Multi-Act Equity Consultancy Pvt. Ltd.
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CIN: U67120PN1993PTC074692

Date: 4 July 2017

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 30th June 2017.

Portfolio Performance	Equity Allocation as on 30.06.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.8%	10.5%
June 2017 Quarter	~80%	2.0%	4.1%

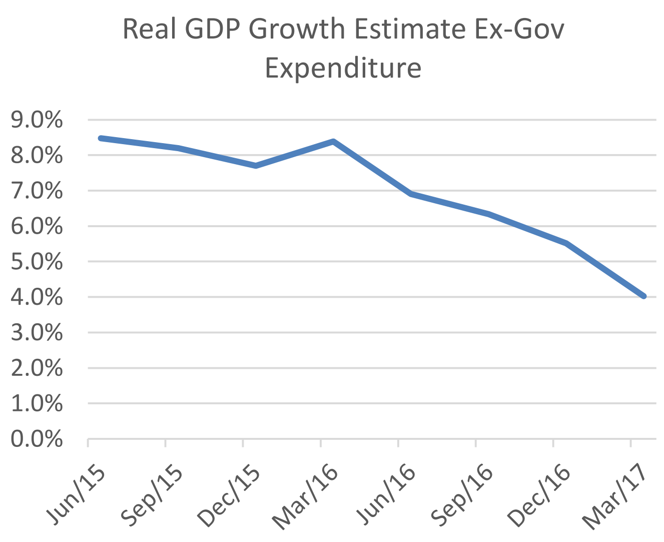
- Benchmark is an average of the BSE 500 and BSE Mid Cap index.
- Equity allocation mentioned above is for older accounts. New accounts equity allocation would be lower.
- Returns are time weighted and after management and performance expenses.
- The actual returns of clients may differ from client to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

Markets have continued their strong momentum in the quarter. The Nifty was up 3.8% and our benchmark index was up by 4%. This quarter marked a shift in activity to the Nifty stocks where some of the heavily weighted stocks saw good price appreciation. It remains to be seen whether this marks a shift of funds flowing into larger stocks which were relatively cheaper than the broader markets. The broader markets have continued to inch up with strong inflows (more on this in a later section). If we look at some related data for flows in the last 17 years, for 14 years we had cumulative outflow of ~36,500cr and just in the last 3 years inflows were up by ~184,000cr. FII inflows on the other hand have more or less continued throughout the period with bouts of selling caused by global risk-off.

Fund Flows	DII's	FII's
2001 - 2014	(36,429)	7,08,071
2015 - 2017	1,84,064	1,16,466
Total	**1,47,635**	**8,24,536**

(Figures in Cr.)

Corporate earnings for March have remained subdued with some of the after effects of Demonetisation. The focus is now on GST getting implemented from 1st July. In our conversations with corporates we gather that GST could lead to a disruption in Sales for a couple of quarters as the trade channel takes an inventory correction and the supply chain becomes more streamlined. We believe there could be short term aberrations but one needs to look beyond that. We haven't seen any pickup in Capex, besides a few green shoots on the Government Capex front. The big negative in our opinion is that in recent months various state governments have declared farm loan waivers. It started with one state and has now been taken up by multiple states. In our view, this sets a bad precedent. More importantly it puts a strain on the fiscal position of the country (State + Central government). This could put pressure on the GDP going forward as the current GDP growth has significantly been supported by Government expenditure. (Shown in the adjoining chart which shows Real GDP growth Ex-Government expenditure drifting downwards).



Source: MOSPI

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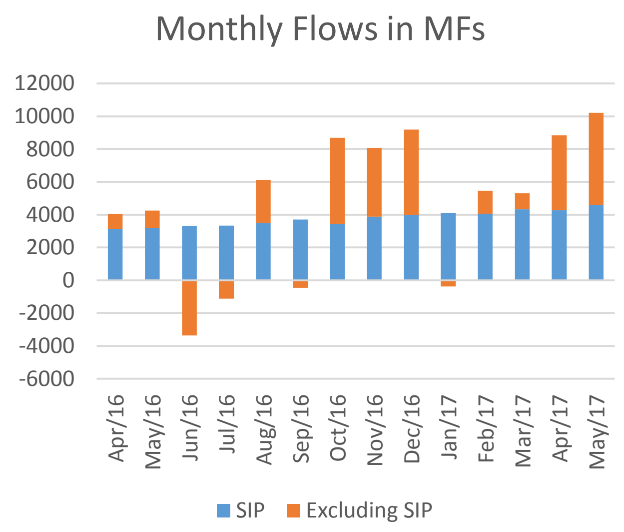
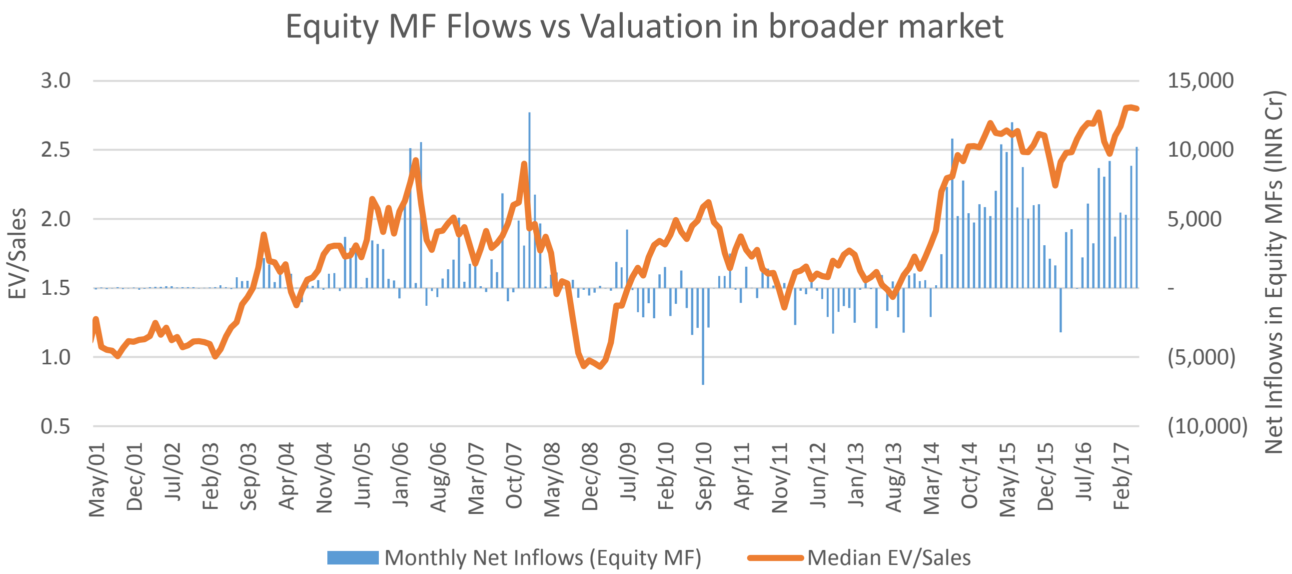
SIP the Holy Grail?

In the last few years Systematic Investment Plans (SIP) have become very popular. As per AMFI data, investments through the SIP route were close to 44,000 Crore in FY17 which was ~73% of the net inflows into Equity Mutual funds. The number of SIP folios have doubled in the last 3 years to 1.4 Crore. And as per AMFI ~6 lakh new SIP folios are being added every month on average. We do believe SIPs are a relatively better way to allocate capital for an individual investor who has periodic cash flows and has limited understanding or limited time to take asset allocation decisions. We had done a study in the past where we saw that the actual return (IRR) that an average Mutual fund investor generates is much lower than the market and the Mutual Fund Industry in the aggregate because of the behavioural issues that leads to wrong timing of flows. SIPs *to a limited extent* reduce the behavioural biases that an individual investor would face and thus avoid getting sucked in at market peaks and forced out at market bottoms. At the same time though, SIP is no Holy Grail. An individual investor would generate average equity return on IRR basis and that too if he sticks to the discipline across cycles. We believe this discipline would certainly be put to test in the future.



Source: AMFI, Business Standard

SIPs do, though, have an implication on the market and for us as investors. These flows are very sticky in nature and most importantly they are valuation agnostic; flows would keep coming no matter what the valuation. This could also be *one* of the reasons for an extended period of overvaluation in the broader market that we have seen in the last 3 years. As can be seen from the chart below the overvaluation in the broader market has persisted during the period of high MF inflows in last 3 years.



Source: AMFI, Ace Equity Data for BSE 500 (Ex-Financial Stocks). Above chart represents median of EV/Sales on TTM basis across BSE 500 companies excluding Financial stocks. Median EV/Sales have been used to remove the Mcap bias and understand the valuation across companies.

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Strong fund flows have basically led to a liquidity driven valuation rerating. Returns that have been generated in the last 3 years can largely be attributed to this valuation rerating than any fundamental improvement in earnings as seen in the table below. This is especially so in case of broader markets where almost all the return can be attributed to rerating alone.

Last 3 years	Index (CAGR)	Earnings (CAGR)	Rerating (CAGR)	% of Return Attributable to Rerating
NIFTY	7.7%	2.1%	5.4%	71%
BSE 500	10.2%	-1.1%	11.4%	112%
NSE 500	10.3%	1.9%	8.2%	80%
NSE Midcap	16.3%	0.3%	16.0%	98%

Source: BSE, NSE

So, what does an absolute return focused investor do when faced with overvaluation driven by inflows which could be sticky in nature but which ignore the prevailing (high) valuations and could persist? In our view, this is not dissimilar to a poker table where one player keeps raising the stakes for everyone on the table without looking at his cards or the cards on the table! We believe we are in an environment where prospective returns have been brought down solely due to this liquidity. (For our analysis of prospective return on the market please refer to our Rational Analysis of SENSEX report). In order, not to compromise on our pledge to our investors in our absolute return objective and get swayed by relative performance we have been focussing on High Quality business that we believe are going through temporary headwinds and have minimum expectations built into their valuations. As discussed in our March 2017 newsletter, while the urge to go down the quality curve is great in order to keep up with relative performance, the need to remain in the High Quality businesses is even more critical today given the valuation risk prevailing in the market. We are therefore seeing our portfolio taking shape more along these lines of special situation High Quality businesses which may have more of a contrarian bias and thus reduced correlation with the market in general.

Asset Allocation:

In the current quarter, our equity weight has come down to 80% in older accounts from the peak of ~89% which was reached during the market correction post Demonetisation. Our weights have come down as some of our stocks are trading at expensive valuations with no real change in earnings but more on hope of higher earnings. If the markets continue their current momentum and trajectory we could see some further reduction in weights going forward. In newer accounts, we are finding opportunities to allocate not more than 40% to equity as of now, keeping in mind the need to limit the maximum weight of a particular stock in the portfolio as governed by Quality, Value and Momentum.

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Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Sep-16	Dec-16	Mar-17	Jun-17
Moat	37%	36%	37%	34%
Limited Moat	34%	38%	39%	39%
Moat + Limited Moats	***71%***	***74%***	***76%***	***73%***
Special Situations	19%	16%	17%	20%
Regulated Utility	10%	10%	7%	7%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Sep-16	Dec-16	Mar-17	Jun-17
Information Technology	17%	19%	19%	21%
Financials & Financial Services	22%	18%	20%	20%
FMCG	21%	20%	20%	16%
Auto & Auto Ancillaries	14%	12%	12%	12%
Pharma	5%	9%	9%	11%
Utility	10%	10%	7%	7%
Capital Goods	3%	2%	4%	6%
Materials	6%	7%	7%	6%
Industrials	3%	3%	3%	2%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

As markets have inched up in the past quarter we have reduced weights in some of our positions where we reached our sell zone. In addition to general weight reductions in some stocks, we exited ITC and ONGC.

We initiated a position on a niche specialty chemicals solutions provider during the quarter. They provide technological solutions to various sectors, water being their largest sector comprising 55% of sales. They are one of the leaders in the water treatment chemicals sector with close to 18-20% market share and a very strong business model. They cater to various industries such as refinery, steel, fertilizer, petrochemicals, paper mills, distilleries, pharma & food & beverage etc. The business generates upwards of 40% ROCE and has a good margin profile. They recently purchased the stake of their JV partner in this business at good valuations. The opportunity in this business is quite good along with the fact that this is a highly sticky business wherein the cost to client is very low but the loss to client is extremely high if the plant has to remain shut for a day or two. In the past few years, they have expanded beyond water in businesses which have good potential where they believe they can have a niche and can generate a respectable ROCE. We like the business, the capital allocation policies of the management (quite conservative) and we believe we have managed to get the stock at a price where we have paid for the water business and the cash on their balance sheet, while the majority of their other businesses have come in for free along with an option value.

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We have taken an initiating position in a MNC Power Equipment company. Indian power sector is going through a rough patch. The State Electricity Boards have stressed balance sheets and are thus not able to procure power. This has led to severe underutilization of Thermal power capacity in India. Thus we believe there is a long way to go for Capex to pick up in the Thermal Power segment. But the opportunity that we see through this company is related to Pollution Control capital expenditure. Due to recent government regulations related to pollution control for Thermal power plants, there is significant Capex that would take place in the Pollution control area in the next 3 years. The company's parent has the relevant technology and a very good track record and market positioning globally which would help the company to significantly benefit from this opportunity. The company also has a strong position in Thermal Power plant repair and maintenance which is also expected to see good traction going forward as Power companies try to improve operational performance of existing capacity and also to meet the government's stricter emission norms.

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

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

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.