MULTI-ACT

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Date: 13th October 2023

Emerging Corporates India Portfolio

Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) for H1FY24 and as of September 30, 2023.

Portfolio Performance	Total Portfolio Returns	Benchmark
CAGR since Inception *(Annualised)*	13.3%	13.8%
FY24 YTD	16.4%	19.4%
FY23	-8.9%	-0.7%
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%

- *Please check relative performance of other portfolio managers by clicking on this link*
- *The Benchmark has been revised from average of the BSE Smallcap Index, BSE Midcap Index and Nifty to S&P BSE 500 TRI with effect from 1st April 2023 as per SEBI/APMI circulars*
- *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*

I have been managing the Emerging Corporates India Portfolio (ECIP) scheme for the last 6.5 years. The scheme has been through a phase when beating the benchmark *(by miles!)* seemed like a cakewalk and through a phase where no matter what we did, the benchmark just kept on running ahead *(again, by miles!)*. We are not benchmark huggers. When we construct a portfolio, we are comfortable having massive divergences in names and weights relative to the benchmark. In some periods, we might decide to concentrate in a small segment of the market if we think it offers a high prospective return over a 3–5-year period. If this small segment tends to behave differently from the market for a year or two *(which happens time and again)*, we would either look like heroes or fools, depending on the direction of divergence.

Ralph Wanger uses an interesting analogy of zebras to explain this conundrum in his book *"A zebra in lion country"*. Zebras are trying to optimise on the grass they eat, and Portfolio Managers are trying to optimise on the alpha they create. Both move in herds and how much they can optimise depends on their willingness to behave differently from others. Both face risks – zebras face the risk of being eaten by a lion; portfolio managers face the risk of looking very bad relative to peers and consequentially, losing clients and assets under management (AUM). Now, if you are a zebra,

and live in a herd, the key decision you must make is where to stand in relation to the rest of the herd. From a grass eating *(alpha creation)* point of view, outside the herd is best, for the grass is fresh, while the middle sees only grass that is half-eaten or trampled. The aggressive zebras, outside the herd, eat much better. However, when lions approach, outside zebras could end up as lion lunch *(can be equated to Portfolio Managers looking horrible relative to benchmarks and facing massive redemptions)*, while the skinny zebras in the middle of the pack *(the benchmark huggers)* may eat less well *(may have lesser long-term alpha)* but they are still alive.

It is this that makes the process of sustained alpha creation extremely difficult. For Portfolio Managers, there's a constant pull towards the centre of the herd, even when one knows there isn't much alpha there, but at-least one is not out of business. Jeremy Grantham terms this as "career risk". Also, for investors who are perturbed by the negative divergence, it becomes challenging to assess if the Portfolio Manager is just early or plain wrong. If a bad phase lasts for 2 years and the Portfolio Manager does a quarterly portfolio review with an investor, there would be 8 reviews in such a phase. And in every review, the Portfolio Manager explains the strategy, but the investor sees no favourable outcome. Investors might stick to two or four or five reviews but eventually conclude that they've had enough, and the Portfolio Manager lacks the skill to create alpha *(tolerance towards underperformance that lasts a couple of years is minimal; few investors stick through an entire cycle)*.

In our view, investors should think hard why they give money to PMS Fund Managers. Given the rules that apply to Mutual Funds, the names they ought to invest in and the weights they cannot exceed, MFs are naturally pre-disposed towards being very close to the centre of the herd. Thus, for investors who want to have their returns not diverge meaningfully from the benchmarks, Mutual Funds could meet such an objective. Vehicles like PMS's, on the other hand, have the liberty to stay outside the herd *(in terms of weights or names or sector concentration)* in the hope of creating long-term alpha. And when they do so, divergence can be favourable *or adverse*. Everyone loves a favourable divergence, but the difficulty is in tolerating the adverse. Having said that, at some point the investor needs to assess whether the divergence is a timing issue, or a skill issue and one cannot wait endlessly. For vehicles like PMSs where portfolio construction is divergent versus benchmarks, it would require at-least a 5-year period, we believe, from the date of entry into the scheme for the skill of the Portfolio Manager to reflect. If one has waited for five years and still finds the results unacceptable, there's possibly a deeper issue with the strategy or its execution.

Now, let me take this opportunity to introduce Rahul Picha, who shall be taking over from me as the Portfolio Manager of ECIP. Rahul is a CA, CFA and has been with Multi-Act for the last 7 years, 5 of which as part of the ECIP PMS Team. This is Rahul's first job after qualifying as a CA and he has been trained from the ground-up in Multi-Act's investment philosophy. Rahul has played a key role in the decisions we have taken in the ECIP scheme and thus, there should be a seamless transition without any churn. I have full confidence in Rahul's talent and temperament as a Portfolio Manager and wish him the very best.

Lastly, let me take this opportunity to thank our founder, Prashant Trivedi for his mentorship and unwavering support over the years. I continue to strongly believe that for a budding investor, Multi-Act is an ideal training ground for becoming a well-rounded investor. I thank him for creating this institution which imparted an extremely strong foundation of investing, business, and life principles in everyone who has been a part of this institution.

I hand it over to Rahul now to talk about the ECIP Portfolio.

Regards,
Rohan Advant

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Dear Investors,

I would like to use this opportunity to discuss our investment approach, thought process, and the implications it has on our outcomes and expectations.

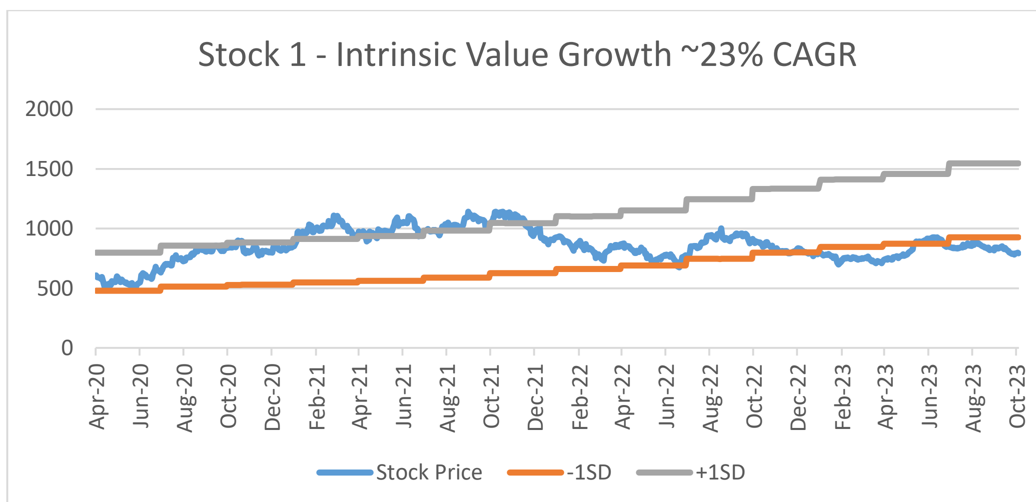
The strategy looks to invest in high growth businesses with competitive advantages that allows these businesses to achieve and sustain high returns on capital employed. The underlying premise is that high RoCEs showcase capital efficiency and high growth potential presents reinvestment opportunity and both factors coming together, drives superior intrinsic value compounding. The core intent of the strategy is to capture this intrinsic compounding by investing in opportunities that provide a confluence of both these factors. We are willing to pay seemingly high multiples to current metrics based on our assessment of the longevity of competitive advantage and growth advantage periods. Our process prioritises growth over value, and while we don't believe in "buy-at-any-price", we are not sticklers for low valuation multiples. We are happy to buy $ bills for a $ if we are convinced that the $ can compound at an attractive rate.

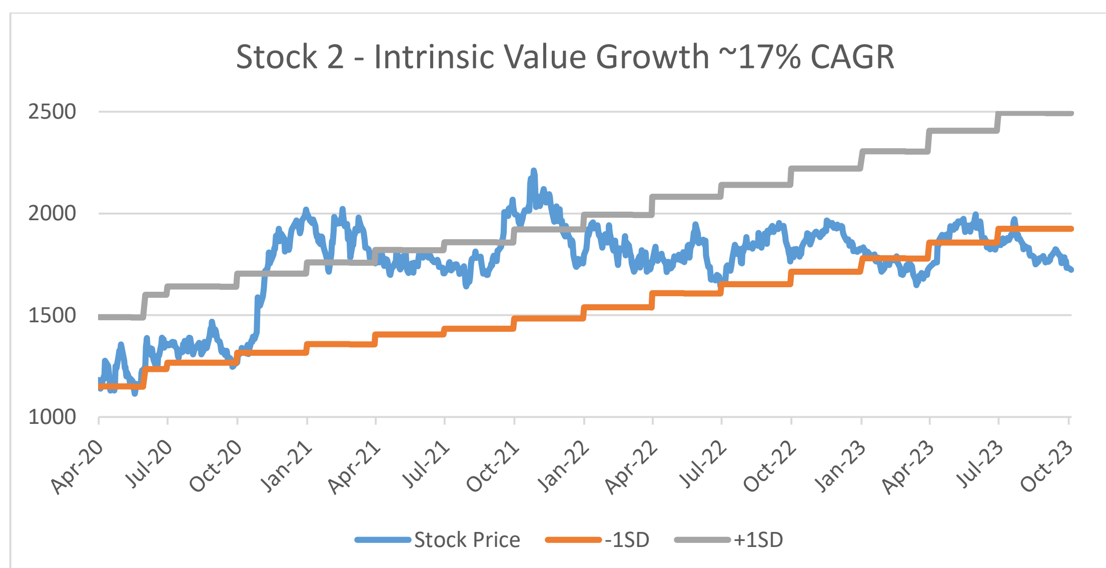
This orientation towards a "growth style" of investing has implications on our outcomes that requires a more nuanced understanding to help in a wholistic evaluation.

Firstly, since we are focussed on a particular style of investing, our short-term performance remains exposed to the style going in and out of favour. In periods when the style is in favour, it is relatively easy to stack up significant outperformance relative to the benchmark while in periods when the style is out of favour, it becomes almost impossible to be anywhere close to the benchmarks. These divergences get more pronounced because the benchmark is much broader in constitution and doesn't have a similar style bias.

Secondly, our approach focusses on capturing value created through the intrinsic compounding of a business. And by nature, this compounding takes time to build up. For e.g. a business that compounds at 20% annually, takes 3 years to add 72.8% in value while annual volatility itself is 50-100% or even more in most stocks. Therefore, on many occasions even as the business continues to deliver on fundamental performance, over shorter time frames, we may or may not see that translate into similar stock price performance as it can get affected by general volatility in stock prices. However, if we expand our time horizons and allow compounding sufficient time to build up, it becomes a far more powerful force. We believe this perspective is important while evaluating our portfolio performance.

The chart below illustrates this point for a couple of our investee companies. The orange line indicates -1SD valuation while the grey line indicates +1SD valuation based on actual TTM reported metrics and blue line indicates the stock price.





Since Oct'21, valuations for both these companies have contracted from +1SD to -1SD which has led to a period of negative returns even as the business has kept compounding at very attractive rates. Our focus remains on capturing this intrinsic value compounding for as long as we believe that the growth advantage period continues despite being fully aware that due to various external factors or temporary challenges, these stocks could go through periods of poor returns in the interim. Growth compounds over time while rerating or derating is only one-time in nature and therefore, we are happy to be patient as long as the companies keep delivering on growth. We believe over the long run; if one doesn't buy at egregious valuations (something that we are mindful of), the returns are likely to approximate the intrinsic compounding in the business.

Recent additions

We have added two new companies to the portfolio:

- We invested in a decorative aesthetic product supplier to the automotive and consumer products industry. Through strategic acquisitions, the company has expanded its presence across subsegments within the industry and has become a one-stop provider for decorative product requirements of its customers. Also, through these acquisitions, the company has diversified its end user industry exposures. These components have a decorative and design value and help in enhancing the look and feel of the products and are benefiting from an increasing trend towards premiumization in the end user industries. This has helped the company historically outperform the end user industry volume growth by a margin of >10%. Typically, these products are characterized by low volume and high levels of customization based on distinct requirements for different variants of the end customer's product. Low volumes of customized components necessitate batch mode manufacturing and involves high complexity from a supply chain management perspective. Managing this complexity builds customer stickiness and leads to a preference for efficient players that can become a one-stop supplier for a wide range of products. By leveraging these advantages and through sound capital allocation decisions the company has sustained post-tax core RoCEs of >20% and opened growth opportunities in new products segments and new customers. We believe the broader trend towards premiumization, and customers demanding aesthetically superior products is going to continue which will drive increasing penetration of these products leading to a sustained growth advantage period for the company.

- We have invested in a chemical company that is vertically integrated within the diphenol value chain and is engaged in R&D, manufacturing and marketing of specialty chemicals and blends. These products find application in a wide variety of sectors primarily food, feed and pet nutrition, flavours, and fragrances among others. Globally, the market structure is consolidated with only a handful of fully integrated players accounting for bulk of the market share. However, because of certain company specific challenges and distributed manufacturing base across the world owing to historical reasons, the company has had subpar profitability. Lately there has been a change in capital allocation towards setting up a consolidated manufacturing infrastructure in India which substantially improves the cost positioning of the company. This combined with commissioning of forward integration project addresses historical issues, paves the way for RoE normalization and opens interesting growth possibilities from 3-5 year perspective.

Regards,

Rahul Picha CA, CFA
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 Emerging Corporates India Portfolio was created on 28th April 2017. Performance has been compared with S&P BSE 500 TRI. 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.

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