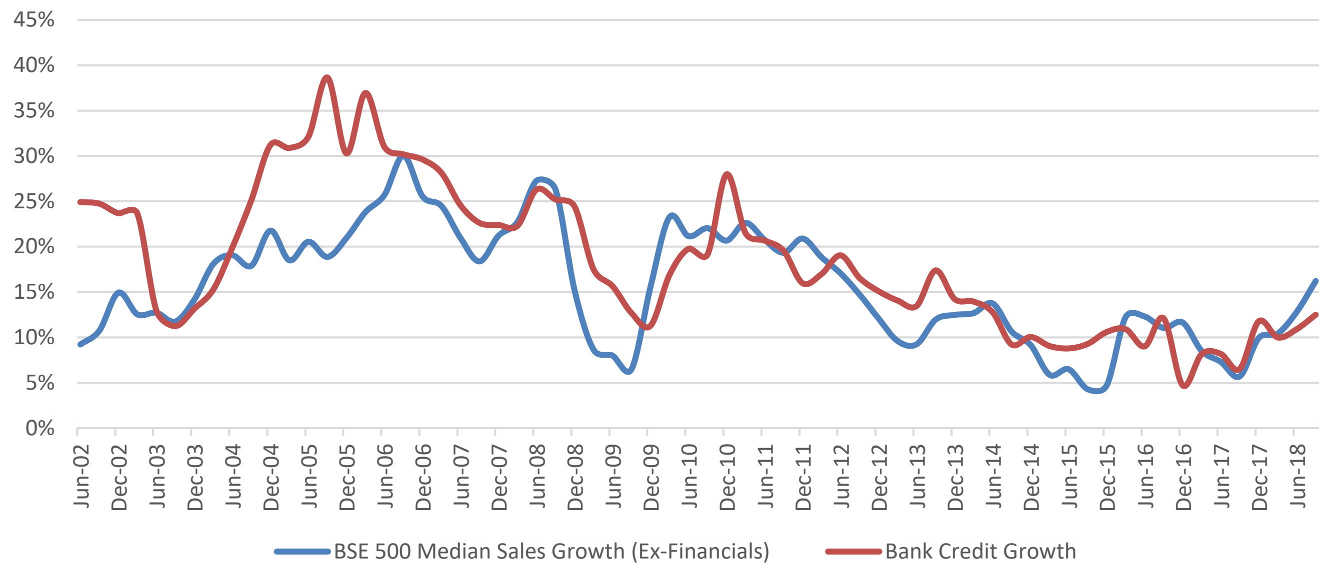
After the sharp correction in the last quarter and continued weakness in October, we saw a bounce back and some consolidation taking place. The quarter was an eventful one, due to the impact from global trends including: the decline of Crude prices, some uncertainties regarding the US- China relationship, the NBFC funding crisis and state elections results in India.

Crude prices saw a large decline during the quarter, with Brent falling from more than $80 per barrel at the start of the quarter to around $50 per barrel currently. This perhaps could be the single largest positive for the Indian economy as the adverse Imports-Exports ratio would show some improvement over the next few quarters.

Domestically, the fallout from the IL&FS default became more visible with banks and investors becoming wary of the sector as a whole, leading to an increase in borrowing costs for NBFC's. As a result of the higher liquidity, post demonetization NBFCs had started to rely more on short term funding. This was used to lend longer term loans for non-salaried housing and developer loans. This led to widespread asset-liability mismatches. The sudden collapse of IL&FS highlighted these risks and yields suddenly spiked, in addition to reduced access to funding. The new RBI governor has moved to relax liquidity in the system which could restrict the impact of the NBFC funding crisis from trickling into other sectors of the economy.

There was also the somewhat surprising loss of the Ruling party in all 3 of the central Indian states governed by the ruling party which went to polls during the quarter. These results have raised some amount of uncertainty for the 2019 General Elections with an increased probability of a coalition coming to power. Currently that is being perceived negatively by the market. But outcomes of State elections need not be extrapolated to General Elections as there was strong anti-incumbency at play in these states.

While falling crude prices is a big positive from the Macro perspective, it is negated to an extent by the crisis of confidence in the NBFC space. We continue to see positive trends on the ground though as we have been suggesting for a while. As you can see from the chart below BSE median Sales growth (Ex-Financials) has been the highest in 6 years.



Source: Ace Equity, RBI

FMCG companies continue to suggest positive momentum on the ground as well. Also, capital goods companies have seen improvement, albeit from a low base. Recently however we have started seeing Automobile Sales slowing down and indications are that they could possibly turn negative as inventory has gone up. NBFC lending has also slowed down given the sectors woes and we need to see how it affects other sectors that were the recipient of loans from NBFC’s. It is still too early to say whether the NBFC crisis will affect the nascent recovery in earnings momentum.

We continue to remain cautiously optimistic, especially in those areas where we are seeing earnings momentum and value emerge. According to us the majority of the decline has been concentrated in those stocks where business quality or corporate governance is at question. Nevertheless, at a broader level, markets continue to be in the expensive zone even post the decline we have seen so far.

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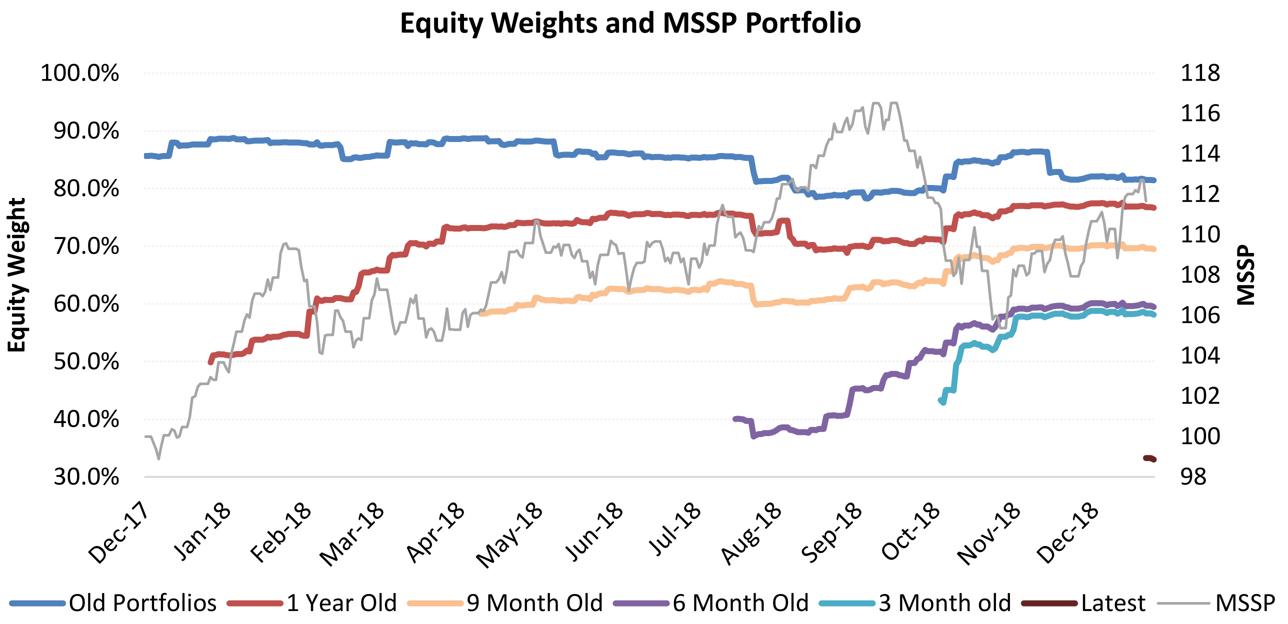
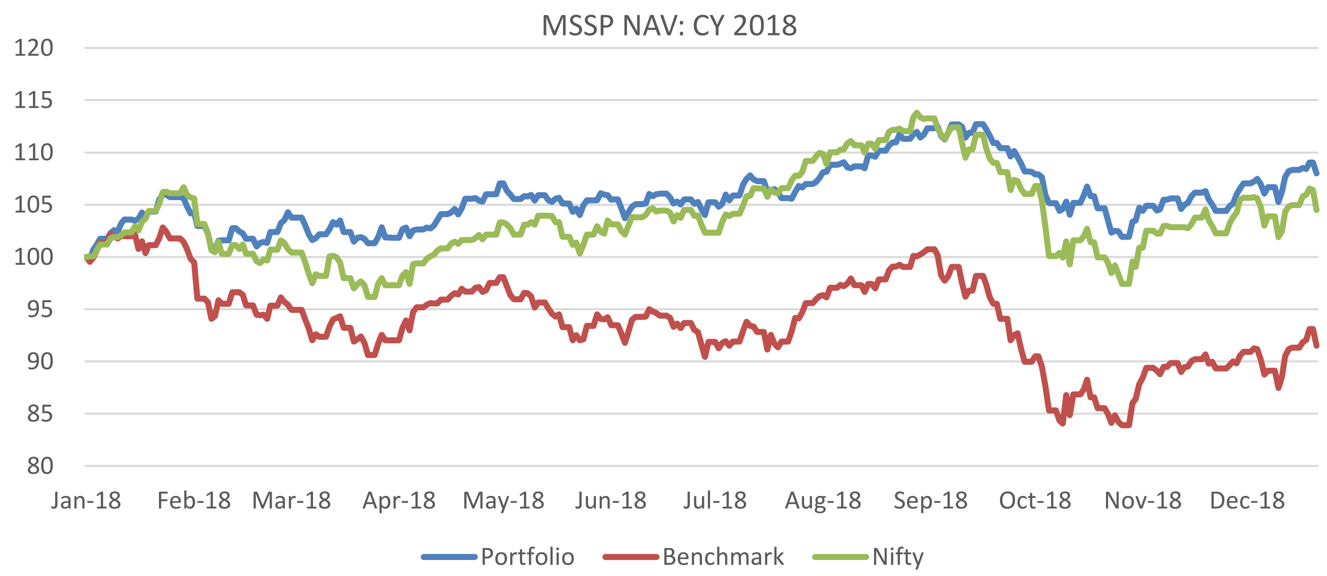
Asset Allocation:

Our overall equity weights stand at around 81% for older accounts. While our equity weight in older accounts has remained the same as new additions and weight increases were offset by exits and reductions, newer accounts have seen increase in equity allocation especially in October as can be seen from the chart below. New funds added in December, have been invested to sub 40%.



Year of capital preservation: We have managed to stay in the green this year so far. This during a period where there have been material declines in the mid and small cap space. We have been able to outpace Nifty returns in CY2018 despite our allocation of ~46% weights in mid & small cap names.



Portfolio Activity:

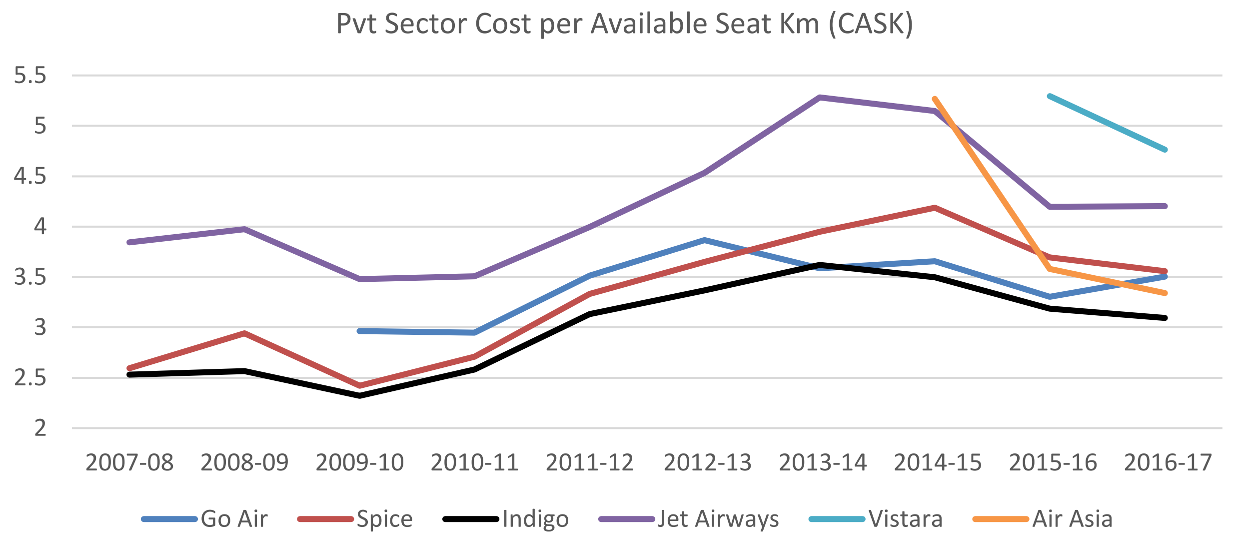
Business Model and Sector Allocation:

Moat/Limited Moat	Mar-18	Jun-18	Sep-18	Dec-18
Moat	37%	35%	34%	35%
Limited Moat	40%	40%	41%	39%
Moat + Limited Moats	***77%***	***75%***	***75%***	***74%***
Special Situations	20%	23%	22%	26%
Regulated Utility	3%	2%	3%	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-18	Jun-18	Sep-18	Dec-18
Information Technology	21%	24%	25%	22%
Financials & Financial Services	13%	15%	15%	17%
Pharma	18%	19%	20%	17%
FMCG	17%	11%	11%	13%
Auto & Auto Ancillaries	11%	12%	7%	11%
Capital Goods	8%	8%	7%	7%
Materials	7%	7%	8%	7%
Logistics & Transport	-	-	-	3%
Media	2%	2%	3%	3%
Utility	3%	2%	3%	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

We took an initiating weight in Interglobe Aviation, parent of Indigo Airlines which is one of the largest airlines in the domestic market, as a special situation. We purchased the interest in October when it was facing two headwinds – 1. Sharp jump in Oil prices 2. Falling yields in the domestic market. Airline businesses are difficult, as you are dealing in a perishable commodity (seats that expire on a particular date) and have multiple variables (Crude Oil, Currency) to deal with. Crude oil though, is a variable which is out of the control of all airlines and affects all the companies in the industry. The only aspect that is in control of an Airline is its cost of operations. Indigo has lowest cost of operations in the domestic market historically. Below chart shows the Cost per Available Seat KM (i.e. cost of transporting a seat for a KM)



Source: DGCA Data

Thus, in a bad market environment our conjecture was that it would be the "last man standing". We feel the Airline industry is going through a stressful patch and we expect that there would be some rationalization of capacity at the industry level. Being the lowest cost operator would help this company to gain market share, as majority of the incremental (efficient) capacity is being added by Indigo. Thus, our investment thesis is largely a factor of valuation (at the time we bought the stock) and our expectation of rationalization of capacity at the industry level which should benefit this company. However due to the sharp fall in oil prices, the stock has moved up materially before we have been able to take a meaningful position.

We increased weights in certain sectors where we saw value emerge. One of them was in HDFC Ltd which also got impacted due to the NBFC crisis. We believe the NBFC crisis could in fact be a blessing in disguise for HDFC Ltd as the cost of funding of other Housing Finance Companies would go up sharply as compared to HDFC Ltd and thus improve its relative competitive positioning in the market.

We also increased weights in Colgate India in the recent correction as we felt that they had managed to arrest the market share loss vis-à-vis Patanjali who is trying to address its own issues with its distributors.

We increased weights in 2 Wheelers as we started to get valuation comfort. We felt the markets were reading too much into the negative sales developments in the festive season slowdown and possible impact it could have in the coming months.

We reduced our weights in a couple of our contrarian pharma names after sharp run ups as we believed quite a bit of the positive developments were now getting priced in by the market.

We exited NTPC as we felt there was a risk of the regulated returns being lowered for the company. NTPC is allowed to earn a fixed return on its investments which is decided by the CERC every 5 years (i.e. regulated returns). Considering reduced power deficit and the Governments push for renewables, we took a view that regulated returns were at risk of being reduced and thus decided to exit. Post our exit, CERC came out with its revised regulations for the sector for the coming period and to our surprise it maintained the regulated returns for NTPC. Nevertheless, we would prefer to wait for a better reward to risk ratio to reinitiate the stock in the portfolio.

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While we are not too concerned about quarterly results, one of our investee company –Persistent Systems, reported surprisingly disappointing numbers for the September quarter while most other IT Companies reported inline or better numbers. Persistent Systems was far ahead of other IT companies in identifying the digital trend in the IT industry and had been growing faster than industry till the last couple of quarters where the "Sales engine" of the company seems to have faced some issue.

We believe the company is on the right side of technology, has the relevant capabilities and is focusing on the right domains. But coming from a background of outsourced product development (i.e. providing product development services to other IT product companies), the company has had limited experience in marketing to enterprises in other domains (Banks, Manufacturing companies, Healthcare Companies etc) unlike other IT Services companies. Our interaction with management makes us believe that the company understands this weakness and is taking steps to address it and has also been entering into important partnerships with companies in each of the key domains that allow it to showcase its capabilities. But we would nevertheless evaluate the results of these actions with financial results.

Wishing you a happy and a prosperous New Year.

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

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

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Disclosure as per Global Investment Performance Standards (GIPS®) –

Multi-Act Equity Consultancy Pvt. Ltd. claims compliance with the Global Investment Performance Standards (GIPS®). You can refer to the GIPS Compliant performance presentation here. Multi-Act Equity Consultancy Pvt. Ltd. has been independently verified by M/s. M. P. Chitale & Co., Chartered Accountants for the periods April 1, 2011 through March 31, 2018. The verification is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Composite representing the Moats and Special Situations portfolio was created on 27th January 2011. Performance has been compared with Total Return of the Index. For Moats & Special Situations Composite, blended benchmark of BSE 500 (50% weight) and BSE Mid Cap Index (50% weight) has been used. The Gross Return is before all expenses (except Brokerage). Net Return is after all actual expenses. A complete list of composite descriptions, policies for valuing portfolios and calculating performance fees are available on request.

Multi-Act Equity Consultancy Pvt. Ltd. is an independent SEBI registered Portfolio Manager. The firm maintains a complete list and description of composites, which is available upon request. This MSSP Composite includes all discretionary fee paying portfolios that are being managed with the objective of generating capital appreciation by investing in companies that in the opinion of the Portfolio Manager are of high quality Moat or Limited Moat businesses at fair value or discount to fair value OR in Non Moat businesses at deep discount to fair value as special situations. The portfolio manager has also the discretion of not being fully invested if he is not able to find ideas that meet the above criteria along with valuation criteria, thus, indirectly taking an asset allocation call between Equity and Cash (& Cash Equivalents).

The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composite's entire portfolio. Actual holdings will vary depending on the size of the account, cash flows, and restrictions. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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.