KUVERA CAPITAL PARTNERS LLP

HFM AWARDS 2019 AWARD NOMINEE

JANUARY 2019 KUVERA FUND

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2019	0.03%												0.03%
2018	3.27%	-4.24%	-3.11%	5.30%	-4.22%	0.58%	3.70%	3.12%	-3.50%	-5.39%	5.91%	-0.49%	0.01%
2017	1.30%	2.85%	2.69%	2.29%	2.26%	0.79%	3.48%	2.58%	-2.04%	2.22%	0.18%	1.99%	22.51%
2016	1.28%	-0.60%	0.04%	0.54%	2.32%	-0.27%	2.26%	0.73%	-0.99%	1.44%	-3.89%	0.18%	2.91%
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. Central banks can maintain inflated asset prices or normalise rates and balance sheets — not both.
2. Responding to global tightening — Indian asset classes had negative returns in 2018.
3. Our global view informed portfolio positioning generating relative out-performance.
4. With the Fed Put in place we now remain positive on markets in generaL
5. Specific risks to the Indian market; valuations, continued earnings, disappointing lack of growth in capex, and national elections.

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CorporateLiveWire INNOVATION & EXCELLENCE AWARDS 2017 - SHORTLISTED -

M&A 2017 AWARDS CorporateLiveWire WINNER

GLOBAL BUSINESS INSIGHT AWARDS 2018 AWARD OF EXCELLENCE

GlobalFund Awards 2018 CorporateLiveWire WINNER

2014 International Hedge Fund Awards: Indian Focused Alternative Investment Manager of the Year
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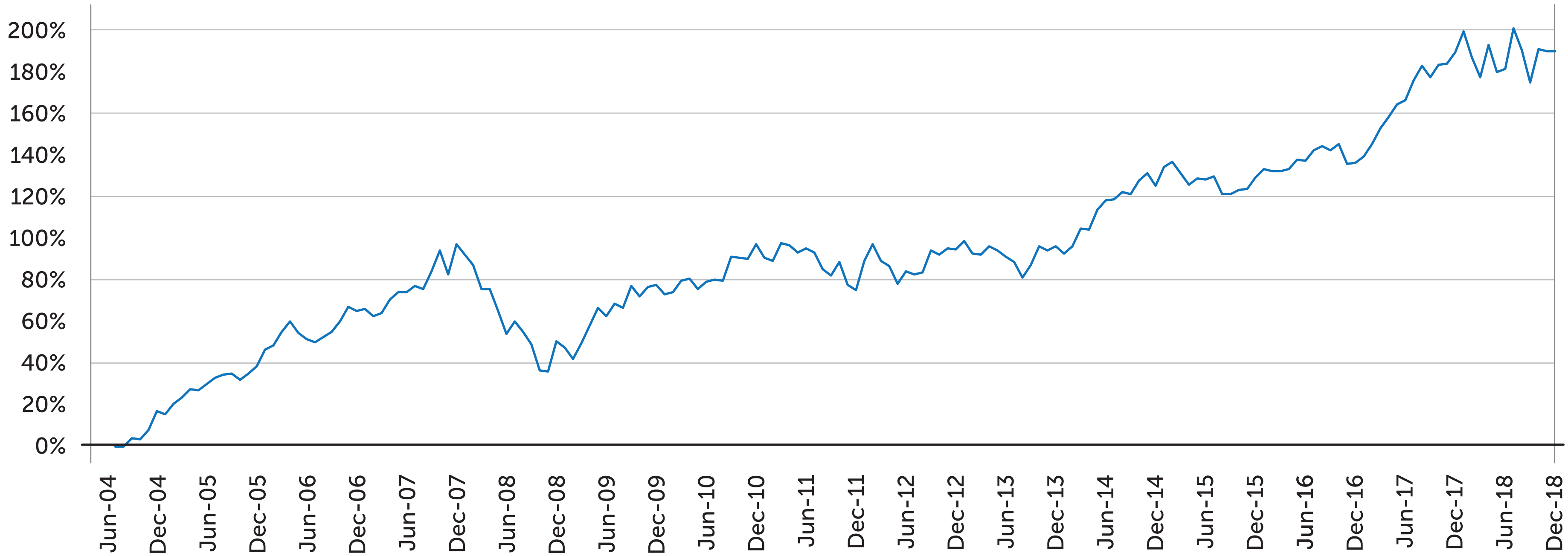
CUMULATIVE RETURNS



The Fed and its new(ish) chairman finally relented giving into spluttering asset prices — which came to within an inch of a bear market. Despite his previous statements about normalising interest rates and balance sheets on autopilot — any notion that he would act differently from his predecessors and follow through with this were finally dispelled on January 4th, 2019.

Powell switched to manual and from a prepared script re-assured markets that the FED would now take a 'patient' approach. The US markets were cheered by the about turn with the DJIA rising approximately 400 points. Since early October price volatility had increased, with several hundred-point swings being the norm. The only data point that really seems to matter to the Fed are asset price levels. When these look like being deflated the Fed Put — which started with Greenspan — will comes to the rescue. We've been here before, firstly with Bernanke, who capitulated when the market had a taper tantrum in response to his suggestion that the Fed may slow bond buying — and then Yellen who signalled to markets almost a year in advance — before only nudging rates up in December 15.

Since QT began in 2017 only $400 billion — about 10% of the Fed Balance sheet has been run off — **hardly an endorsement of economic strength — despite the rhetoric.**

THE RHETORIC

Richard Fisher a former Dallas Federal reserve president admitted;

> *"You have to be... frank about what drove the markets... It was, the Fed, the Fed, the Fed, the European Central Bank, the Japanese Central bank ... all quantitatively driven by central bank activity."*

> *"... We believe that central banks will ultimately have to abandon their attempts and normalising rates and balance sheets if they want to protect asset prices ..."*
>
> — Kuvera Fund, NL June '18

January 2019

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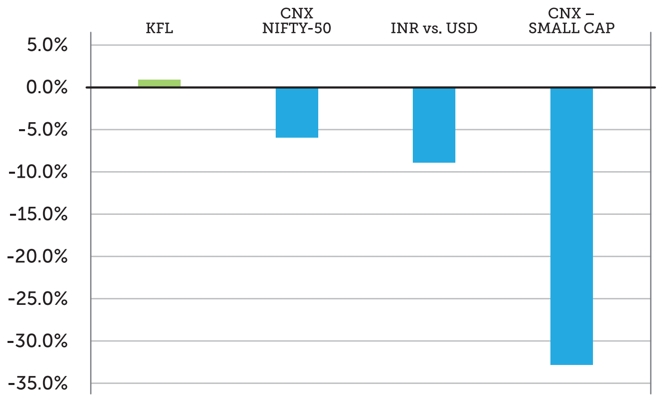
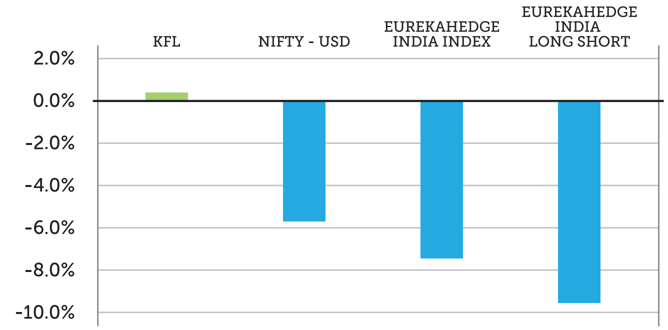
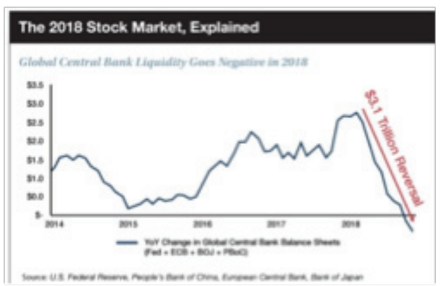
KUVERA FUND vs. INDIA ASSET CLASS RETURNS 2018



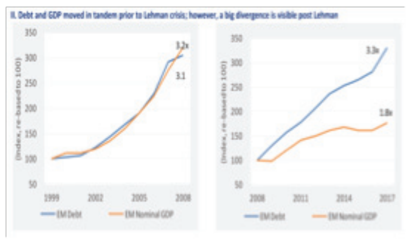
KUVERA FUND vs. INDIA INDICES 2018



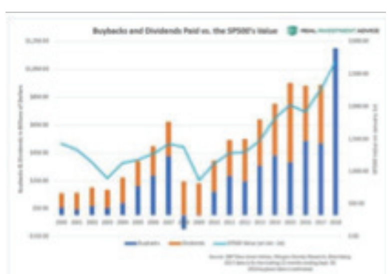
In our view the 2018 negative returns and increased volatility was best explained by central banks liquidity contraction.



We do not believe in the much-touted strength of the US economy — and by its recent actions, the Fed would seem to concur. With global debt approximately 300% of GDP, debt fuelled growth is becoming increasingly less effective, with a significant divergence between the growth rates in debt and GDP.



Stock markets have enjoyed one of the longest bull runs in history — nearly quadrupling since the 2009 low. This however has more to do with liquidity and financial engineering. Earnings growth is being supported by buybacks, low rates and more recently trump tax cuts.



Meanwhile, productivity, (the sustainable engine of growth) has stagnated — with much of the newly raised debt used for financial engineering instead of investment in productive capacity. Consequently, debt has risen much faster than growth.

Forecasting when markets will stop responding to the stimuli of engineered earnings and central bank liquidity is almost impossible. However as long as markets continue to remain immune to economic fundamentals, they will continue their inexorable bull run.

ROCK AND A HARD PLACE

Markets have not let the Fed normalise rates or the bloated $4.5 trillion balance or get anywhere near normal — consequently the Fed has little room to deal with the inevitable next crises.

PORTFOLIO ATTRIBUTES

SECTOR	SECTOR CONTR.	NET EXP.
AUTOS	-0.18%	5.25%
BANK	-0.31%	11.88%
CAP GOODS	0.11%	3.61%
CEMENT	0.01%	8.33%
FMCG	0.14%	9.09%
IT	-0.04%	15.95%
METALS	0.19%	-3.04%
OIL & GAS	0.31%	6.21%
OTHER	-0.26%	2.14%
PHARMA	-0.04%	7.17%
REAL ESTATE	0.00%	2.18%
TELECOM	-0.26%	-1.88%

GROSS	99.11%
NET	66.89%
# of NAMES	54
# LONG	39
# SHORT	15

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As we have seen, trying to normalise rates threatened to bring about the very crises that the Fed was trying to create room to manage

INDIA – SIZE AND CURRENCY MATTERED

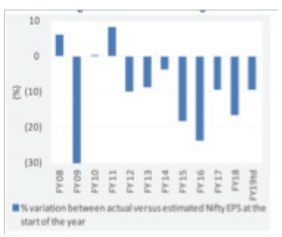
There was a significant divergence in asset class performance in India during 2018.

The large cap **Nifty Index ended 2018 -5.69%**, with the **small cap index falling -32.80%. The currency INR fell -8.92%.** ***Most funds in the space would have ended up significantly negative for the year.*** The dispersion of returns within the large cap space was also significant.

What is clear is that even though India is perceived to be a domestic demand economy, external linkages to global liquidity the usd and trade affect the market.

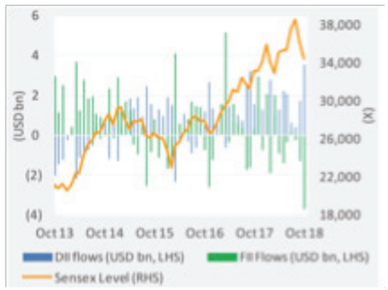
WHAT DID INDIA LOOK LIKE IN 2018

The much talked about and signalled **earnings growth has yet to materialise.**



With valuations slightly above the historic

FIIs have been net sellers into the market — in part explaining the weakness in currency — **though domestic investors have been buyers.**



Private capex has still to revive. Government has been responsible for the heavy lifting in capex thus far.

We doubt whether private capex will revive soon as we do not see demand conditions improving — the recent NBFC liquidity crises will restrict the supply side with significant incremental lending particularly in real estate coming from NBFCs.

Another area which will be affected by the NBFC crises would be that of non-discretionary spending. The Indian consumer is increasingly leveraged as evidenced by increased LTVs in the relatively begnin property market as well as the sales of autos being increasingly debt funded.

Consumer staples however appear resilient as evidenced by volume and price growth.

2018 WINNERS

NAME	SECTOR	L/S	CON.
TCS	IT	LONG	1.01%
TECH M	IT	LONG	1.09%
TATA	AUTO	SHORT	1.13%
JET	OTHER	SHORT	1.54%
RELIANCE C	TELECOM	SHORT	1.63%

2018 LOSERS

NAME	SECTOR	L/S	CON.
BHARAT E	OTHER	LONG	-1.23%
YES	BANK	LONG	-1.06%
BEML	OTHER	LONG	-1.04%
HPCL	OIL & GAS	LONG	-0.95%
BHARAT F	OTHER	LONG	-0.78%
BPCL	OIL & GAS	LONG	-0.76%

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HOW KUVERA WAS POSITIONED

- *Long dollar earnings*
- *Long Consumer staples*
- *Long Govt spending*
- *Short telecom and metals*
- *Avg. Currency +20% long*
- *Avg. Net exposure +78%*

Thematically our positioning has changed little through 2018. We were positioned **long dollar earnings** through IT and Pharma and actively **reduced INR exposure to around 20%**. The IT sector (particularly large cap) has made a inroads into digital — which contribute approximately 30% to revenues and with high growth. This position was also supported by valuations when the market was unsure about what the source of earnings growth would be — given the decline in the traditional business. The IT index gained approximately 30% for the year.

We had reduced our exposure to Pharma during the year — the competitive dynamics in the generics space far outweighed the benefits of FX earnings.

The generics space traditionally occupied by Indian Pharma has been fiercely competitive. As a result, Indian companies have been forced up the value chain into complex and specialities incurring significant investment, a decline earnings and ROCE.

We were late in cutting our exposure but feel that the opportunity ahead is significant especially as these companies move up the value chain and will look to increase exposure when there is clarity on this.

Our exposure to the **domestic consumption theme** is reflected in consumer staples, names with rural exposure and those areas benefitting from government expenditure. The relative rich valuations in the space have been supported by robust earnings growth. We believe that coming into an election year government spending will continue to focus on rural demand — with farm loan waivers and support prices.

We are reviewing our exposure to **discretionary spending**, particularly to those names where we feel valuations are rich and earnings dependent on consumer leverage.

We continue with short exposure to **metals and telecoms**.

Once again, a strong dollar and slowing china growth (added to trade wars) are the broad reasons for the short in the metals space.

Our telecom short exposure has been based around falling ARPUs and increasing competition — with price wars started by Jios entry into the space. In the case of Reliance Communications this was further supported by large debt. **RCOM finally filed for bankruptcy** unable to come to an agreement with creditors.

As a sector our biggest loss was in our exposure to government expenditure, but this was made up of 'smaller caps' stocks — which as an asset class significantly underperformed. Limiting our exposure to this asset class enabled us to continue with our exposure for the longer term. In the case of **HPCL** and **BPCL** this was due to a change in government policy. In the face of rising oil prices, the previously stated policy of not hitting OMC's with a subsidy burden was reversed.

Our top 3 winners for the year were made up of stock specific short positions in the case of RCOM and Jet Airways and in the case of Tata Motors based on a global view of slowing auto sales. Tech was the other contributor for reasons previously mentioned. Finally, our long volatility hedge cost the portfolio 2.068%.

SECTOR	L/S	CONTR.
OTHER	LONG	-5.40%
CEMENT	LONG	-1.69%
AUTOS	LONG	-1.49%
OIL & GAS	LONG	-1.06%
CAP GOODS	LONG	-0.74%
REAL ESTATE	LONG	-0.14%
CAP GOODS	SHORT	0.37%
PHARMA	LONG	0.44%
BANK	SHORT	0.46%
BANK	LONG	0.87%
METALS	SHORT	0.89%
FMCG	LONG	1.50%
OTHER	SHORT	1.54%
AUTOS	SHORT	1.78%
TELECOM	SHORT	2.40%
IT	LONG	3.15%

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