INDIAN SUBCONTINENT FUND

ALQUITY INDIA

Q3 2024 REVIEW

Performance vs Index

	Q3	1Y	3Y	5Y	9Y	Since inception (30/04/14)
Fund	3.2%	25.1%	29.2%	109.4%	174.0%	231.2%
ETF	4.9%	31.7%	27.7%	87.8%	132.6%	153.8%
Index	7.3%	40.3%	39.2%	114.2%	174.9%	201.6%
Quartile	4th	4th	2nd	1st	1st	1st

*Source: Alquity, Bloomberg, Lipper, as of 30 September 2024. USD I net of fees vs the relevant Indian index and the *iShares India ETF. We are using I (GBP converted into USD). We have used the live track record for the USD M class since 30th April 2014 (not adjusted for performance fees, just OCF) and the USD Y class since 29th June 2017 and added back 1% per annum up until the launch of its GBP I class (12th November 2019). Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, expressed or implied is made regarding future performance.*

The fund underperformed in this quarter. As well as suffering from **the impact of increased rates of capital gains tax** (that were announced in the post-election budget), a number of our companies' earnings suffered from **short-term impacts**, such as adverse product-mix changes, short-term weather or election-related disruptions.

Please also note that **our returns reflect provisioning for capital gains tax**, which is not included in the index. Therefore, we also show performance data for the ETF* which does include the CGT provision and is therefore an apples to apples comparison.

Key Events

In our view, the post-election budget in July was responsible, well-rounded and focused on India's long-term development. **Strong fiscal discipline was maintained** (fiscal deficit estimated at 4.9%/GDP for FY25 vs 5.1%/GDP in the interim budget) and an emphasis was placed on employment/skilling schemes (as underemployment has been a major issue) and the rural economy, with **INR 2.7 trillion allocated for rural development and infrastructure**. Equity investors were disappointed with the increase in capital gains tax (with long term capital gains being taxed at 12.5% versus 10% earlier, and an increase in short term capital gains tax from 15% to 20%). More importantly however, **many Indians will benefit from changes in the income tax structure** with Finance Minister Sitharaman commenting that "a salaried employee in the new tax regime stands to save up to INR 17,500 (approx. $200) in income tax". We believe that this is a net positive overall for the market and economy in the medium term. **Strong fiscal support for infrastructure** was maintained at a record INR 11.1 trillion for FY25 (3.4% of GDP). Greater infrastructure spending has been instrumental for India to begin to realise it's potential, and hence this policy continuation is encouraging.

India's monsoon season has concluded, with **rainfall 8% above the long term average** and crop sowing 1.5% higher year on year. Although, rainfall dispersion is (as usual) not uniform across the country with deficits in certain areas and flooding in others, we expect this to be a **positive catalyst to rural spending over the coming months**. Furthermore, water levels in the main reservoirs have reached 87% of capacity, versus 73% a year back, providing greater confidence in the rural economy for the following year as well.

Elsewhere, **consumer price inflation in August was controlled** at 3.65% year on year and the **composite PMI for September remained in expansionary territory** with a reading of 58.3.

Top 5 Performance contributors Q3 2024 (bps)

Positive

Reliance Industries (not owned)	+103
Skipper	+65
Vmart	+52
Go Fashion	+46
ICICI Prudential	+23

Negative

Lemon Tree Hotels	-97
Prince Pipes	-65
Macrotech Developers	-60
Astral	-48
Redington	-40

Source: Alquity, Bloomberg as of 30th September 2024. Figures calculated vs the India iShares ETF

ESG and Engagement highlights

We engaged with Samhi Hotels regarding their upcoming annual general meeting resolution on employee stock option issuance, and improving their disclosures regarding performance linked remuneration.

We also engaged with the CEO of Aptus Value Housing regarding improved disclosure and granularity on GHG and water usage, as well as lost time injury rates and the level of health insurance coverage.

Major Portfolio Moves

New positions

Kajaria

Manufacturer of ceramic/vitrified tiles

SHILCHAR

Manufacturer and distributor of power transformers

Exit

Dixon® The brand behind brands

Electronics manufacturing services company

The companies mentioned above are provided for information only, are subject to change, and this is not a recommendation to buy or sell any particular security.

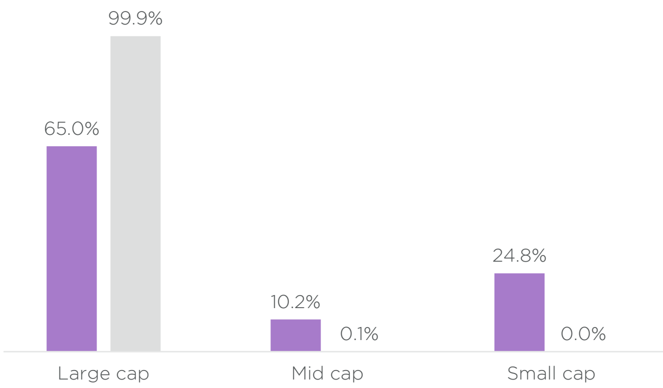
Strategy and Positioning

We continue to focus on **beneficiaries of domestic structural growth,** which account for the vast majority (circa 90%) of the portfolio.

We believe that **small and mid capitalisation stocks offer attractive, unrecognised growth opportunities**. The current portfolio split is shown to the right.

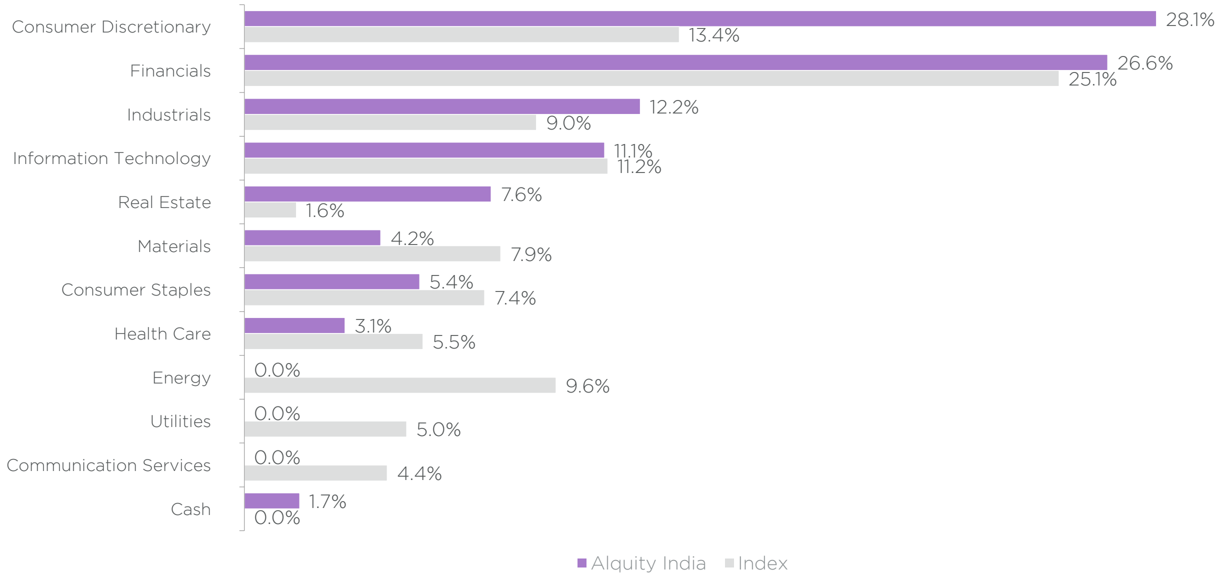
We remain positive on the outlook for India, given the favourable (and improving) economic and political outlook.

Market capitalisation split (in $bn) and number of holdings by market capitalisation



Source: Alquity, Bloomberg as of 30th September 2024. Weightings adjusted for cash holding

Sector weights



Source: Alquity, Bloomberg as of 30th September 2024. Figures calculated vs the India iShares ETF

Largest active weights

Positive	
Aptus Value Housing Finance	3.3%
Lemon Tree Hotels	3.2%
Skipper	3.2%
Oberoi Realty	3.0%
Dabur	2.9%

Negative	
Reliance Industries	-6.6%
Bharti Airtel	-3.2%
Larsen & Toubro	-1.8%
Bajaj Finance	-1.6%
Kotak Mahindra Bank	-1.5%

Source: Alquity, Bloomberg as of 30th September 2024. The index used is the India iShares ETF

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For the purposes of reporting, the unrealised capital gains have been removed from the portfolio sector weights calculations, however, remain part of the Net Asset Value calculation.

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Alquity
LIFE CHANGING INVESTMENTS

INDIAN SUBCONTINENT FUND