

India's [Digital] Time

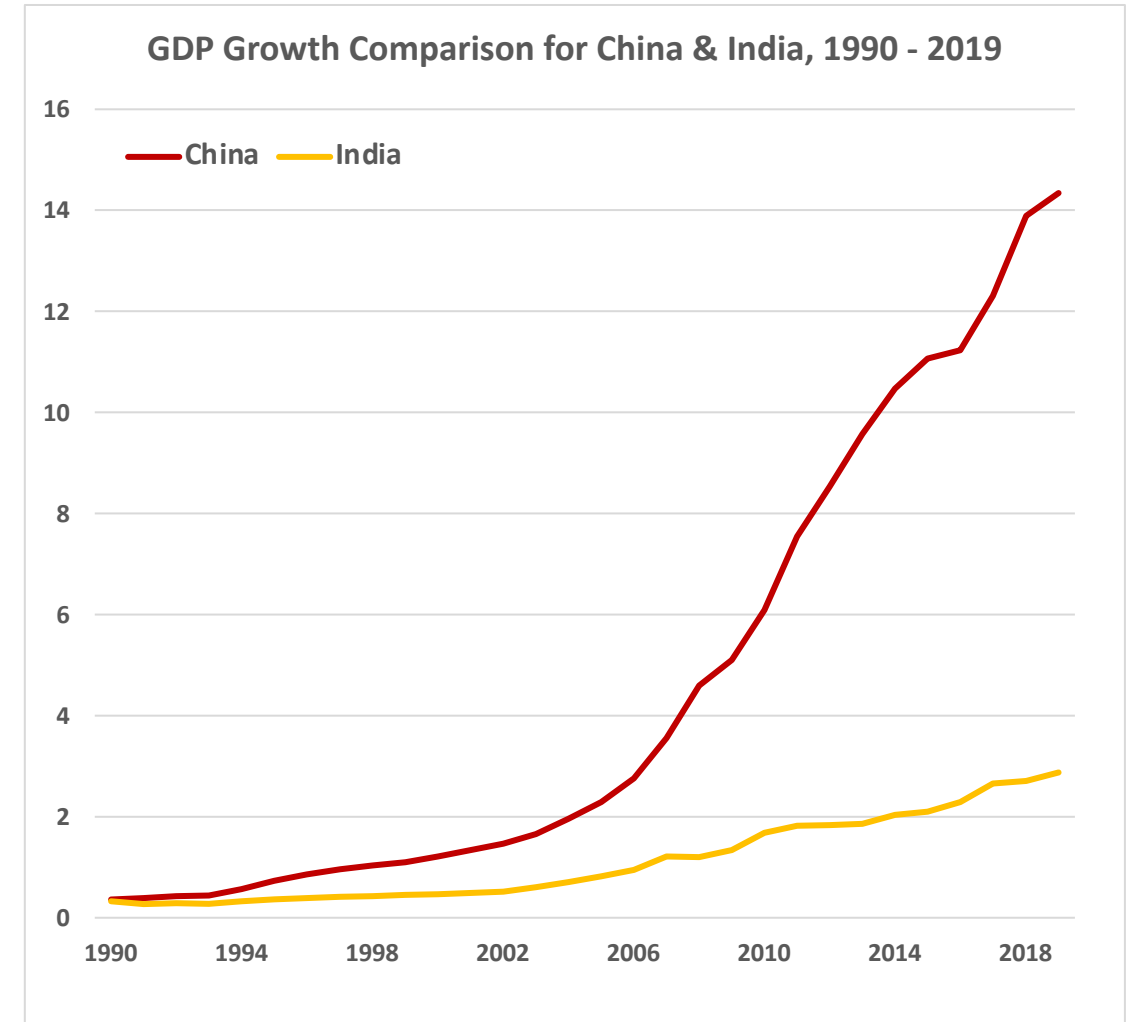
October 2020

India, the world's fourth largest economy, has a long track record of underperforming its economic potential

In 1990 total GDP for both China and India was almost identical (USD 321 billion for India and USD 361 billion for China) ...

Yet, in 2021 China's GDP is projected to be more than five times larger than India's (USD 15.7 trillion vs. USD 2.9 trillion) ...

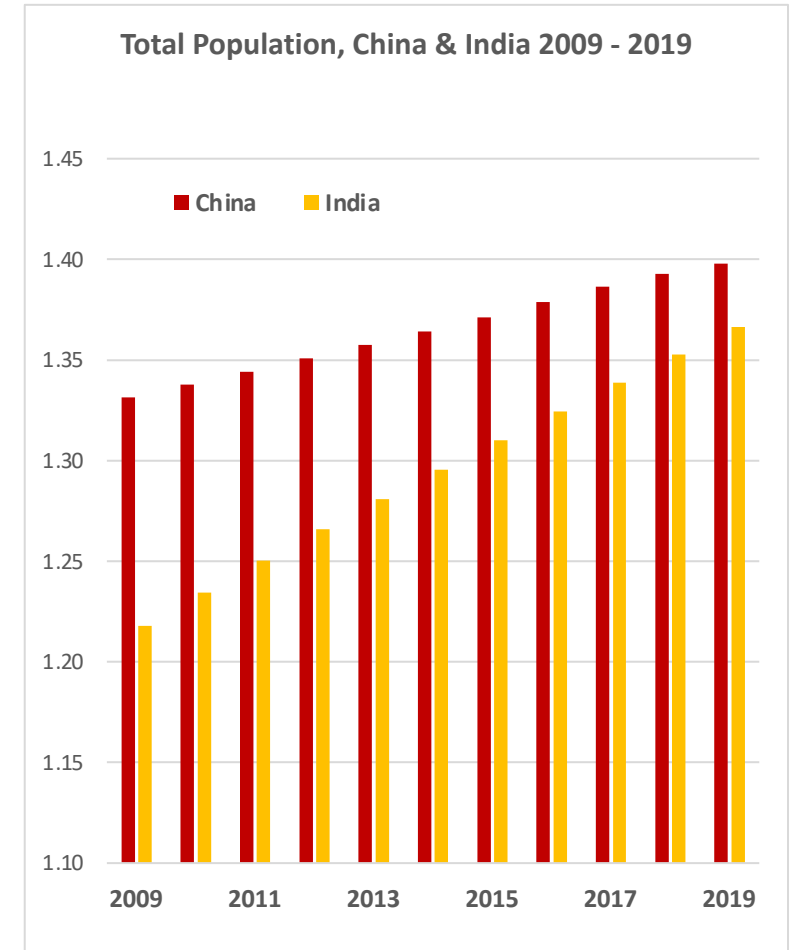
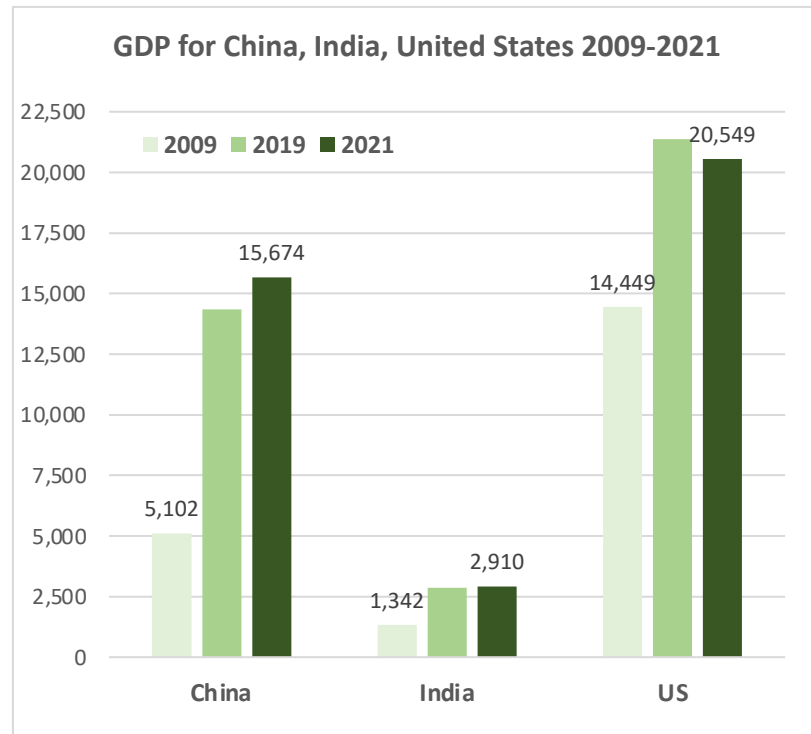
Despite India trailing China's population by only 30 million and having a much younger work force



Data are in current U.S. dollars. Source: World Bank

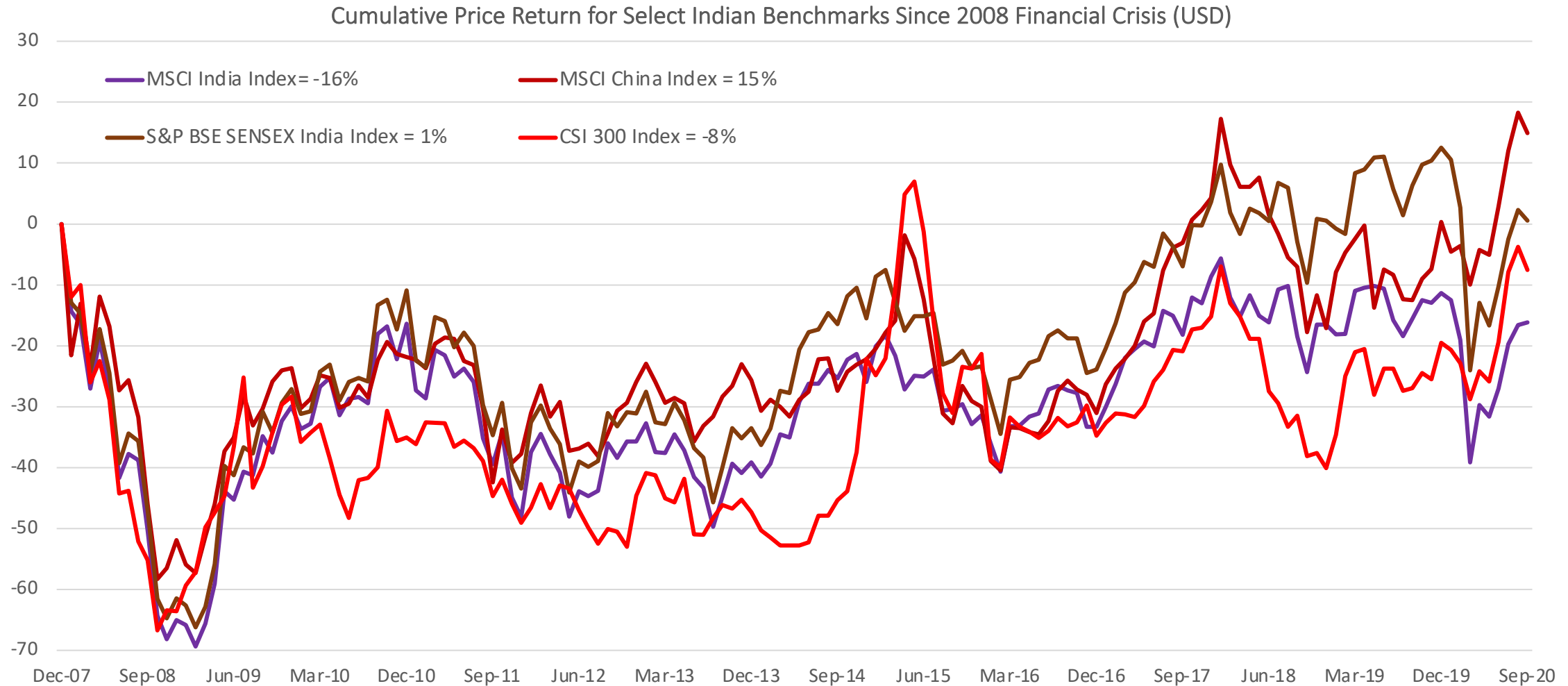
India's contribution to global GDP growth has not been commensurate with its size or the growth of its population

While China's GDP as a percentage of the world's total is projected to grow by almost 10% from 2009 to 2021, India's GDP as a percentage of the world's total will barely increase by 1.1% ... despite its population growing by 12% in the last decade, compared to China's 5% growth.



GDP and Population source: World Bank; GDP growth forecast source: International Monetary Fund.

However, despite its economic underperformance, Indian equities matched the performance of Chinese equities in the decade since the financial crisis



Source: Bloomberg.

Today, under the Modi administration, India is determined to become one of the world's leading economies, join the ranks of the middle-income countries within 10 years, and in the process meaningfully improve the lives of its 1.4 billion citizens.

So, this presentation aims to answer two questions:

- Should investors believe that India's economic performance in the next decade will be any different from the the underwhelming performance of the past 30 years?
- And assuming India succeeds in joining the ranks of middle to high income countries, how can investors harness this opportunity?

Why should investors believe that India's economic performance in the next decade will be any different from the last 30 years?

We believe three key factors now in place will help India perform closer to its potential in the next decade, handsomely rewarding investors in the process:

1. The potential to unleash the world's largest amount of human capital into its economy
2. The long overdue but now very real formalization of its economy through its national digitalization program ("Digital India")
3. The government's focus on transforming India into a manufacturing powerhouse to rival China (and become a viable supply chain alternative)

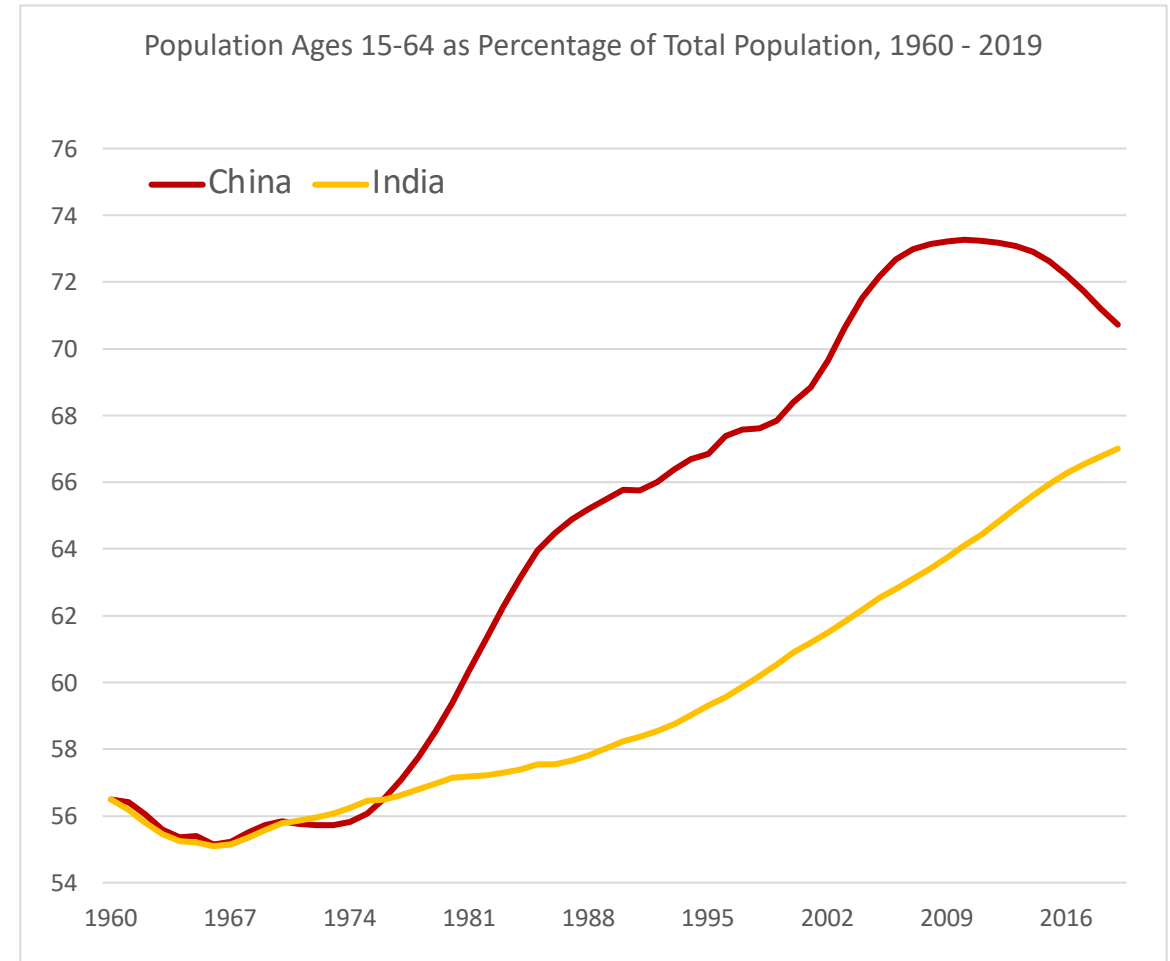
1. India: the World's Largest Source of Human Capital in the 21st Century

India is not only the world's second most populous country, but also one of the youngest. More than 50% of all Indians are under the age of 25 and more than 65% under the age of 35 ...

The age of the average Indian is 29 years compared to 37 for China and 48 for Japan.

In 2018 India's working age population surpassed its dependent population (children under 14 and adults over 65) for the first time in its history.

This means the country's labor force is just now entering its prime years, which are expected to peak in 2055.



Population ages and youth as % of total source: Wikipedia; Working age vs. dependent population source: The Economic Times, July 22, 2019.

Source: World Bank

1. India: the World's Largest Source of Human Capital in the 21st Century

India has a unique opportunity to leverage its working age population and accelerate its economic growth ...

Successful emerging economies—particularly in Asia—have experienced significant growth spurts when they have been able to combine their “demographic dividend” with policies that allow their workforces to flourish ...

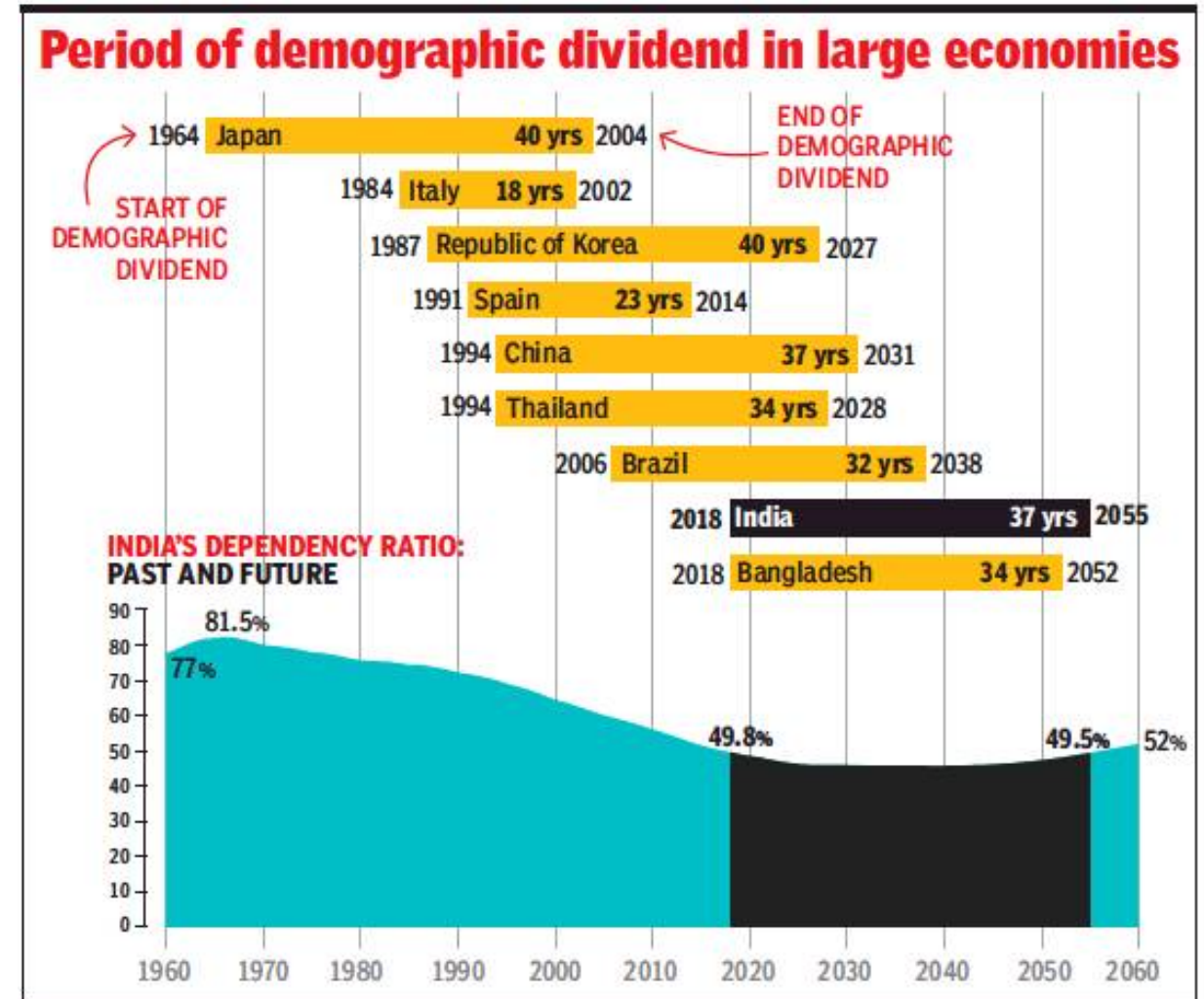
Japan starting in the 1960s ...

Singapore and Hong Kong in the late 1970s ...

China starting in the 1990s ...

Is India next?

With the right policies, focused on fostering education, public health and economic opportunity, the country has a chance to accelerate its growth rate significantly.



Source: The Economic Times, July 22, 2019.

1. India lags China in human capital development and has much work to do to harness this unique opportunity

But to fulfill its potential, India needs to foster an environment of opportunity for its young population ...

World Bank's Human Capital Index (HCI) for Select Countries

World Rank	Country	Region	Income Group	HCI 2020
1	Singapore	East Asia & Pacific	High	0.88
35	United States	North America	High	0.70
45	China	East Asia & Pacific	Upper Middle	0.65
116	India	South Asia	Lower Middle	0.49
174	Central African Republic	Sub-Saharan Africa	Low	0.29

Interpretation of HCI:

A child born in India today will be 49% as productive when he grows up in comparison to what he could have been if he enjoyed a complete education and full health. This is higher than the average for the South Asia region and for the group of lower middle-income countries.

HCI = Human Capital Index, which is calculated for every country by the World Bank.

Source: The World Bank Human Capital Project

2. India Rides the Digital Wave to Formalize its Economy

An important first step in India's modernization plan, under Prime Minister Modi, has been the formalization of its economy, without which reform was impossible ...

Prime Minister Modi's government embarked on a process to formalize India's economy in 2014. At the time, the country's informal economy employed 90% of its workforce but contributed only 50% of GDP. (1)

An important part of the "formalization" initiative was the government's demonetization policy, which removed high denomination banknotes from circulation.

While an important goal of this program was to move Indians into the formal banking system, demonetization was crucial in helping the country "digitize" its economy by "reducing anonymity" and "adding traceability." (2)

1. Confederation of Indian Industry, October 2014. Sourced from Manulife Investment Management, "India at the crossroads of disruption—a tipping point for growth." July 24, 2020.
2. "The Ups and Downs of India's Digital Transformation," Harvard Business Review, May 6, 2019.

2. India Rides the Digital Wave to Formalize its Economy

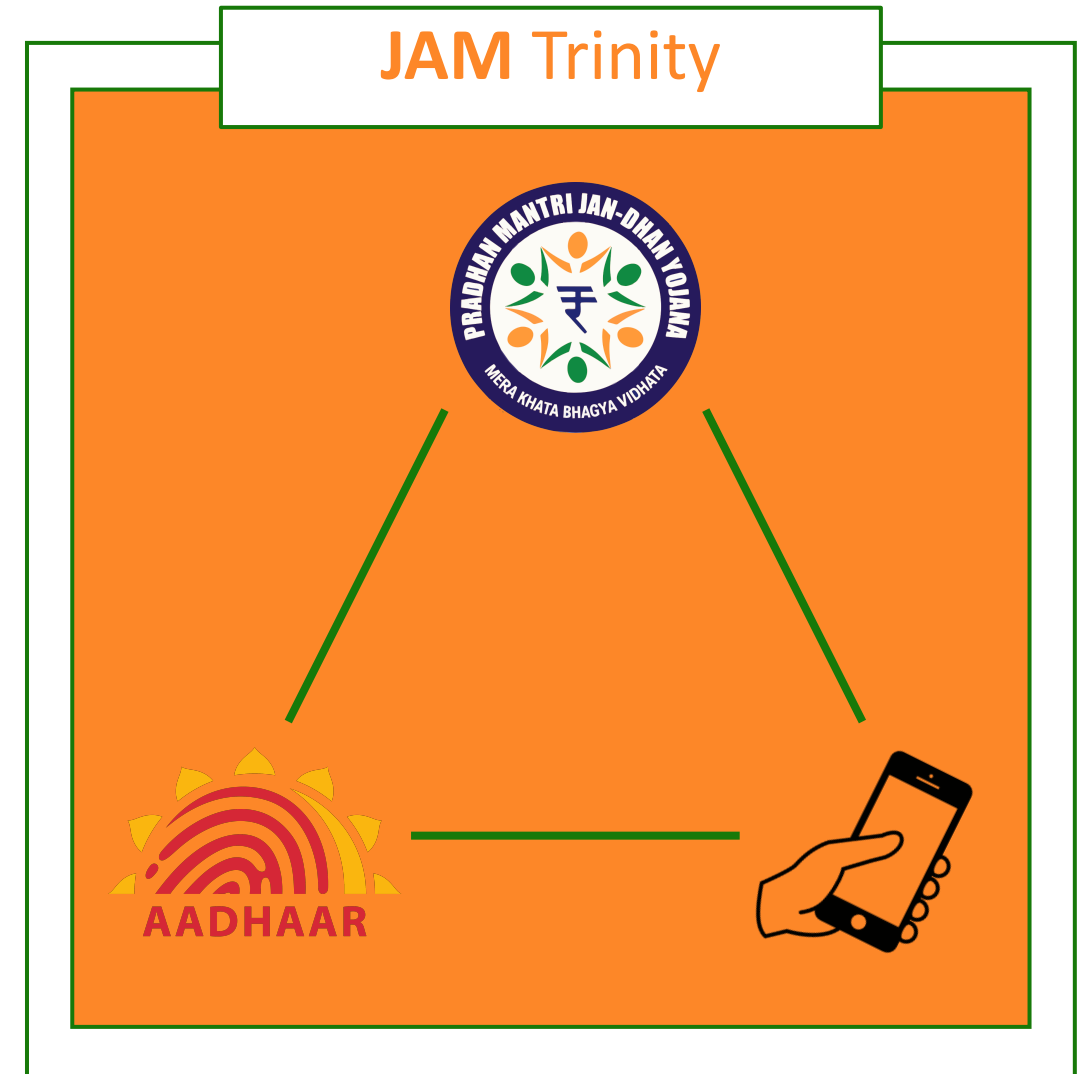
Modi's plan envisions the transformation of India "into a digitally empowered society and knowledge economy" ...

The JAM Trinity

Jan Dhan: "Zero balance" accounts used by Indians to access credit and savings products. Promoted by the government as hassle-free bank accounts encouraging participation in formal banking economy. Over 350 million created by 2019.

Aadhaar: Biometric digital identity program. The government has already enrolled more than 1.2 billion Indians. Program has also onboarded 10 million businesses onto a common digital platform through a national goods and services tax (that replaced 17 national and state taxes).

Mobile: Significant investments by domestic telecom providers has led to an explosive growth in fast and cheap mobile Internet access, with India having among the highest coverage rates in the world. Indian mobile data users now consume 8.3 GB of data per month, on avg., vs. 5.5 GB for mobile users in China.



2. India Rides the Digital Wave to Formalize its Economy

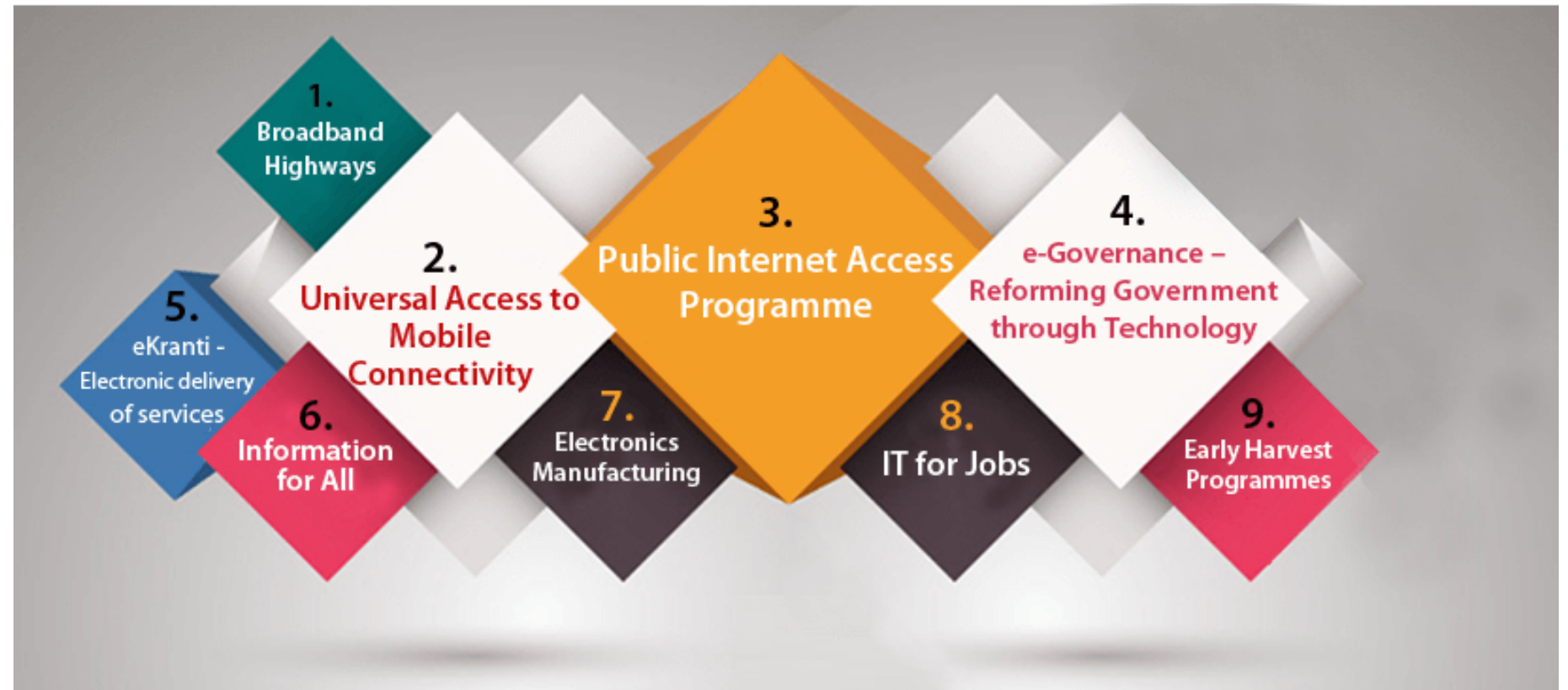
With the pillars of the plan in place, India embarked on its ambitious program to digitalize its economy ...

Digital India

Program Pillars:

“Digital India is a flagship program of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy.”

(digitalindia.gov.in)



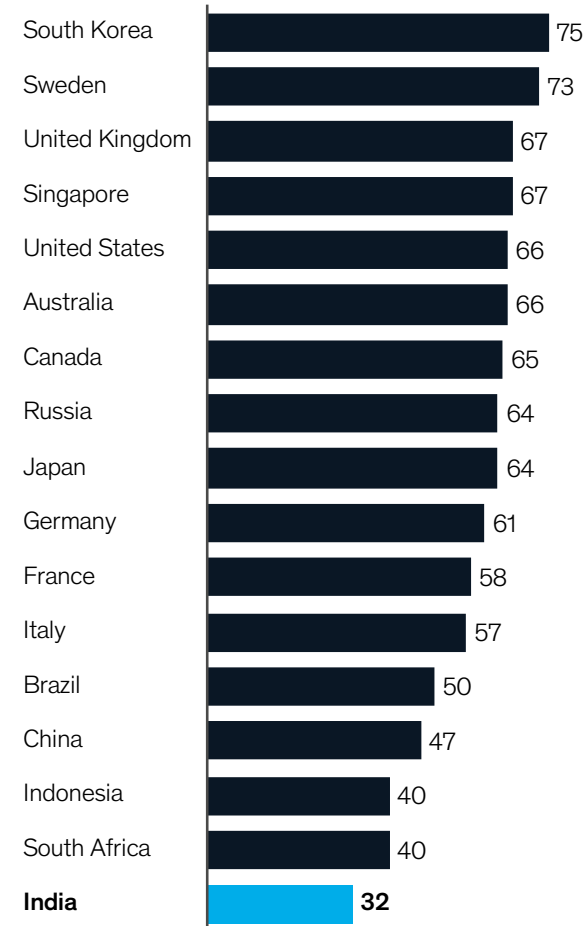
2. India Rides the Digital Wave to Formalize its Economy

"Digital India" has the opportunity to finally empower millions of Indians, propel commerce, and harness the country's "demographic dividend"

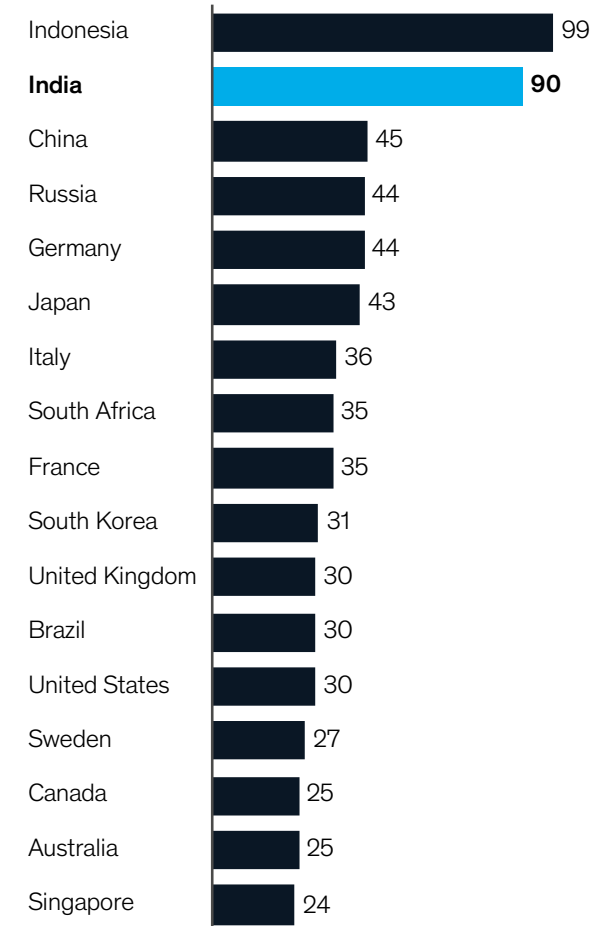
- India's addressable e-commerce market is estimated at US \$900 billion, but e-commerce penetration is only 3%. (1)
- Since these policies were adopted, India has jumped 65 places in the World's Bank Ease of Doing Business Index, from 142 in 2015 to 77 in 2019. (2)
- According to a study by McKinsey, by 2025 "core digital sectors" could double their GDP level to US \$335 - \$435 billion ...
- While digitizing traditional sectors such as agriculture, education, energy, financial services, health care, logistics and retail could create US \$10 billion to \$150 billion in incremental value (per sector) by 2025. (3)

1. Confederation of Indian Industry, October 2014. Sourced from Manulife Investment Management, "India at the crossroads of disruption—a tipping point for growth." July 24, 2020.
2. "The Ups and Downs of India's Digital Transformation," Harvard Business Review, May 6, 2019.
3. "Digital India," McKinsey Global Institute, April 2019

Country Digital Adoption Index¹
Score (0-100), 2017



Growth in Country Digital Adoption Index
% growth, 2014–17



Source: McKinsey Global Institute's 'Country Digital Adoption Index.

3. India [Finally] Gets Serious about Manufacturing

The other major initiative undertaken by Modi's government with the potential to change the trajectory of the country's economic growth is the development of a world class manufacturing sector

"Make in India" initiative, launched in Sept. 2014 by Prime Minister Modi, in their words:

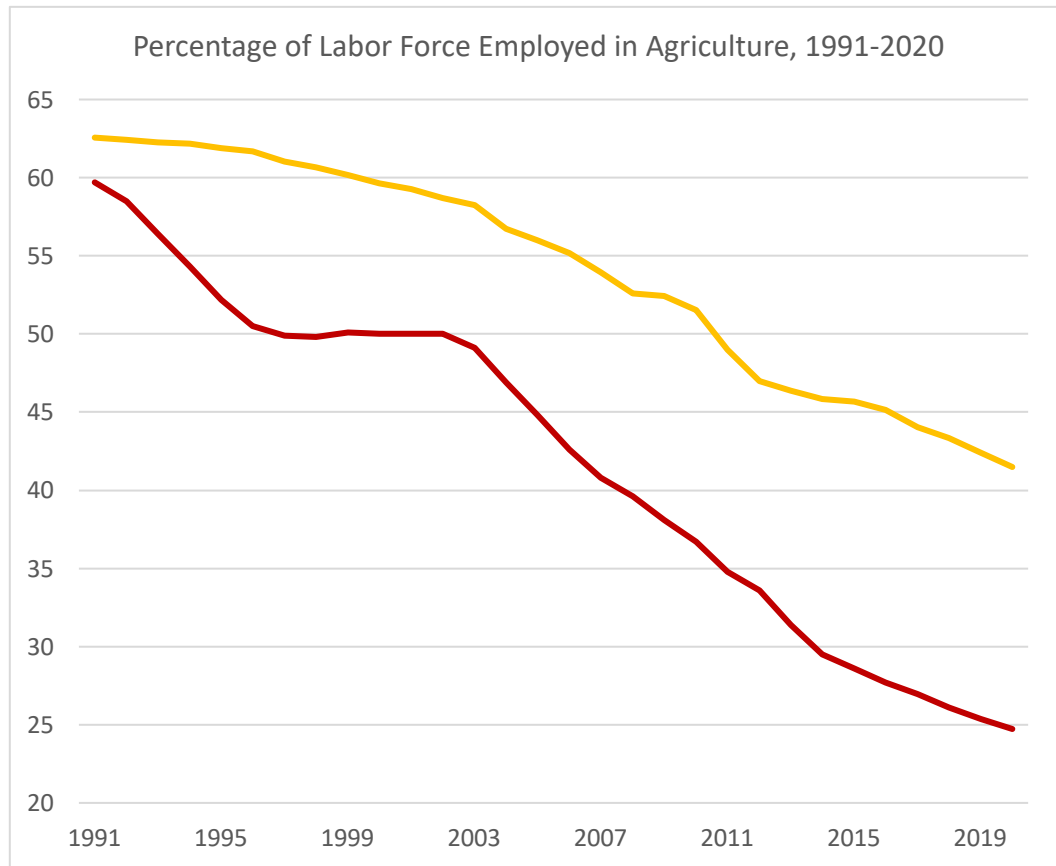
"Make in India was a timely response to a critical situation. By 2013 ... India's growth rate had fallen to its lowest level in a decade ... Global investors debated whether the world's largest democracy was a risk or an opportunity. India's 1.2 billion citizens questioned whether India was too big to succeed or too big to fail. India was on the brink of severe economic failure, desperately in need of a big push."

<https://www.makeinindia.com/about>

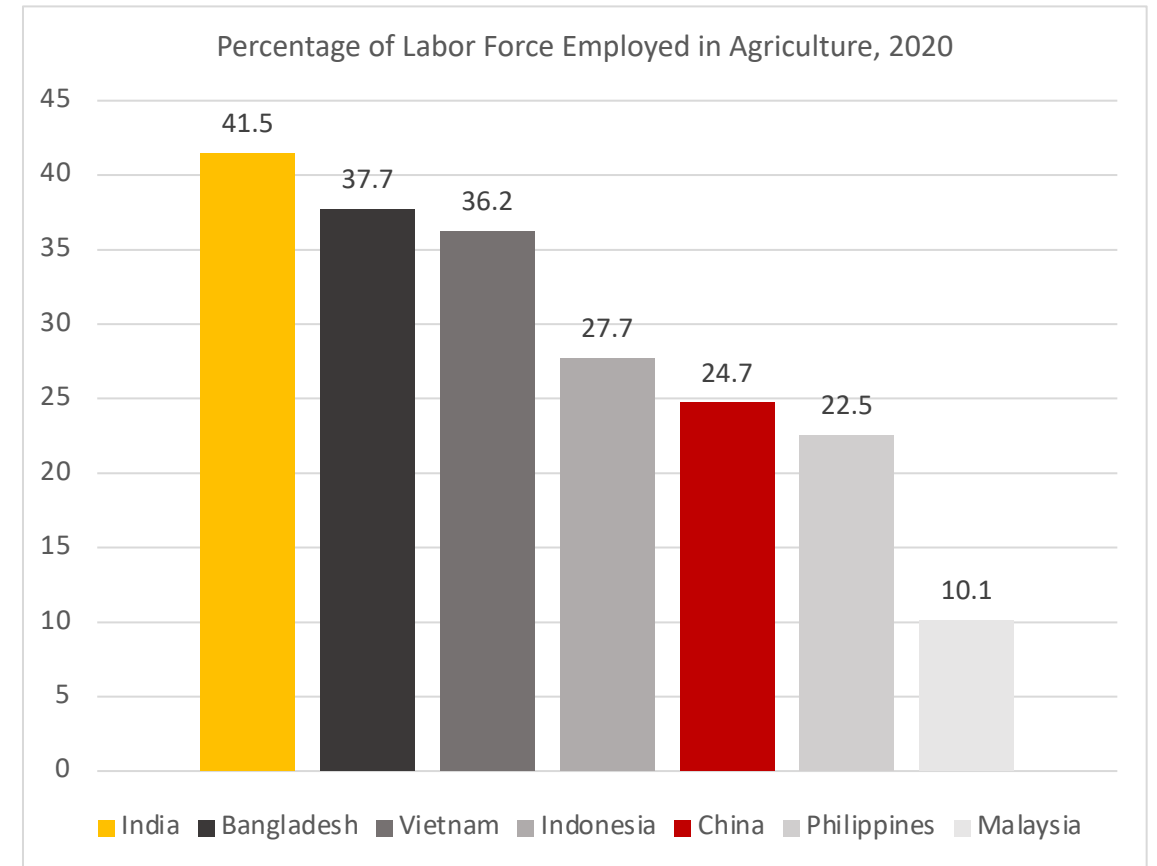
3. India [Finally] Gets Serious about Manufacturing

The goal of “Make in India” is to create 100 million jobs and raise manufacturing to 25% of GDP by the middle of the decade

Ironically, a country with one of the most sophisticated information technology sectors in the world is still largely an agrarian society



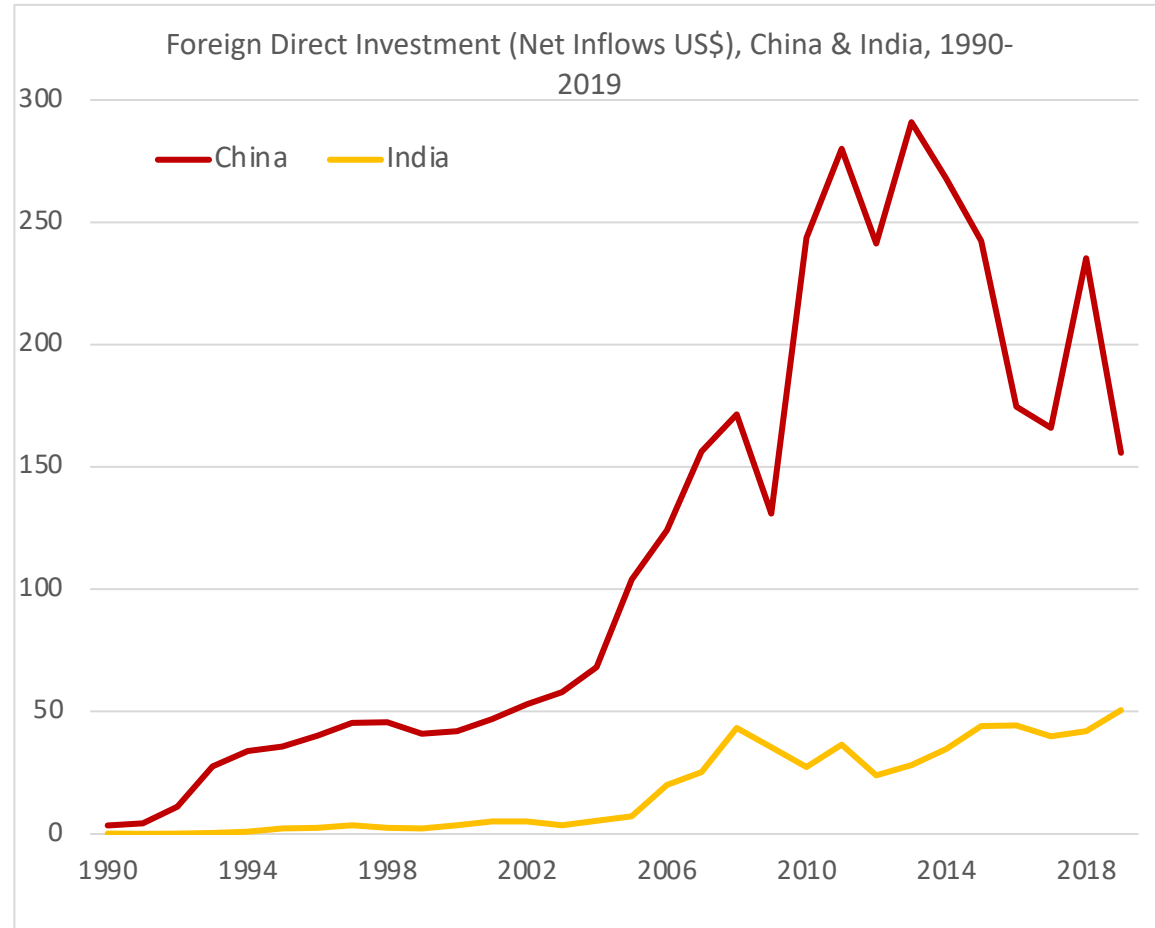
Source: World Bank



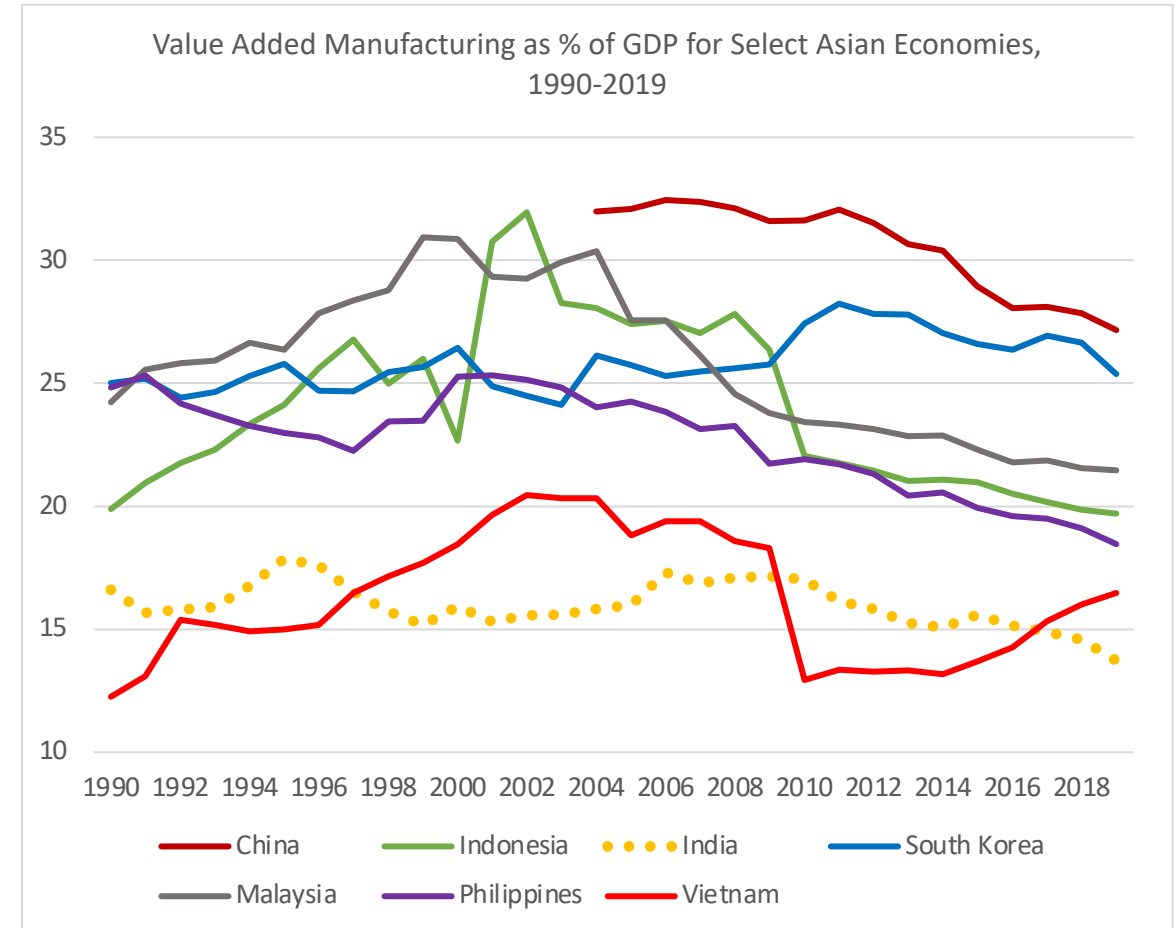
Source: World Bank

3. India [Finally] Gets Serious about Manufacturing

One of “Make in India’s” primary goals is to create the conditions by which Foreign Direct Investment may flow into the country to support of a manufacturing renaissance ...



Source: World Bank



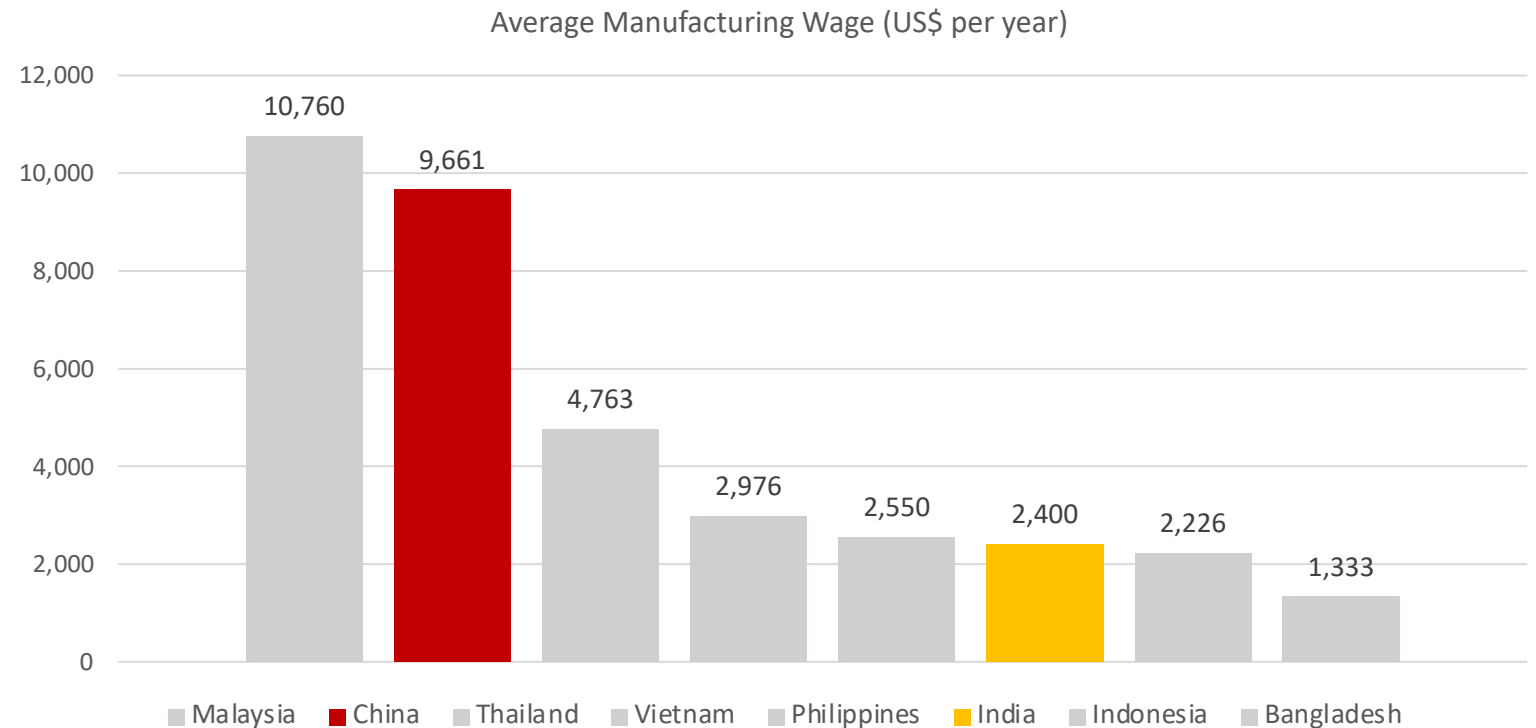
Source: World Bank

3. India [Finally] Gets Serious about Manufacturing

While making India a viable alternative to China as a global manufacturing hub

While India enjoys a significant advantage in labor costs relative to China, many other challenges abound, including:

- Poor infrastructure
- Red tape
- Disconnected from global supply chains
- Restrictive labor laws



Source: CEIC, Credit Suisse research, October 2019. Sourced from Manulife Investment Management, "India at the crossroads of disruption—a tipping point for growth." July 24, 2020.

3. India [Finally] Gets Serious about Manufacturing

However, the country's efforts are beginning to bear fruit in key manufacturing areas ...

India became the world's fourth largest car manufacturer in 2018

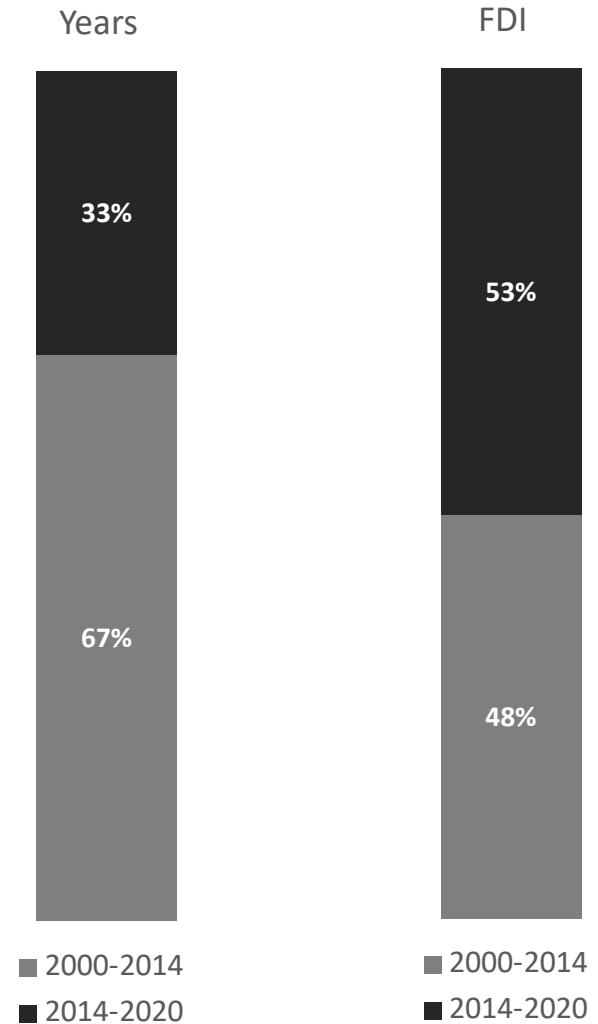
1999			2009			2018		
Rank	Country	Cars	Rank	Country	Cars	Rank	Country	Cars
1	Japan	8,100,169	1	China	10,383,831	1	China	23,529,423
2	USA	5,637,949	2	Japan	6,862,161	2	Japan	8,358,220
3	Germany	5,309,524	3	Germany	4,964,523	3	Germany	5,120,409
4	France	2,784,469	4	South Korea	3,158,417	4	India	4,064,774
5	South Korea	2,361,735	5	Brazil	2,575,418	5	South Korea	3,661,730
6	Spain	2,281,617	6	USA	2,195,588	6	USA	2,795,971
7	UK	1,786,624	7	India	2,175,220	7	Brazil	2,386,758
8	Canada	1,626,316	8	France	1,819,497	8	Spain	2,267,396
9	Italy	1,410,459	9	Spain	1,812,688	9	France	1,763,000
10	Brazil	1,107,751	10	Iran	1,170,503	10	Mexico	1,575,808
11	Mexico	993,772	11	UK	999,460	11	Russia	1,563,572
12	Russia	943,732	12	Czech Rep.	976,435	12	UK	1,519,440
13	Belgium	917,513	13	Mexico	942,876	13	Czech Rep.	1,345,041
14	China	565,366	14	Canada	822,267	14	Slovakia	1,090,000
15	Poland	546,843	15	Poland	818,800	15	Indonesia	1,055,774
16	India	533,149	16	Italy	661,100	16	Iran	1,027,313
17	Czech Rep.	348,482	17	Russia	599,265	17	Turkey	1026461

Source: International Organization of Motor Vehicle Manufacturers (OICA)

3. India [Finally] Gets Serious about Manufacturing

While Foreign Direct Investing has been pouring into the country at the highest rate in its history

- FDI inflow from April 2014 to March 2020 (USD 357.4 bn) is 52.5% of the overall FDI received since April 2000
- In 2019-2020 India crossed the USD 70 bn mark in FDI in a year for the first time ever (USD 73.5 bn)
- In 2019-2020 the services sector enjoyed the largest FDI inflow ever, at USD 7.9 billion
- India's Telecommunications sector saw a 67% increase in FDI in FY 2019-20 to USD 4.4 billion
- India's Construction Development Sector experienced 190% year-over-year growth in FDI inflows in 2019-20 to USD 617 billion, from USD 213 billion the prior year

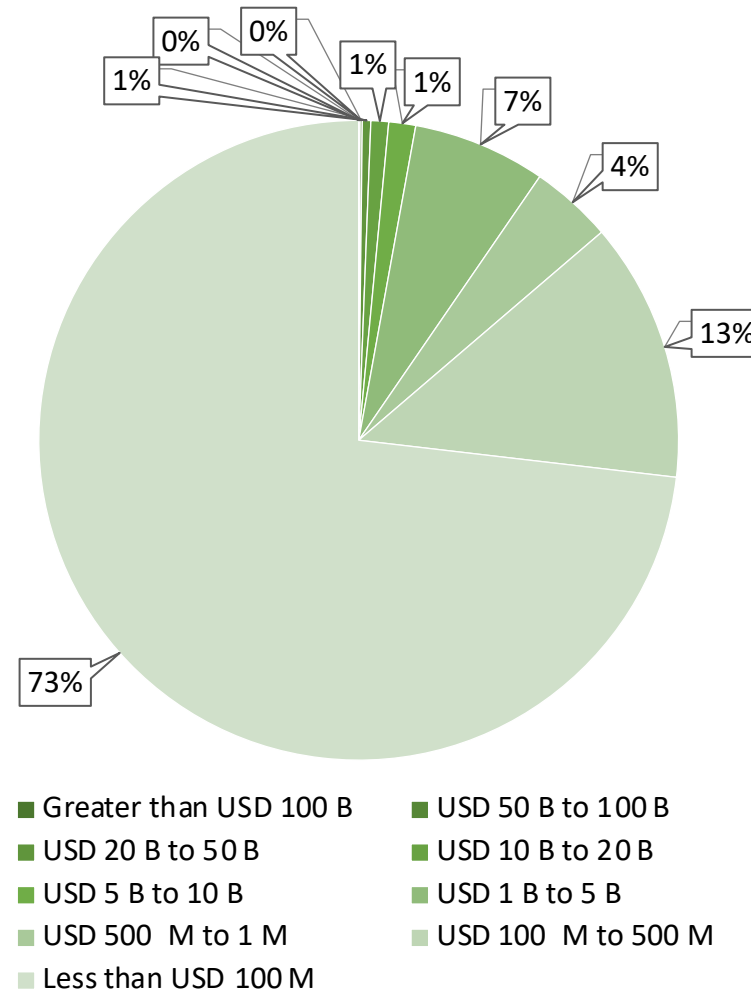


Source: <https://www.makeinindia.com/sectors-attracting-significant-fdi-in-india-in-2019-20>

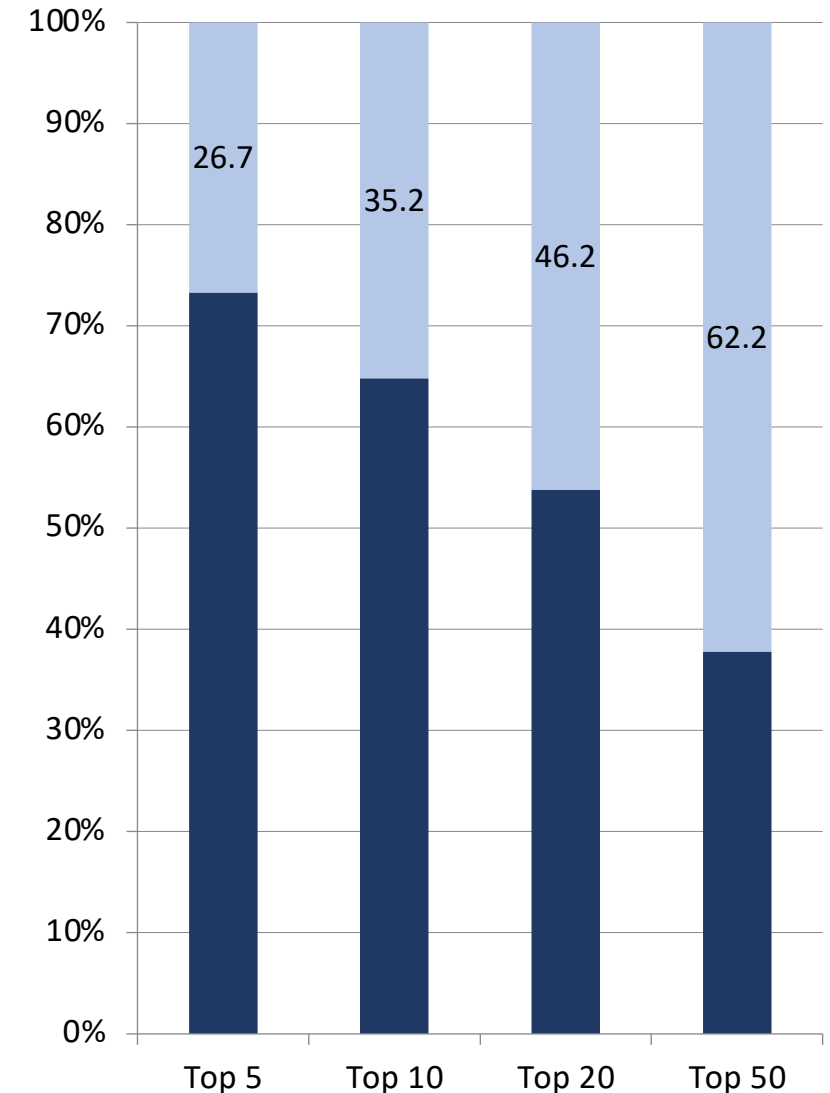
How Can Investors Harness this Opportunity? First, Overcome the Challenges of India's Equity Market

Country	Listed Issues
China	4,843
Japan	3,824
United States	3,770
India	2,849
South Korea	2,019
Taiwan	1,877
Hong Kong	1,529
Canada	1,288
Great Britain	1,119
Australia	1,055

Breakdown of India's Equity Market by Size



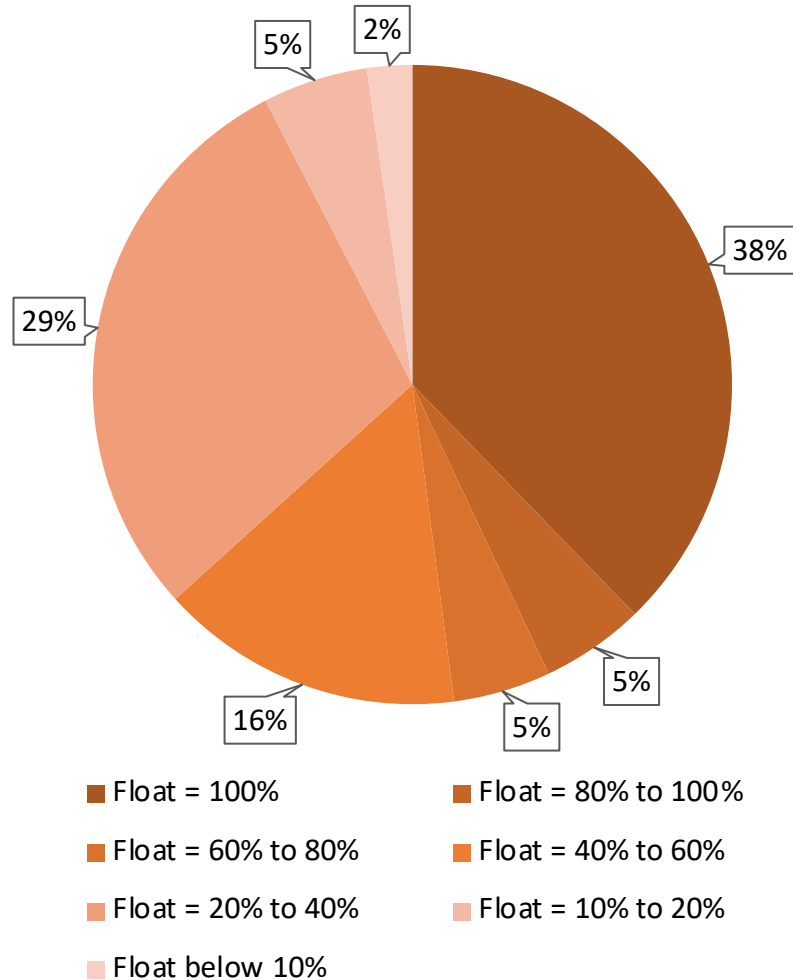
Concentration



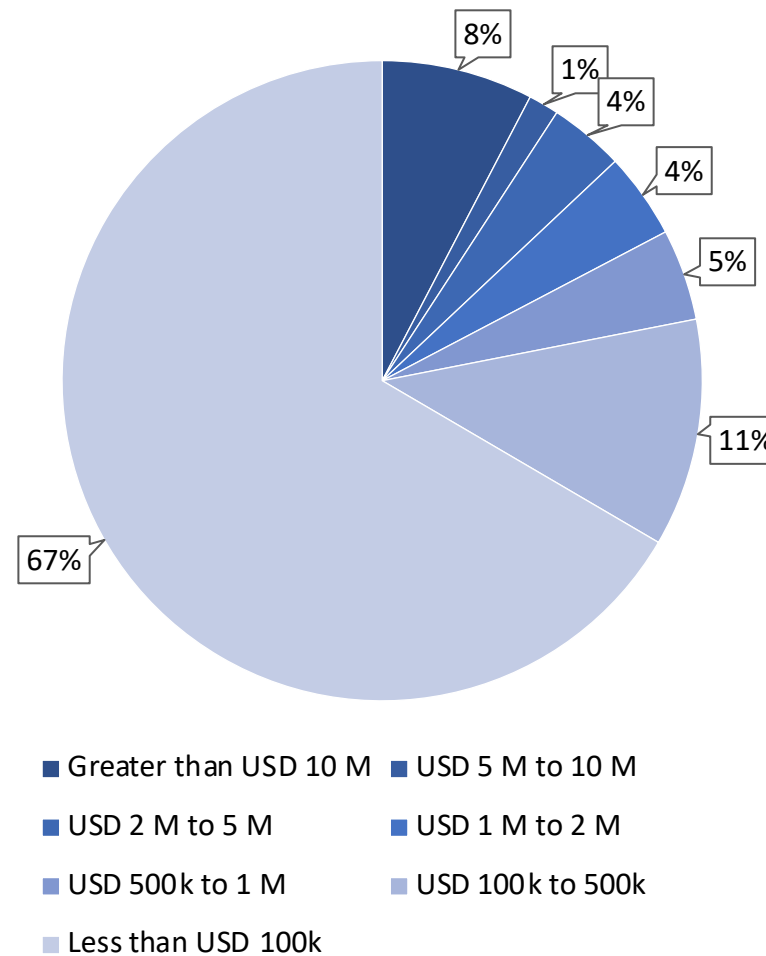
Sources: MarketGrader Research, FactSet

How Can Investors Harness this Opportunity? First, Overcome the Challenges of India's Equity Market

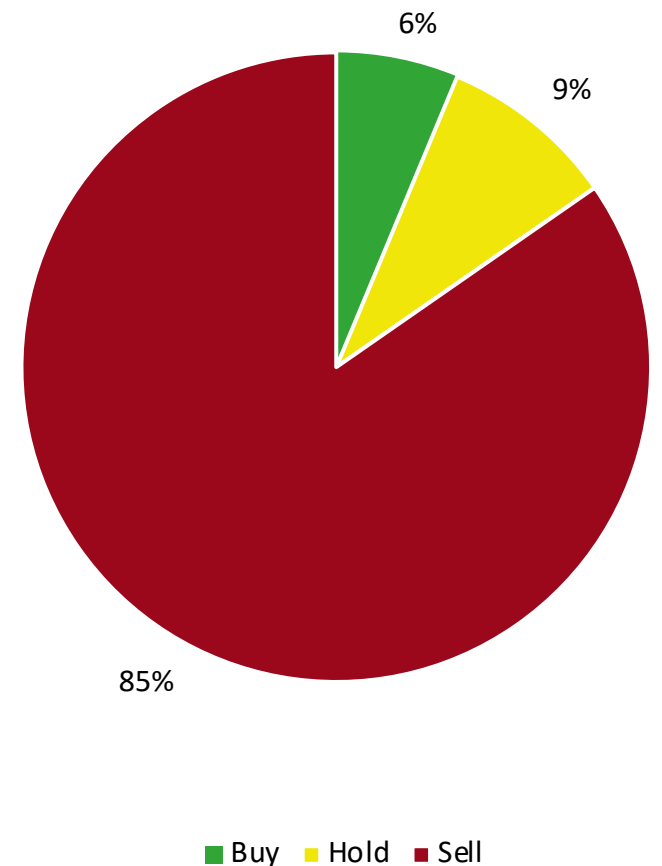
Breakdown of India's Equity Market by Float



Breakdown of India's Equity Market by Trading Volume



Breakdown of India's Equity Market by MarketGrader Rating



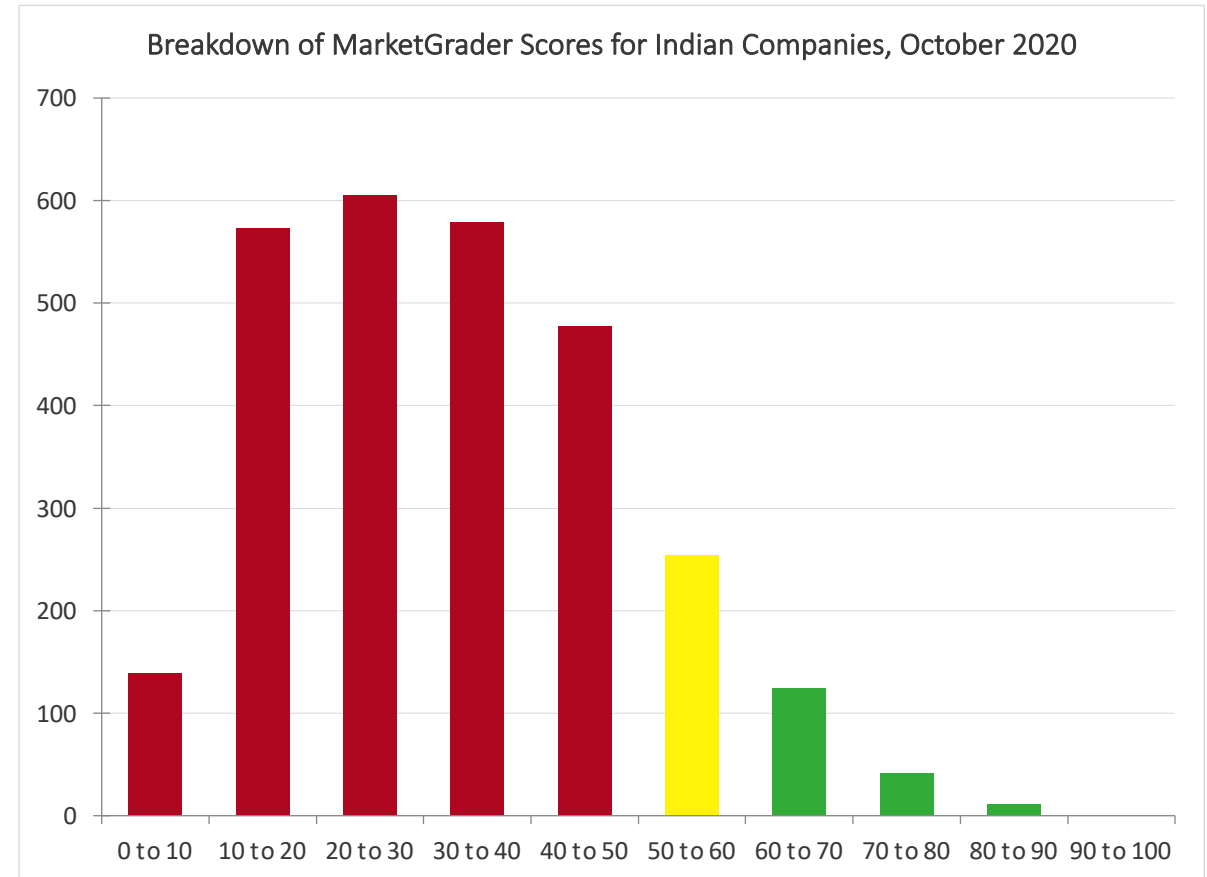
Sources: MarketGrader Research, FactSet

How Can Investors Harness this Opportunity? Next, Focus on Company Selection

MarketGrader's approach to India is to focus on stock selection in order to identify what we call 'Growth Compounders.'

Three core premises underlying MarketGrader's ratings and our index selection methodology:

- Growth compounders are the bedrock of a portfolio's long-term performance.
- In order to identify long-term growth compounders, single metrics don't tell the whole story about a company's ability to sustain growth.
- There is a significant difference between buying cheap stocks, with limited upside, and buying long-term growth compounders at a reasonable valuation.



BUYs (Overall Grade > 60)	176 Companies
HOLDs (Overall Grade 50-59)	254 Companies
SELLs (Overall Grade < 50)	2,373 Companies

Source: MarketGrader

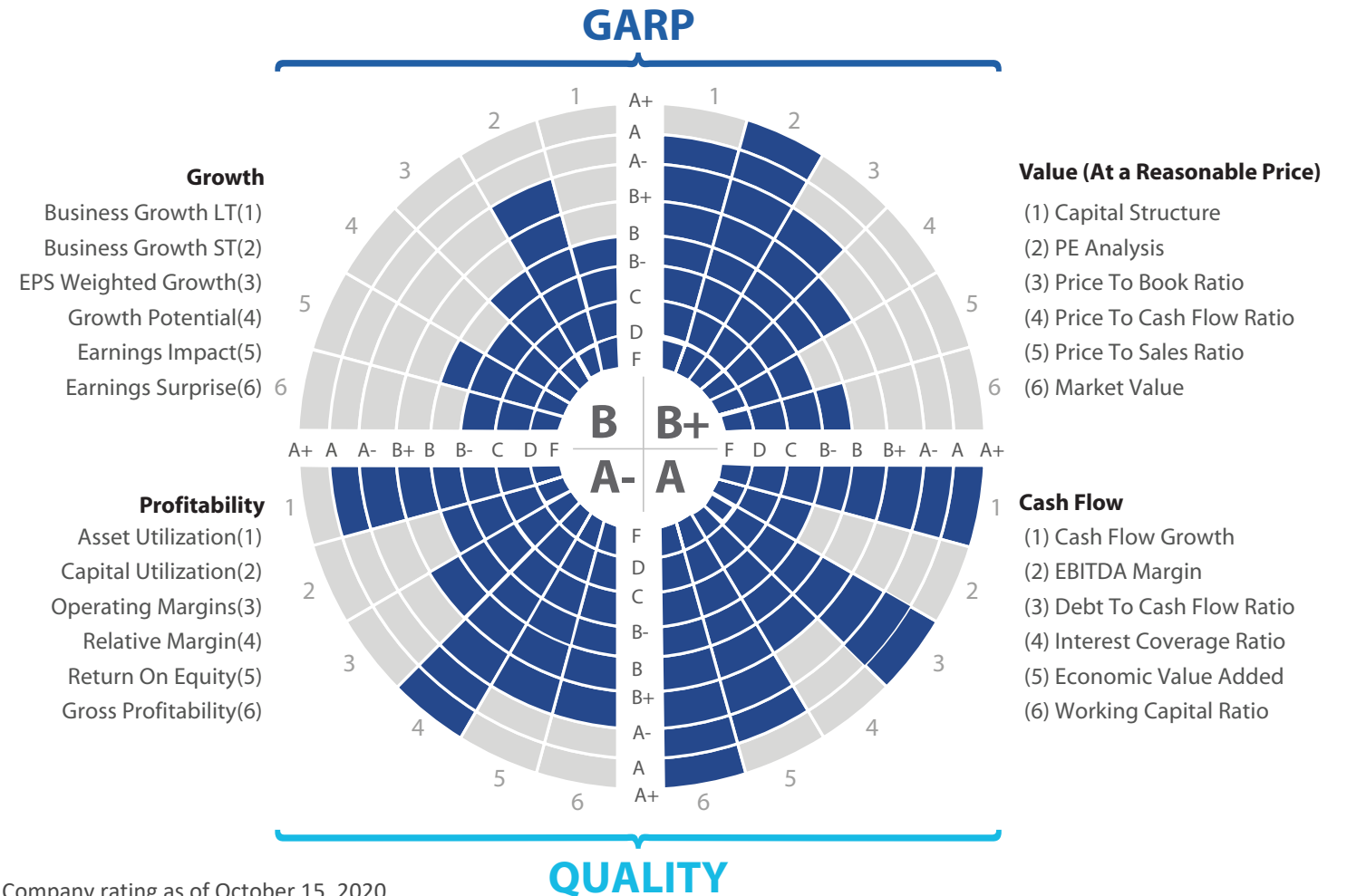
What are Growth Compounders?

MarketGrader's GARP + Quality methodology seeks to identify companies with the following characteristics:

- Consistent top to bottom line growth—not just explosive short-term growth—with sustainable margins and high cash flow generation.
- A sound capital structure that doesn't impair operating growth, combined with high returns on invested capital and low capital intensity.
- Reasonable valuations relative to sustainable growth rates, and not based just on absolute, out of context, valuation multiples.

Larsen & Toubro Infotech Ltd (540005.IN)

Overall Grade: 74.3, MarketGrader Rating: **BUY** ●



Company rating as of October 15, 2020.
Source: MarketGrader

MarketGrader's Approach to Indian Equities: Focus on Company Quality

Our process starts with the analysis and rating of all Indian companies listed in India's National Exchanges or the U.S.

Step 1.

Collection and Screening of Financial Statements & Company Data



We begin by collecting and screening the financial statements of all publicly traded companies with reliable and consistent reports. MarketGrader screens through millions of data records to identify reporting anomalies and inconsistencies and filters out those it deems unreliable.

Step 2.

Calculation of Metrics Designed to Identify Growth Compounders



Next, we calculate a series of metrics that seek to find companies with characteristics that include consistent top to bottom line growth—not just explosive short-term growth—with sustainable margins and high cash flow generation; a sound capital structure that doesn't impair operating growth, combined with high returns on invested capital; and reasonable valuations relative to sustainable growth rates.

MarketGrader's Approach to Indian Equities: Focus on Company Quality

Our MarketGrader Score, based on GARP + Quality, allows us to grade companies across countries and markets globally

Step 3.

Calculation of 24 Fundamental Indicators Focused on GARP + Quality



Next, we aggregate all data points into 24 individually graded indicators, which we classify into the four categories of our analysis: Growth, Value, Profitability and Cash Flow. Since business models vary greatly across industries and sectors and between companies of very different scale, our indicators also vary in order to account for such differences.

Step 4.

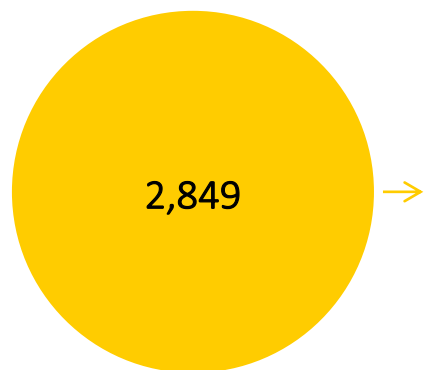
Calculation of the Final MarketGrader Score and Rating



Lastly, we aggregate all 24 fundamental indicators into a final MarketGrader Score, on a scale from zero (0) to one hundred (100); all companies rated 60 or higher are assigned a 'BUY' rating. This allows us to apply a standardized global rating methodology to companies in diverse industries and of different sizes. These scores are the building blocks of all MarketGrader Indexes.

The MarketGrader India All-Cap Growth Leaders Index – Selecting Growth Compounders within a Rules-Based, Smart Beta Methodology

Index Construction Process



1. We Start with MarketGrader's Coverage of India's Equity Market

MarketGrader covers virtually all Indian public companies that report financial statements reliably and whose shares trade regularly on India's national exchanges or on U.S. exchanges (2,849 companies as of October 2020)

331



2. Selection of Investable Universe

Next, we apply a size filter (USD 150 million) and a liquidity filter (minimum of USD 2 million in 3-month avg. daily traded volume) to arrive at the Index's investable universe (331 companies as of October 2020)

80



3. Selection of Index Constituents

Next, we select the 80 companies in the Investable Universe with the highest MarketGrader Scores. Each constituent is weighted in the Index according to its free float market capitalization, with the total weight per constituent capped at 5% of the entire Index.

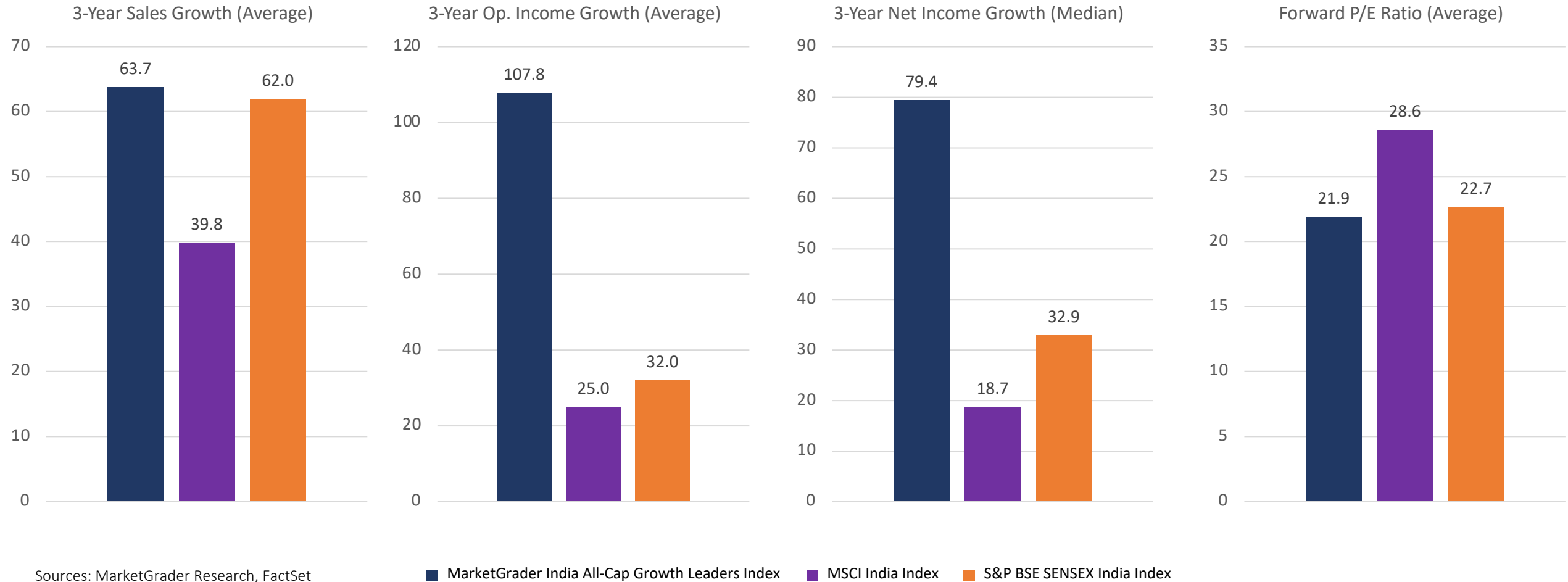


4. Rebalance

The Index is reconstituted and rebalanced semi-annually, after the close of trading in the U.S. on the third Friday of March and September.

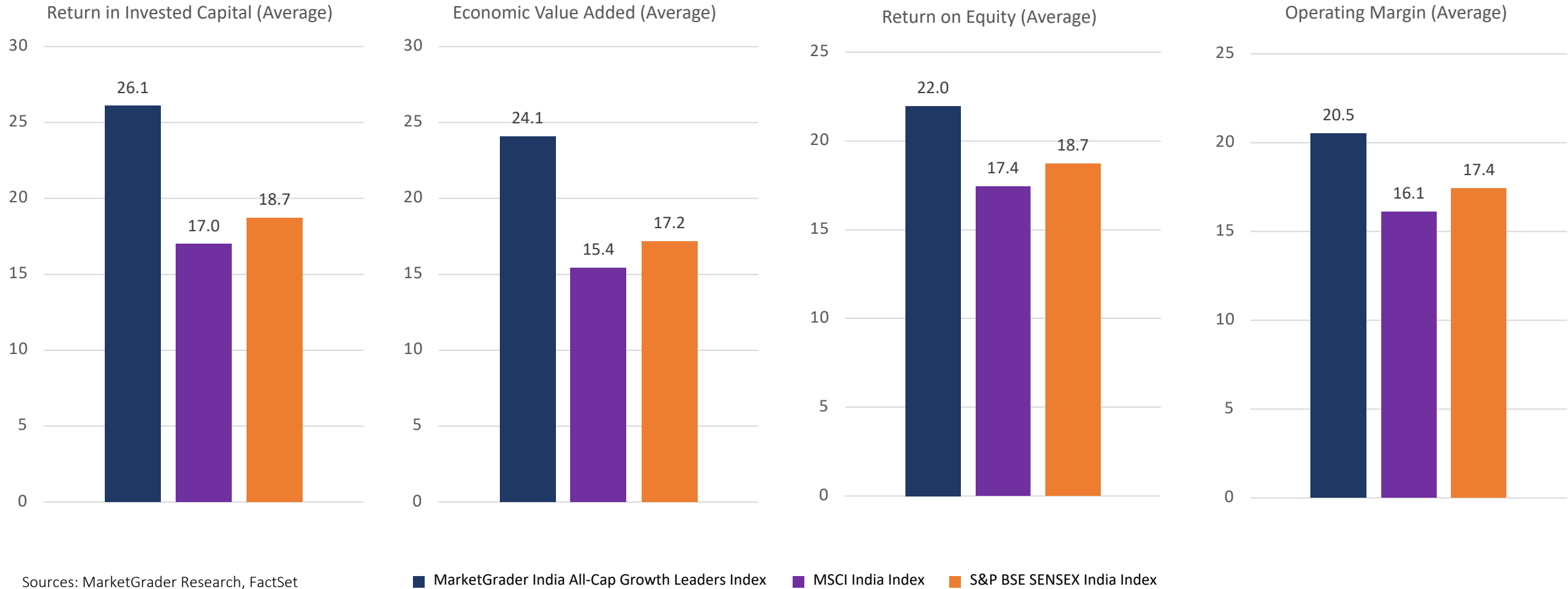
The MarketGrader India All-Cap Growth Leaders Index: 80 Quality Growth Companies at a Reasonable Price

Select Growth and Valuation Metrics for MarketGrader India All-Cap Growth Index vs. Select Benchmarks



The MarketGrader India All-Cap Growth Leaders Index: A Focus on Stock Selection Leads to Compounders of Shareholder Value

Select Profitability and Quality Metrics for MarketGrader India All-Cap Growth Index vs. Select Benchmarks



The MarketGrader India All-Cap Growth Leaders Index's 'Honor Roll'

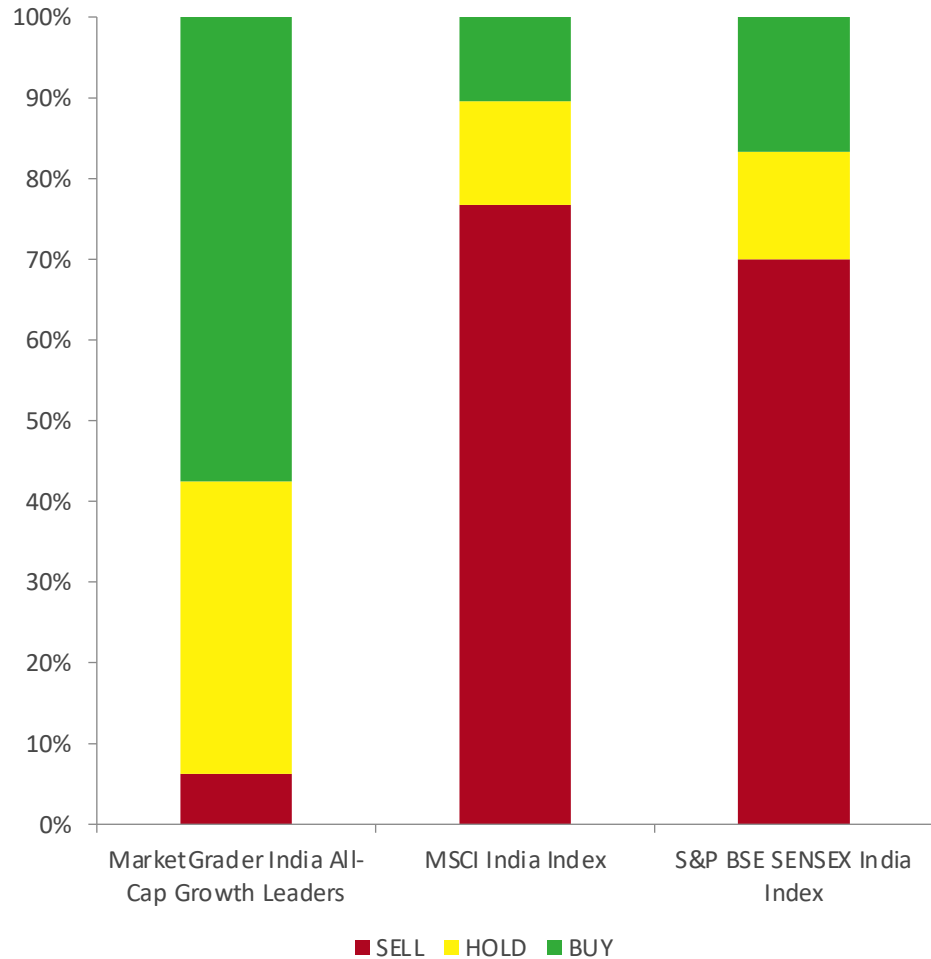
India's Growth Compounders Honor Roll (Companies with Most Selections to the India Growth Leaders Index)*

Ticker	Company Name	Times Selected	First Selected	Last Selection	Shareholders' Equity Start	Shareholders' Equity Latest	Shareholder Equity Growth	Price Return
532540.IN	Tata Consultancy Services Limited	26	3/24/08	3/19/21	88,501	841,260	851%	650%
507685.IN	Wipro Limited	25	9/22/08	3/19/21	116,954	557,458	377%	155%
532755.IN	Tech Mahindra Limited	24	12/31/07	3/19/21	9,185	218,131	2275%	61%
526299.IN	Mphasis Limited	24	12/31/07	3/19/21	10,085	58,296	478%	150%
532281.IN	HCL Technologies Limited	23	12/31/07	3/19/21	40,672	512,670	1160%	478%
532819.IN	Mindtree Limited	22	9/22/08	3/19/21	5,331	31,572	492%	1055%
500790.IN	Nestle India Ltd.	21	12/31/07	3/19/21	4,184	19,323	362%	462%
505537.IN	Zee Entertainment Enterprises Limited	21	12/31/07	9/18/20	26,181	93,439	257%	-27%
500870.IN	Castrol India Limited	21	12/31/07	3/19/21	4,302	13,670	218%	26%
500488.IN	Abbott India Limited	20	12/31/07	3/20/20	2,310	20,086	769%	1235%
500676.IN	GlaxoSmithkline Consumer Healthcare Ltd	20	12/31/07	3/20/20	6,464	40,947	534%	538%
500092.IN	CRISIL Limited	20	12/31/07	9/20/19	2,764	11,363	311%	95%
532488.IN	Divi's Laboratories Limited	20	12/31/07	3/19/21	5,354	73,099	1265%	260%
524715.IN	Sun Pharmaceutical Industries Limited	19	12/31/07	9/20/19	27,728	414,091	1393%	88%
500459.IN	Procter & Gamble Hygiene & Health Care Ltd.	19	12/31/07	9/15/17	2,912	5,261	81%	560%
500124.IN	Dr. Reddy's Laboratories Ltd.	18	12/31/07	3/19/21	39,973	154,988	288%	274%
500257.IN	Lupin Limited	18	12/31/07	9/15/17	8,733	134,967	1445%	388%
512070.IN	UPL Limited	18	3/24/08	3/16/18	14,954	73,970	395%	243%
524804.IN	Aurobindo Pharma Ltd	18	9/21/09	3/19/21	12,413	168,104	1254%	682%
500674.IN	Sanofi India Limited	17	12/31/07	3/19/21	7,069	24,423	246%	292%

*Not all companies in the list have been continuous members of the Index since its base date on December 31, 2007. Source: MarketGrader

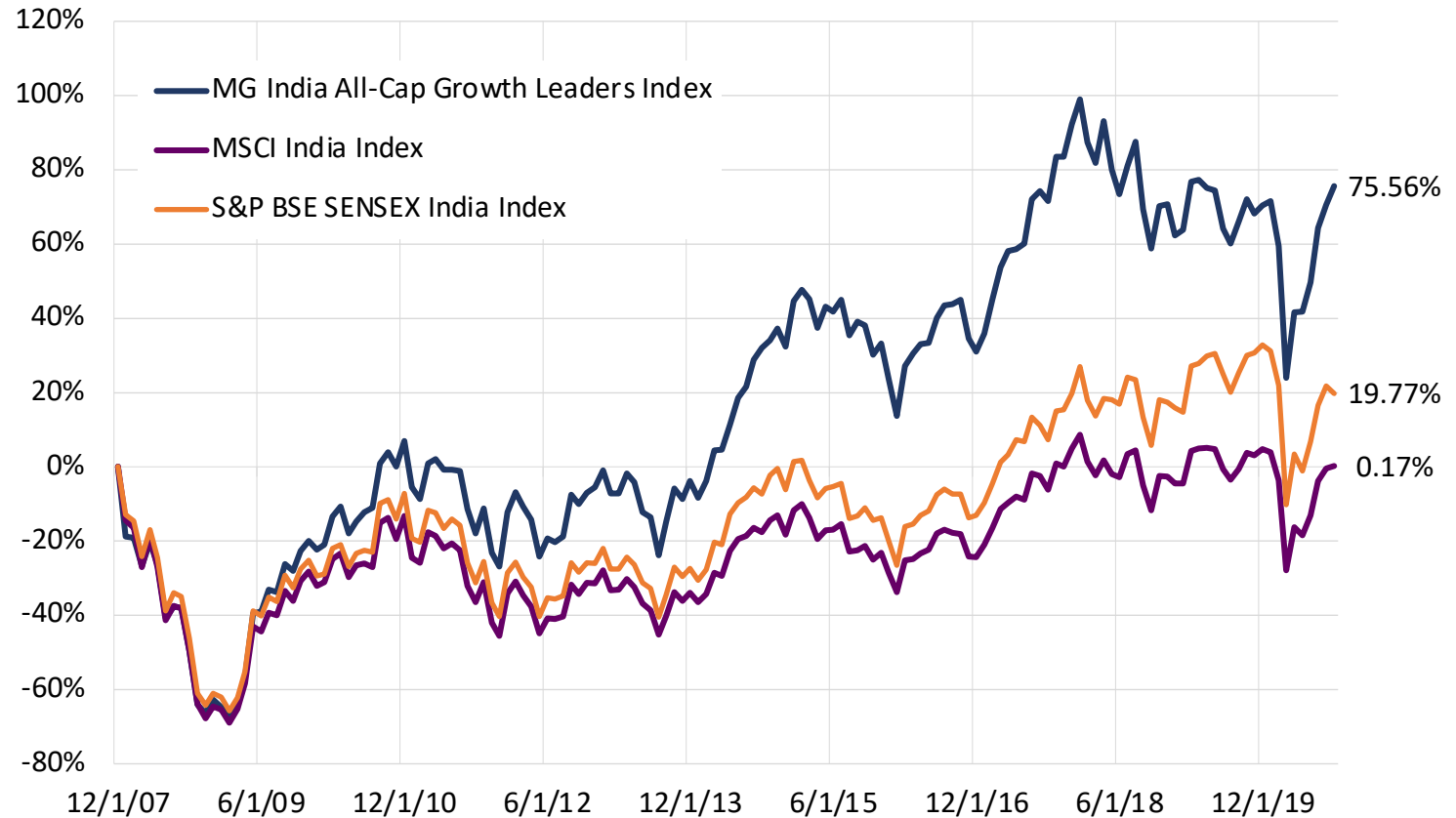
A Better Portfolio Construction Methodology Translates Into Superior Investment Returns

MarketGrader Ratings Breakdown by Index, Oct 2020



Source: MarketGrader

Cumulative Price Return for MG India Growth Leaders Index vs. Select Benchmarks 2007 - 2020



Source: Bloomberg

Conclusions

1. While India has underperformed its economic potential in the last three decades, signs point to an acceleration in growth that may allow it to finally break into the ranks of middle-income countries
2. The Modi administration seems to understand the opportunity and has implemented structural reforms aimed at empowering Indian citizens, attracting foreign investment and providing a spark to its manufacturing sector
3. The Digital India initiative could become not only an opportunity for technology investors but, if successful, it stands to transform the entire country and set it among the world's innovation leaders
4. In addition to its demographic advantages, India has an opportunity to rise as a viable manufacturing alternative to China, at a time when many advanced economies are re-evaluating their supply chains and trade partnerships
5. A differentiated approach to India focused on stock selection and based on quality growth offers investors an opportunity to harness the growth inherent in the world's fourth largest economy and soon its most populous country