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Date: 1st April 2015

"All of humanity's problems stem from man's inability to sit quietly in a room alone." – Blaise Pascal

Dear Fellow Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 31st March 2015.

Portfolio Performance	Equity Allocation as on 31.03.2015	Equity Returns	Total Portfolio Returns After Expenses	Benchmark Returns
Since Inception (annualised)		30.4%	19.8%	9.8%
March Quarter	61%	7.8%	5.7%	2.6%
1st April 2014 – 31st March 2015		74.7%	47.5%	41.4%

- 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.

Indices	Performance in the quarter
Nifty	2.5%
BSE Midcap	2.1%
BSE Smallcap	-1.8%
M&SSP	5.9%

For the past month or so benchmark indices seem to be losing steam. Funds have been moving out of small/midcap to the more defensive large caps. We were pro-active in shuffling our weights to the mid & large cap defensive names with valuation comfort and that has helped us out-perform our benchmark indices recently. We had also raised our cash allocations.

We also observed a rotational shift happening from the Indian markets to other Emerging markets. Most emerging markets have outperformed the Indian markets in the past quarter, led by China, which supposedly has valuation support. It is also an indication that our markets had run ahead of fundamentals.

Nevertheless, India allocations (for equities) currently in the regional benchmark funds are running at an all-time high of 12% vs the benchmark weight of 7.7%. Should the ardor for India undergo a more serious re-examination, there could be a sharp increase in FII outflows. While India's macros are benign relative to the other BRICS nations, it is our belief that most of the positives seem to be priced in.

Further unlike other markets, the biggest risk the Indian market currently faces is the gap between valuations and fundamentals. There was a glimmer of hope with some recovery in auto numbers but even that has now stagnated since the last quarter. Corporate earnings growth would have to be far higher than what was reported in the most recent quarter to justify market valuations which have already factored a recovery which does not exist yet at the ground level.

Mispriced Optimism:

The job of an "active" fund manager is to identify and exploit opportunities in the market that have favorable reward versus the risk. Thus, a long-only fund manager like us, is constantly searching for "mispriced" securities which are either mispriced in terms of valuation (i.e. they are "cheap") or mispriced in terms of discounting the growth opportunity (i.e. at a given value they are not factoring in the growth opportunity).

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In the current market we are unfortunately finding many overpriced securities in certain sectors. For example, in the Auto ancillaries and Industrial sector the growth opportunity from any "potential recovery" has led to factoring in of the best case scenario today itself.

The table below illustrates the Mutual Funds over weighted and (under) weighted sectors and our estimate of the relevant Price/Fair Value. A Price/Fair Value > 2 x's in our opinion reflects very expensive valuations.

Figure 1: Mutual Fund Sector over/under weight:

Sector	Mutual Funds Overweight / (Underweight)	Price/Fair Value
Auto & Auto Ancs	45%	2.24
Financials	23%	1.50
Industrials	19%	2.11
IT	9%	1.67
Consumer	-14%	1.92
Metals & Mining	-58%	0.88

Source: SEBI, Multi-Act Research.
Mutual Fund Overweight/(Underweight) indicates the relative sector exposure as compared to long term average for that particular sector.

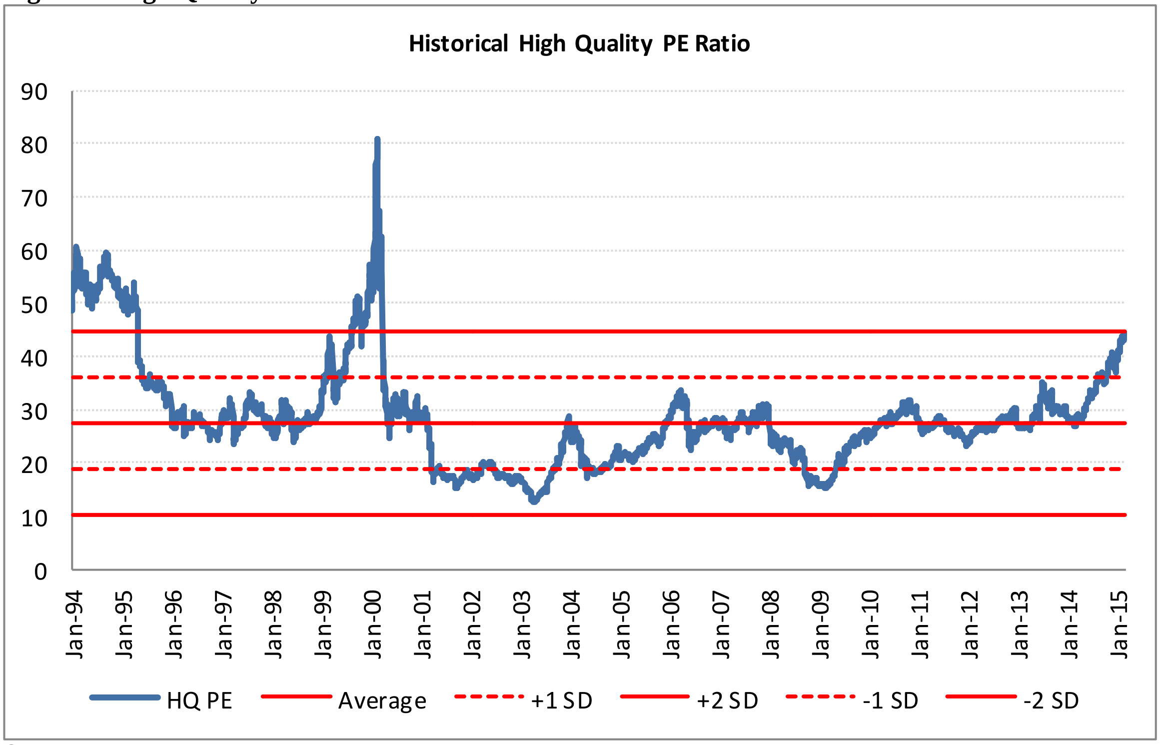
On the other hand we have a sector like Metals & Mining which looks "cheap" but for a reason in that underlying commodity prices have declined. The sector cannot yet be considered as mispriced, as the stock prices are still merely reflecting current commodity prices. We would consider the stocks as mispriced only when the worst starts getting priced in, so for example, the most efficient producer trading at a stock price that implies that the underlying metal price will remain at -1 standard deviation of the inflation adjusted long term average for an indefinite period would suggest a potential mispricing. Thus in our opinion it is still a bit early to build any meaningful exposure to such stocks, though this is the only sector that looks promising, for finding some potential ideas going forward.

"You can't buy what is popular and do well" – Warren Buffett

Asset Allocation:

In our December Newsletter we had shown the Multi-Act High Quality Index PE chart from 2002. This time we would like to go further back in the past to show the earlier extremes. While the previous extreme P/E ratios were a fair bit higher, we are still in an overvalued zone (close to +2 Standard deviation of the long term mean). (*Note: Prior to 2002 the PE is not an actual index PE, but just a simple average of PE of High quality companies. Our High Quality Index has been compiled from 2002)*

Figure 2: High Quality Index PE chart:



Source: Multi-Act Research.

This chart again highlights the point our high (~39%) allocation to cash. Being a long-only portfolio focused on High Quality companies we are unable to find securities that currently provide a reasonable prospective return for the risk being taken.

We illustrate how low the prospective returns being priced in at current levels in the table below:

Figure 3: Estimated 3 Year Prospective Return from High Quality Index:

Assumed Underlying Business Growth	3 Year Prospective Return
15%	-1.90%
18%	0.70%
25%	6.70%

The above prospective return has been calculated based on 3 different underlying business growth assumptions. High Quality Index earnings have grown ~18% in the last 10 years. Assuming in the next 3 years the underlying businesses grow at this long term historical average of 18% and the valuation multiple reverts back to mean, the prospective return would be only 0.7%. This is an extremely low prospective return as compared to our hurdle rate and even lower than the current risk free rate. Even under the assumption of 25% underlying growth the prospective return just comes close to the risk free rate. The underlying businesses of High Quality index constituents have to grow at 33% for us to be confident of meeting our requirement of a 13% return. Such a high assumption for the underlying return is not comforting and hence we continue to remain cautious.

Figure 4: Business Model and Sector Allocation:

Moat/Limited Moat	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Moat	33%	32%	40%	39%	49%
Limited Moat	45%	42%	35%	36%	26%
Moat + Limited Moats	***78%***	***74%***	***75%***	***74%***	***74%***
No Moat	12%	14%	12%	12%	12%
Regulated Utility	11%	12%	13%	14%	13%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
FMCG	5%	13%	20%	22%	27%
Auto & Auto Ancs	24%	21%	20%	19%	20%
Financials & Financial Services	21%	19%	16%	16%	15%
Industrials	20%	21%	14%	12%	2%
Utility	11%	12%	12%	12%	13%
Information Technology	-	3%	7%	8%	8%
Telecom	4%	3%	4%	5%	6%
Pharma	-	-	3%	3%	7%
Materials	-	-	-	2%	2%
Capital Goods	9%	8%	3%	-	-
Logistics	6%	-	-	-	-
Other	2%	-	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**

Our Auto & Auto Ancs exposure has increased though readers would notice that we had brought attention to the Auto Ancs space to be potentially the most crowded trade in the earlier part of the newsletter. This however is on account of our exposure to 2 wheeler's which the market has shunned in the current quarter and which we have discussed in the next section.

Portfolio Activity during the quarter:

At Multi-Act we continuously strive to improve our process in our pursuit to deliver superior risk adjusted returns to investors. During the past quarter we have made some adjustments to our portfolio by reducing the names and increasing the weights of those names where our estimated prospective return is reasonable. As you can see from the above table, we have shifted our weights to some of the HQ names which continue to have earnings momentum along with valuation support.

Exits:

This quarter we completely exited Maruti, FAG Bearings, Grindwell Norton, ESAB India and PFC.

In the case of Maruti, FAG and Grindwell Norton, the valuations according to us, were factoring extremely optimistic growth assumptions. Thus even if the best case scenario would have eventuated the prospective return wasn't high enough to justify holding on to these stocks considering the downside risk in case such an implausible scenario did not occur.

PFC has moved up sharply from its August 2013 bottom. But in terms of their business, things haven't improved substantially. The pace of State electricity Board (SEB) taking price hikes has slowed down and it seems the trend of "kicking the can down the road" in terms of the SEB balance sheets has continued. Rescheduled loans as % of total advances had also been going up. On the positive side though, the coal mining reforms would bring some relief to coal starved power projects. Our weight in the stock was not substantial and hence we decided to exit rather than increase our weight given the continuing mediocre operating environment. The stock was not expensive and we might introduce it back to the portfolio should the price go down or even at the same price if we see some genuine improvement on ground.

ESAB India had moved up on the bourses but the company has not been able to deliver on earnings, in fact profitability had deteriorated further in the last couple of quarters or so. There is no clarity in regards to the direction the business is heading. Again we did not have a substantial weight in the stock and we felt at this juncture with no real improvement in the business, the prospective return didn't justify holding on to the stock.

Additions:

We believe there is opportunity being created in the two-wheeler space. Both two wheeler companies in our portfolio have corrected from their peak and we have been adding back weight in these names. One of the companies in particular has corrected a lot on account of specific issues. The company been losing market share in a segment which is not its core strength and does not meaningfully contribute to its sales & profits. Their strength has been their export markets (which constitutes more than 50% of sales and has the likelihood to move up to 70% of sales in due time). We feel there seems to be some temporary disruptions in these export markets which participants are extrapolating due to "uncertainty" about the time line of these disruptions. We believe that investors could be failing to give due credit to the company for the distribution that the company has managed to build in its export markets over a period of time. We believe this distribution network is difficult to replicate. We believe the stock has more upside than downside over a medium to long term horizon and being a strong cash flow generating business, we have increased our weights and would take it up further should there be an opportunity.

We initiated a position in a MNC Pharma Company. The domestic pharma sector in India has gone through quite a few hurdles in the last couple of years due to the pharma policy. Majority of those have been clarified. We believe lots the MNC pharma companies have been neglected because of the uncertainty factor related to the policy and the policy impact on sales and earnings. This company is one that we believe has a very strong product portfolio with focus on those therapeutic areas which are amongst the fastest growing categories. Strategically, their investments have been made for the longer term and hence we believe they are well placed to capitalize on domestic growth.

Regards,

Jinal Sheth	Rohan Samant
Portfolio Manager	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.