Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W),
Mumbai- 400028,
Tel +9122 61408989
www.multi-act.com
CIN: U67120PN1993PTC074692

Date: 6th January, 2020

Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio *(ECIP)* as of Dec 31st, 2019. Our closing equity allocation as on Dec 31, 2019 is ~74% spread into 16 companies and balance is in liquid schemes.

Portfolio Performance	Total Portfolio Returns	Benchmark Returns
Since Inception *(Annualised)*	14.88%	-0.76%
Q3 FY2020	5.43%	5.18%
Q2 FY2020	4.65%	-5.53%
Q1 FY2020	5.71%	-4.65%
FY19	13.3%	-6.5%
FY18 *(Since April 28, 2017)*	9.7%	10.5%

- *Benchmark is an average of the BSE Smallcap and BSE Midcap Index*
- *Returns are time weighted and after management and performance expenses.*
- *Management and performance fees are deducted as and when due*
- *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*
- *Benchmark calculations reflect total returns (including dividends)*
- *Returns for less than 1 year are not annualised*
- *Inception Date is 28th April 2017*

As we have stated in the past, we will judge ourselves based on at-least three years of performance as our strategy is designed to capture opportunities that, in our understanding and estimation, should work over a three to five-year period.

We define our investable universe as high quality companies that are benefiting from a "growth advantage period" (GAP) and "competitive advantage period" (CAP). As growth is scarce in the current economic environment and there is strong preference towards quality owing to an overall loss of investor trust/ confidence in most managements, investors have flocked to many companies in our universe bidding up prices. While we have had a good quarter and a good year, it is also true that our investable opportunity set has narrowed today versus what it was twelve months ago.

The market is currently divided into two extremes. A small group of stocks where investors are willing to pay any price and a larger group of stocks where investors are unwilling to buy no matter what the price. Trends like money flows through ETFs accentuate these extremes and because of this pattern, expensive stocks have become more expensive and cheap stocks have become cheaper. Consequently, investors who have bought cheap stocks have generally underperformed and investors who have bought expensive stocks have outperformed. Since we have always preferred attributes of quality, growth and competitive advantage over valuation in our stock selection, current market environment has rewarded us handsomely. However, as Howard Marks says, "Trees do not grow to the sky" and sooner or later, it is only normal to expect that some stocks trading cheap currently could make a strong comeback relative to current market darling stocks. If we believe in this, should we be moving towards stocks trading cheap on a conventional valuation metric? We think we should stick to our priority metric of **a.** quality **b.** growth and **c.** valuation in that order. We will not let valuation override "quality" and "growth" in our

Prepared for Restricted Circulation

stock selection - meaning we will not buy low quality or low growth stocks just because they are cheap *(do not let the tail wag the dog)*. Having said that, we will also not pay 'any' price for high quality and high growth. This narrows our universe significantly. And will require us to **a.** take higher weights in the very few stocks that meet our criteria and **b.** be patient and not give in to the temptation of buying stocks that do not truly belong in our universe.

Key actions during the quarter

We exited the aviation company we had in our portfolio. Our daily fare tracker *(that we have internally built)* suggested that the market expectations on profitability post exit of a competitor might be at a significant risk. And we had started trimming even pre Q2FY20 results. The results confirmed our fears and added a new negative of higher maintenance and other costs *(that we had not factored)*. Considering the revised profitability expectations, we thought that the valuations now look expensive *(also thought there would be a strong deceleration in earnings expectations)*. We immediately exited post Q2FY20 results.

We also trimmed our position in the AMC company and the Life Insurance company that we own. This is purely on valuation concerns. As we have stated many times in the past, valuations will have a bearing on our weights. Behaviourally, it's difficult to sell when the Company is delivering, and the stock showing momentum. While we benefit from this movement till valuations start getting exorbitant, it also behoves us to be conscious of a *"valuation extreme"*. If someone is paying us today for our understanding of all the *"good things"* that might *(or might not)* happen in the future, we would be happy to part with our stock in exchange for cash. We could off-course be wrong in our calculation of *"good things"* and great companies can deliver performance/ growth that beats the most optimistic forecast *(many would promptly point out the 5 companies where such a thing has happened ignoring the 500 where it hasn't)*. Our basic approach is NOT to be too confident of anything and always be thinking in probabilistic terms rather than in terms of certainty.

We also trimmed our position in a microfinance-led Bank we have in our portfolio. There were media reports regarding protests against microfinance in a few districts in Assam. We wondered if this could spread to other districts/ states and have a significant impact on the Investee Company. In order to get a first-hand view of the situation, we went to Assam to observe what was happening. We came out with the view that the crisis in unlikely to spread to more districts owing to its customer vintage *(large percentage of old customers relative to peers that are less gullible relative to new customers)* and its process-oriented lending and collection approach. Also, we could clearly see a lot of support for microfinance from its borrowers *(unlike the media created view that the entire state was against microfinance)*. On the often-raised issue of higher loan per borrower by our Investee company versus peers, we found it difficult to reach a conclusion. We met borrowers who we thought were extremely under-levered as well as those who we thought were stretched. On the balance, we thought that if we believe in the domain expertise of the management and the time-tested processes followed, we should not second-guess the management on this issue. Having said that, we should not also be over-exposed to this Company *(in a leveraged business, a small mistake can be very costly – especially when you are paying up)*. With this broad thought, we brought our exposures lower *(they are still meaningful but not life-depending)*.

It is critical, we think, to always look at the "current reality" as is and align oneself to it and not be anchored to what one has thought or written in the past. In most other professions, such behaviour would be termed as a "flip-flop" or a "U-turn" but in the business of investing, we think that it is a strength and not a weakness. It becomes increasingly difficult to change one's mind when managing other people's money, but it is one folly we will vehemently try to guard ourselves against.

Now, let us get to the additions.

We added a lone stock in the pharmaceutical industry with presence in multiple specialty therapeutic segments. The Company has, over the years, showcased an innate ability to challenge, litigate, get approvals, manufacture and launch *(either on its own or through a partnership)* large complex limited competition drugs. These approvals and drug launches have created a large profit pool for the Company *(in the last five years, through these outcomes, the revenues have jumped 3x and the PAT has jumped 7 x and the stock price has been a 10 x)*. On the flipside though, owing to the Company's disruptive strategy, there are always profit pools that the Company creates which erode as competition chases it and its very important to understand the risks to base profit pools when valuing it. We have taken an initiating weight in the Company essentially betting on its drug pipeline *(and the likelihood of the future launches more than compensating for the loss of base)*.

Finally, we'd like to wish all our investors and readers a happy new year.

Thanks for reading.

Regards
Rohan Advant
CA, CFA
Sr. Portfolio Manager
rohan.advant@multi-act.com

Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W),
Mumbai- 400028,
Tel +9122 61408989
www.multi-act.com
CIN: U67120PN1993PTC074692

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

Disclaimer

This is an Internal Document and not meant for unlimited public circulation. This document has been solely prepared for the PMS Clients of Multi-Act Equity Consultancy Private Limited (MAECL) and is not meant for circulation to any third party. The information contained herein does not constitute any guidelines or recommendations on any course of action to be followed by the Client.

The information is prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. MAECL does not solicit any course of action based on the information provided by it and the investor is advised to exercise independent judgment and act upon the same based on its/his/her sole discretion based on their own investigations and risk-reward preferences.

The information is meant for general reading purpose and is not meant to serve as a professional guide. The client may or may not be holding the Company mentioned in the newsletter in its/his/her PMS portfolio as the portfolio will vary from client to client depending upon the investment strategy followed by the Portfolio Manager for each client.

MAECL, its associates or any of their respective directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information and consequently are not liable for any decisions taken based on the same. This information is not intended to be an offer or solicitation for the purchase or sale of any security or financial product. The investor shall at all times keep such information / data and material provided by MAECL strictly confidential and will not use, share or disclose such information to any third party.

It is stated that, as permitted by SEBI Regulations and the Company's Employee Dealing Policy, MAECL and/or its associates, affiliates and/or individuals thereof may have positions in securities referred to in the information provided by it and may make purchases or sale thereof while the information is in circulation. MAECL is not responsible for any error or inaccuracy or any losses suffered on account of any information contained in this document. Neither MAECL nor any of its associates, directors, employees, affiliates or representatives shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information provided by it.

Disclosure as per Global Investment Performance Standards (GIPS®) –

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, 2018. 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.

Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W),
Mumbai- 400028,
Tel +9122 61408989
www.multi-act.com
CIN: U67120PN1993PTC074692

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.