Multi-Act Equity Consultancy Pvt. Ltd.
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Date: 6th January 2013

Dear Fellow Investors,

Below is the consolidated performance of the PMS portfolios as at 31st December 2013.

Portfolio Performance	Equity Allocation as on 31.12.2013	Equity Returns	Total Portfolio Returns after Expenses	Benchmark Returns
Since Inception 27.01.11	70.2%	60.2%	32.9%	-0.7%
Annualised Performance		17.5%	10.2%	-0.2%
December Quarter		18.9%	13.8%	15.6%

- Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
- 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.
- Inception Date is 27th January 2011.

This quarter marked a turnaround in the markets, especially the Mid & Small Cap indices, which bounced back quite sharply from the August lows; a 26% rise vis-à-vis a 13.7% rise in the Sensex. We had anticipated this bounce in the small/mid cap indices (and indeed had highlighted that in the March 2013 newsletter) since the Mid & Small Cap indices were trading at very cheap valuations vis-à-vis the Sensex. Market participants have now begun to shift their attention to this sector and the recent out-performance has also been driven by new closed- ended MF schemes. With lock-in periods of 5 years and specifically focussed on this capitalization spectrum of the market, there is a feeling that the recent Small-Midcap space outperformance could run for a while longer.

Results of the five State Elections in November/December 2013 have added to a positive market outlook by market participants, and the anticipation of a possible change in leadership of the country in May 2014 has resulted in some buoyancy in stocks that we feel may not be entirely matched by earnings yet. Our outlook for this calendar year is slightly more muted and we have steadily been reducing the Equity exposure (now down to around 70%) after having increased it to > 80% during the decline in August 2013.

While our primary preference is to focus on valuations and earnings fundamentals on a bottom- up basis, our view is that there are heightened near term risks that emanate from the Global markets, which could lead to a "substantial" and meaningful correction in the prices of stocks. This is mainly because bullish Sentiment in the US by various measures has been running at levels similar to 2000 & 2007. Valuation measures in the US market are also as elevated as they were in 1929, 2000 and 2007. This time may be different, but usually such elevated measures have inevitably led to sharp corrections. As portfolio managers, we have increased our cash holdings in order to dial down our exposure to "risk" at a time when other money-managers are exhibiting a particular keenness to increase their "risk" exposure. While Indian markets do not have such a pronounced sentiment bias nor such an extreme over-valuation, much of the re-calibration of the Equity exposure has actually been driven simply by INCREASES in the prices of many of our holdings in many cases beyond what we feel are warranted by the current fundamentals. Given the overall environment and circumstances, both Global and Indian, and especially the dearth of valuation support amongst High Quality stocks (except in Mid & Small Caps and the Public Sector Undertakings), we feel this "natural" reduction is entirely prudent.

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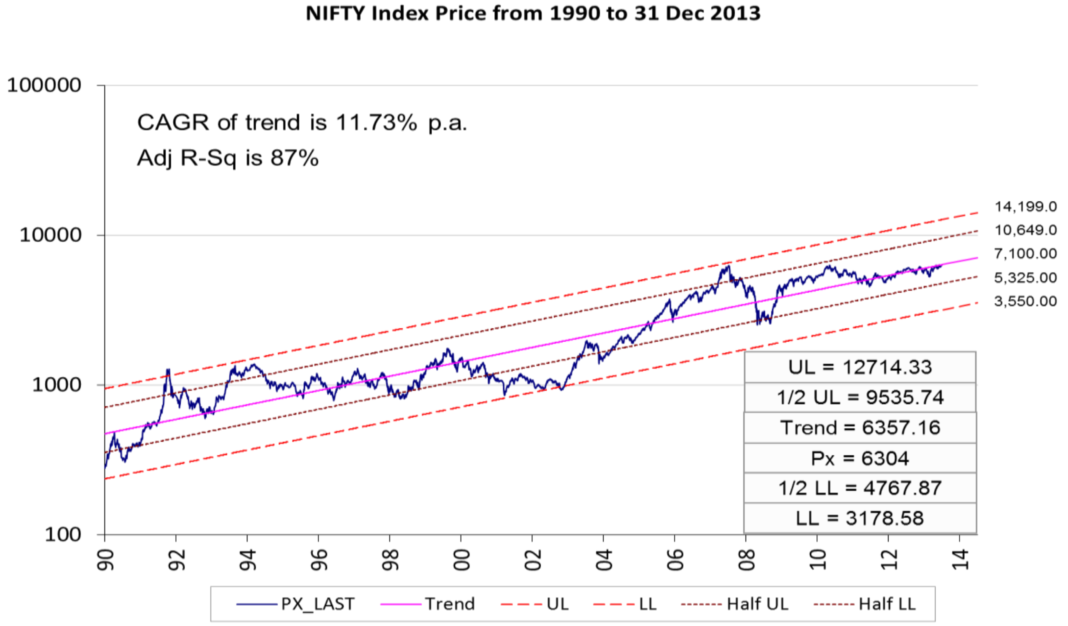
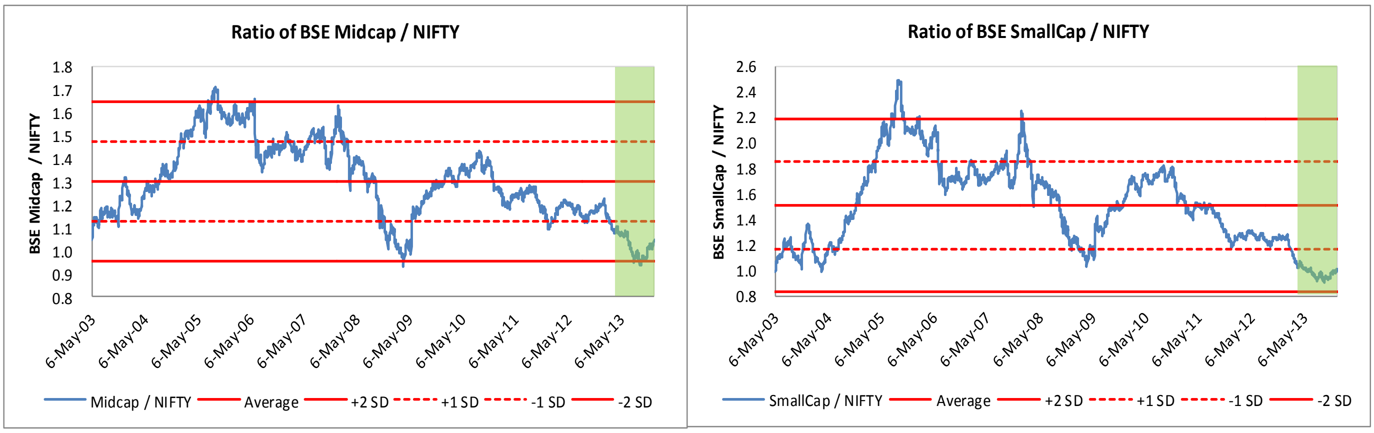
Asset Allocation:

Figure 1:



As we can observe from Figure 1 the Nifty has been tracking trend since almost a year now. The Nifty clearly is not reflective of the broad market and hence we have highlighted the midcap/smallcap ratios below in Figure 2 which highlight their continued undervaluation vis-à-vis the Nifty.

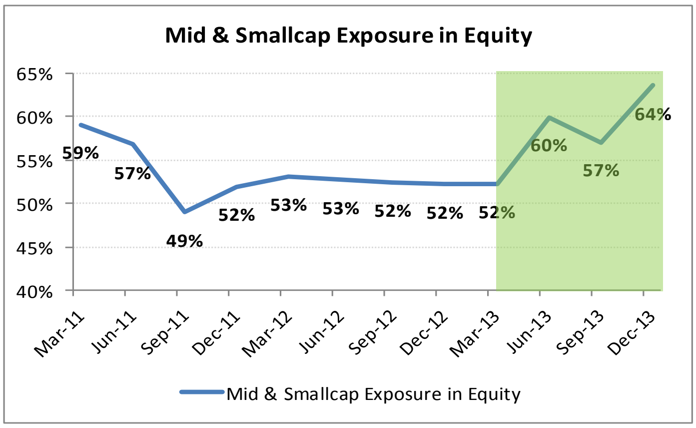
Figure 2:



In our March Newsletter we had discussed the polarization in the market between the Large Cap and Mid & Small Cap companies. As we had highlighted, this seemed to be an effect of FIIs participation in the Large Cap companies through ETFs and lack of participation by domestic funds and retail participants because of the overall negative domestic sentiment which in effect drove the Mid & Small Cap stocks down.

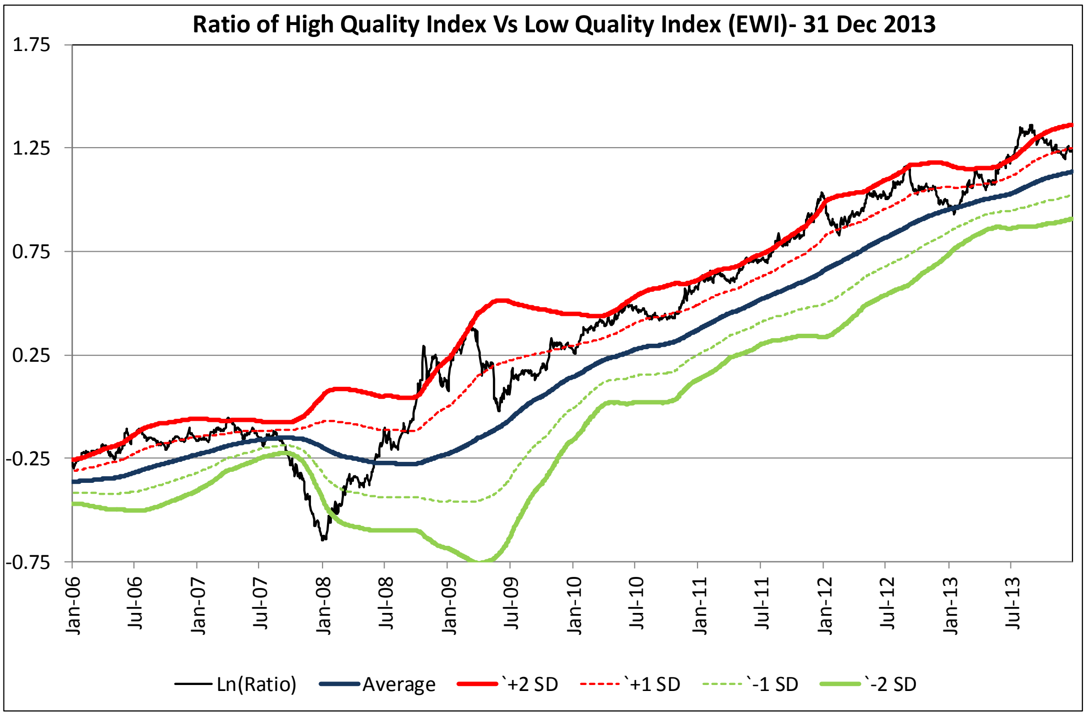
We have been using this opportunity to increase our overall exposure to the High Quality Mid & Small cap companies *(Comparable period marked in green in Figure 3 below).*

Figure 3



What we have attempted to do in effect is to increase the overall reward-risk and the quality of the portfolio without significantly adding to our equity exposure, thus improving the overall prospective return of the portfolio.

Figure 4: High Quality vs Low Quality:



HQ vs LQ ratio is the ratio of HQ index / LQ Index. HQ and LQ indices are equal weighted indices with 30 companies each. The HQ and LQ stocks have been selected based on Multi-Act grading criteria. The Ratio is used as an indicator to identify risk aversion.

The High Quality vs Low Quality ratio (Figure 4) has started correcting a bit, indicating increased risk appetite in the market. The correction in the ratio is more on account of jump in LQ names rather than a correction in HQ names (though there have been a few FMCG stocks that have corrected recently, one of which we have added to our portfolio).

Figure 5: Portfolio activities during the Quarter:

Moat/Limited Moat	Mar-12	Mar-13	Dec-13
Moat	40%	33%	37%
Limited Moat	33%	43%	42%
Moat + Limited Moats	***73%***	***76%***	***79%***
No Moat	18%	20%	10%
Regulated Utility	9%	3%	11%
Grand Total	**100%**	**100%**	**100%**

Sectors	Mar-12	Mar-13	Dec-13
Auto & Auto Ancs	15%	22%	20%
Capital Goods	24%	17%	10%
Financials & Financial Services	18%	24%	20%
FMCG	2%	-	5%
Information Technology	-	3%	-
Logistics	6%	4%	5%
Materials	4%	3%	-
Industrials	3%	10%	18%
Pharma	13%	12%	5%
Telecom	5%	3%	4%
Utility	10%	3%	11%
Other	-	-	2%
Grand Total	**100%**	**100%**	**100%**

We initiated a position in a FMCG company engaged in the male grooming space. This is an MNC with a 74% market share and has a strong Moat in the form of switching cost. There was an Offer for Sale (OFS) recently wherein the promoter had to reduce the holding to meet with the minimum public shareholding norm of SEBI and this gave us an opportunity to buy into this equity at a reasonable valuation.

We exited our position in IGL, the largest city gas distribution company in Delhi. Political climate in Delhi has taken a new turn; with a distinct preference for populist policies by the new government. There is a potential for this sentiment to have a detrimental impact on IGL's future pricing power and it seems beyond our purview to ascertain those risks. Cost of Gas for IGL is expected to go up in April with revised pricing for domestic gas sourced by the company. With the current political environment in Delhi, we are not sure IGL would be able to pass on this increase to consumers smoothly (which it could easily do in the past). Also considering the fact it was an initiating position for us, we decided to exit the position.

There seems to be a recent rush by MNC's to increase their majority stakes, with quite a few companies announcing stake increases in their Indian subsidiaries. This seems to be driven partly by the INR depreciation against the $ making the local company cheaper in Foreign Currency terms, and perhaps also by an improved outlook longer term for exports of their local subsidiaries. Hence a lot of these local MNC companies are trading at rich valuations in spite of no improvement in their earnings at the ground level.

Amongst them two of our positions benefitted because of corporate events due to which we reduced our weights in this sector.

- Glaxo Pharmaceuticals parent made an open offer to increase their stake in the Indian subsidiary from 51% to 75%. The stock had been going up on this anticipation for the past few months. We used this opportunity to reduce our stake in this company since the stock's valuation seems to be well above our valuation band. In addition to that the market is also ignoring the impact on the underlying business from the pharmaceutical policy in the short term.

- Pfizer finally decided to merge Wyeth in India (*globally they are a merged entity)*. While building a position in Wyeth, we had considered the possibility of this event in our thesis. Pfizer announced a special dividend for Wyeth shareholders, which was well received by the market. Wyeth had declined sharply in the June-August quarter and we had drawn attention to the "cheapness" of Wyeth in our interim note circulated exceptionally during that quarter. We have subsequently trimmed our position in Wyeth since the stock now trades at valuations around its intrinsic value. Going forward Wyeth, in our opinion, is likely to be driven by fundamentals which continue to remain negative in the near term (low INR vs USD, continued competition from Glaxo and the adverse impact of the pharmaceutical policy-all developments that took place AFTER we had built up our initial position in Wyeth).

We exited our only IT holding in the portfolio as the risk -reward was not favorable after the sharp rally that we saw in the stock in the past quarter.

Regards,

Jinal Sheth	Rohan Samant
Portfolio Manager	Asst. Portfolio Manager

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