MULTI-ACT

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# Emerging Corporates India Portfolio

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Dear Investors,

## Performance

Below is the performance of the Emerging Corporates India Portfolio *(ECIP)* for Q3 FY23 and as of December 31, 2022.

| Portfolio Performance | Total Portfolio Returns | Benchmark |
|---|---|---|
| CAGR since Inception *(Annualised)* | 13.8% | 12.6% |
| FY23 YTD | -0.6% | 4.7% |
| FY22 | 8.6% | 26.2% |
| FY21 | 79.2% | 94.0% |
| FY20 | -13.2% | -30.3% |
| FY19 | 13.3% | 1.2% |
| FY18 *(Since Inception - April 28, 2017)* | 9.7% | 10.2% |
| | | |
| Q3FY23 | 0.6% | 3.3% |
| Q2FY23 | 11.8% | 13.0% |
| Q1FY23 | -11.6% | -10.2% |

- *Benchmark is an average of the BSE Smallcap Index, BSE Midcap Index and Nifty*
- *Returns are time weighted and after management and performance expenses.*
- *Management and performance fees are deducted as and when due*
- *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*
- *Benchmark calculations reflect total returns (including dividends)*
- *Returns for less than 1 year are not annualised*
- *Inception Date is 28th April 2017*

ECIP is an investing style. Under this investing style, one endeavours to invest into high quality businesses that are structurally growing at a fast pace. Further, the style does not try to time its entry at cheap or distressed prices, but only at sensible prices from a 5- year holding horizon perspective. It is an investing style that is defined narrowly. While we continue to have strong conviction that this style shall outperform the benchmarks across market cycles, in short to medium time horizons, such a narrow style can have very divergent performance versus benchmarks.

Like one can see in the charts below, the style had a phenomenal winning streak from Sep-18 to Sep-20 and cumulative outperformance went from -211 bps in Aug-18 to 3454 bps in Sep-20. Thereafter, it saw an equally distressing losing streak from Oct-20 to Nov-22 and the cumulative outperformance went from 3454 bps in Sep-20 to just 6 bps in Nov-22. If one looks at the period of out-performance between Sep-18 to Sep-20, we had cumulative Net FII Equity inflows of INR 89,043 crs. And if one looks at the period of under-performance between Oct-20 to Nov-22, we had cumulative Net FII inflows of INR 60,735 crs. So, one cannot just attribute relative performance to FII flows – in-fact during the period of Oct-21 to Jun-22 when we saw massive net cumulative FII outflows of INR 233,363 crs, ECIPs cumulative underperformance was only 361 bps. ECIP actually lost cumulative performance of 2595 bps between Oct-20 to Oct-21 *(a continuous 13 month losing streak)* – a period where we actually had cumulative Net FII inflows of 184,103 crs and also before the Fed sounded the alarms on inflation and turned hawkish. Thus, data does not support either FII flows or Fed hike as the reasons for ECIP underperformance. What caused it then?

We think that during the period from 2017 to 2020, we had the aftermath of demonetisation, the IL&FS crisis and then the COVID crisis. One crisis after the other led to investors losing trust and confidence in Companies that were not absolutely resilient and the absolute best-in-industry. This led to liquidity flowing towards the select few Companies which were best-in-class. Everything else became untouchable and the valuation gaps started rising. The absolute best commanded more and more premium versus the rest. Market participants preferred hiding in the best at even expensive valuations as opposed to exposing themselves to the second-rung Companies even at cheap valuations *(ECIP was a natural beneficiary of this trend)*. A few months post the COVID crisis though, things changed. Very low valuations, abundant liquidity, benign credit cost environment owing to a massive clean-up over the last 5 years, an economy coming out of multiple crises leading to a cyclical up-turn – led to market participants now favouring the second-rung Companies over the absolute best. And the massive premium that the best had built over others started narrowing. Market tends to stretch a trend in both directions. Like it possibly stretched the valuations of the best businesses beyond justifiable levels, it will also now tend to stretch the valuations of the others beyond justifiable levels. ECIP bore the brunt of this change – especially when looked at from the viewpoint of relative performance. We have, in pockets, now reached a level where the best trade at a discount to the not-the-best. Having said that, trends can continue to longer than one can imagine and frustrate investors.

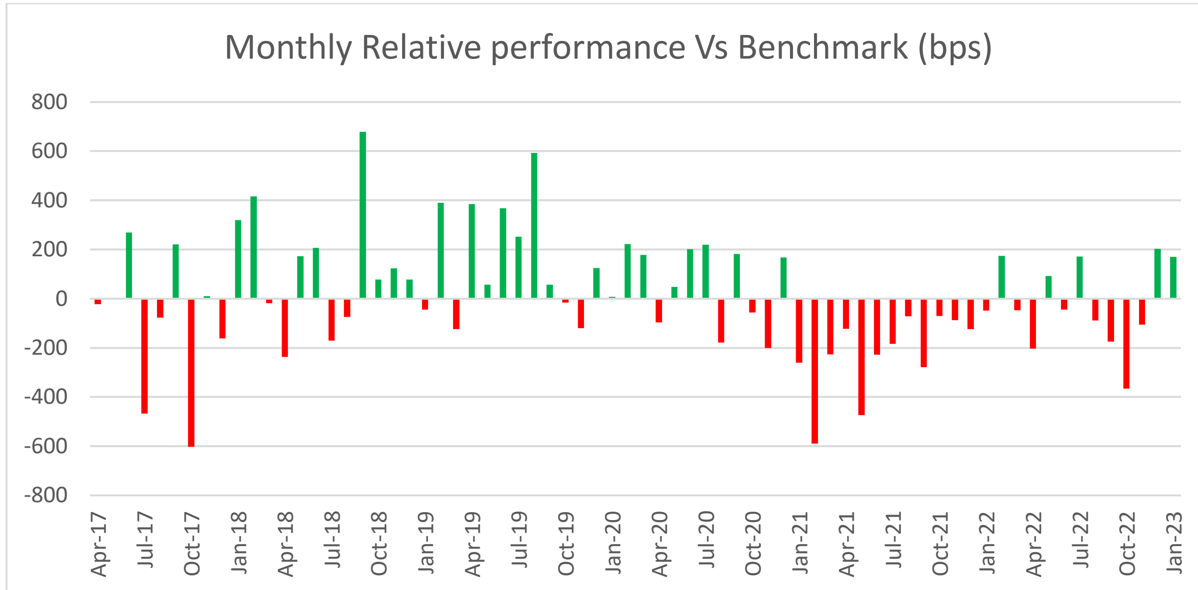
Should ECIP have caught on to this trend and gone into the second-rung businesses? Again, it boils down to the investing style of ECIP. It is not a go anywhere, do anything style – and thus, it’s performance will be dependent on whether the current market regime is favourable for the style. Its performance will tend to have winning and losing streaks and be non-linear. The best companies with strong growth should give good returns over-time, but not in all time-periods, as the ECIP performance clearly shows. It is important that investors in ECIP understand the style tilt of the scheme clearly.

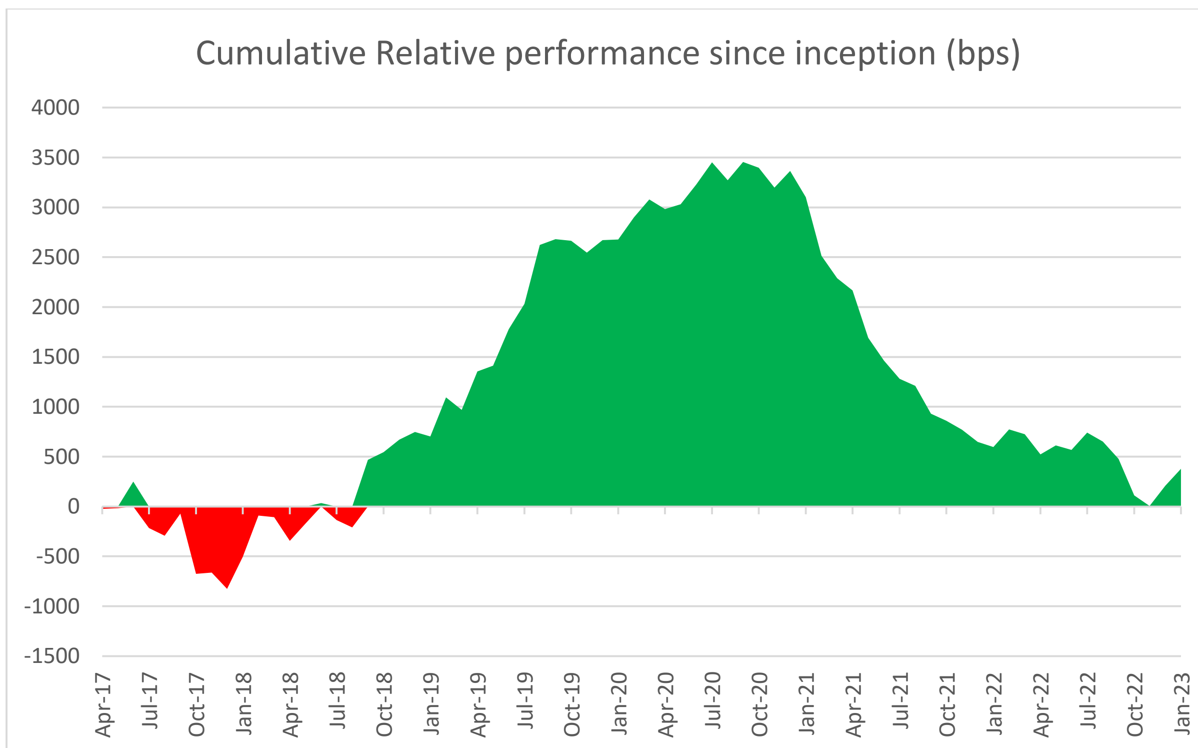
In addition to the above, we clearly had two errors from our end – Bandhan and Gland – which added to our woes *(we have now exited both Bandhan and Gland during the current quarter)*. However, in a normal environment, such mistakes are also balanced by winners – but given the backdrop stated above, there was no support from winners. Also, the growth universe is covered with landmines – the latest example being the hyped technology IPOs in India – ECIP has done well to stay clear of them – however, being extremely cautious on stock selection has led to a cash drag which has further led to relative underperformance in a rising market.

Look at the charts below that highlight relative performance:

"इज़्ज़तें शोहरतें चाहतें उल्फ़तें
कोई भी चीज़ दुनिया में रहती नहीं
आज मैं हूं जहां कल कोई और था...आज मैं हूं जहां कल कोई और था
ये भी एक दौर है वो भी एक दौर था"

Rajesh Khanna in Film "Daag" – Year 1973



**Material actions during the quarter**

With a heavy heart, we exited both Bandhan Bank and Gland Pharma in the quarter.

Our assessment of Bandhan was that it is an MFI champion with best-in-class asset quality maintained across cycles and crises supported by a strong liability franchise. However, through the COVID crisis, fragilities in its business model in terms of state concentration were starkly visible. What gave Bandhan the best-in-class numbers *(super scale in a few states)* also made it vulnerable. And its stressed portfolio kept on increasing even until the last quarter, when COVID is well behind us and other MFIs are seeing clear deceleration in stress. We had to take the tough decision of exiting Bandhan.

Our assessment of Gland Pharma was that injectables is the best place to be in within the pharmaceuticals segment from growth and profitability perspective and Gland was best placed to capitalise on this. However, Gland's numbers over the past two quarters do reflect a changing environment where competitive intensity seems to be rising leading to increased price erosions in the injectables segment as well. This led us to revisiting our estimates and valuation and we thought a sharp downward revision was necessitated. And we took the decision to exit Gland.

After having sold both these Companies, the question often raised is *"why did we wait so long?"*. As investors with a long-term orientation, we take time to build conviction on a thesis. Once conviction is built, we get feedback every quarter that either supports or questions the thesis. Further, as long-term investors, there is a tendency to not read too much from a quarter because a quarter can be affected by temporary issues/ noise that would not be relevant from a long-term holding horizon. And thus, one tends to wait until one is sure that problems look more structural than temporary. Possibly, there could be scope for us to be more nimble-footed, but again, it is imprudent to change our process materially because of two errors. The right approach is to go back and revisit our "win: loss" ratios and see if they are turning adverse. Our win: loss ratios continue to be strong.

Thank you for a patient reading.

We wish all the readers a happy and a prosperous 2023!

Regards
Rohan Advant, CFA
Sr. Portfolio Manager and 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 2022 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 Emerging Corporates India Portfolio was created on 28th April 2017. Performance has been compared with Total Return of the Index. For Emerging Corporates India Composite, blended benchmark of BSE 500 (50% weight) and BSE Mid Cap Index (50% weight) were used previously, and the Benchmark has been revised to BSE Smallcap Index (33.33%), BSE Midcap Index (33.33%) and Nifty (33.34%). The Gross Return (wherever mentioned) 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 ECIP 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 "Advantage Period Companies" which are enjoying a "competitive advantage period" that is likely to last for at-least 5 years and are available at a valuation that offers margin of safety relative to the growth opportunity landscape. 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.