MACRO INTELLIGENCE REPORT

Macro Ops
Target. Deploy. Profit.

A Growth Turducken

Operators,

Do you know what a Turducken is?

It's a delicious abomination of a meal that consists of a chicken, stuffed into a duck, that's packed into a turkey. It's man's nutritional declaration to the animal kingdom that he rules all…

Well, as a global macro speculator, there's nothing more in this world that we like more than what we call a "Growth Turducken".

In This Issue:

These are the rare instances when you find a highly asymmetric investment, stuffed in a cyclical growth story, that's packed into a secular bull and maybe sprinkled with some powerful catalysts.

These are the best types of Turduckens. They'll fatten your wallet and not give you heart disease.

Enough food talk. Let's get down to business.

In the following pages, we're going to lay out for you one of the most exciting multi-factor growth themes we've ever come across. It's got every possible tailwind you could imagine — even a few you can't — and it's going to reshape the modern world over the coming decades.

And at the very core of this thematic (the chicken) is a stock that's so incredibly mispriced (meaning it's an AMAZING VALUE) it'll make you blush.

We also, of course, go over the current macro state of the world and the regime change in volatility.

Let's begin.

Your Macro Operator,

Alex

Macro: A Growth Turducken

Wealth S-curve Tailwind (The Turkey)

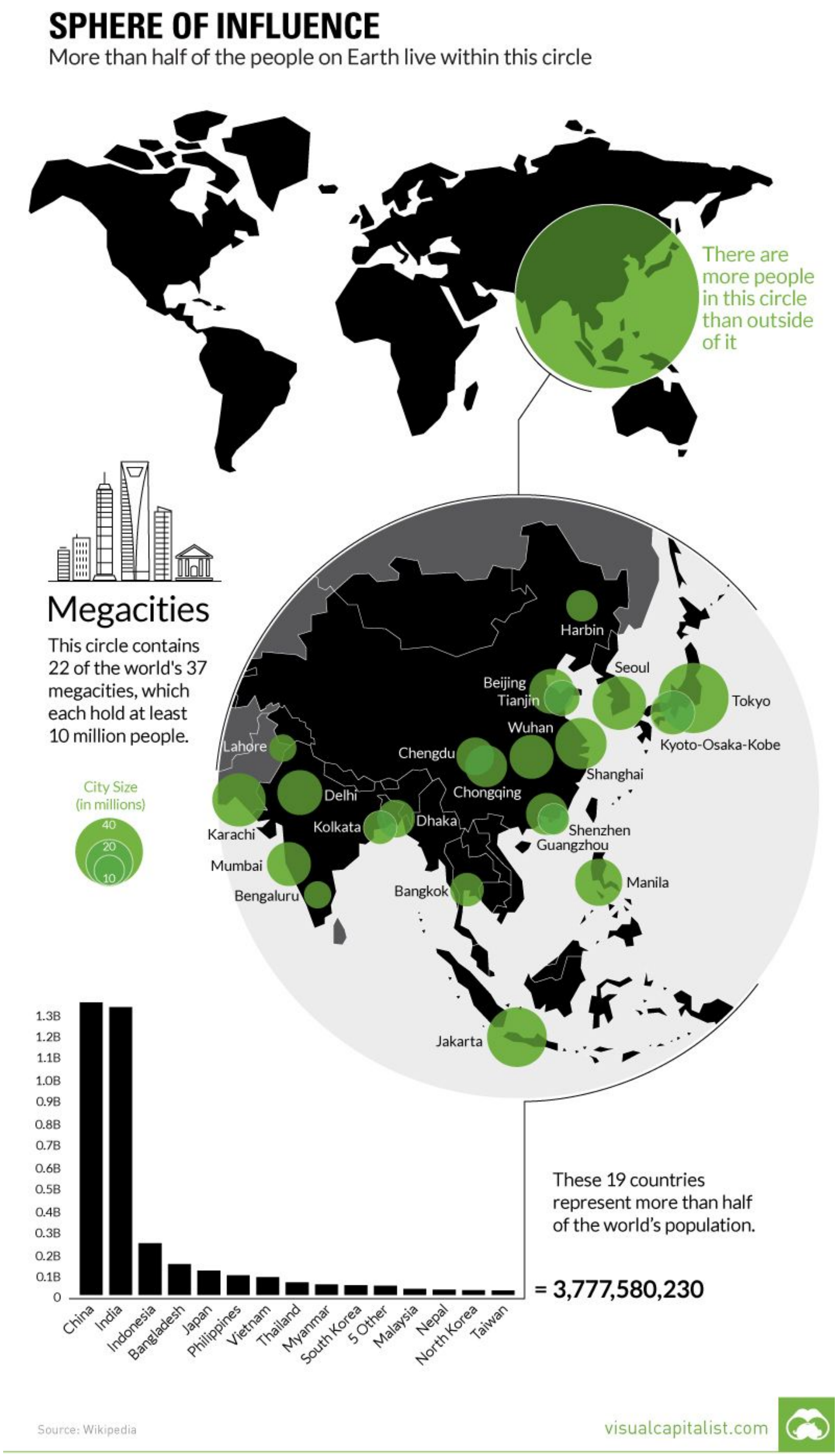
In our October MIR, we laid out the case for the coming global middle class explosion that's the result of countries, predominantly in Asia, hitting what we call the tipping point of the wealth S-curve.

The scale and impact this will have on economies and markets is difficult to fathom. As we noted in our recent article, "humans are bad at thinking in non-linear exponential terms". All we know with certainty, is that this global secular trend is going to surprise pretty much everybody.

As a quick refresher, here's the gist of what's happening:

Asia, the area encompassed in the green circle below. Accounts for over half the world's population and is experiencing large scale change (image via visual cap).

Chart of the Week



Over the next decade, we're going to see approximately 4 billion people located in that circle, cross the "tipping point".

The wealth S-curve tipping point, for those of you who don't know, refers to when a population crosses a certain gdp-per-capita threshold. Once pass this threshold, **the population's consumption habits transition from linear to exponential growth.** This is the result of people switching from simple low input goods to more complex, commodity intensive goods.

Quick example.

Consumption in low income countries is mostly relegated to basic necessities such as food and shelter. But as societies get wealthier, their spending habits expand beyond staples to include more discretionary spending (think cell phones, cars, computers etc…). These goods are much more commodity and labor intensive.

Not only does this wealth trend put exponential demand pressure on commodities (as we covered in our October MIR) but it also spurs a virtuous effect in that it drives labor and profit growth in the economy, thus kicking the economic flywheel into effect.

To give you a sense of just how large this wealth/demographic trend is, here are some numbers from Brookings (emphasis mine):

> *The implications are stark.* ***By 2022, the middle class could be consuming about $10 trillion more than in 2016; $8 trillion of this incremental spending will be in Asia.***
>
> *By 2030, global middle-class consumption could be $29 trillion more than in 2015. Only $1 trillion of that will come from more spending in advanced economies. Today's lower middle-income countries, including* ***India, Indonesia, and Vietnam, will have middle-class markets that are $15 trillion bigger than today.***
>
> ***We are witnessing the most rapid expansion of the middle class, at a global level, that the world has ever seen. The vast majority— almost 90 percent—of the next billion entrants into the global middle class will be in Asia: 380 million Indians, 350 million Chinese, and 210 million other Asians.***

Table 4: Middle class consumption - top 10 countries, 2015, 2020, and 2030 (PPP, constant 2011 trillion $ and global share)								
Country	2015	Share (%)	Country	2020	Share (%)	Country	2030	Shares (%)
U.S.	4.7	13	China	6.8	16	China	14.3	22
China	4.2	12	U.S.	4.7	11	India	10.7	17
Japan	2.1	6	India	3.7	9	U.S.	4.7	7
India	1.9	5	Japan	2.1	5	Indonesia	2.4	4
Russia	1.5	4	Russia	1.6	4	Japan	2.1	3
Germany	1.5	4	Germany	1.5	4	Russia	1.6	3
Brazil	1.2	3	Indonesia	1.3	3	Germany	1.5	2
U.K.	1.1	3	Brazil	1.2	3	Mexico	1.3	2
France	1.1	3	U.K.	1.2	3	Brazil	1.3	2
Italy	0.9	3	France	1.1	3	U.K.	1.2	2

In just over a decade's time, four of the top ten economies will be in Asia — that small green circle. China alone, has **400 MILLION millennials** now entering their prime spending years (that's larger than the entire populations of the US and Canada combined!).

These Asian countries are all passing (or have already passed, as in China's case) the tipping point of the S-curve. A country typically benefits from S-curve exponential growth for 30 years on average.

Long-term, we like this entire region. Asia is going to dominate the 21st century. That is a fact. But out of all of the countries, one stands head and shoulders above the rest as offering the most opportunity to investors.

We're talking about **India**.

Let me walk you through one of the macro frameworks we use to evaluate a countries long-term potential. And you'll see why we're so excited about the opportunity here.

The "Formula for Economic Success"

Bridgewater is *the* most successful hedge fund of all time. It's founder/CIO, Ray Dalio, is one of the most original thinkers in the macro game, in your author's humble opinion.

Because we're so impressed with their models and frameworks for understanding economic and markets, we've liberally adopted (stolen) many of these models and have made them our own.

One of these models, is Bridgewater's "Formula for Economic Success". It's a logic framework that's set in a fully quantitative algorithm which aims to forecast the future 10-year performance of an economy. And on this front, it's better (by a wide margin) than any other popular forecasting model.

Ray Dalio notes that this framework **"would have predicted the subsequent 10-year real growth of the 20 countries shown over the last 70 years within 2% of the realized growth about 85% of the time and within 1% two-thirds of the time, with the average miss of less than 1%."**

That's impressive…

Without getting too much into the weeds, I want to walk you through a very high level overview of what this model measures. And we'll then look at what it forecasts for Asia, and India specifically, over the coming decade.

To begin, Dalio writes the following, "Stepping away from the wiggles of any given day, and looking from the top down, one can see that **the big shifts in economic growth are about two-thirds driven by <u>productivity</u> and one-third driven by <u>indebtedness</u>.** "Luck" (e.g., having a lot of resources when the resources are valuable) and "conflict" (especially wars) are also drivers."

Economic growth can be boiled down to (1) Productivity and (2) Indebtedness, or a country's ability to add productive leverage.

This makes sense. A country's production (its productivity) will equal the number of its workforce multiplied by the output per worker (each worker's productivity).

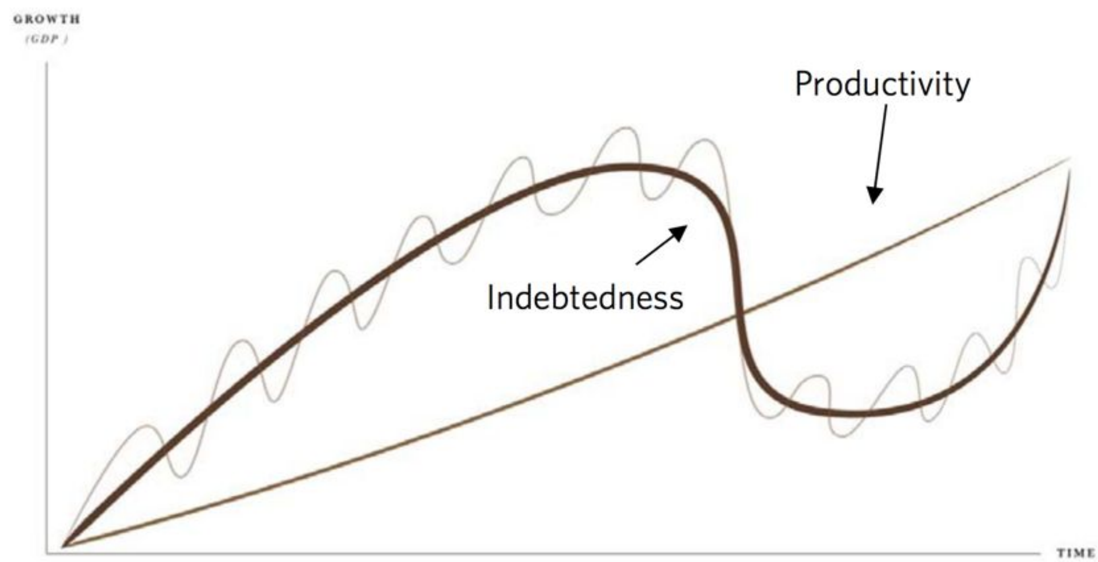
Productivity then boils down to how cost-effectively a country can produce. And it's a country's productivity levels, relative to other country's productivity levels that matters. This determines a country's competitiveness. The more competitive a country is, the faster it will grow.

Indebtedness, is a measure of a country's ability to productively use leverage in order to invest in high ROI projects or consume. Both boost demand in the short-term. This is what drives the short-term debt cycle (7-9 years) otherwise known as the business cycle.

You can't leverage up forever. Eventually debt servicing costs rise faster than cash flows and a deleveraging occurs (this is what's been ailing western economies these last 10 years).

It's this leverage and deleveraging process that drives the majority of an economies "wiggles" over the short-term. But in the long-term, they effectively cancel one another out. Short-term debt cycles build into longer-term debt cycles and all just oscillate around the country's long-term productivity trend line.

The visual below shows the interaction of these two forces, debt and productivity.



It's pretty straight forward logic.

Countries that have rising productivity and which are starting from low levels of indebtedness (meaning they have room to leverage up and boost demand growth) will grow faster than those countries which are in opposite positions, such as nearly the entire de(bt)veloped world.

Bridgewater's models breaks these two inputs into subcomponents to get at a more granular understanding of a country's *actual* and *potential* productivity. Along with where it lies along the long and short term debt cycle.

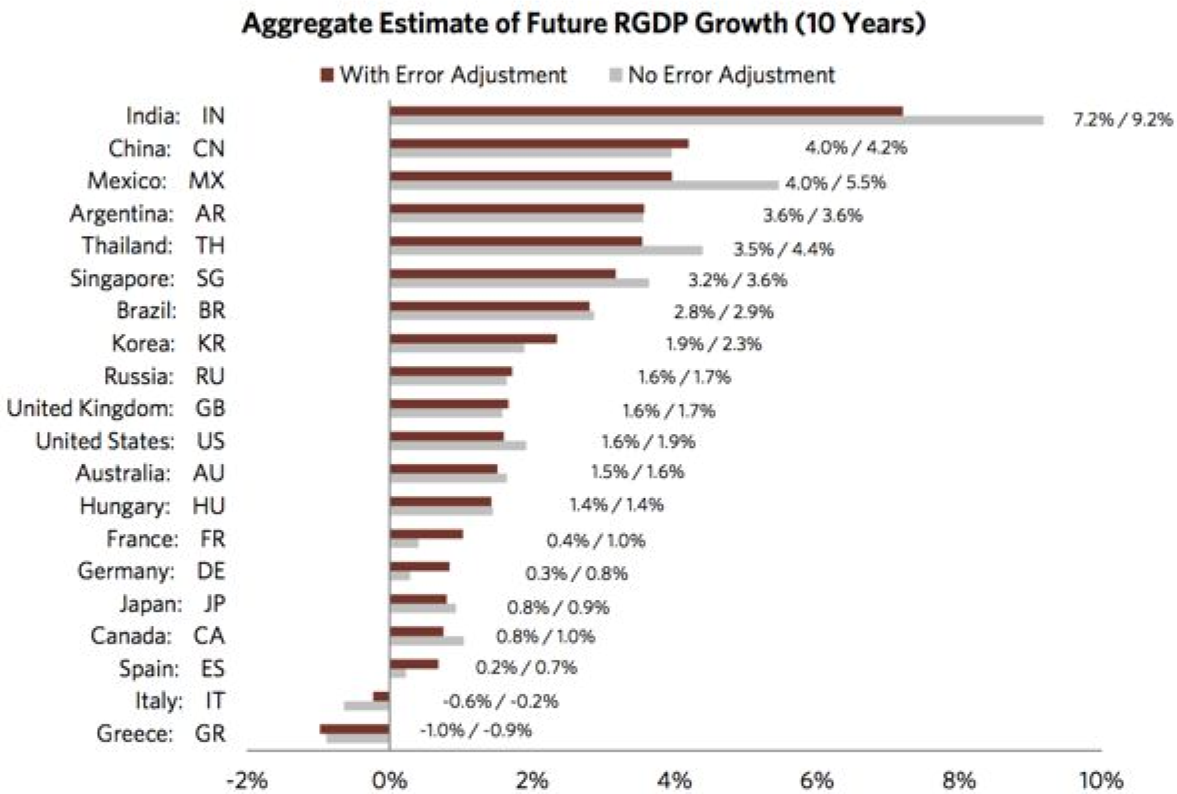
These inputs consist of everything from measurements of a country's productive value proposition (ie, cost of labor relative to education levels) to its culture (things like rule of law, bureaucracy, and whether it values achievement over leisure).

It's a comprehensive framework that cuts to the foundations of what drives a nation's economy.

Here's the complete breakdown below.

Future Growth Estimate - A Summary of Our Reasons			
Concept	**Gauge**	**Weight**	**Correlation**
Aggregate Estimate	-	**100%**	**86%**
Productivity: Producing more by working harder or smarter.	-	**65%**	**71%**
I. Value: What You Pay vs What You Get: Countries that offer the most value for money do better than those that don't. The most important attributes are whether their people work hard, invest, and are educated and productive in their jobs.	-	**45%**	**67%**
i. Education: A better educated worker will likely be more effective today and offers more promise for tomorrow than his/her peer.	Cost of a Quality-Adjusted Educated Worker	**11%**	**66%**
ii. Labor Productivity: A worker of similar education who produces more in the same amount of time is more attractive than the one producing less.	Cost of a Productivity-Adjusted Educated Worker	**11%**	**57%**
iii. Working Hard: Hard workers will generally produce more and find ways to improve faster than those who opt more for leisure.	Working Hard Relative to Income (2 pcs)	**11%**	**64%**
iv. Investing: Countries that save and invest in productive capital and infrastructure will improve their potential more than those that don't.	Investing Relative to Income (2 pcs)	**11%**	**58%**
II. Culture: Culture influences the choices people make and the effectiveness of an economic system.	-	**20%**	**62%**
i. Self-Sufficiency: The need and the ability to independently support oneself is healthy and important to being successful.	Self-Sufficiency ex-Inc (3 pcs, 9 sub-pcs)	**3%**	**42%**
ii. Savoring Life vs. Achieving: Those who value achievement over savoring the fruits of life will be more successful in finding ways to work harder and smarter.	Savoring vs Achieving ex-Inc (2 pcs, 8 sub-pcs)	**3%**	**37%**
iii. Innovation & Commercialism: Countries that value new ideas and invest in them will find new better ways to produce faster.	Innovation & Commerc. ex-Inc (2 pcs, 10 sub-pcs)	**3%**	**65%**
iv. Bureaucracy: Lots of red tape and regulation stymies business activity.	Bureaucracy ex-Inc (3 sub-pcs)	**3%**	**43%**
v. Corruption: Corruption deters investment and distorts market incentives.	Corruption ex-Inc (4 sub-pcs)	**3%**	**63%**
vi. Rule of Law: Investors and business people need to feel secure their agreements and property will be protected.	Rule of Law ex-Inc (4 sub-pcs)	**3%**	**59%**
Indebtedness: Swings in credit drive swings in spending and economic growth.	-	**35%**	**49%**
I. Debt and Debt Service Levels: Countries with high debt burdens have less room to leverage and take on new debt.	Debt and Debt Service Levels	**12%**	**41%**
II. Debt Flow: A country can rely on credit growth to boost spending above incomes, but only for so long. When that rate of credit cannot be sustained, spending must slow.	Debt Flow	**6%**	**-12%**
III. Monetary Policy: Monetary policy can make new borrowing more or less attractive.	Monetary Policy	**18%**	**25%**

Below are the results from the algorithm's most recent projections for future real economic growth over the next 10 years.



Asia and parts of Latin America are projected to have the fastest growth over the next decade. While Europe, led by Greece, Italy, and Spain, populate the bottom rung.

India dominates the top position with future growth roughly double that of China's which sits in second place.

India's 10-year real GDP growth is projected to be in the 7.2%-9.2% range. This puts it first out of the world's 20 major economies. Bridgewater notes the following about India's ranking:

> *Over the next 10 years, we expect India's productivity to be much better than most major countries (implying a growth rate of 9.3% on its own), and indebtedness conditions to be better than other countries (implying a growth rate of 5.1% on its own). As shown below, India's biggest relative strengths are the value its workers provide relative to education levels and its levels of investment, and its biggest relative problems are its level of bureaucracy (though compared to other countries it doesn't rate especially poorly on this measure). The various gauges and weights are shown below.*

Economic Health Index: India

		-4 ⟵ Score (Standard Deviation) ⟶ +4	Rank
Projected 10-Year Real Growth Rate :	**7.2% to 9.2%**		1
Growth in Working-Age Population :	**1.3%**		1
Projected Real Growth per Worker :	**5.9%**		1

Component of Growth per Worker Estimate	*Weight*		
Productivity	65%		1
I. Value: What You Pay vs What You Get	70%		1
i. Education	25%		1
ii. Labor Productivity	25%		1
iii. Working Hard	25%		1
a. Avg Hours Worked	67%		1
b. Demographics	33%		1
iv. Investing	25%		1
a. Investment ex-Housing	50%		1
b. Household Savings	50%		1
II. Culture	30%		2
i. Self-Sufficiency	17%		4
a. Work Ethic	50%		4
b. Government Support	25%		8
c. Rigidity of Labor Market	25%		5
ii. Savoring Life vs Achieving	17%		3
a. Observed Outcomes (Work Ethic)	50%		4
b. Expressed Values	50%		2
iii. Innovation & Commercialism	17%		1
a. Outputs (e.g., patents, trademarks)	50%		1
b. Inputs (e.g., R&D, # of researchers)	50%		3
iv. Bureaucracy	17%		14
v. Corruption	17%		1
vi. Rule of Law	17%		4
Indebtedness	35%		1
I. Debt and Debt Service Levels	35%		4
II. Debt Flow	15%		8
III. Monetary Policy	50%		7

Now this algorithm is completely quantitative. There's absolutely no discretionary human input. It's based solely off the hard data above.

So while the model provides an excellent forecast (it has an extremely accurate forecasting record). In cases where there's significant *qualitative* changes occuring, the forecast can drastically over or underestimate future growth.

Well, there's no country in the world that is going through more large scale changes than India.

We're literally blown away by what's happening there. **The scale and sophistication of these changes are unprecedented. It's going to remake the face of India — as well as Asia as a whole — and make India an economic powerhouse of the 21st century.**

The Catalysts (The Duck)

> *While countries that operate efficiently will grow at faster paces than countries that operate inefficiently, the* ***countries that will grow the fastest are those that have big inefficiencies that are disposed of****.* ~ Ray Dalio (emphasis mine)

India has long suffered from under development, a disparate economy, and a byzantine regulatory bureaucracy courtesy of the Brits…

One of India's largest hurdles has been the size of its informal economy. **Roughly 85% of business has been conducted <u>outside</u> of the official economy.**

This is because *nearly half* of India's 2.3 billion citizens have had no form of identification (no birth certificate or I.D. whatsoever). Without any type of government identification, they couldn't open a bank account, get a loan, buy insurance, pay taxes etc…

This perpetuated widespread poverty. It put a low ceiling on half the country's populace by limiting their ability to move up the socioeconomic ladder.

Thankfully, this problem is now in the past.

Led by India's transformative leader, Prime Minister Narendra Modi, the government not only solved these issues, but because of the innovative way in how they did so, they've managed to leapfrogg the rest of the world.

Welcome to India's Digital Revolution

Three years ago, Narendra Modi, set India on the path to build what has become <u>the world's largest IT project.</u>

The goal was to bring India's entire population into the modern economy. Make government and commerce more efficient. And in doing so, make the country a leader in large scale smart technological use.

The basis for this technological revolution is <u>Aadhaar.</u>

Aadhaar is the world's largest digital biometric identification system. In just a few years, India went from half its population without IDs **to having the fingerprints and retina scans of 1.2 of its 1.3 billion population.** These, unique identifiers, now serve as each citizens formal identification… and as we'll show, so much more.

This digital identification system is being built into every aspect of the country's economy and in how government is run.

When a person wants to, say, open a bank account, take out a loan, sale/transfer property, or apply for insurance. They don't need multiple forms of identification and paperwork (like you do everywhere else in the world). They just need their thumbprint and pin code.

With this technology, you don't even need to walk into a physical bank anymore to open up an account. You can just swipe your thumb on a mobile phone and open an account or apply for a loan, all in under two minutes.

Think about the large scale efficiency gains of this one change alone. They're massive. And Aadhaar is just the start. There's a whole ecosystem of innovation spawning from this technological foundation.

In 2016, India introduced another innovation called India Stack.

Think of India Stack as a massive secure cloud based storage system, a Google Drive of sorts, but used to store and track *all of the documents* that are created in the normal business of a nation's economy.

Everything from one's personal data such as medical records, bank statements, employment history, and tax filings are completely digital and seamlessly uploaded to the stack. The stack is accessed simply using one's Aadhaar biometric authentication.

Indians can now open a brokerage account, file for a marriage license, do their taxes, send their medical information to another doctor, store their proof of life insurance coverage, all on India Stack. All in the cloud, using only a mobile phone and their thumb.

This is amazing.

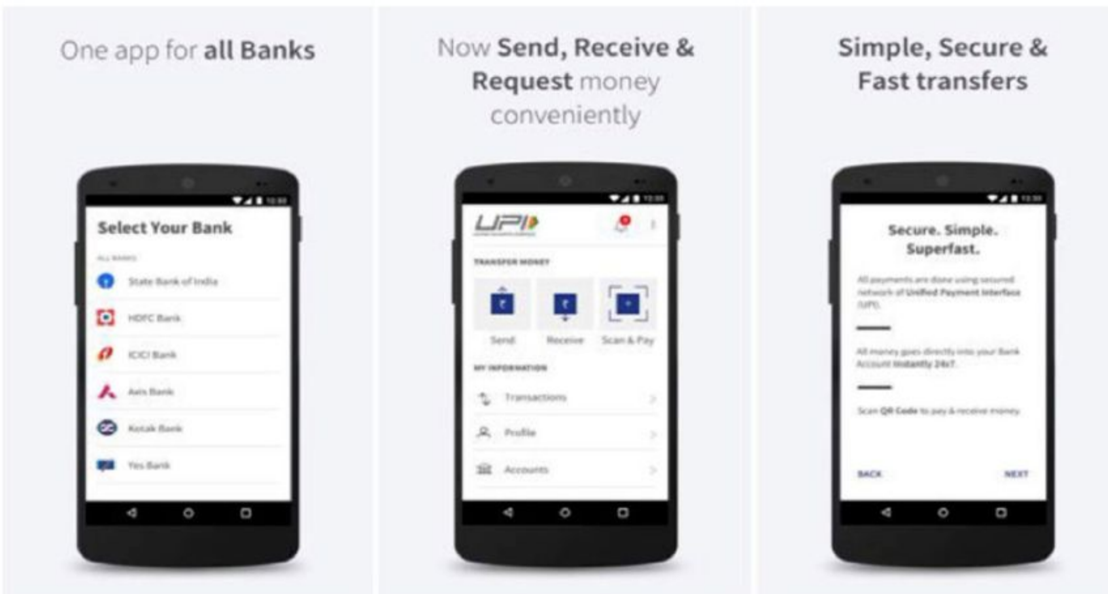
Fraud and corruption kneecapped in one fell swoop. A retina scan and thumbprint are infinitely more difficult to steal than a fake ID and falsified signature.

India Stack is now the largest open API in the world. The government has welcomed tech giants from around the world to develop applications that can plug into the system.

An example of one of the applications built onto the Aadhaar/Stack network is Bharat Interface for Money (BHIM for short).

BHIM is a nation wide digital payments platform using a unified payments interface. This network allows users to send money and payments to even non-UPI accounts, using only QR codes and their fingerprint plus Aadhaar ID number.

This means that payments can now be made without money, or even a mobile phone. Just a fingerprint and pin number.



In the US, we *just* got chips in our physical debit/credit cards which is technology from the 1980s… But all of India can pay for things with their thumbs and a pin code….

The productivity gains that will accrue from this technological revolution are massive.

This digital ecosystem is going to literally create <u>zillions</u> of extremely unique data points.

The opportunities from this are endless. This data set will allow government to learn and adjust. Making it more efficient in things like tax collection, allocating welfare, spending resources and so on. It's a gold mine for machine learning and data analytics.

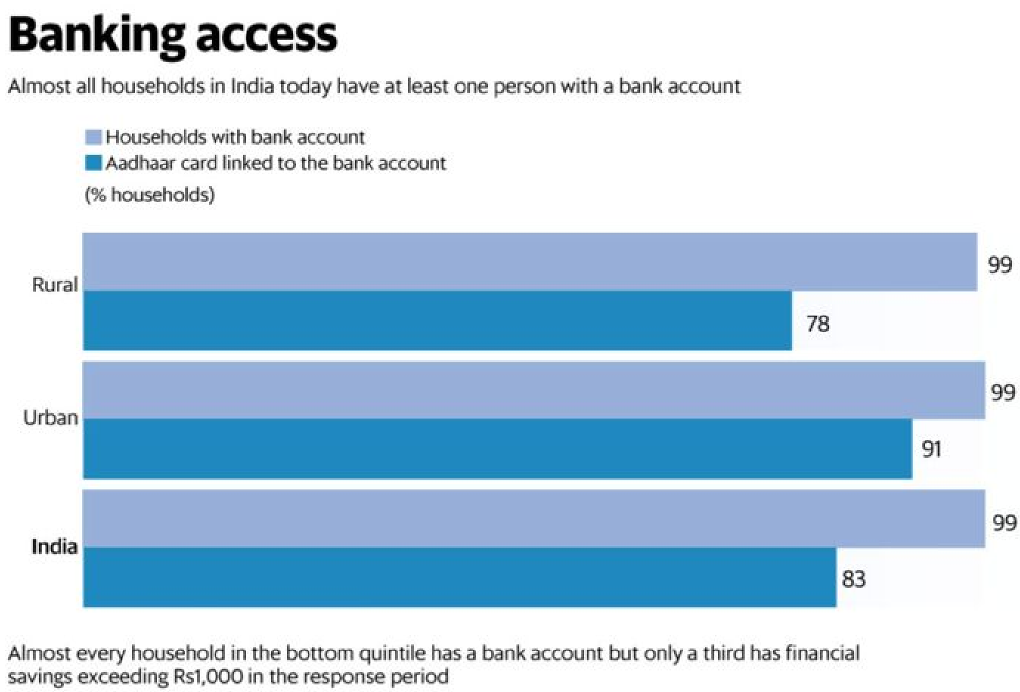
Think about how these changes are going to reshape India going forward.

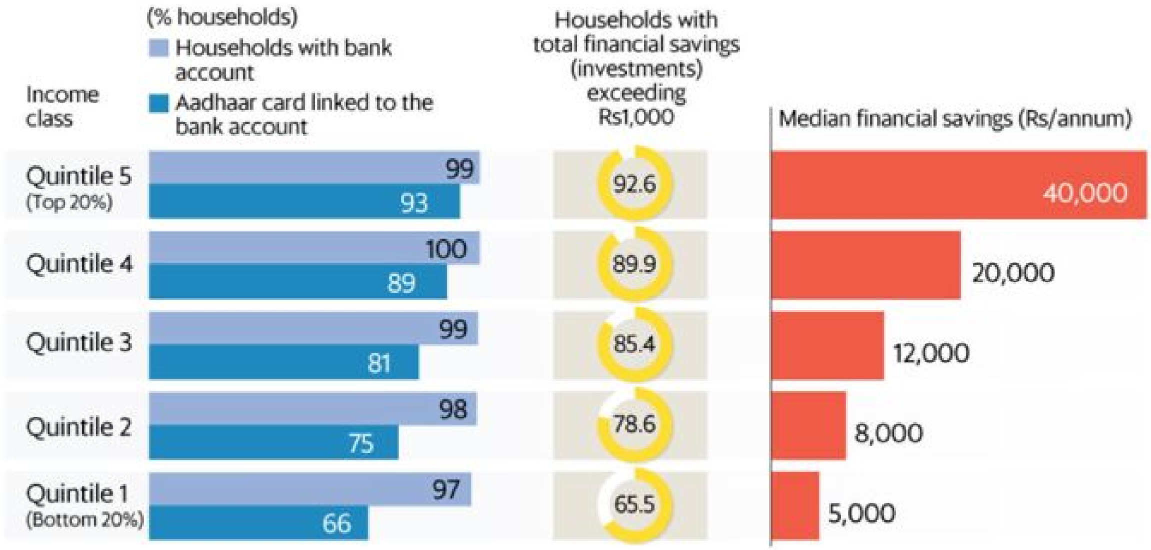
For example. India has averaged roughly 6% to 7% growth over the last decade. Which is pretty good growth.

But during this time, **only 3% of its employable population actually paid taxes. Roughly 85% of business was conducted outside the formal economy. Less than half its citizens even had a bank account.**

So not only has the government been starved of revenue, limiting the scope of the public works projects it could do in trying to modernize India's lacking infrastructure. But its economy wasn't able to financially mature — no real lending — which stymied growth and innovation.

Now, literally all of this has changed. Everybody is in the system. Anybody can get a bank account using just a phone and their thumb. Which nearly the entire population has now done, thanks to other recent reforms such as Jan Dhan Yonja that makes having a bank account mandatory and brings the entire country under a single banking system.





Financial Reform & Deregulation

In addition to these large scale technological innovations, the Modi government has been diving headlong into reforming a country long known for bureaucratic red tape and corruption.

The first of these reforms was demonetization.

India was previously a cash based economy (it had to be since most of it was informal). Roughly 70% of transactions were done in cash. This helped to perpetuate tax evasion and corruption.

So Modi's government banned 500 and 1,000 rupee notes ($7/$14 equivalent). This accounted for approximately 85% of the money in circulation.

It was a painful move over the short-term since it led to a large liquidity crunch. But the move is a brilliant one. It's forced Indians into the digital economy which brings the benefits of greater efficiency, rising tax receipts, while also helping to recap the banking sector.

Not to rest on its laurels, the government then passed major tax reform called the Goods and Services Tax Bill (GST). Wisdomtree's India analyst calls it **"one of the biggest tax overhauls done by any nation ever and will have a far-reaching impact on the economy."**

Under the previous tax code, Indian businesses suffocated under a mountain of various tax laws that changed from state to state. This complexity encouraged large scale tax evasion because businesses (especially smaller ones) found it easier to evade taxes than comply with the byzantine tax code.

Now, all 29 states, including India's seven union territories, fall under a single unified — and much simplified — tax system.

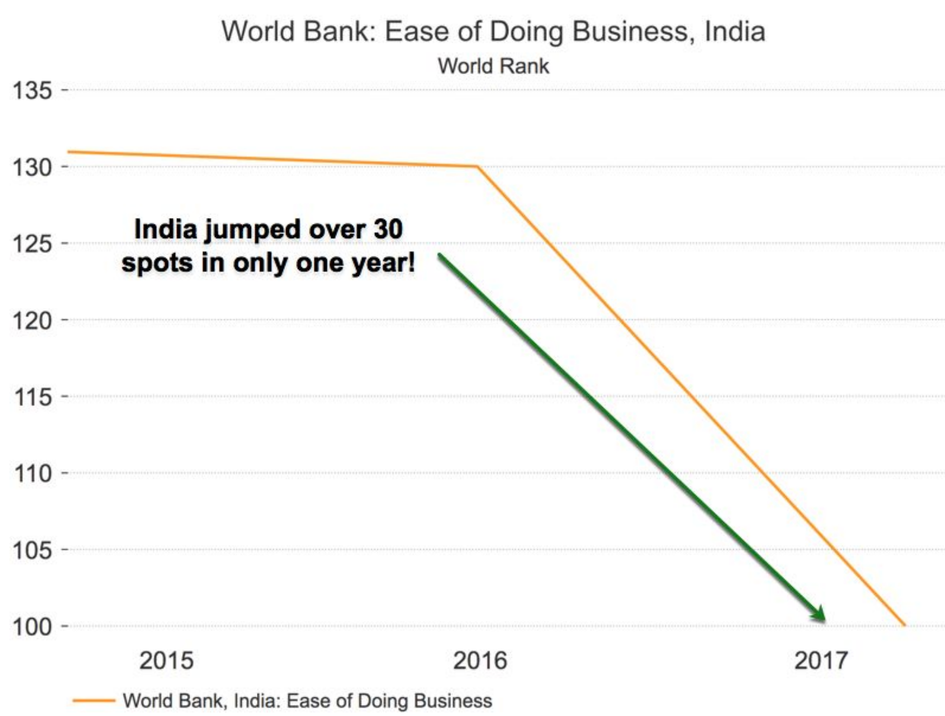
Wisdomtree estimates that **the resulting efficiency increases from this alone could increase economic growth by 1% - 2%.**

In addition to these major reforms, and they are major, the Indian government has moved to liberalize its economy by opening it up to foreign business and investors.

It's also completely rewritten the country's bankruptcy code, allowing for a faster and more efficient exit mechanism for banks to deal with bad loans. This is significant because Indian banks have long suffered under a pile of non-performing loans (NPLs) given to bloated quasi-public companies with no option for recourse or liquidation.

Also, to revitalize the financial sector and get banks lending into the real economy, the government has pledged $32 billion to recap state banks who've suffered under these NPLs. This is a big deal. **The size of this injection is larger than the cumulative recapitalization given to the financial sector over the last 10-years.**

These reforms have driven India up 30 spots on the World bank's Ease of Doing business index. An unheard of accomplishment in such a short period of time. And no doubt, this ranking is set to improve even further as these reforms take further hold.



The backwards looking quantitative data used in Bridgewater's model already projects India to be the fastest growing economy in the world. This is without accounting for any of the qualitative changes we've just discussed — the effects of which we're only just beginning to see in the underlying data.

This means that the model's already impressive growth projections are underestimating India's growth… and potentially by a lot.

A Feedback Loop of Growth

There's an exponential growth feedback loop that's kicking into gear here. And this story is just starting. It's going to play out for decades to come.

Reforms are going to lead to higher growth and higher tax collection. More tax revenues means the government will be able to finally spend more on large scale public infrastructure projects — something India needs very badly.

Modi's government has already announced plans to spend record amounts on infrastructure in the coming years. Modernizing the nation's railways, airports, and roads. This boost in fiscal spending will have a significant impact by itself. **Modi wants to build over 83,000 km of new roads — that's enough to go around the Earth twice.**

India's unparalleled digital infrastructure brings one of the world's largest populations into the formal economy. This means access to an expanding financial economy (bank loans, insurance, the stock market).

Recent survey data shows that Indian millenials (which make up the majority of the population) don't share their parent's reluctance to borrow money or invest in risk assets.

This is bullish.

There's a massive generational mindshift underway that's going to result in more leveraging and investing. Boosting demand growth.

Productivity and indebtedness are inextricably linked. The more productive a country becomes the more it borrows to invest into its future, making it more productive. This creates an important psychological shift within an economy, as noted by Dalio (emphasis mine):

> *In addition to productivity and the debt cycles I spoke about,* ***there tends to be a psychologically motivated cycle that occurs as a function of one's past level of prosperity and whether one experienced improving or worsening economic conditions.***

> *When a country is poor and focused on survival, its people who have subsistence lifestyles don't waste money because they value it a lot and they don't have any debt to speak of because savings are short and nobody wants to lend to them. Even though the country's labor is low-cost, it is not competitive, and the lack of investment stymies future productivity gains.*
>
> *Some emerge from this stage and others don't, with culture and location being two of the biggest determinants. For those that do—either because* ***a country removes a big barrier like being closed to the world (as China did in 1980) or simply because a more gradual evolution makes their labor attractive—a virtuous cycle can kick in.***
>
> *At this stage, the investments are not just inexpensive; the stock of infrastructure and other physical capital is also typically low and there is lots of room to adopt existing technologies that can radically improve the country's potential.* ***Leveraging up (increasing one's indebtedness) can feed back into higher productivity and competitiveness gains, which produce high returns that attract more investment at a time when the capacity to leverage is high.***

India is a country that's emerging from the psychological state of being "poor and focused on survival". It's torched the "big barriers" that have long hindered its development. And is now seeing the beginnings of a "virtuous cycle" kicking in.

This is one of the most exciting secular growth stories we've ever come across. This will be a multi-decade trend and the profit opportunities around it are endless and something we'll continue to cover in the months ahead.

The reality is, India won't be the next China. It has the potential to be so much more….

How To Play This Theme (The Chicken)

I live in a cabin in the mountains. I don't have cable or neighbors. My wife is currently working overseas. I have a lot of time on my hands. Which I usually spend studying markets.

Something I like to do on the weekends is to go back in time and dissect a security that has performed either really well or poorly. I study the outliers… because it's with these that one earns his living over time.

I look at their fundamentals, their charts, their macro environment, and any news coverage that I can find. All from the period that preceded either their meteoric rise or catastrophic fall.

I want to develop an understanding for what was really going on and what the market got so wrong that led to the large repricing.

I'm essentially building up my library of context.

So when I come across something in the market, I'll have more "past experiences" (ie, context) to say that "oh… this is one of those". There's never a perfect analog. Details are always different. But sometimes the broader picture, the important stuff, rhymes well.

One of the stocks I've done this exercise with is China's online travel agent (OTA) Ctrip (CTRP). It went public at the end of 2003. Right when China was passing the tipping point of its wealth S-curve. The point that preceded China's exponential rise over the following decade and a half.

The stock has since gone **up 3,781%**. It would have been nice to have bought this stock back then. It's a core holding of Hindsight Capital.

Lucky for us, we don't need to play the "what if?" game. I've come across a stock that's just like CTRP in 2004. Maybe even better...

The company I'm talking about is India's Yatra Online (YTRA). The country's second most popular OTA.

I first came across this company after reading the work of Eric Gomberg of Dane Capital and Scott Miller of Greenhaven Capital. Both are some of the sharpest managers in the small-cap value space, and both are large holders of the stock. They started buying shares at $10 and $11 and have been buyers the whole way down.

I've been watching this stock for a few months now.

After doing a substantial amount of digging into the company, I believe it's one of the most undervalued growth stocks I've come across in a long-time. My conviction on its potential is up there with JD.com (our largest holding).

YTRA is the Chicken in our Growth Turducken.

It's a long-term growth play trading at low comps, in a cyclically growing economy, that has massive secular tailwinds.

What more could an investor possibly want?

Below are the details of the investment thesis.

Company Summary: Yatra Online is one of India's leading online travel companies and operates the website www.yatra.com. The company provides information, pricing, availability, and booking facility for domestic and international air travel, domestic and international hotel bookings, holiday packages, buses, trains, in city activities, inter-city and point-to-point cabs, homestays and cruises. As a leading platform of accommodation options, Yatra provides real-time bookings for more than 64,500+ hotels in India and over 500,000+ hotels around the world.

What is the market pricing?: The company went public via a special purpose acquisition vehicle (SPAC). SPACs on average, have terrible historical returns. This is because the SPAC space is filled with shady companies and this reputation detracts from the increasing number of good companies who go public using a SPAC.

YTRA is also a relatively unknown company/brand outside of India, where it operates.

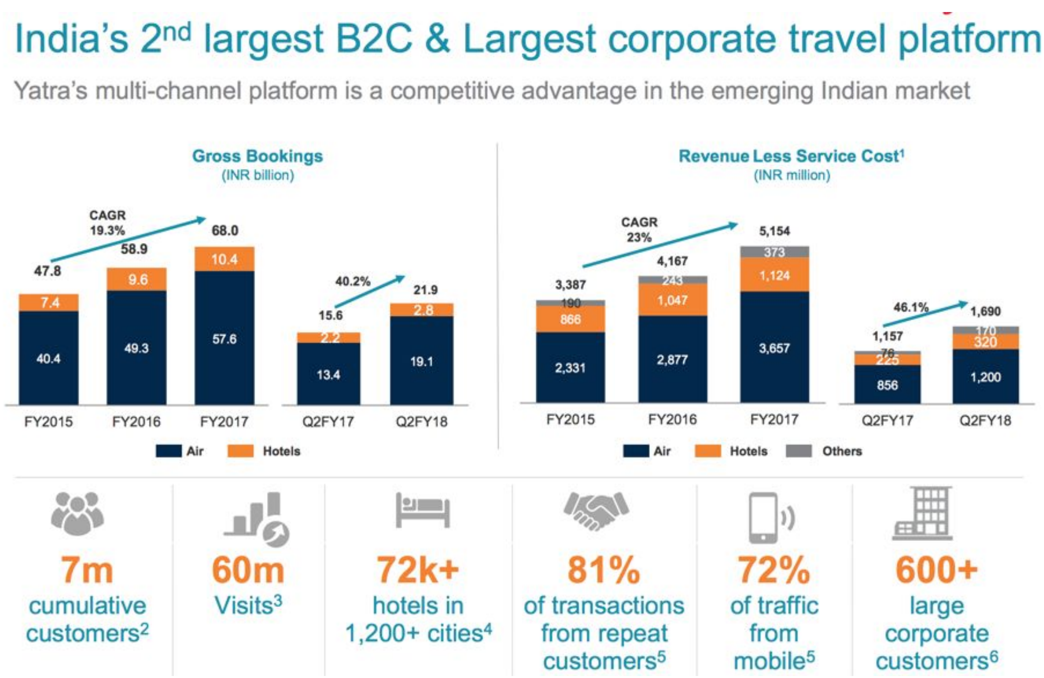
The current mispricing exists because of the company's SPAC origins and low profile (little analyst coverage). It was also just disclosed last week, that Norwest Ventures, who had a 20% stake in the company (owning the shares before the company went public), has exited its position. This is likely where all the selling pressure has come from over the last few months.

Our Variant Perception: This is not your standard SPAC. The company was founded in 2006 and controls roughly 18% of the online travel market in India, making it the runner up to MakeMyTrip.com (MMYT).

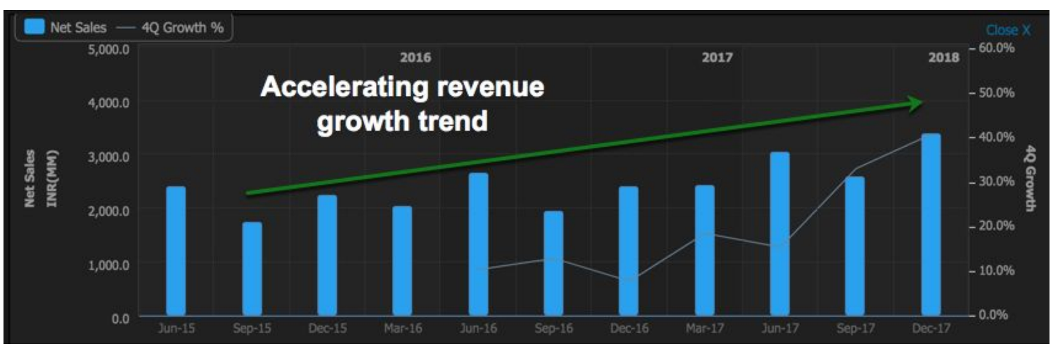
In 2016, YTRA was looking for growth capital and considered an IPO. But because of the poor state of the IPO market at the time, the company decided to merge with Terrapin 3, a SPAC run by Nathan Leight of Terrapin Partners.

Nathan is a sharp veteran HF/PE manager who focuses on deep value long-term investments.

Before the merger, YTRA received private investments from the likes of Intel and Reliance. None of these investors sold their shares in the SPAC process which means they believe in the continued prospects for the company. YTRA has over 7M cumulative customers, it's partnered with 64.5 hotels in 1,000 cities, 75% of transactions are from repeat customers, and 72% of traffic is from mobile.



The company grew revenues less service costs at 46% y/y in the latest quarter, which is an acceleration in growth. Margins were up and EBTIDA increased 50%.



The company is fully funded and on course to breakeven by 2019.

We can buy this growth at just 1.3x sales. Comparables like CTRP and MMYT, whom have similar growth rates, trade at 6x and 4.8x sales respectively.

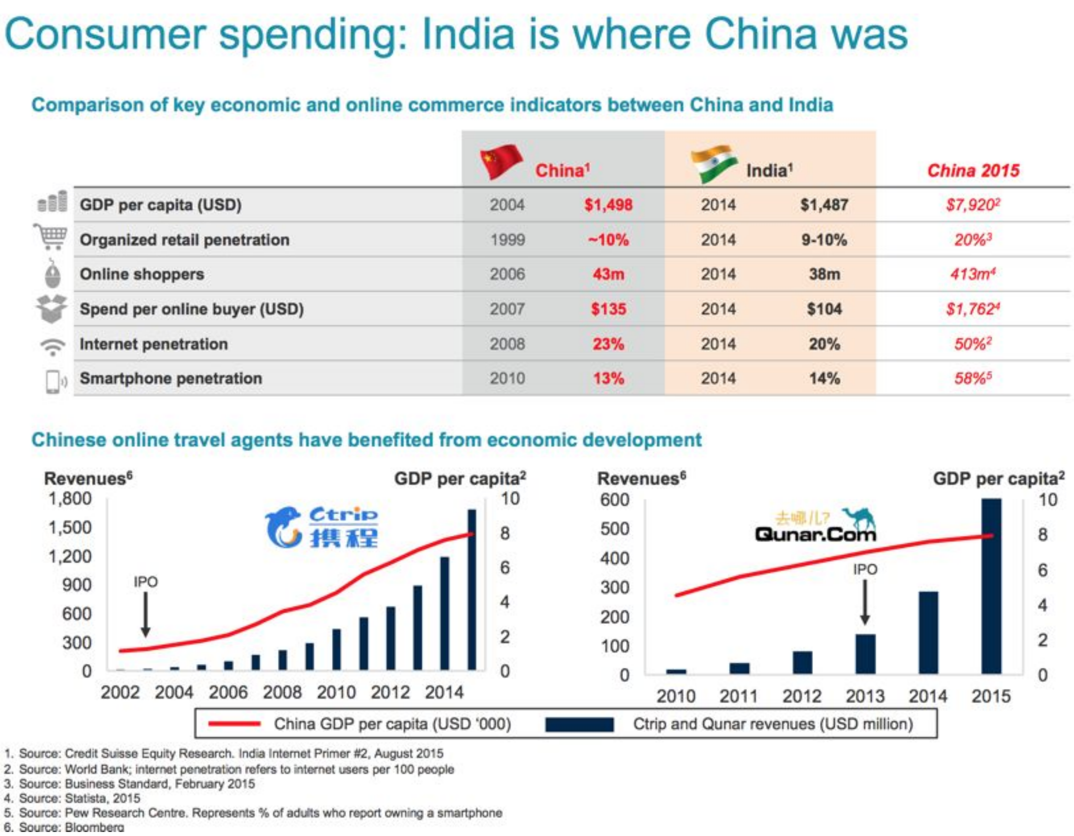
Now that Norwest Ventures has disposed of its entire position, the stock should put in a bottom — though we wouldn't mind if it fell further, as it would just mean a better deal for us.

In addition, the company recently hired an IR manager (a former sell side analyst) to help the company get noticed.

With these catalysts, it's only a matter of time before the market wakes up to this huge mispricing. We think shares can easily triple over the next few years and still be a good deal.

This is a coffee can stock. It's one you can buy and forget about it for 10+ years.

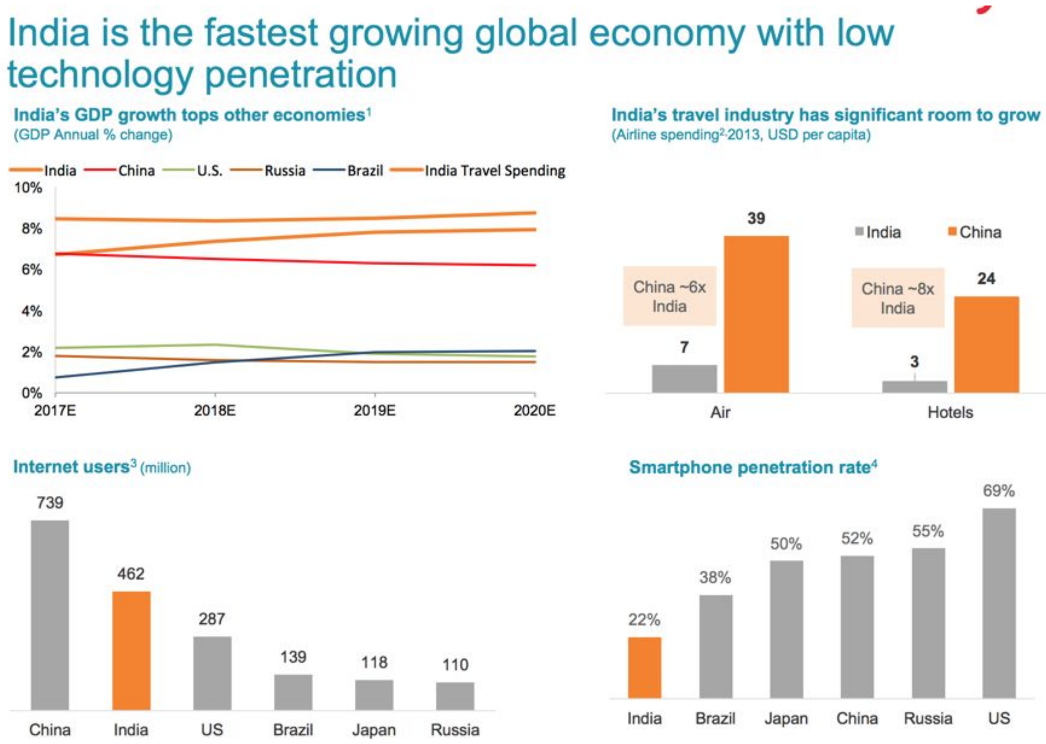
Additional Color: Airline and hotel spending per capita in India is only 20% of that in China which is less than a quarter of the level in the US. Put simply, there's tons of room for YTRA's total addressable market to grow and grow by a lot.



	China[1]		India[1]		China 2015
GDP per capita (USD)	2004	$1,498	2014	$1,487	$7,920[2]
Organized retail penetration	1999	~10%	2014	9-10%	20%[3]
Online shoppers	2006	43m	2014	38m	413m[4]
Spend per online buyer (USD)	2007	$135	2014	$104	$1,762[4]
Internet penetration	2008	23%	2014	20%	50%[2]
Smartphone penetration	2010	13%	2014	14%	58%[5]

1. Source: Credit Suisse Equity Research. India Internet Primer #2, August 2015
2. Source: World Bank; internet penetration refers to internet users per 100 people
3. Source: Business Standard, February 2015
4. Source: Statista, 2015
5. Source: Pew Research Centre. Represents % of adults who report owning a smartphone
6. Source: Bloomberg

Estimates currently have travel expenditures increasing by 15% a year in India, with the majority of that coming from online expenditures due to smartphone adoption — which is growing at 50% per year. Remember Aadhaar and easy mobile payment with just a touch of your thumb? Yeah, YTRA is set to take advantage of that.



In addition, YTRA not long ago signed a deal with India wireless service provider Reliance Jio which will ahve their phones come preinstalled with YTRA's app. That gives the company tens of millions of new potential customers.

Finally, a survey by India's Economic Times, ranked Yatra as the 6th most-trusted internet company in India. Putting it just behind Amazon.com and ahead of YTRA's main competitor, MakeMyTrip (MMYT), which came in at a distant 13th.

The OTA market is not a winners take all market, as we've seen in the US. Consumers like to check multiple sites which is why Expedia, Priceline, and others have been able to collectively flourish. It's no different for YTRA and MMYT.

And YTRA is not only closing the gap on MMYT in terms of total market share. It's large valuation discount let's us buy into this secular and cyclical growth trend for a fraction of the cost.

My biggest concern is that one of the major OTA's will try and buy YTRA before the stock begins to truly reflect the fundamentals of the company. And in that case, we'd still get a good premium over the price we'd pay now.

Scott Miller wrote the following in his latest Investors Letter, "I said we are looking for situations where the risk/reward seems so favorable that it makes no sense. In the case of Yatra, for less than $200M (ex cash), we can buy the #2 player — with its strong brand, largest hotel inventory, and long-term corporate travel contracts — in a geography and industry with very strong secular tailwinds. I like our chances, but to date, Mr. Market "is not believing." I think we are just early, but it looks and feels a lot like being wrong. We have not sold a single share or warrant."

We agree with Miller… YTRA's risk/reward is "so favorable that it makes no sense". Sometimes the market just gets things wrong, like CTRP in 03'. But eventually the market will correct itself. And that's when you get 3,000+% decade runs....

This is our favorite of the long India investments we've uncovered so far. We've found two other promising names that we believe may have multi-bagger potential, as well. We'll be covering those and others we find in the months ahead.

US Macro: Trend Up, Vol Up

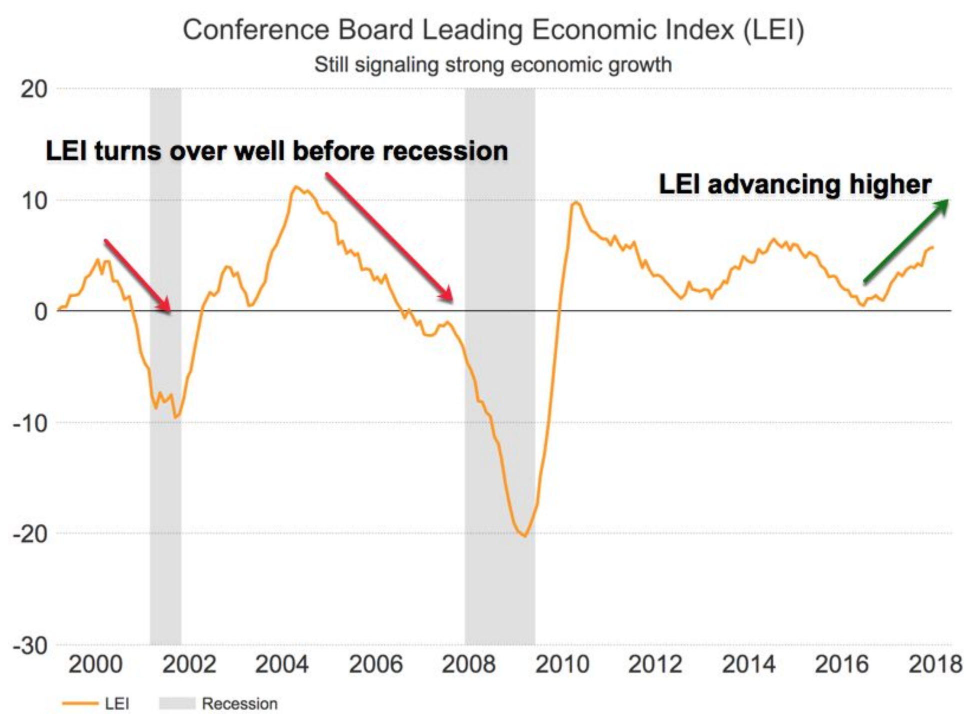
"Without data you're just a person with an opinion." ~ W. Edwards Deming

Let's take a step back and look at the data showing where we are in the cycle. We'll see how much support the market and economy have going forward.

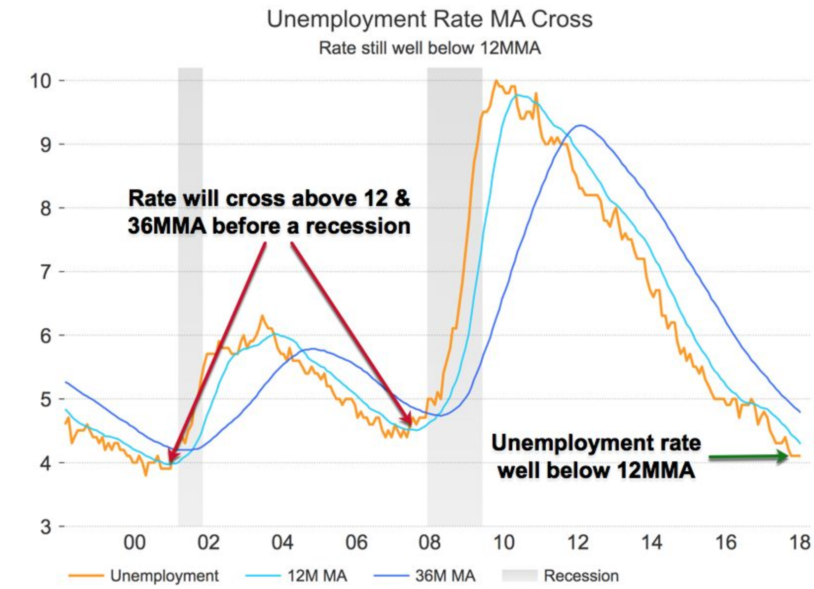
Long-term Trend Up, Stretched Sentiment Near-term Headwind.

The data shows the economy continues to strengthen but market likely to normalize to increased vol:

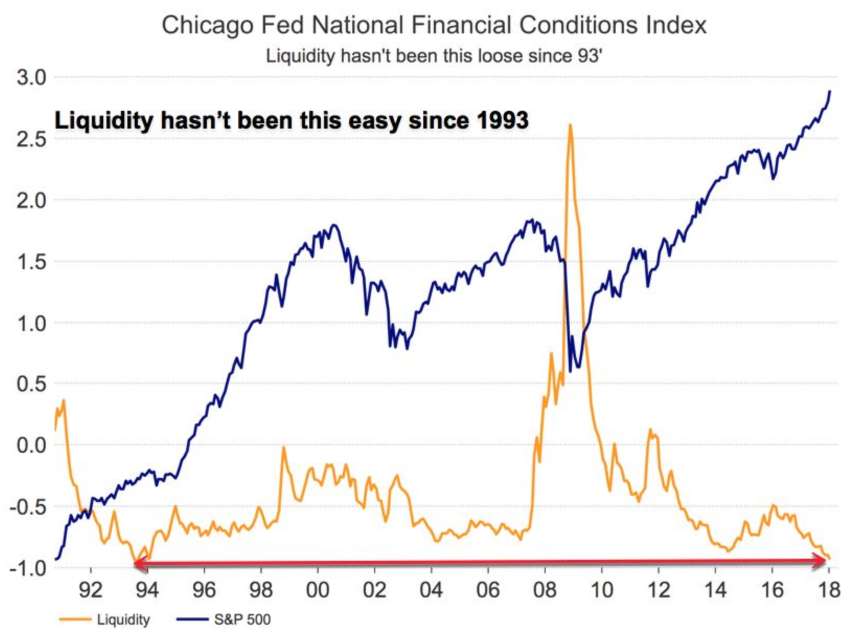
➢ The Conference Board Leading Economic Index (LEI) continues to trend higher on a y/y basis. This indicator will on average turn over 18-months before a recession. Current trend suggests the economy should continue to expand.



➢ The unemployment rate is still at cyclical lows of 4.1%. This is well below its 12 and 36 month moving averages, which is a positive for the economy and markets. The low unemployment rate should continue to increase wage and inflationary pressures.

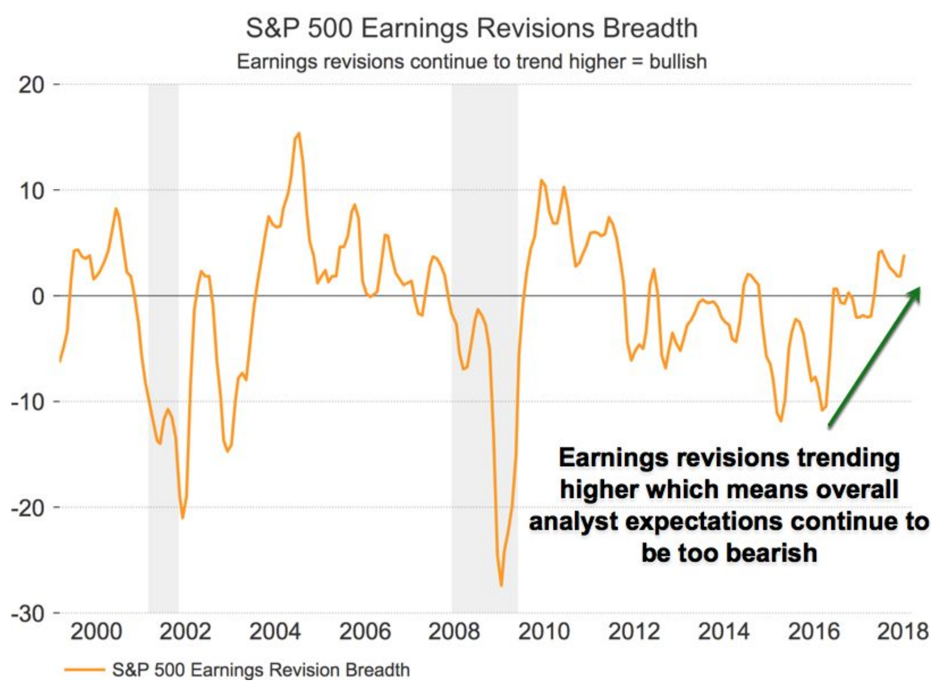


➢ Liquidity, as measured by the Chicago Fed National Financial Conditions Index, is at its easiest levels in 25 years. This is bullish over the intermediate term as loose liquidity is good for risk assets. Though its unlikely liquidity remains this loose for much longer. Rising interest rates should start to drain liquidity and move this indicator higher sometime in the coming months.

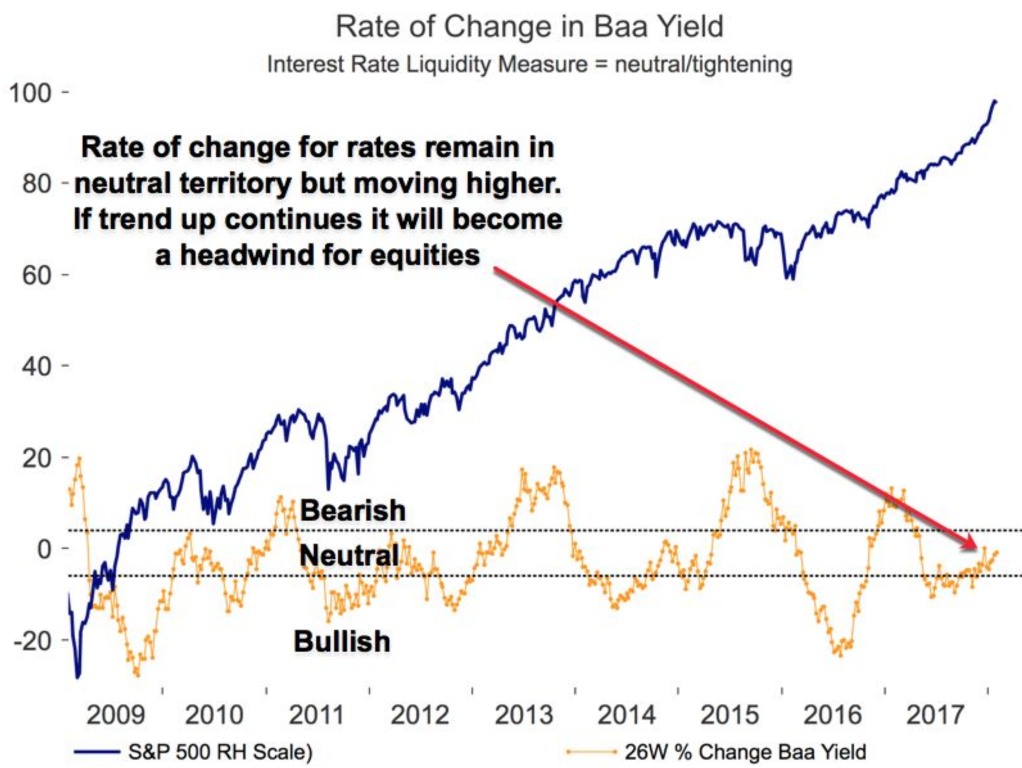


➢ The primary trend in S&P 500 TTM earnings per share (EPS) is up. But recent weakness at the start of this quarter is something to watch out for. This should improve as more company's report. But if it doesn't, it'll lead to increased equity volatility.

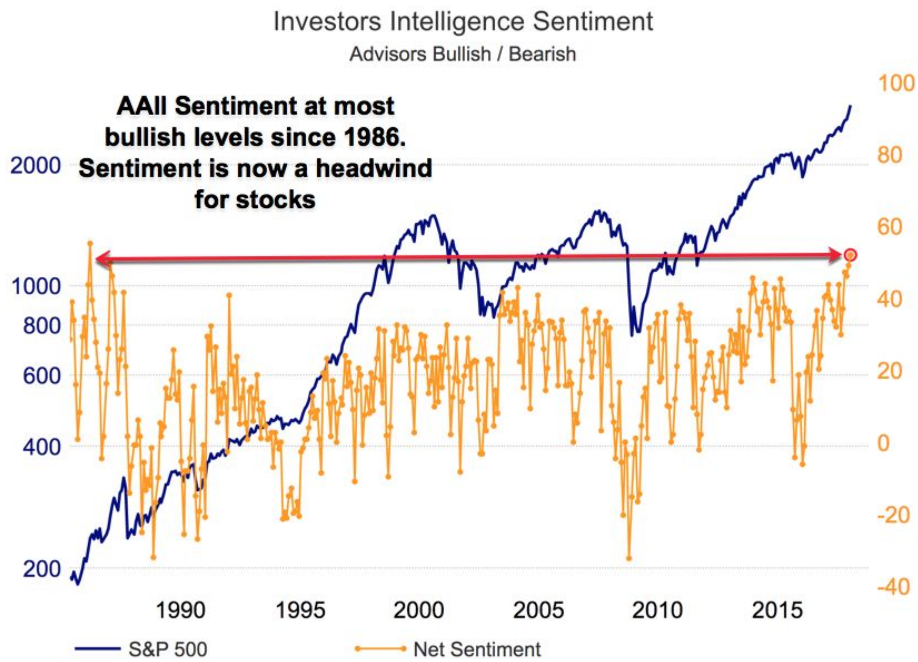
➢ Earnings revisions breadth continues to improve. This is bullish for stocks as analysts continue to underestimate the trend growth in earnings. Positive surprises drive risk assets higher.



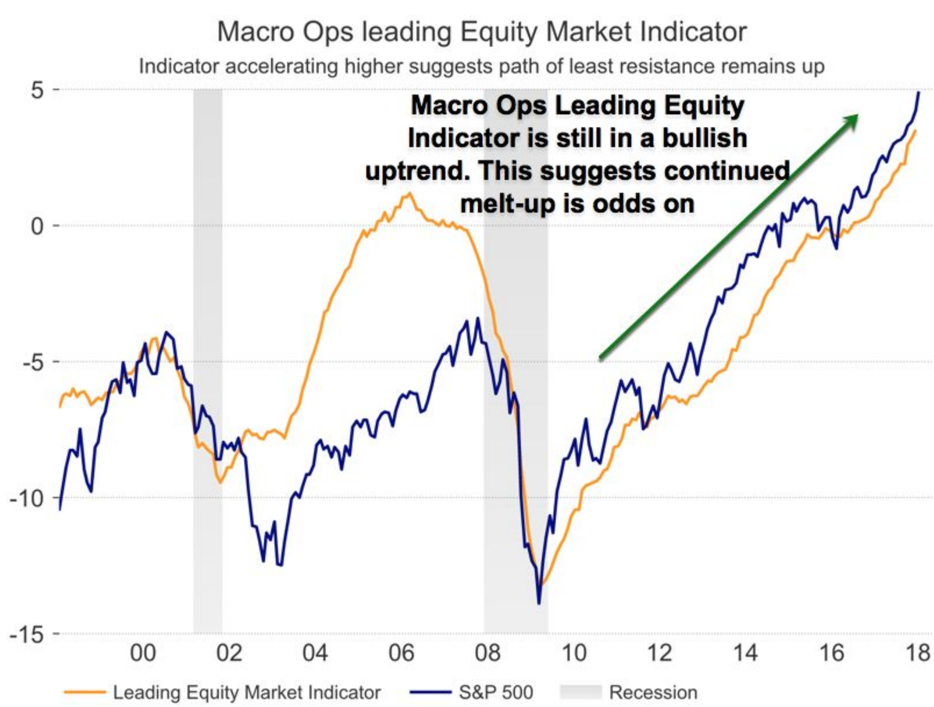
➢ Though interest rates have moved significantly higher in the recent months, the rate of change in corporate bond yields remains muted. On a relative basis, corporate bonds are extremely overvalued. And rising Treasury rates are at risk of popping the corporate bond bubble. We expect the rate of change in corporate bonds to cross into bearish territory in the second half of this year. This will be a headwind for stocks.



➢ Sentiment, by any measure, is now at or near record highs. This is the biggest risk to equity markets over the near-term. **We expect a significant shakeout and higher vol in the months ahead. Leverage and complacent positioning need to be knocked out in order to reset sentiment back to neutral territory.**



➢ Our primary leading equity market indicator remains in a strong uptrend. This suggests that though we're likely to see short-term weakness, the longer-term path of least resistance remains up for equities.



US Macro Summary: All long-term indicators point to continued economic growth both in the US and around the world. A recession in the next 12-months is highly unlikely. With that said, sentiment and positioning are extremely stretched. This is a strong headwind for global markets in the coming months. **A large correction would reset sentiment and provide the floor for the next move higher. We'll be using this selloff as a buying opportunity but will wait for the technical picture to give the all clear before diving in.**