Progress India Opportunities Fund (PIOF)

Aug – 2020

(PIOF) Progress Asia Capital & Advisors Pte. Ltd.

Investment Objective

PIOF is a **US$-denominated absolute return thematic India equities** fund with a differentiated strategy, focused on the most secular part of India's story - the **rise of consumer spending.** The fund invests in well managed large-cap (>US$1bn) companies. PIOF's mission is to offer global investors a compelling investment strategy and approach in terms of investing in well managed strong public companies in India which offers steady capital appreciation over a period of time and with capital preservation in mind.

Investment Manager of PIOF is **Progress Asia Capital & Advisors Pte Ltd**, which is regulated by the **Monetary Authority of Singapore (MAS).**

Aug-31-2020

NAV per Share (US$)	144.20*

Returns (US$ terms, Net-of-all-fees) Inception Date: December 1, 2014**

PIOF	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	PIOF (US$)	Nifty 200 Index	NIFTY Index	NIFTY Midcap Index
2020	2.15%	-3.53%	-26.54%	11.54%	1.29%	4.65%	6.67%	6.58%					-2.69%	-8.63%	-9.15%	-5.31%
2019	-8.52%	2.27%	7.28%	-0.76%	0.92%	-3.02%	-1.23%	0.22%	6.28%	6.62%	-0.80%	1.46%	10.05%	6.34%	9.61%	-6.28%
2018	-3.75%	-2.61%	2.15%	1.20%	-3.50%	-2.00%	3.72%	0.21%	-12.73%	-6.96%	13.06%	2.76%	-10.15%	-9.30%	-5.57%	-22.57%
2017	10.54%	5.47%	4.05%	2.40%	-2.15%	-0.86%	2.41%	3.10%	-2.91%	0.09%	3.55%	2.38%	31.07%	42.05%	36.81%	56.60%
2016	-3.84%	0.06%	4.99%	1.57%	-0.95%	2.64%	7.90%	1.06%	1.17%	2.16%	-4.93%	-3.73%	7.58%	1.04%	0.33%	4.33%
2015	2.87%	0.27%	3.38%	-2.13%	3.05%	3.33%	2.43%	-1.62%	-0.36%	-3.47%	-2.52%	0.87%	5.91%	-6.36%	-8.57%	1.45%

Returns % (USD) since inception Jan-2015 to Aug-2020	Cumulative (%)	CAGR (%)
PIOF	43.70	6.60
Nifty Index	18.48	2.10
Nifty 200 Index	18.45	2.32
Nifty Midcap Index	13.91	2.38

Rolling 3-YR Annual Return (Dec-2019)	9.03%

Return Statistics	%
Last Month	6.58%
Year To Date	-2.69%
Total Return	44.20%
Compound ROR	6.57%
Winning Months (%)	63.77%
Average Winning Month	3.48%
Average Losing Month	-4.22%

Risk Statistics	
Sharpe Ratio	0.35
Sortino Ratio	0.83
Maximum Drawdown	-29.13%
Standard Deviation	18.95%
Downside Deviation	8.00%
Beta to NIFTY $	0.70

PIOF Annual Returns	2015	2016	2017	2018	2019	2020 YTD
USD Terms	5.91%	7.58%	31.07%	-10.15%	10.05%	-2.69%
INR Terms	11.13%	10.46%	23.25%	-1.89%	12.63%	0.36%

PIOF Outperformance since inception against Major Indexes	Returns	PIOF Outperformance against Index
PIOF	44.20%	
NIFTY Index	12.53%	31.67%
NIFTY Midcap	14.28%	14.62%
Nifty 200	13.86%	30.34%

Performance Attribution *(Aug-2020)*	%
Long-Book	4.96
Currency	1.62

PIOF	Vs Nifty	Vs CNX Midcap	Vs Nifty 200
Alpha	5.34%	4.70%	5.23%
Beta	0.69	0.64	0.71
Correlation	0.79	0.85	0.82

Interpretation:
Real alpha of the fund, with an effective beta of 69%
This means that the selection is not correlated to the main indices

Drawdown Report

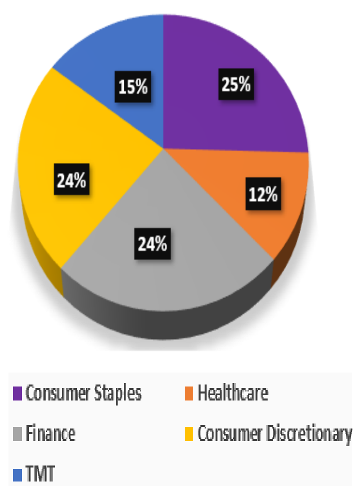
No.	Depth (%)	Length (Months)	Recovery (Months)	Start Date	End Date
1	-29.13%	2	5	02/2020	04/2020
2	-13.30%	19	6	01/2018	07/2019
3	-10.52%	6	6	08/2015	07/2016
4	-8.48%	2	1	11/2016	01/2017
5	-2.99%	2	2	05/2017	08/2017

INR vs US$	%
2015 to 2020 YTD	-15.72
2020	-3.04
2019	-2.25
2018	-8.46
2017	+6.91
2016	-1.83
2015	-7.05

Number of Long Positions *(Aug-2020)*	15
% of Long-Book Stocks that are also components of the NIFTY Index *(Aug-2020)*	29%

Market Capitalisation Exposure *(Aug-2020)*	%
> US$ 12bn	37.26
US$ 6bn to 12bn	31.07
US$ 1bn to 6bn	19.06
US$ 0.5bn to 1bn	12.60

Sector Exposure *(Aug-2020)*	%



****Given the fund focus on large-cap stocks, correct benchmark index to compare returns should be NSE200 Index which comprises of Top 200 NSE stocks**

***PIOF's NAV is adjusted for capital gains taxes**
Fund NAV is also after all management/ performance fees

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Investment Commentary

India has been one of the best performing equity markets in the world with 37% total return (in USD terms) in the last five months. Markets continued to rejoice in the month of August with (in USD terms) Nifty Index up +5.01% and Midcap Index up +10.11% with domestic and global liquidity fueling the markets. This was also on the likely hope of demand revival with the easing of lockdowns and the number of COVID-19 cases going down. Indian economy has witnessed a rather swifter recovery than expected by the market from the record low level of activity during Apr-May 2020.

Key Macroeconomic Indicators :

- **The CPI inflation** rose to a 3-month high of 6.9% in Aug 2020, a jump from an already high level of 6.2% in June 2020. A sharp rise in inflation in food, tobacco & liquor and services is the main reason behind the high CPI inflation. Record-high procurement of food grains by the Government, shortage of perishable food items, sharp increase in excise duties/VAT on various products such as petroleum products and liquor and higher wage rates are the other main reasons for high CPI inflation.
- **Real GDP** growth contracted by 23.9% in Q1FY21. Private consumption declined 26.7% YoY; investments contracted 47.5% YoY in Q1FY21. However, government consumption remained robust with growth of 16.4% YoY in Q1FY21, the highest in 12 quarters. External trade posted a surplus in Q1FY21, thereby contributing positively to real GDP
- **India's fiscal deficit** stood at ~USD113bn at the end of Aug, at ~103% of the budgeted target for the current fiscal year. Sharp fall in tax receipts coupled with resilient government expenditure led to the high deficit in the period.
- **FII buying** accelerated in Aug with net inflows being ~USD6bn (largely driven by participation in capital raises) taking the YTD inflows up to ~USD4.7bn. **DIIs** on the other hand, continued to be **net sellers** of ~USD1.5bn reducing their YTD inflows to ~USD9bn

Monetary Policy Committee Meeting

RBI held the repo rate and corridor unchanged in August, with cautious near-term guidance. Regulatory changes included:

- Recast window – Lenders will be allowed to restructure loans to corporates by end-year provided they were standard accounts as of March 2020. Borrowers availing of this facility won't be classified as NPAs. Restructuring can be extended to two years and stands to attract additional provisioning for 10% of the post-resolution debt
- Additional standing liquidity facility of ~USD6.8bn to the NHB and apex rural bank National Bank for Agriculture and Rural Development (NABARD)
- Advances against gold ornaments and jewellery – Permissible loan-to-value ratio for loans against pledge of gold ornaments and jewellery has been increased from 75% to 90% (until March 2021)

Market Liquidity Measures announced by RBI

RBI announced a few market liquidity measures on 31st August 2020 in order to lower the bond yields in India. 1) HTM (Hold to Maturity) limit for banks have been raised from current 19.5% to 22.0%. At present the banking system is at 17.3% HTM. 2) Additional Open Market Operations (OMO) of ~USD2.7bn in the form of "Operation Twist", in two tranches of ~USD1.35bn each. 3) RBI will conduct term repo operation for an aggregate amount of ~USD13.51bn at the prevailing repo rate in the middle of Sep to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity which will reduce the banks interest liability thereby increasing NIMs. These measures resulted in immediate lowering of 10-yr bond yields by 25 bps from 6.15% to 5.9%. Also, this has resulted in INR strengthening by about 1% vs expectation of INR depreciations. It seems INR appreciation is a deliberate stance being taken by RBI so as to keep bond yields down and also given robust forex reserves and USD weakening globally.

Market & Fund Performance

For the month (in USD Terms), PIOF is up 6.58% against Nifty index up +5.01%, NSE 200 index up +5.19% and Nifty mid-cap index up +10.11%. On YTD basis, the fund is down -2.69% while the major Nifty Index/NSE 200 /Nifty midcap indices are down about 8%. Despite this, the fund has still generated an **annualised USD return** of **about 6.60%** since inception significantly outperforming annualised return of Nifty at 2.10% and Nifty Mid-cap index at 2.38%. Thus PIOF's strategy on focusing on the right segments of economy and selecting stocks at right valuations with strong balance sheets and managements has paid off handsomely as can be seen from its outperformance vis-à-vis index.

Q1FY21 Earnings Snapshot

The Q1FY21 earnings were a tide better than market expectations. Sales were impacted by the COVID-19 lockdowns; however, Corporate India undertook stringent cost control measures to protect their bottom line and to cover the decline in operating profit. Overall, management commentaries indicated MoM improvement in demand during the quarter after easing of the lockdown restrictions.

Consumer: with the economy gradually unlocking since May, companies indicated recovery has been seen in consumption. However, managements also cautioned about sporadic lockdowns being re-imposed in different parts of the country. Rural grew faster than urban on account of being less affected by COVID-19, indicating the reversal of the trend seen in the last few quarters (where urban was growing faster) While companies significantly cut their ad spends in Q1FY21, managements indicated the same would not be sustainable going forward. Most of the companies that reported significant sales decline witnessed margin compression due to operational de-leverage. This was despite significant cost-cutting, especially on discretionary expenses such as ads and travel. On the other hand, companies that did register sales growth witnessed margin expansion.

Financials: 1QFY21 was a tough quarter for the NBFC sector. However, all NBFCs witnessed meaningful MoM improvement in all aspects – gradual bench openings, disbursements, collections, moratorium, etc. this improvement continued in Aug as well, but at a slower pace, given several lockdowns in Aug. Disbursements were down 50-80% across major companies. However, this did not result in a sharp correction in AUM because of: (a) lower repayments, as several customers were under moratorium, and (b) the capitalization of interest for moratorium customers. Moratorium rates across players declined between April to June. However, the quantum of decline was divergent across players. Most companies incurred large one-off COVID-19 provisions once again in Q1FY21 as well. The GNPA ratio was stable/improved marginally for most companies.

Automobiles: Large part of the quarter (festive and marriage season during Apr-May 2020) remaining under lockdown, low BS6 inventory and supply chain constraints resulted in volume decline of only 55% in two wheelers. The demand recovery surprised OEMs and dealers; however, production and supply chain constraints restricted wholesale numbers. Positive momentum was seen in demand during August 2020, and OEMs saw production normalizing with continuous improvement in the supply chain. Although some sporadic lockdowns are still observed, OEMs have largely adjusted to the new normal and are matching supply with demand and slowly moving to inventory refilling. Demand recovery has sustained on account of an increasing

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preference for personal vehicles and high disposable incomes in the rural markets. Inquiries and bookings are increasing for two wheelers and are sustaining at pre-COVID levels.

Post Lockdown & Gradual Re-open: Trends Emerging

- Demand for Consumer essential items especially for branded goods has been quite strong and online sales channels have also picked up
- Growth which had come back to 80-85% of normal levels in Mid – May to Mid-Aug has now started plateauing given continued COVID related disruptions.
- Mid & Small size businesses continue to suffer massively especially the unorganized sector
- System is flush with liquidity. As such large corporates/banks have raised significant amount of capital while mid/small – size businesses continue to face liquidity crunch and adverse business conditions.
- Migrant workers not coming back to urban cities resulting in labor shortage especially as COVID situation is not sorted
- Wealth Effect given run-up in gold prices and stock market. India holds about 20000-25000 MT of gold and with current Gold price close to USD2000/MT means this is equivalent to about 45-50% of GDP. (This is making the high net worth investor comfortable in India despite COVID)
- If easy monetary policy does not last, given rising fiscal deficit and rising inflation, India as an economy could be in deep trouble for a few years and notably would result in extended period of slow growth and possible social unrest on account of lack of employment.
- Rural economy has generally fared better than urban because most activities in rural and semi-urban areas have largely returned to pre-COVID19 levels. The rural demand remains intact aided by increasing disposable income and spending pattern. This will benefit essentials more than discretionary.

Market Outlook

Market Valuations and Earnings Estimates were revised down to an aggressive -9% de-growth from FY20 earnings. However consensus earnings for FY22 show +41% growth which expects a very strong rebound in economy which is difficult to fathom. Assuming a modest 25% earnings growth, market now trades at 21.5X PE on FY22 earnings which is 18 months away and we think market will now remain in a narrow zone between 11000 – 12000 for the next few months unless RBI continues to keep monetary policy very accommodative for an extended period of time (i.e. Greater than 1 Year). Sectors like consumer staples and discretionary and healthcare would continue to do well while cyclical sectors esp. financials could remain in a prolonged period of underperformance.

Summary of Terms

Fund Name	Progress India Opportunities Fund (PIOF)	
Fund Manager	Progress Asia Capital & Advisors Pte Ltd (Regulated in Singapore)	
Fund Domicile	Mauritius	
Management Fee	1.50% per annum (payable monthly)	0.75% per annum for > USD 5mn investment
Performance Fee	15.00% over positive Nifty Index ($) outperformance	
Bloomberg Ticker	PROINOP MP	
ISIN	MU0467S00003	
Subscription	Weekly	
Redemption	Monthly with 30 days notice	
NAV periodicity	Monthly	
Separately Managed Account (SMA)	Yes, offered with the option to customize	

Service Providers

Administrator	DTOS (Mauritius)
Custodian	ICICI Bank (Mumbai, India)
Auditor	KPMG (Mauritius)
Legal Counsel	GlobaLex Chambers (Mauritius) Katten Muchin Rosenman (US)
Compliance	BDO Advisory (Singapore)

Regulatory / Governance

PIOF Fund	under Financial Services Commission (FSC), Mauritius
	Foreign Portfolio Investor (FPI) under Securities and Exchange Board of India (SEBI)
Fund Manager	under Monetary Authority of Singapore (MAS) , Singapore

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