

## “In the short run, the market is a voting machine, but in the long run, it is a weighing machine.” – Benjamin Graham

### India: Transitioning from Capex to Consumption — A Mid-Cycle Reset

The Indian equity market over the last 12–15 months has largely remained rangebound, underperforming both the MSCI Emerging Markets (EM) and MSCI China indices. After three consecutive years of strong outperformance (FY21–FY24), this consolidation phase reflects a combination of slowing earnings momentum, elevated valuations, and global risk-off sentiment.

While NIFTY earnings growth has moderated meaningfully in recent quarters, this time-based correction has helped re-rate earnings multiples to more sustainable levels. Importantly, this moderation follows an exceptional run between FY21 and FY24, when NIFTY 50 earnings grew at a compounded rate of 20.48% CAGR, driven by strong cyclical recovery, government-led capex, and robust corporate balance sheets.

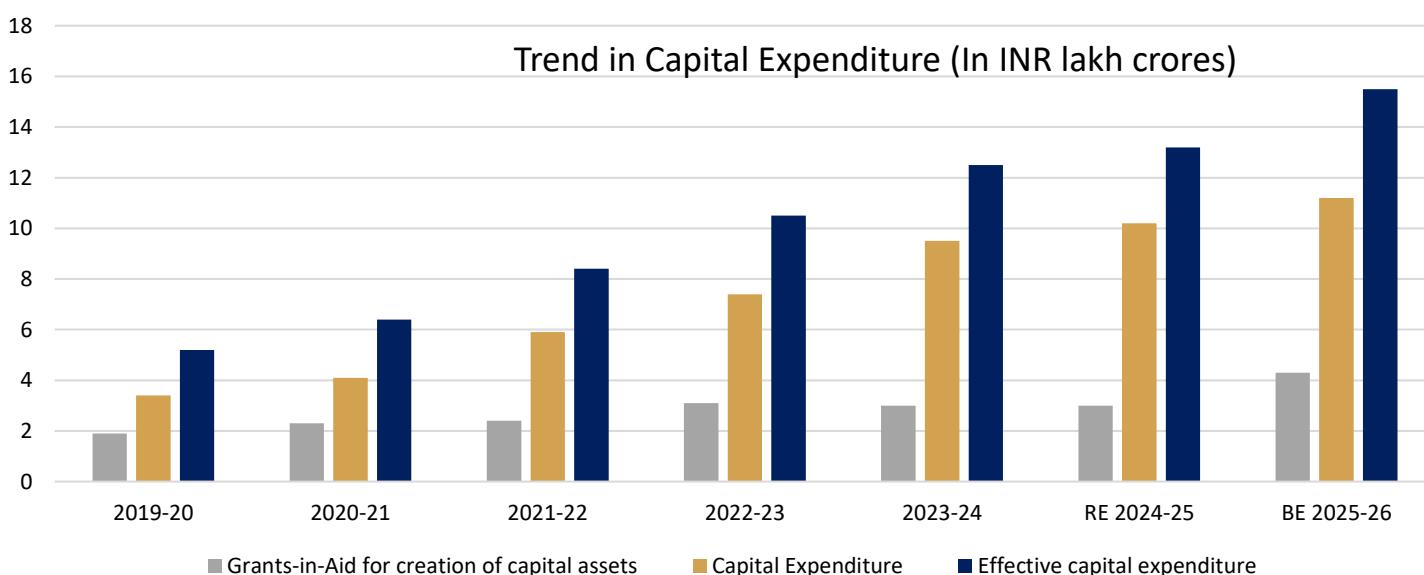
#### Exhibit 1 – Yearly NIFTY, Midcap, and Small Cap earnings growth table

Yoy earnings growth	FY19	FY20	FY21	FY22	FY23	FY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Nifty50	7.4	-2.4	14.3	34	11.3	23.6	12.2	8.9	12.8	12.7	7.1
Mid Cap 100	19.3	40.5	-26.6	125.2	19.5	36	9.2	14.3	51.4	18.9	16.3
Small Cap 250		-31.9	146.6	51.4	33.4	10.1	51.9	-3.4	-8.3	29.7	-13.6

### Fiscal Pivot: From Capex-Led Growth to Consumption Revival

Between FY19 and FY24, the **Central Government’s capital expenditure** expanded from **around ₹3.4 lakh crore to ₹9.5 lakh crore**, translating into a healthy ~23% CAGR. This capex thrust played a pivotal role in crowding-in investments and reviving post-COVID industrial activity.

#### Exhibit 2 – Central Government Capex Growth (FY19–FY24)



*This shift suggests that the government is consciously pivoting from public capex to stimulating private consumption, given the softer macro environment of the past 18 months.*

However, with the FY26 Budget projections indicating capex growth of only **8–9% CAGR for FY24–FY26BE**, the momentum appears to be moderating, especially when compared to nominal GDP growth of ~10–11%.

To catalyse this transition, the government has introduced a series of fiscal measures aimed at boosting household disposable incomes and consumption propensity:

1. Personal income tax rationalisation – reduced rates for individuals under the new tax regime.
2. GST rate rationalisation – lowering of rates on several essential and semi-discretionary household items.

Concurrently, the RBI's accommodative stance, including targeted liquidity infusions, credit easing for NBFCs and MSMEs, and a frontloading of policy rate cuts, has supported overall financial conditions and consumer affordability.

Despite an estimated annual revenue foregone of nearly ₹3 lakh crore from these tax measures, the fiscal glide path remains broadly intact. Recent sovereign rating upgrades underscore India's improving macro resilience and fiscal discipline:

- Morningstar DBRS upgraded India to 'BBB' from 'BBB (low)' in May 2025,
- S&P upgraded to 'BBB' from 'BBB-' in August 2025, and
- R&I Japan upgraded to 'BBB+ (Stable)' in September 2025.

### Growth Outlook: Consumption as the Near-Term Driver, Manufacturing as the Next Leg

Domestic demand continues to anchor India's growth story. However, private investment remains uneven, and exports are constrained by rising global protectionism and trade realignments. The government's policy pivot toward consumption is therefore expected to:

- Drive higher capacity utilisations across key consumer and industrial sectors,
- Incentivise private capex revival, and
- Generate employment-led income growth, reinforcing the consumption cycle.

*"Nations that build are nations that lead."*

— Lee Kuan Yew

Sectors such as automobiles, consumer durables, building materials, and retail financial services stand to benefit disproportionately from this trend. Our portfolio remains strategically positioned to leverage this transition toward domestic demand and consumption-led growth.

Looking ahead, we expect the next structural growth leg to be manufacturing-led, supported by the government's sustained focus on Make-in-India, PLI schemes, and import substitution. Amid the evolving global trade and tariff landscape, India is positioning itself as an alternative manufacturing base for several strategic sectors, including electronics, specialty chemicals, and pharmaceuticals.

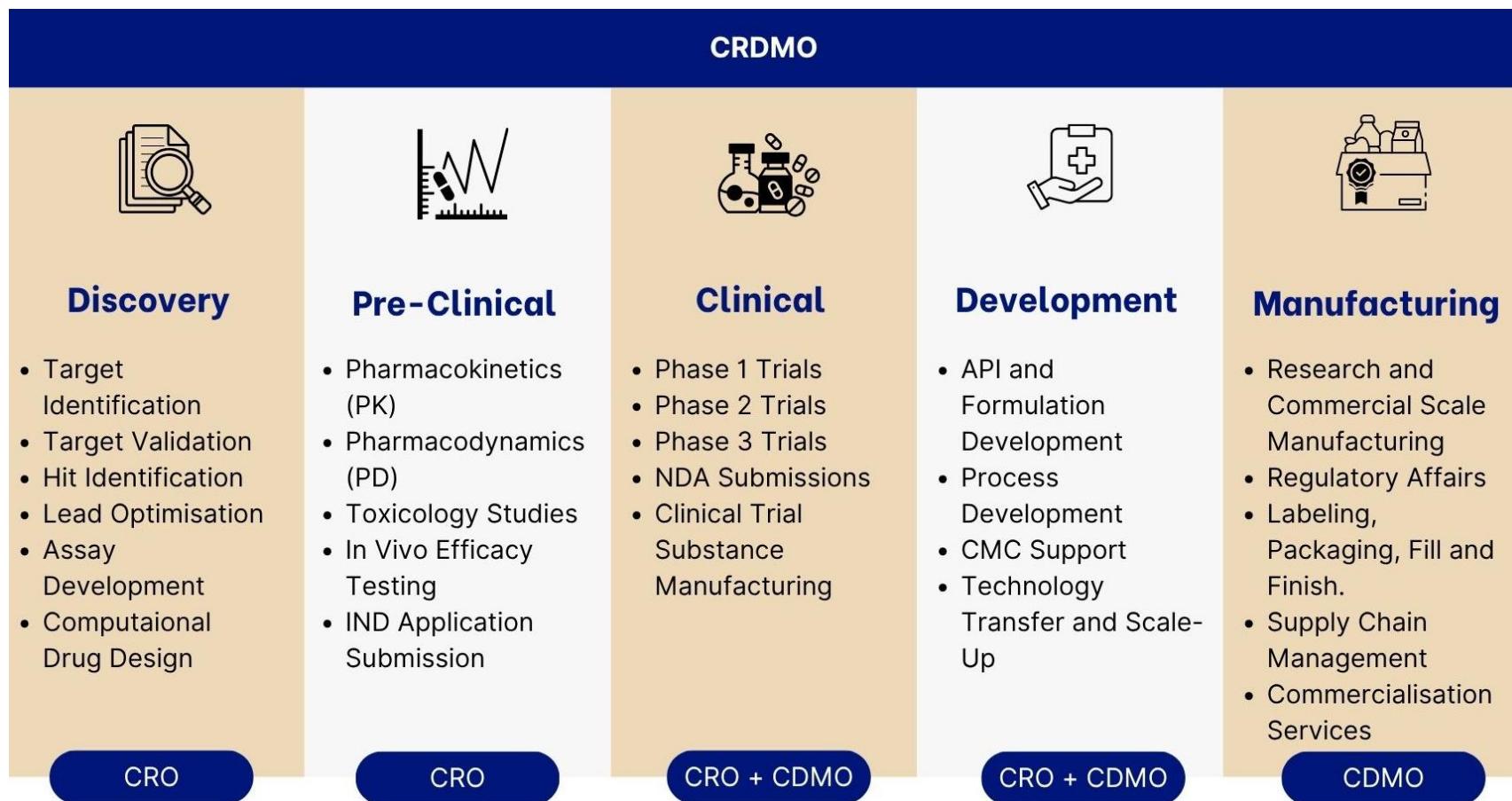
Prime Minister Shri Narendra Modi's call for "Swadeshi 2.0" and renewed emphasis on Atmanirbhar Bharat highlight the intent to strengthen domestic production capabilities not only to serve local demand but also to emerge as a global export hub in select industries.

In this context, **Contract Research, Development & Manufacturing Organizations (CRDMOs)** in pharmaceuticals and specialty chemicals represent a long-term opportunity, as global clients diversify supply chains away from China. India's strong chemistry capabilities, cost efficiency, and regulatory track record make it well placed to capture incremental outsourcing demand.

### CRDMO – The time for India has come

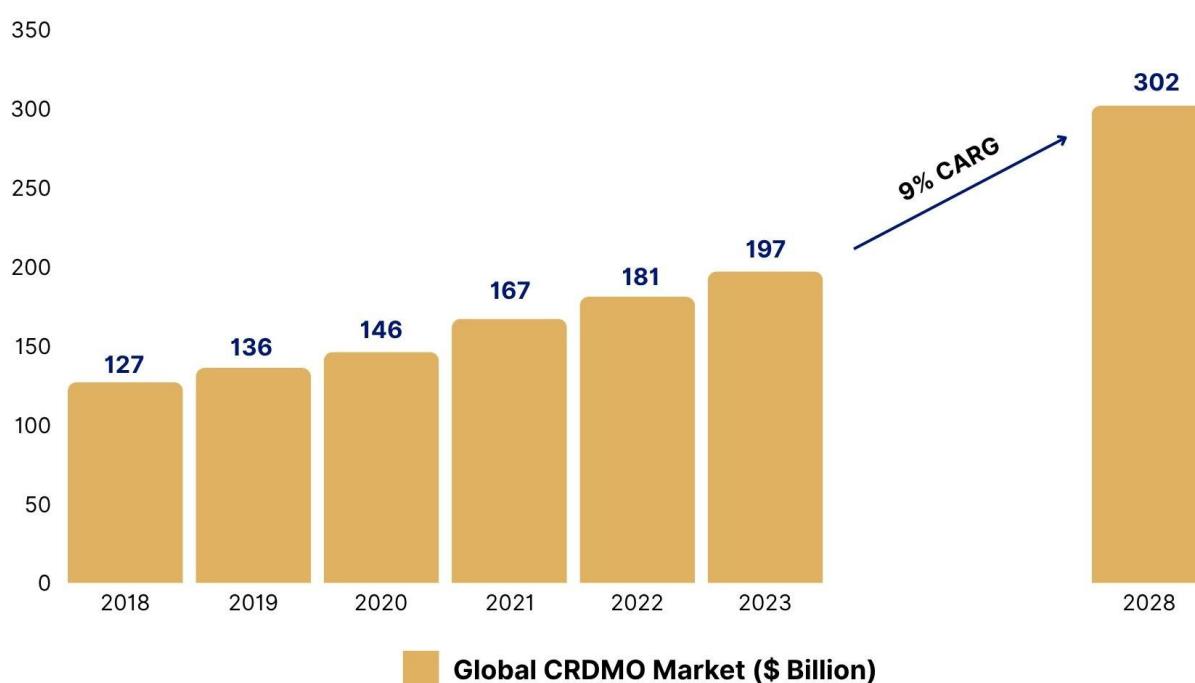
Global markets continue to navigate a mixed environment—falling inflation in developed economies, easing monetary policy, and persistent geopolitical uncertainties. Against this backdrop, we see a structural growth opportunity emerging in India that mirrors the IT outsourcing wave of two decades ago: **Contract Research, Development and Manufacturing Organizations (CRDMOs)** in the pharmaceutical industry.

**Exhibit 3: CRDMO Industry operating model**



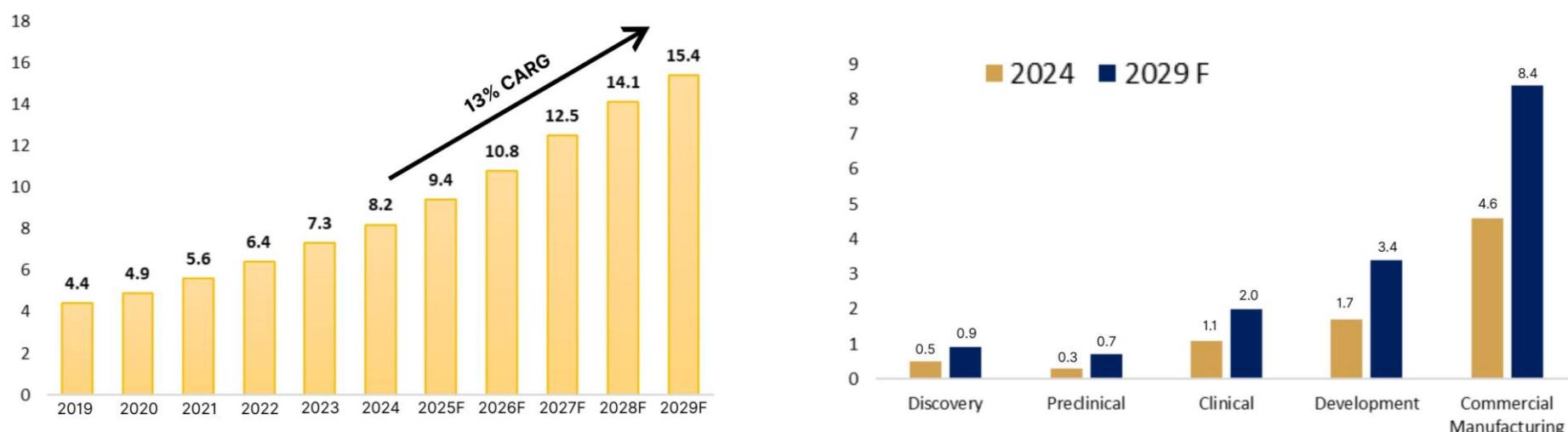
**Exhibit 4: Global CRDMO market to growth at 9% CAGR over CY 23-28**

The global CRDMO sector, valued at USD 197 billion in 2023, is projected to reach USD 302 billion by 2028, growing at a CAGR of over 9%. India's own CRDMO market is expected to double in size by 2028, significantly outpacing global averages. This acceleration is being driven by rising outsourcing needs from global pharma innovators, India's talent at low cost and scale advantages, and strong domestic policy support.



Source: Frost & Sullivan, JM Financial

**Exhibit 5: India CRDMO opportunity (\$bn)**



## The Case for India

Pharmaceutical innovation has become increasingly complex and capital-intensive, with new drug development costs exceeding USD 1 billion. Global innovators are turning to CRDMOs not just for manufacturing, but for end-to-end services from early discovery to commercialization.

India, already established as the “Pharmacy of the World” in generics, is now moving decisively up the value chain. More than 3,000 pharma companies and 10,500 manufacturing units support this ecosystem, contributing 20% of the global pharma supply chain and 60% of global vaccine demand. A supportive regulatory and policy framework, including the government’s PLI scheme of USD 2 billion, is further catalyzing growth.

### Why This Matters Now

The timing of this opportunity is crucial. Developed markets like the U.S. and Europe are seeing higher production costs due to inflationary pressures, labor shortages, and stricter regulatory regimes. At the same time, the biotech revolution is accelerating: between 2018 and 2023, **biotech-backed firms accounted for nearly half of U.S. FDA drug approvals**. These smaller, innovative firms often lack in-house manufacturing and depend heavily on reliable partners for scaling up.

India is well-positioned to capture this flow. The country’s **China+1 advantage**, coupled with its **cost-effective R&D ecosystem**, makes it the natural choice for innovators seeking scale without compromising quality. For perspective, development and manufacturing costs in India are estimated at **40–60% lower** than in the U.S. and Europe, while maintaining globally accepted compliance standards.

### Opportunities and Risks

India's rise is facilitated by pharma's supply chain diversification, increasing biotech-led demand, and a vast pool of trained human resources providing world-class quality at reasonable costs. Significantly, Indian CRDMOs are no longer regarded as low-cost suppliers but as long-term partners that enable global companies to accelerate bringing complex drugs—biologics and specialty formulations—to market.

Yet, the opportunity comes with risk. The regulatory and compliance standards are tightening worldwide, and expansion from contract manufacturing to strategic innovation partnerships demands continued investment in infrastructure and human capital. Further, geopolitical tensions, especially surrounding U.S.–China relations, may inject volatility into outsourcing flows. Also, the biotech funding is seeing moderation in flows impacting the Discovery and development outsourcing during rising rate scenario.

Another segment to watch is pricing pressure. With global payors and governments calling for cost containment in healthcare, CRDMOs will have to continue providing efficiency gains on an ongoing basis. Only players with scale, automation, and strong quality systems will be able to insulate margins in this environment.

## Investment View

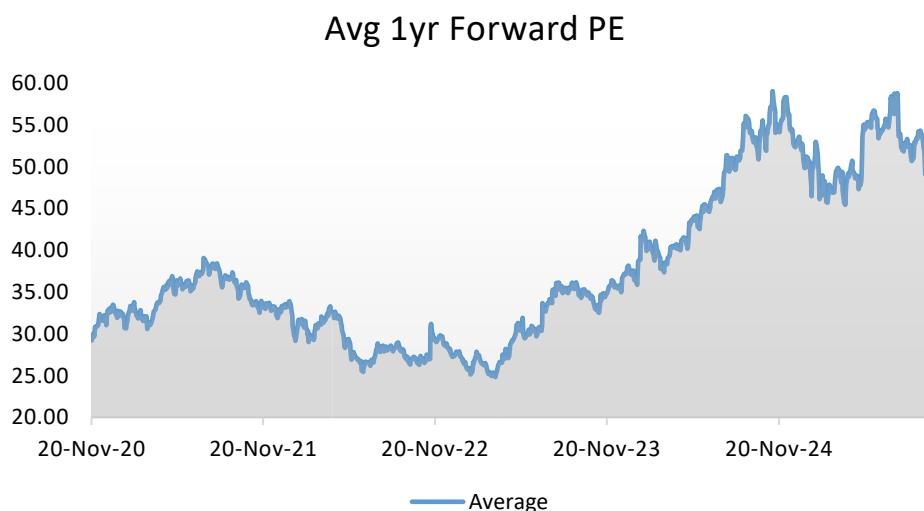
For investors, the Indian CRDMO market offers a multi-year compounding tale. Similar to IT services in the early 2000s, Indian companies are transforming from cost-effective vendors to strategic world partners. With the domestic CRDMO market likely to expand faster than world averages, we see selected players becoming industry leaders.

While there is volatility in near-term earnings, we are front-loading investments over next one to two quarters to reap benefits in medium to long term. The medium to long-term direction rests on solid structural drivers. We view corrections as buying opportunities for exposure in this theme, assuming investments are made in firms with good execution skills, compliance history, and scalable infrastructure.

To make a comparison, investors in the early days of IT services underestimated the industry's potential to transition from low-end outsourcing to high-end consulting and digital transformation. CRDMOs now seem to be at a similar point where collaborations are shifting away from manufacturing towards combined innovation. If this trend continues, Indian players may grab a substantial proportion of value creation in the next decade.

## Valuation Trends

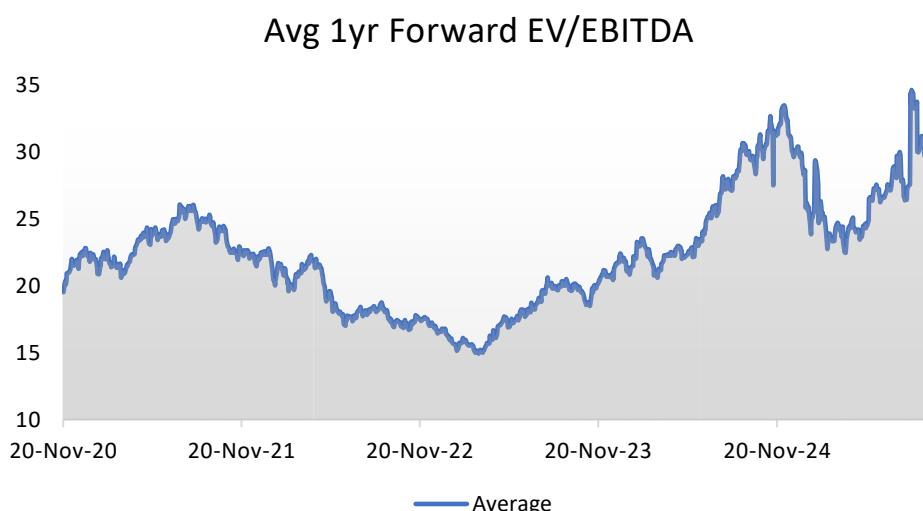
**Exhibit 6: Average 1-Year Forward P/E Multiple**



The average 1-year forward P/E declined through 2022, reaching a low near 25x amid inflation and rising interest rates. Starting in early 2023, valuations rebounded sharply, supported by renewed investor optimism and enthusiasm for growth sectors. By mid-2024, the ratio had peaked above 55x, indicating elevated expectations. However, increased volatility followed as macroeconomic uncertainty returned. In 2025, the forward P/E has eased to around 45-50x.

The average 1-year forward EV/EBITDA has shown notable swings from 2020 to 2025, reflecting shifts in macroeconomic conditions and investor sentiment. Valuations rose post-COVID, peaking in mid-2021 before declining through 2022 amid inflation and rate hikes. A strong recovery followed in 2023, driven by improved outlooks and growth sector optimism. The ratio surged to over 35x in mid-2024 but has since faced heightened volatility. By late 2025, it pulled back to around 27-28x, as sector witnessed moderation in growth coupled with US tariff related uncertainties. However as highlighted, we believe that this CRDMO could be multi-decadal growth story and hence sector should see strong earnings cycle coupled with re-rating potential over next 2-5 years.

**Exhibit 7: Average 1-Year Forward EV/EBITDA Multiple**



\*\*Companies considered for calculating the average multiple: Divis Laboratories Ltd, Laurus Labs Ltd, Syngene International Ltd, Neuland Laboratories Ltd, Gland Pharma Ltd, Cohance Lifesciences Ltd, and Piramal Pharma Ltd.

## Rationale

The listed space has delivered strong performance from 2022 to 2024, driven by robust demand and operational momentum. However, expectations of a flat performance in FY26E have led to a moderation in valuations across several CRDMO companies. Despite this near-term softness, the long-term outlook for the sector remains fundamentally strong. The recent correction in multiples offers an entry point for investors looking to participate in the next phase of growth in the CRDMO space.

## Way Ahead

Looking ahead, we continue to be positive about India's CRDMO narrative as an investment theme over the medium term. The confluence of global increases in R&D intensity, supply chain structural changes, and India's comparative strengths renders this industry one of the strongest stories in the wider healthcare and manufacturing universe.

We estimate high-teens revenue CAGR for the sector: India's CRDMO sector is a USD3bn revenue industry, having witnessed a 14% CAGR over the past five years. However, growth hasn't been uniform, given Covid-related opportunities and the subsequent withdrawal. Looking ahead, we expect 18% CAGR during FY25–30E, supported by strong pipeline visibility, Big Pharma diversification (China+1), and weight loss/T2D (GLP/GIP etc) drugs.

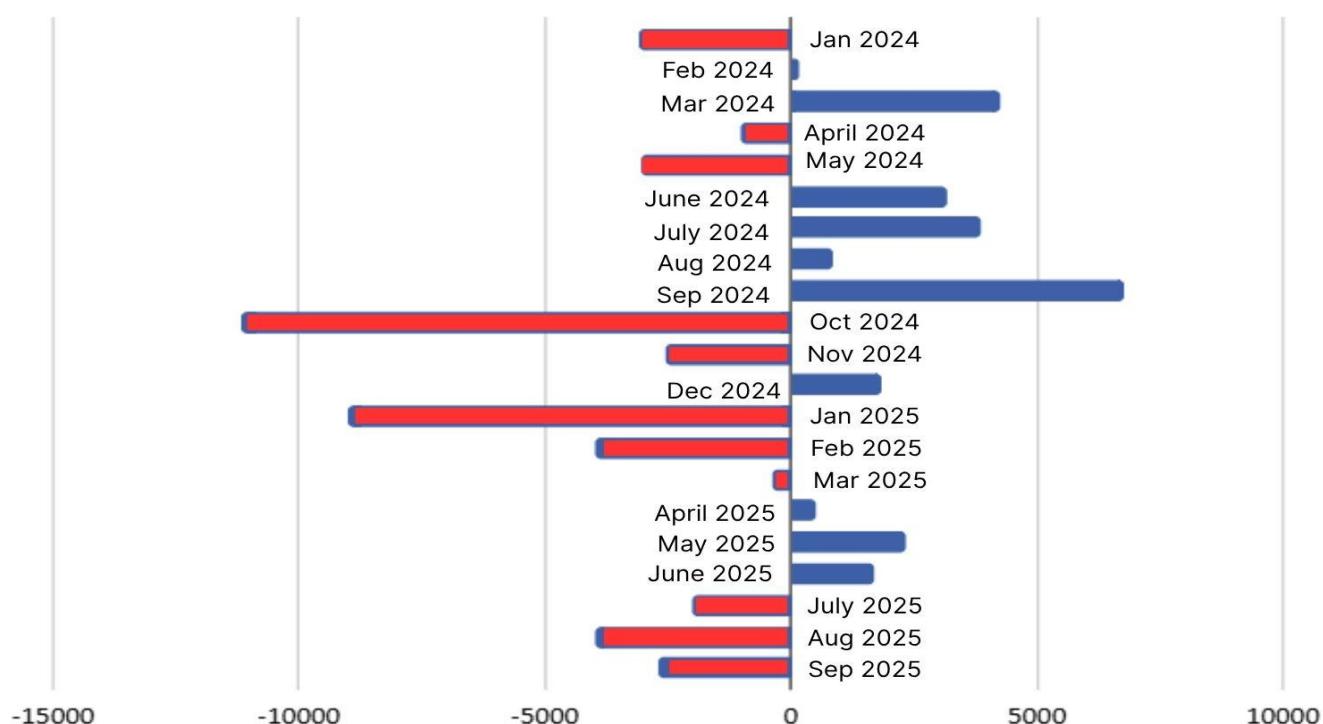
Our investment strategy continues to be bottom-up, seeking companies with the ability to scale responsibly, have flawless compliance, and develop sticky global partnerships. We firmly believe that the next such wave of value creation in Indian equities will not only arise from consumption or financialization of savings, but also through knowledge-intensive, high-value service led manufacturing sectors such as CRDMOs.

In our view, the key top-down narratives for India's CRDMO sector are: 1) China+1; 2) Weight loss/T2D drugs; 3) New Technologies (ADCs); and 4) R&D landscape and biotech funding. We estimate these factors to drive a high-teens CAGR (FY25-30E) for Indian CRDMO and expect the industry to register ~USD7bn sales by FY30, up from USD3bn in FY25.

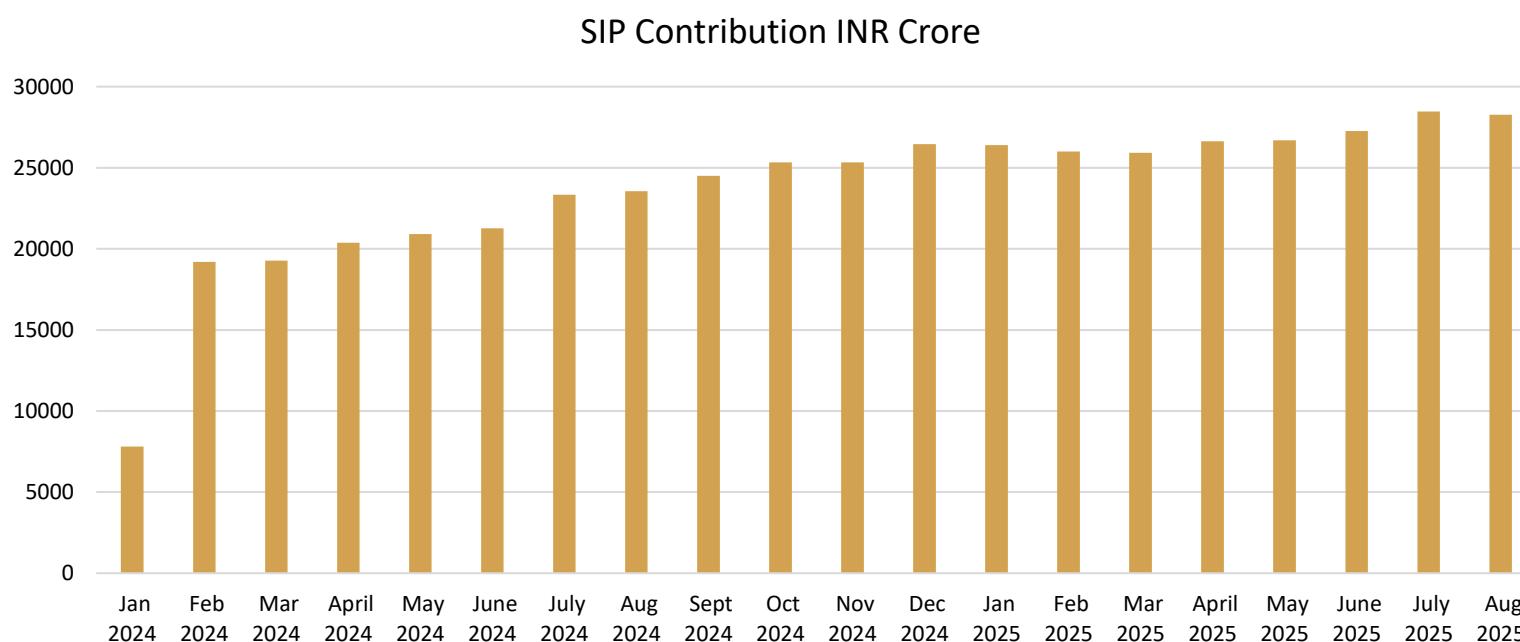
## Liquidity Dynamics, FII Flows, and Market Supply Trends

The combination of subdued earnings growth and premium valuations has prompted persistent FII outflows, totaling approximately ₹3 lakh crore over the past 21 months (till September 2025). Conversely, domestic institutional and retail participation has remained robust, with SIP inflows into mutual funds consistently rising month over month.

**Exhibit 8: FII Flows (FPI Net (in \$Mn))**



**Exhibit 9: Monthly SIP inflows in Indian Mutual Fund**

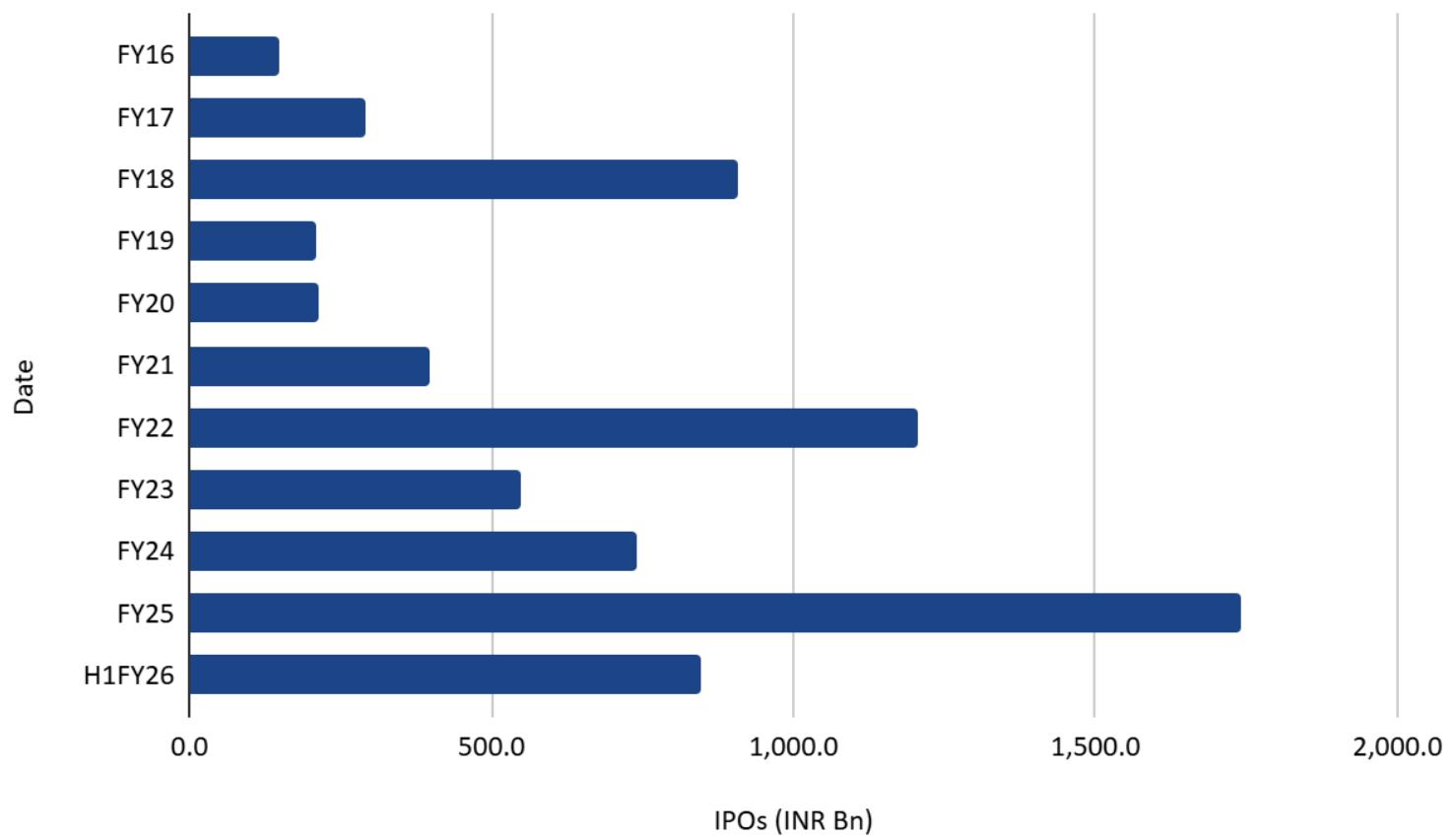


Source: AMFI

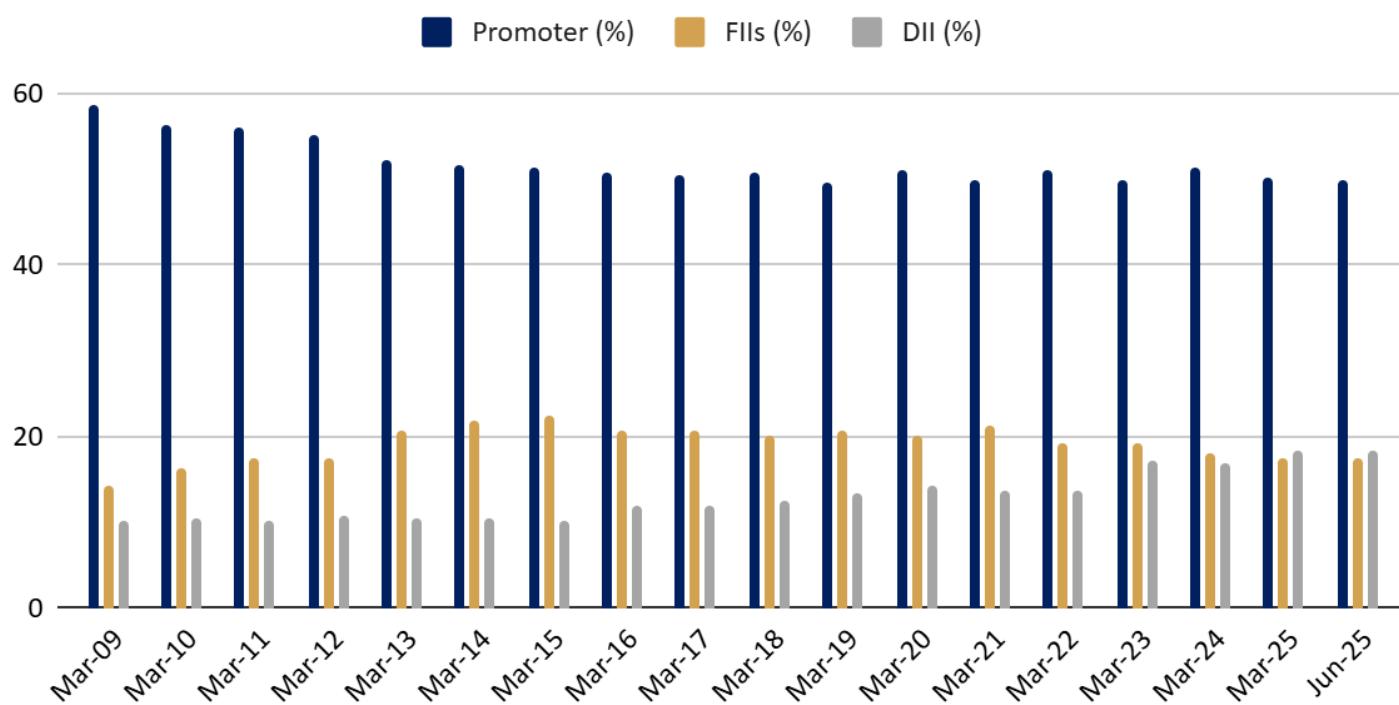
Despite tepid index performance, the primary market has remained active, with a resurgence in IPOs and secondary stake sales by promoters and private equity funds. The large paper supply of 1.74 lakh crore in FY25—has absorbed substantial liquidity and kept market valuations in check (Exhibit 10).

Interestingly, FII ownership in Indian equities is now at a multi-decade low (below 17%, Exhibit 11), while promoter holdings have fallen to an 8-year low (Exhibit 11). The next meaningful trigger for liquidity expansion, therefore, could come from FII re-entry, especially as relative valuations normalise and the earnings trajectory improves from 2HFY26 onward.

**Exhibit 10: – Yearly IPO fundraising trends**



**Exhibit 11: Promotor holding is at multi year low**



## Current Portfolio Construct & Performance

Our exposure to **consumer discretionary, select CDMO, and real estate** has been the key driver of portfolio performance over the past three months as well as over the last one year. We continue to believe these sectors benefit from strong structural tailwinds supported by proactive **government initiatives** and **central bank policies**.

Our **underweight stance** on **Materials, IT & ITES, Utilities, and Consumer Staples** also added to relative performance, as these sectors have delivered higher negative returns over the past year.

However, in recent months, the **lack of exposure to the Auto and Auto Ancillary sector** had a negative impact on short-term performance, as the **GST rate rationalisation announcement** led to a meaningful rally in these stocks.

### Portfolio Changes

We have **added Paytm** as a new position in the portfolio, driven by the following key considerations:

- **Profitability milestone:** Reported its first-ever quarterly net profit as a listed entity, marking a crucial inflection point.
- **AI-first operating model:** Enhancing cost efficiencies, merchant acquisition, and risk management.
- **Regulatory clarity:** RBI's approval for the Payment Aggregator license has removed a major overhang, enabling fresh merchant onboarding and signalling that most regulatory headwinds are now behind.
- **Scalable growth levers:** Expanding lending distribution, a deep merchant ecosystem, and monetisation opportunities across financial services.

We believe that a **robust earnings trajectory**, coupled with **optional growth levers** such as Wallet and BNPL, strengthens the potential for further **re-rating of the stock**.

We have also **increased weight** in the **second-largest food delivery and quick commerce player (Swiggy)**, which continues to **gain market share** in food delivery while **improving profitability**. Its focused investments in the fast-growing quick commerce segment and **attractive relative valuation** (trading at a reasonable discount to its largest peer, Eternal) make it a compelling opportunity.

### Performance Summary

Performance over the past month was impacted by the **underweight in Auto and Auto Ancillaries**, which outperformed following the GST rate cut expectations. This also weighed on three-month performance.

Additionally, the **strong base effect** from the exceptional returns seen during **Jul-Dec 2024** is likely to weigh on one-year trailing performance metrics. However, we expect this to **normalize and improve meaningfully from Apr-Jun 2026 onwards**, driving stronger **two- and three-year performance** trends.

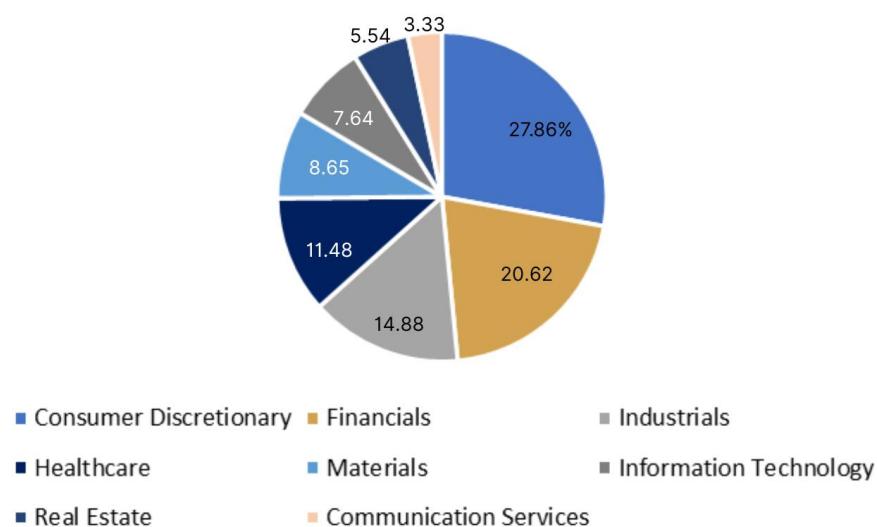
### Exhibit 12: Trailing Returns

As of Date: 30-09-2025      Data Point: Return      Calculation Benchmark: BSE 500 India TR INR

Returns	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	Since Inception
Fund 1- Quest Flagship	-1.37	-3.87	11.3	-9.16	18.55	16.29	19.05	16.24
BSE 500 TRI	1.24	-3.23	7.19	-5.5	15.46	16.13	20.67	10.71

## Portfolio Positioning

Exhibit 13: Sector Allocation (Portfolio Date: 30-09-2025)



The portfolio remains **well-positioned** with higher exposure to **select large caps**, while **small-cap exposure** is largely driven by a **bottom-up approach** focused on superior growth visibility and a favourable risk-reward profile.

We maintain a **positive bias** towards **urban discretionary consumption-driven sectors** such as **retail, platform businesses, and hospitality**, which are poised to benefit from supportive policy measures, rising consumer aspirations, and higher disposable income among the middle and upper-middle class. Conversely, we remain **underweight Consumer Staples**, where elevated valuations do not align with the subdued growth outlook.

Our exposure to **Financials** is centred around **large private and mid-sized banks** as well as **housing finance companies**, which are expected to benefit from robust loan growth and margin improvement from **4QFY26 onwards**, supported by easing cost of funds.

Within **Healthcare**, we are focused on **CDMO opportunities** and select **pharma companies** transitioning towards **specialty segments**, leveraging the cash flows generated from one-off product windfalls.

We remain **underweight IT Services**, with selective exposure to **Oracle Financial Services**, a product-based company exhibiting healthy global demand and better growth visibility

### Market Outlook & Portfolio Strategy Ahead

Indian Equity markets have remained **rangebound** amid **moderate earnings growth**, sustained **FII outflows**, and continued **promoter/PE stake sales**. Additionally, the large pipeline of **IPOs** has absorbed liquidity, keeping market multiples in check in the near term.

We expect **earnings growth to accelerate from 2HFY26**, which should drive **positive market momentum**. Over the next few months, resolution of issues around **trade/tariff frictions** and **geopolitical uncertainties** could further improve sentiment.

In this context, we believe the current market presents **attractive opportunities** to accumulate quality businesses and sectors with **medium-term growth potential** at **reasonable valuations**. Our **cash levels remain tactical**, aimed at opportunistic redeployment.

We remain confident of a **strong earnings recovery from 2HFY26**, strengthening further in **FY27**, led by **BFSI, Consumer Discretionary, Auto & Auto Ancillaries, Manufacturing, and Private Capex**-linked sectors.

After five to six quarters of rangebound market performance, the **NIFTY** currently trades at approximately **22.2x P/E on FY26E** and **19.2x P/E on FY27E earnings**, which is slightly above historical averages but reasonable when viewed in the context of an **improving earnings trajectory** and **lower cost of capital**.

## Quest Transition

We would like to share an important organizational update. Our CIO, Aniruddha, will be leaving us to pursue entrepreneurial opportunities. Over his 5.5 years at QUEST, he has significantly strengthened our institutional investment framework, and we wish him the very best in his future endeavors. He will continue managing his portfolios until October end to ensure a smooth transition.

Our investment team remains robust and well-positioned for continuity. Rakesh Vyas, who joined QUEST as Co-CIO in January 2024, has been managing our Flagship PMS strategy since April 2024. With 20 years of investment experience — including ~15 years at HDFC Mutual Fund, where he successfully led key strategies in his last five years — Rakesh brings deep market insight, disciplined execution, and a strong research orientation.

He is ably supported by Bharat Sheth, a founding member of QUEST since 1994, whose experience and judgement remain invaluable. Alongside them, our five dedicated sector analysts strengthen coverage and research depth.

Rakesh has further enhanced our research process, bringing additional depth while ensuring the Flagship portfolio stays anchored to our core philosophy. The portfolio reflects a research-driven framework, with selective adjustments to improve quality, capture new opportunities, and align with long-term conviction themes. Stock overlap between Multi and Flagship strategies is ~50%, while sector overlap is ~70%, reflecting our process-driven sector selection.

Our sector-rotation investment philosophy remains a cornerstone across Multi PMS, Sector Rotation AIF 1, and AIF 2. This research-led approach identifies emerging themes with strong earnings potential and dynamically allocates capital to sectors with the most attractive risk-reward. The sector rotation framework will continue to be followed and executed with consistency across Multi PMS, AIF 1, and AIF 2 — as a core tenet of our investment process.

Founded in the year 1992 by Mr. Ajay Sheth, QUEST has thrived through multiple market cycles. We began PMS in 2007, launched our first AIF in 2018, and today, under the leadership of Rajkumar Singhal (29+ years of global markets experience including leadership roles at Bank of America Merrill Lynch), QUEST continues to focus on discipline, research, and long-term compounding. Please find Rakesh's investment strategy, his detailed profile and performance

With a seasoned leadership team, proven processes, and unwavering philosophy, we remain confident in delivering long-term value to our investors through this transition and beyond.

### Rakesh's Investment Philosophy

Multi-Cap Approach	Investing across large, mid, and small caps — guided by bottom-up fundamentals rather than benchmark weights — to capture a wider spectrum of opportunities
Concentrated Portfolio	Typically hold 25-30 stocks. Our top 10 ideas represent ~55% of the portfolio, with the top 5 making up ~30-35%.
High Conviction = High Allocation	This concentrated structure reflects the depth of research and conviction behind each position
Dynamic Allocation	Portfolio composition evolves based in fundamental developments, sector trends, and relative values across opportunities.
Long-Term Allocation	Not driven by short-term market noise, instead focusing on owning quality businesses with the potential for sustainable value creation.
Yet agile with valuation Or Business changes	Act swiftly when valuations become stretched or a business outlook materially changes – protecting capital and rotating into better risk-reward setups.
Uncommon Opportunities	Seek differentiated, under-researched names — even within known sectors — to generate alpha (e.g., SAMHI Hotels, Sequent, SH Kelkar, Ajmera Realty, Kolte Patil). Even during HDFC stints, the names owned with reasonable exposure were very differentiated like Premier Explosives, Paradeep Phosphate, Titagarh Wagons, Repco Home, Centum Electronics, Dynamatic Technologies, JKIL, Coal India, JMC Projects, GRSE, HAL etc.

## Rakesh's Profile and Performance

Rakesh currently serves as Co-Chief Investment Officer (Co-CIO) at Quest Investment Managers, a role he assumed in January 2024. He has been managing the Quest Flagship PMS for the past year, bringing his deep research expertise and strategic insight to portfolio management.

Prior to joining Quest, Rakesh spent over 14 years at HDFC Mutual Fund, where he was a key member of the fund management and research team. During this time, he conducted detailed research on more than 150 companies across sectors including Power, Cement, Infrastructure, Metals & Minerals, Chemicals, and Real Estate.

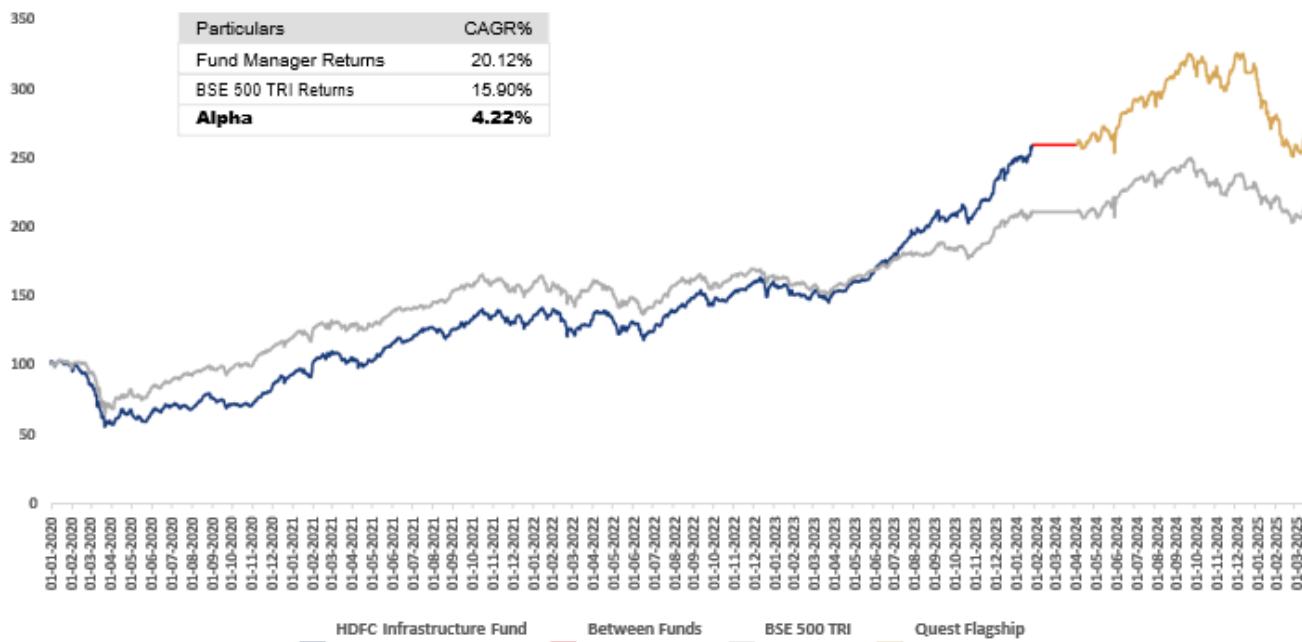
Before his departure from HDFC MF, he successfully managed the HDFC Infrastructure Fund and the HDFC Housing Opportunities Fund for more than 4 years. His performance earned industry recognition, with the HDFC Infrastructure Fund receiving the Platinum Award in the Infrastructure Fund category at the Navbharat BFSI Awards 2023.

## Exhibit 14: Performance as on 1st Jan 2024

Scheme Name/ Returns %	1 year	2 Years	3 Years	4 Years
HDFC Housing Opportunities Fund - Reg G	38.53	25.64	27.05	20.46
HDFC Infrastructure Fund - Reg G	55.21	36.79	38.88	25.33
BSE 500 TRI	26.82	15.26	20.29	19.89

Mr. Rakesh Vyas managed the funds between 1st Jan 2020 to 1st Jan 2024.

Rakesh has also contributed to regulatory development, serving since June 2022 on the SEBI-appointed Advisory Committee on Hybrid Securities, chaired by Mr. K.V. Kamath. The committee provides recommendations on developing and regulating the primary and secondary markets for instruments like REITs and InvITs in India.



CAGR has been calculated for the period 01-01-2020 to 31-03-2025

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