Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower 29 Senapati Bapat Marg,
Dadar (W), Mumbai - 400028
Tel: +91 22 61408989
CIN: U67120PN1993PTC074692
www.multi-act.com

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Moat & Special Situations Portfolio

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30 Jun 2021.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.3%	12.6%
June 2021 Quarter	70%	4.7%	10.9%

While the second wave had a devastating impact on the healthcare system in the country, thankfully the duration of the 2nd wave was much shorter than witnessed last year. The lockdowns introduced across the country were less stringent as compared to 2020. Government authorities and Healthcare experts are preparing for a third wave. But it is possible that the effectiveness of the vaccines in preventing hospitalisation and deaths as witnessed in the UK, gives some comfort that even if we do witness future waves, they could be less devastating than the 1st and 2nd waves.

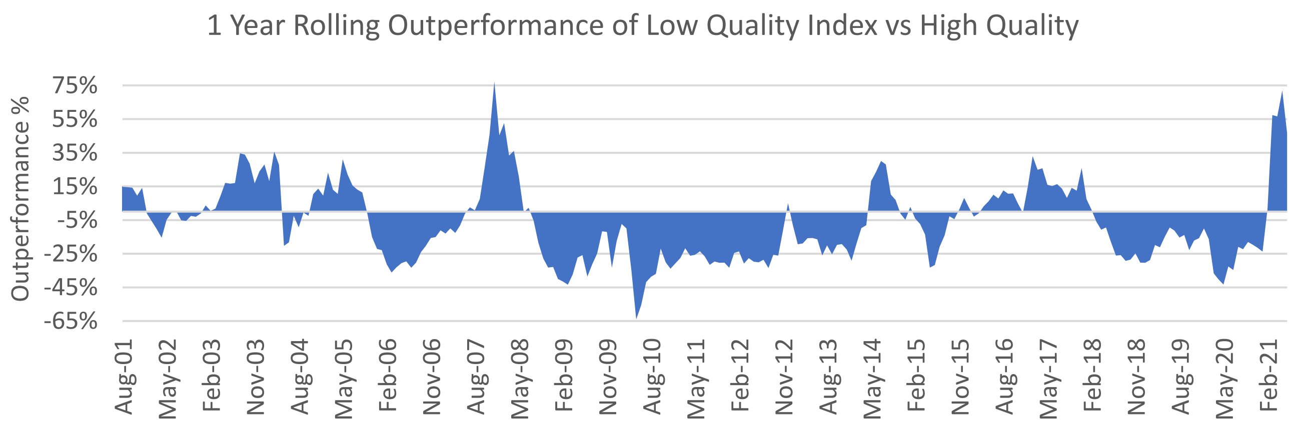
Economic activity was impacted, but not as much as that seen in the first lockdown. Though, pent-up demand may not be as strong as we had witnessed after the first lock-down. Commentary from most companies however suggests business in the rural areas was more impacted during this wave than the last one. Nevertheless, companies were able to manage their supply chains better than last year. While inflationary pressures have continued, most companies have passed on part of the inflationary pressure through price increases. How consumers react to this inflationary pressure is to be seen. On the positive side – companies have started planning increased capital expenditure after many years of restraint on Capex. Importantly, Balance Sheets of most corporates are in better shape as compared to the past mostly due to large public sector deficits and restrained spending.
Higher capital expenditure could be a long term positive.

The market indices continued to move up in the current quarter. In our March 2021 newsletter, we had discussed the increasing complacency, expensive valuations and low prospective returns that we estimate in the market. Valuations have remained elevated and turned even more expensive in the current quarter, especially in the case of Mid & Small Cap Market capitalisation companies. Increasing risk appetite is now moving to a phase of increased speculative activity.

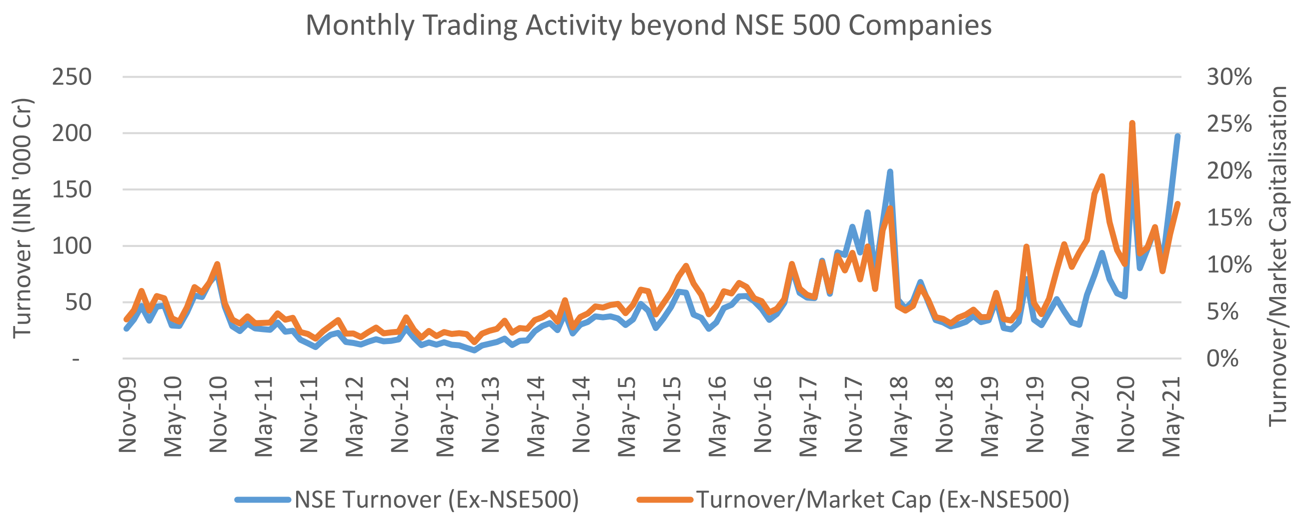
[1] Benchmark is an average of the BSE 500 and BSE Mid Cap index. Benchmark Performance is calculated using Total Return Indices. Equity allocation mentioned above is for older accounts. The above returns are consolidated for all clients, time weighted and post management and performance expenses. The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

Speculative Activity (Mania?)

We are witnessing increased speculative activity globally as well as in India. Stocks priced below 10 Rs per share ("Penny stocks" in market parlance), the preferred hunting ground for new investors, are up 45% on average (33% Median) in the last two months and up 161% on average (77% median) from January 2020 (Pre-Covid) prices. Our proprietary Low-Quality Index, which tracks 30 businesses that as per our analysis are of poor fundamental quality, is up 19% in last two months and up 42% since January 2020 (Pre-Covid), while High Quality Index is up 35%. Thus, companies with poor balance sheets, poor cash flows and questionable business models have outperformed businesses with superior quality through the worst crisis our economy has witnessed in the recent past. Below chart shows the outperformance of Low-Quality index vs High Quality historically. This is the highest one-year outperformance of Low Quality that we have seen since 2007-08.



Trading activity has picked up across the market, but activity in the market beyond the NSE500 has picked up materially as seen from the chart below.



Trading volume (quantity) in the companies listed on NSE beyond NSE500 is up 2.5x as compared to the long-term average (*6x in value terms vs long term average. But this is a factor of increase in price of stocks as well*).

This does not reflect merely an increased risk appetite but increasing speculative behaviour. In such a phase it is very difficult (behaviourally) to keep to a process. Especially so when everyone around is espousing a narrative of instant gains.

Stay Disciplined. Stay the Course.

In such a phase it is important to remind ourselves what we are trying to achieve through our investments. We are trying to generate a good absolute inflation adjusted return over a reasonable period. More importantly, we do not want to suffer a "permanent loss of capital". At this juncture, in our opinion, both these points seem adverse for an investor (low prospective returns & a higher probability of a risk of loss of capital). At this point staying disciplined is most difficult but also the most important thing to do, to achieve our long-term investment goals.

*"The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs." – **Warren Buffett***

Asset Allocation

Our overall equity weights stand at around 70% for older accounts. For new accounts our initial weight is ~35%.

Portfolio Activity

Business Model Allocation	Sep-20	Dec-20	Mar-21	Jun-21
Moat	22%	21%	19%	22%
Limited Moat	46%	43%	49%	44%
Moat + Limited Moats	***68%***	***64%***	***68%***	***66%***
Special Situations	28%	32%	28%	30%
Regulated Utility	4%	4%	4%	4%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Sep-20	Dec-20	Mar-21	Jun-21
Financials	28%	32%	28%	29%
FMCG	15%	16%	21%	22%
Information Technology	11%	9%	7%	10%
Financial Services	12%	10%	9%	9%
Real Estate & Infrastructure	-	-	3%	7%
Auto & Auto Ancillaries	6%	6%	6%	7%
Pharma	8%	7%	7%	5%
Utility	7%	8%	7%	5%
Materials	9%	10%	10%	4%
Capital Goods	5%	2%	2%	2%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity During the Quarter

We added a company in the transport Infrastructure consulting business over the last two quarters. Being mainly a consulting business, the execution related risks that most companies face in the infrastructure space, are far lower here. It is a high free cash flow generating business with a net cash balance sheet. We believe this is a low-risk business model that can capitalize on increased transport infrastructure Capex announced by the government.

We took an initial weight in a company in the Commercial Real estate (Office space) & convention centre space. The company has net cash balance sheet and stable cash flow generation (annuity business model). Due to Covid their convention centre business was impacted materially, while commercial real estate segment was stable. The land that the company holds has developable potential that is significantly higher than what is being currently utilized, which provides long term growth visibility. We believe once we are out of the Covid crisis, the convention centre business would also bounce back sharply.

We added a Tier-1 IT Services company to the portfolio. Global IT outsourcing deals have picked up materially post Covid, as businesses try to compensate for the underinvestment done in the earlier years and also accelerate the digital adoption. Most IT services companies have turned expensive in the last one year. But this company, was still relatively miss-priced and available at attractive valuation even on an absolute basis. And considering the strong tailwind the industry is witnessing, we decided to take an initiating weight.

We have lowered our weights in multiple stocks during the quarter where valuations have run up. Thus, even though we have added new names to the portfolio, our overall equity weights have gone down compared to March Quarter.

We exited Petronet LNG. This was not driven by valuation, but due to our discomfort with regards to the aggressive capital expenditure plan (~18K Crore) announced by the company, majority of which, was in newer areas. While this is a long-term Capex plan, we were uncomfortable, as we are not in a position to assess the RoI on these new projects, which would have long gestation period and back-ended payoffs. This was not part of our core thesis when we had bought this stock. The new capex plan brings in material uncertainties, which we are not comfortable with, especially in the current phase of the market.

We exited NMDC. The sharp jump in commodity prices helped NMDC to improve its pricing in the domestic market. In commodity stocks it is important to get in when business is not doing great and get out when the cycle is in favour of the business. We used the opportunity of the current commodity cycle to exit the stock.

Regards,

Rohan Samant	Rohan Advant
Chief Investment Officer	**Sr. Portfolio Manager & Associate Director**

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

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Note:

1. All cash holdings and investments in liquid funds, is considered for calculating the performance.

2. All performance data are reported net of all fees and all expenses (including taxes).

3. The above performance numbers are not verified by the SEBI

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

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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).

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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 December 04, 2020 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.

(**Registered Office:** Katariya Capital, A-19, Vidyut Nagar Society, Lane 5, Koregaon Park, Pune – 411 001
Telefax: +91 22 2615 3738 | CIN: U67120PN1993PTC074692)