

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

India Fund Limited (INF)

July 2016

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1. OFFER OVERVIEW

PRODUCT SUMMARY

The India Fund Limited (INF or the fund) is a listed investment company (LIC) seeking to list on the ASX in August 2016. The company is seeking to raise a minimum of \$16m and a maximum of \$50m through the issue of shares at \$1.00 per share. Investors will also receive a free attaching option for every share (\$1.00 strike price with expiry 31 May 2018). The proceeds will be invested in a diversified portfolio of Indian listed large to mid cap equities to generate both long-term capital growth and some income. The portfolio will be managed by Kotak Mahindra (UK) Limited (KMUK), an experienced, well-resourced and proven India specialist fund manager with a high conviction, index unaware investment approach. The equity portfolio will typically consist of around 50 predominantly large cap securities, with the manager maintaining the flexibility to opportunistically take exposure in mid and small cap stocks. The strategy will be based on the ALPS Kotak India Growth Fund which has a 5-year track-record, commencing in February 2011. The ALPS Kotak India Growth Fund however has its basis in two longer running funds, the Kotak India Growth Fund (large caps mandate) and the Kotak India Mid-Caps Fund, both of which have a 10-year track-record. The investment portfolio will be unhedged and no gearing will be employed.

2. INVESTMENT VIEW

INVESTOR SUITABILITY

INF is both a play on the longer term growth prospects of the Indian economy and the fund manager's investment skill. Notwithstanding emerging market volatility over the last 12-months, or so, a solid case can be made for investing in India currently: GDP growth is forecast at 7% this year, corporate profit growth is solid, there's an expectation of relative currency stability and the Modi government continues to implement important structural reforms. With respect to the fund manager, KMUK is well resourced, has a disciplined investment process and a proven track-record with the manager generating solid outperformance in both the equities and fixed interest strategies. For Australian investors that have a significant home country bias in their equities portfolios, the fund may provide an effective source of diversification with the Indian economy providing a potential hedge to a subdued domestic economic outlook and commodity prices (India is a large net importer). For what is a country pure play, investors should have a positive view on the Indian economy and be comfortable with the high degree of volatility that can characterise emerging markets equities market, a volatility that has been very apparent over the last 12-month period.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned INF a **Recommended** rating. The high manager conviction, single country exposure represents a relatively unique product offering for Australian retail investors seeking exposure to India. We believe India is thematically appealing at the moment and the fund has the potential to provide diversification and various hedges to domestic investors. The fund manager is supported by one of the largest equities teams in India, benefiting from the scale of the parent group. We are impressed by the fund manager across all important facets – team resources, experience, track-record, culture, and risk management.

Note: This report is based on information provided by Tristar Capital Pty Ltd as at July 2016.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

4. SWOT

STRENGTHS

- ◆ The portfolio will be managed by a proven, well-resourced fund manager with strong investment and risk processes.
- ◆ There is a strong alignment of interest with the investment team by way of a well-structured remuneration system.
- ◆ The ALPS Kotak India Growth Fund has materially outperformed the Indian equities markets, with the equities strategy generally recording alpha of 3% p.a.
- ◆ A strong thematic case can be made for investing in Indian equities based on the economic and corporate growth prospects, portfolio diversification and a hedge to subdued and volatile commodities prices.
- ◆ Based on the manager's Black-Scholes assessment, the intrinsic value of the Options at issue date is around \$0.10/shr, more than offsetting the lower NTA due to listing costs.

WEAKNESSES

- ◆ INF does not have a track-record. This introduces additionally uncertainty as to whether investors will have a tendency to price INF at a premium or discount to NTA as well as how this may vary over time.
- ◆ Investors that participate in the issue will pay \$1.00 per share, however due to listing costs the initial NTA will be \$0.9675.

OPPORTUNITIES

- ◆ INF provides investors the opportunity to invest in a portfolio of Indian securities managed by a proven, India specialist fund manager.
- ◆ INF may trade at a premium to NTA allowing shareholders to sell the company at a higher value than what the portfolio is worth at that time.
- ◆ The options may assist with the keeping the discount to NTA that the company trades at in a narrow range.

THREATS

- ◆ The fund is unhedged, with investors having exposure to the Indian Rupee.
- ◆ A degree of key man risk exists with the equities strategy PM, Mr Nitin Jain notwithstanding the various measures and resources in place within the parent company.
- ◆ The Portfolio Management agreement with Kotak is for a 10 year term. However, as is generally the case, KMUK can terminate with 6 months' notice. As a general point, should this happen IIR's investment rating would be subject to review pending the appointment of a new portfolio manager.
- ◆ The company may trade at a discount to NTA, prohibiting investors from redeeming their investment at the portfolio value.
- ◆ While recognising the intrinsic value of the Options, the options may nevertheless cap the upside to the company's share price while the options exist.

5. STRUCTURE

PRODUCT OVERVIEW

The India Fund Limited is a newly created listed investment company seeking to list on the ASX on 31 August 2016. The fund administrator is Tristar Capital Pty Limited (the 'fund administrator'). INF is seeking to raise between \$16m-\$50m through an issue of shares at \$1.00. Each share will have an attaching free option with an exercise price of \$1.00 with a maturity date of 31 May 2018, respectively.

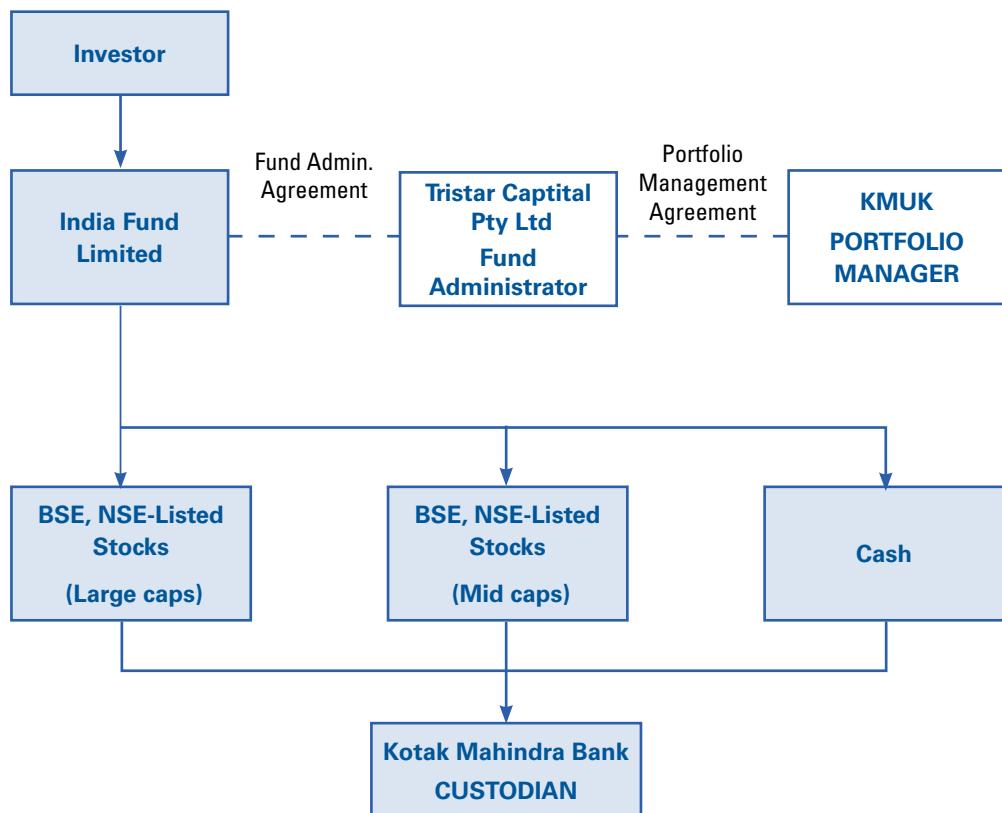
The manager has appointed Kotak Management (UK) Limited (KMUK or the 'fund manager'). More details regarding the fund manager can be found in the Management section below. The Portfolio Management agreement with Kotak is expected to be a 10 year term, with the manager having received approval in principle from the ASX to waive the standard 5 year restriction. If this is not granted, then the agreement will be for a 5-year term, with the option for KMUK to extend for a further 5 years. Upon expiration of the initial term, the management agreement will continue for rolling 5 year periods until terminated by either party. Tristar cannot terminate for convenience in the first service period (10 yrs). KMUK can terminate with 6 months' notice. Termination for cause by either party is 3 months.

The portfolio will invest in Indian listed equities. The equities portfolio will be a long-only actively managed portfolio comprising large and mid-cap equities listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The fund is largely unconstrained.

The fund will seek to pay a semi-annual dividend but investors should view the fund as more a capital versus income play, as is almost invariably the case with an emerging markets mandate.

The total management fee for both the Fund Administrator and the Fund Manager is 1.25% p.a. Both the Manager and the Fund Manager are also entitled to a performance fee of 15% of the increase in NAV over the CNX 500 Index. Past underperformance is recovered before any fee is payable Management fees.

INVESTMENT STRUCTURE



6. MANAGEMENT & CORPORATE GOVERNANCE

PORTFOLIO MANAGER

KMUK is a 100% owned subsidiary of the Kotak Mahindra Group (the Kotak Group) which is a leading financial services conglomerate in India, covering commercial banking, investment banking, securities brokerage, mutual funds, and various other investment products. The group is financially strong. Investors should refer to the Prospectus for a detailed explanation of the activities and financial strength of the Kotak Group.

KMUK serves as the international asset management arm of the Kotak Group. It was established in 1994. It is one of the first firms of Indian origin to be authorized and regulated by the Financial Conduct Authority in the United Kingdom. KMUK is registered with the Securities Exchange Board of India as a Foreign Portfolio Investor (FPI). KMUK had its registered office in London, with branch offices in Dubai and Singapore.

KMUK has over 10 years' experience in actively managing funds and offers asset management services to overseas investors through a range of funds as well as through specific advisory and discretionary investment management mandates from institutional investors.

BOARD OF DIRECTORS

The fund will have four directors, three of which are non-executive directors. The four directors have significant experience across business and investment.

Board of Directors		
Name	Position	Experience
John Pereira	Executive Chairman	Extensive career encompassing funds management, banking and law. Previously CEO of India Equities Fund Limited, MD Tristar Corporate Advisors and former funds management roles at ANZ.
David Carruthers	Non-Exec Director	Previously CFO for the global operations with BP Finance and MD of Treasury Corp of Victoria. Previously director and audit committee member for three ASX-listed companies.
Clifford Clayton	Non-Exec Director	During a 25 year career with Perpetual Trustees, Mr Clayton acquired substantial experience of operational and compliance aspects of funds management. currently a Director of Secure Funding Pty Ltd and a former director of the Coles Employee Share Plan, Director AXA GESP Ltd, Perpetual Trustees Victoria Ltd and MacarthurCook Investment Managers Ltd.
Sam Kavourakis	Non-Exec Director	During a 30 year career with the National Mutual Group Mr Kavourakis became the head of all investment operations of the Group worldwide managing an investment team of 400 staff and assets in excess of \$40bn. Subsequently acted as a non-executive director in several ASX-listed companies.

INVESTMENT TEAM

The equities strategies are supported by, if not the largest, one of the largest India specialist investment teams in the Indian and international market. The Kotak Group has pooled its resources across three verticals – domestic mutual funds, insurance, and offshore funds – to establish, on the equities side, a central research team of seven sector analysts that cover 21 sectors and 327 stocks. By market capitalisation, internal stock coverage constitutes 85% of the Indian equities market.

Additionally, the portfolio managers also have access to external third-party sell-side equity research teams in a number of India based brokerage. A number of these brokers are particularly strong on the mid-cap side. Investment analysis is therefore generated by a mix of internal and external resources, with the bulk of the ideas coming from internal sources.

The two strategies are headed up by capable and experienced portfolio managers. Mr Nitin Jain is the lead portfolio manager for the group's offshore long-only large market capitalisation strategies. While Mr Jain is responsible for a number of strategies, his attention and focus is not diluted by the multitude of strategies as all are based on a large cap strategy that uses a common investment process and all exhibit very similar portfolios.

Mr Jain has been responsible for guiding the investment strategy of the long-only offshore funds for more than nine years and has been involved in the Indian equities markets for approximately 20-years now. He and his team currently manage five strategies across various

market capitalizations and themes including Large-cap, Mid-cap, Multi-cap, Concentrated strategies and Thematic Funds. Before joining KMUK, Nitin worked with SBI Mutual Fund as an investment manager, leading the fund management team of the first commodities-based equity mutual fund in India. Prior to that, he was worked in brokerage houses as equity analyst and equity sales trader. Historic performance has been strong, with the fund delivering material outperformance over most time periods.

Mr Jain is assisted by Ankit Sancheti who is lead portfolio manager for the long-only offshore mid-cap strategies. Mr Sancheti has over 15 years' experience in fund management and equities research. He currently manages offshore portfolio across various strategies – midcap, consumption, Shariah and concentrated strategies. He also assists Nitin in managing growth and multi-cap portfolios. He has been with KMUK for the last 5 years and has previously worked with a number of investment banks. He was specifically employed by the Kotak Group to beef up their mid-cap capabilities. We note that the Kotak Group is one of the few organisations offering investors an Indian mid-cap strategy. While a relatively short track-record, performance has been excellent, materially out-performing the mid-caps benchmark.

There is a high degree of interaction between the portfolio managers at KMUK and the central research team as well as the fund managers responsible for running similar strategies in the Kotak Group's two other verticals.

The portfolio managers participate in a daily conference call with the central research team and the participating portfolio managers from the two other verticals. The call focuses on any relevant stock and economic developments. Additionally, the analysts are available on a 1-to-1 basis for all the PMs. The interaction at this level is partly encouraged by the analysts' compensation structure in which a large component is based on how the PMs rate the interaction of particular analysts.

While we believe there is key man risk with, in particular, Mr Jain we also believe the Kotak Group has a structure in place that greatly mitigates the actual risk. The group has a pool of PMs in its two other verticals running similar strategies and based on the common investment process the group employs. We also note that in the central research has fostered succession planning.

The team at both the offshore strategy and central research sides have been highly stable, reflecting well upon team dynamics, culture and a well-structured compensation structure.

The senior members of the team are also offered Employee Stock Option Plans of the parent entity (Kotak Mahindra Bank Ltd) as a means of retention.

Another part of the compensation structure incentivises performance and stock idea ownership / accountability. Each sector analyst maintains a sector model portfolio. At the end of the year performance of the sector model portfolio is compared to that of the sector itself.

Investment Team			
Name	Position	Exp.	Date Join
Mr Nitin Jain	Head of Offshore Long-only	21	2005
Mr Ankit Sancheti	PM Mid-cap and Thematic Strat	16	2011
Mr Alroy Lobo	Chief Strategist, Global Head Equities		
Ms Shibani Kurian	Banking & Fin Svrces	16	Nov 07
Mr Manish Lodha	Infra, Real Estate, Cement, Hotels	15	Jul 05
Mr Devender Singal	FMCG, Media, Auto, Auto Anc	15	Feb 09
Mr Kuldeep Khanapukar	Con Disc, Retail, Agri, Midcaps	12	Dec 07
Mr Koushik Pal	IT & Pharma	12	Feb 09
Mr Mandar Pawar	Oil & Gas, Metals, Pipes & Shipping	11	Feb 08
Mr Dhananjay Tikariha	Telco, Power Utilities, Cap Goods	9	Mar 08

7. INVESTMENT PROCESS

INVESTMENT OBJECTIVE

The equity component is largely unconstrained, with no strict published sector or stock limits and no targeted tracking error. That is, the strategy is high manager conviction, index unaware. In practice, however, the manager limits sector overweight positions. For example, if a particular sector constitutes 20% or more of the index, the manager is not permitted to be any more than +6% over the sector weight. This permitted overweight limit is on a sliding decreasing scale – the lower a sector's index weight the lower the permitted overweight position.

The manager targets generating a minimum alpha post fees of +3% p.a. over the longer term, and has largely been successful in doing so. The strategy has a strong growth bias. It is likely this will generate over- and under-performance in certain market environments. During a 'risk-off' environment, for example, the fund may underperform as the market favours defensive and value stocks over growth stocks.

INVESTMENT PROCESS

KMUK, and the Kotak Group more generally, adopts a bottom-up approach with a top-down thematic overlay whereby the team identifies themes that will likely outperform or under-perform the market over a rolling 12-month period. The bottom-up approach adopts a Business, Management, Valuation (BMV) approach to stock picking.

Essentially the manager seeks to invest in larger companies with a sustainable competitive advantage and, given capital can be scarce in India, generating solid returns on capital employed. There is a focus on quality management and corporate governance. Given these factors the manager typically invests in companies trading at a premium to the market as a whole although the manager does adopt a 'growth at a reasonable price' (GARP) approach to valuations.

The manager's investment process is long-established in the Kotak Group and, by way of historic track-record, proven. It is common across the Kotak Group, serving to improve succession planning and mitigate key man risk.

Within the equities mandate, the fund will be predominantly large cap (75%/25%) with generally 40-50 large cap names and a lesser number of mid-cap names.

We are satisfied with the manager's risk management processes, both with respect to portfolio risk, liquidity risk, pre- and post-trade checks and the use of an independent investment committee.

8. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

INF is a new company that has no performance history to date. However, KMUK has been running the ALPS Kotak India Growth Fund for some five years now and offshore investment mandates for some ten years on the large and mid cap India equities strategies. In relation to the ALPS Kotak India Growth Fund, we note the following:

- ◆ The manager has generally achieved its performance target, recording alpha in the range of +1% to +5% p.a over the 1-, 3-, and 5-year period;
- ◆ Volatility is higher than the Australian equities market, as one would expect;
- ◆ The manager has generated solid risk-adjusted returns, with strong Sharpe ratios;
- ◆ The degree of alpha has varied over time, which may reflect the fact that the manager's growth bias will go through periods of out- and under-performance based on the equities market environment.

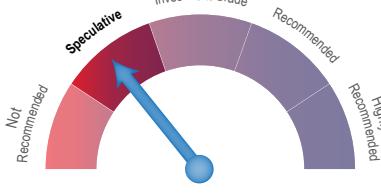
The historic performance of the ALPS Kotak India Growth Fund is detailed below.

ALPS Kotak India Growth Fund			
Period	Fund	Nifty	Alpha
6 mth	4.25	1.83	2.42
1 yr	-0.99	-4.57	3.58
3 yr	16.97	10.97	6.00
5 yr	6.06	0.41	5.65

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

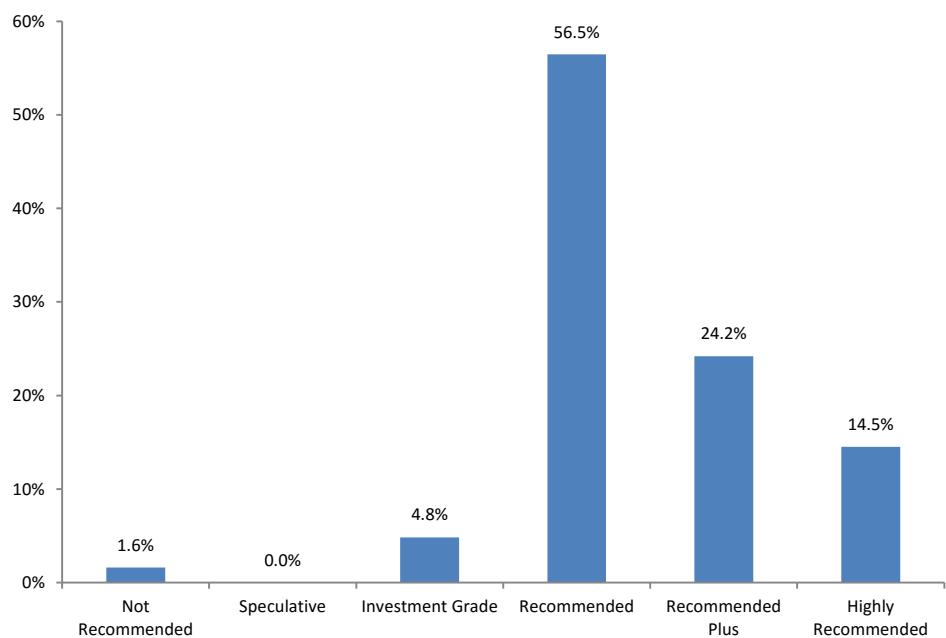
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

GRAPHS	SCORE
Highly Recommended	83 and above
	<p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
Recommended	75-82
	<p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
Investment Grade	60-74
	<p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
Speculative	40-59
	<p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>
Not recommended	39 and below
	<p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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