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Date: 3 Jan 2024

Moats & Special Situations Portfolio

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 31 Dec 2023.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.2%	13.2%
December 2023 Quarter	75%	11.4%	12.4%
April – December 2023		32.5%	34.1%

Please check relative performance of other portfolio managers by clicking on this link

December quarter saw a couple of positive developments - 1. Victory of BJP in the key Hindi-speaking state elections, which increases the probability of the current governments return in the 2024 national elections. This, in turn, ensures political stability and the continuation of government policies. 2. The US Federal Reserve has signaled potential interest rate cuts in the 2024 calendar year giving a boost to "risk assets". With an already elevated risk appetite, these developments have further bolstered market sentiment. But as we have discussed in our previous newsletters, *prospective returns* are the lowest when perceived risks are also low, increasing the risk of material drawdowns. While investors may not be seeing risk on the horizon, in our opinion this is the time to be the most sensitive to Risk. There are certain risks which in our opinion the market is possibly ignoring.

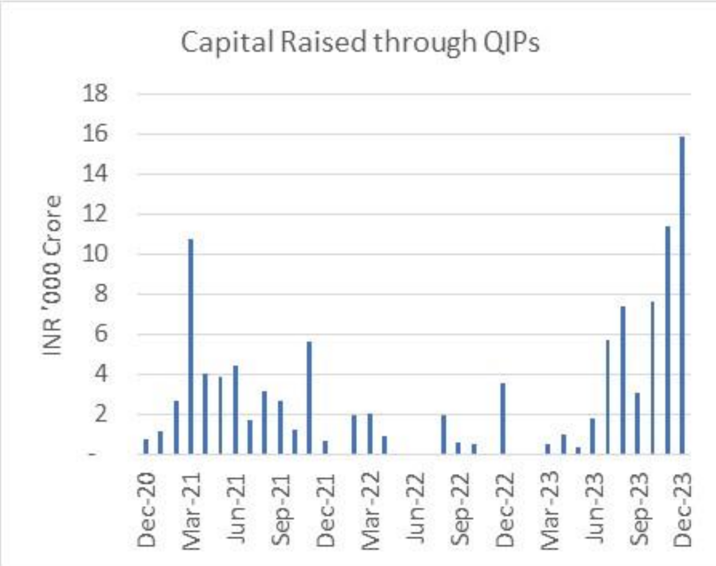
1. The post GFC monetary policy has "programmed" investors to believe that reversal in interest rates would take us back to an easy monetary policy or a regime like the Quantitative Easing (QE) regime. Since that period was very good for risk assets, investors are trying to "front-run" a potential rally in risk assets. Despite a decline in inflation, the possibility of reverting to the low inflation levels seen before the COVID-19 pandemic is uncertain. Countries are actively working to decrease their reliance on China in their supply chains. If inflation does not revert to the level seen pre-covid, investors hoping that we would get back to zero/negative interest rate regime may be negatively surprised.

2. The impact of higher interest rates is felt in economic activity with a lag. Therefore, although there is widespread discussion about a possible "soft landing" in the United States, there is a risk that the deceleration could be more pronounced or prolonged than anticipated. In India, RBI has recently increased Risk weights on Unsecured lending of banks, with the intention to slowdown growth in that segment. This move could potentially influence consumption since these loans are utilized for that purpose. Impact of these factors are difficult to assess and may not be fully factored by the market.

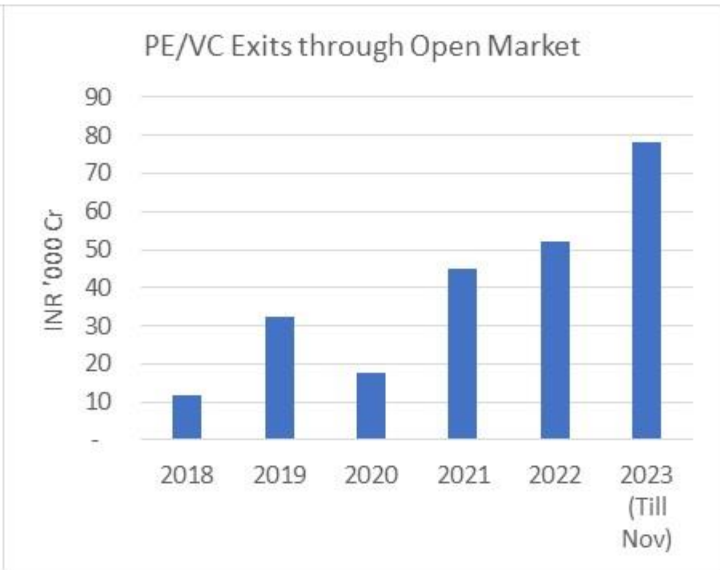
3. A key pillar of the post-COVID market upswing has been the strong flows into domestic Mutual funds. Despite Foreign Institutional Investors (FII) selling, domestic investors have supported the Indian market. But we have

[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.

reached valuations where, promoters and PE investors have aggressively started diluting their stake either through capital raise (QIPs) or through stake sale/IPOs. December month has seen the highest capital raise through QIPs- almost 16K Crore-and the QIPs in the pipeline for capital raise is increasing. CY23 has also seen the highest Private Equity (PE) exits through market sales. While IPOs have still not reached the CY21 peak, the pace of IPOs is also picking up.



Source: NSE



Source: EY PE/VC Roundup

When we compare the monthly run-rate of inflows in MFs and the capital being absorbed through these Capital raise and exits, we have reached a point where domestic flows are incrementally getting absorbed at a faster rate which could put pressure on further rerating in the market.

The market has been in overvaluation zone for a while and the recent rally has stretched the valuation further. As sentiment in the broader market is extremely optimistic, it could continue to push valuations to extremes. This has led to valuation of our portfolio to move materially above fair value (~13% above Fair Value). Although it is relatively better vs the benchmark-which as per our estimate is more than 30% above fair value. We continue to take profits in stocks where valuations are stretched as per our assessment, however we are also incorporating one tweak in our sell decisions.

Upon reviewing all our past trades since the inception of our strategy, we noticed that, following our exits, in 50% of cases, the stocks went on to outperform our hurdle rate. Thus, while we may have done well in our buying decisions by using the "fear" factor to get stocks at good margin of safety, we have exited stocks assuming rational behavior by the market and perhaps missed on exploiting the "greed" factor. To capture this, we would continue with our profit-booking process based on fundamental valuation, but would refrain from completely exiting the stock. We seek instead to ride momentum with the final tranche if it sustains. Once we observe a slowdown or breakdown in momentum, we would seek the final exit. However, this approach is selective and applicable only to companies with relatively liquid securities and where we feel there is potential for business to surprise positively. The tradeoff from this tweak is the potential for roundtrips in some of the stocks. A comprehensive analysis of our past trades shows that there is a favorable trade-off in riding momentum compared to exiting solely based on fundamental valuation. Presently ~12% of our portfolio is in stocks where we believe valuations are stretched, but we are comfortable in riding the momentum with residual weights. If there is a breakdown of momentum in these stocks our equity weights could reduce further to that extent.

Asset Allocation

Our equity weight in the older accounts is ~75%. For new accounts our initial weight is ~35%.

Portfolio Activity

Business Model Allocation	Mar-23	Jun-23	Sep-23	Dec-23
Moat	14%	11%	11%	8%
Limited Moat	59%	61%	63%	65%
Moat + Limited Moats	***73%***	***72%***	***74%***	***73%***
Special Situations	27%	28%	26%	27%
Regulated Utility	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Mar-23	Jun-23	Sep-23	Dec-23
Financials	38%	36%	31%	33%
Financial Services	14%	19%	24%	26%
Consumer	14%	13%	14%	10%
Information Technology	10%	9%	8%	8%
Auto & Auto Ancillaries	7%	5%	6%	7%
Capital Goods	4%	4%	4%	5%
Pharma	8%	6%	7%	4%
Materials	1%	5%	4%	4%
Real Estate & Infrastructure	5%	5%	3%	4%
Grand Total	**100%**	**100%**	**100%**	**100%**

There was no new addition to the portfolio in the current quarter. We reduced our exposure in FMCG and Pharma and increased exposure in Financials.

Regards,
Rohan Samant   Akshat Hariya

CIO   **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 05, 2023 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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