KUVERA CAPITAL PARTNERS LLP

JULY 2016 KUVERA FUND

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2016	1.28%	-0.60%	0.04%	0.54%	2.32%	-0.27%							3.32%
2015	4.01%	1.03%	-2.37%	-2.33%	1.32%	-0.29%	0.79%	-3.85%	0.15%	0.76%	0.30%	2.62%	1.89%
2014	-1.76%	1.90%	4.20%	-0.24%	4.71%	2.01%	0.32%	1.69%	-0.64%	2.92%	1.54%	-2.51%	14.79%
2013	2.10%	-2.89%	-0.23%	2.01%	-1.01%	-1.69%	-1.20%	-3.91%	3.16%	4.88%	-1.16%	1.19%	0.89%
2012	8.12%	2.01%	-1.80%	-1.42%	-4.39%	3.13%	-0.73%	0.45%	5.74%	-1.12%	1.60%	-0.23%	11.26%
2011	-3.18%	-0.92%	4.63%	-0.59%	-1.89%	1.03%	-0.72%	-4.14%	-1.65%	3.42%	-5.88%	-1.54%	-11.27%
2010	-2.61%	0.54%	3.19%	0.52%	-2.82%	2.27%	0.32%	-0.23%	6.32%	-0.08%	-0.17%	3.42%	10.81%
2009	-1.98%	-3.47%	4.99%	5.78%	5.28%	-2.29%	2.96%	-0.48%	6.19%	-2.61%	2.44%	0.65%	18.12%
2008	-2.46%	-2.41%	-6.25%	-0.13%	-4.95%	-6.49%	2.63%	-2.94%	-3.83%	-8.53%	-0.43%	10.58%	-23.56%
2007	0.96%	-2.54%	1.11%	3.93%	1.95%	0.08%	1.74%	-0.84%	4.79%	5.61%	-0.96%	2.19%	19.21%
2006	5.67%	1.25%	4.52%	3.17%	-3.41%	-1.95%	-1.08%	1.73%	2.04%	2.69%	4.71%	-1.33%	19.04%
2005	-1.47%	4.44%	2.49%	2.37%	-0.39%	3.16%	2.38%	0.94%	0.39%	-2.25%	2.63%	2.47%	18.32%
2004							-0.04%	0.10%	3.97%	-0.30%	4.10%	8.57%	17.22%

SUMMARY

1. Net exposure increased from 39% to 67% in response to liquidity rally
2. Global economic environment challenging and downside risks persist
3. Rise in asset prices not a reflection of economic health
4. India growth signals mixed
5. Fund positioned defensively
   As at February
   Nifty -14%
   FL+0.67%

July '16 YTD
Kuvera +3.32%
Nifty +2.83%

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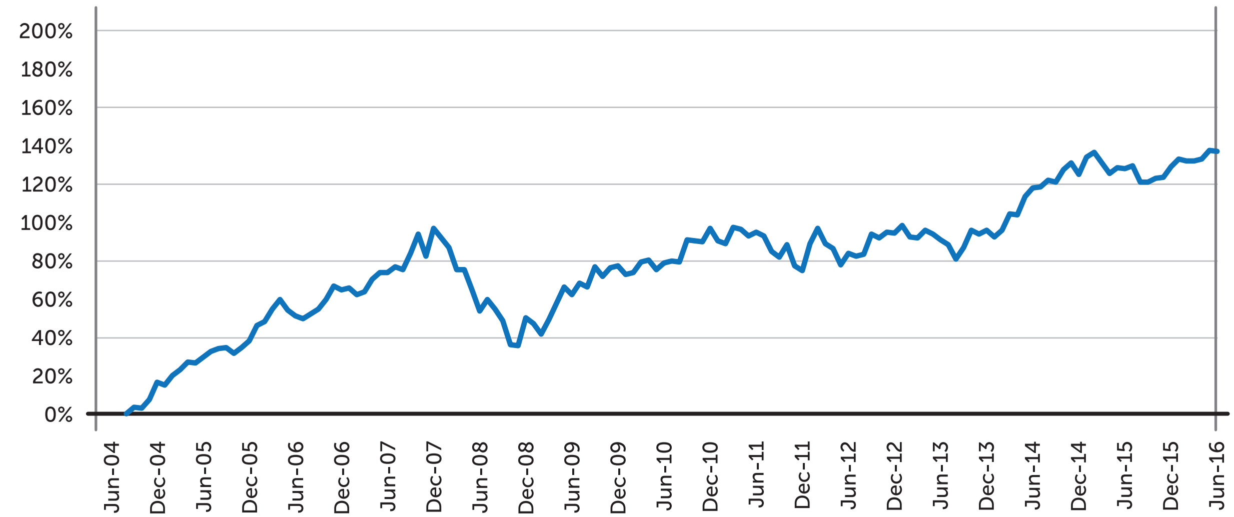
CUMULATIVE RETURNS



PORTFOLIO ATTRIBUTES

SECTOR	EXPOSURE
AUTOS	11.29%
BANK	6.33%
CAP GOODS	1.18%
CEMENT	11.56%
FMCG	6.19%
IT	10.97%
METALS	-8.42%
OIL & GAS	6.28%
OTHER	11.76%
PHARMA	11.17%
REAL ESTATE	-0.69%
GROSS	119.06%
NET	67.63%

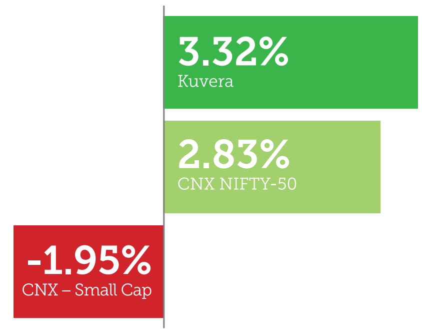
GLOBAL

The rise in asset prices is not a reflection of economic health.

Asset prices continue to respond to liquidity, ignoring economic fundamentals and extant risks in the financial system; namely high valuations, deteriorating earnings, increasing default risk and unprecedented levels of debt — (Since 2008, total debt in major economies has increased by over $60tn to more than $200tn, about 300 per cent of global gross domestic product ("GDP").

The expansion of central bank balance sheets has propelled markets to ever new highs in the vain hope that a wealth effect will encourage consumption. This debt is not based on real savings channeled into productive investments, but rather created by central banks magicking money out of thin air to inflate prices and signal that all is well. Had markets been allowed to work and liquidation occur during 008/09 we would now not be aced with the current levels of debt and significantly increased systemic risk. At the beginning of 2016 it looked like markets were ready to capitulate, (partly in response to the Feds token increase

2016 YTD Return



of 25bp,) however "whatever it takes" Draghi came to the rescue again this time increasing purchases to include corporate bonds and driving markets ever upward. As a result, almost $13 trillion of debt is

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2016 MONTHLY PERFORMANCE vs. NIFTY

now trading at negative yields and forcing investors further out on the risk spectrum to generate returns. If negative interest rates are not an admission of the complete failure of this policy to generate growth (and eke out 2% inflation) the recent G20 communique makes the admission more explicitly.

"The global economic environment is challenging and downside risks persist..."

Valuations: Hitting all-time highs the US market is now trading at about 24x "actual" earnings — one of the most overvalued in history. Much of the earnings growth is based on financial engineering. With a slowdown evident the limits of this

TOP 5 LONG POSITIONS

NAME	RETURN
JET	4.27%
GRASIM	3.02%
HPCL	2.96%
AMBUJA	2.95%
ACC	2.94%

TOP 5 SHORT POSITIONS

NAME	RETURN
CAIRN	-2.95%
DLF	-2.85%
SBI	-2.50%
BHEL	-2.42%
HINDALCO	-2.09%

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are already being reached. *Defaults:* Corporate defaults are now becoming evident with the top three US banks reporting a 67% increase in delinquent loans for Q1. According to Fitch, junk bond defaults (particularly those in the energy sector) rose by 4% in June. The cheap debt used to drive the much touted and strong auto sales numbers (almost doubling since 2010) are coming home to roost with defaults rising in the first half of the year.

European Bank crises: With the Italian banking system on its knees, Renzi used Brexit as a negotiating tool to provide explicit support for Italian banks (counter to EU rules), where it is estimated that 17% of total loans outstanding are in default. Deutsche Bank which has lost almost 50% of its value and other French and German banks must also have been on Renzis mind with claims that their derivative exposure would be 100 times worse than the Italian loan troubles.

Payroll figures: Jobs growth numbers supplied by the BLS is the one ray of hope that Yellen can hold onto, but even if these (wildly varying) statistics are to be believed they show stagnant growth when low paid part time jobs are included. Payroll Treasury tax collection numbers (a more reliable statistic) also indicate that hours worked are at stall speed.

One saving grace for Yellen is that she now a range of excuses to pick from for not raising rates, whilst pretending that the US, (backed by strong jobs numbers) is doing well.

TURNING JAPANESE

The fact that pumping trillions of dollars into the financial system would have little effect on growth should come as no surprise. One only has to look at the Japanese example. Despite undertaking one of the largest QE programs ever over several decades they have succeeded only in exploding debt (200% GDP), achieving anemic growth and a losing of control over monetary policy, all against a backdrop of an aging population. Surprising then that they are still keen to hear the advice of 'helicopter' Ben — the housing bubble denier — who is now advocating helicopter drop of money to engage the animal spirits of the Japanese consumer.

INDIA

The Indian market has been a beneficiary of central banks largesse and experienced significant foreign portfolio inflows. Earnings look like they may be finally growing after several quarters of contraction. In our view though the run up in the market has left valuations looking a little stretched especially if earning growth of 15-17% does not materialize — which we think likely.

India's "Brexit"

The Modi government is continuing reforms with varying degrees of success in execution. The underlying theme behind these though — that of removing layers of bureaucracy is the correct way forward. One of the most radical reforms, (which receives little attention), is that of devolving power to the state level — something that goes against most politicians' instincts. The results so far are very encouraging with Chief Ministers competing aggressively for foreign capital. League tables are also now published identifying ease of business by state. This competition can unleash a sustainable bottom up growth model. Attracting foreign capital will require states to lower

LONG WINNERS

NAME	RETURN
YES BANK	0.97%
GRASIM	0.73%
AMBUJA	0.71%
ACC	0.65%
ULTRATECH	0.49%

SHORT WINNERS

NAME	RETURN
BHEL	0.79%
BANK OF INDIA	0.65%
PNB	0.62%
SAIL	0.24%
TATA POWER	0.11%

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taxes, reduce bureaucracy and allow for more flexible labour laws. Though this is some way off the positive early effects of aligning the economic interest of voters and politicians is already beginning to be seen.

Mixed signals

Domestic data continues to send mixed signals on the growth front. Valuation, (based on actual earnings) remain high at about 20X (17x on FY17) with mild downgrades to consensus FY17 and FY18. Capex remains sluggish with capital goods production still deep in the contraction zone, CV sales have 'flat lined' for the past three months with credit growth subdued at less than 4%. Conversely there has been a pickup in airline passenger numbers, electricity uptake, cement demand, tractor and PV sales.

NPLs within the public sector banks continues to be a problem. We feel that the government took too long to acknowledge and start dealing with this issue, the most recent remedy was a government capital injection, which we again feel will not be sufficient.

Portfolio long defensives with a starting net of 39%

The key themes in the portfolio on the long side remain defensive; Pharma, IT and sectors with exposure to government related expenditure. Short exposure at the beginning of the period was concentrated in Metals (-13%) PSU banks (-10%) and Capital goods (-6%).

Well positioned initially but forced to cut shorts — closing net exposure 67%.

Nifty -14% KFL +0.67%

This positioning served us well for the first two months of the year where despite the market being down cumulatively -14% the Fund maintained a positive return of +0.67% (see table above). In response to the liquidity induced rally we were forced to take profits and cut short positions ending the period to June 16 with a metals exposure of (-8%), PSU bank exposure of (-6%) and a net capital goods exposure of (+1.18%). Our thesis for being long cement companies (valuations, low utilization and little new capacity addition) finally paid off as demand increased. This position significantly outperformed contributing 2.58% to the fund return. We ended the period with a 11%(long) cement exposure. The increase in net exposure from 37% to 67% was achieved mainly by reducing short positions and adding long exposure to the cement space. Other exposures remain fairly constant and defensive in nature. Liquidity aside valuations both at the market and sector level are a key risk and we continue to monitor these.

Valuations not relevant for timing purposes. We continue to have a cautious view to preserve capital but respond to liquidity when necessary.

LONG LOSERS

NAME	RETURN
JET	-0.67%
CIPLA	-0.52%
LUPIN	-0.34%
USNP GRP	-0.31%
HCLT	-0.29%

SHORT LOSERS

NAME	RETURN
VEDANTA	-0.96%
TATA STEEL	-0.61%
HINDALCO	-0.70%
DLF	-0.65%
ABB	-0.37%

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