HIGH CONVICTION FUND – SERIES I

IIFL ASSET MANAGEMENT

EXECUTIVE SUMMARY

" Be fearful when others are greedy and greedy when others are fearful"

High Conviction Fund intends to create a concentrated portfolio of 15-20 companies*, which are:

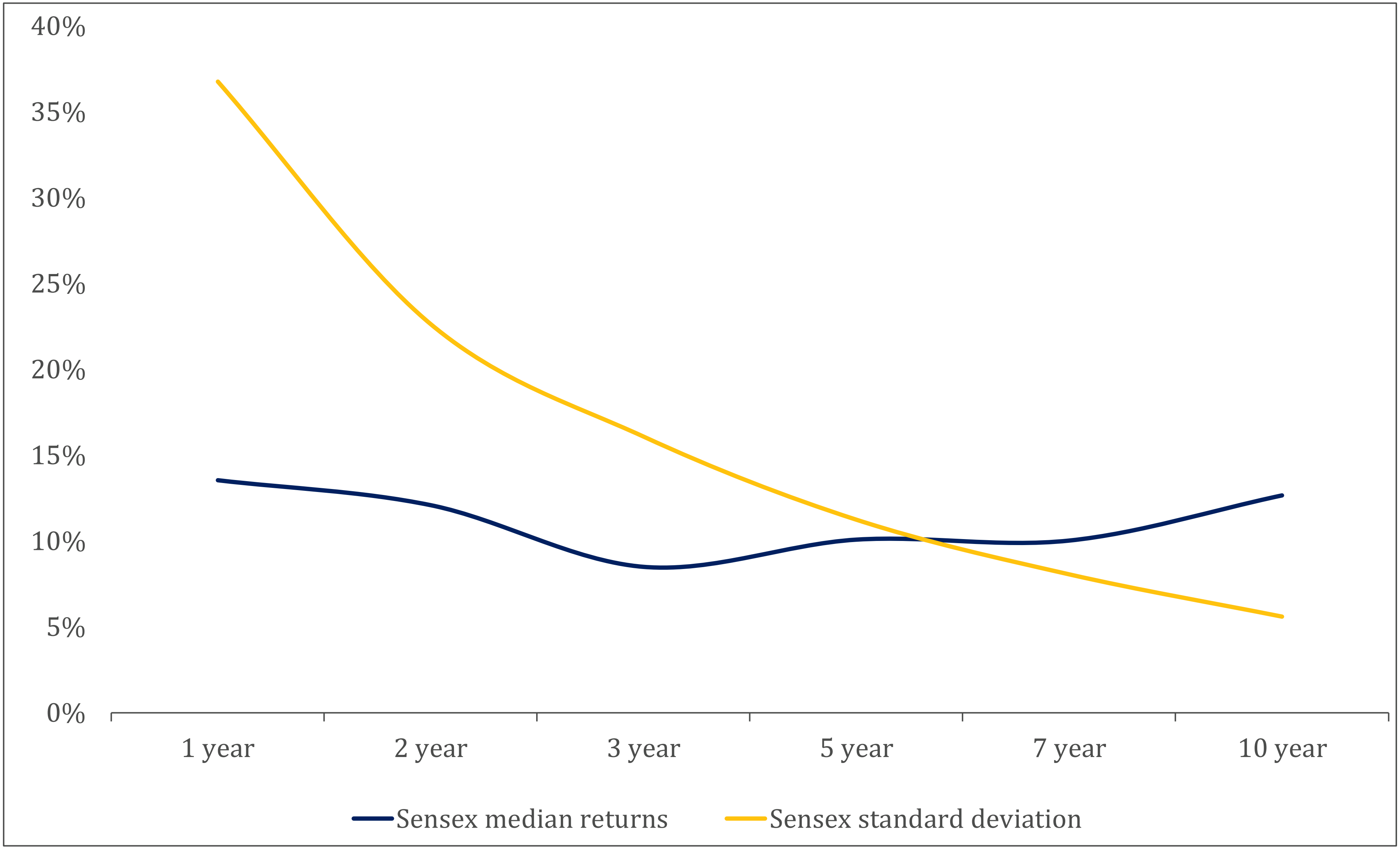
- Key beneficiaries of the secular growth drivers
- Poised for a strong uptick in earnings and cash flows
- Offer an attractive risk-reward

*The range is indicative and may slightly vary subject to market conditions

IIFL ASSET MANAGEMENT

MARKET UPDATE – WHY EQUITIES NOW ?

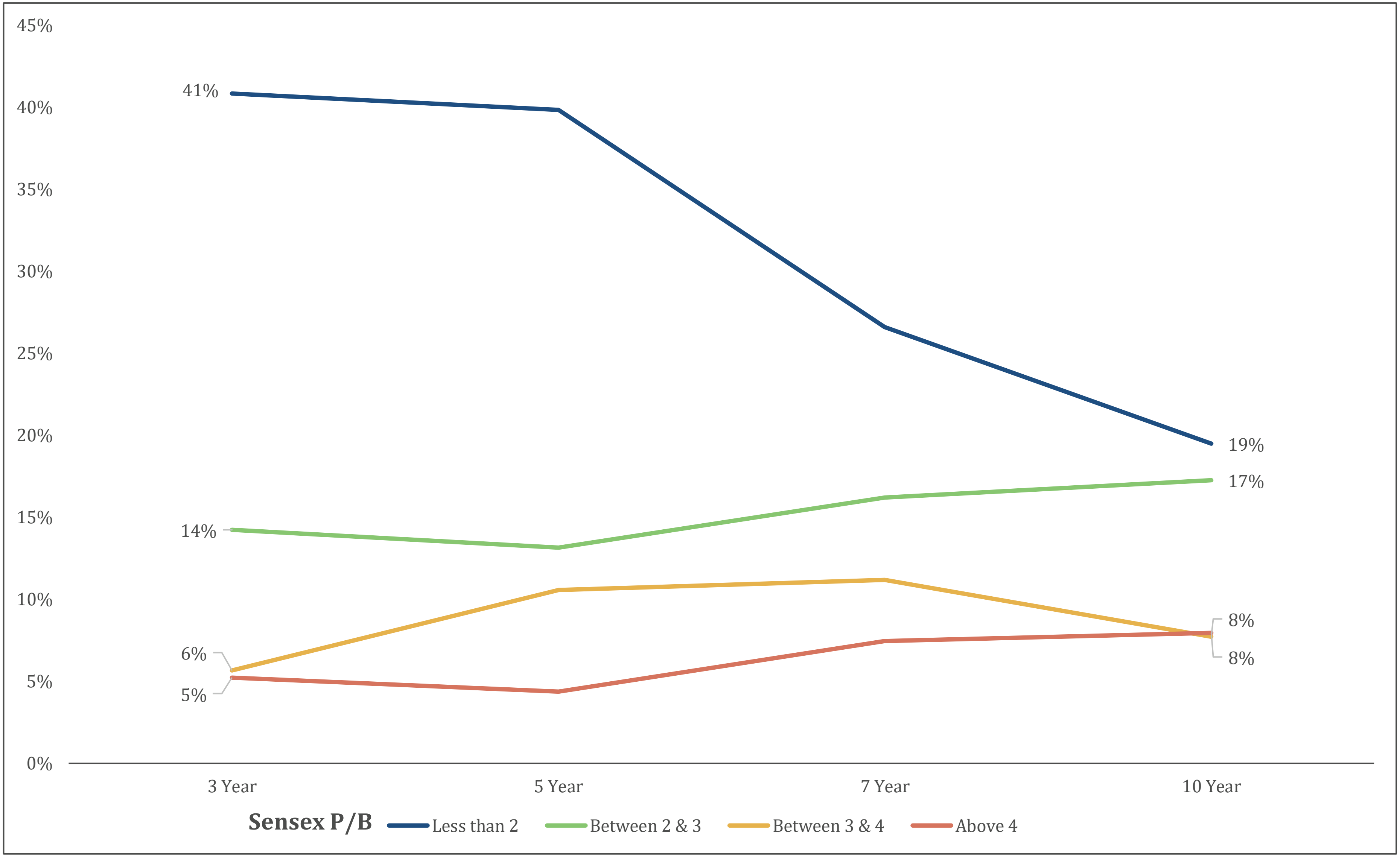
RELATION BETWEEN TIME, VOLATILITY AND RETURNS



Source: Bloomberg. Note: The above chart shows the rolling 1yr, 2yr, 3yr, 5yr, 7yr and 10yr returns for Sensex and the volatility in these returns. Volatility has been calculated as the Standard deviation of these returns (Dispersion from the mean returns). Data since 02 Jan 1990 till 30th August 2019 has been used for this exhibit.

IIFL ASSET MANAGEMENT

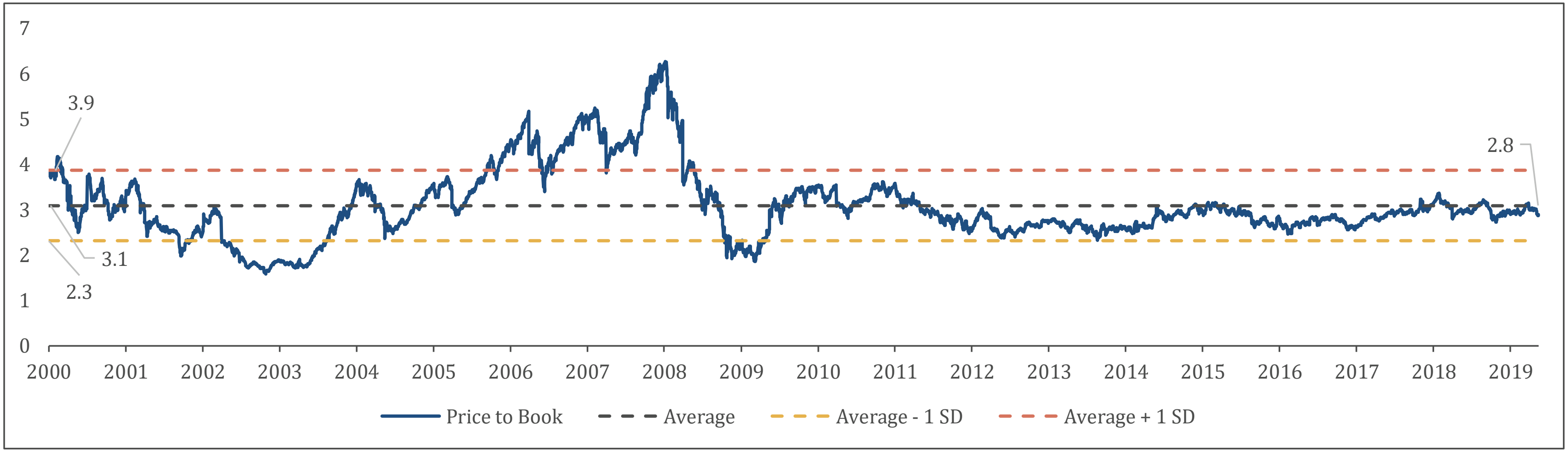
MEDIAN RETURNS – LINKED TO VALUATION



Source: Bloomberg. Note: The above chart shows the rolling 1yr, 2yr, 3yr, 5yr, 7yr and 10yr returns for Sensex. Data since 02 Jan 2000 till 30th Aug 2019 has been used for this exhibit

CURRENT VALUATIONS – IN LINE WITH LONG TERM AVERAGES

Sensex - Price to book ratio

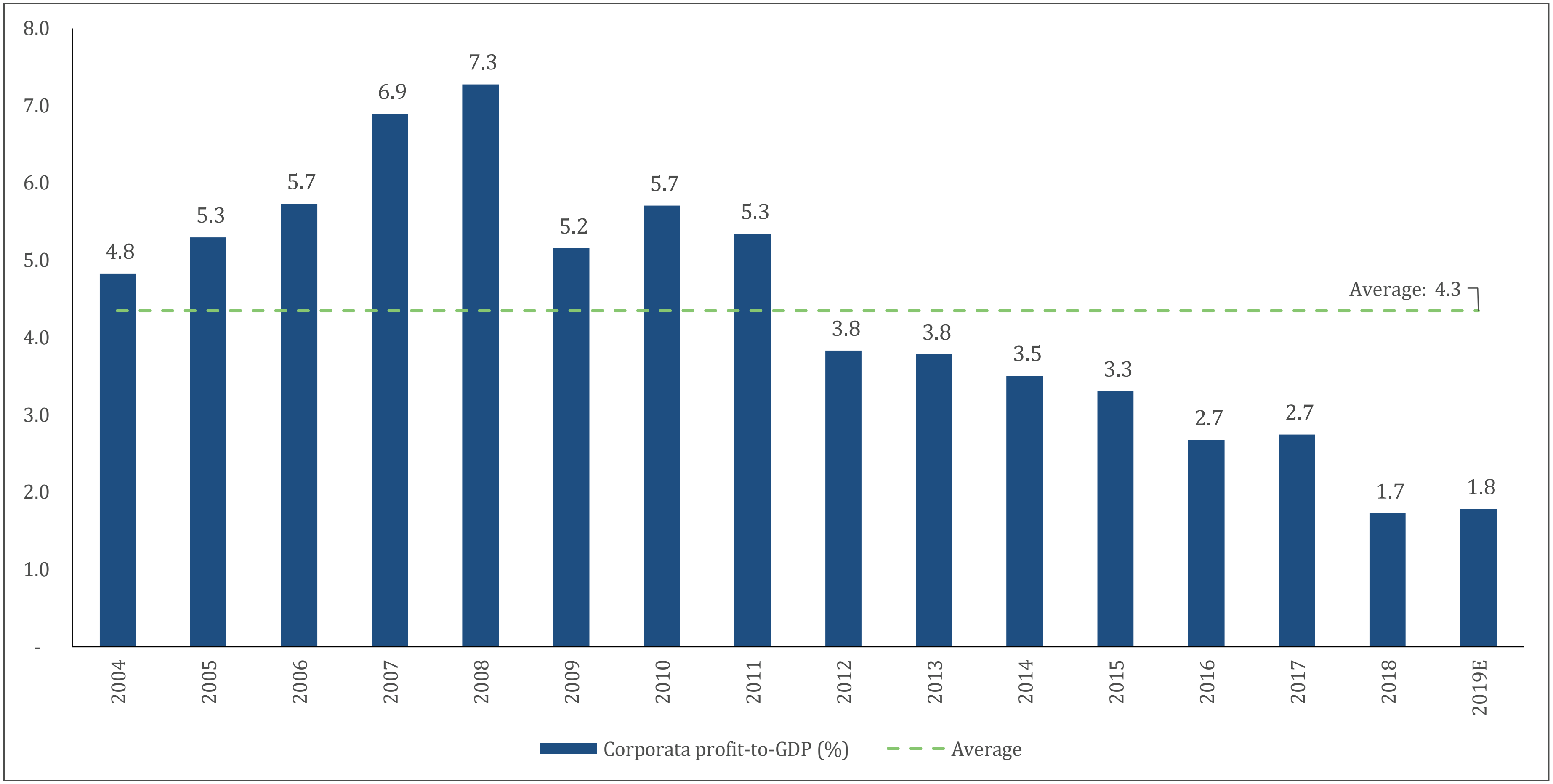


P/B range	5 year returns*	Time spent (%)
Less than 2	40%	6%
Between 2&3	13%	51% ← *Currently, Sensex P/B in this range*
Between 3&4	11%	31%
Above 4	4%	12%

Source: Bloomberg. Note: The above chart shows the rolling 1yr, 2yr, 3yr, 5yr, 7yr and 10yr returns for Sensex and the volatility in these returns. Volatility has been calculated as the Standard deviation of these returns (Dispersion from the mean returns). Data since 02 Jan 2000 till 31st July 2019 has been used for this exhibit . Breakeven period is not guaranteed. The breakeven period may differ significantly for different periods of analysis

** 5-year returns calculated as median CAGR. Data from 02 Jan 2000 till 31st August 2019*

CORPORATE PROFITS VS GDP



- Corporate profits to GDP at multi year lows, likely to revert to long term averages in the future
- Indicate higher earnings growth to "catch up" across segments

Source: Bloomberg, CLSA, ACE Equity database. Data for fiscal year ending 31st March of each year

EARNINGS GROWTH EXPECTED TO PICK UP

Sector/Benchmark	Earnings growth (%)		
	2019	2020E	2021E
NIFTY 50	12.0	15.4	18.6
Automobiles & Components	(26.6)	11.0	17.6
Banks	31.8	116.6	37.7
Capital Goods	18.8	17.1	6.1
Commodity Chemicals	2.7	25.8	17.2
Construction Materials	17.1	50.3	21.0
Consumer Staples	15.4	11.4	12.6
Diversified Financials	5.1	18.3	10.8
Electric Utilities	13.2	6.2	11.8
Fertilizers & Agricultural Chemicals	(12.9)	16.8	38.0
Gas Utilities	36.8	0.8	6.1
IT Services	15.7	2.9	10.7
Media	9.9	10.7	9.5
Metals & Mining	6.8	(26.3)	31.0
Oil, Gas & Consumable Fuels	20.8	(1.7)	7.5
Pharmaceuticals	16.9	18.7	26.8
Retailing	31.8	18.0	28.1
Transportation	6.0	9.6	11.4

Source: Kotak Institutional Equities, Data as on 27th Aug 2019

IIFL ASSET MANAGEMENT

INVESTMENT PHILOSOPHY & TRACK RECORD

INVESTMENT PHILOSOPHY

Industry or Sector Potential	• Growing companies scalable over time • Pricing power and benign competitive landscape • Avoid sectors vulnerable to regulation, high competitive intensity, technological changes and short growth cycles
Business	• Companies with competitive advantages, delivering higher ROEs than peers • Avoid companies with poor free cash flows and declining market share
Governance	• Managements with clear strategies on generating shareholder value over long term • Prudent capital allocation, in line with minority shareholder interest • Avoid companies with frequent equity dilutions, excess leverage and unrelated investments
Valuations	• Offering a favourable risk-reward ratio • Valuations not the sole investment criteria • Avoid value traps and short-term fads

INVESTMENT FRAMEWORK – 4 SEGMENTS

PAT Growth (15%) / Return on Equity (15%)

Cyclical (C)
BSE 200 weight: 12%

Capital Goods
Cement
Private Corporate Banks
Infrastructure
Logistics
Metals
Oil & Gas Downstream

Secular (S)
BSE 200 weight: 39%

Auto & Auto Ancillaries
Consumer Discretionary
Private Retail Banks
Non-Banking Finance Co.
Insurance
Retail

Value Traps (V)
BSE 200 weight: 20%

PSU Banks
Oil & Gas – Upstream
Telecom
Utilities

Defensives (D)
BSE 200 weight: 29%

Consumer Staples
Healthcare
IT Services
Media

Core Portfolio

Tactical Allocation

Avoid Allocation

BSE 200 weights as on 30th Aug 2019

INVESTMENT PROCESS

IN-DEPTH COMPANY ANALYSIS & FOCUS LIST

Internal Analysis

- Weekly all-day sessions
- Financial analysis/screening
- Checklists
- Meeting notes
- Risk-reward framework
- Corporate governance checks
- Stock pitch

+

External Analysis

- Conferences & analyst meets
- Investor presentations
- Management interaction
- Primary visits across supply chain
- Interactions with industry experts & peers

After considering all the parameters listed above, the research team ranks all stocks using 5 recommendations

1 Strong buy

2 Buy

3 Hold

4 Sell

5 Strong sell

Model portfolio

Source: IIFL Asset Management Limited. Above information on stock process is for all equity related schemes of IIFL AMC

Anup Maheshwari – Joint CEO and CIO

- Anup is an alumnus of IIM Lucknow with over 25 years of investment experience
- Associated with DSP BlackRock since July 1997 and was last designated as the Chief Investment Officer (Equities)
- Prior to joining Blackrock, worked for Chescor, a British Fund Management firm, running three offshore Indian equity funds
- DSP Blackrock won the Lipper Fund Award (Best Equity Fund House) from 2003 to 2008 under his leadership

Mehul Jani, Fund Manager

- Mehul has over 15 years of experience in covering and managing financial services and consumer stocks
- Prior to working with IIFL, he has worked with DSP Blackrock for 10 years
- Prior to DSP Blackrock, he worked with Morgan Stanley Plc, London, for 4 years, as an associate, dealing with structured product valuation and fund derivatives
- Mehul is an alumnus of Cass Business School, London and holds Masters in Banking and International Finance. He also holds a CFA charter

INVESTMENT OPPORTUNITIES

CONSUMER LENDING OPPORTUNITY

India's GDP – ₹ 196 tn

Overall system credit – ₹ 119 tn

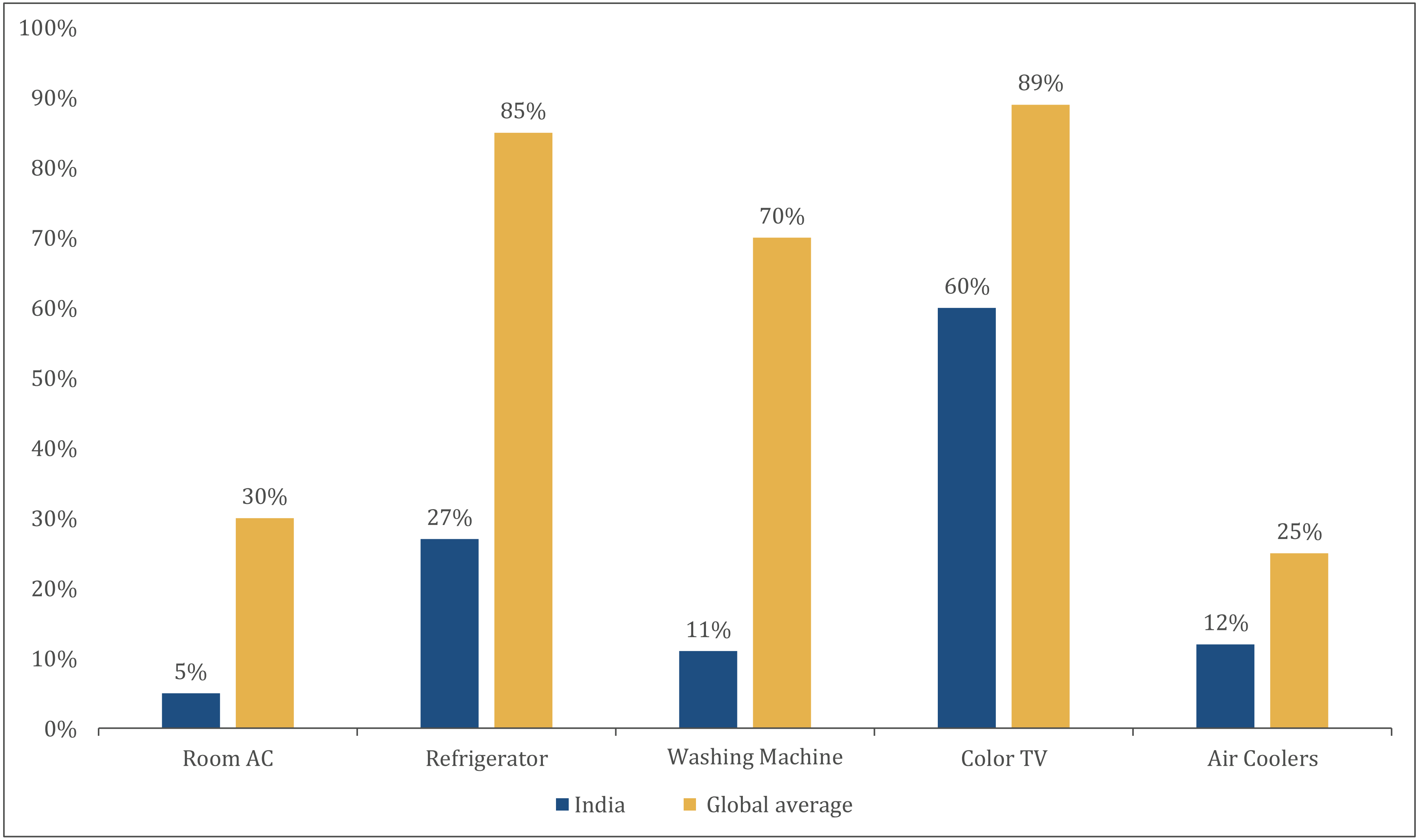
Corporate	Retail
73%	27%
(₹ 87 tn)	(₹ 32 tn)

	Number of households	Per capita income	Retail credit exposure
Total	267 mn (1.3 bn population)	$ 2,050	₹ 32 tn
India 1	(8%) 24 mn	Up to $ 8,000	(70%) ₹ 22 tn
India 2	(15%) 40 mn	Up to $ 3,500	(20%) ₹ 7 tn
India 3	(77%) 203 mn	Up to $ 1,200	(10%) ₹ 3 tn

Source: Company data, CIBIL, IMF, BCG estimates, Rs/$ = 70

CONSUMPTION OPPORTUNITY

Low penetration level

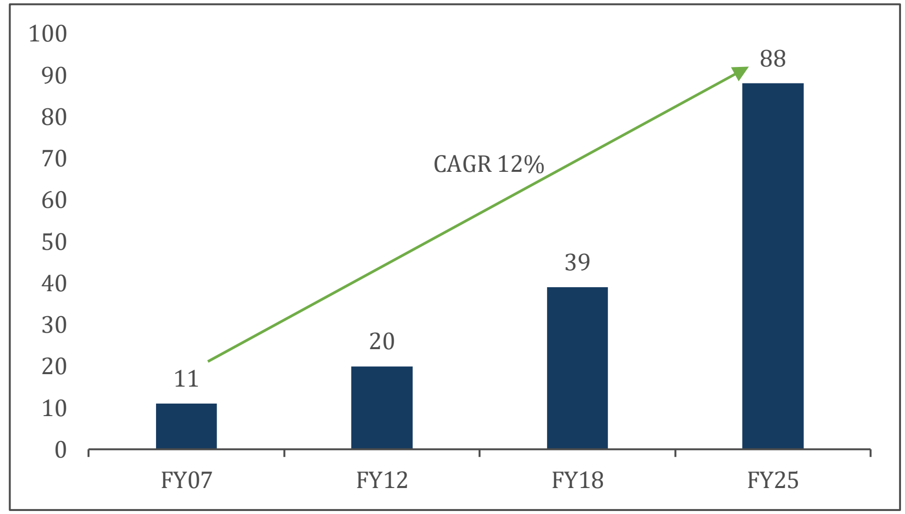


Source: Frost and Sullivan. Data as on 31st July 2019

SPECIALITY CHEMICALS OPPORTUNITY

- Size of Indian chemical industry ~USD 163 bn
- India contributes mere 3.5% to global chemical industry
- 1.2% of GDP
- >80,000 products
- Est. CAGR 12% for next five years
- Employs >2mn people

Potential speciality chemicals market size ($ bn)



Secular growth outlook for Indian Specialty chemicals industry

- Increasing application & change in consumption behavior
- Emerging opportunities in exports led by clamp down in China and outsourcing opportunity from the west
- Strong R&D and solution driven focus for the customer brings in long term growth visibility
- MNCs are de-risking their sourcing arrangements and adding an Indian source

Source: IIFL Asset Management Limited. Data as on 31st July 2019

KEY TERMS

<table>
<tr><th>Features</th><th colspan="4">Description</th></tr>
<tr><td>Type</td><td colspan="4">Close ended category III Alternative Investment Fund</td></tr>
<tr><td>Tenor</td><td colspan="4">Up to 10 years from final closing date [further 2 year (2 extension of 1 year each) extension subject to unitholder approval]</td></tr>
<tr><td rowspan="5">Fee terms</td><th>Share class</th><th>A1</th><th>A2</th><th>A3</th></tr>
<tr><td>Minimum commitment</td><td>₹ 1 Cr to < ₹ 5 Cr</td><td>₹ 5 Cr to < ₹ 15 Cr</td><td>₹ 15 Cr & above</td></tr>
<tr><td>Management expense (p.a) on daily net assets</td><td>2.50%</td><td>2.10%</td><td>1.75%</td></tr>
<tr><td>Hurdle rate (pre-tax post-expense CAGR)</td><td colspan="3">NIL</td></tr>
<tr><td>Performance fee (without catch-up)</td><td colspan="3">NIL</td></tr>
<tr><td>Administration expense</td><td colspan="4">Up to 0.15% per annum on daily net assets</td></tr>
<tr><td>Setup/placement fee</td><td colspan="4">Up to 2% of the aggregate commitment capital</td></tr>
<tr><td>Benchmark</td><td colspan="4">S&P BSE 200 TRI</td></tr>
<tr><td>Initial drawdown</td><td colspan="4">25% of the commitment amount</td></tr>
<tr><td>Exit load</td><td colspan="4"><table>
<tr><th>Tenure of Investment (after lock-in period) *</th><th>Applicable Exit Load</th></tr>
<tr><td>0 to 12 months</td><td>3%</td></tr>
<tr><td>12 to 24 months</td><td>2%</td></tr>
<tr><td>24 months & above</td><td>NIL</td></tr>
</table></td></tr>
</table>

* The exit load will be calculated after completion of 12 months (lock-in period) from final drawdown date. Exit load shall be applied on the exit value.

ANNEXURE

AAVAS FINANCIERS (SECULAR)

COMPANY DESCRIPTION

Aavas Financiers operates in underpenetrated rural/semi urban affordable housing finance with presence in geographies with sub 5% mortgage to GDP. It has ~0.25% market share

INVESTMENT RATIONALE

- **Long runway of growth:** India's low-cost housing market is likely to witness a robust growth of 30% CAGR over next 10 years. Aavas' low market share in housing finance (~0.25%) coupled with presence in geographies' with sub 5% mortgage to GDP penetration and niche focus – 64% of AUM to non-salaried individuals and 36% to new-to-credit customers give it a long runway to grow.
- **Organizational capabilities in place for a decade of growth:** Aavas has built a unique model for underwriting and risk management. It has stringent credit assessment and risk management systems and has invested in technology ahead of time.
- **Differentiated processes and technology:** Aavas has built a unique business model of fully in-house sourcing, underwriting, and collection. It has a sales team of 1100, credit team of 400, collection team of 100, technical team of 40, and legal team of 23 lawyers. This bandwidth can support 5x of its current scale without any incremental hiring. It has best in class technology and analytical platforms supported by data scientist team of 40 people
- **Deep understanding of local markets:** Apart from the in-house teams, Aavas' long standing presence in its core markets enables superior risk management. In rural markets, most of the branches are located closer to the end customers and employees are hired locally. This gives them an edge over its larger competitors who operate from urban branches
- **Well-capitalized and strong track record on asset quality:** Strong track record on asset quality supported by tight control and internalization of processes. Moreover with a tier I ratio of 65% as on March 19, it doesn't need to raise capital for several years. Operating leverage benefits expected to kick in with growth of +40% will support ROA of ~2.8% and ROEs to improve as leverage increases

Data as on 31st July 2019. Source: IIFL Asset Management Ltd, Bloomberg

PI INDUSTRIES (SECULAR)

COMPANY DESCRIPTION

PI Industries is a chemical manufacturer that has built a niche in process engineering of agrochemicals. About 65% of PI Industries' revenue comes from the custom synthesis and manufacturing business (CSM), i.e., designing the most efficient process for manufacturing a product that has been developed by the innovator and supplying the intermediate/technical. In addition to a regular growth in line with the global agrochemical market, an increase in the pace of commercialization and progress in the global rollout of existing products ensures non-linear growth

INVESTMENT RATIONALE

- **CSM: Global turnaround to drive growth:** PI's CSM segment (65% of FY19 sales) segment is gaining steam. An uptick in the global agrochemical cycle attributable to increased spending by global innovators on patented products remains the key driving factor. Bolstered by a robust USD1.3bn order book, PI is confident of sustaining the growth momentum (20%+ in near term)
- **Domestic: Product launches key trigger:** The company outperformed peers in the domestic market in FY19. While PI's launches over the past two years have been successful in delivering incremental growth, existing products also continue to perform well. It launched seven new products in a span of two years. With a strong product pipeline in place, with the potential of a big wheat herbicide to be launched in FY20, the growth outlook on the segment remaining strong
- **Aggressive Capex should translate to strong growth:** PI has chalked out an aggressive INR4bn/year capex plan for the next two years. The company has also added capacities at Jambusar (two new plants) and initiated construction of a couple of plants, which are expected to be commissioned in 2020. Management is confident of achieving 1.5-1.6x turnover with 90-95% utilization level within 18 months

Data as on 31st July 2019. Source: IIFL Asset Management Ltd, Bloomberg

GREAVES COTTON (DEFENSIVE)

COMPANY DESCRIPTION

Greaves Cotton, incorporated in 1859, is a well-diversified engineering company. . It manufactures diesel and petrol engines, generator sets, pump sets and agro equipment. GCL is a dominant player in the domestic three-wheeler market, has now made significant inroads into the genset, pumps and agri tiller segment

INVESTMENT RATIONALE

- **Core franchise intact; new hires to fire next leg of growth:** Sign-ups with Piaggio/Atul/M&M for BS-VI engine imply Greaves' core franchise is intact. Agreement with Altigreen (makes retrofit hybrid electric kit) is Greaves' response to the threat of EVs; India is more suited to hybrid vehicles than electric given paucity of charging stations and costly fast chargers (>$0.1mn/charging station). New lateral hires are impressive – Karthik, head of strategy at Reva, is helping develop 3W EVs; Shubhankar, head of operations and supply chain at Tata Cummins, and Ravi are helping Greaves convert leap to BS-VI and develop BS-VI for 3W/SCVs
- **New products:** The future growth is driven by new products in all categories ranging from pinnacle engine for CNG, 700 KVA+ gensets and wide range of agro equipments
- **Sensible acquisitions:** Pinnacle and Ampere fits in the broader strategy of Greaves to be "fuel agnostic" company
- **Distribution footprint:** Increase in distribution from 3500 in FY18 to 5000+ and growing through Greaves care centre puts the company on strong footing to face any challenges in the high-margin distribution business
- **Capital allocation and attractive valuations:** Asset light model would not require the company to unduly leverage balance sheet for growth. The dividend yield is high at 4.6%. With consistently high RoE and RoCE and dividend payouts, the company fits into the frame work of being a defensive stock with high optionality of growth from various new initiatives

Data as on 31st July 2019. Source: IIFL Asset Management Ltd, Bloomberg

ICICI BANK (CYCLICAL)

COMPANY DESCRIPTION

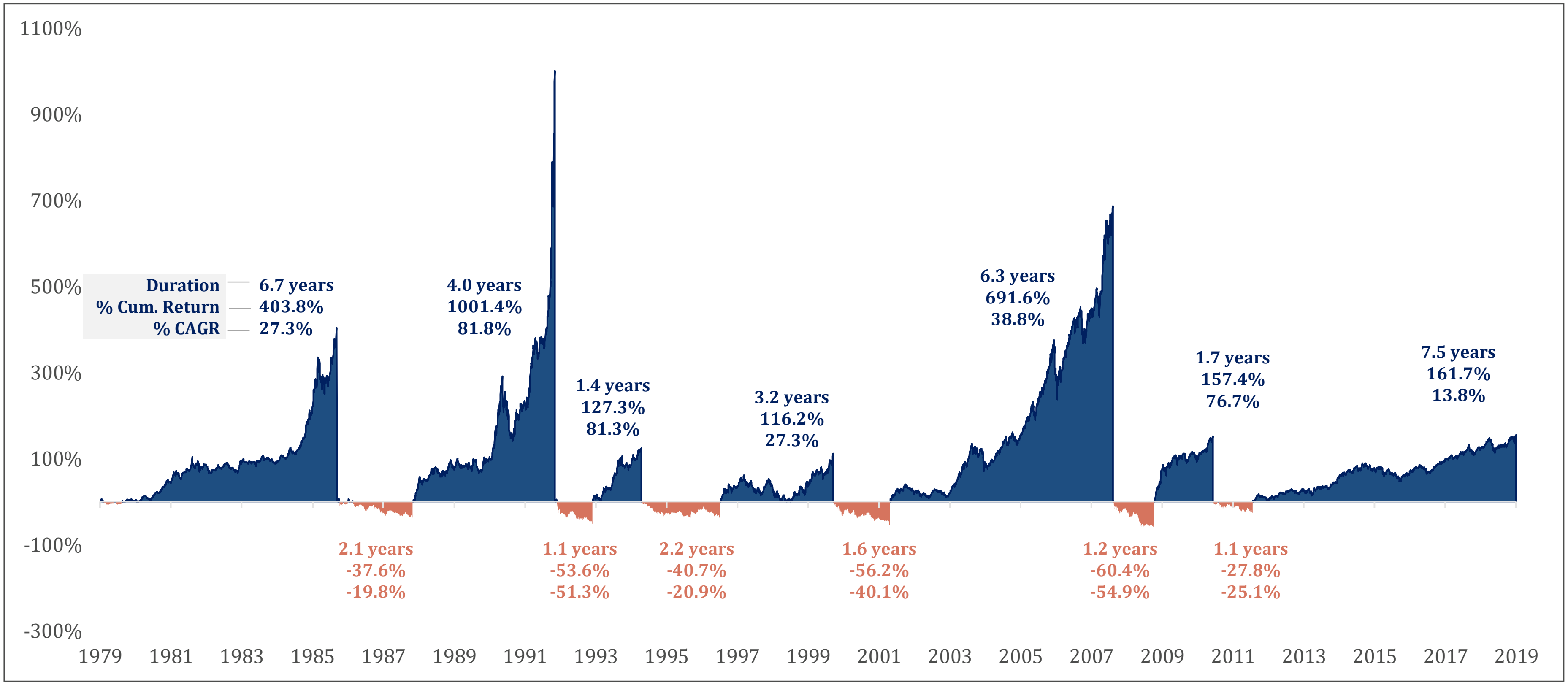
ICICI is the 2nd largest private sector bank, with ~6% share of advances as on FY19. It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and has specialized subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management

INVESTMENT RATIONALE

- **Strong franchise with improving financials**: ICICI's liability franchise remains strong even as its asset side has faced challenges over the last few years. We believe that the bank can see meaningful improvement in its financials in the next few years. ICICI has several tailwinds at the moment including margins improving from a low base as proportion of NPA's reduce, credit cost reduction as new stress formation remains low, provision coverage on legacy portfolio has been increased over the last few quarters, growth accelerating as mix is changing towards retail vs corporate. The return ratios for the bank are also expected to improve ahead and the bank could report RoA's of ~1.5% in FY21. Overall, market remains focused on near term profits while the franchise value is underestimated, leading to an opportunity for value creation
- **Subsidiaries leaders in their businesses:** ICICI's subsidiaries are market leaders in securities, life insurance, general insurance, asset management businesses. We believe that the companies can deliver meaningful value to the overall performance of the bank in the coming years. Subsidiaries continue to remain strong and are growing well and should see strong return ratios ahead
- **Bank targets consolidated RoE of 15% by June 2020:** Management change and the end of the asset quality cycle should mean a significant ramp up in profitability over the coming years. ICICI looks set to revert back to 15% ROEs over the next few years. Valuations remain reasonable as stock is trading less than 2x book (adjusted for subs value) for a 15% RoE in the next 2 years

Data as on 31st July 2019. Source: IIFL Asset Management Ltd, Bloomberg

SENSEX RETURNS – PAST 4 DECADES



Phase	Average duration	Average annualized returns
Bull market	4.4 years	36.5%
Bear market	1.6 years	-33.8%

Source: Bloomberg. Bull market is defined from the lowest close reached after the market has fallen 20% or more, to the next market high. Bear market is defined when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more

Data since 31 Dec 1979 till 31st July 2019. These results are based on daily returns – returns using different periods would produce different results

SENSEX DRAWDOWN – PAST 4 DECADES

From	To	Number of months	Drawdown	P/B on start date
Feb-86	Mar-88	25	-38%	-
Apr-92	Apr-93	13	-54%	-
Sep-94	Dec-96	26	-41%	-
Feb-00	Sep-01	19	-56%	4.2
Jan-08	Mar-09	14	-60%	6.3
Nov-10	Dec-11	13	-28%	3.6

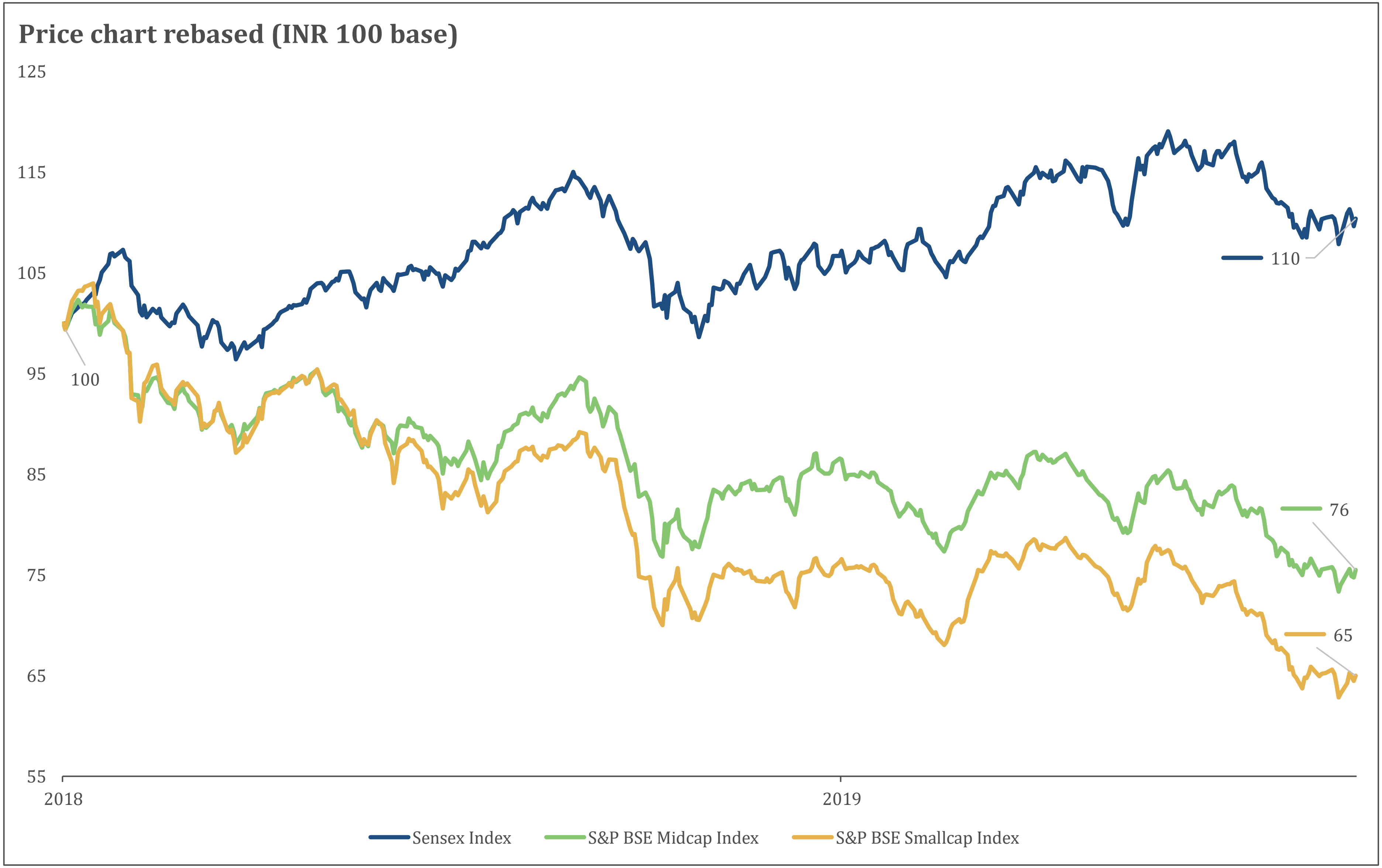
Source: Bloomberg. Bull market is defined from the lowest close reached after the market has fallen 20% or more, to the next market high. Bear market is defined when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more

Data since 31 Dec 1979 till 30th Aug 2019. These returns are based on monthly returns

VALUATIONS-LARGE VS MID CAP

Source: Bloomberg. Relative price to book ratio is calculated by dividing P/B of S&P BSE Midcap Index by P/B of BSE Sensex Index for each date. Data from 16th September 2005 till 30th Aug 2019

RETURN DIVERSION ACROSS SEGMENTS



Source: Bloomberg, Data from 1st Jan 2018 to 30th August 2019

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DISCLAIMER

ABOUT IIFL Asset Management Limited

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Registration Details -CIN No.: U74900MH2010PLC201113; SEBI MF Registration: INP000004565; SEBI AIF Category II Registration: IN/AIF2/12-13/0015; SEBI AIF Category III Registration: IN/AIF3/12-13/0016; Portfolio Management: INP000004565

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NOTE:

IIFL Wealth Management Limited (IIFLW) is Co-sponsor of the Scheme. IIFL Wealth Management Limited (IIFW) is holding company of Investment Manager/Trustee Company of the Scheme and Co-Sponsor to the Scheme which may receive distribution or any other fees in this connection. Further, IIFLW and its group, associate and subsidiary companies are engaged in providing various financial services and for the said services (including the service for acquiring and sourcing the units of the fund) may earn fees or remuneration in form of arranger fees, referral fees, advisory fees, management fees, trustee fees, Commission, brokerage, transaction charges, underwriting charges, issue management fees and other fees.

THANK YOU

IIFL ASSET MANAGEMENT