ALCHEMY
INVESTMENT MANAGEMENT

# Alchemy India Long-Term Fund Monthly Performance
# Fact Sheet January 2014

*NAV: 126.46, AUM: USD 32.95mn* *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 -13.7% for 2013 as against -8.6% for S&P BSE500 in dollar terms. For the month of Dec’13, the fund was up 6.0% as against 3.9% for the benchmark.

Indian markets have risen by 18.2% in local currency terms post the taper induced bottom in end-Aug’13. Over the past two months there has been a distinct improvement in market breadth with the mid and small cap stocks out performing large cap stocks as (i) many companies are seeing stability in profit margins through focus on exports, cost cutting, containing interest cost and implementing productivity enhancing strategies etc. & (ii) relatively cheap valuations in mid and small cap stocks offered good risk-reward to investors willing to bet on Narendra Modi (BJP) becoming Prime Minister post the General Elections in April-May’14.

| Index Returns | Sensex | BSE500 | BSE Midcap | BSE Smallcap |
|---|---|---|---|---|
| Nov-Dec'13 | 0.0% | 2.2% | 9.8% | 11.1% |
| End Aug'13 lows | 18.2% | 18.2% | 16.9% | 14.6% |

As we start 2014, our portfolio positioning reflects the flowing themes/thoughts.

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

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## General Elections in April-May'2014:

The outcome of the general elections will have a significant short-medium term impact on market sentiment as a strong mandate in favour of market favourite BJP/NDA can accelerate the process of economic recovery and many investors are already betting on it. Though the recent strong showing by the AAP party and the subsequent strong momentum in terms of enrolments to the party have to some extent tempered the markets enthusiasm.

Our portfolio construction approach is not to pre-empt the poll verdict and is largely based on a long term hypotheses of our underlying investee companies which we believe will do well irrespective. Having said that, we would like to represent some of our portfolio names under certain themes which are playing out currently and into the medium term.

## Exporters:

A 15%+ depreciation of the Indian Rupee versus the US Dollar in the last 18 months has created tailwinds for Indian Exporters and made India competitive especially against China (it's currency has gained against the $). Not only are traditional Indian export sectors like IT services, Pharmaceuticals and Textiles gaining but MNC's are increasingly looking at India as a global sourcing base in manufactured exports. This coupled with improving growth prospects in the developed economies bode well for firms who are globally competitive.

While India has done a commendable job in controlling its Current Account Deficit by clamping on gold imports and raising US$34bn in Foreign Currency Deposits to strengthen its external funding position, if the Indian Rupee continues to trade in the 60-64/US$, it create a sweet spot for exporters.

A third of our portfolio companies by weight are benefiting from this trend. Direct beneficiaries include Infosys (IT), Cadila Pharma (Healthcare), Motherson Sumi Systems (Auto Parts), Honda Siel Power Products (Power Generator exports to US & Europe) and Rallis India (Contract Manaufacturing – Agrochemicals) while Tata Motors (Cars – Jaguar Land Rover) and Tata Global Beverages (Beverages) benefit out of significant global foreign currency revenue streams.

## Multinational Companies (MNC's)

India has lately seen good interests from MNC's in acquiring Indian businesses or hiking stakes in Indian subsidiaries as (i) the government is keen to attract foreign capital in FDI & (ii) the INR depreciation is subsidising a part of the premium these companies are willing to pay to acquire the same. Some of our portfolio companies have also benefited from this trend:

Diageo acquired a controlling stake in United Spirits (a portfolio company) in Nov'12 at a price of Rs1440/share. In Nov'13 they increased their stake by 1.5% at Rs2400/share, a 66.6% premium to the price paid a year back. Diageo still only owns 26.4% of the company and further creeping acquisition cannot be ruled out in 2014 given the strategic intent of Diageo.

Glaxosmithkline announced in Dec'13 its intent to increase its stake in the Indian subsidiary, Glaxosmithkline Pharmaceuticals from 50.7% to 75.0% at a premium of 25.8% to the prevailing stock price.

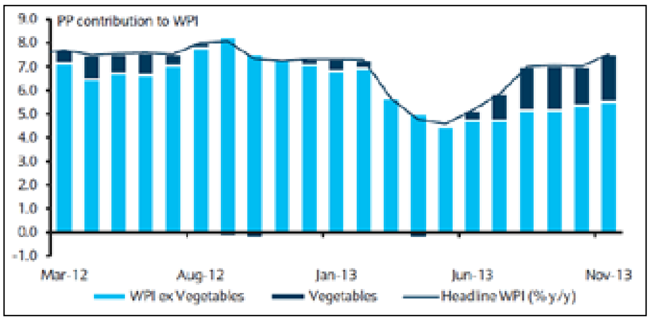
Tesco has got for permission to take 50% stake in the Hypermarket JV with Trent Ltd, becoming the first foreign company to get permission to enter multi-brand retail in India.

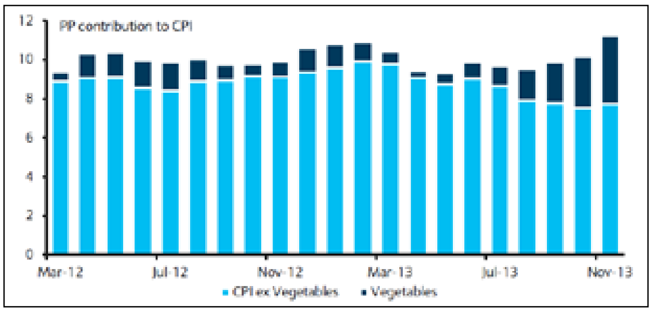
Bata (B.N) BV acquired 0.95% stake in its Indian Subsidiary from the market in Nov'13 at 23X CY14 EPS. And this we believe could just be the beginning.

### Interest Rate Sensitive:

The RBI Governor in its Dec'13 monetary policy review kept policy rates on hold contrary to consensus expectations of 25bps increase in policy rates taking cognisance of the fact that there was anecdotal evidence of sharp fall in vegetable prices which would reflect in lower headline inflation in coming months.

The charts below show a large part of recent uptick in headline WPI and CPI was due to temporary effects of higher food prices, which is now correcting.




*Source: Barclays Research*

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While headline inflation is much higher than RBI's comfort level and further rate hikes cannot be ruled out, we believe with (i) sharp fall in vegetable prices (ii) core inflation below 3% & (iii) disinflationary impact of stable INR should give more room for RBI to turn its focus towards growth. Thus, we have started adding some interest rate sensitive stocks like Hero Motors (Two Wheelers), where we believe the company could surprise on the margin expansion front over next two years and BF Utilities (Real Estate) which own about 20000 acres of land bank around Bangalore. The stock was deeply undervalued due to various litigations for its land parcel by the Government of Karnataka but with recent favourable court judgements the process of monetising its land bank is beginning and would hopefully correct the deep discount the stock was trading at.

### Large Cap Turnarounds:

Finally, we are betting on a few large cap companies where the companies have suffered either due to company specific / sector specific issues but where a turnaround looks imminent. These are:-

### Infosys (IT)

Infosys, for long the industry price and margin leader, has struggled to keep pace with its peers' growth over the past two years as it's rigid margin focus and leadership issues meant it was not nimble enough, and consequently lost share to its peers.

However, with Mr. N R Narayana Murthy back at the helm, business momentum is back, which along with cost optimization measures in place should see healthy earnings growth over next 2-3 years.

### Bharti Airtel (Telecom)

Bharti Airtel, the market leader in telecom with 30% revenue market share is available at multi year low valuations with the industry turning around after 6 years of de-rating. Bharti's earnings are expected to more than double between FY14-FY16.

The Telecom Sector in India has struggled for past six years on excessive competition leading to pricing pressure and slowing growth and high regulatory burden. Bharti had the added problems of a leveraged acquisition in Africa which did not go according to plans.

However, post cancellation of licenses following the telecom spectrum scam (i) industry has consolidated with top 3 players (including Bharti) accounting for nearly 70% of revenue share and 90% of EBITDA share leading to improvement in pricing environment and driving margin expansion

(ii) With proliferation of smart phones and tablets, data revenues are at an inflection point further helping profitability & (iii) capex is now less than depreciation leading to strong free cash flow generation.

### Cadila Healthcare (Pharmaceuticals)

Cadila Healthcare has underperformed its peers over last two years post receiving a US FDA warning letter for its Moriya facility in FY12. This has delayed approval of its ANDA pipeline with US FDA leading to stagnating sales in US and lower profitability which combined with slower domestic growth as industry got affected by one time change in distribution/retailer margin practices forced by the regulator.

The company has however maintained its ANDA filing pace in the US market with 33 ANDA's filed in FY13 and 17 in 1HFY14 to emerge with one of the healthiest pipeline (216 ANDA Filings / 86 Approvals) in US compared to Indian peers. These filings include many limited competition niche opportunities.

The company has recently received FDA's complete response letter which gives it confidence of getting approval for 20+ products in FY15 in US which along with rebound in domestic growth should help drive strong earnings growth.

The company recently became the first pharmaceutical company from India to launch a novel drug through its own drug discovery pipeline. The drug branded as Lipaglyn claims to offer both lipid and glucose lowering effects in one molecule and was launched in India in Oct'13. It's a first approval for a new class of diabetic drug Saroglitizar. This drug has good out-licensing potential for joint development in US and European markets, and holds a large option value but until then the core business momentum should help to re rate the stock.

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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 | -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** | 26.5% | 4.3% |
| **S&P BSE 500*** | -7.5% | -1.4% |

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

## Performance Since Inception In INR (%)

| | Absolute | CAGR |
|---|---|---|
| **AILTF** | 82.5% | 11.4% |
| **S&P BSE 500*** | 33.5% | 4.3% |

Performance of the benchmark S&P BSE 500 index.

## Weight by Market Cap as of 31st Dec'13 (%)

| | |
|---|---|
| Less than USD100mm | 11.9 |
| Between USD100mm and USD1bn | 31.1 |
| Greater than USD1bn | 53.2 |
| Total | **96.2** |

## Net/Gross Exposure (%)

| | |
|---|---|
| Net Exposure | 96.2 |
| Gross Long | 104.3 |
| Gross Short | 7.6 |
| Gross Exposure | **111.9** |

## Sectoral Breakup as of 31st Dec '13 (%)

| | |
|---|---|
| Consumer Discretionary | 27.3 |
| Industrial | 15.0 |
| Consumer Staples | 13.7 |
| Financials | 13.7 |
| Health Care | 10.1 |
| Materials | 5.2 |
| Telecommunication | 5.1 |
| Information Technology | 3.4 |
| Utilities | 3.2 |
| Nifty Index(Exception) | -0.5 |
| Total | **96.2** |

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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.<br>1% exit fee at the end of the 2nd year |
| **Fund Administrators** | **Master Fund:** Deutsche International Trust Corporation (Mauritius) Ltd.<br>**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.*

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**General Risk factors**

- All investment products attract various kinds of risks.
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