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: 30th June 2017

Dear Investors,

Performance

We commenced operations on a PMS Scheme titled "Emerging Corporates India Portfolio (ECIP)" on April 28, 2017. Since it's just been 2 months since launch, we do not think anything can be read into the performance numbers. Our current equity allocation is only ~30% *(spread across 4 companies)* and ~70% is currently deployed in liquid schemes.

Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of 30th June 2017.

Portfolio Performance	Equity Allocation as on 30.06.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (not annualised)	29.4%	3.4%	0.0%

• Benchmark is an average of the BSE Smallcap and BSE Midcap Index
• 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 28th April 2017.

Why ECIP

As you are aware, our flagship scheme is called the "Moats and Special Situations (MSSP)" which we have been running since 2011. This scheme is backed by our proprietary Research process also termed as "Global Rational Analysis Framework (GRAF)" developed over the last two decades. GRAF is an exhaustive equity research framework combining fundamental, technical, quantitative and behavioral analysis for creating stock portfolios that offer high risk-adjusted returns. One of the valuation outputs of GRAF is an Estimated Business Value (EBV) band which gives us an approximate valuation range between which, the stock price of a Company, if valued reasonably, should lie. While our valuation bands work exceedingly well for established businesses with a long operating and financial history, they fail to capture a small number of Companies that suddenly break out of this valuation range and do not enter into it again for an elongated period of time. This is generally a period of high-growth for these Companies where the earnings, profitability and/or capital efficiency improves rapidly and the valuation multiples get re-calibrated. We realized that our conventional valuation bands were not designed to capture that phase.

While the companies in this phase are riskier than established companies in terms of business models still evolving and are difficult to value with a conventional approach largely owing to complexity of predicting growth trajectory, a few of these give spectacular returns more than compensating for the duds. In view thereof, we thought that if we could develop a framework to capture opportunities in this space, it could actually complement the "MSSP" offering really well for an Investor seeking a more well-rounded equity exposure. And this led to the germination of the ECIP strategy and an ECIP universe, the outline of which is explained in the paragraphs below.

Strategy Outline

Company selection

When we talk about an Emerging Corporate, we are looking at Companies that meet ***each*** of the following characteristics:

1. Companies that benefit from a "competitive advantage period" that is likely to last for at-least 5 years

The strongest indication of current competitive advantage is high Return on Core Capital Employed (RoCE) averaged over at-least a three to five year period *(higher the better)*. However, past RoCEs come with no guarantee of their sustainability over the future. A deeper analysis has to be done on why competitive forces would not pull down the RoCEs in the future towards cost of capital. Reasons for current high RoCEs could be network effects, switching costs, brand preferences, preferred supplier, cost advantage, R&D capabilities, technology, regulatory benefit, etc.

Sometimes, the advantage could just be of a Company being an early entrant in a high-growth category or an early entrant in a high-growth geography or an incumbent in a slow-growth industry that suddenly starts to boom or sees a growth wave. It goes without saying that competitors soon come gunning for these Companies. Now, the sustainability of high RoCE for this type of a Company depends on what it does between now and until competition comes to ensure that its competitive positioning can be defended. One needs to also analyse the time at hand to this type of a Company to create defensibility for its high RoCEs.

Also, a Company could potentially have a competitive advantage but not a high RoCE yet because it is in investment phase or its capacities are underutilised or margins can step-up significantly owing to operating leverage post-some growth or Balance Sheet could shrink in the future with cash-flow generation and so on and so forth. We are generally wary of covering companies with no history of a proven high RoCE and managements wielding impressive stories of future RoCE expansion. While we understand that there exists a significant up-side if we can invest in Companies with sub-par RoCEs and are right about RoCE expansion, we are not very confident of our ability to spot these opportunities with a high success rate and think of it as trying to jump over a 7-foot hurdle. Our starting point for Company selection is generally screaming Core post-tax RoCEs.

Another point to be understood here is that solely relying on RoCE is incomplete because RoCE is an accounting number and susceptible to accounting manipulations. We place a lot of emphasis in ensuring that reported RoCEs are a true reflection of the economic reality of business. We also think that a high RoCE backed by cash-flows answers questions about management capability, capital allocation, etc very objectively as compared to forming subjective judgements based on management meetings and interaction.

While we analyse reasons for high RoCEs and the likelihood of them sustaining in great detail, we think that it is dangerous to be too comfortable or confident with high RoCEs sustaining for the very long-run. We live in a world where cheap capital is available in abundance and technology led solutions are disrupting century old companies that had perceived moats. Thus, we actively cover companies where we think the competitive advantage should last for 5 years but track them constantly for signs of competitive advantage deterioration.

2. Companies that are benefiting or likely to benefit from an opportunity landscape that allows it to grow at a good pace over its "competitive advantage period"

Creating sustainable value over a long period of time requires certain growth tailwinds that are either Industry specific or Company specific or both. These growth tailwinds could stem from:

a. Growth in the size of the market addressed by the Company and/or Growth in the market share of the Company

The Industry that any Company operates in has an inherent growth slope. While some Companies could grow faster than the Industry for some time, Company growth rates will move towards Industry growth rates over time. Thus, it is extremely important to spot Companies currently benefiting or likely to benefit from tailwinds owing to Industry growth. A good tide will lift all boats.

Some of the Industry tailwinds that benefit Companies tracked by us are given below *(some Companies could benefit from multiple of these)*:

i. value migration from public sector to private sector
ii. value migration from doing an activity in-house to out-sourcing
iii. value migration from off-line towards digital or online
iv. value migration towards organized from unorganised
v. emergence of India as a preferred manufacturing or service location relative to competing countries
vi. addressing a growing demographic trend
vii. huge under-penetration of a product or service relative to comparable geographies and changing trends that could make legacy reasons for under-penetration invalid in the coming years
viii. a product emerging as a credible substitute to a large incumbent product
ix. addressing an emerging technology
x. a regulatory push

There are certain Companies that benefit from one or more of the above trends and are also gaining market share within the organized segment of the Industry. If the trend has already begun, it is clearly reflected in the growth rates of these Companies over the last few years. Having said that, past growth could just be a cyclical up-tick camouflaging as structural growth.

When we conclude that the growth is structural in nature, we try to understand the longevity of the growth runway. We look for Companies where we feel confident that growth runway would allow the Company scope for high growth for at-least a 5 year period. We are also clear that we want Companies that can fund their growth largely through internal accruals and are not dependent on external sources of funds (debt or equity) for growth.

b. Growth on account of unique Company specific factors

There are certain Companies that have something unique to them that leads to the likelihood of higher growth than what the Industry allows. Some unique Company specific opportunities for companies in our universe are given below:

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

i. Announced large expansion plan in context of Company's current size that shall come on-stream in the next 3 years in a product where the Company has competitive advantage and there are strong reasons to believe that such capex will have high capital efficiency.
ii. Scope for significant profitability expansion due to a high proportion of growing non-linear revenues.
iii. Company acquisitions or Parent change or Newer JVs/ tie-ups that give us reason to believe that the execution capability or the addressable market opportunity for the Company expands materially over the next 5 year period.

3. Companies run by managements that a. do not have a corporate governance red flag and b. have shown discipline for capital allocation

We look at the management history of capital dilution over a long-period of time which reflects management's respect for capital and shareholders. We do corporate governance checks including but not limited to related party transactions, taxes paid, changes in auditors, subsidiary structures, unlisted businesses, pledged shares, etc. We believe in erring on the side of conservatism as far as corporate governance aspects are concerned. We also try to get a sense of aggression or conservatism refelected in the past actions and the past commentary of the management. Very aggressive managements can be a double edged sword and very conservative managements might preserve wealth but not take even warranted risk to grow. Given the essential objective of the strategy, we have a preference towards slightly aggressive managements as long as there is no compromise on Points 1. And Points 2 explained above.

Valuation

Ultimately, we are trying to ascertain approximately the prospective return on a stock when bought today and sold 5 years from now. Our valuation metrics are devised to give us a sense of these prospective returns at all times. Simply put, we try to approximately forecast the 5 year revenue growth, profit growth and terminal value multiple in different scenarios and arrive at a probability adjusted 5 Year prospective return for these stocks. We think that valuing Companies is a far more complex exercise than simply stating that Companies are cheap or expensive on a FY18 or FY19 expected earnings based P/E ratio. We have 40 P/E stocks in our universe which we think offer a significantly higher 5 year prospective return that 15 P/E stocks in our universe because the growth trajectories and longevity characteristics of both are very different.

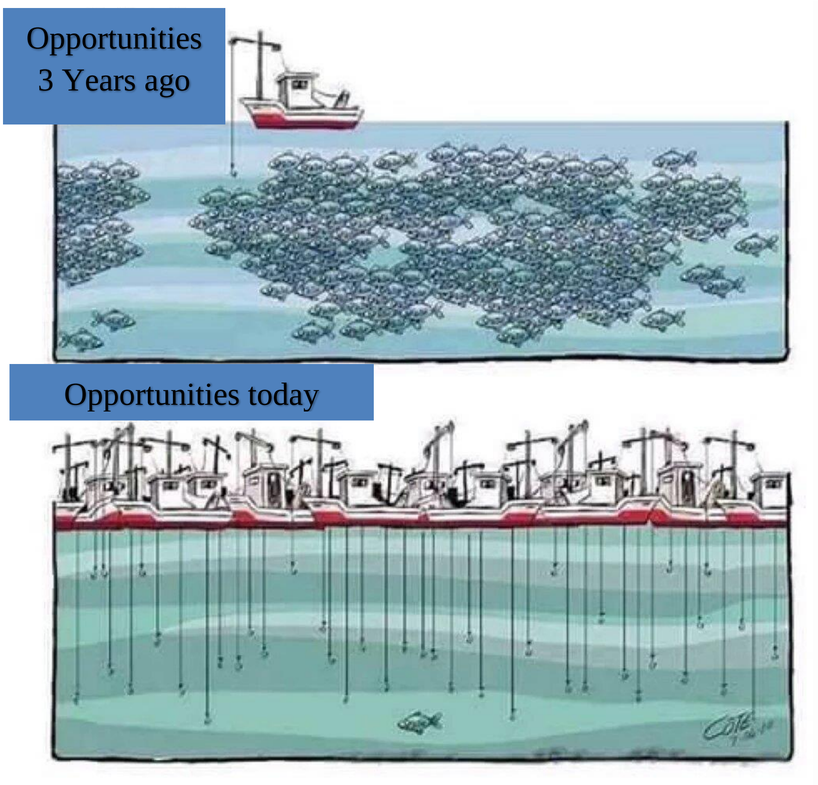
Having said that, it is very clear to us that the Companies we cover are trading at prices which do not offer a high 5 Year prospective return. We actively track Estimated Prospective Returns for ~35 core ECIP universe companies. The simple average base case 5 Year Prospective Return on the Top 15 stocks in our universe *(ranked is the descending order of prospective return)* is ~14% CAGR. And the simple average bear case 5 Year Prospective Return of the Top 15 stocks in our universe *(ranked is the descending order of prospective return)* is ~0% CAGR. In short, there is not enough compensation for taking the risk. In view thereof, we remain extremely cautious in allocating capital and resultantly, have ~70% cash allocation currently. One could always argue that if we lower the bar of quality or growth potential, there would be Companies outside our coverage which have a very high prospective return. However, we are not comfortable going down the quality curve to generate higher returns. If at all we are to commit an error, we think that we rather commit the error of buying growing quality companies with a long runway at very expensive prices than buy low quality low growth companies at less expensive prices. We believe that to generate a 20%-25% return from our Company universe *(of ~35 core Companies)* from today's starting

Regd. Office: 3rd Floor, Trade Centre, North Main Road, Koregaon Park, Pune – 411001, Tel. +91 20 66033141/2, www.multi-act.com

MULTI-ACT

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

point by allocating 100% to equity on Day 1 is very difficult. The below given picture *(which I spotted on twitter)* beautifully explains the predicament of a portfolio manager today.



Source: Twitter

One should note though that our 5 Year Prospective Return numbers are pure estimates and Companies could do far better or worse than our estimates and thus deliver returns materially different than those suggested by our prospective return.

Updates on Portfolio Activity

As stated earlier, we added four Companies to the Portfolio. We shall take you through the very brief thesis of each of these below.

Two of the four Companies bought by us are Information Technology (IT) Companies. There is a lot of negativity around IT currently owing to multiple issues around automation on account of cloud, protectionism and currency appreciation. Also, it is apparent that this Industry is generally out-of-favor from an Investor interest perspective.

While some of the issues especially around cloud and automation could be real, our understanding is that software is becoming a very integral part of most businesses across the globe. Also, though IT spends by companies might be growing at a very slow pace, the ratio of spend between Traditional: Digital is rapidly shifting towards Digital technologies *(Gartner expects this ratio to move from 90:10 in 2014 to 65:35 in 2020)*. Basically, our understanding is that if an IT Company is rightly placed, it could actually significantly benefit from the emerging trends than be hurt by it. Both these IT Companies are mid-cap IT Companies that we think could be beneficiaries of the emerging IT environment over a 5 year period.

Company 1:

This Company identified the shifting Industry trends towards social, mobility, analytics and cloud (SMAC) as early as 2010 and has taken several steps since then to transition from a pure outsourced product development player catering to Independent Software vendors to a niche next-generation software product developer catering to enterprises. It has also endeavored to increase the proportion of non-linear revenues by developing solutions that allow it to bill customers on outcome than on effort. Additionally, the Company struck a deal in March, 2016 with its largest customer where it got an exposure to the Internet of Things (IoT) space. The Company had to sacrifice margins significantly in FY17 (close to 300 bps) in order to get this exposure but there are possibilities of cost savings in this deal going forward and with increasing revenues, margins should expand on this account. OP margins for the Company were ~19% in 2013 and ~11% in 2017. However, this margin sacrifice was also an investment to get exposed to growth segments and with a realization that if the sacrifice was not made, the Company could lose its relevance.

Today, close to 40% of revenues is non-linear in fashion with exposure to high growth digital technologies translating into scope for significant margin expansion. The legacy business which faces growth pressures is down from ~80% four years ago to close to ~45%. Our understanding is that margins could have bottomed out in FY17 and should start to gradually improve in FY18 and one can see a significant up-tick over a 3-5 year period.

This is our largest position in the scheme with a ~16% allocation. The high allocation is also on account of us taking exposure for a client on committed capital which is higher than actual capital. Adjusted for the same, our current allocation to this idea would be ~8%.

Company 2:

This Company specializes in the Embedded Product Design (EPD) space with exposure to transportation and broadcasting space. It derives 50% of its revenues from providing EPD services to leading automotive OEMs and Tier I vendors. This business has shown an upwards of ~25% growth over the last 5 years. While this is considered as another IT Company, our understanding is that the demand for Engineering Research and Development (ER&D) services actually has a significantly higher growth trajectory than traditional IT services owing to low penetration and more and more R&D getting software oriented leading to talent shortage in developed world. Within the space, exposure to automotive has even higher growth trajectory with the newer cars essentially becoming software on four wheels. This Company has a niche domain focus and has set-up joint R&D centers with some of the largest auto OEMs in the world. It also has worked on creating IPs for driverless cars and others which is not yet monetized. It recently announced that one of the Top 5 global auto OEMs has taken a license from the Company for its driverless car software. Also, every device that we use is getting smarter and software oriented requiring the need for coding on chips that go into these devices. The Company's expertise in this domain could present it with significant growth opportunities over the next 5 years (for example, the Company started a joint Offshore development centre in April, 2017 with a large Japanese consumer electronics company to focus on IoT led devices).

Owing to its significant exposure to GBP and the crash in GBP post Brexit, its FY17 numbers were significantly affected and the headline numbers did not represent the underlying revenue and profitability growth trajectory of the business.

This is our second largest position with ~7% allocation.

Company 3

This is a niche specialty chemical Company which has created global dominance in two products through process innovation and attained a ~70% and ~50% global market share respectively. The Company takes technology licenses from reputed local or international accredited laboratories and works in-house on scaling up this technology to commercial quantities. This scaling up to commercial quantities is the toughest piece of the puzzle and at times, could take even a decade of work to finally commercially launch a product. Company has clear strategy to focus on products which are cheaper and greener than current alternatives and its execution on the same has been excellent so far. Once it gains a certain scale in a particular product, it moves backwards or forwards in the chemistry to capture the entire value in the chain never losing its process innovation niche. While there are many Companies today that loosely claim to be specialty chemicals focused, we think that no other specialty chemical Company comes even close to this Company in terms of margins or capital efficiency (RoCE). We are essentially betting on the product launch pipeline of this Company. It's just so happened that a lot of products in the R&D pipeline of this Company are now at near commercialization stage and the Company has a huge capex plan (more than its FY17 sales) lined up over the next 3 years (all capex shall be funded by internal accruals). Our understanding is that the Company is launching products where its advantage in terms of process technology and value proposition to a customer is clear and hence if successful, the Company could deliver high revenue and profitability growth over the next 5 years.

We have a ~3% allocation to this Company. This is just an initiating weight and we shall add at lower prices.

Company 4

This is India's largest Contract Research Organization (CRO). We think that the Company essentially benefits from the significant labor arbitrage of hiring pharmaceutical scientists in India versus anywhere else. Owing to cost pressures being faced by the Pharmaceutical companies globally and the need of a faster time-to-market, R&D outsourcing is picking pace and especially to Asia based CROs. The Company has developed credible capabilities in the discovery space with long term contracts for dedicated centers with some of the largest global pharmaceutical Companies. We understand that there is significant scope for the Company to penetrate deeper into existing clients. The Company has also committed significant capital for forward integrating into manufacturing in a significant way to take a larger piece of the drug lifecycle and transform itself into a Contract Research and Manufacturing Services (CRAMS) player. While getting manufacturing business from global pharmaceutical companies for novel molecules is difficult, we believe that this Company is a natural partner for this business owing to its long standing relationship with the customer and its engagement with the product and IP through the discovery and clinical trial stage. The growth potential in the base business plus the revenue potential owing to undergoing capex in manufacturing business creates a high growth opportunity for the Company over the next 5 years. In December, 2016, there was a large fire in the premises of this Company which led to temporary loss of 20% of revenues and burnt 12% of its net-block. Our understanding is that the impact of this fire is manageable and the Company should be back on its growth trajectory by the later part of FY18.

We have a ~3% allocation to this Company. This is just an initiating weight and we shall add at lower prices.

Please note that we have done a soft launch of this fund in April, 2017. We are currently not accepting fresh inflows because we do not think that the prospective returns of a Portfolio created of companies under the Emerging Corporates universe at today's prices compensate us for the inherent risks of investing in this universe (which we would think is a minimum of a ~15% prospective return). An alternative was to accept money and have a high liquid allocation (like ~70% today) and wait for opportunities to come our way. However, this creates a certain allocation pressure and can force us into doing stupid things to justify our existence which we want to avoid.

Regards
Rohan Advant
CA, CFA
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.

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.