Multi-Act Equity Consultancy Pvt. Ltd.
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Date: 4th July 2016

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 30th June 2016.

Portfolio Performance	Equity Allocation as on 30.06.2016	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)	~82%	16.6%	8.5%
June Quarter		5.0%	9.3%

- Benchmark is an average of the BSE 500 and BSE Mid Cap index.
- Equity allocation mentioned above is for older accounts (who have been with us over 1 ½ years). New accounts equity allocation would be lower.
- Returns time weighted and after management expenses but before performance expenses.
- The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
- Past performance is not guarantee for future performance.
- Inception Date is 27th January 2011.

Markets have witnessed a sharp recovery from the lows it had touched in February. As discussed in our March newsletter, the market seemed, at that point, to be factoring in a lot of negatives, ignoring the possibility of any positive surprises. Positive surprises did come through: in the form of the Indian Meteorological Department (IMD) and International agencies suggesting a high probability of a better than normal monsoon this year after two back to back years of poor monsoons. Another positive was better than expected corporate earnings (ex PSU Banks and commodity sector). This was also on the back of a rationalization of expectations by market participants after consistent disappointments in the preceding few quarters. The RBI in its June policy statement has specified that its latest rounds of forward looking surveys have indicated an improvement in capacity utilization and in order books.

While we witnessed some positive news on the domestic front, the global markets were impacted by Britain's vote to exit the European Union that came as a major negative surprise. Although the direct impact of this event on the Indian economy can be limited, it is the indirect consequences (currency, fund flows) that one needs to be cognizant of, considering the fact that in the current global economy no country is an island. However, we would not like to speculate on the eventual outcome of this event and of any potential disintegration of the European Union. Our view is that the process of exit is complex and has many multiple paths but in any event the impact of Brexit on the markets *per se* is highly exaggerated for the time being. Focusing on High Quality businesses would help us to sail through an uncertain environment like the one we are in today. To give you a better understanding of our exposure to the international market, ~27% of the invested portfolio is in companies that have a major export business. This also comprises of commodity companies which are mainly supplying to the domestic market but whose prices may be determined by the international prices. Considering the quality of the businesses and the competitive advantages that they enjoy, we are comfortable with our exposure.

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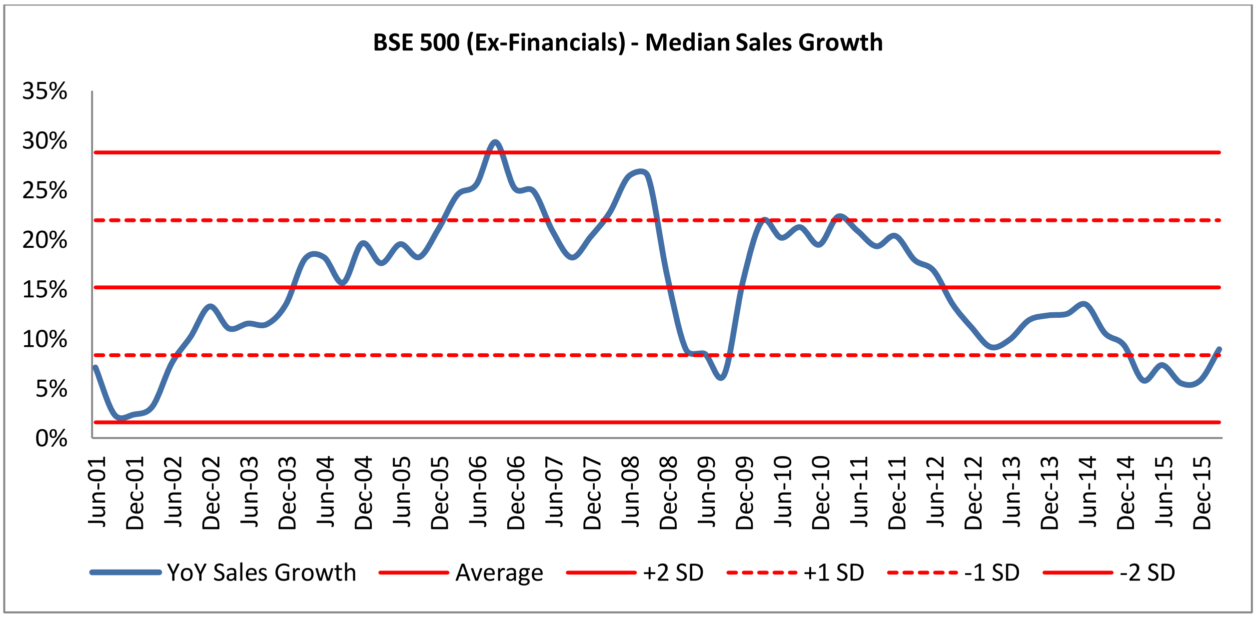
In the last quarter, our portfolio underperformed the benchmark. This is partly on account of High Quality stocks not participating on a relative basis in the sharp recovery from the February bottom as can be seen by performance of NSE Quality 30 and our in house High Quality Index in the table below. FMCG and IT have not participated to that extent. Amidst that we managed to cross our earlier portfolio peak in August, while most indices continue to hover below their earlier peaks in spite of a sharp bounce back (Except Midcap index).

Performance	2015 Peak to 2016 Bottom	Recovery from Bottom	2015 Peak to 30th Jun 2016
MSSP	-9.5%	13.4%	2.6%
NIFTY	-22.5%	18.8%	-7.9%
Midcap	-17.6%	22.8%	1.1%
Smallcap	-21.3%	23.6%	-2.8%
NSE Quality 30 Index	-17.7%	14.1%	-6.2%
Multi-Act HQ Index	-16.7%	13.6%	-5.3%
Multi-Act LQ Index	-22.5%	27.3%	-1.4%

Multi-Act HQ and LQ indices are 30 stock equal weighted indices of the Top 30 High quality and Low quality stocks respectively as graded by Multi-Act. NSE Quality 30 Index is MCap weighted index whose constituents are High Quality stocks as defined by NSE.

How is the Market placed?

We are starting FY 2017 on a relatively low base in terms of corporate earnings. As shown in the chart below, the Quarterly sales growth for BSE 500 companies (Ex-Financials) is at -1 Standard Deviation, indicating extreme diversion from the long term average of ~15%. Median Sales growth has been used to get better feel of the health of the companies across the board without getting influenced by size. We have seen an uptick in March, but one needs to see if this momentum is sustained going forward. We do believe there are positive triggers in place which could help sustain and build on the momentum.



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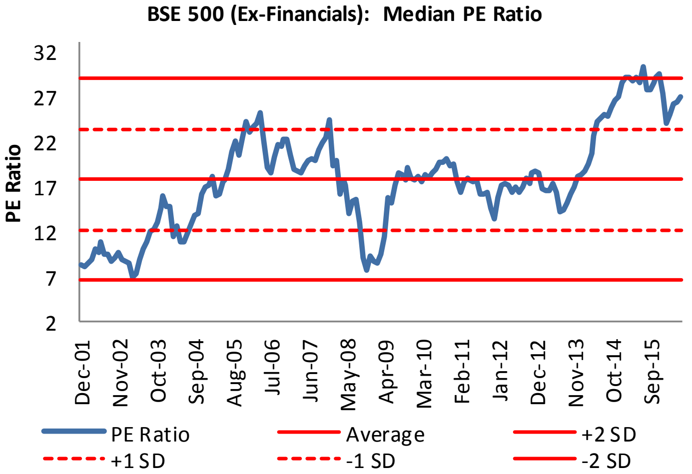
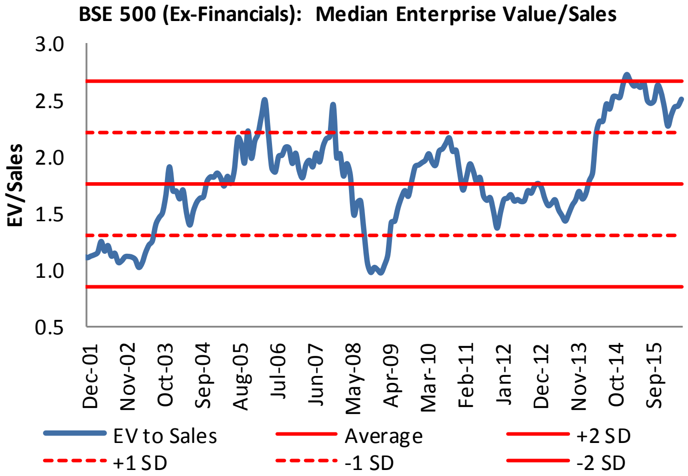
At the same time though, valuations continue to remain a cause of concern for an *absolute return* investor. Broader market valuations have already factored a recovery as can be seen in the charts below. Whether one sees the PE ratio or the EV/Sales ratio, valuations are above +1 Standard deviation. Again the median has been used to get the true feel of the underlying valuation rather than getting affected by Market Cap.





As highlighted in our earlier newsletters, this overvaluation is mostly in the Mid and Small cap space. Barring a few select stocks, we believe prospective return in Mid and Small cap space is extremely low even if economic recovery comes through. There is value in the Large Caps and select sectors like commodities. But again one needs to be extremely selective in this space. In a nutshell high valuations (+1SD) are balanced by low sales growth (-1SD) and so on balance if one is able to construct portfolios with both reasonable valuation and low past sales growth, there is a prospect of a positive surprise.

Asset Allocation:

As we continue to see value in High quality large caps our current equity exposure stands at ~82% *(would vary from client to client based on timing of entry of client and risk profile).* Our asset allocation is determined by the bottom-up ideas which are based on opportunities that market provides and which suit our valuation and quality criteria. But in addition to quality and value criteria we also focus on earnings momentum and market interest (technical momentum) in the stock. Once all the 4 criteria are satisfied – i.e. Quality, Value, Earnings momentum and Technical Momentum we take our full potential exposure in a particular stock.

Since inception of our PMS, we haven't seen a period where all the 4 criteria have been consistently satisfied. But if we see earnings momentum picking up along with technical momentum, our equity allocation could continue to remain at high levels. But if one witnesses a "hope" based rally without any backing of fundamental improvement on the ground (like the one we saw in 2014-15) we would most likely reduce our exposure.

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Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Sep-15	Dec-15	Mar-16	Jun-16
Moat	44%	39%	35%	35%
Limited Moat	30%	30%	36%	35%
Moat + Limited Moats	***73%***	***69%***	***71%***	***71%***
Special Situations	14%	17%	18%	18%
Regulated Utility	12%	14%	12%	11%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Sep-15	Dec-15	Mar-16	Jun-16
FMCG	22%	21%	22%	23%
Financials & Financial Services	16%	18%	20%	21%
Auto & Auto Ancs	18%	17%	17%	15%
Information Technology	13%	14%	16%	15%
Utility	12%	14%	12%	11%
Pharma	9%	6%	5%	5%
Materials	5%	5%	5%	5%
Industrials	2%	2%	3%	3%
Capital Goods	-	-	-	2%
Telecom	4%	3%	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

We took an initial weight in a Capital Goods company that supplies to Foundries. It is a MNC with good technology backing from its parent. It is one of the largest players in India with high market share in its space. We believe the company would be the biggest beneficiary of Foundry automation in India. We would increase our exposure once we get better valuation comfort.

Regards,

Jinal Sheth
Sr. Portfolio Manager

Rohan Samant
Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited

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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.