# Progress India Opportunities Fund (PIOF)

**Dec – 2020**

**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 Indian middle class consumer spending.** PIOF's mission is to offer global investors a compelling investment strategy and approach in terms of investing in well managed strong public companies (Large Cap > USD 1 billion market cap.) 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).**

| *Dec-31-2020* | |
|---|---|
| **NAV per Share (US$)** | **163.34*** |

## 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$) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | 2.15% | -3.53% | -26.54% | 11.54% | 1.29% | 4.65% | 6.67% | 6.58% | 0.31% | -0.73% | 6.30% | 7.02% | 10.23% |
| 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% |
| 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% |
| 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% |
| 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% |
| 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% |

| Returns % (USD) since inception Jan-2015 to Dec-2020 | Cumulative (%) | CAGR (%) |
|---|---|---|
| PIOF | 62.77 | 8.45 |
| Nifty Index | 46.09 | 5.61 |
| Nifty 200 Index | 42.93 | 6.18 |
| Nifty Midcap Index | 46.12 | 5.82 |

| Rolling 3-YR Annual Return (Dec-2020) | 9.09% |
|---|---|

| Return Statistics | % |
|---|---|
| Last Month | 7.02% |
| Year To Date | 10.23% |
| Total Return | 63.34% |
| Compound ROR | 8.45% |
| Winning Months (%) | 64.38% |
| Average Winning Month | 3.55% |
| Average Losing Month | -4.08% |

| Risk Statistics | |
|---|---|
| Sharpe Ratio | 0.45 |
| Sortino Ratio | 1.08 |
| Maximum Drawdown | -29.13% |
| Standard Deviation | 18.80% |
| Downside Deviation | 7.81% |
| Beta to NIFTY $ | 0.68 |

| PIOF Outperformance since inception against Major Indices | Returns | PIOF Outperformance against Index |
|---|---|---|
| **PIOF** | **63.34%** | |
| NIFTY Index | 38.76% | **24.58%** |
| NIFTY Midcap | 43.39% | **19.95%** |
| Nifty 200 | 40.46% | **22.88%** |

| PIOF Annual Returns | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 YTD |
|---|---|---|---|---|---|---|
| USD Terms | 5.91% | 7.58% | 31.07% | -10.15% | 10.05% | 10.23% |
| INR Terms | 11.13% | 10.46% | 23.25% | -1.89% | 12.63% | 12.83% |

**Drawdown Report**

| No. | Depth (%) | Length (Months) | Recovery (Months) | Start Date | End Date |
|---|---|---|---|---|---|
| 1 | -29.13% | 2 | 8 | 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 | **-14.99** |
| 2020 | **-2.31** |
| 2019 | **-2.25** |
| 2018 | **-8.46** |
| 2017 | **+6.91** |
| 2016 | **-1.83** |
| 2015 | **-7.05** |

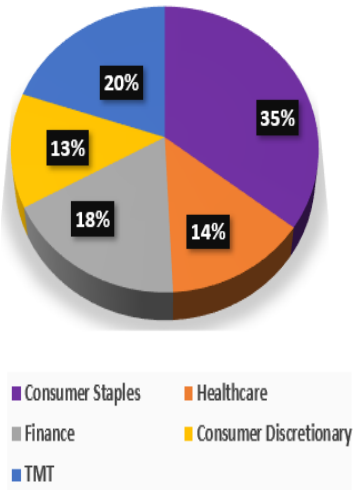
| Performance Attribution *(Dec-2020)* | % |
|---|---|
| Long-Book | 5.69 |
| Currency | 1.33 |

| Number of Long Positions *(Dec-2020)* | 15 |
|---|---|

| % of Long-Book Stocks that are also components of the NIFTY Index *(Dec-2020)* | 29% |
|---|---|

| Market Capitalisation Exposure *(Dec-2020)* | % |
|---|---|
| > US$ 12bn | 39.28 |
| US$ 6bn to 12bn | 26.12 |
| US$ 1bn to 6bn | 34.60 |
| US$ 0.5bn to 1bn | 0.00 |

**Sector Exposure *(Dec-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

For 2020, the fund is up 10.23% while the major indices Nifty Index is up 12.02% and NSE 200 index is up 12.72% and Nifty Midcap Index is up about 18.81%. The fund has generated an **annualised USD return** of **about 8.45%** since inception significantly outperforming annualised return of Nifty at 5.61% and Nifty Mid-cap index at 6.18% over the same time period.

**Key Macroeconomic Indicators :**

- **CPI inflation** moderated to 6.9% in November (from 7.6% in Oct), led by a broad-based fall in food inflation (led by vegetables). Normalization of supply chains and waning of pent-up demand started to reflect in core inflation momentum
- **IIP** grew 3.6% YoY in Oct'20, against growth of only 0.5% in Sep'20 and decline of 6.6% YoY in Oct'19. The upswing in IIP in Oct'20 was led by turnaround in manufacturing activity – it grew 3.5% during the month.
- **India's** April-Nov **Fiscal Deficit** hit 135% of full year budget targets as the revenue receipts stood at 40% of the annual target vs 50% achieved during the same period last year.
- **GST collections** in Dec'20 stood grew to a 21-month high of 11.6% YoY at ~USD15.6bn. With this, the total amount of GST collected during Apr-Dec'20 stood at ~USD106.12bn, 14.1% YoY lower. Moreover, the level of GSTR-3B return filed, at 8.7mn, the highest ever since the implementation of GST
- India's **imports** surged to the highest level in 19 months in December increasing by 7.6% YoY, a sign that a recovery in domestic demand is beginning to take shape. Sharp increases in gold and petroleum imports partly drove the rise – helping push the trade deficit to the widest point in 18 months. **Exports** decreased by 0.8% YoY in December, narrowing an 8.7% drop YoY in November
- **FIIs** buying moderated but absolute net inflow in December of ~$7.3bn (vs net inflow of ~9.6bn in Nov) was still high in historical context, taking their YTD inflows to ~$23.4bn. **DIIs** continued to be sellers to the tune of -$5bn (YTD -$4.9bn)

**RBI report on trend and progress of Banking in India in CY20**

The broad theme of the report has been the impact of COVID-19 on banking and non-banking sectors and the way forward. Following are the key highlights. The GNPA ratio of scheduled commercial banks (SCBs) declined from 9.1% in Mar'19 to 8.2% in Mar'20 and 7.5% in Sep'20. With a substantial increase in provisioning, the net NPA ratio of SCBs moderated to 2.8% by Mar'20 and declined further to 2.2% by Sep'20. Capital to Risk (weighted) Assets Ratio of SCBs strengthened from 14.3% in Mar'19 to 14.7% in Mar'20 and 15.8% in Sep'20, aided by re-capitalisation of public sector banks and capital raising by both public and private sector banks. The RBI announced several measures to mitigate the effects of COVID-19. Its regulatory ambit was reinforced by legislative amendments, giving it greater powers over co-operative banks, non-banking financial companies (NBFCs), and housing finance companies (HFCs). The consolidated balance sheet of NBFCs decelerated in 2019-20 due to near stagnant growth in loans and advances, although some improvement was visible in 1HFY21. Notwithstanding a marginal deterioration in asset quality, the NBFC sector remains resilient with strong capital buffers. Growth in balance sheet of urban co-operative banks (UCBs) moderated in 2019-20 on lower deposit accretion and muted expansion in credit; while asset quality deteriorated and increased provisioning resulted in net losses. The performance of state co-operative banks improved both in terms of profitability and asset quality

**FMCG and Retail Trends to watch out in CY21**

**Rural Uptick** – After nearly 5 years of largely weak rural sentiment, outlook is improving significantly following a succession of events like good Rabi crop harvest in Q1FY21, sharp subsequent increase in MNREGA allocation, and from Q3FY21 good kharif cash flow as well. Good monsoon, as has been the case in CY20, usually augers well for the next Rabi crop as well setting the stage for benefits for the next 3-4 quarters

**Structural Industry Changes** – In some categories the covid disruption could actually lead to structural changes whereby after the initial covid impact in H1FY21 some players could actually see faster growth in topline over the next 5 years compared to pre covid expectations

**In home consumption when compared to on trade** – There are some categories which would still benefit from in home consumption in FY22 as well especially when compared against peers who are weaker on convenience on in home consumption. Until vaccine is completely administered this trend won't change

**Cost savings beyond FY21** – What has been a pleasant surprise in H1FY21 has been the extent of cost savings by most companies. Nevertheless, what is even more crucial is how much of these savings are sustainable and the companies that are able to extract the most on this front will surprise positively in FY22 as well




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## Investment Commentary

### Market Outlook & Positioning :

In this era of abundant liquidity and low interest rates, it's quite difficult to talk valuations. Despite rising inflation, recent RBI meeting suggests it would continue to keep a very accommodative stance in terms of monetary policy for 2021. Thus, market valuations at near historic highs of 23X FY22 Earnings (and with consensus earnings estimated growth of 37%!) look completely stretched.

Given the accommodative monetary policy stance of RBI, and likelihood of continued fiscal stimulus policies being followed by Central government which has decided to abandon its fiscal prudence goals in the light of pandemic, markets have reached euphoric levels in total misalignment with economic fundamentals and following the global markets. It is pertinent to note that while the scale of GDP contraction at 7.7% for 2020 in the face of pandemic is not as much as was feared 6 months ago, however, it's unlikely that Indian GDP will move to an aggressive and sustained GDP growth path of 9%+ in the next few years. As such, markets euphoria should remain short-lived.

We expect market euphoria to end when any of these factors play out:

1. Weaker than expected quarterly earnings
2. Sharp rise in inflation on back of sustained increase in commodity /food prices
3. Once true extent of Banking sector NPAs is known when RBI moratorium on loan repayment and suspension of classification of new NPAs for Banking sector ends
4. Unveiling of major corporate scams/frauds; and
5. Global pullback in risk led by strength in USD

**We would remain prudent hereon for the next few months in Indian markets given the stretched valuations and would use pullback to re-establish/increase weightings in our portfolio of consumer oriented businesses.**

### 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)<br>Katten Mnuchin 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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