



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Public Investment Memorandum

Steadview Capital Partners LP  
Global Public Equity

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July 24, 2018



### **Recommendation:**

Staff, together with Aksia, recommends that PSERS invest up to \$200 million in Steadview Capital Partners LP and/or related investment vehicles (severally and collectively "Fund"). This recommendation is based on our assessment of the investment strategy, the manager's demonstrated track record and the strategic fit within the overall global equity program.

### **Firm and Vehicle Overview:**

Steadview Capital Management, LLC (Steadview or the Firm) was founded in 2009 by Ravi Mehta. Prior to founding Steadview, Mr. Mehta was an analyst covering an Asian Equity portfolio at Maverick Capital. Steadview is a bottom up fundamental equity investor that seeks out underappreciated long-term growth opportunities in the Indian capital markets. The firm manages \$2.5B in total AUM including \$1.8B in the flagship master feeder fund and two pari passu single investor vehicles. The capital invested by the principals, related parties and affiliates represents approximately 6% of AUM. Steadview employs 4 individuals in its London office and maintains a research office of 5 individuals in Mumbai. The Fund's investment advisor is registered with the U.S. Securities and Exchange Commission and with the U.K. Financial Conduct Authority. The firm is wholly owned by Ravi Mehta.

The Fund is structured with US and Offshore Feeders investing into a Cayman Master Fund that accesses Indian equity markets through a Mauritius-based intermediate vehicle. The base currency of the fund is the US dollar. While this structure offers maximum flexibility to invest across public and private equity, the latter is limited to 30% of assets at cost.

### **Market Opportunity:**

India represents the world sixth largest economy and is second only to China in terms of population. While its current scale is impressive, India retains dynamic growth potential. The country's GDP per capital of just \$1,940 is similar to that of China at the turn of the century and just a fraction of the U.S. at \$59,531. As a result, even modest improvements can have dramatic consequences. If India can grow GDP per capita to the \$8,827<sup>1</sup> that China (still a poor nation by developed standards) has already achieved, it would become the third largest economy in the world. The IMF already projects that India will be one of the world's fastest growing economies with real GDP expected to grow 7-8% per annum through 2023 vs. the 2-3% projected for the U.S. and the 6-7% projected for China.<sup>2</sup> While India has long held such potential there are several factors that may act as a catalyst to release this potential including:

- **Relatively Attractive Demographics:** India boasts an average age of just 27 vs. 37 for China and 38 for the U.S.<sup>3</sup> Meanwhile the country's savings rate of 30% far exceeds that of developed countries (US<20%).<sup>4</sup> According to Boston Consulting Group, consumption in India is expected to triple from 2017 to 2025 ultimately crossing \$4T per annum.<sup>5</sup>
- **Improving Educational Dynamic:** India's literacy rate has surpassed 73% from roughly 50% thirty years ago. China provides an interesting comparison with a 78% literacy rate in 1990, about the time when the country transitioned into the dramatic economic engine. In 2016, India ranked second only to China in the total number of STEM graduates with 2.6M vs. the 568K of the U.S.<sup>6</sup> While University study is still aspirational for the majority of the population, over 34 million Indians were enrolled in post-secondary school programs in 2015.<sup>7</sup>

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<sup>1</sup> The World Bank National Accounts Data

<sup>2</sup> International Monetary Fund World Economic Outlook (April 2018)

<sup>3</sup> United Nations Population Division

<sup>4</sup> The World Bank

<sup>5</sup> Boston Consulting Group "The New Indian: The Many Faces of a Changing Consumer" (March 20,2017)

<sup>6</sup> Statista/World Economic Forum 2016

<sup>7</sup> Indian Ministry of Human Resource Development



- **Favorable Political Backdrop:** Prime Minister Narendra Modi has implemented a series of pro-growth economic reforms designed to align incentives, reduce bureaucracy and eliminate graft. For example, the country has introduced a national sales tax (GST) in place of the inefficient, Balkanized web of local levies that existed prior. The Prime Minister has also encouraged adoption of the country's biometric identification system (Aadhaar) in an effort to move the masses into the formal economy. While Modi has enjoyed relatively strong public support during his tenure, a pro-growth agenda has extended beyond the current administration, supporting continuity of long-term goals even if particular individuals fall victim to the country's democratic political system.

The Indian equity markets have a collective market capitalization above \$2.4T and include over 3,400 listed securities. Corporate earnings are expected to grow 20% in the next year.<sup>8</sup> While India offers dynamic growth potential from a very low base, the Nifty 50 (one of the main stock indexes in India) trades at just 21x trailing earnings, in line with that of the S&P 500. Perhaps more importantly, the nascent stage of the country's development offers substantial opportunities for active managers like Steadview to add value through research, diligence and a variant perception.

### **Investment Strategy:**

While Steadview's investment strategy is not dependent on a favorable macro-economic backdrop, it is designed to leverage this expected tailwind. The manager seeks the most compelling growth opportunities available, targeting investment before other market participants appreciate the size of the opportunity and holds positions for multiple years in order to benefit from the effects of compounding. Core attributes of companies selected are:

- **Dynamic Growth Potential:** At the time of investment, the manager must believe that a stock can deliver a 10x return over 10 years. While earnings growth is critical to such expectations, Steadview is highly focused on top line expansion, seeking companies which have demonstrated 25% annualized revenue growth and are expected to maintain a similar annual sales growth trajectory during the next decade. Although earnings are expected to multiply in line with the revenue forecast, simple improvements in operating efficiencies or cost reductions will not be sufficient to deliver such long-term growth expectations. Secular themes often signal opportunities. Importantly, the strategy evaluates companies over multiple years and will view near-term quarterly earnings fluctuations as noise.
- **High Quality Businesses:** Steadview evaluates companies based on the durability of barriers to entry, improving industry characteristics and ability to demonstrate high return on incremental capital deployed (returns ideally in the high 20s percent). These criteria tend to eliminate companies with high financial gearing and dependence upon government regulations or sovereign control.
- **Best In Class Management Teams:** As in any emerging market, India often sees management teams that are promotional, lack a shareholder orientation and are not properly aligned. Management's track record of success is critical because managing such rapidly growing companies requires a forward looking view, a detail orientation and an ability to adjust to changing circumstances.
- **Compelling Valuations:** Valuation is free cash flow oriented and is viewed within the context of a company's growth. Steadview looks for companies that exhibit high quality recurring earnings. The manager will take a forward-looking view, expecting that a company's multiple will fall to an unreasonably discounted level when growth is achieved.
- **A Differentiated View:** Indian equities typically garner far less attention from large research houses that focus on highly liquid, large capitalization developed markets. Additionally, fewer institutional investors monitor this market closely. Steadview seeks situations where their gumshoe research and analysis can provide a view that has not been incorporated into the general market's perception of the company.

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<sup>8</sup> Bloomberg NSE Nifty 50 Index Earnings Estimate 7/17/2018



### **Portfolio Construction:**

Steadview has deployed an opportunistic portfolio construction approach, which aims to capitalize on the most attractive components of India's growth while affording meaningful protection from the downside of market beta. While the exposure profile matches that of a long only fund, stock selection is expected to drive the vast majority of performance. Key elements of this strategy include:

- Concentration
- Sector Exposure Driven By Growth
- Market Capitalizations That Can Scale
- Dedicated India Exposure
- Unleveraged Long Equity Exposure
- Selective Private Equity Investments
- U.S. Dollar Orientation

### **Investment Instruments:**

The vast majority of Steadview's investments will be publicly traded Indian equities. The manager will opportunistically hold private equity positions via side pockets. On occasion Steadview may use derivatives for hedging purposes or to gain exposure but this is rare and they will generally be small positions.

### **Investment Team:**

Mr. Mehta is responsible for all investment decisions for the fund. His research efforts are supported by three full-time investment professionals based in Mumbai, including one individual dedicated to channel checks. The investment team is complemented by a five-person operational and administrative effort including a dedicated Chief Operating Officer and Chief Financial Officer. Key Individuals are listed below.

Name	Role	Investment Team	Yrs. Experience Steadview / Total	Prior Experience
Ravi Mehta	Chief Investment Officer	Yes	9/15	Maverick Capital, Morgan Stanley
Joy Bhakat	Managing Director Investments	Yes	7/9	Edelweiss Capital
Nikhil Agrawal	Investment Analyst	Yes	2/9	Bain & Company, Capital One
Manoj Barot	Due Diligence Analyst	Yes	9/25	East West Airlines, Orchid Hotels
Teemish Gupta	CFO	No	3/9	Bain Consulting & Company
Gautam Sharma	COO	No	2/11	McKinsey & Company



### **Investment Highlights:**

<b>Uniquely Skilled Manager Operating In A Highly Inefficient Market</b>
Over the past nine years, Steadview has demonstrated an ability to successfully uncover undervalued growth opportunities in the Indian equity markets. Since inception in 2009 Steadview's India portfolio has delivered net annualized returns of 20.1% vs. 8.0% for the benchmark Nifty 50 Index while experiencing slightly lower volatility. Steadview has outperformed the benchmark index in 74% of historical rolling one-year periods and in 99% of the rolling three-year periods since inception.
<b>Concentrated, Flexible Portfolio Construction Philosophy</b>
Steadview's highly concentrated portfolio construction approach is designed to allow the manager's investment skill to drive returns, providing a degree of protection from emerging market volatility. Other tools available include the ability to boost cash, invest in selective non-listed equities and opportunistically short.
<b>Favorable Economic and Political Backdrop</b>
India is poised to become the world's most populous country with a young, aspirational workforce, an expanding literacy rate and vibrant public equity market. These attributes offer an attractive backdrop for growth investing. Even a modest boost to the current GDP per capita of just \$1,940 could make the country one of the world's three largest economies. The reform agenda of President Narendra Modi including GST reform and Aadhaar implementation is designed to stimulate this growth.
<b>Enhances Overall Portfolio Efficiency</b>
India can be a challenging market for international managers to access and monitor. Most of our existing equity portfolio managers lack exposure. An allocation to Steadview provides diversifying exposure to this high growth market as evidenced by the relatively low correlations with international equity indexes and by the low alpha correlations with our other international/emerging market equity managers.

### **Investment / Risk Considerations:**

<b>Sovereign Risk</b>
Indian markets exhibit high levels of volatility, regular currency depreciation and occasional evaporation of liquidity. The Indian democracy has historically created challenges for reformers like Prime Minister Modi. These risks are the reasons why we prefer to access this high growth market through an active manager like Steadview, whose benchmark-agnostic style and flexible portfolio construction can serve to ameliorate the impact of such issues.
<b>Keyman Dependence</b>
The strategy is highly dependent upon Mr. Mehta. Returns would likely suffer in his absence. Mitigating this risk is the fact that Mr. Mehta is relatively young (37 years old), wholly owns the firm and has the vast majority of his net worth invested in the firm (internal capital represents 6% of total AUM).
<b>Concentration</b>
While portfolio concentration can drive outperformance and protect from aforementioned country risks, Steadview will demonstrate meaningful tracking error against the Indian equity benchmarks (historically 14% per annum). Temporary periods of underperformance are almost assured. More importantly, the consequences of a broken thesis will be amplified.
<b>Liquidity</b>
During periods of stress, Indian equities can experience diminished liquidity. Steadview's redemption terms are designed to protect against forced sales during such scenarios. Longer notice periods, investor level gates and side pockets for private investments ensure that ample liquidity is available to meet investor redemptions.
<b>Asset Growth</b>
Steadview has grown to \$2.5B in AUM potentially limiting access to the smallest companies in India. The bulk of this growth has come from appreciation of its holdings, and the manager has only selectively accepted new inflows. It is also important to recognize that since 2011 the Indian public equity markets have grown from \$1T in market capitalization to \$2.4T offering meaningful room for additional growth.



**Finance Committee Disclosure:**

Relationship with Aksia:	None Disclosed
Introduction Source:	Investment Office Staff
Placement Agent:	None Used
PA Political Contributions:	None Disclosed
Potential Conflicts:	We are not aware of Steadview having any material investment conflicts.
PSERS History with the Investment Manager:	This investment will be PSERS' first investment with the manager.
PSERS Allocation Implementation Committee Approval:	July 24, 2018

**Oversight Responsibility:**

Investment Office:	Thomas A. Bauer Raymond J. Schleinkofer Jeffrey R. Burton	Deputy CIO, Traditional Investments Senior Portfolio Manager Senior Portfolio Manager
External Consultant:	Aksia LLC	

Manager Recommendation Memo

July 18, 2018

Board of Trustees  
 Commonwealth of Pennsylvania, Public School Employees' Retirement System  
 5 North Fifth Street  
 Harrisburg, PA 17101

Re: Steadview Capital Partners LP

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and hereby recommends a direct allocation to Steadview Capital Partners LP ("Steadview") in line with PSERS' Investment Policy Statement, Objectives, and Guidelines. It is further recommended that PSERS invest up to \$200 million in Steadview.

Steadview Capital Management LLC, an India-focused equity investment manager, was founded in mid-2009 by Ravi Mehta (PM). Ravi previously worked at Maverick, a well-regarded \$10bn long/short equity fund and "Tiger cub", covering Asian stocks. Initially, Steadview's strategy was pan-Asian and could be characterized as value-oriented. However, Steadview stopped investing outside of India after October 2010 and the focus shifted towards identifying high growth companies providing goods and services to India's burgeoning middle class as it moves from basic to aspirational consumption.

The strategy focuses on growth and seeks to identify companies whose market caps can be 10x larger in 10 years. This involves finding unlevered, high-quality businesses run by entrepreneurial management teams with large market opportunities. While the fund does tend to 'pay up' for its holdings (mid-20's price to earnings ratio), the manager believes the market also tends to structurally underestimate the duration and persistency of the growth runway. These are often businesses which tap into the growing wealth and discretionary income of the middle class. Accordingly, the manager focuses on a few key sectors, including consumer, financials, technology (internet), healthcare and high-end manufacturing. The fund will not invest in sectors where there is the risk of government interference, such as real estate, utilities or state-owned enterprises. 10% of the portfolio (at cost) is invested in privates, predominately focused on the internet space. This segment is a bit more diversified than the rest of the book, since the manager is invested in nascent industries and unproven business models. However, it also presents the potential to capitalize on hypergrowth companies and earn multiples on invested capital. The portfolio is expected to run fairly concentrated, with approximately 20 line items in the book and another 40 on the watchlist. The manager legs into positions, buying a few points at a time and only incrementally building up high conviction positions. Positions decline fairly linearly from the largest holding, which is typically 10-15% of NAV (maximum since inception has been 16%). Dollar turnover is approximately 20% of NAV per year, which is reflective of the manager's long-term time horizon (typically a 5-year holding period).

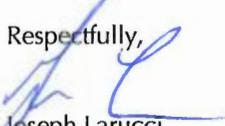
Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of the manager's investment process, including a review of their investment strategy, investment team personnel and structure, and risk management;
  - Onsite investment due diligence visit conducted May 24, 2018
- Due diligence of Steadview's operations, including an operations and infrastructure review, regulatory and compliance review, PPM review, Form ADV review, and Financial Statement Review;
  - On-site operational due diligence visit conducted June 13, 2018
- Evaluation of the Steadview strategy within the context of the current investment environment; and
- Appropriateness of Steadview as a component of the PSERS portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in Steadview, since their needs, objectives, and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of Steadview. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the due diligence reports. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Joseph Larucci  
 Partner, Head of Equity Strategies



Simon Fludgate  
 Partner, Head of Operational Due Diligence