August 2022

WHY CHOOSE **ALQUITY** FOR YOUR INVESTMENT IN **INDIA**

India has become a core part of investors' portfolios over recent years, as the country's long term structural growth case has gained increasing attention. Mike Sell, our Indian portfolio manager, has been directly investing in the country since the mid-1990s and so has witnessed first-hand the changes in this dynamic economy.

ALQUITY'S UNIQUE PROPOSITION IN INDIA

There are numerous Indian funds available to investors, but we believe our approach is unique and has consistently proven to be successful:

1. Themes. We do not believe that portfolios should be a mere conglomeration of stocks, driven largely by the constituents of an index. We are long term investors and **we focus on the long term structural growth drivers** of India – such as the winners from India's amazing demographics. Our portfolio has benefited significantly over the years from themes such as the shift from the informal to the formal economy, and whilst this will continue (along with the continued move from the physical to the digital world) we cannot remain static in our analysis. We believe that focusing on the **next story, not the last**, is one of the keys to our strong multi-year performance. Hence, we have been researching **'Made in India'** as an additional theme over the last 2 years, driven by Modi's policies, and accelerated by companies' desires to diversify their supply chains from China. This will become an increasing part of the portfolio over the coming years.

2. ESG. It has been a part of the Alquity investment process for over a decade, and has been fully integrated into our Indian analysis since the launch of the Fund back in 2014. Simply put, we will only invest in companies that are aligned with the interests of all stakeholders, that treat their staff and the environment with respect and are operated for the benefit of minority shareholders rather than entrenched interests. This is hugely important in an Emerging Market such as India, which is dominated by first generation entrepreneurs, and **we do not compromise on our ESG standards**. This results in the avoidance of some of the largest companies in the market, which have been subject to various controversies over many years.

However, India benefits from a very deep stock market (with over 4400 listed companies) and so we are able to identify attractive companies which meet our ESG standards, that have enabled us to deliver some of the strongest returns to investors in the asset class whilst ensuring that the **water and GHG footprint of our portfolio is substantially smaller than that of the relevant Indian index**. We believe that it is critically important to focus on these areas, given India's water scarcity (with 18% of the world's population and only 4% of its water) and rapid growth. Sadly, very few other Indian fund managers – even those who include some form of ESG in their process – have decided to also achieve this.

Furthermore, although many firms have launched ESG versions of existing strategies in recent years, we do not believe a retrofitting of an existing investment process delivers sufficiently robust outcomes to investors in terms of passion, integration, and stewardship. Also, despite the proliferation of ESG, **very few peer funds' processes have achieved external validation** – such as the Label ISR certification (involving an annual 2.5 day audit), which we believe to be the gold standard for ESG managers.

3. Transforming Lives. We donate 10% of our revenue to support social enterprises, such as Phool (www.phool.co) who recycle discarded flowers from temples into incense sticks, thus creating employment (in line with UN SDG 8) and reducing water pollution (UN SDG 14). This delivers a positive, tangible impact to people's lives and Indian society overall, and is a core part of our **differentiated offering** versus other Indian managers. Furthermore, we convene consumer panels with the beneficiaries of this programme to discuss their consumption habits, their aspirations and changes in their spending power. This provides a **direct insight into a large, but under-surveyed part of the Indian population** that directly impacts our portfolio construction and is a key competitive advantage.

> ***Transforming Lives is a core part of our differentiated offering versus other Indian managers.***

4. Local knowledge combined with global best practice. Our multi-decade experience in India, unique process, frequent travel and Transforming Lives insights, enable us to have a deep understanding of the Indian economy, corporates and stock market. Furthermore, our location in London enables us to take a longer term perspective, away from the day to day volatile newsflow (which tends to be incredibly short-termist), and **identify global and regional trends that will drive returns**. One example is our focus on global ESG trends, which – in our experience – is not yet so prevalent amongst Mumbai-based managers. A second example would be the appreciation of the 'Made in India' opportunity given our first-hand knowledge of investing into Chinese companies.

5. Performance. The above 4 points have resulted in a very strong performance profile over both the near and the long term (the fund was launched over 8 years ago, with Mike Sell as the manager throughout the period). We believe that our uniqueness not only differentiates ourselves versus our peers, but also consistently delivers strong returns to our investors.

Figure 1: Alquity India Fund net performance

	1Y	2Y	3Y	5Y	Since inception (30/04/2014)
Fund	0.5%	72.7%	49.2%	24.9%	143.2%
Percentile	9.7	1.2	12.8	61.9	11.9

Source: Alquity, Bloomberg, Morningstar, as of 29th July 2022. All Alquity performance data refers to USD Y class

Kieron Kader, Associate Portfolio Manager, with Phool's team in May 2022

BUT WHY IS NOW THE TIME TO CONSIDER AN INVESTMENT IN INDIA?

Growth in developed markets is clearly slowing, with major economies such as the UK, EU and US flirting with and/or heading for recession. At the moment, G7 GDP is forecast by the IMF to be 2.5% for this year and dropping to 1.4% next year. **India represents a stark contrast** with GDP growth estimated to be 7.5% in this fiscal year, and 6.5% in the following year. The 2022 monsoons have again been successful, inflation is well-controlled and Modi remains popular and likely to win the next elections, which will be held before May 2024. Hence, **India is particularly attractive at this juncture** for investors seeking nearer term growth opportunities, in addition to the multi-year, structural growth story that is increasingly familiar, but nonetheless hugely compelling as shown in the charts below.

Furthermore, **the Indian and Chinese markets are relatively independent** (with a correlation of just 0.27 over the last 5 years). This is logical, given that India is a predominantly domestically driven economy and largely unlinked to China. Thus investing in India also has the advantage of acting as a diversifier to overall Asian and Emerging Market exposure (which is typically dominated by China).

India's structural growth opportunity

Figure 2: Population growth (per annum)

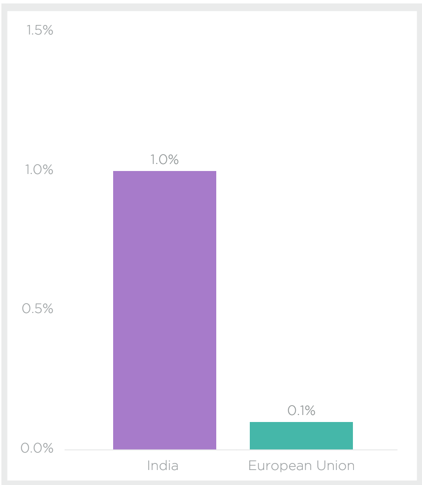


Figure 3: Population under 30 years

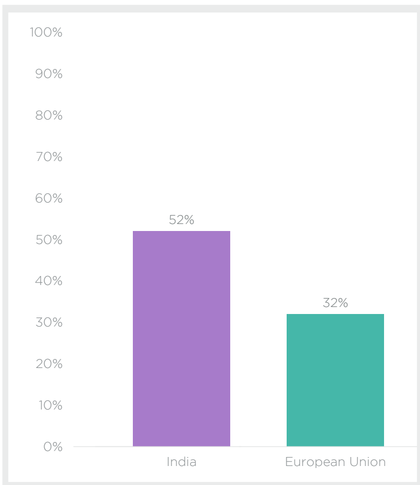
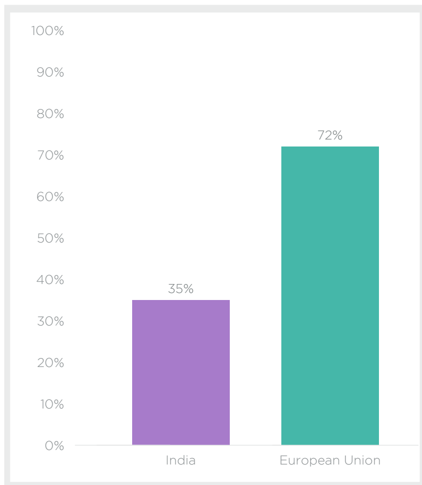


Figure 4: Urbanization rate



Source: World Bank, IMF, Alquity, Bloomberg, Sentieo, The Economist, as of August 2022

Of course, there are risk factors to consider...

Although the Indian economy is less sensitive to the oil price than previously, **a significant and sustained jump in the oil price would create significant headwinds**. Every $10 increase in the price of a barrel of oil would increase the trade deficit by 0.4% of GDP, and a permanent jump in the oil price from circa $100 to $150 / barrel would result in the current account deficit increasing from approximately 2.5% of GDP to 4.5% of GDP. This would be manageable, given India has $573bn of foreign exchange reserves, but would clearly temporarily dent the investment case. However, over time, **India's sensitivity to oil will diminish** as India's exports rise due to the aforementioned 'Made in India' programme (thus boosting the current account) and as India targets 50% of energy requirements from renewable sources by 2030.

Secondly, **valuations** for the Indian market are never cheap relative to other Emerging Markets such as China or Korea, or additionally versus India's own history. However, we must consider valuations in the context of the multi-year/decade structural growth story which is unique globally (certainly in terms of the size of the overall opportunity, given India's population of 1.4 billion), as well as much better corporate governance than markets such as Korea or China. Furthermore, **the market is not 'overbought' by foreigners** with $22.3 bn of outflows since December 2021, which can be expected to (at least) partially return as the investment case is re-assessed.

CONCLUSION

The investment case for India is **vibrant and timely**, although concerns relating to the oil price and valuations should be acknowledged. However, irrespective of this, we believe that **Alquity's unique approach is particularly aligned** to the challenges and opportunities of India which has been proven by the strong and consistent performance over the last 8 years.

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