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

Date: 6th April 2017

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 31st March 2017.

Portfolio Performance	Equity Allocation as on 31.03.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		16.2%	10.3%
March 2017 Quarter	~87%	8.9%	15.8%
1st April 2016 – 31st March 2017		14.9%	28.4%

- 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.

Market indices have recovered quite sharply post the demonetization impact in the quarter. Market participants were factoring in a very negative outcome from demonetization. But in actual fact, post corporate results in the December Quarter and with the benefit of hearing business commentary across the sectors, market participants realized that business wasn't as bad as was being imagined. In fact, majority of businesses have recovered to pre-demonetization levels. Along with this, the recent emphatic win of BJP in the state elections, clearly signals that the people are in desire for a change, irrespective of whether demonetization had fulfilled the primary motive that it set out to achieve.

The union budget announced for this fiscal year was quite a balanced budget with focus on the middle income strata. The government has taken steps which indicate their intent on encouraging home ownership for the middle income group while discouraging investment in high end real estate. Real estate as an asset class has been subdued for a while now and even though interest rates have started correcting, Real Estate prices remain elevated. The yield differential i.e. borrowing cost is still far higher than rental yields and investment opportunities continue to remain unattractive. Additionally with interest rates also coming down, investors are finding debt returns unattractive. Thus as the alternative investment avenues remain unattractive, flows into equity as an asset class remain strong and this could continue to remain so in India for a while yet.

The broader markets i.e. small and midcap basket have also seen a sharp recovery post demonetization and have continued their outperformance to the larger cap indices. With the continuation of strong domestic inflows what was also interesting to note was that FII flows have also come back quite strongly (~$5bn buying in the last couple of months) especially post the BJP's election victory in the state of UP. Liquidity has been quite strong especially post Budget. Domestic Mutual funds seem to be flush with money in the form of SIP's (systematic investment plans). What one might need to watch out for though is that fundamentals on the ground haven't changed much but markets have started to price in some of the awaited recovery, at least across the broader markets. With a liquidity driven market it is very difficult to predict the turn in markets but this is where we believe a process oriented approach is essential and should help investors navigate through times where exuberance obscures a rational assessment of prospective returns.

Prepared for Restricted Circulation

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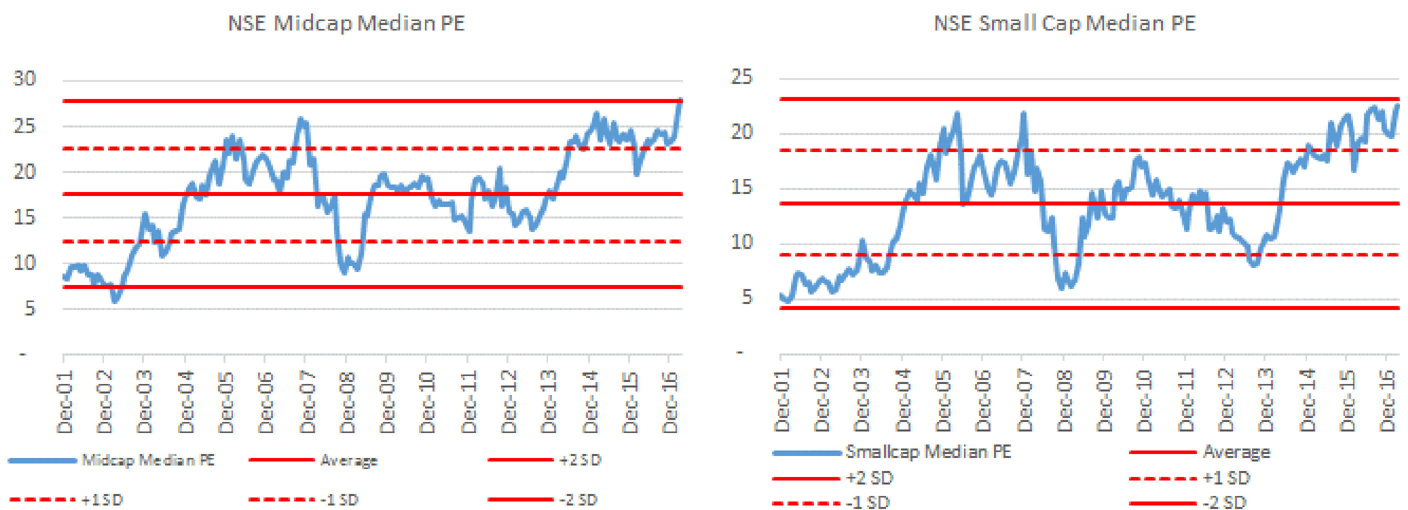
In the year gone by our portfolio has underperformed the broader market. As we are value conscious investors, most of the time our portfolio we would have some contrarian positions. Such a portfolio would be expected to go through its bout of underperformance when the momentum factor is being bid up by market participants. Our current underperformance we think is mainly driven by our conscious decision to be underweight what we believe is the overvalued Mid and Small cap space and avoiding the Low Quality securities. In addition to this, the broader underperformance in the High Quality space has not helped.

Performance for the FY17

Indices	Performance
Moats & Special Situations Portfolio	14.9%
NIFTY	18.6%
NSE Midcap 100 Index	34.9%
NSE Small cap 100 Index	43.0%
Multi-Act High Quality Index	11.8%
NSE Quality 30 Index	10.8%
Multi-Act Low Quality Index	36.8%

Continued Overvaluation in Mid and Small Cap Space:

In the past few quarters we have discussed why we believe there is a significant overvaluation in the Mid and Smallcap segment. This overvaluation has only been exacerbated overtime as the fund flows in that segment continue to be very strong. Below chart shows the monthly median PE of NSE Midcap and NSE Small cap index. We have used the median PE to reduce the influence of index heavy weights and thus highlights broad based high valuations. Both the charts indicate that the broad indices are trading at +2 SD from the mean and at a higher level than they were in 2007-8!



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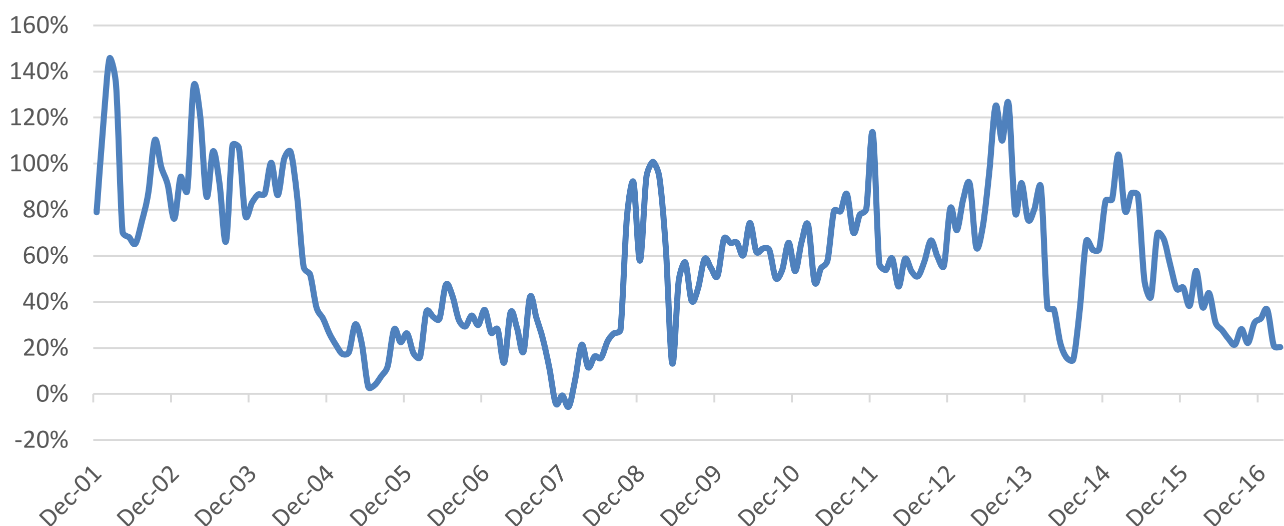
Searching for Value in Low Quality:

In the latest year (especially in the quarter gone by), one disconcerting thing that we have observed is that Low Quality stocks are seeing increased interest. What we infer from this is that market participants seem to be running out of ideas and are willing to invest down the quality curve where valuations might *appear* reasonable. When ideas become difficult to come by there is an urge to lower the bar. The migration is visible in the below chart. The Valuation premium of our High Quality basket has narrowed as compared to Low Quality basket and is in the zone which suggests abundant risk appetite. And even though it is not at the extreme it had touched in 2007 (where Low Quality started quoting at a premium to High Quality), it certainly warrants extreme caution.



The above chart captures the % difference between median PE multiple of Multi-Act High Quality universe and median PE multiple of Multi-Act Low Quality universe based on Multi-Act grading system.

We had discussed at length as to why we prefer not to invest down the quality curve in our Dec 2014 Newsletter. Our message in a nutshell was that the probability of a "permanent loss of capital" increases as we go down the quality curve. A bull market in Low Quality stocks is something we are happily willing to remain on the sidelines.

When faced with the risk of underperformance in increasingly overheated markets, there would be a strong urge to chase momentum or lower the bar. But we would neither change our process (focus on value) nor our philosophy (focus on quality) as that's what we believe, will deliver superior risk adjusted returns in the long run. In cricket parlance, we are on a tough pitch currently and it's better to play defense than go for the big hits. When runs seem difficult to come by, one might get the urge to step out of the crease or take an unconventional hit. But in essence we are playing a test match and not T20, and thus it pays to play by the pitch rather than going after every ball.

Asset Allocation:

With increasing valuations in the broader market, our opportunity set has narrowed further. As you are aware we were finding value in quality large caps for a while. But some of those stocks have also moved away from our buying zone now. This has left us with companies in the HQ basket which could be facing short to medium term business headwinds and where time could be the risk (i.e. time taken to resolve the

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headwinds). At this point the risk of time is something which we are willing to take over risk of overpaying for relative certainty. As new opportunities have become hard to come by, we have been able to allocate around 40% in equity in new accounts that we have been receiving in the past one month. Although our older accounts continue to remain invested at high levels i.e. ~86-87% (weights could differ for clients with different entry points) as we have not yet reached the sell zone for many of the stocks. When we construct portfolios we think in terms of a 3 year+ perspective. We believe the predominantly contrarian portfolio that we are owning today, is well placed from a prospective return perspective on a relative as well as on an absolute basis. If the markets were to continue to move up from here, our equity weights would probably start coming down especially where we believe fundamentals do not justify the prices.

Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Jun-16	Sep-16	Dec-16	Mar-17
Moat	35%	37%	36%	37%
Limited Moat	35%	34%	38%	39%
Moat + Limited Moats	***71%***	***71%***	***74%***	***76%***
Special Situations	18%	19%	16%	17%
Regulated Utility	11%	10%	10%	7%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Jun-16	Sep-16	Dec-16	Mar-17
FMCG	23%	21%	20%	20%
Financials & Financial Services	21%	22%	18%	20%
Information Technology	15%	17%	19%	19%
Auto & Auto Ancillaries	15%	14%	12%	12%
Pharma	5%	5%	9%	9%
Utility	11%	10%	10%	7%
Materials	5%	6%	7%	7%
Capital Goods	2%	3%	2%	4%
Industrials	3%	3%	3%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

We have not added any new name during this quarter. Regulated utilities that we have owned have moved up post the fall in interest rates. They are approaching levels where the expected IRR is not that attractive. So we have been reducing our weights there. We have increased weight in one of our capital goods name where that company indirectly services the auto and the infrastructure sector and the company is seeing green shoots.

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.