Alpha Bravo Charlie

AIE's outperformance is repeatable and sustainable...

Update
02 May 2025

Sketch a chart of an investment trust's performance going from bottom left to top right, consistently above its benchmark index and you've got the makings of a seemingly perfect investment, right?

As with anything in life, it's not that simple. Basing investment decisions on lines on a chart with little to no further context is dangerous. Sadly, of course, this is often the case for most investors.

Most stockpickers have a pronounced style bias – it's how they stand out from the crowd. This tends to affect their returns over time because their investment styles will go in and out of favour, giving them periods of potential outperformance and underperformance.

While investing in funds exhibiting different style biases can be a recipe for success, it remains almost impossible to know whether a manager's period of outperformance is due to skill or luck.

Alpha hunting

The only way you can be confident that an investment manager can repeat the successes of their past, in our view, is if the majority of the alpha that they deliver comes from stock selection. We believe that **Ashoka India Equity (AIE)** excels in this regard.

The first thing to note is that, on a simple line-chart analysis, AIE's long-term performance has been exceptional and is, to us, one of the key attractions of the trust. WhiteOak Capital Management, AIE's investment advisor, has outperformed its MSCI India IMI Index benchmark in every year since the trust's 2018 launch, bar one, leading to impressive outperformance.

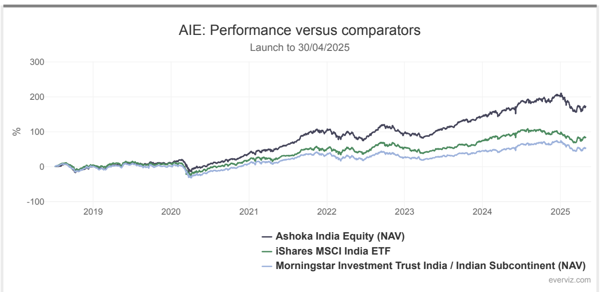
In the chart below, we have used an ETF as a proxy for the index. This ETF tracks the performance of the MSCI India Index which is similar to the trust's benchmark but has a focus on large and mid-cap stocks, and not smaller companies which are included in the benchmark. However, AIE still significantly outperformed the benchmark, which has returned 98.9% in the period covered, versus 171.8% for AIE.

It's no surprise that AIE is one of only three India- and global emerging market-focused investment companies trading on a premium rating.

Analysts:

David Brenchley
david.b@keplerpartners.com

Fig.1: Performance Since Launch



Source: Morningstar

The good news for investors is that when you dig deeper under the surface of AIE's returns, we believe that you see evidence that this is skill, rather than luck, meaning there is a greater probability that the outperformance is sustainable.

Specifically, we're talking about WhiteOak's ability to generate significant alpha over and above its benchmark index. As you can see in the table below, AIE generated 156.7 percentage points of alpha between its launch and 31/03/2025, of which

Attribution by market capitalisation

	FUND		BENCHMARK		ATTRIBUTION		
	Average Weight (%)	Total Return (%)	Average Weight (%)	Total Return (%)	Selection Effect (%)	Allocation Effect (%)	Total Attribution(%)
Large Cap	43.2	108.1	76.7	87.9	10.5	1.2	117
Mid Cap	20.3	297.6	14.8	112.4	34.9	3.0	37.9
Small Cap	32.3	647.7	8.5	94.4	109.0	-0.3	108.7
Cash/Futures/Other	4.2	-	0.0	0.0	-	-	-1.7
Total	100.0	249.3	100.0	92.6	155.3	1.3	156.7

Source: WhiteOak Group, Factset

an impressive 155.3 percentage points came from stock selection. That's very high-quality alpha generation.

In addition, since the trust was launched, the managers have made 269 investment decisions, of which they got 166 correct, giving them a 'hit rate' of c. 61%, well above the 55% that is considered a high standard in the industry.

To accomplish this alpha generation, AIE benefits from having a large and highly experienced investment team with a flat and meritocratic structure. At WhiteOak, analysts are given sectors of responsibility and are rewarded effectively for the trust's successful stock picking in their sectors.

Alignment of interests

AIE's team covering India is vast and based on the ground in India, which we think is an advantage in generating alpha compared to teams typically employed by UK-based asset managers. There are 31 analysts focused exclusively on Indian equities. Of these, 26 are based in India, one in Mauritius and four in Singapore.

The charging structure is also a standout feature, fully aligning the managers' interests with that of shareholders'. Rather than a traditional management fee, AIE has only a performance fee, which essentially means that if management does not outperform, they do not get paid. Furthermore, this fee is subject to a cap and is paid in shares as a demonstration of the managers' commitment to the ongoing success of the trust.

As you can see from the table above, AIE does have its biases: that is, it is overweight the small- and mid-cap (SMID) segment of the Indian market. This, though, is very much an output of the team's fundamental analysis, rather than being a macro call that SMID caps will outperform large caps in general.

Indeed, the best growth opportunities at reasonable valuations tend to come in the SMID-cap part of the market on account of their having lower research coverage and therefore presenting considerable alpha opportunities.

Managers recently won approval to increase AIE's maximum number of holdings, a request made to help them capitalise on the growing number of alpha opportunities they are identifying in the SMID space, while maintaining portfolio diversification for risk purposes.

The latter point here is important: while companies are selected on a bottom-up basis and there is a strong focus on governance and preference for quality factors, the managers look to weight positions to balance the portfolio across factors such as defensive versus cyclical exposure, or between domestic-focused and export-led names. The goal here is to minimise portfolio volatility while still maximising alpha.

By early April, the headline Indian market had fallen c. 15% from its September 2024 peak, with certain areas such as SMID caps slipping by more than that. In our view, this pullback was a healthy correction after a strong run from the Indian market – par for the course in equity investing.

AIE's strong returns and its ability to successfully harness the alpha generation of the Indian market helped it retain its Kepler Growth rating in 2025 and, in our view, this makes it stand out not only versus its Indian peers, but across all emerging market trusts.

View the latest research note here

Click here to add AIE to your watchlist

Click here to read related research

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.