

NEW INDIA: DELIVERING IMPACT AND RETURNS AS THE WORLD'S MOST DYNAMIC ECONOMY TRANSFORMS

8th February 2022



LIFE CHANGING INVESTMENTS



Presenter

MIKE SELL

Head of Global Emerging Market Equities



- 25+ years of experience investing in EM equities
- Manager of Baring Peacock (India) Fund
- Partner at Thames River/Nevsky Capital. Mike was part of the team that helped grow the EM equity assets from \$150m to \$3.5bn
- Moved to F&C with the long only EM business in 2011
- Joined Alquity in 2014

Agenda

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INTRODUCING ALQUITY

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Our approach

DISCIPLINED

- High-conviction stock picking
- Risk-adjusted equity portfolios
- Diversified EM and FM funds with high active share
- Multidisciplined investment team

AWARD-WINNING PROCESS

- We aim to take advantage of secular growth trends (e.g. demographics and innovative technologies)
- Average stock holding period of 3-5+ years
- Integrated ESG analysis since our foundation in 2009

IMPACT

- We donate 10% of our revenues to high-impact projects, transforming 65,479 lives to date*
- Measurable and consistent engagement with the companies we own
- Our portfolios are aligned with the UN Sustainable Development Goals and have significantly less GHG and water intensity than their relevant benchmarks

THIRD PARTY RECOGNITION



Principles for Responsible Investment



Strategy and Governance
ESG Incorporation
Active Ownership

A+
A+
A+

ISR Label since 2018



First Emerging Market Manager to receive this designation for all its funds in 2018. **Renewed** in 2019, 2020 and 2021.

Only 19 EM funds in the world have been awarded this label and Alquity has 3 of them.



WINNER



Investment Week - 2020 Winner:
“Best Group for ESG Integration”

Our funds

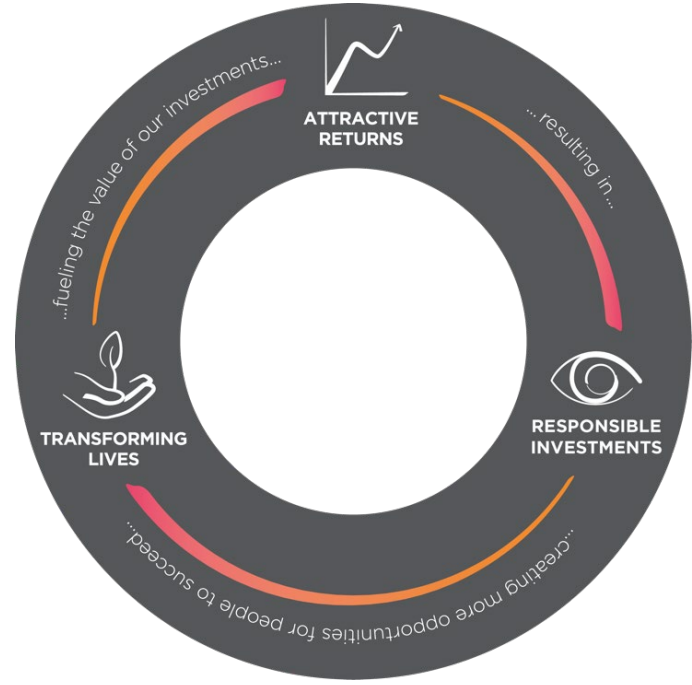
A INDIAN SUBCONTINENT FUND **UNLEASHING NEW INDIA**

A ASIA FUND **NEW ASIA OPPORTUNITY**

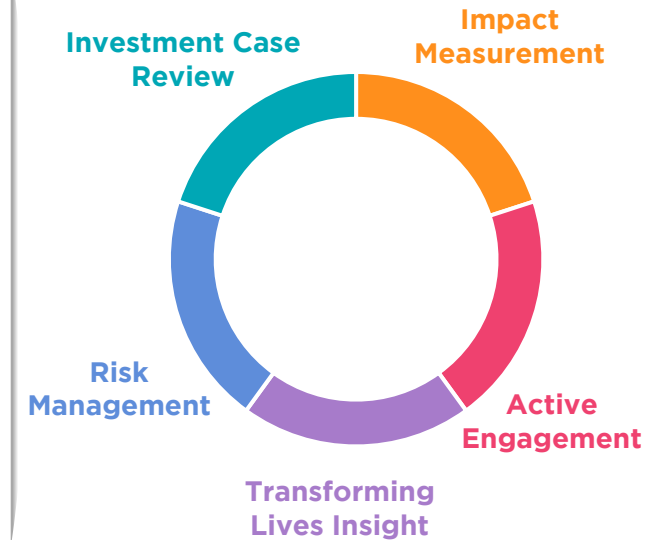
A FUTURE WORLD FUND **HIGH GROWTH OPPORTUNITIES IN EMERGING MARKETS**

A GLOBAL IMPACT FUND **A SUSTAINABLE AND MORE EQUITABLE SOCIETY**
Launched 2021

ESG has always been fully integrated in all our funds



Our investment process



A DIFFERENT APPROACH TO INVESTING IN INDIA

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The identification of long term themes is key

<p>URBANISATION</p>			
<p>DEMOGRAPHICS</p>			
<p>SHIFT FROM INFORMAL TO FORMAL ECONOMY</p>			
<p>DIGITALISATION</p>			
<p>MADE IN INDIA</p>			

ESG analysis is critical

In India, we **exclude 30.9% of companies** for ESG reasons



We do not compromise:

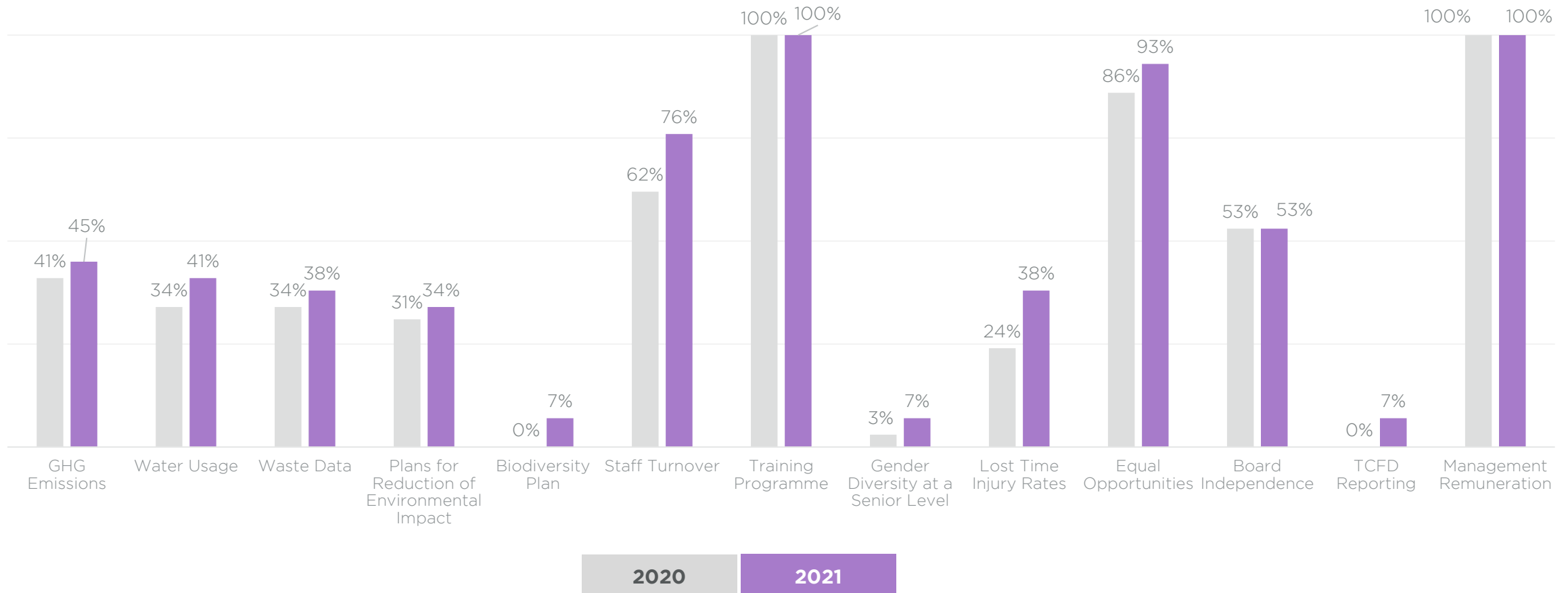


We engage for change:

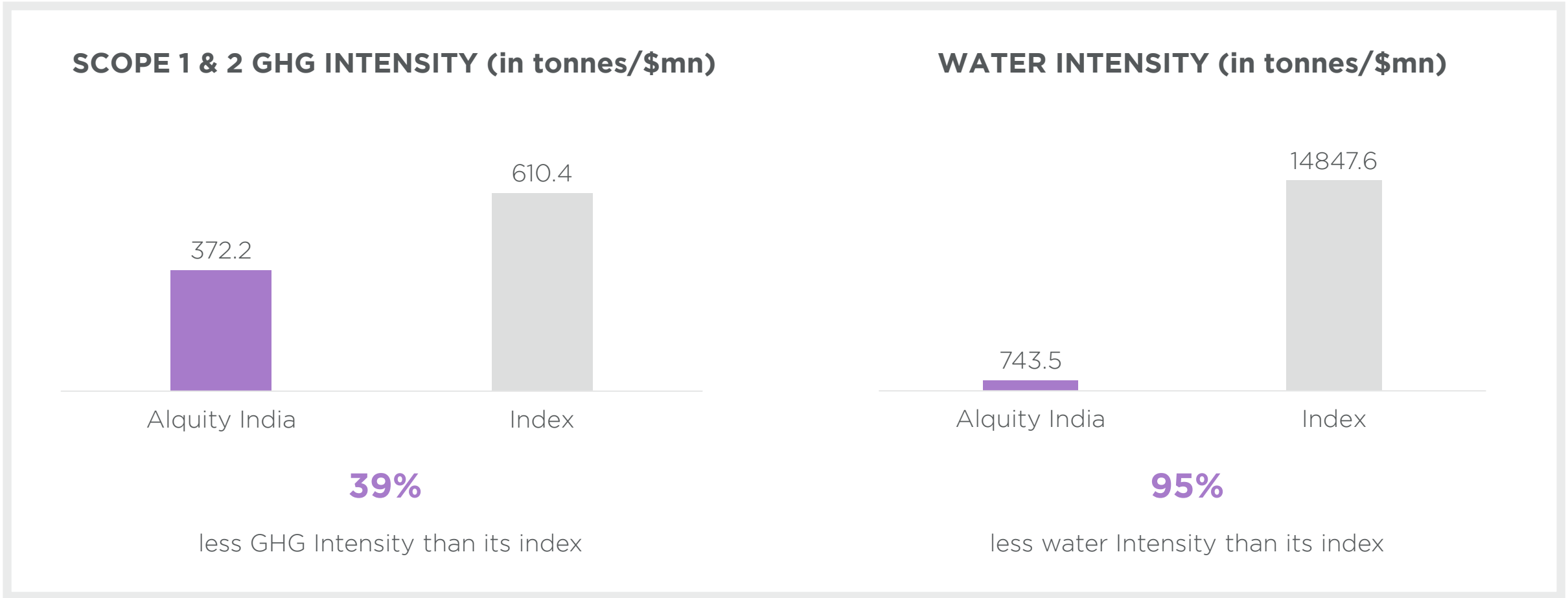


Our key progress indicators (KPIs)

% OF HOLDINGS WHICH MEET EACH KPI STANDARD



The impact of our Fund versus the Index



We also uniquely create a direct impact



- We invested in **Vmart**, an Indian based retail business. In India 93% of retail is informal. Vmart represents the first entry point for many Indians to formal retail
- We have funded, via our Transforming Lives program, **Phool**. They employ more than 300 lower caste Indian women who collect temple flowers, preventing pollution of the Ganges river, and recycle them into incense sticks
- As a result, **Phool employees are now potential Vmart customers**. Furthermore, our onsite visits provide us with valuable insights into the habits of a growing consumer class

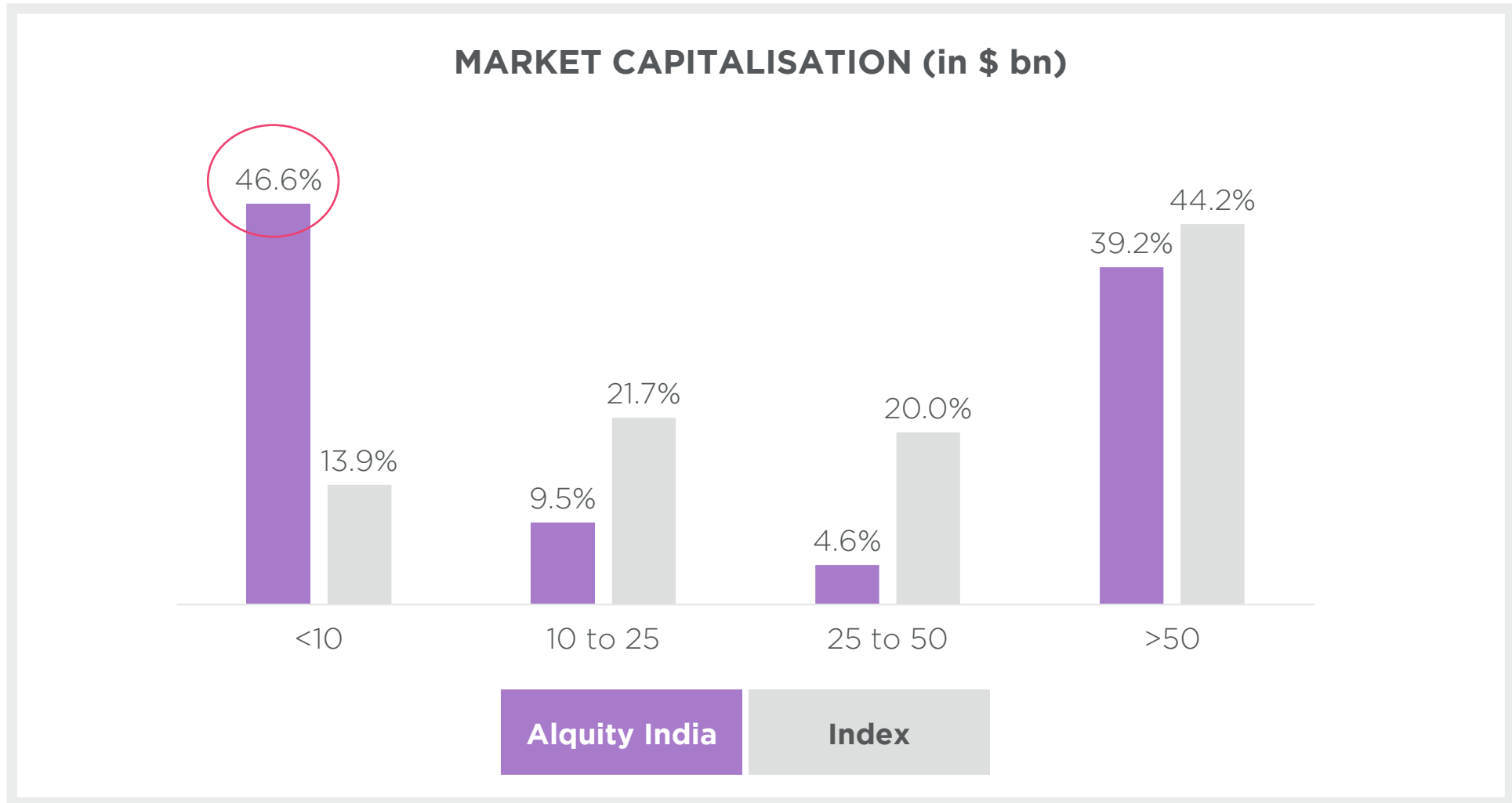
OUR PORTFOLIO: UNLEASHING NEW INDIA



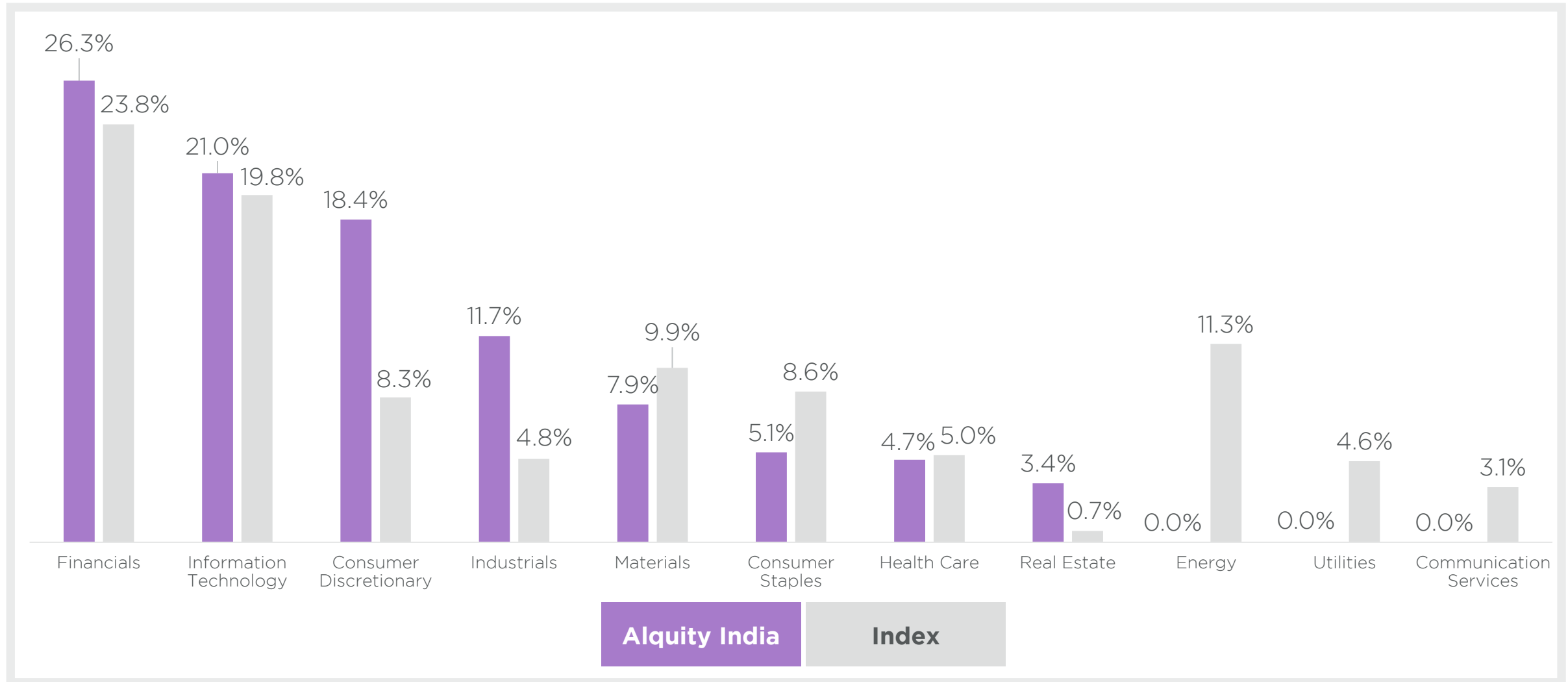
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We focus on the India of tomorrow



Sector allocation



Conviction and high quality ESG drives positioning

TOP 10 WEIGHTINGS

Index	
Reliance Industries	9.3%
Infosys	8.9%
HDFC	6.1%
ICICI Bank	5.2%
Tata Consultancy	4.8%
Hindustan Unilever	2.7%
Bajaj Finance	2.6%
Bharti Airtel	2.1%
Axis Bank	2.3%
HCL Technologies	2.0%

Alquity Indian Subcontinent	
Infosys	9.6%
ICICI Bank	8.4%
HDFC	7.0%
TCS	6.1%
HDFC Bank	4.6%
Tech Mahindra	3.6%
Amrutanjan	3.6%
Oberoi Realty	3.4%
Hero Motocorp	3.1%
Hindustan Unilever	2.9%

Differentiation throughout the Fund

- The portfolio comprises of 37 stocks, of which **23 are out of index**
- We discover companies **before our peers**:



- Our ESG process and **experience** provides the **conviction** to invest in a **risk-appropriate** manner

Our Process and Fund have delivered

	1 Year	3 Years	5 Years	Since Inception (04/06/2014)
Alquity India	43.1%	48.1%	104.3%	169.9%
Index	26.2%	56.9%	101.8%	116.3%
Morningstar Quartile	1	3	1	1

INDIA'S OUTLOOK IN 2022

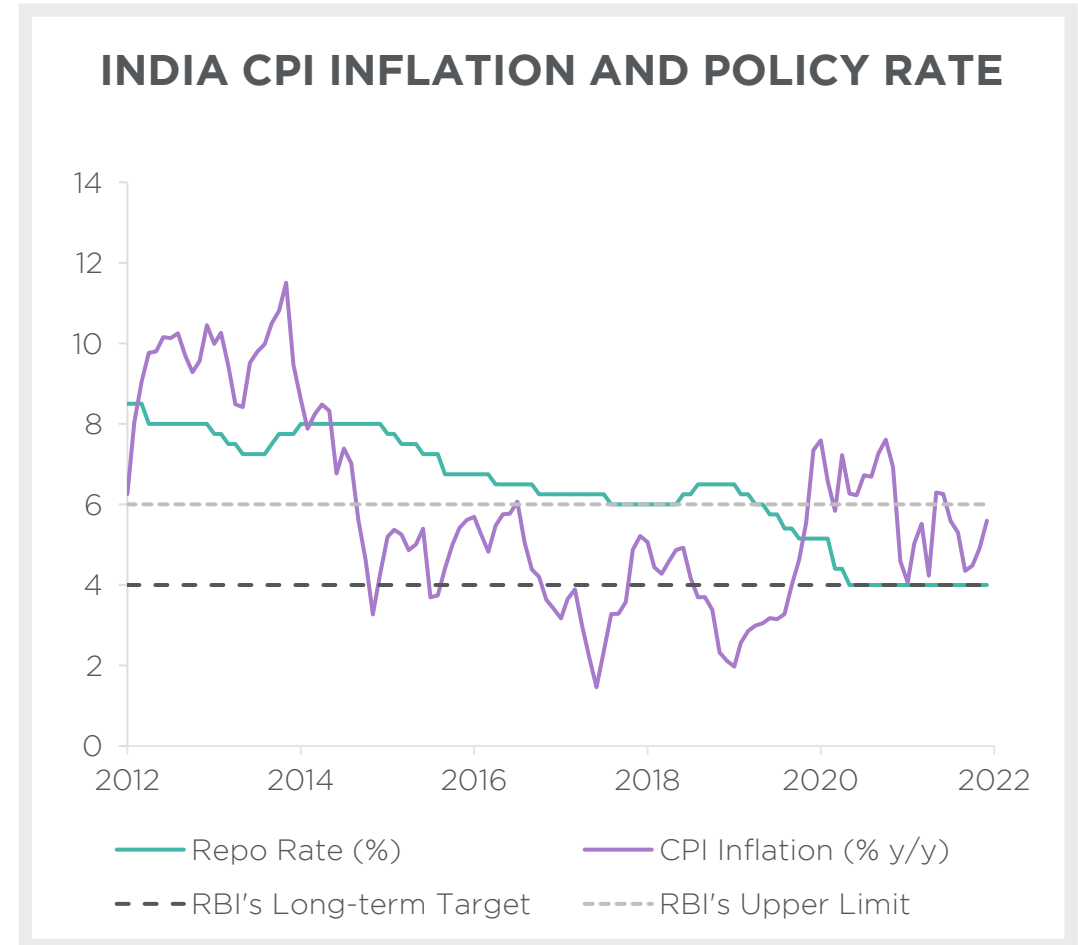


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Growth to remain strong

- **GDP growth likely to exceed 9%** for this year, amongst the strongest in EM, and 7.5% in the following year
 - Still large output gap and robust domestic demand
- Rising food prices may lift **inflation above RBI's 6%** upper bound near-term
 - But core price pressures should remain contained
- RBI will begin to **raise interest rates gradually**, with a first hike around Q2
 - Positive for the banking sector
- Recurring waves of **COVID infections are a risk** (47% fully vaccinated)



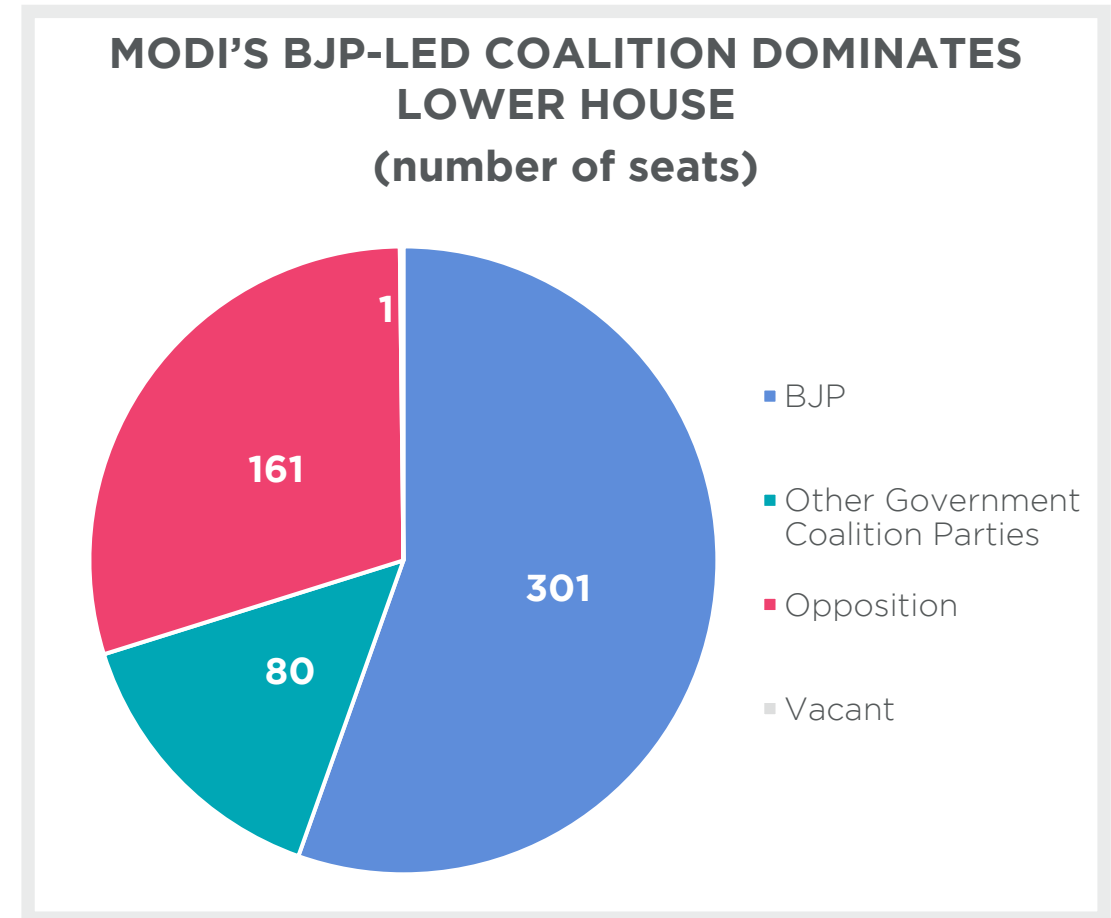
Reduced sensitivity to oil prices

- **External risks still contained**, despite high oil prices
 - Current account deficit at manageable 2% of GDP or less in FY22/23
 - Large drop in the non-oil trade deficit over last three years
- **Increase in exports**, particularly software, has reduced India's dependence on capital inflows
 - 'Made in India' will ultimately further help
 - Shift to renewables a long term positive (target 45% cut in CO2 intensity by 2030)
- Scope **for \$15-20bn USD inflows** if Indian sovereign bonds are included in global bond indices, as seems likely this year
 - Only \$4bn of foreign equity inflows in 2021 (vs 10 year average of \$11bn, and \$12bn of domestic fund flows last year)



Uttar Pradesh election to reinforce Modi's mandate

- Scheduled for Feb/March – UP has largest representation in the upper house of Parliament
 - Modi's backtracking on agriculture reforms last year partly a response to his unpopularity amongst UP's farmers
- **Modi's popularity remains high overall** and the BJP has a strong presence in UP – he should win
- General election due in 2024
 - Will the 2019 strong performance (with outright majority) be repeated?



Modi is a reformer....

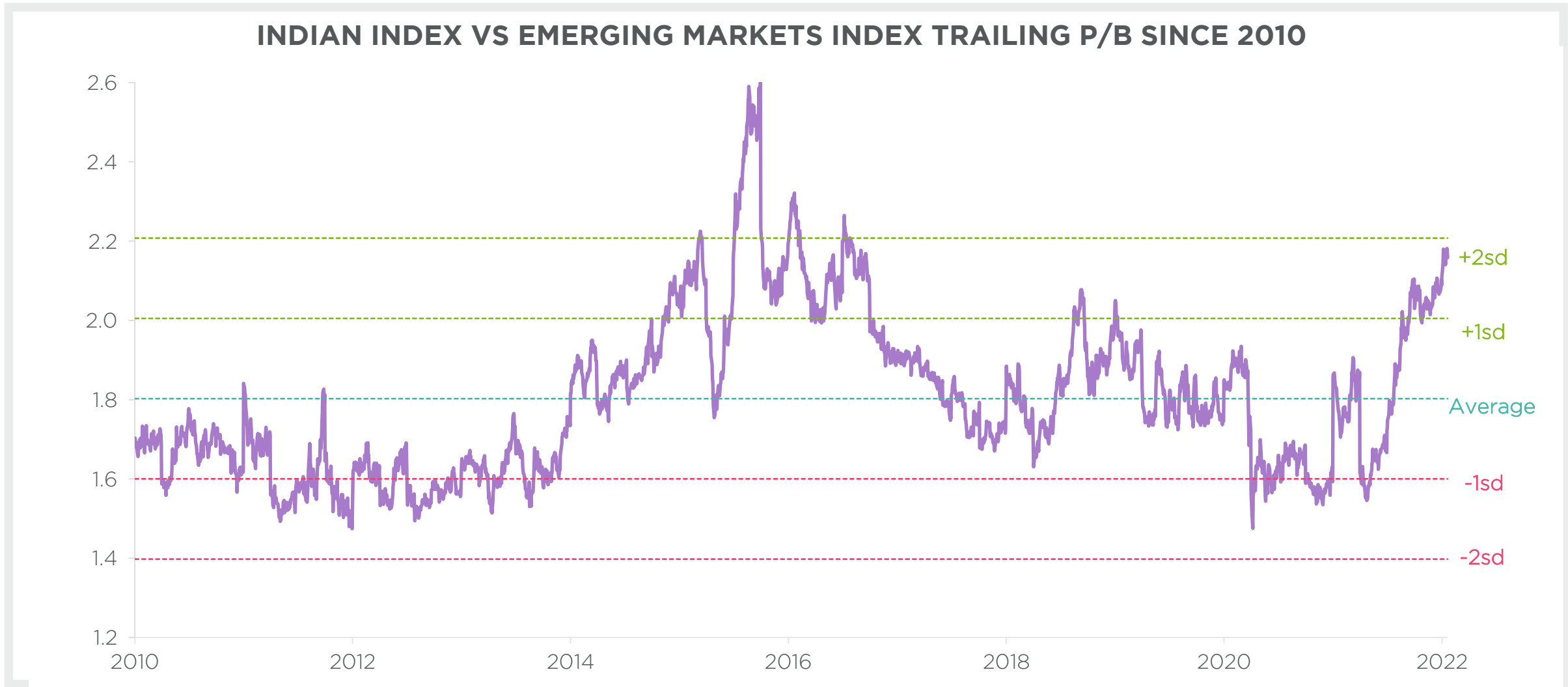
Since 2019, economic reforms include:

- **Labour reform bills**, which have simplified and modernised labour markets
- New **education policy**, boosting education spending and R&D
- On-going **infrastructure spend and liberalisation of FDI** restrictions

With a continued mandate, further potential reforms include:

- **Land reforms** to improve allocation of scarce resources
- **Electricity bill** to increase competition and efficiency
- Continued **infrastructure investment** (roads, rail, power)

Valuations



CONCLUSION

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Conclusion

- The macro and political **outlook** for India remains **strong** in 2022
- **India is changing**, and so must investors' approach
- Differentiation and a focus on '**New India**' are key to our success
- Our ESG process has delivered **excellent returns and tangible impact** across all our EM funds

APPENDIX



LIFE CHANGING INVESTMENTS



Step I: ESG Red Flags and Thematic Approach Are Key to Narrowing the Investment Universe

We exclude companies with 5% of its revenue or profits attributed to the production or distribution of:

- Tobacco
- Liquor
- Narcotics
- Nuclear power
- Adult entertainment
- Fur trade
- Armaments
- Gambling
- Gas/oil exploration and production
- Coal mining
- Hydrogen power (unless green hydrogen)

Suppliers, lenders and retailers of these companies or products are not excluded providing these sectors are non-core to the overall business purpose and represent a minority of their revenue.

ENVIRONMENTAL

- x No disclosure on water usage/conservation levels for significant users (e.g. beverages)
- x >5% of revenues or profits attributed to coal and fossil fuels exploration, production or distribution (including hydrogen power, unless green hydrogen)
- x High risk industry company not publicly providing emissions data or when requested
- x Ongoing business controversies and unresolved scandals
- x Involved in the production of nuclear power
- x Commercial fishing, unless demonstrably sustainable (MSC certification is not sufficient in itself)
- x Palm oil cultivation, unless demonstrably sustainable e.g. with regard to zero deforestation and regard to biodiversity (RSPO certification is not sufficient in itself)

SOCIAL

- x High risk industry company without a Health & Safety policy
- x >5% of revenues or profits attributed to tobacco, narcotics, armaments, adult entertainment, gambling, fur trade or liquor production or distribution
- x Zero tolerance for “controversial weapons”
- x Ongoing business controversies and unresolved scandals
- x Non-pharma animal testing, unless it is required by law and regardless must be a substantial minority (<20%) of overall sales

GOVERNANCE

- x No independently audited accounts
- x Company doesn't meet investors or arrange regular open-access calls
- x Company refusing to provide identity of majority shareholders
- x Ongoing business controversies and unresolved scandals

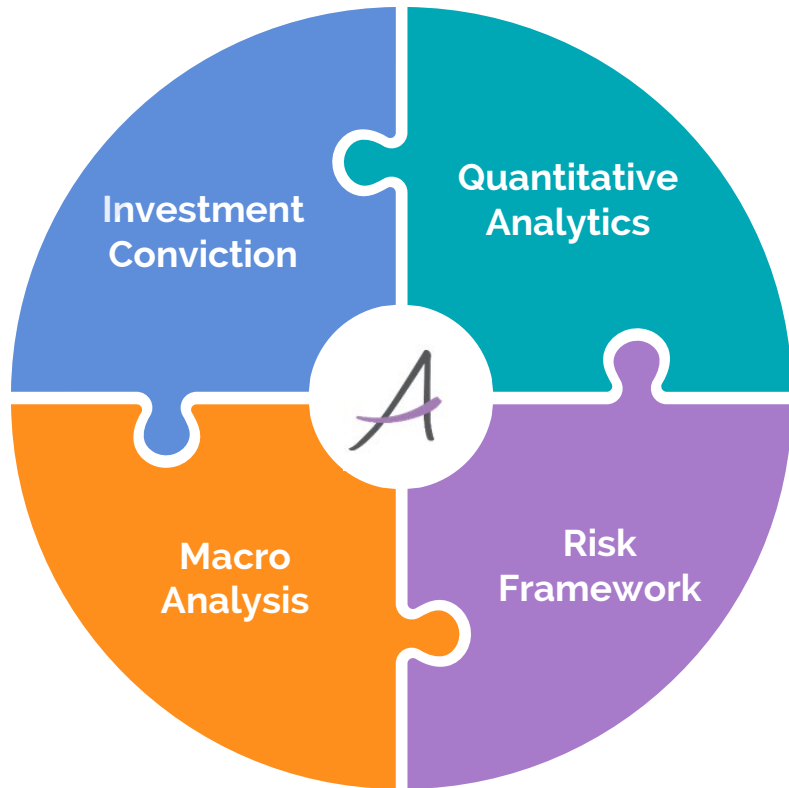
Step II: Proprietary ESG Rating Methodology

- Deep fundamental financial analysis and modelling with a long-term perspective
- Forward-looking, qualitative ESG assessment and rating conducted through significant engagement with management teams
- DCF valuations influenced by the ESG scoring, via an increase or decrease of the equity risk premium: a 50bps reduction in for an “A” rating or a 50bps increase for a “C” rating

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	

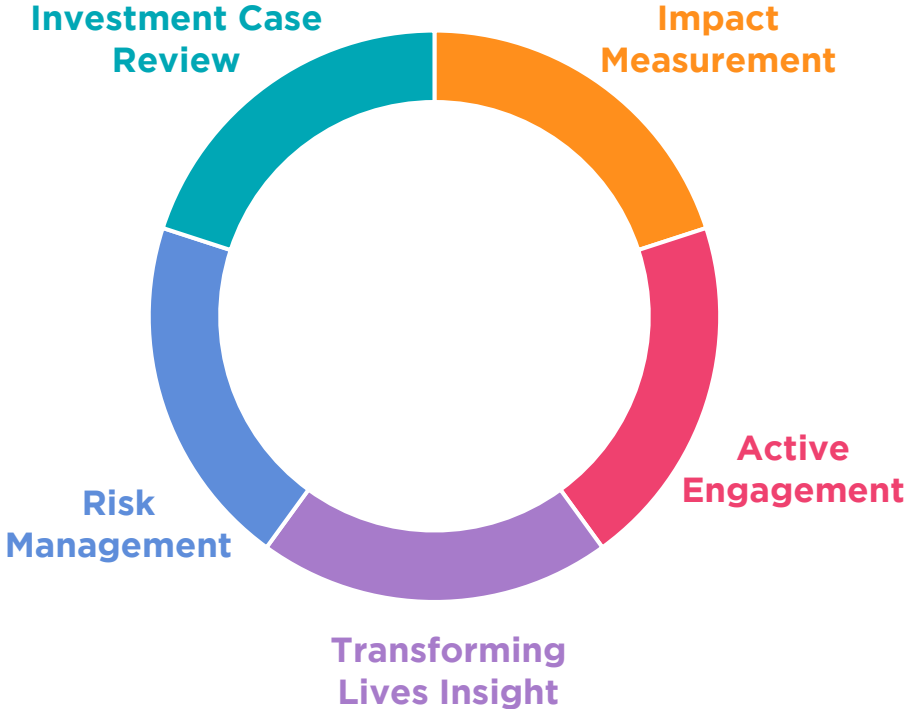
* We may also add 100bps to the equity risk premium of firms more exposed to the transition to a carbon neutral economy (e.g. autos and cement)

Step III: Portfolio Construction - Holistic and Risk-controlled



- Macroeconomic input supports sector allocation
- Continuous interaction between our fundamental stock picking expertise
- Risk framework delivers a diversified portfolio with an optimal tracking error whilst delivering a high conviction portfolio

Step IV: Portfolio Management – Ongoing Risk Control and Stewardship



- Continuous performance and risk monitoring to ensure portfolio is within risk-return expectations including formal monthly review meeting
- In-depth trigger reviews
- Ongoing macro and investment thesis review in twice weekly team meeting and monthly portfolio construction meeting
- Company meetings & ESG monitoring
- On the ground research work
- Deep dive of longer term trends in performance and process

Step IV: Portfolio Management – Clear Impact Measurement within the SDGs

ENVIRONMENTAL


- ✓ Emissions and/or climate impact disclosure
- ✓ Water usage and mitigation efforts disclosure
- ✓ Production of waste material disclosure
- ✓ Disclosure of environmental impact reduction plan over a defined period
- ✓ Prevention of biodiversity loss actively considered in the strategic plan
- ✓ 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

Portfolio Risk Guidelines

CONSTRUCTION GUIDELINES

- Sector: Maximum concentration of 40%; Typically +/- 20% vs India Index
- Numbers of holdings : 30-50 stocks
- Position size: 1% to 10%
- All holdings over 5% do not total more than 40%

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
- TE vs India Index: Approximately 6% to 10%
- Active share: >70%
- Beta: 0.8-1.2

Fund Details and Contacts

Fund	Alquity India Fund
Structure	SICAV, UCITS V
Domicile	Luxembourg
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

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