Multi-Act Equity Consultancy Pvt. Ltd.
10th floor, The Ruby Tower 29 Senapati Bapat Marg,
Dadar (W), Mumbai - 400028
Tel: +91 22 61408989
CIN: U67120MH1993PTC422244
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 2024.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.50%	13.95%
June 2024 Quarter	75%	13.96%	11.66%

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

After the December 2023 state election results, there was a widespread market consensus that the BJP would achieve a comfortable victory in the ensuing National Election. The Indian equity markets, particularly sectors benefiting from government policies on infrastructure spending and capital expenditure, performed exceptionally well post the December state elections. As the general elections approached, the main debate centred only around the margin of victory that the NDA would secure. While NDA alliance managed to win the elections, the BJP failing to get majority on a standalone basis, came as a negative surprise. Important takeaway from the elections was that although the BJP strengthened its position and increased its vote share in urban areas from 33.6% in 2019 to 40.1% in 2024, it lost vote share in rural regions from 39.5% in 2019 to 35% in 2024. The first budget will be a test of the government as to whether they continue with existing policies or adjust them to boost rural sentiment.

Despite the unexpected election results, the equity market has shown resilience, largely driven by the ever-increasing SIP inflows. The valuation insensitivity of SIP flows and the solid returns investors have experienced in the recent past has bolstered confidence and ensured continued expansion of SIP investments with monthly gross SIP flows crossing 20,000 Crores since April.

Rising valuations have prompted promoters and private equity investors to sell. Some companies have used the opportunity to raise capital through QIP/IPOs at current elevated valuations. This has increased the supply of paper in the market. Over the last six months, capital raised through IPOs has been around ₹46,500 crore, with an additional ₹32,400 crore through QIP, and promoters have sold stakes worth ₹64,700 crore. This results in a cumulative supply of approximately ₹143,600 crore (around ₹24,000 crore per month) entering the market. As valuations continue to rise, the supply of paper is expected to increase.

[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.

Surprisingly, MNCs have also joined the list of sellers. Historically, MNCs have viewed their investments in India as strategic, often focusing on increasing stakes in their domestic listed entities or taking them private. However, recently MNC companies have been selling stakes (e.g. Whirlpool, ZF Commercial Vehicles, and Timken India), signalling that overvaluation has become too evident to ignore even for long term strategic investors.

The accompanying table illustrates the valuation premium of Indian listed entities versus their parent companies. While it is somewhat understandable for Indian entities to receive a premium valuation given the distinct market opportunities and growth prospects that India offers, the current level of premium in some cases has reached extremes. For example, in case of Schaeffler, the absolute value of the parent's stake in the Indian entity exceeds the entire market capitalization of the parent company.

Company	Trailing PE Valuation		Valuation Premium vs Parent Company
	Parent Company	India Listed Entity	
KSB	7.8	77.0	885%
Whirlpool	14.1	110.0	682%
Schaeffler	11.6	80.5	597%
Siemens	19.3	118.0	512%
ABB	21.7	123.0	467%
3M	14.2	77.4	445%
Timken	15.3	82.0	437%
Glaxo	14.1	68.4	384%
Cummins	14.9	66.2	345%
Vesuvius	10.6	42.9	305%
SKF	15.6	58.0	272%
RHI	11.6	39.7	242%
Pfizer	11.9	38.0	219%
Unilever	19.4	56.6	192%
Nestle	21.7	62.7	189%
Ingersoll Rand	27.6	64.9	135%
Colgate	30.8	57.8	88%

Trailing PE valuation as of 30th June 2024.

The CEO of Whirlpool's parent company captured the sentiment well when he stated, *"When you have a business trading at 50 times multiple and your own company trades much lower, it's an asset arbitrage."* Hyundai Motor is another company planning to capitalize on this arbitrage by launching an IPO of the Indian entity through an "Offer for Sale" worth ₹25,000 crore.

Markets do go through periods of euphoria or pessimism in the short-term, leading to overvaluation or undervaluation. In periods like today when valuations are at an extreme, supply would come in the form of long-term investors selling or companies raising capital. Conversely, during periods of extreme pessimism, long-term investors and promoters tend to accumulate shares through creeping acquisition or buybacks. Eventually natural forces will correct the extreme valuations. In the words of Benjamin Graham "In the short run, the market is a voting machine, but in the long run it is a weighing machine". Market is driven by sentiment in the short term which could move to extremes on both sides and deviate materially from "fair value", but in the long run, fundamentals of a business far outweigh the sentiment and thus market forces drive valuations back to "fair value". Thus, it is important to evaluate the "intrinsic value" of the business from a long-term point of view, as the stock will eventually gravitate to that price.

We use this wisdom of the market i.e. Valuation multiple at which a company has traded in its own history, as one of the inputs in our valuation process of a company. We should be mindful of the degree of deviation from fair value, as that would represent potential downside risk in the stock. Based on our fair valuation estimates for individual companies today, the Benchmark (i.e. BSE 500) on a weighted average basis is roughly 40% above our estimated fair value, companies in our investable universe are on average 50% above fair value, while our portfolio is ~9% above fair value. As a process we constantly monitor deviation from fair value for our investee companies. We allow deviation from fair value when a business is going through earnings momentum and price momentum. But we would cut exposure when deviation becomes too wide in historical context or if the earnings momentum breaks down. As long as we keep our portfolio as to close to “fair value” as feasible given Quality, the probability and risk of a “permanent loss of capital” is significantly reduced. This is even more pertinent today when broader market is expensive and could go through a valuation normalisation process.

Asset Allocation

Our equity weight in the older accounts is ~75%. For new accounts our initial weight is ~30%.

Portfolio Activity

Business Model Allocation	Sep-23	Dec-23	Mar-24	Jun-24
Moat	11%	8%	8%	13%
Limited Moat	63%	65%	62%	55%
Moat + Limited Moats	***74%***	***73%***	***70%***	***68%***
Special Situations	26%	27%	30%	32%
Regulated Utility	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Sep-23	Dec-23	Mar-24	Jun-24
Financials	31%	33%	33%	36%
Financial Services	24%	26%	35%	28%
Auto & Auto Ancillaries	6%	7%	12%	14%
Consumer	14%	10%	10%	11%
Technology	8%	8%	3%	6%
Materials	4%	4%	4%	5%
Real Estate & Infrastructure	3%	4%	3%	-
Capital Goods	4%	5%	-	-
Pharma	7%	4%	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

We added a quality Bank to the portfolio that faced regulatory action due technology related challenges. We note that the fundamentals of the business continue to be strong with quality underwriting process. We feel the Bank would be able to address the regulators concerns and bounce back. Thus, it fits under the “Quality business going through a temporary solvable problem” category. We increased exposure in Consumer and Technology space. We trimmed our exposure in financial services companies that are linked to the market considering the overvaluation in the broader market. We exited NESCO as the existing operating assets are close to full occupancy and company is yet to announce commencement of new commercial building, which would take at least 4 years to become operational post commencement of construction. Thus, growth in the business over the next few years would be limited to rent escalations only.

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 2024 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.

(**Registered Office:** Ground Floor, ICC Chambers – I, Saki Vihar Road, Opp. Santogen Mills, Powai, Mumbai – 400 072, Telefax: +91 22 2857 9651 | CIN: U67120MH1993PTC422244)