

Metis Opportunity Fund

**Institutional selling within large-caps keeps
attention away from earnings volatility elsewhere**

July 2015 Newsletter

July 20, 2015

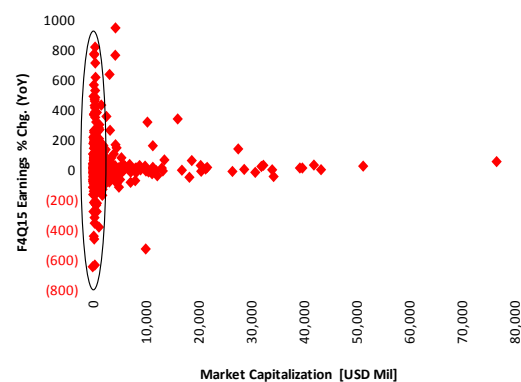
In 2Q15, for only the fourth time in 19 quarters, we failed to outpace *S&P BSE 500*. While we clearly don't target NAV movements on a monthly or quarterly basis, to underpace broader markets in a down quarter was a first for us. Rest assured that your managers are taking a close hard look at this while remaining true to our philosophy of identifying clean secular upsides. While risk-adjusted returns remained impressive, we failed to deliver solid relative returns during the quarter when less widely owned mid and small cap names avoided the pain inflicted by foreign institutional selling in *Nifty* components.

While end-demand across industries remained muted, slight upside in supply side build-ups (Commercial vehicles, Construction etc., where our exposure remains low) ensured that *S&P BSE 500* earnings outpaced us in F4Q (Mar), driving *Metis'* underperformance during 2Q - Excluding our movie-exhibition holding, whose quarterly earnings are mostly determined by box-office content, our average holding posted about 20% earnings growth in the March quarter vs. about 30% for average *S&P BSE 500* constituent (excl. outliers). That said, unlike our book's earnings, earnings volatility remained particularly high within small and mid-cap names within *S&P BSE 500* (see **Exhibit 1**).

Getting into the June quarter, relative to expectations, earnings performance had increasingly deteriorated, with nearly 60% of benchmark constituents missing consensus expectations in F4Q (Mar). That of course was in sharp contrast to our book, where expectations remain largely grounded and aren't set up for substantial 'upside' departure from recent performance.

We remain largely comfortable with our current book, both in terms of absolute valuation upside and execution. That said, with multiples unlikely to expand materially from current levels, it would likely be the latter that would dictate outperformance over the next 3-year period.

Exhibit 1- F4Q15 earnings distribution for BSE 500



Source: Company reports

In 2Q15, *Metis Opportunity* was down **-3.5%** (net of all fees; in INR terms), vs. **-1.4%**, **-1.3%**, and **-1.3%** declines in *Nifty*, *BSE 500*, and *Eurekahedge India* respectively, and **+0.8%** and **+1.7%** increases in *BSE Midcap* and *BSE Smallcap* respectively. *Metis Opportunity* ended 2Q15 with a net exposure of 89%, ~7% higher vs. our exposure at the end of March. While we didn't add any new position during the quarter, we utilized weakness to selectively increase exposure in 3 holdings.

Over the last year, *Metis Opportunity* was up **+12.2%** (net of all fees; in INR terms). That compares with **+9.9%**, **+11.4%**, **+13.9%**, **+8.5%**, and **+16.7%** increases in *Nifty*, *BSE 500*, *BSE Midcap*, *BSE Smallcap*, and *Eurekahedge India* respectively. Over this period, our volatility was **386 bps**, **291 bps**, **34 bps**, and **123 bps** below that of *Nifty*, *BSE 500*, *BSE Midcap*, and *BSE Smallcap* respectively.

Over the past 3 years, *Metis Opportunity* is up **+95.4%** (net of all fees; in INR terms) vs. **+58.5%**, **+63.2%**, **+73.6%**, **+69.2%**, and **+55.0%** increases in *Nifty*, *BSE 500*, *BSE Midcap*, *BSE Smallcap*, and *Eurekahedge India* respectively.

Since inception in April 2011, *Metis Opportunity* is up **+100.5%** (net of fees; in INR) vs. **+43.2%**, **+44.6%**, **+48.5%**, **+25.8%**, and **+21.9%** increases in *Nifty*, *BSE 500*, *BSE Midcap*, *BSE Smallcap*, and *Eurekahedge India* respectively.

Valuation upsides remain largely skewed towards uncovered names. In sharp contrast to what earnings volatility would suggest, relative lack of foreign institutional ownership has ensured that volatility within small and mid-cap names remained considerably lower than that of large-caps over the last year. For the first time in a long while, we are increasingly noticing that the common theme among names where material valuation upside can be identified is low coverage and lack of institutional ownership. In a vast majority of such names, it's still very hard to establish an ongoing honest dialogue with management. While we continue to scrounge for clean value buys, it's fairly

apparent that ‘high-conviction’ multiple expansion would be hard to come by, with solid execution being the likely driver of outperformance.

Nepal tragedy forces a discussion on concentration. 2Q15 was particularly disastrous for South Asia as a major earthquake hit Nepal at the beginning of the quarter, claiming nearly 9,000 lives and left the Himalayan nation at a standstill. While Nepal is a small country and very concentrated around its capital, *Kathmandu*, such disasters often force us to appreciate the impact of population and activity concentration on reconstruction costs.

How one urbanizes is far more critical than how quickly one does – Over the past 5 decades, no country urbanized at a faster rate than Bangladesh (see **Exhibit 2a**). It is critical to point out that, somewhat unsurprisingly, more than half of Bangladesh’s urban population (vs. ~15% of India’s urban population¹) now resides in slums. Undeniably, if new cities aren’t created and little is done to cure the urban-rural divide, the urbanization dividend from ‘forced’ migration is certainly not sustainable.

India’s slow urbanization has ensured its positioning as one of the least concentrated emerging markets. While India’s biggest cities do give an impression that India’s urbanization has been quick and haphazard, these cities aren’t quite representative of how the rest of India has urbanized, which could only be characterized as ‘slow’ as India has largely failed to create new stand alone urban agglomerations. In sharp contrast, China has not only urbanized at a rapid pace but also achieved that by creating newer urban agglomerations – Most recent census in China confirmed that more than a third of urbanization was driven by reclassification of erstwhile rural areas. Such an approach usually establishes planks for more sustainable growth. To that extent, Chinese urbanization path is somewhat suggestive of an underlying objective of creating spread-out urbanization pockets, as seen in United States, where just under half of all manufacturing jobs are outside the top-100 metropolitan areas.

While the Chinese approach likely affords Chinese businesses the flexibility to expand into newer urban agglomerations in future in a more sustainable manner, India Inc. was largely forced into geographical expansion in order to reach out to adequate ‘rooted’ labor resources, which were mostly contractual in nature. Also, with trade unionization slow to catch up, geographic expansion was easily forced through. In current terms therefore, though certainly not a result of any well thought out urbanization strategy, Indian businesses come with among the least location concentration risk (for domestic ops) vs. BRICS peers (see **Exhibit 2b**). That said, it likely wouldn’t stay that way if we don’t focus on creating newer urban agglomerations. As a start, it is therefore imperative that India’s ‘smart-cities’ project moves ahead of its 15+ year plan for certain cities.

Exhibit 2a – Urbanization Index over last 5 decades

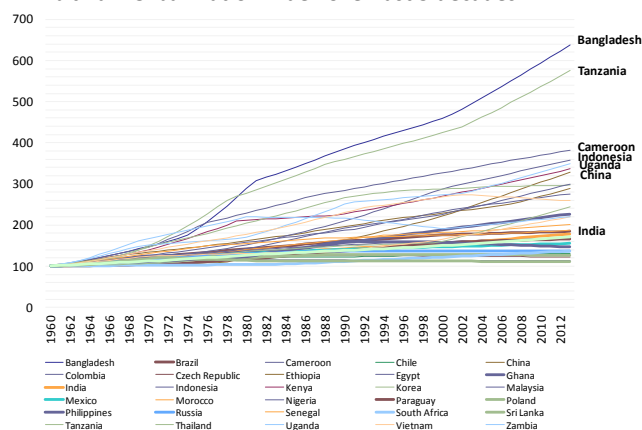
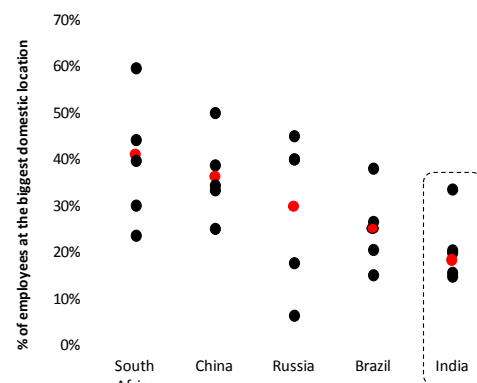


Exhibit 2b – Employee concentration at Big-5 companies



Note: ‘Red’ points in Exhibit 2b indicate average employee concentration for biggest 5 companies; For geographic concentration risk evaluation, we excluded Financials since its one of the biggest sectors within emerging market benchmarks and is typically always well spread out geographically, given the nature of the business.

Source: World Bank; Company Reports

¹ Cities such as Delhi and Mumbai are significant departures from norm, with nearly half of their population residing in slums

Evaluating the threat of music streaming to our terrestrial radio holding. Over the past year, we have increasingly had investors discuss potential threat of music streaming to Indian terrestrial radio. Nearly all chatter we have heard comes with little to no appreciation of on the ground facts e.g. if these mediums truly compete against each other, and what is the cost, availability, and viability of resources required for one to eliminate the other, or argue the possibility of co-existence. In this letter, we elaborate on where the two mediums really compete and what is the extent (and likelihood) to which digital streaming might replace terrestrial radio in India.

Broadly speaking, we are essentially looking at 1. two different ways of consumption, and 2. two mediums under which they are consumed. If we categorize by type of consumption, they would be 'programmed' and 'interactive'. 'Programmed' consumption would be one where a consumer is a passive listener and his/her consumption is programmed ex. terrestrial radio, and pre-programmed 'playlists' at streaming players. 'Interactive' consumption would be one where the consumer lays down the choices and consumes accordingly. Programmed streaming consumption is a more like-for-like competition for traditional radio and can, in theory, be viewed as potential competition once consumer preferences get fully aligned between the two forms at some future point.

Our work suggests that the 3 key issues that would drive the evolution of music streaming business in India are **1.** Music royalties, **2.** Piracy, and **3.** Monetization of data by telcos and its broad-based availability.

- 1. Don't expect terrestrial radio to pay royalties that other competing mediums do.** Conventional radio has always been viewed as a 'promotional' medium, which influences music purchases. Indian radio is heavily used for promoting movies. Stations don't sell music and accordingly their royalties have always been low with several legislative precedence corroborating the 'promotional' concept. Accordingly, ability of labels to charge royalty is largely restricted to broadcasting mediums that may charge for music. Also, for that reason, the biggest label in India manages its radio relationships internally while outsourcing most digital rights to another player, in exchange for a minimum guarantee.

Can music labels lower the royalty charged to streaming companies? It is hard to feel sorry for music labels, which barely pay, on average, INR 10-15 mil for acquiring music copyrights for a Hindi movie², which costs them another INR 35-45 mil to market. *Tips Industries*, for instance, generates EBITDA margin north of 70%, with an asset-light model ensuring that returns on invested capital remain at stratospheric levels. The reason for the latter is that the entire cost of copyrights is typically charged to revenues on the date of audio release, considering the uncertainty of future economic benefits and the short duration over which such benefits may accrue. The invested capital base is therefore hardly material. That's the 'good' side of the profitability story though. It's equally critical to appreciate that after the 2010 court directive to telcos to get double confirmation from consumers before activating VAS (value added services), minimum guarantee paid to labels was scaled down substantially. It's therefore hard to see labels compromise on OTT (over-the-top) royalties while VAS revenues remain under pressure.

Near monopoly in Hindi movie music rights in India³ makes streaming's task of gaining traction even more difficult – Take a major Indian stand-alone streaming platform, for instance – By our estimate, with the current royalty/minimum-guarantee structure, the streaming model is almost certain to sustain its bleeding rate. Even at 3x its current listenership, in our view, this business still wouldn't be EBITDA positive. However, if streaming platforms can generate much more substantial listenership outside the home or wi-fi hotspots, there might be a possibility for them to compete with terrestrial radio for advertising interest. Nonetheless, given that radio access is broad-based and free, it's naïve to expect streaming to fully displace its listenership base.

² Big-budget movies such as Chennai Express can cost 3-5x this average.

³ The biggest label for Hindi movie music controls 65% of Hindi listenership. In sharp contrast, the biggest music label in US accounts for just about a fourth of music rights, with independent labels consistently gaining share.

- 2. Even if you somehow eliminate piracy, don't expect former pirates to pay for music.** As much as the millennials are open to streaming music, they are also equally likely to share free music with peers across P2P networks. This is a much larger threat to music streaming. Our discussions with streaming players that have shut down in recent years overwhelmingly points towards piracy as the big reason why such services haven't built any major traction in India, and also find it hard to generate cash-flows elsewhere. It was hard for these players to generate revenues anywhere close to their contracted minimum guarantees with the labels, let alone cover their overheads.

Unless one is allowed to pre-emptively monitor server movements at P2P networks, is willing to actively engage in legal proceedings, and can somehow generate way higher revenues to pay for the above, we would likely live in a world where piracy would co-exist. In certain Scandinavian markets where music piracy has been virtually eliminated, it came down to ubiquitous cellular data and inclination of Scandinavian consumers to live with advertising on streaming platforms while switching from sites such as *Pirate Bay* – *Spotify's* own experience in Sweden confirms that 'former pirates' on their network would probably never pay for music.

- 3. Even ignoring the obvious drag from piracy, affordable and broad-based data access is required for streaming to truly compete with radio.** First and foremost, vast majority of radio (away from home) is consumed on the move i.e. over phones or in vehicles. That rules out the possibility of municipal wi-fi hotspots providing a broadcast medium where consumers seamlessly move from one router node to another without breaking down. Effectively, unless one can find a way for cellular companies to monetize their network usage at data rates that are substantially lower and with far better coverage, streaming would find it impossible to generate enough listenership to pull serious advertising interest.

Streaming has gained significant traction in most heavy data volume markets. While growth in data volume over the past decade has been strong across the world, markets such as Finland, Sweden, and Japan have seen unparalleled growth with average monthly usage now close to 2 gigs⁴. Data volume does not however always translate into streaming penetration, with market specific idiosyncrasies often dictating penetration – Austria and Japan are cases in point. In Japan, for instance, physical media (CDs) still rule the music pie as physical sales are closely linked with concert tickets, which Japanese youngsters strongly prefer. That said, across most markets with the highest data usage⁵ (Sweden, Norway, Finland, Korea etc.), subscription streaming has undoubtedly gained impressive traction and now accounts for a vast majority of digital revenues, even though growth is already decelerating.

What happens when one receives unlimited data for a fixed price?. Beginning 2010 onwards, major US telcos started eliminating the unlimited data plans as it became evident that the power to price voice was diminishing. Even as telcos have been trying to aggressively migrate the grandfathered 'unlimited' plans to 'metered', such plans still make a material portion of the subscriber base. However, 'grandfathering policy' across most telcos now makes it clear that once the subscriber exceeds a certain usage within a cycle, his/her download speeds will decrease in order to effectively manage networks⁶. Nonetheless, more than a third of all existing data plans are still apparently 'unlimited' even as low usage subscribers are being increasingly tempted into switching to cheaper metered plans. In order to gauge music streaming usage within subscribers with an unlimited plan, we conducted a survey within such a pool. The most interesting finding of our survey also made us better appreciate what is often the most ignored attribute of terrestrial radio when evaluating the threat from streaming radio i.e. content programming itself – Firstly, nearly 2/3rd of all respondents with unlimited data plans still cited AM/FM (including simulcasts) as their most preferred mode of consuming radio. In case of respondents that were no older than

⁴ Operator with the highest mobile data usage in the world is *Telenor* (Sweden), with an avg subscriber using nearly 4 gigs a month.

⁵ Messaging, Internet use, video calling, general video, and email are all bigger uses of cellular data than music (across age groups).

⁶ *Sprint* stopped the practice last month, after FCC's revised net neutrality regulations went into effect.

early 30s when *Pandora* started, 55% of respondents still cited AM/FM (incl. simulcasts) as their most preferred mode. Secondly, and most interestingly, 2/3rd of the respondents that subscribed to a streaming service (vs. simply consuming the ad-funded service) actually listened to AM/FM (including simulcasts) for at least as long as the streaming service they paid for.

What is the cheapest data can get ? – Data could theoretically be free if we can burden the consumer with far more advertising than what he/she already gets. That’s clearly impractical though. In reality, data is the future of cellular services and therefore has a price - Any consumer listening to 20 hours of radio in a month (on a streaming app at 96 kbps) over cellular network would end up consuming about 0.7 gigs of data, about as much as total data usage of a current typical *Bharti Airtel* customer. With enhanced quality, consumption ratchets up sharply - *Deezer Elite*, for instance, streams at 1411 kbps, and ends up consuming about 10 gigs of monthly data for 20 hours of listening. To put that sort of radio usage in perspective, we believe that a typical consumer in Delhi consumes terrestrial radio (away from home) for about 1.5 hours on a weekday.

A large determinant of data pricing would eventually also be driven by the extent to which voice network volume can be monetized, something that is likely to get increasingly commoditized if trend in other markets is any indicator⁷. As things stand, an average Indian cellular consumer is using around 400 minutes every month and voice usage already seems to be plateauing even as subscriber growth continues. If those minutes were to completely shift to say *Whatsapp* or another OTT calling, it would consume about 0.5 gigs/month (depending on network quality), which is nowhere near inconceivable⁸. It would therefore not be an aggressive postulation to state that future economics of Indian telcos would also be largely driven by how they price and service data, with voice likely being an essential add-on, free or otherwise.

We don’t expect Jio to sustainably under-price competition. We note that after the recent hike in 2G and 3G data prices, average ‘data’ realization for telcos would be closer to INR 0.40/MB. By our estimate, *Reliance Jio’s* implied realization would have to be at nearly 60% premium over current 3G competition in order to target a low single-digit ROIC in its first 2 years. Even if we assume that such premium wouldn’t impact data off take (subscriber growth and consumption growth), with average data consumption crossing 2G/month within the next 5 years (or more than what an average US subscriber consumed last quarter), the \$16 Bil of initial investment by *Jio*, as high as that appears in absolute terms, would need to be doubled by 2022E in order to maintain 30%+ growth at that point⁹.

Advertising, and not subscription, is arguably a more sustainable growth driver for streaming. While it clearly takes a long time for advertising interest to gain traction within on-demand streaming, global evidence suggests that it is likely the only sustainable way ahead, given that there are only so many consumers that would pay for consuming radio. Our own discussions and research findings suggest that more than 3/4th of all listeners (on terrestrial radio and streaming) agree that advertising is a ‘fair price’ to pay for free programming.

While there are still models that have historically relied on paid subscription, nearly everyone is gradually shifting their focus towards advertising. Last year in France, which is home to *Spotify’s* competitor, *Deezer*, ad-supported streaming contributed \$32 million to music industry revenues, or half of what streaming subscriptions contributed. *Pandora’s* model meanwhile appears relatively more sustainable, with advertising accounting for a bulk of the revenues. India-focused streaming players however remain far removed when it comes to building serious interest from advertisers.

⁷ In United States voice usage minutes peaked out at over 800 minutes in 2007 and volume has come off substantially since then. Across nearly all developed markets, voice usage has consistently dropped as data usage has picked up.

⁸ DOT’s recent net neutrality recommendations remain the wild card, since OTT providers might need to get licensed and have their tariffs regulated.

⁹ Assuming 21% EBIT on data and 4-5% target ROIC.

Estimating FM's reaction function. While economics of music streaming is still way off from where one would view the model as sustainable, there would likely be synergies once these players begin consolidating, which has to happen at some point. Content and its availability is what really matters in Media. It isn't as critical as to how its made available. Take Norway's case for instance, even as it isn't exactly comparable since most of the stations there are state-owned – In 2011, Norwegian parliament issued the digitization mandate, whereby FM radio stations will gradually move towards digital broadcast. This is essentially little more than receiving radio through digital receivers, with more frequency separation possible, allowing for more stations per city, with little else changing. When it comes to our holding, all of its 32 operational stations are digitally enabled. Nonetheless, discussing digital broadcasts in India is a highly futuristic discussion - India isn't exactly a comparable market to G-7 countries when it comes to mode of terrestrial radio consumption. It is well established that a vast majority of Indian radio consumption happens on cell-phones with pre-installed tuners. Imagine any Indian government asking consumers to spend INR 3,000+ to receive radio broadcasts. Interestingly, we note that in countries where phones come with deactivated receivers, a material portion of consumers agree that they would likely consume more terrestrial radio if their phones were equipped to receive the broadcast.

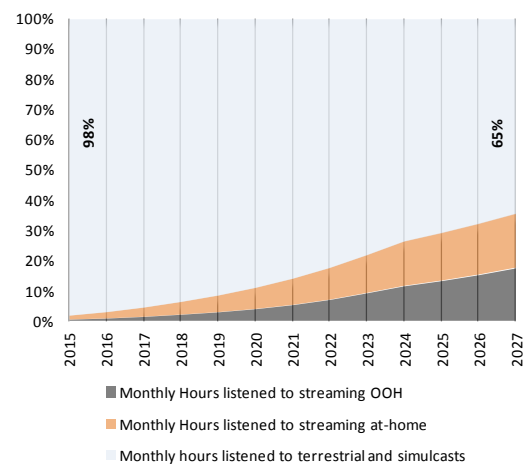
In order to effectively frame a strategic framework to counter the streaming threat, we need to evaluate two key factors in this situation – **1.** Extent of streaming's growth, and **2.** streaming's profitability. The former would allow us to assess the severity of the threat (distracting current advertisers), while the latter is primarily meant to help evaluate the timing for allocating resources to counter it.

Projecting an 'optimistic' case for streaming's growth in India. While majority of Indians listen to radio over mobile phones (given the low car penetration), majority of that consumption takes place at home, with housemaids tuning their 'feature' cellular phones to terrestrial stations. A portion of this group is obviously easier to convert into streaming listeners than those consuming radio out-of-home (OOH) and consuming cellular data. The obvious constraint is smart phone access. Given the typical demographic of an at-home listener however, such a conversion would arguably be a long drawn out affair¹⁰.

The average data consumption pie strongly indicates that, on average, music is unlikely to get more than 10% of volume usage. Even at 4G/month of data consumption (projected in 2023E), an average Indian consumer is unlikely to stream more than 12 hours of music over cellular platforms in a given month.

Assuming we disregard market idiosyncrasies and assume average data consumption to grow at a compounded 25% rate over the next decade and a half (i.e. crossing *Telenor* Sweden's world high ~4G/month consumption by 2023E), we still expect terrestrial radio (including internet simulcasts) to control 2/3rd of all music listenership (see **Exhibit 3**) in 2023E. We aren't building other content-related offsets here – bear in mind that Indian FM radio content is practically restricted to music broadcasts at this point and that would likely change.

Exhibit 3 – Projected share of Indian music listenership



Notes/Assumptions: Current smart phone penetration is taken at 32%, 10% of average data consumption was allocated towards music consumption.

Source: Internal research and estimates

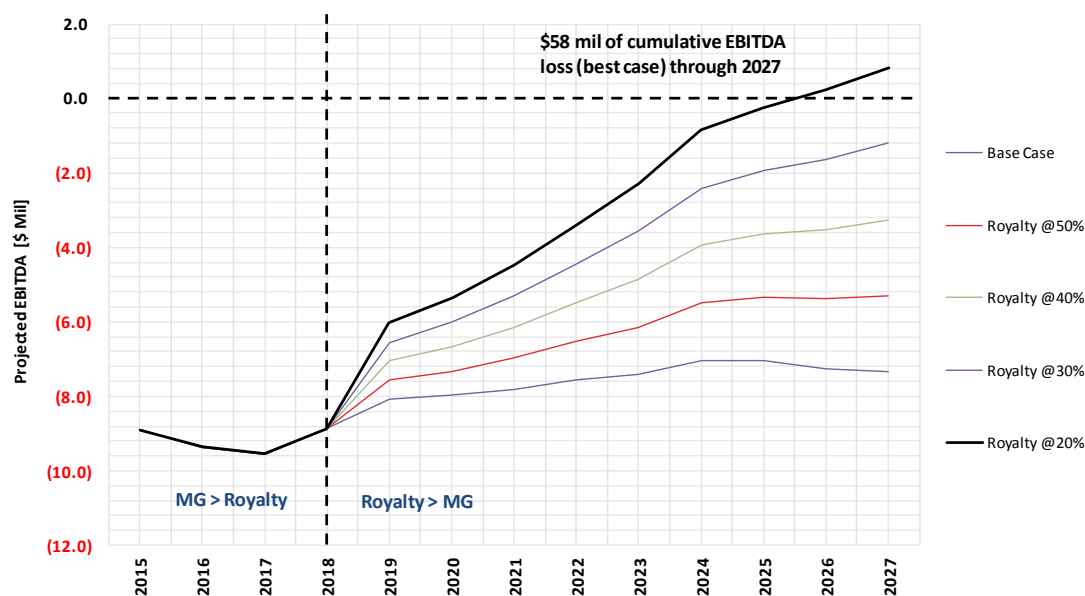
¹⁰ The lowest priced smartphones in India are still priced at close to half of a typical maid's salary in Delhi NCR. We have projected a 24% 12-yr CAGR in streaming's at-home listenership. Overall (at-home and OOH combined), our forecast is built upon just under 30% CAGR for total listenership (hours) for streaming music.

Rather wait and buy than build current capabilities. Digital streaming is almost certain to go through consolidation at some stage and gain traction as data consumption ramps up. We might debate how the model would evolve, regulatory changes, or even if such stand-alone structures are viable. However, digital streaming is one capability that might be required and it's therefore critical that terrestrial radio operators include this piece within their strategic plans.

Incidentally, the 'parent' of our radio holding happens to be a Media conglomerate with cross-media ownerships. This includes one of the three biggest music streaming platforms. Our radio holding has already taken initiatives to ensure that consumer association doesn't get disconnected once streaming starts gaining listenership hours – This was achieved by creating a dedicated 'digital team' that creates programming for self-branded live feeds on the above mentioned streaming platform. As things stand, 20-25% of all traffic on this streaming app now comes from our holding's live feeds, corroborating our other observations on the significance of content programming. Besides keeping the brand association active, it allows our holding to actively monitor consumer behavior over streaming platforms. This obviously comes without the minimum guaranteed royalty burden that streaming platforms face. While we aren't privy to any discussions on a potential acquisition of this (or another) streaming platform, we do note that our management team is fully cognizant of the threat and has never suggested complacency in this regard.

While we were evaluating the build vs. buy capability decision, we created fairly generous scenarios of profitability for one of the 2 unassociated target platforms. Even if we were to compound revenues at nearly 30% through 2027¹¹ and cut royalty percentages to unprecedented (and arguably unrealistic) levels, we would, at the very least, expect this business to bleed close to \$60 mil at the EBITDA line over the next 12 years (see **Exhibit 4**). If it were to be valued in line with some of the current listed peers, its valuation at that stage is unlikely to materially cross \$60 mil, scarcity premium notwithstanding. We accordingly expect our holding to do little other than wait and observe for the next 3-4 years. Stay tuned!

Exhibit 4 – 'Generous' EBITDA projection for a 'Top-3' Indian music streaming service business



Notes/Assumptions: Rental costs were escalated every 3 years at 15%; Advertising and marketing budget was conservatively kept flat for every 3-yr period before ratcheting that up by 10%; Wage inflation was kept at 5%; We believe that more than 2/3rd of this business' employees are based in India (in Mumbai and Delhi NCR).

Source: Internal research and estimates; KPMG-FICCI

¹¹ Recent numbers suggest that their listener base has grown by less than 10% over the last two years

Performance and Attribution summary

Having posted 8 successive quarters of absolute returns, *Metis Opportunity* ended lower in 2Q15, with some of our big ‘cyclical’ winners from 2014 laying a particularly material drag on the book. The fact that headline valuations (not absolutes) don’t give an obvious ‘cheap’ impression anymore didn’t help either. Nonetheless, as always, solid execution stories continued to contribute on the upside and it is this part of our book that would likely be our biggest contributor with material multiple expansion unlikely to contribute much over the next 12-18 months.

In 2Q15, little under 40% of our holdings finished higher, while about a fourth of positions were down in double digits. Our two best performing positions in the quarter were a *Packaging* name (+35%) and a *Non-Bank Financials* name (+10%), the latter being our third biggest position. Our two worst performing positions in 2Q were a *Logistics* name and an *Auto Parts* name (both down -17%), with the former being our second biggest position. For our historical position-wise benchmarking vs. peers and *BSE 500*, please see *Exhibit 5d*.

In 2Q15, *Metis Opportunity* was down -3.5% (net of all fees; in INR terms), vs. -1.4%, -1.3%, and -1.3% declines in *Nifty*, *BSE 500*, and *Eurekahedge India* respectively, and +0.8% and +1.7% increases in *BSE Midcap* and *BSE Smallcap* respectively. Since inception in April 2011, *Metis Opportunity* is up +100.5% vs. +43.2%, +44.6%, +48.5%, +25.8%, and +21.9% increases in *Nifty*, *BSE 500*, *BSE Midcap*, *BSE Smallcap*, and *Eurekahedge India* respectively. (see *Exhibit 5a* and *5c*). Over trailing 12 months, our volatility was 386 bps, 291 bps, 34 bps, and 123 bps below that of *Nifty*, *BSE 500*, *BSE Midcap*, and *BSE Smallcap* respectively (see *Exhibit 5b*).

Exhibit 5a – Perf. since inception

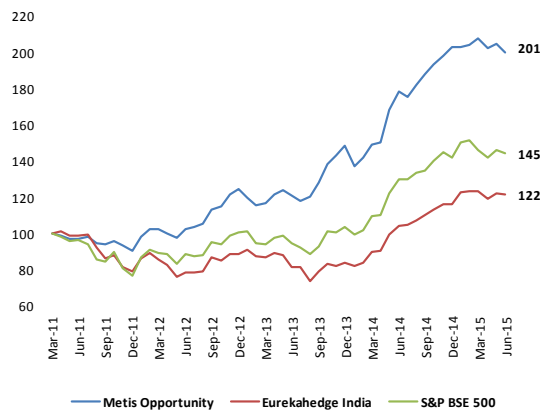


Exhibit 5b – TTM volatility

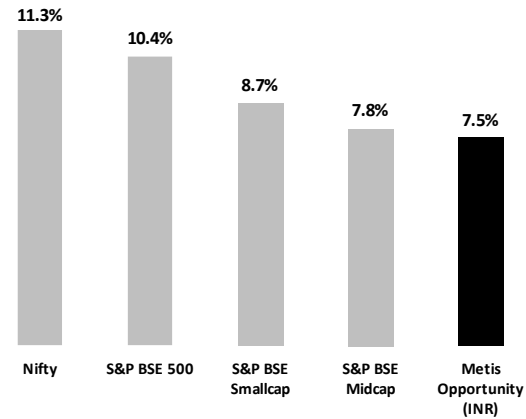


Exhibit 5c – Annual and average –ve monthly returns

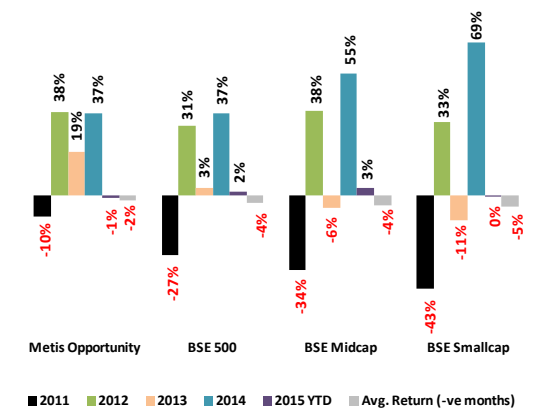
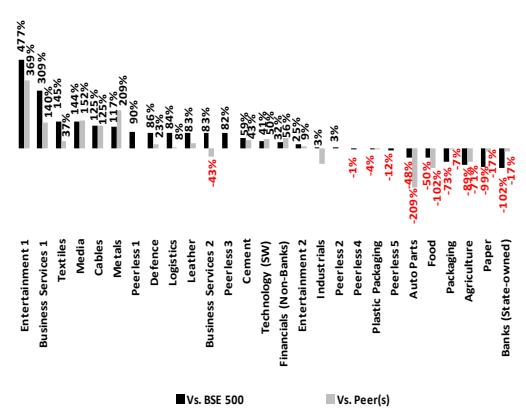


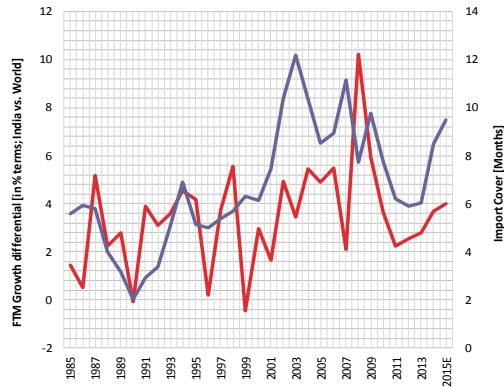
Exhibit 5d – Industry-wise benchmarking for positions



Note: *Metis Opportunity* went live on Mar 11th 2014; Industry-wise benchmarking compares performance from initial cost basis to present/exit. Source: Internal Sources; NSE, BSE, Eurekahedge

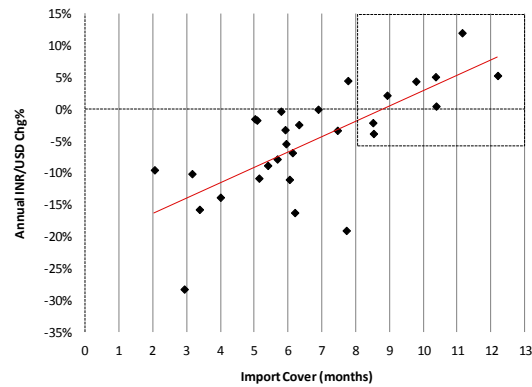
With solid import cover, we expect INR to remain stable in the near term. With India's growth differential continuing to expand (see **Exhibit 6a**) and import cover nearly breaching 11 months, we are unlikely to see any material weakness in the INR in the near term. We note that it's rare for INR to lose material ground to USD once exchange reserves cover 8 months+ of imports (see **Exhibit 6b**).

Exhibit 6a – FTM growth differential vs. Import Cover



Source: RBI; World Bank

Exhibit 6b – Import Cover vs. INR/USD annual chg.



While it's unlikely that we would see a material shift in the commodities cycle, current reserves situation further builds confidence against a run on INR if commodity deflation were to hit an inflection point. Accordingly, we don't expect to see India importing inflation at this stage, allowing RBI to gradually shift its loosening stance towards the end of 2015. This of course (unfortunately so) would be contingent on how monsoons eventually end-up (current rainfall is suggesting about 8% shortfall so far, largely on account of shortfalls in Western and Southern India).

We appreciate your engagement with us. Please let us know if you have any questions. Your fund managers are available 24/7 to address your questions/concerns.

Exhibit 7a – Relative rolling 12-mth returns

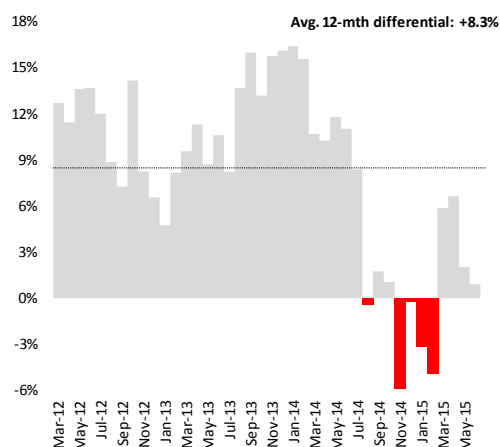
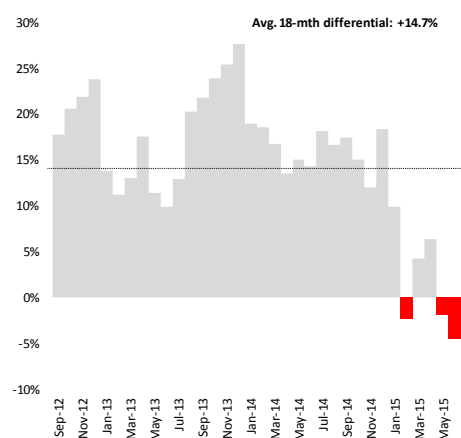


Exhibit 7b – Relative rolling 18-mth returns



Note: Relative strategy return differentials are calculated vs. BSE 500
Source: Internal Sources

Exhibit 8 – Time window analysis for our sub-strategies

	India Underserved		India Undervalued	
	3 Month	12 Month	3 Month	12 Month
Number of periods	49	40	54	45
Average period return	5.1%	25.6%	4.3%	24.2%
Number of profitable periods	34	38	33	42
% profitable periods	69%	95%	61%	93%
Best period	24%	55%	26%	66%
Gain Standard Deviation	6.6%	14.7%	6.7%	18.6%
Sharpe Ratio @10%	0.34	1.00	0.22	0.70
Sharpe Ratio @5%	0.49	1.32	0.36	0.95
Sharpe Ratio @0%	0.64	1.64	0.50	1.19
Loss Standard Deviation	2.0%	0.4%	3.2%	0.9%
Downside Deviation @10%	3.3%	3.2%	4.3%	5.7%
Downside Deviation @5%	2.7%	1.5%	3.7%	4.1%
Downside Deviation @0%	2.1%	0.2%	3.1%	2.8%
Sortino Ratio @10%	0.80	4.90	0.44	2.52
Sortino Ratio @5%	1.43	13.49	0.84	4.68
Sortino Ratio @0%	2.45	128.23	1.41	8.63
Average Gain/Loss	2.7	31.5	2.5	2.5
Profit/Loss Ratio	6.1	598.9	3.9	34.5

Note: Metis Opportunity is a direct blend of above two sub-strategies
Source: CogentHedge

Exhibit 9 – Long-book snapshot

Top position as % of book	12%
Smallest position as % of book	0.3%
Top 5 positions as % of book	43%
Avg. weighted market cap of book (mil)	\$696
Avg. weighted free float of book	44%
Net Exposure	89%
# of positions	24

Source: Internal Sources

Exhibit 10 – Historical Monthly Performance

	Metis Opportunity (INR)	Nifty	S&P BSE 500	S&P BSE Midcap	S&P BSE Smallcap	Eurekahedge India	India-focused CE Funds*
Apr-11	-1.3%	-1.6%	-1.5%	-1.3%	-1.0%	1.4%	-3.3%
May-11	-1.3%	-3.3%	-2.6%	-2.6%	-5.5%	-2.6%	-2.2%
Jun-11	-0.3%	1.6%	0.4%	-0.8%	-1.0%	0.2%	-0.6%
Jul-11	1.6%	-2.9%	-2.1%	0.9%	1.8%	0.7%	-2.8%
Aug-11	-3.7%	-8.8%	-8.8%	-9.3%	-14.1%	-7.4%	-7.1%
Sep-11	-0.7%	-1.2%	-1.6%	-2.3%	-3.5%	-6.3%	-4.5%
Oct-11	2.0%	7.8%	5.9%	2.7%	1.4%	2.1%	4.8%
Nov-11	-2.8%	-9.3%	-9.6%	-10.6%	-12.6%	-7.9%	-5.7%
Dec-11	-3.4%	-4.3%	-5.5%	-8.8%	-9.0%	-2.7%	-8.6%
Jan-12	9.2%	12.4%	13.3%	14.3%	16.5%	9.5%	10.2%
Feb-12	4.0%	3.6%	4.7%	8.8%	6.1%	3.3%	4.1%
Mar-12	-0.3%	-1.7%	-1.4%	-0.6%	-3.4%	-4.1%	-0.1%
Apr-12	-1.9%	-0.9%	-0.9%	-0.5%	2.0%	-3.4%	-0.6%
May-12	-2.5%	-6.2%	-6.2%	-6.8%	-7.3%	-7.9%	-5.2%
Jun-12	4.9%	7.2%	6.4%	4.5%	4.3%	2.8%	6.8%
Jul-12	0.9%	-0.9%	-1.1%	-2.3%	-1.5%	0.0%	-0.8%
Aug-12	2.0%	0.6%	0.4%	-0.2%	-0.8%	0.4%	1.9%
Sep-12	7.4%	8.5%	8.7%	10.1%	9.7%	10.2%	7.5%
Oct-12	1.4%	-1.5%	-1.2%	-0.6%	-0.4%	-2.1%	-0.4%
Nov-12	6.1%	4.6%	5.0%	5.1%	4.1%	4.0%	3.3%
Dec-12	2.0%	0.4%	1.5%	3.1%	1.4%	0.6%	-0.9%
Jan-13	-3.5%	2.2%	1.1%	-2.0%	-4.1%	2.2%	0.6%
Feb-13	-3.8%	-5.7%	-6.5%	-9.6%	-12.3%	-3.9%	-3.2%
Mar-13	1.3%	-0.2%	-1.1%	-2.6%	-6.5%	-0.9%	0.0%
Apr-13	4.2%	3.9%	4.2%	3.3%	3.7%	3.0%	2.3%
May-13	2.0%	1.4%	0.8%	0.7%	-1.3%	-1.0%	1.1%
Jun-13	-2.8%	-2.4%	-3.7%	-6.7%	-5.0%	-7.4%	-4.2%
Jul-13	-2.5%	-1.7%	-2.5%	-7.1%	-5.9%	-0.6%	0.9%
Aug-13	2.3%	-4.7%	-4.5%	-4.4%	-2.3%	-9.1%	-5.9%
Sep-13	6.5%	4.8%	5.2%	5.8%	5.3%	7.1%	5.6%
Oct-13	7.9%	9.8%	9.1%	8.9%	7.9%	5.1%	9.0%
Nov-13	3.3%	-2.0%	-0.8%	3.6%	3.4%	-0.9%	-0.7%
Dec-13	3.7%	2.1%	3.0%	6.0%	7.4%	2.0%	1.2%
Jan-14	-7.7%	-3.4%	-4.2%	-5.9%	-4.4%	-2.4%	-3.7%
Feb-14	3.8%	3.1%	2.8%	3.1%	2.9%	2.1%	5.2%
Mar-14	5.0%	6.8%	7.6%	9.0%	9.7%	7.1%	8.2%
Apr-14	0.5%	-0.1%	0.6%	3.4%	5.9%	0.6%	-0.6%
May-14	12.2%	8.0%	10.4%	15.6%	20.4%	10.5%	9.1%
Jun-14	5.9%	5.3%	6.4%	10.8%	13.2%	4.6%	7.1%
Jul-14	-1.5%	1.4%	0.4%	-2.0%	-2.1%	0.4%	1.7%
Aug-14	3.5%	3.0%	2.7%	1.2%	2.8%	2.4%	4.2%
Sep-14	3.5%	0.1%	0.8%	2.5%	4.1%	2.8%	4.3%
Oct-14	2.6%	4.5%	4.1%	3.2%	2.3%	2.5%	2.9%
Nov-14	2.5%	1.9%	3.4%	4.4%	3.1%	2.9%	5.8%
Dec-14	2.5%	-2.3%	-2.1%	1.0%	-1.6%	0.2%	-2.8%
Jan-15	0.0%	6.4%	5.8%	3.5%	2.2%	5.2%	6.9%
Feb-15	0.6%	1.1%	1.0%	0.7%	-0.6%	0.5%	1.7%
Mar-15	1.6%	-4.6%	-3.5%	-2.0%	-3.3%	0.1%	-2.8%
Apr-15	-2.5%	-3.6%	-3.2%	-1.7%	0.5%	-3.3%	-4.7%
May-15	1.3%	3.1%	3.1%	2.9%	3.1%	2.3%	4.4%
Jun-15	-2.3%	-0.8%	-1.1%	-0.3%	-1.8%	-0.2%	-0.6%
Trailing 12 months	12%	10%	11%	14%	9%	17%	22%
Trailing 24 months	66%	43%	52%	79%	96%	49%	71%
Trailing 36 months	95%	59%	63%	74%	69%	55%	83%
Since inception	101%	43%	45%	49%	26%	22%	54%
2015 YTD	-1%	1%	2%	3%	0%	5%	5%
2014	37%	31%	37%	55%	69%	39%	49%
2013	19%	7%	3%	-6%	-11%	-6%	6%
2012	38%	28%	31%	38%	33%	14%	28%
2011	-10%	-25%	-27%	-34%	-43%	-25%	-31%
Avg. Return (+ve months)	2%	4%	4%	5%	5%	2%	5%
Avg. Return (-ve months)	-2%	-3%	-4%	-4%	-5%	-4%	-3%
Annualized Volatility (TTM)	7%	11%	10%	8%	9%	7%	13%
Sharpe Ratio	1.09	0.42	0.42	0.41	0.22	0.18	0.53
Calmar Ratio (3-yr/3%)	2.86	1.46	1.14	0.67	0.55	0.68	2.13

Note: Metis Opportunity Fund's INR track record was a live blend of our running onshore strategies till March 31, 2014; Fund went live on March 11, 2014 and reports net of all fees; *Close-ended funds in US, with USD returns converted into INR.


Source: Internal Sources; NSE; BSE; Bloomberg; Eurekahedge

Investment Managers

Piyush Sharma, is the co-investment manager of Metis Opportunity Fund. Having spent time with Citigroup and Bombay Stock Exchange in India, he moved to United States in 2002, where he covered stocks within Business Services, Autos, Consumer Products and Financials with Sanford Bernstein, Longbow Research, and Avondale Partners, working in teams that received accolades by leading institutional research arbiters, including Institutional Investor (II) and Greenwich Associates. Piyush received an MBA from University of North Carolina at Chapel Hill, MS from MNNIT, and BS in Accounting from University of Allahabad.

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Gaurav Aggarwal, CFA, CPA, CIPM is the co-investment manager of Metis Opportunity Fund. He was a senior analyst with portfolio management duties over \$50 million in fund of fund assets at a leading regional investment bank (Global Investment House) in the Middle East. Prior to this, he was with Bay Harbour Management, a \$1.2 billion distressed debt and equity hedge fund in New York City. He has also served as an analyst with Polen Capital Management, a \$2 billion long-only value money manager in Florida. He received an M.S. in Accounting (specializing in Finance) and B.S. in Business Administration from the University of North Carolina at Chapel Hill. He is a Chartered Financial Analyst and a Certified Public Accountant.

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