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Date: 2nd July 2015

Dear Fellow Investors,

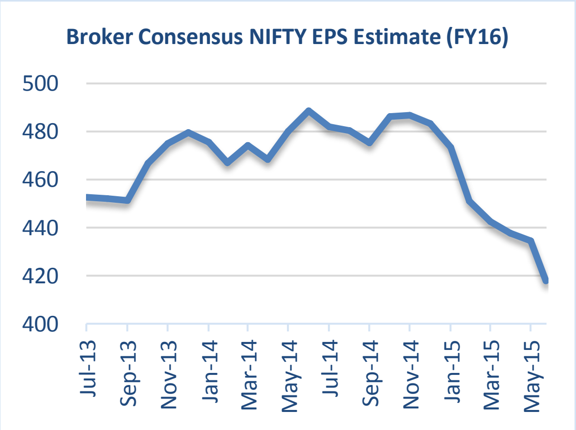
Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 30th June 2015.

Portfolio Performance	Equity Allocation as on 30.06.2015	Equity Returns	Total Portfolio Returns After Expenses	Benchmark Returns
Since Inception (annualised)		28.5%	18.7%	9.2%
June Quarter	~70%	0.08%	0.53%	-0.24%

- Benchmark returns are based on BSE 500 and BSE Mid Cap in equal weight.
- Equity allocation mentioned above is for older accounts. For newer accounts our equity allocation would be lower.
- 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.

Reality Check:

Figure 1: Declining Broker estimates



Source: Multi-Act Research. The EPS has been calculated using Bloomberg estimates for NIFTY components and respective weights.

The political euphoria built about a year ago led to extremely optimistic economic expectations. The hope driven rally-post elections- has come to a halt as things haven't improved on the ground yet and in any case the expectations were too high to begin with. As a year has passed by, the reality check of actual performance of earnings has sunk in. The last quarter saw one of the weakest ever quarters in terms of earnings growth. Broker consensus estimates for NIFTY EPS as shown in the adjoining chart (Figure 1) has corrected materially as the much anticipated "V shaped" recovery in the economy did not come through. However this rationalization of expectations hasn't meaningfully impacted valuations yet. This suggests market participants continue to give some benefit of doubt with respect to growth of corporate earnings. The hope of recovery still remains and expectations of the recovery has been postponed to the second half of FY16 or FY17. In doing so markets have started factoring in FY17 estimates to justify current valuations!

That said, the government seems to have decided to give a push to the investment cycle through investments in Railway and road projects which is certainly a positive sign. However, it is time to temper expectations as there is bound to be a long time lag between planning and execution. The true benefits of these investments though might not be immediately visible. Private investments would come through only once existing idle capacities get utilized which has not happened as of now.

Companies that cater to the consumer side of the economy have seen a slowdown especially those catering to the rural market. With monsoons looking slightly better than anticipated earlier, the trend in consumption needs to be seen going forward.

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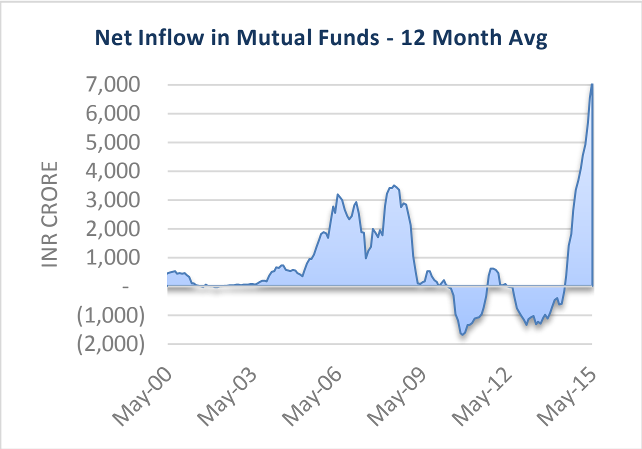
What implications do these points have on an equity investor?

We would like to once again highlight the point we mentioned in our last quarter's newsletter. An equity investor should try to ascertain how much of the "good" or "bad" news is factored in current valuations. There has been some tempering of earnings expectations this quarter, but as mentioned earlier the hope factor remains, as demonstrated in the valuations of some of the cyclical stocks. The next couple of quarters are crucial in terms of deciding the direction of the market. If the corporate earnings don't show any sign of recovery we could see further cut in expectations and a transmission of that to the valuation multiples.

Asset Allocation:

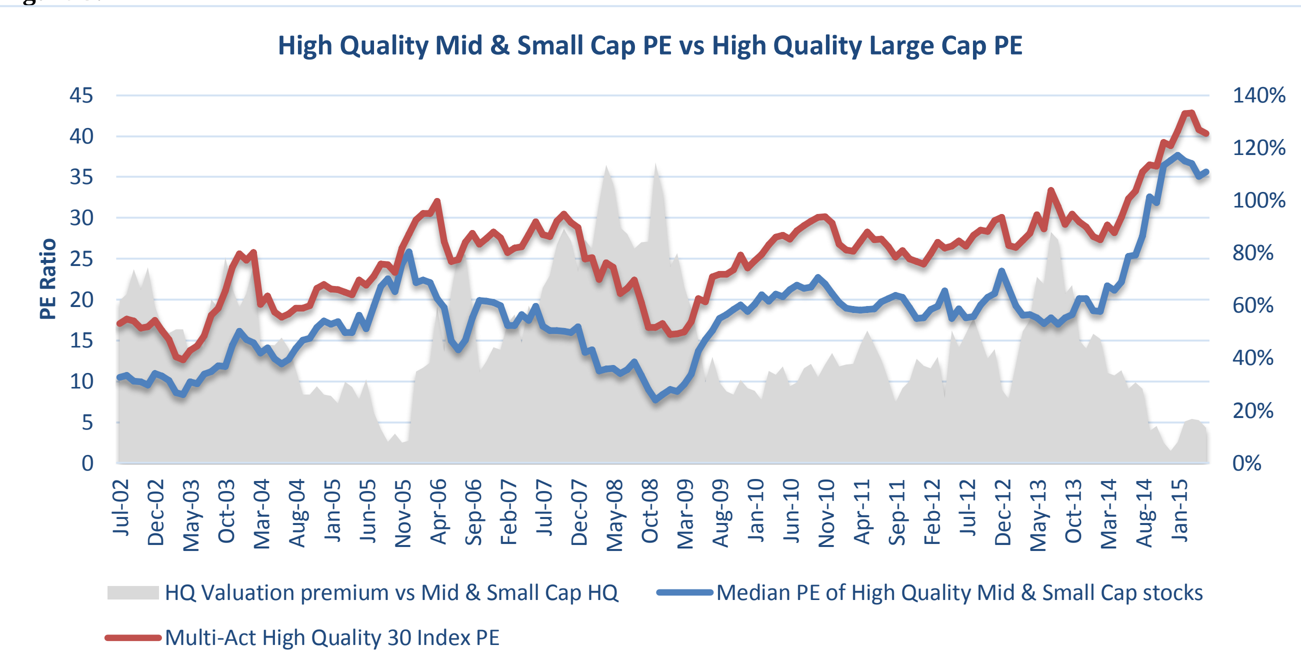
Figure 2:



Source: Multi-Act Research

The past quarter has seen a tussle between Bulls and Bears with bears leading the way in Large caps with the Nifty down 3.2%, Midcap index down 1.5% and Small caps flat. We closed the quarter flat in spite of our 65% weight in the large caps which declined the most in the quarter. Average money flow into Mutual funds have touched close to INR7,000 crores in the last 12 months. As per our estimates around half of this money is going into Mid & Small Cap stocks. Generally we have seen large caps get a more disproportionate share as compared to mid & small caps. But significant outperformance of mid and small caps from the bottom of 2013 has led to a retail participant's preference for mid and small cap oriented mutual funds and thus the deployment by the mutual funds in that section of the market.

Figure 3:

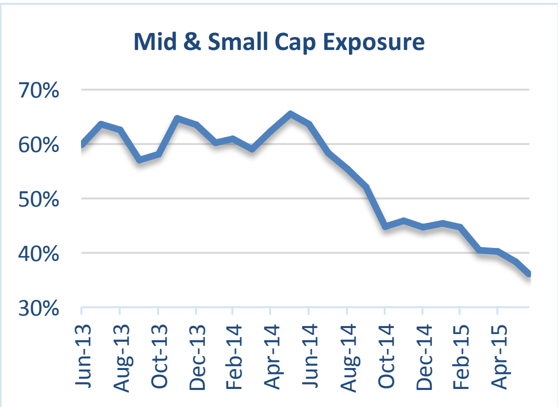


Source: Multi-Act research

The above chart shows how the PE multiple of our proprietary High Quality index (red line) and median PE of mid & small cap high quality stocks (blue line) has moved. The gap between the two can be inferred as the valuation premium that larger high quality companies are getting over the mid & small cap high quality companies, which we have shown as the grey chart. As can be seen retail money flow into mid and small cap space (through mutual funds) seems to have led to a significant reduction in valuation premium between the large cap high quality vs the mid & small cap high quality section of the market. Thus not only are we in over valuation zone for high quality stocks in general, within that the Mid & Small caps seem to be the most overvalued in terms of their historical multiples. Market participants seem to be attributing a huge premium for growth with respect to small/mid cap companies, which we believe increases the scope of disappointment in case there is a delay in the earnings recovery.

Market participants could be thinking – "This time is Different". What are we thinking?

Figure 4:



Source: Multi-Act Research

Our focus on valuation which is one of the important set of decision drivers, has instead led us to cutback our exposure (Figure 4) in the Mid & Small cap space.

But none the less, post the current correction in the market and some rationalization in expectations of market participants we have been able to increase our overall equity weights in the current quarter from ~60% to 70% mainly in the large cap space. Any sideways or negative movement in the market would help us to further increase our weight as valuations start catching up with the stock prices at least in some segments of the market which is of current interest to us.

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Figure 5: Business Model and Sector Allocation:

Moat/Limited Moat	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Moat	32%	40%	39%	49%	49%
Limited Moat	42%	35%	36%	26%	27%
Moat + Limited Moats	***74%***	***75%***	***74%***	***74%***	***76%***
No Moat	14%	12%	12%	12%	12%
Regulated Utility	12%	13%	14%	13%	11%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
FMCG	13%	20%	22%	27%	27%
Auto & Auto Ancs	21%	20%	19%	20%	20%
Financials & Financial Services	19%	16%	16%	15%	17%
Industrials	21%	14%	12%	2%	2%
Utility	12%	12%	12%	13%	11%
Information Technology	3%	7%	8%	8%	9%
Telecom	3%	4%	5%	6%	5%
Pharma	-	3%	3%	7%	8%
Materials	-	-	2%	2%	1%
Capital Goods	8%	3%	-	-	-
Logistics	-	-	-	-	-
Other	-	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Portfolio Activity during the quarter:

During this slight correction that we witnessed in the past quarter we have been mindful of where we have been increasing our weights. Along with valuation comfort we have tried to focus on names which the markets have been shunning for reasons which we believe are temporary in nature.

Additions:

We increased our weights in some of our existing Banking, Pharma and FMCG holdings.

We have added an IT company which is focused on the product side rather than the traditional services side of the market. The company is one of the largest players in its market segment and has a strong moat in the form of switching cost as users find it extremely difficult to shift to another vendor.

We added an FMCG company which corrected sharply in the quarter on account of certain regulatory issues regarding one of its products. We believe this is a temporary issue and in no way affects the long term earnings power or moat of the business.

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We have taken only a small weight in these two companies as the valuation comfort is not so high that would warrant a significant weight at this stage. We look to increase our weights at an opportune time and price.

Warm Regards,

Jinal Sheth
Portfolio Manager

Rohan Samant
Asst. 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, 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.