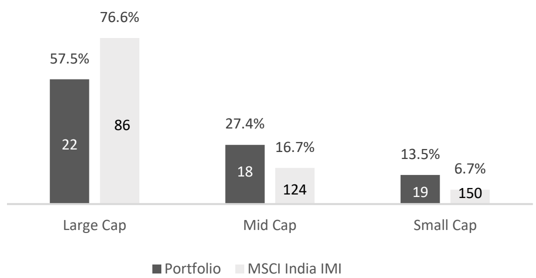
# ASHOKA INDIA OPPORTUNITIES FUND

WHITE OAK CAPITAL MANAGEMENT

| Performance[1-9] | July 2021 | YTD 2021 | 2020 | Part 2019 | Inception Cumulative | Inception Annualised |
|---|---|---|---|---|---|---|
| Class D Shares NAV (€) | 4.02% | 29.99% | 28.83% | 16.11% | 94.44% | 31.35% |
| MSCI India IMI (€) | 1.68% | 21.33% | 6.23% | 10.82% | 42.84% | 15.74% |
| Outperformance (bps)[9] | +234 | +866 | +2260 | +529 | +5160 | +1561 |
| Other Indices (€)[10,15] | | | | | | |
| INR/EUR | 0.1% | 1.6% | -11.0% | 0.9% | -8.8% | -3.7% |
| S&P BSE 100 Largecap | 0.5% | 16.4% | 4.4% | 14.5% | 39.2% | 14.5% |
| S&P BSE 150 Midcap | 3.7% | 38.9% | 13.2% | 10.4% | 73.5% | 25.3% |
| S&P BSE 250 Smallcap | 7.6% | 49.9% | 14.6% | 1.1% | 73.7% | 25.4% |
| MSCI India | 0.8% | 16.8% | 6.1% | 11.6% | 38.5% | 14.3% |
| MSCI EM | -6.8% | 3.3% | 8.7% | 9.7% | 23.1% | 8.9% |
| S&P 500 (U.S.) | 2.3% | 21.3% | 8.2% | 18.9% | 56.0% | 20.0% |
| MSCI World | 1.7% | 18.6% | 6.5% | 16.6% | 47.2% | 17.2% |

Note: Past performance is not indicative of future results

### Market Cap Classification[11]




Classification as per Securities and Exchange Board of India (SEBI) guidelines. Additional information on the classification methodology of the SEBI is available upon request.

### Investment Objective

The Fund's objective is to seek long-term capital appreciation.

### Investment Strategy

Seeks to build a long-only portfolio of 40-60 businesses at attractive values through a bottom-up selection process.

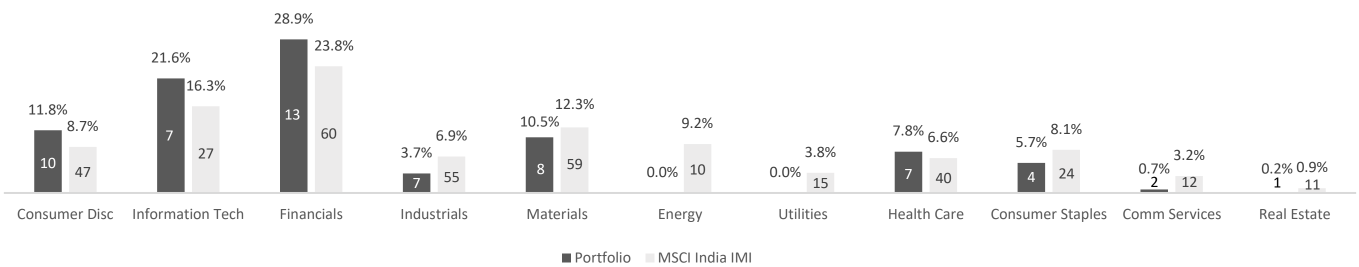
### Fund Facts

| | |
|---|---|
| Fund Name: | India Acorn ICAV |
| Sub Fund: | Ashoka India Opportunities Fund |
| Fund Inception Date: | 19 Dec 2018 |
| Class D Inception Date: | 21 Feb 2019 |
| Firmwide AUM:[4,13] | $ 4.8 billion |
| Fund AUM:[4] | $ 1.15 billion |
| Manager: | Carne Global Fund Managers (Ireland) Limited |
| Investment Manager: | White Oak Capital Partners Pte. Ltd. (Singapore) |
| Investment Advisor: | White Oak Capital Management Consultants LLP (India) |
| Management Fees | |
| Class D Shares: | 0.95% per annum |
| Benchmark: | MSCI India IMI Index (EUR) |
| Subscription: | Daily |
| Redemption: | Daily |
| Other Expenses: | Capped at 0.5% |
| Bloomberg Ticker: | AIOFDEU ID Equity |
| ISIN: | IE00BDR0JY05 |
| NAV: | 194.44 |

### Service Providers

| | |
|---|---|
| Administrator: | HSBC Security Services (Ireland) Designated Activity Company |
| Banker: | HSBC |
| Custodian: | HSBC Continental Europe, Ireland |
| Auditor & Tax: | Ernst & Young LLP |

### Sector Exposure




### Market Review

In July 2021, MSCI India IMI index was up 1.7%. US equities (S&P 500) were up 2.3%, MSCI World up 1.7%, and MSCI EM down 6.8%[10,12]

In July, FIIs turned net sellers to the tune of US$1.4bn. For year to date, India has seen net inflows of US$6.7bn, among the highest in EMs, ex-China. The Rupee was steady in the month of July, while the benchmark 10-year G-Sec yields rose by 15bps to 6.2%. The rally in commodities continued with Brent up by 2.2% and the S&P GSCI Industrial Metals Index up by 3.6%, MoM. [14]

Among sectors, materials and communication services outperformed, whereas utilities and energy underperformed during the month.

### Performance Review

The Fund was up 4.0%, in July outperforming the benchmark by +234bps. The key contributors include Coforge (+22.2%), Mphasis (+21.7%), and Crompton Greaves (+12.6%), whereas Cholamandalam Investment (-7.3%), HDFC Bank (-4.9%), and Axis Bank (-5.4%) were the key detractors.

Year-to-date, the fund is up 30.0%, outperforming the benchmark by +866bps. The key contributors include Coforge (+91.1%), Intellect Design (+140.4%), and Persistent Systems (+112.1%), while key detractors were Nestle India (-1.9%), HDFC Bank (+1.1%), and Indigo Paints (+1.1%).

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| July 2021 Top Contributors | Ending Weight (%) | Total Return (%) | Contribution to Alpha (bps) |
|---|---|---|---|
| Coforge | 4.9 | +22.2 | +85 |
| Mphasis | 2.4 | +21.7 | +36 |
| Crompton Greaves | 3.9 | +12.6 | +35 |
| Bajaj Finserv | 2.8 | +17.4 | +29 |
| Computer Age Mgmt. | 1.8 | +20.0 | +28 |

| July 2021 Top Detractors | Ending Weight (%) | Total Return (%) | Contribution to Alpha (bps) |
|---|---|---|---|
| Cholamandalam Inv. | 2.5 | -7.3 | -23 |
| HDFC Bank | 2.7 | -4.9 | -20 |
| Axis Bank | 4.5 | -5.4 | -18 |
| Cipla | 2.1 | -5.4 | -12 |
| Sequent Scientific | 1.2 | -6.2 | -11 |

## Our views on investing in Consumer-Tech companies

The recent listing of Zomato has created a lot of buzz around the internet economy in India. Many consumer tech companies are fundamentally changing the way consumers and businesses interact with each other. Traditional businesses are getting disrupted in more ways than one, and a new crop of digital-native, mobile-first companies is scaling up at warp speed. We believe that these will become a larger part of the market over the next decade and, given the heterogeneous nature of business models, will create large winners and losers.

Over the last few weeks, we have had numerous discussions with our clients and other stakeholders on the opportunity as well as the many concerns around these companies. We present a gist of those discussions in a Q&A format.

**There is lot of commentary by market observers and noted investors to avoid loss making companies. How should one approach investing in such companies?**

There are two aspects to this question that need to be considered. For one, there is a lack of familiarity among Indian investors when it comes to evaluating loss-making initial public offerings. More stringent regulations for IPOs of loss-making companies led to only a few such companies going public till now. Hence there is a discomfort amongst the broader investor base in investing in such companies. It is very different from the US, which has a long history of loss-making companies going public.

Second is perhaps an underappreciation of the underlying economic model of new-age tech companies. For example, when a traditional manufacturing company builds a factory (which is a physical asset), the expenditure is capitalised as an asset and the value of this asset is depreciated over its useful life, say 20 to 30 years. What do consumer tech companies invest in? Consumer tech companies primarily invest in developing great technology, building brands, acquiring customers, and delivering a great customer experience. In contrast to the traditional companies, these expenditures of the consumer tech companies from an accounting perspective are considered expenses and not assets; hence these companies report 'accounting losses.' However, we all intuitively know that great technology, a well-known brand, and a happy customer base are assets for any business. This new economic and financial model is disruptive to our understanding of existing businesses in India. Hence there is discomfort in investing in such loss-making consumer tech companies.

There could be potentially large value creation opportunities in some of these technology-enabled, emerging business models but envisaging a discontinuous and disruptive future can be a difficult task.

We are witnessing value shifting from physical assets to intangible assets like patents and brands in the last century and to 'ideas and networks' more recently. The most valuable companies in the world today are Apple, Google, Amazon, and Facebook, where the assets are a happy and engaged customer base, innovative products, and powerful networks.

**How to think about the long-term opportunity for consumer tech companies particularly in comparison with other countries?**

To decipher the size of economic opportunity for these Indian companies, China would be a more relevant benchmark rather than the United States.

Despite starting on its e-commerce journey much later than the US, China's e-commerce penetration at 35% is higher than that of the US at 19%, while India is at 5%. This stark difference reflects the peculiar attributes of China's economy. India and China have very high population density and would find it difficult and expensive to replicate the scale of physical retailing that the US has built over the last century. Due to the population density, real estate as a proportion of per capita income is quite expensive in these countries relative to the US. As such, e-commerce which does not consume prime real estate but instead consumes delivery services, is more suited for India and China as it is fundamentally 'long-labour, short real-estate.'

Consequently, India is likely to leapfrog from traditional mom-and-pop retailing to e-commerce, largely bypassing the build-out of modern retail as seen in western economies, just as we leapfrogged to mobile phones, without a deeper penetration of landlines. Therefore, e-commerce might see faster penetration in India, as has been the case in China, relative to the western economies.

**How to approach the valuation of consumer tech companies, many of which may be currently loss-making?**

In India, consumer tech companies are in the early habit formation stage, which entails extensive investments in technology, customer acquisition, and delivering a superior customer experience.

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As explained earlier, these investments are classified as expenses in accounting, and hence the companies report accounting losses till they achieve a scale where the unit economics of the business is sufficient to cover these investments.

To provide an analogy, let us say a student is pursuing a graduate degree in engineering from a top-ranked institute. She studies for four years before securing a job. Thus, by conventional accounting logic, it may appear as a loss-making exercise (i.e., the cost of education) but it is extremely valuable over the long term as it assures a growing income stream over the next 40-50 years. Thus, just like this example, the near-term losses in the initial stage do not necessarily mean losses in the future as well. Conversely, not all businesses that generate profits today will remain profitable forever as some might get disrupted by the new-age tech companies.

It is precisely the reason why a thoughtful buildout of future cash flows is of paramount importance. When building a DCF model for the new-age tech companies, it is essential to look beyond a narrow time frame to accommodate a discontinuous future. For example, the size of the food delivery market in China is 20x that of India. If we were to assume that India gets to a similar size in 15 years, it would translate into a 20% topline CAGR for the industry. Furthermore, one needs to understand the sustainable unit economics of these businesses and not focus on the current accounting losses.

Due to their strategic assets like a deep tech-stack, well-established brand, large and happy customer base, and strong management teams, many consumer tech companies can enter adjacent categories thereby increasing their potential profit pool. For example, Meituan started with food delivery in China but expanded into multiple adjacent categories, generating tremendous shareholder value (even after factoring in the recent drawdown!).

**What are the drivers of unit economics of Food Delivery companies? How can they create value over the long term?**

One of the most important metrics to track is the contribution margin per order. Even with a stable contribution margin, as the number of orders significantly scales up over the next decade, huge operating leverage shall play out, and accounting losses can convert into large economic profits. The pandemic has accelerated the process, whereby the customers realise the essential nature of this service, with their mindset shifting from a focus on discounts to the value of convenience, thereby improving the unit economics of the business.

With the increasing scale and density of orders, the delivery cost per unit should fall as more orders get batched together for delivery. Similarly, overhead and marketing costs should come down as a proportion of revenues, which amplifies the delta on profits through operating leverage.

**What are the challenges and risks which the food delivery companies face?**

Certainly, there are risks ranging from competition to regulations. While Swiggy and Zomato have emerged as joint leaders in food delivery based on their superior execution, one of the most credible competitors in the current Indian context who can challenge them is Amazon. However, Amazon's success is not a given as they have previously shut their food delivery business in the US and UK.

There is also emerging competition from direct-to-consumer (D2C) restaurant platforms like Dotpe and Thrive. But considering India's highly fragmented restaurant ecosystem, it will not be easy for these D2C platforms to scale up and pose a risk to Zomato and Swiggy.

The food delivery companies also face potential regulatory risks that can manifest in various forms, such as caps on commission rates, floors on delivery fleet wages, and data sharing requirements with restaurants, to name a few. Early signs of such risks are already being experienced in the US and China.

**Aren't private equity/venture capital investors just palming off loss-making companies to public market investors? Is there any money left on the table?**

Technology is a high alpha sector given the heterogeneous nature of business models where there will be large winners and losers. Each opportunity would need to be evaluated on its own merits, and it would be absurd to generalise. Even in the US, where you have a well-established venture capital and private equity ecosystem, companies like Google, Facebook, Amazon and others have created massive value after going public while many others have gone bust. While it is early days in India, several of the new-age technology IPOs over the last couple of years have done quite well after listing even as they provided an exit to private equity investors.

**What is White Oak's approach to investing in consumer tech companies?**

As investors, we focus on identifying dominant companies with fast-growing and large target markets, positive unit economics, and strong management teams. As with all investments, these companies should be attractively valued in our discounted cash flow based OpcoFinco™ framework.

White Oak employs significant research resources to build a deep understanding of various business models within the consumer tech space across emerging and developed markets, including engaging with experts and industry professionals from across the world. In addition, many team members also have global investing experience, which brings about a unique pattern recognition perspective to investing in Indian companies, especially the new emerging businesses.

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Notes: (1) The performance numbers are net of expenses for Class D shares. (2) Fund performance in EUR€ v/s MSCI India IMI (EUR€) Net Index. (3) Performance prior to February 2020 is net of fees and realized and unrealized tax on capital gains calculated using Net NAV (EUR€) of Ashoka India Opportunities Fund (Class D shares). Performance from February 2020 is net of fees and realized tax on capital gains calculated using Net NAV (EUR€) of Ashoka India Opportunities Fund (Class D shares). (4) All data is as of 31 July 2021. (5) Inception: 21 Feb 2019. (6) INR/€ rate is derived from 1/INRRRTEU Index. (7) Inception performance shown here is for 21 February 2019 to 31 July 2021. (8) The MSCI India IMI Index and "Other Indices" ("Indices") are included merely for reference purposes and to provide data on the general trends in equity markets. Indices are provided for illustrative purposes only, and are not intended to imply that the Ashoka India Opportunities Fund (the "Fund") would be comparable to any index either in composition or element of risk. The comparison of the performance of the Fund to the Indices may be inappropriate because the Fund differs in diversification, and may be more or less volatile than the Indices, and may include securities which are substantially different than the securities in the Indices. Comparisons to returns of indices should not be viewed as a representation that the Fund's portfolio is comparable to the securities that compromise any Indices. (9) Past performance should not be relied on as a predictor of future performance. (10) S&P BSE 100 LargeCap TMC (INR) TR Index presented in EUR terms, all indices are Net Total Return in EUR. (11) Index Futures are included in Large Cap. (12) All returns and % changes are in EUR terms unless otherwise stated. (13) Refers to aggregate assets under management or advisory for the investment advisor, White Oak Capital Management Consultants LLP (India). (14) Source: Bloomberg, further details are available upon request. (15) The S&P BSE 100 Large Cap is designed to measure the performance of the 100 and most liquid companies within the S&P BSE 500, as selected by the total market capitalization. The S&P BSE 150 Mid Cap is designed to track the performance of 150 mid-cap companies by total market capitalization, subject to buffers, that are in the S&P BSE 500 but not in the S&P BSE 100 Large Cap. The S&P BSE 250 Small Cap is designed to track the performance of the 250 small-cap companies by total market capitalization within the S&P BSE 500 that are not part of the S&P BSE 100 Large Cap or S&P BSE 150 Mid Cap. The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries. The S&P 500, is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries.

## Important Information



**WARNING:** This Fact Sheet must only be read in conjunction with the accompanying Memorandum, the Irish Prospectus of the ICAV dated 25 September 2020 and its related Supplement(s) and any addenda thereto, as may be amended from time to time (collectively, the “Offering Document”). The contents of this Fact Sheet have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Fact Sheet or the Offering Document, you should obtain independent professional advice.

**DISCLAIMER:** The Fund has appointed Waystone Fund Services (Switzerland) SA as the Swiss Representative. Av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: switzerland@waystone.com. The Fund’s Swiss paying agent is Helvetische Bank AG. The Prospectus, the Key Investor Information Documents, the Instrument of Incorporation as well as the annual and semi-annual reports may be obtained free of charge from the Swiss Representative in Lausanne. In respect of the Shares distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the Swiss Representative. The issue and redemption prices are published at each issue and redemption on www.fundinfo.com.

US: For US investors, the Fund is relying on SEC Rule 15a-6 under the Securities Exchange Act of 1934 regarding exemptions from broker-dealer registration for foreign broker dealers. Foreside Global Services, LLC is acting as the chaperoning broker dealer for the Fund for the purposes of soliciting and effecting transactions with or for U.S. institutional investors or major U.S. institutional investors.