July 2026

IKIGAI Asset Manager
Trust. Process. Performance.

Quarterly Newsletter

IKIGAI Emerging Equity Fund
IKIGAI Small Cap Fund

“The intelligent investor is a realist who sells to optimists and buys from pessimists.”

– Benjamin Graham

Dear Investors,

Two years ago, when we launched IKIGAI Emerging Equity Fund, we knew one thing with certainty:

Markets would never move in a straight line. **What we didn't know was just how eventful these two years would become.** The last two years have reminded us, yet again, how quickly narratives change.

We've experienced periods of extreme optimism, one of the sharpest corrections in the broader markets, record foreign selling, geopolitical conflicts, commodity shocks, currency volatility and rapidly changing investor sentiment.

Yet, through all this, **our investment philosophy has never changed**.

From the very first day, **our objective was never to maximise returns at any cost**. It was much simpler.

Protect capital first. Compound wealth second.

Because investing is not about avoiding volatility. **It is about avoiding permanent loss of capital** while allowing the power of compounding to work over long periods.

Over the past few months, **we have spent far less time trying to predict headlines and far more time asking ourselves a different question:**

Have the businesses we own become stronger or weaker? That question has guided every investment decision we have made.

Periods like these often reveal the true quality of businesses. Companies with **strong balance sheets, prudent capital allocation and trustworthy management teams generally emerge stronger once uncertainty begins to fade.** Temporary disruptions often widen the gap between exceptional businesses and average ones.

Encouragingly, that is precisely what we are beginning to witness today.

As we write this letter, markets have already started to look beyond the headlines. Oil prices have cooled off sharply. Supply chains are gradually normalising. Investors who were focused on the pain of yesterday are slowly beginning to focus on the opportunities of tomorrow.

That shift from fear to opportunity is perhaps the biggest takeaway of the past quarter.

In the pages that follow, we share not just what happened this quarter, but how we are thinking about the opportunities and risks that lie ahead. Because while markets change every day, good investment principles rarely do.

Is the war over? Nobody knows yet…

In last few months, almost every conversation with investors eventually came back to one question: **How long will this conflict last and what could be the damage to global growth?**

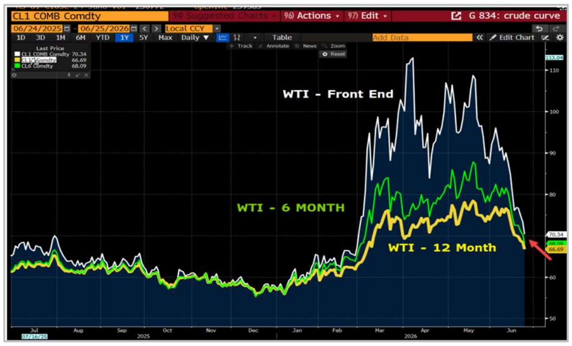
Today, that question is quietly changing.

While the geopolitical situation remains fluid, markets are beginning to look beyond the immediate uncertainty. Brent Crude prices have cooled off to USD 75 per barrel, gulf oil exports have recovered sharply from nearly **2 million barrels per day in May to almost 9 million barrels today**, **tanker movements through the Strait of Hormuz are steadily improving, and oil futures are increasingly pricing in a future where the conflict gradually fades rather than intensifies**.

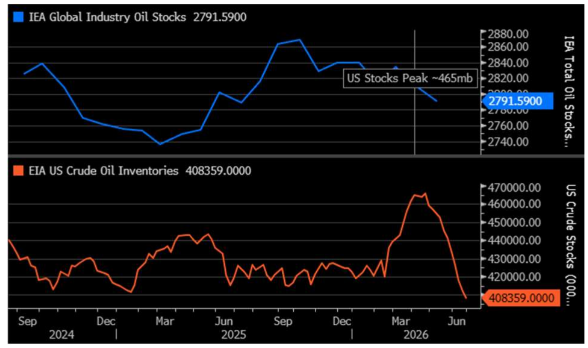
However, energy infrastructure damage, particularly in LNG facilities, will likely keep natural gas markets tighter than before the conflict**.** About 800mn bbl. of crude inventories have been drawn down since the start of the conflict and **physical crude inventories remain well below historical averages**, **providing an important floor to oil prices even as geopolitical tensions ease**.

The important lesson is not whether the conflict is over. The important lesson is that **markets rarely wait for certainty.**

Crude oil prices Spot vs. 6M forward vs. 12M forward



US & Global crude inventories have seen sharp drawdown



Source: Bloomberg, IKIGAI Research

By the time the headlines confirm that conditions have improved, markets have often moved well ahead.

This has happened repeatedly throughout history.

History reminds us that markets are remarkably forward looking. Markets began recovering well before vaccines arrived during COVID. They rebounded long before inflation peaked in 2022.

The current cycle is no different.

That said, we do not believe the world simply returns to the way it looked before February 2026. Every major geopolitical event leaves behind permanent changes whether in supply chains, energy security, defence spending or trade relationships. The current conflict is unlikely to be any different.

Markets are becoming increasingly comfortable with the idea that the immediate disruption may be behind us, but they are equally acknowledging that the structural cost of energy security has probably increased.

Has Optimism Become the Biggest Risk?

"Bull markets rarely end because of bad news. More often, they end because expectations become too optimistic."

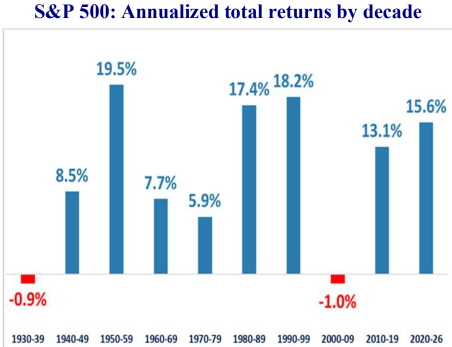
For most of this year, global investors have remained focused on geopolitics. But quietly, another story has been unfolding.

Not in West Asia. Not in energy markets.

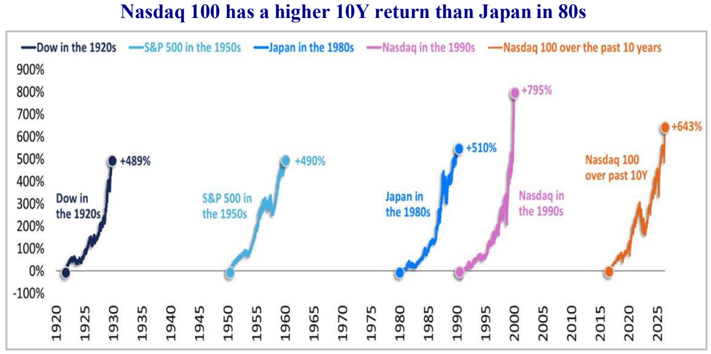
But on Artificial Intelligence (AI) narrative and US equity markets.

The **2020s are now on track to become the strongest decade for US equities since the technology boom of the 1990s.** That is an extraordinary achievement, particularly considering that this **period has also witnessed the fastest interest rate hiking cycle in four decades**, regional banking failures, elevated inflation and geopolitical conflicts.

S&P 500: Annualized total returns by decade



Nasdaq 100 has a higher 10Y return than Japan in 80s



Source: Charlie Bilello, CLSA

There is little doubt that Artificial Intelligence represents one of the most important technological shifts of our generation. **Much like electricity, the internet and smartphones, AI has the potential to reshape industries, improve productivity and create entirely new business models.**

As investors, we are excited about that opportunity. But history also teaches us something equally important.

Every transformational technology eventually goes through a phase where expectations begin to outrun reality.

The technology changes. Human behaviour does not.

Over the past few months, several indicators have started pointing towards increasing optimism. Individually, none of them prove that markets are in a bubble.

Collectively, however, they deserve attention.

Reasons We Are Becoming More Cautious About US Markets and the AI trade.

- **Valuations:**
  - ✓ The **S&P 500 now trades at a** Cyclically Adjusted Price-to-Earnings **(CAPE) multiple of more than 35x**, a level seen only a handful of times over the past century and uncomfortably close to the peaks witnessed during the Dot-Com era.
  - ✓ Even markets like South Korea and Taiwan post the rally and are trading at expensive valuations vs the past.

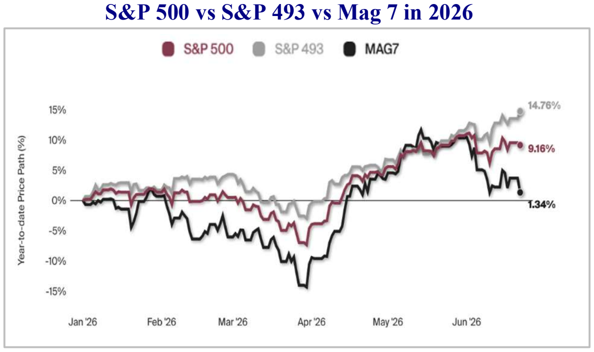
- **Leverage:**
  - ✓ **Margin debt extended by US brokers has crossed an unprecedented USD 1.3 trillion**, the highest level in history.
  - ✓ Retail margin borrowing has also accelerated sharply, echoing patterns seen during previous periods of market euphoria.

- **Concentration:**
  - ✓ In the US, the top ten companies now account for nearly **40%** of the S&P 500–almost double the long-term average.
  - ✓ Taiwan's stock market has become even more concentrated, with **TSMC alone representing nearly 58%** of the index.
  - ✓ In South Korea, **Samsung Electronics and SK Hynix together account for over half of the KOSPI's technology leadership.**

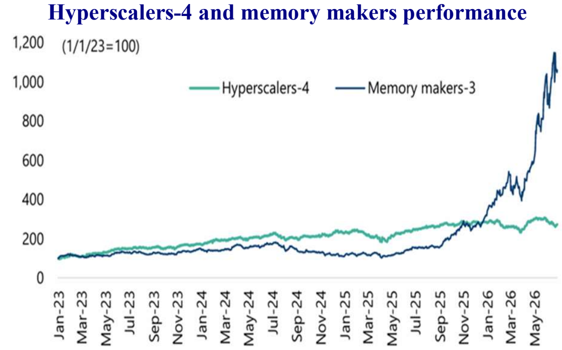
Country	Top Constituents	% Weight in Index
Taiwan	TSMC	58%
South Korea	Samsung/SK Hynix	>50%
USA	Top-10 stocks	~ 40%

- **The First Signs of Rotation:**
  - ✓ The **Magnificent Seven (Mag 7) have recently started underperforming both the broader S&P 500 and the Russell 2000**, suggesting investors are slowly rotating beyond the narrow AI leadership that has dominated returns in recent years.

S&P 500 vs S&P 493 vs Mag 7 in 2026



Hyperscalers-4 and memory makers performance



Source: Ben Carlson, Jefferies

- **Mean reversion:**
  - ✓ Over the past decade, the **Nasdaq 100 has generated cumulative returns of over 640%**, exceeding the extraordinary gains witnessed during the Japanese equity bubble of the 1980s, the roaring US markets of the 1920s and even the technology-led rally of the 1990s. **It does not mean history will repeat itself but it certainly reminds us that investor enthusiasm has reached extreme levels.**

We expect capex of about US$700bn this year by the four hyperscalers namely Alphabet, Amazon, Meta and Microsoft, and more than US$800bn next year. The figure becomes even larger, at an estimated over US$1tn next year if Oracle, Anthropic, OpenAI and the neo-clouds are included. This US$1tn number represents about 3% of US GDP and equivalent to 33% of total pre-tax profits of all US non-financial companies, not just listed ones. **We believe that there is a growing risk of an intensifying questioning of the returns from soaring AI capex in the US, particularly as the capex is increasingly financed by debt.**

The four major US hyperscalers' capex as a percentage of operating cash flow has risen from 41% in 2023 to a projected 92% in 2026. It is also estimated that the US hyperscalers will spend about 28% of their operating cash flow on memory this year.

A sudden realisation by investors that the hyperscalers, and the **likes of OpenAI and Anthropic, will not be able to make a return on their AI-related investments will trigger a sudden unwillingness to fund these investments**. This will then be aggravated by the circular vendor financing arrangements between the main players in terms of suppliers financing customers.

We have little doubt that AI will continue transforming businesses over the next decade.

The question is different.

How much of that future is already reflected in today's prices?

In summary: these indicators do not suggest that one should predict an immediate correction or call the top of the market. That is rarely possible, and in our view, not a useful exercise.

However, they do suggest something important. Investor expectations around US equities and the AI narrative have moved into a zone of visible excess.

As investors, our responsibility is not to predict turning points. **It is to remain disciplined when optimism becomes abundant and patient when pessimism takes over.**

That philosophy has guided us through every market cycle and it continues to guide us today.

Why Indian macros are still manageable despite the West Asia War.

"The strength of an economy is rarely judged during good times. It is judged by how well it absorbs shocks during difficult ones."

Global uncertainties are unlikely to disappear anytime soon. Geopolitical tensions, changing trade dynamics, elevated interest rates and slowing global growth will continue to create periodic bouts of volatility.

Yet, despite this backdrop, we believe India's macroeconomic foundation today is considerably stronger than it was during previous periods of global uncertainty.

Rather than relying on a single factor, India's resilience is now being supported by multiple structural drivers. Individually, none of these may appear extraordinary. Collectively, however, they provide an increasingly robust foundation for long-term economic growth.

Below are the reasons why we remain constructive on India's macro-outlook.

1. **Lower Crude Prices Significantly Improve India's External Position**. **What is India's new tolerance levels for Crude?**

India continues to be a large importer of crude oil, making energy prices one of the most important variables for the economy. The encouraging development over the last few weeks has been the sharp moderation in crude prices as geopolitical tensions have eased.

We estimate that **crude prices below USD 90 per barrel remain a sweet spot for India**, while prices closer to **USD 80 per barrel could potentially push the Balance of Payments into surplus.**

India's oil price vulnerability has structurally improved, for two key reasons:

- **India's oil consumption intensity** has dropped from 1,161 million barrels per $1 trillion of GDP to just 450 million barrels over the past 20 years—a 61% reduction.
- **Services exports now generate a massive buffer**. India's CAD remains below 2% of GDP until crude reaches $90/bbl—up from a $70/bbl threshold just a few years ago.

At current futures prices of ~$75/bbl, India remains well within its comfort zone. Even in an adverse scenario where the war drags on and crude averages $100/bbl. for the full year, our analysis suggests India's CAD would widen to only 2.5% of GDP—uncomfortable but manageable**.**

BoP outlook scenarios at Crude $80 vs. $90 vs. $100 /bbl

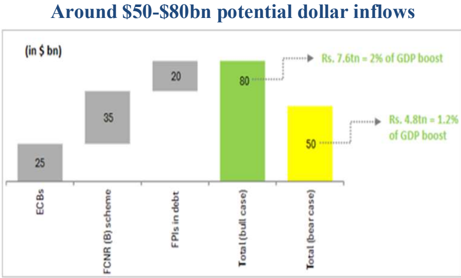
Crude oil assumption	FY13	FY14	FY15	FY26	FY27E ($68/bbl)	FY27E ($80/bbl)	FY27E ($100/bbl)
CAD (US$ bn)							
Total imports (a)	**491**	**450**	**448**	**775**	**848**	**874**	**901**
- Oil imports	164	165	138	174	212	239	265
- Gold imports	54	29	34	72	65	65	65
- Non-oil & non-gold imports	273	257	275	529	570	570	570
Total Exports (b)	**300**	**314**	**310**	**442**	**498**	**502**	**507**
- Oil exports	61	63	57	54	67	76	84
- Non-oil exports	240	251	254	388	431	427	423
Trade balance (b-a = i)	**-190**	**-136**	**-138**	**-333**	**-350**	**-372**	**-394**
Invisibles (ii)	**107**	**115**	**118**	**312**	**319**	**309**	**303**
- Software exports (GCCS)	63.5	67	70.4	180	190	187	185
- Business Services	-1.9	1.3	0.8	55	60	58	58
- Other Business	1.3	2.2	3.1	5	5	5	5
- Remittances	64	65	66	145	137	134	131
- Other services	-20	-21	-22	-72	-74	-75	-77
CAD (ii+i) = a	**-88**	**-32**	**-27**	**-25**	**-31**	**-63**	**-91**
CAD (% of GDP)	**-4.8**	**-1.7**	**-1.3**	**-0.7**	**-0.7**	**-1.5**	**-2.2**
Capital account (US$ bn)	**FY13**	**FY14**	**FY15**	**FY26**	**FY27E**	**FY27E**	**FY27E**
Foreign Direct Investment	20	22	31	7	15	14	12
Portfolio Investment	27	5	42	-16	0	-5	-10
- Equity	26	3	17	-20	-10	-15	-20
- Debt	5	-5	25	3	10	10	10
Commercial Borrowings	8	12	2	11	16	16	16
NRI Deposits	15	39	14	14	30	30	30
External Assistance	1	1	2	3	3	3	3
Short Term Credit	22	5	0	14	14	16	16
Capital account (b)	**89**	**49**	**89**	**2**	**68**	**64**	**57**
Balance of Payment (a+b+c)	**4**	**16**	**61**	**-24**	**37**	**1**	**-34**

Source: Avendus Spark, IKIGAI Research

2. Structural Capital Inflows Could Act as an Important Shock Absorber

- Potential inflows through the FCNR(B) window, favourable taxation changes for government securities and continued bond index inclusion could together attract **USD 50–80 billion over the next few months** and act as a shock absorber.
- This significantly strengthens India's ability to finance its external requirements without relying excessively on volatile portfolio flows.
- 3yr bond yields have softened by 40-50bps from recent 7yr highs.

Around $50-$80bn potential dollar inflows



FCNR could be quite successful because of the high IRRs

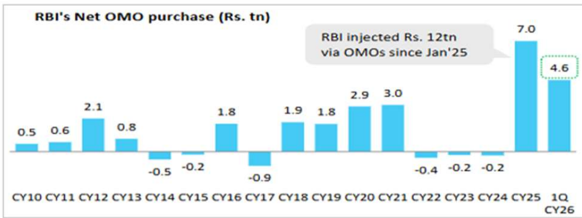
Assumption / Output	Unit	2013	2026	Comments
Own capital	USD	1,00,000	1,00,000	NRI's equity contribution
FCNR(B) deposit rate	%	5.00%	6.50%	Rate ceiling for 2026; illustrative 2013 rate
Offshore loan cost	%	2.00%	5.30%	SBI's overseas yield for 2026; illustrative 2013 rate
Loan-to-value	%	87.50%	87.50%	8.0× uniform leverage assumed
Deposit tenor	Years	3	3	3-year fresh deposit in the 2013 window
Gross FCNR(B) deposit	USD	8,00,000	8,00,000	8.0× of equity contribution
Offshore loan amount	USD	7,00,000	7,00,000	Loan taken by the NRI to lever up
Gross leverage	×	8.0×	8.0×	8.0× uniform leverage assumed
Annual deposit interest	USD	40,000	52,000	Gross FCNR(B) deposit × FCNR(B) deposit rate
Annual loan interest	USD	14,000	37,100	Offshore loan amount × Offshore loan cost
Annual net carry	USD	26,000	14,900	Deposit interest received − Loan interest paid
Return on own capital	%	**26.00%**	**14.90%**	**Return on NRI's equity (Money doubles in 5 years)**

Source: Avendus Spark, IKIGAI Research

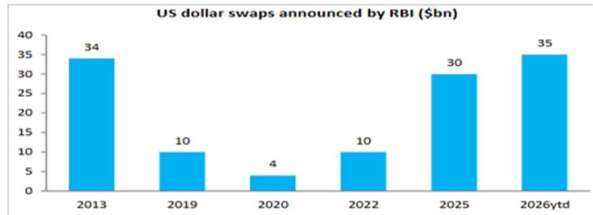
3. RBI likely to Prioritize growth and maintain liquidity in the system

- Since January 2025, the RBI has injected nearly **INR 18 trillion** into the financial system, ensuring adequate liquidity to support growth.
- Bank credit continues to grow (17.7%yoy) at a healthy pace despite temporary funding constraints.
- We expect RBI to continue its stance and maintain adequate liquidity in the system.

RBI has injected INR 12 Trn via OMO since Jan'25



RBI has injected INR 5.7 Trn via dollar swaps since Jan'25

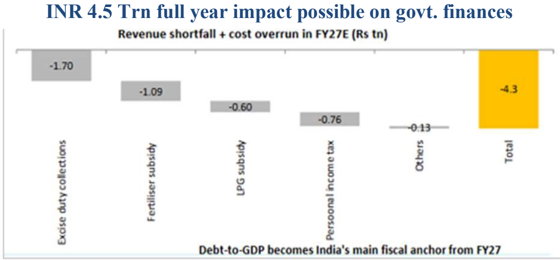


Source: Avendus Spark Research

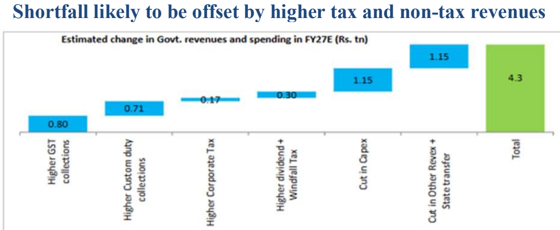
4. West Asia war to cost GoI INR 4.3tn (1.1%) of GDP but Fiscal deficit target still achievable.

- Excise duty cuts, fertiliser subsidy, LPG subsidy and decline in personal income tax to weight on govt revenue collections.
- To be partially offset by higher GST collections, higher nontax revenue, windfall gains and expenditure cuts.
- We believe govt can still manage to achieve fiscal deficit target of 4.3% of GDP.

INR 4.5 Trn full year impact possible on govt. finances



Shortfall likely to be offset by higher tax and non-tax revenues



Expect govt. to meet the fiscal deficit target of 4.3% GDP in FY27E

Particulars	Absolute Values (Rs. bn)				Growth (%, yoy)	
	FY26RE	FY27BE	FY27E	Delta	FY27BE	FY27E
Gross Tax Revenue	40,243	44,041	43,000	-1,041	9.4%	6.8%
Direct taxes	23,447	26,970	26,376		15.0%	12.5%
Corporation tax	10,991	12,310	12,475	165	12.0%	13.5%
Income tax	12,456	14,660	13,901	-759	17.7%	11.6%
Indirect taxes	16,796	17,071	16,624		1.6%	-1.0%
CGST + IGST + Cess	10,725	10,190	10,993	803	-5.0%	2.5%
Custom duty	2,644	2,712	3,424	712	2.6%	29.5%
Excise duty	3,419	3,889	2,190	-1,700	13.8%	-36.0%
(-) Devolvement to States	14,011	15,372	15,008	-363	9.7%	7.1%
Net tax revenue (i)	26,233	28,669	27,992	-678	9.3%	6.7%
Non-tax revenue (ii)	6,790	6,662	6,790	127	-1.9%	0.0%
Non-debt capital receipts (iii)	838	1,184	1,140		41.4%	36.2%
Disinvestment of PSUs (iii)	591	800	756	-44	35.3%	27.9%
TOTAL REVENUES ((i+ii+iii) = A)	33,860	36,515	35,922	-594	7.8%	6.1%
Revenue expenditure (a)	38,361	41,255	41,727	472	7.5%	8.8%
Interest payment	12,426	14,040	13,780	-260	13.0%	10.9%
Salary and Pensions	7,724	7,984	7,983		3.4%	3.4%
Major Subsidies	4,539	4,105	5,331	1,226	-9.5%	17.5%
Food	2,281	2,276	2,372	96	-0.2%	4.0%
Fertilizer	2,114	1,708	2,801	1,093	-19.2%	32.5%
Oil	144	121	158	37	-16.0%	10.0%
Rural & Agri spend	2,986	4,229	3,733	-497	41.6%	25.0%
Other revex	10,687	10,897	10,900	3	2.0%	2.0%
Capex (b)	10,691	12,218	11,065	-1,153	14.3%	3.5%
TOTAL EXPENDITURE ((a+b) = B)	49,052	53,473	52,792	-681	9.0%	7.6%
Fiscal deficit (B–A)	15,192	16,958	16,271	-687	11.6%	7.1%
Fiscal deficit (% of GDP)	4.40%	4.50%	4.30%	-0.18%	—	—
Debt to GDP (%)	56.1%	55.6%	55.6%		—	—

Source: IKIGAI, Avendus Spark Research

5. Rupee Fall Appears over-done and current depreciation creating export and import substitution opportunities.

- A relatively weaker rupee has significantly improved India's export competitiveness, particularly in manufacturing and services.
- **Non-oil, non-gold exports grew 12.3% YoY in May 2026**, taking India's overall exports to an all-time high.
- On valuation, **REER-based estimates suggest the INR is ~7% undervalued**, implying scope for a corrective reversal toward the 90-92 range as geopolitical and flow pressures normalize.
- Historically, sharp INR selloffs have often been followed by strong recoveries once policy responses from the Govt. or the RBI stabilize flows and sentiment.

Sectors which can benefit from export opportunities

Sector	Primary Benefit Mechanism	Key Risk
Information Technology	USD revenue, INR cost base; direct EPS uplift	AI disruption and pricing renegotiation
Pharmaceuticals (Exporters)	Export realisations in USD/EUR	Imported API cost inflation
Specialty Chemicals	Export competitiveness, higher INR realisations	Import-dependent raw material costs
Auto & Auto Ancillaries	Translation gains on US/Europe exports	Imported component cost pass-through
Upstream Oil & Gas	USD-billed crude/gas revenue, INR opex	Global oil price volatility
Textiles & Apparel	Price competitiveness in global markets	US tariff headwinds

Sectors which can benefit from import substitution opportunities

Sector	CNY Appreciation Benefit	Import Substitution	Key Risk
Specialty & Bulk Chemicals	Direct — competes with Chinese exporters	Agrochemicals, dyes, fluorochemicals	China excess capacity, aggressive pricing
Capital Goods & Industrial	Raises landed cost of Chinese equipment	Power T&D, cables, conductors	Execution risk on domestic capacity
Telecom Equipment	Displaces Chinese network hardware	Already demonstrating export growth	Technology gap vs. Chinese incumbents
Consumer Durables & Electronics	Raises cost of Chinese finished goods	PLI-driven domestic assembly	Component import dependency
Metals & Steel	Raises floor on Chinese export pricing	Domestic capacity additions	Global demand slowdown
Textiles & Apparel	Order diversion from China	Labor-intensive manufacturing	US tariff headwinds
Pharma — API & CDMO	Raises cost of Chinese API imports	PLI for domestic API manufacturing	Scale-up timeline, quality compliance

Source: IKIGAI Research

6. Risks Remain, But They Are Manageable:

- No macro environment is without risks.
- This year, we need to monitor the progress of the monsoon, food inflation, wholesale price pressures and the pace of global growth.
- A weaker-than-expected monsoon could temporarily impact rural demand and food prices.
- Similarly, elevated wholesale inflation warrants close monitoring even as headline CPI remains well contained.

Overall Perspective:

Taken together, we believe India's macroeconomic backdrop remains stronger than market sentiment currently suggests.

Lower crude prices, improving liquidity, stronger exports and the prospect of meaningful structural capital inflows provide important buffers against external shocks.

Equally important, India's growth story is no longer dependent on a single driver. Domestic consumption, manufacturing, financialization of savings, infrastructure spending and improving corporate balance sheets are all contributing to economic resilience.

This makes the current cycle fundamentally different from many previous ones.

As investors, our objective is not to predict every macroeconomic variable.

It is to assess whether the environment is becoming more or less favourable for businesses to compound earnings over the long term.

On that score, we continue to remain constructive.

Market Review & Outlook

“Index returns tell you what happened. Breadth tells you how many participated. Dispersion tells you why stock selection still matters.”

In line with our April 2026 newsletter expectations, markets delivered strong recovery in the 1QFY27. One interesting observation from the recent market recovery:

Over the last 3 months:
- Nifty 50: +7.6%
- Nifty Midcap 150: +17.4%
- Nifty Smallcap 250: +24.2%

Even over the last 1 year, midcaps (+4.4%) and small caps (+0.3%) have outperformed large caps (-5.1%).

But here’s where it gets interesting…

Despite the indices being positive over the last year:
- The median stock is still down 2.4% in the Midcap 150 and 5.8% in the Small cap 250.
- Only 44% of stocks in both indices have delivered positive returns over the last one year.

In other words, the rally hasn't been as broad-based as the index levels suggest. A relatively small group of strong performers continues to do much of the heavy lifting in last one year.

Metric	Nifty 50	Nifty Midcap 150	Nifty Smallcap 250
Index Return – 3M	+7.6%	+17.4%	+24.2%
Index Return – 1Y	-5.1%	+4.4%	+0.3%
Median Stock Return – 3M	+7.7%	+14.8%	+19.6%
Median Stock Return – 1Y	-1.4%	-2.4%	-5.8%
% Stocks Positive – 3M	74.0%	77.3%	82.8%
% Stocks Positive – 1Y	48.0%	44.0%	44.8%
Best Stock – 3M	Adani Enterprises (+64.8%)	Vodafone Idea (+67.4%)	HFCL (+193.7%)
Worst Stock – 3M	Infosys (-19.9%)	United Breweries (-15.6%)	Jain Resource Recycling (-25.0%)
Divergence – 3M	84.7 pp	83.0 pp	218.7 pp
Best Stock – 1Y	Shriram Finance (+49.0%)	GE Vernova T&D (+109.8%)	Ather Energy (+243.2%)
Worst Stock – 1Y	TCS (-39.0%)*	KPIT Technologies (-46.3%)	Reliance Power (-64.7%)
Divergence – 1Y	88.0 pp	156.1 pp	307.9 pp

Source: Bloomberg, IKIGAI Research

However, the picture is beginning to improve, though. In the last 3months, nearly 77% of midcaps and 83% of small caps have turned positive, suggesting that market breadth is finally broadening.

Another fascinating statistic is the dispersion of returns.

The gap between the best and worst performer over the last year is:
- Nifty 50: 88%
- Midcap 150: 156%
- Small cap 250: 308%

Even in the so-called "safer" large-cap universe, the spread between winners and losers is remarkably wide.

Looking only at index returns can be misleading. Breadth tells you how many stocks are participating, while dispersion tells you how rewarding stock selection has been. It's been a classic stock picker's market.

Earnings Are Beginning to Matter Again.

One of the most encouraging developments over the past few months has been the gradual return of earnings as the primary driver of equity prices.

During much of the correction in 2025 and early 2026, market sentiment deteriorated sharply. Geopolitical uncertainties, elevated global interest rates and persistent FII selling weighed heavily on valuations, particularly in the mid and small-cap universe. Stock prices corrected meaningfully, even as the underlying fundamentals of many businesses remained largely intact.

What stood out during this period, however, was the resilience of corporate earnings specially in the broader market. As can be seen from the table below, midcaps have delivered strong double-digit earnings growth in the last 6 qtrs. and small cap has also picked up pace in the last 3qtrs.

The recent recovery in mid and small-cap indices appears to be supported not just by improving sentiment but also by continued earnings delivery. In other words, prices are beginning to catch up with fundamentals rather than moving ahead of them.

We believe this is an important distinction.

Markets driven purely by liquidity or optimism can often become fragile. Markets supported by earnings growth tend to be healthier and more sustainable.

Nifty 500 Earnings	No of Cos	202406	202409	202412	202503	202506	202509	202512	202603
		Adjusted PAT Growth YoY							
Large Caps	100	0.0%	0.2%	4.1%	5.7%	9.6%	8.6%	12.5%	9.5%
Mid Caps	150	11.9%	-1.3%	31.9%	27.4%	15.9%	32.0%	16.4%	35.9%
Small Caps	250	16.5%	-14.5%	7.1%	8.2%	7.4%	39.8%	26.1%	14.4%
Total	**500**	**3.2%**	**-1.4%**	**8.7%**	**9.5%**	**10.5%**	**15.2%**	**14.3%**	**14.9%**

Source: Amsec

Our Market Outlook: Constructive, Yet Disciplined

After reviewing the global backdrop, the evolving macro environment and the behaviour of Indian equities over the past few months, one question naturally follows:

How are we positioning the portfolio and what's our market outlook?

Our answer is simple.

We remain constructive on Indian equities, but we are not complacent.

Earlier this year, we shifted our portfolio stance to **Aggressive**. **Importantly, this was not because we believed all risks had disappeared. Rather, we believed the balance between risk and reward had improved meaningfully.**

Several factors gave us confidence.

The sharp correction appeared to be driven far more by liquidity, sentiment and foreign outflows than by any meaningful deterioration in corporate earnings. Valuations had become considerably more reasonable, India's macroeconomic resilience was strengthening, domestic liquidity remained supportive, and the economy appeared to be entering the next phase of growth, with household consumption gradually complementing the public investment cycle.

Taken together, these factors created a more favourable backdrop for long-term investors.

However, becoming constructive does not mean abandoning discipline.

Our approach has always been to increase exposure gradually rather than react impulsively.

We first strengthened positions in businesses where we had the highest conviction **companies with durable competitive advantages, pricing power, strong balance sheets and resilient earnings. As market conditions improved, we selectively expanded our opportunity set while remaining patient and valuation conscious.**

Even today, our objective is not to chase every rally.

It is to ensure that every additional rupee invested offers an attractive balance between risk and potential reward.

From Perspective to Portfolio Construction:

After discussing the evolving global landscape, India's improving macroeconomic outlook and the changing character of equity markets, the natural question is:

How have these developments influenced our portfolio?

At IKIGAI, our responsibility is not to predict the next geopolitical headline, policy announcement or market correction.

It is to build a portfolio capable of navigating uncertainty while remaining positioned to create long-term wealth.

Markets will continue to surprise us. Our process should not.

At IKIGAI, our portfolio continues to reflect our core philosophy- **owning businesses with strong management teams, healthy balance sheets, sustainable competitive advantages and the ability to compound earnings over long periods**. Macro events may influence the pace at which we deploy capital, but they rarely change the kind of businesses we seek to own.

As we often remind ourselves, **Conviction should never come at the cost of discipline, and caution should never come at the cost of opportunity.** That balance continues to guide every investment decision we make.

Patience is often the hardest part of investing.

Over the last year, several businesses in our portfolio tested our conviction as their stock prices remained subdued despite continued improvement in fundamentals. **Rather than reacting to short-term market sentiment, we stayed focused on our original investment thesis. As earnings continued to strengthen, market confidence gradually returned, and several of these investments delivered strong returns during the recent recovery.**

Stock	CYTD Returns %
Welspun Corp Ltd	88%
Sansera Engineering Ltd	85%
Thermax Ltd	52%
RR Kabel Ltd	51%
Solar Industries	47%
Oracle Financial Services Software Ltd	43%
Laurus Labs Ltd	33%
BHEL	31%
Sheela Foam	27%
Carborundum Universal	26%
Navin Fluorine International Ltd	24%
Federal Bank Ltd	22%

Note: Data as of July 8, 2026

This reinforces one of our core beliefs: **in the short term, markets can be driven by emotions; over the long term, they are driven by business performance.**

From a portfolio perspective, we remain encouraged by the underlying fundamentals. Our portfolio companies delivered **approximately 32% earnings growth in FY26**, and we expect earnings to grow by another **~27% in FY27**.

Importantly, this growth is available at reasonable valuations. The portfolio currently trades at a 24-month **forward P/E of around 27x**, implying a **PEG ratio of almost 1x**. We believe this represents the sweet spot of **Growth at a Reasonable Price (GARP)** investing where earnings growth keeps pace with the valuation we are paying.

We believe long-term wealth is created not by chasing growth at any price, but by buying quality growth at sensible valuations and allowing time to do the heavy lifting.

More than 70% of our investments are in businesses primarily driven by India's domestic economy, providing resilience against global volatility while participating in India's long-term structural growth story. In the current environment, we are particularly constructive on materials (including speciality chemicals, metals & mining, cements etc), financials (NIM compression is now behind us), Auto ancillaries (pivoting from auto to non-auto), healthcare (domestic formulations plus CDMO), and select consumer discretionary names where valuations have become compelling.

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

The key portfolio characteristics of IKIGAI Emerging Equity Fund as of June 30, 2026, are presented below:

Exposure By Sector (GICS)	(%)
Materials	27.10%
Industrials	23.93%
Financial	14.97%
Consumer Discretionary	12.95%
Others	10.44%
Health Care	7.50%
Information Technology	2.43%
Cash and Cash Equivalents	0.70%

Period Ended	IKIGAI Emerging Equity Fund*
EPS Growth FY27 E	27%
EPS Growth FY28 E	25%
Return On Capital	17%
Debt/equity**	0.2
EBITDA Margin	13%
Free Cash Yield	3%
Forward P/E (24m)	27x

*Notes: * Based on our Internal Estimates for our investee companies, **Ex-GICS Financials*

The last two years have been far from easy for investors. Over the past 24 months, markets have seen it all - **euphoria, correction, resilience**, and **recovery.** We've lived through **multiple mini cycles b**ut through it all, we've stayed true to our investment process.

We generally avoid writing much about the funds' performance in our newsletter. Markets can be humbling, and our **philosophy at IKIGAI** has always been to focus on process rather than short-term outcomes.

However, occasionally, it is worth pausing to acknowledge when patience, discipline, and conviction begin to translate into visible results.

Over the past few months, **our portfolio has delivered decent outcome while generating meaningful alpha over key market benchmarks. More importantly, the performance has not come from a handful of momentum-driven stocks, but from several of our investee companies reporting earnings ahead of expectations and seeing their underlying business fundamentals improve.**

The outperformance, as can be seen from table below, is particularly encouraging because it has come during a period marked by significant uncertainty geopolitical tensions, sharp FII outflows, commodity volatility, and currency weakness. Yet the underlying fundamentals of our portfolio companies have remained robust.

What makes us particularly happy is not merely the outcome, but the path taken to achieve it.

Period	Fund Return	Nifty 50	Nifty 500	Nifty Midcap 150	Nifty MidSmall 400
Last 3 Months	**20.62%**	6.87%	12.02%	17.21%	19.45%
Last 6 Months	**9.60%**	-7.99%	-2.84%	3.23%	4.62%
1 Year	**6.27%**	-6.47%	-2.63%	3.57%	2.08%
Since Inception (XIRR)	**4.26%**	0.64%	1.46%	4.54%	3.62%

Pre-Tax Return for Class D1, as of 30th June 2026
**Inception Date 19th June 2024*
Index Closing Value for 18th June 2024 has been considered

Conviction Is Tested During Corrections, Not Recoveries

One of the principles we have consistently shared with our investors is that **the best investment opportunities often emerge when market sentiment is at its weakest.**

March 2026 was one such period.

As geopolitical uncertainty dominated headlines, foreign investors continued selling Indian equities at a record pace, the Rupee came under pressure and broader market sentiment turned deeply pessimistic. It was precisely during this period that we launched the **IKIGAI Small Cap Fund**.

Many questioned the timing.

Our answer was straightforward.

While we cannot predict short-term market movements, we can recognise when market prices begin to diverge meaningfully from underlying business fundamentals.

Periods of fear often create opportunities that are difficult to find when optimism returns.

We are pleased to share that the IKIGAI Small Cap Fund has also made an encouraging start. Since its launch on **25 March 2026**, the fund has generated an **absolute return of 16.2%**, with approximately **65% of the capital deployed on an average during this period (current deployment is 90%)**.

Period	Fund Return	Nifty 500	Nifty MidSmall 400	Nifty SmallCap 250
Since Inception	16.19%	7.07%	13.95%	18.63%

Pre-Tax Return for Class D1, as of 30th June 2026
**Inception Date 25th March 2026*
Index Closing Value for 24th June 2026 has been considered

The key portfolio characteristics of IKIGAI Small Cap Fund as of June 30, 2026, are presented below:

Exposure By Sector (GICS)	(%)
Industrials	26.28%
Materials	20.03%
Consumer Discretionary	13.92%
Financial	12.03%
Others	7.69%
Health Care	6.45%
Consumer Staples	4.89%
Cash and Cash Equivalents	8.70%

While it is far too early to draw conclusions from such a short period, the initial performance reinforces our confidence in the opportunity set that emerged following the correction.
One of the observations we have consistently shared with investors is that markets often create the best opportunities when sentiment is at its weakest.

Corrections test conviction. Recoveries reward it. Our endeavour is to remain disciplined through both.

Looking Beyond The Next Quarter

Every market cycle convinces investors that **this time is different.** Sometimes the reason is inflation. Sometimes it is interest rates. Sometimes it is geopolitics. **Today, it is Artificial Intelligence, tariffs and conflicts in different parts of the world.**

The headlines change. **The emotions remain remarkably similar.** Over more than two decades of managing money, one lesson has stayed with us. **Markets are unpredictable. Businesses are far more predictable.**

We cannot forecast where the Nifty will trade six months from now. We cannot predict the next geopolitical event or the next central bank decision.

What we can do is identify businesses with capable management, strong balance sheets and the ability to compound earnings over long periods. That remains our edge. And it remains our focus.

At IKIGAI, we do not aspire to be the smartest investors in the room. We aspire to remain among the most disciplined.
We will continue making mistakes. Markets will continue surprising us.

But we will not compromise on the principles that have guided us from the very beginning:
- Invest in quality businesses.
- Partner with capable and trustworthy management teams.
- Respect valuations.
- Protect capital.
- Think long term.

Everything else is secondary.

Finally, thank you. Thank you for trusting us with something far more valuable than capital. We recognise that every investment entrusted to us represents years of hard work, sacrifice and aspiration. Managing that responsibility is both a privilege and a commitment we never take lightly.

We remain excited about the opportunities ahead and look forward to continuing this journey together.

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

- Warren Buffett

Warm Regards,

PANKAJ TIBREWAL
Founder & CIO
9th July 2026