ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long Term Fund - Quarterly Newsletter - Oct 2017

NAV: 296.45 AUM: USD 90.74 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.

Market Overview

A GDP print of 5.7% in Q1FY18 has created a flutter in both economic and political circles. This sudden drop in the growth rate, though not completely unexpected due to the roll out of GST coupled with the initial hiccups in its implementation has cast pall of gloom that all is not well with the economy. Expectedly the opposition as also some of the old guard within the BJP sprang into action to indicate that how both demonetisation and a hastily implemented GST have slowed down the economy substantially and put tremendous pressure on SME"s, exporters and small traders and businesses.

Last week Prime Minister Narendra Modi joined the ongoing rhetorical debate on the state of the Indian economy with a strong defence of his government's actions over the last three years. Among other things, his intervention put the spotlight on the Indian economy—something long overdue, but not for the rhetorical charges that are being flung around on both sides.If indeed there is a pithy way of summarizing the state of affairs

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

suffice to say that the country's economy has transitioned from a state of policy paralysis (which identified the Congress-led United Progressive Alliance or UPA) to one of investment paralysis. Both are cause for worry but for entirely different reasons. One was the outcome of a government which, for whatever reasons, went into a policy funk with disastrous consequences. The other is the result of structural disruptions—some of which, like spiralling bad loans with banks, are a legacy of the UPA regime and a few induced by policy changes, like the rollout of the goods and services tax (GST) and demonetization of high value currencies, undertaken over the last three years. So while one arose from inaction, the other is largely fallout of not anticipating or reacting in time to address the disruptions arising from hitting the reset button on the economy. It is important to grasp this distinction. Alternatively, there is a risk of being overwhelmed by the rhetorical claims and counterclaims on the economy; and missing the woods for the trees as it were.

As such the economy is not doing as badly as the opposition is claiming—especially with almost every agency forecasting a rebound in economic growth, albeit marginal, in subsequent quarters. Most importantly, macroeconomic stability has been restored. On the other hand, it is certainly not performing to potential—This potential can be tapped only if the investment levels, which have dropped to worrisome lows, recover. But this is easier said than done. The legacy of bad debts or what Arvind Subramanian, chief economic adviser, describes as the twin balance sheet problem (because it affects the books of both companies and the banks who extended the loans) is not something that can be resolved overnight. Alongside the disruptions caused by structural policy responses like GST are causing considerable pain. As the old business structures built over seven decades are replaced, rather abruptly in some cases, the new systems are not up and ready to take over—indeed, the challenges in execution of some the bold ideas of Demon and GST is where potentially the government underestimated. It is the fallout of this transition, which is lending hope to critics and a cause for worry to the government. But should we really worry so much? We don't think so.

Yes, there will be an adjustment period and this will dilute growth and potentially push out the much needed earnings recovery further down a few quarters. As one of the CFO's of a large and very successful company told us – "when we implemented SAP in our organisation it took us a whole year to recover from the ensuing chaos and adjust to the new system, and here we are talking of implementing the most complex piece of reform for the entire country!!. What are we really talking about?" he was not wrong! We believe, as we have seen in the case of DeMon, that Indians are not only a tolerant lot but also adaptable. So people will eventually adapt to the new processes. Plus the government has swung into action and has started course correction by simplifying and reducing the compliance burden on smaller businesses, giving relief to exporters as also reducing the GST rates on several items of mass consumption. The next few months will be critical. If the momentum in some high frequency economic data like Auto sales and core sector growth, which were strong in September, hold up as also the monthly GST revenue collections stabilise, confidence will return. The current earning season will also give a few clues about re-stocking and sales trend for companies which got hit by de-stocking that took place prior to GST. In the final analysis, it can safely be said that the attention to the economy is welcome, and it has prompted the government into action. Markets could halt their sordid momentum for a while as it waits for signs of a much long awaited recovery in growth and earnings. But looking at a new and rapidly transforming India through a conventional lens is a bad idea. We remain confident on the medium and long term prospects for growth and are well positioned in companies that have the ability and capability to grow irrespective of these short term disruptions.

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Alchemy India Long Term Fund Performance (%)[1]

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	**Dec**	**YTD**
2017													
Fund Performance	7.3	5.9	6.8	4.6	-0.3	1.0	3.5	1.5	**-2.4**				**31.1**
Benchmark*	5.9	6.1	6.8	3.7	1.2	-0.5	6.5	-0.9	**-3.1**				**28.2**
2016													
Fund Performance	-10.7	-13.2	16.5	2.9	1.1	3.9	8.4	2.5	2.5	3.3	-10.4	-1.2	**1.7**
Benchmark*	-8.0	-9.1	14.4	1.9	2.4	1.9	6.0	2.2	-0.7	1.2	-8.1	-0.6	**1.3**
2015													
Fund Performance	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**
Benchmark*	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													
Fund Performance	-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**
Benchmark*	-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													
Fund Performance	-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**
Benchmark*	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													
Fund Performance	20.5	5.4	-4.1	-1.0	-10.1	4.8	-0.5	2.1	15.7	-3.0	9.0	0.9	**42.5**
Benchmark*	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													
Fund Performance	-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**
Benchmark *	-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													
Fund Performance	-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**
Benchmark *	-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													
Fund Performance	-8.3	-7.1	2.5	11.1	43.5	0.0	7.7	5.6	3.9	-3.2	4.3	5.3	**74.6**
Benchmark *	-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													
Fund Performance						-1.7	4.3	-0.2	-11.8	-24.4	-10.0	10.0	**-32.4**
Benchmark *						-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 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	196.4%	12.4%
S&P BSE 500*	52.3%	4.6%

* 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.
Note : Fund commenced on 11th June 2008.

#Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	351.7%	17.6%
S&P BSE 500*	132.0%	9.5%

* 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.
Note : Fund commenced on 11th June 2008.

Weight by Market Cap (%)

Less than USD380mn	5.9
Between USD380mn and USD3bn	48.8
Greater than USD3 bn	38.1
Total	**92.8**

Net/Gross Exposure (%)

Net Exposure	92.8
Gross Long	92.8
Gross Short	0.0

Sectoral Breakup (%)

Industrials	27.6
Financials	24.1
Consumer Discretionary	18.1
Consumer Staples	9.5
HealthCare	5.2
Information Technology	4.5
Materials	3.5
Energy	0.2
Total	**92.8**

Data as on 30th September, 2017

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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)

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