EQUITY REVIEW

Commentary on Equity Markets

The MSCI India Index started the month at 17.66 and closed at 16.41, decreasing by 7.1% over the month. As per latest data, FIIs were net sellers in Equity with outflow of USD 3.68 Bn and in Fixed Income with outflow of USD 1.26 Bn. Domestic Institutions were net buyers in equities with net buying of USD 2.96 Bn in the month.

Commodities and Inflation

NYMEX Crude Oil prices fell by ~10.8% from the previous month levels, ending at 65.31 per barrel; the prices were higher by ~20.1% yoy. LMEX closed at 2856.6 lower by 4.6% over the month (lower by ~12.4% yoy). Gold prices closed at USD 1217.79/oz higher by ~2.95% over the previous month (lower by ~4.34% yoy). The USD Index rose by ~2.1% vs. other currencies over the month; over the year the USD Index was higher by ~2.72%.

September CPI at 3.77% (vs 3.69% in August) came in lower than expectations tracking a sharp fall in food prices and soft core momentum. While the global crude oil price rise and the sharp depreciation in INR (adversely impacting fuel prices) were passed on in retail fuel prices, support came in from substantial decline seen in food index and softer core pressures. Inflation details indicate sharp fall in daily consumption food items (largely perishables) albeit a steep jump in retail fuel prices. Core inflation stood at 5.81% vs 5.92% in August. Core inflation ex-Transport & Communication stood at 5.4%. H1FY19 core inflation and headline CPI have averaged 6.1% and 4.3% respectively. Headline rates are likely to moderate going into calendar year end and inch up going into Q4FY19. Core inflation is likely to remain above 5%

Markets & Real Economy

August IIP at 4.3% gained despite adverse base effect from seasonally adjusted expansion in activity. YTD FY19 production stands higher at 5.2% vis-à-vis 2.3% seen in Apr-AugFY18. Mining, Manufacturing and Electricity grew -0.4%, 4.6% and 7.6% respectively. Primary goods (+2.6% YoY) came in lower tracking a strong base effect. On output basis it gained support from the heavyweight Electricity however lost out from the heavyweight Mining that contracted. Capital goods (+5%) remained supported by items such as Commercial vehicles and Transformers. Performance of Intermediate goods (+2.4%) marked tepid improvement indicating some revival of production ahead for the festive demand. Infrastructure goods (+7.8%) remained healthy with growth seen in cement. Consumer durables (+5.2%) moderated tracking base effect while Non-durables (+4.3%) gained.

As per the latest RBI data, Forex reserves position declined to USD 393.52 Bn over the month. The Rupee weakened over the month closing at 73.9513 Rs/USD vs. 72.5330 Rs/USD last month.

Sector-wise Performance

Key outperforming sector during the month was Industrials. Stocks within the sector have held their ground amid the sharp fall in market as the sector had already gone through a phase of correction over the last 6-8 months and valuations had corrected to reasonable levels. Moreover, the sector stands to benefit from operating leverage if the growth momentum remains strong and capital investment picks up. Within the sector, our preference is towards companies which have shown steady return on capital and low leverage across cycles and have the ability to grow while maintaining a healthy Balance Sheet. Key underperforming sector during the month was Oil & Gas. The weakness was led largely by a fall in oil PSUs. The fall was triggered by the surprise announcement by the Government that in order to absorb the impact of rising crude oil price and depreciation INR on retail fuel prices, the oil marketing companies will have to take a price cut of Re 1 per liter, in addition to the cut in excise duty taken by the Government. This move gave rise to fears that more such moves may happen in case crude oil price continues to rise, thereby bringing to an end the phase of market determined fuel pricing. In addition to OMCs, even oil producers like ONGC Ltd may have to be asked to bear some burden in case the subsidy mechanism is brought back in an extreme scenario. We have always been stating that the Government's resolve to do away with administered fuel prices in the long run will be tested in a scenario of rising crude prices. We continue to maintain our negative view on the sector.

Key Stock Movements

Divis Laboratories Ltd – Divi's Laboratories is a contract manufacturing company in the pharmaceuticals sector and operates in two segments: (1) Generics, where it manufactures patent-expired APIs for customers, and (2) Custom Synthesis, where it offers custom active and advanced ingredients manufacturing for molecules under clinical development though early trials to commercialization. The stock has outperformed on the back of better than expectations results with the company delivering healthy growth and improvement in margins. We remain positive on the stock.

Emami Ltd – Emani Ltd is among the leading Indian FMCG companies, with a diverse portfolio of ~300 products in both the personal care and healthcare category. The company is the pioneer of the Men's fairness cream in India and is a market leader in several fast growing categories, like cooling oil and antiseptic cream. The company also exports products to 60 countries in the world and international business now contributes c.14% of sales. The stock has underperformed as the company has disappointed on growth and has also seen pressure on margins due to high raw material prices. While the stock has corrected significantly, we are not currently increasing exposure and will continue to monitor the stock before taking any further action

Market Outlook

Over the last couple of months, the frontline indices have corrected by ~10% and the fall in the mid-cap and small cap stocks has been even sharper led primarily by a global risk-off being created due to sharp rise in US yields and concerns emanating from the US-China trade tensions. The fall has been sharp across emerging markets with both stock prices and currencies coming under pressure. On the domestic front, the situation got exacerbated due to the fear of a system-wide liquidity crisis stemming out from the IL&FS default and concerns about lack of availability of capital to sustain economic growth. While the global factors still prevail, especially on the trade front, the situation within has not shown any signs of escalating with system-wide liquidity remaining sufficient and various NBFCs / HFCs being able to service their liabilities so far. The correction has brought the overall market back to reasonable valuations and there are pockets of opportunity starting to emerge. While it's too early to conclude that the crisis has been averted completely, incremental news flow is supportive with crude oil correcting and INR stabilizing. Yields in the debt market have also normalized from the heightened levels seen towards end of September and early October. We remain positive on India's growth potential and see this correction as an opportunity for long term investors.

FIXED INCOME REVIEW

India's consumer prices (CPI Inflation) went up marginally to 3.77% in September 2018 from 3.69% in August 2018. However, the inflation print came in lower than market expectations on account of subdued food inflation due to more than expected fall in vegetable, fruits and protein goods. Food and beverages recorded a modest uptick to 1.1% in September 2018 from 0.8% in August 2018 primarily due to an adverse base, as on a sequential basis the index contracted due to contraction in vegetable, fruits, pulses, cereals and protein goods prices on a monthly basis from the levels in August 2018. The core-CPI inflation eased to 5.8% in September 2018 from 5.9% in August 2018 driven by deceleration in housing inflation, clothing and footwear. Though the inflation related to fuel and light dipped mildly to 8.5% in September 2018 from 8.6% in August 2018, it remained at higher levels on the back of high petrol and diesel prices. The Wholesale Price Index (WPI) went up to 5.1% in September 2018 from a level of 4.5% in August 2018 on the back of a continued increase in the fuel and power inflation.

The Monetary Policy Committee (MPC) in its fourth bi-monthly monetary policy for fiscal year 2018-2019 surprised market by maintaining status quo in the Repo Rate and changing its stance to calibrated tightening. Market participants were expecting a rate hike by RBI due to the ongoing factors viz. the sharp fall in INR, rise in US treasury yields and the volatile crude oil prices. RBI also revised its inflation forecast downwards citing the recent softening in food prices and excise duty cut by government. However, MPC mentioned certain factors that might put upward pressure on inflation. These include volatile crude oil prices, MSP implementation, INR depreciation, possible fiscal slippage, and global market uncertainties. The central bank also reiterated that it would only be intervening to manage volatility and not the levels of the currency.

Outlook

The MPC decision which came as a surprise to the market participants provides a very strong signal of the central bank sticking to the inflation targeting policy framework. It also signaled to the markets that the central bank would not use interest rates to defend the currency. We expect RBI likely to be watchful of inflation prints in coming months before taking any call on rates. Going forward, the impact of the movements in global crude oil prices on inflation, fiscal situation and the current account deficit, would determine the direction of domestic bond yields as well as the trend in the INR relative to the US dollar. Moreover, bond yields would also take a cue from domestic fiscal trends, the likelihood of a sustained pipeline of open market operations and the level at which US treasury yields settle.

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Guernsey

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Hong Kong

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Ireland

The Fund is an open-ended investment company with variable capital incorporated with limited liability in Ireland under the Companies Acts, 1963 to 2012 with registration number 516063 and established as an undertaking for collective investment in transferable securities pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011). The Fund is both authorised and supervised by the Central Bank. Authorisation of the Fund by the Central Bank shall not constitute a warranty as to the performance of the Fund and the Central Bank shall not be liable for the performance or default of the Fund. The authorisation of the Fund is not an endorsement or guarantee of the Fund by the Central Bank and the Central Bank is not responsible for the contents of the Prospectus of the Fund.

Singapore

The Fund is a recognised scheme under the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). A copy of the Singapore Prospectus has been lodged with and registered by the Monetary Authority of Singapore ("MAS"). Investors from Singapore must read the Singapore prospectus and the product highlights sheet before making any investment decision. The MAS assumes no responsibility for the contents of the Singapore Prospectus. Registration of the Singapore Prospectus by the MAS does not imply that the SFA or any other legal or regulatory requirements have been complied with. The MAS has not, in any way, considered the investment merits of the Company. The distribution of this Singapore Prospectus and the offering or sale of the Shares in the Company in some jurisdictions may be restricted or prohibited. Persons who have possession of the Singapore Prospectus of the Fund must inform themselves about and observe such restrictions or prohibitions.

Switzerland

The Company is authorized for public distribution in and from Switzerland by the Swiss Financial Market Supervisory Authority ("FINMA"). Investors from Switzerland should read the Consolidated Prospectus for use solely in Switzerland. The representative and paying agent in Switzerland is RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich, Switzerland (the "Representative"). In Switzerland, the funds prospectus, Key Investor Information Document (KIID), the articles of association, the annual and semi-annual reports may be obtained free of charge from the Representative. In respect of the units distributed in and from Switzerland, the places of performance and jurisdiction is the registered office of the Representative.

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

Any financial promotion contained herein, as defined by UK regulations, has been approved by UTI International Limited (FCA no:183361); a firm authorised and regulated by the Financial Conduct Authority ("FCA") U.K. The Fund mentioned herein has been recognised by the FCA pursuant to section 264 of the FSMA. Facilities Agent is UTI International Limited,120 New Cavendish Street, London W1W 6XX, United Kingdom. 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

The Shares have not been nor will they be registered under the U.S. Securities Act of 1933, as amended (the "1933 Act"), or registered or qualified under the securities laws of any of the states of the United States. The Shares may not be offered, sold or delivered directly or indirectly in the United States or to or for the account or benefit of any "U.S. Person" (as defined in Regulation S under the 1933 Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the 1933 Act and any applicable state securities laws. Neither the Company nor any Fund will be registered under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), pursuant to Section 3(c)(7) of the 1940 Act. Accordingly, Shares will only be sold to "U.S. Persons", as defined in Regulation S under the 1933 Act, who are "qualified purchasers", as defined in the 1940 Act or the regulations thereunder, or as otherwise consistent with Section 3(c)(7) of the 1940 Act. Each subscriber for Shares that is a U.S. Person, as defined in Regulation S under the 1933 Act will be required to certify that it is both an "accredited investor" as defined in Regulation D under the 1933 Act and a "qualified purchaser" as defined in Section 2(a)(51) of the 1940 Act or the regulations thereunder. The qualifications for an "accredited investor" and a "qualified purchaser" are set out in detail in Appendix III to this Prospectus. The Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC") or any state securities commission, nor has any such regulatory authority passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is unlawful. The Directors do not intend to permit Shares of any Fund of the Company acquired by investors subject to the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and by other benefit plan investors, as defined in ERISA, to equal or exceed 25% of the value of any such Class (determined in accordance with ERISA). Accordingly, each prospective applicant for Shares will be required to represent and warrant as to whether and to what extent he is a "benefit plan investor" for the purposes of ERISA. For additional information on investments by U.S. Persons, including certain U.S. securities law, U.S. federal tax, and ERISA and other benefit plan considerations, please see Appendix III to this Prospectus.

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