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Moats & Special Situations Portfolio

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Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30th June 2022.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		13.7%	11.3%
Jun 2022 Quarter	82%	-5.2%	-9.6%

June Quarter ended on a weak note. NIFTY was down around 9%. But US Market (S&P500) was down 16% and MSCI emerging markets was down 11% for the quarter. Investors who have been used to easy monetary policy of the US Federal Reserve post Global Financial Crisis, were surprised by the aggression shown by the Fed to tame multi-decade high inflation. The market concern is whether US economy could be pushed into a recession by aggressive Fed tightening. It would be instructive to go through past rate hike cycles and how it impacted markets.

Evaluating Past Fed Rate hike cycles:

			During Rate Hike Cycle			One Year Post Peak of Cycle		
Period	FED Funds Rate Increase	Max US CPI in the period	S&P 500 (CAGR)	S&P 500 EPS (CAGR)	S&P 500 PE Rerating (CAGR)	S&P 500 Return	S&P 500 EPS Growth	S&P 500 PE Rerating
1967-69	6.3%	5.7%	1%	5%	-3%	-17%	-8%	-10%
1972-74	10.2%	10.9%	-6%	19%	-21%	3%	-9%	13%
1977-81	14.0%	14.8%	6%	10%	-4%	-17%	-6%	-12%
1988-89	3.7%	5.4%	15%	30%	-11%	12%	-15%	31%
1994-95	3.5%	3.2%	8%	37%	-21%	26%	2%	23%
2004-07	3.9%	4.7%	8%	15%	-6%	-6%	-27%	29%
2016-19	2.1%	2.9%	13%	17%	-3%	-5%	-18%	16%

Above table summarises the past episodes of Fed Rate hikes. Past rate hike cycles haven't coincided with a sharp correction in the US Equity market. Equity returns are a factor of earnings growth and valuation rerating/derating during the holding period. If we split the returns into Earnings growth and valuation rerating, it seems that past rate hike cycles have coincided with Good earnings growth and Valuation derating. But it is important to decipher cause vs effect. High earnings growth reflect the overheating economy and thus demand driven inflationary pressure which resulted in the Fed stepping in (Except the 1972-73 and 1977-81 cycles which were related to supply shocks). Thus, high earnings growth were not the "effect" of rate hike cycle, but rather an indicator of the "cause" of the rate hike cycle. Valuations got derated

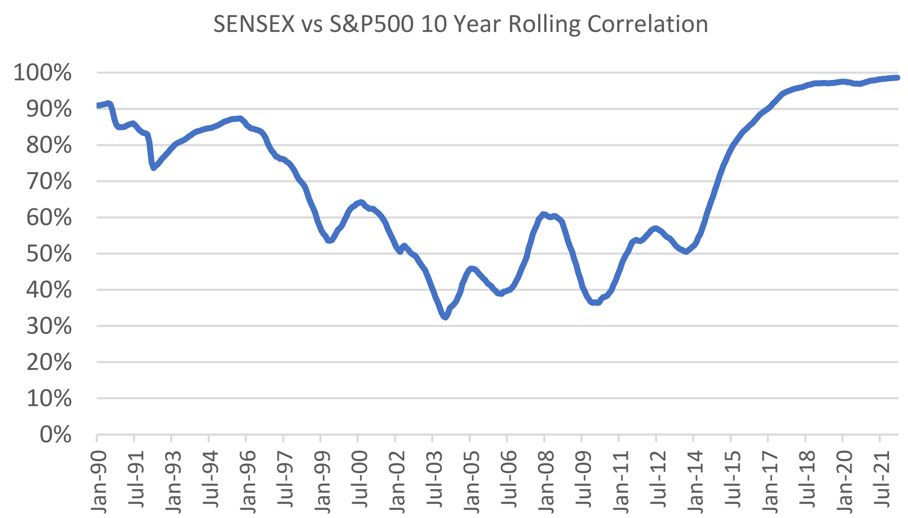
[1] Benchmark is an average of the BSE 500 and BSE Mid Cap index. Benchmark Performance is calculated using Total Return Indices. Equity allocation mentioned above is for older accounts. The above returns are consolidated for all clients, time weighted and post management and performance expenses. The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

in all the rate hike cycles. Thus, rate hike cycle clearly has an "effect" on valuations. If we look at one year post the rate hike cycle peak, there is no clear inference to be made from S&P500 return. But if we look at the EPS growth and PE rerating, there is a clear impact that is visible in EPS growth. Which is most probably an effect of rate hike cycle on the economy and thus the earnings of companies. The impact of earnings fall on equity returns is blunted by valuation rerating to some extent. To conclude – 1. Past Fed Rate hike cycles have seen valuation derating in US Equities and equity returns have been lower than underlying earnings growth 2. There is a visible impact on earnings growth in the post rate hike cycle.

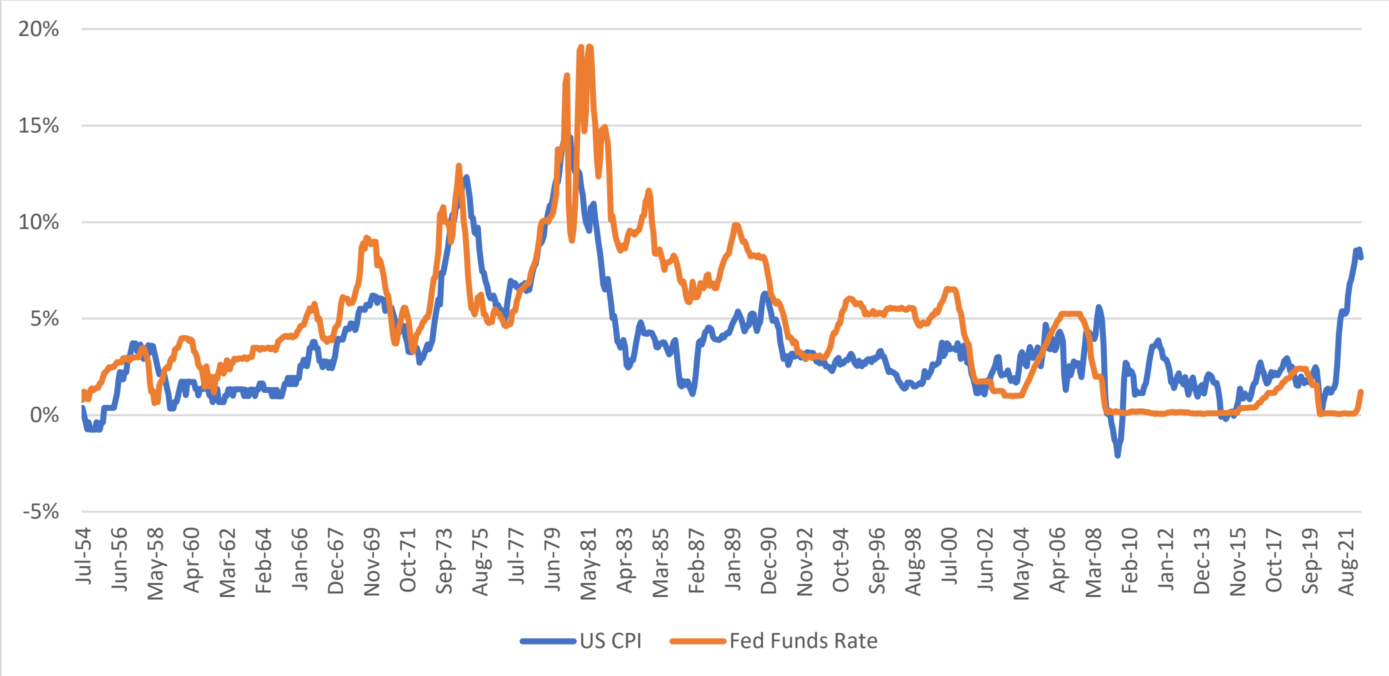
How has the Indian market performed in past Fed rate hike cycles?

Past data suggests that Fed rate hikes didn't have any material impact on Indian Equities during or post the rate hike cycle. But we don't have long enough data for the Indian market for all the past Fed rate hike cycles (more importantly for supply shock periods of 1972-74 and 1977-81 which is more relevant in current context). Secondly, Indian market is more correlated to the US market and dependent on foreign Institutional flows today as compared to past cycles. Thus, Indian market could move more in tandem with US markets in the current cycle vs in the past.

	Sensex Return	
Fed Rate Hike Period	During the Fed rate hike cycle (CAGR)	Sensex Return One Year post the Peak
1967-69	NA	NA
1972-74	NA	NA
1977-81	NA	1%
1988-89	60%	16%
1994-95	-12%	11%
2004-07	44%	20%
2016-19	17%	-14%



Today, a decade of unprecedented easy monetary environment is meeting with multi-decade high inflation in US. In the past, the Fed had to take funds rate materially higher than CPI to break the inflationary cycle.



The current dot plot of Fed does not indicate similar aggression as was seen during past spiraling inflationary periods. Thus, it seems Fed is hoping for some resolution of supply side challenges to cool off inflation. Commodity prices have been cooling off (refer adjoining table) to some extent already and may provide some hope for reducing inflationary pressure.

	1 Year Change	**Since CY22 Peak**
Brent Crude	47%	-10%
Coal	182%	-9%
Copper	-15%	-26%
Iron Ore	-46%	-26%
HRC Steel	-48%	-40%

Since the inflation is driven by supply side challenges rather than strong demand driven overheating of economy, this rate hike cycle may not coincide with strong earnings growth. Secondly, Valuation multiples globally have been materially high when compared with historical averages. If we go by the past experience of “effect” of Fed rate hike cycle on valuation multiples there is material risk to valuations. It is important for investors to know that probability of Valuations going to historical mean (if not lower) is high if the current rate hike cycle continues. We have discussed the overvaluation in Indian market for the last one year in our March and September quarter newsletters. While markets have corrected, we are still away from historical mean valuations. Investors should be willing to accept Equity returns that could be lower than the underlying earnings growth due to valuation derating.

We continue to focus on bottom-up opportunities despite Macro uncertainty and our equity allocation has gone up in the current quarter. Valuation of our portfolio stocks is relatively less stretched than the market. In fact, on a weighted average basis our portfolio is marginally below fair value. Thus, the risk of valuation derating to our portfolio could be limited. We are also happy with the intrinsic growth that our portfolio stocks are delivering. Thus, we believe our portfolio is well placed to navigate through the current Fed Rate hike cycle.

Asset Allocation

Our equity weights moved up to around 82% for older accounts. For new accounts our initial weight is ~56%.

Portfolio Activity

Business Model Allocation	Sep-21	Dec-21	Mar-22	Jun-22
Moat	25%	24%	24%	19%
Limited Moat	42%	43%	46%	53%
Moat + Limited Moats	***67%***	***67%***	***70%***	***72%***
Special Situations	28%	29%	27%	28%
Regulated Utility	5%	4%	3%	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Sep-21	Dec-21	Mar-22	Jun-22
Financials	29%	29%	29%	29%
Financial Services	10%	11%	13%	21%
FMCG	20%	19%	18%	15%
Information Technology	8%	9%	13%	11%
Real Estate & Infrastructure	7%	8%	7%	7%
Auto & Auto Ancillaries	6%	8%	8%	6%
Capital Goods	6%	6%	5%	5%
Pharma	5%	4%	3%	4%
Materials	4%	3%	-	3%
Utility	5%	4%	3%	-
Grand Total	**100%**	**100%**	**100%**	**100%**

We have exited United Spirits & Power Grid during the quarter. We added a company in refractory space and an Insurance company. We have increased weights in some of the existing names in Financial Services.

Regards,
Rohan Samant Rohan Advant

CIO **Sr. PM & Associate Director**

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 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).

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.

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