

# WHY ALQUITY INDIA? THE INVESTMENT CASE

Q3 2024

**LIFE CHANGING INVESTMENTS**



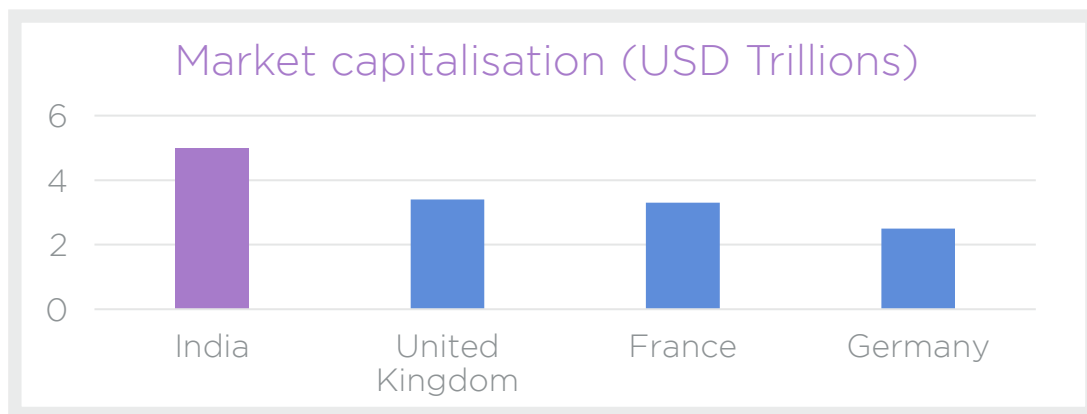
Policy, Governance and Strategy	★★★★★	88/100
Process - Active Fundamental	★★★★★	94/100
Process - Active Quantitative	★★★★★	91/100
Confidence Building Measures	★★★★★	85/100



# India is an uncorrelated, stock picker's market with significant alpha potential

Stock index	Correlation with MSCI India
<b>Hong Kong H shares</b>	<b>0.37</b>
Taiwan	0.48
FTSE	0.54
<b>Nasdaq</b>	<b>0.31</b>
World Index	0.47
Brazil	0.40
Eurostoxx	0.53
<b>S&amp;P 500</b>	<b>0.37</b>

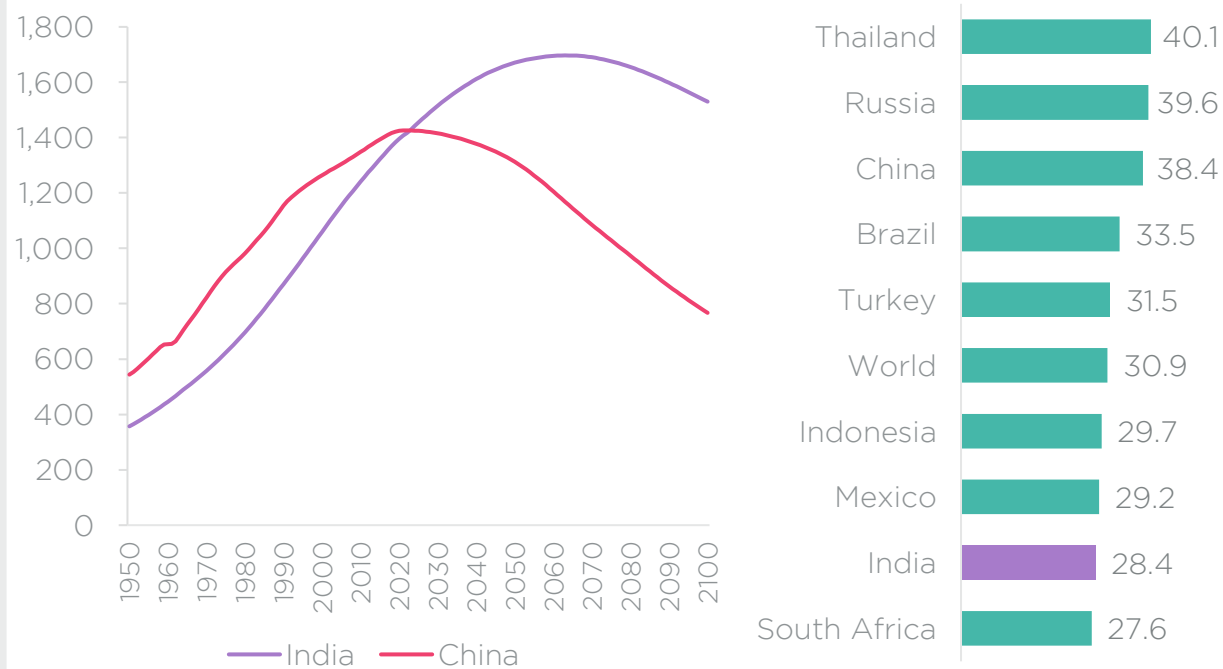
- Daily liquidity of approximately US\$ 7-9bn
- 60% of turnover is driven by retail investors
- Second largest EM market



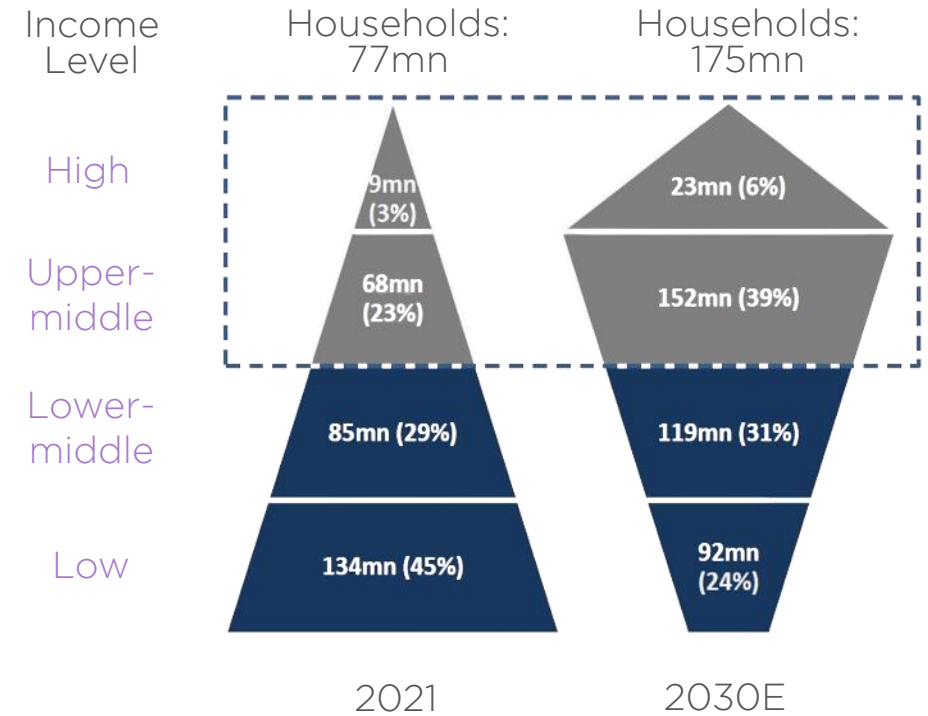
Country	P/E ratio 2024	EPS growth	PEG ratio
China	9.2x	15.7%	0.6
Brazil	8.3x	9.7%	0.9
Thailand	16.5x	15.1%	1.1
<b>India</b>	<b>22.3x</b>	<b>17.0%</b>	<b>1.3</b>
Korea	11.5x	7.7%	1.5
US	19.9x	12.1%	1.6
Japan	13.7x	7.8%	1.8
Europe (ex. UK)	12.8x	4.9%	2.6
UK	10.8x	2.4%	4.5

# The strongest demographic story worldwide...

Surpassing China's 1.425bn people in 2023, with an average age of just 28.4 years



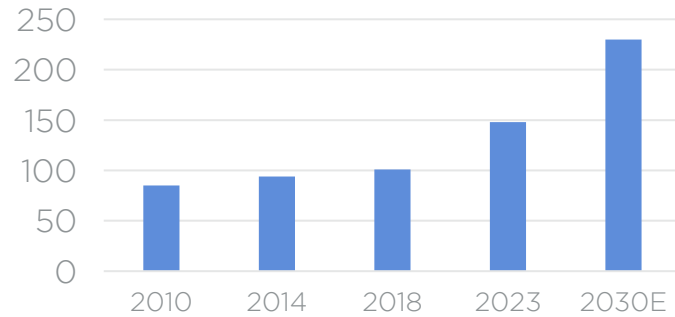
Indian households' income level (in mn and % of the total population)



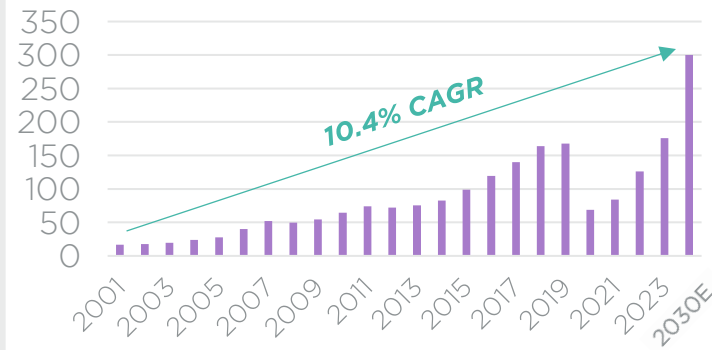
**India has the largest Gen Z and Millennial population globally**

...which has been unlocked by Modi's reforms...

Number of operational airports



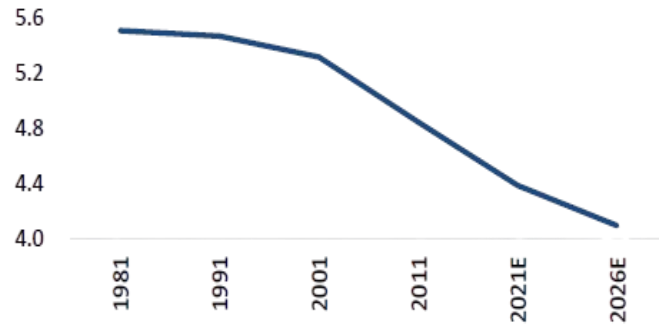
Number of passengers (in mn)



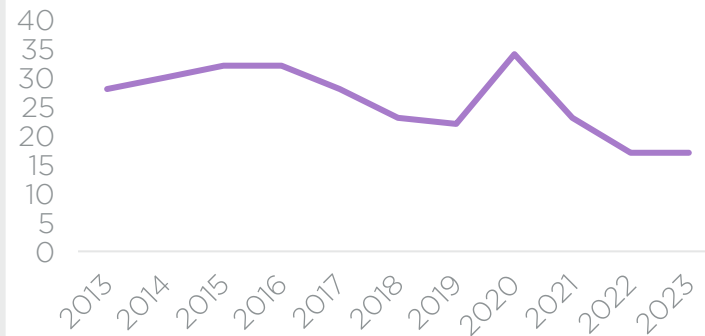
Urbanisation rate (%)



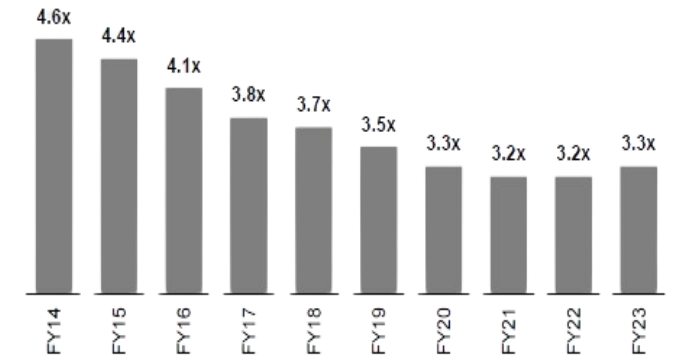
Urban household size (people)



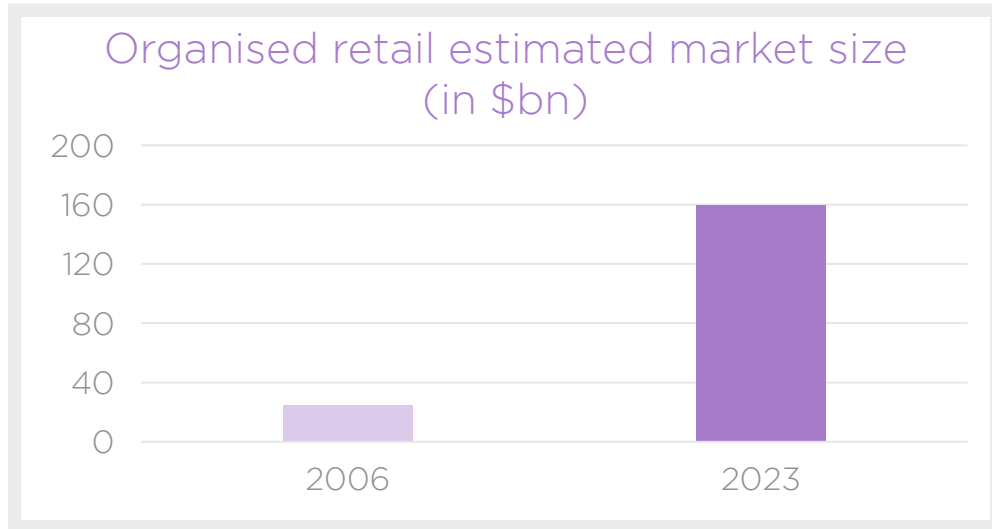
Inventory (in thousand units)



Affordability ratio\*



...and complemented by an improving business environment



THE WALL STREET JOURNAL

## Apple Aims to Make a Quarter of the World's iPhones in India

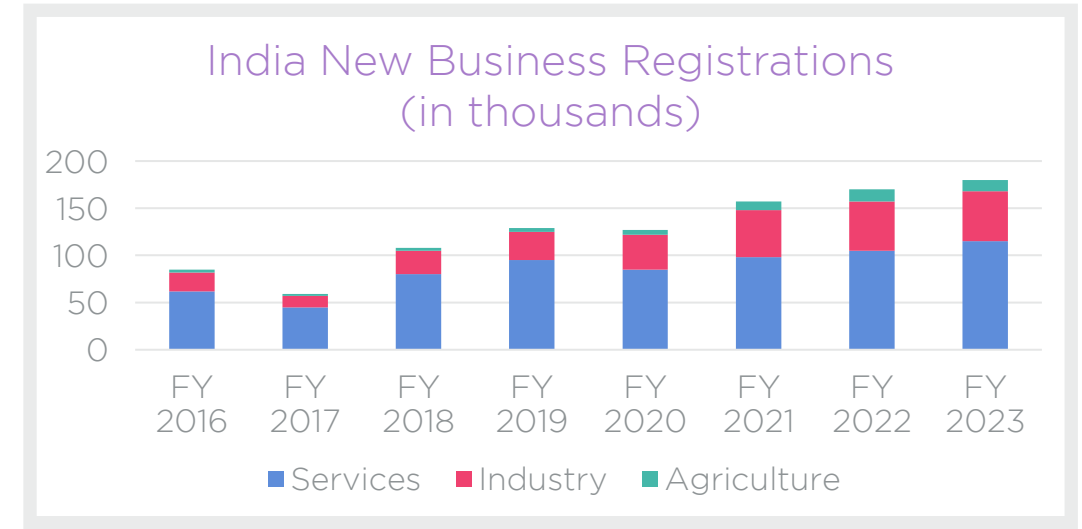
Supplier Foxconn plans to build more factories and give India a production role once limited mostly to China

Dec. 8, 2023 12:01 am ET

## India clears \$2.7 billion Micron chip testing plant ahead of Modi's U.S. visit

Reuters

June 20, 2023 8:26 PM GMT+4



## Applied Materials to invest \$400 million in India for new engineering center

Reuters

June 22, 2023 4:09 PM GMT+4

NIKKEI Asia

## China's Xiaomi accelerates push into India despite tensions

Smartphone maker enters new supply deal with contract manufacturer Dixon

September 30, 2023 00:40 JST

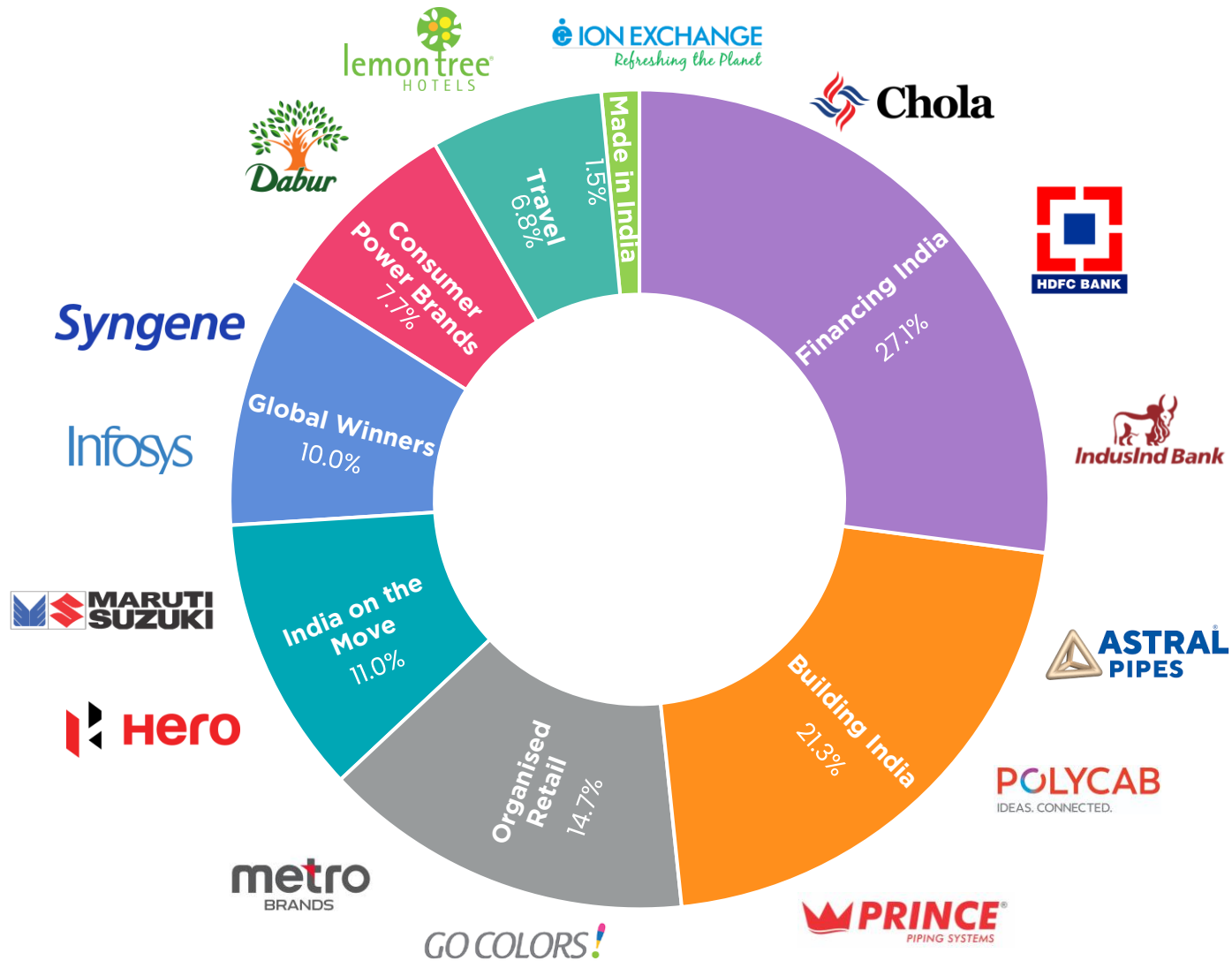


# HOW WE UNLEASH **NEW INDIA**

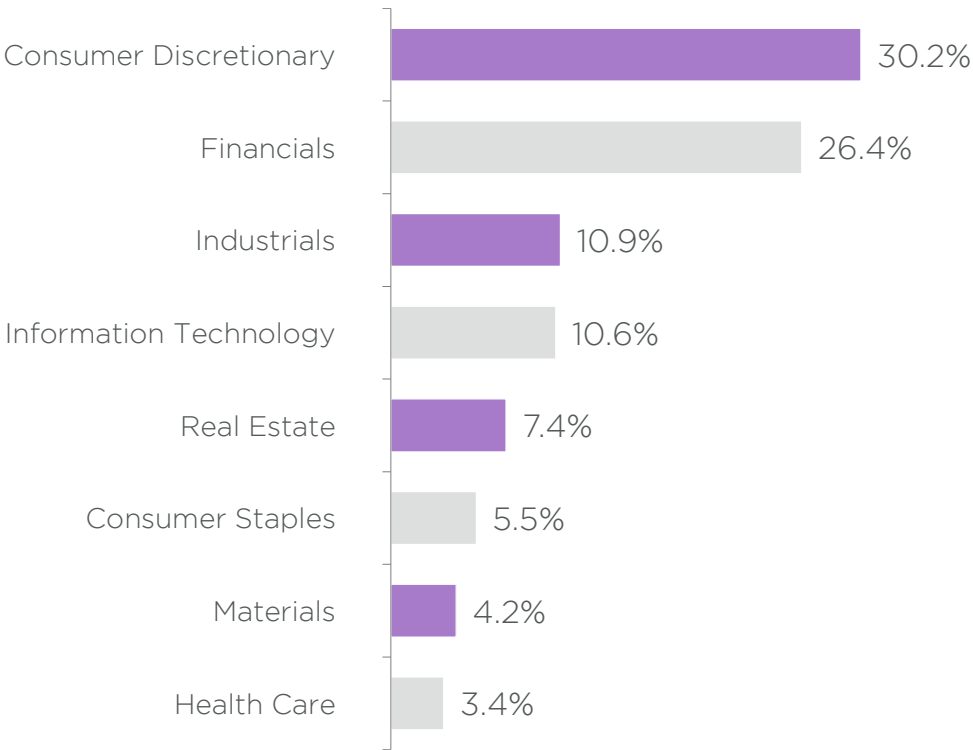
**LIFE CHANGING INVESTMENTS**



# We focus on India's dynamism and domestic growth



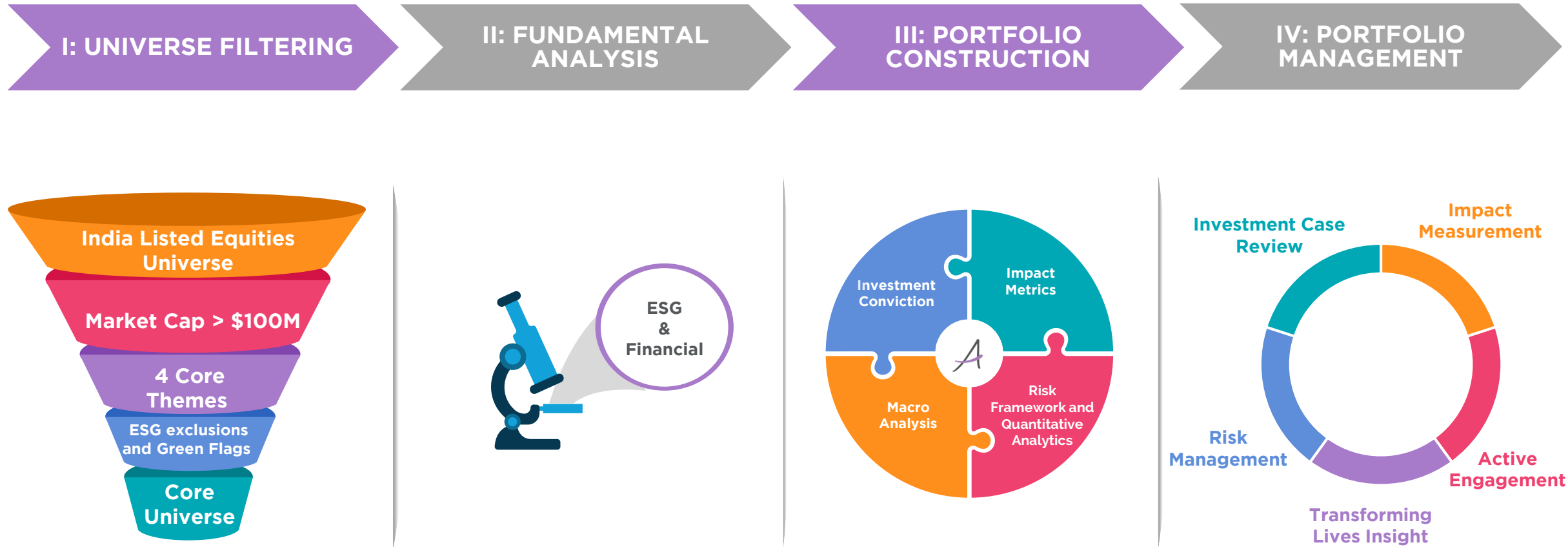
## Sector Allocation



**38/41 holdings are domestically focused**



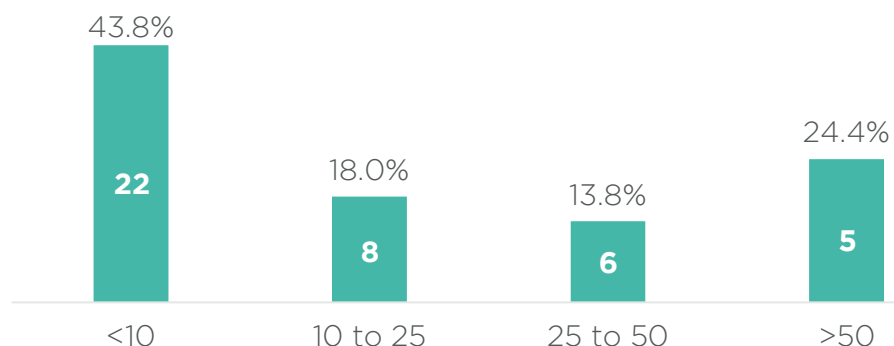
...which is driven by our robust investment process





# Resulting in a unique and differentiated multi-cap portfolio focused on 'New India'

Market capitalisation split (in \$ bn)  
and number of holdings by market capitalisation



## We concentrate on quality growth companies

Our portfolio consistently has faster earnings growth than the index

	Fund	Index
2024	40.0%	35.8%
2023	15.4%	-1.2%
2022	36.8%	24.2%
2021	26.7%	-10.8%

Portfolio characteristics	Number of holdings	Active share	Annual name turnover
Fund	41	68.6%	12.2%
Index	154	-	-

- Alquity India is **10-15% cheaper than the index** on a PEG basis
- 21/41 holdings are out of index

# The advantages of the Alquity India Fund

*A long-term perspective, combined with in-depth knowledge delivers results*



Performance (in USD)	10yr	5yr	3yr
<b>Fund</b>	177.9%	109.4%	29.2%
ETF	117.9%	87.8%	27.7%
Index	158.7%	114.2%	39.2%
Quartile	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>

2023	2022	2021	2020
19.9%	-10.1%	44.5%	14.4%
17.5%	-9.4%	22.4%	14.7%
20.8%	-8.0%	26.2%	15.6%
3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>

- A greater focus on New India, structural themes and domestic growth
- We look for the 'Best of India', regardless of capitalisation and index inclusion
- A portfolio with a lower environmental footprint
- ESG is a critical risk mitigation tool, avoiding issues such as:

Volatility data (3 years)	Alquity India	Index
<b>Standard Deviation</b>	15.55%	15.59%
<b>Tracking Error</b>	5.33%	-
<b>Sharpe Ratio</b>	0.81	0.71
<b>Information Ratio</b>	0.25	-



# Our impact model transforms lives & provides investment insights



Makes grants and provides seed funding for social enterprises and innovative charities in the areas where Alquity invests.

Our Consumer Panels give us **unique insight into the consumption habits** and aspirations of a huge, but under-researched segment of the population.



Empowering  
**200 women**

Shivia provides women with a 'toolkit' so that they can earn money from raising chickens and selling the produce.

This is the first opportunity they have to earn their own money. Alquity will support the first year of Shivia's Poultry Development Services in Chhattisgarh.



*Kieron with Phool's staff*

Lives transformed:

**65,679**

Donations generated:

**\$2,600,000**



# OUR TEAM AND FIRM

LIFE CHANGING INVESTMENTS



# A multidisciplined, stable, and experienced investment team



**Mike Sell**

Head of Global Emerging Markets

- 25+ years of experience investing in India
- Prior experience includes managing funds at Barings, Nevsky Capital and F&C
- Since joining Alquity in 2014, Mike has driven the development of our ESG investment process across EM



**Kieron Kader**

Associate Portfolio Manager

- 9+ years of experience investing in India
- Kieron became a part of Alquity in 2019, joining from BP, one of the largest pension funds in the UK



**Dan Billis**

Associate Portfolio Manager

- 6+ years of experience investing in India
- Dan joined Alquity in 2018 as an analyst from Invesco



**Marnie Aragon-Uy**

Head of Quantitative Risk

- 25+ years of experience in quantitative research
- Managed assets of \$100bn+ as Global Head of Quantitative Analytics at Abrdn
- Marnie became a part of Alquity in 2019, assisting the team in refining the risk profile and volatility of the Indian fund



**Francisco Gala**

Business Analyst

- 5+ years of experience in business analysis
- Francisco joined Alquity in 2020 and contributes to the team through ESG analysis and engagement activities



**Vikas Kumar**

Business Analyst

- Joined VAM in 2010 and assists with on the ground research
- Vikas also has extensive knowledge in AI/automation that we are using to enhance efficiency within the investment team

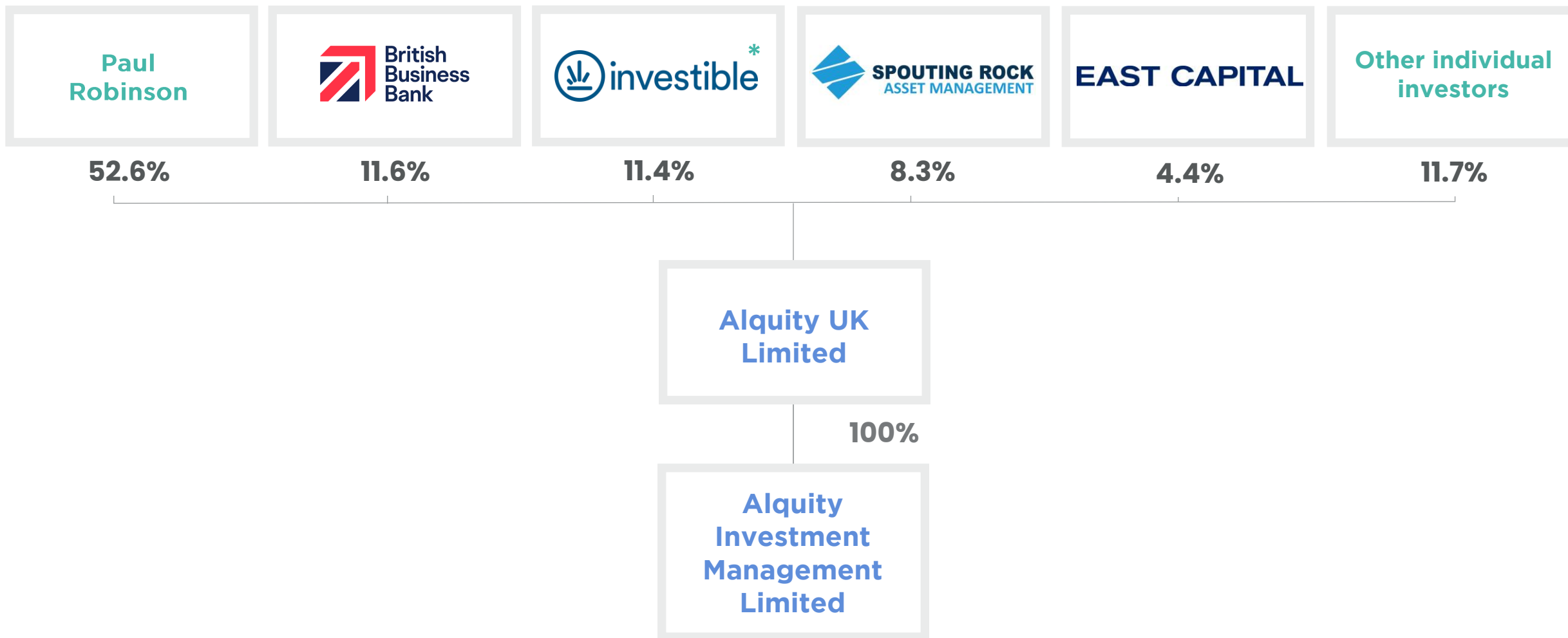


**Suresh Mistry**

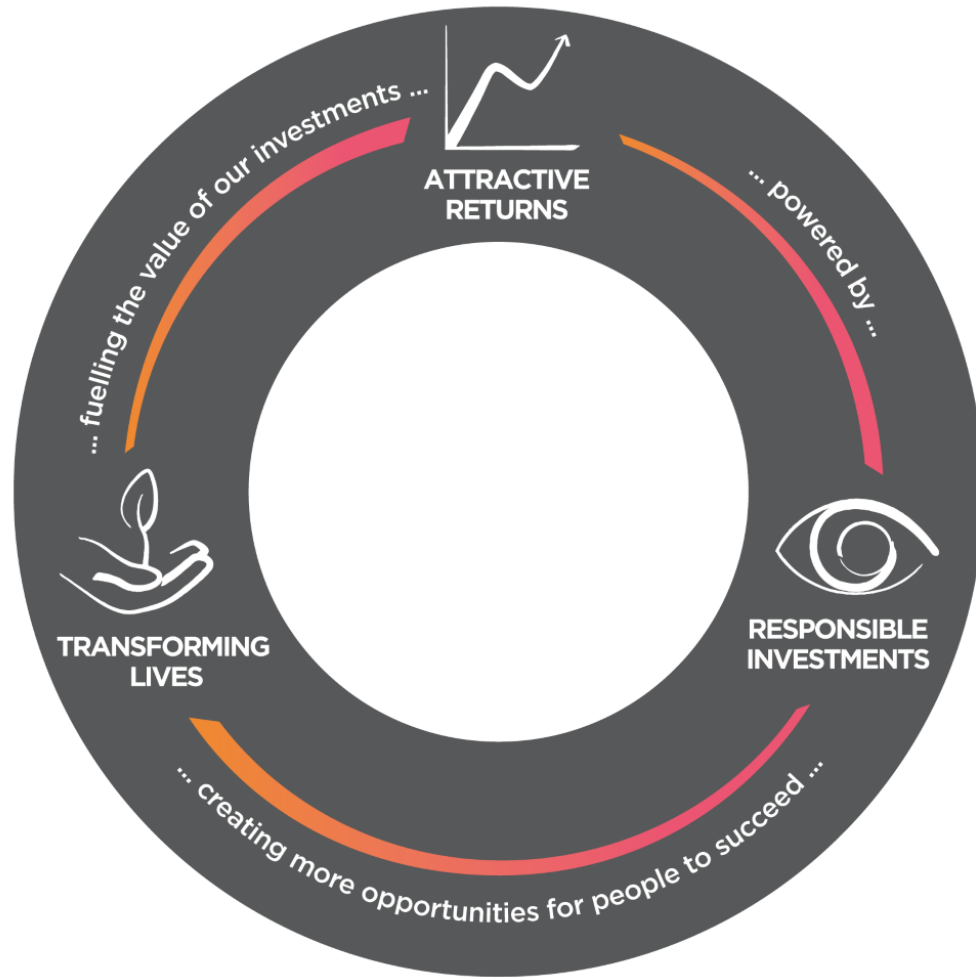
Head of Sustainability

- Suresh was instrumental in establishing the Alquity business in 2010 and works alongside the team on Alquity's ESG development

# Alquity's shareholder base



# Our unique Virtuous Circle underpins our Investment Philosophy



**Attractive Returns** across 3 dimensions



**Responsible Investments:** portfolios that you can be proud to own



**Transforming Lives:** a hand up not a hand-out



# Conclusion

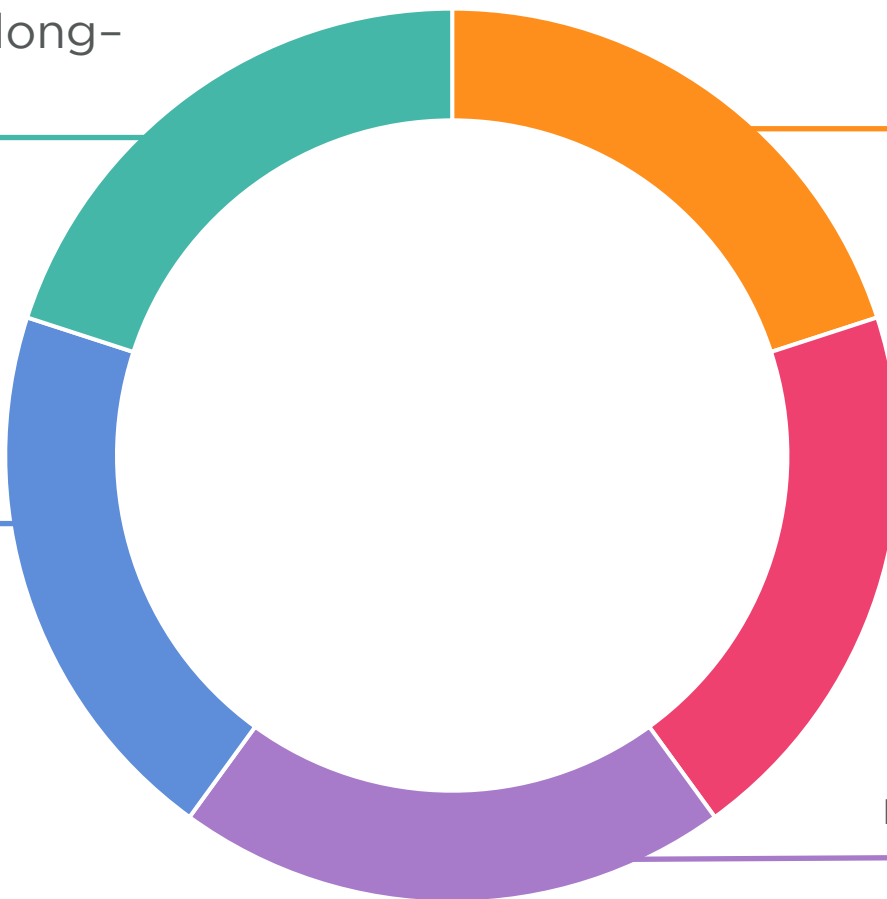
A highly experienced team, with in-depth knowledge and a long-term perspective

Direct impact both from our portfolio and our TL Foundation

Differentiated, domestically focused growth portfolio focusing on the Best of India

Fully integrated ESG process

India is an uncorrelated, stock picker's market with significant alpha potential stable and numerous secular growth trends

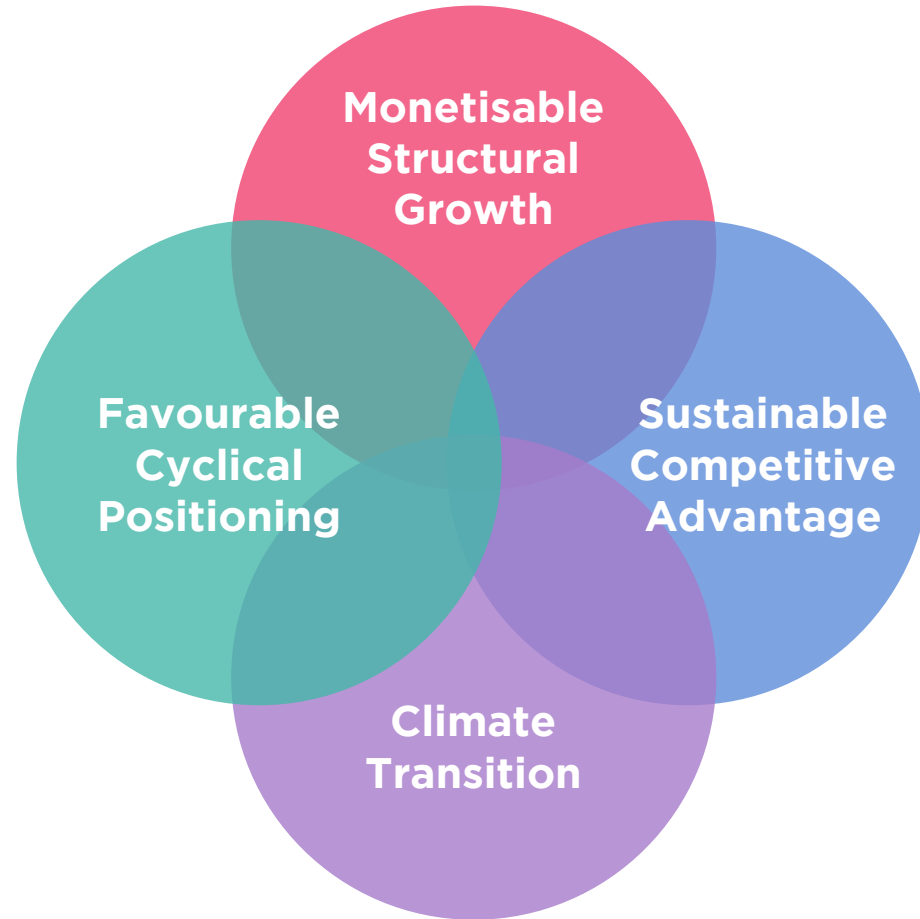


# APPENDIX

**LIFE CHANGING INVESTMENTS**



## Step I: Finding firms that are well positioned – Our core themes



# Step I: ESG exclusions and Green Flags

## Exclusions “Red Flags”

We exclude companies\* within the following sectors:

- Tobacco
- Alcohol (including beer)
- Narcotics
- Non-renewable power utilities
- Nuclear power
- Adult entertainment
- Fur trade
- Armaments (zero tolerance for controversial weapons)
- Gambling
- Gas/oil exploration and production
- Coal mining
- Hydrogen power (unless green hydrogen)
- Fast fashion
- Palm oil (unless demonstrably sustainable)
- Commercial fishing (unless demonstrably sustainable)
- Financial institutions engaging in abusive lending practices\*\*

## ESG Positive Inclusion Criteria “Green Flags”



- ✓ Companies with a pro-active approach to engaging with investors and arrange regular open-access calls with management
- ✓ Companies that provide transparency on identity of majority shareholders
- ✓ For high-risk industries, we only select companies that publicly disclose critical practices such as Health and Safety policies
- ✓ For non-pharmaceutical companies, we only select those that ban animal testing (unless it is required by law and must be a substantial minority (<20%) of overall sales)
- ✓ For companies that use significant natural resources such as water in their operations or production processes, we only select companies that have a pro-active approach to management and disclose usage and/or conservation levels
- ✓ For high-risk industries we only select companies that publicly provide or disclose when requested GHG emissions data



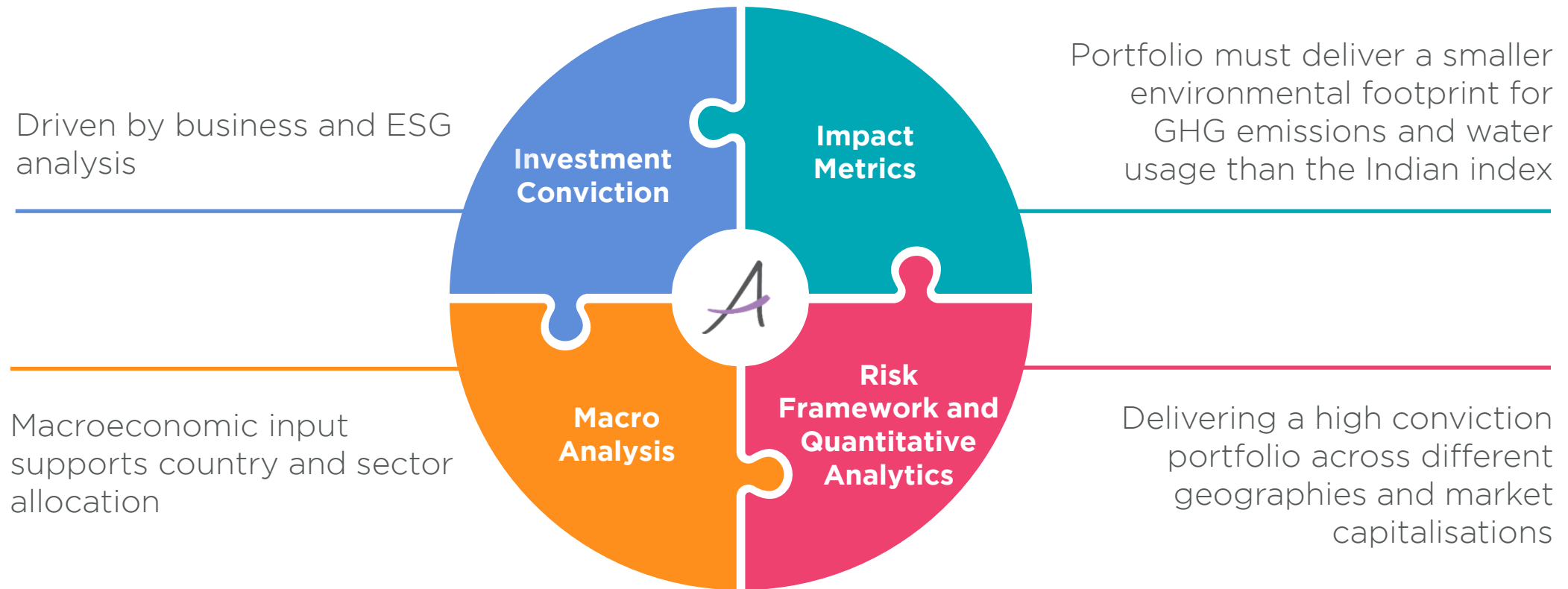
Only companies with a clean bill of health and without ongoing ESG controversies and unresolved scandals

## Step II: Proprietary ESG rating methodology

- Deep fundamental financial analysis with a long-term perspective
- Market and site visits help verify our analysis and management claims through first-hand experience
- Forward-looking, qualitative ESG assessment
- ESG and climate transition risks incorporated into DCF valuations

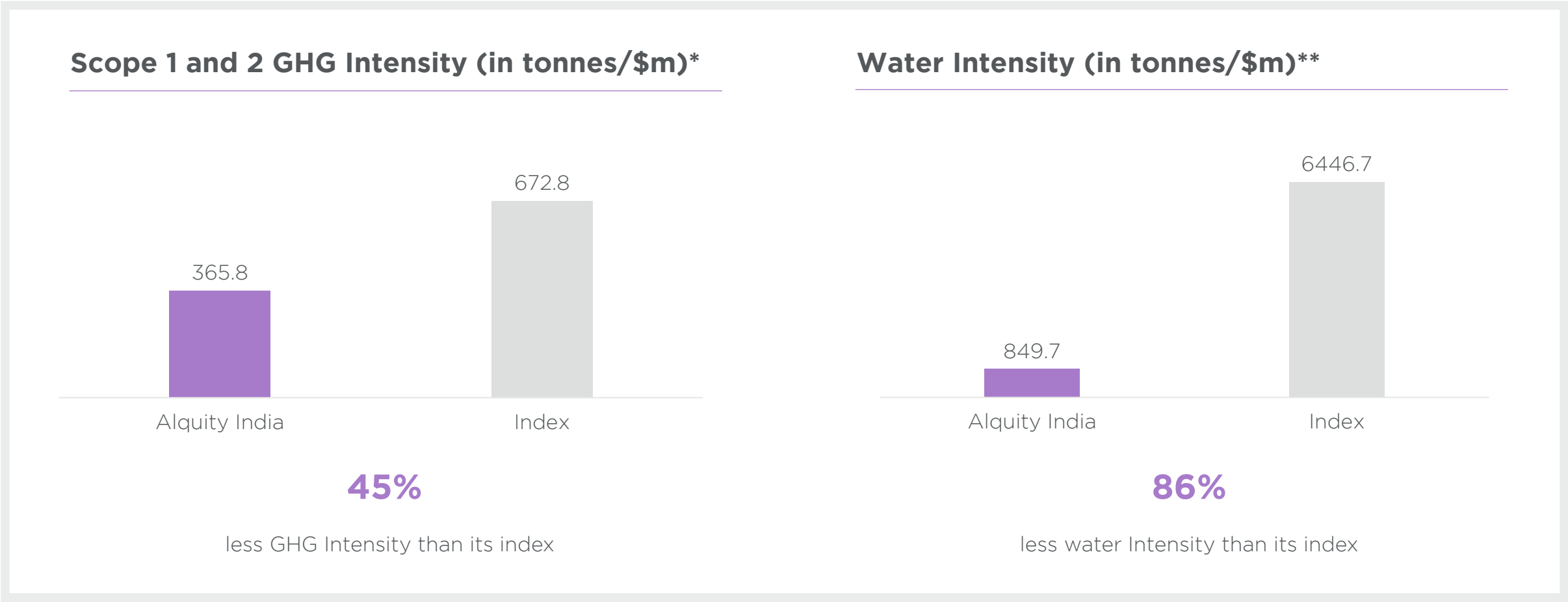
ESG Rating	Description of company achieving this rating
A	High risk industry demonstrating global best practice performance in ESG Lower risk industry demonstrating regional best practice in ESG
B	High risk industry demonstrating regional best practice in ESG Lower risk industry with satisfactory ESG performance better than regional peers; or in-line with regional peers but with a demonstrable intention to improve on material KPIs
C	High risk industry with satisfactory ESG performance, in line with regional peers, but demonstrating a meaningful commitment to improve on material KPIs Lower risk industry with satisfactory ESG performance in-line with or better than regional peers, but with no demonstrable intention to improve on material KPIs
FAIL	

## Step III: Portfolio construction – Holistic, risk-managed and impact driven





# Step III: Prioritising material impact outcomes across portfolio





## Step III: Portfolio construction – Our risk guidelines

### Construction Guidelines

Sector: Maximum concentration of 40%; Typically +/- 20% vs India Index

Normally, 25% invested in Small Caps ( $\pm 5\%$ )\*\*

Numbers of holdings: 30-50 companies

Position size: 0.5% to 10%

### Liquidity

33% of the portfolio within 5 working days

90% of the portfolio within 90 working days

Minimum \$100m market cap

### Expected Portfolio Characteristics

Portfolio turnover: 20% - 33%

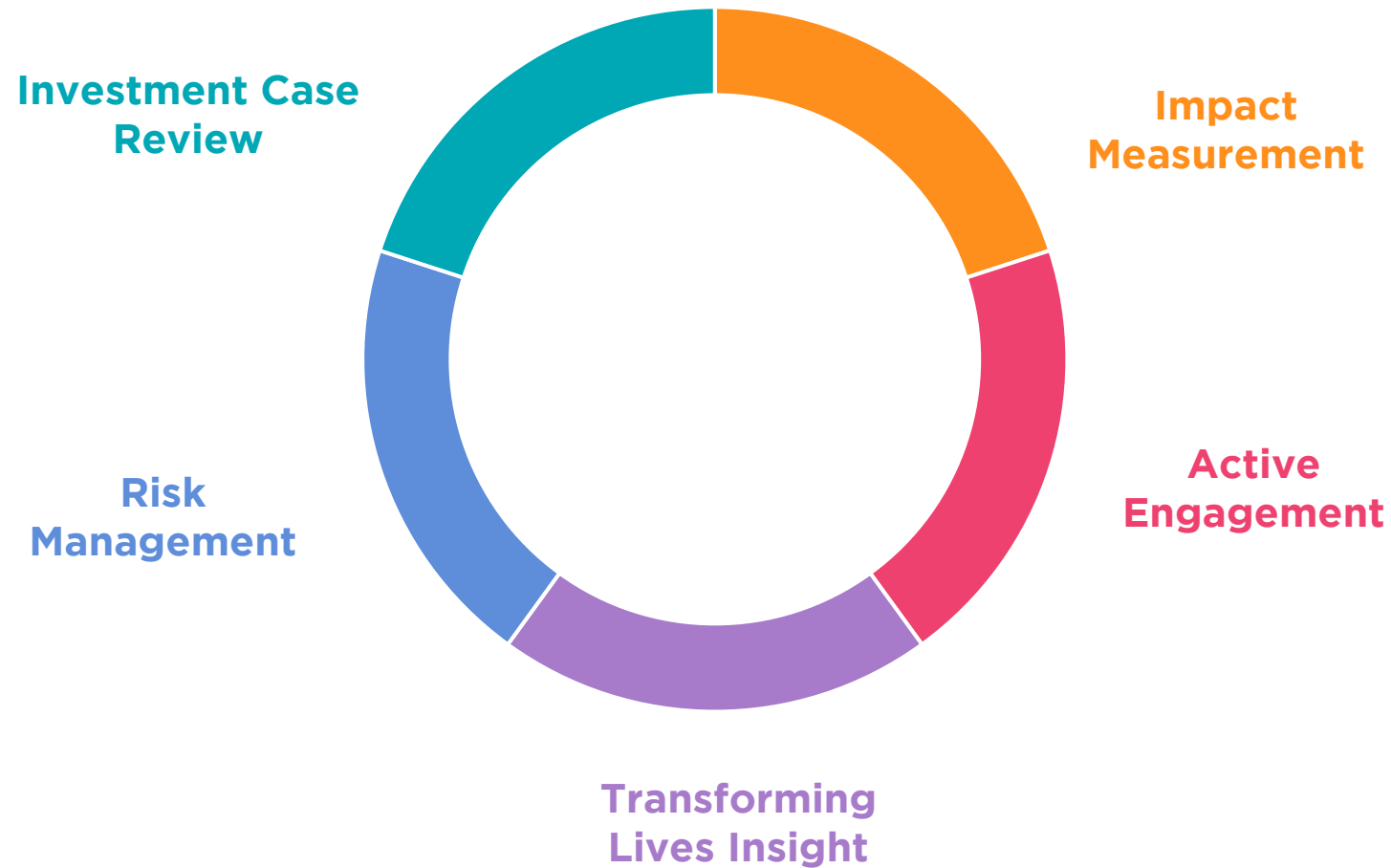
Holding period average: 3-5 year

Tracking Error vs India Index: Approximately 5% to 10%

Active share: >70%

Beta: 0.8 to 1.2

## Step IV: Portfolio management – Ongoing risk control and stewardship



# Step IV: Portfolio management – active ownership and influence



## ENVIRONMENTAL

- ✓ Emissions and/or climate impact disclosure
- ✓ Water usage and mitigation efforts disclosure
- ✓ Production of waste material disclosure
- ✓ Plan to achieve Net Zero
- ✓ Prevention of biodiversity loss actively considered in the strategic plan and/or TNFD reporting\*
- ✓ Reporting in line with TCFD recommendations\*



## SOCIAL

- ✓ Health & Safety policy
- ✓ Equal Opportunities Policy
- ✓ Staff training policy in place
- ✓ Staff turnover data disclosure
- ✓ 'Lost Time Injury' rates available
- ✓ Gender diversity policy at senior management and board level



## GOVERNANCE

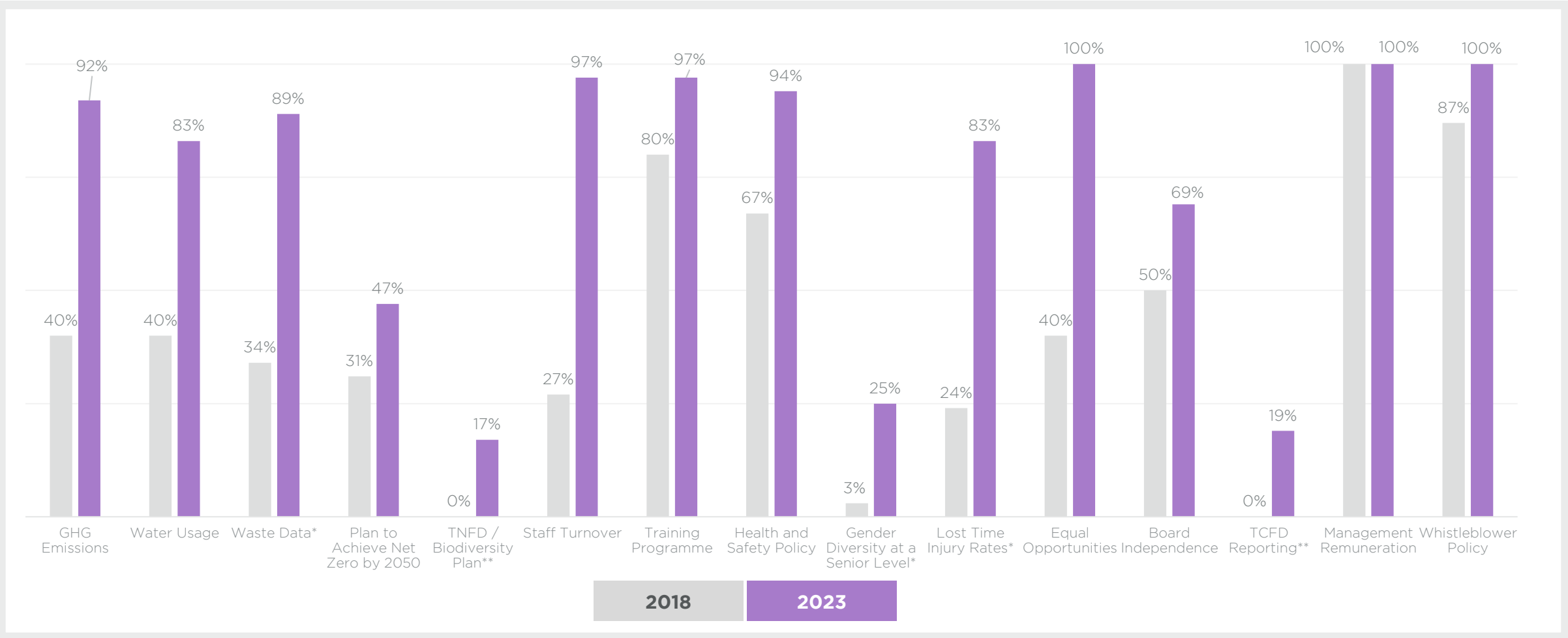
- ✓ Whistleblowing policy available to all employees
- ✓ Percentage of independent directors on the board  $\geq$  than the free floating share percentage of the holding
- ✓ Management remuneration packages disclosure



- Voting and engagement driven by materiality and KPIs
- Impact measurement clearly defined against the SDGs

# Step IV: Portfolio management – The evolution of our KPIs

Holdings of the India Fund meeting each KPI (% of companies)



# Step IV: Portfolio management – Alquity’s ESG advocacy

**We engaged with 32 of our investee companies on a range of E, S and G issues in 2023**



Cage-free supply chain and antimicrobials use disclosure and potential phasing out



Gender and GHG emissions targets



Auditor tenure across our companies, examples include APL Apollo and HUL



Horseshoe crab blood harvesting disclosure and potential phasing out



Plastics reduction and packaging



Auto-related companies – We engaged on supply chain monitoring, in response to reports of Hyundai’s use of child labor in Alabama



## Alquity led group engagement



Engagement on climate related lending policies

## Step IV: Portfolio management – Voting in 2023

- Alquity fund managers review 100% of resolutions, in line with both ISS recommendations and our own Principles of Governance
- 468 votes were reviewed in 2023
- We will vote against elections of all directors if zero board gender diversity exists
- Maximum 1% employee share grant issuance p.a., with suitable vesting and maximum 10% discount
- Maximum 9-year tenure for independent directors and maximum 6 other public, external directorships
- We will always vote for actions that support our KPIs

# Company example - Lemon Tree

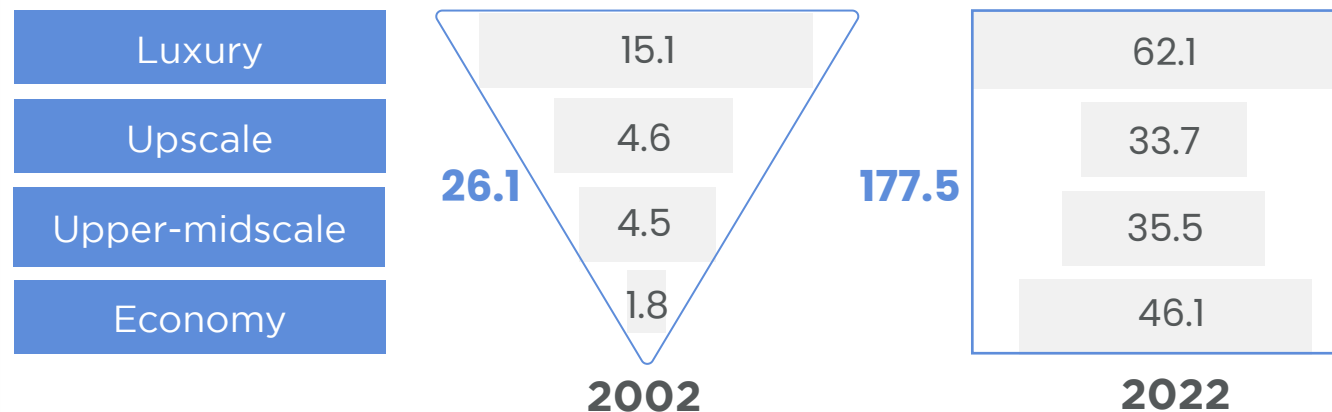


Market Cap (USD): 1.2bn  
Out of index

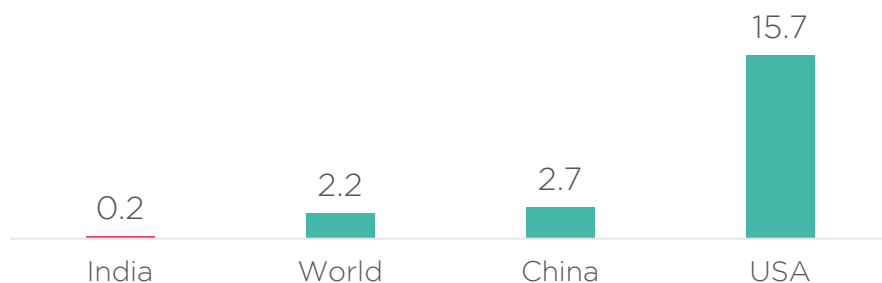
## INVESTMENT CASE

- **Aspirational shift** towards branded hotels, and away from unorganised sector
- **Secular growth in domestic travel**, aided by higher disposable incomes and improving transportation. Demand growth of 9.7% to outstrip supply growth of 5.9% over the next 5 years
- **Hotel supply penetration** in India is very low

Number of branded rooms per segment in India (in thousands)



Hotel supply penetration  
(number of rooms per 1,000 people)



**Midscale/economy hotel rooms increased 24x over the last 20yrs**

## ESG HIGHLIGHTS

- One of India's largest employers of disadvantaged people (targeting 30% of staff by 2026)
- **ESG rating: B**

## VALUATION

- 184% upside in our bull case
- 79% upside in our base case
- 32% upside in our bear case



# Company example – Metro Brands

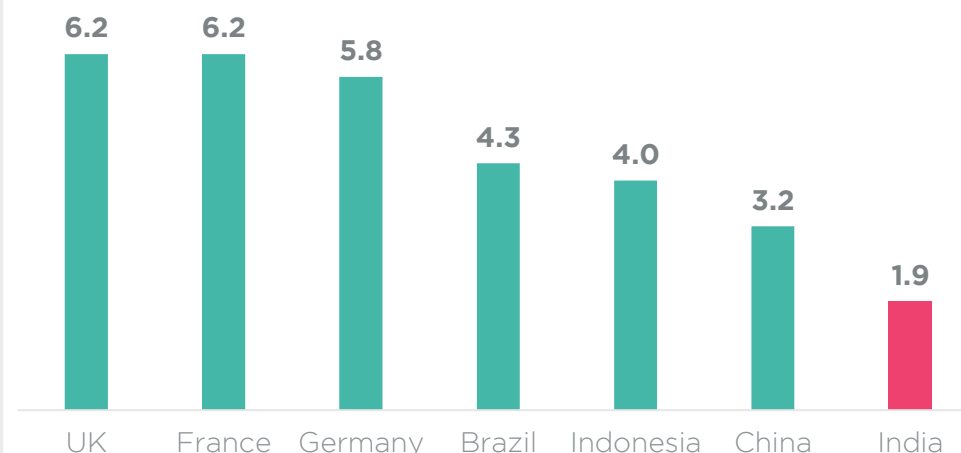


**Market Cap (USD):**  
4.1bn  
Out of index

## INVESTMENT CASE

- One of India's largest footwear retailers
- India is amongst the **lowest per capita consumer of footwear globally**, providing a huge runway for growth
- Just **35% organised retail penetration** in footwear
- Recent **FILA acquisition can supercharge growth** (FILA in China has a dominant position and boasts over 2,000 outlets)
- Signed a **multi-decade licencing agreement with Footlocker** in late 2023, providing a unique customer proposition

## Per capita consumption of footwear (2019)



## ESG HIGHLIGHTS

- Metro recycled 2 million pairs of discarded shoes in FY23. Longer term, Metro **aims to recycle one pair of shoes for every pair it sells**
- **ESG rating: C**

## VALUATION

- 70% upside in bull case
- 31% upside in base case
- 7% upside in bear case

# Company example – Polycab

**POLYCAB**

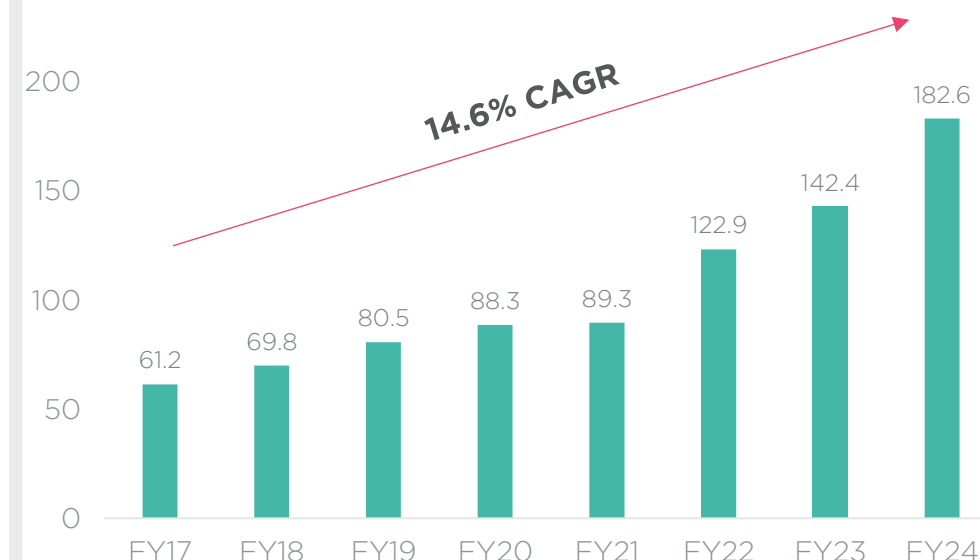
**Market Cap (USD): 4.7bn**

*Added to the EM index\* in November 2023*

## INVESTMENT CASE

- **Largest manufacturer of cables and wires** in India
- **Urbanisation:** Urban population expected to increase from ~35% to ~41% by 2030. 70% of wire demand is driven by real estate
- **Strong cable demand** from burgeoning industries and government infrastructure drive growth (data centres, EVs, railways, metro, etc.)
- **Transitioning to clean energy** requires an overhaul of existing systems, requiring fresh cables for power transmission. Renewables capacity is expected to increase from 184 GW to ~500 GW by FY30E as India aims to meet 50%+ energy needs through non-fossil fuel power sources

## Polycab revenue evolution (in INR bn)



## ESG HIGHLIGHTS

- 10% of energy consumed is from renewable sources
- **ESG rating: B**

## VALUATION

- 84% upside in bull case
- 17% upside in base case
- -13% downside in bear case

# Company example – Vmart



**Market Cap (USD):** 0.95bn

*Out of index*

## INVESTMENT CASE

- **Small-town, rural focused retailer** with 467 stores (vs just 214 in 2019)
- Beneficiary of the **structural shift to organised retail** and **India's favourable demographics**
- **First met in February 2014** (we have met Vmart 21 times in total)
- **Our Transforming Lives consumer panel** in January suggested a rural recovery
- We reinvested in the company on March 28<sup>th</sup> 2024

Vmart stock price since reinvestment  
(in INR)



## ESG HIGHLIGHTS

- Training academy focusing on disadvantaged people
- **ESG rating: Upgraded from C to B in June 2018**

## VALUATION

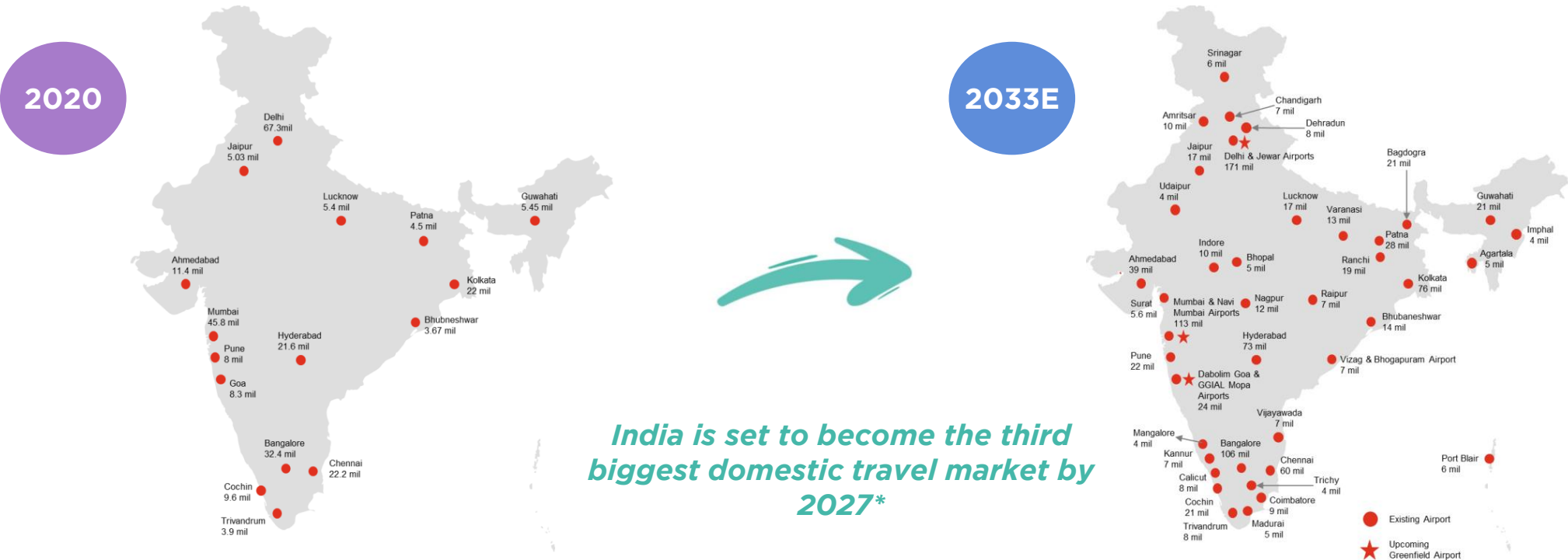
- 137% upside in bull case
- 72% upside in base case
- -17% downside in bear case

# Domestic travel is an unrecognised structural opportunity...

...and largely small-cap and out-of-index



Major airports with over 3.5 million passengers per year



## Top 10 holdings

Alquity Indian Subcontinent	
ICICI Bank	5.8%
HDFC Bank	5.6%
Infosys	4.8%
Mahindra & Mahindra	4.6%
Tata Consultancy	3.8%
Aptus Value Housing Finance	3.3%
Lemon Tree Hotels	3.3%
Dabur	3.2%
Skipper	3.1%
Oberoi Realty	2.9%

Index	
<b>Reliance Industries</b>	6.6%
HDFC Bank	5.4%
ICICI Bank	4.9%
Infosys	4.6%
<b>Bharti Airtel</b>	3.2%
Tata Consultancy	2.9%
Mahindra & Mahindra	2.1%
Axis Bank	2.1%
<b>Larsen &amp; Toubro</b>	1.8%
Hindustan Unilever	1.8%

Companies marked in red are a fail in Alquity's ESG rating methodology

# Fund details and contacts

Fund	Alquity India Fund
Structure	SICAV, UCITS V
Domicile	Luxembourg
SFDR Classification	Article 8
Liquidity	Daily
Fund Inception Date	30 April 2014
ISIN / Bloomberg GBP	LU1070052268 / ALQISGY
ISIN / Bloomberg EUR	LU1070052342 / ALQISYE
ISIN / Bloomberg USD	LU1070052185 / ALQISYU
Type	Institutional
Management fee	0.9% p.a.
Performance fee	None

## UK AND EUROPE

**Marc Rugel**

+33 644 3265 04

[marc.rugel@alquity.com](mailto:marc.rugel@alquity.com)



[www.alquity.com](http://www.alquity.com)

## MIDDLE EAST AND ASIA

**Suresh Mistry**

+44 7973 309687

[suresh.mistry@alquity.com](mailto:suresh.mistry@alquity.com)



Alquity Investment  
Management Limited

## NORTH AMERICA

**Renee Arnold**

+1 215 350 9063

[renee.arnold@alquity.com](mailto:renee.arnold@alquity.com)



[www.alquityfoundation.org](http://www.alquityfoundation.org)

# Disclaimer

The information in this presentation (this “Presentation”) is for discussion purposes only. This Presentation does not constitute an offer to sell, or a solicitation of an offer to acquire, an investment (an “Interest”) in any of the funds discussed herein. This Presentation is not intended to be, nor should it be construed or used as, investment, tax or legal advice. This Presentation does not constitute any recommendation or opinion regarding the appropriateness or suitability of an Interest for any prospective investor.

This material is for distribution to Professional Clients only, as defined under the Financial Conduct Authority’s (“FCA”) conduct of business rules, and should not be relied upon by any other persons. Issued by Alquity Investment Management Limited, which is authorised and regulated in the United Kingdom by the FCA and operates in the United States as an “exempt reporting adviser” in reliance on the exemption in Section 203(m) of the United States Investment Advisers Act of 1940.

The Alquity Asia Fund, the Alquity Future World Fund, the Alquity Indian Subcontinent Fund and the Alquity Global Impact Fund are all sub-funds of the Alquity SICAV (“the Fund”) which is a UCITS Fund and is a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the “FSMA”). This does not mean the product is suitable for all investors and as the Fund is invested in emerging market equities, investors may not get back the full amount invested.

This Document is qualified in its entirety by the information contained in the Fund’s prospectus and other operative documents (collectively, the “Offering Documents”). Any offer or solicitation may be made only by the delivery of the Offering Documents. Before making an investment decision with respect to the Fund, prospective investors are advised to read the Offering Documents carefully, which contains important information, including a description of the Fund’s risks, conflicts of interest, investment programme, fees, expenses, redemption/withdrawal limitations, standard of care and exculpation, etc. Prospective investors should also consult with their tax and financial advisors as well as legal counsel. This Document does not take into account the particular investment objectives, restrictions, or financial, legal or tax situation of any specific prospective investor, and an investment in the Fund may not be suitable for many prospective investors.

An investment in the Fund is speculative and involves a high degree of risk. Performance may vary substantially from year to year and even from month to month. Withdrawals/redemptions and transfers of Interests are restricted. Investors must be prepared to lose their entire investment, and without any ability to redeem or withdraw so as to limit losses.

References to indices herein are for informational and general comparative purposes only. There will be significant differences between such indices and the investment programme of the Funds. The Fund will not invest in all (or any material portion) of the securities, industries or strategies represented by such indices. Comparisons to indices have inherent limitations and nothing herein is intended to suggest or otherwise imply that the Fund will, or are likely to, achieve returns, volatility or other results similar to such indices. Indices are unmanaged and do not reflect the result of management fees, performance-based allocations and other fees and expenses.

All Fund performance results presented herein are unaudited and should not be regarded as final until audited financial statements are issued. Past performance is not necessarily indicative of future results. All performance results are based on the NAV of fee paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. Net returns shown herein reflect those of an investor admitted at inception of the Fund, and are representative of a regular shareholder, net of applicable expenses and reflect reinvestment of dividends and interest. In the future, the Fund may offer share in the Fund with different fee and expense structures.

The Fund’s investment approach is long-term, investors must expect to be committed to the Fund for an extended period of time (3-5 years) in order for it to have an optimal chance of achieving its investment objectives.

This Document may not be reproduced in whole or in part, and may not be delivered to any person (other than an authorised recipient’s professional advisors under customary undertakings of confidentiality) without the prior written consent of the Investment Manager.

## CANADIAN INVESTORS

Alquity has engaged with Stikeman Elliott LLP as their legal representation and is relying on the International Dealer Exemption in the provinces of Quebec and Ontario. With respect to statutory rights of action along with connected and related issuer information please refer to our Canadian Wrapper and Prospectus. This material is for distribution to Professional Clients only and does not constitute any recommendation or opinion regarding the appropriateness or suitability of an investment for any prospective investor

## SWISS INVESTORS

Units are only distributed in Switzerland to Qualified Investors. The prospectus, the Articles of Association, the Key Investor Information Document “KIIDs” as well as the annual and semi-annual report of the Fund is available only to Qualified Investors free of charge. Funds other than the Luxembourg domiciled Alquity SICAV mentioned in this document may not be admitted for distribution in Switzerland.