ASHOKA INDIA EQUITY INVESTMENT TRUST PLC

WHITE OAK CAPITAL MANAGEMENT

Objective

To achieve long-term capital appreciation, mainly through investment in securities listed in India and listed securities of companies with a significant presence in India.

Company Facts

Ticker:	AIE
ISIN:	GB00BF50VS41
Benchmark:	MSCI India IMI[1]
NAV:	198.89p
Share price:	205.00p
(Discount)/ Premium:	3.1%
Number of investments:	78
Total net assets:	£197.01 million
Active share:	76.3%
Launch date:	06 July, 2018
On-going charges ratio[6]:	0.34% p.a.
Gearing:	0%
Discount Control:	Annual redemption facility at or close to NAV
Investment Advisor:	White Oak Capital Management Consultants LLP (India)
Firmwide AUM[4]:	£4.44 billion

Fees & charges

Management fees:	0%
Performance fees:	30% of outperformance (capped)

[1] The Company does not follow this or any other benchmark, it is given for illustrative purposes and for calculation of the performance fee only.

[2] Past performance cannot be relied upon as a guide to future performance.

[3] The funds raised from the IPO got substantially invested at the end of July.

[4] Refers to aggregate assets under management or advisory for the investment advisor, White Oak Capital Management Consultants LLP (India).

[5] The beginning NAV of 98 has been rebased to 100 for comparison with the benchmark and share price.

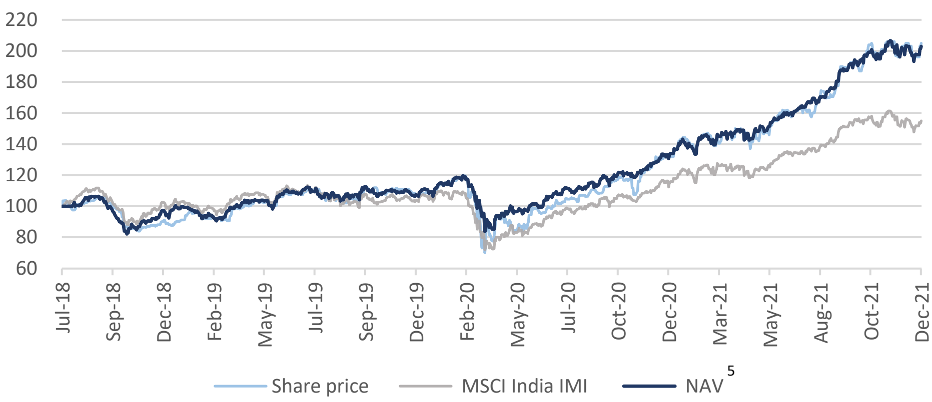
[6] On-going charges ratio calculated on a 6-month moving average of net assets.

Investment Performance[2]

Growth	Dec 2021	Q4 2021	2021	2020	2019	Since IPO*	Since 31-July-18[3]
AIE NAV	2.3%	5.5%	48.6%	26.0%	8.8%	102.9%	100.3%
MSCI India IMI	2.2%	-0.2%	31.7%	12.6%	1.3%	54.9%	44.1%
NAV Outperformance	+9 bps	+571 bps	+1688 bps	+1333 bps	+744 bps	+4809 bps	+5616 bps
Share Price	2.5%	9.6%	49.6%	26.3%	18.9%	105.0%	103.1%
Currency (INR/GBP)	-0.3%	-0.4%	-0.5%	-6.4%	-5.3%	-9.2%	-10.2%

*Since IPO: 06 July 2018 - 31 December 2021

Performance since launch (GBp)[2]



Top 10 Holdings (as at 31 December 2021)

Holdings	GICS Sector	% of AUM
1. Laxmi Organic Industries	Materials	5.6
2. ICICI Bank	Financials	5.3
3. Infosys	Information Technology	4.6
4. Mphasis	Information Technology	3.5
5. Asian Paints	Materials	3.4
6. Coforge	Information Technology	3.3
7. Persistent Systems	Information Technology	3.1
8. Titan	Consumer Discretionary	2.9
9. Nestle India	Consumer Staples	2.5
10. Axis Bank	Financials	2.3
Total		36.6%

Market Cap Classification (as at 31 December 2021)

Market Cap	Portfolio End Weight (%)	MSCI India IMI (%)
Large Cap	36.2%	75.2%
Mid Cap	25.9%	16.8%
Small Cap	30.7%	8.1%
Cash	7.2%	-
Total	100.0%	100.0%

Classification as per Securities and Exchange Board of India (SEBI) guidelines.

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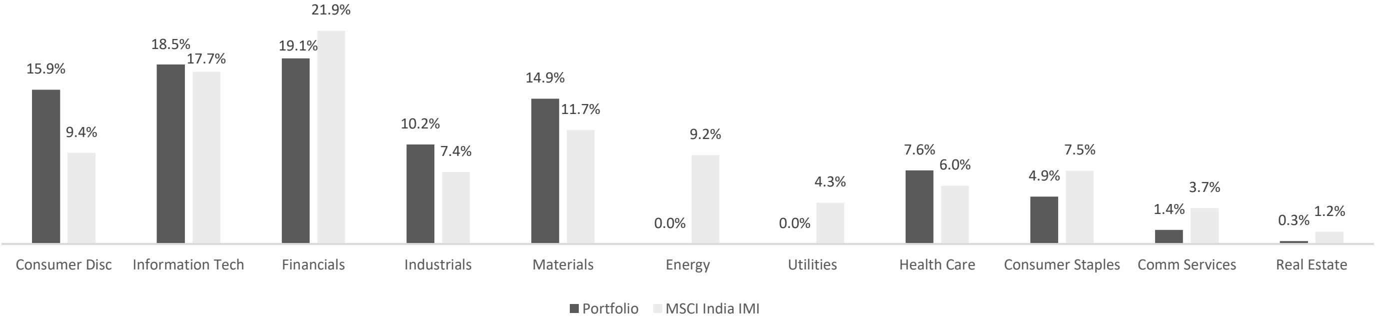
Sector Exposure



Top 5 Contributors and Detractors (2021)

Contributors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
Laxmi Organic Industries	5.6	+236.9	+715
Coforge	3.3	+118.0	+422
Paras Defence & Space Tech.	1.0	+316.7	+329
Persistent Systems	3.1	+224.0	+320
ICICI Bank	5.3	+37.6	+317

Detractors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
CarTrade Tech	1.4	-36.4	-78
Indigo Paints	0.5	-22.1	-31
Axis Bank	2.3	+8.5	-29
Kotak Mahindra Bank	0.9	-10.7	-24
Multi Commodity Exchange of India	0.9	-7.6	-21

Market Review

In 2021, MSCI India IMI index was up 31.7%, outperforming other global indices. US equities (S&P 500) were up 29.3%, MSCI World was up 22.9%, and MSCI EM was down 1.7%.

FIIs were net buyers to the tune of US$3.7bn during 2021. For the year, the Rupee depreciated by 0.5% while the benchmark 10-year G-Sec yields inched up from 5.9% to 6.4%. Commodities surged, with Brent up 51% and the S&P GSCI Industrial Metals Index up by 32%.

Among sectors, utilities and information technology outperformed, whereas consumer staples and financials underperformed during the year.

Performance Review

For the year, the fund delivered 48.6%, outperforming the benchmark by +1688bps. The key contributors include Laxmi Organic Industries (+236.9%), Coforge (+118.0%), and Persistent Systems (+224.0%) whereas CarTrade (-36.4%), Indigo Paints (-22.1%), and Axis Bank (+8.5%) were the key detractors.

The Fund was up 5.5% in Q4 2021, outperforming the benchmark by +571bps. The key contributors include Paras Defence (+316.7%), PB Fintech (+88.7%), and Persistent Systems (+31.2%), while key detractors were CarTrade Tech (-31.8%), Axis Bank (-12.0%), and Laxmi Organic (-21.4%).

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WHITE OAK CAPITAL MANAGEMENT

Key Contributors

Laxmi Organic Industries is a specialty chemicals company and amongst the largest manufacturers of Ethyl Acetate with 30% market share. It is the lowest cost manufacturer of Ethyl acetate and is now transforming into a high value-added business by venturing into niche products and chemistries. Post the acquisition of Clariant's business unit in 2010, Laxmi is the only manufacturer of diketene derivatives in India. Additionally, the company is expanding into another platform through the acquisition of Miteni in Italy which is a niche fluorochemical manufacturer with a unique portfolio of products. We expect the profit contribution from value added business to increase materially from 55% in FY20 to 80% in FY25. The stock appreciated during the year on the back of expanding profitability margins and robust operating performance.

Coforge is a fast-growing, mid-sized IT services company, present across three major verticals – travel & transportation, insurance, and banking & financial services – which collectively account for 70% of revenues. It has a niche positioning in both travel as well as insurance verticals. The company underwent a management change three years ago and under the new leadership has consistently demonstrated strong improvement across all KPIs including order intake, number of million-dollar clients, large deal wins, digital business growth and client diversification. The stock price appreciated due to industry leading operating performance.

Persistent Systems is a mid-sized IT services company with deep domain expertise in healthcare, life sciences and financial services verticals, and a niche positioning in adjacent areas such as health-tech and fin-tech. The company has forged strong partnerships with leading enterprise software ecosystems such as Salesforce, Appian, and Snowflake. It also has strong capabilities in product engineering services with the likes of IBM, CISCO, Intuit and Dassault Systems as key customers. The business has de-risked its revenue base, lowered client concentration and increased number of large accounts. The stock has outperformed on the back of a strong growth outlook with several margin levers to drive healthy free cash flow growth over the coming years.

Key Detractors

Cartrade is the leader in B2B auctions of used vehicles and the #2 player in online auto classifieds in India. The B2B auctions segment is driven by a shift towards organized technology led platforms offering an omnichannel experience and expansion in the share of used vehicles within the installed base. Growth in the online auto classifieds segment is driven by under-penetration of digital ad spends, market share gains from offline advertising mediums and a structural increase in car ownership. A profitable duopoly market structure presents scope for good operating leverage and margin expansion. The company's leadership team has decades of experience in the automotive and technology sectors. CarTrade has several growth optionalities including cross-selling insurance & loans products and providing repair & maintenance services. The stock underperformed during the year due to concerns around increased competitive intensity.

Indigo Paints is one of the fastest growing players in the decorative paints industry with strong position in certain niche product segments. Its revenue has grown by 39% CAGR over the last decade as the company has expanded its distribution and tinting machines network during this time. Indigo has created a portfolio of differentiated products like floor coatings which command leadership position in terms of brand recall and market share in several states across the country. The company's performance in 2021 was negatively impacted by – (a) high dependence on the state of Kerala which saw a prolonged second wave of Covid, and (b) a sharp inflation in raw material prices.

Axis Bank is one of the leading private sector banks in India. It underwent a leadership change in 2019 with Amitabh Chaudhry taking charge as the CEO. The management has set out a new vision and is driving significant changes in culture, systems and processes, as it embarks on a renewed strategy to drive profitable and sustainable growth. Well run private sector banks are gaining market share from poorly run government owned banks, which account for two-thirds of the industry, both on loans as well as low-cost CASA deposits. Axis Bank, with its industry leading deposit franchise and strong execution capabilities, is expected to benefit from this structural trend. Subdued operational performance in recent quarters and a general weakness in financials have been key drivers for stock underperformance.

The India Premium

India has historically traded at premium multiples compared to other emerging markets. On Price to Earnings (P/E) multiple, currently it is trading at ~80% premium based on consensus estimates. India certainly has been, and is projected to be, amongst the fastest growing EMs (20-year growth: 7.0% real GDP). But GDP growth or even earnings growth, in and of itself, does not warrant a premium multiple or deliver higher returns. For instance, China has grown at a faster rate (20-year growth: 9.0% real GDP) for a long period of time and yet has consistently traded at a discount and its equity market has underperformed that of India over long time periods measured in decades.

This is not different from what is observed for relative multiples of individual company valuations. As we all know, in any sector or country, the company with fastest growing sales or profits does not necessarily merit the highest multiple. In fact, other factors such as corporate governance and quality of underlying assets usually are the dominating factors in affecting multiples. It should not be surprising then if the same is true for the overall market multiple across countries. In this year's newsletter, we discuss why India has deservedly traded at a premium because of superior country level governance and underlying asset mix.

Governance Factor

To state the obvious, the value of any country's equity market is the sum of the value of its constituent companies, which in turn is the present value of future cash flows of these companies. By investing in a company's equity shares an investor is effectively buying the proportionate rights to its equity cash flows into perpetuity.

Where corporate governance is poor, there is a significant risk that cash flows would be diverted by controlling shareholders to the detriment of minority shareholders. As a result, the assumption of minority shareholders having a proportionate right to such a company's cashflows is weakened. Not surprising then that such companies trade at discounted multiples compared to its better governed peers. Weaker the governance, the greater the discount.

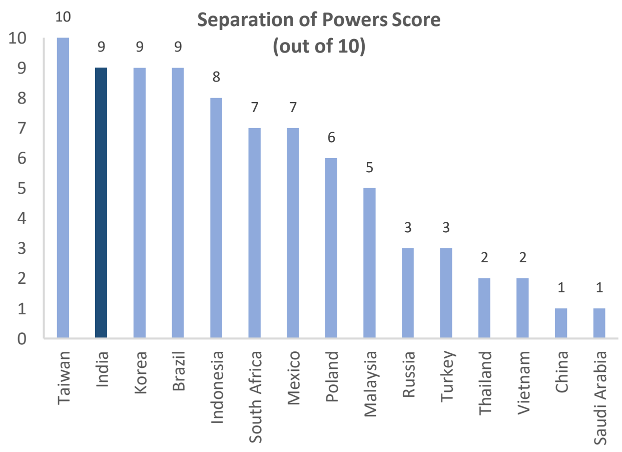
By logical extension, shareholder rights to the perpetual cash flows of equities would be more valuable in jurisdictions where such contractual property rights are less prone to be challenged by other parties, including the authorities, and if challenged, there exists an institutional framework that provides fair protection to the holder of such rights (equity shareholders).

Countries with strong democracies generally have well-established independent institutions such as the Judiciary, the Central Bank, and the Election Commission, among others. Constitutionally there exists a separation of powers between these institutions and the executive branch of the government of democratic countries. In well functioning democracies, separation of powers amongst these independent institutions and the executive branch of the government is not only enshrined in the constitution but is also operational in practice. Such institutional framework can be thought of as the soft infrastructure of a country, which is essential to upholding property rights as well as maintaining economic and political stability.

While such soft infrastructure is taken for granted in the developed democracies of the West, it is in varying degrees of evolution in emerging markets. In our view, India is a more mature democracy compared to most other EMs and it scores well ahead of its EM peers on this crucially important soft infrastructure.

India exhibits a more robust institutional infrastructure, in many respects befitting of a developed democracy, with independent Judiciary, Central Bank and Election Commission. There exists strong protection for property rights under the Common Law system, and institutional checks and balances ensure accountability of the government. This feature is best exemplified by BTI's "Separation of Powers" score, where India ranks highly among EM peers, as illustrated in Exhibit 1.

Exhibit 1: A robust system of checks and balances in India



Source: Transformation Index of the Bertelsmann Stiftung 2020
Note: The question in the survey refers to basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances). A higher score suggests there is a clear separation of power with mutual checks and balances.

In the absence of adequate separation of powers in authoritarian regimes, corporates and investors are exposed to a much higher risk of abrupt and arbitrary policy actions. Recently we saw regulatory crackdown on certain companies and industries, and a general heavy-handed approach to dealing with businesses in one such economy. In certain resource dependent EMs there have been instances of expropriation of assets in the past. In many countries, foreign institutions and investors, particularly minority shareholders, have little recourse to appeal for the protection of their property rights.

It is not to say that there have been no disagreements between authorities and investors in India. But what is different from many other jurisdictions is that corporates and investors, domestic or foreign, can expect fair hearing under the country's laws. A case in point is the tax dispute between Vodafone and Indian tax authorities in which India's Supreme Court had ruled in favour of Vodafone. There are very few other emerging markets where foreign companies or investors can file a lawsuit against the government, and not only expect a fair trial from the domestic court but also continue to operate in the country without any fear of vindictive repercussions.

Adequate institutional checks and balances have also given India the unique distinction of being among the few EMs with no instance of a currency crisis, sovereign default or political coup in many decades. Investments in emerging economies are often subject to such risks as shown in Exhibit 2. But the absence of such debacles in India is the result of its robust soft infrastructure, which in turn reduces the country risk and contributes to its premium multiples.

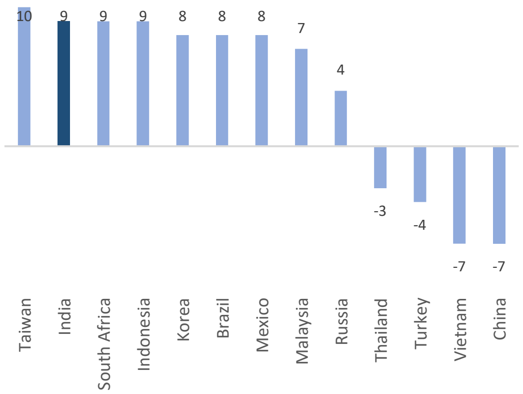
Exhibit 2: No instance of currency or political crisis in India

Economy	Currency crisis	Debt crisis[1]	Political crisis/Coups[2]
Argentina	2002, 2013	2014, 2016	
Brazil	1999, 2015	1994	2016
Greece		2012	
Indonesia	1998	1999, 2002	2016
Korea	1998		
Malaysia	1998		
Mexico	1995		
Philippines	1998		2006-2007
Poland		1994	
Russia	1998, 2014	1998, 2000	
South Africa	2015		2018
Thailand	1998		2014
Turkey	1996, 2001, 2021		2016
Vietnam		1997	

Source: Instances of currency crisis and sovereign debt crisis from IMF's Systemic Banking Crises database; Instances of coups, impeachments and political crisis from (1) Powell and Thyne (Global Instances of Coups from 1950 to 2010: A New Dataset) (2) Center for Systemic Peace
[1] Includes restructuring [2] Includes attempted coups and impeachments

In our view, one of the key reasons why India is consistently rated as one of the most democratic countries is due to the institutional separation of powers and the robustness of its soft infrastructure. As illustrated in Exhibit 3, India's Net Democracy score ranks towards the top end of the emerging market peer group.

Exhibit 3: India's high Net Democracy Score

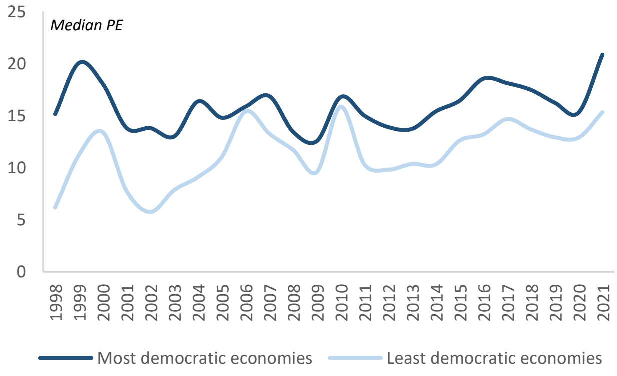


Source: Polity Project database
Note: Net Democracy Score = Polity score obtained by deducting autocracy score from democracy score. In the Polity database, countries are rated between -10 (full autocracy) to +10 (full democracy).

To summarise this aspect, governance must and does receive paramount consideration in any robust investing framework. The idea of governance at a country level encompasses numerous strands, each intricately linked to the other; Is it a stable democracy or an authoritarian regime? What is the degree of institutional independence and separation of powers? Is the rule of law and property rights upheld by the judiciary?

The answers to these questions play a dominant role in determining the premium or discount that investors ascribe to different emerging markets. As evidenced by the data of more than twenty years presented in Exhibit 4, the markets in most democratic regimes have consistently traded at a premium to markets in least democratic regimes.

Exhibit 4: Higher PE multiples accorded to democratic countries



Source: Polity Project database, Factset

Sample list of countries that are most democratic (Net Democracy score >= 8)	India, Taiwan, Indonesia, South Africa, Poland, Brazil, Chile
Sample list of least democratic economies (Net Democracy score < 5)	China, Egypt, Ukraine, Russia, Saudi Arabia, Turkey

Superior Asset Mix: Ownership Profile and Earnings Stability

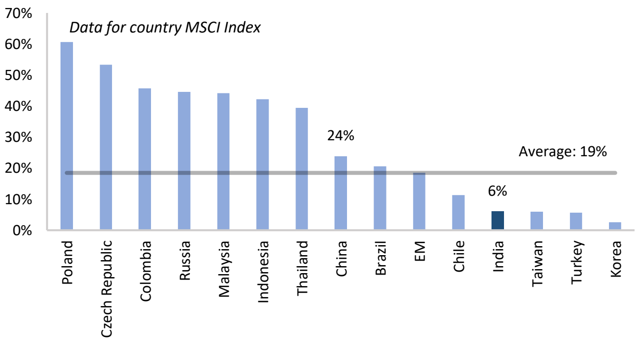
Even in an individual company, the quality of underlying assets has a large bearing on the relative premium that investors are willing to pay. Similarly, markets where a larger proportion of underlying constituents are deserving of higher multiples, would also at the aggregate market level be expected to have higher multiples.

In the EM context, government vs. private ownership of a company has a huge impact on a company's multiple. Universally it is observed that government-owned companies (SOEs or PSUs) trade at a fraction of the multiple of their private sector peers.

We believe this is for good reason since, for the SOEs, shareholder value creation is not the primary goal, as is generally the case for private sector companies. For SOEs, social and political objectives often assume greater priority over investor interests. Often the cash flows generated may suddenly be appropriated for ad-hoc capital outlays or other initiatives that might serve the government's objectives but might not be in the best interests of minority shareholders.

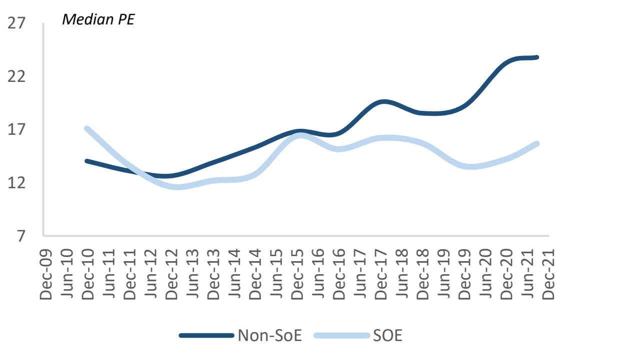
Over the years as emerging markets have evolved and investors have placed greater emphasis on governance, the valuation differential between private sector peers and SOEs has only widened. Consequently, at a country level, a higher degree of state ownership in equity markets would result in a lower market multiple and vice versa. As shown in Exhibit 5 countries like Russia and China, which generally trade at lower multiples, also have higher SOE ownership than the EM average of 19%. On the other hand, SOE ownership in India is one of the lowest at 6%, less than one-third of the EM average.

Exhibit 5: SOE ownership is relatively low in India



Source: Factset, White Oak

Exhibit 6: PE differential in EM universe: SOE vs Private Sector



Source: Factset, White Oak

Besides state ownership, sectoral representation across various EMs is also widely different. As illustrated in Exhibit 7, compared to major EMs, the Indian market has the most heterogeneous composition at a sectoral level, and within that it is the most diverse at company level. For instance, Taiwan's stock market is dominated by highly cyclical tech-hardware stocks which make up 69% of the weight with TSMC alone accounting for 37% of the total country index. South Korea is not much different, with technology comprising 41% of the index, and Samsung group entities across sectors forming 39% of the market. Similarly, in Russia, commodity stocks constitute 60% of the index. In contrast, as evident from the table below, India has the most diversified sector mix with fair representation of most sectors. Unlike most other EMs, no single sector dominates the Indian index.

Moreover, India has a well-distributed investible universe of companies by index weights. HHI (Herfindahl–Hirschman Index) is popularly used for measuring the degree of market concentration. It is calculated by summing the squared weights of the constituents. The higher the number, the greater the level of concentration. India has the lowest HHI score amongst all major emerging markets, evidencing the diversity or granularity of the investible universe.

Exhibit 7: Diverse asset mix in India compared to other EMs

% weight	India	China	South Africa	Brazil	Russia	Korea	Taiwan
Comm. Srvcs	3.6	17.5	8.6	1.6	10.1	9.7	1.9
Cons. Disc.	8.8	32.7	17.5	8.7	1.0	9.9	3.5
Cons Staples	7.8	5.0	10.1	11.6	3.3	3.9	1.8
Energy	10.1	1.5	1.2	13.5	45.7	1.4	0.3
Financials	24.1	13.4	29.1	22.5	22.6	8.1	11.7
Health Care	5.7	7.6	3.4	4.4		7.6	0.7
Industrials	6.9	5.3	2.9	8.6	0.7	9.1	4.1
Technology	16.2	6.8	0.2	1.4	0.1	40.4	68.6
Materials	11.5	3.2	22.8	20.0	15.0	9.2	6.8
Real Estate	1.1	4.4	4.3	1.1	0.1	0.2	0.6
Utilities	4.3	2.5		6.6	1.3	0.4	
HHI*	**222**	**361**	**380**	**614**	**949**	**1,262**	**1,415**

Source: Factset, White Oak
Note: Data for Country MSCI IMI Index
Herfindahl–Hirschman Index (HHI) as calculated by Factset provides numerical measure of the portfolio concentration in aggregate. This is measured by summing the squared weights of the constituent companies of the index. Weights of securities that have the same parent entity are consolidated for this metric.

Besides high concentration, sectors like tech-hardware, energy, and metals & mining (which dominate many EM indices) are also deeply cyclical in nature. Consequently, the earnings decline for commodity-intensive markets such as Russia and Brazil, and homogenous markets like Taiwan, have been quite acute during past recessions.

On the other hand, India's diversified corporate mix entails lower exposure to cyclical sectors compared to the EM average. Consequently, as seen from Exhibit 8, India's corporate earnings have been more resilient during each of the cyclical downturns over the last two decades. In our view, India's relatively stable earnings profile also contributes towards its higher multiple.

Exhibit 8: India's earnings resilience during downcycles

	YoY Earnings Growth			
Recession years	2008	2015	2020	Average
India	-15%	3%	14%	1%
Poland	-10%	18%	-17%	-3%
China	-13%	-3%	-1%	-6%
South Korea	-41%	5%	16%	-7%
Turkey	-34%	12%	-7%	-10%
Indonesia	-4%	-9%	-24%	-12%
Taiwan	-71%	-1%	30%	-14%
Malaysia	-20%	-7%	-23%	-17%
South Africa	-10%	-32%	-12%	-18%
Philippines	-24%	-1%	-40%	-22%
Thailand	-14%	-9%	-42%	-22%
Mexico	-23%	-7%	-42%	-24%
Russia	-3%	-42%	-36%	-27%
Brazil	-19%	-48%	-31%	-33%

Source: Factset, White Oak
Data for respective country MSCI index

In this newsletter we have discussed two factors – governance and quality of assets - which we believe have a major effect on relative multiples at aggregate country level, just as they do for individual companies. We acknowledge that there are many other factors that influence multiples, and some of them might be less favourable for India. We are sure to hear feedback from our readers on the same and look forward to it. The key message we have tried to drive home is that mere comparison of country level multiples without adjusting for these important factors may result in apples to oranges comparisons, or even apples to 'lemons'.

We wish you and your loved ones a happy and a healthy 2022■

APPENDIX

About Polity Project Database

The Polity Project database was compiled by Ted Robert Gurr, a Political Science expert. The Polity project database is the most widely used resource for monitoring regime change and studying the effects of regime authority.

The Democracy or Autocracy Score is based on coding the authority characteristics such as competitiveness of political participation, the openness and competitiveness of executive recruitment and constraints on the chief executive. Amongst all the large EMs, India's tenure as a full democracy is the longest at 68 years.

Country	Net Democracy Score	Regime Durability (years)
India	9	68
Taiwan	10	26
Poland	10	27
South Africa	9	24
Indonesia	9	19
Korea	8	30
Brazil	8	33
Mexico	8	21
Malaysia	7	10
Russia	4	18
Thailand	-3	4
Turkey	-4	2
China	-7	69
Vietnam	-7	64
Saudi Arabia	-10	92

Source: Polity Project database

Note: Durability provides a running measure of the durability of the regime's authority pattern, that is, the number of years since the last substantive change in authority characteristics

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