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

Date: 5th October 2018

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (M&SSP) as of 30th September 2018.

Portfolio Performance	Equity Allocation as on 30.09.2018	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		16.4%	9.4%
September 2018 Quarter	79.3%	2.8%	-2.5%
1st April 2018 – 30th September 2018		6.3%	-2.6%

• Benchmark is an average of the BSE 500 and BSE Mid Cap index.
• Equity allocation mentioned above is for older accounts. For new accounts, equity allocation is ~60%.
• 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.

This quarter has been eventful not only for equity markets but other non-equity markets as well. In the currency market we saw a sharp drop in the INR vs USD while IL&FS's default shook the fixed income market. The negative rub-off of these on the equity market has been clearly evident as the selloff in the markets has been severe. The quarter had initially started with a strong positive tilt (we were able to lower our weights), even in face of currency depreciation. In fact NIFTY made a new all-time high in the current quarter. The strong domestic flows continued unabated as the Q1 correction was not enough to shake the domestic investor sentiment. But by the end of the quarter the market started reacting to the currency weakness, the IL&FS default and the resultant impact on short term interest rates compounded the pain.

Indian equity markets are staring at multiple and somewhat interrelated headwinds – a depreciating currency, rising oil prices, rising short term interest rates, and a stretched fiscal situation. Thus the Indian macro has deteriorated further from the last quarter. On the other hand, we have been highlighting an improving micro (i.e. improving individual Company level earnings), with a pickup in demand on the ground in the past few quarters, with especially the rural sector staging a strong recovery. The last instance we recall when we had a deteriorating macro and micro environment was in 2013 and we were being well compensated for the evident risks. This time around it's the macro which has gotten challenging. It needs to be seen whether these macro headwinds hamper the "green shoots" we observe and lead to reversal in the micro environment. Risk aversion and pessimism has started to creep into the market.

Time to be contrarian?

Historically we have taken a contrarian stance in face of adverse market movements – be it in 2013 or in 2016. During those periods as well, we were staring at multiple headwinds and risks. But the platform that allowed us to take a contrarian stance was the valuation comfort we derived from market prices. In the PE valuation charts on the next page, we have highlighted periods where we were contrarian in the face of negative noise/events. While in 2013 we had immense valuation comfort in Mid and Small Caps, 2016 provided valuation comfort in the Large Caps. Thus in those periods we were being compensated for the

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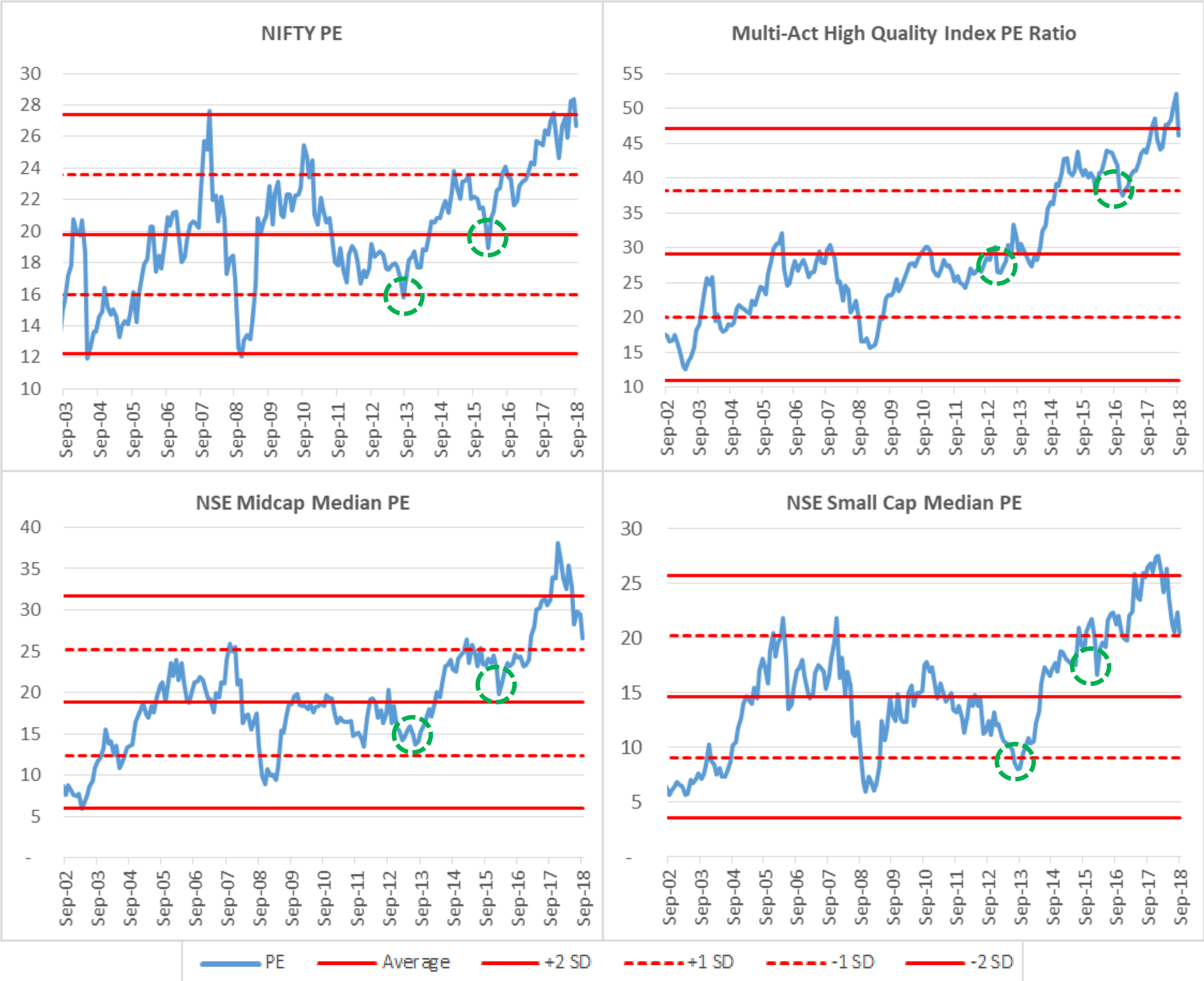
risks that were evident to the market at large at that point and we were confident that any positive outcome would help us on the upside.

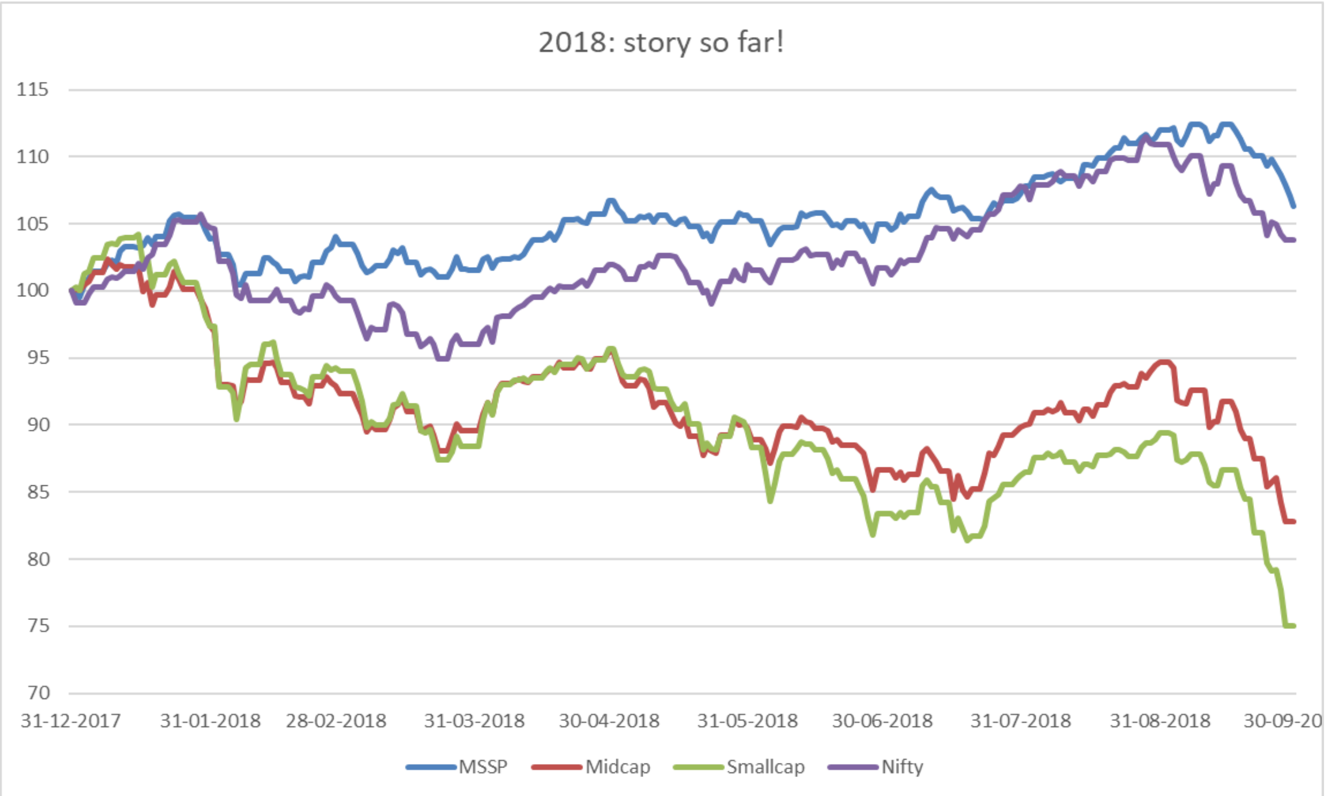


Today, even post this fall, valuations have merely corrected from being super expensive to expensive. We don't feel that the opportunities that the market is currently providing are fully factoring the macro headwinds we are witnessing (let alone the uncertainty of the 2019 General Elections!). Thus we are not being fully compensated for taking the risk of any probable further negative outcomes.

As discussed in our June 2018 newsletter, while the quality of the business helps us to define our investible universe, the valuation and earnings momentum guide us in taking appropriate weights in stocks that provide good prospective return. For companies that are reporting good earnings momentum and visibility, we prefer buying them around fair value or below. And for companies with negative earnings momentum and poor visibility, we prefer buying at large discounts to our appraised fair value, where we believe we have an adequate Margin of Safety. If we look at our investible universe today, we are seeing companies that are reporting good earnings momentum and visibility which have hardly corrected in this recent market fall and are still priced at extreme valuations in terms of their history. While companies that have negative earnings momentum and short term issues have corrected much sharply and are now being valued at close to fair value. While we could initiate in some of these names in the near future if the weakness in the market continues we wouldn't want to crowd our portfolio with companies with short term issues or negative earnings momentum. Thus we are close but "not yet there" in terms of valuation comfort to take up the equity weights in the portfolio significantly.

How has the portfolio fared in the rough market?

We have consistently been highlighting the over-valuation in the market, especially the small/midcap space, for more than a year now. We believe being prudent is a very important quality in this business and even if that means we have to walk a lonely path we at Multi-Act endeavor to have the courage to do so. We have done so in the past by positioning our client portfolios in contrarian positions in the IT sector for example, which underperformed last year but as those business started to see improvement, so did their stock performances. Additionally in this market carnage, portfolio drawdowns have been minimized so far, we believe by being prudent and contrarian. The chart below depicts our drawdowns this year:



(Drawdowns depicted in the chart above are for MSSP consolidated client accounts.)

<u>Asset Allocation:</u>

Our overall equity weights stand at around 80% for older accounts from over 85% in the last quarter. We are ~60% invested in accounts that came in during the last 6 months while in the newer accounts we have invested ~45 %. While markets have corrected quite sharply, valuations as discussed have come down from frothy to the merely expensive- not good enough- for us to deploy capital aggressively in this decline. But some companies have started to come closer to our buy zone and investors could start seeing new names getting added if the market weakness continues.

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On Liquid Funds: As you might be aware we park our idle cash in Liquid Mutual funds. Post the IL&FS default we took a look at our liquid fund investments and fortunately for us none of our Liquid Mutual Funds had paper of IL&FS. But post this event we went through the individual portfolios of all our Liquid Mutual Funds and realized that there was significant exposure to NBFC paper. Thus as a measure of prudence in this uncertain period, we decided to shift all our idle cash to only those Liquid Mutual Funds that have no exposure to NBFC paper and have majority in either sovereign (Government of India) or Quasi-sovereign (i.e. Government Backed companies) paper.

Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Dec-17	Mar-18	Jun-18	Sep-18
Moat	38%	37%	35%	34%
Limited Moat	37%	40%	40%	41%
Moat + Limited Moats	***75%***	***77%***	***75%***	***75%***
Special Situations	19%	20%	23%	22%
Regulated Utility	6%	3%	2%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Dec-17	Mar-18	Jun-18	Sep-18
Information Technology	21%	21%	24%	25%
Pharma	15%	18%	19%	20%
Financials & Financial Services	16%	13%	15%	15%
FMCG	18%	17%	11%	11%
Materials	6%	7%	7%	8%
Capital Goods	7%	8%	8%	7%
Auto & Auto Ancillaries	11%	11%	12%	7%
Media	-	2%	2%	3%
Utility	6%	3%	2%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

We have trimmed our weights in some of the IT, Pharma and FMCG names that had run-up sharply during the quarter.

We reduced our exposure in two wheeler stocks but for reasons other than valuations. In the past quarter, for example we exited Hero & trimmed Bajaj Auto. Bajaj had followed a strategy of focusing on the export markets which made sense as they had a first mover advantage in those markets with huge scope of growth in majority of those markets without sacrificing profitability. Domestic markets until now was driven by a "scooterisation" trend and Bajaj Auto felt they would have been just another "me-too" player in that category. Recently they decided to grab a piece of the domestic motorcycle market by competing with Hero in the commuter space by potentially engaging in a price war. We felt that in the short term that would hurt profitability for both Bajaj Auto and Hero. Possibly less for Bajaj Auto as that pie only contributes around 15% of sales. We decided to exit Hero since we felt that Hero would have been impacted more than Bajaj Auto in the short to medium term as valuations of Hero were not factoring this new development.

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Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (Registration No. INP000002965)

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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 October 14, 2014 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.