MIRAE ASSET
Global Investments

2016 Q2 Visit Q&A

Joao Cesar,
Senior Investment Analyst
Mirae Asset
Global Investments(HK)

How was the business sentiment on the ground during your visit in India?

Our impression was that expectations in the Indian market have seemed to bottom out earlier this year during our visit in the first quarter of 2016. During our previous trips several years ago, the market was more bullish than what was being reflected in daily life. This time around, among the companies we spoke to and investors we met, feelings have adjusted into a more conservative and reasonable outlook for a gradual recovery going forward. Green shoots are appearing: a rebound of broad based market revenue growth, monetary expansion, greater financial inclusion, infrastructure pickup with more transparency, and meaningful pro-market reform such as bankruptcy law and easing of foreign direct investment are all notable examples.

Why are roads and railways doing so well, and what do you make of the Dedicated Freight Corridor (DFC) project?

The government leads the roads and railways capital expenditures charge. From a public standpoint, the infrastructure sector offers attractive returns on investment as it is such a strong gross domestic product (GDP) multiplier. As such, it is often prioritized as it benefits the wider population and eventually serves to also facilitate political election interests. Along those lines, the DFC is a high-profile project offering a robust GDP multiplier effect, as built by the Dedicated Freight Corridor Corporation of India (DFCCIL) underneath India's Ministry of Railways (MoR), with tracks that will span some 3,000km.[1] DFC is moving fast; companies that were building 1km every 2 weeks have accelerated their pace to 1.5km each day.[2] DFC commissioning is expected to begin in FY18 with full project commissioning by the end of 2019. The DFC should substantially reduce logistics costs across industries and jumpstart new industrial clusters along its route, providing solid impetus towards engineering & construction firms and many others alike. It's worth noting that rail moves approximately one-third of cargo in India while road carries the remaining two-thirds. Our discussions with MoR revealed their aims of lifting railways to about 50% of market share by 2025 through DFC-related activities, so this will very much be a multi-year theme for us.

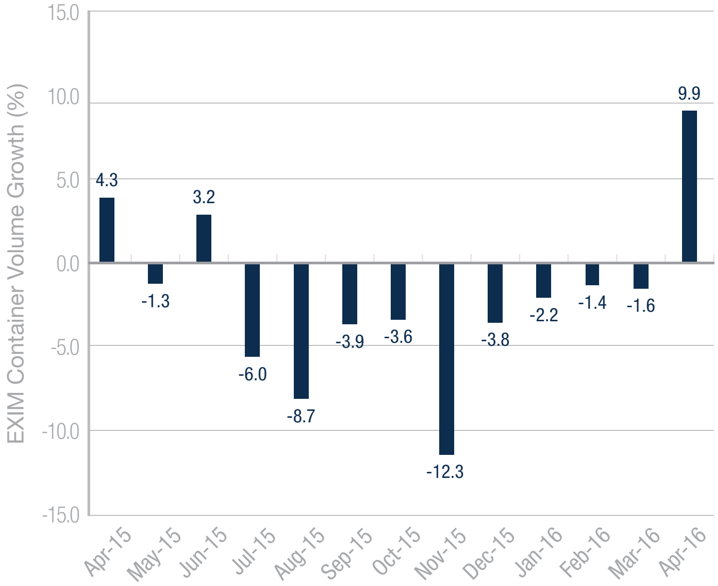
[1] Ministry of Railways
[2] Company Disclosures, Mirae Asset Global Investments (2016)

Joao Cesar DFC Construction Site Visit in Uttar Pradesh, NTC Machine

Source: Mirae Asset Global Investments (2016)

Indian Railway Volume Growth on the Mend

Source: IAS, Citi Research (2016)



How can investors play this large-scale DFC expansion?

We hold a favorable opinion of those players that can capitalize on the newfound advantages introduced by the DFC compared to existing rails, such as double stack capacity vs. single stack, longer trains (1,500m vs. 700m), heavier loads (15,000 tons vs. 4,000 tons), and faster trains (100km/hr vs. 75km/hr).[3] Gateway Distriparks ("Gateway") – an Indian integrated logistics group that operates container freight, inland container depots, and cold chain storage – is able to manage India's trade imbalance effectively and possesses the means to flexibly select inbound transport routes. The firm is efficient and features comparatively more exposure to containers that are characterized by superior operating leverage. The firm competes on quality as opposed to price in order to offer higher value added services to customers. This altogether allows Gateway to deliver good returns and remains an interesting name for us.

What is your view on roads in India and what are viable investment entry points?

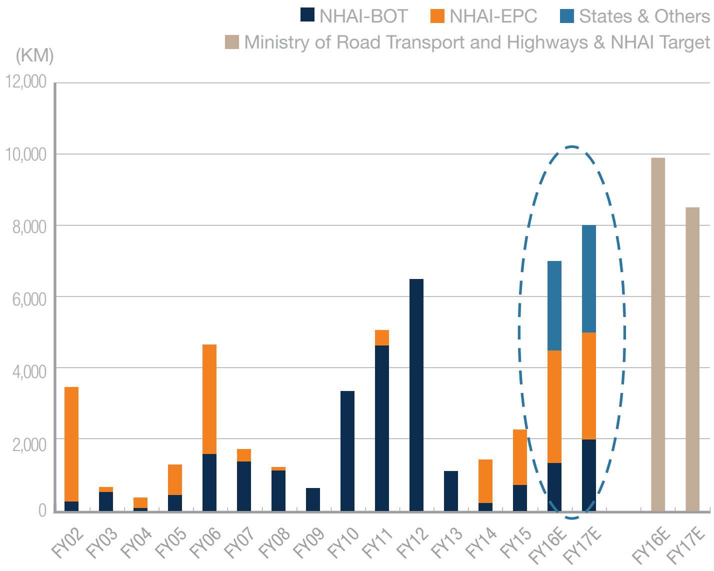
The principle beneficiaries of road construction are firms involved in engineering, procurement, and construction management (EPC) and build-operate-transfer (BOT) developers. The order flow for road projects is sound and healthy, with the Ministry of Road Transport and Highways (MORTH) recently announcing fresh hikes to FY17 targets, with firm plans for constructing 50,000km of roads in the next five years.[4] While there are issues around land acquisition and adequate compensation, we were informed that progress is being made relatively smoothly in what accounts for the world's second largest road network that transports up to 80% of the country's entire commuters.[5]

[3] DFCCIL (2016)
[4] India Infrastructure Insights #55, Citi Research (Februrary 17, 2016)
[5] Ibid

There are a few names that we like in the India road segment: Sadbhav Engineering (verticals in road construction, irrigation, and mining) and Ashoka Buildcon (a leading highway developer). While both of these companies encountered growth gaps several years ago, these snags have since been resolved. They have become disciplined bidders among a pool that has narrowed for public tenders. In addition, they have become less aggressive and are comfortable with internal rates of return (IRR) between 15-18%.[6] We thus see short-term project wins with decent IRRs to be a positive trigger in the quarters ahead.

Step-Up in Road Project Order Flows

Source : BofA Merrill Lynch (January 2016)



India Road Network (November 2015)

Source: Ministry of Road Transport and Highways, Citi Research (2016)

India Road Network	Route Length (KMs)
National Highways	100,475
State Highways	148,256
Other Roads	4,983,579
Total	5,232,310

What is the situation like for ports in India?

As background, India's ports are at a lower base compared to global peers with regards to industry maturity as the country was somewhat behind in adopting shipping and cargo standards. As a matter of fact, containerization rates (standardized intermodal freight transport) as a proportion of total in 2013 were equivalent to the world average in 1980 and are noticeably behind today (23% in India vs. 70% globally). Merchandise trade penetration is also low compared to regional and developed markets.[7] These trends suggest significant scope for upside in India's ports over the medium to long-term.

The 7,500km of Indian coastline is dotted with 12 principal ports and 200 non-major ports, the differences being defined by regulation wherein major ports are created as trusts and governed by the Tariff Authority for Major Ports while minor ports fall underneath the jurisdiction of State Governments.[8] Minor ports are increasingly responsible for the cargo volume growth against major ports, with their share nearing the 50% mark from 10% around 20 years ago.[9]

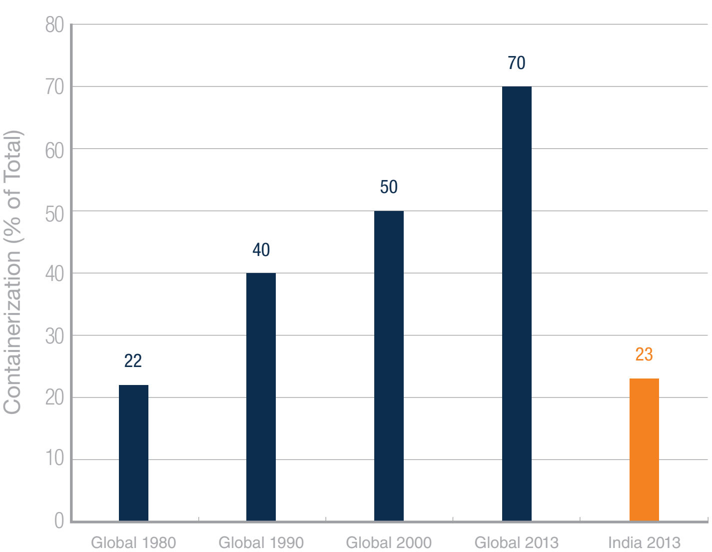
[6] Company Disclosures, Mirae Asset Global Investments (2016)
[7] World Shipping Council, Ministry of Shipping, World Bank
[8] Ministry of Shipping
[9] Ibid

Currently, only Indian companies can ship goods between domestic ports as dictated by cabotage provisions that prevent foreign-flag ocean carriers from transporting goods or passengers between two domestic Indian ports. Goods shipped to India that must be redistributed before reaching their final destined port in India are often transshipped in Colombo, Sri Lanka or in Singapore, among other international ports. An important initiative intending to remedy this burden is called "Flag in India," which will allow foreign ships flagged in India to transport goods between ports within the country. According to people on the ground, the relaxation of cabotage rules should be finalized soon, which will be a significant catalyst for the ports sector in our view.

Special Economic Zones present long-term value for the destination economy and as a logistics hub. Adani Ports and Special Economic Zone (ADSEZ) is a pan-India multi-port company that owns or operates ports and terminals in 10 ports all along India's coast. And we believe that ADSEZ is a

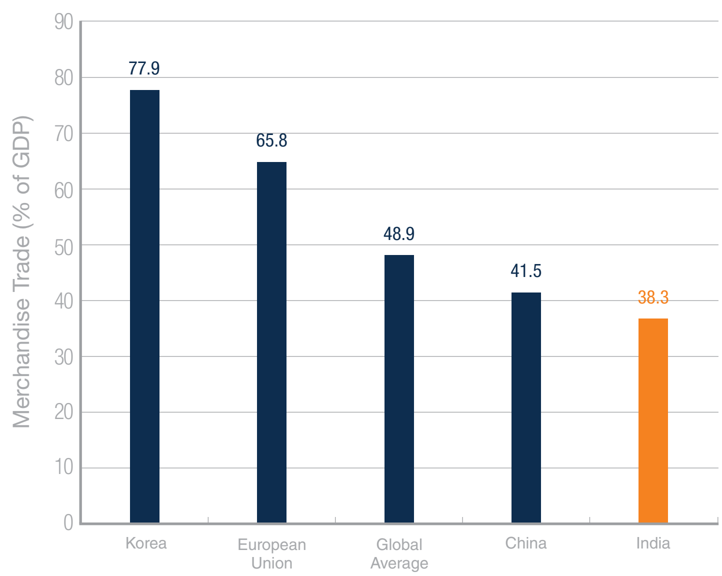
Containerization as % of Total

Source: World Shipping Council, Ministry of Shipping



Merchandise Trade as % of GDP (2014)

Source: World Bank (2016)



key beneficiary of such cabotage reform. In fact, it is the only listed player that can seriously capture a considerable share of the predicted new trade following the cabotage changes. From our conversations with those familiar with the sector, the transshipment trade volume generated from the new policies will be meaningful and India as a whole does not have enough capacity to absorb the influx overnight. Therefore, we envision that ADSEZ will take advantage of this step-change by increasing utilization as well as adding capacity to enlarge its top-line.

Are there any other core areas of interest in Indian infrastructure?

We are constructive on the cement industry. Even though cement is a commodity, countries throughout Asia each feature their own unique characteristics, pricing, and supply-demand dynamics. As cement is a low value-added bulky commodity, transportation across borders or within the same country is sometimes just not viable. This makes country and company selection very important from an investor's perspective. With that said, we are fairly confident that the Indian cement is in a structural multi-year upward trend, yet nuances do exist depending on the location. In taking a deeper look at the Indian cement market, we detected disparities between regions in terms of utilization and pricing. We are more bullish on the long-term outlook for the North India cement market that exhibits materially higher cement plant utilization rates around 80% amid lower limestone reserves, compared to South India with circa 50% utilization levels and greater limestone deposits. Assuming economic expansion in the order of 6-8% per year, we expect for cement demand to reach lower double-digit levels given that the historical multiple of cement-to-economic growth hovers around 1.2-1.5x, as per Indian companies and industry experts. In our view, cement demand growth will be primarily driven by public infrastructure, such as roads, railways, airports, power infrastructure, etc. We will be closely watching this space.

We are positive on the sanitation story as well, even if as a whole it impacts fewer individuals relative to other infrastructure segments. Well over half the country's produced sewage is not treated and the government is taking steps to ameliorate the situation.[10] Bidders for sewage treatment plants must now have a proven technology background and track record in order to qualify for public expressions of interest. Such stringent conditions mean that only a few companies prequalify. One such that does is VA Tech Wabag Ltd. ("VA Tech"), an Indian pure-play water technology company. VA Tech is led by strong management that commands high technology capabilities and is one of the only players that does its engineering entirely in India, lending to better margins. There is decent growth potential there and we consequently consider VA Tech as a long-term buy and hold opportunity.

Sewage Treatment Plant Capacity and Shortfall

Source: Central Pollution Control Board

City Classification	Sewage Generated (MLD)	Treatment Capacity (MLD)	Capacity Deficit (MLD)
35 Metropolitan Cities (> 1 mn in population)	15,644	8,040	7,604
Class I Cities	35,558	11,553	24,005
Class II Cities	2,696	233	2,463
Total	53,898	19,826	34,072

* MLD = Million Liters per Day

[10] Central Pollution Control Board

Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst complied from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

United Kingdom: This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from http://investments.miraeasset.eu, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.

This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

United States: An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

India: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.