ALCHEMY
INVESTMENT MANAGEMENT

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

NAV: 219.88, AUM: USD 57.95mn *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 -6.5% for April 2015 as against -4.7% for S&P BSE500 in dollar terms.

AN ALTERNATIVE TAKES ON - WHY THINGS HAVEN'T CHANGED ON THE GROUND?

On the eve of the completion of one year of the Modi Government, it is obvious that investors are asking the Promise v/s Performance question or the Expectations v/s Reality question. Many economic indicators, especially growth indicators like IIP, exports, non-farm credit growth, volume growth across sectors like infrastructure, cement, metals, auto (barring HCV's) and including consumer sectors, are still either in negative territory or in very low single digits, begging the question – have things on the ground really changed? Quite relevant. The only indicator that seems to have grown is our GDP based on the new series.

To be fair, many other macro indicators have improved – Fiscal Deficit and Current Account Deficit for one, the rupee has been amazingly

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

stable barring the current few weeks and the inflation trajectory is firmly down. But the lack of growth and the amazingly slow pace of industrial/ capex cycle recovery is worrying investors.

The reasons are well known and debated – still relatively high interest rates as RBI has been relatively conservative in cutting rates; complex problems continue to plague the infra sector though clear attempts have been made to resolve several issues (coal auctions and higher domestic coal production, gas pooling, etc.); weak and still highly leveraged balance sheets of large corporates who were at the forefront of the pervious investment expansion cycle; weak bank balance sheets especially those of PSU Banks; poor agri commodity prices and a combination of unseasonal rains and lower wage growth having negatively impacted the rural demand.

All of these are relevant observations. However, we believe that there is an alternative take to the growth conundrum that is not very well debated, making the issue of "on the ground change" much more nuanced.

THE INVENTORY EFFECT - LOWER TOP LINE GROWTH AND POSTPONEMENT OF BUYING

Substantially lower commodity prices have meant that many companies and trade was sitting on previous high cost inventory of both raw material and finished goods. Usually, it takes a couple of quarters for the high cost inventory to work through the system. Especially, traders and intermediaries would be staring at immediate loss on inventory reducing their ability to buy immediately to build inventory, especially if they believe that prices will continue to come down. For value added producers, that means a lower top line as prices have to be reduced. This can be seen in the top line growth of BSE500 companies in the current quarter which has degrown by -5% (For 158 companies reported so far). Even after adjusting for Financials and Oil & Gas (RIL), the BSE500 reported sales growth is weak at 4.2% (For 122 companies reported so far ex-financials and ex-RIL).

THE WEALTH EFFECT - REAL ESTATE & GOLD

Over the last few years i.e. pre 2014, household savings have got locked into hard assets like gold and real estate, both favorite asset classes for investment. Gold prices have fallen from a peak of $ 1800 to now below $ 1200 (with customs duty and the Rupee depreciation, that has meant an even lower price). Real estate has been the most favored asset class in India. There is now an oversupply in several markets, prices are lower, investor demand has evaporated and volumes of transactions have dropped. Our interactions with mortgage finance companies and real estate dealers bear this out. According to them, a lot of liquidity has got locked up in real estate. Investors want to sell but prices are not attractive and hence volume of transactions have dropped. Genuine buyers are waiting for interest rates and prices to fall before they step in. This lock up of liquidity and an inability to liquidate is another reason that is impacting confidence in the system. If interest rates fall further, it would be possible to liquidate inventory or borrow against property at lower rates to use that liquidity elsewhere.

BLACK MONEY AND CORRUPTION

Corruption was amongst the major reason (other than inflation) why the UPA lost elections and the BJP came to power. The spectacular win of the AAP party, also a crusader against corruption, also added to the environment where black money and corruption have taken centre stage in India's politics. No wonder, the current BJP government wants to enact a very strict anti corruption and black money law. Many studies have shown that the size of the unaccounted/informal economy is probably as big as the accounted/formal one. The recent regulatory noose on corruption, with investigating agencies like the CBI, CAG and CVC actively pursuing alleged corruption practices, has brought fear into both recipients as well as givers. It would be fair to assume that the fear of getting caught would have considerably reduced consumption, especially discretionary type like cars, real estate and land. This is one more reason why velocity of money and hence demand would have got impacted. How long this lasts is anybody's guess but in the short to medium term, it has definitely impacted demand.

BALANCE SHEET REFORM V/S P&L CUTBACK TO BRING DOWN INFLATION

Other than corruption, inflation was another major issue in the last election. The government has moved swiftly to combat inflation, obviously helped by lower oil and commodity prices. The government has clearly moved to decontrol petroleum product prices, cut subsidies and target them better through the roll out of Aadhar and UID (Unique Identification Number). The rate of increase in rural wages has been contained and minimum support prices paid to farmers has seen the lowest increase in many years. These are prudent and welcome steps, important to keep the fiscal deficit in check. But a cutback on giveaways, which directly go into the hands of the recipients, is also one of the reasons why demand, especially in rural India, has been so soft. Many reforms initiated by this government are what we would term balance sheet reforms – e.g. lifting FDI in several sectors, clearing stuck projects, trying to improve ease of business – however, all of these will hopefully have impact over the long term but the emphasis on cutting government spending and subsidies directly impacts current demand.

DISINTERMEDIATION IN SEVERAL SECTORS

The rapid growth of e-commerce and the mobile revolution is putting pressure on some old business models. Though the trend is still young, it has started impacting some of the businesses like traditional retailers. The VC/Private Equity players have been funding startups at a furious space. In the last 2 years, one - fourth of $22 Bn private equity Investments in India has gone to e-commerce alone. The aggressive rollout of services and price discounting has left the traditional business models unprofitable. How long will the e-tailers be able to survive with ever increasing losses is anybody's guess but currently, it is putting tremendous pressure on traditional trade channels. It is weaning the incremental buyer away from them curtailing demand for the traditional retailer. The recent consolidation in the retailing industry (merger of Future group with Bharti) is clear indication that on a standalone basis, they are finding it difficult to operate and make profits. It will take some time before the traditional businesses adapt to the this new competition or private equity dollars dry up funding these new startups. However till then, this creative digital disruption is causing short term pain.

We believe that some of the above factors are co-mingling with traditional factors and creating some short to medium term dislocations and challenges to growth. Hopefully, stakeholders in the economy will adapt to the new normal, but till then investors and policy makers will need to have patience till growth picks up again.

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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	-6.5									**8.4**
S&P BSE 500*	8.5	0.9	-4.8	-4.7									**-0.6**
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	119.9%	12.1%
S&P BSE 500*	23.0 %	3.1%

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

Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	225.9%	18.7%
S&P BSE 500*	82.4%	9.1%

Performance of the benchmark S&P BSE 500 index.

Weight by Market Cap as of 30thApril 15 (%)

Less than USD329mn	30.2
Between USD329mn and USD3bn	32.1
Greater than USD3bn	34.6
Total	**96.9**

Net/Gross Exposure (%)

Net Exposure	96.9
Gross Long	96.9
Gross Short	0.0
Gross Exposure	**96.9**

Sectoral Breakup as of 30th April 15 (%)

Industrial	27.2
Consumer Discretionary	26.4
Financials	15.5
Health Care	10.2
Materials	8.3
Information Technology	6.5
Utilities	1.7
Consumer Staples	1.1
Total	**96.9**

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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 and 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 250,000
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
Exit Load	No exit load, post expiry of lock in period notice period 45 days
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

- 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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