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Moats & Special Situations Portfolio

Dear Investors,

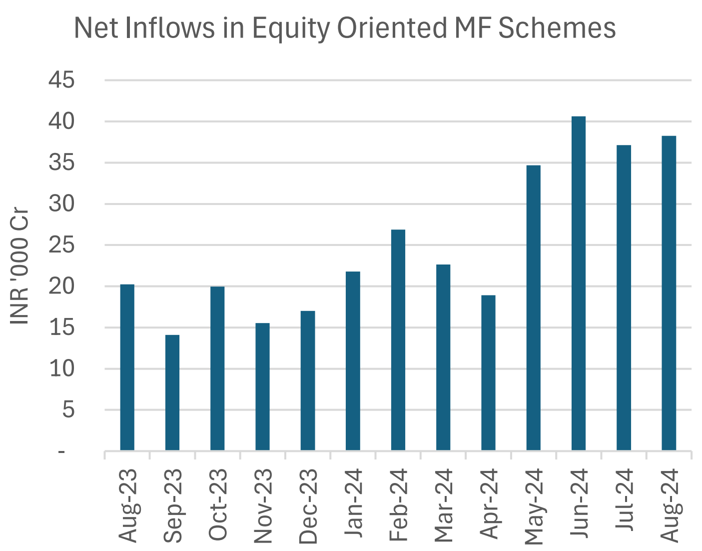
Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30 Sept 2024.

Portfolio Performance [1]	Equity Allocation	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		15.89%	14.29%
Sept 2024 Quarter	75%	8.71%	7.65%
April – Sept 2024		23.86%	20.2%

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

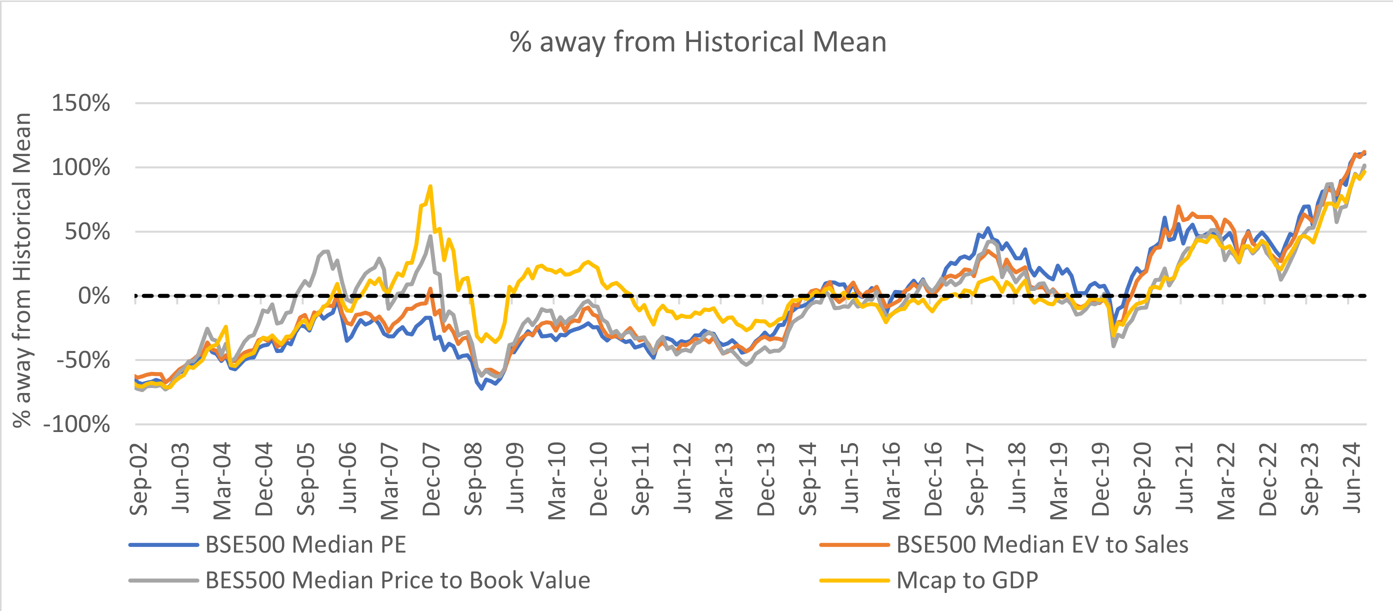
In the September quarter, the U.S. Federal Reserve initiated an easing cycle by implementing its first interest rate cut, reducing rates by 50 basis points. The rate cut, along with the broader expectation of a more accommodative monetary policy, fueled a "risk-on" sentiment in global financial markets. This positive market sentiment was further boosted by the Chinese government and the People's Bank of China, which introduced a series of measures aimed at stimulating economic growth in China.

The strong momentum in the Indian Equity market continued in September quarter, despite a negative surprise in the budget with regards to increase in Capital Gains tax. Additionally, the budget indicated that the government may take a more restrained approach to infrastructure spending compared to previous years. Despite these negative surprises, the rally in the equity market remained robust, largely fuelled by continued strong domestic inflows. In fact, the net inflows in Domestic Equity oriented Mutual funds have further gone up from monthly average of around 20 thousand Crores earlier, to 35-40 thousand Crores in the last 4 months. This has been driving valuations to new extremes.



[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.

Below chart shows how far we are from historical mean valuations as per different valuation approaches. It is important to note that for the past three years, valuations have remained elevated by historical standards. This prolonged period of high valuations has likely pushed the historical average upwards as well. Currently, most valuation metrics are close to 100% above long-term Mean.



Historical Valuation Multiples are irrelevant?

One might argue that strong domestic fund flows are structural in nature and thus historical valuation multiples are irrelevant.

Theoretically, a structural upward shift in valuation would imply, all else being equal, that the cost of equity has decreased. A lower cost of equity, in turn, implies that the expected returns from equities would also be lower. It's important to recognize that if the cost of equity has indeed declined, say to 10%, it would be unrealistic for an investor to still expect equity returns of 14% going forward from equities. Future cash flows would now be discounted at 10% cost of equity and thus expected equity returns would also be around 10%. Thus, if the assumption is that the valuation multiples have structurally shifted upwards due to the strong inflow in equity Mutual Funds, the implicit assumption is that incremental returns from equities would likely be lower than the historical experience, since investors are now paying more for the same level of earnings.

The second, more practical argument, as discussed in the June quarter newsletter, focuses on the dynamics of supply and demand. While domestic fund flows have driven up valuation premiums in the market, these flows are increasingly being absorbed by an expanding supply of equity. This supply is coming from various sources, including IPOs, Qualified Institutional Placements (QIPs), Offers for Sale (OFS) by promoters as well as exits by private equity investors. In the first six months of the current financial year alone, we've seen approximately ₹75 thousand crores raised through IPOs, FPOs (Follow-on Public Offerings) along with ₹66 thousand crores through QIPs. Additionally, we have seen private equity exits via block deals in the secondary market. When the supply of equity outpaces demand from domestic fund flows, this increased supply will begin to put downward pressure on valuations. Thus, what might initially appear to be a structural and irreversible trend of ever-higher valuations could be tempered, or even reversed, by these natural market forces of demand and supply.

Implication for our investment process:

Correction Required to reach our Buy Zone	Number of Stocks
Less than 10%	7
10%-20%	7
20%-30%	44
30%-40%	39
40%-50%	23
More than 50%	23

The sharp rise in valuations across the board has made it increasingly difficult to find attractive opportunities. We have discussed about shrinking opportunity set in our past newsletters. To put this into perspective with numbers, approximately 143 stocks form part of investable universe of MSSP Strategy. For every company within our universe, we have identified a price at which we would be comfortable buying the stock. Currently, based on our identified buy prices and prevailing market prices, the stocks in our universe would need to correct by 33% on average to reach those levels. If we exclude financial stocks, where we still find reasonable valuation comfort, the opportunity set becomes even more limited. We have not "adjusted" our buying process in context of the strong fund flows in the market. Our focus remains on generating absolute returns by identifying stocks that meet our hurdle rate.

But as discussed in our December 2023 newsletter, we felt our sell decisions could be optimised. Strong fund flows can take individual stocks (especially quality stocks) to absurd valuations. Thus, we have tweaked our process to exploit the greed while exiting a stock, wherein we are riding our winners longer than in the past. As we feel, the market could stretch valuations of a business that is doing well.

Thus, our investment approach is that of buying a "business" and selling a "stock," capitalizing on both fundamentals and market sentiment.

Asset Allocation

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

Portfolio Activity

Business Model Allocation	Dec-23	Mar-24	Jun-24	Sep-24
Moat	8%	8%	13%	8%
Limited Moat	65%	62%	55%	58%
Moat + Limited Moats	***73%***	***70%***	***68%***	***66%***
Special Situations	27%	30%	32%	34%
Regulated Utility	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

Sector Allocation	Dec-23	Mar-24	Jun-24	Sep-24
Financials	33%	33%	36%	38%
Financial Services	26%	35%	28%	28%
Auto & Auto Ancillaries	7%	12%	14%	16%
Consumer	10%	10%	11%	7%
Technology	8%	3%	6%	7%
Materials	4%	4%	5%	4%
Real Estate & Infrastructure	4%	3%	-	-
Capital Goods	5%	-	-	-
Pharma	4%	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

We have exited Emami and Zydus Wellness from the portfolio due to reducing valuation comfort. We have increased our allocation within our existing Financial Sector ideas.

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.

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