Multi-Act Equity Consultancy Pvt. Ltd.
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Date: 1st October 2015

Dear Fellow Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 30th September 2015.

Portfolio Performance	Equity Allocation as on 30.09.2015	Equity Returns	Total Portfolio Returns After Expenses	Benchmark Returns
Since Inception (annualised)		27.3%	18.0%	8.4%
September Quarter	~75%	2.0%	1.5%	-1.3%
1st April 2015 – 30th September 2015		2.1%	2.1%	-1.5%

- Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
- Equity allocation mentioned above is for older accounts. For newer accounts our equity allocation would be lower.
- 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.

Globally most asset classes have witnessed a "risk-off" trade (meaning market participants have become relatively risk averse). This risk aversion has reasserted itself due to uncertainty regarding the health of the Chinese economy, the probable tightening of liquidity by the US Federal Reserve. Desperation of the Chinese authorities; whether it was their handling of the Yuan devaluation or their efforts to stem the Chinese stock market collapse, has raised an additional fear amongst market participants about how bad things are with regards to the Chinese "black box" economy. Although all this could have a short term rub off impact on India, we continue to believe India is better placed from a long term point of view.

The Indian equity market witnessed some rationalization of expectations and an earnings downgrade cycle as discussed in our last newsletter. The markets have accordingly corrected, along with the global markets. Indices actually peaked in the 1st week of March 2015 and since then have been on a downward trend. The recent sharp correction created a low in September. The drawdown in your portfolio and the indices/benchmarks during the same period has been highlighted in the table (Figure 1).

Figure 1: Drawdowns - Peak to bottom (2015)

MSSP Portfolio	-1.0%
Benchmark	-10.5%
NIFTY	-16.0%
BSE 500	-14.0%
Midcap	-8.6%
Small Cap	-9.6%

(MSSP return post expenses)

As one can see, our portfolio's relative performance stands out in such a volatile period. Our high cash allocation has not only helped us protect the portfolio from a severe drawdown, but allowed us to behave counter-cyclically in this decline and increase our allocation (in pockets where we saw value emerging). This correction has allowed us to take our equity weight up to ~75% from ~60% in the older accounts since the March 2015 quarter.

One of the anomalies we have been highlighting for some time has been the Small & Mid cap overvaluation relative to Large Cap stocks. Surprisingly this anomaly has yet to be corrected .We think this could be attributed to the fact that Indian markets have seen large redemptions from FII while local fund inflows from domestic investors, channeled through the Mutual Funds continue to be allocated to the Small and Mid-cap stocks (on the conjecture of the "cyclical recovery" coming sooner rather than later). The risk therefore that a recovery does not come soon has not yet been priced in, and in such an event there is a good chance that the mid & small cap indices could see downside. Usually outflows are seen when retail investors have experienced a negative return in the past 1 year. On the flipside, a higher

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than expected rate cut could give a boost to the market on the upside, though for the markets to sustain any price momentum built on that basis, earnings growth will need to come through.

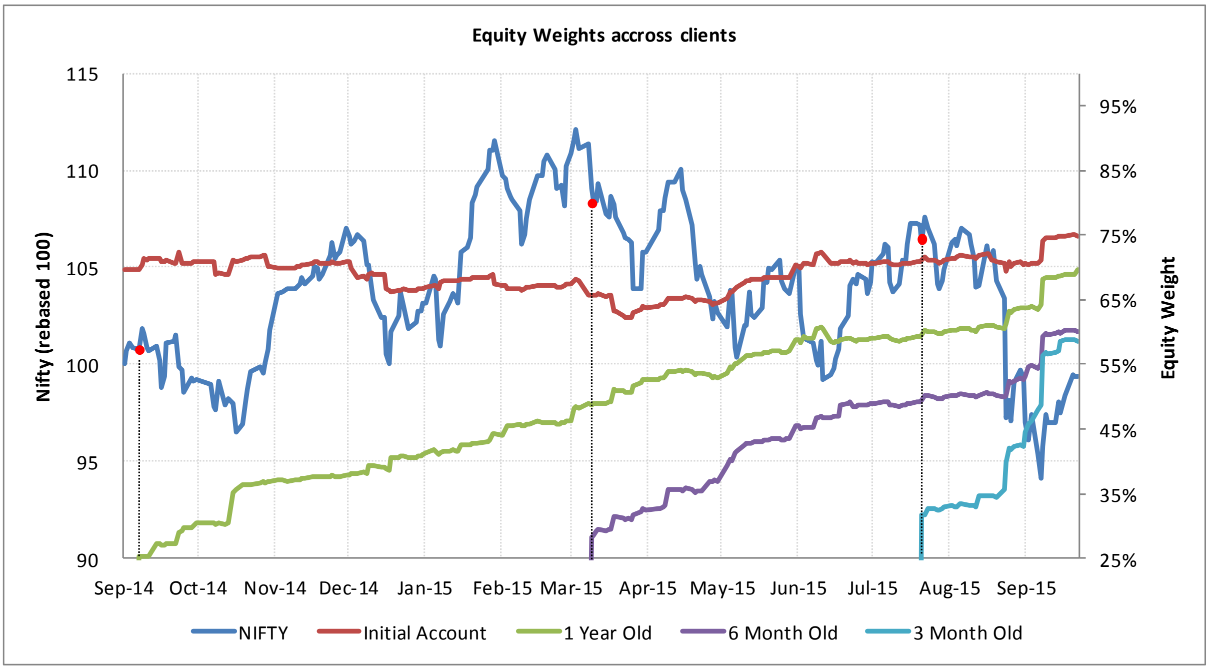
In a nut shell there remains a lot of cross currents; fear that persists in the world about the health of the Global economy and "hope" about the cyclical recovery in India. As fiduciaries we remain focused on what we know best: buy businesses that we understand at fair prices.

The Model Portfolio concept:

Speaking of fiduciary responsibility, we believe fiduciaries should ensure that they do not take "uncompensated" risk with clients' money, especially when a client may not be able to assess such risks. When a client generally gives money to a manager with an absolute return objective in mind rather than the performance relative to the market, it is the responsibility of the manager to manage the money differently than in a typical mutual fund. This leads us to the topic of "Model Portfolios".

A "Model Portfolio" is a notional portfolio which acts as a basis for constructing portfolios for new clients. We believe a "model portfolio" approach may make the job easier for a fund manager but may not be in the best interests of the client. Why? In such an approach any money received from a new client would be used to replicate the existing model portfolio. A model portfolio therefore defeats the purpose of the PMS mandate which essentially requires customized portfolios for individual clients. Model Portfolios instead aligns the portfolio construction process to a Mutual Fund wherein a client is buying a *pre-invested* portfolio regardless of the *prospective* return of the constituent stocks *at that point in time*. This could lead to exposure to stocks which might be expensive currently. This may not hurt the client as long as the market indices are going up. But across a full market cycle it detracts from the portfolios performance. We therefore don't follow the Model portfolio route to construct a portfolio. *We only buy those stocks that make sense at that particular point in time.* At every price, the risk to reward on any given stock would be different for each investor, depending on the timing.

Figure 2: Equity weights of Clients who came at different point:



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The above chart shows equity weights of clients that have come at different points. If one would have followed the model portfolio method of constructing a portfolio, all the portfolios would have weights in line with the weight shown for the initial account. We were willing to wait and hold 60-70% cash in newer accounts as there were limited opportunities. This process of being focused on individual client's portfolio has helped us to increase weights at an opportune time rather than on the day when we received the money.

One related question that we have received from some of our clients is that if we are not buying a stock in an account, why are we not selling the same stock for a client holding the stock? Put another way; if we are not selling it in one client's account because there is some "upside", should we not buy it for a new client portfolio as well? We would like to revisit a concept which we have discussed in the past as well – that of evaluating rewards vs risk. We believe the financial industry has done a disservice to investors by holding out the illusion of much more *certainty* than exists by its use of price targets and recommendations. The reality is that investment managers deal with a whole host of imponderables at any one time…there is no glass full or glass empty except on very rare occasions! Instead the glass is usually half full or half empty depending on the perspective one takes. A fiduciary therefore when taking any investment decision, should evaluate the reward that could be generated (upside) i.e. the prospective return and weigh it against the risk (downside) that one could suffer. Secondly, the reward vs risk should be evaluated along with the quality of the business and other criteria to arrive at the optimum weight at that current point. Now let's assume we had bought a stock some time back when the degree of reward vs risk was favorable. The stock as expected has run up. As the stock moves up, the reward shrinks and risk of some downside increases. This makes it difficult to justify buying (to the same degree) in new accounts. At the same time it does not make sense to sell out in the older accounts, as we would like to capture the entire return estimated at the time of the initial investment. Thus it is not a binary decision (i.e. either buy/sell) especially *since investing involves evaluating probabilities of the reward and risk at each point in time.*

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Asset Allocation:

Figure 3: Business Model and Sector Allocation:

Moat/Limited Moat	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Moat	40%	39%	49%	49%	44%
Limited Moat	35%	36%	26%	27%	30%
Moat + Limited Moats	***75%***	***74%***	***74%***	***76%***	***73%***
Special Situations	12%	12%	12%	12%	14%
Regulated Utility	13%	14%	13%	11%	12%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
FMCG	20%	22%	27%	27%	22%
Auto & Auto Ancillaries	20%	19%	20%	20%	18%
Financials & Financial Services	16%	16%	15%	17%	16%
Information Technology	7%	8%	8%	9%	13%
Utility	12%	12%	13%	11%	12%
Pharma	3%	3%	7%	8%	9%
Materials	-	2%	2%	1%	5%
Telecom	4%	5%	6%	5%	4%
Industrials	14%	12%	2%	2%	2%
Capital Goods	3%	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

This quarter has been a bit more active than usual with the enhanced volatility in the markets on the downside. Many market participants look on volatility as risk, but because we invest in counter-cyclical fashion volatility often presents us an opportunity. It is at times of fear & uncertainty that attractive prices (for good businesses) become available. This is where the true test of any "behavioral edge" comes in.

Our equity weights in the quarter have inched up in the large cap space since that is where we believe value has been emerging. There is a possibility that if FII's continue their selling spree due to global macro issues we could get lower prices yet.

We have been increasing our weights in the Metals & Mining space (see Materials in the table above) as we are finding "deep value" opportunities along with rising and extreme pessimism there. Even though we are finding opportunities in the sector we have been circumspect as value can remain value for long time due to exit barriers and thus we remain cautious in continuing to evaluate those opportunities where the particular business has some specific advantage. We are seeing reasonable value in the IT space as well. We have reduced exposure to some of the High Quality heavy weights which now begin to look quite expensive but still retain some exposure as the opportunity set they find themselves with, has some considerable way to run.

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Additions:

We bought an initial weight in a PSU Oil & Gas company. The current market price is factoring a lower Oil price. As per IEA estimates, the global average cost of production of Oil is around USD 40 per barrel while that of OPEC is around USD 30 per barrel. The incremental capacity being added is inefficient. Thus the global industry average cost of production would have an upward bias. Secondly at current oil prices much of the high cost Oil producers such as US Shale Oil, Venezuela, and West Africa would find it difficult to survive in the long run. Incremental capex could be curtailed since All-in-Cash Sustaining (AICS) don't justify current prices. Thus we believe that, even though in the short term oil prices could move in any direction based on production dictated by cash flow requirements to sustain debt servicing, the downside over the medium term could be limited. Reforms in the Oil and Gas sector in India, wherein the subsidy sharing has been reduced adds to our comfort.

We have also taken an initial weight in one of the largest IT services company. The stock has flat-lined for almost a year now and has thus allowed fundamentals to catch-up with valuations.

Regards,

Jinal Sheth
Portfolio Manager

Rohan Samant
Asst. Portfolio Manager

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.