ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long Term Fund

Performance Fact Sheet January 2016

NAV: 222.34 AUM: USD 59.66mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

Brief Objective*

To generate long-term capital appreciation by investing in (i) listed Indian equities, (ii) PIPES on listed Indian equities and (iii) IPO and pre-IPO opportunities.

Investment Strategy

Long-short fund with a long bias. The fund will be principally long and will not run a consistently short position. However, based on market conditions, the investment manager reserves the right to use discretion to take a short position either to hedge the portfolio or profit from opportunistic short calls.

Investment Philosophy

Growth at a Reasonable Price

This approach is rooted in the hypothesis that India is a high-growth economy and that the best way to benefit is to identify and invest in companies that are best equipped to take advantage of the emerging domestic and global opportunities.

Invest for the Long Term

The intention is not to trade in and out of investments to capture short-term volatility. However, at appropriate and opportune moments, the Fund may seek to tactically hedge its exposure by taking short positions on NIFTY futures and/or a basket of stocks.

Portfolio Manager Brief

At the outset let me wish you all a Happy New Year.

Alchemy India Long Term Fund has returned 9.6% for calendar year 2015. It has outperformed its Index BSE 500 (1) (In USD) which returned a negative 5.3% by 1490bps.

Overall 2015 was a year of high expectations but below par outcomes as earnings recovery continued to elude due to myriad of factors like subdued consumption especially rural consumption, poor monsoon, delay in capex recovery due to stretched balance sheet and external weakness led by lower commodity prices.

Our focus on getting the investment themes right and individual stocks within, where near term earnings growth was more certain has helped our outperformance. The focus on small and midcaps where risk reward was better has also helped.

Our top performing theme was IT companies engaged in engineering services. Shrinking product lifecycles due to advancement in technology,

** The fund objectives are merely a target and there are no assurances that it would be achieved.*
1 S&P BSE500 is a rules-based broad index designed to measure the performance of the top 500 companies in India

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shrinking time to market (global launches at one go), customization for local markets, increased focused on safety and infotainment in cars etc are forcing global corporate to outsource more of the engineering spend for better efficiency. Indian companies with its large engineering talent pool available at reasonable cost and aided by the 'Make In India' initiatives and the offset requirements of defense procurement programs are seeing good traction in this area.

Defense, was the second best performing theme. The current government is extremely focused in improving India's defense readiness correcting 10 years of neglect by the previous regime in under spending on defense procurement. Dynamatic Technologies Ltd (+23% in 2015) continued its good run in 2015 after returning 250% in 2014. Bharat Earthmovers Limited (+37% in 2015) was a new stock we added in 2015. The company's 3 divisions of Mining Equipment, Railways and Defense are well aligned with the goals of the present government. In Defense, it supplies of mobility solutions for the Indian Army. In Railways, where India is looking to spend US$100bn by 2019, it supplies coaches to both Indian Railways & Metrorail projects in various cities and in Mining, it's the largest supplier of mining equipment to Coal India where the government is going all out to increase production form 500m tons to 1bn tons.

Bajaj Finance Ltd (+72% in 2015), a leading non banking financial company focused on lending to consumers and small and medium enterprises had another good year. The stock has been a 15 bagger in our portfolio since we bought it in May 2010 and is still our top holding. During the year, we have trimmed some Bajaj Finance and added its parent company Bajaj Finserv Ltd (+51% in 2015) which in addition to owning 57.5% in Bajaj Finance owns 74% stake in the life and general insurance businesses in India in a JV with Allianz of Germany. We believe that the insurance business should start seeing good traction from 2016 as they benefit from sharing the customer acquisition expertise of Bajaj Finance with the added trigger of Allianz increasing its stake to 49% from 26% in both the subsidiaries with the recent change in regulation.

Among other stocks, Honda Siel Power Products Ltd and Maruti Suzuki Ltd were up by 52% and 38% respectively driven by strong earnings growth. In case of Maruti, we have trimmed about 1/3rd of our holdings as the stock rallied sharply on its large inclusion in the MSCI India index. It was earlier excluded from the same on it reaching its owner ship limit for foreign investors.

Among our major setbacks was Treehouse Education (-57% in 2015). While Treehouse's preschool business continues to do well with

Please Note: 1. All returns for individual stocks are calculated in INR .
2. Source for the returns of the individual stocks are BSE 500.

negligible debt on books, we believe that the promoters leverage on their holdings in the company hurt the stock.

It's an interesting risk factor to keep in mind while investing in small companies like Tree House in India. New age entrepreneurs don't have ancestral wealth / assets to build companies ground up from. Initially they take help of private equity funds to start a business. When the model is established the growth phase is financed through further private funding or an IPO. But then there comes a stage when they don't want to be diluted to an extent where they might lose control. Hence, for incremental funding for growth they resort to buying equivalent warrants (75% of payment can be deferred by 18 months) so as to keep their stake constant. The thought is that in 18 months the stock will be higher and a part of the wealth generated from existing and new shares can be pledged (hypothecate) to the banks to subscribe for the shares by converting the warrants.

The promoters of Treehouse resorted to pledging their shares to maintain their stake when they raised funds in 2012 and 2015. They in all pledged 1/3rd of their holding, assuming 50% margin funding they had about six time cover on their loan which was not alarming. But then 70% fall in share price in 2H15 forcing Treehouse promoters to sell 1/3rd of their stake in the open market to repay their debt and led them to seek merger with their nearest competitor, Zee Learn. Not doing so would have led banks to sell off their stock at much lower prices if margin triggers would have been breached.

We continue to own the stock because of the attractive opportunity in the education business in India. The combination of Treehouse management with the backing of Zee Group to scale this business looks appealing. We are looking to ascertain how the merged business shapes up and to ascertain whether the mix can work well together.

A theme that hurt us was the impact of rampant discounting of ecommerce players on retailers. Bata Ltd (-20% for 2015), a leading footwear company and Raymond Ltd (-14% in 2015), a leading apparel company were affected by poor consumer sentiment and shift of share to online business. Another underperformer was Motherson Sumi (-10% in 2015). The stock fell initially due to concerns about auto volumes in China and later due to the emission scandal at Volkswagen its largest client. The Volkswagen Group accounts for about 40% of its revenues. We have trimmed the stock for now, waiting to assess of Motherson deals with the impact of the scandal on Volkswagen Group car volumes.

Lastly, Rallis India Ltd (-17% in 2015), a leading

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agrochemical and seeds company in India had a weak year on a second consecutive poor monsoon in the country.

OUTLOOK FOR 2016

The year 2015 ended on a somber note as the carryover of the optimism from 2014 faded as the year progressed. While India clocked a nominal GDP growth of 7.4%, revenue growth for the listed corporate sector was almost flat and earnings estimates continue to be cut with every successive quarter. A pick up in the investment cycle still eludes us and is a bit surprising, though with the benefit of hindsight we know why, as the corporate deleveraging cycle continues, bank credit growth is tepid and the NPA problems come to the fore and capacity utilisation is still at low levels. To add to this the rural distress continues on the back of two back to back bad monsoons and lower agricultural crop prices. The construction and real estate sectors, amongst the biggest employers of unorganised labour continue to struggle.

To top it all, low or virtually zero trade growth worldwide has meant that Indian exports have been de-growing for most of 2015.

However, amidst all this malaise there have been a few silver linings.

Global slump in Oil prices has helped to bridge the fiscal gap which otherwise would be very difficult to meet given the lack of corporate profitability growth. Subsidies have been effectively cut using the DBT (direct benefit transfer), the increased use of which can transform many areas of expenditure management and make social investments more effective and productive. Recently, the state government of Tamil Nadu disbursed $120 MN (Rs. 700 crores) in a single day to flood affected families, something which would be unthinkable a few years ago as a significant amount of the relief money would have been lost to corruption and leakages notwithstanding the inordinate delays which would have made such financial help irrelevant. The opening of several million bank accounts and linking it to Aadhar - are revolutionary in itself as they lay a base for the eventual financialisation of the economy.

18 months of the new NDA government has produced a few star ministers which have done some commendable work. Ramping up Coal production is a prime example. Power reforms have started and seem quite sensible as they enable the states to bailout the SEB's but not without an obligation to reform. Similarly, the road ministry has ramped up road construction by moving away from BOT to EPC. The Railway ministry under Mr. Suresh Prabhu though initially slow 'with his experiments in decentralisation is now showing clear signs of pick up in capital spending including a focus on improving customer

amenities and services. The next big spending thrust is likely to come from Defense spending as that is the cornerstone of the Modi governments "Make in India Policy" and a key geo-political and economic leverage India is likely to use effectively as evidenced by key defence contracts given to US, France and Russia.

The other big success is the aggressive wooing of FDI which has crossed its highest ever annual inflows in 2015 at approx. $35bn. Given Prime Minister Modi's personal involvement in wooing FDI and India's absolute as well as relative attractiveness, we have no doubt that FDI flows are likely to remain robust as the government tries to de-risk the investment cycle purely from domestic Indian corporate sector. The governments love for social media and startups has also cranked up significant inflows in India's fledgling but fast growing e-commerce sector. The launch of 4G by Reliance Jio and the other incumbents in the Telecom sector should create a potent ecosystem for new business models to flourish. This we believe is likely going to pose a challenge to current incumbents in several sectors as they get more competition from a liberalised FDI regime on one hand and a fierce e-commerce sector on the other. Hence, adaptability and focussing on remaining competitive will be very important.

On the political front, with the success in Delhi and more especially Bihar has given the opposition (unity irrespective of ideological differences) a template to defeat the enormous popularity of the Prime Minister Mr. Modi. Hence, the Bhartiya Janta Party will have to innovate to stay in the game and cannot just rely on the popularity of PM Modi to win forthcoming assembly elections. A big loss in Bihar would also mean that the government will have to channelize more resources to the rural and farm sector to alleviate stress without losing fiscal prudence. That will be put to test in the coming budget. We are hopeful that BJP will regain its political chutzpah to get the opposition to agree on passing the GST a key reform legislation before everyone gets back into election mode for the all important UP state in 2017.

Several high frequency indicators followed by several research houses have indicated that the economy has turned the corner. While passive global flows to Indian markets may still be a challenge given the overall weak sentiment towards Emerging Markets, active India funds and local investors are likely to remain constructive given the long term structural opportunity in India. We are hopeful that the much elusive earnings growth will set in some time this year and markets will tend to discount this much in advance and that there will be reason to cheer as we progress into 2016.

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Alchemy India Long Term Fund Performance (%)[2]

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	**Dec**	**CY**
2015													
AILTF	6.4	4.7	4.0	-6.5	0.0	0.9	5.7	-9.5	0.3	1.7	-1.1	**3.8**	**9.6**
S&P BSE 500*	8.5	0.9	-4.8	-4.7	2.8	-1.1	2.6	-9.5	0.5	2.5	-3.2	**1.2**	**-5.3**
2014													
AILTF	-5.3	3.5	15.8	0.7	13.5	7.7	4.0	4.3	2.5	2.0	2.8	-1.4	60.4
S&P BSE 500*	-5.1	3.5	11.1	0.2	12.8	4.5	0.2	2.3	-1.1	4.5	2.5	-4.2	33.9
2013													
AILTF	-2.5	-10.0	-5.3	6.6	-2.0	-10.3	-3.6	-13.7	13.1	10.2	0.8	6.0	-13.7
S&P BSE 500*	3.9	-7.4	-2.2	4.6	-3.3	-8.9	-4.8	-12.3	11.5	11.5	-2.3	3.9	-8.6
2012													
AILTF	20.5	5.4	-4.1	-1.0	-10.1	4.8	-0.5	2.1	15.7	-3.1	9.0	0.9	42.5
S&P BSE 500*	21.5	6.3	-5.7	-3.5	-12.7	6.6	-0.3	0.6	14.9	-3.8	4.2	1.0	27.6
2011													
AILTF	-13.3	-5.8	13.9	6.7	-0.8	1.5	6.4	-11.7	-4.7	2.8	-16.5	-10.6	-31.3
S&P BSE 500*	-12.7	-2.3	9.9	0.5	-4.0	1.1	-0.9	-12.5	-7.4	6.1	-15.4	-7.5	-38.9
2010													
AILTF	-0.1	1.2	6.5	7.0	-10.2	5.4	4.8	4.0	11.6	-0.4	-7.1	3.4	27.0
S&P BSE 500*	-4.3	0.5	8.7	3.4	-7.9	4.2	1.9	-0.2	14.8	1.5	-7.0	5.9	21.2
2009													
AILTF	-8.3	-7.1	2.5	11.1	43.5	-0.03	7.7	5.6	3.9	-3.2	4.3	5.3	74.6
S&P BSE 500*	-5.8	-8.9	8.5	19.2	41.6	-1.7	7.5	0.3	10.3	-4.1	8.3	3.5	97.4
2008													
AILTF						-1.7	4.3	-0.2	-11.8	-24.4	-10.0	10.0	-32.4
S&P BSE 500*						-11.2	7.1	-1.1	-18.9	-30.5	-8.8	12.3	-45.7

Note: Fund commenced on 11th June 2008.

**S&P BSE500 is a rules-based broad index designed to measure the performance of the top 500 companies in India.USD-adjusted performance of the benchmark S&P BSE500 index. Past performance is not the indicative of the future performance.*

2 Returns presented are for Class B shares of Alchemy India Long Term Fund Limited and are net of fees and expenses. Fees charges to individual investors may vary and, as such, returns achieved by investors may differ from those shown above.

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Performance Since Inception In USD (%)

	Absolute	CAGR
AILTF	122.3%	11.2%
S&P BSE 500*	17.3 %	2.1%

* USD-adjusted performance of the benchmark S&P BSE 500 index.
# Past performance is not indicative of future performance

Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	243.8%	17.7%
S&P BSE 500*	81.3%	8.1%

* Performance of the benchmark S&P BSE 500 index.
# Past performance is not indicative of future performance

Weight by Market Cap as of 31st December 15 (%)

Less than USD329mn	26.9
Between USD329mn and USD3bn	30.8
Greater than USD3bn	35.7
Total	**93.4**

Net/Gross Exposure (%)

Net Exposure	93.4
Gross Long	93.4
Gross Short	0.0
Gross Exposure	**93.4**

Sectoral Breakup as of 31st December 15 (%)

Industrial	28.0
Consumer Discretionary	19.9
Financials	18.0
Information Technology	12.8
Health Care	8.3
Materials	4.7
Consumer Staples	1.9
Total	**93.4**

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Key Fund Facts#	
Master Fund	Alchemy India Long Term Fund Ltd (Mauritius)
Feeder Fund 1-US Taxable Investors	Alchemy India Fund (Cayman) Partners, LP
Feeder Fund 2-Non US and US Tax Exempt Investors	Alchemy India Equity Fund (Cayman) Ltd.
Manager	Alchemy Investment Management Pte. Ltd (Singapore)
Launch Date	June 11, 2008
Strategy	Long Short with Long bias
Benchmark	S&P BSE 500
Management Fee	1.5% p.a (Payable Monthly)
Performance Fee	15% of profits (Payable Yearly, High Water-Mark Applicable)
Minimum Initial Investment	USD 500,000
Minimum Subsequent Investment	USD 100,000
Subscription Period	First working day of the month
Subscription Charge	Up to 2%
NAV	Monthly
Lock in	1 year hard lock
Redemption	Calendar quarterly post expiry of lock-in period. Notice period of 45 days
Exit Load	No Exit load
Fund Administrators	**Master Fund:** Deutsche International Trust Corporation (Mauritius) Ltd. **Feeder Fund 1:** Custom House Global Fund Services Limited, Malta **Feeder Fund 2:** CIM Fund Services Ltd, Mauritius
Auditors	KPMG
K1 Providers	KPMG

 # These are not the complete terms; please refer the PPM for Complete details.

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General Risk factors

- Investments in financial instruments or other products carry significant risk, including the possible loss of the principal amount invested. Financial instruments or other products denominated in a foreign currency are subject to exchange rate fluctuations, which may have an adverse effect on the price or value of an investment in such products.
- Please read Offer Documents (includes Private Placement Memorandum and Subscription Agreement)/ Investment Agreement carefully before investing. Investors are expected to understand the risk factors associated with investment & act on the information solely at their own risk.
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Investor(s) are invited to ask questions and obtain additional information, concerning the contents of this document or any other relevant matters, which shall be provided, to the extent the Investment Manager possesses such information or can acquire it without unreasonable effort or expense.

Queries:

If you have any queries or questions, you can contact us directly on clientservicing@alchemysingapore.com or reach out to;

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