Alchemy India Long-Term Fund Monthly Performance

Fact Sheet June 2014

NAV: 164.09, AUM: USD 42.75mn　　*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 13.5% for May 2014 as against 12.8% for S&P BSE500 in dollar terms.

We have been highlighting in our past newsletters about the likelihood of the BJP led NDA government coming to power in India; the actual verdict has been much better than anticipated with the BJP getting 282 / 543 seats (336 seats won as NDA) which means a simple majority for a single party, a first in the last 30 years. The decisive verdict should help the BJP led government push through its progressive economic agenda unlike the fractured mandates of the past years which hindered the reform process.

Despite its numerical superiority, the new government may face potential challenges which are worth mentioning. However, our view is that they have a plan to address these challenges too.

1) India is a federal state and under the constitution, states have significant powers of legislation on key economic issues (states have exclusive authority to legislate on several key

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

economic matters including water and joint authority on matters relating to land, labour and electricity). The BJP currently governs only 7 out of the 29 states in the country. Narendra Modi, being an ex-Chief Minister of Gujarat clearly understands this and hence has mooted setting up of the National Development Council (which include the state chief ministers) and Inter-State councils to smoothen the partnership between the Centre and the States to effectively execute the development agenda.

2) All new legislation has to be approved by both houses of parliament. However, BJP and its allies only control 62 / 250 seats in the Rajya Sabha (Upper House). Hence passing bills in the upper house could be a challenge. While a joint session of a Parliament can be called upon to resolve a deadlock (NDA has slightly over 50% if there is a joint sitting, this option has been only used thrice in the past). The members of the Rajya Sabha are elected by members of legislative assembly of each state and retire every six years. Hence the BJP will have to win upcoming state elections to augment its presence in the Rajya Sabha and given the state election calendar it will be a couple of years before BJP along with its allies can be in majority here. Hence the new government will have to rely on some deft political maneuvering to get its legislation passed. BJP's early moves to endear themselves to two strong non-NDA state governments of Tamil Nadu & Orissa soon after the elections are a step in this direction.

The first few steps of the government suggest it is going to be a more decisive and purposeful government. The new cabinet comprises of only 45 ministers for now (79 ministers in the previous regime) and various ministries are being merged where synergies are possible. E.g. Coal and Power, given that coal availability is the biggest bottleneck for the power sector. The large number of Empowered Group of Minister's (9) and Group of Ministers (21) created under the previous government has been disbanded. Accountability has been fixed with each of the Ministries with regular review with the PMO. To re-energise the bureaucracy, the Prime Minister has assured the bureaucracy of protection against malicious prosecution for bona fide decisions.

The President of India on 9th June gave his introductory speech in the parliament which is like a vision document of the new government. The speech clearly highlights that the incoming government clearly understands the 'Development with Good Governance' mandate for which voters have elected them.

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The key focus of the government as spelt out in the president's address points to focus aggressively on getting growth back, reign in high inflation, re-ignite the investment cycle by making it easy to do business, having a stable and a predictable tax regime, focus on skill development to augment job creation and open up several sectors of the economy for FDI including some key sectors like Defense.

The next step is the budget announcement likely in the 2nd week of July'14 where a road map for implementation of the above over the next 5 years will be addressed. The markets have heightened expectations from the Finance Minister (FM) to present a firm roadmap towards fiscal consolidation (boosting revenue, lowering subsidies and meeting funding gaps for investment spending through innovative financing or disinvestments) and at the same time boost investment demand through faster clearances and reducing regulatory bottlenecks (there is already talk of loosening some environment norms). The markets expect the government to push towards implementing the Goods & Services Tax (GST) regime as well as open up FDI in a host of sectors including Defense.

There are other big tickets reforms ideas where the government seems to doing some ground work but will take time to be implemented. If implemented these would solve the capital needs of the banking sector and the productivity issues at Public Sector Companies.

- Indian banks need US$40bn of capital over next 5-years as per various estimates. The idea is to setup a Public Sector Bank holding company which should help the government raise capital at both the bank as well as at the holding company level without diluting control. At present (holding company cannot be constituted under the Companies Act as public sector banks are corporations established under the Act of Parliament and are not companies, so a separate act will need to be passed for this). The Government of India ownership of PSU Banks stands at US$57bn.

- Setting up a holding company for Public Sector Units (PSU) – on the lines of Singapore's Temasek – to give autonomy and better manage state-owned firms. Most PSU chiefs would tell you that they would have performed better but for the interference of Ministers and their Departments. The idea is to take these companies away from the clutches of bureaucracy and have them report to an independent board comprising of distinguished experts in various fields. The

Government of India ownership of non-bank PSU's stands atUS$177bn.

Meanwhile, the markets have already given a big Thumbs-Up to the BJP's historic victory with Sensex, Midcaps & Smallcaps rallying 8.0%, 15.6% and 18.0% in the month of May'14.

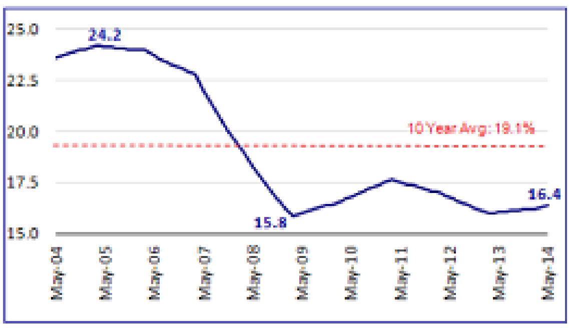
<u>While markets have moved up in the short run and there are pockets of exuberance, valuations are far away from any overvaluation territory and we see enough opportunities across sectors. As long term investors we are less focused on the near term market movement and more focused on the long term opportunities that this market offers and will continue to offer over the next few years</u>

1) Valuations are near to long term averages, they peak at much higher multiples &

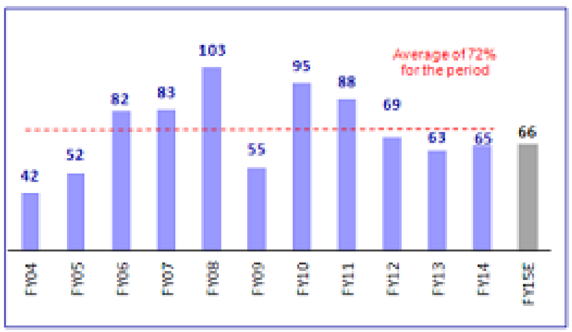
Sensex P/E (x)

Sensex P/B (x)

Sensex RoE (%)



Market Cap to GDP (%)



Source: MOSL

2) Consensus earnings estimates are building in 15-16% earnings growth over next 3 years but we know from past cycles (see table below) that when economic growth picks up after a downturn, earnings growth is much faster as operating leverage kicks-in as good companies use the bad period to reduce cost and become more efficient. Hence eventual valuation multiples may be lower than currently predicted.

Sensex Earnings Growth since 1990.

Year	EPS	Growth (%)
31-Mar-90	50	18.8%
31-Mar-91	59	18.8%
31-Mar-92	79	32.9%
31-Mar-93	81	2.9%
31-Mar-94	129	59.3%
31-Mar-95	181	40.3%
31-Mar-96	250	38.1%
31-Mar-97	266	6.4%
31-Mar-98	291	9.4%
31-Mar-99	278	-4.5%
31-Mar-00	280	0.7%
31-Mar-01	216	-22.9%
31-Mar-02	236	9.3%
31-Mar-03	272	15.3%
31-Mar-04	348	27.9%
31-Mar-05	450	29.3%
31-Mar-06	523	16.2%
31-Mar-07	718	37.3%
31-Mar-08	833	16.0%
31-Mar-09	820	-1.6%
31-Mar-10	834	1.7%
31-Mar-11	1,014	21.6%
31-Mar-12	1,125	10.9%
31-Mar-13	1,183	5.2%
31-Mar-14	1,294	9.4%

On the portfolio front, while we have not chased a Beta rally, the fund has done well due to our significant exposure (approx. 67%) to high quality mid and small cap stocks which had deep value and earnings growth which have exceedingly well for us.

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Alchemy India Long Term Fund Performance (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	**Dec**	**CY**
2014													
AILTF	-5.3	3.5	15.8	0.7	**13.5**								**29.8**
S&P BSE 500*	-5.1	3.5	11.1	0.2	**12.8**								**23.3**
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	64.1%	8.6%
S&P BSE 500*	14.1%	2.2%

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

Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	125.8%	14.6%
S&P BSE 500*	57.0%	8.6%

Performance of the benchmark S&P BSE 500 index.

Weight by Market Cap as of 31st May 14 (%)

Less than USD200mm	20.8
Between USD200mm and USD2bn	39.7
Greater than USD2bn	36.1
Total	**96.6**

Net/Gross Exposure (%)

Net Exposure	96.6
Gross Long	96.6
Gross Short	0.0
Gross Exposure	**96.6**

Sectoral Breakup as of 31st May 14 (%)

Industrial	32.5
Consumer Discretionary	29.3
Financials	14.0
Health Care	9.8
Materials	5.3
Information Technology	2.9
Telecommunication	2.5
Consumer Staples	0.4
Total	**96.6**

INVESTMENT MANAGEMENT

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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	**Master Fund:** Deutsche International Trust Corporation (Mauritius) Ltd. **Feeder Fund:** Custom House Global Fund Services Limited, Malta
Fund Administrators	Master Fund: Deutsche International Trust Corporation (Mauritius) Ltd.
Feeder Fund: Custom House Global Fund Services Limited, Malta	KPMG
Auditors	KPMG
1 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.
- Please read the relevant Private Placement Memorandum / Investment Agreement and other documents carefully before investing.
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