# 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: | 104.14p |
| Share price: | 98.50p |
| (Discount)/ Premium: | -5.4% |
| Number of investments: | 50 |
| Total net assets: | £70.4 million |
| Active share: | 74.9% |
| Launch date: | 06 July, 2018 |
| On-going charges ratio[6]: | 0.74% 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]: | £1.45 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.

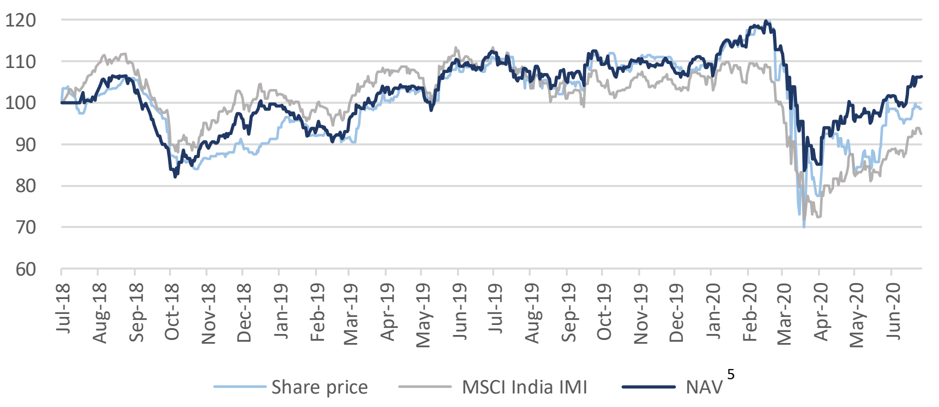
[6] On-going charges ratio calculated on a 6 month moving average of net assets.

## Investment Performance[2]

| Growth | June 20 | Q2 20 | YTD 20 | 2019 | Since IPO* | Since 31-July-18[3] |
|---|---|---|---|---|---|---|
| AIE NAV | 5.6% | 19.8% | -2.0% | 8.8% | 6.3% | 4.9% |
| MSCI India IMI | 7.1% | 21.7% | -11.4% | 1.3% | -7.5% | -13.9% |
| NAV Outperformance | -155 bps | -193 bps | +940 bps | +744 bps | +1377 bps | +1878 bps |
| Share Price | 4.2% | 20.1% | -9.2% | 18.9% | -1.5% | -2.4% |
| Currency (INR/GBP) | 0.7% | 0.4% | 0.9% | -5.3% | -1.7% | -2.8% |

*Since IPO: 06 July 2018 - 30 June 2020

## Performance since launch (GBp)[2]




## Top 10 Holdings (as at 30 June 2020)

| Holdings | GICS Sector | % of AUM |
|---|---|---|
| 1. HDFC Bank | Financials | 6.0 |
| 2. Nestle India | Consumer Staples | 5.9 |
| 3. Infosys | Information Technology | 5.4 |
| 4. ICICI Bank | Financials | 5.0 |
| 5. Bharti Airtel | Communication Services | 5.0 |
| 6. Asian Paints | Materials | 4.7 |
| 7. Bajaj Finserv | Financials | 4.4 |
| 8. Coforge | Information Technology | 4.0 |
| 9. Navin Fluorine International | Materials | 3.2 |
| 10. Cipla | Health Care | 3.1 |
| Total | | 46.7% |

## Market Cap Classification (as at 30 June 2020)

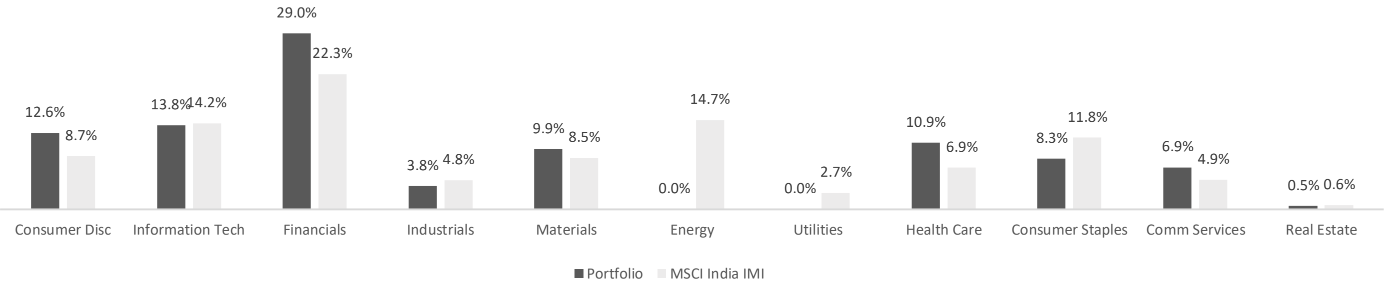
| Market Cap | Portfolio End Weight (%) | MSCI India IMI (%) |
|---|---|---|
| Large Cap | 58.8% | 84.6% |
| Mid Cap | 18.2% | 11.6% |
| Small Cap | 18.7% | 3.8% |
| Cash | 4.3% | - |
| Total | 100.0% | 100.0% |

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

# ASHOKA INDIA EQUITY INVESTMENT TRUST PLC

WHITE OAK
CAPITAL MANAGEMENT

## Sector Exposure




## Top 5 Contributors and Detractors (Q2 2020)

| Contributors | Ending Weight (%) | Total Return (%) | Contribution to Return (bps) |
|---|---|---|---|
| Muthoot Finance | 1.9 | +78.1 | +226 |
| Cipla | 3.1 | +52.2 | +133 |
| Bharti Airtel | 5.0 | +27.7 | +131 |
| HDFC Bank | 6.0 | +24.3 | +126 |
| Infosys | 5.4 | +16.9 | +119 |

| Detractors | Ending Weight (%) | Total Return (%) | Contribution to Return (bps) |
|---|---|---|---|
| Titan Co | 0.8 | +2.3 | -14 |
| Orient Electric | 1.9 | +4.3 | -11 |
| Phoenix Mills | 0.5 | +3.1 | -6 |
| ICICI Bank | 5.0 | +9.2 | -4 |
| Fine Organic Industries | 1.2 | -1.7 | -3 |

**Market Review**

MSCI India IMI index was up 21.7% outperforming global, developed and emerging markets in Q2 2020. US equities (S&P 500) were up 20.6%, MSCI World up 19.5%, and MSCI EM up 18.3% in GBP terms.

Foreign Portfolio Investors bought US$4.2bn worth of Indian equities during the quarter. Crude oil prices recovered by 18.4$/bbl to 41.2$/bbl and INR appreciated by 0.4% during the same period. Among sectors, energy and healthcare outperformed while financials and consumer staples underperformed.

During the quarter Moody's downgraded India's Sovereign rating by a Notch to Baa3, bringing it at par with S&P and Fitch which are both at BBB-. Empirical evidence suggests no observed historical correlation between a country's sovereign rating downgrade and subsequent equity market returns or investment flows.

In geo-political developments during the quarter, tensions escalated between Indian and Chinese troops along the northern border with several casualties on both sides even without any artillery being fired. As we write this, the situation appears to be de-escalating after several rounds of high level talks on a roadmap to disengagement.

Despite the all around uncertainty, several companies were able to raise large sums of capital from the equity markets. Collectively, Reliance ($22bn), HUL ($3.4bn), Kotak Bank ($2bn) and Bharti Airtel ($1bn) have seen over $25 bn of transactions.

**Performance Review**

In the second quarter of 2020 the fund was up 19.8%, underperforming the benchmark by -193bps. The key contributors include Muthoot Finance (+78.1%), Cipla (+52.2%), and HDFC Bank (+24.3%), whereas some of the major underperformers were Titan (+2.3%), Orient Electric (+4.3%), and Phoenix Mill (+3.1%).

YTD the fund is down -2.0%, outperforming the benchmark by +940bps. The key contributors include Muthoot Finance (+48.8%), Navin Fluorine (+63.7%), and Nestle India (+18.2%), whereas some of the main underperformers were from the financial sector including Bajaj Finance (-32.1%), Bajaj Finserv (-36.9%), and HDFC Asset Management (-21.3%).

Our investment philosophy of seeking compelling combinations of great businesses at attractive valuations has placed us in good stead in the current environment. For most part our portfolio comprises of industry leaders or dominant players or companies that are gaining market share in their respective industries on the back of strong execution. These businesses typically have superior returns on invested capital, robust cash flow generation, and resultantly strong balance sheets. We place great credence on the resilience of their operating models and ability to quickly adapt and thrive in this altered paradigm. During a crisis when weaker and informal competitors might struggle to survive, we expect several of our companies to emerge stronger through it.

Net-net we believe the portfolio has held up well through the recent turbulent environment and we believe it continues to be in good balance going forward. At the same time, as always, we keep looking out for new compelling opportunities in the market.

**Key Contributors Q2 2020**

**Muthoot Finance** is India's dominant gold loan finance company with a pan-India presence consisting of more than 5,100 branches. It has a secured book collateralized by gold at comfortable LTV (loan to value) of 70% at origination and 60% at the current book on average. The highly liquid nature of the collateral, and the fact that it always remains in Muthoot's possession, has resulted in negligible credit costs through cycles historically. The company's stock has done well during the year given healthy operating performance, excellent asset liability management and sustained strong performance in subsidiaries.

**Cipla** is a leading pharmaceuticals company and one of the largest in the domestic formulations market, which contributes ~40% of its total revenue. Its products are distributed in more than 180 countries worldwide. The company is witnessing strong growth in the domestic formulations market with double digit growth in the branded generics segment. We expect Cipla to outperform the industry going forward on the back of focused investment in the domestic business through in-licensing and improved bargaining power with distributors. Cipla has also recalibrated its investments into its US business by increasing focus on the respiratory portfolio and reducing investments in commoditized generics.

**HDFC Bank** is India's largest private sector bank with 8.7% market share in overall banking credit with a well balanced portfolio comprising of 60% retail focused loans and 40% corporate assets. With a strong brand and a large branch network, the bank has built a solid liability franchise resulting in the lowest cost of funds across the peer group. On the back of strong execution it is well positioned to capitalize on the structural demand for credit in the Indian economy and also gain market share from SOE banks.

**Key Detractors Q2 2020**

**Titan** is India's leading jewellery retailer. It has consistently gained market share at the back of strong execution by the management. The industry is dominated by unorganized players accounting for 70% of the market thereby presenting a long runway for growth for Titan. We expect the company to continue to do well as it embarks on an expansion strategy to deepen its presence in smaller Indian cities. Recent inflation in gold prices along and shutdown of stores due to Covid have impacted the demand for jewellery. We expect Titan to emerge stronger from this crisis as it accelerates market share gains from unorganized players

**Orient Electric** is a diversified consumer electrical company. Its product portfolio consists of fans, lighting, domestic appliances/coolers and switchgears. Orient has demonstrated continuous innovation-led market share gains in its core categories of fans and lighting. It has also expanded into adjacent categories of switchgears and home appliances while delivering superior ROIC. We expect the company to deliver industry leading revenue cash flow growth over the coming years. The stock price underperformed due to Covid led disturbances in the distribution channels.

**Phoenix Mills** is India's leading commercial (retail) real estate developer and operator with over 5 mn sqft of live portfolio and another 5-6 mn sqft of upcoming development portfolio expected to come up in the next five years. It has presence across key consumption catchment areas in leading Indian metro cities such as Mumbai, Bangalore, Chennai and Pune. The business is run by a strong and seasoned management team. The underpenetrated retail category along with rising disposable incomes provides a long runway for growth. The stock price has underperformed since Covid has materially impacted the near term business for the company in the form of government mandated mall closures in certain cities and reduced footfalls in others.

**Investment Outlook**

The past six months have witnessed one of the most volatile markets in at least a decade. A precipitous decline in March was followed by a sharp recovery during the second quarter not only in India but everywhere globally.

Initially in March and April India went through one of the most stringent nationwide lockdowns. During May these restrictions were gradually relaxed as they were taking a severe toll on the economy. Subsequently the month of June saw further major relaxations of restrictions. A gradual normalization of economic activity is currently underway in most parts of the country. At the same time, we now live with the sobering reality that the number of infections is steadily rising with India having the third largest case count following US and Brazil. Just like everywhere else, the government and policymakers continue to face a discordant choice between lives and livelihoods.

Over the last three months, the Covid pandemic has morphed from being an *unknown unknown* to a *known unknown*, i.e. from being an unknowable risk factor that took the world by surprise to one that we are now aware of but don't fully understand yet. With each passing day the world is learning more about the virus. On one hand the virus has proved to be a lot more contagious affecting ever-increasing number of people across hemispheres while on the other hand the mortality rates seem to be lower than previously feared, partly aided by improved understanding of the disease and that of the several ways to mitigate its impact on those affected by it.

By now it is generally agreed that the actual case count of infections might be far higher than the reported numbers in most countries. We believe India is no exception. There are a set of numbers and projections based on reported case counts, hospitalizations, recoveries, mortality, and their past and projected growth rates. On the other hand there is a certain reality of all these parameters and their actual trends that could be widely different from the reported numbers.

The uncertainty is still too high to have any reasonable degree of confidence on how things are likely to pan out over the next 12-18 months. In our loosely defined base case scenario we believe either herd immunity will be achieved in India in the next 6-12 months or otherwise a vaccine would become widely available and administered in the latter part of next year. We do not expect a re-imposition of any large scale lockdowns as the same failed to effectively contain the spread even as they aggravated economic hardships.

Under such base case scenarios it is possible that the Indian economy contracts mid-singe digit and corporate earnings might decline somewhat more during the current year, broadly in line with consensus.

The Indian government announced several rounds of economic stimulus amounting to c2% of GDP, primarily aimed at providing income support to vulnerable segments of the population and addressing survival needs of small businesses. The Central Bank simultaneously stepped in with large liquidity infusions and multiple interest rate cuts. India's benchmark policy rate stands at 4.0%, down 125 bps since the outbreak of Covid.

In addition the government has announced several initiatives to garner greater share of global manufacturing as corporates around the world look to diversify their supply chain beyond China. This can further accelerate the growth trends in manufacturing industries such as consumer durables, electronics and speciality chemicals amongst others.

Unlike most other emerging markets India benefits from the fall in oil prices, given that it imports over 80% of its requirements. At current Brent crude prices of around $40/bbl, India is expected to save ~$30bn, and consequently the Current Account Deficit (CAD) is expected to turn positive. Fiscal deficit is expected to inch up to 7.1% in 2021 from 4.5% in 2020, largely on account of revenue shortfalls and a smaller denominator effect due to GDP contraction. However, a low external debt-to-GDP and over $500bn of forex reserves are supportive of a stable macro environment.

In continuation of its reforms agenda over the years, the government has announced some major agricultural and labour reforms. The agricultural reforms entail substantial deregulation of production, supply, distribution and prices for agricultural commodities, in essence liberalizing India's agricultural markets that have long been shackled by regulations that hitherto remained untouched due to political sensitivity. If implemented as announced this reform will go a long way in transforming India's agricultural economy.

# ASHOKA INDIA EQUITY INVESTMENT TRUST PLC

## Important Information

This document has been issued for information purposes only. It does not contain any advice, investment recommendations or any offer, invitation or inducement to invest in the Company. Investors should seek advice from an authorised financial adviser prior to making investment decisions.

Capital may be at risk as the value of investments may go down as well as up and is not guaranteed; therefore investors may not get back the amount originally invested. Past performance is not a guide to future performance, nor a reliable indicator of future results or performance. Changes in the exchange rates between currencies may cause the value of investments to fluctuate. Investments in shares of smaller companies are generally considered to carry a higher degree of risk as the market for their shares may be less liquid than that for shares of larger companies, making shares of smaller companies more difficult to buy and sell.

The performance of shares of smaller companies may be more volatile than the shares of larger companies over short time periods; therefore investors should regard such investments as long term. There can be no guarantee that the investment objective of the Company will be achieved or provide the returns sought by the Company.

An investment in the Company is only suitable for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise from such an investment (which may be equal to the whole amount invested). Such an investment should be regarded as long term in nature and complementary to existing investments in a range of other financial assets and should not form a major part of an investment portfolio.

An investment trust is a public limited company, the shares of which are traded on the main market of the London Stock Exchange. Accordingly, the ability of shareholders to sell their shares will be dependent on the market price of the shares. The shares may trade at a discount or premium to their net asset value. Investment trusts may borrow money in order to make further investments. This is known as gearing. The effect of gearing can enhance returns to shareholders in rising markets but will have the opposite effect on returns in falling markets.

White Oak Capital Management Consultants LLP (India) does not provide retail investors with investment advice.