ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long-Term Fund Monthly Performance
Fact Sheet April 2015

NAV: 235.04, AUM: USD 61.95mn *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.

Portfolio Manager Summary

Alchemy India Long Term Fund returned 4.0% for March 2015 as against -4.8% for S&P BSE500 in dollar terms

Alchemy has from time to time thought about significantly scalable opportunities and long term themes/trends that maybe investment worthy. The defense/aerospace manufacturing space seems to be one such that we believe offers significant investment opportunities.

One of the pledges of the new Government is to modernize its armed forces to meet the security challenges posed by a rising China and its long-running tensions with Pakistan. Modernized armed forces are a pre requisite to peace and deterrence in the region according to our Prime Minister - Modi.

Dependence on inefficient Defense Public Sector Units (DPSUs) & Ordinance Factories (OFBs), both largely government owned has led to India importing almost 60% of its defense requirements and is currently amongst the world's largest arms importer with a 14% share of global imports during

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

the period 2009-2013. In Prime Ministers' own words, India wants to shed its No. 1 status as the largest importer and create a self sufficient and globally competitive domestic industry not only to supply its armed forces but to eventually export defense equipment to other countries. A thriving and well developed domestic supply chain would mean access to latest technology at substantially lower costs, creating new job opportunities, invigorating both the SME as well as large industrial sector, savings in foreign exchange (deficit reduction) and more importantly, freedom from the threat of sanctions, if any - (US had imposed major sanctions on transfer of technology against India in 1998, when it conducted its nuclear tests).

The previous United Progressive Alliance (UPA) government had talked of indigenization of defense procurement, but became cautious about placing orders due to excessive red tapism and a spate of graft charges. Defense Procurement Policy (DPP), 2013 already stated that Buy (Global) will be accorded the last preference for procurement going forward with focus on 'Buy (Indian)' and 'Buy and Make (Indian)'.

The new Government, realizing the limitations of Defense Public Sector Undertaking's and Ordinance Factories capabilities to cater fully to the rising demand of India's military complex, has therefore meaningfully liberalized the rules to increase private sector participation by (i) increasing FDI in defense companies to 49% from 26%, and (ii) liberalization of licensing policies for all but 16 items along with a slew of operational nuts and bolt changes in the offset policy, duty structures for import of raw materials, sharing long term defense procurement plans (adhoc demand earlier), etc. The new DPP, 2015 is expected shortly, and expected to further provide policy clarity and thrust awaited by the industry.

The Indian private sector has shown ability to achieve global scale and world class quality in areas of small cars, two wheelers, auto components, pharmaceuticals and software services once the right ecosystem and policy environment was put in place. Also important was the existence of a large domestic market. We see similar efforts and conditions existing for the defense industry this time. Many Indian companies have already inked collaboration agreements with foreign defense majors to gain necessary technical knowhow and to partner with them to enable them to meet their offset obligations under the procurement policy.

India today spends US$40bn (1.8% of GDP) per annum on defense, with capital expenditure pegged at approx. US$15bn. Even if we assume these ratios remain the same, though it is most likely to go up, at a 10% nominal GDP growth over the next 10 years, defense equipment requirement is expected to be about US$240bn. Today only about 40% or US$6bn annually is sourced from India. This figure will quadruple to approx. US$25bn per annum in 10 years if 65-70% is sourced from India. Add to this, US$10-15bn in the offset opportunity during this period. (As per Defense Offset Opportunity, foreign companies need to source 30% of goods and services from domestic sources for contracts above Rs3bn or US$45m. This can be increased or waived according to the contract).

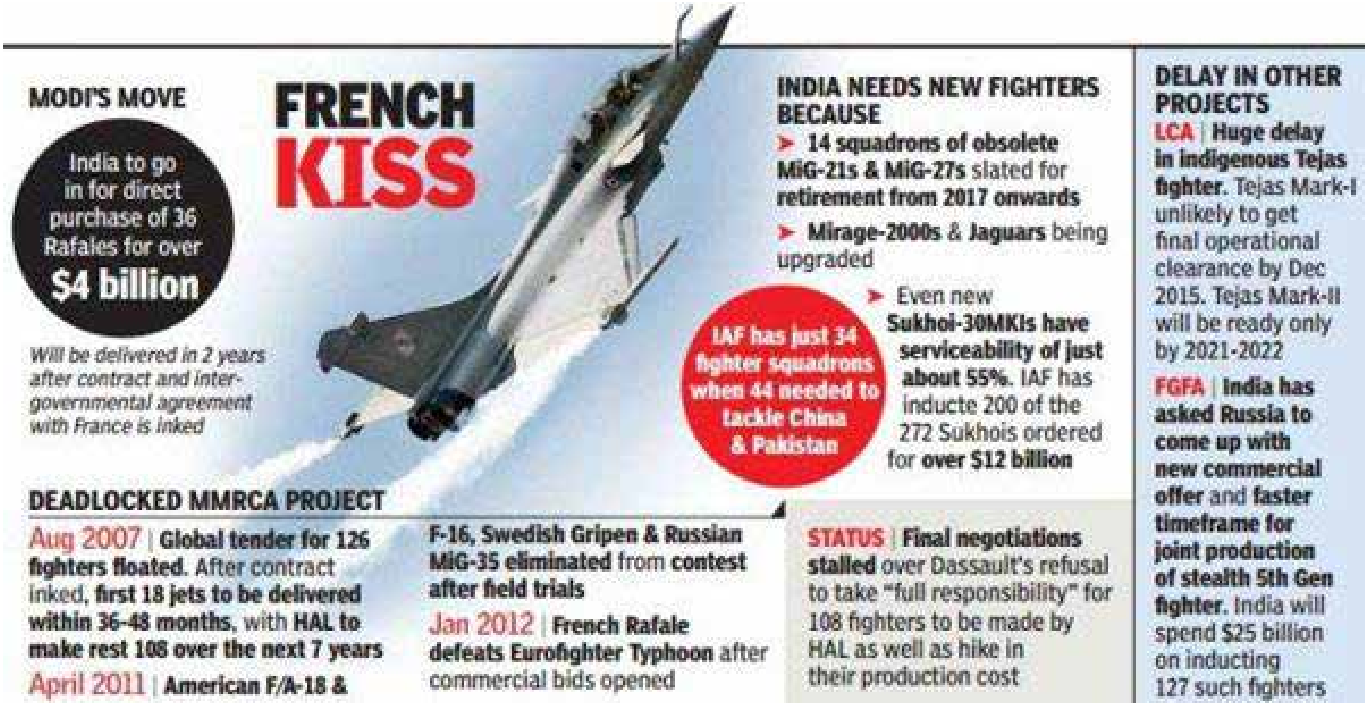
We at Alchemy are extremely bullish on this opportunity and believe that the inflexion point for this opportunity has arrived :-

(i) For one, the Scale of the opportunity is huge, there is a significant upside to the 0.7% of GDP assumption on capital expenditure as stated above

(ii) Large and smart corporates have started resorting to M&A to position themselves for this opportunity

(iii) Our portfolio companies are seeing increased traction. Dynamatic Technologies Limited, our largest position in the portfolio and the one we have held since inception of the fund, recently inked an agreement in Jan'15 with AeroVironment Inc, when President Obama visited India with the US delegation to setup a pilot production facility for the Next Generation of unmanned aircraft systems. The pilot plant positions the company for large opportunities from Indian customers like Ministry of Defense and Ministry of Home Affairs as also fulfilling its wider strategic plan to export from India, making use of India's manufacturing and frugal engineering and design capabilities. Dynamatic already has a US$600m order book (FY15 revenues US$43m in defense & aerospace) from the likes of Airbus, Boeing, Bell Helicopters to be executed over next 10-12 years giving high visibility to future revenues

(iv) India has already approved US$32bn of orders over the last 10 months, the urgency stems from the fact the previous government had vastly under spent on Defense readiness of the armed forces. The below excerpt from the Times of India (12th April'15) on the Prime Minister's recent decision to directly buy 36 Rafale fighter aircraft from France, the need for which was established way back in 2006, shows the complexity and current predicament that India faces.



While focusing on these opportunities, we have largely focused on mid and small companies where (i) the aerospace & defense vertical is a meaningful part of business (20-25%) of revenues. For several large corporates, the defense arms are either in unlisted entities or may help reduce cyclicality of business but may not be meaningfully large given the overall size of the firm) (ii) opportunities are scalable and commensurate with the size of the firm, however current market cap is much smaller compared to the potential opportunity. Hence at current valuation there exists a significant call option as this new opportunity fructifies over the next few years & lastly (iii) the vertical offers high growth, higher ebidta margins, high revenue visibility, relatively higher ROCE's and hence potentially higher valuation multiples.

The major risks in this business are related to **potential delays** which have been the norm in the past and hence we have chosen to focus on companies (i) who have other related streams of revenues (ii) have aerospace and defense orders in hand that will contribute meaningfully to profitability in both the the near term as well as the long term & (iii) order book is diversified between both government as well as private/

global customers.

In addition to **Dynamatic Technologies (DYTC IN – MCap US$388m)** which has been discussed in our earlier letters, we have invested in:

Bharat Earth Movers Limited (BEML IN – Mcap US$729m) which makes equipment for defense, coal mining and rail sectors. The company is one of the eight DPSUs in India and earns ~20% of its turnover from defense. It manufactures and supplies defense ground support equipment such as high mobility trucks, recovery vehicles, bridge systems, vehicles for missile projects, tank transportation trailers, mine ploughs, crash fire tenders, snow cutters, aircraft towing tractors and aircraft weapon loading trolleys etc. BEML is also significantly levered to benefit from opportunities in coal mining (India wants to double coal production in 5 years) and capital expenditure in Railways (India wants to spend Rs8tn or US$100bn+ over next 5 years).

Axiscades Engineering Technologies Limited (AXET IN – Mcap US$146m) which provides engineering technology solutions in areas of aerospace, defense, heavy engineering, automotive and industrial products. 50% of the company's revenues come from aerospace vertical with marquee clients like Airbus, Premier Aerotech, Bombardier and Zodiac Aerospace. For Airbus, it operates a dedicated design centre for Fuselage. In Heavy Engineering its clients include Caterpillar & Komatsu and in Automotive, it does work for Mercedes, Volvo & Nissan. There is a significant opportunity to mine and scale these relationships.

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Alchemy India Long Term Fund Performance (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	**Dec**	**CY**
2015													
AILTF	6.4	4.7	**4.0**										**15.8**
S&P BSE 500*	8.5	0.9	**-4.8**										**4.3**
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.

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Performance Since Inception In USD (%)

	Absolute	CAGR
AILTF	135.0%	13.4%
S&P BSE 500*	29.1%	3.8%

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

Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	243.0%	19.9%
S&P BSE 500*	88.4%	9.8%

Performance of the benchmark S&P BSE 500 index.

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

Less than USD329mn	19.9
Between USD329mn and USD3bn	45.9
Greater than USD3bn	33.6
Total	**99.4**

Net/Gross Exposure (%)

Net Exposure	99.4
Gross Long	99.4
Gross Short	0.0
Gross Exposure	**99.4**

Sectoral Breakup as of 31st Mar 15 (%)

Industrial	30.2
Consumer Discretionary	26.0
Financials	15.5
Materials	9.6
Health Care	9.5
Information Technology	7.4
Consumer Staples	1.2
Total	**99.4**

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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 Subsequent Investment	USD 1.0 mn
Subscription Period	Last working day of the month
Subscription Charge (Discretionary)	Up to 1%
NAV	Monthly
Redemption	1 year lock in. 45 days notice.
Exit Load	2% exit fee at the end of the 1st year. 1% exit fee at the end of the 2nd year
Fund Administrators	**Master Fund:** Deutsche International Trust Corporation (Mauritius) Ltd. **Feeder Fund:** Custom House Global Fund Services Limited, Malta
Auditors	KPMG
K1 Providers	KPMG

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

Contact: **Mr. Manoj Tambe**

Alchemy Investment Management
11th Floor, Straits Trading Building, 9 Battery Road, Singapore 049910
Tel: (+65) 6597-7084|Fax: (+65) 6410 9590 | Mobile: (+65) 9101-4225
Email: clientservicing@alchemysingapore.com

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General Risk factors

- All investment products attract various kinds of risks.
- Please read the relevant Private Placement Memorandum / Investment Agreement and other documents carefully before investing.
- The client is expected to understand the risk factors associated with investment & act on the information solely on his/her/its own risk. As a condition for providing this information, the client agrees that Alchemy Investment Management Pte. Ltd., its Group or affiliates makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, direct or indirect, arising from the use of this information.

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