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Date: 1st Jan 2016

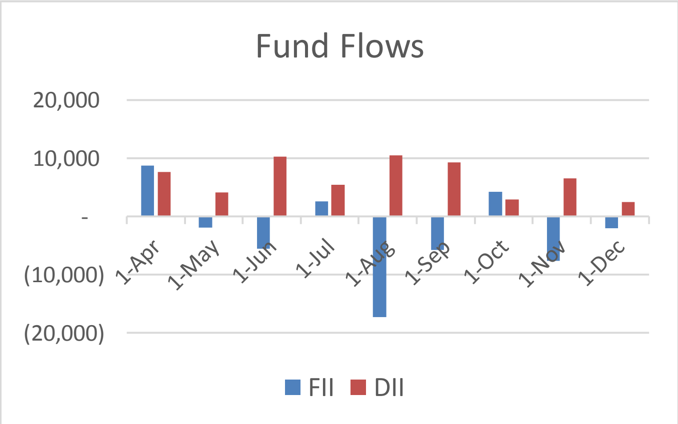
Dear Investors,

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

Portfolio Performance	Equity Allocation as on 31.12.2015	Total Portfolio Returns After Expenses	Benchmark Returns
Since Inception (annualised)		17.6%	8.4%
December Quarter	~76.5%	2.5%	2.2%
1st April 2015 – 31st December 2015		4.6%	0.7%

- 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 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.

In this most recent quarter just ended, markets continued to remain weak with the Nifty continuing its decline and mid-cap indices consolidating. This behavior reflected a largely technical situation. FII's (facing redemption pressure in anticipation of a Fed hike), remained net sellers in the quarter selling approx. Rs 6,000 crores of primarily Large Caps. Domestic mutual funds conversely bought Rs 12,000 crores of primarily mid-caps driven by strong domestic retail participation. So far in this fiscal year, FII's have sold ~ Rs 24,500 crores and DII's have purchased Rs 59,000 crores. Since 2008-9 this is the first year that FIIs have been net sellers.



Corporate India in the meantime has been grappling with delays in the much anticipated economic recovery. They continue to remain cautious and hesitant on spending on capital expenditures. Considering capacity utilization levels which remain low and Balance Sheets which remain stretched both the business case and financial case for a spurt in capital expenditure remain difficult to foresee.

Falling Crude prices have been net positive for the economy and have perhaps boosted the fortunes of corporates with pricing power. Inflation has been under control, which has helped the RBI to take tentative first steps to cut rates. The Government has on the other hand stepped up investments in Roads and Infrastructure. This could in turn give a push to the investment cycle with the possibility that the benefits of its investment would trickle down into the private sector over time.

Indeed, this Government's initiative in the power sector (UDAY) to reform the troubled sector is actually much better than the earlier failed reform attempt (FRP) in 2012. This time round, State Governments are being made accountable as the incremental SEB losses are proposed to be transferred to the State Government budget and would be included in the FRBM calculation for the State. This would free up the Banks from holding these stressed assets on their balance sheet.

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Bankruptcy code reforms as and when implemented would be an additional positive for the financial sector and could further enable hard decisions being implemented in rationalizing assets which are currently unproductive.

Thus amidst these positive and negative cross currents discussed above, we are witnessing a rationalization of expectations and valuation in the case of Large Cap indices. At the same time growth expectations which have been built in the valuations of the Mid and Small cap indices to us feel elevated, primarily on account of DII & retail support. In some sense this relative performance between the Large Cap indices and Mid & Small Cap indices is almost the mirror image of the period in September 2013.With the right intent of the Government and policy changes taking shape, albeit at a slow pace, it would not surprise us if key elements for a recovery fall in place.

The Boring Large Caps vs exciting Mid & Small caps!

In our interactions with clients and prospective clients many of them take as a given that Larger businesses that are mature grow at much slower pace as compared to small or medium size businesses. Thus, the central assumption seems to be that surely high returns can only be made in mid and small capitalization stocks as compared to large capitalization stocks. Even though there may be a kernel of truth in that assumption, the reason for higher returns has less to do with underlying business growth and more to do with the valuation at the time of entry and the valuation at the time of exit (i.e.). It is this rerating that takes place during the holding period that actually drives the equity returns. One thus needs to delve a little deeper to understand the drivers of equity return.

Equity returns that an investor generates during the holding period of any investment = the underlying growth in business during the holding period (EPS Growth) + Valuation rerating that takes place during the holding period (PE Rerating/de-rating) + the dividend yield that is obtained from the investment. Since dividend yields are not vastly different for Mid-Cap's and NIFTY and not the major driver of return in our selected periods we have not taken into account the respective dividend yields.

Below table takes the example of CNX Midcap 100 index and the NIFTY 50 to understand the drivers of return during various periods in history. We have selected, bottom to peak period where significant returns were enjoyed by investors in Mid-Caps.

Drivers of Equity Return:

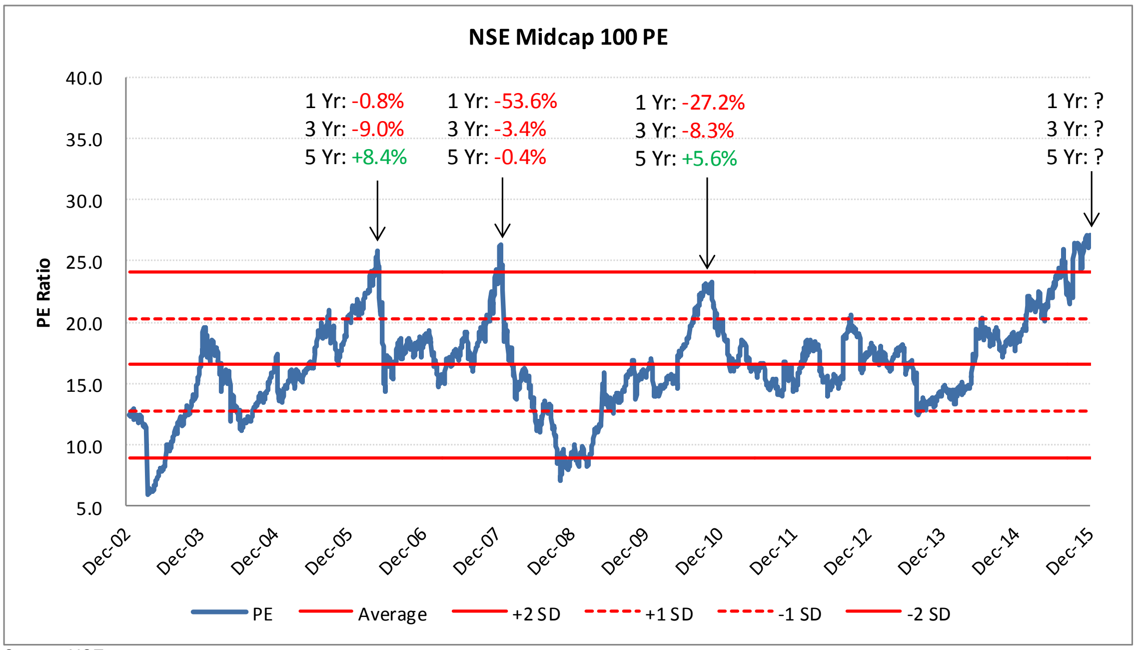
Period Bottom to Peak	Return CAGR		EPS CAGR		PE Rerating CAGR	
	Midcap 100	NIFTY 50	Midcap 100	NIFTY 50	Midcap 100	NIFTY 50
2003-2008	63.4%	47.5%	20.4%	26.2%	35.6%	16.9%
2009-2010	102.3%	70.9%	10.4%	9.9%	83.3%	55.5%
2013-2015	36.3%	18.5%	-2.4%	2.8%	39.7%	15.3%

Unlike the popular belief of slower growth of larger companies, NIFTY companies have in fact delivered equal or faster profit growth in all the 3 periods. The key driver of higher equity returns for Midcaps has clearly been the Valuation (PE) re-rating that took place from the low to the high which was much higher than the NIFTY in all the 3 periods. Thus the stronger returns were primarily due to a PE re-rating of the Mid-Caps.

So how much room is left for re-rating in the Mid-Cap indices?

We think you can possibly find the answer in the chart below which shows that we are at an all-time high valuation for the Midcap index. This we think leaves little or no room for any further upside from valuation re-rating. An investor who desires exposure to mid and small cap stocks currently needs two things to work in his favor going forward; strong earnings growth and most importantly valuation multiples remaining elevated.

We have also highlighted in the chart the 1 year, 3 year and 5 year CAGR returns subsequent to such elevated valuations in the past (and these suggest investors exercise extreme caution!).



Source: NSE

How are we placed?

Regular readers of our newsletters would be aware that we construct our portfolio through a bottom-up process which focuses on business quality, valuation and business momentum. Thus as we try to maintain the quality of the portfolio, the portfolio gravitates towards where our proprietary process indicates value. We have seen valuations correcting downwards in the large cap high quality space in the last 6-9 months. We have correspondingly increased our weights in that space. Thus our portfolio has migrated from being mid and small cap heavy (~67% of equity in Mid & Small caps) since the 2013 bottom to being large cap heavy (~69% of equity in large caps) currently. We have been buying these stocks at our estimated fair value. This implies that our returns should equate to the underlying growth of the business in the base case scenario. In the best case scenario if there is a valuation re-rating that would provide us an additional return. In the worst case scenario, where a de-rating happens (for example due to a poor market environment driven by global circumstances), our downside would be limited due to the underlying growth in the businesses. Thus we believe the odds are in our favor with what we believe is a higher return potential with a limited downside risk. It is this asymmetric reward to risk potential that we strive to incorporate in our portfolios at all times. We remain comfortable with how the portfolio is placed with a 3 year perspective.

As Howard Marks put it – Large amount of money is made by buying what everyone under estimates.

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Asset Allocation:

Business Model and Sector Allocation:

Moat/Limited Moat	Mar-15	Jun-15	Sep-15	Dec-15
Moat	49%	49%	44%	39%
Limited Moat	26%	27%	30%	30%
Moat + Limited Moats	***74%***	***76%***	***73%***	***69%***
Special Situations	12%	12%	14%	17%
Regulated Utility	13%	11%	12%	14%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Mar-15	Jun-15	Sep-15	Dec-15
FMCG	27%	27%	22%	21%
Auto & Auto Ancs	20%	20%	18%	17%
Financials & Financial Services	15%	17%	16%	18%
Information Technology	8%	9%	13%	14%
Utility	13%	11%	12%	14%
Pharma	7%	8%	9%	6%
Materials	2%	1%	5%	5%
Telecom	6%	5%	4%	3%
Industrials	2%	2%	2%	2%
Grand Total	**100%**	**100%**	**100%**	**100%**

Our current equity weights have slightly inched up to 76% out of which almost 69% of our equity weight is currently in large caps. Although the needle hasn't moved much from the last quarter we have exited a stock in the quarter and added weights where we find value.

FMCG/Auto stocks have had a good run and were being richly priced. We were slightly concerned that rural demand was slowing down due to a 3rd consecutive poor monsoon. We felt assessing the balance of reward and risk it was prudent to trim our weights in that sector. Conversely we feel that the Financial and IT sector are both exhibiting potentially higher prospective return due to the recent correction in the large caps. Our weights have been inching up in those sectors.

Regards,

Jinal Sheth
Portfolio Manager

Rohan Samant
Asst. Portfolio Manager

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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.