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Date: 5th July 2013

Dear Fellow Investors,

Below is the consolidated performance of the PMS portfolios as at the end of June 2013.

Portfolio Performance	Equity Allocation as on 30.06.2012	Equity Returns	Total Portfolio Returns after Expenses	Benchmark Returns
Since Inception 01.02.11	73.7%	40.0%	20.1%	-10.3%
Annualised Performance		14.9%	7.9%	-4.4%
June Quarter		3.5%	2.5%	-0.9%

- 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.

The US Federal Reserve Banks announcement that they would consider a slowing down of Quantitative Easing (QE) had its impact on global markets in the last fortnight of June. In India, we have witnessed high volatility across asset classes - a weakening rupee, hardening bond yields and abrupt declines in stock indices from their May 22nd highs as correlations with global market movements have increased. Even as the domestic institutions bought nearly Rs.8,500 crores of equities, FIIs sold almost Rs.11,400 crores.

While the announcement from the Fed was unexpected in that it was earlier than envisaged, given earlier comments from the Federal Reserve about various guideposts about the economy, some sort of announcement about a slowdown in purchases of bonds was always likely. We feel that there is a great deal of misunderstanding by market participants about the nature, impact & efficacy of QE ("money printing" as it is widely known as) and in turn by the Fed Governors about the way markets work. We would like to elaborate on this as we think QE and "to taper or not to taper" are going to be the macro phrases du jour. The crux of the issue is that the Central Banks see QE's benign effects through its "stock" effect whereas we believe that the efficacy in levitating asset markets is a "flow" effect. What we mean is that Central Banks believe that through the purchase of bonds (thereby reducing the percentage of bonds held in the balance sheet of market participants), investors will 'permanently" be willing to hold the "risky" assets. We believe, QE is a "flow" effect, in other words, market participants are sensitive to the annual/monthly purchases-in fact, it is actually the derivative of the "flow" that keeps asset markets levitated through the widespread fostering of "moral hazard "and therefore a 2nd order effect-any reduction in the "flow" will prompt a rush for the exits. Watch this space as we find out which view is correct!

Nevertheless as investors tasked with the duty to find "mispriced" assets no matter the macro environment, we would like to highlight one pocket of the financial sector which indicates extreme pessimism due to a negative business environment.

<u>Public Sector Banks vs Private Sector Banks:</u>

The banking sector, we believe, does not enjoy any durable long term competitive advantage. Hence Banks would always be a special situation for us. Certain banks might be better than others because of a better liability franchise (low cost deposits) or better asset quality & loan underwriting (low NPAs/stressed assets) but on the whole banks should broadly earn the cost of equity on their net worth *over a full credit cycle*. Some banks like HDFC Bank are better on both fronts, but these are by and large rare exceptions. While it is true that the majority of the private sector Banks have better asset quality the market usually prices such widely known information. We believe any investment decision needs to be influenced by the discrepancy between the price and an estimated "value". Currently we see such discrepancy in terms of the discount that PSU banks quote as compared to private sector Banks.

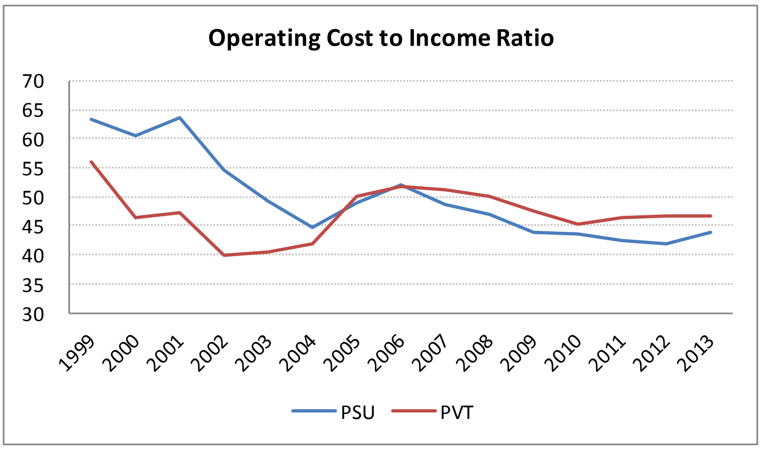
Let's compare a few financial parameters of the two sets of Banks:

	PSU	PVT
No of Banks Considered	14	12
Return on assets (ROA - 15 Year Avg)	0.98%	1.25%
Return on equity (ROE - 15 Year Avg)	19.6%	16.8%
BV Growth (10 Year CAGR)	18.3%	20.0%

Simple Average taken in each set, as weighted average would more or less reflect the numbers of the largest Bank in that set.

It is a known fact that loan underwriting of private sector banks is better than PSU banks because of the manner in which PSUs are managed. But if we look at long term numbers of both sets of Banks, the differential is not as large as one would imagine. If we look at the long term history, the Book Value growth of both the sets of Banks is similar. On the profitability (ROA) front private sector banks are better than PSU Banks but because of higher leverage PSUs generate higher ROEs.

There is also a perception in the market that PSUs are not good at managing their expenses especially on the employee side because of social/political compulsions. But if we see the Operating Cost/Income ratio of PSU vs PVT, PSUs have actually been able to improve their efficiency over time and now are at par (slightly better) than private sector Banks.



Ratio of Operating Cost divided by Total Income.

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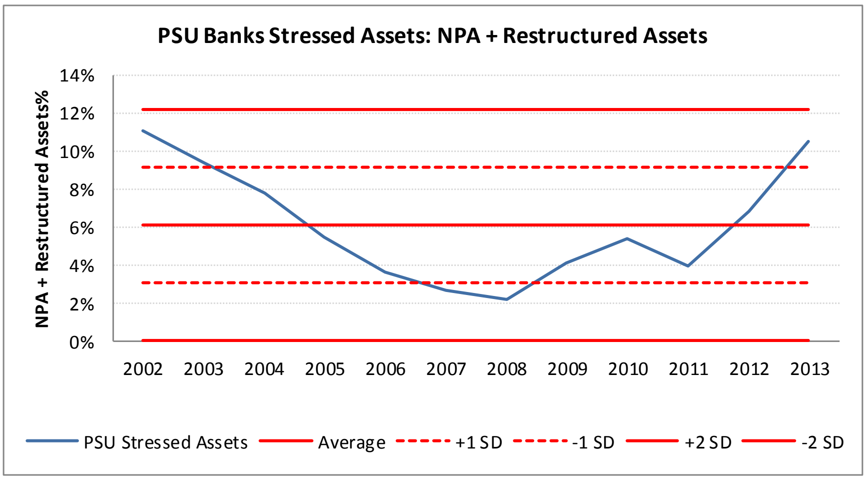
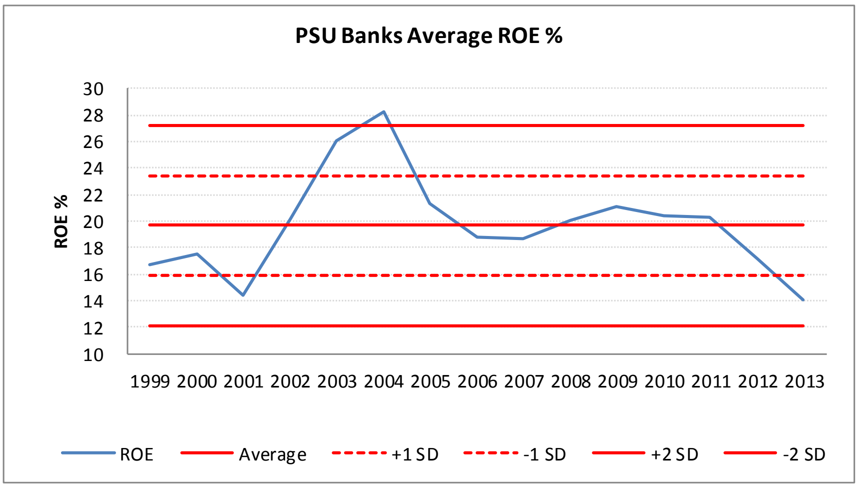
NPA cycle:

Non Performing Assets are cyclical and we believe are mean reverting. In a bad economic environment NPAs are bound to move up. And as PSUs have relatively poor loan underwriting, their asset quality is impacted more. But unless one is of the view that we are in a long recession, the NPA situation of these banks would improve once the economy starts improving.



PSU Bank NPAs had been structurally declining since early 1990s.We have considered 2002 as the initial peak of the NPA cycle for PSU Banks which coincides with Private Sector Banks NPAs, which had peaked in that year.
Source: RBI, Multi-Act Research

We are of the view that we are close to the peak of the stressed assets cycle for the PSU Banks. As can be seen in the chart above we are close to the 2002 NPA levels after considering the restructured assets. Because of the current asset quality issues, profitability of the PSU banks has also touched all time low levels *(Refer ROE chart below)* and should improve once the mean reversion in NPAs takes place. Thus feel that we are at point *from which one can expect things to improve*. Market participants however are pricing these two sectors as though the current circumstances are expected to continue over an indefinite horizon.



Simple Average of 14 PSU Banks

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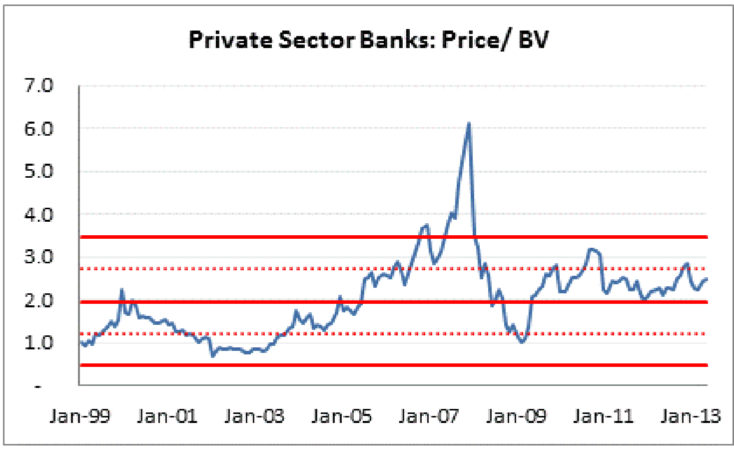
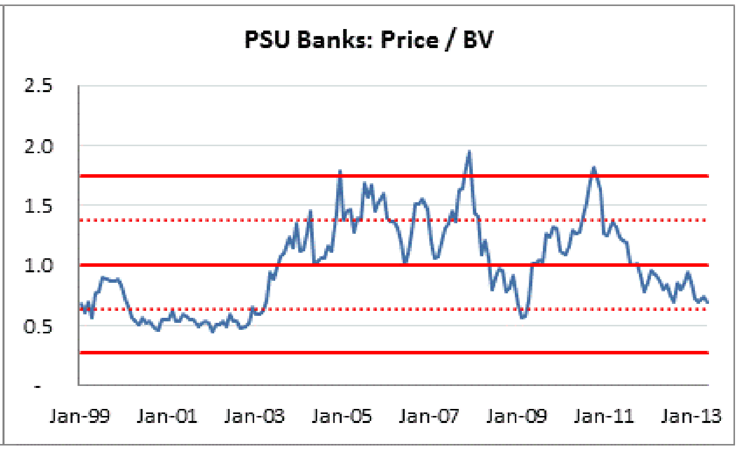
Valuation Differential:

Chart: Private and PSU Banks Price/BV:

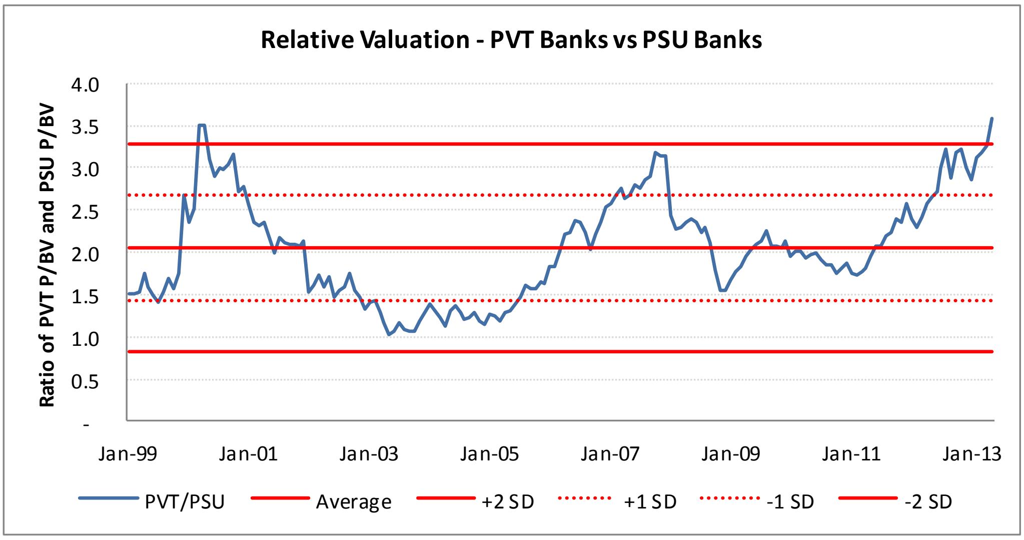




Above charts reflects the Average P/BV of 12 Private sector Banks and 14 PSU Banks. We have used simple average as we don't want a few large banks to distort the picture.

In absolute terms, PSU Banks are trading at multiples seen in 2001-03 and 2009 period while Private sector Banks are trading at 2006-07 and 2010-11 levels. Considering the points we discussed earlier, the valuation difference between PSU vs PVT seems too large to ignore. In fact the valuation premium associated with the Private Sector Banks has touched an all-time high. The chart below shows the relative valuation gap between the Private Sector Banks and Public Sector Banks. The Ratio of Private Sector Banks P/BV v the PSU Banks P/BV has touched +2 Standard Deviation. What this implies is that the divergence in valuation between public and private sector banks has reached an extreme and a reversion to mean should happen either by valuations of Private banks coming down or an upward revision in valuation of Public Sector Banks. On a Reward-Risk basis, we feel the Public sector Banks could be attractive both on relative and absolute basis.

Chart: Relative Valuation – Private Banks Price/BV vs PSU Banks Price/BV:



Above chart reflects the ratio of P/BV of Private Sector Banks vs Public Sector Banks

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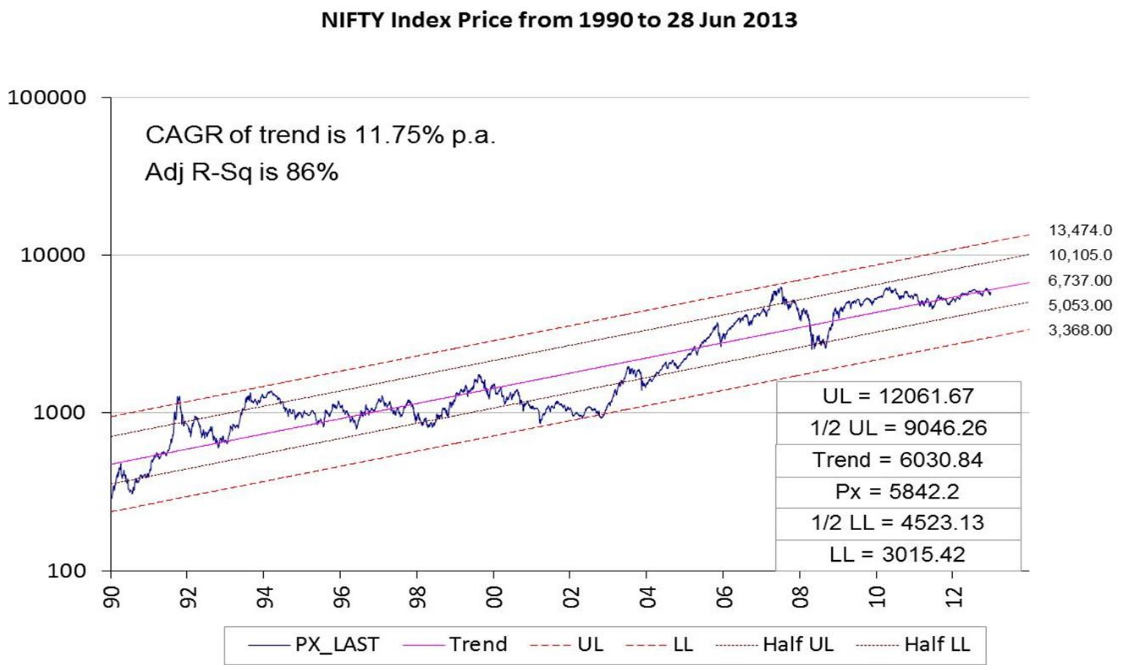
Majority of the Private Sector Banks are currently trading at or above the higher end of our valuation range (a few are not – one is in our portfolio). This suggests that a prospective return from an investment in these banks is very low. To quantify the prospective return, the **maximum** these Banks can deliver in terms of capital appreciation is only the underlying Book Value growth (~20%) assuming the current VERY high multiples prevail (greater fool theory). Thus there could be a risk of drawdown in some banks if the current multiples don't sustain irrespective of the business developments.

On the other hand the majority of the Public Sector banks are currently trading at or below the lower end of our valuation range. Thus these Banks currently have high prospective returns. To quantify the prospective return, the **minimum** these Banks can deliver in terms of capital appreciation is the underlying Book Value growth (~18%). In addition because of the reversion to mean nature of the banking business (in terms of NPA cycle and profitability), we can expect these Banks to trade somewhere between our valuation range, if not the higher end of our valuation range as the NPA's revert back to the mean. The major risk to our assumption is the time it may take for the turn in the NPA cycle. These banks as per our estimate have **prospective returns of 40-60% (CAGR)** from a two to three years perspective.

How have we placed ourselves in the current scenario?
At the current juncture one has to work against strong behavioral forces and take a contrarian view that if we can identify PSU banks with relatively better asset quality (both historical as well as current), such banks would be able to sail through the current bad patch and when the reversion to mean happens in the profitability cycle, we would see our current prospective returns materialize. We have been increasing our PSU Banks exposure and currently have ~6.5% weight in 2 PSU Banks (fitting our criteria) and 2% weight in one Private Sector Bank.

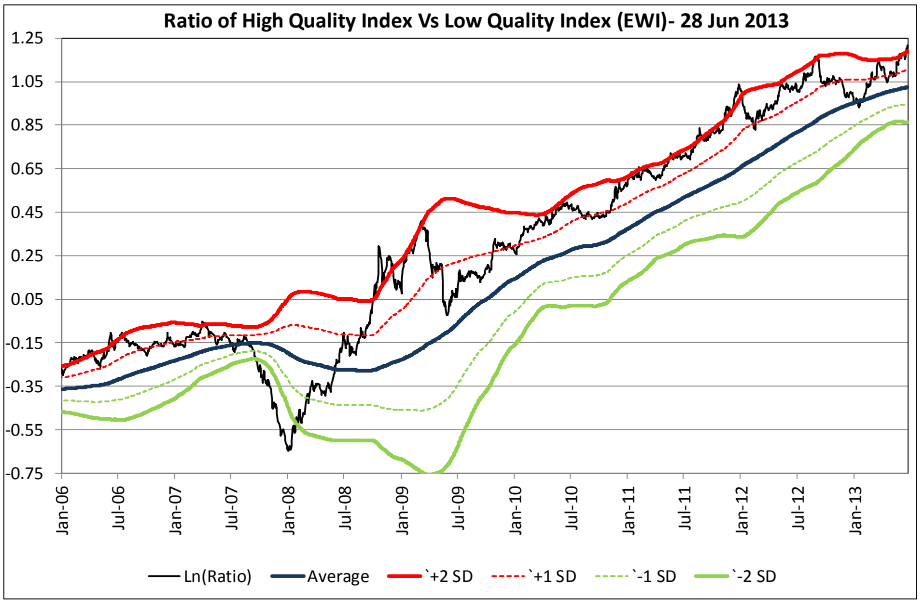
Asset Allocation:

Figure 1:



Whilst the Nifty seems to be trending down slightly, what is not evident from this is the 'split' nature of the market, where the small and mid cap stocks have fallen harder and a few of them are available at steep discounts to fair value. This has provided us with a window of buying opportunity and we have increased our equity allocations. Based on our RARI framework, we would like to increase our equity exposure to around 75% and maybe higher, provided we get stocks at desirable price points.

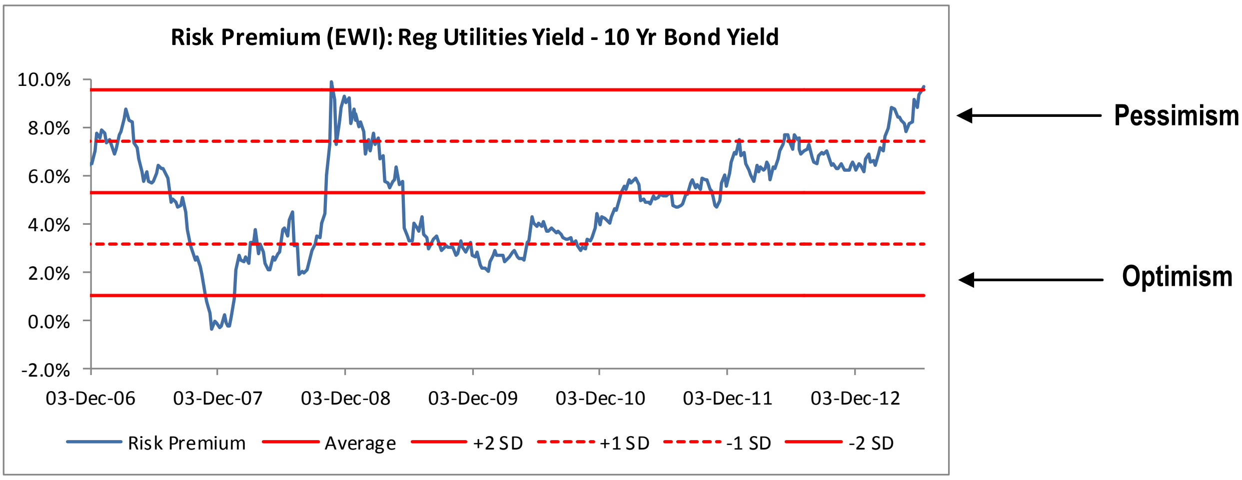
Figure 2: High Quality vs Low Quality:



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.

This Index continues to highlight risk aversion and relative outperformance of the High Quality stocks extending. We continue to buy in to HQ stocks that are available at reasonable prices within our RARI framework.

Figure 3: Regulated Utilities Risk Premium:



Regulated utilities Risk premium is the difference between the IRR based earnings yield of 5 companies and the 10 Year GOI bond yield. This measure tries to capture the risk premium that market participants are associating with these regulated entities which have relatively stable businesses. Thus it highlights the optimism/pessimism amongst market participants. We have shifted this Index from a MCap weighted to an Equal weighted to give better representation to all the companies.

The Risk premium has touched 2009 levels for the regulated utilities which indicate high level of pessimism. But as all the regulated utilities that form part of this index are PSUs, there is some level of PSU discount also factored in their valuations.

Figure 6: Portfolio activities during the Quarter:

As a portfolio manager, it is necessary to maintain a fine balance between buying something cheap with no immediate trigger (with no catalyst the stock could continue to remain cheap for a long time) and buy something ONLY relatively cheaper but with some level of earnings momentum. With the former the time horizon would be longer but so would the long term prospective return and with the latter the time horizon would be shorter while the short term prospective return would be slightly lower.

Moat/Limited Moat	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Moat	40%	40%	37%	35%	33%	31%
Limited Moat	33%	30%	34%	40%	43%	44%
Moat + Limited Moats	***73%***	***70%***	***70%***	***75%***	***76%***	***75%***
No Moat	18%	21%	22%	21%	20%	18%
Regulated Utility	9%	9%	8%	4%	3%	7%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-12
Auto & Auto Ancs	15%	17%	19%	25%	22%	22%
Capital Goods	24%	18%	17%	17%	17%	16%
Financials & Financial Services	18%	20%	23%	23%	24%	23%
FMCG	2%	-	-	-	-	-
Information Technology	-	3%	3%	5%	3%	2%
Logistics	6%	6%	5%	4%	4%	3%
Materials	4%	-	-	-	3%	3%
Industrials/Others	3%	4%	1%	6%	10%	13%
Pharma	13%	16%	19%	13%	12%	8%
Telecom	5%	6%	5%	3%	3%	3%
Utility	10%	9%	8%	4%	3%	7%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Stock reductions:
This quarter saw some level of trimming in some of stocks where we felt the current prices were in excess of company's intrinsic value and not accompanied by improvement in business fundamentals. Some of them are highlighted below:

We are positive on the auto and auto-ancillary sector. We have made a full exit from a stock where the rise in price was not justified in our view and when the price corrects, we will perhaps re-invest. Our HQ/LQ analysis also shows that in these trying market conditions, there is a huge premium to high quality stocks. These premium prices do not leave much room for any reasonable prospective return should the market stop giving such high premiums for the perceived "safety" of the business models.

In the pharma sector we part exited our position in one stock as the price rise was getting fuelled more by the rumour of an open offer by the parent company rather than by reasons of valuation. In fact, there could be some short term pressures on the margins if the proposed drug policy changes of the government materialise.

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Stock additions:
We have increased our position in a high quality MNC abrasives company stock due to favourable developments. The parent company has a few wholly owned subsidiaries in India. Of these, they picked up only the profitable ones and have merged it in to the listed entity at valuations that are quite favourable to minority shareholders. We view this as a demonstration of good Corporate Governance.

We initiated in a regulated utility which is in the business of Coal based power generation. Regulated utilities are quoting at levels which provide decent prospective return considering the low risk profile. This stock specifically has come down because of the "PSU discount" (as discussed in our last Newsletter) and also because of the temporary coal shortage faced by the company. Both these issues we feel are short term in nature. Our initiation was also influenced by falling bond yields which should be a positive for regulated utilities which ideally should trade at "mean reverting" spreads to Government Bonds.

Regards,

Jinal Sheth	Rohan Samant
Portfolio Manager	Asst. Portfolio Manager

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