

Alchemy India Long Term Fund-Monthly Performance Fact Sheet October 2016

NAV: 247.19 AUM: USD 67.77 mn

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.

Fund Overview

Alchemy India Long Term Fund is up 13.8% for 3Q16 as against the BSE500 Index (US\$ terms) 7.6%. However, on a YTD basis the fund has generated a positive 11.2% return compared to 9.5% for the above benchmark.

Market Overview

It's all falling into place

It is now proven beyond doubt that India's macro economic situation has indeed improved and stabilised and on that front we have never had it so good in the recent past.. However, the improvement in macro has happened in the context of low global growth and a world that is in a deleveraging mode resulting in no great tailwinds for growth in terms of trade/exports. Similarly, the good macros have also taken time to translate into good micro's due to a confluence of several factors that we have discussed in the past – leveraged corporate sector, broken PSU bank balance sheets, crackdown on black money and cash economy, savings stuck in illiquid real assets and tight financial and monetary conditions.

* The fund objectives are merely a target and there are no assurances that it would be achieved.

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However, a sedate macro is all in the base and we are seeing clear signs of a cyclical pick up in the economy led by consumption and government spending. A good monsoon, perhaps the best distribution of rains in several years and the seventh pay commission payouts are likely to sustain consumption growth. Some of the sheen that Modi government lost after year one is clawing back as reforms have progressed, notably the passage of GST has brought confidence back – both in government and industry. Another reform which is a game changer and is least talked about is the crop insurance scheme. Our interaction with a very senior farmer leader and other stakeholders in the agri community make us believe that the crop insurance scheme has been a big hit and has the potential to considerably reduce the volatility in his income and put some kind of floor to the financial risks they bear due to inclement weather and volatile crop prices. Given the initial success of the DBT (direct benefit transfer) we expect large scale roll out to bring in further efficiencies in subsidy as also to put money directly in the hands of the bottom of the pyramid.

The transition from the ex RBI governor, Mr. Rajan era to Mr. Urjit Patel has been relatively smooth. The read between the lines of the recent 25bps cut by the Monetary Policy Committee driven decision, clearly points to an era of easing financial

conditions in India. Mr. Urjit Patel has also signalled that he is likely to take a more practical view of the NPA problem thereby helping banks to better deal with the situation thereby alleviating a need for further provisioning. The shift in stance on dealing with NPA's (Scheme for Sustainable Structuring of Stressed Assets (S4) accounts) is more important than the 25bps rate cut which the bond markets had anticipated well in advance. A stable currency has allowed transmission of lower global rates to seep through into the local economy (Indian corporate have raised US\$1bn+ over last two months in Masala bonds as per CLSA Financials Sector Outlook dated 14th September 16) and if this is now coupled with local easing of financial conditions could be a powerful elixir for improving corporate profitability via lower interest costs and help the deleveraging process.

The recent attacks by terrorists on an Indian army base in Uri created a flash point between India and Pakistan, with whom PM Modi has tried hard to re-engage diplomatically in the first half of his term. However, persistent violations by Pakistan Army and their sponsored terrorists group and the groundswell of anger on the latest attack prompted the government to finally overcome and the Indian army carried out a surgical attack on terrorist camps in POK. India's aggressive diplomatic efforts to isolate Pakistan

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and widespread support received coupled with decisive action has reinforced PM Modi's image as a tough decisive leader. This incident has definitely improved his approval ratings and lifted the mood of the nation. We do not believe that the Indian government is interested in escalating tensions as it could potentially lead to a halt in new FDI flows which India desperately needs for which PM Modi himself has spent enough time and energy to market India as the most attractive investment destination. This event coupled with the recent finalisation of the 36 Rafale fighter order has given new momentum to the defence industry, a theme we have been quite bullish on for some time now.

Meanwhile the markets continue to climb a wall of worries ever since Brexit. While most investors

are weary about valuations (Nifty is trading at 23.5X P/E as per Bloomberg as on 30th Sept 16) we have to keep in perspective that earnings are at multi year cyclical lows and the cost of capital is falling in India. So in a cyclical recovery phase valuations will tend to look expensive and probably the near to medium term recovery is already priced in. However, we believe that the long term growth prospects look solid and there are pockets where valuations are still cheap relative to growth if we assume normalised earnings cycle for those businesses. We have tilted our portfolios by increasing weights or including names that will benefit from an earnings and economic recovery thereby improving the growth and valuation profile of the portfolio.

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Alchemy India Long Term Fund Performance (%)¹

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	CY
2016													
AILTF	-10.7	-13.2	16.5	2.9	1.1	3.9	8.4	2.5	2.5				11.2
S&P BSE 500*	-8.0	-9.1	14.4	1.9	2.4	1.9	6.0	2.2	-0.7				9.5
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.

*USD-adjusted performance of the benchmark S&P BSE500 index. Past performance is not the indicative of the future performance.

¹ Returns presented are for Class B shares of Alchemy India Long Term Fund Limited and are net of fees and expenses. Fees charged 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	147.2%	11.5%
S&P BSE 500*	28.4%	3.1%

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

Past performance is not indicative of future performance

** All performance numbers shown above are net of fees and expenses.

#Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	284.3%	17.6%
S&P BSE 500*	99.5%	8.7%

* Performance of the benchmark S&P BSE 500 index.

Past performance is not indicative of future performance

** All performance numbers shown above are net of fees and expenses.

Weight by Market Cap as of 30th Sept 16 (%)

Less than USD357mn	17.7
Between USD357mn and USD3bn	52.3
Greater than USD3bn	17.2
Total	87.2

Net/Gross Exposure (%)

Net Exposure	87.2
Gross Long	99.5
Gross Short	-12.3

Sectoral Breakup as of 30th Sept 16 (%)

Industrials	27.6
Financials	22.9
Consumer Discretionary	22.3
Health Care	10.3
Information Technology	4.7
Materials	4.0
Energy	2.5
Nifty Index (Exception)	-7.2
Total	87.2

Short exposure of specific sector indices and stock are adjusted in its relevant sector.

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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 & 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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- Index performance and yield data are shown for illustrative purposes only and have limitations when used for comparison or for other purposes due to, among other matters, volatility, creditor other factors (such as number and types of securities) An index does not account for the fees and expenses generally associated with investable products The S&P BSE 500 index is designed to be a broad representation of the Indian market. Consisting of the top 500 companies listed at BSE Ltd., the index covers all major industries in the Indian economy.

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.