

DURO CAPITAL

The purpose of this letter is to provide you, our partners, with deeper insights into our investment philosophy, portfolio and performance. By investing a significant portion of our own net worth into our funds, we ensure that our interests are fully aligned with our investor partners.

The Duro India Opportunities Fund (the “Fund”) was launched on August 18, 2020. The investment objective of the Fund is to achieve long-term capital appreciation primarily through long and short investments in securities of Indian companies. At the end of 2020, the portfolio included 20 long investments and 3 short investments. The bulk of our exposure is concentrated in our top 10 long positions. The recent buoyancy in Indian (and global) equity markets is reflected in the fact that 17 out of the 20 long investments (and 9 out of the top 10 positions) in the portfolio have positive returns since the initiation of these investments in August; with 2 out of the 3 short investments losing money, for the time being. We were able to deploy a significant portion of the invested capital into ideas at the time of (or shortly after) the Fund launch. That being said, we continue to identify meaningful investment opportunities that meet our investment criteria and have added one new sizeable position to the portfolio in January 2021. We will discuss this position in a future letter.



In a recent interaction, we were asked how we would describe our style of investing; whether we would classify ourselves as value, growth or even cigar-butt style investors. In this inaugural letter for the Duro India Opportunities Fund, I am therefore taking the opportunity to provide some details on the framework that we use to invest in portfolio companies.

We invest in businesses with demonstrated competitive advantages, with the ability to scale, with a resilient culture of operations and corporate governance, that are hopefully available at a reasonable price. Companies with these characteristics would typically be characterized as quality businesses by market participants. What we are specifically looking for is the business’ ability to generate superior, long-term earnings growth.

In the simplest terms, a business has a competitive advantage when its competitors know this advantage but cannot replicate it easily or quickly. Identifying competitive advantages of a business requires both qualitative and quantitative analysis. We believe that competitive advantages must be apparent in reported business results like return ratios, market share gains, stability of margins across cycles, etc. Qualitative assessment of competitive advantages requires deep understanding of a business and its competitors. A common thread when it comes to qualitative assessment across our companies is “culture.” Our experience of having met hundreds of management teams across India over the last two decades continues to help us in our quest to align with the right management teams and understand how capital allocation decisions are made within their companies. This “intangible” has a significant impact on the long-term performance of an organization. For example, as important as scale is for ICICI Lombard, the largest private general insurance company in India, even more important is the company’s inherent culture of a strong focus on profitability and clarity regarding capital allocation decisions. The company has been clear since its inception that it will not pursue growth at the cost of profitability and management has consistently refused opportunities to enter new business areas where profitability was suspect. As a result, over the last 10 years, while industry premiums have grown at a CAGR of 17%, ICICI Lombard has grown slower at 14%. However, the company’s 10-year profit CAGR is 24% (2x that of industry’s profit CAGR).

Generally, the businesses that pass our filter will have long runways for growth. In fact, our focus on India gives us some advantage in this regard given the relatively high degree of under-penetration across industries in India. Companies with sustainable competitive advantages in their respective industries have the potential to continue to grow (and allow for compounding of our invested capital to take place) over a long period of time. Taking forward the example of ICICI Lombard, India's total general insurance premium to GDP is currently at 0.9% vs a comparable 2% figure for China. 2% of homes are insured in India, 50% of vehicles on the road have insurance and only 2.5% of total healthcare spends (\$250-300 billion annually) are paid by insurers. Even if the industry in India grows at 15% CAGR for the next 15 years, while it will be 8x its current size, it will still be at lower penetration of general insurance than seen in China today. We believe that this gives ICICI Lombard, the market leader, a very long runway for growth going ahead.

Another example is our investment in one of the best-run auto-ancillary companies in India. India's per capita 2-wheeler penetration is only at 10% versus 28% for Indonesia and 29% for Thailand. Similarly, 4-wheeler penetration in India is even lower at 2.2%. This provides a multi-decade runway for growth. Moreover, legacy OEM structures of having multiple vendors are changing towards consolidating with select high-quality vendors. This positions our portfolio company, which is a vendor of choice for most OEMs, to (1) grow share in both existing and new customers, (2) enter new segments (which it has successfully demonstrated in the past) with the support of existing customers, and (3) continue to benefit from the growth in the overall auto market, thereby providing a long runway for growth and compounding of our capital. And this does not even include the potential opportunity from exports. Moreover, the company's portfolio of suspension, braking and casting components will continue to be relevant and necessary as the industry shifts towards electric vehicles.

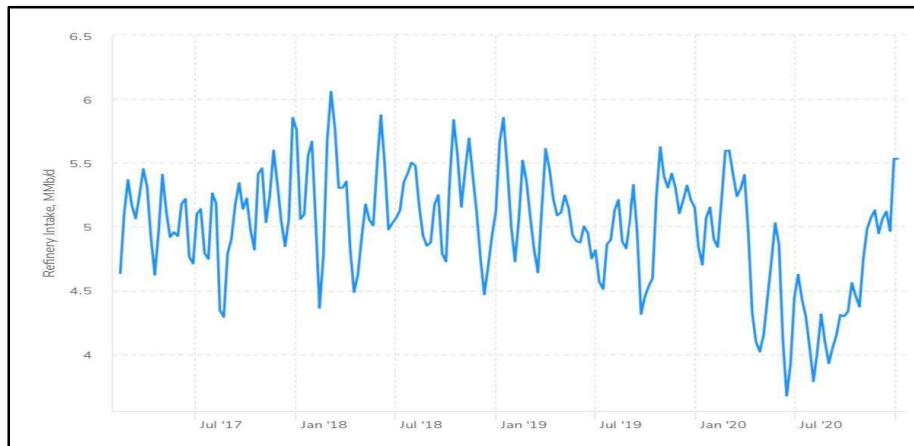
Returns for a long position are typically determined by two factors – (1) the value added by a business during one's holding period and (2) any potential change in valuation multiples between the time of purchase and sale of the shares. Our investment framework, described above, ensures that we are invested in businesses that will likely add significant business value during our long holding periods. As for valuation multiples, they do not dictate our investment decisions. We have portfolio companies that are currently trading at 7x P/E and others at 50x P/E. The art in our business assessment is to determine the appropriate value for a company; and then look to accumulate shares at a price lower than that determined value. Over the last decade, we have identified patterns when high quality businesses, like the ones we seek to invest in, may trade at more reasonable prices. Prices can correct in broad market corrections or sector-specific rotations. Significant sell offs in prices related to short-term concerns are our favorite instances to introduce a new position or add to existing positions (even if that means averaging up). Similarly, opportunities to deploy capital may also arise when our assessment of value of a business changes, without any major change in price. The sustainable competitive advantages of a business and its potential to scale are key factors that influence both (1) the predictability and (2) the longevity of the cash flow stream of a business and these finally determine the inherent value of the business. While the potential for disruption in present times in every business keeps us on our toes, we believe that our investment framework sets us up well to invest when the price/value equation is tilted in our favor.

oooooooooooooooooooo

The (continuing) case for India

We have mentioned before that the post-Covid economic recovery in India has surprised many. While we have previously provided more granular data related to the economic recovery, we are sharing below a chart reflecting India's implied crude demand until December 2020. This should be a good indicator of domestic demand. It is notable that demand was back to pre-Covid levels, before India even started its Covid vaccination drives. As vaccination drives are implemented across the country, economic

activity is likely to rise further with greater mobility and further opening of the worst-hit parts of the economy.

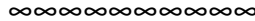


Source: Kayrros

Another development of note earlier this month was the announcement of the Indian annual budget, wherein the government relaxed its fiscal consolidation goals and instead focused on economic recovery. While typically the government's projections for its annual finances should not have significant long-term implications, we are sharing a few points from the budget that stood out for us:

- Credibility and transparency in numbers: Until now, successive Indian governments used financial jugglery in the form of cash accounting and moving significant expenditure off-balance sheet to manage fiscal deficits. Consequently, projected budget numbers held little weight with market participants. This year onwards, the government has brought all off-balance sheet expenditure on the books, and projections for both revenue and expenditure are also more reasonable. Credible numbers now allow for sound economic planning and smoother functioning of the government's economic machinery. More importantly, this generates trust with market participants.
- Long-term planning: The long-awaited fiscal stimulus was not provided as a one-off big bang announcement. The government has in fact chosen to provide the market a 5-year plan for its fiscal path, which moves from a 9.5% fiscal deficit in the current fiscal year to 4.5% in FY2026. This long-term approach is in line with other economic reforms announced in the recent past. They provide time to scale up capabilities in productive areas like healthcare, etc.; yet have a finite life to incentivize appropriate planning and timely use of the policies.
- Focus on output/jobs: The political solution on the expenditure side could have been to generate short-term demand through government handouts. The budgeted expenditure going forward, however, is tilted heavily towards capital expenditure. This coupled with higher import duties on several products has the potential to provide a push towards domestic manufacturing, thereby creating new jobs and charging the flywheel that can drive further economic growth.

We continue to believe that India's entrepreneurs will be the key to its economic success. As a child of the 80s, it is not easy to forget that *"India grows in spite of its government, not because of it"*; but any actions that add transparency and reliability to the government's planning process must be commended. In that light, it is interesting that despite higher projected fiscal deficits over the next 5 years, Fitch Ratings had the following comments on the budget - *"The budget's higher deficit forecasts are partly driven by positive steps towards greater transparency, as previously off-balance sheet items have been brought on budget. Although there are implementation risks around aspects of the budget, we regard the government's overall fiscal projections as credible."*



The government's refreshing approach towards supporting the economy has the potential to add further tailwinds to the economic rebound that is underway in India. India is producing a unicorn a month and is now third on the list of countries with the most unicorns. A lot of pieces are falling into place leading to optimistic expectations. And as one should expect, market valuations reflect this reality - broader markets currently trade above their long-term average at 21x FTM earnings. Our goal as an investment manager is to stick to our investment framework and continue to identify businesses with demonstrated competitive advantages, with the ability to scale, with a resilient culture of operations and corporate governance, that are hopefully available at a reasonable price. We will continue to invest new capital or recycle capital when our price/value equation provides opportunities to do so, regardless of headline multiples.

We are pleased that the Fund is off to a steady start in 2020, and we continue to see conditions favourable to our investment strategy into 2021. For the long-term benefit of the Fund and all our investor partners, we remain committed to only bringing onboard stable, long-term capital as partners; this along with our investment framework, will be our edge.

Nishchay Goel
February 2021

This document is not an offer to sell, or a solicitation of offers to buy, any securities. Offers to invest in an investment vehicle managed or advised by Duro Capital (Singapore) Advisors Pte Ltd (along with its affiliates, "Duro Capital") will be made only by a private placement memorandum or other definitive offering memorandum (the "PPM"). If there is any discrepancy between this document and such PPM, the PPM will control. An investment in any fund is speculative and entails substantial risks.

The information contained in this document is provided for information only and does not contain all material terms, including important conflicts disclosures and risk factors associated with your investment; and this communication in and of itself should not form the basis for any investment decision. Duro Capital shall not assume any legal liability or responsibility for any incorrect, misleading or altered information contained in this document.

This document is confidential and proprietary and is intended only for the person to whom it has been delivered or to whom it was intended to be delivered. This document should be used only by sophisticated investors who are knowledgeable of the risks involved. Your acceptance of this document from Duro Capital constitutes your agreement to (i) keep confidential all the information contained in this document ("Confidential Information") and not disclose any such Confidential Information to any other person, (ii) not use the Confidential Information for purposes of trading any security, (iii) not copy this document without the prior express written consent of Duro Capital, and (iv) promptly return this document and any copies hereof to Duro Capital upon Duro Capital's request. The distribution of this document in certain jurisdictions may be prohibited or restricted by law; therefore, people in whose possession this document comes should inform themselves about and observe such restrictions. Any recipient of this document is deemed to accept the following conditions by accepting delivery of this document and the information contained herein. If the recipient does not accept these conditions, the recipient must immediately inform the deliverer of the document and return this document. This material is also subject to any confidentiality provisions set forth in any written agreement between the recipient and Duro Capital or any investment vehicle managed or advised by Duro Capital. No portion of this material may be reproduced, copied, distributed, modified, shared or made available to others without the express written consent of Duro Capital.

This document may contain projections, forecasts, targeted returns, illustrative returns, estimates, beliefs and similar information ("Forward Looking Information"). Forward Looking Information is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified herein. Forward Looking Information is provided for illustrative purposes only and is not intended to serve as, and must not be relied upon by any prospective investor as, a guaranty, an assurance, a prediction or a definitive statement of fact or probability, nor should the inclusion of Forward Looking Information be regarded as Duro Capital's representation that the Fund will achieve any strategy, objectives or other plans.

The examples of current and potential investments included in this document are provided for discussion purposes only and are no guarantee of future results. They are not intended as a representation or warranty by Duro Capital or any other person or entity as to the actual composition or performance of the Fund's portfolio. Over time, the nature of, and risks associated with, the Fund's portfolio may differ substantially from (and may be subject to constraints or limitations that were not applicable to) those investments and strategies discussed in this document.

All information and opinions herein have been compiled in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness and correctness. The right to change any such information, at any time, without notice, is fully reserved.

Past performance is not indicative of future results and there can be no assurance that any investment will achieve comparable results or its investment objectives. Investors may not get back the full amount invested, and the net asset value of the investment will fluctuate.