

BNP PARIBAS FOCUSED 25 EQUITY FUND

AN OPEN ENDED EQUITY SCHEME

NFO OPENS: SEPTEMBER 15, 2017
NFO CLOSES: SEPTEMBER 29, 2017



BNP PARIBAS
MUTUAL FUND

The asset manager for a changing world

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SECTION 1

WHY EQUITIES?



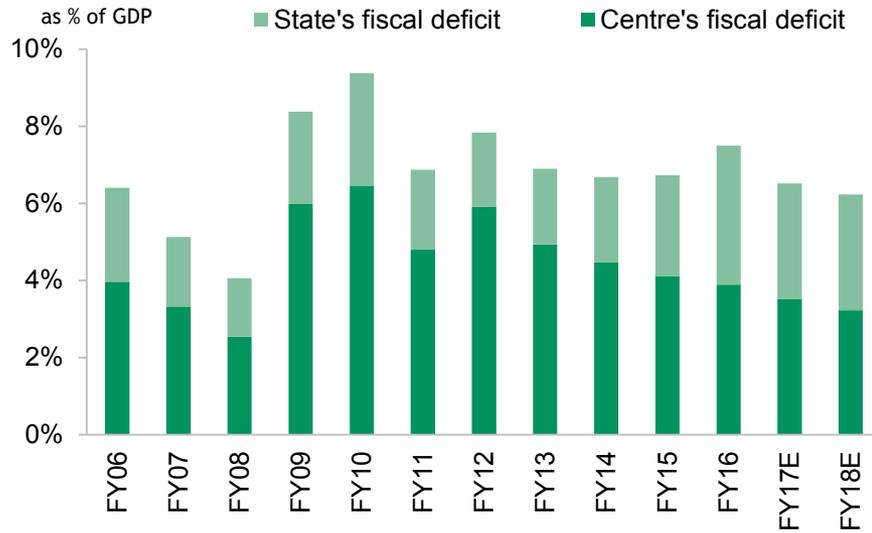
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MACRO VIEW



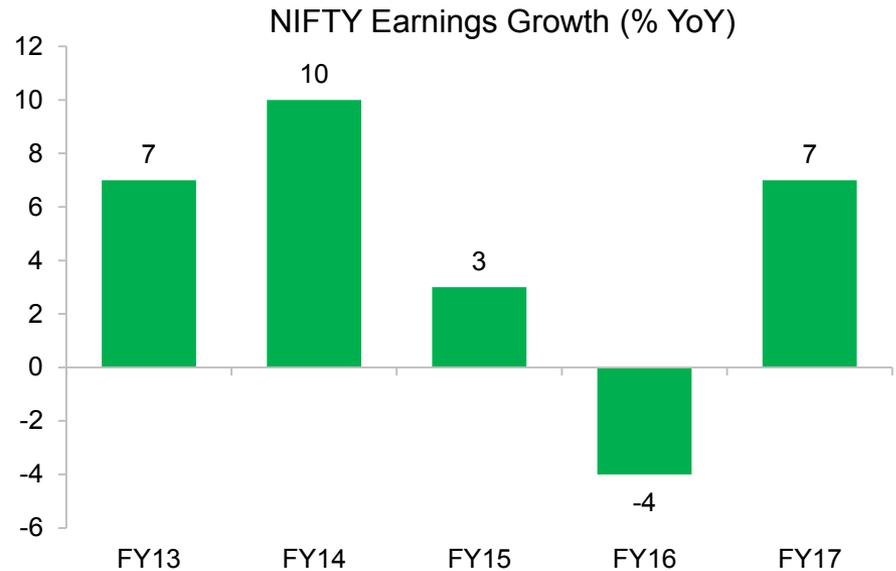
2014-2017: Good Macro but weak Micro

Centre and State Fiscal Deficit (% of GDP)



Source: RBI, CEIC, UBS Estimates

Elusive Earnings Recovery

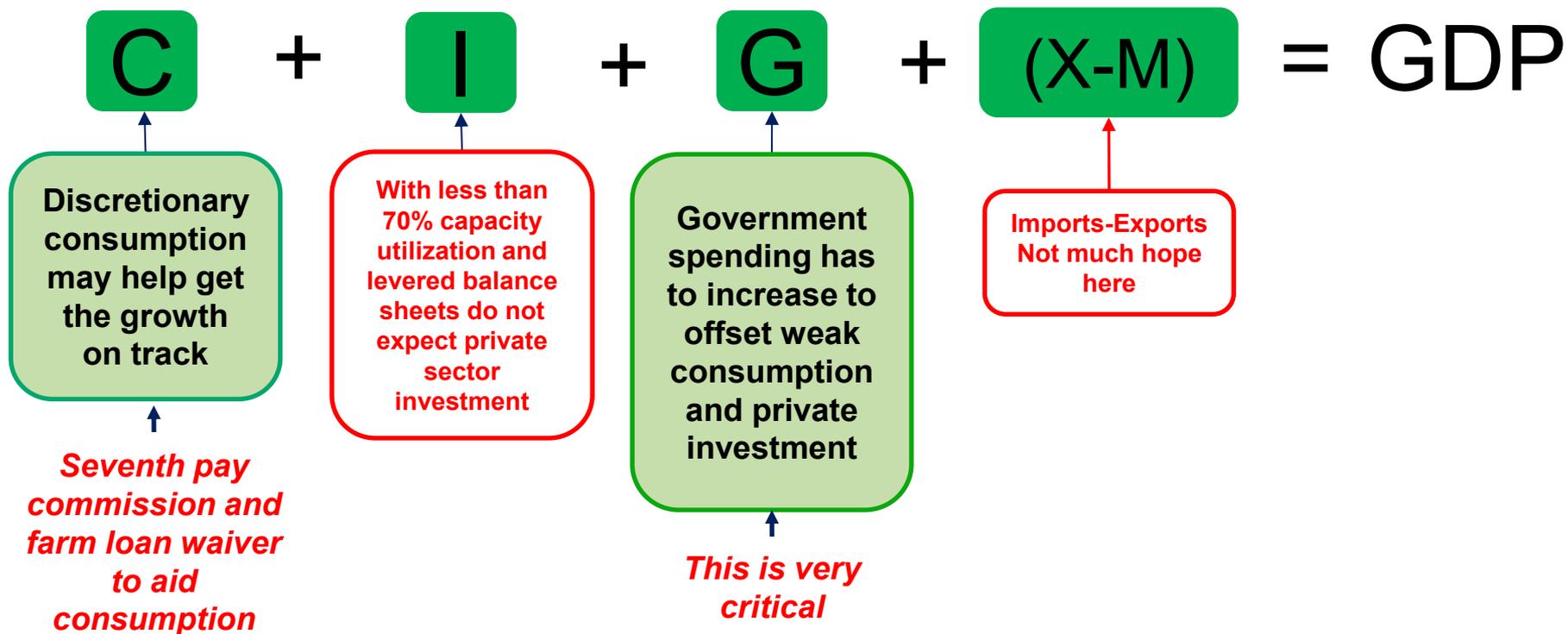


Source: Company Data, CLSA



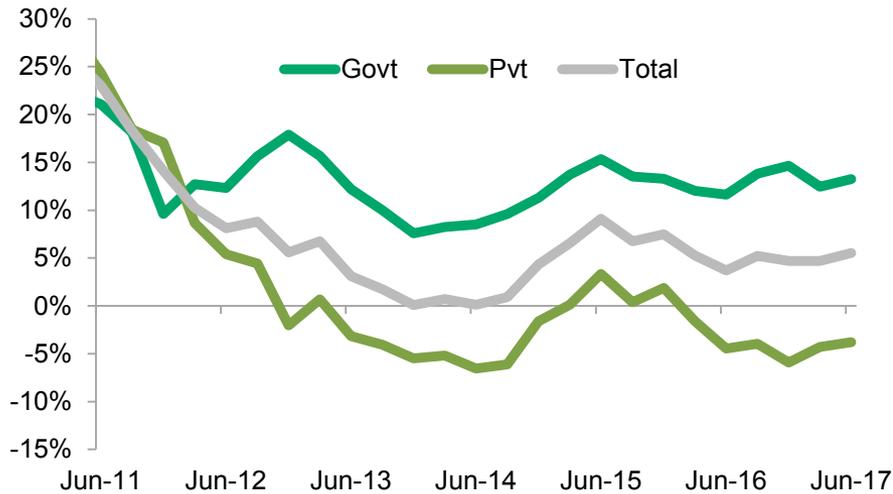
The Way Forward

The GDP constituents are changing now



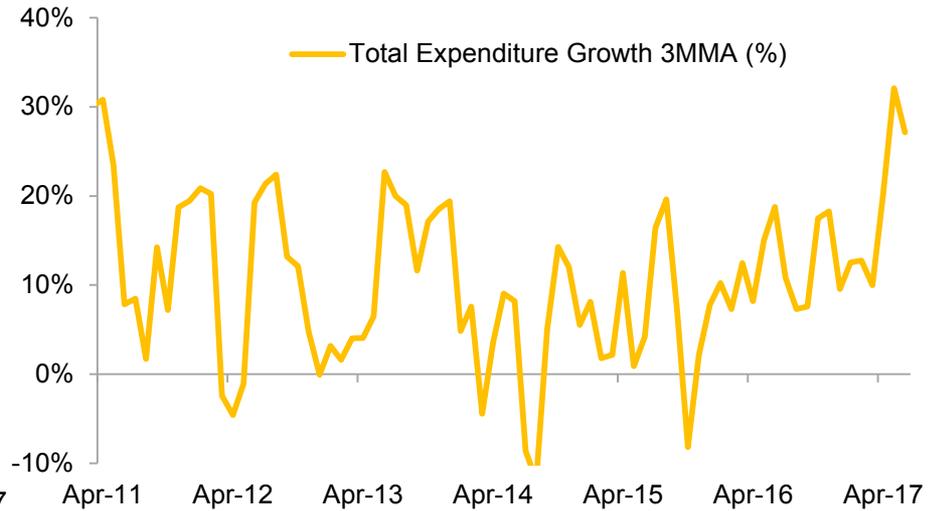
Government to Lead Capex and Consumption

Public vs Private Sector Projects Under Implementation (YoY%)



Source: CMIE, Morgan Stanley Research

Total Expenditure Growth, 3MMA %



Source: CGA, Credit Suisse

\$40bn

Farm loan waiver likely to be staggered over two to three years.

\$15bn

Seventh Pay Commission Estimate for F2017

Source: Farm Loan waiver - UBS Estimates, Seventh Pay Commission, Goldman Sachs Global Investment Research. June 2016

2017-2020: Good Micro but weak Macro ?

2014-2017

Benign commodity prices led to softer inflation, helped EBITDA margins but earnings recovery remained elusive.

**Macro
Positive**

**Micro
Negative**

2017-2020

Policy push in terms of Farm loan waiver, housing interest rate subsidy and Seventh Pay Commission will put pressure on government finances but would boost consumption, infra spends and drive earnings growth.

**Macro
Negative
(State + Centre)**

**Micro
Positive**

Source: Internal Research, BNPP AMC



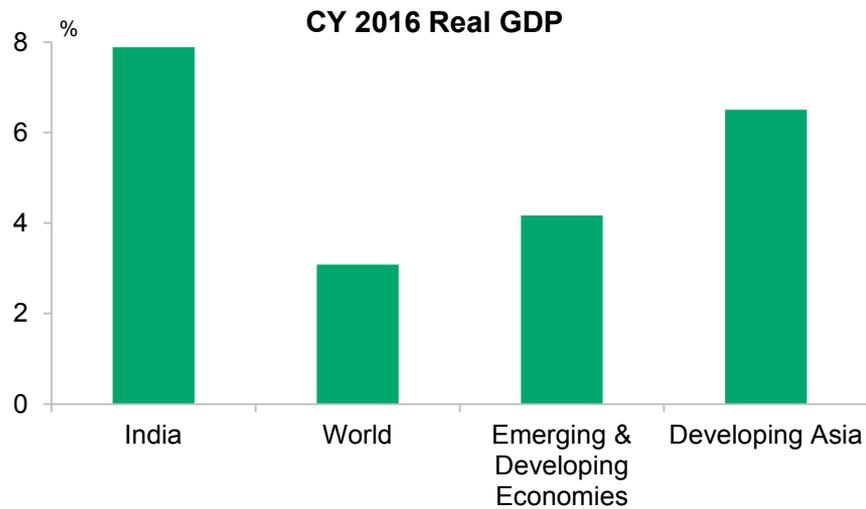
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STRUCTURAL OPPORTUNITIES



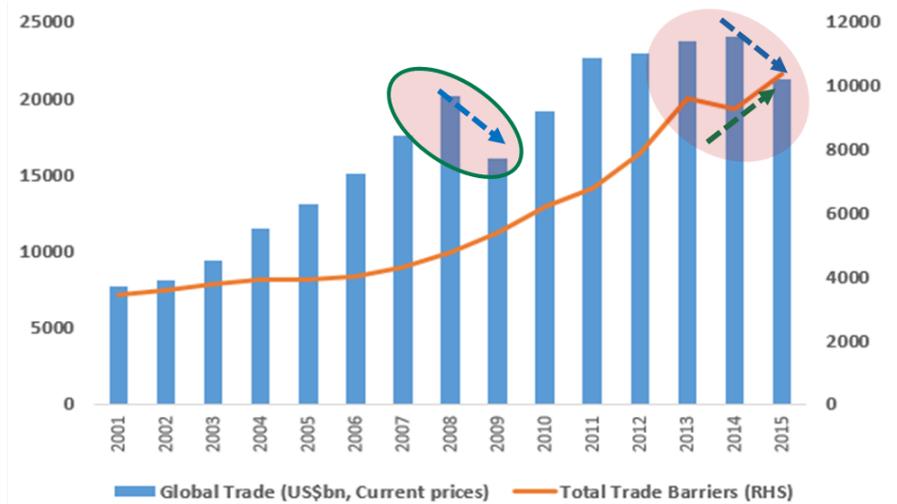
Domestic vs Exports

India's Real GDP Vs other economies



Source: Haver, UBS

Global Trade and Barriers



Source: WTO



Structural Opportunities to Drive 'Portfolios'

Financialisation

Move from Physical to Financial Savings

Physical savings are staggering at 57% of household's savings. But the recent trend has been encouraging with domestic savers coming to fore with rising financial savings benefitting banks with CASA and thus improving their NIMs and cost of funding. (Source: CLSA, CMIE, Mar 2016)

Formalisation

Move from Unorganized to Organized

GST, demonetization and increased tax compliance standards in India could drive this shift. Companies in organised sector to gain industry share at the expense of unorganised sector.

Farm Income

Rise in Farm Income

Farm loan waivers, MSP hikes, NREGA spends, direct benefit transfers and low credit loans and good monsoon could boost India's farm income and rural consumption

Fiscal Spending

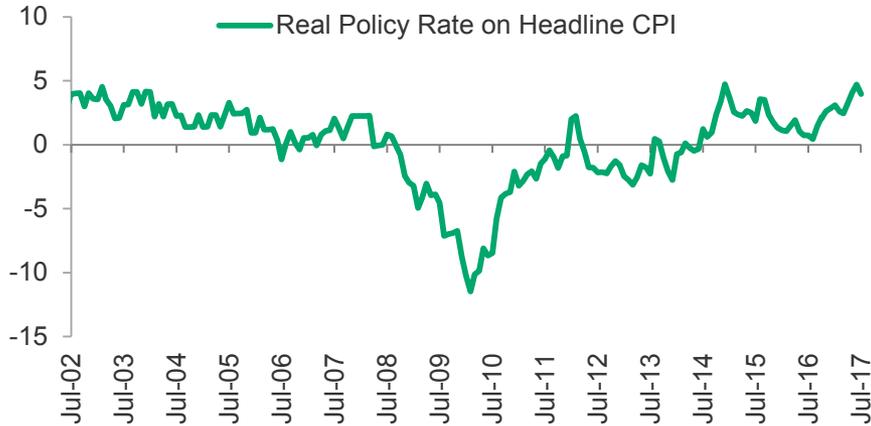
Government to lead the expenditure

Expect government to do much of heavy lifting in absence of private sector which may lead to pick up in consumption and lift up the sluggish capex cycle.



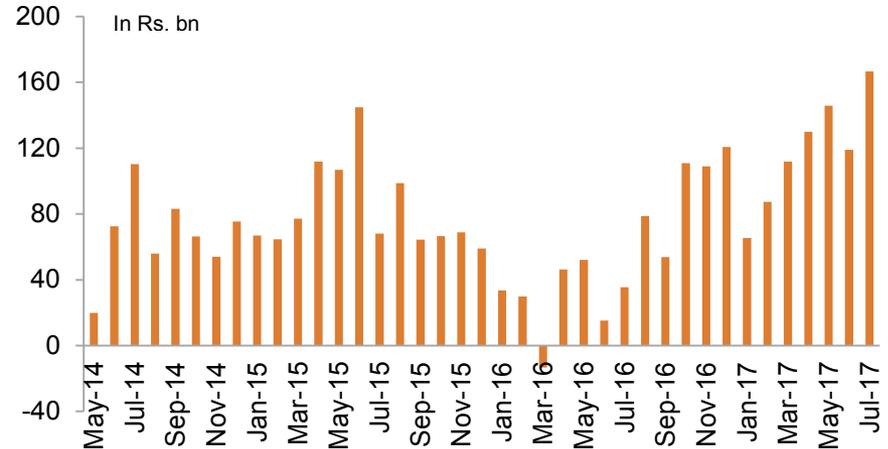
Financialisation of Savings

Positive Real Rates % (Deposit – CPI)



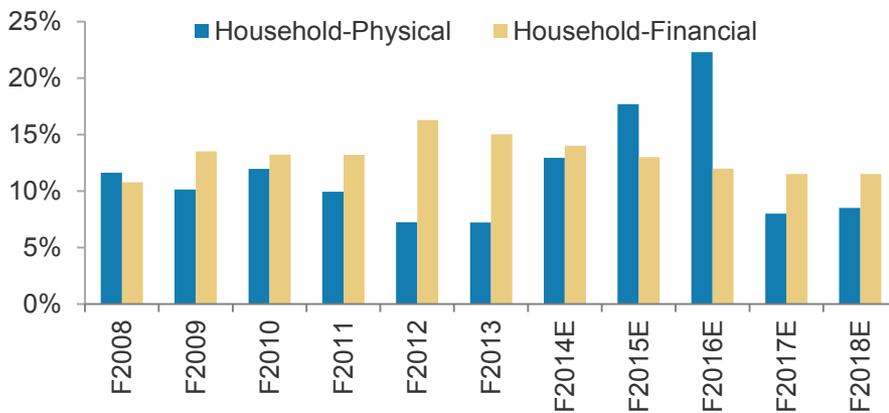
Source: SBI, RBI, Morgan Stanley Research

Domestic Equity MF Flows (INR bn)



Source: AMFI, Morgan Stanley Research

Rise in Financial Savings (as % of GDP)



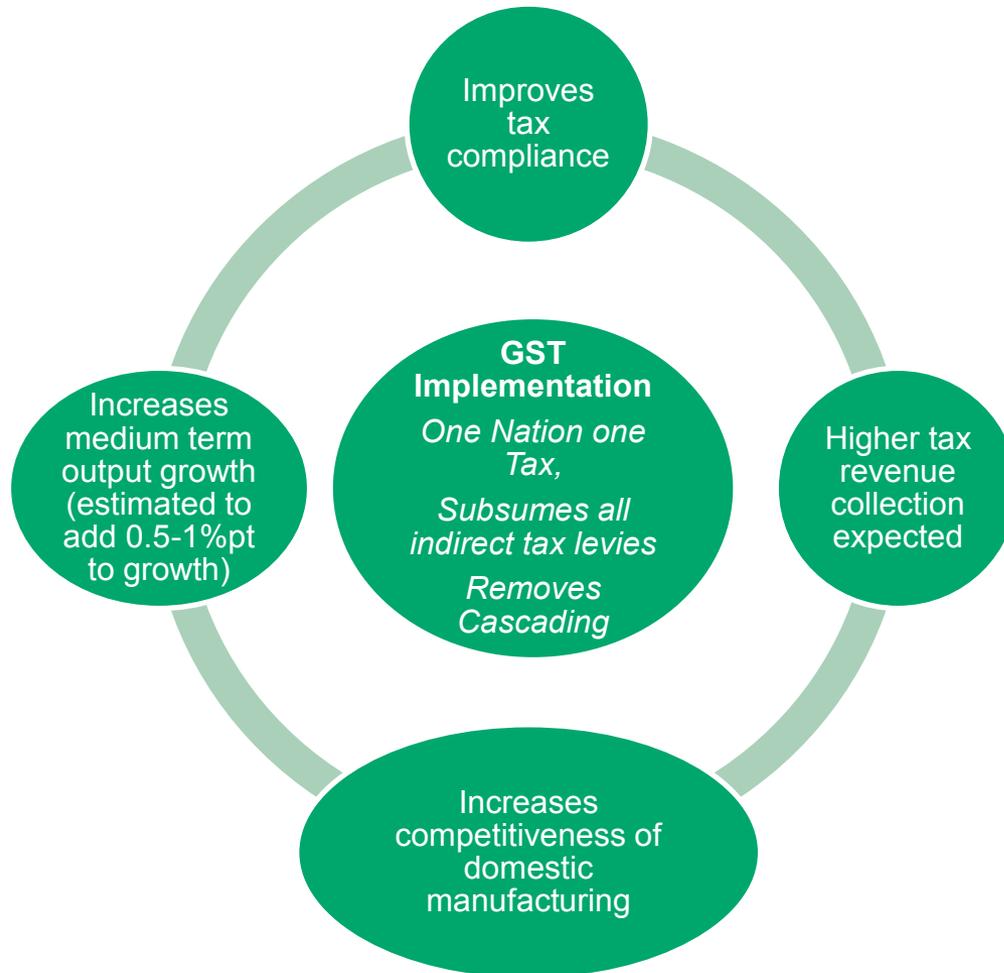
Source: Morgan Stanley Research Estimates on old base

- Positive real interest rates augur well for financial savings
- We have already started to see a move away from physical assets into financial assets
- Positive for Private Retail Banks, Stock Exchanges and Insurance Companies

The sector(s) mentioned in this document do not constitute any recommendation of the same and BNP Paribas Mutual Fund may or may not have any future position in these sector(s).

Formalisation of Economy

GST, Game changer for Organised sector



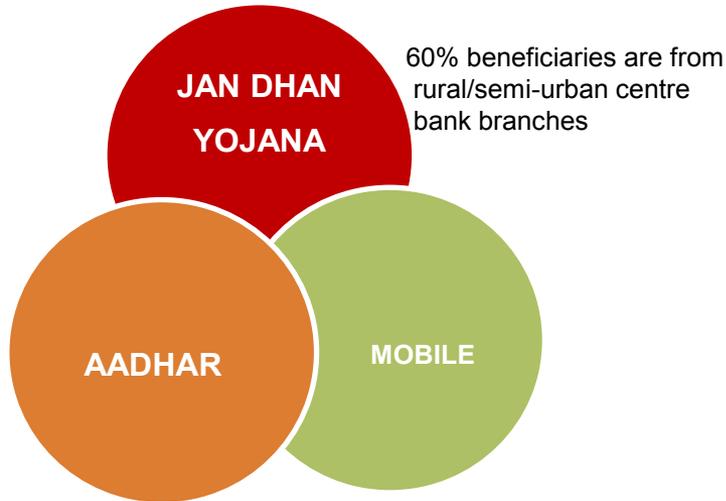
- GST – a structural positive for making the economy more formal
- Crackdown on black money
 - Mandatory declaration of PAN for gold transactions above Rs. 200,000
 - Mandatory to update Aadhar with bank account from Jan 2018
 - Income declaration schemes
- Implementing RERA and Benami Transactions Act

- Formalisation will help select industries to gain market share. We believe organised players in Paints, Tiles, Pipes, Adhesives, Plywood and Light electrical goods would benefit.
- Adverse for real estate, gold and non tax compliant sectors

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Farm Income

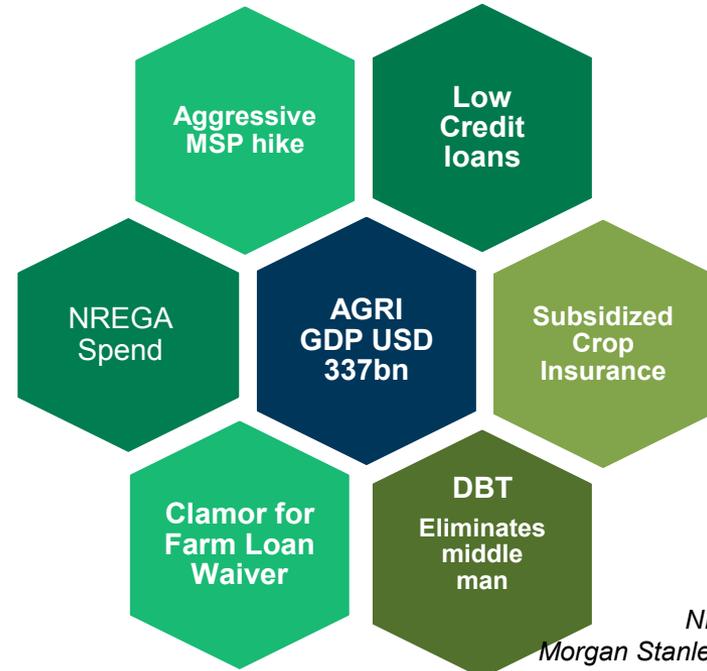
JAM Trinity to reduce leakages



**Total Direct Benefit Transferred (Cumulative)
INR 2.18 crore (Aug 2017)¹**

Source: ¹<https://dbtbharat.gov.in/>

Drivers of Farm Income



Source:
NREGA, RBI,
Morgan Stanley Research

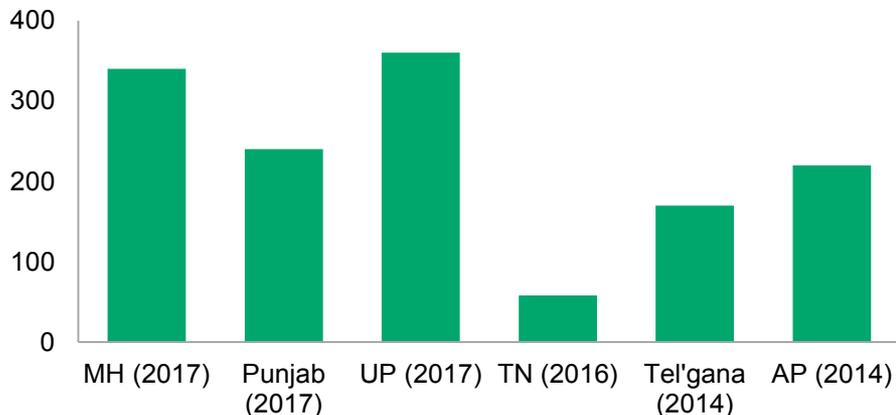
- Government efforts to double farm income
- Policies to reduce volatility through direct benefit schemes, crop insurance.
- We believe these concerted efforts will boost rural consumption and benefit sectors like Autos, staples and discretionary

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Fiscal Spending to Rise

Revenue Expenditure	Capital Expenditure
Seventh Pay Commission, Interest rate Subsidy and Farm loan waivers	Road, Rail and Ports
Aggressive MSP hikes	Defence spends
Public health spend	Capex through PSUs

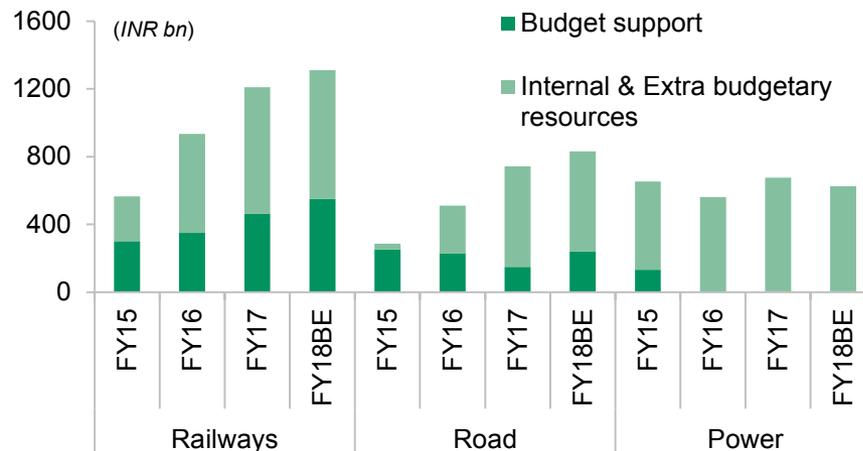
Farm Loan Waiver (Rs bn)



Source: RBI, Media Reports, UBS

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Govt. capex recovery led by Roads and Railways



Source: Nomura, Investment in Public Enterprises, Budget documents, April 2017

- Government's push to build Road, Railways and Ports will drive infrastructure cycle in absence of private capex
- We expect pay seventh commission, interest rate subsidy on housing loan, farm loan waivers will help boost consumption
- We expect select infra companies, consumer facing companies and affordable housing segment to benefit from this drive

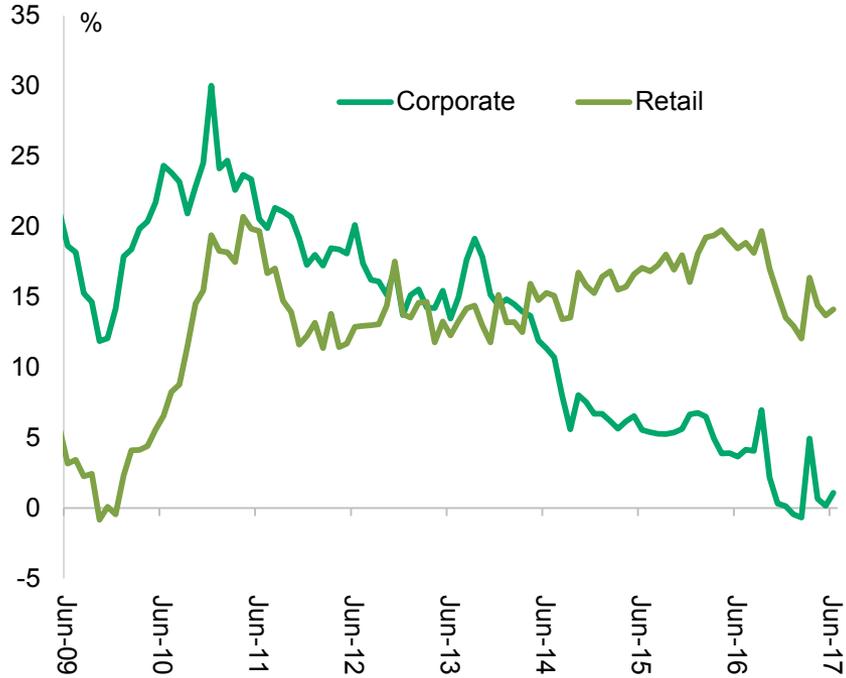
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WHERE IS THE EARNINGS GROWTH ?



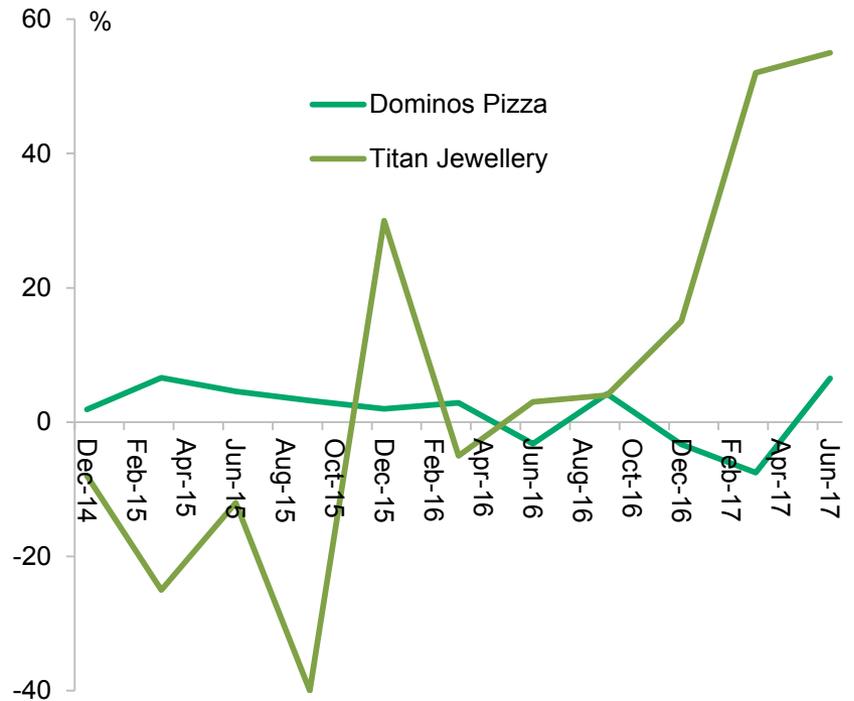
Not all will Ride the Tide!

Retail vs Corporate Loan Growth (%)



Source: RBI, Jefferies

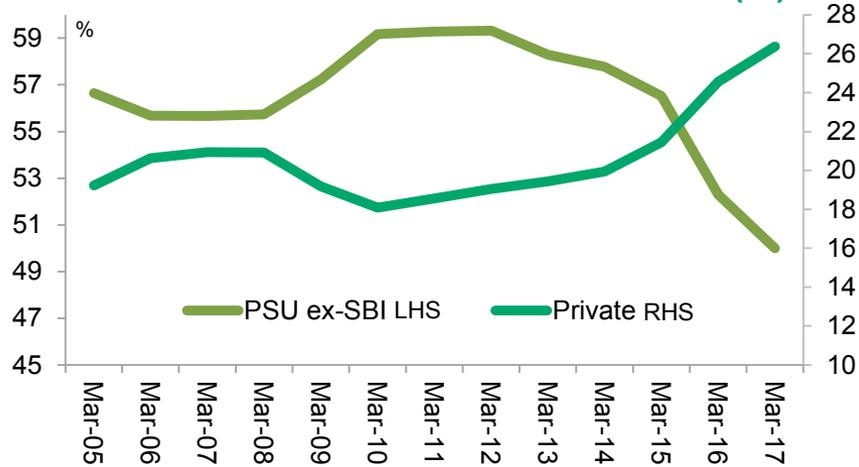
Same Stores Sales Growth (%)



Source: Jefferies

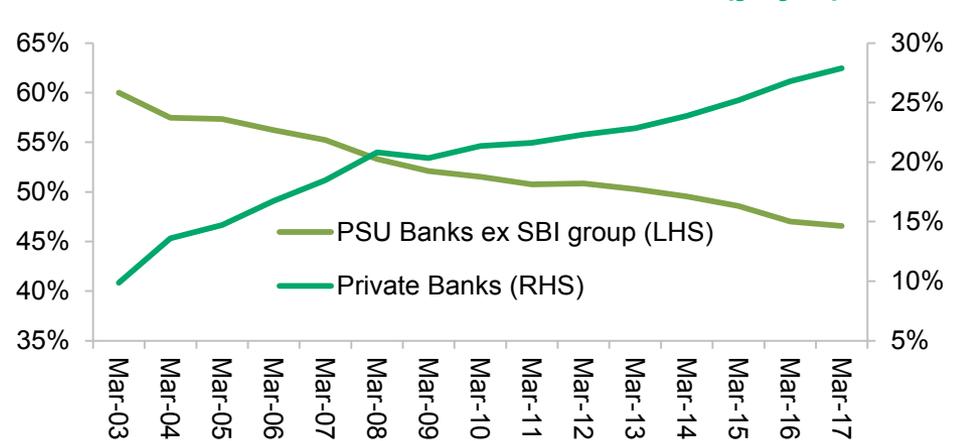
Banks and NBFCs.....Retail Focused

Private vs PSU Bank Loan Market Share (%)



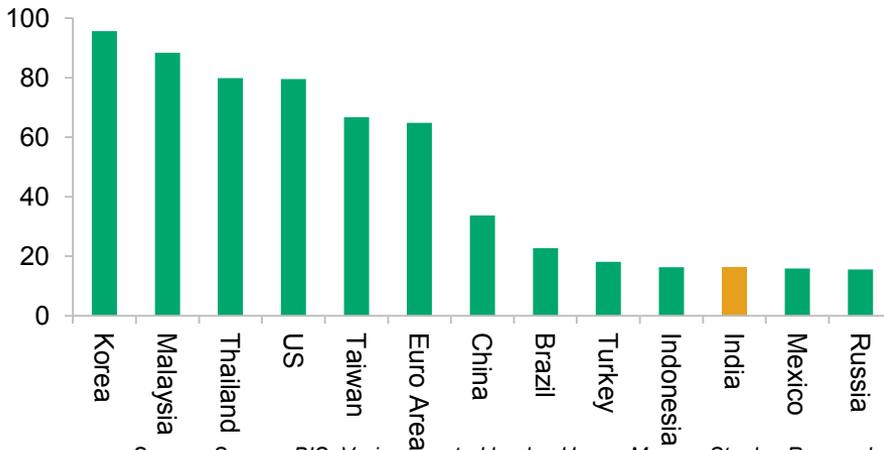
Source: RBI, Company Data, CLSA

Private vs PSU Banks – CASA Growth (yoy%)



Source: Company Data, Nomura

Household Debt (CY2016, % of GDP)



Source: Source: BIS, Various central banks, Haver, Morgan Stanley Research

- The asset quality issues with public sector banks will be an over hang on the banking sector but we think private banks with strong retail franchise will stand out.
- We believe the retail participation in Indian capital markets to rise in coming years benefiting the stock exchanges and other allied financial institutions like asset and wealth management
- Similarly low penetration of Life Insurance product remains an opportunity for insurance companies.

(Source: Morgan Stanley Research)

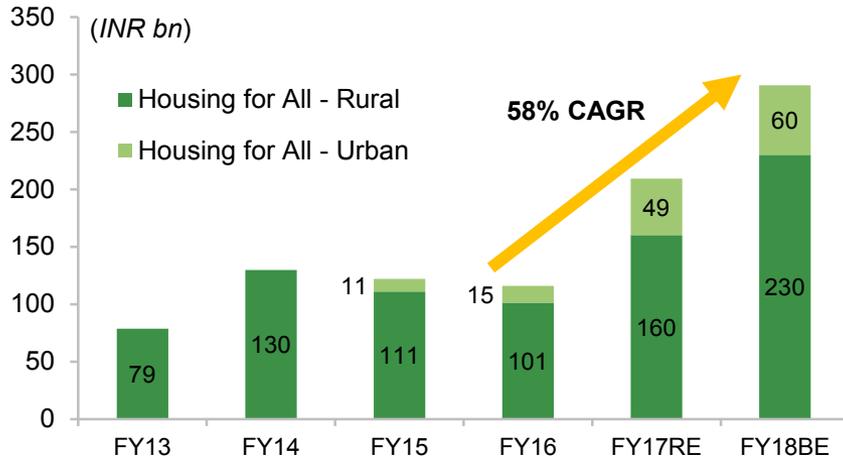


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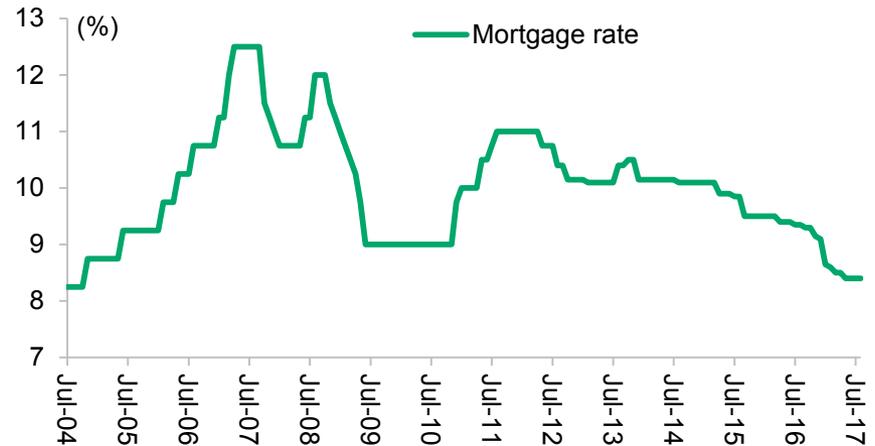
Affordable Housing

Central Government Budget Allocation



Source: Budget documents, CLSA, March 2017. RE- Revised estimates ; BE- Budget estimates

Low Mortgage Rates



Source: RBI, CLSA

- Low mortgage rates, increased affordability in small ticket size segment, interest rate subsidy and rise in budgetary allocation by the government has given boost to the sector

Select Consumption

Travel, Leisure & Entertainment



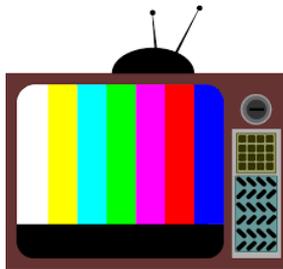
Discretionary



Beverage



Media



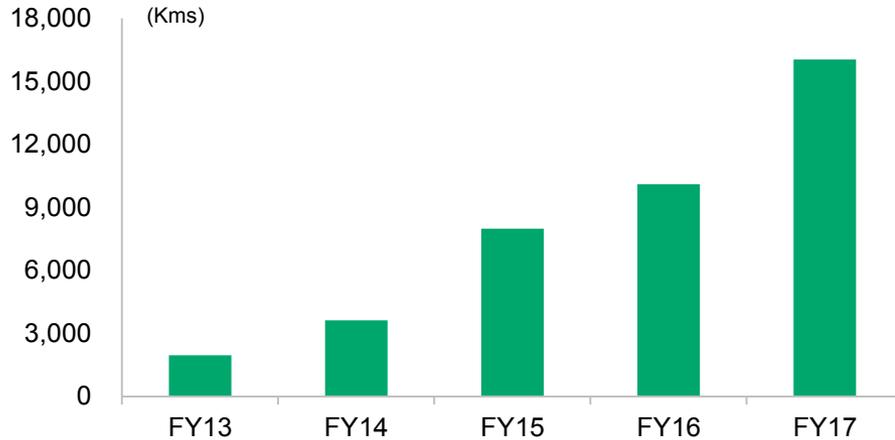
Retail



Images are used only for representational purpose.

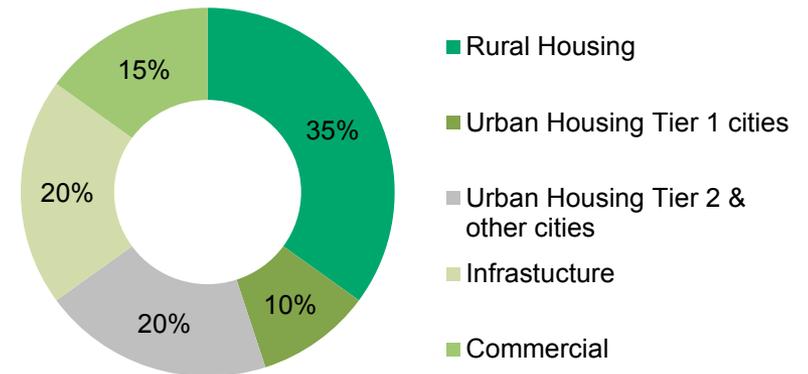
Infrastructure Play

Roads Awarded for Construction (kms)



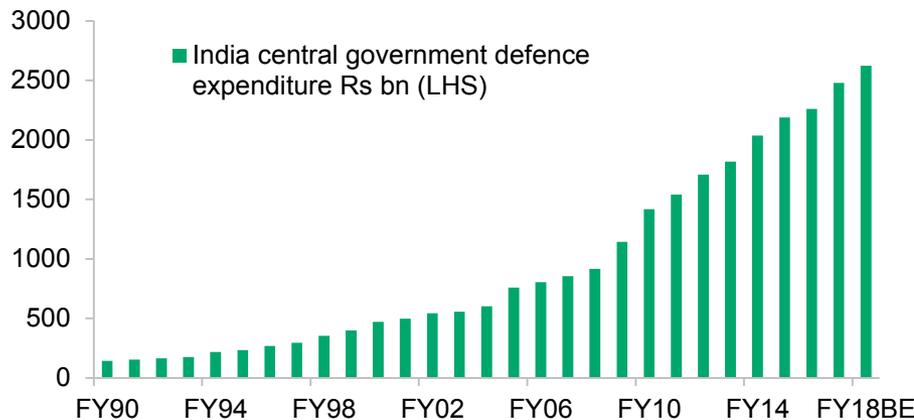
Source: NHAI and MORTH, Jefferies Data as of Mar 2017

Drivers of Cement Demand



Source: CLSA, Estimates, 2017

Central Government's Defence Expenditure



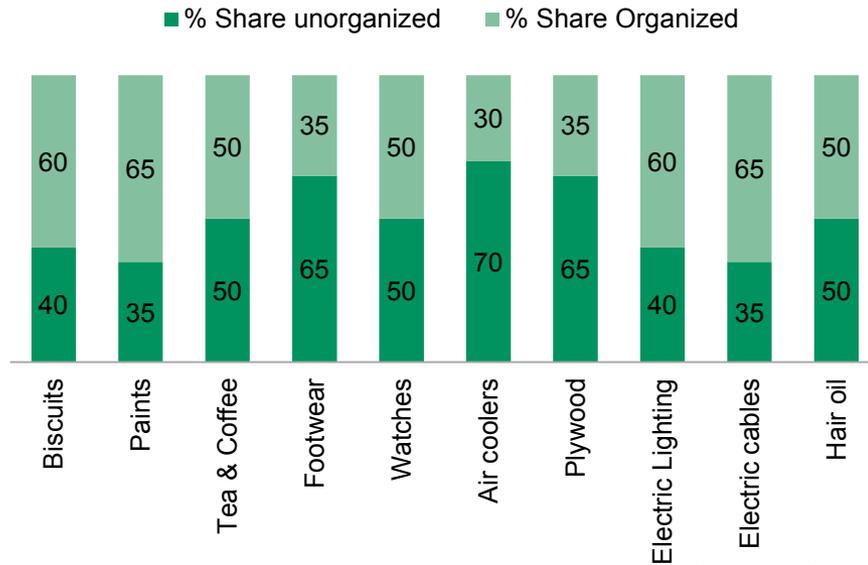
Source: India Budget, CEIC, UBS.

- Government to play a key role in supporting infrastructure growth through building roads, railway network, defense expenditure and affordable housing
- All these bodes well for the cement demand and defense sector oriented engineering companies

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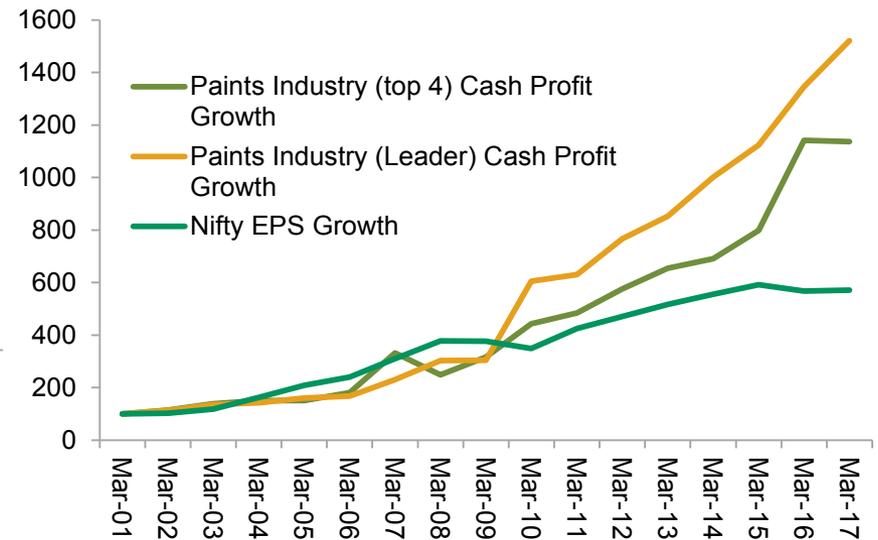
GST, Game changer for Organised sector

Share of Organised/Unorganised Industries



Source: CLSA Estimates

Paints Industry Profit Growth (indexed to 100)



Source: ACE Equity

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“Pollution” Awareness

Beijing orders factories to cut output or shut down to tackle urban pollution crisis



Source: *The Telegraph*, Dec 17, 2016

- In order to check rising environmental pollution, Chinese government is cracking down on excess production in energy intensive sectors
- Move has hampered exports in industries like chemicals, steel, aluminum and coal
- Move will benefit Indian companies as they regain competitive advantage in the global markets

New Delhi is the most polluted city on Earth right now



By James Griffiths, CNN
Updated 0541 GMT (1341 HKT) November 8, 2016

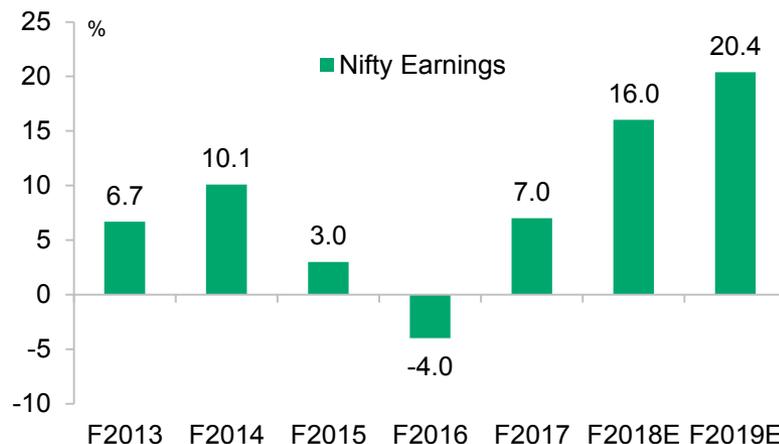


- The central government is keen to encourage the use of cleaner fuels in transportation and households
- Regulations include fast tracking the production of BS-VI compliant fuels and imposition of clean energy cess on coal
- All this augurs well for natural gas and cleaner fuel technology companies

Equity Outlook

- Time to focus on MICRO now.....while MACRO might deteriorate
- The earnings outlook likely to have tailwinds.....
 - Fiscal stimulus
 - Moderately rising inflation
 - Financialisation of economy
 - GST
 - Infrastructure push
- Nifty trading at 16.18x FY19E EPS¹
- Earnings outlook to improve FY18 onwards, but improvement will be more significant for select few !!

Nifty EPS growth is expected to pick up in FY2018-19



Source: Consensus Estimate, Bloomberg

Source: ¹Bloomberg

SECTION 2

WHY FOCUS FUND ?



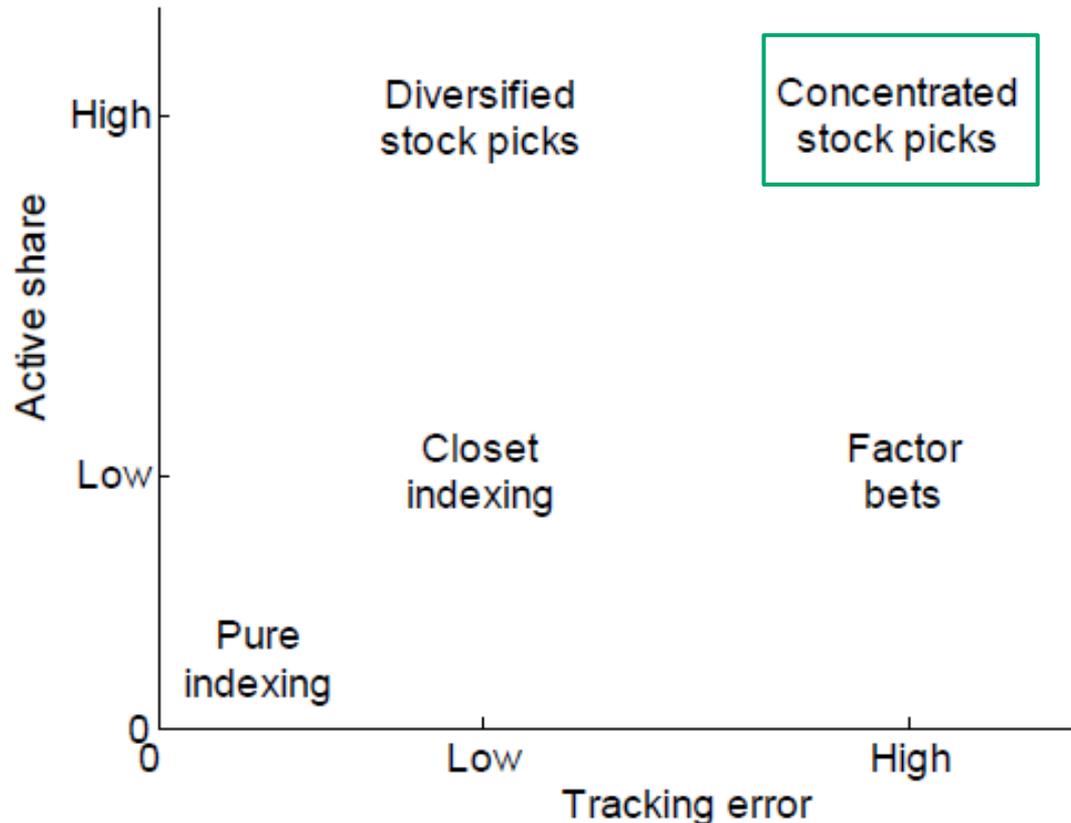
**“WIDE DIVERSIFICATION IS ONLY
REQUIRED WHEN INVESTORS DO
NOT UNDERSTAND WHAT THEY
ARE DOING.”**

– WARREN BUFFETT



Concentration vs Other Strategies

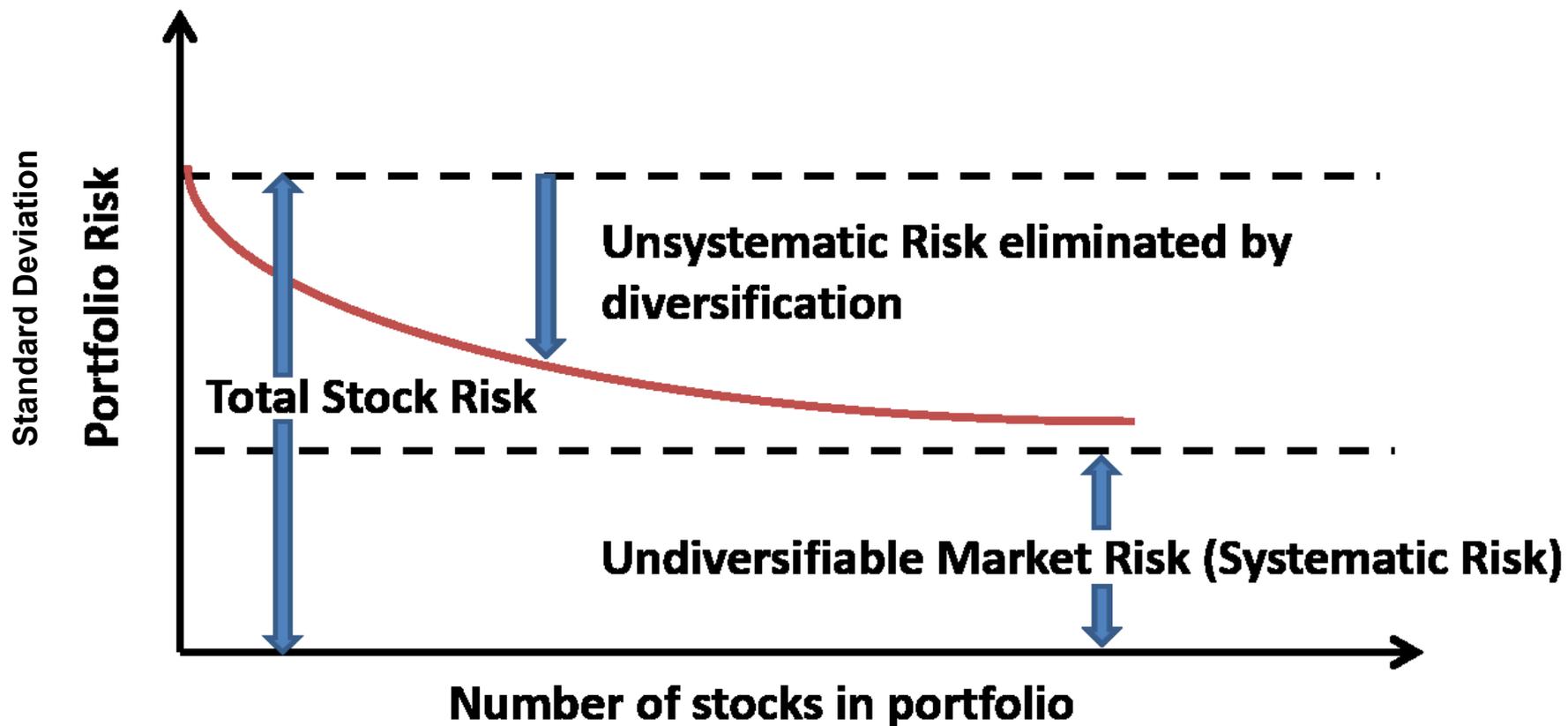
High Active Share represents the fraction of portfolio holdings that differ from the benchmark, emphasizing superior stock selection.



Lower the tracking error, closer are the returns of the fund to that of the target benchmark.

Source: K. J. Martijn Cremers, Antti Petajistoy (March 31, 2009). *How Active Is Your Fund Manager? A New Measure That Predicts Performance*. Yale School of Management

Risk Return Profile



Source: *An Introduction To Risk And Return Concepts And Evidence* by Franco Modigliani and Gerald A. Pogue 646-73 March 1973



Conviction Generates Alpha

Concentrated Portfolios Outperform the Diversified Portfolios (Quarterly data from 1999-2009)

Portfolios	Total Returns (annualised)	Standard Deviation (annualised)	Sharpe Ratio
Top 10	9.4%	23.4%	0.26
Top 20	8.1%	20.7%	0.23
Top 25	7.8%	19.8%	0.22
Top 30	7.4%	19.5%	0.08
Own Index	5.1%	20.0%	0.28

Source: Danny Yeung. (2009) *Diversification versus Concentration . . . and the Winner is?*
Past performance including any past scenarios may not reflect future performance.

- The study was done over 4,700 diversified US equity mutual funds with different styles, asset levels, and client bases.
- They created concentrated portfolios by measuring the active weights
- The concentrated portfolios ranged from top 10 to 30 stocks based on their active weights and the position sizes were then equal and conviction weighted.



Why Focused strategy?

- Market earnings growth have been lackluster for last three years and valuations have been richer
- We believe only those sectors and companies will outperform which will be driven by fundamentals
- Select sector leaders and stocks that are at the cusp of turnaround will outperform and help alpha creation
- Alpha generation opportunity likely to rise in concentrated portfolio

Alpha = Conviction X Size of Bet



SECTION 3

PRESENTING BNP PARIBAS FOCUSED 25 EQUITY FUND

AN OPEN ENDED EQUITY SCHEME



Salient Fund Features

- **High conviction** portfolio of maximum 25 companies having “superior and sustainable” earnings growth
- **Sector agnostic**, with endeavour to add the highest earning growth companies that the given economic environment presents
- **Pure bottom-up stock picking approach** with focus on companies with proven market leadership, strong financials and quality management
- **Multicap portfolio**, of which minimum 65% will be large capitalization companies and up to 35% in high conviction, fast growing small and mid sized companies
- **A blend of value and growth** companies played around high conviction themes

Please refer to Scheme Information Document for further details on Asset allocation and Investment Pattern of the Scheme available on our website (www.bnpparibasmf.in)

Why Us?

- **Experienced and stable investment team, with deep sectoral expertise** - *in excess of 125 years of cumulative experience*
- **Time tested investment philosophy and process-** *Business, Management and Valuation model*
- **Expertise of identifying multi baggers** – *Across market caps*



Core Belief: Companies create wealth, not markets

In search of companies with **superior** and **sustainable** earnings growth

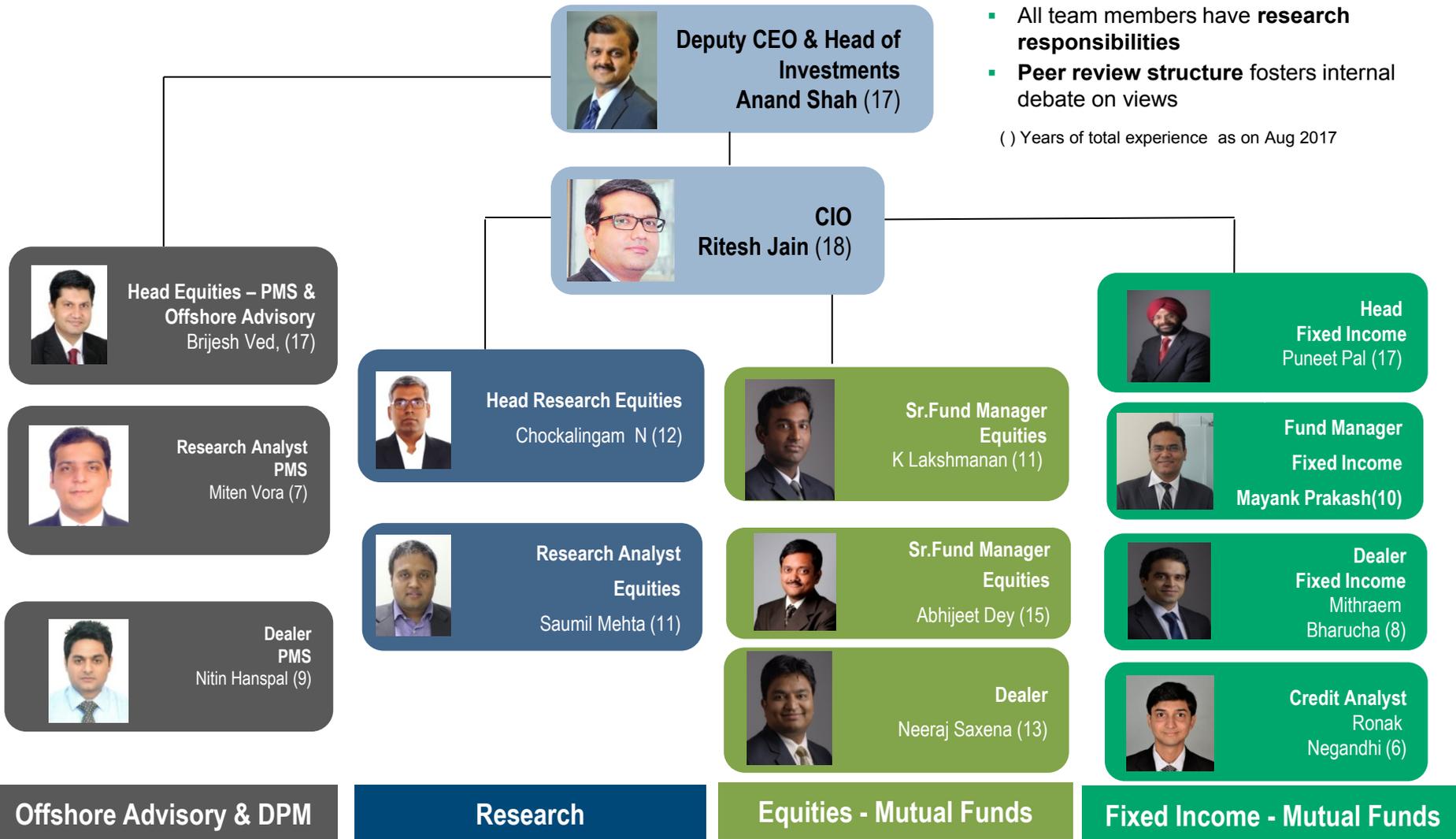


Identify superior businesses, with strong management, at reasonable valuations

* A sustainable competitive advantage

B.M.V.: Business, Management, Valuation. Source: BNPP AM, August 2017

An Experienced and Stable Team – BNPP AMC



- All team members have **research responsibilities**
- **Peer review structure** fosters internal debate on views

() Years of total experience as on Aug 2017

Research Coverage of Team Members

Peer review structure ('sparring partner') fosters internal debate on views

AUTO	AUTO ANCILLARY	AVIATION & HOTELS (LEISURE)	BANKING/ NBFCs*	CAPITAL GOODS	CEMENT	CONSTRUCTION	FMCG** (incl. Paints) & RETAIL
							
Abhijeet Dey Chockalingam Narayanan	Miten Vora Abhijeet Dey/ Brijesh Ved	Chockalingam Narayanan Saumil Mehta	Karthikraj Lakshmanan Anand Shah/ Brijesh Ved	Chockalingam Narayanan Abhijeet Dey	Abhijeet Dey Saumil Mehta	Chockalingam Narayanan Abhijeet Dey	Chockalingam Narayanan Karthikraj Lakshmanan
IT	MEDIA	METALS & MINING	OIL & GAS	PHARMA	POWER/ UTILITIES	TELECOM	TEXTILES
							
Brijesh Ved Chockalingam Narayanan	Brijesh Ved Karthikraj Lakshmanan/ Saumil Mehta	Saumil Mehta Abhijeet Dey	Miten Vora Chockalingam Narayanan	Brijesh Ved Chockalingam Narayanan	Chockalingam Narayanan Abhijeet Dey/ Saumil Mehta	Anand Shah Chockalingam Narayanan	Abhijeet Dey Miten Vora

Lead coverage
Peer review

* NBFCs: Non-banking financial companies; ** FMCG: Fast-moving consumer goods.

Bottom-up research is a key part of our process



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Fund Details

Investment Objective	The Scheme seeks to generate long-term capital growth by investing in a concentrated portfolio of equity & equity related instruments of up to 25 companies and the balance in debt securities & money market instruments. However, there can be no assurance that the investment objectives of the Scheme will be realized. The Scheme does not guarantee/indicate any returns.
Asset Allocation	Equity and Equity related securities, (which are not exceeding 25 companies) Of which minimum 65% of equity net assets will be companies among Nifty 100 by market Capitalization: 65-100% Debt and Money Market instruments: 0-35%
NFO Dates	NFO Opens : September 15, 2017 NFO Closes: September 29, 2017. Re-Opens : Within 5 business days from date of allotment
Fund Manager	Mr. Abhijeet Dey and Mr. Karthikraj Lakshmanan
Minimum Application Amount (During NFO and ongoing offer)	Lumpsum investment: Rs. 5000 and in multiples of Re. 1 thereafter. SIP: Rs. 500 and in multiples of Re. 1 thereafter.
Benchmark	Nifty 100
Plans & Options	Regular Plan and Direct Plan along with Growth and Dividend Option respectively The above dividend option shall have dividend payout and dividend reinvestment facilities. There shall be a single portfolio under the scheme.
Load	Entry Load: Nil Exit Load: a) If units of the Scheme are redeemed or switched out up to 10% of the units (the limit) within 12 months from the date of allotment – Nil: b) If units of the scheme are redeemed or switched out in excess of the limit within 12 months from the date of allotment - 1% of the applicable NAV c) If units of scheme are redeemed or switched out after 12 months from the date of allotment - Nil.

For Product Label and Riskometer of the Scheme please refer slide 39



Risk Factors

Risk Factors: The risks associated with investments in equities include fluctuations in prices, as stock markets can be volatile and decline in response to political, regulatory, economic, market and stock-specific development etc. The Scheme may pursue only a limited degree of diversification as it may invest in a limited number of equity and equity related securities or invest a greater proportion of assets in the securities of very few issuers (within the limits permitted by regulation) or be concentrated on a few market sectors. The Scheme is also expected to have higher market liquidity risk on account of concentration. This could have implications on the performance of the Scheme.

Further, to the extent the scheme invests in fixed income securities, the Scheme shall be subject to various risks associated with investments in Fixed Income Securities such as Credit and Counterparty risk, Liquidity risk, Market risk, Interest Rate risk & Re-investment risk etc., Further, the Scheme may use various permitted derivative instruments and techniques which may increase the volatility of scheme's performance. Also, the risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

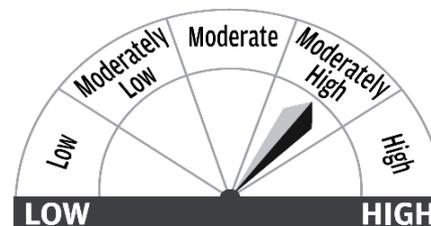
Please refer to Scheme Information Document available on our website (www.bnpparibasmf.in) for detailed Risk Factors, assets allocation, investment strategy etc.

BNP Paribas Focused 25 Equity Fund, an open ended equity scheme, is suitable for investors who are seeking*:

- Wealth creation in long term.
- Investment primarily in equity and equity-related securities of up to 25 companies and the rest in debt securities & money market instruments.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer for the Scheme



Investors understand that their principal will be at moderately high risk

Disclaimers

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Toll free Number: 1800 102 2595 Email id: customer.care@bnpparibasmf.in Website: www.bnppparibasmf.in

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

THANK YOU!