White Oak India Pioneers Equity ESG Portfolio

WHITEOAK CAPITAL MANAGEMENT

Portfolio Performance[1-8]	3 Month	Inception Absolute
WO India Pioneers Eq ESG Port.	-5.8%	-3.4%
S&P BSE 500 TR	-0.3%	2.9%
Outperformance (bps)	-550	-622
Other Indices		
S&P BSE 100 LargeCap	0.6%	2.6%
S&P BSE 150 MidCap	-2.9%	2.7%
S&P BSE 250 SmallCap	-3.9%	5.8%

Market Cap Attribution Since Inception (%)[11]

	Portfolio		Benchmark		Attribution		
	Avg Wt	Tot Return	Avg Wt	Tot Return	Selection Effect	Allocation Effect	Tot Return
Large Cap	58.6	-0.9	78.0	3.2	-2.4	0.0	-2.5
Mid Cap	24.2	-1.7	14.5	2.4	-1.0	0.0	-1.0
Small Cap	10.8	3.1	7.5	0.8	0.3	0.0	0.4
Cash/Fut/Other	6.4	0.0	0.0	0.0	-	-	0.1
Total	100.0	-0.2	100.0	2.9	-3.1	0.0	-3.1

Sector-wise Attribution Since Inception (%)[12]

	Portfolio		Benchmark		Attribution		
	Avg Wt	Tot Return	Avg Wt	Tot Return	Selection Effect	Allocation Effect	Tot Return
Comm Services	2.3	9.7	2.9	11.5	0.0	0.0	0.0
Consumer Disc	11.7	7.2	8.2	8.7	-0.2	0.2	0.0
Consumer Stp	10.0	-16.2	7.5	-8.1	-0.9	-0.3	-1.2
Energy	0.0	0.0	9.1	16.3	0.0	-1.2	-1.2
Financials	30.5	-2.6	29.9	-4.5	0.6	0.0	0.6
Health Care	4.0	-23.7	5.5	-8.1	-0.7	0.1	-0.6
Industrials	2.6	-1.2	7.3	6.4	-0.2	-0.1	-0.4
Information Tech	22.2	11.0	14.1	8.2	0.5	0.5	1.0
Materials	10.2	-1.7	10.6	2.4	-0.5	0.1	-0.4
Real Estate	0.0	0.0	0.9	14.8	0.0	-0.1	-0.1
Utilities	0.0	0.0	3.9	31.1	0.0	-1.0	-1.0
Cash/Fut/Other	6.4	0.0	0.0	0.0	-	-	0.1
Total	100.0	-0.2	100.0	2.9	-1.4	-1.7	-3.1

Investment Objective

The objective of the strategy is to achieve long term capital appreciation by primarily investing in 'listed securities' in India. Since sustainability of returns and corporate governance form an important element of our investment philosophy, the investment approach integrates Environment, Social, and Governance ("ESG") factors in decision-making process in selection of any security in the portfolio.

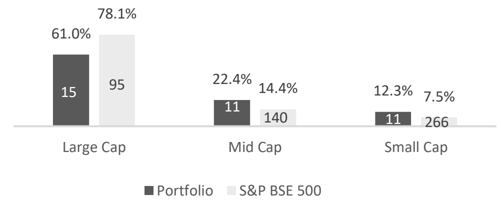
Fund Facts

Structure:	Discretionary PMS
Firmwide AUM:[3,5]	₹ 43,549 Cr
WO India Pioneers Eq ESG AUM:[3]	₹ 6 Cr
Minimum Investment:	INR 50 Lakhs
Exit Load:	Nil
Benchmark:	S&P BSE 500 TR

Portfolio Characteristics[10]

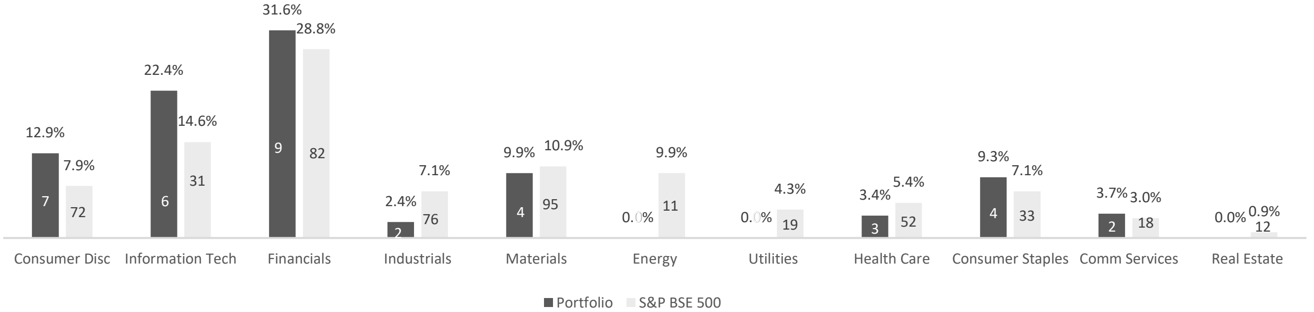
Wt. Av. Market Cap (INR Cr)	270,347
No. of Holdings	37
ROE (FY 22):	20.7%
PE (FY 23):	23.7
Projected Revenues (3 Yr CAGR):	17.2%
Projected Earnings (3 Yr CAGR):	19.7%

Market Cap Classification[9]



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

Sector Exposure[9]



Market Review

In March, S&P BSE 500 TR index was up 4.2%. S&P BSE 100 LargeCap was up 4.1%, S&P BSE 150 MidCap up 4.4%, and S&P BSE 250 SmallCap up 6.1%.

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 portfolio was up 2.5% in March, underperforming the benchmark by -178 bps. The key contributors include Persistent Systems (+21.0%), Saregama India (+23.8%) and Infosys (+11.1), whereas Fine Organic (-6.6%), Nestle (-1.5%), and Indigo Paints (-10.3%) were the key detractors.

In Q1 2022, the portfolio is down 5.8%, underperforming the benchmark by -550 bps. The key contributors include Cholamandalam Investment (+38.3%), Fine Organic (+7.9%), and Axis Bank (+12.2%), whereas Coforge (-24.1%), Nestle (-11.8%), and Dixon Technologies (-21.8%) were the key detractors.

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Top 20 Holdings & Key Contributors / Detractors

Scrip Name	Weight (%)	Scrip Name	Weight (%)
Infosys	9.7	Bajaj Finance	3.1
ICICI Bank	8.6	Fine Organic Industries	2.7
HDFC Bank	7.3	Coforge	2.4
Titan Company	5.9	Dixon Technologies	2.3
Nestle India	5.7	Hindustan Unilever	2.2
Persistent Systems	4.9	Saregama India	2.1
Asian Paints	4.4	Abbott India	1.8
Mphasis	4.1	Info Edge India	1.6
Cholamandalam Inv	4.1	Indigo Paints	1.6
Axis Bank	3.5	Kotak Mahindra Bank	1.5
Total			**79.5**

Q1 2022 Key Contributors	Ending Weight (%)	Total Return (%)	Contribution to Alpha (bps)
Cholamandalam Inv	4.1	+38.3	+101
Fine Organic Industries	2.7	+7.9	+20
Axis Bank	3.5	+12.2	+17
Infosys	9.7	+1.0	+8
Bajaj Finance	3.1	+4.1	+5

Q1 2022 Key Detractors	Ending Weight (%)	Total Return (%)	Contribution to Alpha (bps)
Coforge	2.4	-24.1	-78
Nestle India	5.7	-11.8	-66
Dixon Technologies	2.3	-21.8	-56
Indigo Paints	1.6	-24.6	-50
Metropolis Healthcare	0.7	-40.6	-40

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.

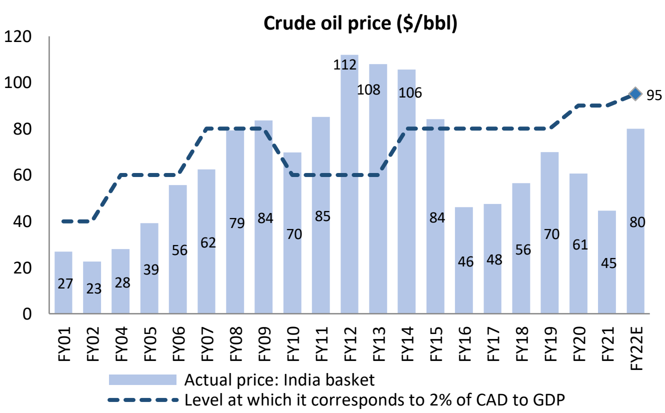
At the direct level, India's exposure to Russia and Ukraine is limited to only 1-2% of both total exports and imports. There are some product concentration risks – for e.g., imports from the region account for 10% of India's fertilizer consumption and 70% of sunflower oil imports.

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

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.

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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.

In addition, the 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 ▪

Notes:

(1) Performance is calculated basis time weighted rate of return method net of all fees and expenses; Individual client performance may differ. Past performance is not indicative of future results. Performance shown since September 1, 2021, as client monies were managed from this date. Performance related information provided herein is not verified by SEBI. Returns have been calculated using Time Weighted Rate of Return (TWRR) method as prescribed by SEBI (2) S&P BSE 500 Total Returns Index. (3) All data is as of 31 March 2022. (4) All returns and % changes are in INR terms unless otherwise stated. (5) Refers to aggregate assets under management or advisory for White Oak Capital Management Consultants LLP. (6) Source: Bloomberg, Factset. Further details are available upon request (7) Inception Date : September 1, 2021 (8) Returns for 1 year and less than 1 year are absolute returns, while more than 1 year are CAGR. (9) The number inside the bars denote the number of companies in each classification. (10) SI : Since Inception (11) FactSet's Attribution Analysis. Performance is gross of fees, taxes and expenses. Market Cap Classification as per Securities and Exchange Board of India (SEBI) guidelines for Mutual Funds. Performance related information provided herein is not verified by SEBI. (12) Factset's Attribution Analysis: GICS Classification. (13) Source: Bloomberg, further details are available upon request. Performance is gross of fees, taxes and expenses. Performance related information provided herein is not verified by SEBI.

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