

*Protecting, Unlocking and Creating
Value in India*



大洋

TGIF Fund Overview

Materials prepared for:



September 25, 2018

Fund data updated as of **9/21/2018**



Agenda

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1. Performance Summary, Attribution, and Corrective Action

2. Team Update

3. Current Portfolio Engagement Highlights

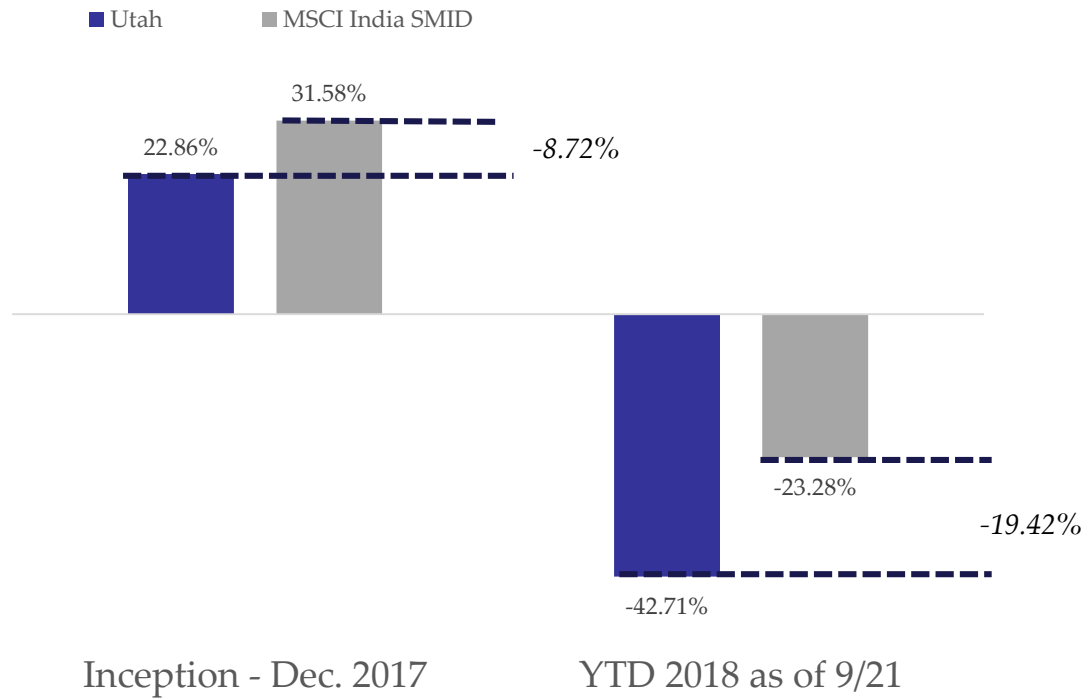


Investment Performance

SITFO Performance by Period (USD Gross of Fees)¹

SITFO ITD Performance

Returns by Period



Absolute
-29.6%
 (3/22/2017-9/21/2018)

Relative to Index
-30.6%
 (3/22/2017-9/21/2018,
 vs. MSCI India SMID)

Key Detractors:
 Glenmark Pharmaceuticals
 Kwality

Key Detractors:
 Vakrangee
 Kwality

Data as of 9/21/2018
 Inception date is 3/22/2017

Past performance is not indicative of future results.



Key factors driving underperformance to date

❖ Factor 1: “Quality at a discount” opportunities disappeared in a rising market

- Real cheap stocks remained cheap for a reason

❖ Taiyo Corrective Action:

- Reallocation towards quality and growth at a reasonable price

❖ Factor 2: Renewed focus on auditor fiduciary duty caused landmines to explode

- Increased scrutiny caused a record 59 auditors to resign from Indian public companies, including Vakrangee

❖ Taiyo Corrective Action:

- Red Flag Tool to highlight potential audit risks

❖ Factor 3: Our attitude towards trust shifted

- We were burned by some relationships we thought we could trust

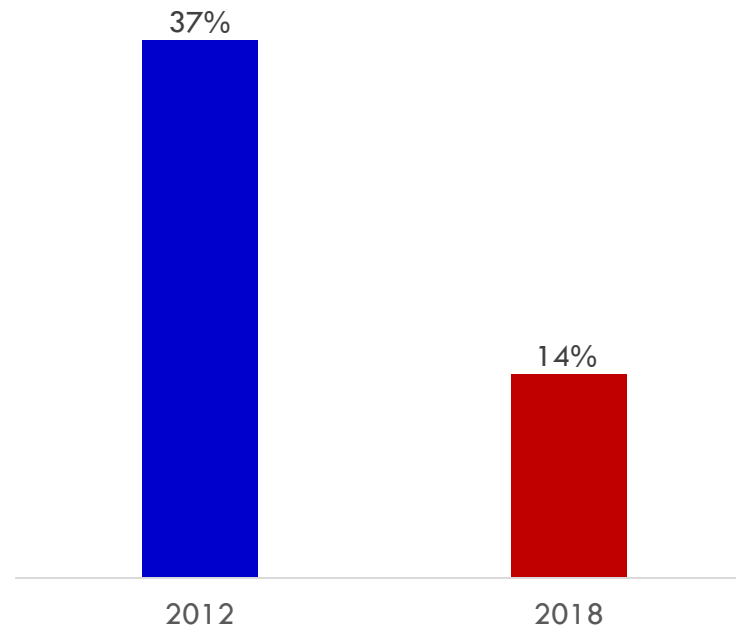
❖ Taiyo Corrective Action:

- *Trust but verify* became *Never trust, and verify, verify, verify...*
 - Vakrangee: **exited** (Trust)
 - Glenmark: **exited** (Verify)
 - Kwality: **exited** (Trust)
 - TAKE: **evaluating** (Trust)
 - Granules: **exited** (Verify)
 - BLS: **evaluating** (Verify)



Factor 1: “Quality at a discount” opportunities disappeared in a rising market

% of stocks with P/Ec ratio below 12...



The remaining “cheap” companies were more likely to have “trust” issues

Source: Factset

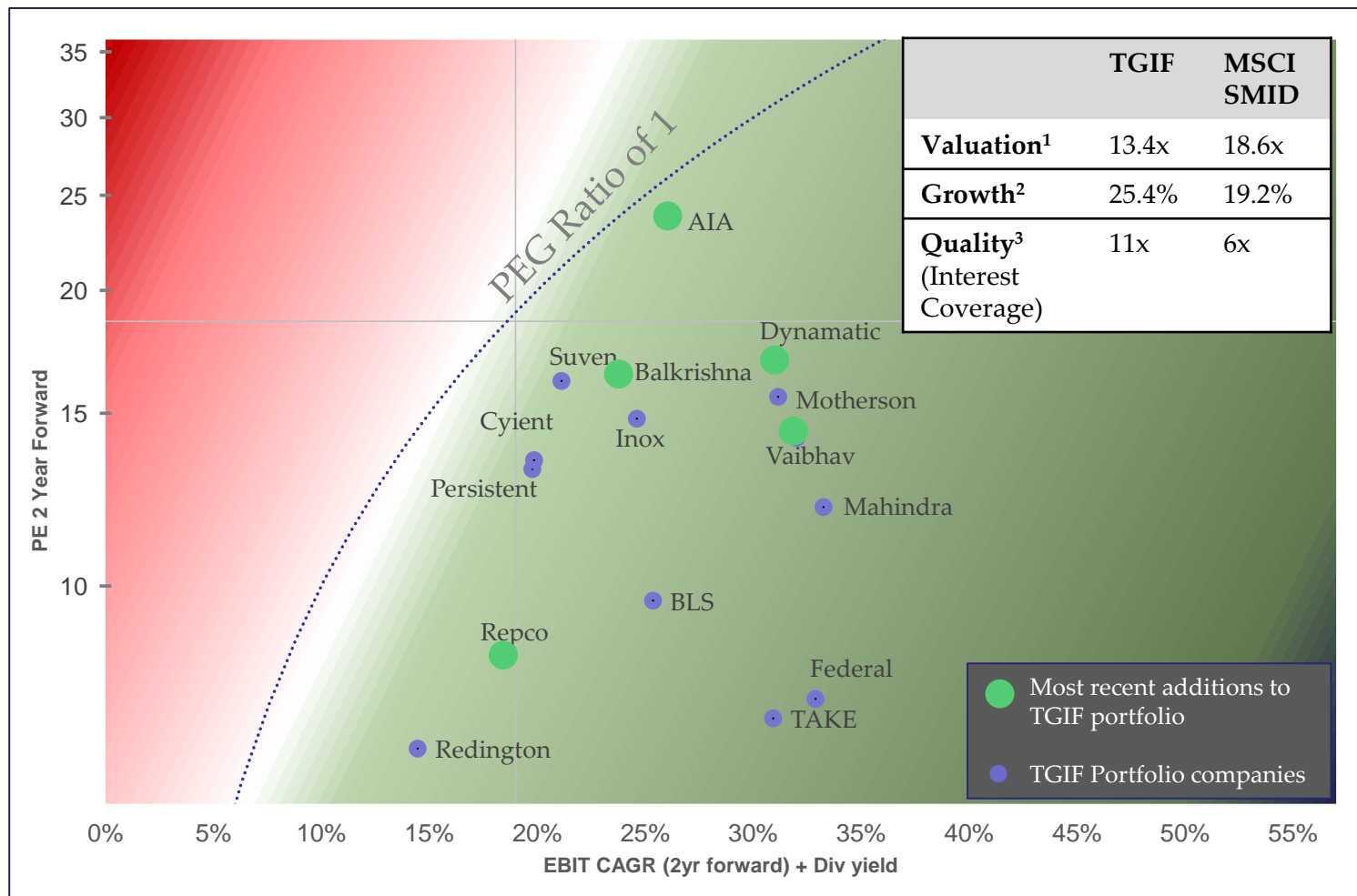
P/E: Current Price to Earnings Ratio

Market Cap between \$200mn \$2bn



Taiyo Corrective Action: reallocation towards quality and growth at a reasonable price

❖ PEG ratio allowed us to evaluate higher valuation stocks with attractive growth



1 Valuation: 2 Yr Forward P/E

2 Growth: 2 Yr Forward EBIT CAGR

3 Quality: EBIT/Interest. Does not include financial companies

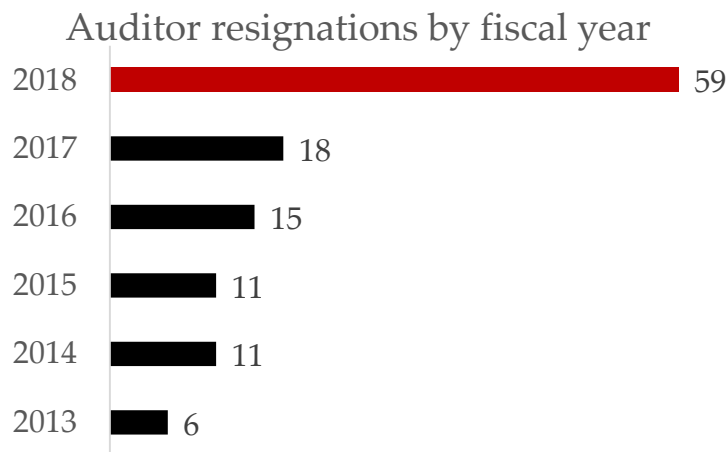
Factor 2: Renewed focus on auditor fiduciary duty caused landmines to explode

Modi's government increases pressure on auditors to fulfill their duty...



- ❖ On July 1, 2017, Modi challenged auditors to **more effectively monitor India's public companies**
- ❖ "Who do you work for: client or country? ...Your signature carries immense faith: do not break that trust that is placed on you." – Narendra Modi, 2017
- ❖ A **new regulatory body**, National Financial Reporting Authority (NFRA), was established to *punish* auditors who failed in their duties

Which caused auditors to quit questionable companies in record numbers...



...which caused some auditors to quit questionable companies

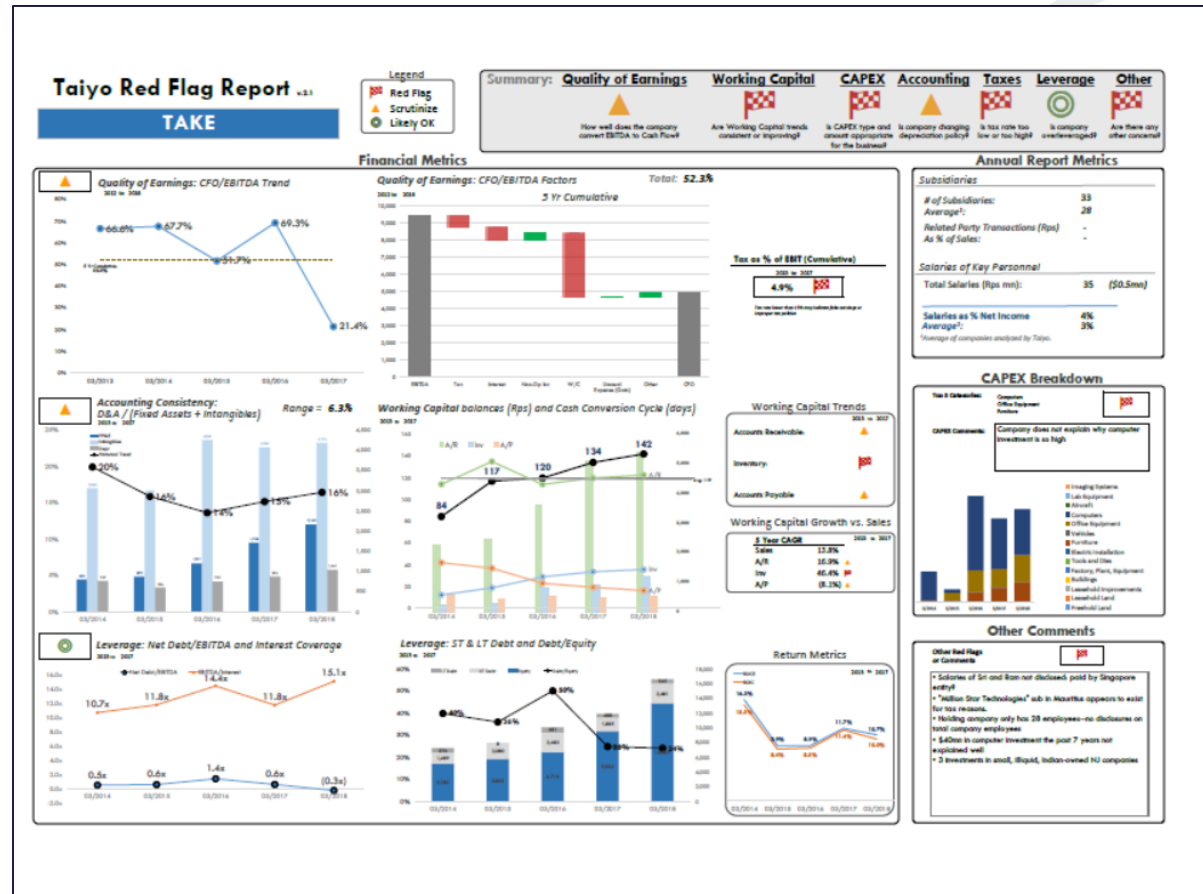
"[Vakrangee's] answers to some of the queries raised by us are **inadequate or contradict earlier explanations** and thus do not provide us with appropriate audit evidence required as per professional standards to enable us to carry out the statutory audit engagement"

--letter from pwc to Vakrangee
April 27, 2018



Taiyo Corrective Actions: Highlighting potential risk factors with the Red Flag Report Tool

- ❖ Incorporate BEFORE investment and annually for all investments
- ❖ Tracks 7 different aspects of the company for risks:
 - Quality of Earnings
 - Working Capital Changes
 - CAPEX uses and amounts
 - Accounting irregularities
 - Tax Rate
 - Leverage
 - Annual Report Forensic results, including Pledged Shares
- ❖ Use for evaluating current and potential portfolio companies
 - TAKE: **evaluate**
 - BLS: **evaluate**
 - Amara Raja: **rejected**
 - Eveready: **rejected**



Taiyo Corrective Actions: We have begun using professional due diligence firms



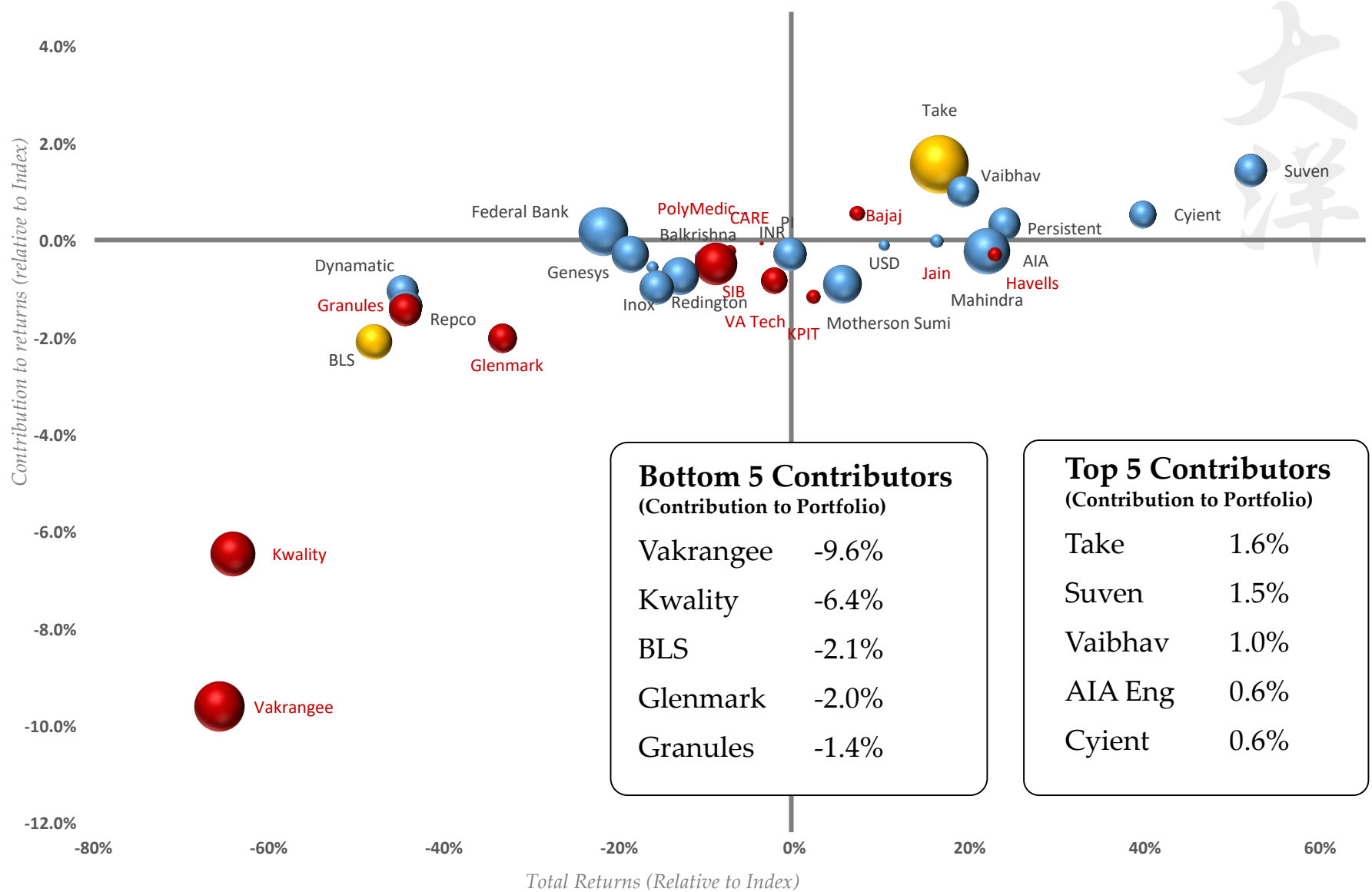
- ❖ Taiyo is currently testing several providers of professional due diligence

Services: Due diligence research

- Background and market reputation of Promoter and Company
- Reputation of subjects and any background of illegal activities
- Political or governmental connections
- Association with “disreputable” people
- Default and bankruptcy risk of subjects
- Criminal database review

- ❖ **We are managing these providers in order to learn risks and opportunities of potential investments before undergoing an investment.**




Factor 3: Trust. Performance Attribution ITD (3/22/2017 – 9/21/2018)



Kwality: Pledged shares and manipulation led to large price decline

- ❖ Taiyo equity investment followed \$500mn debt commitment from KKR
- ❖ Reason for underperformance
 - September 2017: despite business progress, stock suddenly dropped on no news
 - We later discovered that in September, a director pledged 100% of his shares (8% of the company) *without disclosure*, to a stock manipulator
 - The stock manipulator secretly sold these shares in the market over 6 months, then fled India
 - Promoter pledged shares to brokers caused continuous forced selling as the price declined
- ❖ Taiyo exited upon discovering the manipulation scheme in April 2018. The stock is down 72% since our exit.

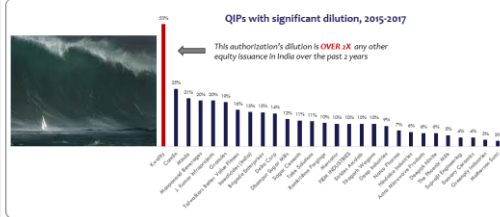
We believe investors are concerned about unknown risks

<p>Reasons to Invest</p>  <p>Growing Dairy Market -10%+ per year</p> <p>Switching to B2C - Better W/C efficiency - Higher Margins - Stronger Brand</p> <p>Sourcing more Direct - Currently 22% Targeting</p> <p>Cheap Valuation - 9x NTM P/E vs. peer avg</p>	<p>Reasons for Caution</p>  <p>Execution Risk</p>	<p>Reasons for Concern</p>  <p>Large QIP Authorized</p>
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Reason for Concern: 15bn Equity Allowance and the threat of massive dilution adds to investor concerns

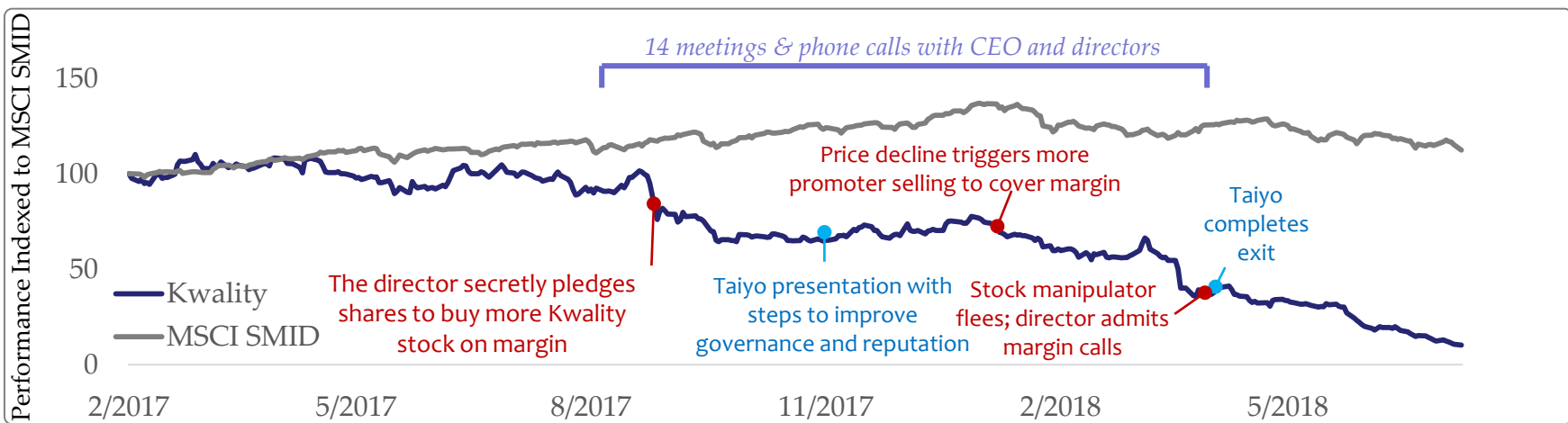
At 17/share, 15bn issuance would be **53% dilution**.

We looked for Indian companies who had issued equity resulting in 53% dilution in the past 2 years. **There weren't any:**



Let's look at how dilution impacts investors...

Presentation to Kwality Promoter, November 2017

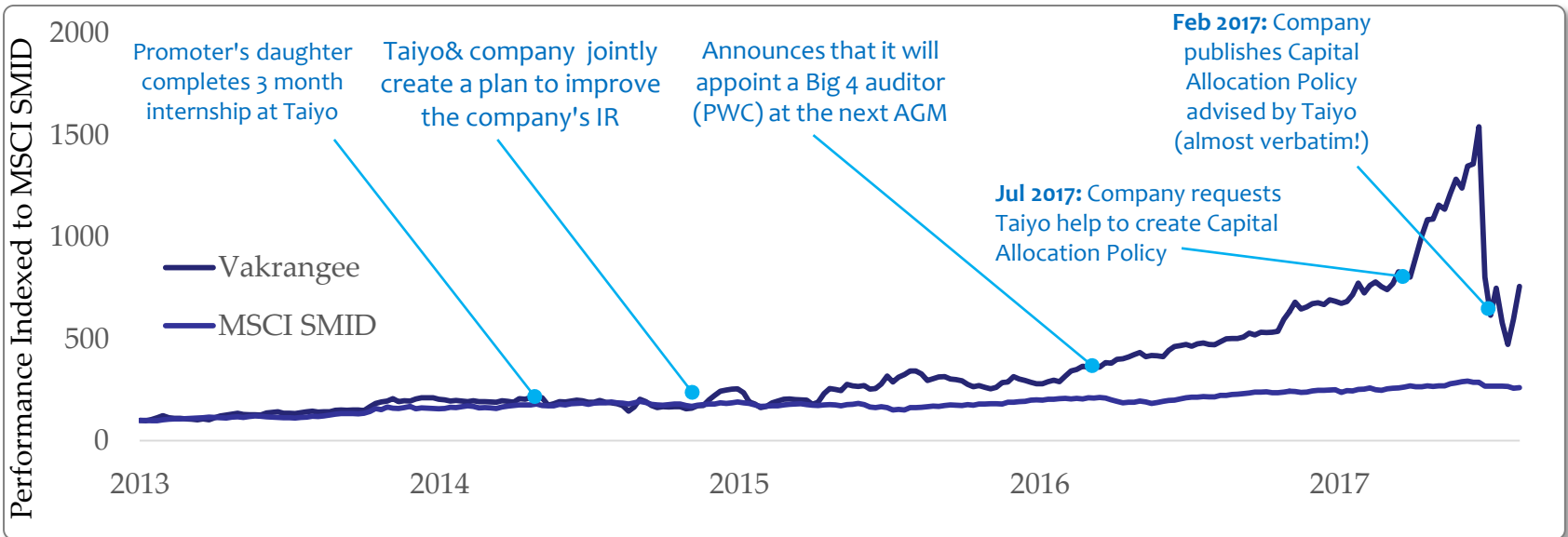


Trust with Vakrangee: Between 2013-2016 the company cooperated with Taiyo to improve significantly on IR and strategy

❖ Key Engagement Successes:

- Improved company's IR
- 3-month internship with Promoter's daughter
- Appointed Big 4 Auditor
- Advised on Capital Allocation Policy

❖ For the first 4 ½ years of our engagement, Vakrangee made tremendous improvements in strategy and IR.

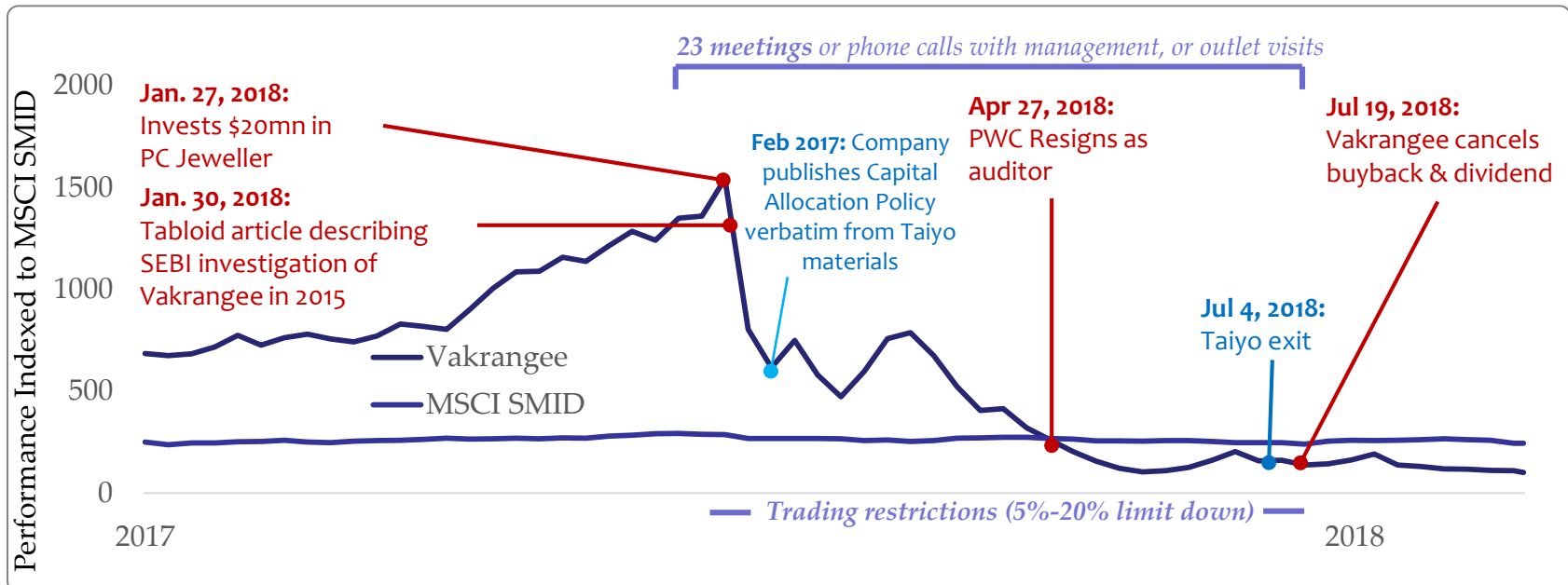


But in 2017-2018, aggressive growth led to lower business quality and likely led to fraud

- ❖ In 2017 and 2018, they targeted opening 15,000 new outlets/year — more than any other global franchise.
- ❖ We visited new outlets in the beginning of 2018 and discovered some franchisee owners who complained of lack of support
- ❖ After PC Jeweler fiasco, the company followed our advice to announce buyback & dividend, but we began to have more concerns:
 - The promoter was focused on future outlets, which made us suspect current outlet revenue was not what they claimed
 - He was increasingly hostile and defensive
- ❖ Based on this new information we exited on July 4th, 2018.



Presentation to Vakrangee Promoter



Agenda



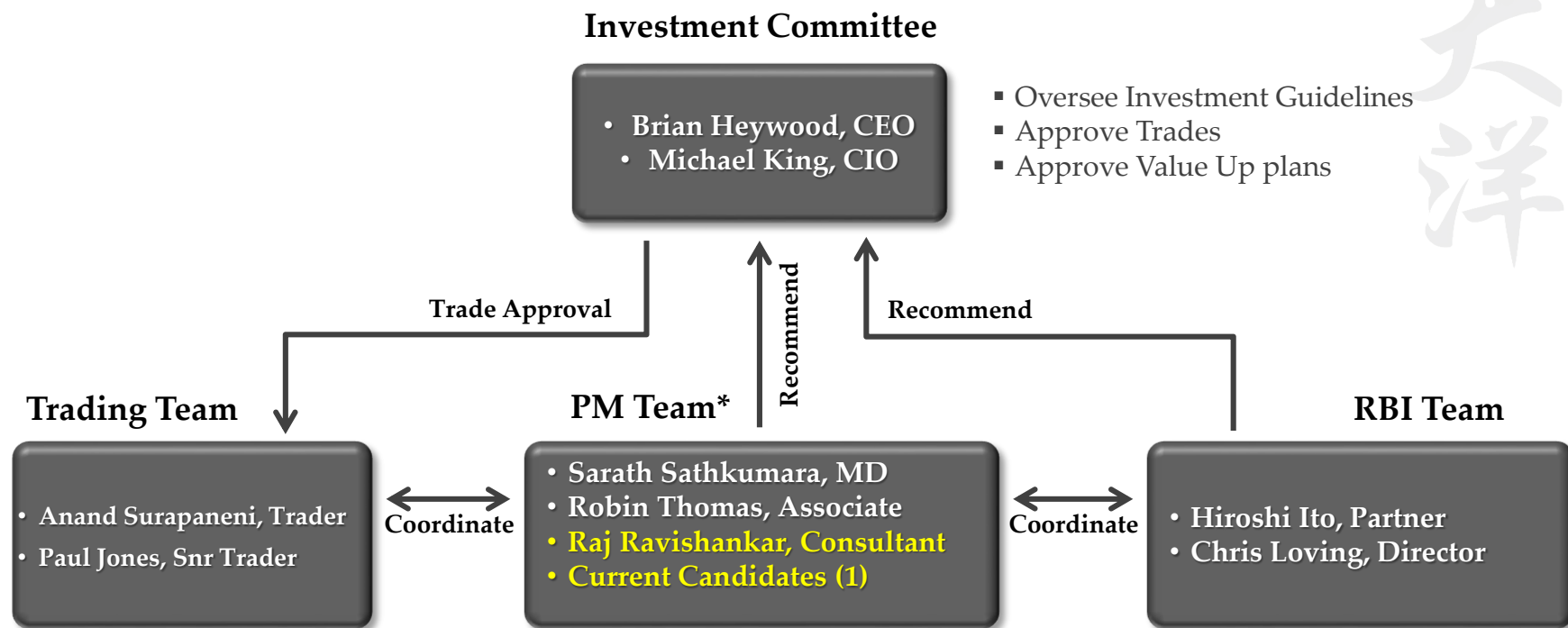
1. Performance Summary, Attribution, and Corrective Action

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Team Update: PM search for 1 additional candidate continues, but rest of the team remains dedicated to TGIF



*Badan Tuladhar left April 2018



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Engagement Update: Highlighted recent engagement activity

Dynamic Technologies: Financial Workshop

August 13, 2018 (Bangalore, India)



DYNAMATIC TECHNOLOGIES



Dynamic: the only Tier 1 Aerospace supplier in India

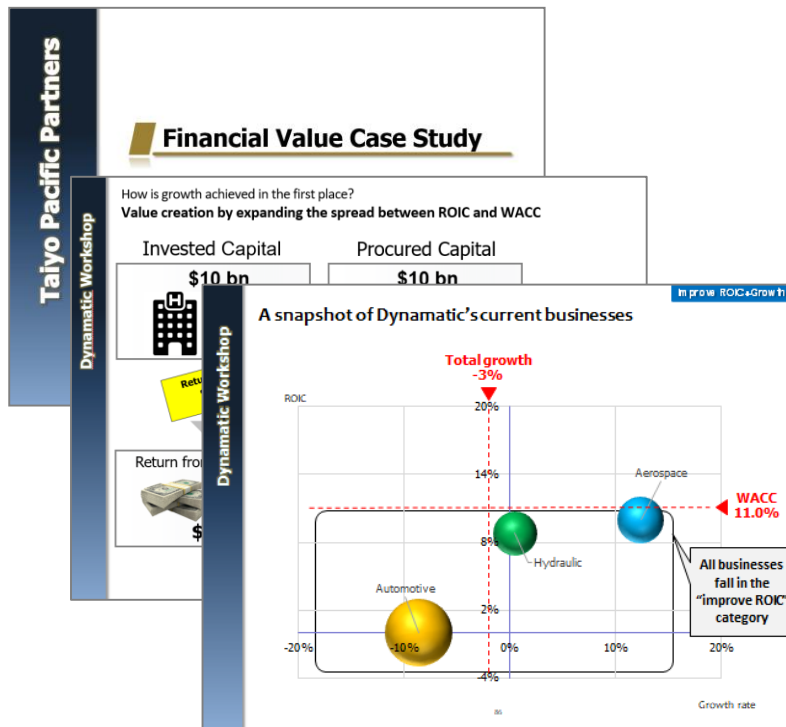
- Dynamic Attendees: 14
 - Including CEO, CFOs, Factory heads
- Focus: Emphasizing returns vs. growth

CEO/Founder Feedback:

"We have spent the last 3 years building strong relationships with our customers...now we need to focus on building better *returns* for our shareholders.

"We will make Value Creation the theme of 2019."

---Toby Malhoutra, CEO



Next Step: Nov 2018

Taiyo Presentation at the Dynamic Global Leadership Summit

Engagement Opportunity Highlights



One of the two largest visa processors around the globe...

A \$250mn company operating in a \$100bn industry

PM Investment Thesis:

- ROE of 30%+, Sales growth of 30%
- P/En of 11x
- Huge addressable e-government services market
- Punjab receivable challenge to be overcome by March 2019

Engagement Focus:

- Visiting Punjab facilities to ensure outlet quality
- Providing management with prioritization discipline



The largest distributor in India...relied upon by Apple, Samsung, and other major players

PM Investment Thesis:

- GST and other Modi efforts will make it easier for Redington to cut costs and redundant facilities
- Adding high margin services to increase ROE (currently 13%)

Engagement Focus:

- Encouraged company to take on more debt and buy back shares to lower cost of capital and increase ROE
- In September 2018, company announced buyback of 2.5% Shares O/S



Engagement Opportunity Highlights



Small batches lead to high returns: A 25% ROE drug manufacturer with an imbedded development operation

PM Investment Thesis:

- Almost every global pharma manufactures some R&D drugs at Suven's facility
- At 25% ROEs, 20x P/E, and 30% EPS growth, market is not valuing the business fully

RBI Focus:

- Work with management how to communicate the earnings potential of CMO business
- Help management with long-term structure to separate R&D from CMO.



Peerless auto parts operator with disciplined and proven M&A strategy

PM Investment Thesis:

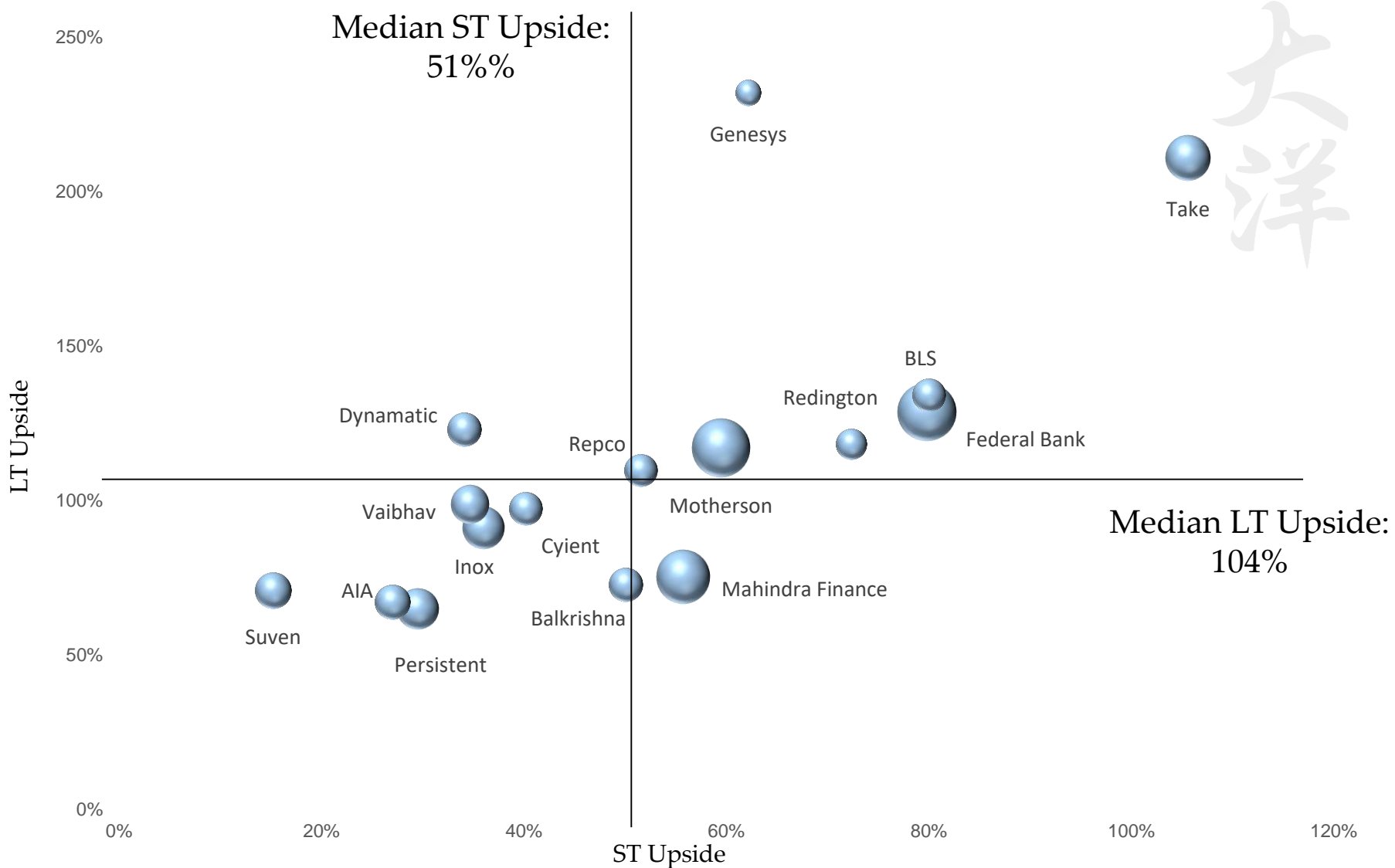
- As buyers shy away due to EV concerns, Motherson can acquire at cheaper prices: in February 2x EBITDA!
- Relentless focus on ROIC

RBI Focus:

- CFO has asked Taiyo to present at a global leadership summit in spring 2019 to help reinforce Motherson Sumi's return-based focus
- "Management understands ROIC well, but when Taiyo emphasizes that it shows we are on the right track!" –CFO Gauba



Taiyo remains committed to bringing upside to SITFO



Appendices



1. Portfolio Company Summaries
2. Tariff Impact Estimates





Appendix: Key Portfolio Company Summaries



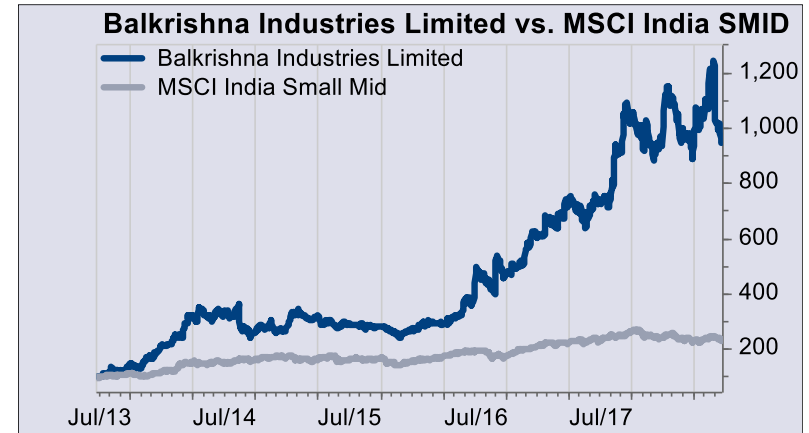
Balkrishna Industries

Off Highway Tire (OHT) manufacturer rapidly gaining market share globally

- Market Cap: \$3.1 bn
- OPM: 16.7%
- ROE: 19.3%

Chairman & MD: Arvind Poddar

Joint MD: Rajiv Poddar



Cost advantage helps gain market share with lower pricing

- Cost advantage earn better margin and gain market share
 - Labor cost advantage vs competitors allows BKT to price their products 20% lower. They still earn 30% EBITDA margins
 - Currently has 3.5% OHT market share and aim to reach 10% in a few years
- Wide distribution network of over 200 distributors in 130 countries
- Offers over 2000 Stock Keeping Units (SKUs) – more than any competitors



AIA Engineering

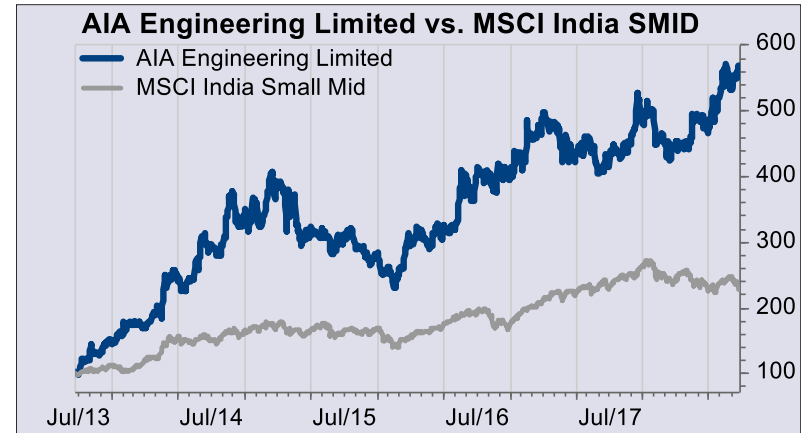
Leader in a global duopoly market increasing efficiency of mining operations

- Market Cap: \$2.4bn
- OPM: 17.5%
- ROE: 15.5%

MD: Bhadresh Shah
CFO: Bhupesh Porwal



AIA Engineering Ltd.



Replacing forged media in global mining will drive future growth

- **Market leader in high chrome mill internals (HCMI)**
 - #2 player globally behind Magotteaux (Belgium). With new expansion plans, soon to become #1 player globally
 - HCMI used as consumable in Mining, Cement and Utilities. 80-90% of revenues are recurring
 - In India, 90% market share in cement & 70% market share in utility
- **Future growth from focus on global mining**
 - Potential HCMI replacement market in global mining is 1.5mn tons vs 0.23mn tons of installed capacity. HCMI is replacing the previously installed forged media
 - Magotteaux and AIA are the biggest players making it a virtual duopoly
 - AIA recently won a prestigious contract from Barrick Gold for 18,000 tons/year



Steel Balls used to crush concrete



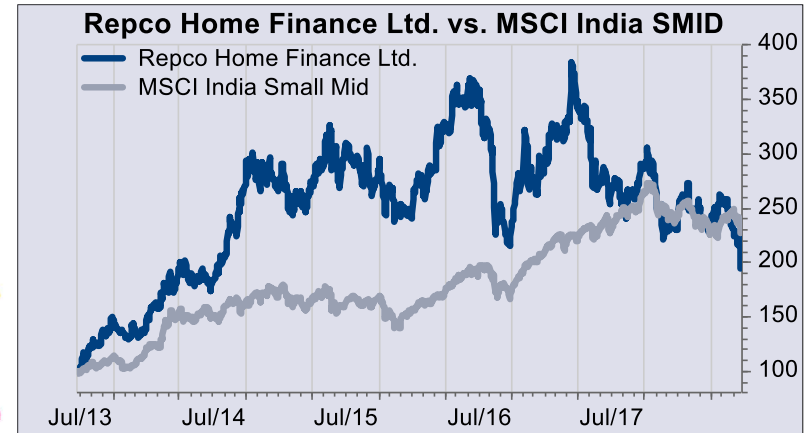
Repcos Home Finance

Home finance company with niche focus on self-employed people & smaller loan sizes

- Market Cap: \$466mn
- ROA: 2.3%
- ROE: 17.2%

MD: R. Varadarajan

CFO: Thangappan Karunakaran



Long runway of growth with low mortgage penetration levels in India

- Limited competition - Focus on self-employed professionals and small loan size
 - More than 50% of Repcos's loans are to self employed professionals, where competition is less as everyone else focuses on salaried people
 - Average loan size is Rs 1.4mn (\$20,000). Competition is less as the big banks focus on higher loan sizes
- Huge market with low mortgage penetration
 - Mortgage penetration is very low in India at less than 10% vs 76% in US
 - Housing Finance Companies like Repcos have been gaining market share from banks and this trend is expected to continue



Persistent Systems

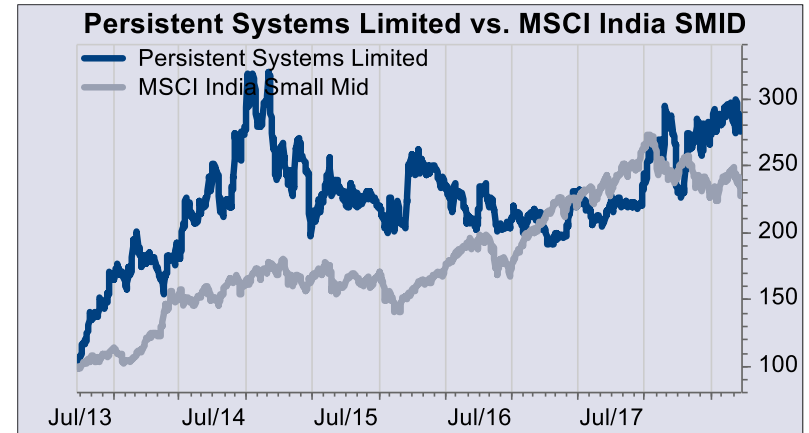
Leading Indian company in the niche Outsourced Product Development space

- Market Cap: \$946mn
- OPM: 10.7%
- ROE: 16%

CEO: Anand Deshpande
CFO: Sunil Sapre



PERSISTENT



Focus on fast growing Social, Mobility, Analytics and Cloud (SMAC)

- **SMAC to be the growth driver for Persistent**
 - Co is focusing on building enterprise products with focus on the Financial services and Healthcare verticals.
 - It has partnership with Salesforce, Appian and Oracle.
- **Partnership with IBM to open opportunities in fast growing Internet of Things (IoT) business**
 - Company entered alliance with IBM in 2016 for its IoT offerings.
 - Persistent gets revenue share and services around IoT products sold by IBM which will results in higher margin



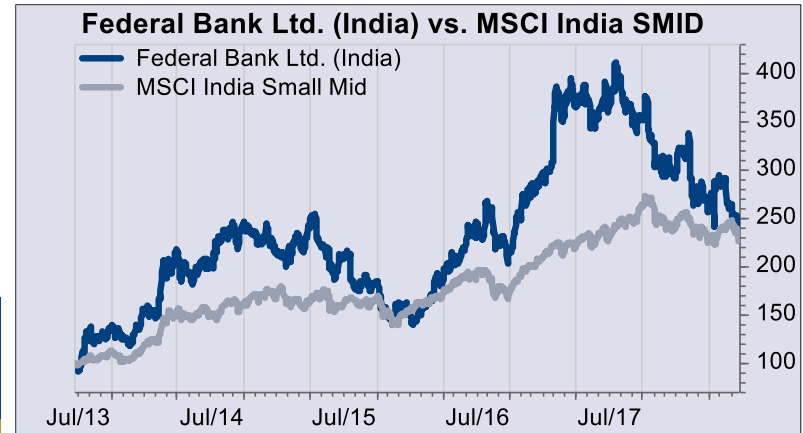
Federal Bank

Largest old private sector bank in India focused on growing conservatively

- Market Cap: \$2.2bn
- ROAA: 0.7%
- ROE: 8.8%

CEO: Shyam Srinivasan
COO: Shalini Warriar

FEDERAL BANK
YOUR PERFECT BANKING PARTNER



Strong brand franchisee in state of Kerala

- Strong brand franchisee in Kerala
 - Strong franchise in state of Kerala with a high share of deposits within the state and 600 branches across the state
- On the growth path after a rough period
 - Federal Bank has written off its bad loans and has resumed growth in a conservative manner by focusing on retail and SME loans
 - They have diversified outside their core state of Kerala and majority of incremental growth is coming from outside the state.
 - Focusing on higher margin non-loan revenues by increasing services offered to clients
 - Hired a new management team from private banks to drive growth



Cyient Ltd

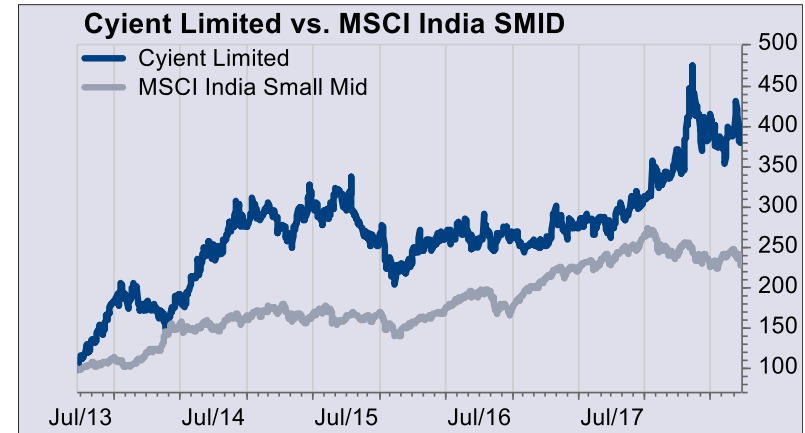
Tech company focused on fast growing Engineering R&D (ER&D) outsourcing business

- Market Cap: \$1.2bn
- OPM: 11.2%
- ROE: 18.2%

CEO: Krishna Bodanapu

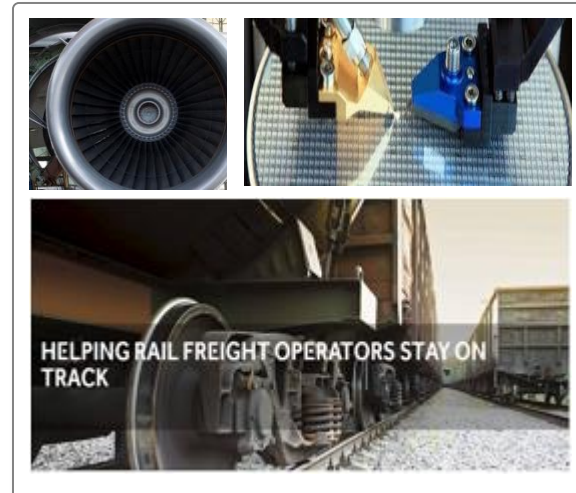
CFO: Ajay Agarwal

CYIENT



Long term relationships with clients leads to stable growth

- ER&D outsourcing to grow 4x by 2020
 - ER&D could be a \$42bn opportunity in 2020 growing at 20% CAGR
- Marquee customers with long standing relationships
 - Cyient has long standing relationships with reputable clients like Tom Tom (20 years), Pratt and Whitney(13 years), Airtel (15 years)
 - Other clients include – Boeing, Airbus, IBM, Bombardier
 - 90% of revenues comes from repeat customers and company has never lost a client
- Focused acquisitions to move up the value chain
 - Cyient has acquired 7 companies in the last 3 years to move up the value chain and increasing engagement with clients



BLS International

One of the largest Visa process outsourcing company in the world

- Market Cap: \$227m
- OPM: 15.1%
- ROE: 45.4%

MD: Nikhil Gupta

Joint MD: Shikhar Aggarwal



Leadership in niche growth market with limited competition

- **One of the largest Visa processors in the world**
 - BLS processes 11mn visa applications per year
 - Hold a 175mn Euro, 5 year exclusive contract with Spain to globally process their visas.
 - Contracts covering 19mn visas/year are up for renewal and BLS bids against one other competitor to win contracts
- **Limited competition with growing market**
 - Visa application outsourcing market is niche and young with very few specialized players.
 - Only 30% of visa processing is being outsourced. Rise in global travel will lead to increased outsourcing.

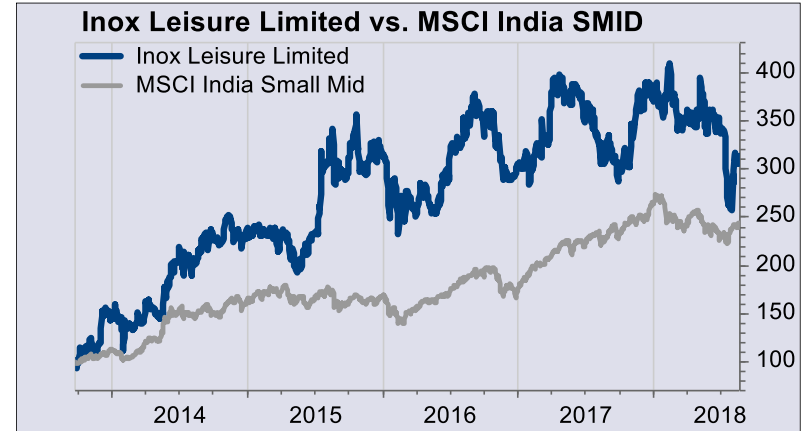


Inox Leisure

A growing theater chain serving India's Hollywood and Bollywood fans

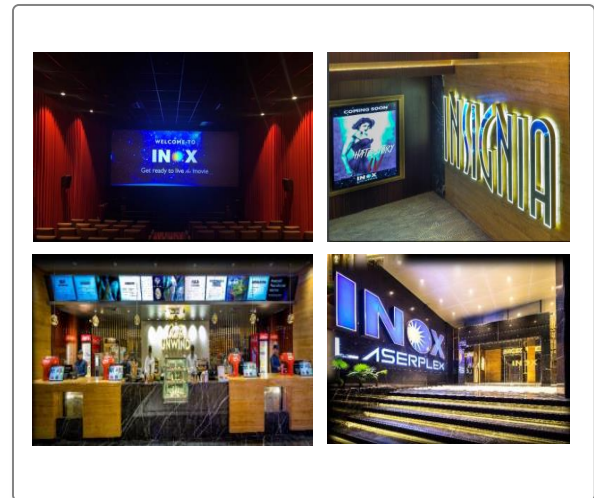
- Market Cap: \$314mn
- OPM: 10%
- ROE: 19%

CEO: Alok Tandon



Oligopoly market with secular long runway of growth

- **India's 2nd largest multiplex theatre chain**
 - 492 screens in 61 cities across India. The company has been adding 3 screens/month for more than a decade
 - 19% share of the multiplex screens in India and 11% share of domestic box office collections
 - Top 4 players have 70% of market share
- **Low penetration leading to secular growth**
 - India has 8 screens/mn population vs 125 screens/mn in USA
 - Inox has plans to add 700+ screens in next few years. High visibility on the pipeline as it backed by signed agreements



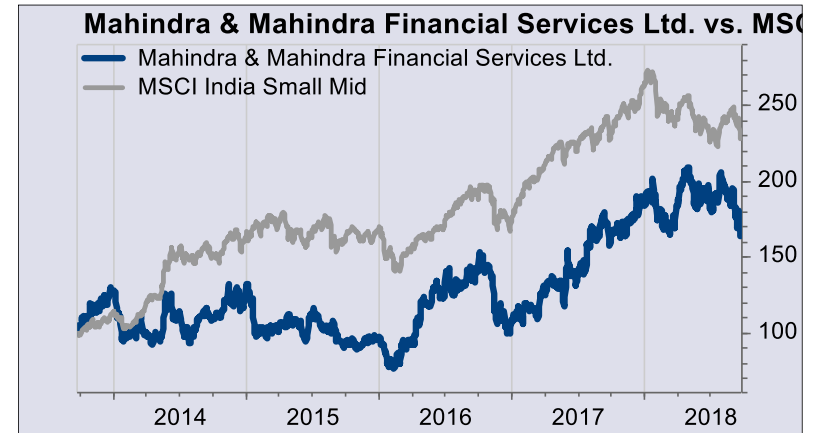
Mahindra Finance

India's leading rural focused financial services company

- Market Cap: \$3.9bn
- OPM: 61.5%
- ROE: 12.1%

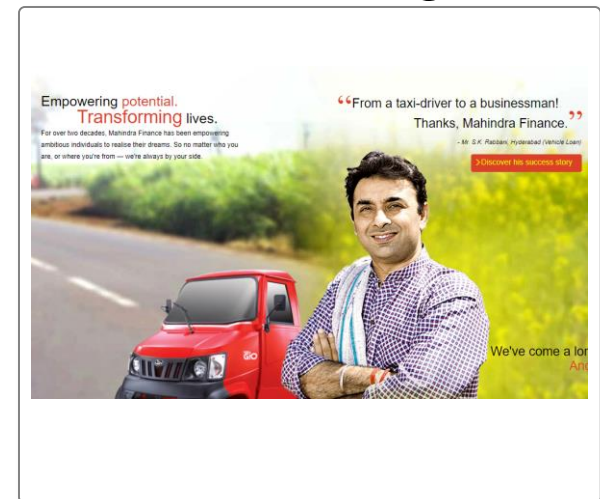
CEO: Ramesh Iyer

Mahindra FINANCE



Leadership position in the underpenetrated rural areas to drive growth

- One of India leading non-banking finance companies
 - Deep reach across India in the rural and semi-urban areas with 1178 branches covering 27 states with its 286K rural touchpoints
 - India's largest tractor financier and #2 in vehicle financing overall
 - Part of Mahindra Group, a business house with strong reputation in India
- Low penetration to drive growth opportunity
 - India currently has 20 cars per 1000 people, and this is expected to grow to 27 car per 1000 people within the next 5 years.
 - Growing prosperity in rural India to drive growth in vehicle sales across segments: passenger vehicles to grow 8-10%, light commercial vehicles to grow 9-12% and tractors to grow 8-10 over next 5 years

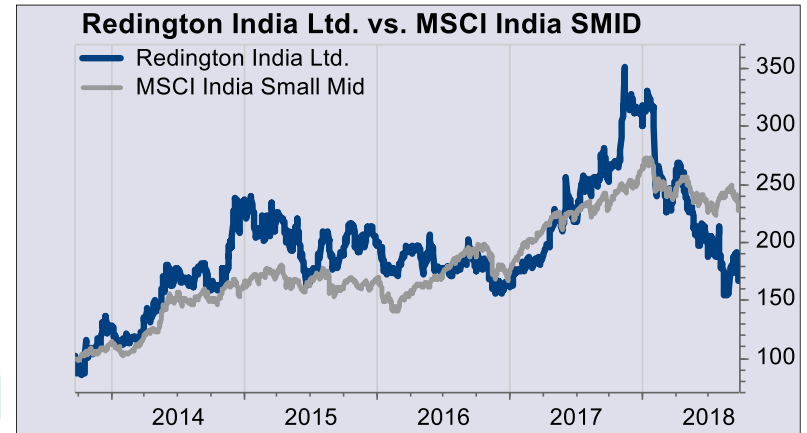


Redington

Largest IT products distributor in India and Middle East

- Market Cap: \$622m
- OPM: 1.9%
- ROE: 14.4%

MD: Raj Shankar



Leadership position makes them distributor of choice for MNC brands

- **Largest distributor in India and Middle East**
 - Largest IT products distributor in India with 35% market share, same as Ingram Micro. Redington sells 100+ brands in India
 - Largest IT distributor in Middle East, Turkey & Africa with 30% market share selling 80+ brands
 - Largest Apple distributor in India. Apple forms 25% of revenues
- **Focus on services to improve margins and ROIC**
 - Increased focus on services which is asset-light and have higher margins
 - Services currently are 3% of revenue but 20% of profits
 - ProConnect, their 3rd Party Logistics division, has grown at 40% CAGR last 5 years

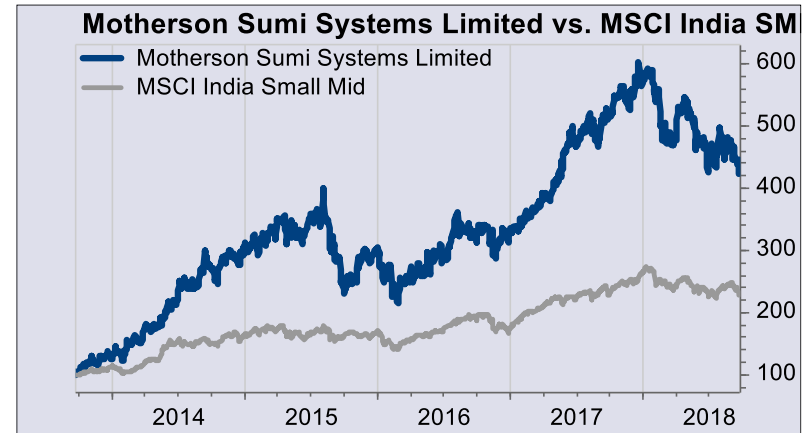


Motherson Sumi

Top tier auto ancillary manufacturer with a strong focus on ROIC

- Market Cap: \$8.4bn
- OPM: 6.3%
- ROE: 17.6%

Chairman: Vivek Chaand Sehgal
COO & ED: Pankaj Mittal



Consistent record of meeting targets and beating expectations

- Market leader for wiring harnesses in India with global leadership positions in mirrors and molded plastic components.
- Growth through transformative acquisitions
 - Its 2 European acquisitions, SMP and SMR, have been transformational moves. Inorganic growth expected to continue to contribute to overall growth. It is currently focusing on expanding its US presence as well as emerging market countries such as China
- Ongoing effort to increase ROIC and diversify revenues
 - Aims to limit any geography or customer to a maximum of 15% of sales.

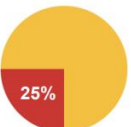
01 Modules, bumpers, door trims and plastic parts



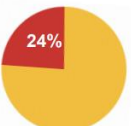
% of MSSL sales*



02 Wiring harnesses



03 Rear view mirrors



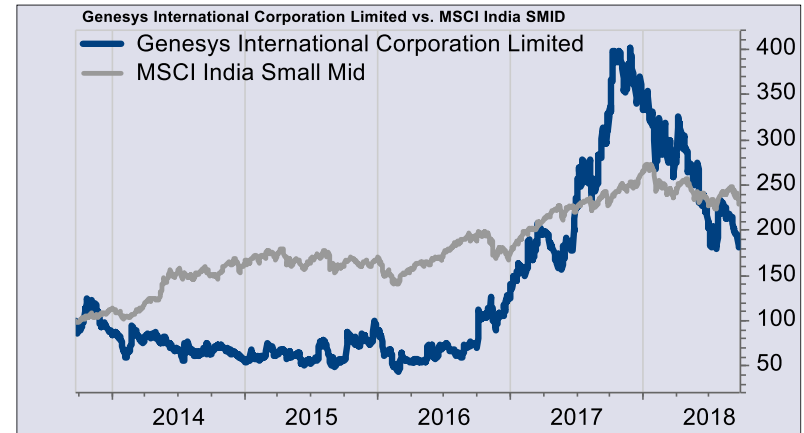
Genesys International

India's leading player in geospatial information services (GIS)

- Market Cap: \$79m
- OPM: 19.1%
- ROE: 12.1%

Chairman & MD: Sajid Malik

GENESYSSM



Leading LIDAR acquisition and processing capabilities globally

- Continues to monetize its strong pipeline of potential products in the GIS space
 - India's first and only company to create highly detailed 3D maps of the top 50 cities
 - Numerous ways to monetize services, including slum mapping, data/maps on urban infrastructure, LIDAR outsourcing services. Clients include corporations + state/local governments
- Partnerships with leading global technology companies driving near term growth
 - Works with leading global map and technology companies to create and maintain map data including LIDAR and GPS information

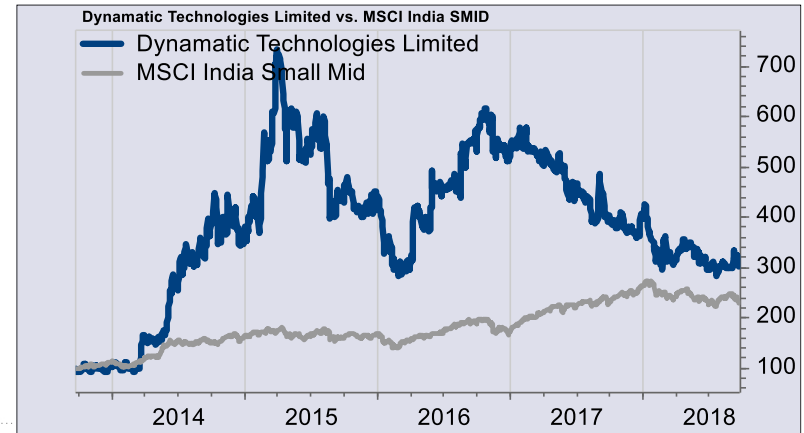


Dynamatic Technologies

India's only Tier 1 supplier to Airbus, Boeing, Bell Helicopter

- Market Cap: \$154m
- OPM: 5.2%
- ROE: 0.3%

CEO and MD: Udayant Malhoutra



Working with Taiyo to improve returns: 2019 the Year of "Value Creation"

- Past 3 years has been focusing on satisfying customers
 - Airbus requested that Dynamatic become a Tier 1 Supplier of critical wing parts after serving as supplier to Spirit Aerospace for several years
 - Recognized with customer awards from Boeing, Bell, and Airbus
 - Was the only Indian company visited by British PM May in 2017
- The largest hydraulic pump manufacturer in Asia
 - Dynamatic has 70%+ market share, with customers like John Deere, Case New Holland, and Caterpillar
- Working with Taiyo to improve returns
 - MD has invited Taiyo to the 2018 Leadership Summit
 - He asked for Taiyo's help to focus his company in not only creating a good company for customers, but also for shareholders



Airbus COO, UK PM May, Dynamatic MD with Airbus Flap Track Beams

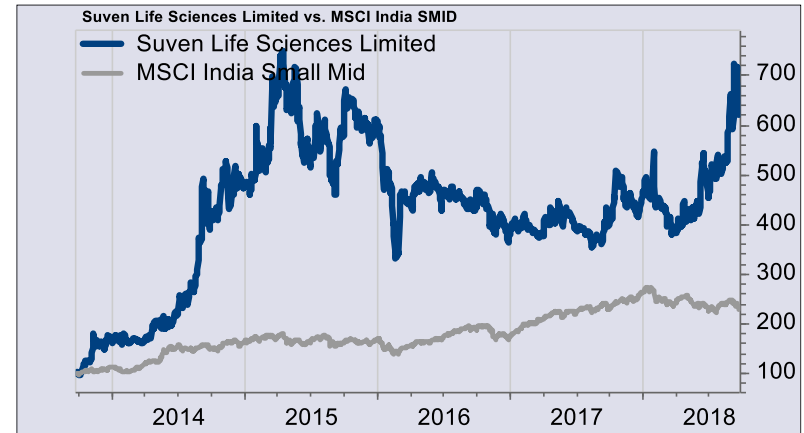


Suven Life Sciences

Profitable, high return pharmaceutical manufacturing business with R&D upside

- Market Cap: \$554m
- OPM: 27%
- ROE: 17%

Chairman and CEO: Venkateswarlu Jasti



High barrier to entry and customer loyalty lead to high cash returns

- Manage 111 R&D projects for Global pharma
 - Suven manufactures the small but critical pharma products for clinical trials:
 - Phase 1 trials: 75
 - Phase 2 trials: 34
 - Phase 3 trials: 2
 - As the compounds progress through clinical trials, Suven benefits from greater scale: this business produces EBITDA margins of 45%+
- R&D upside with Alzheimer drug in Phase 2a
 - Potential licensing deals could be 10-25% of the company's market cap if Phase 2 results show promise



Suven focuses on small quantity manufacturing for pharma clinical trials





















Appendix: Tariff Impact Estimates



Expected Tariff impact on Portfolio Companies

Company	Impact	Comments
Motherson Sumi		Lower China auto demand will hurt overall sales
Federal Bank		Mostly Kerala-based loans not significantly impacted
Mahindra & Mahindra Finance		Soybean demand from China might boost farmer income, but not a direct effect
Take Solutions		Services provider might see positive impact, but likely negligible
Persistent Systems		Lower Rupee improves competitiveness for overseas contracts
Vaibhav Global		China not a major competitor for most of Vaibhav's products
INOX Leisure		Domestic theater, no major impact
Suven		Tariffs may help win contracts against Chinese competition
Repc Home finance		None
BLS International		None
Dynamatic Technologies		Lower trade and globalization could potentially hurt this Tier 1 Aerospace supplier
Balkrishna Industries		Balkrishna stands to take business away from Chinese businesses affected by tariffs
AIA Engineering		AIA's cost will decline versus their Belgium competitor, while demand stays constant
Cyient		Lower Rupee improves competitiveness for overseas contracts
Redington India		No major impact on revenue or cost structure
Genesys International		No major impact

