Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower 29 Senapati Bapat Marg,
Dadar (W), Mumbai - 400028
Tel: +91 22 61408989
CIN: U67120PN1993PTC074692
www.multi-act.com

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Moats & Special Situations Portfolio

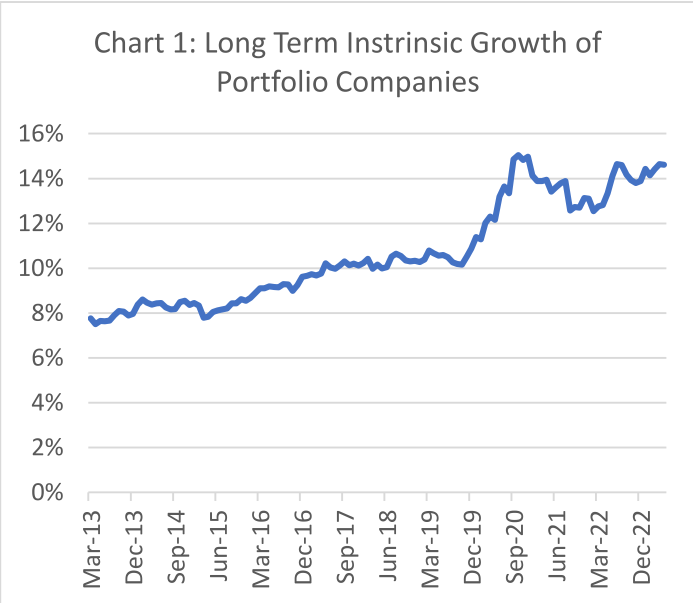
Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30 June 2023.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		14.6%	12.2%
June 2023 Quarter	77%	15.5%	13.2%

The Indian Equity market has witnessed a significant recovery since the lows in March, mirroring the trend observed in other global equity markets that have also been displaying a "risk-on" sentiment. This rebound was triggered by the belief that the interest rate hike cycle would be shortened, and easing measures would be implemented following the turmoil in the US regional banks. While the global equity markets have been pre-empting an easing interest rate cycle, the global central banks have not yet stepped away from their hawkish stance with respect to interest rates. Thus, the equity markets are ignoring the continuing hawkish tone of the global central banks, believing the Central banks will lower rates at some point. It would be interesting to see how this plays out. Reported Indian inflation is relatively under control and thus domestic interest rates may have peaked. But, given the hawkish stance of global central banks, it would be challenging for the RBI to implement a rate cut. Global central banks are likely to change their hawkish stance only if the economy were to decline into a more severe recession- in which case we believe there is a high probability that equity markets would respond negatively to declining earnings estimates.

Despite experiencing a widespread surge in equity market in the current quarter, our belief remains that the global monetary policy regime might have structurally shifted away from being accommodative. Central Banks keep repeating the phrase "higher for longer"! As we mentioned in our previous newsletter, the presence of a relatively tighter interest rate environment will necessitate investors to be more selective when it comes to stocks, as the favorable impact of lower interest rates on overall market valuations will no longer be present in the future.



Clearing of Clouds over the Portfolio:

Under the Moats & Special Situations strategy we have always focused on buying Quality at reasonable valuation. In pursuit of valuation comfort, we had to

[1] The Benchmark of M&SSP Investment Approach has been revised from BSE 500 and BSE Mid Cap index to **S&P BSE 500 TRI** with effect from 01st April 2023 as per SEBI/APMI circulars. 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.

sacrifice on "growth" to some extent, especially in a period when high growth companies were being valued at astronomical valuations.

But, in the last 2 years, our portfolio has tilted towards companies that have high intrinsic growth but were available at attractive valuations as they were going through company/industry specific overhangs. Chart 1 shows the weighted average long-term underlying growth of portfolio companies.

More importantly, this shift towards higher-growth companies has been achieved –

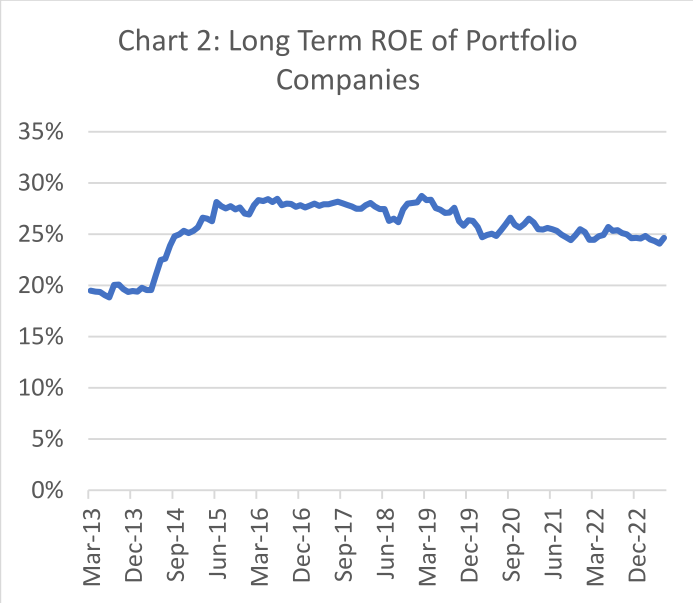
a.) Without compromising on quality, as can be seen from Chart 2. The weighted average Long-Term Return on Equity (ROE) of portfolio companies has remained consistently above 20%.

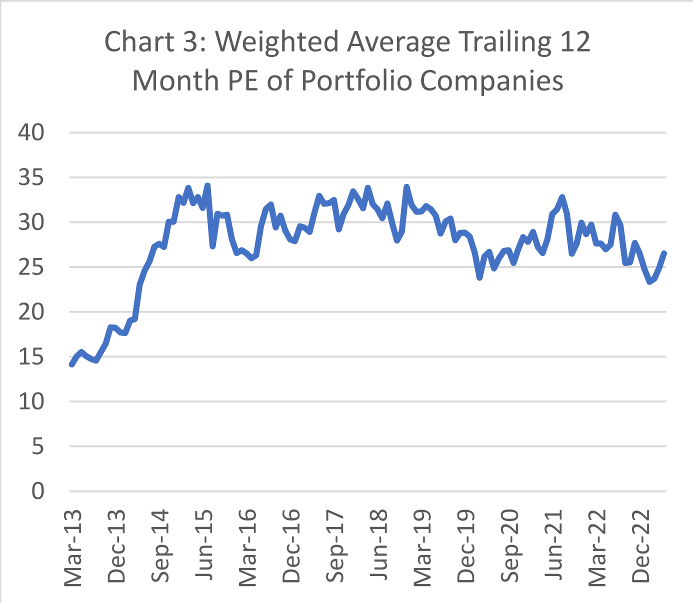
b.) Without paying higher valuation multiples (refer to Charts 3 and 4). Chart 3 shows the weighted average trailing PE ratio of portfolio companies. We have showcased PE ratio as it is a widely used and understood valuation ratio. Chart 4 reflects Price vs our assessment of fair value. A ratio below 1 would represent discount to fair value and a ratio above 1 would reflect premium to fair value. Thus, our portfolio has remained around similar weighted average PE ratio as well as remained around fair value, despite increasing the mix towards high growth companies in the portfolio.

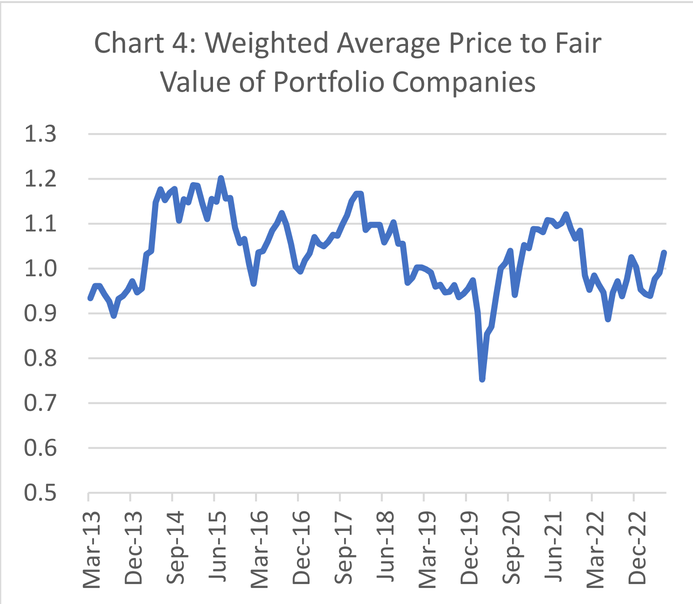
However, the stock performance of some of these high-growth companies has faced challenges in the last couple of years due to –

1. Technical overhang with respect to potential large share sale in couple of our portfolio companies. In one of the portfolio companies there was an overhang of share sale of promoter due to regulatory requirement. In another company there was a stake of foreign partner on the block for a considerable period. These overhangs had no effect on functioning of the business.

2. Overhang related to potential regulatory changes. In case of Mutual Funds (AMCs), SEBI had come out with discussion paper to re-evaluate Total Expense Ratio charged by MFs. RBI had come out with discussion paper on







charges in digital payment ecosystem which created overhang of probable reduction in Merchant Discount Rate (MDR) that Credit Card companies charge.

3. There was headwind on Net Interest Margins (NIMs) of NBFCs due to sharp increase in interest rates.

Most of the overhangs are now receding or getting addressed. The technical overhang of potential Share sale is now behind us for both companies. With respect to regulatory overhangs, SEBI has shown its intention to dilute some of the proposed changes to the TER. Interest rates peaking in the domestic market would reduce the pressure on NIMS of NBFCs.

Thus, material part of the portfolio (~25%, or 1/3rd of Invested Equity) have these fundamental or technical overhang behind them. As compared to the historical valuation multiples that these companies have traded, we believe there is significant scope for rerating. At the same time the underlying compounding of these businesses should help grow the portfolio even without much rerating. If these stocks do get rerated and again trade at their historical valuations, the compounding could be materially higher than the underlying intrinsic growth of these businesses.

Asset Allocation

Our equity weights have increased to 77% for older accounts. The drop in weights is due to exit in the Life Insurance sector exposure post the adverse budget announcement. For new accounts our initial weight is ~45%.

Portfolio Activity

Business Model Allocation	Sep-22	Dec-22	Mar-23	Jun-23
Moat	16%	19%	14%	11%
Limited Moat	59%	60%	59%	61%
Moat + Limited Moats	***75%***	***79%***	***73%***	***72%***
Special Situations	25%	21%	27%	28%
Regulated Utility	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Sep-22	Dec-22	Mar-23	Jun-23
Financials	31%	29%	38%	36%
Financial Services	21%	28%	14%	19%
Consumer	14%	11%	14%	13%
Information Technology	10%	4%	10%	9%
Pharma	6%	6%	8%	6%
Materials	4%	3%	1%	5%
Auto & Auto Ancillaries	6%	11%	7%	5%
Real Estate & Infrastructure	5%	5%	5%	5%
Capital Goods	3%	3%	4%	4%
Grand Total	**100%**	**100%**	**100%**	**100%**

We have scaled up weights in some of our existing portfolio positions where the overhangs are receding. We reduced our weight in ITC and we added two companies in the consumer space. We also added one company in the materials space.

Regards,

Rohan Samant	Rohan Advant	Akshat Hariya
CIO	**Sr. PM & Associate Director**	**Assistant Portfolio Manager**

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 2023 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 benchmark S&P BSE 500 TRI. 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.

(**Registered Office:** Katariya Capital, A-19, Vidyut Nagar Society, Lane 5, Koregaon Park, Pune – 411 001
Telefax: +91 22 2615 3738 | CIN: U67120PN1993PTC074692)