



GREATER PACIFIC

Quarterly Letter to Investors

US Leadership in a Crisis, Asia Emerges Stronger, India's Opportunity, America and its 'Arab Spring'

Dear Investor,

The ongoing coronavirus pandemic has brought the industrialised world to a halt and exposed further the cracks in the world order. Even the best prepared countries have had to enact unprecedented measures to contain the outbreak, closing down the borders, shutting down their economies and effectively locking up their citizens. Despite these measures over 350,000 people have died with the virus, and it is estimated that the number is likely 50-60% higher, at an expected cost to the global economy of US\$9 trillion. While countries are currently beginning to chart various paths back to a lifting of restrictions, the near to medium term outlook for the pandemic remains unclear: fears about second (and repeating) waves of the virus occurring after the summer, uncertainty about the timing of an effective vaccine and the lack of synchronisation of outbreaks and responses between countries will all but ensure continued disruptions across global economies, markets and industries through the remainder of 2020. In addition, the killing of an unarmed black man in police custody in the US has triggered mass protests and unrest in America, and other western nations too, with potentially significant implications.

The Macro Themes that are Set to Change the World

The world is now in flux and it is clear that all of us will need to plan for a much different world following this pandemic. Among the major macro themes emerging, we look at the following as ones of deep consequence:

- **The US has Not Led the World.** The East has traditionally looked West for leadership in major crises. The US Administration's decision or failure to lead the world in this pandemic is one of the most important geopolitical markers of this crisis. Given that the highest death count in this crisis to date is in the US, it has become clearer to other nations that it is not as resilient as they had assumed and is not able to be the world leader at this point in time, representing an important loss to its soft power too.
- **China has Lost Credibility as a Trusted Partner.** China's system has been widely influential and admired in Asia and in developing countries the world over, in the last two decades in particular. This crisis has changed that and although China's size will no doubt earn it respect, as Machiavelli noted, in the stakes of love or respect, love is not on offer. Delays around alerting the rest of the world to the virus, and the overall lack of transparency about the virus' origins, have exposed the regime.

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- **A Battered Europe Requires Rejuvenation.** Europe has some of the best responses to the pandemic in the world and some of the worst too, with differences in per capita mortality rates from COVID-19 ranging from fewer than 2 per 100,000 (in Greece) and 10 (in Germany) and at the other extreme, to over 50 (in the UK). How effectively the EU help countries that are suffering is the question that will determine the cohesion of the EU, and whether it is a political union or an economic one.
- **Asia has Proven Far More Resilient and Competent.** Despite the initial origins of the virus in China, East Asian countries have proven more resilient and adept than the West at managing their respective outbreaks through practical actions and learning rapidly from each other. With many in a position to re-open their economies, the region is demonstrating greater flexibility and resourcefulness, independence from the US, and with the benefit of more favourable demographics, population size and growth rates, is positioned well to rise.
- **India has Proven that it can be Decisive in Rising to Big Challenges.** Despite facing, potentially, the worst risk from the virus given its large population, high population density and lack of medical and other basic infrastructure, India has reacted with a rational and competent response which has helped to significantly slow the spread of the virus. After facing questions for many years about its ability to implement major structural changes necessary to unlock its economic potential, India's government at federal and state levels has proven that it indeed has the capability to rise to challenges and can execute complex actions at speed and scale. If it can now navigate opening its economy well, it will be well placed to accelerate the diversification away from China in its favour.

The quarter was highly significant; it saw the rise of Asia and the faltering of the West in the face of a major global crisis.

Are we at an Inflection Point to Disrupt and/or Accelerate Change?

So, is the world at a course altering inflection point? It takes the confluence of a number of events to tip the scales to an irreversible change. Is the world at such a point now? The conditions for self-willed, managed change requires one to have no option but to accept that the platform is burning, a "point of surrender", as far as travelling along the old way. The second world war was such a turning point and led to the building of a new world order. The jury is still out as to whether it is this pandemic or something harsher that will force the world into a new system of organising. However, enough of the seeds of change have been witnessed and experienced by the world to provide a blueprint of what the future may look like. Our recent [research](#) on the subject looks at that scenario in more detail.

To the potentially transformative impact of the coronavirus pandemic comes another potential trigger for critical change: the killing of George Floyd by a Minneapolis policeman. This heinous act has unleashed mass protests against police brutality and racism against people of colour across American cities that have spread to many other Western countries too. In many cities in America, police have knelt and embraced protestors demonstrating their understanding and compassion. The massive tide of activism from an increasingly wide section of society and the growing public support from governments and major corporations across the world make this a potential political and social turning point in America during an election year where the stakes are high for both sides..

Single acts can start revolutions and trigger global change. In 2011 a young Tunisian, Mohamed Bouazizi, set himself on fire after he was banned from selling fruit to earn a living, unleashing decades of pent up anger and sparking mass protests that spread to other countries and led to overthrows of regimes throughout the region and an enduring conflict in some.

This makes it worth considering whether the death of George Floyd will trigger a transition of comparable magnitude as the Arab Spring in the US. Clearly, people of colour in America have had to suffer many such killings in the past and despite repeated mass protests, racial inequality has persisted with unresolved problems stored up for another time. The global and broad-based protests are an encouraging sign that this time might be different, creating the potential for lasting change, with minimal violence, unlike the Arab Spring in many countries. However, there are a number of additional potential catalysts that could set the scene for more extreme change, of which two stand out in particular. The first is a massive crackdown on the protests by force by the federal government, as foreshadowed by the tear-gassing of peaceful protestors in Washington DC at the president's command, creating the risk of further escalation and bloodshed. The second is a potential intervention in the protests by armed right-wing and libertarian citizen groups, most recently seen protesting lock-down measures carrying assault weapons, with these groups confronting protesters to venting their rage at them and their cause. While protests have largely calmed to peaceful ones now, such events might clearly lead to the situation spiralling out of control.

If it fails to tackle the underlying issues of centuries of unresolved injustice, America has an "Arab Spring" waiting to happen. Given that US stocks have rallied during the protests in response to healthier monthly jobs figures, the markets appear to be not only assuming a rapid return to business as usual after the pandemic, but also excluding the possibility of more extreme scenarios, with no expectation of a reckoning of any significance.

India Passes the Initial Test, Arrives at an Inflection Point

The pandemic was a test that if India failed, in extreme cases, its death count was expected to be in the tens of millions. This pandemic was a far more intense and extreme test and would call into question the government's priorities too. As it happened, India was early relative to many other countries in terms of implementing what have been among the world's tightest lockdown measures. The measures included shutting borders, curfews, massive testing, quarantining, zoning districts at risk, mass monitoring and policing and food supply to the poorest. This outstrips the US and Europe in terms of measures and, as the West has shown, cannot be done well in even the richest and most advanced of economies. It no doubt leaves much room for improvement and the suffering has been huge, especially, for example, in relation to migrant workers, who had to travel hundreds of miles back to their villages, often on foot. However, a "later or lighter lockdown" scenario could have been much worse in terms of fatalities.

India has to date fared much better than many industrialised nations in terms of infections and fatalities, with, at the time of writing, fewer Indians dying with COVID-19 than Swedes, despite India having 130x the population as Sweden. And yes, there are valid questions over the accuracy of the count in a country of 1.3 billion, but some simple maths helps: to arrive at the relative death count of say the UK or America, it would need to have missed 400,000 to 700,000 deaths. Everything is possible but with a highly active press, an advanced data analytics industry and a highly participative democracy, the chances of completely missing the deaths is low. As the lockdown has been eased, as other countries have experienced too, Wave II starts to take root. And so it is in India too, the rate of infections in the country more recently appears to be rising. India's path out of lock-down and its return to lockdowns and how well it manages each wave to a new normality is as uncertain as it is for most of the rest of the world, and we will accordingly continue to keep a close eye on the infection rates, containment measures and key economic metrics in India.

Investments in the Crisis: Now and Beyond

Investment Strategy and Execution Update

As investors that have lived through the Global Financial Crisis in 2008, the Asian aftermath and the collapse of India between 2010 and 2014, the aim has been to apply the lessons to this crisis recognising that the demobilisation of demand and supply is unprecedented. The existing fund is a new one with few investments and significant capacity to execute more investments during this crisis. We start well, with capital, a positive valuation of the fund, and the ability to accept new investors to benefit from the valuation uplift before the final close.

Strategy Rule 1 is survival, and that has been the initial focus. The pandemic and resulting lockdown have created a challenging business environment for participants. The Investment Manager has focused on ensuring the robustness of the Fund's portfolio companies. While the near-term financial performance of the companies has clearly been impacted by the near total shutdown in economic activity in India and much of the world, its companies are well positioned to weather the disruptions created by the coronavirus pandemic. They have cash and credit lines and have secured their core teams, core clients and are robust at this stage.

This leads to Strategy Rule 2, which is to be relevant to the world as it is and establish a strong core position. Enzen, a portfolio company, is a good example. As an energy services business, it provides important essential services and has continued to execute a number of ongoing projects remotely and has continued to generate positive operating cash flow throughout the crisis. Another portfolio company, Near, as a mobile data analytics company has worked well to provide information to policy makers and businesses that need to understand people's behaviour during the lockdown and as the lockdowns ease.

Strategy Rule 3 is to gain territory. A difficult task given many are not prepared to make decisions to assign new business in the midst of a crisis. However, Near, given its core capability is location, is well positioned to contribute proactively to the global fight against the coronavirus.

Policy Shift Providing a Fork in the Road – for India and Others

The pandemic has the potential to be a catalyst for many economies across the world. In India, as elsewhere, it is clear that policies that might have been unacceptable to the public in the past might well be palatable as it emerges from the crisis. Whether the Indian government seizes this opportunity has an important bearing on the speed at which India capitalises on its unique set of macro-growth drivers, namely demographics, urbanisation, technology adoption, mass consumption and mass financial inclusion. In terms of general business outlook, GDP for the fiscal year ending March 2021 is projected to contract by 5% as a result of the country's severe and prolonged measures. In terms of policy, early steps are focused on mitigation of the economic impact and the government announced a US\$266 billion support package consisting of both fiscal and monetary measures, equal to approximately 10% of GDP (placing it on relative parity size-wise with other major countries). The next policy steps will determine if the government sees the need to continue on the path of mitigation or feels it has the space to seize the opportunities of the crisis to make positive structural changes.

Key Emerging Investment Themes

The pandemic has already changed how we live and work, changed sector success profiles, introduced widespread distress into businesses and changed the role of government and capital. Looking ahead at the investment themes that arise from the current scenario, assuming that the pandemic lasts into the short to medium term especially, a number of investment themes rise to the fore:

- **Global Connectivity.** The near global lockdown has by necessity pushed digital connectivity to near universal levels, creating new user and customer segments to be served by innovative digital products and services

- **Remote Work.** The pandemic has triggered a scaled switch to remote digital work like never before, laying bare both the extent to which remote work is possible as well as the challenges associated with it. New tools and services will be required to overcome these challenges and to maximise the efficiency of home working.
- **Contactless Interfaces and Interactions.** The sharp reduction in physical interactions to reduce virus transmission is leading to the increased use of contactless interfaces for all manner of interactions, including transportation, commerce, entertainment, etc.
- **Digital Tracking.** The need to digitally track infections and social interactions across large populations is accelerating further the development of key technologies to do so well and find patterns in behaviour, including the application of artificial intelligence and big data to behaviour.
- **Digital Education.** The closure of schools has led to hundreds of millions of students moving to online learning for everything from kindergarten to graduate studies, leading to the ongoing development of increasingly sophisticated and specialised tools and services for use beyond the current crisis.
- **Digitisation of Healthcare and Telemedicine.** The reconfiguration of hospitals and healthcare delivery to fight the coronavirus has led to an increased reliance on telemedicine to address ‘ordinary’ medical needs, providing an opportunity to broaden healthcare coverage in developing markets and reduce the cost of delivery in industrialised ones.
- **Digital Finance, Mass Inclusion and Financial Restructuring.** The opportunity to accelerate the migration to digital access to finance and the shift to digital contactless platforms has become a reality and will have repercussions for the viability of major financial institutions and their cost structures.
- **Shortening/Diversifying Supply Chains and Physical Fulfilment.** Global rolling shortages in medical and sanitary equipment have highlighted the need for countries to diversify and shorten their supply chain for strategic goods and services, driving a new wave of industrial and logistics investment across the world.
- **Flexibility in Scale.** The need to quickly manufacture great quantities of equipment at very short notice is creating the need for flexible scale solutions in industrial sectors, allowing companies to meet rapidly fluctuating demand without creating overcapacity or unsustainable fixed cost structures.
- **Rescue and Distressed.** High quality businesses are facing acute cashflow challenges and this is getting reflected in the rising need for rescue finance before they become distressed.

Digital and delivery are two key underlying ideas of these themes. Winners will move quickly from data and analysis to pre-empting and shaping behaviour. This makes sense since the world is in transition from the industrial to the information age. These global themes are of much relevance to this transition. And for India, in particular, its absolute scale in terms of population makes it a prime candidate for remote working, education and healthcare and its lack of existing physical infrastructure in these areas reduces the switching costs to digital solutions. Furthermore, mass scale connectivity is critical to a country whose growth is driven by maximising the inclusion of its population. Also, from a geopolitical perspective, India stands to be one of the beneficiaries of global supply chain realignment, as companies and countries seek to diversify away from a dependency on Chinese manufacturers in a post coronavirus world.

Entrepreneurs in India and elsewhere are already positioning for these opportunities and investors with strong origination and execution platforms on the ground and internationally, are well positioned to work with them. Investors with t fit for purpose platforms like the one we have built are focused on executing the attractively valued deals we believe are available and emerging in this COVID-19 disrupted environment that are more fit for the new

emerging world scenario. The challenging capital markets environment and limited liquidity will enable experienced investors like the Manager with a strong modus operandi to secure high quality deals on attractive terms that protect capital and create the opportunity for positive returns.

The pandemic is in its first phase in most parts of the world. The challenges and human toll continue. India, with 1.3 billion people, has passed the first test and is entering the next. Given the potential for innovation in the midst of such scale, it provides a unique opportunity for investment capital to be applied to make a difference. The fund's impact strategy is founded on the principle of citizenship. This is a time where the firm is focused on doing that to maximum effect in businesses that have resilience, relevant products and services, fit for purpose commercial models and address fundamental themes and needs of the type this crisis is revealing.

We look forward to executing these exciting opportunities in partnership with our investors and to helping to be a positive force in the new world that is set to emerge.

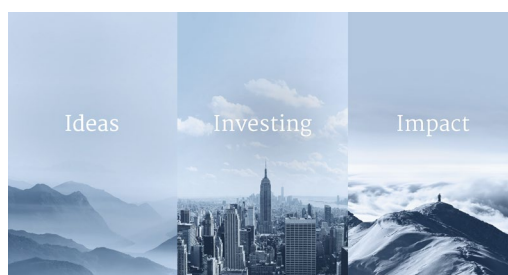
Thank you for your support and best wishes for the safety of you and yours.

Sincerely,

Ketan Patel
CEO, Partner

31st May 2020

This letter is extracted and adapted for wider presentation from the quarterly report for Greater Pacific Capital Private Investing India, LP, covering the period from 1 January to 31 March 2020. It also draws on the research work of Greater Pacific Capital (www.greaterpacificcapital).



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