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Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of March 31st, 2021. Our closing equity allocation as on Mar 31st, 2021 is ~73% spread into 19 companies and balance is in cash.

Portfolio Performance	Total Portfolio Returns	New Benchmark	Old Benchmark
CAGR since Inception (<i>Annualised</i>)	18.3%	10.8%	9.2%
FY21	79.2%	94.0%	104.7%
FY20	-13.2%	-30.3%	-33.0%
FY19	13.3%	1.2%	-6.5%
FY18 (<i>Since Inception - April 28, 2017</i>)	9.7%	10.2%	10.5%
Latest Quarter – Q4 FY2021	-0.2%	10.8%	13.6%

- *New Benchmark is an average of the BSE Smallcap Index, BSE Midcap Index and Nifty*
- *Old Benchmark is an average of the BSE Smallcap Index 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*

At the outset, it should be stated that we have added Nifty as well to our New Benchmark (1/3rd weight each for Smallcap Index, Midcap Index and Nifty), starting this quarter as against 50% weight to Smallcap Index and Midcap index each earlier (Old Benchmark). Our scheme is really a market-cap agnostic strategy. While we had thought at the time of the launch that our Scheme portfolio would have a small and mid-cap tilt, as we analyse our allocations over the last ~4 years, we realised that we have had a material large-cap allocation as well. We felt it would be inappropriate to not have a Large Cap Index in the benchmark. Also, while we explored using BSE 500 as is commonly used for Multi-Cap (or Flexicap) funds, this index is very large cap heavy (~80%) and hence, not a true benchmark for our strategy again. We believe that 1/3rd weight each to Nifty; Midcap Index and Smallcap Index is the appropriate benchmark for a multi-cap strategy. In any case, we shall continue to give the Old Benchmark performance as well for the next 4 quarters so that readers have full disclosure.

Let us talk about the quarter gone by now. While our portfolio companies continued to deliver strong operational performance on the whole, the same was not true with regards to their stock returns for the quarter. The prevailing market sentiment seems to be moving from “structural growth” stocks to “cyclical/ value” stocks, and our portfolio has been at the wrong end of this trade. We are not too perturbed by quarterly stock performance as long as our investee Companies are delivering on fundamental metrics like earnings growth, market share, balance sheet resilience, etc. As Buffett says, “stock prices are slave to earnings in the long-run”.

On a full year (FY21) basis, our performance stacks up better, we think, especially when looked in context of the significant out-performance we had in FY20. Thus, our 2-year; 3-year and “Since Inception” returns of 24.7%; 20.8% and 18.3% are still

way ahead of benchmarks (*New or Old*). As we have explained in the past, owing to cash calls and quality focus, it is only to be expected of us to underperform in roaring bull markets and out-perform in bear markets– with the consistent endeavour that out-performance more than compensates for the under-performance making it possible for us to deliver overall relative outperformance over any trailing 3-to-5-year periods.

Let us look at returns in Q4FY21 through a sectoral lens.

Indices	Q4FY21 Performance
BSE Metals	23.7%
BSE Industrials	21.3%
BSE Infrastructure	19.5%
BSE Capital Goods	12.5%
BSE IT	9.5%
BSE Consumer Durables	8.0%
BSE Auto	6.9%
BSE Bankex	4.6%
BSE FMCG	2.1%
BSE Healthcare	-1.6%

The recently announced budget lays down a 5-year roadmap for elevated fiscal deficit (*Fiscal deficit budget at 6.8% for FY22 with a glide-path to 4.5% only by FY26*). Such elevated fiscal deficit would have been unacceptable in the pre-covid world and would have raised the ire of global rating agencies. However, COVID actually creates a window of opportunity for a country like India to increase spending and prioritise growth (*as such elevated spending is considered to be the only way out to jump-start the economy – with risks of not doing this even greater than the risks of doing it*). Off-course, impact of such spending on inflation needs to be closely watched – but, for now, the bullish sentiment seems to overwhelm every worry.

Cyclicals are a huge beneficiary of this shift in policy environment and given that they were beaten down in the last 5 years, the starting valuations were very cheap. The now revised outlook led to a sharp change in earnings estimate and an upward revision in earnings estimate naturally results in a multiple re-rating as well. This has led to a sharp recovery in the cyclical stocks (*woken from the dead!*). On the other hand, the stocks that we own were expected to do well; are doing reasonably well and this change of policy environment does not cause any material change (*at-least as a first order effect*) in their earnings estimates.

Let us look at an example of a “cyclical stock” versus “growth stock”.

Time Period	T0	T1	T2	T3	T4	T5
Stock A: Hypothetical Cyclical Stock						
EPS	10	12.5	17.5	21.0	12.6	11.3
EPS Growth Rate		25%	40%	20%	-40%	-10%
P/E	10	12.5	14	20	15	10
Price	100	156	245	420	189	113
CAGR Return from T0		56%	57%	61%	17%	3%
Stock B: Hypothetical Structural Growth Stock						
EPS	10	12.0	13.9	16.3	18.9	22.3
EPS Growth Rate		20%	16%	17%	16%	18%
P/E	30	30	30	30	30	30
Price	300	360	418	489	567	669
CAGR Return from T0		20%	18%	18%	17%	17%

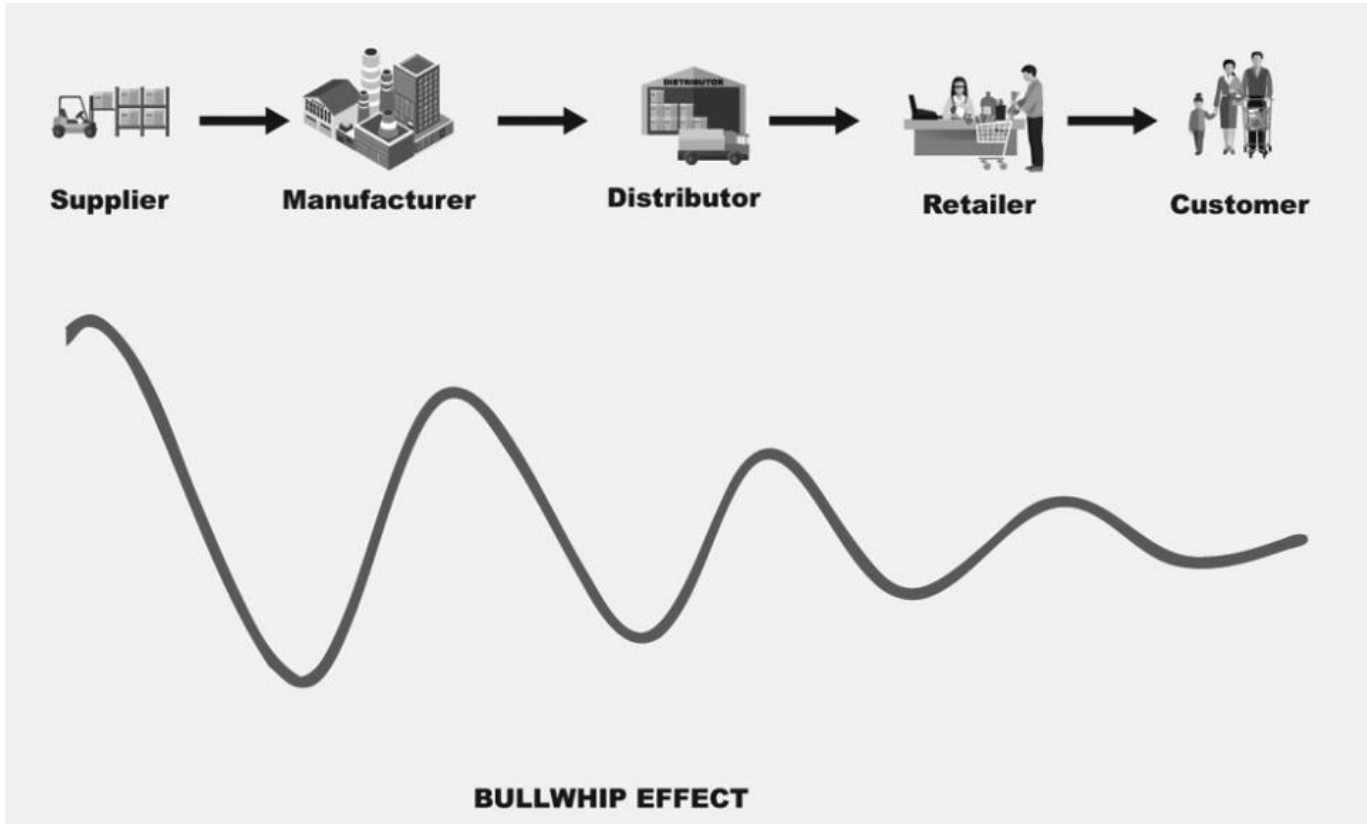
The above example is based on an observation of how cyclical companies/ stocks behave versus structural growth stocks (*highly simplistic to make a broader point*). Now, let us look at Company A. The next three years promise to be a period of cyclical up-turn. This period could show strong earnings up-tick. An earnings up-tick could lead to a multiple re-rating as well, creating a “*lollapalooza effect*”. As we can see, the stock can move from 100 to 420 in 3 years – a 61% 3-year CAGR. Against this, Company B - a structural growth stock chugs along at 18%-20% earnings growth without much of a multiple re-rating benefit. By T3, the cyclical stock has had a trailing 3-year return of 61% compared to just 18% for the growth stock. But what if you do not sell the cyclical stock here? If a down-cycle were to commence now, the cyclical stock can very well have a sharp earnings de-growth followed by a multiple-de-rating, taking it all the way back to where we began – a ~75% decline in stock price. Further, God does not come and tell us that this is where the up-turn starts and this is where it ends and this is where the down-turn starts. So, what if the down-turn starts at T2 and not T3. Its easy to make returns in cyclicals in the up-turn but its very difficult to protect those returns and convert them into very high long-term returns. It requires the precision of a surgeon to time cyclicals such that we participate only in the up-swing and not in the down-swing. Nevertheless, there might be a few cycle experts who can get cycles right with reasonable accuracy, but one needs to be aware of the risks in this type of investing. We have a very limited exposure to cyclicals.

The ECIP scheme is targeting more Stock B kind of companies over Stock A companies (*it is not that we do not have any Stock A kind of stocks but they are small in terms of portfolio allocation*). And thus, it is unlikely to reap the kind of rewards that cyclical stocks (*or portfolios with high allocation of these stocks*) yield when they go through T0-T3 kind of periods.

Is the demand sentiment overstated? Looking it through the lens of the “Supply Chain Bullwhip Effect”

While we hear commentary around a sharp demand up-tick from Companies in many sectors, one needs to see this through the lens of “*pent-up demand*” and “*supply chain bullwhip effect*”. A lot of demand has possibly spilled over from H1FY20 to H2FY21 (*more on consumer discretionary*). This sharp demand up-tick at the retailer can cause a disproportionate distortion in the entire supply chain (*especially if demand does not sustain*). While we are not saying there is no real demand, the demand at the manufacturer level could be possibly exaggerated owing to the supply chain bullwhip effect.

The supply chain bullwhip effect (also known as the Forrester effect) is defined as the demand distortion that travels upstream in the supply chain from the retailer through to the distributor, manufacturer, and supplier due to the variance of orders which may be larger than that of sales.



Let us consider a retailer sells on average 10 ice creams per day in the summer season. Following a heatwave (*or pent-up demand in the current environment*), the retailer's sales increase to 30 units per day, in order to meet this new demand, the retailer increases their demand forecast and places an increased order on the distributor to 40 units per day in order to meet the new customer demand levels and to buffer any potential further increase in demand, this creates the first wave in the exaggerated demand being driven down the supply chain.

The distributor noticing this increase in demand from the retailer may then also build an incremental increase into their forecast so generating a larger order on the ice cream manufacturer, rather than ordering 40 units to be manufactured, the wholesaler may order 60 units from the manufacturer, this will further exaggerate the demand down the supply chain and so creates a second wave of demand increase.

The manufacturer also feeling the increase in demand from the distributors may also react to the increase by increasing their manufacturing run to 80 units, this creates a third wave in the exaggeration of demand for the supplier.

This example is highly simplified but conveys the sense of exponentially increasing misalignment as actions and reactions continue up and down the chain. Also, while automation reduces huge distortions, behavioural errors in forecasting and extrapolating temporary demand up-ticks can cause unsustainable demand forecasts at levels far away from the customer.

Some more learnings from the year gone by

In all of our letters post-COVID, we have shared learnings that we have had in the year gone by. While we can take comfort from the fact that we deployed cash-on-hand in the markets in March'20 benefiting from the wonderful opportunities the market gave us, we could have been even more "courageous".

ECIP vs Indices	Mar 24, 2020 - Low	Mar 31, 2021 Close	Return
Nifty 50	7,511	14,690	96%
Nifty Bank	16,116	33,303	107%
BSE Mid-Cap	9,555	20,181	111%
BSE Small-Cap	8,622	20,649	139%
ECIP – NAV	10	19	96%

The BSE Small-Cap Index is up 139% from its Mar 24, 2020 lows. The BSE Small-Cap Index has 692 stocks and more than 100 have had a 300% return during FY21 (*FY21 High Vs Low*). Against that, we have really had a 300% return only in one stock in our portfolio. When you look back at the Mar'20 prices for some of these small-cap companies, you cannot help but think they were ridiculous. It is also not that small-caps do not fit our mandate (*unlike cyclicals, which lie outside our mandate*). However, during the crisis, we went more in the direction of bigger mid-caps or large-caps as they felt relatively safe. However, this was precisely the point to have high allocations to small-caps under our coverage. We did not lack preparation but we lacked courage. We suffered from the inevitable curse that most investors suffer from – a curse that Parasurama gave to Karna - *"the Brahmastra that you learnt shall fail you at the moment you require it the most. Your brain will atrophy and you will not be able to invoke the most powerful and potent of all astras when the hour comes"*. We certainly hope to overcome this curse in the next crisis!

Portfolio Actions

In terms of portfolio actions, we added a leading injectables B2B supplier. We like the top-down opportunity in the injectables space in terms of lesser price erosions in the base business and growth landscape with regards to up-coming "loss of exclusivity". To capitalise on the loss of exclusivity opportunities, the Company is also expanding its development and manufacturing capabilities in complex injectables such as peptides, long-acting injectables, suspensions and hormonal products as well as new delivery systems such as pens and cartridges. Further, few companies in the injectables space have managed to have a clean compliance track-record and our Investee company is a positive outlier in this regard, giving us the confidence that it is very well placed to benefit from up-coming opportunities in the injectables space.

We also added a technology leader in medium and heavy commercial vehicles (M&HCV). As India moves up in terms of technology adoption in the commercial vehicle space, this Company has huge scope to benefit on the "content per vehicle". Further, we think the M&HCV cycle is showing signs of bottoming out and if we were to witness a cyclical recovery in the economy, the M&HCV volume growth can show sharp growth spikes (*as has been witnessed many a times in the past*).

Thanks for taking the time out to read.

Regards

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

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Note:

1. All cash holdings and investments in liquid funds, is considered for calculating the performance.
2. All performance data are reported net of all fees and all expenses (including taxes).
3. The above performance numbers are not verified by the SEBI

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, 2019. The verification is available upon request. MAECL has claimed GIPS compliance for the Financial Year 2020 and such performance numbers shall be made available upon request.

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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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General risk factors

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- 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 December 04, 2020 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.