SOHUM
ASSET MANAGERS

Sohum India Opportunities Fund: Investor Update Newsletter, September 2025

Emerging market (EM) equities are having a standout year, despite U.S. tariff announcements. The MSCI EM index has surged 27% YTD[1], outperforming the S&P 500 by 13%, and marking the best start for EMs since 2017. One of the crucial factors supporting EM equities this year has been the weakness in the dollar index, with the DXY index down 10% YTD. Historically, EM equities have significantly outperformed during periods of sustained USD weakness. For example, from 2002-2007, the dollar weakened while EM growth soared alongside rising commodity prices. During this period, the MSCI EM index delivered an impressive, annualized return of 29%, significantly outperforming developed markets. In the past, a softer dollar has often signalled reduced global risk aversion, driving flows into higher-returning EM assets. Currently, the strong dollar trend of the past 15 years seems to be hitting a speed bump. Investors are now moderating their U.S. exceptionalism trades and rebalancing towards markets like Europe, Japan and EMs.

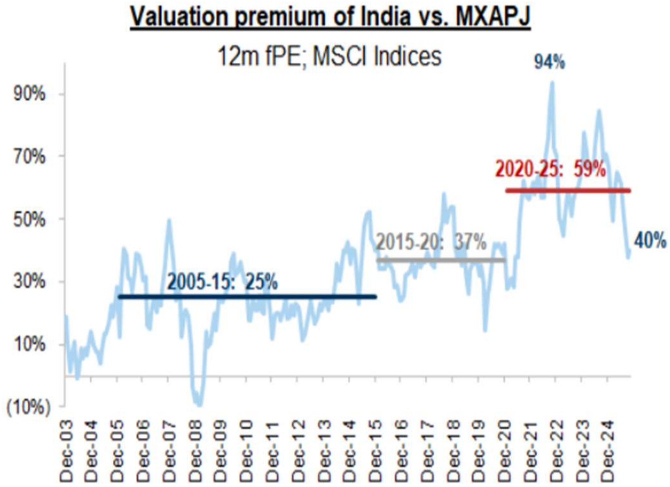
Who would have thought that in a year belonging to the EMs, Indian equities would underperform its EM counterparts by such a huge margin! The Nifty index is up only 5% YTD in INR terms and just up 1.4% YTD in US$ terms. So, what has driven this large underperformance? We outline some of the factors below:

- **Earnings downgrade:** India has seen a sharp earnings downgrade cycle in the last 1 year. FY25 was the first year of single digit Nifty EPS growth post Covid as India's GDP growth slowed down from 8%+ in FY24 to 6.5% in FY25. While the latest GDP print for 1QFY26 at 7.8% may look respectable, but the nominal story is far less flattering. A low deflator (1.0% in 1QFY26, persistently low inflation) has resulted in a multi-decade low (ex-COVID) nominal GDP growth of 8.8% in 1QFY26. This low nominal GDP growth in turn has affected revenue performance across the board, causing corporate earnings to fall to mid-single digits.
- **Premium valuations:** Returns for many EMs have been supported by multiple expansion over the past year. Given high starting valuations and earnings downgrades, India has not seen a similar re-rating. In fact, even post the price and time correction in the last 1-year, valuations have eased only slightly with Nifty 1-year fwd PE at 21x (slightly above last 5-year average), although India's valuation premium to EMs has reverted back to long-term average (Exhibit 1).
- **Tariff stalemate:** At the beginning of the year, there were expectations that India would most likely face lower tariffs than its major competitors and would thus stand to benefit. However, in the end, it got hit by the highest tariff rates (Exhibit 2) with the U.S. government's 25% tariff on India coming into effect on August 7, and another 25% kicking on August 27. These high tariffs have weighed on sentiment as India's export to the US make up 20% of total exports, the single largest share. There is also increased fear off further punitive measures that could be undertaken by the Trump administration against India's services exports which has been one of the key drivers of India's current account resilience in recent times. Not surprisingly, the tariff stalemate has meant that the Indian rupee has been one of the worst performing EM currencies this year, despite the general dollar weakness.
- **No "AI plays":** Foreign flows have rotated from India into countries like Korea and Taiwan that have benefitted from the current AI optimism. The Chinese stock market has also been driven

[1] All market data as of 3rd October, 2025 unless otherwise stated

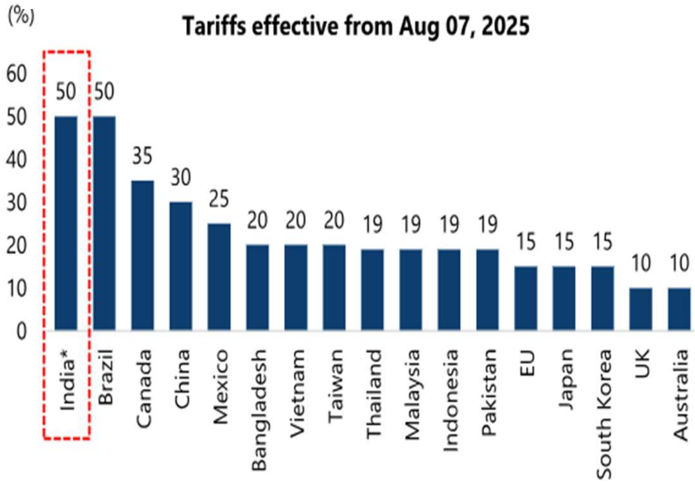
by the AI thematic, albeit from a much lower valuation starting point. China's open sourced approach, combined with its access to almost limitless cheap power, makes it a formidable competitor in the race to dominate AI. Meanwhile, China continues to record a record trade surplus, reflecting its dominance in global manufacturing. On the other hand, Indian indices have been dragged down by more "mature business models" – IT services, large generic pharma companies and even some consumer majors that have failed to reinvent themselves.

Exhibit 1: Valuation premium of India relative to the region has narrowed



Source: Goldman Sachs Investment Research

Exhibit 2: Current tariffs imposed by the US on India at 50% (including penalty) is amongst the highest globally



Source: Jefferies. *India tariffs at 25% base plus additional penalty of 25%. The additional penalty applicable from 27th August, 2025

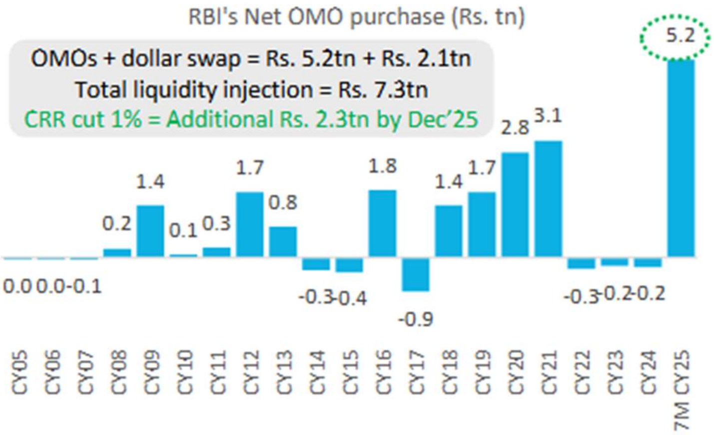
Despite the above headwinds, India's structural growth story remains intact. Also, policymakers have taken cognizance of the mid-cycle slowdown and are doing ***"whatever it takes"*** to revive growth. The government has rolled out a Rs.2.3trn consumption stimulus package, led by Rs.1trn of personal income tax cuts and Rs.1.3trn of GST rate reductions. These measures, alongside lower EMIs on retail loans, rural revival and the 8th Pay Commission (FY27) are likely to provide a significant consumption push. The RBI has lowered the repo rate by 100bps to 5.5% in the current easing cycle and has injected liquidity to the tune of Rs.5.2 trn via OMOs and Rs.2.1 trn via forex swaps (Exhibit 3). Further, ~Rs.2.5 trn of liquidity is likely to enter the system by December due to the 100bps CRR cut. While the central bank has already cut rates by 100 basis points this year, recent encouraging inflation prints suggest there is still room for further easing (25-50bps). Overall, we believe that supportive monetary and fiscal policy is likely to translate to economic recovery sooner rather than later.

Also, we are close to the end of the earnings downgrade cycle for India. After the sharp double-digit earnings cuts seen in FY25, the intensity of earnings cut eased to modest levels in 1QFY26. Barring any new unforeseen economic or geopolitical shock, the risk of further material earnings cuts seems low to us. Analyst estimates have now aligned better to the prevalent environment, as several adverse developments over the past year had forced analysts' hands to front-load earnings cuts. We are currently working with Nifty EPS of Rs.1100/1300 for FY26/FY27 respectively, which implies growth of 8% for FY26 and 18% for FY27. At 20x FY27 EPS of Rs.1300, we get Nifty target of 26,000 over the next 6 months. From a slightly longer-term perspective, we expect FY28 EPS at ~Rs.1450 which at 20x multiple gives us Nifty target of 29,000 from a 18 months' timeframe.

Overall, we believe that the worst of earnings cuts is behind and given the cavalry of measures adopted by the government and the RBI, Indian equities should be supported by earnings floor and better sentiment. Moreover, having sold ~US$20bn YTD, FPI positioning is light with funds across

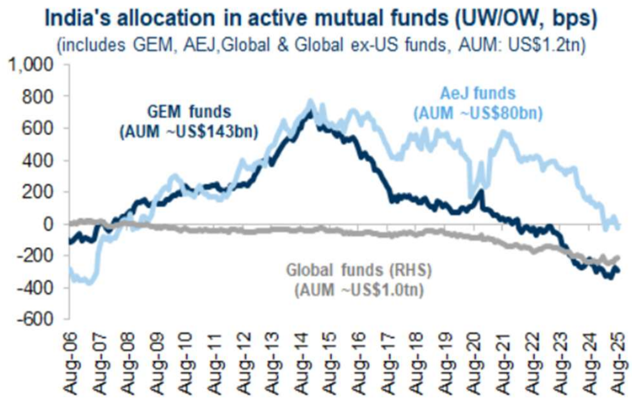
EM/Asia/Global mandates underweight India by ~200bp on aggregate vs. traditional 200-300bps overweight (Exhibit 4). Also, as highlighted above, India's underperformance to the EMs have brought the relative valuations back to average PE premium levels, from near record highs a year back. Thus, any resolution on the tariff front can result in FPI flows returning to India.

Exhibit 3: Liquidity operations by the RBI



Source: Avendus Spark Research

Exhibit 4: FPIs are underweight India



Source: Goldman Sachs Investment Research

Portfolio Composition & Performance

In terms of our portfolio positioning, we remain tilted towards domestic themes, driven by expectations of a domestic recovery. Our portfolio broadly reflects our preference for growth visibility and domestically focused plays vs global facing sectors due to tariff headwinds. We are over-weight auto, capital goods, construction material, power and utilities, telecom, pharma, logistics and metals while we are under-weight IT, oil and gas and consumer staples.

Performance Table of Sohum India Opportunities Fund (AIF)

	Nifty 50 TRI	Pre Tax NAV* (SIOF)	Outperformance
Since Inception (20/05/2022)	57.91%	86.73%	28.82%
Since Inception CAGR	14.52%	20.36%	5.84%

**Sohum India Opportunities Fund Pre-tax post fee NAV for direct option. Data as of 30th September 2025*

Overall, ***our portfolio companies across all segments large, mid and small cap are well poised to deliver industry-leading earnings growth (Portfolio companies' earnings growth at 16.4% over FY25-27, with PE of 16.2x on FY26 & 13.5x on FY27 at 24,611 Nifty[2] and ROE at 17.9%) and we anticipate the same to translate into benchmark outperformance in the near to medium term.*** We continue to be steadfast in our approach that is grounded in reality and conservatism. We are truly thankful to all our investors who have stayed with us and backed us in our journey. Our long-term focus, disciplined approach and complete alignment of interests provides resilience to this partnership. We believe this is just the start and we remain excited about the opportunities in the coming years with focus on delivering superior value and performance to our unit holders.

Warm Regards,

Sanjay H Parekh

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[2] As of 30th September, 2025