Built by investors for investors

PMS NEWSLETTER – JUNE 2020

Emerging Corporates India Portfolio

THIS TOO SHALL PASS

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Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio *(ECIP)* as of Jun 30th, 2020. Our closing equity allocation as on Jun 30th, 2020 is ~85% *(80% excluding a Special Situation cash allocation)* spread into 18 companies and balance is in cash.

Portfolio Performance	Total Portfolio Returns	Benchmark Returns
CAGR since Inception *(Annualised)*	10.14%	-4.13%
FY20	-13.18%	-32.95%
FY19	13.3%	-6.5%
FY18 *(Since April 28, 2017)*	9.7%	10.5%
Latest Quarter – Q1 FY2021	26.03%	26.35%

- *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 every past newsletter, at-least a three-year performance is necessary for judging the skill of any portfolio manager *(ideally, even more)*. We completed three years on April 28, 2020 for this scheme. When we look at the past, we think the most important reason for our outperformance is Company selection. We have painstakingly chosen our universe and have not drifted away from this universe, in-spite of many temptations that came our way. As Charlie Munger had once said “The first rule of fishing is to fish where the fish are.” The last four months have made the need for “knowing your universe well” even more apparent to us.

A crisis like the one we witnessed *(and are still witnessing)* will test your conviction on an idea down to the bone. On the worst days, the stock price will try to push you out of the market. End of March, our current largest position was down 50% from its peak and the second largest position was down 75% from its peak – in a matter of a month. While all investing legends have said that stock price has nothing to do with intrinsic value, price falls of this magnitude beckon the question of our assessment of value. All our deepest fears come to the fore – *Is this Company genuine? Is the management trust-worthy? Has this Company indulged in accounting jugglery? How long will this business be affected? Will this business survive (especially for financials)? Will the market perceive this business differently in the Post COVID world and render past multiples irrelevant? What do I know to counter a respected sell-side analyst who is forecasting near bankruptcy for this financial institution?*

And you can’t start searching for answers in mid-March. It is what you have done till March’2020 that will count now. As they say, “the more you sweat in peace, the less you bleed in war.” If you’ve sweat it out in times of peace in terms of diligently researching the idea, it will give you the “will-to-hold” and even “add” in times of war. To the prepared, a crisis can be an opportunity of a lifetime and to the unprepared, it can be a death knell. Interestingly, our largest position and the second largest position in the portfolio today are up 180% and 133% respectively from their March lows.

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Let us come to the current situation. There's enough material on COVID case curves and when they peak – in India and globally. The only thing I've come to understand with some certainty now is that "nobody knows". So, I will spare you my COVID commentary as the world can do very well without my opinion on it. Markets seem to be ignoring the COVID news-flow and seem to be willing to now look through *(or may be its just liquidity implying the world is adjusting to a new Cost of Equity)*. You can go through a blog I had written end of March on *"Cost of Equity in a crisis"* here.

From despair to exuberance – all in a quarter's time. What is our view on the same? I will try to explain the same through a story:

Emperor Akbar once demanded from his chief minister that he come up with something to change his mood instantaneously. If the emperor was sad, he should be made to feel happy and if he was happy, he should be made to feel sombre again. And he had to do this in a week's time or be ready for severe punishment.

With this impossible task on hand, the chief minister approached Birbal, who was known for his acumen and wisdom. Birbal smiled and told him not to lose heart — after all, they had a week to think up something.

A week passed and D-day arrived, but still there was no remedy in sight. When the summons came, the mortified minister approached in dread, for the emperor's wrath was well-known.

On the way, Birbal appeared and slipped a piece of paper into the minister's hand, asking him to present it to the emperor. Totally clueless, the minister did, as told. And what did he see? The emperor's face lit up on reading the chit of paper, and he was congratulated.

Here's what Birbal had scribbled on the paper: "This too shall pass."

So, if someone is excessively worried about COVID cases, the message is "This too shall pass." And if someone is excessively worried about the markets ignoring the economic reality, the message again is "This too shall pass."

Ultimately, all medium to long-term investors will have to face the reality of earnings that their investee Companies report. Stock prices can be ahead of earnings for some time and behind earnings for some time, but they should revert to their intrinsic worth over time.

We did an elaborate study on our investee Companies and our view is that all of them, without exception have the Balance Sheet to see through this crisis. And those who survive will also benefit from opportunity to grab market share as competition gets weak. COVID will make the weak weaker and the strong stronger.

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Let us look at our portfolio through a sectoral lens: -

Sector	Mar'20	Jun'20	Change
Pharmaceuticals	15%	20%	5%
Lenders	13%	14%	1%
Insurance	12%	12%	0%
FMCG	8%	6%	-2%
IT	5%	5%	0%
Real Estate	5%	5%	0%
Travel accessories	5%	5%	-1%
Exhibition	8%	4%	-4%
Agrochemical	3%	4%	1%
Retail	3%	2%	-1%
Capital Goods	2%	0%	-2%
Others	5%	4%	-1%
Equity	**85%**	**81%**	**-4%**
Special Situation	5%	4%	-1%
Cash	10%	15%	5%

Our weight in pharmaceuticals has gone up Jun'20 versus Mar'20. This is largely owing to a sharp rise in their prices. In-fact, we have reduced our weight in one pharmaceutical Company in the last week of June from 6% to 3% - only on account of valuation concerns. Thus, our peak pharmaceutical weight would have been even higher. A meaningful bit of the 25% returns for the quarter have come from here.

Rise in weight of "lenders" is owing to stocks going up as well as weight addition in one of our investee Companies. Also, we have exited our position in the large NBFC that we owned. We got uncomfortable on the "growth prospects" for the Company in the post COVID world in context of the valuations that it quoted at.

Reduction in weight in the exhibition space is owing to non-performance of the stock that dragged weight and also some weight reduction. We are getting a bit uncomfortable on the demand/ supply scenarios in commercial real estate space in the post COVID world. Also, the exhibition centre revenues seem to be lost for most part of the year given that its now become a COVID Care facility *(though a one-year loss in exhibition revenue does not have a material bearing on our Company valuation)*. We had a high weight and this reduction is a risk control measure.

We exited the Capital Goods stock that we owned catering to the auto ancillary space. Again, we turned negative on the medium-term prospects for the Company in context of the slowdown in the auto demand that will lead to deferring of capacity additions by the ancillaries and the resultant order book for our Investee Company.

In the end, I would like to thank all the investors in the PMS scheme for keeping their faith in us in these difficult times.

Thanks for reading.

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

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The Composite representing the Emerging Corporates India Portfolio was created on 28th April 2017. Performance has been compared with Total Return of the Index. For Emerging Corporates India 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 ECIP 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 "Advantage Period Companies" which are enjoying a "competitive advantage period" that is likely to last for at-least 5 years and are available at a valuation that offers margin of safety relative to the growth opportunity landscape. 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).

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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 November 24, 2017 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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