Multi-Act Equity Consultancy Pvt. Ltd.
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Date: 30th April 2012

Dear Fellow Investors,

In my discussions with investors both experts and lay, I have consistently found amongst one of the most misunderstand concepts; that of the Cost of Equity and its impact on Growth.

From the raft of recent public policy pronouncements and regulatory reviews, it is therefore not surprising that this confusion extends to the public sector as well!

I will refrain from making any comments about the “fairness” or otherwise of the retrospective review, but clearly what this does do; is potentially raise the “cost of equity” for investors in Indian Equities. The same can be said for interference in arranging Coal Supply Agreements (FSA) for power producers, in the regulatory review of the pricing of Indraprastha Gas’s products, the admonishment to public sector banks to pass on interest rate reductions and so and so forth.

Investors have seen our trend reversion chart many times and some of you will have noticed that the chart has a kink in 1991. That kink corresponds to different trend rates from 1979 to 1991 and from 1991 to the present.

That is because in 1991, we had the introduction of a slew of economic reforms. These economic reforms had 2 salutary impacts: i) it removed “barriers to entry” for several industries. This meant that suddenly, for those industries, the relevant cost of equity became the society wide cost of equity. Entrepreneurs could therefore arbitrage the existing (higher) returns in such industries and the (lower) society-wide cost of equity.

This factor multiplied across several industries and sectors led to an investment & economic boom. Of course, as almost all such booms, it then led to extrapolation and excess, but nevertheless the initial & lasting impetus was powerful and transformative. ii) The second salutary effect, was that the atmosphere of economic reforms served to LOWER the society wide cost of equity itself, as one of the critical components of the cost of equity is the risk premium and hence the impact of taxes & government regulation.

I hope you can see where I am going with this. To my mind, Government can assist in fostering growth primarily by LOWERING the risk component of the cost of equity; not by fiat, but by being more transparent and less arbitrary in the tax and regulatory processes. To the extent that investors and entrepreneurs perceive the risk component of the cost of equity having been raised, the general impact on economic growth will be material. It maybe too early to say whether these actions have raised the cost of equity; but we note that the “real risk” premium in India relative to the developed world is no more than 1% higher. If investors now perceive this as too low, existing investors will find that this time around they will have a one-time negative hit to their existing equity investments from a higher cost of equity. Economic Growth will have a material downward shift.

Regards,
Prashant Trivedi

Prepared for Restricted Circulation

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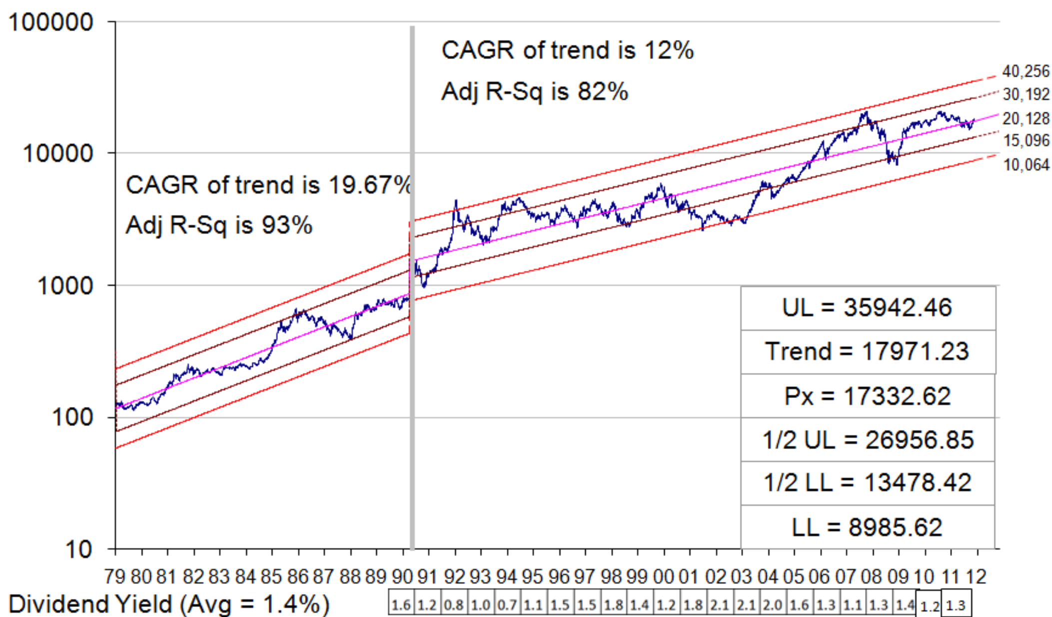
Below is the consolidated performance of the PMS portfolios as at the end of March 2012.

Portfolio Performance	Equity Allocation as on 31.03.2012	Equity Returns	Total Portfolio Returns after Expenses	Benchmark Returns
Since Inception 01.02.11	56.5%	37.1%	15.8%	-6.4%
March Quarter		25.8%	13.7%	20.2%
1st April 2011 - 31st March 2012		25.4%	13.1%	-8.4%

- PMS portfolios returns are for less than 1 year and not annualized.
- Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
- The benchmark returns are also for a period less than one year and are absolute returns.
- Returns are cash flow adjusted and time (Daily) weighted returns after expenses.
- The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
- Past performance is not guarantee for future performance.

Asset Allocation: Trend line

We are currently close to the trend level and are so far still in a constructive technical position. Our ideal Equity/Cash positioning would be around 67% in Equities: 33% in Cash. Instead, we find ourselves at ~54% in Equities, largely because from a bottom-up perspective we are unable to find enough High Quality businesses to populate our portfolio with. There are indeed several Low Quality companies; available at cheap valuations, but we have learnt from long experience that such companies when they surprise, usually do so on the downside!



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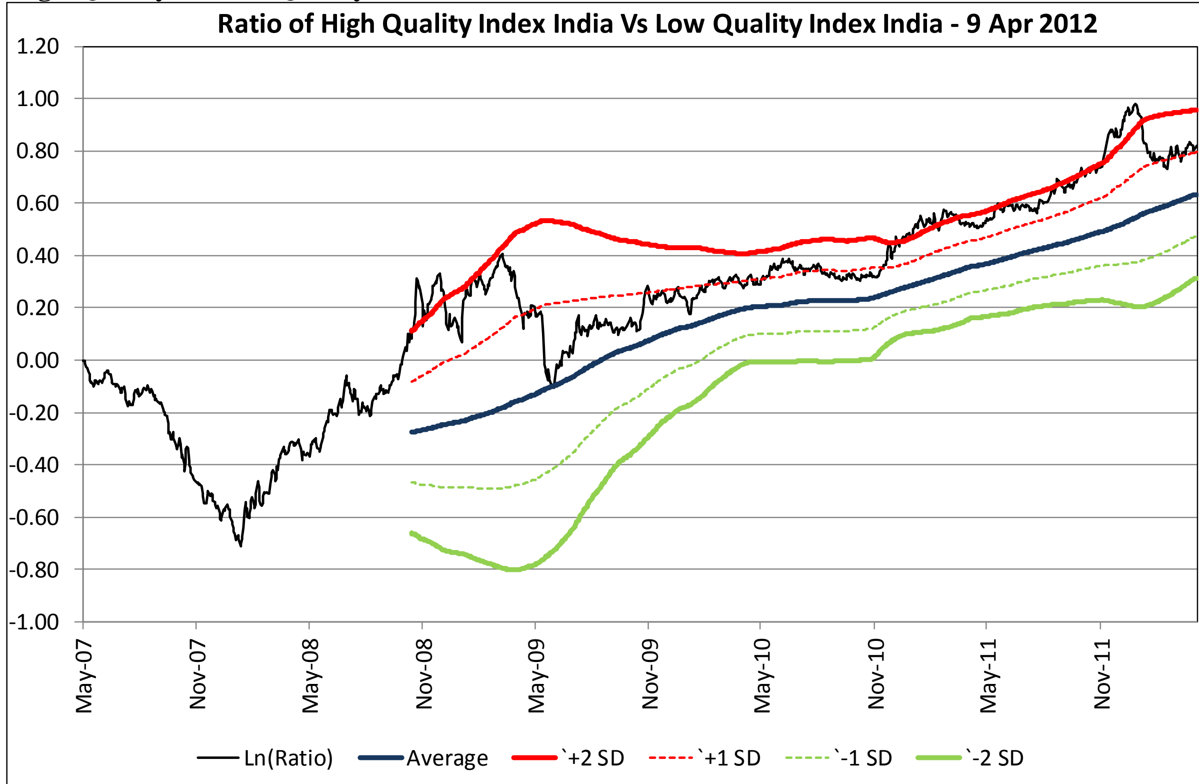
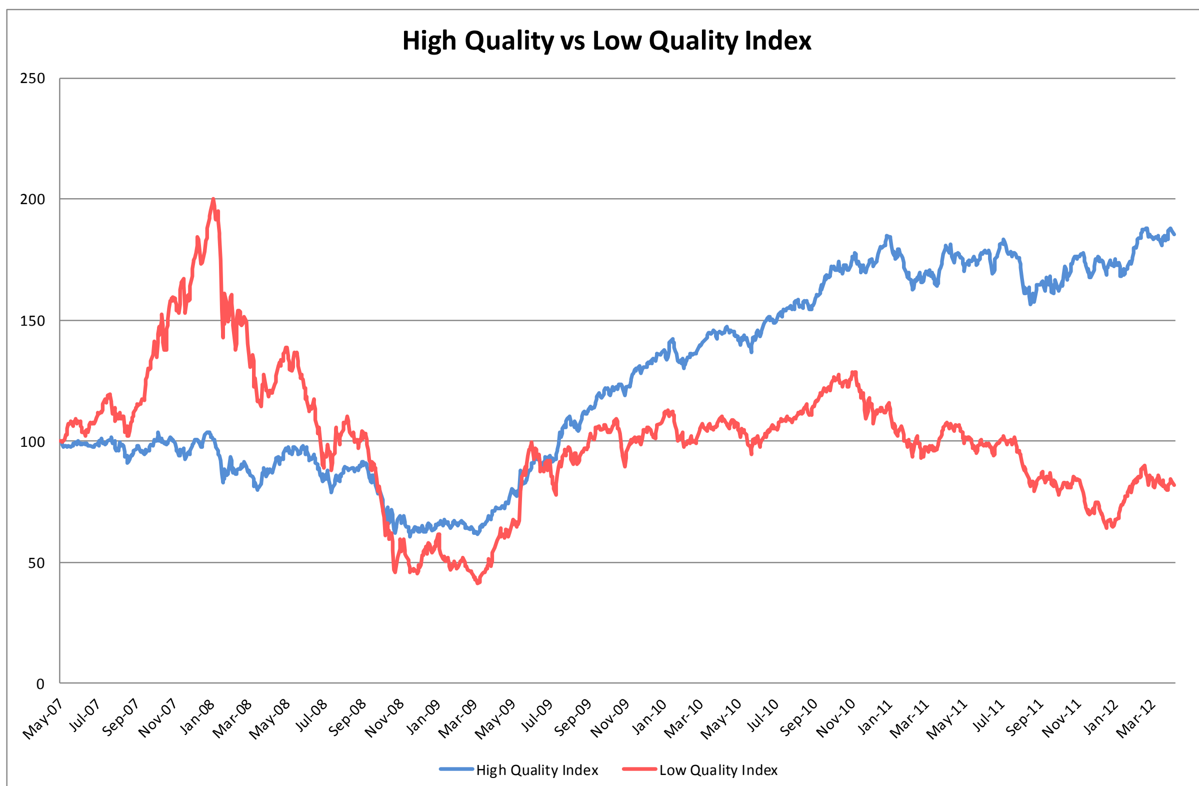
High Quality vs Low Quality:



A point to note is that the rally from the low in December has mainly been a Low Quality rally and it is this that has resulted in a correction in the ratio of High Quality vs Low Quality from January. We still struggle to find High Quality stocks with an appropriate reward-risk ratio.



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Portfolio activities during the Quarter:

Stock Portfolios: We consider ourselves privileged to have received quite a few stock portfolios this quarter.

We have been able to use our RARI framework to plan the programmed reduction of stock positions not being considered by us in our portfolio formation in an optimal manner so that clients will have the least "frictional" cost in transitioning their stock portfolios to what we would consider an optimal portfolio. We consider this a very important competitive differentiator.

The markets rebounded quite sharply from the December lows, which we did anticipate to some extent, and we were able to execute on a few ideas as well as take advantage of the deep pessimism in December. Given below is the current breakup of the portfolio:

Moat/Limited Moat	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Moat	54%	50%	42%	41%	40%
Limited Moat	26%	20%	29%	29%	33%
Moat + Limited Moats	***80%***	***70%***	***71%***	***70%***	***70%***
No Moat	11%	20%	21%	22%	18%
Regulated Utility	9%	11%	9%	8%	9%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

As can be seen above the portfolio is skewed towards Moats/limited moats. We would be nervous if the ratio of Moats/Limited Moats were to dip below 60%.

Based on Sector Breakup:

Sectors	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Auto & Auto Ancillaries	8%	11%	15%	15%	15%
Capital Goods	10%	9%	11%	15%	24%
Financials & Financial Services	17%	23%	20%	19%	18%
FMCG	14%	9%	5%	2%	2%
Information Technology	-	-	2%	-	-
Logistics	3%	-	4%	7%	6%
Materials	3%	-	5%	8%	3.5%
Other	9%	14%	5%	4%	3.5%
Pharma	15%	13%	17%	16%	13%
Telecom	11%	9%	8%	6%	5%
Utility	10%	13%	9%	8%	10%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

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We would like to highlight a few of our activities in the quarter. All of the companies being spoken about have a strong balance sheet and a healthy capital allocation policy:

We participated in an open offer of ESAB India, which was yielding us around 20%+ on an annualized (post tax returns basis) over a period of less than 2 months. Considering we were sitting on excess cash, and we felt the likelihood of the open offer to go through was quite high, we decided to go ahead with the investment. Hence the weight in Capital goods sector in this quarter was higher than our long term comfort level. Now that we have exited this position, our sector weight is within what we consider prudent.

We increased our weights in a rating agency that we were holding making it one of the largest positions in the portfolios. We are of the view that we were getting a good quality company at close to the lower end of valuation and hence most of the risks were being factored in. The company's growth prospects remain attractive.

We also increased our exposure in an auto company which was going through a tough patch with strikes at its plant due to which it lost market share during that period, We continue to believe that they would be able to hold their competitive advantage over the next several years until the new players make inroads and match their distribution advantage. They run their ship very efficiently and in our opinion one of the best managed auto companies in the world today. The company has actually managed to tackle their temporary issues and beginning to re-gain their lost market share.

Finally, we initiated a position in a company which is a leader in the defense space in the country. The market seems to be off the view that they could be losing their competitive advantage to the private sector and hence will suffer lower margins in the future. Our opinion remains that the company has been spending an appropriate amount on R&D and this being a "sensitive" industry, we believe a certain portion of the country's defense spend should continue to be allocated to them as they maintain their competitive advantage.

Regards,
Jinal Sheth
Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited

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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, 2011 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.