JAIPUR ASSET MANAGEMENT

SPECIALISTS IN INDIAN INVESTMENT

Jaipur AM India Growth Unit Class (JIG) - Quarterly Investment Update

AS AT 31ST MARCH 2019

Overview

The Jaipur AM India Growth Unit Class (JIG), an investment opportunity within the Jaipur AM master fund, offers wholesale, professional and sophisticated investors the opportunity to invest in companies listed on the Indian Stock Exchanges.

The primary investment objective of the JIG is to generate returns that exceed the MSCI India Index by more than 200 basis points per annum, after fees, over the medium to longer term.

Currently the JIG invests its capital in equal weightings between the funds of three experienced Indian investment managers. All managers pursue the investment style and philosophy of Growth at a Reasonable Price (GARP) however, each has a specific approach.

Investment Performance

PERFORMANCE* AS AT REPORT DATE	1 MONTH %	3 MONTH %	6 MONTHS %	1 YEAR %	3 YEARS %P.A.	5 YEARS %P.A.	SINCE INCEPTION (1 AUG 2016)
JIG (AUD net of fees)	+10.8%	+7.1%	+13.6%	+11.0%	+21.4%	+22.4%	+16.9%
MSCI India (gross)	+9.4%	+6.2%	+11.9%	+15.3%	+14.7%	+13.8%	+12.2%
Outperformance	+1.4%	+0.9%	+1.7%	-4.3%	+6.7%	+8.6%	+4.7%

* The table above provides an indicative performance of the JIG as at the report date, and is subject to the finalisation of the JIG tax return. JIG has been in operation since 1 August 2016. Performance data longer than the JIG's history is back-tested performance (pre-tax, after fees and expenses), assuming the JIG was invested in the underlying funds in its current ratio of investments over the respective timeframes and reinvested any distributions.

From the desk of our Chairman

As we review the last quarter we need to cover a wide range of issues all of which have impacted your fund. Our summary is below.

1. Returns. This quarter has seen good returns overall, with an exceptional March. You will note the unit price is now at highest level since inception, and is above benchmark for the quarter

   In the recent period our managers have been ensuring that their portfolios are more concentrated and allowing for tighter focus on underlying assets and also allowing analysts more time to look for the new opportunities in an ever-changing market.

2. Last year saw a period substantial correction in the market following government actions which impacted on market and community sentiment. This has turned to a more positive sentiment in March and some reasons are covered below.

   a. Kashmir. An ongoing issue between India and Pakistan and a group seeking a separate state which erupted again leading to rapid escalation ending with the repatriation of a captured pilot.

      Following this the two protagonists have reached a truce which continues today. PM Modi's rapid action was widely applauded in India.

   b. The continuing economic benefit of BJP's policies and their implementation in the last three years

      i. Virtual completion of the Biometric ID card system with 1.2 Billion users

      ii. Introduction of zero cost banking accounts for the poor allowing for the distribution of income support electronically

      iii. Introduction of a national GST with some ten million businesses now using it and the added benefit of improving the utilisation of transport across borders

      iv. Crack down on corruption via Demonetisation and empowering the RBI to direct individual banks to collect on Non-Performing Assets

   c. The general view is that for numerous reasons Prime Minister Modi's election chances improved with election period starting this month

   d. RBI and USA Federal Reserve have both adjusted policy settings to a level more encouraging to investors.

   e. Oil prices have stabilised, which is positive for a net importer of Oil such as India.

3. Outcome

   Investor positivity has grown through the quarter plus inflation has remained relatively low whilst GDP growth has continued to remain around 7%.

   i. Net Foreign Investor inflow for the March 2019 quarter was approximately $us 6.5b.

   ii. Local investment continues to hold up with the changes to investment rules and taxation advantaging equities.

   iii. This has produced a strong rally across the wider market especially in March where the general market showed an uplift of over 5%.

4. What are the factors likely to have an impact over the next five years?

   a. India will continue to see substantial growth in their economy and theirs stock markets due to strong focus on improving the standard of living especially for the poor.

   b. BJP achieving a majority or strong lead in a coalition will be positive for investors.

   c. McKinsey have under taken a review of India (in conjunction with the national government) and it's readiness to adopt a greater Digital focus and the impact across a wide range of sectors. This report shows opportunity for substantial increases in productivity all areas of the economy.

"India's digital leap is well under way, propelled by both public and private-sector actions"

   40% of the population has an internet subscription.

   80% of adults have at least one digital financial account (doubled since 2011).

   Data costs have declined 95% since 2013 resulting growth of 152% annually.

   d. Implementation of change in the Agriculture sector especially using Digital information will dramatically improve the efficiency and profitability.

   i. Average farm size will increase and numbers employed will reduce (a need for retraining will result as well) and yields should also improve with availability of better information.

   ii. Accurate information will be collected providing for availability of lower cost finance and crop insurance.

   iii. An eMarketplace will allow for more efficient trading in produce.

   iv. Logistics improvement together with the new information will allow matching of consumers with producers.

   e. Demographics will drive economic growth.

   i. Population growth is slowing a little but still substantially higher than most large economies.

   ii. Low average age (less than 30), provides a substantial and still growing pool of labour.

   iii. Education levels continue to improve.

   iv. Slowing of migration to USA will improve the pool of IT Workers.

   v. Increase of female participation in workforce (currently very low) should finally start to come through due to:

      1. Ujjwala scheme distributed 70 million LPG fuelled stoves to rural households releasing the women from their daily collection of fuel for cooking. Effectively this will enable these women to enter the workforce, or if still children return to school.

      2. All political parties have committed to ensuring more workplace opportunities for women.

      3. Focus on enforcing laws dealing with female disadvantage such as forced child marriage.

      4. Girls are now more likely to remain in school as an outcome of policy to address some of the factors preventing this.

      5. A recent religious dispute saw the formation of continuous line by the women's movement demonstrated their increased strength.

5. **OUR VIEW**

   We believe the market sentiment will continue to remain positive during the election period. There may a return to more normal markets after that.

   The longer-term prospects look to be independent of the election outcome.

   We believe they continue to be strong especially when compared to the developed and developing countries and those with GDP of similar size to India.

Economic Commentary from our Partner – SBI Fund Management's Chief Investment Officer

NIFTY rose 8% in March and Rupee gained 2.3% against the US dollar. This helped Indian markets to catch-up with year-to-date under-performance relative to the emerging markets (Year-to-date, MSCI-EM is up 9.6%, MSCI India 6.6%, NIFTY 7.6% in US$ terms).

FIIs have invested over US$ 10 billion between 25th Feb to 3rdh April 2019 (US$8.5 billion in equity and US$2 billion in debt). The recent foreign inflows are more a reflection of India catching up with the other emerging markets. The global narratives around emerging markets had begun to change favorably since the start of the year, helped by increased dovish bias by the US Fed and easing trade tensions between US and China.

Strong foreign flows have led to a decent rally in indices; we expect market to consolidate these gains in the near term. Apart from noise around elections, market will take cues from the global market developments and earnings season. We have been calling for an earnings recovery and estimate growth of about 13% in FY19 and +20% in FY20 for the NIFTY. After the steep correction over the last one year, there is valuation comfort in the small and mid-caps. Over the last several years, market favored growth, rather consistency and predictability of growth and was willing to

pay any premium for handful stocks exhibiting such trend. As broad-based profit growth was scarce, 'Growth/Quality at Any Price' has worked very well for a long time now.

With a positive change at margin and profit growth likely to become more dispersed, the trend is undergoing a change. We are seeing a comeback for Value as an investing style and expect the trend to continue.

Coming to the bond market, March has witnessed a rally in the fixed income space (across G-sec, SDLs and corporate bonds). This partially exhausts our thesis of attractive valuations as a reason to go long in fixed income space. But fundamentals are still supportive.

Global narratives favor easing monetary policy. India's external finances have improved. Capital inflows have risen and are likely to push the balance of payments back into surplus (after three quarters of deficit). That said, weak export competitiveness keeps the country vulnerable to oil price moves or an uptick in domestic growth. Sudden reversals or a halt in capital flows are all too common.

A lot has been written to cheer the RBI's FX swap auction. The central bank, in general, intervenes regularly in the FX market (either via spot or forwards/swap), but the intervention happens primarily to contain the rupee volatility and on some specific past instances, to shore up the dollar reserves by offering some form of cost subsidy.

The newness of this measure lies in the fact that it is for the first time an FX swap has been used as a tool for managing rupee liquidity. It is for the first time that FX swap has been done in the longer tenor (3 years), does not attach any subsidy, has been officially announced and conducted within a specified time frame (auction window).

Just like the RBI's OMO operations alters the yield structure of the government bonds, the FX liquidity action also comes with some side effects, albeit a positive one in the current scenario. The announced intention to conduct a long-tenor buy-sell swap has helped to reduce the forward premium on Rupee, thus helping to reduce the hedging cost for importers and long-term financial investors in India. The 3-year cut-off premium came down to Rs. 7.76 on the day of the auction as opposed to Rs. 10 just two weeks ago. This in turn should help also to attract fresh foreign capital (both ECB and FIIs).

Further, in the current environment, most private banks had run down on their excess SLR and were not able to participate in the OMOs. The new tool has enabled the banks with foreign clientele and the liability base to participate in the RBI's liquidity injection measures. By lowering the cost of foreign capital, it also helps the domestic corporates to raise dollar bonds, partly addresses the issue of crowding out effects of the government borrowings and may help to achieve some bit of monetary policy transmission. Hence, in the present scenario, the new scheme brings a multiple reason to cheer. However, only time will tell whether it carries any side effects which may not be blatantly visible as of now.

Relative market performance

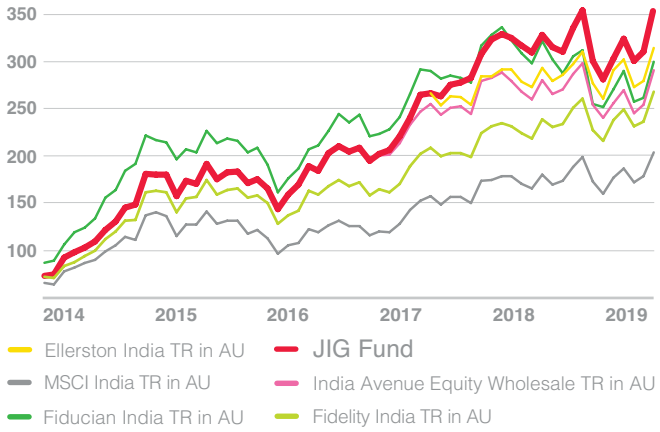
The Indian market represented by the MSCI India Index has delivered a return (in AUD) of 15.3% over the 12-months to report date.

After allowing for management fees, the 12-month return for JIG was -1.2% beating the index by -4.3% vs our stated objective of 2%. Since inception JIG has an annualised return of 16.9% vz 12.2% by the MCSI, giving an outperformance of 4.7% P.A.

This abberation apart, it aligns with our Fund's historical returns based on the back-tested performance of the underlying sub-funds, delivering consistent outperformance relative to the MSCI India Index, as shown on the previous page.

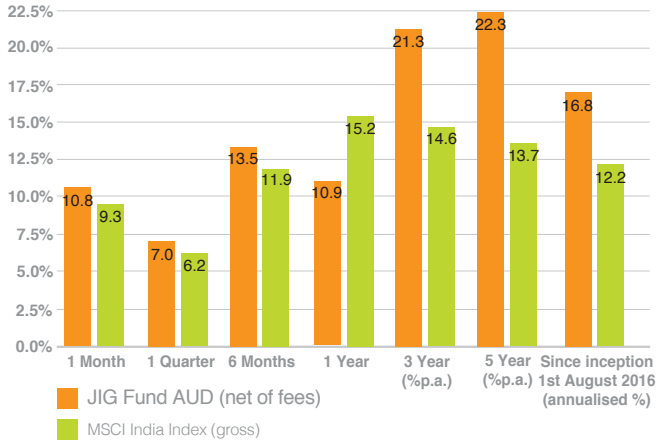
The chart following shows the relative performance of different equity markets over the past year and compared to the performance of the JIG.

5 year performance vs JIG*



* Performance data for JIG prior to 1 August 2016 is back-tested against the historical performance of its underlying assets

Jaipur India Growth Fund - Historical Performance of Sub-Funds

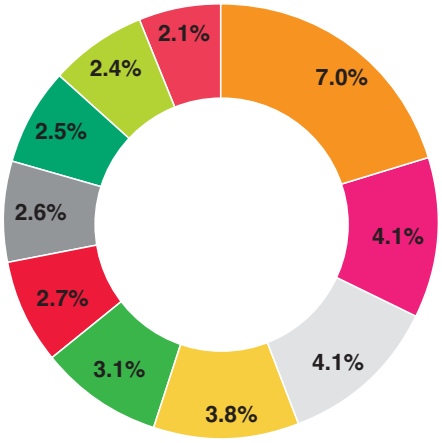


Sector Breakdown

As a percentage of Net Asset Value as at report date

SECTOR	TOTAL	LARGE CAP	MID CAP	SMALL CAP
Banks	22.6%	21.8%	0.8%	
Consumer Discretionary	11.1%	4.8%	3.5%	2.8%
Consumer Staples	4.4%	4.1%	0.3%	
Energy	5.6%	5.6%		
Financials	14.4%	7.8%	2.4%	4.2%
Health Care	5.9%	1.8%	2.4%	1.7%
Industrials	10.2%	4.0%	2.5%	3.7%
Information Technology	9.2%	5.9%	2.7%	0.6%
Materials	8.8%	4.3%	2.1%	2.3%
Real Estate	0.0%			
Telecommunication Services	0.2%	0.2%		
Utilities	4.6%	3.8%	0.8%	
Others	-0.4%			
Underlying Fund Cash Holdings	4.2%			
Cash	-0.8%			
	100.0%	**64.1%**	**17.5%**	**15.3%**

Top 10 Holdings



- HDFC Bank Limited
- ICICI Bank Ltd
- Reliance Industries Ltd
- Kotak Mahindra Bank Ltd
- Bajaj Finance Ltd
- Infosys Ltd
- NTPC Ltd
- Indusind Bank Ltd
- Housing Development Fund
- ICICI Prudential Life Insurance

Fund Facts

Inception date	1 August 2016
Objective	JIG aims to provide a total return (both capital growth and income), after fees and costs, that exceeds the MSCI India Index by 200bps per annum, after fees, over the medium to longer term.
Benchmark	MSCI India Index
Asset allocation	Indian Equities 95.6% Cash 4.4%
Current managers	• Aditya Birla Sun Life Asset Management Company Pte Ltd • SBI Funds Management (International) Private Ltd • UTI International (Singapore) Private Limited
Fees	1.10% per annum of the Gross Asset Value of the JIG
Pricing frequency	Monthly on first business day
Tax	The Fund is for investors registered for tax in Australia. Normal taxation rates will apply on Income and Capital Growth when realised.
APIR Code	VIL7707AU
Research recommendations	Arkaba Advisors – Investment Grade

Unit Price History

DATE	UNIT PRICE	DATE	UNIT PRICE
01 April 2019	$1.5159	01 November 2017	$1.3607
01 March 2019	$1.3681	01 October 2017	$1.2737
01 February 2019	$1.3352	01 September 2017	$1.2575
01 January 2019	$1.4258	01 August 2017	$1.2480
01 December 2018	$1.3442	01 July 2017	$1.2062
01 November 2018	$1.2682	01 June 2017	$1.2175
01 October 2018	$1.3348	01 May 2017	$1.2121
01 September 2018	$1.5183	01 April 2017	$1.1281
01 August 2018	$1.4560	01 March 2017	$1.0602
01 July 2018	$1.3671	01 February 2017	$1.0102
01 June 2018	$1.3842	01 January 2017	$0.9955
01 May 2018	$1.4297	01 December 2016	$0.9709
01 April 2018	$1.3662	01 November 2016	$1.0170
01 March 2018	$1.3901	01 October 2016	$1.0044
01 February 2018	$1.4173	01 September 2016	$1.0230
01 January 2018	$1.4323	01 August 2016	$1.0000
01 December 2017	$1.4119		

Unit Price Rounded to 4 decimal places

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Note Monthly NAVs are available on vascofm.com