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CIN: U67120PN1993PTC074692

Date: 2nd July 2018

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30th June 2018.

Portfolio Performance	Equity Allocation as on 30.06.2018	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)	85.0%	16.6%	11.1%
June 2018 Quarter		3.4%	-0.2%

- 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 is ~60%.
- 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.

Peak to June end returns	Index return	Constituent median returns
Nifty	-4.0%	-7.0%
Benchmark	-11.0%	-15.5%
BSE 500	-7.0%	-17.0%
BSE Midcap	-15.0%	-14.0%
BSE Smallcap	-20.0%	-30.0%
M&SSP	-1.7%	-4.8%

Notes: Since peak of the markets in Jan 2018.
benchmark is average of BSE 500 & BSE midcap.
M&SSP's constituent median returns are ex-cash.

Equity Indices continued to remain weak during the quarter with the selloff accelerating at the end of the quarter. This correction has been primarily led by the broader market, especially the small and midcap stocks, with the decline in the median stock being larger than the headline index number as shown in the table. The broader market has seen some sharp falls across the board as well. It is only a few of the Nifty heavyweights which have held up the index.

We have been highlighting the overvaluation within the small and midcap basket since the past 8 quarters. We had been cautious for this period and were building a more contrarian and defensive portfolio. The result of that endeavour, at least so far, is visible in our drawdown since the peak of the markets in Jan 2018, wherein we have been able to restrict the fall vis-à-vis most of the indices.

In the recent correction, we haven't yet seen any redemptions from equity mutual funds so far. In fact, inflows from domestic investors continue. In the past few years a lot of PMS's have entered the industry and have become sizable. They have built significant positions in the small & midcap space. Usually in the later stages of a correction, there is a high probability that client's seeing negative performance in their portfolio would be tempted to redeem their holding, giving rise to a negative spiral wherein funds start to sell stocks which are average to low quality businesses, have high valuations and have poor earnings visibility. To add to that Indian markets are quite shallow; i.e. very few good quality businesses and not very large in size. Hence we have seen majority of fund houses follow the "herd mentality" chasing those few stocks in good times. In an environment with redemption pressure, that works the other way around where fundamentals might be fine, but stocks are going down just because a fund house is paring down their weights. This risk would be quite pertinent if the correction were to continue. We feel that since we had built a contrarian portfolio, more than the majority of our stocks are under owned by the markets.

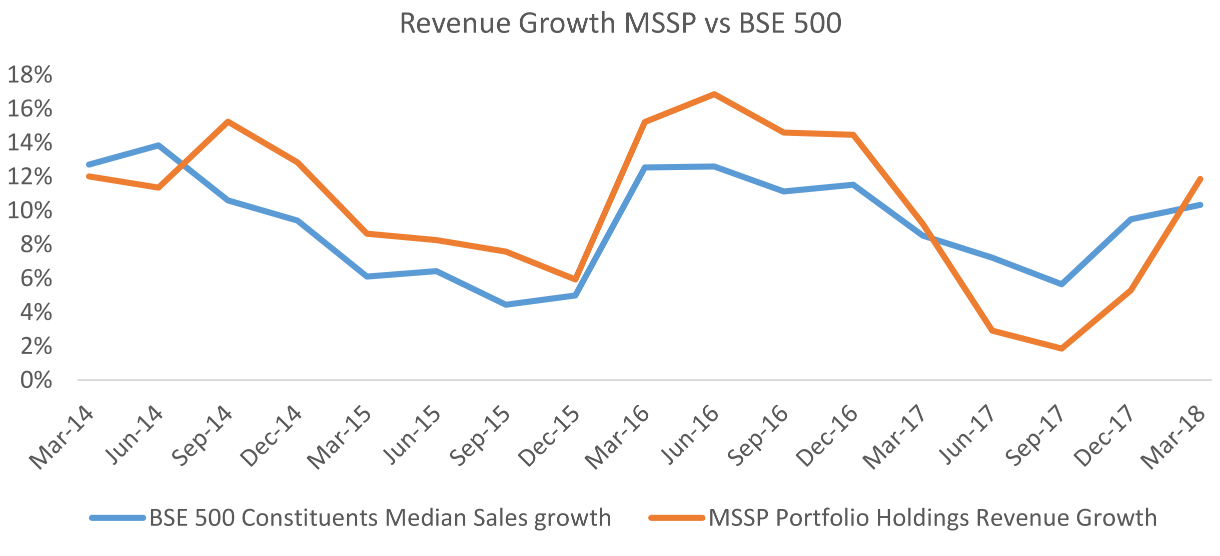
Prepared for Restricted Circulation

In the quarter gone by, we have seen sustained weakness in INR vs the US Dollar and increasing oil prices. Both factors are negative for the Indian economy. Against this negative macro backdrop we were witnessing initial signs of recovery of earnings and improving visibility across companies. Thus for the first time in the post 2014 election bull market we were seeing hope of earnings recovery slowly starting to turn into reality. But the question still remains whether this nascent earnings recovery can overcome the deteriorating macro situation.

How do we navigate through the current turmoil?

Short term performance could be driven by sentiment and liquidity. These factors are not in our hands as investors. But what is in our control is our choice between 3 factors – Quality + Value + Earnings Momentum of the stocks that we add to the portfolio. Quality has significant influence on the Long Term performance of the portfolio, Value in the Medium Term and Earnings momentum in the Short Term. The problem for an investor is that these factors are rarely favorable together (i.e. High Quality stock available at good valuation with strong earnings momentum). Only in the extremely weak markets like 2008-09, would the stocks be available at a price wherein all the 3 factors are favorable. More often as investors, we have to strike a balance between these 3 factors. To benefit from one factor you have to comprise on the others. The question is, how does one achieve this balancing act?

As our focus is on long term performance, Quality is something we don't try to compromise upon. In the past we have discussed why we prefer to invest in quality businesses. Investing in quality businesses helps us reduce the risk of "permanent loss of capital" and helps generate superior risk adjusted returns. Thus we start with our universe which comprises of high quality businesses as per our understanding. When and how much to buy in a business is then a factor of how much you are willing to compromise on valuation vs momentum. For last 1.5-2 Years we have been uncomfortable with the valuations that were prevailing in the broader markets (as we have consistently highlighted). During this period, we had to compromise on earnings momentum to build exposure at reasonable valuations. Thus, we were buying businesses which in our opinion, were facing short term headwinds and were thus available at discount to their fair valuations. Some of these companies have now started seeing a resolution of these issues and the visibility has been improving. Below chart sums up the compromise that we had to make on earnings momentum to find reasonable value. As you can see in the chart the earnings momentum of our portfolio holdings was far lower than the benchmark in the 2017 period.



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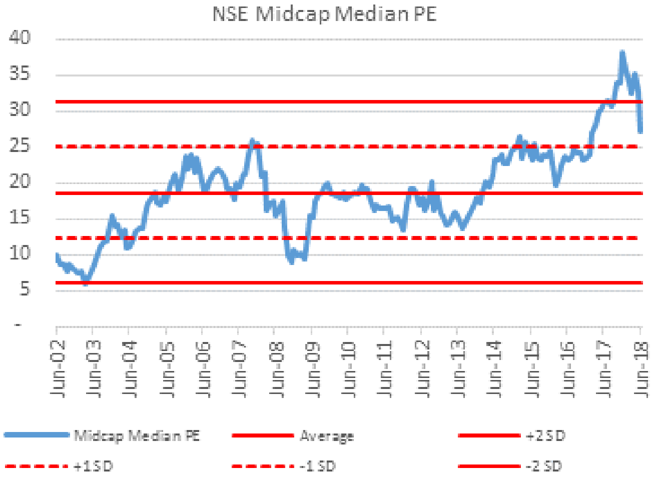
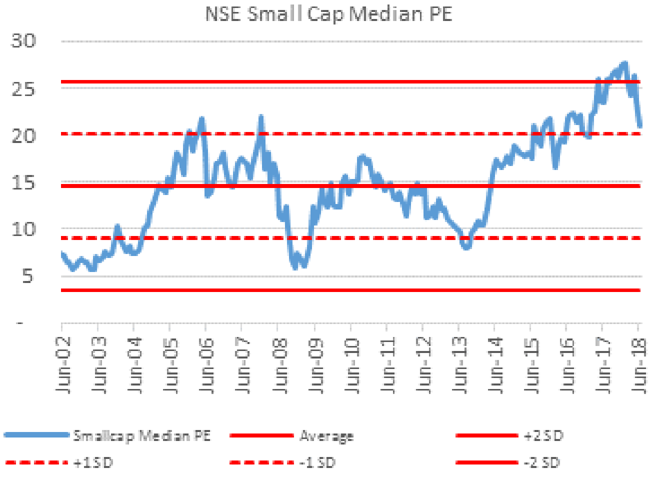
We feel that the market has changed in the last six months. With the correction in the market, one can say rationality in valuations has started to seep in. Though, we are still some time away from the point where we would start seeing stocks providing reasonable prospective return to us as investors, as can be seen from the chart below. As valuations have started correcting, we might have to compromise less on earnings momentum today (as compared to the last 1.5-2 years) for future ideas that get added to the portfolio. Thus in the current environment our emphasis would be to add more stocks that are at reasonable/fair valuation with good earnings momentum rather than stocks which are at discount to fair value but with poor earnings visibility. This will, we feel, increase the likelihood that our bounce back with the market is sharper and drawdown is the least, if the market continues to go down further.





<u>Asset Allocation:</u>

Our overall equity weights stand at around 85% for older account. We are ~60% invested in accounts that came in during the last 6 months and newer accounts we are investing ~45%. While markets have corrected, the valuations have merely come down from frothy to expensive, which has hitherto restricted our ability to deploy capital aggressively in this fall. But some of companies have started to come closer to our buy zone and we could start seeing new names getting added if the market weakness continues.

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Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Sep-17	Dec-17	Mar-18	Jun-18
Moat	33%	38%	37%	35%
Limited Moat	41%	37%	40%	40%
Moat + Limited Moats	***74%***	***75%***	***77%***	***75%***
Special Situations	20%	19%	20%	23%
Regulated Utility	7%	6%	3%	2%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Sep-17	Dec-17	Mar-18	Jun-18
Information Technology	21%	21%	21%	24%
Pharma	11%	15%	18%	19%
Financials & Financial Services	18%	16%	13%	15%
Auto & Auto Ancillaries	12%	11%	11%	12%
FMCG	18%	18%	17%	11%
Capital Goods	8%	7%	8%	8%
Materials	6%	6%	7%	7%
Utility	7%	6%	3%	2%
Media	-	-	2%	2%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

In the past quarter, we have started to see the defensives i.e. the Nifty heavyweights start to get the market support. In fact, after a long time, the IT sector has started to get attention with an improvement in earnings visibility. This is one sector where we have been overweight for a while and we continue to remain positive. One of our capital goods names, Disa India, which is primarily an order book driven business has started to see a strong recovery in their order intake.

In the current quarter we exited Jubilant Foodworks Ltd. We continue to like the business, but our decision to exit was driven primarily by valuation. We feel the current valuations factor most of the positive outcomes. We also reduced weights in some of our other FMCG holdings (Nestle, Colgate) which had moved up sharply in the quarter, without any improvement in earnings to justify the current valuations.

We increased our weight in the generic pharmaceutical company that we had added last quarter as the valuations had started to reflect the worst case scenario in our opinion. We also increased our weight in a small private sector bank wherein we believe the worst in terms of asset quality has been seen and the focus of the new management on leveraging the traditional strengths of this bank would help them get back on the track of sustainable growth.

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

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

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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.