"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble" – Warren Buffett

Dear Investors,

The above quote very aptly summaries the current opportunities being thrown by the Indian markets. **We don't get very often such instances when the risk-reward becomes so favourable for the long-term investor that it warrants displaying selective aggression** in the face of extreme pessimism and fear visible in the markets today. There is no dearth of concerns around us from **Middle East war, elevated oil prices, state elections, downgrades from MNC brokers, continuous FII outflow, fear of inflation rising, earnings uncertainty, AI threat, El Nino (weaker monsoons)** you name it and we have it. One wonders what else can go wrong from here on. In the midst of such events, India continues to remain one of the worst performing markets globally in CY2026 so far after being one of the worst performers in CY2025. Then there are those times when we have heard investors question whether it makes sense to even invest in Indian equities at all in the face of such uncertainties. **My view is: Being underweight on Indian equities is the biggest risk today!**

Last 18 months has turned out to be a demanding period where conviction, patience and discipline got tested for all investors. **Price movements were often sharp and disconnected from near-term fundamentals, making participation itself uncomfortable**. Periods of optimism were quickly interrupted by equally swift corrections, creating an environment where timing mattered as much as sector and stock selection. In the month of March'26 for example even fundamentally sound businesses witnessed drawdowns, not because of deterioration in business quality, but due to external factors and shifting liquidity conditions. Global events around tariffs and geopolitical wars triggered and continue to trigger sharp and often unpredictable movements in commodity prices, currencies, and global capital flows. What we saw in April'26 was strong rebound in fundamentally good businesses showing resilient earnings growth. In midst of continued market uncertainty, as equity investors into Indian markets there are a lot of questions on where we are headed from here in FY27 after seeing flat to negative returns in Indian markets over the last 18 months. Let us try addressing some of the big questions troubling all investors alike.

Why are FIIs selling and why isn't anyone globally interested in Indian equities?

Its important to breakdown the nature of FII investors who participate in India to understand who is buying and who is selling.

Category	Type	Major players	Time Horizon	Risk Appetite	Market Impact	Typical India Strategy
A	**Sovereign Wealth Funds**	Government Pension Fund Global, GIC, Temasek Holding, ADIA	Very Long	Moderate	Stable inflows	Increasing allocations toward India due to structural growth
	Pension & Endowment Funds	California Public Employees' Retirement System, Canada Pension Plan Investment Board, MIT, Harvard, Yale	Long	Conservative	Sticky capital	They prefer matured private businesses and focus on specific sectoral bets
	Global Asset Managers	BlackRock, Capital Group, Fidelity Investments	Medium-Long	Moderate	Benchmark-driven	Often influenced by MSCI EM weight changes, Fed interest rates, Currency outlook
B	**Hedge Funds**	Citadel, Millennium Management, Bridgewater Associates	Short	High	Volatility	Focus on Arbitrage opportunities, index trading, special situation trades and their flows can create significant short term market volatility
	ETFs/Passive	Vanguard, iShares, State Street Global Advisors	Variable	Mechanical	Large flow impact	Passive flows and dependent on MSCI EM weightage changes
	Quant and Algo Funds	Jane Street, DE Shaw	Very Short	High	Liquidity + volatility	Growing rapidly in NSE derivatives, Index arbitrage, Options trading and they create significant volatility
C	**Family Offices, Private Equity Funds**	Tiger Global Management, General Atlantic	Flexible	Moderate-High	Concentrated bets	Flexible mandates. Concentrated investing. Founder-led company preference. Long-term capital. Increasingly active in Indian midcaps and pre-IPO opportunities

Now if we look at the flows of foreign portfolio investors in and out of India over the last 18 months, it has been observed that the **major sellers are the FIIs which we have shown above as Category B** which includes Global Macro Hedge Funds, EM Passive Funds and Passive allocators. Within this category again Quant & Algo funds have increased their trading activity in India as our derivatives market has become more mature and deep than before. On the other hand, **FIIs categorized in Category A** which includes SWF, Pension Funds, Endowment Funds and **investors in Category C** which includes Family Offices and Private Equity funds **have been selectively adding allocations to their India investment.** Thus, it's not that all FIIs are exiting from India but more **tactical and passive allocations have been moving out of India while long term money continues to remain invested in India.** Its important to also look at the rationale for the selling from the FIIs. The major drivers for the hedge funds to be selling in India are **higher US bond yields, stronger dollar, better AI & semi conductor opportunities in other markets, Oil price spike and expensive relative valuation for Indian markets.** Added to these are the tax concerns in Indian markets along with higher trading costs. Passive funds and ETF allocators have reduced exposure to India owing to reduced weightage of India in the MSCI EM index. Also lack of AI and Semiconductor related opportunities in India has led to lack of interest among global investors who have flocked to destinations like South Korea and Taiwan for the same thereby making the returns of these markets extremely skewed as can be seen from the tables below. How this AI led rally will end in those markets is another topic of discussion.

MSCI EM Index country weights

Country	2020	2024	2026
China	39 – 40%	24 – 25%	24 - 25%
India	8 – 9%	19 – 20%	12–13%
Taiwan	12 – 14%	18–19%	24 - 25%
South Korea	13 – 14%	11 – 12%	15–16%
Brazil	4 – 5%	4 – 5%	4–5%
Saudi Arabia	2 – 3%	3 - 4%	3 - 4%

Absence of AI and Semi Conductor play in India is dragging returns

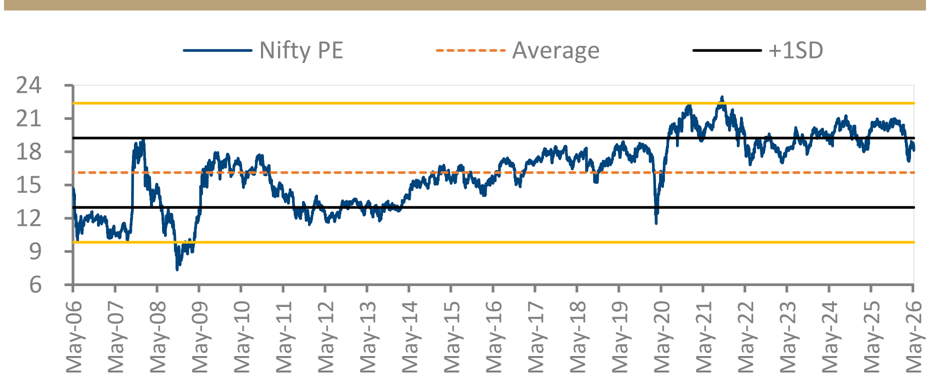
Country	Index	AI Weight in Index	1 year Return	Major Companies
South Korea	Kospi	45.2%	202.7%	SK Hynix, Samsung Electronics
Taiwan	TAIEX	50.1%	91.6%	TSMC, Delta, Mediatek, Hon Hai, ASE
USA	S&P 500	37.3%	28.9%	Nvidia, Apple, Microsoft, Amazon, Alphabet
Japan	Nikkei 225	8.0%	70.4%	Advantest, Tokyo Electron, Softbank
Europe	Euro Stoxx 50	13.9%	13.1%	ASML, SAP
MSCI World Index	MSCI World	20.2%	26.4%	Well diversified
India	NIFTY 50	0.0%	- 4.5%	-

Note: 1 yr return is as on 22nd May 2026

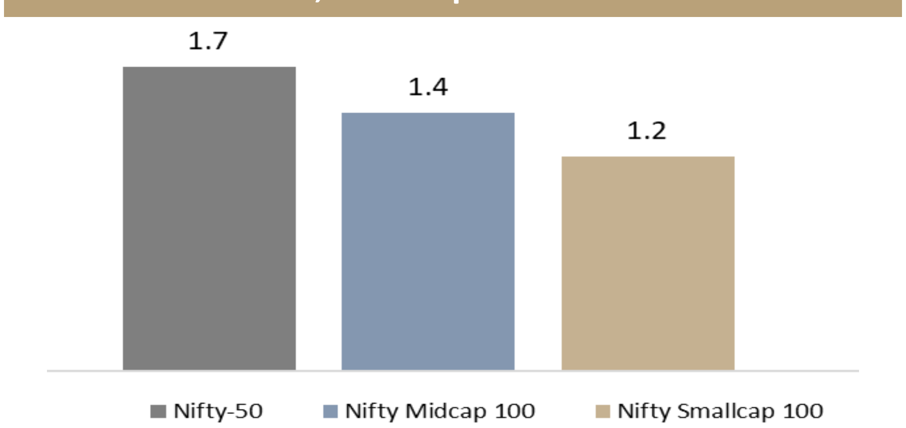
Everyone talks about India being expensive. Is it really that expensive and if yes then why?

The thing about valuations is that its always relative, either relative to historical valuations of itself or relative to valuation of other markets. In case of India both present a different picture and hence have different meaning for different set of investors. As a local domestic investor, we are more focused on how Indian markets are looking currently relative to its historic valuations. **On a P/E basis NIFTY-50 is trading at 19.7x on 1-yr forward EPS which is not expensive and below the +1SD though above the long term 20 year average**. What is even more interesting is that the Midcap and Smallcap part of the market is relatively cheaper on PEG (Price to Earnings Growth) basis considering the stronger growth visible in the smallcap and midcap segment of the market as compared to the largecaps.

On 1 yr fwd P/E, NIFTY-50 trades below +1SD at 19.7x



On PEG basis, Smallcaps are more attractive



However, **for a Foreign Portfolio Investor**, India has to be seen on a relative basis compared to other global markets and specially emerging markets. Seen from that lens, **India is relatively more expensive** owing to the higher near to medium term growth visible in many other emerging markets and even developed markets due to the higher contribution from AI and Semi-conductor related capex cycle which is unfolding. **Hundreds of billions of dollars are being invested into building AI infrastructure and hence the companies supplying these critical components are seeing once in a lifetime jump in earnings**. This needs to be seen with caution because such large capex will lead to question of ROI on the same which seems to be dwindling with time owing to faster obsolescence of technology in AI race between the companies. However, that is topic for another discussion as to when the party in AI stocks comes to a halt.

		Earnings Growth (%)			P/E (x)			P/B (x)		
Index	Country	CY25	CY26E	CY27E	CY25	CY26E	CY27E	CY25	CY26E	CY27E
KOSPI Index	South Korea	19.4	218.8	26.2	26.6	8.3	6.6	2.1	1.8	1.4
JCI Index	Indonesia	-7.0	58.7	13.2	17.8	11.2	9.9	1.8	0.1	0.1
TWSE Index	Taiwan	15.3	57.1	20.5	31.7	20.2	16.7	4.1	3.9	3.6
MXMS INDEX	**EM Asia**	**10.7**	**53.9**	**20.9**	**19.7**	**12.8**	**10.6**	**2.5**	**2.2**	**1.9**
IBOV Index	Brazil	-6.2	42.6	8.9	13.7	9.6	8.8	1.8	1.5	1.5
SHCOMP Index	Shanghai	5.7	29.5	10.9	18.4	14.2	12.8	1.6	1.4	1.3
SPX Index	USA	12.5	21.8	15.1	26.6	21.9	19.0	5.7	4.9	4.2
SET Index	Thailand	-15.1	19.7	6.3	18.3	15.3	14.4	1.4	1.4	1.4
Nifty Index	**India**	**7.1**	**19.0**	**15.2**	**22.8**	**19.5**	**16.9**	**3.3**	**2.9**	**2.6**
UKX Index	UK	-1.4	19.4	5.7	15.7	13.1	12.4	2.4	2.2	2.0
MEXBOL Index	Mexico	23.1	17.7	11.1	16.3	13.9	12.5	2.5	2.4	2.2
CAC Index	France	-8.9	14.3	9.2	17.3	15.1	13.9	2.2	2	1.8
NKY Index	Japan	12.8	12.4	8.6	27.2	24.2	22.3	3.0	2.8	2.6
FBMKLCI Index	Malaysia	-5.9	10.1	5.8	16.5	15	14.2	1.6	1.5	1.4
DAX Index	Germany	4.4	9.9	14.1	17.5	15.9	13.9	2.1	1.9	1.7
PCOMP Index	Philippines	13.7	4.6	11.1	9.5	9.1	8.2	1.2	1.1	1
HSI Index	Hong Kong	2.1	4.2	11.8	12.1	11.6	10.4	1.4	1.3	1.2
FSSTI Index	Singapore	2.5	3.2	7.6	15.5	15.0	14.0	1.6	1.6	1.5

Source: Bloomberg and Equinova Research

As can be seen from the above table, **an abnormally higher earnings growth trajectory in CY26 is seen in many emerging countries owing to AI and Semi-con growth thereby making India's non-AI and traditional business growth of 19% look pale**. So, on P/E basis India even after the massive underperformance of last 1 year looks relatively expensive at 19.5 P/E on CY26 as compared to say a 8.3X for Kospi. Even the MSCI EM index has a higher growth and lower valuation thereby making the case against India investments for those FIIs who look at tactical allocations and are chasing returns. However, if seen from a Non-AI perspective, India's valuations look attractive and an earnings growth of 19% in CY2026 is higher than the average earnings growth of 17% seen in the last 10 years in India.

Is earnings growth uniform or there are pockets of above normal growth in Indian economy?

This brings us to a very critical question of investing in India which we have been highlighting for long now. We often get this question that is it a good time to be in large caps or midcaps or small caps from time to time. **We believe that the market-cap allocation should be an outcome and not the beginning point of the portfolio construction.** The beginning point should be where are the earnings and one needs to hunt those pockets of earnings. Table below shows some of the top sectors where growth is very strong over the next couple of years. Clearly it shows the traditional favourite sectors like Private Banks, NBFCs, IT & IT Services, Oil & Gas, etc are missing from the list. Most companies in these haloed sectors are in largecaps. On the other hands most companies in below sectors are smallcaps & midcaps.

	Avg Revenue Growth YoY (%)			Avg PAT Growth YoY (%)			Avg CAGR (FY25-28E)	
Sectors	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	Revenue	PAT
Aerospace & Defence	17%	30%	21%	12%	30%	25%	22%	20%
Auto Ancillary	8%	13%	13%	6%	34%	21%	11%	18%
Chemicals	7%	17%	18%	7%	36%	29%	14%	20%
Power	29%	35%	15%	50%	23%	16%	25%	26%
Textiles	10%	12%	13%	8%	23%	19%	12%	15%

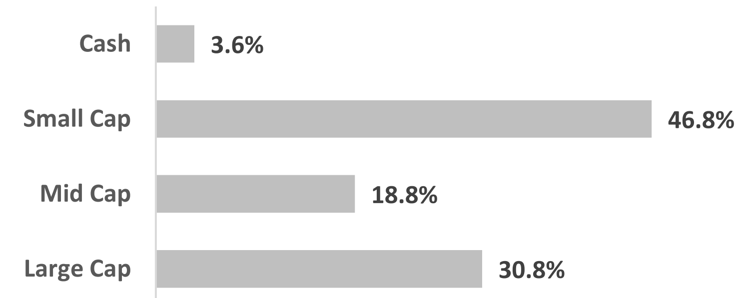
INVESTOR LETTER – MAY 2026

A glimpse of the current Q4FY26 earnings season which is about to end in a week's time gives a good glimpse of where the earnings are concentrated and where the earnings are weak. Barring Reliance Industries, which posted a profit dip of 13% YoY, **the Nifty Universe posted an 14% YoY earnings growth. Mid-caps in general have delivered earnings growth of 22-24% YoY. Interestingly small-caps in general have delivered strong earnings growth of 28-30% YoY.**

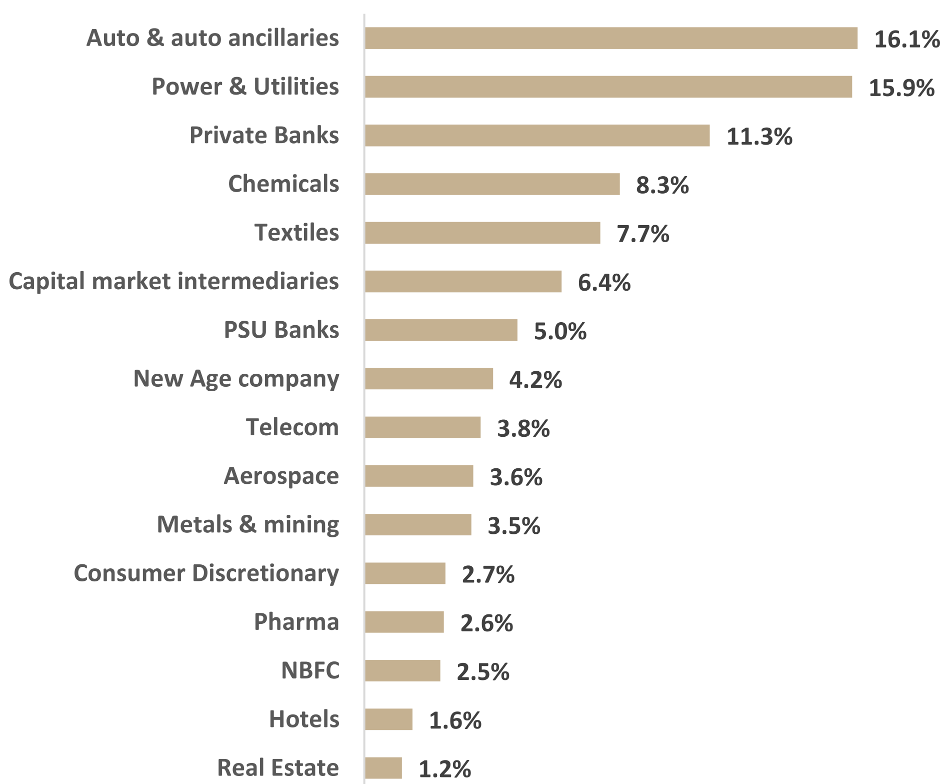
How is Equinova EDGE PMS positioned to steer through the current volatile times?

I believe there could not have been a better time to launch the Equinova EDGE PMS than when uncertainty and pessimism has been throwing opportunities at valuations which would have been otherwise difficult to get in a bull market. The portfolio having launched on 8th Jan 2026 has been able to beat the benchmark in a bad market and generate outperformance for our investors.

(As on 30th April 2026)	1 month	3 months	Since Inception
Equinova EDGE PMS	15.18%	5.16%	0.73%
BSE 500 TRI	10.38%	-1.73%	-5.58%



Industry Allocation



Top 10 Portfolio Holdings

COMPANY	WEIGHTAGE
PRECISION WIRES INDIA LIMITED	5.5%
HITACHI ENERGY INDIA LIMITED	5.3%
NIPPON INDIA ETF NIFTY PSU BANK BEES	5.0%
ICICI BANK LIMITED	5.4%
AARTI INDUSTRIES LIMITED	4.4%
TUBE INVESTMENTS OF INDIA LIMITED	4.3%
ETERNAL LIMITED	4.2%
GODAVARI BIOREFINERIES LIMITED	4.0%
S. P. APPARELS LIMITED	3.9%
ARVIND LIMITED	3.8%

Some key highlights of the portfolio:

- The portfolio exhibits a **strong pro-cyclical and domestic growth-oriented positioning** with a clear tilt toward India's industrial capex revival, financialization of savings, premium consumption and manufacturing-led themes.
- Compared with the broader BSE500 Index, **the portfolio is significantly overweight industrials, power utilities, auto ancillaries, capital market plays and select consumption themes, while materially underweight IT services, FMCG staples, oil & gas, energy and large benchmark-heavy sectors.**
- In the power sector, the portfolio is betting on multi year manufacturing and industrial cycle driven by government infra spending, transmission & power capex, private sector industrial capex revival and grid modernization.
- In the Auto sector the portfolio is betting on premiumization of autos, export-oriented component manufacturing, precision engineering opportunities and global OEM outsourcing plays.

- Many of these auto ancillary businesses are not pure domestic auto plays but manufacturing/engineering compounders benefiting from: Aerospace, Defense, Industrial precision components and Export diversification. **The portfolio preference is clearly toward niche engineering-led auto ancillaries and selective niche OEMs rather than commodity auto OEMs.**
- In the BFSI exposure the portfolio remains underweight on private banks and overweight on PSU Banks. The portfolio has a high allocation to capital market play which is to ride the increasing penetration of equity investment culture in the country and rising financial savings among investors.
- The portfolio is materially overweight discretionary consumption and niche manufacturing-oriented consumption businesses. The portfolio doesn't have any exposure to Consumer Staples and FMCG companies which we believe is still over-valued considering the weak volume growth visible. On the other hand, textiles finds an overweight allocation in the portfolio with two distinct names in the portfolio. One focused towards infant wear exports opportunity post FTA signing with EU and UK. The other is both a domestic play as well as a play on Advanced Materials Division which has use case in various industrial and high-end technical fibers.

We continue to look for pockets of outsized earnings trajectory over the next few years which are available at reasonable valuations compared to their growth potential. We remain mostly invested with very little low single digit cash levels in the portfolio. We see the current Iran war volatility ending soon as peace and truce is being discussed as we write this letter. Emerging markets allocation could also see a tilt shifting back to India as global investors start taking some bets off AI trade in fear of a bubble being built there. Domestic flows have been robust and continue to pour in every month.

Happy Investing !!
Aniruddha Sarkar

Disclaimer:
The purpose of this Letter is to provide general information of the market and the house view of Equinova Investment Managers Pvt Ltd. to existing and prospective investors in a manner to assist them in understanding the market and equity products. The Letter is purely for information purposes and should not be construed to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. This letter is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without prior permission of Equinova Investment Managers Pvt Ltd. While reasonable endeavors have been made to present reliable data in the communication, but Equinova Investment Managers Pvt Ltd does not guarantee the accuracy or completeness of the data in the same. Equinova Investment Managers Pvt Ltd or any of its connected persons including its subsidiaries or associates or partners or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this letter. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this investor letter reflect the views and judgment of Equinova Investment Managers Pvt Ltd and are subject to change without notice.

This Letter is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject Equinova Investment Managers Pvt Ltd and its affiliates to any registration or licensing requirement within such jurisdiction. The product described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report/Presentation may come are required to inform themselves of and to observe such restrictions.

This letter is qualified in its entirety by the Terms of Agreement and other related documents, copies of which will be provided to prospective investors. All investors must read the detailed Terms of Agreement including the Risk Factors and consult their tax advisors, before making any investment decision/contribution to be managed under the Portfolio Management Services or other Alternative Investment Funds offered by Equinova Investment Managers Pvt Ltd.