



Quarterly Newsletter

IKIGAI Emerging Equity Fund

“The stock market is a device for transferring money from the impatient to the patient.”

–Warren Buffett





Dear Investors,

We are delighted to share the 5th quarterly update of IKIGAI Emerging Equity Fund.

Thank you for entrusting us with your hard-earned savings and allowing us to play a role in your financial journey. Your support has been pivotal to our progress, and we remain profoundly grateful for the trust you have placed in us.

Since our launch in late June 2024, Indian markets have moved largely sideways. While global indices moved higher, our markets consolidated - weighed down by slowing broad-based growth, premium valuations, and narrow participation, with barely 30-40% of stocks outperforming the indices. In such times, conviction is tested not by market noise, but by the strength of the businesses one chooses to own.

The past year has not just been a test of markets - it has been a test of temperament. For us, it reaffirmed the importance of staying anchored to fundamentals, focusing on **good businesses at fair prices with durable earnings power**, rather than chasing narratives.

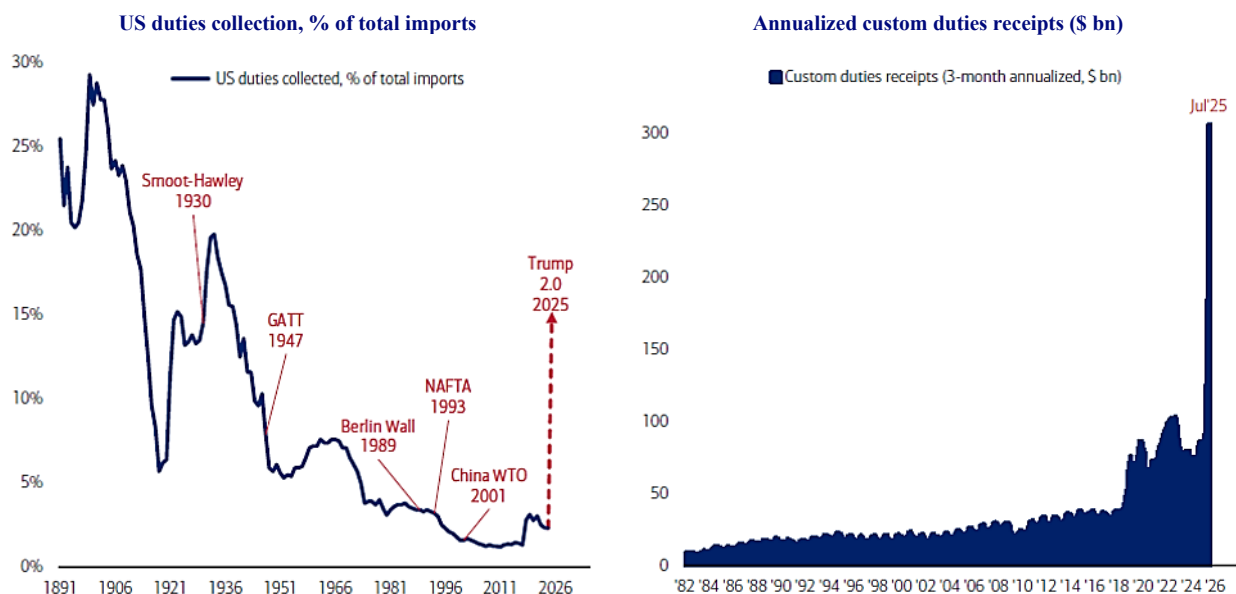
Thank you for your trust, your patience, and your belief in our philosophy. This newsletter reflects what we've learned, what we're seeing, and how we are positioning for the road ahead.

Adapting to a Volatile World: The only constant is Change.

As you might recall, we discussed in our previous newsletter **how the world is shifting** and that we're no longer in the era of globalization as we know it. Instead, we're entering a phase of de-globalisation or **fragmentation**.

2025 has been a year full of noise: wars old and new, tariff battles, policy changes and reversals, unpredictable geopolitics, and the unstoppable rise of Artificial Intelligence (AI). As the Greek philosopher Heraclitus once said, **"The only constant in life is change."** This year has reminded us of that truth almost daily.

Trade tensions are no longer stories we can brush aside - they are reshaping how businesses work. The U.S. effective tariff rate has jumped nearly tenfold in 2025, **stabilising near 18%, with \$ 30 bn collected in July alone.**



Source: BofA Global Investment Strategy, US International Trade Commission. Haver

In the past few months, importers bore much of the cost. However, in our view by year-end, it will be **U.S. consumers paying the bill**. With nearly **60% of imports being intermediate and capital goods**, higher costs will run through supply chains and show up in inflation in coming months.

This comes at a difficult moment: U.S. growth is slowing, unemployment is inching higher, and housing inventories are flashing 2008-style warning signs. The risk of **stagflation** is no longer an academic debate. It's becoming part of investor conversations.

On top of this, America's fiscal position is stretched like never before. The country is running its **largest deficit since World War II**, and debt is projected to **cross \$ 40 tn next year**. Annual interest costs alone are nearing **\$ 1 tn**.



This is debt-financed growth at a scale the world has never seen. As Warren Buffett has often reminded us: ***“You only find out who is swimming naked when the tide goes out.”*** The question is not whether the U.S. can borrow more, but how long the world will be comfortable financing it.

The once-mighty **U.S. dollar has already weakened meaningfully this year**, reflecting these structural pressures.

And yet - despite tariffs, rising unemployment, and fiscal stress - U.S. equities have been remarkably resilient. The **S&P 500 has rallied 34% from the April lows**, recording **28 all-time highs this year**. It is one of the most surprising comebacks in market history.

As Mark Twain quipped, ***“History doesn’t repeat itself, but it often rhymes.”*** The resilience of markets in the face of weak fundamentals feels like a rhyme we’ve heard before.

Artificial Intelligence: Dream to Mania?

If there’s one theme that dominates headlines and boardroom conversations today, it is **Artificial Intelligence (AI)**. The narrative is great - AI will reshape industries, supercharge productivity, and create entirely new markets.

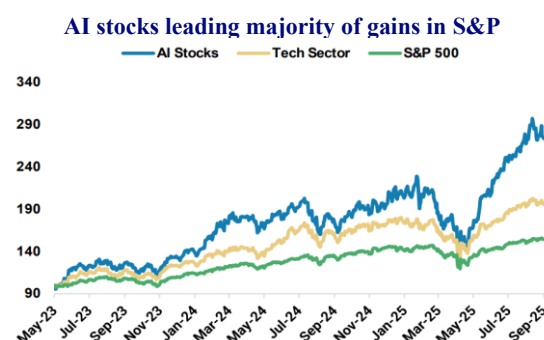
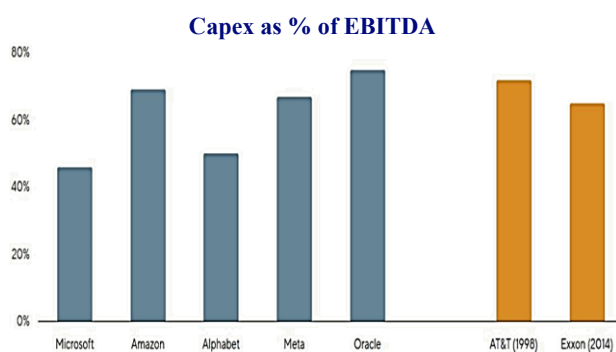
But the question we must ask as investors is simple: **are we riding the wave of a revolutionary technology, or teetering at the edge of another bubble?**

We believe the sector is at an **inflection point**. Markets are treating AI as a one-way bet, but beneath the surface, the signs of excess are starting to flash red.

Consider the following:

- The **Magnificent Seven (Mag-7)** now hold a **32% weight in the S&P 500**, up from 18% just two years ago. That is the fastest concentration of market power in modern history.
- AI companies have accounted for 80% of the gains in US stocks so far in 2025.
- Spend by companies on AI now account for 40% share of US GDP growth this year.
- **Nvidia**, with an **8% weight**, is now the single largest stock in the history of the index. Its valuation equals **15% of U.S. GDP**. At the peak of the dotcom bubble, Cisco was crowned the world’s largest company at just 5% of GDP - before its collapse. The story then? Internet traffic would double every 100 days.
- Since the launch of ChatGPT in late 2022, **AI-linked firms have delivered 80% of S&P 500 earnings growth and 90% of its capex growth**.
- **AI Capex has already crossed 1.2% of global GDP** - more than the telecom build-out peak of 2000.
- Most of this capex is funded by **digital advertising**, which already accounts for over **70% of global advertising spend**. Growth here is approaching natural limits.
- Big Tech is now reinvesting **50-70% of EBITDA into capex**, levels similar to the telecom bubble - and history shows that when investment intensity runs ahead of returns, the ending is rarely smooth.
- Open AI is poised to raise money at \$ 500 bn valuations, despite their internal projections showing that they will lose more than \$ 100 bn over the next few years.

These are remarkable companies, but history is clear: even the best businesses can deliver poor investment outcomes if bought at euphoric valuations. Microsoft, for example, took 15 years to recover its dotcom peak despite steady growth.



Source: GQG Partners LLC, Bloomberg, Morgan Stanley Research. As of 9/2/2025

As investors, we don’t doubt the transformational power of AI. We are not dismissing AI. Its long-term potential is extraordinary. But history teaches us that **technology revolutions often start in brilliance and end in bubbles** before maturing into durable growth. The internet did it. Railroads did it. Telecom did it.



When the hype cycle deflates the Mag-7, China/Korea/Taiwan and numerous other trades will unwind. India has not participated in the AI trade and is seen as an AI loser. We may need to wait for the AI hypercycle to turn for India to start attracting foreign capital again

At IKIGAI, our role is not to chase euphoria, but to protect capital and compound steadily. **We prefer to watch the mania from the shore rather than get swept away by the tide.**

Non-US equity markets quietly building strength:

While headlines are dominated by AI and tariffs, international **markets are quietly outperforming US markets** powered by a weaker dollar and stronger fundamentals. For the first time since 2006, **European equities have outperformed**

U.S. equities in \$ terms.

- **MSCI Global Total Return Index (Ex US)** is up nearly **25%**
- Compared to just **13.7% total return** for the S&P 500 CYTD

A key driver of this trend? **The falling U.S. Dollar Index**, which has made global assets more attractive to international investors.

U.S. equities make up **68% of global equity indices**, while its economy is just **15% of world GDP**. Europe's share has halved to **11% in global indices**, despite contributing **14% of global GDP**.

With global markets outperforming the U.S. this year, a natural question arises: **Could the next decade belong to international and emerging markets like India?**

Investor interest in diversification is rising, especially as the **U.S. dollar weakens** and **valuation gaps widen**. But let's not forget - **U.S. stocks have been in the driver's seat for over a decade.**

Since 2008:

- **U.S. stocks are up 500%**
- **International markets ex US: +192%**
- **Emerging markets: +80%**

So, while 2025 is showing early signs of a shift, **it would take many more such years** to meaningfully close this performance gap.

But the seeds of change may already be sown. With valuations more reasonable, currencies more stable, and structural stories like India's gaining ground, **international markets may finally be ready for their time in the sun.**

India Macro: Growth with Riders

"In a world of noise, India's quiet resilience is starting to speak louder than ever"

The Indian economy has kicked off FY26 on a strong note. **GDP grew 7.8% in Q1**, ahead of expectations, with services, manufacturing, and public investment all contributing.

Add to this, a healthy monsoon (+6% above average rainfall), rising rural wages, and the government's **GST rate cuts worth ₹ 2 tn** - which lowered the effective tax burden by almost 1%- have all helped build momentum. Everyday goods from FMCG to autos have become cheaper, helping household confidence and spending.

The RBI has joined in with support: **100 bps of rate cuts** this year and **₹ 10 lakh crore in liquidity infusion**. Together, these measures mark a clear shift from a cautious, stability-first stance to a **policy pivot towards growth.**

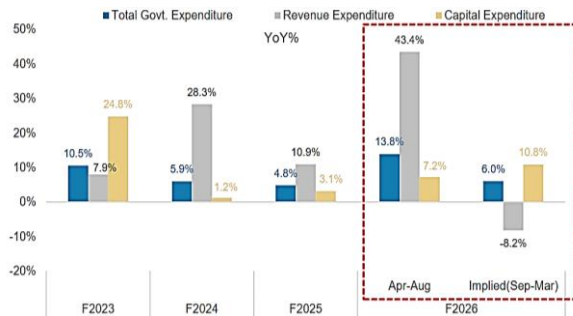
But the important question is: **Can this pace of growth hold?** Let's explore:

1. Does the Government Have Fiscal Room? Can 2HFY26 see capex slowdown?

- The FY26 Budget assumed 11.5% nominal GDP growth and 11% tax buoyancy. With nominal GDP likely closer to 9-9.5%, revenues will fall short.
- We estimate a ₹ 2.2 tn shortfall for the Centre, and ₹1.3 tn for states (0.37% of GDP).
- A weak capital market adds to the challenge: capital gains tax (CGT) and STT together contribute ~20% of personal income tax collections. With FPI outflows (\$ 17 bn in 2024) and muted capital gains, this revenue stream could disappoint.
- Unless disinvestment or other tax inflows -surprise, capex cuts or delayed payments may become unavoidable in 2H FY26.

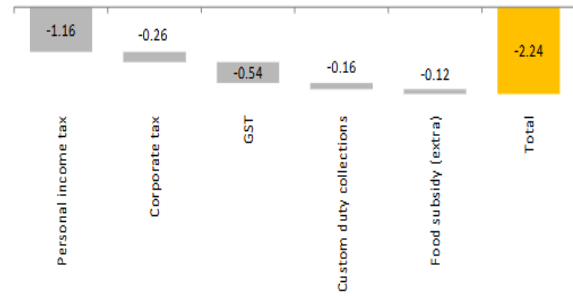


Expenditure



Source: CEIC, Morgan Stanley research

Revenue shortfall + cost overrun in FY26E (₹ tn)

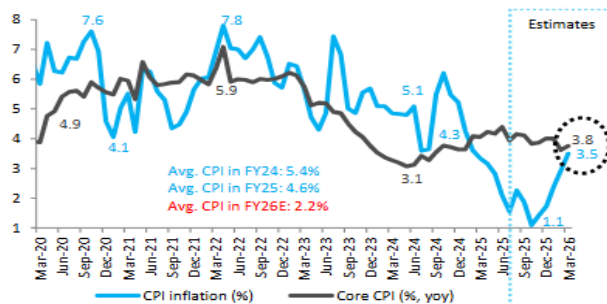


Source: Avendus Spark Research

2. Can the RBI Cut Rates Further?

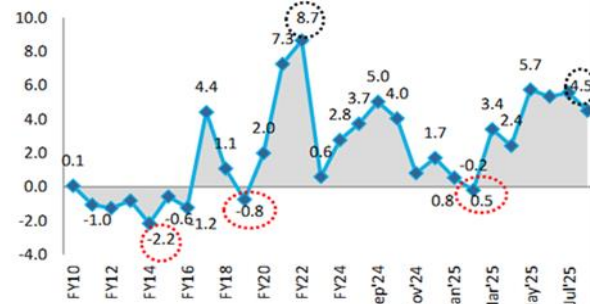
- Inflation is projected to stay **below 4% in FY26**, supported by GST cuts, healthy farm output, and lower food inflation.
- Liquidity remains ample (₹ 4.5 tn surplus), after **₹ 7.3 tn injected** via OMOs and swaps.
- This creates room for another **50 bps of rate cuts by early 2026**, while keeping real rates positive.
- Risks remain oil spikes or erratic weather could temporarily push inflation higher. But the policy stance has turned more growth friendly.

CPI is expected to remain below RBI's target of 4% in FY26e



Source: GOI, RBI, Avendus Spark Research

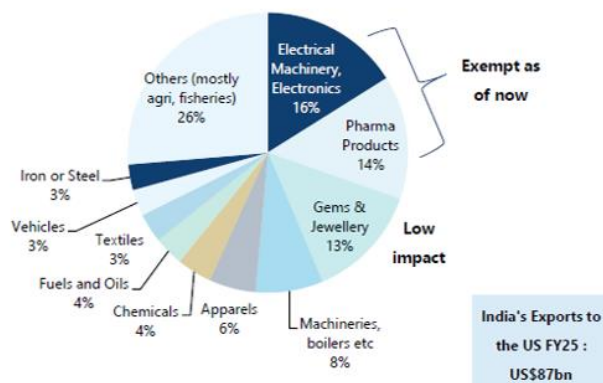
Total liquidity including Govt. Cash Balance (₹ tn)



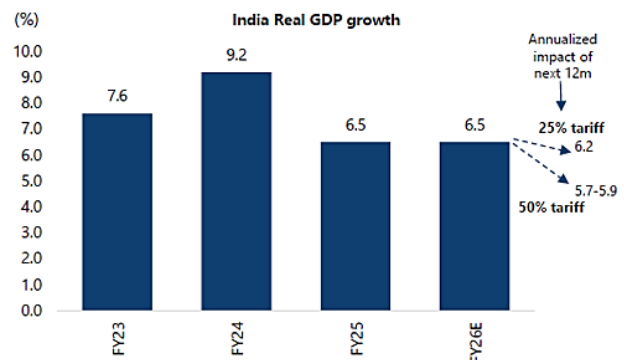
3. How Resilient is the Rupee and Balance of Payment (BOP) in a Tariff World?

- Without a U.S. trade deal, India risks a \$ 60 bn BoP deficit and a 0.9% GDP hit (~\$ 38 bn).
- The rupee has already depreciated 4.7% since May '25, amid tariff fears and FPI outflows.
- The buffer: forex reserves at \$ 698 bn (11 months of import cover). If a trade deal materialises, India could swing back to a \$ 10-15 bn BoP surplus, stabilising the ₹.

India's exports to US by Category



Likely impact on GDP growth of tariffs



Source: Govt. of India, Jefferies



4. Is the Consumption Recovery Broad-Based?

- The government's more than ₹ 3 tn stimulus (₹ 1 tn tax cuts, ₹ 2 tn GST cuts, ₹ 0.3 tn from gaming ban) is likely to boost demand.
- Festive spending is visible: credit card spends, auto registrations, and electronics sales are rising.
- Rural demand is reviving real rural wages are up, rural spend grew 17% YoY, and cash in circulation rose 8.8% vs 5.6% last year.
- But jobs remain the weak spot:
 - India needs 7.5 mn jobs annually.
 - IT hiring is down ~30% YoY, BFSI hiring is moderating, and new jobs are concentrated in low-wage manufacturing and gig roles.
 - High-quality, formal job creation remains patchy. Without it, consumption momentum may fade after the festive season.

Age wise, education wise of India population

	Age (18-23Y)	Students in 11-12 Class	Under Graduate	Job Creation Required
Total	25	13.8	10.6	7.5
Male	13.2	6.9	5.5	5.5
Female	12	6.9	5.1	2

Source: Aventus Spark Research

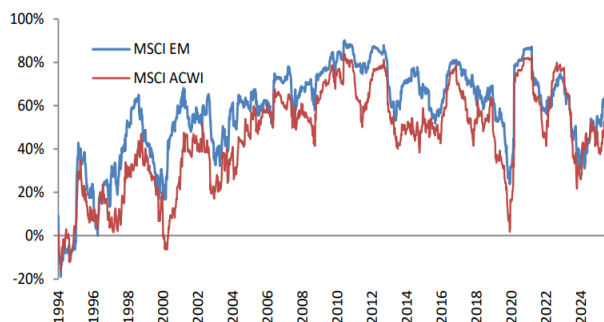
Preference more toward contractual jobs

Top 1000 listed companies employees (In '000)	Employees			Incremental Employees		Growth (% yoy)	
	FY23	FY24	FY25	FY24	FY25	FY24	FY25
Permanent	8,101	8,346	8,494	245	148	3.0%	1.8%
Contractual	3,448	4,100	4,535	652	435	18.9%	10.6%
Total Employees	11,550	12,446	13,029	896	583	7.8%	4.7%

5. How is India Positioned Among Emerging Markets?

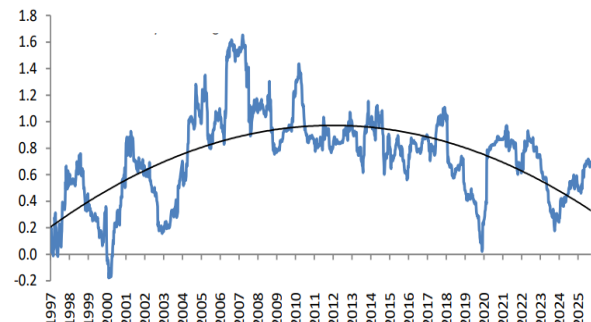
- India's **beta to EM equities is now just 0.6**, the lowest in two decades. In simple terms, India has become less sensitive to global risk-off events, reflecting stronger domestic flows and policy credibility.
- The falling intensity of oil in GDP and rising share of exports in GDP - especially services - and fiscal consolidation imply a lower saving imbalance. This will allow structurally lower real rates

52 week correlation of returns of MSCI India



Source: Morgan Stanley Research.

1 year rolling beta MSCI India vs. MSCI AC World



The last six months mark a clear **policy pivot: double rate cuts, CRR reduction, liquidity infusion, front-loaded capex, and nearly ₹ 2 tn in GST cuts (skewed to mass consumption) - all of which set India up for a growth surprise in the months ahead.**

But the “riders” are equally clear: fiscal limits, tariff risks, and the need for stronger job creation. For investors, this means India remains a **stock picker's market** - rich with opportunity, but demanding discipline.



MARKET REVIEW & OUTLOOK

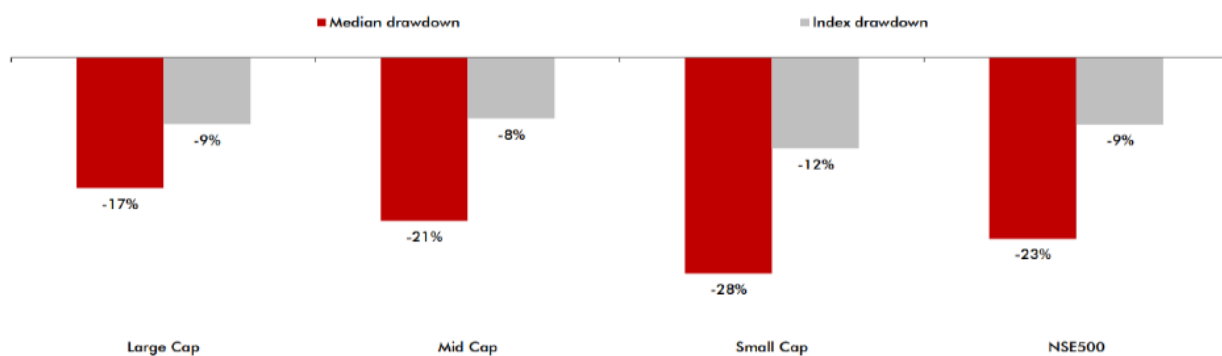
Markets, like life, move in cycles of excitement and pause. **Since July 2024, our markets have been flat.** MSCI India has underperformed MSCI EM by more than 25% on rolling one year basis.

This prolonged **15-month time correction** and relative underperformance can be traced back to a few key factors:

- **Elevated expectations:** Earnings forecasts had run well ahead of reality.
- **Rich valuations:** India's premium to EMs reached unsustainable highs, prompting foreign investors to book profits.
- **Heavy supply:** A large pipeline of IPOs and secondary sales absorbed liquidity.

Market breadth has been extremely weak - only **44% of stocks managed to outperform the BSE 500**, and barely **30% of BSE 500 names are even in the green** on a rolling one-year basis.

The headline indices tell only part of the story. As the chart below shows, benchmark levels often **mask the pain beneath the surface**. While the index drawdown looks modest, the **median drawdowns of individual constituents from their 52-week highs have been far deeper**, highlighting the broad-based pressure across stocks.



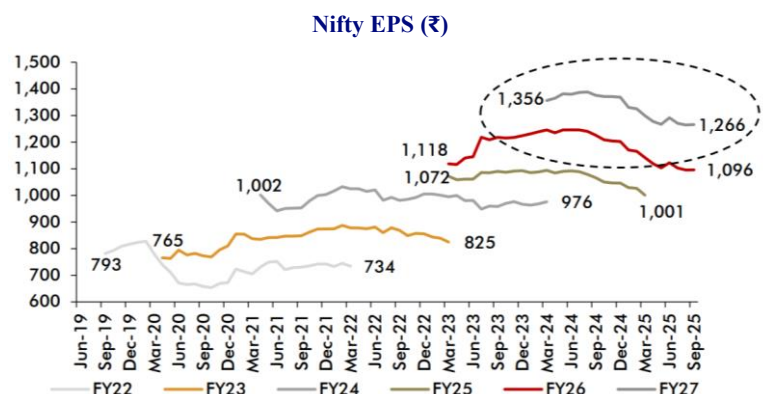
This has been a true **time correction** - frustrating for many, but also healthy. Because it has quietly reset the expectations.

In this 15-month time correction, FIIs have been net sellers to the tune of \$ 18bn. Even prior to this, FII flows have been weak. FII ownership of India continues to move lower and FIIs are presently underweight India compared to a generally overweight stance in the past.

We believe post consolidation/correction in the last 15 months, **the risk reward looks favourable now and we explore the reasons:**

- **Earnings expectations reset and valuations have cooled:** Forecasts are now realistic. Q2FY26 may still feel soft due to GST changes and seasonality, but from 3QFY26 we expect earnings to rebound and by FY27 we expect **double-digit Nifty earnings growth** to return. **Markets today trade at ~20x FY27 and 18x FY28 earnings.** Yes, that's still above the long-term average, but far more reasonable after 15 months of flat return.

Earnings growth	
FY20	3.3
FY21	1.7
FY22	26.8
FY23	21.4
FY24	16.9
FY25	11.7
FY26E	9.5
FY27E	15.5

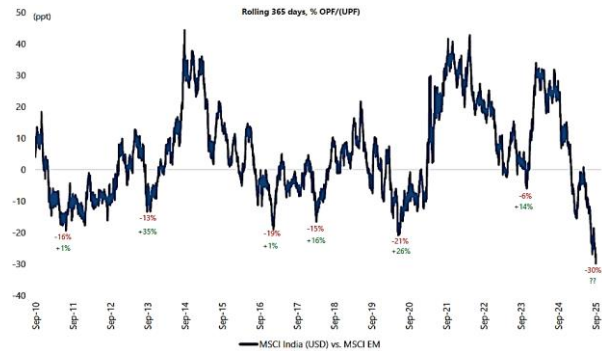


Source: Bloomberg, FactSet, Ambit Capital research

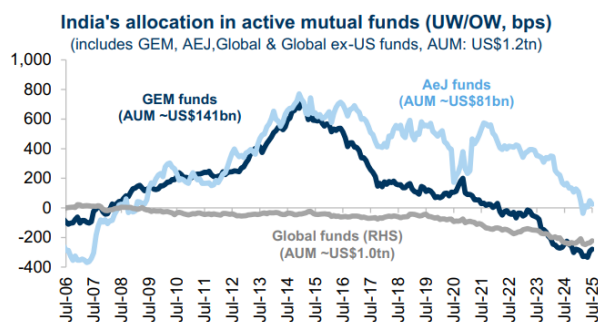
- **MSCI India's PE premium vs EM is close to the 20-year average of 50%** and MSCI India has underperformed MSCI EM by more than 25% in last one year. **Historical trends suggest that following a significant (15-20%+) of underperformance, MSCI India tends to bounce relatively speaking.** This underperformance is the highest in last 15 yrs on a trailing 12-m basis.



Source: Jefferies



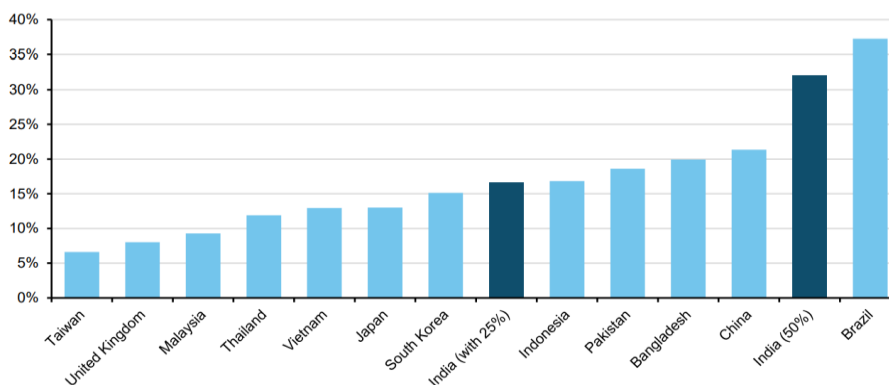
- **FII are underweight India: Our analysis of over 130 EM-focused long-only funds shows that EM long-only funds have the largest UWT position in India (>3%) while maintaining an OWT stance on China/HK.** Currently, India lacks catalysts for strong returns, but it is well-positioned to outperform if there is any slowdown in the EM rally later this year.



		India allocation		
Equity Mutual Funds	Total Assets (US\$ bn)	Avg. Fund allocation (%)	Benchmark (MSCI)	OW/UW (bp) vs. MSCI
Global ex-USA funds	345	1.4%	5.0%	-365 bp
EM Funds	140	14.1%	16.9%	-280 bp
Global funds	625	0.3%	1.8%	-145 bp
AEJ Regional funds	80	19.3%	19.1%	25 bp
Overall (AUM wgt.)	\$1,190 bn	3.5%	5.7%	-215 bp

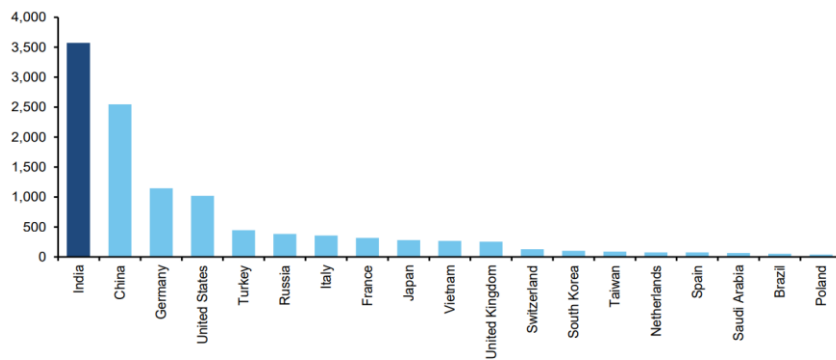
Source: Jefferies

- **Any resolution of trade tariffs with US is not priced in:** US has imposed the highest tariffs on India compared to any other large economy. Any resolution or rollback of the penal tariffs to 25% or below would be seen positively by the markets which is not priced in today.



Source: Bernstein Analysis, Jefferies

- **Wealth effect from Gold:** India has the largest ownership of private Gold across countries. After the rally, **Indian households own \$3.5 trillion dollars worth of gold** with a net **gain of \$1 trillion** this year alone as gold prices are up >50%. While much of it will remain as a store of value with limited economic impact - it still has a wealth effect role to play, especially in the middle class and below.



Source: Bernstein Analysis, Charlie Bilello

History suggests that when markets consolidate for long stretches in a growing economy, the eventual break is **upwards, not downwards**. Today, with valuations moderate, expectations sensible, and local flows steady, the odds are tilting in favour of a positive breakout.

That is why we believe investors with a **medium-to-long term horizon** should **increase their equity allocations over the next 1-2 quarters**, rather than wait. In our view, the “pause” of the past 14 months has created the very conditions for the next leg of compounding.

As we wrote earlier this year, this is still a **stock picker’s market**. Narrow breadth makes index investing less rewarding, but it also creates fertile ground for disciplined managers to find quality businesses at the right valuations.

Our **strategy remains clear**: invest in **quality businesses** with **strong earnings potential** and **sound governance**, while staying disciplined on valuations. This approach has worked well for us in the past, and we are confident it will continue to deliver over the long term.



PORTFOLIO STRATEGY AND POSITIONING

We are fully invested, with a portfolio carefully constructed around companies that hold **strong or leadership positions** in their respective sectors backed by strong management teams/promoters. These are businesses we believe can not only withstand the current environment but also **grow or maintain their market share over time**.

The portfolio remains **well diversified**, typically spread across **40-50 strong franchise**, striking a balance between resilience and opportunity.

As you know, the **IKIGAI Emerging Equity Fund follows a Mid and Small Cap mandate**. At present, **89% of the portfolio is allocated to mid and small caps**, almost equally split between the two. The remaining **10% is in select large-cap opportunities**.

Our approach remains **bottom-up and stock-specific**, guided by earnings visibility, competitive advantage, and prudent capital allocation. **For FY27, the expected earnings growth across the portfolio stands at ~23%, with a forward P/E of 27x - implying a PEG ratio of 1.2x**. This reflects our core philosophy of **Growth at a Reasonable Price (GARP)**.

We are also mindful of thematic balance. The portfolio is well diversified across sectors, with an overweight position in materials (including specialty chemicals), healthcare, industrials, and consumer discretionary. Notably, over 70% of our portfolio companies are domestically focused, which offers some insulation from global volatility while aligning with India's structural growth story.

In short, we remain focused on quality, discipline, and long-term value creation.

The key portfolio characteristics of IKIGAI Emerging Equity Fund as of Sep 30, 2025, are presented below:

Exposure By Sector (GICS)	(%)	Period Ended	IKIGAI Emerging Equity Fund*
Materials	28.7%	EPS Growth FY26	26%
Consumer Discretionary	17.4%	EPS Growth FY27 E	23%
Industrials	16.8%	Return On Capital	17%
Financial	13.0%	Debt/equity	0.6
Health Care	11.0%	EBITDA Margin	20%
Others	7.8%	Free Cash Yield	2%
Information Technology	3.2%	Forward P/E (FY27)	27x
Cash and Cash Equivalents	1.4%		
Energy	0.7%		

Notes: ** Based on our Internal Estimates for our investee companies (including BFSI companies)

Period	Fund Return	Nifty MidSmall 400	Nifty SmallCap 250	Nifty Midcap 150
3 Months	-4.18%	-4.99%	-6.21%	-4.32%
CY2025 YTD	-3.53%	-2.48%	-5.97%	-0.48%
Since Inception (XIRR)*	-1.46%	0.03%	-1.45%	0.86%

Pre-Tax Return for Class D1, as of 30th September 2025

*Inception Date 19th June 2024

Index Closing Value for 18th June 2024 has been considered

The last year hasn't been easy for markets. Over the past 12 months, markets have seen it all - **euphoria, correction, resilience, and recovery**. We've lived through **three mini cycles** but through it all, we've stayed true to our investment process. While the broader market saw sharp corrections early in the year, our decision to turn positive during the March quarter, especially in mid and small caps, helped us participate meaningfully in the recent recovery.

Our portfolio has seen marginal underperformance relative to some benchmarks. While the relative gap has been modest, it is important to remember that this reflects a **short period in the context of a long-term journey**. Our approach has always been rooted in consistency - focusing on **high-quality businesses with resilient cash flows, strong governance, and long-term compounding potential**.

Periods of consolidation and volatility are inevitable, especially in mid- and small cap investing. In fact, they often present opportunities to accumulate quality businesses at better prices. As custodians of your capital, our focus remains unwavering:

- Avoiding short-term noise and momentum-driven traps.
- Staying disciplined on valuations.
- Building a portfolio of durable businesses that can deliver across cycles.



We believe that over time, this approach will **translate into steady, superior compounding**, even if the near-term journey has a few bumps along the way.

As Peter Lynch once said, *“The real key to making money in stocks is not to get scared out of them.”* Our philosophy remains the same - stay invested in quality, stay patient, and let compounding do its work.

Our advice remains simple: **invest steadily, think long-term, focus on asset allocation and let time and discipline do the heavy lifting.** We remain patient and focused-backing businesses built for cycles, not headlines.

We’re deeply grateful - for your trust, your patience, and your belief in our philosophy of **Trust. Process. Performance**

Thank you for being part of this journey with us. We’re just getting started - and we’re excited about what lies ahead.

“The stock market is filled with individuals who know the price of everything, but the value of nothing.”

- Philip Fischer

Regards,

PANKAJ TIBREWAL

Founder & CIO

8th October 2025