# Skin in the game

**AIE's management and board eat their own cooking.**

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You wouldn't eat at a restaurant where the chefs don't eat their own food, goes the refrain, so why would you invest in a fund if the managers do not put their own money at risk alongside yours?

It's a fair question. If the person running a portfolio does not metaphorically eat their own cooking, then it's the end investors who take on all the investment risk; the manager simply collects their fees and receives adulation in the good times, but does not share in the hard times when they inevitably come.

We believe that while the subject is nuanced, investment trust managers and boards with skin in the game align the interests of management, executives and shareholders and, as such, should be viewed positively.

In practice, of course, it's difficult to know both whether restaurant chefs cook for themselves and whether fund managers – and boards of directors, in the case of investment trusts – actually invest in their own funds.

This is where the annual Skin in the Game report from the broker Investec comes in handy. The report digs into the share ownership of the management teams and boards of 249 investment companies, as well as the diversity of boards.

We would like to highlight one trailblazer in this respect and that is **Ashoka India Equity (AIE)**, where the management team owned c. £10.1 million worth of shares as at 09/05/2025, according to Investec, putting them in the top 20% of management teams with the biggest shareholdings.

In addition, the four-strong board of directors owned c. £926,477, as of the same date, with each of the directors' individual shareholdings worth more than five times their annual fees. AIE's is one of just five investment trusts where all board members have shareholdings equivalent to more than two year's fees.

This is, in large part, attributable to the fee structure of AIE, which is designed specifically to align the interest of the managers with that of shareholders.

WhiteOak Capital, AIE's investment advisor, does not charge AIE a traditional management fee. Instead, it has in place a performance fee, meaning the managers only accrue charges should the trust outperform its benchmark, the MSCI India IMI index.



The performance fee amounts to 30% of the excess returns of AIE's net asset value (NAV) per ordinary share over the benchmark, calculated over three-year periods. This is calculated on a daily basis, and therefore any accrued fee would be accounted for in the reported NAV. This fee is capped at 12% of the average net assets during the relevant performance period. As such, NAV returns are net of any accrued performance fee.

While it's true that the performance fee could, at times, be quite high should the trust deliver stellar performance, it also means that there will be no impact of fees on shareholder returns should the trust underperform.

It's also worth noting that AIE has delivered stellar returns, with NAV and share price total returns of c. 182.6% and c. 181.5% respectively from inception on 06/07/2018 to 31/07/2025, versus c. 103.7% for the benchmark (all figures are after fees). As a result of the performance fee-only structure, as well as strong growth in the size of the trust, it has an ongoing charges figure (OCF) of c. 0.21%, the lowest of all its peers.

Furthermore, the performance fee is paid in shares, which we believe demonstrates the managers' commitment to the ongoing success of the trust. It also accounts for management's meaty stake in AIE.

We think that this is a strong statement of confidence from WhiteOak in their own ability. In essence, if WhiteOak does not outperform, it does not get paid.

AIE has been able to deliver its impressive long-term outperformance for many reasons, with its small- and mid-cap bias being one key pillar. However, the strength of its investment adviser, WhiteOak, which was founded in 2017 by Prashant Khemka, former CIO and lead portfolio manager for India Equity and Global Emerging Markets Equity at Goldman Sachs Asset Management, is another important strand to the story.

WhiteOak is based in Mumbai, India, with 28 of the 33 analysts focusing on Indian equities based in India. AIE's team is vast and based on the ground, which we think is an advantage in generating alpha compared to teams typically employed by UK-based asset managers.

In addition, the structure that Prashant has designed is flat and meritocratic, with analysts given sectors of responsibility and rewarded based on their performance: effectively, attribution analysis is done on the portfolio, and analysts are rewarded for the trust's successful stock picking in their sectors.

As well as providing the right incentives for remuneration, this structure seems to provide the basis for the outperformance we've touched on. Indeed, much of AIE's alpha has come from stock selection, with the managers achieving a 'hit rate' of c. 57%, above the c. 50% to 55% that is considered a high standard in the industry.

All told, finding an actively managed fund that outperforms over the long term , is a big task for any investor. As we often say, past performance alone is no guarantee of future returns, so other, qualitative, factors must be weighed up, too.

One of these should be the alignment of interests between management, the board and shareholders, in our view. To us, AIE ticks all of these boxes..

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