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Date: 2nd July 2014

Dear Fellow Investors,

Below is the consolidated performance of the Moats & Special Situations Product as at the end of June 2014.

Portfolio Performance	Equity Allocation as on 30.06.2014	Equity Returns	Total Portfolio Returns after Expenses	Benchmark Returns
Since Inception (annualised)		28.8%	17.5%	8.2%
June 2014 Quarter	60.7%	35.4%	22.3%	25.2%

• Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
• Returns are cash flow adjusted and time (Daily) weighted returns after expenses.
• The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
• Past performance is not guarantee for future performance.
• Inception Date is 27th January 2011.

An election result that has given a simple majority to one party (for the first time after 1984) has boosted market sentiment and given rise to hopes of an economic turnaround and clearer policy formulation. The hope of investors and businessmen is that "policy paralysis" would become a thing of the past and this clear mandate to a single party will change things for the better.

The markets have responded positively with the broader indices touching new all-time highs. Within the broader market the mid & small cap indices along with PSU stocks have significantly outperformed the large caps. We have certainly benefitted from this change in sentiment as the portfolio that we had built over the last one to one and a half year had specifically focused on that segment of the market (*refer the Mar 2013 newsletter*), which tends to show that our process is more proactive in seeking out prospective returns rather than reactive in chasing past market returns.

Where do we go from Here?

Markets have moved from overt pessimism (Aug 2013) to exuberant optimism, but for the current rally to sustain, fundamental metrics need to catch up with the "hope" factor. To elaborate, in our September newsletter we had highlighted that pessimism had brought the Sensex to the lower end of the Dec 2014 valuation range. The rally since the August bottom has brought the Sensex slightly above the mid band of the valuation range *(marked by the grey dotted line)*. For any move to sustain above this mid band, we believe, needs support from fundamental improvement in earnings.

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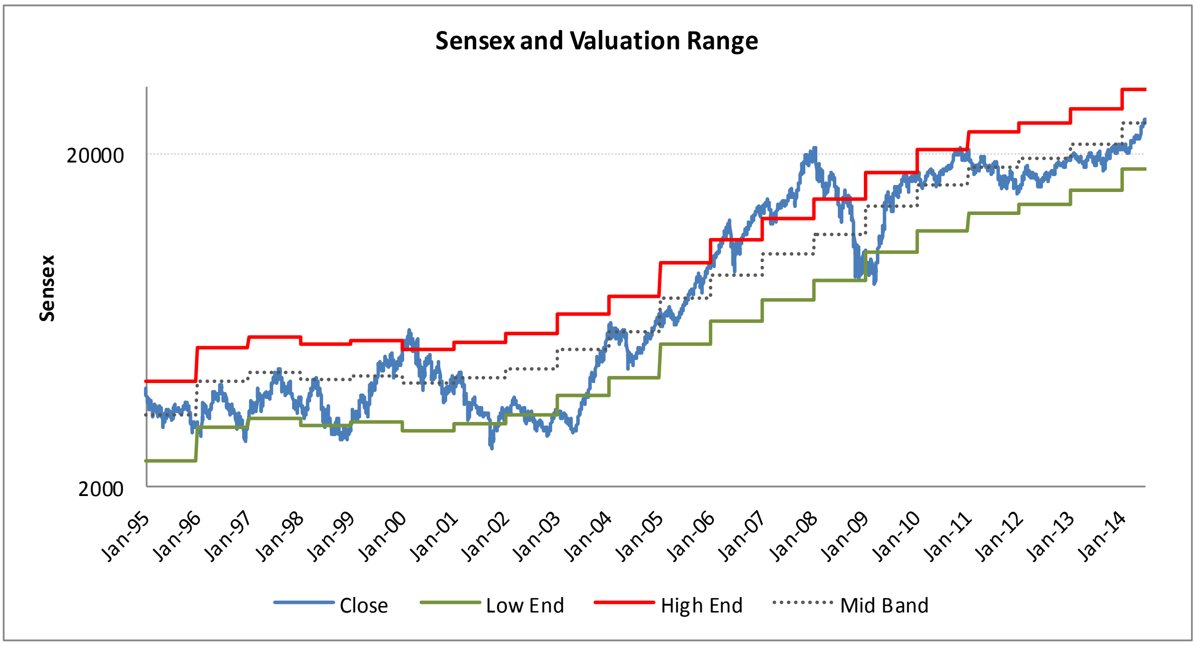
Figure 1: Sensex Valuation range:



Though mid & small caps have rallied sharply, there are pockets of value still available, on a relative basis, as compared to large cap stocks. But the High Quality (HQ) mid & small cap stocks which were providing value until now have rallied sharply in the last 3 months and thus opportunities remain only in the average and low quality space which is not our preferred market segment. This has reduced our opportunity set and thus our equity weights, as we have started trimming some of the cyclical names which have already factored a cyclical recovery, and now therefore exhibit speculative prices.

The scramble of market participants into cyclical stocks and out of "defensive" names has provided us with opportunities in the FMCG space. We have already started adding weights to some of the FMCG names and weights would further go up if, as we expect, we get a stiff market correction and get some of our preferred companies within our target range.

Global Macro:

Though we are cautious about the Indian market moving ahead of fundamentals, we are not *yet* worried about Indian equities from a standalone basis as we are coming out of a bad business environment and moving into one which would be *hopefully* governed by a prudent policy environment along with the fact that there is significant savings in other asset classes which has the potential to flow into equity in India. We are however concerned of a far more serious global correction that could affect FII flows into India and the resulting impact on the Indian market. We continue to be worried of the repercussions of the QE unwinding that would occur because sooner or later the major mental prop (QE) that investors have used to invest in equities will perforce dissipate and investors will begin to discount that event six to nine months in advance.

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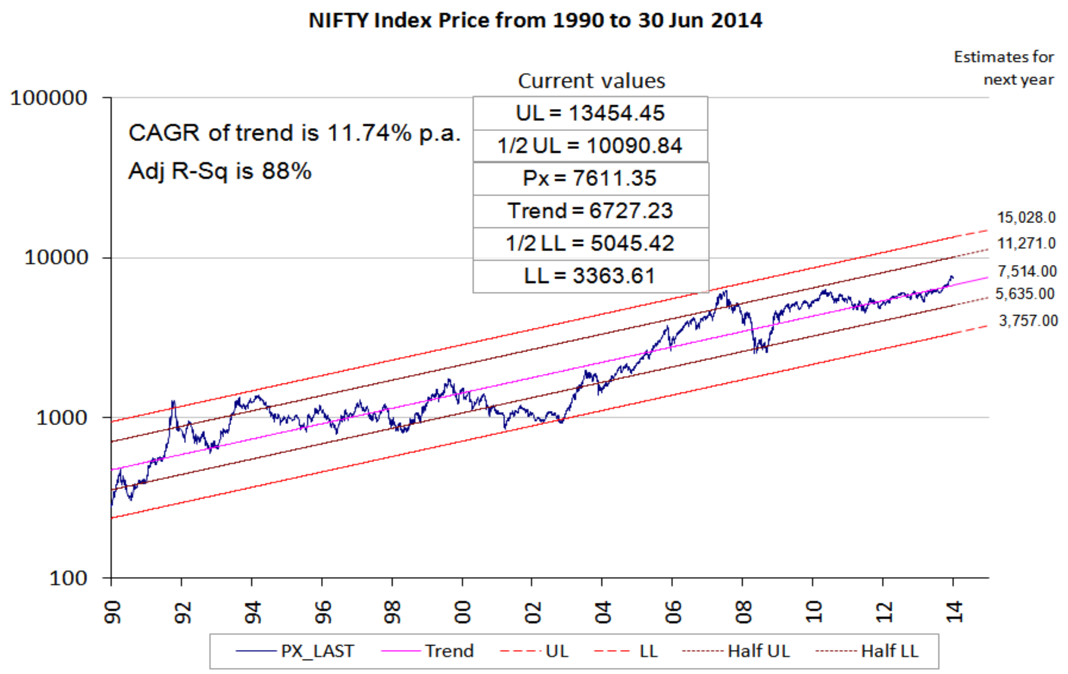
Asset Allocation:

Figure 2: NIFTY Trend



We have taken advantage of the sharp rally by significantly reducing our equity weight in the portfolio that we were holding as on March 2014 from 70% to ~56%. With the addition of some defensive names in the current quarter our equity weight stands at ~62%. The reduction in equity weight was not driven by any sort of “gut” feeling, but on account of sticking to our Global Rational Analysis framework (GRAF) which presages a significant drop in the prospective return for some of our HQ cyclical holdings. Many of these stocks have run ahead of fundamentals in the short to medium term. As our focus is to maximise risk-adjusted returns, we would only re-enter the stocks when the prospective return compensates us for the unit of risk being taken.

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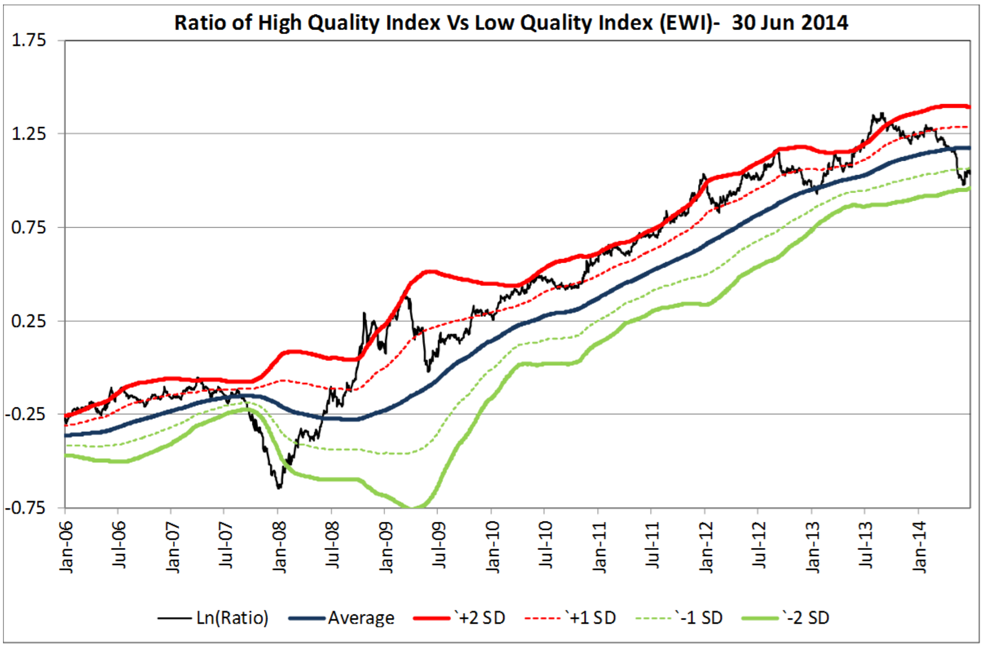
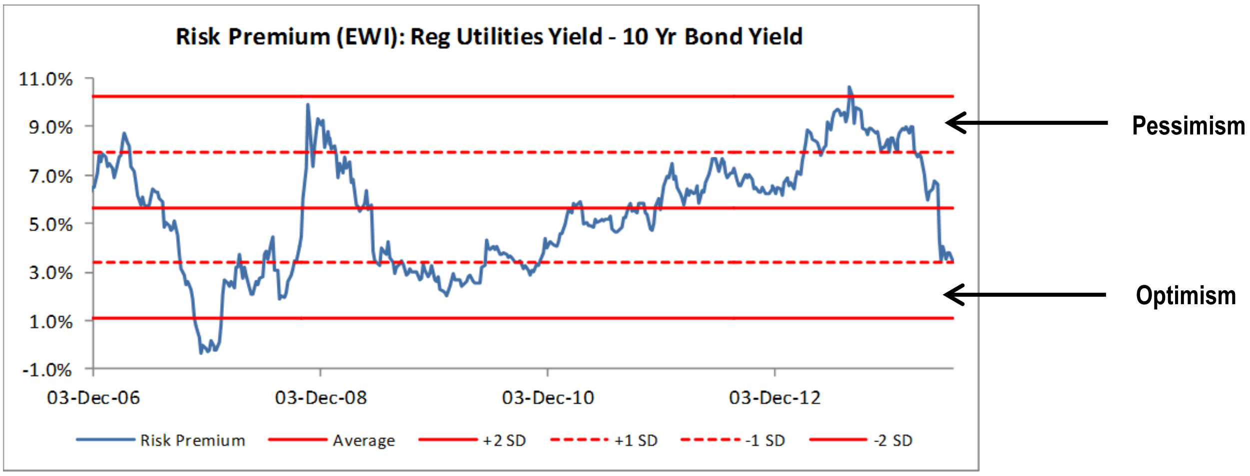
Figure 3: High Quality vs Low Quality:



HQ vs LQ ratio is the ratio of HQ index / LQ Index. HQ and LQ indices are equal weighted indices with 30 companies each. The HQ and LQ stocks have been selected based on Multi-Act grading criteria. The Ratio is used as an indicator to identify risk aversion.

The High Quality vs Low Quality ratio highlights the shift of preference in the market for Lower Quality as compared to High Quality. The movement in the ratio has more to do with the sharp outperformance of the Low Quality stocks than a decline in the HQ stocks. This is an indication of increasing complacency amongst market participants which should be viewed as a sign of caution. If this bullishness were to persist for a prolonged period it could lead to underperformance across portfolios since we have been increasing our cash positions along with an increase in HQ defensive names.

Figure 4: Regulated Utilities Risk Premium:



Regulated utilities Risk premium is the difference between the IRR based earnings yield of 5 companies and the 10 Year GOI bond yield. This measure tries to capture the risk premium that market participants are associating with these regulated entities which have relatively

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stable businesses. Thus it highlights the optimism/pessimism amongst market participants. We have shifted this Index from a MCap weighted to an Equal weighted to give better representation to all the companies.

The risk premium for owning regulated utilities has dropped sharply showing improving market optimism and increasing risk appetite. If we were to get to the extreme optimism phase, our equity weights would continue to come down further-perhaps to about 50%.

Figure 5: Portfolio activity during the Quarter:

Moat/Limited Moat	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Moat	31%	33%	37%	33%	32%
Limited Moat	44%	43%	42%	45%	42%
Moat + Limited Moats	***75%***	***76%***	***79%***	***78%***	***74%***
No Moat	18%	13%	10%	12%	14%
Regulated Utility	7%	11%	11%	11%	12%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Auto & Auto Ancs	22%	19%	20%	24%	21%
Capital Goods	16%	10%	10%	9%	8%
Financials & Financial Services	23%	25%	20%	21%	19%
FMCG	-	2%	5%	5%	13%
Information Technology	2%	3%	-	-	3%
Logistics	3%	4%	5%	6%	-
Industrials	13%	13%	19%	20%	21%
Pharma	8%	7%	5%	-	-
Telecom	3%	3%	4%	4%	3%
Utility	7%	13%	11%	11%	12%
Other	-	2%	2%	2%	-
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Stock activity:
We recently exited Container Corporation of India as it was trading above the High End of our valuation. We do not see substantial upside in the near term whilst the market seems to be factoring in too much of a rosy future to current prices without factoring the inherent limitations of a PSU.

We exited Info Edge (Naukri.com, 99Acres.com) as the market was not only willing to pay peak multiples for the core business but also willing to pay significant value for other businesses which are currently making losses. Though, we believe some of these other businesses could turn profitable and add significant value to the company in the long run, the valuation seemed to us to have entered the speculative zone and prospective return from holding the company from a medium term point of view was at best zero. We continue to believe in the strength of the Moat of its Core business and would look for an opportunity to re-enter the stock once it comes within our comfort zone.

We have increased our weights in two FMCG stocks that we were holding in the portfolio. We have also added a FMCG name in the hair oil space which is the market leader in a niche value-added hair oil segment. This particular segment has been seeing faster growth in the past few years than the overall hair oil market on account of shift from traditional coconut hair oils. Currently volume growth in this category has slowed down because of curtailed spending on the discretionary side which also reduces conversion from traditional hair oil to the value added category. We feel the current slowdown is temporary and as the discretionary spending recovers, one can expect the conversion driven volume growth to return.

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We initiated a position in one of the largest IT companies in India. The company was going through a phase of internal restructuring which led to many senior level exits. The market is sceptical of a turnaround in the fortunes of this company in the near term which we feel is being factored in the valuations. We also derive comfort from the fact that this is a Limited Moat business with a high "free cash flow" generation and a customer renewal rate of around 97%. Recently there has been a change of leadership in this company and we feel that may additionally bode well for the fortunes of this company.

Regards,

Jinal Sheth	Rohan Samant
Portfolio Manager	Asst. Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited

Disclaimer

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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, 2011 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.