ASHOKA INDIA EQUITY INVESTMENT TRUST PLC

WHITEOAK 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:	189.72p
Share price:	196.00p
(Discount)/ Premium:	3.3%
Number of investments:	79
Total net assets:	£201.34 million
Active share:	71.6%
Launch date:	06 July, 2018
On-going charges ratio[6]:	0.32% 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]:	£4.37 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.

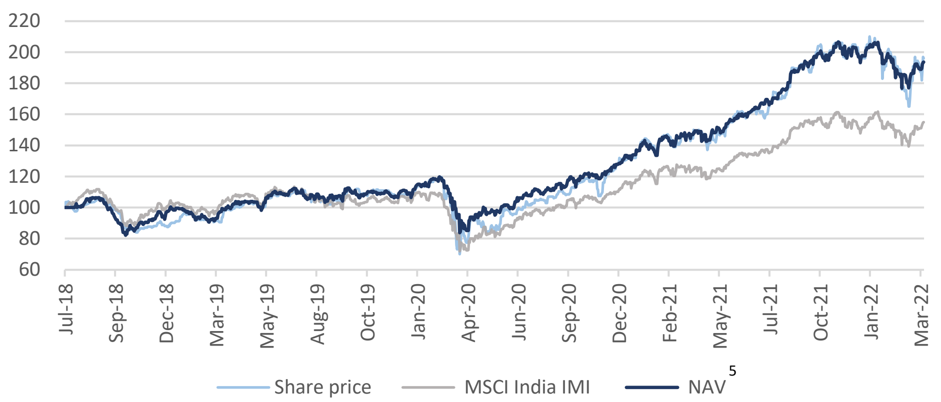
[6] On-going charges ratio calculated on a 6-month moving average of net assets.

Investment Performance[2]

Growth	Mar 2022	Q1 2022	2021	2020	2019	Since IPO*	Since 31-July-18[3]
AIE NAV	4.3%	-4.6%	48.6%	26.0%	8.8%	93.6%	91.0%
MSCI India IMI	6.1%	0.1%	31.7%	12.6%	1.3%	55.0%	44.3%
NAV Outperformance	-174 bps	-473 bps	+1688 bps	+1333 bps	+744 bps	+3854 bps	+4675 bps
Share Price	11.4%	-4.4%	49.6%	26.3%	18.9%	96.0%	94.2%
Currency (INR/GBP)	1.4%	0.8%	-0.5%	-6.4%	-5.3%	-8.5%	-9.5%

*Since IPO: 06 July 2018 - 31 March 2022

Performance since launch (GBp)[2]



Top 10 Holdings (as at 31 March 2022)

Holdings	GICS Sector	% of AUM
1. ICICI Bank	Financials	7.7
2. Infosys	Information Technology	7.1
3. Laxmi Organic Industries	Materials	4.9
4. Titan Co	Consumer Discretionary	3.9
5. Asian Paints	Materials	3.1
6. HDFC Bank	Financials	3.1
7. Persistent Systems	Information Technology	3.0
8. Axis Bank	Financials	2.9
9. Mphasis	Information Technology	2.8
10. Cipla	Health Care	2.5
Total		41.1%

Market Cap Classification (as at 31 March 2022)

Market Cap	Portfolio End Weight (%)	MSCI India IMI (%)
Large Cap	50.0%	76.5%
Mid Cap	18.8%	15.4%
Small Cap	29.7%	8.0%
Cash	1.5%	-
Total	100.0%	100.0%

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

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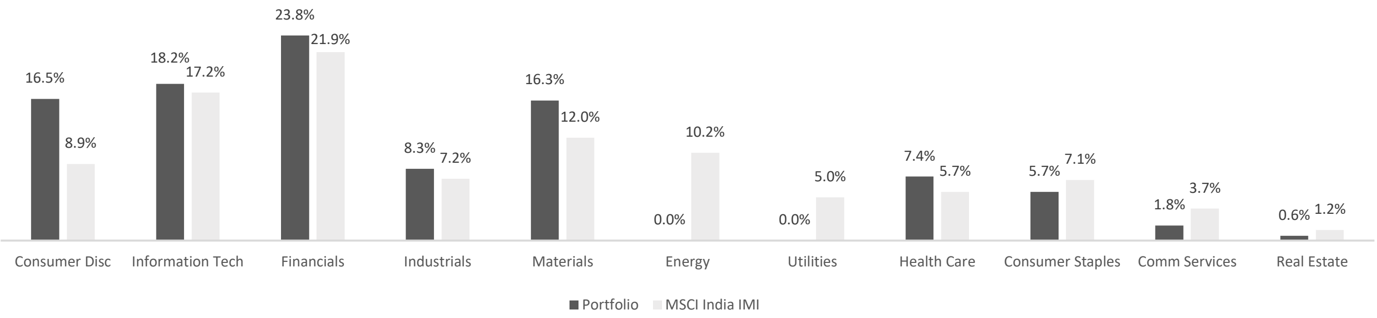
Sector Exposure



Top 5 Contributors and Detractors (Q1 2022)

Contributors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
Cholamandalam Investment	2.2	+39.6	+60
Cipla	2.5	+8.8	+30
Intellect Design Arena	1.1	+28.6	+28
Axis Bank	2.9	+13.2	+26
Infosys	7.1	+1.9	+22

Detractors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
Truecaller AB	1.2	-42.9	-76
Coforge	1.7	-23.4	-66
Metropolis Healthcare	0.8	-40.1	-59
AGS Transact Technologies	0.4	-42.3	-52
Dixon Technologies	1.8	-21.1	-46

Market Review

In Q1 2022, MSCI India IMI index was up 0.1%. US equities (S&P 500) were down 1.8%, MSCI World was down 2.3%, and MSCI EM was down 4.2%.

FPIs were net sellers to the tune of US$14.7bn in Jan-Mar 2022 while net buying by local mutual funds was US$9.0bn. For the quarter, the Rupee depreciated by 2.0% while the benchmark 10-year G-Sec yields rose from 6.45% to 6.84%. Commodities rallied, with Brent up 39% and the S&P GSCI Industrial Metals Index up by 18%.

Among sectors, utilities and energy outperformed, whereas consumer staples, health care, consumer discretionary and IT Services underperformed during the quarter. Government owned companies outperformed the market.

Performance Review

The Fund was down 4.3% in March, underperforming the benchmark by -174bps. The key contributors include Infosys (+12.6%), Persistent Systems (+22.6%), and Intellect Design Arena (+46.6%) whereas Maruti Suzuki (-7.8%), Truecaller (-12.0%), and Crompton Greaves Consumer (-11.6%) were the key detractors.

Q1 2022, the fund is down 4.6%, underperforming the benchmark by -473bps. The key contributors include Cholamandalam Investment (+39.6%), Cipla (+8.8%), and Intellect Design (+28.6%), while key detractors were Truecaller AB (-42.9%), Coforge (-23.4%), and Dixon Technologies (-21.1%).

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Key Contributors

Cholamandalam Investment and Finance (CIFC) is a non-banking financial company (NBFC) belonging to the Chennai-based Murugappa Group. It primarily operates in vehicle finance (including CVs, PVs, 2W and 3Ws), home equity, and affordable home loans category. In terms of customer profile, it caters predominantly to single truck owners and small fleet owners, self-employed non-professionals and MSME businesses in semi-urban and rural India. CIFC's strength lies in its ability to reach such customers in rural and semi-urban markets and its ability to underwrite and collect from customers whose income streams are relatively less predictable. The Vehicle Finance business is entering an upcycle given that demand has been weak in the last couple of years. Further, CIFC has now started to briskly scale up its housing finance business, which on a low base could grow upwards of 25% in the coming years. Recently the company has also shed light on plans to scale-up in three new segments - Consumer & Small Enterprise Loan, Secured Business & Personal Loan and SME Loan business - which are likely to be additional growth drivers going forward.

Intellect Design Arena is a financial services software company and regarded as one of the leading solution providers in transaction banking software, which accounts for 45% of its revenues. It has also made significant inroads in other product suites including payments, retail banking, digital banking, and insurance. Intellect has made substantial investments in product R&D over the last ten years and has built a strong referenceability in developed and emerging markets on the back of a marquee client list which includes top global banks. Its profitability has improved significantly over the past few years as the company has grown in scale and benefited from operational efficiencies. The stock performed well on the back of healthy outlook on growth and margins despite increased employee costs from attrition and new hiring.

Cipla is a leading pharmaceuticals company and one of the largest in the domestic formulations market, which contributes ~40% of its total revenues. The company is witnessing strong growth in the domestic formulations market with double digit growth in the branded generics segment. Cipla is likely to outperform the industry 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.

Key Detractors

Truecaller is a leading technology company that provides consumer and business identity verification services. It has built a dominant c80% market share in India over the past decade on the back of sustained strong growth and has become a category-defining brand in the process. It also has leadership positions in other emerging markets such as Egypt and Nigeria, whereas it is a challenger in Indonesia and Malaysia. The company has started monetizing its highly engaged user base by ramping up ad-impressions which has significant headroom for expansion. Innovative products such as value-add premium subscriptions for consumers, and enterprise verification solutions for businesses are driving rapid growth in core geographies even as it gains market share in newer countries. It is a highly profitable business run by credible technology entrepreneurs from Sweden. It was among the best performing stocks in the portfolio in the 4QCY21 quarter but declined sharply in 1QCY22 amidst the broad sell-off in similar tech names globally.

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 has corrected along with the broader IT Services sector after strong outperformance last year. The sell-off was exacerbated due to stake sale by the private equity investors who offloaded 10% equity through a block trade in March.

Metropolis Healthcare is one of the leading players in the diagnostic space with a dominant presence in key cities like Mumbai, Pune, and Bangalore, in the western and southern regions of India. The company offers a comprehensive range of 4,000+ clinical laboratory tests and profiles. It also has a wide network of 64 Satellite labs (capable of conducting routine and semi-specialized tests) and 47 express labs (for conducting routine tests). Over the last 3-4 years, the company has evolved its business model to gradually increase the mix of B2C segment while expanding its collection center network nearly ten-fold to 2,500. The recent underperformance was led by lower than Covid testing volumes and slower execution in a key government contract.

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Quarterly macro update

At the end of 2021, if Santa had gifted any investor with the divine insight that during the first quarter Russia would invade Ukraine creating geopolitical tensions of the scale not seen since World War II, in turn leading to sanctions on Russia that would spike inflation across commodities with oil surging over US$100/bbl, that the Fed would be hiking rates and adopt a more hawkish stance in view of rising inflation, that there would be a record quarterly FPI outflow of almost US$15bn from Indian equities, and so on, the investor would have been reasonable in assuming that global equities would fare much worse than they did and that India would have underperformed both developed as well as emerging markets, by a significant margin.

Obviously, it is not the first time that actual market returns during and following major macro developments prove widely off the mark compared to what could have "logically" been expected even with perfect prior knowledge of those macro events. The best historical example of this phenomenon is the market behaviour through the Covid crisis, as illustrated in our 2020 annual newsletter titled Macro Shacro (click here to read). As explained in the newsletter we view macro as a source of risk, from which we try to shield the portfolio's relative performance rather than seek any opportunity to generate alpha.

In general it is our desire to have a balanced portfolio towards factor risks, though we do tolerate a number of structural factor imbalances to varying extent, where we believe it serves to optimise the use of capital for stock-specific alpha generation. During periods of heightened uncertainty pertaining to these factor risks, we do seek to limit the imbalance towards such factor risks from further amplifying. In the current instance, we have recently added a couple of metal companies to the portfolio for the first time since inception, acknowledging the dramatic increase in uncertainty with respect to the underlying commodity prices as a function of the evolving geopolitical situation and supply shocks.

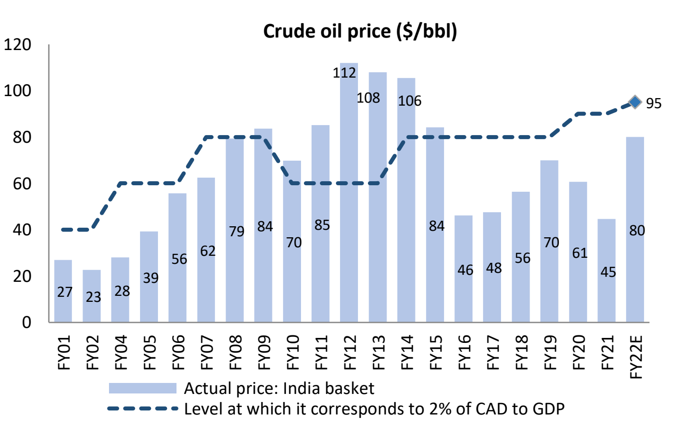
Having reiterated the above perspectives on market implications and portfolio construction, we briefly discuss the economic impact on India of the current macro situation, as we have received several questions on the same. It goes without saying that the ongoing geopolitical situation in Europe is a major source of uncertainty for economies around the world, including that of India. From here on, depending on the path that the crisis takes, there could be wide-ranging repercussions of the first, second, or higher order that might be outside the scope of this letter to discuss.

At the direct level, India's exposure to Russia and Ukraine is limited to only 1-2% of both total exports and imports. There are some product concentration risks – for e.g., imports from the region account for 10% of India's fertilizer consumption and 70% of sunflower oil imports. For our portfolio companies, exposure to Russia and Ukraine in terms of direct sales is negligible, amounting to less than 0.5% on an aggregate basis.

An important second-order impact for India comes from higher commodity prices, especially crude oil prices. Given that the country imports 85% of its oil requirements, we have seen thumb-rule estimates which suggest that every US$10/bbl rise in crude oil prices causes a 35-50bps hit to India's GDP, current account deficit, and inflation. There are various assumptions that go into these calculations, which make it difficult to ascertain the precision of such estimates, but they might be reasonable as ballpark estimates.

Contrary to media or investor fancy for particular round figure price points, it is logical to expect that the impact of higher oil prices on macroeconomic variables plays out in a continuum, and no specific price point can be considered as a particularly bad threshold. Furthermore, the vulnerability of these macro variables at a given oil price level has reduced materially over the years. If one were to take a specific level of CAD to GDP (say 2%) as a benchmark, then the price of oil at which such CAD level is estimated to be breached has been rising over time. At the turn of the century, this oil price threshold was considered to be US$40/bbl, which is now estimated to be in the range of US$90 - $100/bbl, even though perception might take longer to catch up.

India's vulnerability to oil prices has reduced



Source: Bloomberg, White Oak

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For portfolio companies and corporate sector in general, there might be some slow down in volume growth or margin pressure in the near term, but over time such commodity price fluctuations get passed through the food chain and absorbed by consumers, with hardly any lasting effect on business economics or value. As observed from prior cycles of high commodity prices, given the level of under penetration, discretionary demand tends to get deferred rather than destroyed. In our experience market leaders in certain consumer segments are better positioned relative to competition to navigate through supply side challenges, and often tend to gain market share during such times. This is particularly true if the industry structure is fragmented with a large unorganised sector, as is the case with several of our portfolio companies.

Potential Acceleration of the 'China + 1' phenomenon

One of the positive repercussions of the geopolitical tension from India's perspective is that it serves to underscore the importance of supply chain diversification in manufacturing. It is a phenomenon that has already been underway for the last many years, which gained momentum in response to Covid led supply chain disruptions. Heightened board room focus on supply chain flexibility at Fortune 500 companies bodes well for market share gain by the Indian manufacturing sector. Our interactions with corporates in both listed and unlisted space suggest that enquiry levels and outlook on order books is strong, despite the lingering supply chain issues.

The uptrend in demand outlook with capacity building is seen in several segments in response to the government's thrust on developing manufacturing hubs across sectors under the Production Linked Incentive (PLI) scheme.

Of the thirteen identified sectors under PLI thus far, production has already begun in four (mobile phones, electronic components, chemicals and APIs, and telecom equipment). In the mobile phone segment, average quarterly revenues have already exceeded targets set by the government. Recently announced PLI for semiconductors and display panels should prove an added boost to value addition.

Russian discount

For years, investors have debated whether the Russian equities deserve to trade at the low to mid single-digit PE multiples that they have traded at till recently.

The collapse of the Russian market following the sanctions serves as a grim reminder of why equities in authoritarian regimes might deserve to trade at low multiples, whereas those in well-established democracies might deservedly trade at a premium (click here to see our 2021 newsletter, The India Premium).

In a functioning democracy, generally there would exist adequate separation of powers such that any decision regarding military aggression against another country must follow a well-defined protocol, with approvals required through several layers of checks and balances. In contrast, in authoritarian regimes, such decisions de-facto reside in the hands of one individual. This is possibly the key reason why there are very few instances of democracies going to war with each other. Usually, wars have entailed at least one of the two sides being ruled by an authoritarian regime.

Authoritarian regimes expose corporates and investors to a much higher risk of a variety of abrupt and arbitrary policy actions, including, in the current situation, aggression against a neighbour ■