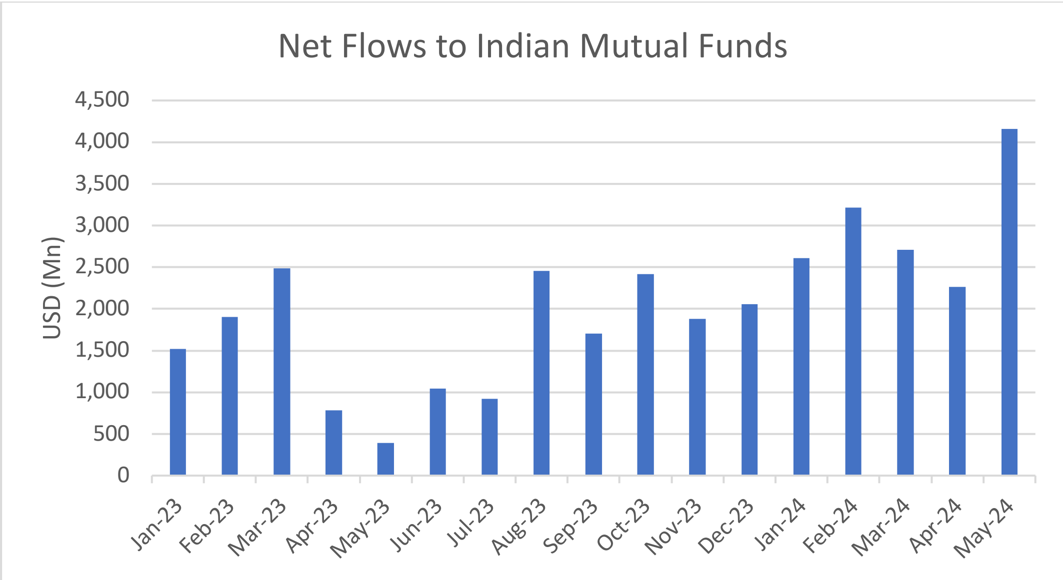
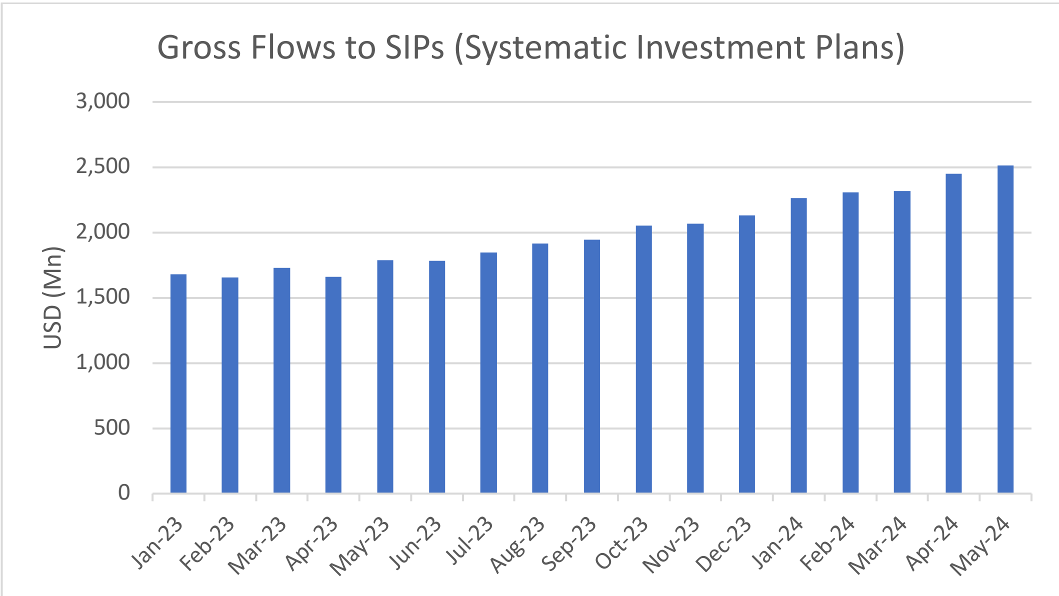
Nepean Capital
Domestic Retail Flows - It's an Avalanche

Last week, The Economic Times (India's leading financial daily) screamed that inflows into domestic Indian mutual funds for the month of May hit a record Rs.34,697 Crores/US$4.2 Bn, +84% MoM ! Of that, flows into SIPs (systematic investment plans*) reached a new high of Rs.20,904 Cr/$2.5 Bn. SIPs have become so popular that they have grown at a CAGR of 20% over the past eight years. As a result, total equity AUMs of domestic mutual funds have now crossed $300 Bn, a CAGR of 24% over the past five years.





** A SIP is a recurring investment that involves allocating a pre-determined amount of money for investment in the equity market at regular intervals (usually every month). The amount is auto debited from the investors' bank accounts and invested in the mutual fund/s of their choice. Once the amount is deposited, the investors receive units of the mutual fund scheme in which they have invested.*

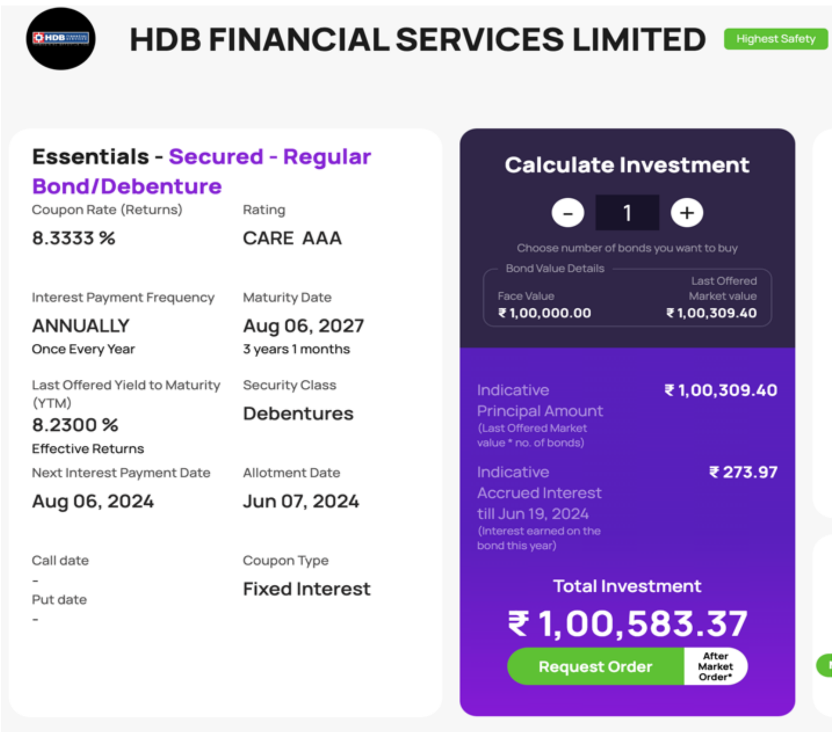
India's equity market (NIFTY50) has gained almost 200% (in INR) since the COVID low of 8083 that it hit on April 3, 2020. Last week, India's total market cap reached a fresh high of $5.2 Tn, making it the fourth highest in the world. While the rally in 2023 was driven by flows from both foreign portfolio investors (FPIs) and domestic investors (mutual funds, family offices and retail investing directly into the markets), YTD it's been led by the latter. 2024 so far has witnessed FPIs net selling $3 Bn while domestic funds have net bought $28 Bn. Last year, India received the highest flows from FPIs in Asia ex-Japan ($21.4 Bn), but this year it's the lowest in the pecking order.

The Rise and Rise of Retail Investors

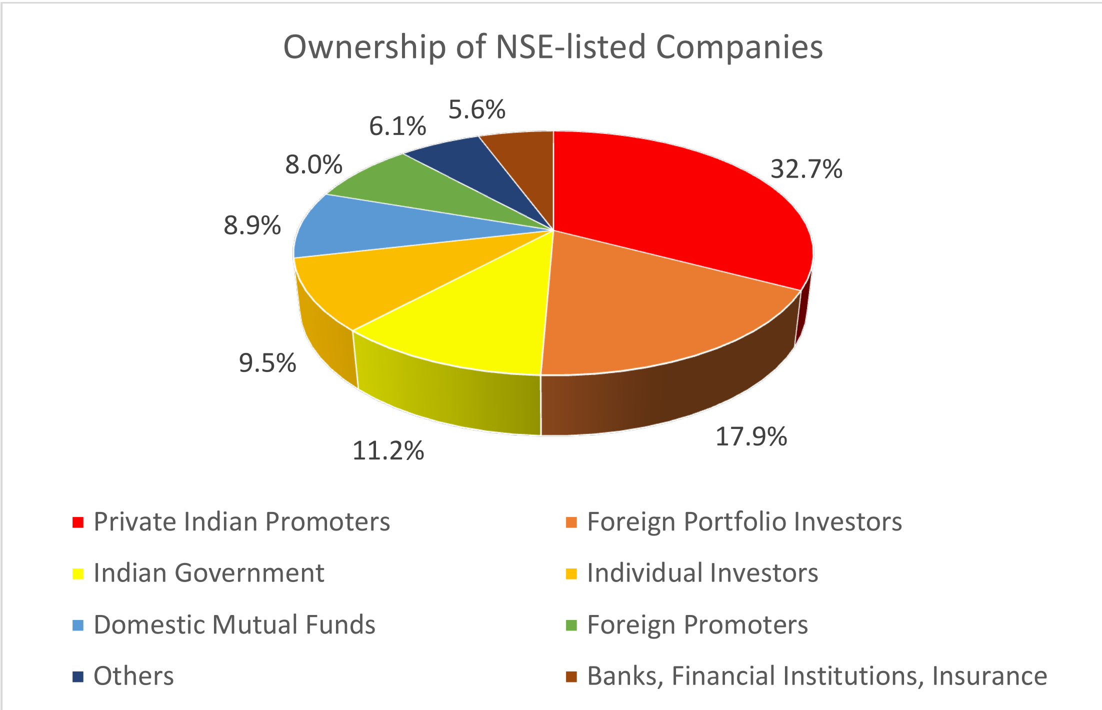
The emergence of retail investors in India as a formidable asset class has been a remarkable story. But what's caused retail investors to start aggressively investing in India's equity markets, an asset class they once shunned ?

It all started with the launch of Reliance Industries' (RIL) JIO mobile services in late 2016. JIO is an all 4G network with free domestic calls (on-net and off-net) and all you can eat data plans priced at the lowest ARPU in the world, $2.20. Add to that, the advent of smartphones (now 900 Mn in use), eKYC (that takes 15 minutes to complete vs. 3 days earlier) and a young population (the average age of investors is 29). This has spawned a whole generation of new-age tech companies in e-commerce, fintech and online trading. Today online brokers are seeing 90% of their incremental customers coming from small town India, and more than 80% of trades placed through their mobile apps. All of this has triggered the rapid financialization of household savings at a pace that hasn't been seen in the country's 150-year capital markets history. Equity ownership as a percentage of household savings has risen from 4% in 2021 to 7.3% by March 2023 (vs.38% in the U.S.). The concern is that these investors have never experienced a correction and seem oblivious to current geo-political events.

What's more fascinating is that the rise in interest rates by the RBI over the past few years, in step with the Fed, hasn't dampened Indians' appetite for investing in the equity markets. While the benchmark 10-year government bond is yielding 6.9-7%, AAA corporate bonds are offering yields between 7.5-8.25% (pre-tax). NBFCs like Shriram Finance are offering fixed deposits for 12-60 months with yields ranging from 7.85% to 8.80% (non-cumulative), with an additional 10 bps for women and 50 bps for senior citizens. The option of a bullet payment at the end of five years gives an effective yield of as much as 10.50%.



Who Owns How Much of India's Equity Markets ?
At the end of April 2024, a third of India's market cap was owned by Indian company founders (aka promoters), followed by FPIs at 17.9%, an 11-year low. The number of registered retail investors was up 25% YoY to 93 Mn. Individual investors collectively now own more of India's market cap (9.5%) than domestic mutual funds (8.9%). While the state of Maharashtra (where Mumbai/Bombay is located) remains #1 with 17.1% share or 16 Mn retail investors, Uttar Pradesh (India's largest state by population, 240 Mn) has overtaken Gujarat to become #2 with an 11% market share.



Link to a mutual fund commercial: https://www.youtube.com/watch?v=6itmVSFtGq0&t=109s

MEDIA:

https://www.youtube.com/watch?v=oa2D4hi643U&t=12s

IMPORTANT DISCLOSURE

This letter is being furnished to the recipient on a confidential basis for informational purposes and does not constitute an investment recommendation or an offer to sell or a solicitation of an offer to purchase an interest in any security, including, without limitation, any interest in any current or future investment fund managed by Nepean Capital LLP. Any such offer or solicitation shall be made only pursuant to the confidential offering memorandum for such investment fund (each, a "Memorandum"), only in jurisdictions in which such an offer would be lawful and only to individuals who meet the investor suitability and sophistication requirements of such investment fund. Each of Nepean Capital Fund's Memorandum describes risks related to an investment therein and which qualifies in its entirety the information set forth herein, including, without limitation, any discussion of or information regarding the investment strategy, limitations or parameters of such Nepean Capital Fund. Investment in any Nepean Capital Fund will involve a high degree of risk, including loss of the entire investment.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND MAY DIFFER FOR DIFFERENT TIME PERIODS. THERE CAN BE NO ASSURANCE THAT ANY NEPEAN CAPITAL FUND WILL ACHIEVE COMPARABLE RESULTS. Investors should be aware that other performance calculation methods may produce different results and changes in calculation methodology and presentation of data may lead to the restatement of historic data. Comparison of investment performance results should consider qualitative circumstances and should be made only for portfolios with similar investment objectives. An individual investor's actual net performance may differ from the performance presented as a result of characteristics attributable to the specific Nepean Capital Fund and class of shares/partnership interests in which such investment is made, the timing of capital contributions and withdrawals, eligibility to participate in "new issues" profits and losses, participation in side pocket investments, and the payment of performance and management fees. Investment performance results are for illustrative purposes only and are not a guarantee of future performance. Moreover, past performance results of any principals or affiliates of Nepean Capital are not indicative of, and do not guarantee, any future results and no assurances can be given that the investments of any Nepean Capital Fund will be exited at a profit. Furthermore, there is no guarantee that the performance of any Nepean Capital Fund will be similar to the performance of any of the prior investments made by any such principals or affiliates. Investors should note that wherever there is a potential for profit, there is also the possibility of loss. The performance results presented herein are time-weighted rates of return and reflect reinvestment of interest and other earnings. Annualized returns represent the annual percentage rate of return, which if earned annually for all periods of investment, would result in the cumulative rate of return. Unless otherwise noted, total return includes realized and unrealized gains and losses on securities positions, dividends, interest, and related portfolio and general and administrative fund expenses.