Multi-Act Equity Consultancy Pvt. Ltd.
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CIN: U67120PN1993PTC074692

Date: 2nd April, 2019

Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of March 31st, 2019. Our closing equity allocation as on March 31st, 2019 is ~*75%* spread into 17 companies and balance is in liquid schemes.

Portfolio Performance	Total Portfolio Returns	Benchmark Returns
Since Inception *(Annualised)*	12.0%	1.7%
Q4 FY2019	5.7%	1.4%
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 have been changed from this quarter to 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. FY19 was a difficult year, especially for the small and mid-cap space, and we have been able to navigate through the rough weather unhurt. While it is psychologically challenging to see a lot of stocks in the red when the market goes down, it is only these times that throw up opportunities that make it possible to generate significant alpha in the ensuing period. However, the investor needs to be prepared to take decisive bets in these down periods. Down periods also act as a good filter of conviction. If one buys a stock and never sees a down tick in it, everything looks great and one tends to get complacent with the analysis of ongoing risks to the stock. All our doubts and fears come to the fore only when a stock we hold goes down 30/40/50 percent from the buying price. And these down periods force us to go back to the drawing board and revisit our thesis. And only if one can defend holding the stock with complete “intellectual honesty” during that period, it can be said that one has “true conviction” in the stock *(difference needs to be made between “intellectual honesty” and “behavioural biases” or “anchoring”)*. In that sense, we think that FY19 was in-fact a good year which not only allowed us good opportunities to put capital to work but also tested our (true) conviction in many names and helped us move towards “higher conviction” names and away from “lower conviction” names.

As expected, this quarter was a noisy one. One defining moment in the quarter was the Indian surgical strike on terror camps in Pakistan in late Feb’19 that led to a fervour of nationalism and an increasing belief in market participants (at-least the FIIs!) that Prime Minister Modi will be re-elected. And the other was in late Mar’19 when the US Fed unanimously recommitted to remain "patient," agreeing to indefinitely stick with an extended pause on rate changes. Both these events triggered ferocious FII buying of Indian equity.

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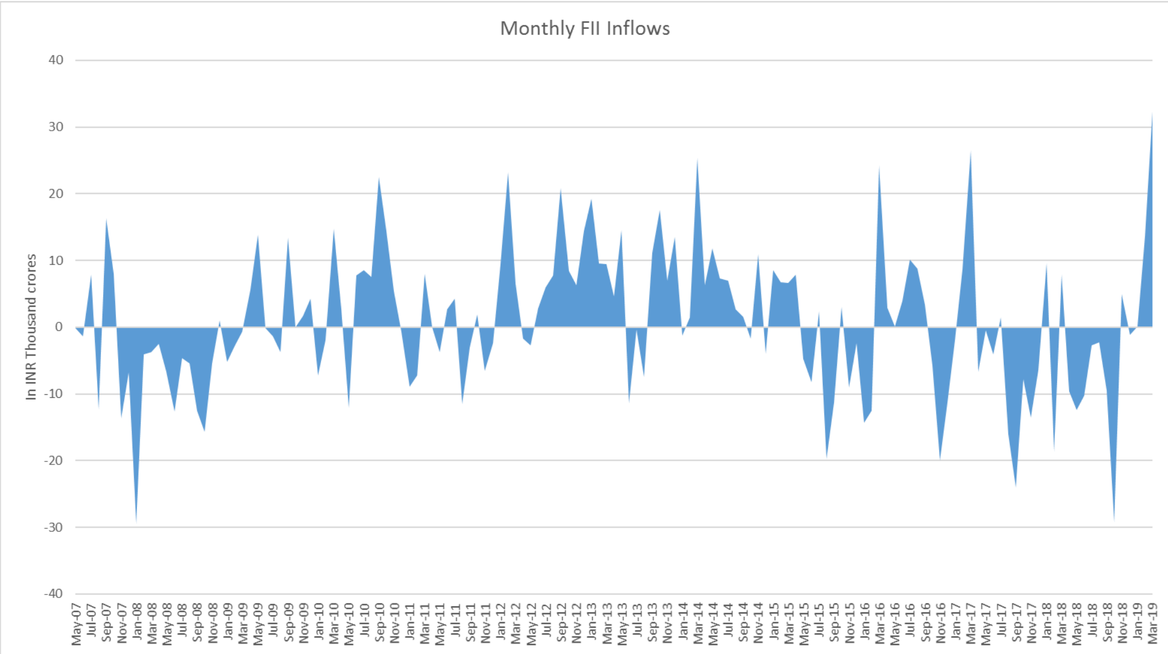

The general market narrative at the beginning of the quarter was that Investors should stay away from the market and act only once clarity emerges on the elections. And the Investors waiting on the side-lines saw Nifty deliver a 7% return for the quarter. As we have stated in the past, we try to value stocks and if we think that the stock offers a good prospective return over our investment horizon, we shall invest in the stock, not worrying about the likely election results or the US Fed stance and such. If the valuation or the long-term competitive dynamics of the Company were to change materially owing to these events, we shouldn't be in the Company in the first place. These external events will definitely affect the "market quote" on Company's stock prices in the short term, but we are willing to accept this volatility – as long as we think we have identified the "right" company and paid a "price" that, to our understanding and estimation, offers a "satisfactory prospective return" over our investment horizon.

When we look at our performance and the alpha that we have been able to generate, it is also a function of what we have NOT done versus what we have done. Markets periodically enter a phase where prudence demands that we do nothing. Doing nothing though, is emotionally very challenging and requires a lot of self-control. Like Buffet explains in his 1997 letter to shareholders using the baseball analogy, *"If we swing, we will be locked into low returns. But if we let all of today's balls go by, there can be no assurance that the next ones we see will be more to our liking. Perhaps the attractive prices of the past were the aberrations, not the full prices of today. Unlike Ted (an American baseball great and author of the book "Science of hitting"), we can't be called out if we resist three pitches that are barely in the strike zone; nevertheless, just standing there, day after day, with my bat on my shoulder is not my idea of fun"*

Now, we move on to some Company-specific events during the quarter: -

1. As you would know by now, we are invested in India's largest airline. Our thesis on the same has been quite basic – sustainable cost advantage over peers. The last four quarters *(Q4FY18 to Q3FY19)* were the worst twelve months in the Indian aviation history from the profitability viewpoint. Basically, a price war ensued and yields *(airfares)* reached unsustainably low levels. In Q2FY19, even our investee airline reported a massive loss, in-spite of its massive cost advantage. However, there was never a Balance Sheet issue for our investee airline, given an enviable Net Cash position on its books. Fundamentally, as money does not grow on trees, all losses should either be funded or will lead to bankruptcy. Cost advantage and might of the Balance Sheet should ultimately prevail. And this is what happened. A competitor of our investee airline is currently bankrupt with

majority of its planes grounded and seeking emergency funding from lenders *(over and above its already unsustainable debt position)*. And this has led to airfares going back up to what are more realistic levels and the market now seems to be finding favour again with the stock. The volatility in this stock though has been nerve-racking. From its peak price on April'2018 – it fell 55% by October'2018 – and rose back 105% by April'2019 from its October' 2018 lows. While we had our anxious moments, we never sold a share through this journey and in-fact only added at lower levels. We were constantly going back to the drawing board and checking if our thesis had flaws or this issue was just a case of an "irrational year" phenomenon which seems to happen in the aviation Industry once every 5-6 years. We continue to hold the stock with the belief that "if" and "when" the Company achieves profitability even equal to its cost advantage over the next best cost player *(meaning the rest of the Industry sells tickets at just the cost of the next best player),* there is a significant margin upside lever – apart from the revenue growth owing to the Industry growth and the growing market share.

2. Another important Company specific event was regarding a micro-finance focused Bank we own as was highlighted by us in our Jun'18 newsletter. The Company had to bring down its stake from 82% to 40% as per RBI guidelines and in its endeavour to do so, it decided to buy a housing finance Company (target Company). While the target company has an impeccable asset quality record and consistency of growth, it traded at expensive valuations – also owing to the fact that it was owned by the most respected financial Institution in the country. Since the transaction was through a share swap deal based on market prices of both Institutions as on date of announcement, the general market view was that this was not in favour of the Bank as it was too expensive. The shareholders of the target Company also did not seem to find favour with the deal as the parent of the target Company would now change from the most respected financial Institution in the country to the micro-finance focused Bank. And as an after effect, the stock prices of both these Institutions fell. The stock price of Bank fell 46% from its peak and the stock price of the target fell 40% from its peak. While the market was beating these stocks down, our view was as follows **a.** this transaction can also be construed as backing of the most respected financial Institution of the country in our investee Bank as it was willing to own 15% of the Bank – *giving us more comfort on the competitive advantage of the Bank* **b.** while the target Company acquired was at expensive valuation, it had an impeccable asset quality record **c.** if one looked at the geographic focus of the Bank and the Target Company and overlaid it with the customer base that both Companies target, there were many synergies which could enable the Bank to grow the Target's business much faster than the past growth rate **d.** Bank's advances would be far more diversified post the merger owing to the high quality secured housing finance book now getting added to the Bank. Thus, a three-year out view of the Bank looked very promising. And we took advantage of the price fall and added our weight in the Bank *(and/or in the Target Company based on the discount market offered relative to the swap ratio – assuming approvals will go through)*. Also, while the Bank having to bring its stake down from 82% to 40% is a technical issue and becomes an overhang on the stock, its also important to appreciate that the Bank could grow so rapidly and still keep an 82% promoter holding. Most Banks that grow rapidly have to consistently dilute – an ability to grow without dilution is, to our understanding, more a corroboration of a robust business model – albeit that it may lead to a stock overhang in the near-term owing to the RBI guidelines.

3. Another development was regarding a niche CRAMS player that we have invested in as was highlighted in our Dec'17 newsletter. As we had stated, while the core CRAMS business is solid, the cash-flows of this business were re-invested into research and development expenses of New Chemical Entity (NCE) pipeline. All the R&D on the NCE pipeline is expensed out by the Company in its Profit and Loss Account *(with no monetization of the pipeline yet)*. While we think it's the right accounting treatment, it also implicitly meant that the profits of the Company looked far depressed as the Core CRAMS business absorbed the R&D expenses on the NCE pipeline. In Feb'19, the Company announced that it plans to demerge the consolidated operations into two businesses that will be listed separately – one that will have only core CRAMS and the other that will have only NCE R&D. We think that it unlocks value as the profits of the Core CRAMS business are more clearly reflected

now and not camouflaged by the NCE R&D. And some value can be assigned for the NCE pipeline by investors who are willing to take such a bet *(many listed Companies in the US that focus on NCE pipeline get valuation based on the probabilities of success)* - while we are not banking on a huge value here (it's an option value), we can at-least be sure that the value of the R&D Company will not be less than zero *(at times, a negative value can get assigned to R&D when it's done in a consolidated entity)*. On the clinical trials that are on-going for the Alzheimer drug, we should know the result sometime in Q2FY20. While we remain hopeful, we think that the risk of failure in terms of the stock-price crash is now lower owing to the demerger *(failure gets parked in a separate entity whose value can be at worst, zero)*.

In terms of exits on account of loss of conviction, we exited the PVC leather manufacturer we had highlighted in our Sep'17 newsletter and the pharmaceutical Company we had highlighted in the Jun'18 newsletter. Regarding the former, we were increasingly uncomfortable with the promoter and his ability to hire and retain top talent and with respect to the latter, we just thought we had misread the growth potential. While we have not had a meaningful drawdown in these two names, as stated in the past, we are agnostic to our purchase price when making sell decisions.

In terms of exits on account of valuation, we exited the internet business Company with leadership position in a job portal as was highlighted in Sep'17 newsletter. We thought that the valuations are very demanding and already paying us for option values that might or might not materialize. While we are very reluctant sellers for high quality growing businesses *(at-least for the final 3% weights)*, at some valuation, one needs to pay heed to the voice of "reason" and just give in.

We have not added any new names in the quarter.

Regards
Rohan Advant
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Portfolio Manager
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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 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.

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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, 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.

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