

# WHY ALQUITY INDIA? THE INVESTMENT CASE

Q4 2024

**LIFE CHANGING INVESTMENTS**



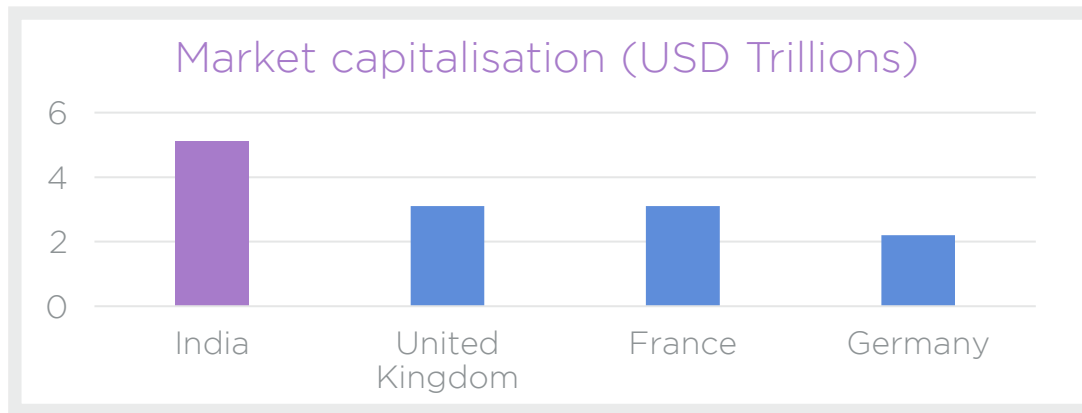
Policy, Governance and Strategy	★★★★★	88/100
Process - Active Fundamental	★★★★★	94/100
Process - Active Quantitative	★★★★★	91/100
Confidence Building Measures	★★★★★	85/100



# 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>0.35</b>
Taiwan	0.46
FTSE	0.45
<b>Nasdaq</b>	<b>0.23</b>
World Index	0.38
Brazil	0.44
Eurostoxx	0.27
<b>S&amp;P 500</b>	<b>0.39</b>

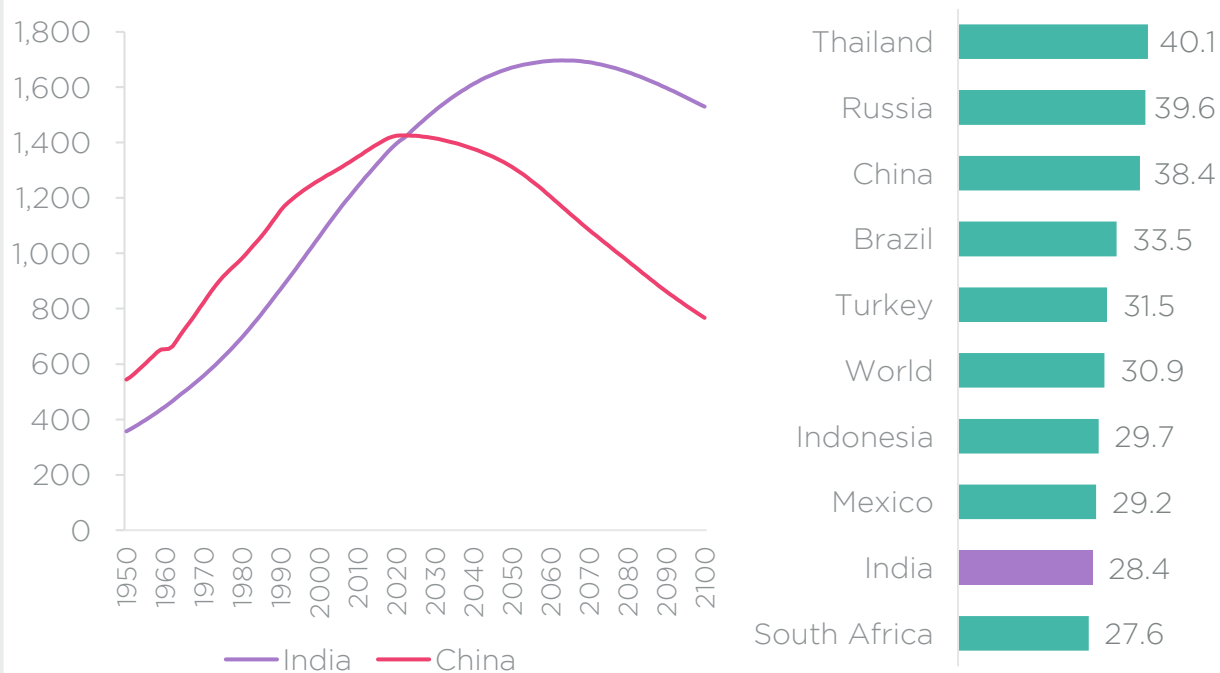
- Daily liquidity of approximately US\$ 7-9bn
- 60% of turnover is driven by retail investors
- Second largest EM market



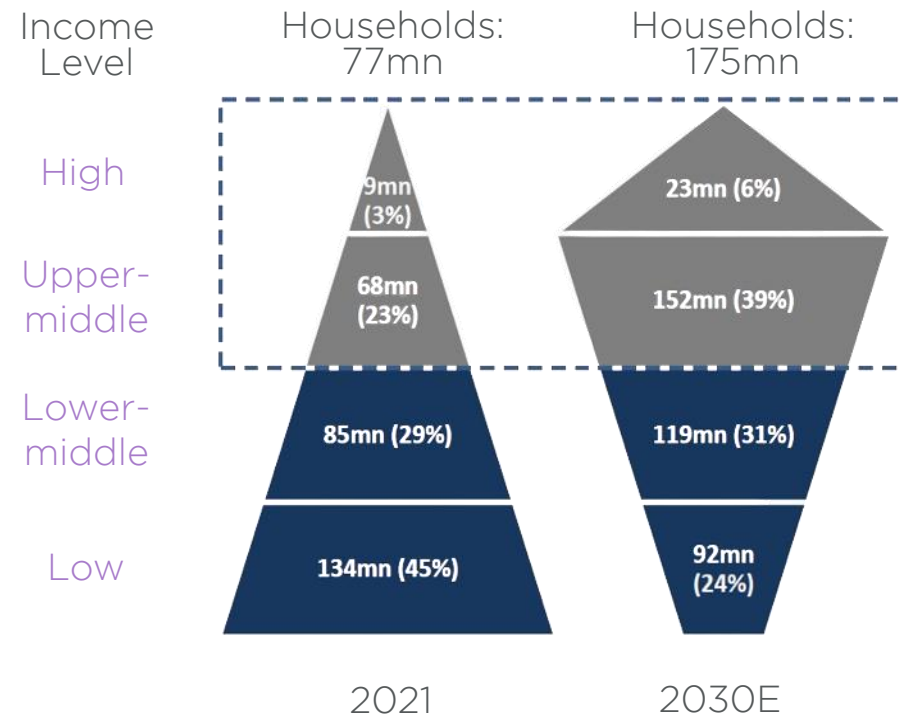
Country	Estimated ROE 2025	P/E ratio 2025	EPS growth 2025	PEG ratio (2026)
Korea	11.0%	8.6x	16.3%	0.5
Brazil	15.3%	7.1x	12.0%	0.6
China	11.2%	9.3	12.5%	0.7
UK	14.2%	11.4x	8.8%	1.1
<b>India</b>	<b>16.0%</b>	<b>24.4x</b>	<b>14.0%</b>	<b>1.2</b>
US	19.5%	21.7x	13.0%	1.6
Japan	9.0%	15.2x	9.7%	1.4
Thailand	9.5%	15.7x	7.6%	1.9

# The strongest demographic story worldwide...

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



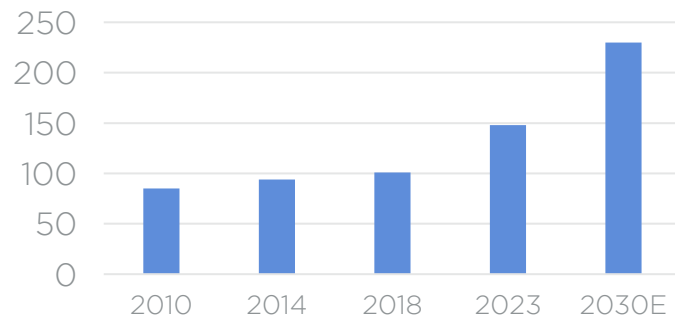
Indian households' income level (in mn and % of the total population)



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

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

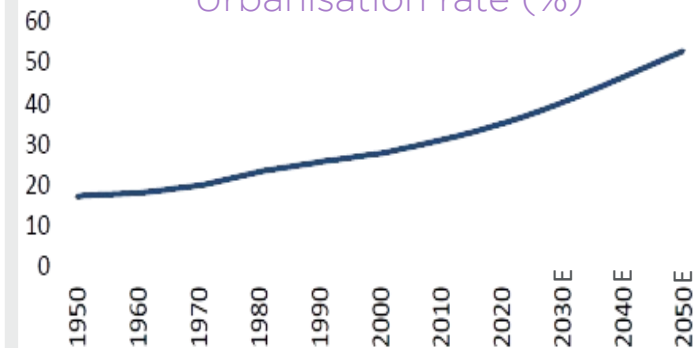
Number of operational airports



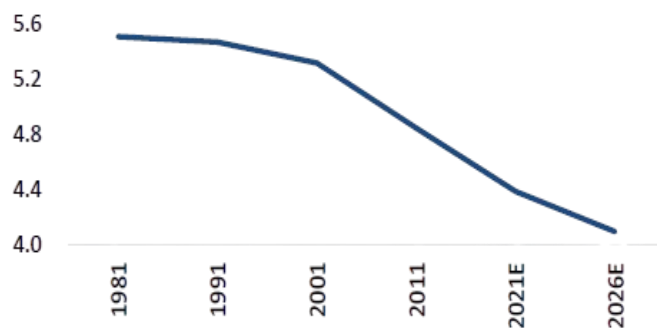
Number of passengers (in mn)



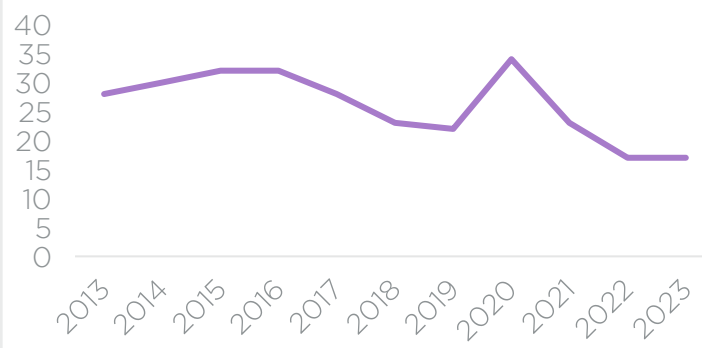
Urbanisation rate (%)



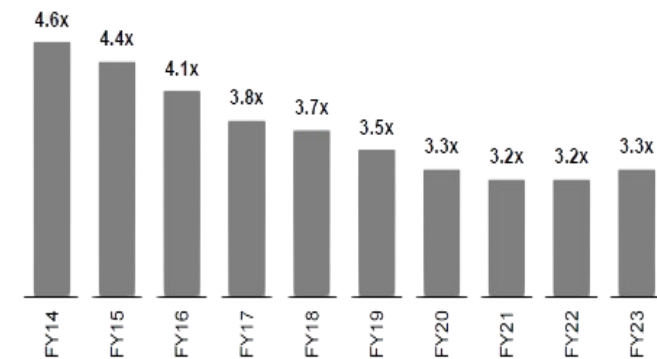
Urban household size (people)



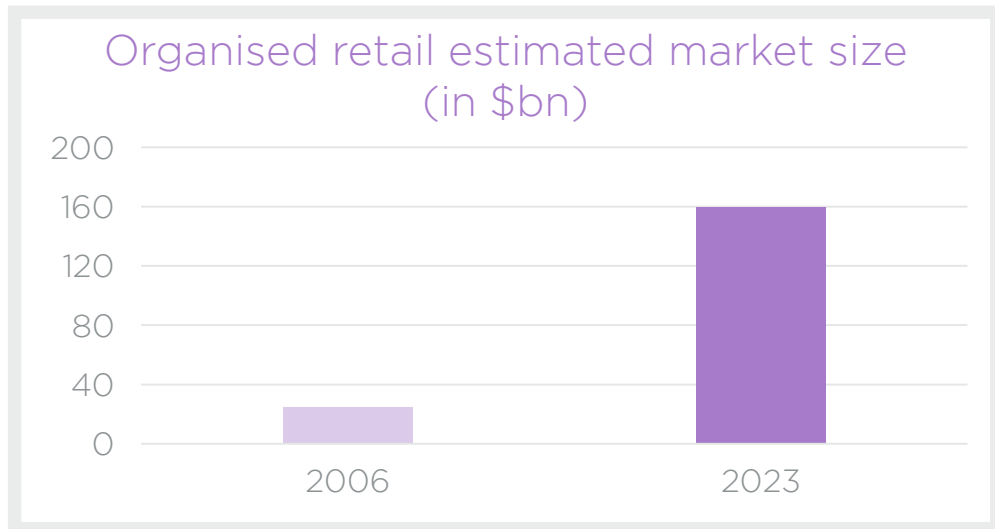
Inventory (in thousand units)



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

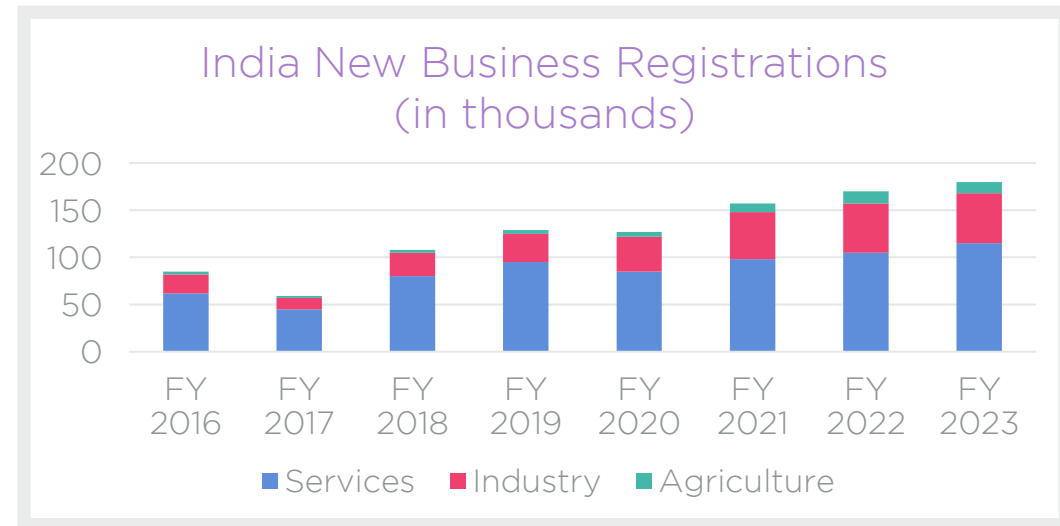
Supplier Foxconn plans to build more factories and give India a production role once limited mostly to China

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

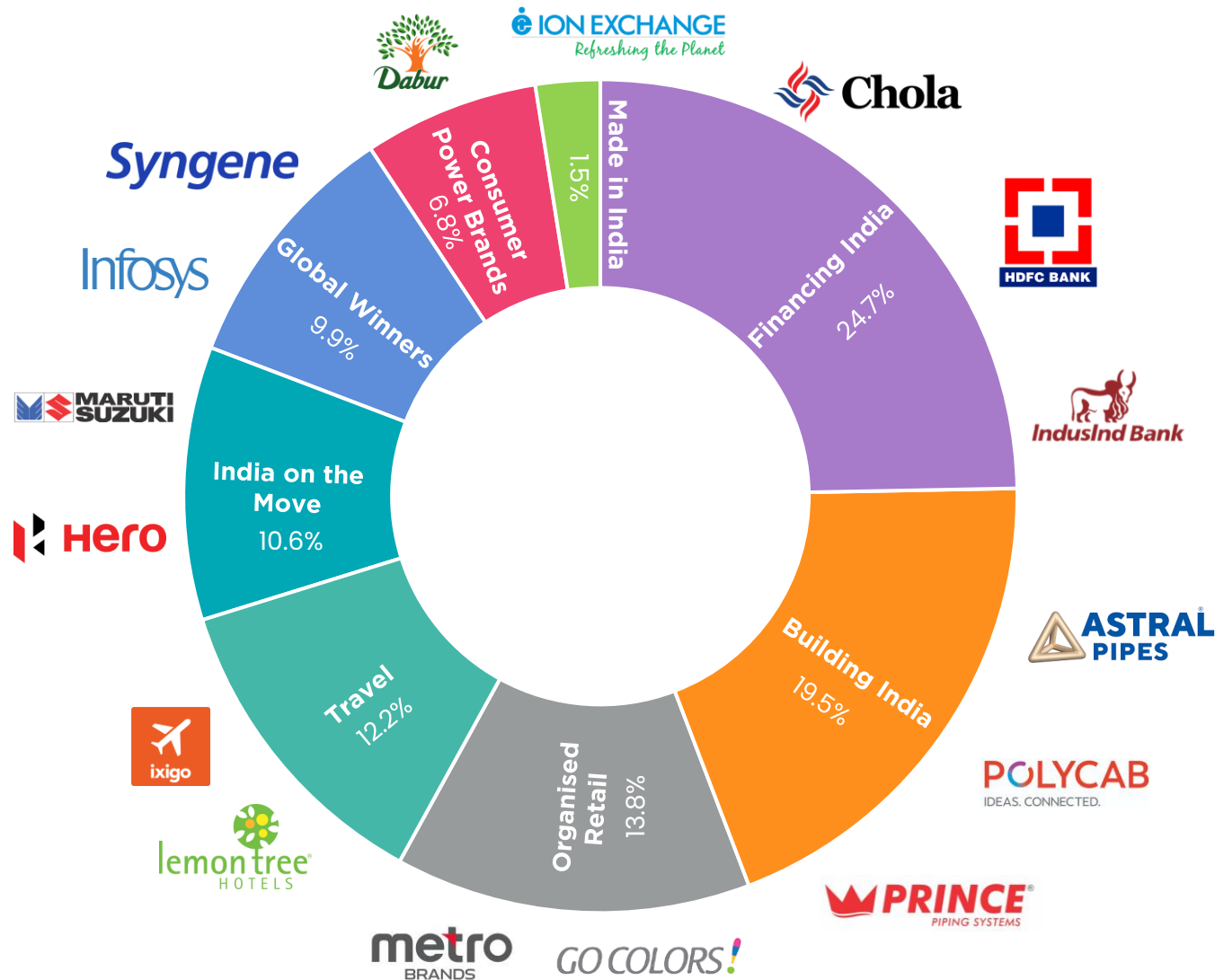


# HOW WE UNLEASH **NEW INDIA**

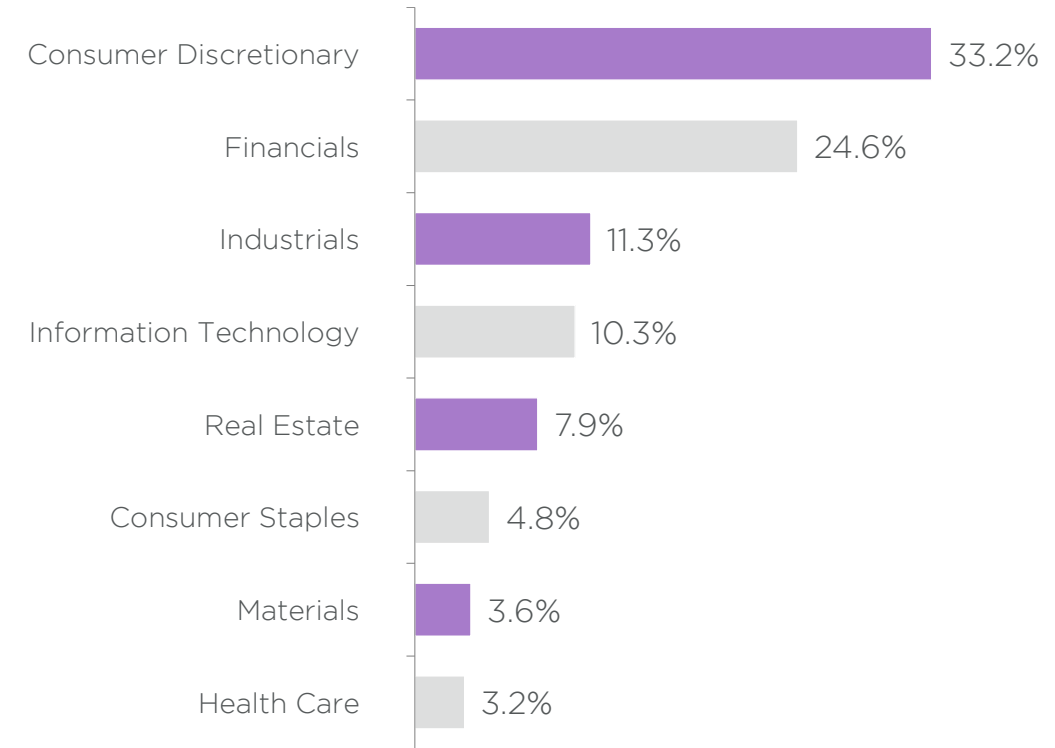
**LIFE CHANGING INVESTMENTS**



# We focus on India's dynamism and domestic growth



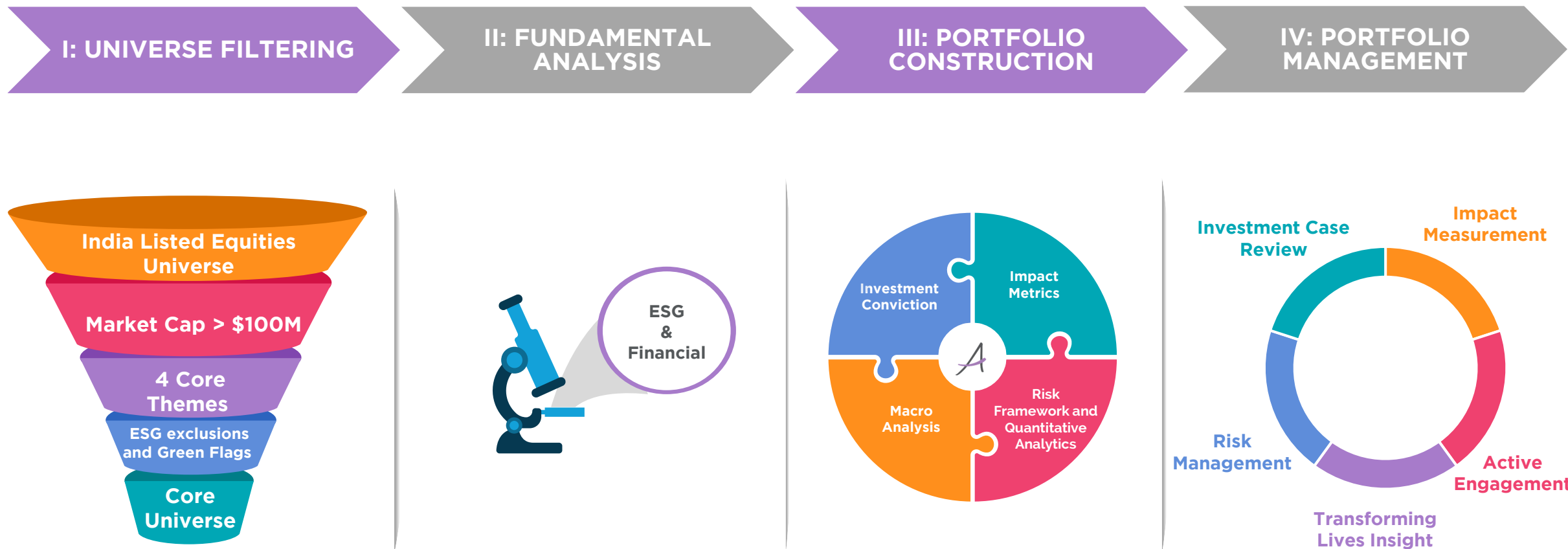
## Sector Allocation



**38/42 holdings are domestically focused**



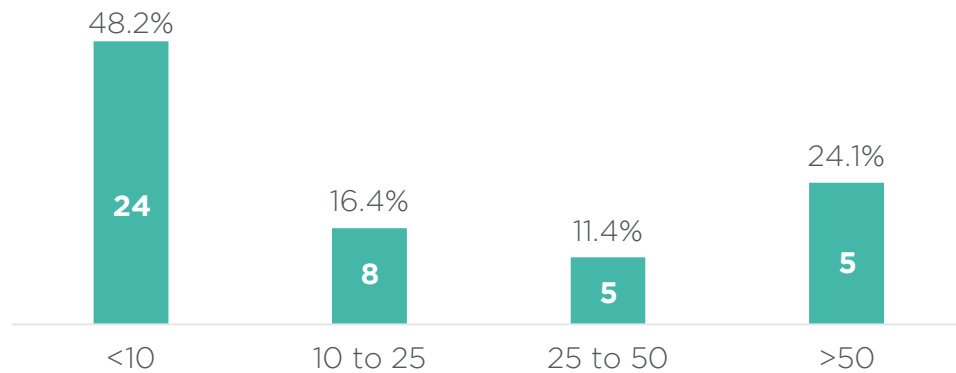
...which is driven by our robust investment process





# 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%

- Alquity India is 10-15% cheaper than the Index on a PEG basis
- 20/42 holdings are out of index

Portfolio characteristics

	Number of holdings	Active share	Annual name turnover
Fund	42	68.5%	12.2%
Index	156	-	-

# The advantages of the Alquity India Fund

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



Performance (in USD)	Sep-Dec 2024	12M (Aug 24)	8M 23	2022	2021	2020	5 years	10 years
Alquity India Fund	-3.7%	22.8%	12.4%	-10.1%	44.5%	14.4%	97.4%	142.6%
Indian Index	-9.5%	39.7%	6.2%	-8.0%	26.2%	15.6%	80.4%	131.0%
Indian ETF	-7.8%	31.9%	5.3%	-9.4%	22.4%	14.7%	62.9%	99.9%
Quartile	2 <sup>nd</sup>	4 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</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
Standard Deviation	13.3%	15.2%
Tracking Error	5.9%	-



Sources: Alquity, Bloomberg, Lipper (performance data, 31<sup>st</sup> December 2024); Alquity, Bloomberg (volatility, 3 years to 31<sup>st</sup> December 2024). The performance shown is based on the I class charging structure with an OCF of 1.0%. We have used the live track record for the USD M class since 30<sup>th</sup> April 2014 and the USD Y class since 29<sup>th</sup> June 2017 and added back 1% per annum up until the launch of its GBP I class (12<sup>th</sup> November 2019) and converted to USD up until 13<sup>th</sup> August 2024 when the fund was launched. Past simulated performance is neither an indicator nor a guarantee of future returns. Actual results will vary from the analysis. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, expressed or implied is made regarding future performance. The volatility displayed is gross and based on portfolio data, not specific to the NAV of the share class. Currency exchange rate movements can lead to an increase or decrease in the value of the fund's investments.

# 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:

**65,879**

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

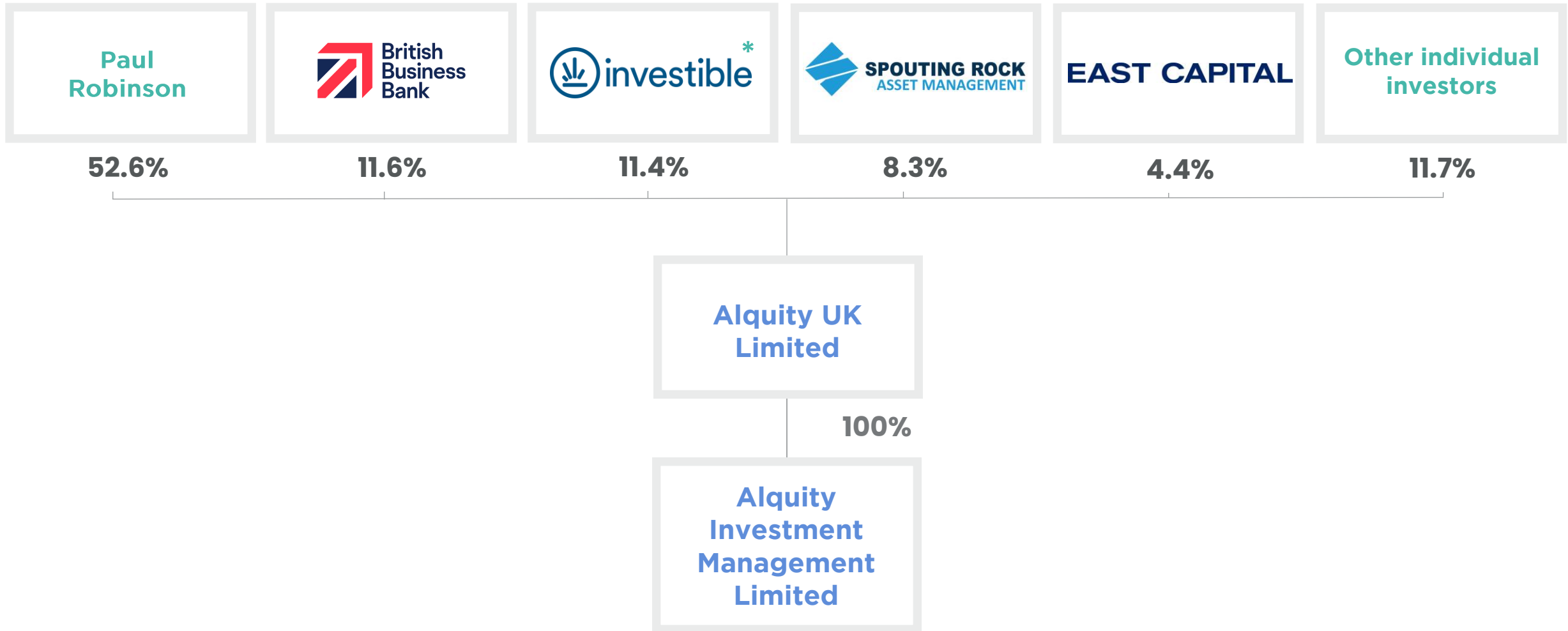


**Suresh Mistry**

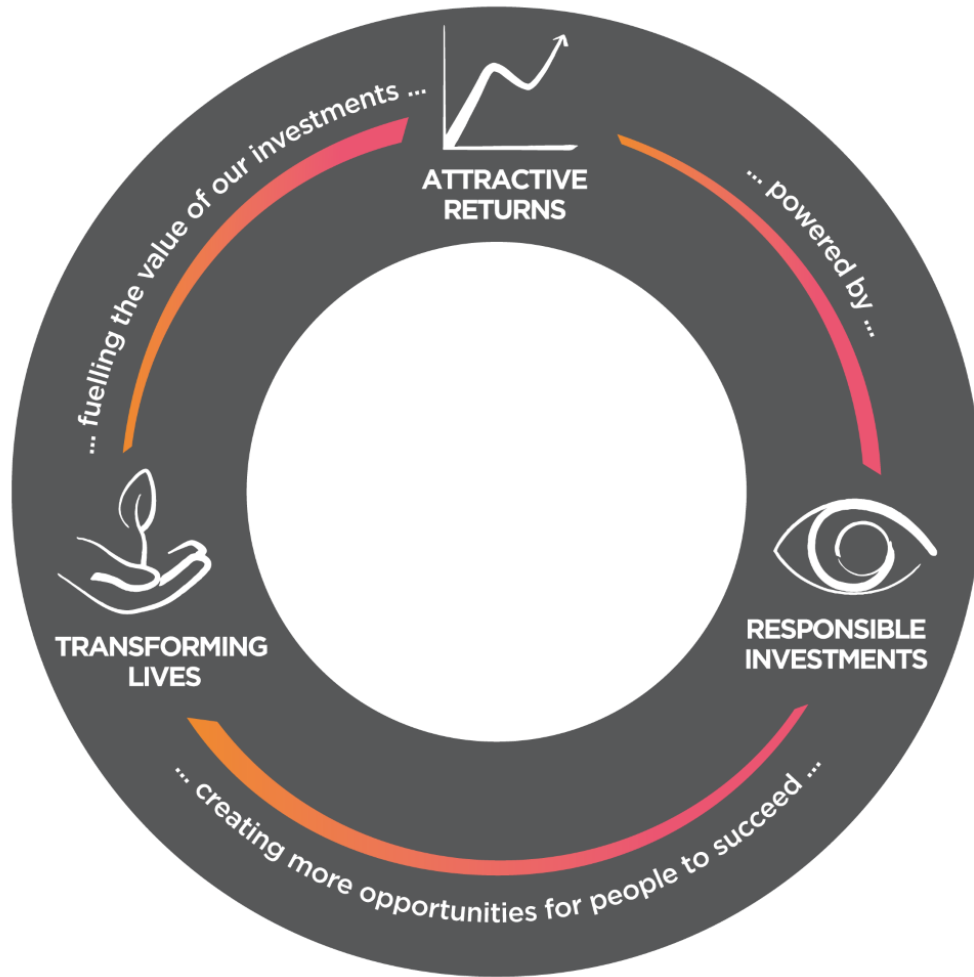
Head of Sustainability

- 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

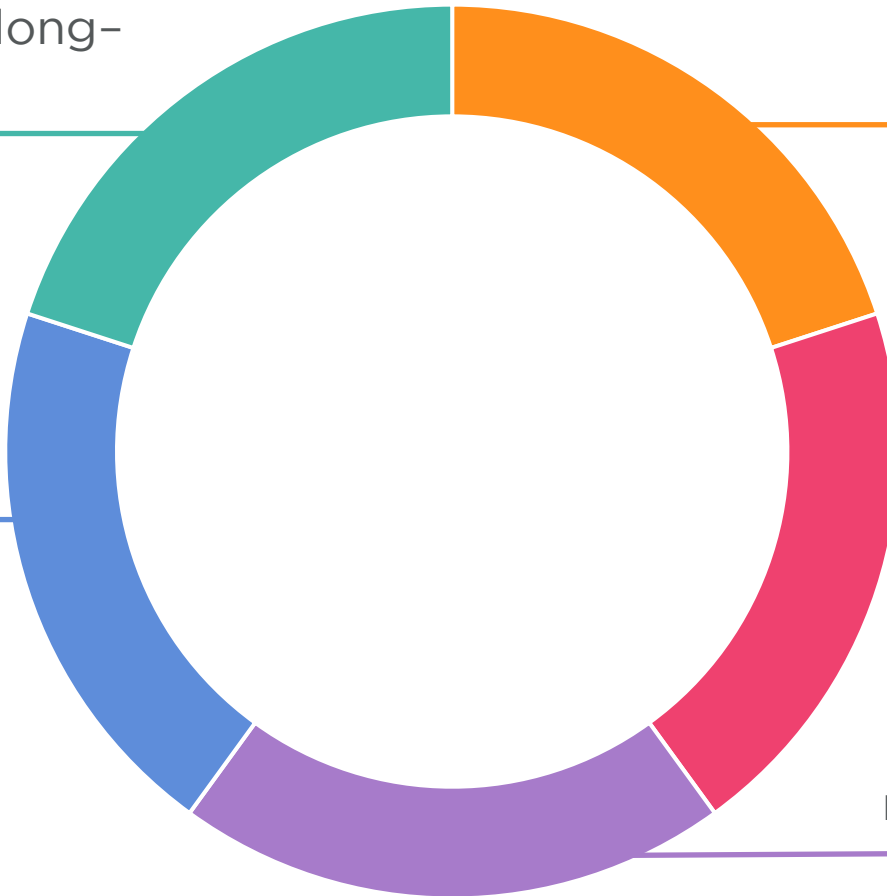
A highly experienced team, with in-depth knowledge and a long-term perspective

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

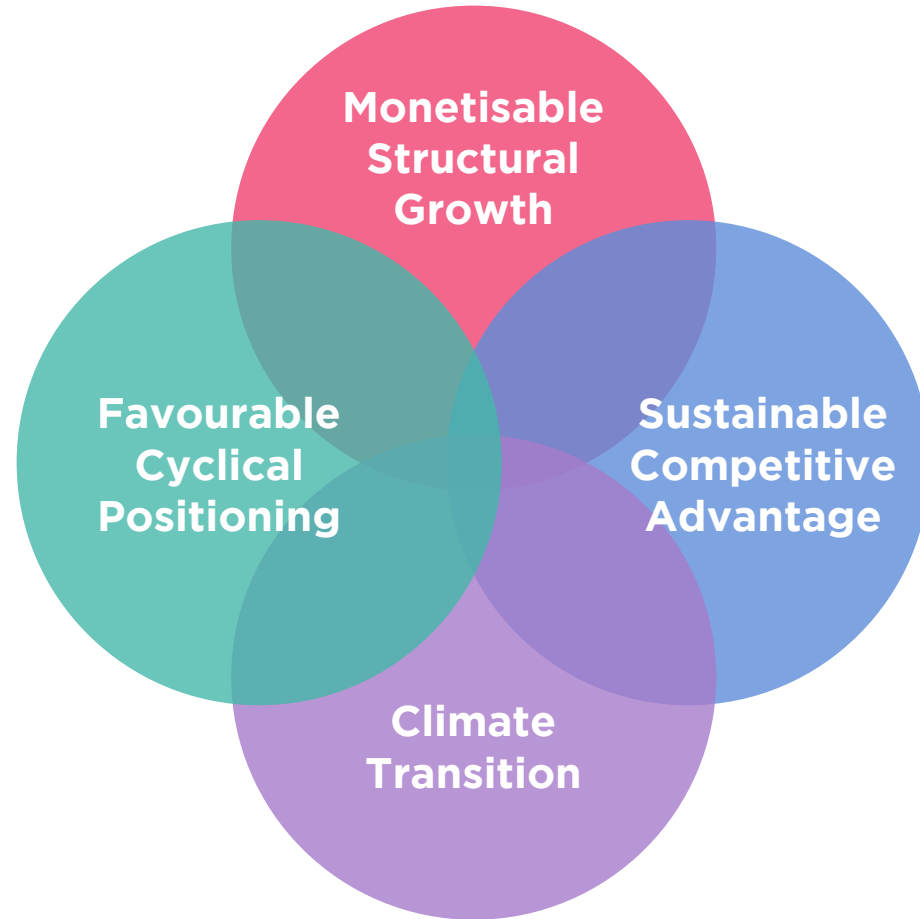


# APPENDIX

**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



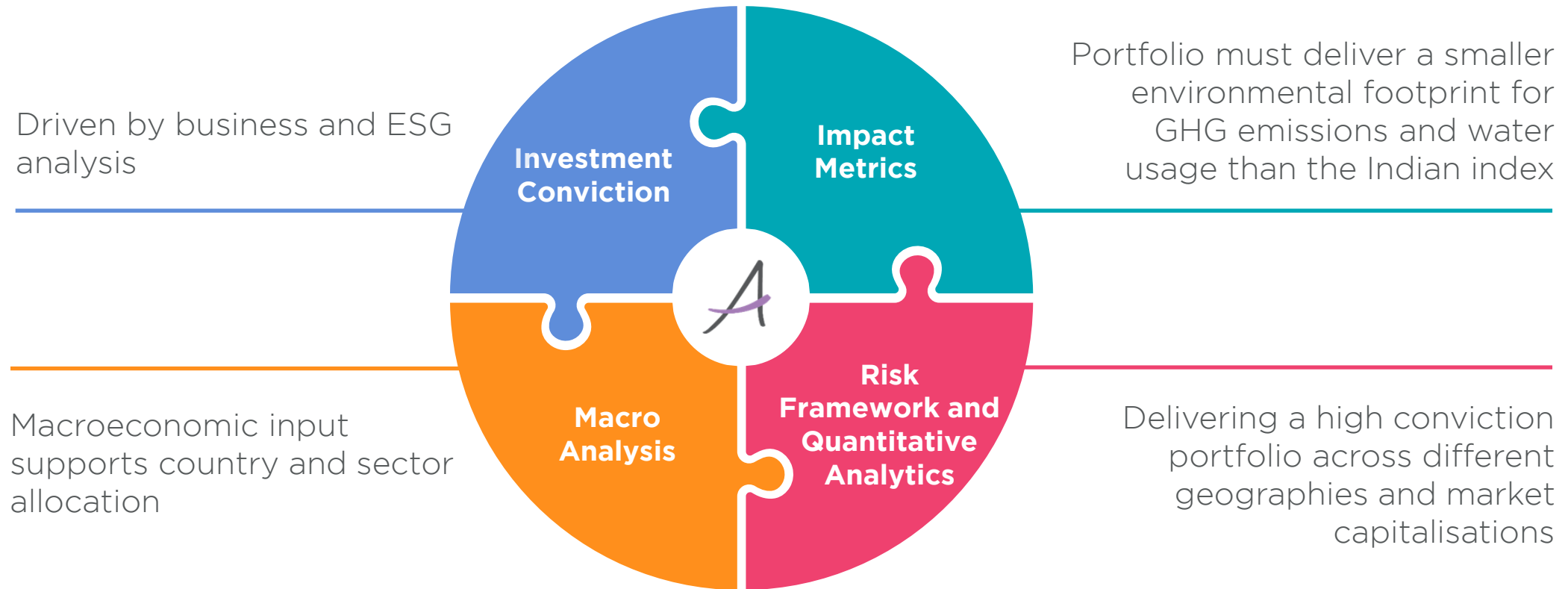
Only companies with a clean bill of health and without ongoing ESG controversies and unresolved scandals

## 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

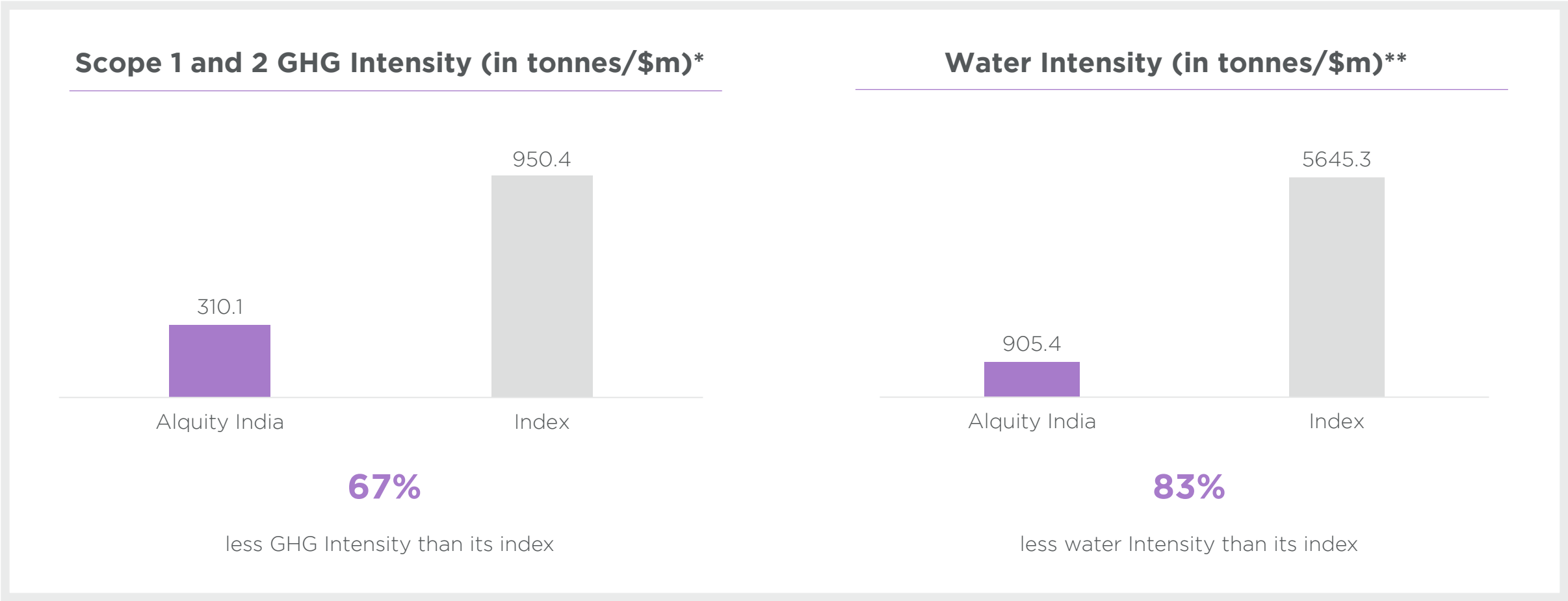
ESG Rating	Description of company achieving this rating
<b>A</b>	High risk industry demonstrating global best practice performance in ESG Lower risk industry demonstrating regional best practice in ESG
<b>B</b>	High risk industry demonstrating regional best practice in ESG Lower risk industry with satisfactory ESG performance better than regional peers; or in-line with regional peers but with a demonstrable intention to improve on material KPIs
<b>C</b>	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
<b>FAIL</b>	

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





# Step III: Prioritising material impact outcomes across the 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%

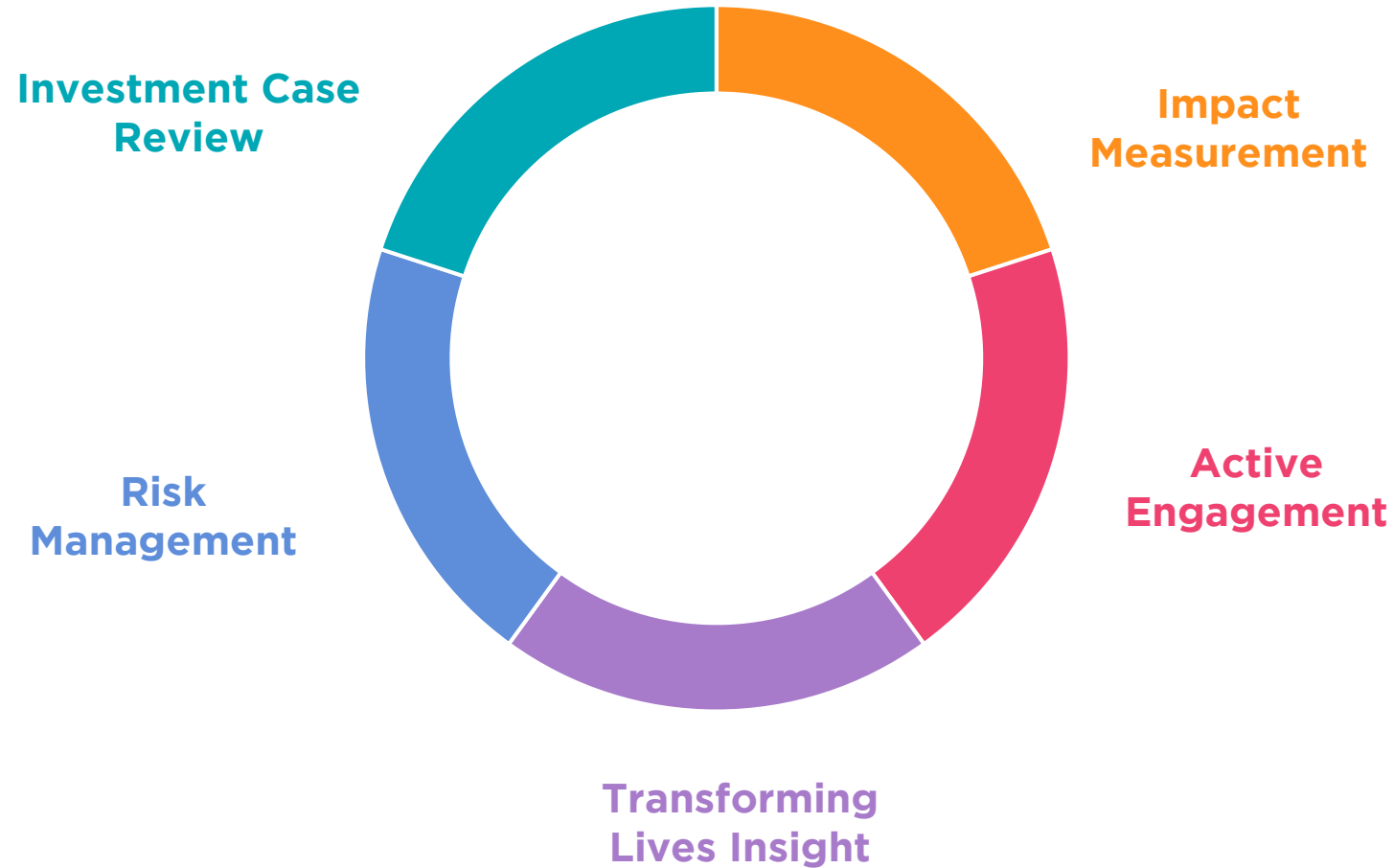
Holding period average: 3-5 year

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

Active share: >65%

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

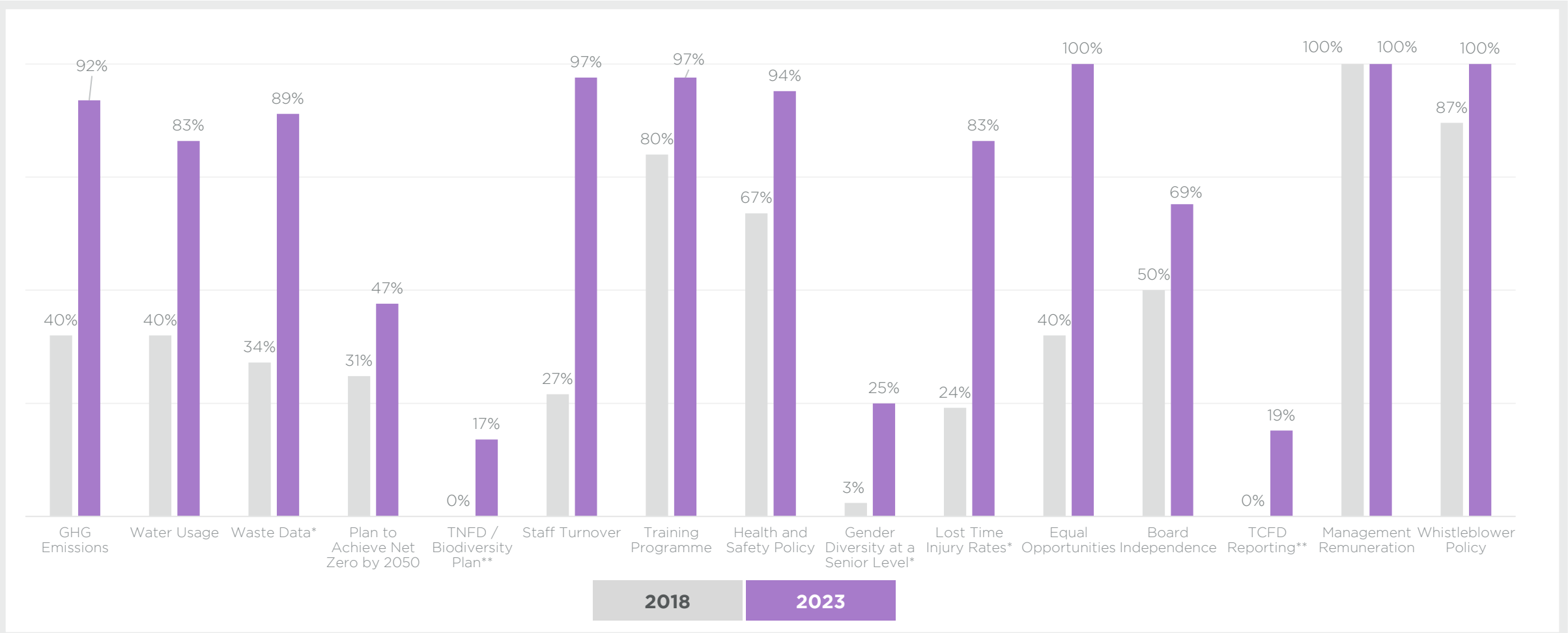
- ✓ Whistleblowing policy available to all employees
- ✓ Percentage of independent directors on the board  $\geq$  than the free floating share percentage of the holding
- ✓ Management remuneration packages disclosure



- 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 33 of our investee companies on a range of E, S and G issues in 2024



Staff relocation practices



GHG and water reduction



Tenure of independent directors



Net Zero targets and disclosure on Lost-Time Injury rates



ESG KPIs for management and biodiversity



Management remuneration benchmarking and disclosure of ESG failures in supply chain

### Alquity led group engagement



Engagement on climate related lending policies

## Step IV: Portfolio management – Voting in 2024

- Alquity fund managers review 100% of resolutions, in line with both ISS recommendations and our own Principles of Governance
- We voted against management in 19% of occasions
- 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

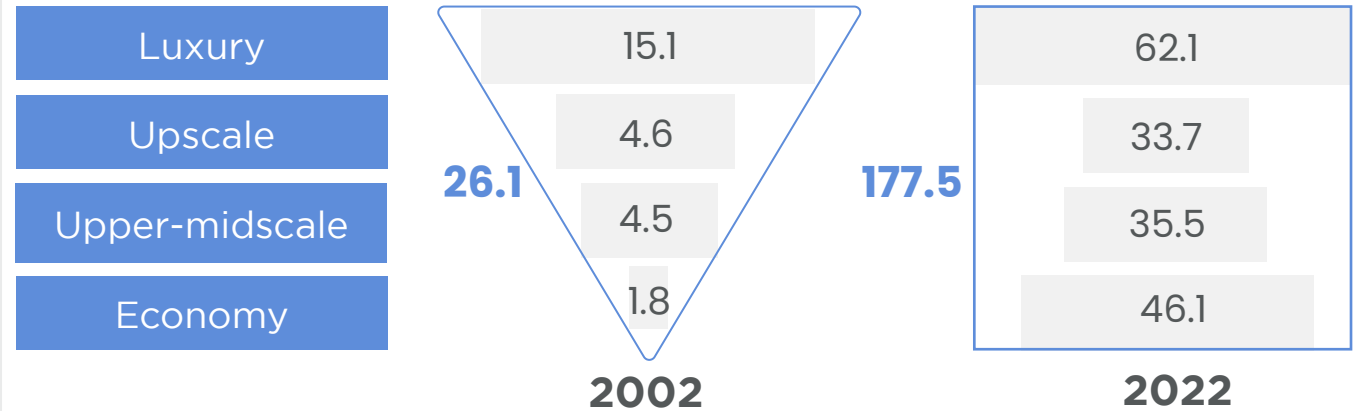


**Market Cap (USD):** 1.2bn  
Out of index

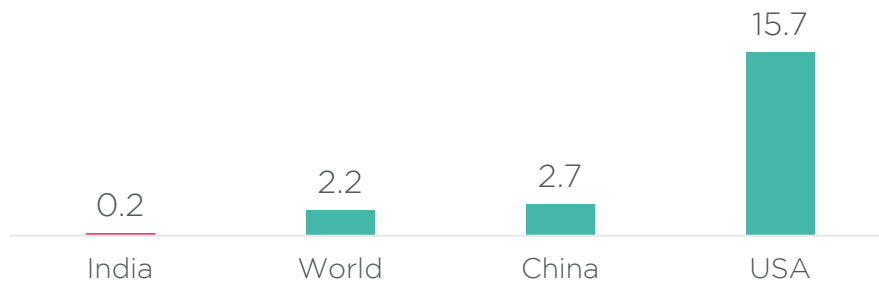
## INVESTMENT CASE

- **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

- 128% upside in our bull case
- 48% upside in our base case
- 11% upside in our bear case



# Company example – Metro Brands

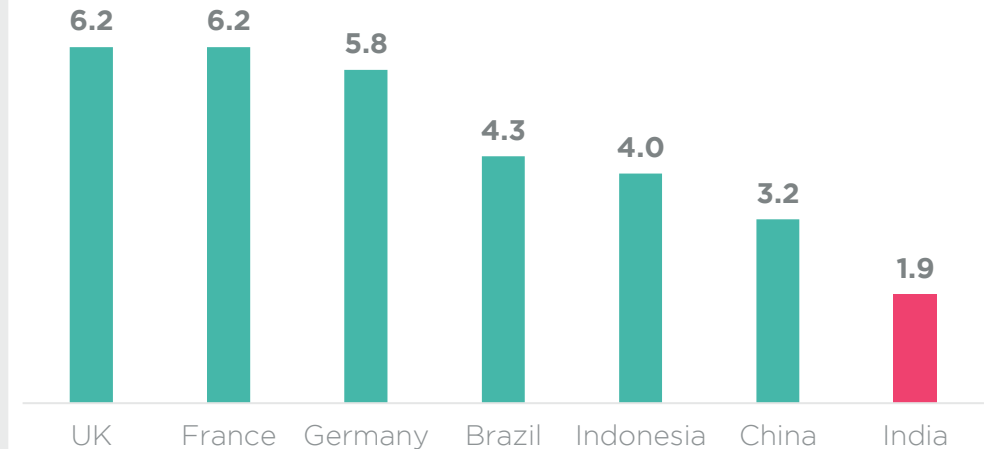


**Market Cap (USD):**  
4.0bn  
Out of index

## 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

- 67% upside in bull case
- 29% upside in base case
- 6% upside in bear case

## Company example – Polycab

**POLYCAB**

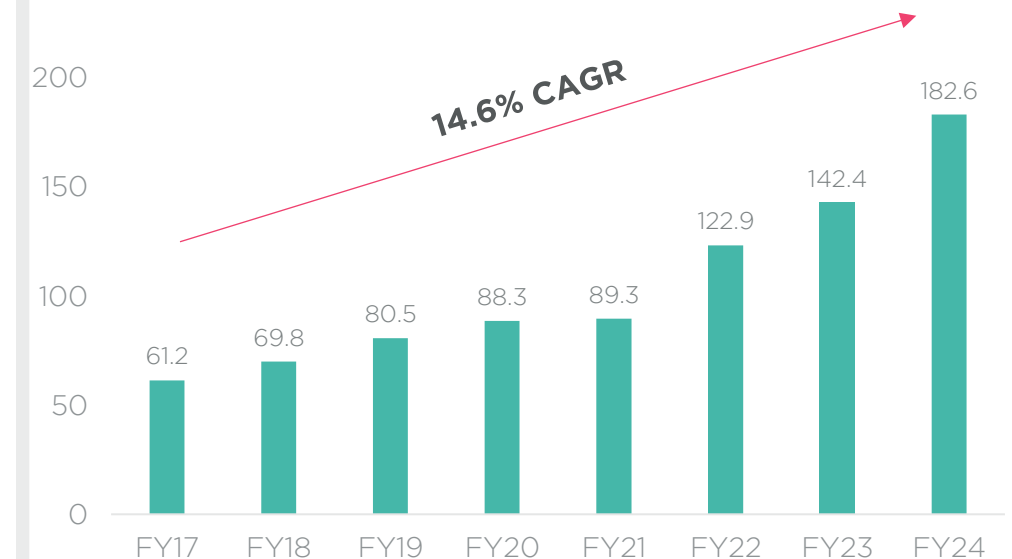
**Market Cap (USD): 12.9bn**

*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

- 72% upside in bull case
- 9% upside in base case
- -19% downside in bear case

# Company example – Vmart

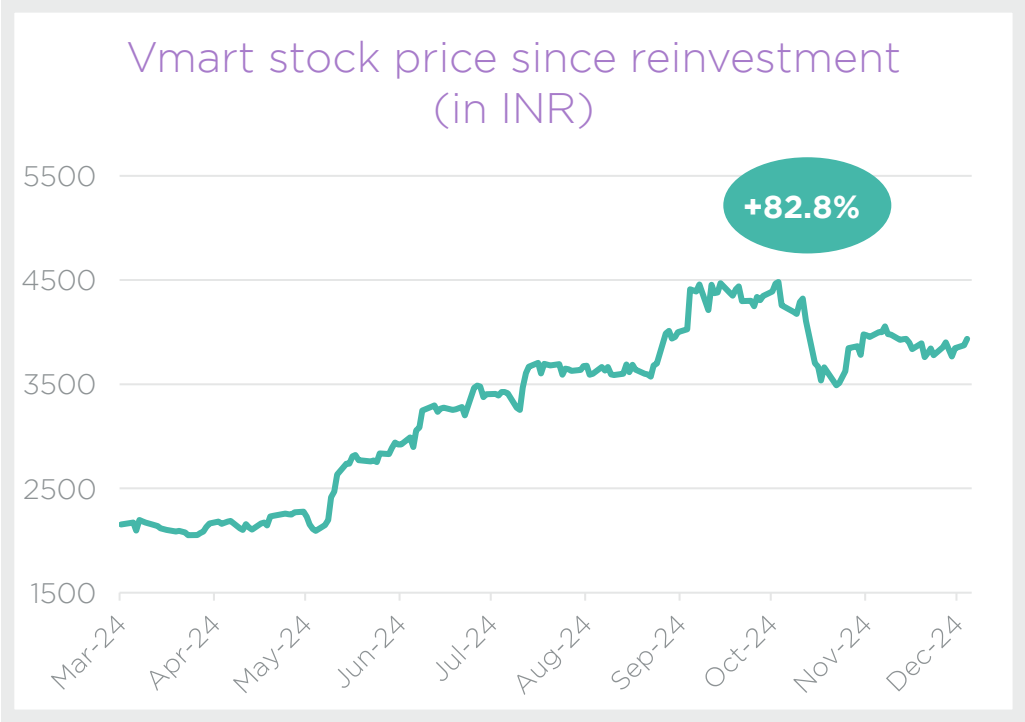


Market Cap (USD): 0.93bn

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



## 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

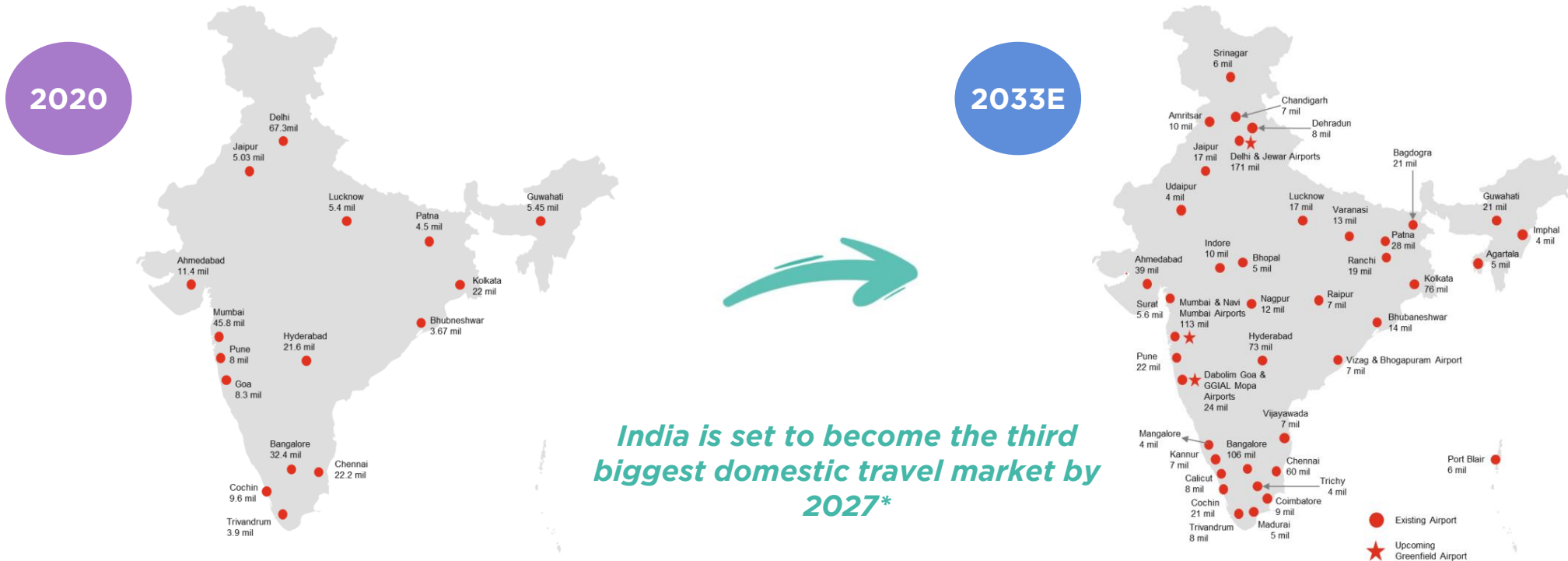
make *my* trip

SAMHI  
SMART HOTEL INVESTMENTS

ixigo

lemon tree  
HOTELS

Major airports with over 3.5 million passengers per year



## Top 10 holdings

Alquity Indian Subcontinent	
HDFC Bank	7.5%
ICICI Bank	5.9%
Infosys	5.1%
Lemon Tree Hotels	5.0%
Mahindra & Mahindra	4.5%
Tata Consultancy	3.4%
Skipper	3.1%
Oberoi Realty	3.1%
Aditya Vision	2.9%
Samhi Hotels	2.9%

Index	
HDFC Bank	7.8%
<b>Reliance Industries</b>	5.8%
ICICI Bank	5.2%
Infosys	4.9%
<b>Bharti Airtel</b>	3.2%
Tata Consultancy	2.9%
Mahindra & Mahindra	2.2%
Axis Bank	1.9%
<b>Larsen &amp; Toubro</b>	1.9%
Kotak Mahindra Bank	1.5%

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

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Management Limited

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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.

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