

CHIKARA INDIAN SUBCONTINENT FUND

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COMMENTARY

February 2024

The fund posted a 0.7% gain this month somewhat behind the market which continues to have pockets of retail over-exuberance. There have been moments in both our careers where markets get distorted by narratives which frankly rarely deliver on the hype; we believe India is going through one such moment where certain moves are making both these managers' raise their proverbial eyebrows.

Government owned utilities or PSUs have seen a meteoric rise based on speculation around Public sector capex growth and a belief that this time will be different. One such example is Indian Railway Finance Corp which in March 2023 traded at 26 INR, yet today trades at 146 INR whilst its last quarterly EPS was 1.23 and its EPS in the previous year was 1.25. Undoubtedly India will need more rail but, for this manager, we can recall the IPO of China Rail Group in 2007, which was heavily oversubscribed on future expectations. The stock which IPO'ed at 5.8 HKD in 2007 and touched 11.6 HKD shortly after, today trades at 3.7 HKD. Similarly Power Grid of India has jumped from 163 INR to 293 INR between January 2023 and today, whilst its EPS this year is estimated at 17 INR vs 16.6 INR last year. These are companies owned by the State, run for the greater good of the Indian people and in our view rarely do such entities provide long term returns for shareholders. At such times we as managers will let the euphoria pass and at some point will not be surprised to see those speculating receive some very charred fingers.

Without doubt the macro environment in India continues to attract global attention, with barely a day going past without suggesting that India will be the shining growth light in emerging markets. The second most ubiquitous observation we receive is that valuations reflect this optimism; given the above paragraph one could easily find validation in this argument however to do so would be overlook elements of the market where we are seeing historically low valuations. We cannot fathom why investors would choose to overlook the decadal low valuations in leading private sector banks, whilst we also see tremendous value in some of our higher growth compounders such as Narayana (Hospitals), Westlife (McDonalds) and Delhivery (Logistics). So whilst we concur that certain themes like those government owned companies, and spurious investment stories in segments such as semiconductor manufacturing, are absurdly valued, we have rarely seen better opportunities within the broader portfolio. Often it feels to us that stagnating share prices rarely attract those valuation detractors, simply because the narrative shifts from 'why is it expensive?' to 'what's wrong with it?'.

On our recent travels to India this month we received clarity on a few variables. One such variable was the incumbent government and its chances for re-election seems to be relatively 'sewn up' as the opposition parties remain in disarray and the state elections point to a commanding majority. Strong GDP growth continues with 3Q GDP growth +8.4% (2Q was +8.1%), whilst inflation metrics continue to fall. Recent bond index inclusions will provide cushion to the capital account, which will continue to provide a bedrock of support to the rupee. Rural India continues to struggle with affordability, whilst the more affluent citizens continue to splurge on verticals such as tourism and housing. This is corroborated in recent number divergence between companies like India Hotels and mass market staples sold by Unilever over the last six months. Where our B2C tech companies continue to grow rapidly – the Indian software export market is running into a very tough demand picture, with threats from companies bringing IT inhouse (GCCs), as well as AI challenging the billing methodology for traditional payment models based on per employee labour time.

BOOK EXPOSURES			FUND HIGHLIGHTS	INVESTMENT OBJECTIVE
	No. Stks	%	This Fund is a concentrated long only equity portfolio typically investing in between 25-40 stocks in the markets of India, Bangladesh, Sri Lanka, Pakistan and Myanmar ("Indian Subcontinent").	To provide investors with long term capital appreciation through an actively managed portfolio of equities of companies, listed or traded, or which conduct a predominant part of their economic activity in the Indian Subcontinent.
Fundamental Opps	23	84.7		
GEMs	3	13.1		
Special Situations	1	3.7		
Cash & Other	0	0		

FUND STATISTICS		CUMULATIVE PERFORMANCE (%) ⁽²⁾							
Investment Team:	Andy Draycott & Abhinav Mehra		1 month	YTD	1 year	2 years	3 years	5 years	Inception ⁽²⁾
Investment Manager:	Chikara Investments LLP	S USD	0.69	3.34	32.57	22.61	35.27	80.93	85.13
Fund Size:	USD 87m	S GBP (unhedged)	0.97	4.12	26.97	30.04	49.14	N/A	113.48
Active Share ⁽⁵⁾ :	94.1%	Index ⁽¹⁾	2.80	5.22	37.21	23.77	44.61	86.23	91.39
Launch Date:	20.11.2018	COUNTRY EXPOSURE		DISCRETE PERFORMANCE (%) FULL CALENDAR YEAR ⁽²⁾					
Dealing:	Daily	Country	(%)		2023	2022	2021	2020	2019
Denomination:	USD	India	101.5	S USD	23.71	-10.92	22.51	15.90	9.90
Benchmark ⁽⁶⁾ :	M1IN: MSCI India Net Total Return USD Index	Cash & Other	0	S GBP (unhedged)	17.07	-0.31	23.93	n/a	n/a
Structure:	Irish OEIC, UCITS V	Total	101.5	Index ⁽¹⁾	20.59	-7.72	26.34	15.42	7.51

Registered for sale in: UK, Ireland, Germany, Luxembourg, Finland, Sweden & Switzerland and Institutional and Accredited Investors only in Singapore.

For KID/KIID documents and more information, please visit: www.chikarainvestments.com

Source: Independent returns are calculated daily by Northern Trust International Fund Administration Services (Ireland) Limited. All performance details shown are net NAV to NAV percentage returns with gross income re-invested. Past performance may not be a reliable guide to future performance. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Investments denominated in foreign currencies expose investors to the risk of loss from currency movements as well as movements in the value, price or income derived from the investments themselves; and some of the investments referred to herein or underlying investments undertaken by issuers may be derivatives and may involve different and more complex risks as compared to listed or other securities. All figures quoted are in USD.

TOP 10 HOLDINGS	
Holding	(%)
Kotak Mahindra Bank	9.0
HDFC Bank	9.0
ICICI Bank	7.3
Narayana Hrudayalaya	6.3
Delhivery Ltd	5.5
Zomato Ltd	4.6
PB Fintech	4.3
Bajaj Finance	4.0
Godrej Properties	3.8
Aavas Financiers	3.8
Total	57.6

TOP 10 SECTORS	
Sector	(%)
Banking	25.3
Transportation	8.5
Internet Media & Services	8.3
Speciality Finance	7.8
Leisure Facilities & Services	6.8
Health Care Facilities & Services	6.3
Beverages	6.0
Automotive	5.4
Software	4.3
Real Estate Owners & Developers	3.8
Total	82.5

SHARE CLASS DETAILS					
SHARE CLASSES	ISIN	Management Fee	Ongoing Charges Figure ⁽³⁾	Performance Fee	Minimum Initial Investment ⁽⁴⁾
Class I USD	IE00BG7PPH10	1.00%	1.30% (capped)	15%	\$1,000,000 or currency equivalent
Class I GBP (unhedged)	IE00BLDG9R13				
Class I GBP	IE00BG7PPG03				
Class S USD	IE00BG7PPL55	0.75%	1.05% (capped)	10%	\$5,000,000 or currency equivalent
Class S GBP (unhedged)	IE00BL0BMT20				
Class S GBP	IE00BG7PPK49				
Class S EUR	IE00BG7PPM62				
Class T USD	IE00BJRFW608	0.75%	1.05% (capped)	None	\$10,000,000 £10,000,000
Class T GBP (unhedged)	IE000NXM4961				
Class Q GBP (unhedged)	IE000TTQZ4M2	0.65%	0.95% (capped)	None	£15,000,000

KEY RISKS

Liquidity risk – The Fund may encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity.

Credit and counterparty risks – the Fund may be exposed to credit and counterparty risks in relation to the securities and counterparties it invests in and with whom it transacts.

Concentration risk – This Fund holds a limited number of investments. If one of these falls in value, it can have a greater impact on the Fund's value than if the Fund held a larger number of investments.

Currency risk – Investing in assets in a currency other than your own exposes the value of your investment to exchange rate fluctuations.

Derivatives – the Fund may use derivatives as investments or to manage the risk profile of the Fund. Their use may increase the risk of losses as well as enhance potential gains as compared to funds that do not use derivatives.

Emerging market risk – Investment in emerging markets may be considered speculative. Commonly legal and accounting regimes can offer less protection to investors than in developed markets.

Sustainability Risk - Environmental, social and governance events or conditions could occur that have an adverse impact on the value of the Fund's investments, either directly, or by contributing to the impact or materiality of other risks.

The Fund prospectus gives you further details about all the risks for this fund – see under “Important Information” for how to obtain a copy.

IMPORTANT INFORMATION

- 1) The benchmark performance is that of the MSCI India Net Total Return index in US\$ (M1IN) based on a midday price consistent with the valuation point.
- 2) Benchmark & all share class performance since 20.11.2018 except GBP S (unhedged) performance which is since 06.05.2020.
- 3) Ongoing charges figure: Note the OCF for the following classes are currently capped, classes I (GBP), I (USD) and I (GBP unhedged) are capped at 1.3%, classes S (GBP), S (EUR), S (USD), S (GBP unhedged), T (USD) and T (GBP unhedged) are capped at 1.05%, class Q (GBP unhedged) is capped at 0.95%. The cap may be terminated on 60 days' notice.
- 4) The minimum initial investment amount for classes S (GBP), S (EUR), S (USD), S (GBP unhedged) is waived and the minimum initial investment amount for classes T (USD) and T (GBP unhedged) is reduced to \$2,500,000 or currency equivalent until the fund size reaches \$100,000,000. The class Q (GBP unhedged) is only available to new investors until the share class reaches £50,000,000.
- 5) Active Share Source: S&P Capital IQ Pro
- 6) Source: MSCI

All data as at 29.02.2024 unless stated otherwise. All information is sourced from Chikara unless stated otherwise.

This document does not purport to provide investment advice and should not be relied on for the purposes of any investment decision. It is not an offer to sell or the solicitation of an offer to purchase shares in Chikara Indian Subcontinent Fund, (a sub-fund of Chikara Funds plc, an open ended investment company with variable capital incorporated in Ireland and authorised by the Central Bank of Ireland as a UCITS pursuant to the UCITS Regulations). Any such offer or solicitation can only be made by means of the formal subscription documentation and the related Prospectus dated 26th July 2023 together with the Chikara Indian Subcontinent Fund Supplement dated 10th August 2023 (together the Prospectus) and only in those jurisdictions where it is permitted by law. Chikara, as investment manager, has discretion in managing the investments of the Chikara Indian Subcontinent Fund (the "Fund") and selects equities through research using fundamental, bottom-up stock selection techniques. The Fund is actively managed, which means that Chikara has discretion over the composition of the Fund's portfolio, subject to the Fund's stated investment objective and policy. Accordingly, although the performance fee of the shares (except for Class D and Class T shares) is calculated in reference to the Benchmark (as defined in the Prospectus), Chikara will select the Fund's investments based entirely on its stock selection techniques, irrespective of whether such stocks are components of the Benchmark.

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The representative in Switzerland is 1741 Fund Solutions Ltd, Burggraben 16, CH-9000 St. Gallen. The Swiss Paying Agent in Switzerland is Telco Ltd, Bahnhofstrasse 4, CH-6430 Schwyz. The prospectus, the articles of association, the Key Information Documents, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the representative.

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Copies of the Prospectus in English, UCITS KIIDs in English and PRIIPS KIDs in English, German and Swedish may be found at www.fundinfo.com and copies of the Prospectus and the latest annual report and any subsequent half-yearly report of the Company in English free of charge from Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, George's Court, 54 – 62 Townsend Street, Dublin 2 or the Investment Manager, Chikara Investments LLP, 31-32 St James's Street, London SW1A 1HD. Tel : 0207 321 3470. A summary of investor rights is available in English at <https://www.chikarainvestments.com/summary-of-investor-rights>.

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