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

Date: 4 Oct 2019

Dear Investors,

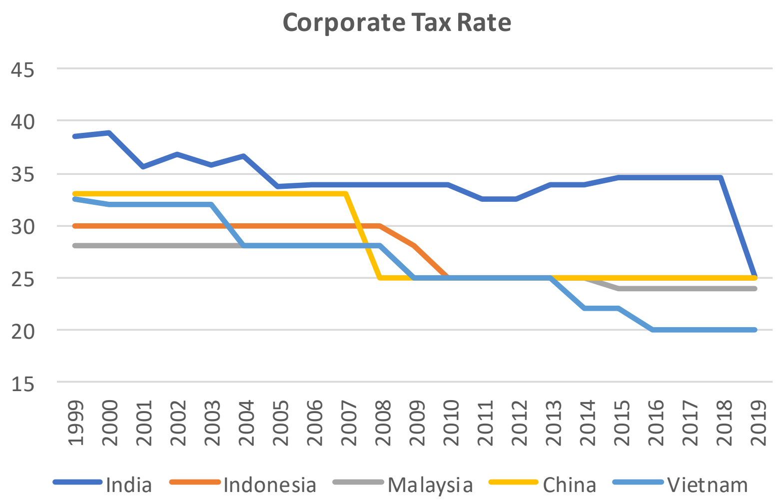
Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30th Sep 2019.

Portfolio Performance	Equity Allocation as on 30.09.2019	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		14.5%	9.7%
Sep 2019 Quarter	~81.5%	-1.3%	-3.5%
1 Apr 2019 – Sep 2019		-1.2%	-5.4%

• 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.

The September quarter was turning out to be even a more negative quarter with deteriorating visibility of earnings growth, poor sentiment and an overall economic slowdown. But the corporate tax cut to ~25% came as a major positive surprise for the market and led to a sharp jump in the indices by the end of the quarter.

Our Thoughts on Tax Cut:



The Corporate Tax cut is a major event. As compared to other emerging markets India has been a bit late in bringing the corporate tax rates to 25%. In fact, most emerging markets had cut taxes post the Global Financial Crisis. The tax cut reduces the relative disadvantage that Corporate India faced compared to its peers in other emerging economies.

While the immediate fiscal slippage is a given, we feel the tax cut will have a longer-term positive impact. In a growing economy like India, more cash in the hands of corporates could be deployed in a more productive fashion rather than in the hands of the government. In addition to this, the lower tax on new business units could lead to bringing capex plans forward and attract foreign direct investment that could have considered other more favorable destinations. At the same time the tax cut does not address the current tight liquidity conditions in the economy and may not lead to any immediate reversal in the poor earnings momentum.

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To understand the impact of the tax cut on individual companies we tried to look at evidence from the Indonesian market where there was tax cut post GFC. We looked at the average pre-tax margin before the tax change and after. Strong Moat businesses like Unilever Indonesia were able to retain the entire gains (and more). But surprisingly we observed that even highly competitive sectors like Cement & Financials also saw a retention of benefits. This could be because the price cut that would be taken to pass on the benefit to customers is not that significant.

As most of our investments are in businesses that enjoy sustainable competitive advantage in their respective sector, the tax cut benefit, we feel, would be largely retained by the companies than passed on to the customers. While some sectors which are going through near-term cyclical issues (e.g. Auto sector) could pass on some benefit to customers in the near term in form of discounts/promotions, they would eventually claw back most of these benefits when cycle turns in their favour.

From a portfolio strategy perspective, the tax cuts would increase the price points at which we are willing to initiate new investments or to increase weights in existing positions. It is too early to assess the second order impacts at this point. We would get better clarity from our interactions with company managements during the earnings season to develop a more informed view.

No Value in Value:

Drawdowns (worst performance from the peak of the portfolio) are lowered by being in High Quality businesses especially when coupled with valuation comfort. While our drawdowns have been lower than our Benchmarks, we have experienced larger drawdowns in some individual holdings than we would have anticipated or desired.

Drawdown from Recent peak:

MSSP	Benchmark	NIFTY
-10%	-18%	-14%

In the last one year, stocks which were at attractive reasonable valuations and where we felt the downside was limited, were the worst performers within the portfolio and stocks which were relatively expensive have done better. In fact, some of the stocks which we exited (e.g. Nestle) keeping in mind the very expensive valuations continued to do well. When we looked at our broader investible universe, we saw a similar phenomenon. In the last one year, market participants have clearly rewarded certainty while penalizing stocks which are facing short term or cyclical issues irrespective of valuations.

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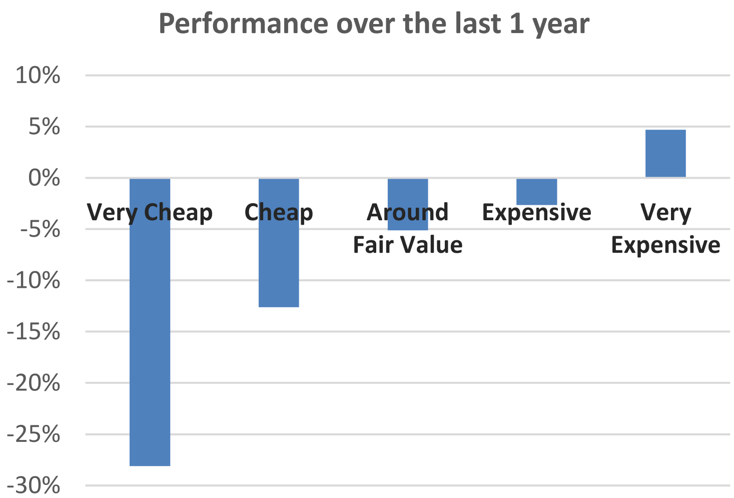

Investors seem to be taking a binary decision. If there is any uncertainty or negative overhang; sell irrespective of valuation. On the other hand, businesses that continue to do well and have visibility of earnings have become a bit crowded which reflects in their very expensive valuation. Adjoining chart reflects this polarisation. Stocks under our research coverage which were available at attractive valuations a year back have been the worst performers. And stocks which as per our assessment were expensive, have done relatively well. And the universe that we have selected is our "investible universe" i.e. it excludes our assessment of poor-quality businesses.

At any given point investors must deal with uncertainty/risk. But the "perception of risk" at different valuation levels would be different. When a business is available at attractive valuation, the perception of risk is the highest while ignoring the possibility of positive outcomes. Similarly, at expensive valuations, the perception of risk is the lowest; a negative surprise could lead to a severe drawdown. We believe equity investors are rewarded for their willingness to assess and digest the "perceived risk/uncertainty" as opposed to our assessment of the "real" risk. As evidence and clarity improve, the equity investor earns that "risk premium". But blindly taking on uncertainty does not entitle the investor to a higher return. He needs to ultimately be proven right as well. An informed investor willing to accept near term uncertainty and take a more longer-term view ("time arbitrage") is usually ultimately rewarded once the uncertainty fades away.

The current trend of risk aversion with respect to stocks that have limited visibility may continue. But we have confidence that our process of owning quality businesses at reasonable/attractive valuation; even if that requires us to absorb near term negative news/uncertainty, should payoff for investors.

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Asset Allocation:

Our overall equity weights stand at around 81.5% for older accounts. For new accounts our initial weight has gone down to 35% due to sharp move-up post the announcement of tax cuts.

Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Dec-18	Mar-19	Jun-19	Sep-19
Moat	35%	27%	23%	33%
Limited Moat	39%	45%	46%	38%
Moat + Limited Moats	***74%***	***72%***	***69%***	***71%***
Special Situations	26%	25%	27%	26%
Regulated Utility	-	3%	4%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Dec-18	Mar-19	Jun-19	Sep-19
Financials & Financial Services	17%	14%	15%	18%
Auto & Auto Ancillaries	11%	8%	8%	16%
Pharma	17%	19%	17%	16%
Information Technology	22%	19%	18%	12%
Materials	7%	10%	12%	10%
FMCG	13%	12%	10%	10%
Capital Goods	7%	9%	9%	8%
Logistics & Transport	3%	3%	4%	4%
Utility	-	3%	4%	4%
Media	3%	3%	3%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

We took an initial weight in Crisil. While Crisil is widely known as a rating agency, only 17% of the Revenues are derived from the domestic ratings business. The company also provides services to the ratings division of the Parent (i.e. Standards & Poor). The main business of Crisil (~60% of Revenue) comprises of outsourced research for Financial Institutions and services that help in regulatory compliance for large banks. The domestic rating business has been relatively resilient as compared to the pain that we are seeing for most of the other domestic rating agencies post the IL&FS and NBFC Crisis. The research business has slowed down due relaxation of certain regulations in the US. There has been a change in frequency of compliance process with respect to one of the regulatory requirements from annual to bi-annual. Thus, it’s not a permanent loss of revenue. Secondly there are additional regulations that are in the pipeline, both in the US and Europe which should provide growth opportunity for the regulatory compliance business.

We invested in Bosch Ltd. Whenever the Auto Industry goes through emission norm regulation change, Bosch ends up benefiting either through increase in realisations or through increase in content per vehicle. As we shift (jump) from BS IV to BS VI, a lot of new opportunity is expected to open up for Bosch. Currently Bosch did not cater to the 2W segment. Post BS VI, 2W may have to use Fuel Injection systems

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for which Bosch has a proven technology. In addition to that when future regulatory changes are introduced – like Café norms in FY22, Bosch content in petrol engines would go up as well. While we agree the shift to Electric Vehicle is a longer term risk to Bosch, we believe Commercial Vehicles, which form a major chunk of the end market for Bosch products, would not shift to EV in the foreseeable future. Our view is that the current slowdown that we are seeing in the Auto sector is a cyclical slowdown rather than a structural slowdown, for Bosch as well as the industry. At current valuations, the near-term risks are factored in and the company would be well placed when we see a cyclical upturn in the industry.

We exited TCS, as we believe valuations were factoring most of the positives. The commentary had turned a bit cautious recently. At current valuations our assessment is that the downside is higher than the upside, especially if the earnings momentum/visibility turns weak.

Regards,

Rohan Samant	Rohan Advant
Sr. Portfolio Manager	Sr. Portfolio Manager

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

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Multi-Act Equity Consultancy Pvt. Ltd. claims compliance with the Global Investment Performance Standards (GIPS®). You can refer to the GIPS Compliant performance presentation here. Multi-Act Equity Consultancy Pvt. Ltd. has been independently verified by M/s. M. P. Chitale & Co., Chartered Accountants for the periods April 1, 2011 through March 31, 2019. The verification is available upon request.

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).

The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composite's entire portfolio. Actual holdings will vary depending on the size of the account, cash flows, and restrictions. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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.