

“In the short run, the market is a voting machine,
but in the long run, it is a weighing machine”

- Benjamin Graham

Date: 14th Apr 2022

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 31st Mar 2022.

Portfolio Performance ¹	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		14.6%	12.6%
Mar 2022 Quarter	75%	0.2%	-1.7%
Apr-Mar 2022		8.8%	21.5%

Last quarter of the financial year saw significant volatility due to the Russia-Ukraine war. Commodity prices, which had moved up through 2021, were further boosted by these geo-political events. More so since Russia is material producer several commodities. Global supply chains which had started normalising have been impacted again due to the crisis. Under sanctions imposed on Russia, US and EU have blocked access to Russia's foreign currency reserves. This could have long term implications as countries (especially China) try to de-risk and find alternatives to secure their reserves. Globalisation could take a step back as countries/companies try to reduce the dominance of any single country in their supply chain. All these factors are going to increase friction in global trade in the long term and with it the costs to the global economy. Thus, inflationary pressure could be more persistent than what we may have witnessed in the last two decades. The US Federal Reserve has belatedly communicated its seriousness to fight inflation after having called it "transitory" for most of 2021 and has indicated its intention to increase rates through 2023.

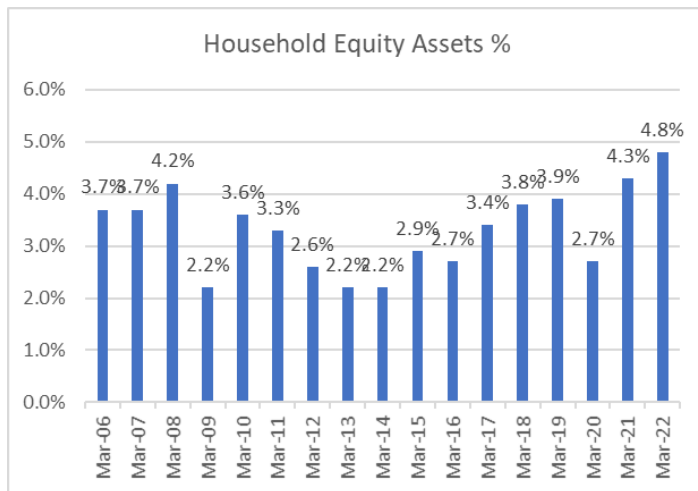
The third Covid wave in India was relatively mild and did not lead to material economic disruptions. While India may not be directly affected by the Russia-Ukraine war, the indirect impact through rising Crude Oil and other commodity prices will be felt by the economy. Most companies have begun passing on inflationary pressure to their customers and thus we expect business volumes and margins to be under pressure in the coming quarters. Foreign Institutional Investors (FIIs) have been net sellers in the Indian market since October. As can be seen from the adjoining table, FII selling since October 2021 has been the second worst in terms of quantum. However, despite the global uncertainty and aggressive FII selling, equity markets were relatively resilient as domestic investors were sanguine about Equity as an asset class and helped absorb FII selling.

As can be seen from the chart below Domestic Household equity exposure has gone up to 4.8%, which is the highest exposure in the recent past. Mutual Fund inflows have continued, and the monthly SIP book has crossed Twelve Thousand Crores. Domestic investors have been active in making direct equity investments

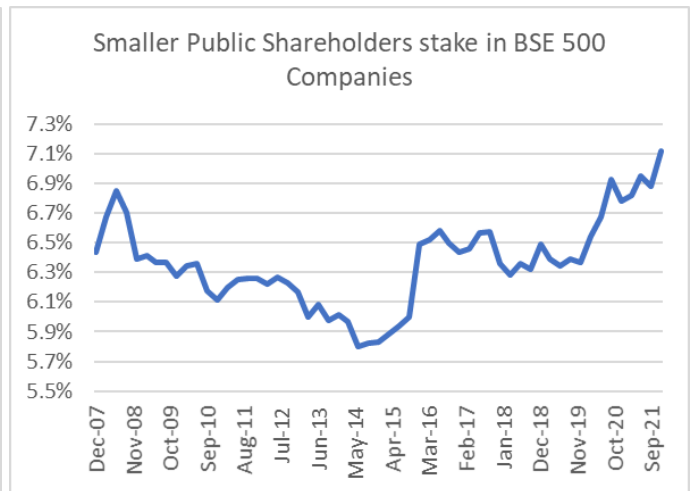
Period	Total Selling as % of Total BSE Market Capitalisation	BSE 500 Return
Dec-07 to Feb-09	-1.37%	-62.4%
Oct-21 to Mar-22	-0.58%	-2.7%
Mar-20	-0.55%	-24.1%
Apr-15 to Feb-16	-0.48%	-16.5%
Apr-18 to Oct-18	-0.38%	-7.7%
May-13 to Aug-13	-0.37%	-10.3%
May-04	-0.32%	-18.5%
Oct-16 to Dec-16	-0.28%	-7.1%
May-06	-0.26%	-13.9%
Jul-11 to Dec-11	-0.23%	-18.7%
Jul-19 to Aug-19	-0.21%	-6.9%

¹ Benchmark is an average of the BSE 500 and BSE Mid Cap index. Benchmark Performance is calculated using Total Return Indices. Equity allocation mentioned above is for older accounts. The above returns are consolidated for all clients, time weighted and post management and performance expenses. 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. Inception Date is 27th January 2011.

as well. The stake of individual shareholders that hold nominal capital less than One lakh in BSE 500 companies have gone up over the years.



Source: Jeffries, Business-Standard



Source: Ace Equity

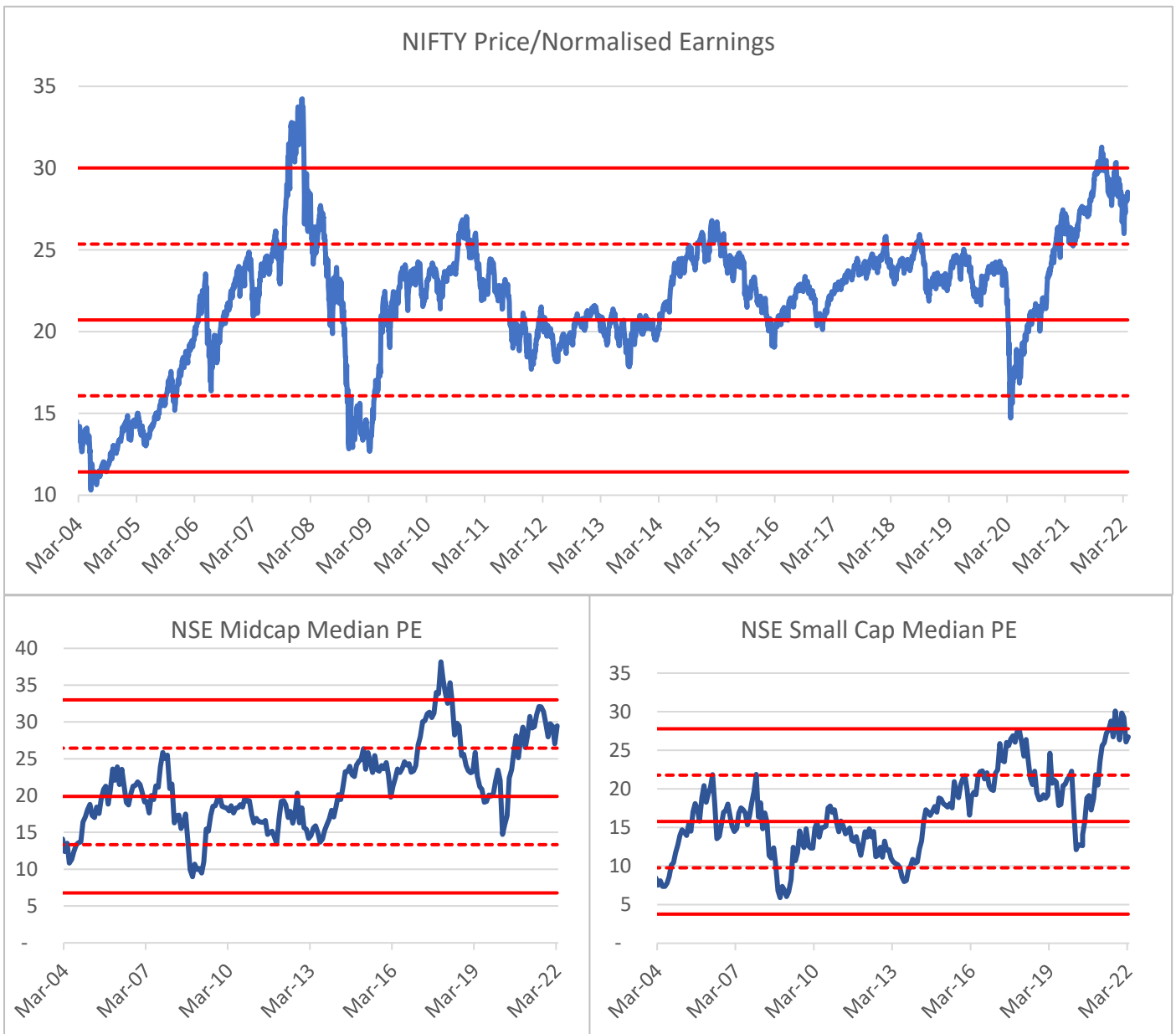
While retail investors are generally considered to be fickle, so far domestic investors haven't waived despite the third wave of Covid and global uncertainty. Whether this resilience sustains in the future considering increased uncertainty, rising inflation, rising interest rates and margin pressure needs to be seen.

Our portfolio materially underperformed the Benchmark in FY22. We have discussed in our December quarter newsletter our assessment of the underperformance, which is mainly driven by Financials within our portfolio. FII selling has further hurt stock performance of Financials, as FIIs were overweight the sector. We remain confident of our contrarian stance and are willing to look through the near-term underperformance. We derive our confidence from the current business performance and the strong outlook of most of our portfolio companies. We believe individual stock performance is ultimately driven by the intrinsic growth of the business and valuation re-rating/de-rating during the holding period. If we look at the intrinsic growth of our portfolio companies from Pre-Covid period, it is in line with the market. The stock price performance of the investee companies has also been in line with intrinsic growth, it indicates that most of our portfolio companies are still at valuation multiples similar to the pre-covid period. On the other hand, the index constituents have seen much higher price movement vs our estimate of the intrinsic business growth, which indicates material valuation multiple expansion. Multiple expansion is justified if the starting point is depressed valuations.

Constituents Movement 31 Jan 2020 to 31 Mar 2022		
	Intrinsic Growth	Stock Price Movement
MSSP	12.6%	12.5%
NIFTY	13.3%	23.6%
BSE Midcap	11.3%	26.4%
BSE Smallcap	14.7%	51.5%

Intrinsic Growth is Book Value growth for financials and Sales growth for other companies during Sep+Dec 2019 vs Sep+Dec 2021 quarters to exclude Covid periods. Price movement has been calculated from 31 Jan 2020 (Pre-Covid) vs 31 Mar 2022 for current constituents. All numbers are annualized.

But pre-covid market valuation was at best fair (As can be assessed from charts below). Thus, price movement beyond the intrinsic growth of business is akin to "borrowing" returns from the future.



We have discussed in the recent past about froth in the broader market and especially in the Mid & Small Cap space. In our September quarter [newsletter](#) we had pointed out that historical evidence suggested the odds are unfavourable for fresh investments in Equities to deliver cost of equity returns, and hence 3 year prospective returns could be in the low single digits if the historical relationship between value and returns hold. The recent correction hasn't been deep enough to clear those excesses. As can be seen from the above charts we are still between +1 and +2 Standard Deviation from long term mean valuation for Large Cap (NIFTY) and Mid & Small caps. What path the market takes in the short term is always difficult to predict. But the general market narrative "Higher valuations are justified due to low interest rates" which is an inherently flawed argument, will be tested with both the inflation and interest cycle turning. Thus, unless there is change in the underlying fundamental returns of companies that makes inferences drawn from historical valuations invalid, there is higher probability of valuations reverting to back to the mean.

Benjamin Graham’s quote on market behaviour – “In the short run, the market is a voting machine, but in the long run, it is a weighing machine”- remain true today as much as it was true when he first wrote it. In the short run, the market is driven by investor sentiment, but long-term returns are determined by intrinsic growth of business value growth. Our focus remains on identifying the best opportunity set within our universe that offers good intrinsic growth, and not overpaying. Thus, our endeavour is to have a portfolio as close to fair value (if not below fair value) to ensure that we would at the least capture the underlying growth of these business. When the market acts as a “weighing machine” again, we believe what we perceive as excesses in the market would normalise. As our portfolio companies continue to grow their intrinsic value, and we believe this swing to “weighing machine” function would allow a compensation for our current relative underperformance.

Asset Allocation

Our equity weights moved up to around 75% for older accounts (Excluding arbitrage position). For new accounts our initial weight has gone up meaningfully from ~25% by end of September to ~55% as some of our existing ideas came back to reasonable valuations to allow us to add/increase weight in new accounts.

Portfolio Activity

Business Model Allocation	Jun-21	Sep-21	Dec-21	Mar-22
Moat	22%	25%	24%	24%
Limited Moat	44%	42%	43%	46%
Moat + Limited Moats	66%	67%	67%	70%
Special Situations	30%	28%	29%	27%
Regulated Utility	4%	5%	4%	3%
Grand Total	100%	100%	100%	100%

Sector Allocation	Jun-21	Sep-21	Dec-21	Mar-22
Financials	29%	29%	29%	29%
FMCG	22%	20%	19%	18%
Financial Services	9%	10%	11%	13%
Information Technology	10%	8%	9%	13%
Auto & Auto Ancillaries	7%	6%	8%	8%
Real Estate & Infrastructure	7%	7%	8%	7%
Capital Goods	2%	6%	6%	5%
Utility	5%	5%	4%	3%
Pharma	5%	5%	4%	3%
Materials	4%	4%	3%	-
Grand Total	100%	100%	100%	100%

Portfolio Activity during the Quarter

We exited Cement company position as the earnings outlook was turning weaker due to inflationary pressures.

We added a company in the Insurance sector. The company has the best cost structure within the industry. The company has been improving its product mix with increasing share of higher margin products. The stock prices of Insurance companies in general have been under pressure due to the impending supply of paper through LIC IPO which could lead to some reallocation within the sector. We view our holdings in the sector from a longer-term perspective and are willing to look through the near-term technical selling.

We added an IT Services company that is going through a transformation. The parent company is merging its unlisted entities into the listed arm. The combined entity we believe, is well placed to capitalize on the tailwind that the industry is witnessing.

Regards,

Rohan Samant

Rohan Advant

Akshat Hariya

CIO

Sr. PM & Associate Director

Research Analyst

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®) –

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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 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.

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 MSSP 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 of high quality Moat or Limited Moat businesses at fair value or discount to fair value OR in Non Moat businesses at deep discount to fair value as special situations. 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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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.

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