Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W),
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Date: 3rd October 2016

Dear Investors,

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

Portfolio Performance	Equity Allocation as on 30.09.2016	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		16.3%	9.8%
September Quarter	~82%	2.4%	9.2%
1st April 2016 – 30th September 2016		7.6%	19.4%

• 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 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.

A Liquidity Driven Rally?

Markets continued their upward trajectory in the past quarter supported by strong inflows from FII's. The India story seems to be intact at least amongst market participants particularly amongst the Midcap basket which outperformed other indices. We seem to be in that phase of a bull market where market participants are disproportionately valuing those companies where there is even a slight hint of a positive outlook on earnings without evaluating the sustainability of those earnings over the long term and quality of business. Risk appetite has risen and from our perspective valuations look frothy in the broader market. We have usually observed in the past that whenever market is driven purely by sentiment and momentum without concern for valuations our portfolios generally lag the market. This seems to be the case today.

Investing in the age of Disruption:

" Will relentlessly pursue innovation and never hesitate to challenge"

If you felt that the above quote came from a founder of a startup you would be wrong. The above quote is from Haruhiko Kuroda, Governor of the Japanese Central Bank on his new monetary policy stance. One would wonder what has "innovation" got to do with central banking? The quote sums up what Central Banks are thinking and doing. We believe monetary policy innovation has led to financial disruption with deleterious impact on investors. The repercussions are there for all us to see. Close to USD 10.9 Trillion of sovereign bonds have a negative yield (representing 29% of the total outstanding global government bonds). In fact, for the first time; two non-sovereign corporate entities (Henkel and Sanofi) were able to issue bonds carrying negative interest rates. Essentially investors in these bonds are guaranteed (yes 100% probability!) to lose money if they hold the bonds till maturity. These extreme monetary policies have forced investors to chase yields in other asset classes and has temporarily altered investor's perception of risk. India along with other emerging markets have benefitted from this in terms of fund inflows. But it has also led to the disruption of sound business models that generate cash by challengers (startups) who require to burn cash and capital to sustain their business. It is thus not surprising to see the Unicorn club (loss making startups with more than billion dollar valuations) growing bigger over the last few years.

So how does one invest in the age of financial disruption?

We feel an investor focused on absolute returns should evaluate the sustainability of a business model and valuation in a normalized monetary environment. The normalization process will of course not happen overnight. But the point is to make one's portfolio as immune or neutral as possible to such normalization. This is a must if an investor does not want to suffer outsized and permanent loss of capital. Also when valuations look expensive on an absolute basis there might be an urge to start justifying relative valuations. In the idiosyncratic phase of a bull market it is usually difficult for process driven investors to stick to a disciplined process as the market invalidates the value of the process temporarily. We would continue to do what we do best; buy businesses that we understand at valuations that we feel are reasonable.

Differentiating between structural and cyclical changes:

Every time a company or industry goes through a challenging business environment a question that constantly keeps cropping up as an investor is whether the headwinds being faced by the business or industry are structural or cyclical. A cyclical headwind is one which is a temporary one from which the industry or the business would be able to bounce back, whereas a structural headwind is more or less a permanent shift in the industry or business environment. A value investor could find good opportunity in a business or in an industry where the market is factoring a structural shift which in the end proves to be more of a cyclical one. But if markets fear of a structural headwind prove to be correct the opportunity might eventually end up being a value trap. Thus it is critical to evaluate the market participants fears objectively.

One of the industry that is going through a rough patch and where market participants believe there are structural challenges is the Indian IT sector. The USD growth rate of the industry has come down as compared to its past. There are some issues that market participants have attributed for such a slowdown. Automation of repetitive tasks has led to reduction in the overall effort requirement. And as the Indian IT companies charge based on effort, automation has led to some reduction in revenue. In addition to that the customer's IT budgets are shifting from work related to managing the "back end" IT infrastructure and business operations to front end business development (digital marketing and customer experience etc). Even in the back end business operations, with the advent of cloud and software as a service (SaaS), more and more businesses are shifting from erstwhile management of database infrastructure and ERP packages to the cloud, which reduces the business for implementation of these ERP packages for the IT companies.

There is some merit in the concerns of market participants to the issues mentioned above. But we believe, one needs to segregate the segments which are facing some structural headwinds (package implementation, application maintenance) from the ones which are not. It is also important to understand that a significant reason for the slowdown in the IT industry has also to do with reduction in global IT budgets as seen in the chart below. The Indian industry has continued to gain market share throughout this period. Currently we have no reason to believe the slowdown in global IT spending is structural. Events like Brexit or US Presidential election which might have an impact on IT spending would certainly not be permanent.

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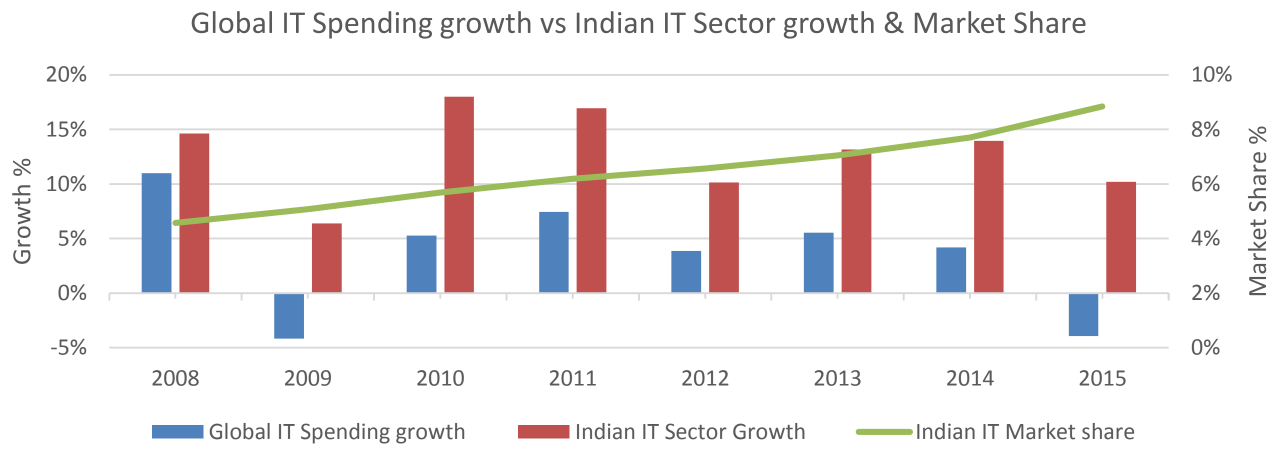
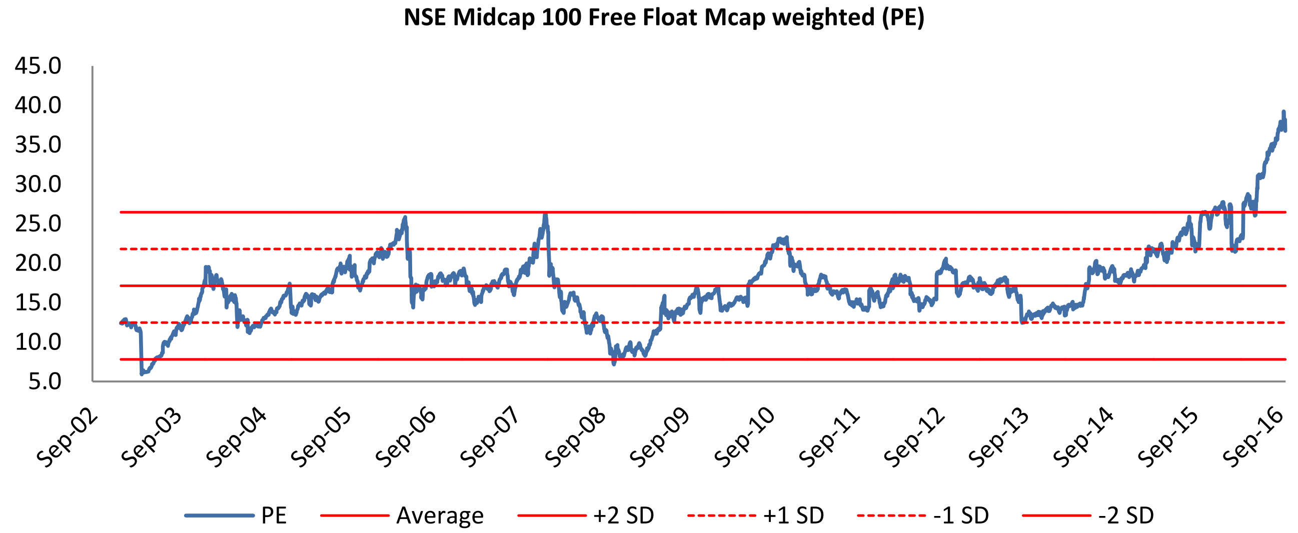


Source: Gartner (Software + Services) Spending growth, NASSCOM

Behaviorally we have reached a point where markets have started to give up on IT companies. Consensus estimates for the IT companies are assuming single digit earnings growth for the next couple of years. Thus the market is extrapolating something which to us seems cyclical, assuming it to be structural and applying a low multiple to the entire sector. What we are also seeing is that the Mutual Fund industry has a significant underweight exposure on the sector (infact the biggest underweight in available history). As per SEBI MF sector data, Mutual funds have a 7.7% sector weight in IT whereas the CNX 500 has around 10.1% weight and the NIFTY around a 14% weight. We feel the sector might be getting mispriced and we have started to see more opportunities in this sector from a valuation perspective.

Asset Allocation:

Our equity exposure continues to be high (~80%) in older accounts as some of our older holdings have not yet come to a price where we would reduce or exit. If the market continues to remain strong and continues to move up without much improvement in fundamental earnings measures, our weights would start coming down going forward as some of our holdings are approaching the expensive zone. At the same time in newer accounts we don't expect to deploy beyond 40% as most of our ideas have moved away from our buy zone. We are currently not comfortable with valuations in the broader market as discussed in the June newsletter. This applies even more so today. We reiterate our view that valuations in the mid and small cap space are very expensive and investors with a capital preservation objective should be very cautious about exposure. PE valuation of Midcap Index is currently at 4 sigma (4 Standard Deviation from the mean).



Source: NSE India

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Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Dec-15	Mar-16	Jun-16	Sep-16
Moat	39%	35%	35%	37%
Limited Moat	30%	36%	35%	34%
Moat + Limited Moats	***69%***	***71%***	***71%***	***71%***
Special Situations	17%	18%	18%	19%
Regulated Utility	14%	12%	11%	10%
Grand Total	**100%**	**100%**	**100%**	**100%**

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

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	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.

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