Equity Review

The MSCI India Index started the month at 17.85 and closed at 19.31, increasing by 8.1% over the month. As per latest data, FIIs were net buyers in Equity with inflow of USD ~4.78 Bn and net buyers in Fixed Income with inflow of USD ~2.22 Bn. Domestic Institutions were net sellers in equities with net outflow of USD -1.02 Bn in the month.

Commodities and Inflation

NYMEX Crude Oil prices rose by ~5.1% from the previous month levels, ending at 60.14 per barrel; the prices were lower by ~7.4% yoy. LMEX closed at 3056.7 marginally lower over the previous month (lower by ~4.6% yoy). Gold prices closed at USD 1291.48/ oz 2.5% lower from the previous month level (lower by ~2.7% yoy). The USD Index rose by ~1.17% vs. other currencies over the month; over the year the USD Index was higher by ~8.1%.

February CPI came in at 2.57% v/s the lower revised 1.97% for January 2019. While headline remains closer to lower band of RBI's targeted 4% +/-2%, February print sketched some reversal in the extremely muted price momentum seen since November 2018. Global oil prices have moved up since January 2019 and have been passed on in retail fuel prices. Food index that has remained extremely benign (supported by seasonally lower vegetable prices) marked first increase in the last 6 months. Core inflation marked a 12 month low at 5.3% (compared to 5.36% in January) driven by favorable base effects. Apr-Feb core inflation and headline CPI have averaged 5.88% & 3.48% respectively

Markets & Real Economy

January IIP at 1.7% (v/s 2.6% in December) marked a tepid uptick in seasonally adjusted activity and was pulled down by an adverse base effect. FY19 IIP stands at 4.4% v/s 4.1% seen in Apr-Feb FY18. Mining, Manufacturing and Electricity grew 3.9%, 1.3% and 0.8% respectively. Primary goods (1.4%) positively contributed to headline IIP while Capital goods (-3.2%) marked a seasonally adjusted decline. Intermediate goods (-3%) marked a third consecutive decline hinting at slowdown of production ahead. Infrastructure goods (7.9%) remained strong, Consumer durables (1.8%) remained marginally positive while Non-durables (3.8%) were slightly below December levels.

As per the latest RBI data, Foreign exchange reserves position improved to USD 406.67 Bn over the month. The Rupee appreciated by ~2.6% over the month closing at 69.2725 Rs/USD vs. 71.1025 Rs/USD last month.

Sector-wise Performance

Key outperforming sector during the month was Financials. Indian economy has been persistently witnessing low inflation for past few months which has driven expectations of another rate cut in the upcoming monetary policy, which in turn is positive for the growth of the economy. Also, RBI is taking steps to inject liquidity in the banking system through Dollar – swap auction which shall in turn increase the financial system's ability to provide growth capital. We remain positive on the sector given significant under-penetration of financial services in India and significant growth potential over the long term. Within the sector, we have always stressed on our preference for private sector banks in the portfolio and will continue to avoid investing in public sector banks going forward as well.

Key underperforming sector during the month was Information Technology. INR has appreciated over the month primarily due to the buoyancy witnessed in FII inflows. Stronger INR will have impact on realizations and profitability. However, on the business front, Indian IT companies have witnessed improved order bookings that provide some revenue visibility for CY19/FY20 (better revenue exit momentum in CY18 entering into CY19 than for the preceding year). Also, as digital gathers scale (with 25-30% of revenues classified as digital growing 30%+ p.a. for the industry), there is a beneficial impact on margins. Digital, executed well at scale, logically fetches higher gross margins than the traditional business. We believe there are multiple growth drivers in place for Indian IT companies and continue to remain positive on the sector.

IPCA Laboratories – It is an integrated pharmaceutical company with presence in both generics as well as APIs, supplying to US, Europe, Africa & Rest of the world markets in addition to India. The company has delivered above industry growth in the domestic market. The company's international business suffered as its plant got import alert by the US FDA. However, the company has completed the remediation process and is awaiting inspection. Resumption of supplies to international markets, especially US and Africa shall help company generate significant revenue growth and margin improvement driving healthy earnings growth. We have a positive long term outlook on the company

Motherson Sumi systems Ltd. – The company is a frontline auto components supplier to global passenger vehicle manufacturers especially in Europe. Its key products include wiring harnesses, rear view mirrors and plastic components. The company is a technology leader and derives its strength from healthy long term customer relationships, product innovation and successful track record of building technological capabilities through acquisitions. The stock has remained under pressure due to slowdown in global auto sales, impact of regulatory changes and overhang on global trade. However, we remain confident of the company's ability to bounce back on the growth path once these issues subside. The company is gradually diversifying across geographies by increasing presence in the US and China market as well as customer segments like commercial vehicles. The stock is trading at attractive valuations and we maintain our positive outlook

Market Outlook

Market has rallied on the back of improving prospects of the incumbent government getting another term of 5 years, a pause in the rate hikes by US Fed to improve the global liquidity and easing of US-China trade tensions. We are already witnessing a pick-up in growth as visible in credit off-take and corporate earnings over the last 4-5 quarters and expect the momentum to pick-up significantly over the next 2-3 years driven by a broad-based recovery, positive effect of operating leverage and low interest rates. In our opinion, pick-up in earnings growth supported by favourable macros will drive the equity market going ahead. We continue to remain positive on India's long term growth potential.

Fixed Income Review

India's consumer prices (CPI Inflation) inched up to 2.57% in February 2019 from 1.97% in January 2019 on account of sequential increase in food prices. Though food inflation continued in deflation territory year on year and declined by 0.66% in February 2019 as compared to a decline of 2.17% in January 2019, the prices of most food groups (except vegetables), including cereals, pulses and fruits showed an upward month on month momentum. The core-CPI inflation moderated slightly to 5.3% in February 2019 as compared to 5.4% in January 2019, on account of deceleration in clothing, footwear and housing segment. Contraction in LPG prices led the decline in the fuel inflation for the third month in a row to 1.2% in February 2019 as compared to a level of 2.2% in January 2019. The Wholesale Price Index (WPI) inched up to 2.9% in February 2019 from 2.8% in January 2019 led by higher food and fuel inflation.

The Fed continued to be dovish by making bearish alterations to its forecasts on the economy, lowering its dot plot and providing concrete clarity on its balance sheet run-off. Even though the risks to the growth outlook remain persistent, the FOMC reaffirmed its outlook to be positive and policy to be at a comfortable stage where it can wait on its policy judgment and continue to be on pause. The primary change for the market came from the dot plot that reflected a shift from two hikes seen in 2019 earlier as per December 2018 policy to zero in the March policy. The Fed also announced to conclude its balance sheet run off and lower its reserves at the end of September this year.

The Government announced its borrowing calendar for the first half of FY2020, pegging gross borrowing at INR 4.42 trillion (USD 65 bn). This gross borrowings figures for first half are around 62.3% of the full year borrowing budgeted at INR 7.1 trillion (USD 102 bn) for FY2020.

Outlook

We expect another 25bps of rate cut to happen in the upcoming monetary policy in April so that the repo rate goes back to the same level from where this tightening cycle started as the risks and concerns we saw in 2018 for local markets are behind us on account of significant improvement in macro environment. The oil prices remain supportive and contained at around 60-70$ a barrel. Hawkishness and aggressive rate tightening from FED has now stopped. The global commodity cycle which peaked off in 2018 has come off significantly. There is global disinflation and outlook for the monetary policy across the globe indicates a lesser aggressive monetary tightening path from the central banks. On the domestic front, retail inflation prints approached the lower band of the targeted inflation target of 4%+/-2% (2%-6%). On account of benign inflation prints in recent months as well as expectation of inflation remaining well below the central bank target of 4% for entire 2019, we expect another 50-75bps of rate easing from the central bank in this calendar year. Since the environment is supportive of local bond yields, we have moved from an underweight stance on duration last year to be marginally overweight and are running a modified duration of around 5.3 years which we think is appropriate in the current environment to try and capture the easing cycle. The fund is also running an attractive carry of around 8.7% on account of credit spread blowout which happened last year, in spite of a recent rate cut which led to bond yields drifting downwards. With systemic liquidity improving considerably in last few months on account of central bank liquidity injection measures, we expect the normalcy to start coming back to credit markets leading to credit spread contracting further, the initial signs of which we have already seen happening during the month of March.

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United Arab Emirates
The Fund is registered with the Securities and Commodities Authority ("SCA") of UAE as a foreign investment fund. The fund can be offered and marketed by licensed distributor who has individually obtained approval from SCA to distribute this Fund. The information on the list of licensed distributor for this fund will be available from the investment manager of the Fund.

U.K
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Copies of the legal documents can be obtained in English, free of charge, from the Facilities Agent at 120 New Cavendish Street, London W1W 6XX, United Kingdom. The promotion of the Company in the United Kingdom can be carried out by persons authorized to carry on investment business in the United Kingdom under the FSMA and is not subject to the restrictions on promotion contained in section 238 of the FSMA. The FCA has not approved and takes no responsibility for the contents of the Prospectus or the UK Country Supplement or for any document referred to in them, nor for the financial soundness of the Fund or for the correctness of any statements made or expressed in the Prospectus or the UK Country Supplement or any document referred to in them.

United States of America
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