Multi-Act Equity Consultancy Pvt. Ltd.

10th Floor, The Ruby Tower, 29 Senapati Bapat Marg,
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Date: January 4, 2013

Dear Fellow Investors,

We take this opportunity to wish you and yours a happy, healthy and prosperous 2013.

Below is the consolidated performance of the PMS portfolios as of 31st December 2012.

Portfolio Performance	Equity Allocation as on 31.12.2012	Equity Returns	Total Portfolio Returns after Expenses	Benchmark Returns
Since Inception 01.02.11	65.0%	50.0%	25.0%	5.0%
Annualised Performance		23.5%	12.3%	2.6%
December Quarter		7.2%	4.7%	6.4%

- Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
- Returns are cash flow adjusted and time (Daily) weighted returns after expenses.
- Returns shown in the above table are for clients that have come in with 100% cash. Consolidated performance for all portfolios is 13.24% (annualized).
- The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
- Equity allocation mentioned above is our ideal equity weight at current market levels. They could vary depending upon the time a client has come in.
- Past performance is no guarantee for future performance.

This year has been an eventful year with the markets deeply pessimistic at the start of the year only to turnaround and become optimistic at the end of the year. In between, India has enjoyed FII inflows of around $23bn -the 2nd highest in its history.
This enthusiasm by Global Investors for Indian Securities seems puzzling, given the absence of any underlying fundamental recovery at the ground level on an economy wide basis.

The markets today continue to reflect a split market with several companies (usually High Quality but also the Private Sector Banks) trading at valuations which are far in excess of their fair values. These stocks have high expectations built into their current prices. Conversely many other companies (usually economically sensitive and credit sensitive) have very low expectations for their future earnings growth rates. It is this disconnect that provides challenging circumstances for stock-pickers like us that are sensitive to the quality of the business because the High Quality stocks that we would want to have in the portfolio currently offer poor "prospective" returns .

At Multi-Act, we have built our processes with an endeavor to focus on the "prospective" return for equity securities and are wary of extrapolating past returns. We believe that "prospective" returns are usually a function of the industry structure and a particular businesses structure, *as they relate to the cost of equity.* Hence in order to succeed at stock picking it is very important to focus on where our views differ from the consensus and within what time-frame we expect that difference to materialize in the market.

We have seen from time to time investor enthusiasm about past returns in a particular sector or a particular set of securities, carry on to an excess far more than seemingly plausible to Rational Investors, but we feel we may just be at such an inflection point today.

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In the spirit of explaining our process we highlight below how our portfolios are constructed to ensure that we do not fall victim to the same set of "extrapolative" enthusiasm and how we remain focused on earning high risk-adjusted "prospective" returns in these challenging times.

How is our Portfolio placed as compared to the Market?
According to us the "Risk" of a portfolio can be assessed by looking at two things –

1. Drawdown Risk – i.e. what is the downside risk in terms of our valuation measures
2. Quality of Business – i.e. whether you own a less risky High Quality business or a High Risk Low Quality business.

Superior risk adjusted returns (absolute as well as relative) can be attained by finding opportunities with the right mix.

Table 1: Price / Fair value comparison:

Price / Fair value	BSE 500 + Midcap	Portfolio - Equity exposure	
< 0.50	2%	-	Cheap
0.50 - 0.75	8%	12%	↑
0.75 - 1.00	20%	50%	
1.00 - 1.25	19%	35%	
1.25 - 1.50	11%	2%	
1.50 - 1.75	16%	-	↓
> 1.75	7%	-	Expensive
No Coverage	17%	-	

Based on proprietary measures of valuations. The percentages represent the weights of the stocks in the index/portfolio.

Above table represents the distribution of Price / Fair Value of the Benchmark (BSE 500 + Midcap) vs Equity exposure of our Portfolio. Downside risk can be limited by finding opportunities below fair-value. Our portfolio is relatively well placed to limit the downside risk.

Table 2: Business Quality (Grade) comparison:

Grade	BSE 500 + Midcap	Portfolio - Equity exposure	
A	0%	-	High Quality
B+	18%	64%	↑
B	50%	36%	
B-	15%	-	↓
C	0%	-	Low Quality
No Coverage	17%		

Based on proprietary grading system. The percentages represent the weights of the stocks in the index/portfolio.

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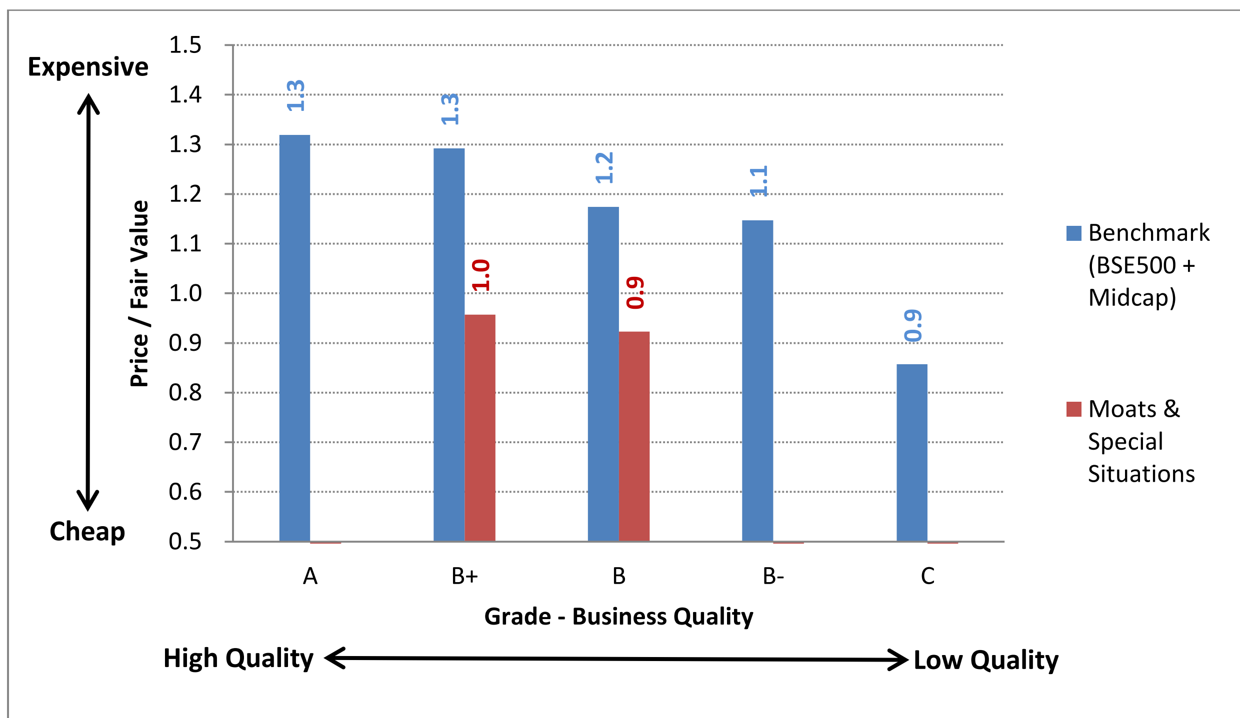
Above table represents the distribution of weights across the quality spectrum for the Benchmark vs Equity exposure of Portfolio. High quality businesses (Grade A& B+) are mainly Moats or Limited Moat businesses i.e. businesses with significant barriers to entry which allow such businesses to earn superior return on their capital across business cycles. High Quality businesses carry a low long term business risk, which is not the case with Low Quality businesses wherein short term high return on capital might be eroded away over time. Our Portfolio is relatively well placed to limit the business related risks.

Chart 1: The Two dimensional view of Risk:



Above P/FV chart represents weighted average P/FV in individual grade category.

Above chart summarizes the risk matrix. As can be seen from the chart above we have tried to find opportunities which would over a period of time provide relatively better returns without diluting the quality of the portfolio.

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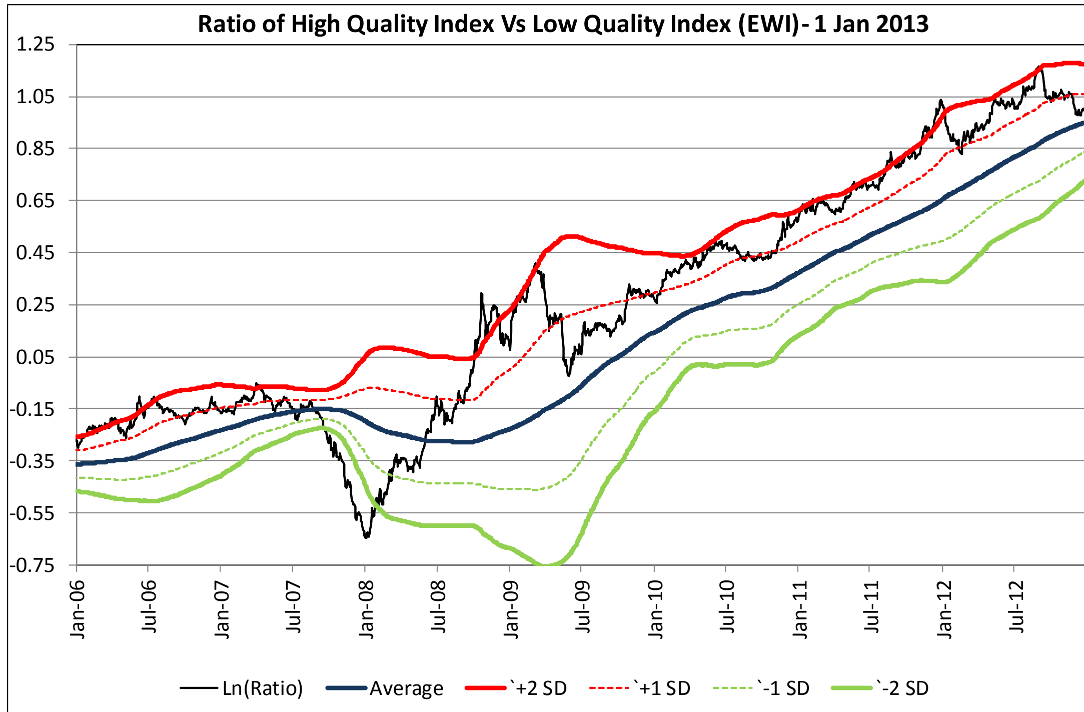
Table 4: High Quality vs Low Quality:



The High Quality vs Low Quality ratio has approached the increasing moving average which highlights the increasing risk appetite in the market.

Since inception of our PMS, the High Quality index has given an annualized return of 15.3%. The Low Quality has given a return of -4.4%. During the same period the annualized performance of our equity exposure has been 23.54%, demonstrating that using our price/fair-value measures we were able to find value in both High Quality and non HQ securities.

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Portfolio activities during the Quarter:

Table 5: Sector Allocation:

Moat/Limited Moat	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Moat	54%	50%	42%	41%	40%	40%	37%	35%
Limited Moat	26%	20%	29%	29%	33%	30%	34%	40%
Moat + Limited Moats	***80%***	***70%***	***71%***	***70%***	***73%***	***70%***	***70%***	***75%***
No Moat	11%	20%	21%	22%	18%	21%	22%	21%
Regulated Utility	9%	11%	9%	8%	9%	9%	8%	4%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Auto & Auto Ancs	8%	11%	15%	15%	15%	17%	19%	25%
Capital Goods	10%	9%	11%	15%	24%	18%	17%	17%
Financials & Financial Services	17%	23%	20%	19%	18%	20%	23%	23%
FMCG	14%	9%	5%	2%	2%	-	-	-
Information Technology	-	-	2%	-	-	3%	3%	5%
Logistics	3%	-	4%	7%	6%	6%	5%	4%
Materials	3%	-	5%	8%	4%	-	-	-
Other	9%	14%	5%	4%	3%	4%	1%	6%
Pharma	15%	13%	17%	16%	13%	16%	19%	13%
Telecom	11%	9%	8%	6%	5%	6%	5%	3%
Utility	10%	13%	9%	8%	10%	9%	8%	4%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

As can be seen from the above chart our weights in the moat/limited moats category have increased. We have increased our weights in Auto & Auto Ancillaries and IT and reduced weights in Pharma.

Few highlights of the portfolio are given below:

We have initiated a position in a MNC metal ancillary company with its parent being one of the most efficient players globally. They provide consumables such as high end refractories predominantly for the iron/steel sector but are now diversifying into other sectors as well. Although the local industry seems to be fragmented, this company is the leader in the organized sector. This business seems to possess some barriers to entry in the form of technology which is available with only selected players and some perceived switching cost as the steel majors are very cautious of the quality of the product before ordering. This is a low cost item with customization involved for each plant and hence there is some level of stickiness as well. Currently since the metal industry globally is plagued with over capacity and a slowdown, we are able to buy a piece of a business with a return on capital around 25%, and at a discount to our fair value. We feel this is a better way of obtaining portfolio exposure to the metal sector which is also available at cheap valuations.

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We have also initiated a position in a MNC abrasive company which is the global leader in its space and in India is a leading participant in a 2 player market with both of them commanding a 70% market share. The end user market is highly diversified so with a revival in economic growth this company should do well. Their parent is amongst the top 100 company's globally in regards to innovation and has filed for around 396 patents last year. They have been good capital allocators as well which can be seen by the valuations they have paid for acquisitions done in the past along with a good payout ratio of around 40%.

We have exited one of the MNC pharma stocks. The investment case based on which we had invested in the company had weakened. The company's strategy was felt by us to be no longer compelling and things had not gone as planned for them. A majority of their product portfolio was not growing and there is no clear focus from parent for new product introduction in India. The local company's capital allocation policy remained unclear. Despite the company possessing a healthy cash position they did not seem to have any plans of sharing that with minority investors.

We also exited one of the toll road businesses. Toll road businesses globally are a good business to invest in but in India these businesses face their own set of peculiar challenges. This particular company was entitled for a regulated return but they have not been able to even earn the agreed return. As per the agreed return, they had taken a couple of hikes in the tolls but they've had to roll it back due to political pressure although as per the agreement they are entitled to take hikes to compensate them for inflation.

Regards,
Jinal Sheth & Rohan Samant.

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, 2011 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.