

Dear Investors,

Our PMS and AIF performance as of last month is as follows (Exhibit 1).

Exhibit 1: TWRR Performance (after all fees and expenses) as of 31-December-2025

Investment Approach (Benchmark)	Inception Date	AUM (INR cr)	1M	3M	6M	1Y	Since Inception (Annualized)*
PMS Large Midcap	11-Apr-23	89	-0.8%	6.4%	1.9%	14.1%	21.2%
(Nifty 50 TRI)			-0.3%	6.3%	2.9%	11.9%	17.0%
PMS Small Midcap	11-Dec-23	103	-9.5%	-20.0%	-24.2%	-21.6%	7.7%
(Nifty 50 TRI)			-0.3%	6.3%	2.9%	11.9%	12.6%
AIF Alpha Fund 1**	24-Mar-25	36	-3.8%	-4.8%	-10.4%	NA	7.7%
(Nifty 50 TRI)			-0.3%	6.3%	2.9%	NA	13.0%
PMS Other AUM		237					
Total AUM		465					

*Returns for Large Midcap and Small Midcap are annualized as they have completed full year. However, returns for Alpha Fund I are not annualized as it is yet to complete one full year.

** Returns for AIF Alpha Fund I are pre-tax but post all fees and expenses.

Exhibit 2: NAV Movement (after all fees and expenses)

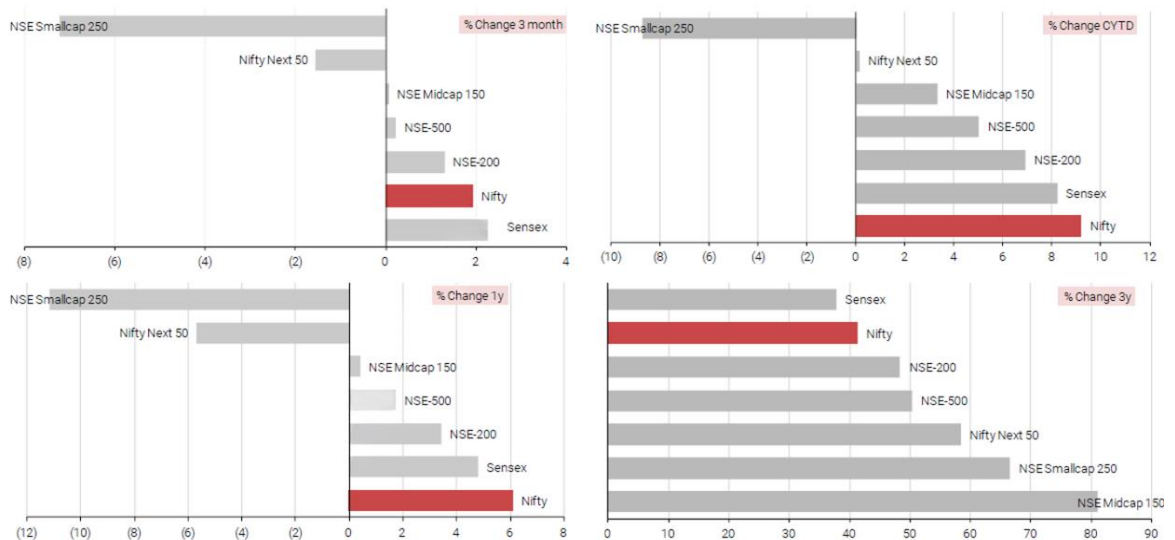
Investment Approach	Inception Date	Inception NAV	Month-end Date	Month-end NAV
PMS Large Midcap	11-Apr-23	100	31-Dec-25	169
PMS Small Midcap	11-Dec-23	100	31-Dec-25	117
AIF Alpha Fund 1	24-Mar-25	100	31-Dec-25	108

Turbulent year ending with positive outlook despite the uncertainties.

- 2025 has been a year of very muted gains for Indian equity markets. Also, performance has varied meaningfully across market caps, sectors, and individual stocks, with large caps doing meaningfully better than small and mid-cap indices given risk-off environment (Exhibit 3).
- Despite several supportive factors, including government measures such as income tax cuts and GST rate reductions, a pro-growth monetary policy stance, and strong domestic inflows (Exhibit 4), market returns remained subdued. This was largely due to high valuations, slower earnings growth, and continued FII outflows (Exhibit 5). The lack of exposure to the AI theme, which has driven returns in other global markets especially in the 2nd half of CY25, along with concerns around US tariffs, also weighed on sentiment (Exhibit 6).
- Looking ahead to CY2026, we expect a healthier recovery in earnings and domestic capex, supported by improving domestic consumption following the GST rate cuts and income tax reductions.

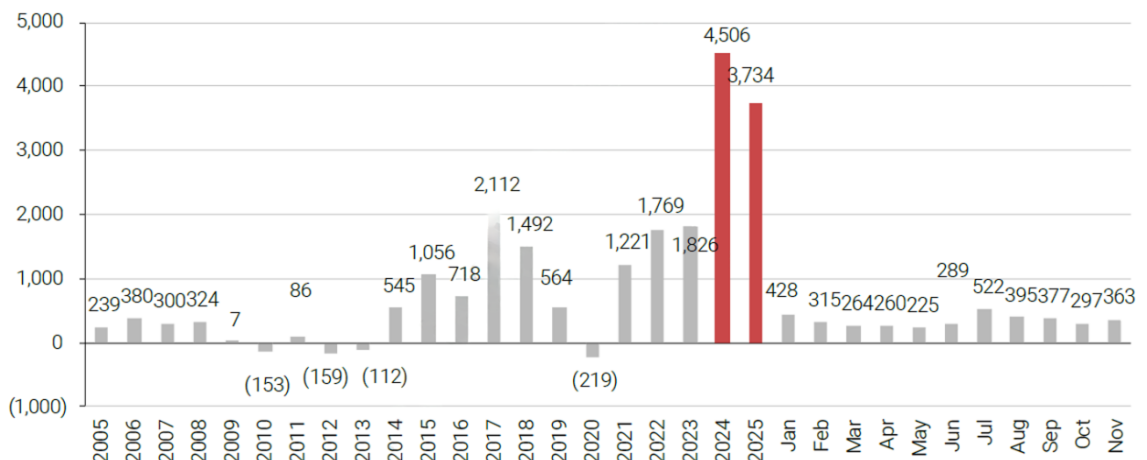
- Positive upside: A potential India US trade deal, progress toward a Russia Ukraine peace resolution, and easing geopolitical tensions.
- Negative downside: Continued tariffs on India in the absence of an India US trade agreement, slower earnings growth than expected, persistent FPI outflows, a slowdown in the Indian IT sector, and higher geopolitical risks/conflicts.
- Overall, risks appear evenly balanced, with earnings recovery and developments on trade discussions likely to be key areas to watch in 2026.
- We reiterate our stance of constructing portfolios aligned with the domestic capex cycle outlook, while maintaining a disciplined bottom-up approach at reasonable valuation, particularly in an increasingly complex and uncertain investment environment.

Exhibit 3: Performance of major Indian indices (%)



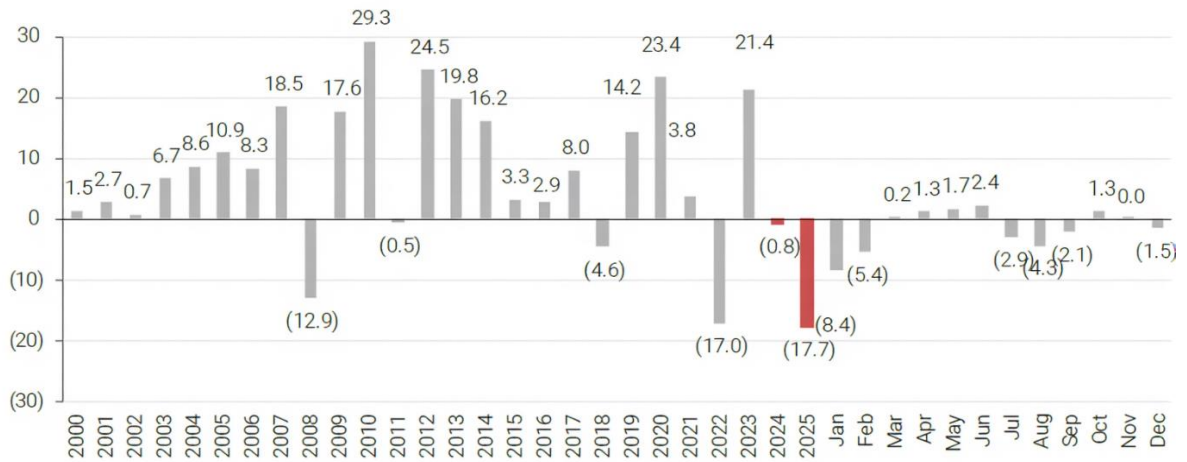
Source: Bloomberg, Kotak Institutional Equities

Exhibit 4: MFs have seen equity inflows of Rs 3.7 tn so far in CY2025(Rs bn)



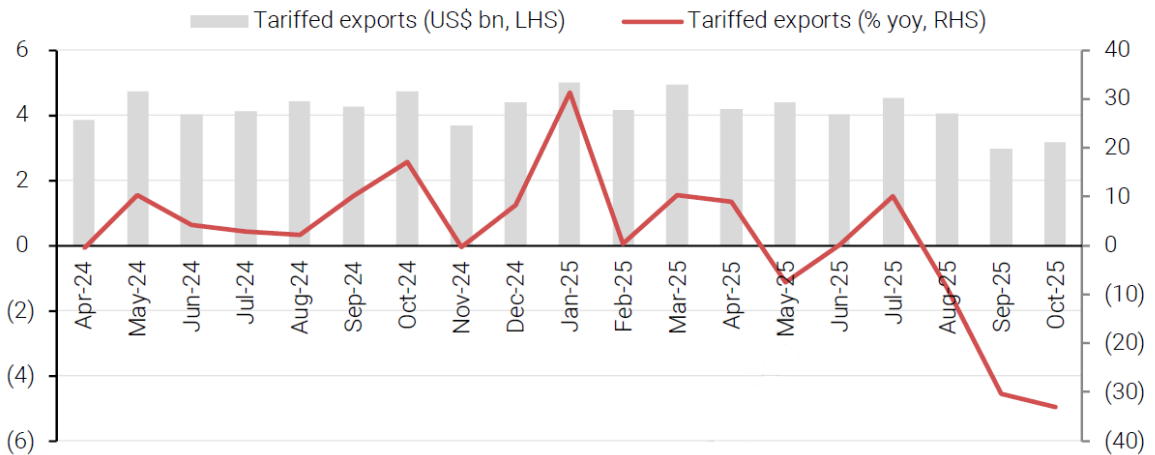
Source: AMFI, Kotak Institutional Equities

Exhibit 5: FPI flows in equity segment, calendar year-ends, 2000-25 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Tariffed exports to US contracted sharply in October

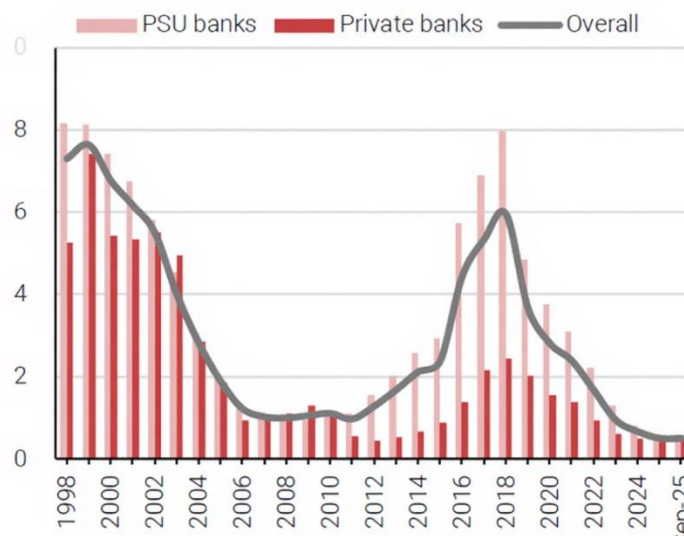


Source: Ministry of Commerce, Kotak Institutional Equities

India enters the next phase of Capex driven growth.

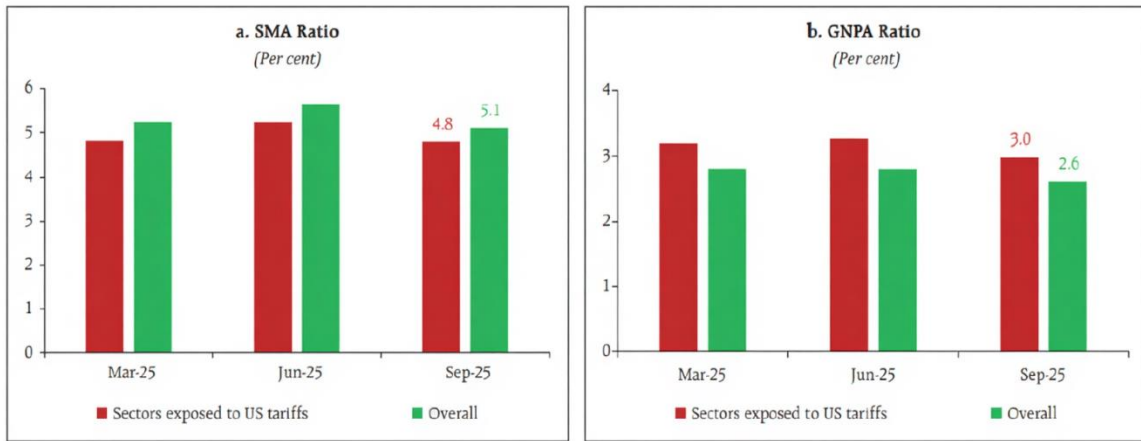
- As per the RBI’s Financial Stability Report (FSR), delinquencies have been declining (Exhibit 7) while credit growth is recovering, driven by the ongoing capex cycle and supportive rate cuts.
- Commentary on consumer loans suggests limited concern around stress in MFIs and lending to tariff-affected sectors such as textiles. While slippages in sectors exposed to US tariffs remain somewhat elevated versus the MSME portfolio, overall credit costs are trending downward.
- The report highlights the resilience of the Indian economy, which remains domestically driven and capex led. Even in the event of external shocks such as prolonged tariff pressures, credit costs may rise in specific cases but are unlikely to translate into systemic risk (Exhibit 8).
- As highlighted in our previous newsletters on the era of de-globalisation and the importance of self-reliance, these dynamics are expected to further catalyse domestic capex (Exhibit 9). With the industrial credit cycle at the bottom, banking sector is well positioned for the next phase of growth (Exhibit 10).
- Indian corporates are well placed to take higher leverage amid sustained monetary and fiscal support from the central bank and the government. This positions the economy strongly to drive India’s next phase of growth, with a clear emphasis on self-reliance in an increasingly uncertain global environment.

Exhibit 7: Stable NNPA ratios for both private and PSU banks



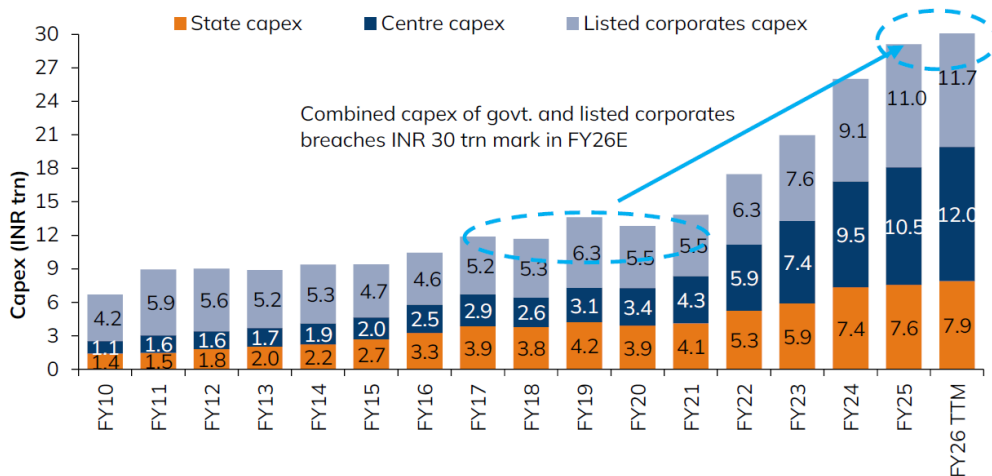
Source: RBI Financial Stability Report, Kotak Institutional Equities

Exhibit 8: US tariffs have not impacted asset quality in MSME credit yet for Indian banking system



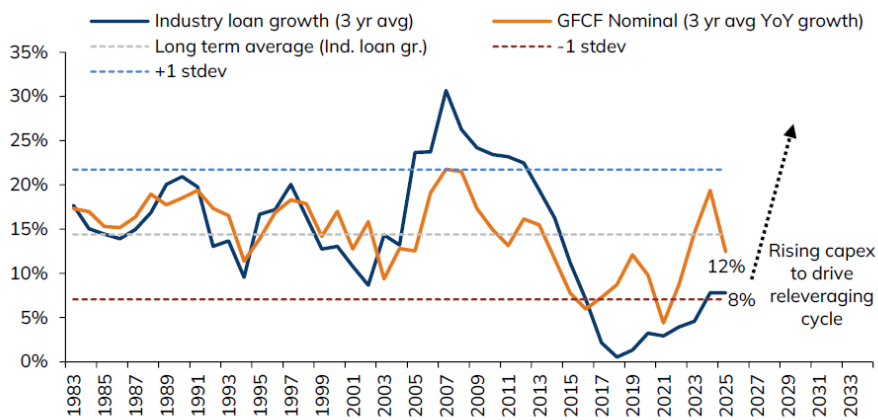
Source: RBI Financial Stability Report

Exhibit 9: Combined capex of listed space, centre and state rises.



Source: CEIC, Capitaline, I-Sec Research

Exhibit 10: Strong re-leveraging cycle ahead given the low base and interest rate.

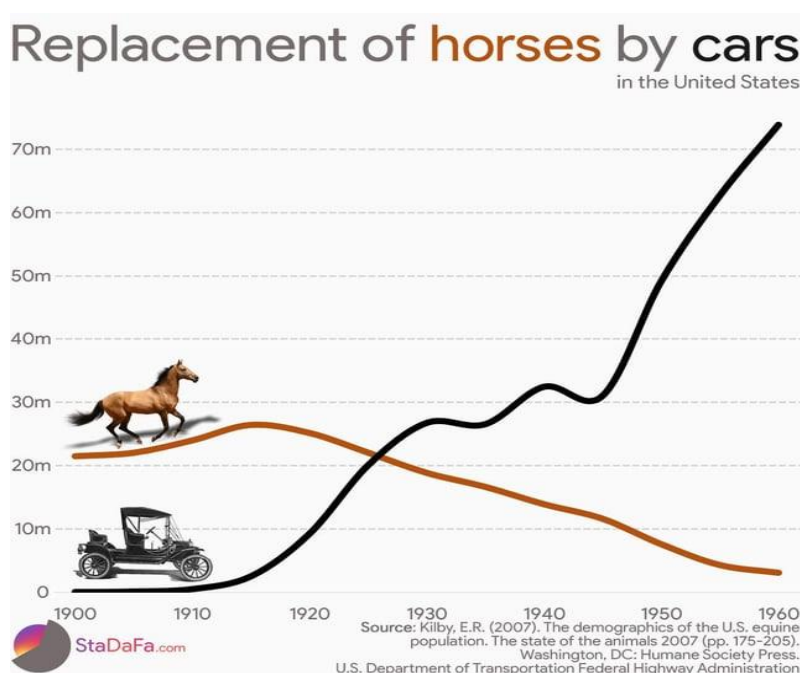


Source: CEIC, I-Sec Research

AI and the Timeless Cycle of Innovation, Fear, and Opportunity

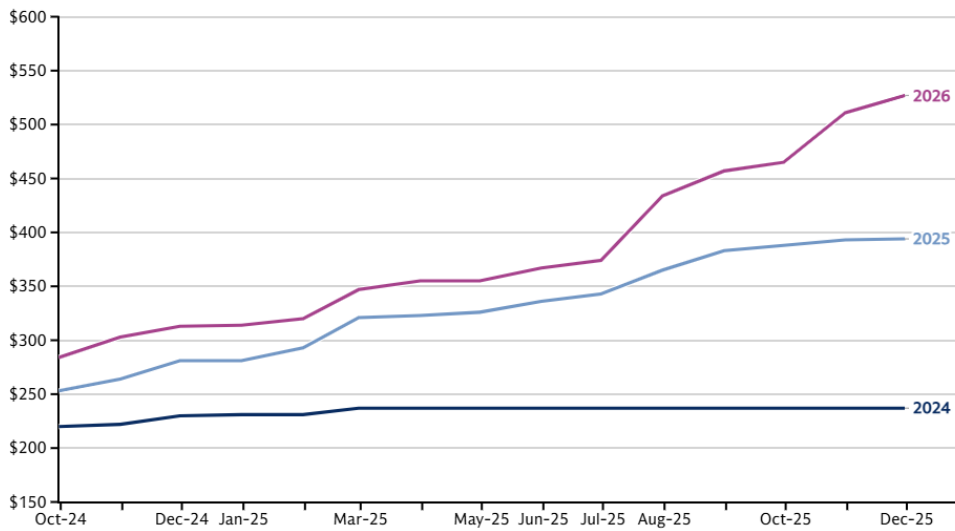
- There has been a recurring pattern throughout human history. Every major discovery or technological shift has reshaped society, sometimes for the better and sometimes in unexpected ways. Fire changed survival, paper changed how ideas spread, and firearms changed who controlled territory. Large colonial empires would not have been possible without guns. In many ways, technology has always been shaping the world.
- At the same time, each new technology has made the previous one obsolete. Gunpowder turned swords into relics, aircraft carriers reduced the relevance of battleships, and automobiles turned horse carriages into museum pieces (Exhibit 11). Imagine an investor in the early 1900s extrapolating population growth and investing in horse carriage companies. The logic would have been sound, but not the outcome. Technology changed everything.

Exhibit 11: Invention of Automobile made horses redundant.



- The key learning is simple. Current trends may not repeat, and technological progress can make entire industries irrelevant faster than expected.
- Today, the dominant narrative is artificial intelligence, with over USD 400 billion in capex in 2025 and likely to rise further in 2026, as per Goldman Sachs report (Exhibit 12). A common question is whether AI can completely replace humans. The short answer is no. Achieving AGI, or artificial general intelligence, meaning human-like thinking combined with massive processing power and precision, remains extremely difficult. For now, humans are still required.
- But can AI automate menial and repetitive tasks? Absolutely. Bots have taken over routine banking call center queries. As algorithms improve, many such tasks will be automated and AI agents will take over several roles. This has important implications, including job losses due to reduced labour intensity. This is particularly relevant for the Indian IT sector, which employs millions and has been a key driver of middle-class growth and consumption.

Exhibit 12: Consensus capex estimates for AI hyperscalers have been revised higher (USD billions)

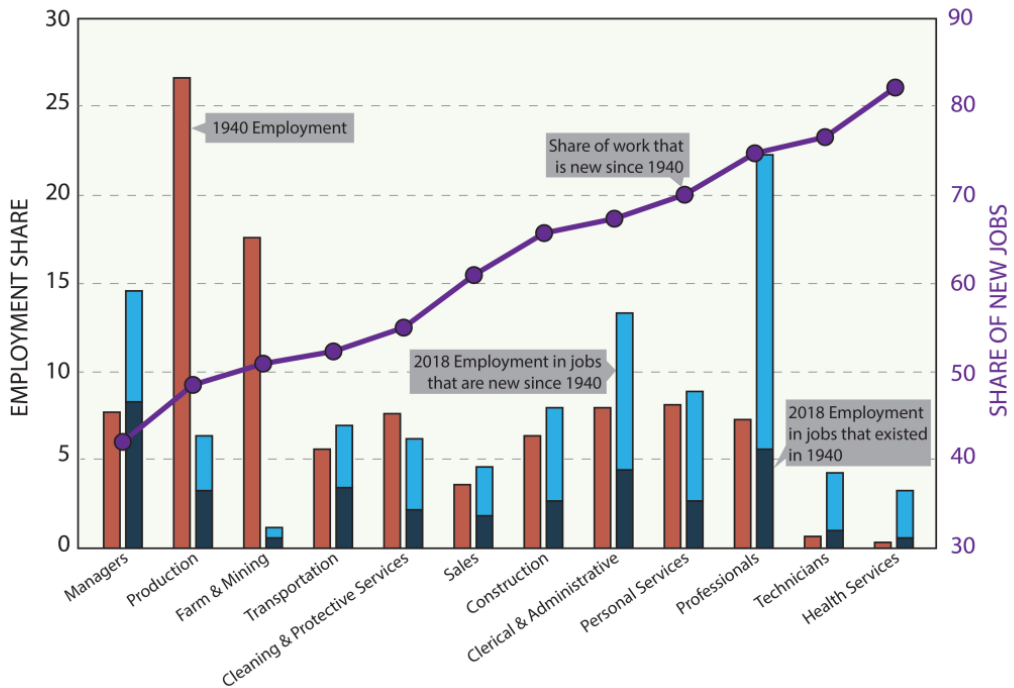


Source: FactSet, Goldman Sachs Research



- Similarly, automation in manufacturing is making the sector far less labour intensive than in the past (Exhibit 13). Robots do not take lunch breaks, do not go on strike, and unfortunately, do not spend money either.
- Low-skilled workers face the highest risk of redundancy from automation. This could challenge India’s growth model, as outsourcing has historically been driven by the availability of low-cost labour.
- Predicting outcomes is difficult and remains uncertain. However, it is important to recognize the potential risks from technological change and their implications for India. India is a labor-surplus economy with limited investment in human capital, making social mobility difficult. Rising inequality often leads to broader economic and social challenges. This is not just an India-specific issue but a global one.
- Our portfolio construction reflects these realities. The world is moving toward a multipolar structure, with the US unlikely to remain the sole dominant superpower in the coming years. Concerns around the long-term role of the US dollar, rising treasury yields, and rise of far right and far left sentiments reinforce this shift.
- With this in mind, we focus on domestic capex-driven and commodity cycle-driven opportunities. This remains core to our investment philosophy. We are not trying to predict the future, just trying not to ignore the underlying risks in the coming years.

Exhibit 13: Changing job market from 1940 to 2018.



Source: Autor, D., Mindell, D. & Reynolds, E. *The work of the future: Building better jobs in an age of intelligent machines* (MIT Press, 2022).

Conclusion

We believe this is the right moment to Top-up your investments in our PMS/AIF products with a medium- to long-term horizon.

We will be happy to have a quick call with you to discuss your portfolio. Also, we really appreciate the references you have shared thus far and would request you to continue to remain generous in sharing more references.

**Warm regards,
MoneyGrow Team**

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