



Multi-Act Equity Consultancy Pvt. Ltd.

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Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) for Q2FY22 and as of Sep 30th, 2021. Our closing equity allocation as on Sep 30th, 2021 was ~71% spread into 19 companies and balance is in cash.

Portfolio Performance	Total Portfolio Returns	New Benchmark	Old Benchmark
CAGR since Inception (<i>Annualised</i>)	19.1%	15.6%	15.0%
Q2FY22	6.6%	12.2%	12.1%
Q1FY22	5.1%	13.9%	17.1%
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%

- *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*

The markets have continued to show remarkable strength with strong double digit quarterly performance of our benchmark yet again. Our recent performance has continued to lag meaningfully. Simply put, the reasons are two-fold **a.** our cash hurts us in rising markets (our equity ONLY performance for the quarter is 10.23% which translates to a total portfolio performance of 6.6%) and **b.** even within the equity allocations, we have focused on proven high-quality businesses with growth and competitive advantages (lets call it the Tier 1). The stories in Tier 1 companies are fairly well understood and do not lend themselves to super returns in super quick time. Against that, in raging bull markets, the Tier 2 and below tend to give much higher return because one can make very attractive narratives around their growth prospects and turnarounds allowing scope for massive re-rating.

One could possibly divide stock ideas a priori into the following three buckets – **a.** stocks that have a high to very high probability of acceptable to reasonable return **b.** stocks that have a reasonable probability of high returns and **c.** stocks that have a low probability of extremely high returns (*credit: I had seen segmentation along these lines in a webinar done by Samir Arora of Helios Capital*). By design, we have had a very high allocation to “segment a”. Against that, some of our peers who have had a large allocation to “segment b” or “segment c” either pre-pandemic or even during FY21 have shown extremely strong performance. Portfolio loaded with “segment b” or “segment c” type of stocks will make you look like rockstars in bull

markets. However, the same stocks can cause extreme pain if sentiment sours (*perception of these stocks and resultantly the multiples tend to be fleeting*) or some of these stocks fail to deliver on earnings ("*segment a*" *stocks tend to be more resilient as businesses as well as stocks in difficult periods*). Again, there is no right or wrong. Every investor needs to choose a style or a balance of styles that fits into their financial objectives and temperament.

To quote Charlie Munger on this topic –

"The model I like to sort of simplify the notion of what goes on in a market for common stocks is the pari-mutuel system at the racetrack. If you stop to think about it, a pari-mutuel system is a market. Everybody goes there and bets and the odds change based on what's bet. That's what happens in the stock market.

Any damn fool can see that a horse carrying a light weight with a wonderful win rate and a good post position etc., etc. is way more likely to win than a horse with a terrible record and extra weight and so on and so on. But if you look at the odds, the bad horse pays 100 to 1, whereas the good horse pays 3 to 2. Then it's not clear which is statistically the best bet using the mathematics of Fermat and Pascal. The prices have changed in such a way that it's very hard to beat the system."

And to quote **Will Bonner from** *Mobs, Messiahs, and Markets: Surviving the Public Spectacle in Finance and Politics* –

"At the racetrack, for example, the favorite horse may be the one most likely to win, but since everyone wants to bet on the favorite, how likely is it that betting on the favorite will make you money? The horse to bet on is the one more likely to win than most people expect. That's the one that gives you the best odds. That's the bet that pays off over time."

We might have erred on side of betting on winning horses which everyone knew would win and thus, did not possibly offer great odds. Do we intend to change? The answer is "Not much". While we will make tweaks to our style based on learnings, we will not transform our style. In the markets, one has to be careful in learning the right things. Things that might have worked for a short-period of time start looking like eternal truths. But one needs to look at long-term data – data that covers the worst times – because one has to survive on the worst days – not on average. As Howard Marks puts it "Never forget the six-foot-tall man who drowned crossing the stream that was five feet deep on average. It's not sufficient ... to survive on average. We have to survive on the bad days." We would be willing to accept a slightly lower return to significantly reduce risk of ruin.

Another important aspect of our style that needs critical introspection has been our ability to ride stocks. When we look at our last 4 and 1/2 years of trade data, we think we have been good stock-pickers but possibly bad riders. Stocks can go through phases of being cheap to being fairly valued to being optimistically valued to being expensive to being extremely expensive to being crazy. Further, these phases are not linear and are susceptible to U-turns at any point. For example, a stock from being optimistically valued need not necessarily go to being expensive – it can suddenly start a U-turn from there and go on a reverse journey towards being cheap – if it were linear, investing would be so easy! Given our conservative stance, we have always been scared of U-turns. The moment a stock is optimistically valued, we start fearing what if it becomes cheaply valued again – the draw-downs could be huge and so, we start reducing weights at-least or at times, even exit. But we have also seen with reasonable consistency that stocks move the fastest from being optimistically valued to being extremely expensive or crazy (anecdotally, if cheap to optimistically

valued takes ~2 years; optimistically valued to extremely expensive takes ~6 months). Our tendency to start selling at the point where draw-downs look significant and the stock's tendency to have a strong upward thrust at the same point has led to significant opportunity loss for us (and if I may add, a lot of heartache!). We should possibly be less fearful of drawdowns until stocks are extremely expensive, especially if we are into the high-quality universe (where drawdowns should be temporary and not permanent). One doubler with 5% weight can compensate for five stocks with 5% weight going down 20% each. We are considering using other tools for optimising selling decisions, including technical parameters.

We have not added any new stock to the portfolio in the quarter gone by.

Our CIO Rohan Samant has covered the macro backdrop for the current market conditions nicely in the MSSP newsletter. Please find the link to the same [here](#).

Thank you for a patient reading.

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 2021 and such performance numbers shall be made 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 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 ECI 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).

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.

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 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.