PMS NEWSLETTER | SEP - 2022
Moats & Special Situations Portfolio

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Dear Investors,

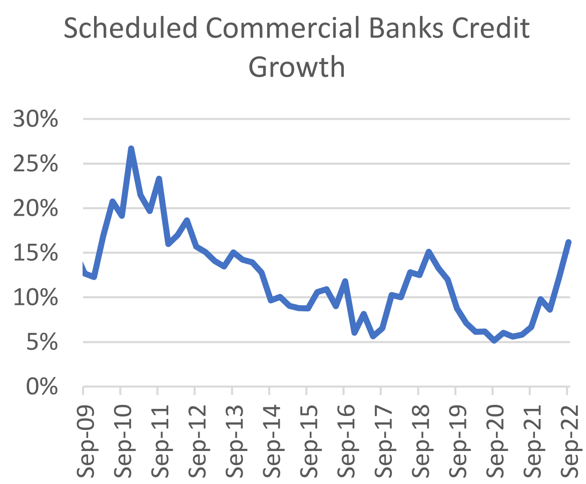
Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30 Sep 2022.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		14.1%	12.3%
Sep 2022 Quarter	78%	7.4%	13.1%
April-Sept 2022		1.8%	2.4%

While our portfolio had fallen far less in the June Quarter (-5% vs Benchmark -10%), it failed to match the sharp rally in the Mid & SmallCap stocks in the September quarter. Nifty during April – Sept 2022 is still down by 1.2%. Broader markets have yet to touch their 2021 peak. Our portfolio had crossed its 2021 peak in September before falling back during the month end correction.

Indian Equity market has materially outperformed its global peers in the recent market volatility. Valuation premium of India vs other emerging markets is at historic highs. The Interest rate spread between Indian 10 Year Government Bond yield vs US 10-year government bond yield which used to be above 500 bps historically is now at an all time low of ~350 bps. Due to these extremes the Indian Equity market looks "relatively" unattractive to a foreign investor. They have been consistent sellers since last year (Ex-August 2022). The Shareholding % of FIIs in the Indian Equity market has dropped to multi year lows of ~17% compared to ~20% in Jan 2021.

Region	Forward PE Ratio
US	16.5
Japan	12.7
Europe	10.9
Emerging Markets	10.9
China	10.2
India	**22.0**



Despite this aggressive sell off by FIIs, Indian Equity market has been relatively resilient due to absorption by domestic investors. Indian economy has also fared better relative to other peers in a challenging global macro environment. We are witnessing relatively broad-based credit growth after a long while. Banking system credit growth has crossed the 2018-19 peak in September. Auto volumes and New Residential real estate project launches have picked up. Capacity utilisation has been improving as well and could give a boost to Capex by corporates. Rural consumption is yet to recover though, and concerns with regards to inflation remain. Another concern has been the sharp rupee depreciation at the end of the quarter, as RBI stopped defending the currency due to falling forex reserves. Thus, India seems to be faring better than its peers for now but we remain unsure how insulated India can remain from adverse developments abroad.

[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.

Hidden Excesses

As discussed in our June Quarter Newsletter, we are of the view that we could be moving away from the easy monetary policy regime that global markets have been used to over the last decade. The easy monetary policy environment had led to build-up of excesses including amongst others; overvaluation (of all assets), excessive speculative activity, and leverage. These and other “hidden excesses” are the true danger to the global economy due to the collateral damage that they can cause. The recent scare due to spike in Credit Default Swaps of Credit Suisse is a case in point. Warren Buffet’s quote sums up the current environment well - *'It's only when the tide goes out you know who's swimming naked.'* We may witness increased volatility due to such events. But does this mean we should reduce our exposure to equities and raise cash? For us, cash is the end result of our bottom-up portfolio construction process. Thus, cash in our portfolio would go up as a consequence of stocks within the portfolio becoming expensive or as a consequence of deterioration in the business prospects. But as investors we have to be aware of vulnerability to our portfolio in case we experience a “Black Swan” event.

Portfolio Exposure	Weight %
Domestic: Cyclicals	44%
Domestic: Non-Cyclicals	37%
Export: Cyclicals	13%
Export: Non-Cyclicals	6%

How is our Portfolio Positioned in the current environment? Our portfolio is tilted more towards companies catering to the domestic market. And within that set, it is well balanced between cyclicals and non-cyclicals. Within Cyclicals, our largest exposure i.e. Domestic Financials (Lenders) are very well placed with improving credit growth across the sector and having the best asset quality position in many years. We believe there is still material upside in this sector as valuations remain attractive. But while we continue to be positive on that sector, we are cognizant of the fact that any volatility induced by the “hidden excesses” could have a mark-to-market impact on these stocks due to higher FII ownership in this sector and historical high beta nature of these stocks. Companies which we have classified as “Export: Cyclicals” are mostly IT Services companies which are not strictly “Cyclicals”, but their growth rates are certainly affected by the global environment. IT Services companies have maintained their commentary with regards to strong demand environment despite fast deteriorating global macro situation (especially in the developed world) and possible recession due to higher interest rates. But there could be a lagged impact of this on their customers and thus their IT budgets. Companies in the sector are trading around fair valuation. Thus commentary in the coming earnings season would be crucial for us to gauge the direction of the sector and any action if required within our portfolio. The non-cyclicals primarily Pharma stocks will not be affected by any macro headwind. Excluding Financials, all our portfolio companies have net cash Balance Sheet, i.e. they don’t have debt after considering Cash & Investments. All companies generate positive free cash flow. Companies with Net Cash Balance sheets and Free Cash flow are well placed to survive what we believe is an adverse macro environment.

Stocks at frothy valuations are also vulnerable to sharp drawdown in case of a negative macro event. Valuation of our portfolio is slightly below fair value, which should ideally cushion any material downside and preclude any “permanent loss of capital”. The intrinsic growth of our portfolio companies is also looking good (mid-teens) over the next 2 years. In the past to have the right mix of Quality, Value and Growth within the portfolio, we generally had to compromise on growth to some extent due to discomfort with respect to valuations. Due to good opportunities in the Financial & Financial Services space today we have a better portfolio mix that has good underlying growth as well as reasonable valuations. We believe we have a good mix of Domestic vs Export, Cyclicals vs non-Cyclicals and good balance between Value and Growth to weather severe volatility.

Asset Allocation

Our equity weights have reduced to 78% for older accounts. For new accounts our initial weight is ~50%.

Portfolio Activity

Business Model Allocation	Dec-21	Mar-22	Jun-22	Sep-22
Moat	24%	24%	19%	16%
Limited Moat	43%	46%	53%	59%
Moat + Limited Moats	***67%***	***70%***	***72%***	***75%***
Special Situations	29%	27%	28%	25%
Regulated Utility	4%	3%	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Dec-21	Mar-22	Jun-22	Sep-22
Financials	29%	29%	29%	31%
Financial Services	11%	13%	21%	21%
FMCG	19%	18%	15%	14%
Information Technology	9%	13%	11%	10%
Auto & Auto Ancillaries	8%	8%	6%	6%
Pharma	4%	3%	4%	6%
Real Estate & Infrastructure	8%	7%	7%	5%
Materials	3%	-	3%	4%
Capital Goods	6%	5%	5%	3%
Utility	4%	3%	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

We have exited ZF Commercial Vehicles due to high valuations that in our opinion was capturing all the medium term positives. We exited RITES due to changes in the underlying business model wherein the Quality assurance business is being opened up for private sector competition while changing commercial & execution terms of the turnkey business increases the risk to long term profitability and cash flow generation profile of the business in our opinion.

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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