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Date: 16th Jan 2024

Emerging Corporates India Portfolio (ECIP)

Dear Investors,

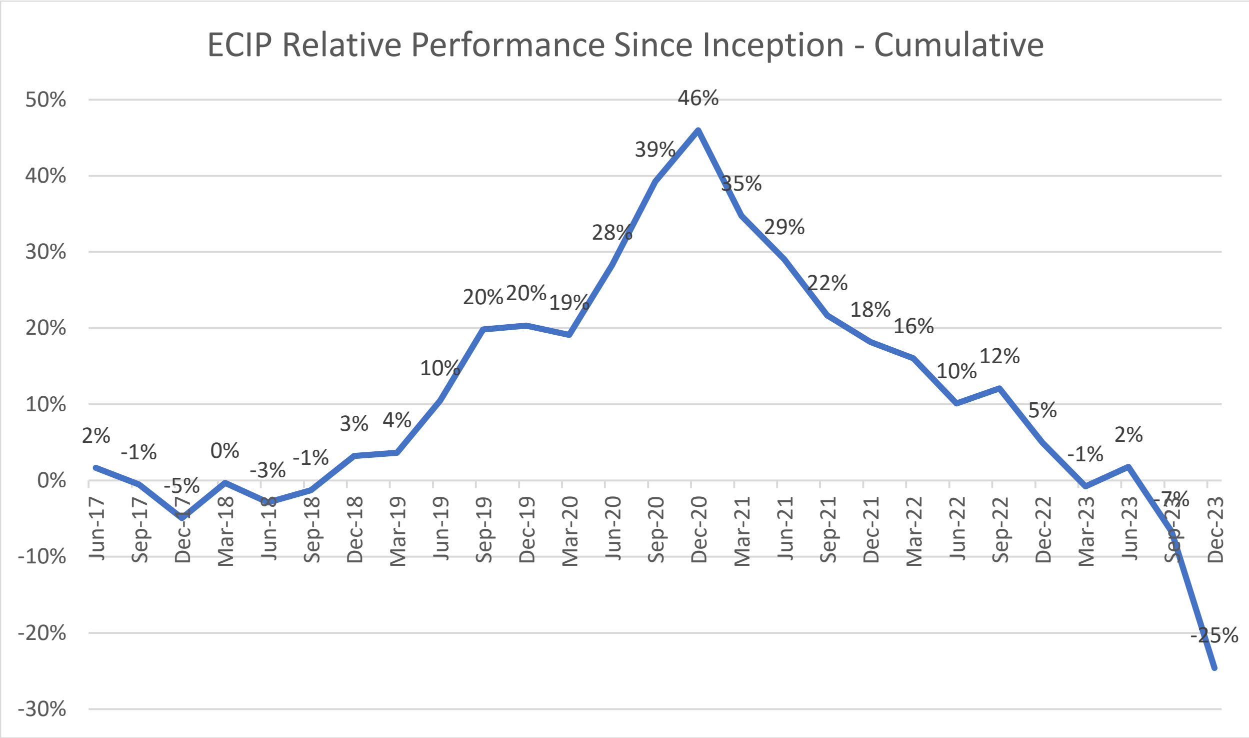
Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of 31 Dec 2023.

Portfolio Performance	Total Portfolio Returns	Benchmark
CAGR since Inception *(Annualised)*	13.5%	15.2%
FY24 YTD	21.8%	34.1%
FY23	-8.9%	-0.9%
FY22	8.6%	22.3%
FY21	79.2%	78.6%
FY20	-13.2%	-26.5%
FY19	13.3%	9.7%
FY18 *(Since Inception - April 28, 2017)*	9.7%	10.0%
Q3FY24	4.7%	12.4%
Q2FY24	1.6%	5.5%
Q1FY24	14.6%	13.2%

- *Please check relative performance of other portfolio managers by clicking on this link*
- *The Benchmark has been revised from average of the BSE Smallcap Index, BSE Midcap Index and Nifty to S&P BSE 500 TRI with effect from 1st April 2023 as per SEBI/APMI circulars*
- *Returns are time weighted and after management and performance expenses*
- *Management and performance fees are deducted as and when due*
- *The actual returns of clients may differ from client to client due to different portfolio and timing of investment*
- *Past performance is no guarantee for future performance*
- *Benchmark calculations reflect total returns (including dividends)*
- *Returns for less than 1 year are not annualised*
- *Inception Date is 28th April 2017*

Market sentiment continued to be positive in the last quarter. Strong mandate in favour of the ruling party in the recent State elections validated their popularity and increased probability of continuity post upcoming Central elections. Expectations for interest rate cuts by the Fed in CY24 also went up post their December meeting. Both these events helped sentiment with BSE500 TRI and Nifty TRI up 12.4% and 10.9% respectively for the quarter. Small & Midcaps were up even more as they continued to lead the rally.

Even as the market rally has been broad-based, our scheme has continued to lag the benchmark. As discussed in our past newsletters, a major reason for this has been the style factor. ECIP's mandate is to invest in high quality, structurally high growth companies that can drive above average intrinsic value compounding over time. This style found favour and outperformed the market handsomely until 2020. However, since then, on the back of post-Covid economic recovery, cyclicals, PSUs, small and midcaps made a strong comeback. As a result, "value" factor started outperforming and our style started underperforming. By the time our performance peaked in Dec'20, we had built a cumulative outperformance of 46% over BSE500 TRI. Since then, we have given up all that outperformance and built a cumulative underperformance of 25%.



As we introspect over the last 3 years, we have thought hard about what caused such a stark change in performance. Did our process change post 2020? What is it that we are doing differently now compared to what we were doing in 2017-20? Did we commit any specific mistakes which drove the underperformance? When we ponder over these questions, we think these are not the primary drivers of our underperformance. We continue to the follow the same process that we were following earlier, albeit incorporating learnings along the way. And, while we have committed our share of mistakes like in case of Bandhan Bank and Gland Pharma (discussed in past newsletters), we don't think these have been the primary drivers of our underperformance. Overall, we have done well to avoid adverse stock selection. Our win-loss ratios continue to be good. As we think of what has gone wrong, two points emerge:

1. Firstly, our core holdings have gone through 2-3 years of no return even as the businesses have continued to grow. So, non-participation of a substantial part of our portfolio is one major reason for the underperformance.

2. Secondly, many winners that we sold, went on to give healthy returns even from our sell prices, and in some cases even multi-fold returns. So, not riding our winners has been another reason for our underperformance.

Both the points are quite contradictory. On one hand, the stocks that we held derated while on the other hand, the stocks that we sold rerated. The learnings here aren't straightforward. Rerating and derating can be random and perhaps difficult to anticipate and prepare for. Also, the pendulum keeps swinging from one end to the other. So, there is no finality to these things. At some other endpoint, we might arrive at completely different conclusions. For eg. An NCE CDMO company which is one of our core holdings that we have held for >5 years and has overall delivered multi-fold returns for us; went through a period of no return for 2.5 years from Jan'21 to Jun'23. However, in the last 6 months, the stock has moved up sharply and as result when we look at trailing 3 year returns now, it has delivered an IRR of 16%. So, what seemed like 2.5 years lost, 6 months back, seems to have delivered 16% IRR now. This example is typical of how stock returns come and therefore very instructive in setting the right expectations. We think it is important to monitor business growth in such phases. In case of companies, where business keeps compounding, sooner or later, the stock prices do reflect that compounding. It is only in cases where the earnings falter, time truly gets lost. Since most of our portfolio companies fall in the first category, we believe we are attractively positioned.

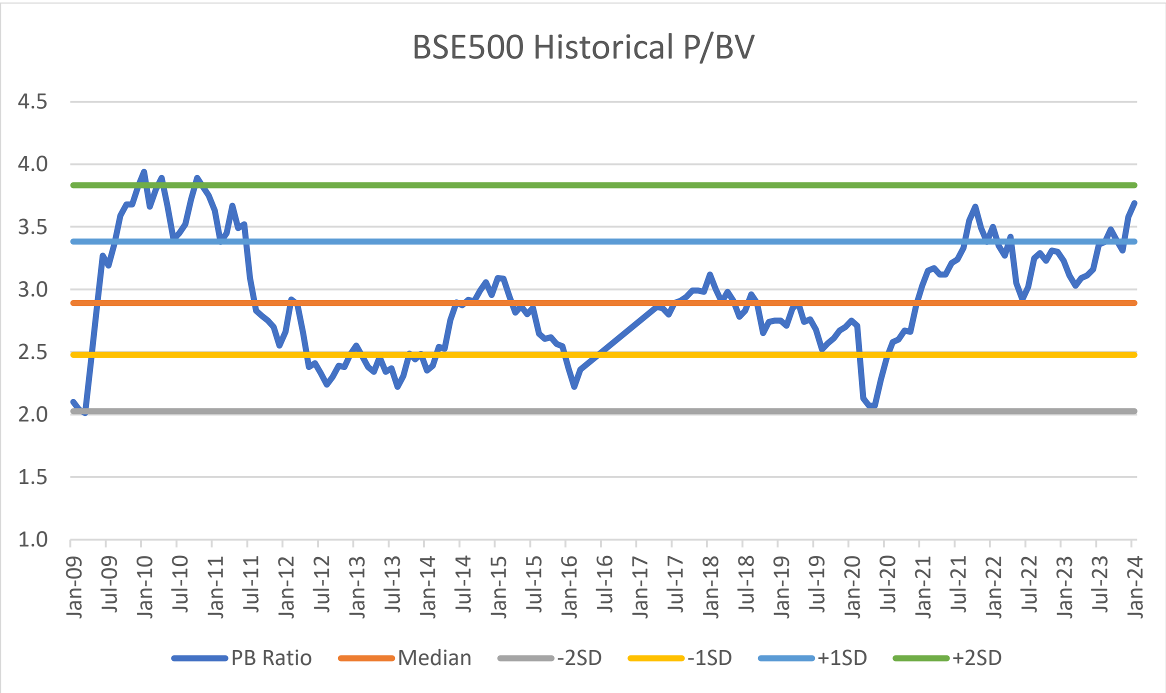
On the second point of having sold our winners early, we believe we could do better. Given the constraints of the ECIP mandate, our investible universe is not very large. This makes replacing an existing idea difficult. Also, large opportunity sets and high growth nature of our companies lends optionality and makes figuring out the right valuation a challenging task. Valuation in any case is perceptive and not a scientific exercise. Therefore, having bought right, it might make sense to not completely exit just on valuation and ride residual weights until the core thesis holds. While this conclusion does have an element of bull market bias to it, we believe this marginal tweak could help us capitalize on our winners better.

As we focus on the high quality, high growth universe and are willing to pay up for that promise of high growth; we subject ourselves to two kinds of errors:

a) Analytical errors: where we wrongly conclude a non-ECIP company to be an ECIP company and therefore pay a price that may never get justified by the business fundamentals
b) Valuation errors: where we identify the company right but pay a price that already factors a few years of growth in advance

Analytical errors can lead to large drawdowns and cause permanent loss of capital. This can be very detrimental to long term performance and therefore we are very wary of these mistakes. Valuation errors can lead to time correction causing stocks to go nowhere till the time business grows to catch-up with the stock price. However, we believe if we identify the company right, the chance of permanent loss of capital is very low. We have always stated, we are not "buy-at-any-price" investors. We have valuation thresholds for each of our companies beyond which we wouldn't buy. However, these valuations do factor our willingness to pay up for the quality of business and longevity of growth and to that extent we are more tolerant of valuation errors. We believe the core characteristics of high quality and high growth of our investee companies provides long-term optionality and over-time should help us deliver satisfactory compounding despite intermittent periods of time corrections along the way.

Markets work in cycles. Styles go in and out of favour and our style has clearly been out of favour. Some other funds that practice a similar style of investing have been going through a similar period of underperformance. Therefore, to that extent, this might not be the right time to make drastic changes to our approach. We think some marginal improvements can also go a long way in driving better long term performance.



Source: BSE Website

Based on the last 15 Years of history, BSE500 is trading slightly under +2SD valuations. Therefore, from an index perspective, this is unlikely to be a great starting point. In contrast to that, a substantial part of our portfolio has undergone an extended phase of time correction with valuations receding to multi-year lows (even decadal lows in some cases). Since business compounding has continued for these companies and the stocks have gone nowhere, valuations have contracted by ~40-70%. As on 31 Dec 2023, our portfolio valuation is at ~10% discount to its long-term average valuation multiple.

As on 31 Dec 2023	Premium/Disc to LT Avg Multiples
ECIP*	-10%
BSE 500	23%

*Note: Excluding turnarounds where past multiples are irrelevant and recent listings where sufficient history is not available with combined allocation of ~15% split across 3 companies.

We believe, unlike the benchmark, ECIP portfolio provides asymmetries on the upside.

Thanks for reading.

Rahul Picha CA, CFA
Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (**Registration No. INP000002965)**

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Note:
1. All cash holdings and investments in liquid funds, is considered for calculating the performance.
2. All performance data are reported net of all fees and all expenses (including taxes).
3. The above performance numbers are not verified by the SEBI.

Disclosure as per Global Investment Performance Standards (GIPS®) –

Multi-Act Equity Consultancy Pvt. Ltd. claims compliance with the Global Investment Performance Standards (GIPS®). You can refer to the GIPS Compliant performance presentation here. Multi-Act Equity Consultancy Pvt. Ltd. has been independently verified by M/s. M. P. Chitale & Co., Chartered Accountants for the periods April 1, 2011 through March 31, 2019. The verification is available upon request. MAECL has claimed GIPS compliance for the Financial Year 2023 and such performance numbers shall be made available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Composite representing the Emerging Corporates India Portfolio was created on 28th April 2017. Performance has been compared with S&P BSE 500 TRI. The Gross Return (wherever mentioned) is before all expenses (except Brokerage). Net Return is after all actual expenses. A complete list of composite descriptions, policies for valuing portfolios and calculating performance fees are available on request.

Multi-Act Equity Consultancy Pvt. Ltd. is an independent SEBI registered Portfolio Manager. The firm maintains a complete list and description of composites, which is available upon request. This ECIP Composite includes all discretionary fee-paying portfolios that are being managed with the objective of generating capital appreciation by investing in companies that in the opinion of the Portfolio Manager are “Advantage Period Companies” which are enjoying a “competitive advantage period” that is likely to last for at-least 5 years and are available at a valuation that offers margin of safety relative to the growth opportunity landscape. The portfolio manager has also the discretion of not being fully invested if he is not able to find ideas that meet the above criteria along with valuation criteria, thus, indirectly taking an asset allocation call between Equity and Cash (& Cash Equivalents).

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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 December 05, 2023 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.

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