



Alchemy India Long-Term Fund Monthly Performance Fact Sheet

MAR 2013

NAV: 128.59, AUM: USD 33.5 mn

Bloomberg Ticker: ALCINDA KY <EQUITY>

Fund 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.

CIO Outlook

Budget 2013 – The action is outside!

If I were to describe finance minister P Chidambaram's budget 2013 in a few words it would be "Not Bad but Not Great Either". The budget felt well short of the high expectations that were built – given the government's recent actions and his reputation as an astute reformer. Considering the desperate gloom that had engulfed the economy and markets just a few months ago, there was an expectation amongst investors and the business community, that beyond delivering a sensible and a good budget, which was a base case scenario anyways, he is capable of and could deliver some innovative and big idea to turn things around. But that was not to be.

However, he did keep his promise of keeping the fiscal deficit at 5.2% of GDP v/s a promise of 5.3% in FY13 and 4.8% in FY14. This is the single biggest achievement of the budget. The numbers for FY13 are credible and have been achieved by clamping down on expenditures in Q3 and Q4 and successfully divesting public sector undertakings. However, there are few doubts about the 4.8% number for next year. Instead of shrinking the expenditure side, he has actually increased plan expenditure by 29% and total expenditure by 16%. The expectation was that he will control expenditure much more tightly. However, he has increased allocations to most welfare schemes, hiked the defense budget albeit slower than nominal GDP and provided for a small amount for the UPA's Food Security Bill (but kept it open ended for more allocations towards FY14 election time if needed). All of this has been funded by increase in 10% surcharge



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on corporate tax and the super rich, hiking excise on cigarettes and duties on expensive SUV's, cars and motorbikes coupled with slightly aggressive revenue and disinvestment assumptions. So clearly this is not just a "technocrat FM budget" but a "politically aspirational PM in the waiting" budget!

So why is it that after some politically bold reform moves in the recent past like – hike in retail FDI, where the government pulled out all the stops and staked its political might to get it through parliament, hiking petroleum prices, capping subsidized LPG, egging RBI to come up with guidelines for new banking licenses, increasing passenger freight rates – were the two budgets – railway and the union budget such boring and uninspiring events? Why would the railway minister and the finance minister not capitalize on these opportunities to further push the envelope on reforms?

I think the answer lies in the fact that UPA2's strategy seems to be to not to do any major reforms while the parliament is in session. They may not want to confront the opposition which may capitalize on these as anti people steps and corner the government and disrupt parliament and thereby derail what the government is set out to do. Post the budget the most important reform (if it can be achieved) would be to roll out GST by April 2014 and in the near term the passing of the Insurance and Pension Bills. Let's see if the government can pull through this as it will require a deft political handling to get BJP to play ball.

So while everyone was expecting action in the budget, we believe that the real action lies outside it and mostly when the parliament is not in session. So expect both reforms as well as a continued push to both welfare as well

as capital spending to play out simultaneously as we get into the next fiscal. As the Finance Minister Mr. Chidambaram mentioned to a news channel post the budget "we politicians are not so dumb witted to go into an election year with low growth and high inflation". So let the action continue, even if it is done for self preservation!

Portfolio Manager Summary

The Alchemy India Long Term Fund has returned -10.0% Feb'13 compared to -7.4% for the benchmark S&P BSE 500 (In US\$ terms)

There were two things that have characterized the sharp fall in equity markets in February

- Tight liquidity in local markets is resulting in margin related selling in a number of small and mid cap stocks where promoters have pledged a large part of their shareholdings. This is having its natural ripple effect on other mid and small cap stocks and these effects are further amplified by resultant poor liquidity as high volatility keeps participants away. Poor market breadth can be gauged from the fact that 420/500 or nearly 84% of S&P BSE 500 stocks are negative on a year to date basis.
- The budget is always a high expectations event in India but a lack of any bright idea to kick start the capex cycle left many disappointed. This resulted in sharp unwinding of longs and arbitrage positions as the budget day coincided with the monthly future and options expiry leading to sharp fall in both equity markets as well as the Indian Rupee.



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Specific Budget impact on portfolio companies:

Raymond (Apparel), Shopper Stop & Trent (Retailers) – In last year's budget, the government had levied 3.6% excise duty on branded apparel. This along with high raw material prices and poor consumer sentiment affected all the company's performance. This year's budget removes this excise duty which should be helpful as high cost inventory works its way off and consumer sentiment revives going forward. In case of Retailers; Apparel constitutes 60% of sales mix in departmental stores and 15% of sales mix in hyper markets.

Titan (Retailer) – There was a huge apprehension that in order to curb gold imports government might bring additional measures like increase import duty, excise duty or measures to prevent jewellery buying without income tax proof. Hence, the stock was sold off in apprehension or investors (including us) hedged some of our Titan exposure. However, fears were unfounded as the only measure was the introduction of inflation linked bonds to give people alternative instruments to hedge inflation risk.



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Alchemy India Long Term Fund Performance (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	CY
2013													
AILTF	-2.5	-10.0											-12.3
S&P BSE 500*	3.9	-7.4											-3.7
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.

*USD-adjusted performance of the benchmark S&P BSE500 index.



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Weight by Market Cap as of 28th Feb '13 (%)

Less than USD100mm	18.5
Between USD100mm and USD1bn	35.0
Greater than USD1bn	40.7
Nifty Options	0.0
Total	94.2

Net/Gross Exposure (%)

Net Exposure	94.2
Gross Long	94.2
Gross Short	0.0
Gross Exposure	94.2

Sectorial Breakup as of 28th Feb '13 (%)

Consumer Discretionary	30.4
Industrials	21.9
Consumer Staples	14.9
Financials	10.3
Health Care	6.8
Utilities	3.6
Materials	3.2
Information Technology	3.1
Total	94.2

Performance Since Inception (%)

	Absolute	CAGR
AILTF	28.6	5.5
S&P BSE 500*	-2.6	-0.6

*USD-adjusted performance of the benchmark S&P BSE 500 index.



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Key Fund Facts	
Master Fund	Alchemy India Long-Term Fund Ltd (Mauritius)
Feeder Fund	Alchemy India Fund (Cayman) Partners, LP
Manager	Alchemy Investment Management Pte. Ltd (Singapore)
Launch Date	June 11, 2008
Strategy	Long Short with Long bias
Benchmark	S&P BSE 500
Face Value	USD100
Management Fee	1.5% p.a (Payable Monthly)
Performance Fee	15% of profits (Payable Yearly, High Water-Mark Applicable)
Minimum Initial Investment	USD 1.0 mn
Minimum Investment	Subsequent USD 1.0 mn
Subscription Period	Last working day of the month
Subscription (Discretionary)	Charge Up to 1%
NAV	Monthly
Redemption	1 year lock in. 45 days notice.
Exit Load	2% exit fee at the end of the 1 st year. 1% exit fee at the end of the 2 nd year
Fund Administrators	Master Fund: Deutsche International Trust Corporation (Mauritius) Ltd. Feeder Fund: Custom House, Malta
Auditors	KPMG
K1 Providers	KPMG

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