JAIPUR ASSET MANAGEMENT

SPECIALISTS IN INDIAN INVESTMENT

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

**AS AT 30TH JUNE 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) | -0.6% | +3.5% | +10.9% | +14.8% | +18.8% | +19.8% | +16.7% |
| MSCI India (gross) | -1.5% | +1.7% | +8.0% | +13.6% | +12.7% | +11.9% | +11.8% |
| Outperformance | +0.9% | +1.8% | +2.9% | +1.2% | +6.1% | +7.9% | +4.9% |

* 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.

According to a recent UN report, in the last 10 years India has lifted 271 mn people from poverty, i.e surviving on less than $1.90 a day. It would be worthwhile to review at this point, some of the changes that have occurred in India. A deep level of programs have been implemented to alleviate in-built extreme poverty and reduce deprivation of essentials, as one will see from the table below:

| AREA | 10 YEARS AGO | CURRENT |
|---|---|---|
| Nutrition | 44.3% | 21.2% |
| Child Mortality | 4.5% | 2.2% |
| Cooking Fuel | 52.9% | 26.2% |
| Drinking Water | 16.6% | 6.2% |
| Electricity | 29.1% | 8.6% |
| Asset Deprivation | 37.6% | 9.5% |

To give a feel of the scale of work done – 70 Million gas connections were given to women in the last 30 months vs a similar number in the last 6 decades. In the education space for girls, in 2 years, construction of girls toilets in every school in selected districts has been achieved and the enrolment of girls in secondary education has increased to 81% against 76%.

Modi's emphasis on electrification, stems from the idea that household electrification is an invaluable tool to fight poverty. Within 1000 days, not only were connections done, but power supplied regularly to just short of 0.5 Billion people in over 0.5 Million villages.

The "housing for all" by 2022 initiative has set a target to build 2 Million houses in rural areas. More than a quarter of a million people have received their first housing instalment grants to do so.

In accident insurance, 135 Million people have been enrolled. The National health protection scheme – commonly referred to as Modicare – has enrolled over 15,000 hospitals, issued health insurance cover to over 40 Million people and admitted over 3 Million patients in less than a year of operations.

These programs, targeted at the outcomes of social justice and human needs that the world wants for India. We at Jaipur Asset management take pride in channelling investments into an India that seeks to enhance these achievements.

## From our Chairman's Desk

We live in an era of disruption, uncertainty and fear caused by Trade Wars, breakdown of strong relationships between countries and ongoing tension in the Middle East and of course I could go on.

To offset the underlying problems, we have record low interest rates, all time low unemployment rates in the USA and very high levels of employment in Australia and a focus on infrastructure investment worldwide.

What does this mean for a country like India, with minimal impact of external factors on GDP growth and a re-elected government with a penchant for lots of action early in their term.

We believe that the current response to a new Minister of Finance, Reserve Bank of India enforcing action on NPAs resulting in reduction in credit, and a delay in the arrival of the annual monsoon, a slowing of the economy due to local consumption and a share market correction is warranted.

Is this an opportunity.

Remembering more than 80% of the GDP is driven by internal factors, we should examine the drivers of these factors and where consumption will come from and when it will return.

I like to think of all economies as made of the three core groups of consumers.

1. The Wealthy or those on relatively high incomes. Although some redundancies or enforcement of Bankruptcies will impact individuals, we believe the overall impact will be minimal and real consumption will continue to grow.
2. The Middle Classes. We believe it is here that the greatest impact may be felt. Confidence may reduce and so savings will increase. Much of this should be directed to local banks or mutual funds. Short to medium term impact only.
3. The poor, in India, this is more than 700 million people living on very low incomes. However it is also the area to with Prime Minister Modi and his coalition are directing financial support.
    a. Replacement of indirect subsidies with direct payments of targeted support will continue to underpin consumption.
    b. The program of housing for all will continue to support local construction and employment.
    c. Using the benefits of the focus on anti-corruption, to employ the unskilled poor on road construction and other infrastructure will again provide funds to underpin consumption growth.

If we add this to focus on education of women, school attendance in poorer areas is an example. The continuing growth in population and use of technology are other factors.

In summary we believe, as do many commentators, that this is a great time to invest in India. The next five to ten years should see India move further up the rankings on world economies by size of GDP, net growth should continue in the band of 7-10% and the improvements in the position of the poor will drive ethical outcomes much greater than we could have anticipated before the previous term of government.

## Note from our MD's Visit to India

My usual grassroots discussions with the masses, intelligentsia, businessmen, judiciary and politicians across cities – to get a feel of what was actually happening there – was concerning to say the least. If one recalls the 2008 financial crisis – the issue was not necessarily about having funds, rather it was about the confidence of lending it and not knowing what each intermediary's exposure and likelihood of fulfilling and repaying obligations, that brought everything to a halt. Trust in the system was broken. This appears to be the case in India. I am respectful of the scale and enormity of what happened in 2008 and my reference to this is only to draw a perspective of what I see in terms that we know.

The debacles at ILFS (nearly a Rs 1 trillion (AUD 20 Billion) event) followed by the issues at Yes Bank (one of India's larger private sector banks) followed by the defaults in the aviation, telecom and financial sector, real estate sector and of the largest business houses, have effectively now flowed onto the unorganised sector.

Pursuit of high-profile bankers or "wilful" defaulters, who allegedly broke norms, industrial assets were auctioned and sold to recover dues to the banking system, something unheard off in the past. Large losses were booked and hard decisions including mergers and recapitalisation were taken to clean up the banking system and put it back on its footing.

We all know the health of the BFSI sector is critical for any growing economy. I cannot but help comment on the bravery of the government to bite the bullet and clean up the skeletons from decades ago and set the sector and economy up for success. I see a fear in every borrower and a zeal to service and repay debt in a timely manner not seen before.

One would think that this would be good - but the impact in the short term is severe. Liquidity is at a premium and buyers for assets non-existent due to what has happened. Rampant speculation in property has come to a halt and in the pipeline, I fear, are some high-profile names, who may not see this through. Like in Australia when the property sector sneezes, confidence and consumption falls, possibly due to a lack of the feel-good wealth effect. Elections compound it. India appears to be no different.

Our premise on India has always been that the economy has the ability to chalk its own trajectory, has lower than normal correlation to the rest of the world, is an economy driven by its own consumption story rather than the traditional export led growth. Last year's poor monsoon and the water shortages that followed and the above-mentioned complications have dealt a severe blow to consumption and growth.

We see this as a short term opportunity, where the segment affected can only postpone the consumption decision for a short period before resumption with a vengeance. The budget and policy positioning appear to recognise this, and we expect that there will be policy intervention to revive this demand should things not improve.

The government has sought to kick start investments by increasing significantly its investment in infrastructure, roads, railways etc to create jobs, removing bottlenecks in the process.

## Bonanza for Walmart

Not even a year has passed since Walmarts completion of a the $16 billion acquisition of Flipkart, arguably India's largest online retailer, as a move that most envisaged at best as a move that it not only sought to participate in a significant manner in the Indian markets but as one that would add value to their global plans.

Plans are already in motion to hive off its digital payments subsidiary, Phone Pe, which is estimated to be valued at $10 billion, almost 60% of the value that was paid to acquire Flipcart. Something no one envisaged as a value creator.

This highlights what we at Jaipur Asset Management insist – that it is essential to have boots on the ground in India – to see success and seize opportunity. We have consciously chosen our asset managers whose teams on ground are not insignificant and are able to add that dimension to the investments being made.

## Relative market performance

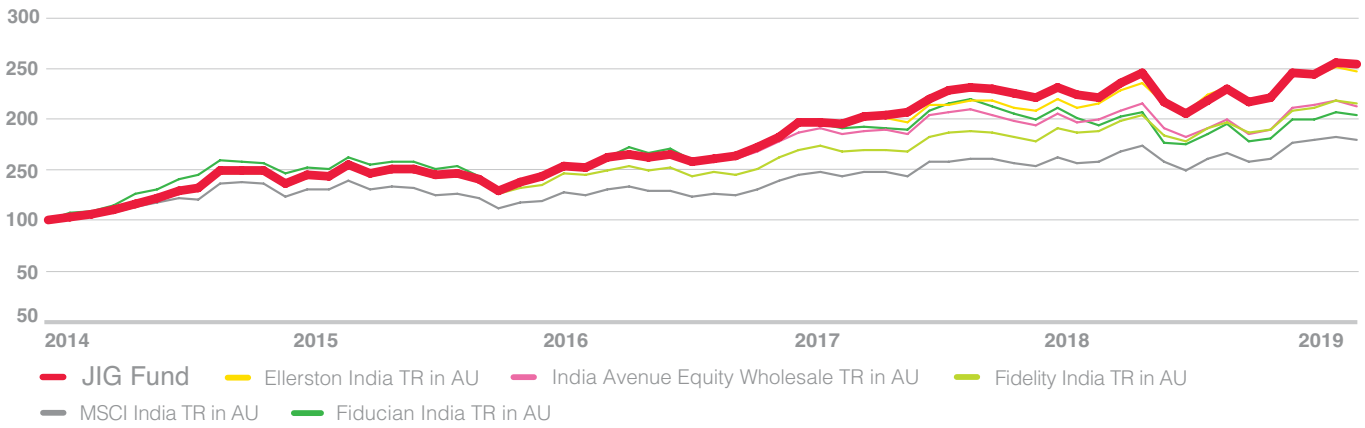
The Indian market represented by the MSCI India Index has delivered a return (in AUD) of 13.6% over the 12-months to report date.

After allowing for management fees, the 12-month return for JIG was 14.8% beating the index by 1.2% vs our stated objective of 2%. Since inception JIG has an annualised return of 16.7% vz 11.8% by the MCSI, giving an outperformance of 4.9% 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.

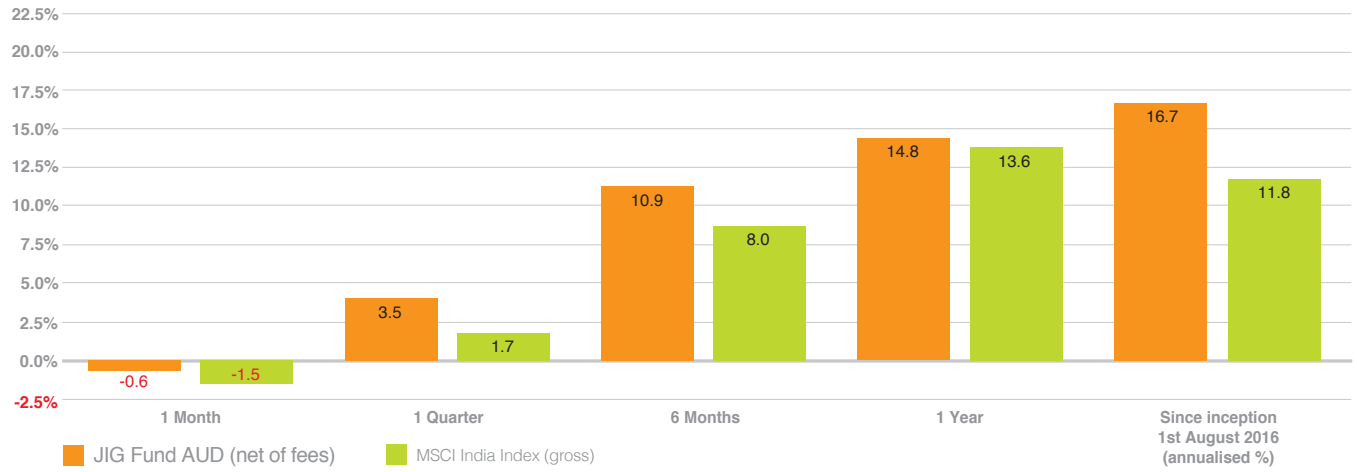
The chart following shows the relative performance of different equity markets over the past year and compared to the performance of the JIG.

### 5 year performance vs JIG*

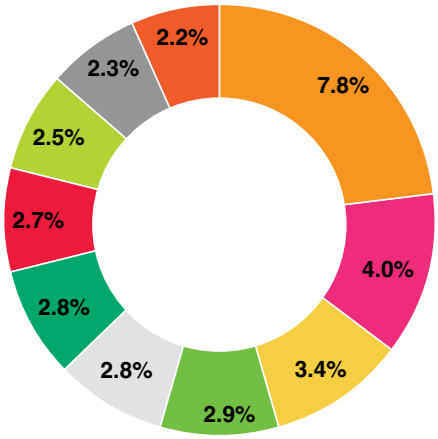



* Performance data for JIG prior to 1 August 2016 is back-tested against the historical performance of its underlying assets

### Jaipur India Growth Fund - Historical Performance of Sub-Funds



## Top 10 Holdings




- HDFC Bank Limited
- ICICI Bank Ltd
- Kotak Mahindra Bank Ltd
- Bajaj Finance Ltd
- Housing Development Finance
- Larsen & Toubro Ltd
- Infosys Ltd
- Reliance Industries Ltd
- State Bank of India
- Emami Ltd

## Sector Breakdown

As a percentage of Net Asset Value as at report date

| SECTOR | TOTAL | LARGE CAP | MID CAP | SMALL CAP |
|---|---|---|---|---|
| Consumer Discretionary | 8.84% | 4.21% | 3.13% | 1.50% |
| Consumer Staples | 7.08% | 3.94% | 3.14% | 0.00% |
| Energy | 3.86% | 3.86% | 0.00% | 0.00% |
| Financials | 35.62% | 27.92% | 5.60% | 2.10% |
| Health Care | 6.75% | 2.77% | 2.23% | 1.75% |
| Industrials | 9.16% | 4.74% | 1.55% | 2.87% |
| Information Technology | 9.69% | 6.15% | 2.23% | 1.30% |
| Materials | 10.86% | 3.24% | 2.10% | 5.52% |
| Real Estate | 0.21% | 0.21% | 0.00% | 0.00% |
| Telecommunication Services | 0.90% | 0.90% | 0.00% | 0.00% |
| Utilities | 2.75% | 2.03% | 0.72% | 0.00% |
| Others | -0.20% | | | |
| Underlying Fund Cash Holdings | 4.47% | | | |
| Cash | 0.01% | | | |
| | **100.00%** | **59.97%** | **20.71%** | **15.04%** |

## 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%<br>Cash 4.4% |
| **Current managers** | • Aditya Birla Sun Life Asset Management Company Pte Ltd<br>• SBI Funds Management (International) Private Ltd<br>• 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 July 2019 | $1.5695 | 01 January 2018 | $1.4323 |
| 01 June 2019 | $1.5792 | 01 December 2017 | $1.4119 |
| 01 May 2019 | $1.5090 | 01 November 2017 | $1.3607 |
| 01 April 2019 | $1.5159 | 01 October 2017 | $1.2737 |
| 01 March 2019 | $1.3681 | 01 September 2017 | $1.2575 |
| 01 February 2019 | $1.3352 | 01 August 2017 | $1.2480 |
| 01 January 2019 | $1.4258 | 01 July 2017 | $1.2062 |
| 01 December 2018 | $1.3442 | 01 June 2017 | $1.2175 |
| 01 November 2018 | $1.2682 | 01 May 2017 | $1.2121 |
| 01 October 2018 | $1.3348 | 01 April 2017 | $1.1281 |
| 01 September 2018 | $1.5183 | 01 March 2017 | $1.0602 |
| 01 August 2018 | $1.4560 | 01 February 2017 | $1.0102 |
| 01 July 2018 | $1.3671 | 01 January 2017 | $0.9955 |
| 01 June 2018 | $1.3842 | 01 December 2016 | $0.9709 |
| 01 May 2018 | $1.4297 | 01 November 2016 | $1.0170 |
| 01 April 2018 | $1.3662 | 01 October 2016 | $1.0044 |
| 01 March 2018 | $1.3901 | 01 September 2016 | $1.0230 |
| 01 February 2018 | $1.4173 | 01 August 2016 | $1.0000 |



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**Note** Monthly NAVs are available on vascofm.com