India Avenue
Investment Management

Fund Update: 31st October 2018

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods

Fund Rating

Lonsec Rating: Recommended*

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016
Fund Size	$20.5 million
Unit Price	Wholesale: 1.0671 Retail: 1.0605
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU$
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	Wholesale: 1.10% p.a. Retail: 1.50% p.a.
Buy-Sell Spread	0.50% / 0.50%
Performance Fee**	10% of the excess return above the benchmark
FY18 Dividend	Wholesale: 0.67 cpu Retail: 0.67 cpu

** Subject to a high watermark

Fund and Market Commentary: October 2018

Indian markets continued their weakness in October 2018, falling another 5% in Australian dollar terms, after a 9% fall in September. Whilst September's market fall was mainly due to India related events, like tightening liquidity and rising bond yields, October's fall was exacerbated by weak global markets, which fell 5.2% owing to escalating tensions around trade wars, slowing growth and potential of rising interest rates.

Although the Indian Rupee weakened further against the USD over the month, oil prices fell sharply by 8.8% in October, owing to rising crude oil supplies amid concerns about global oil demand in the wake of the US-China trade war and the potential for weaker global growth. This was a welcome macro development for India, given its reliance on the commodity for both consumers and the India's trade and current account deficits.

Whilst the market volatility seen over the last two months is something no investor likes to see, historically for India it is hardly unusual as explained in the September factsheet. In fact, corrections in equity markets are healthy from time to time to remove unnecessary speculation and overheating by those investors playing the short term "make a quick buck" game.

From the outset we have encouraged investors to take a long-term view when investing in India's equity market. Whilst equity returns over the long term are superior to developed markets, volatility is much higher than developed markets. Where investors have lost money, is when they have invested on a fad, typically investing at the top and selling after an equity market correction. However, those who have stayed the course and in fact invested more on market weakness (when company fundamentals remain strong) have made healthy double-digit returns over 5-7 year periods. We highlight this in the table below which compares investing in a median Indian equity fund relative to a median Australian equity fund. Whilst the usual disclaimers around historical analysis applies, it shows the superior returns on offer in India and that India's higher volatility than Australia's can be washed out when investing in periods of 5, preferably 7 years.

% of Periods that Experienced Negative Returns			
	Rolling 3 Years	Rolling 5 Years	Rolling 7 Years
India	18%	10%	0%
Australia	14%	10%	0%

% of Periods of Superior Returns			
	Rolling 3 Years	Rolling 5 Years	Rolling 7 Years
India	74%	79%	91%
Australia	26%	21%	9%

In terms of the fund's relative performance, 2018 continues to be a very tough year relative to our benchmark as the large-caps stocks have outperformed the mid and small cap stocks by 20% and 35% respectively. Nonetheless, we continue to hold high conviction in our investment philosophy which seeks to provide greater depth to India's equity market through exposure to companies are benefitting from locally derived revenue, commonly found outside the top 10 companies in India.

Avenues

About India Avenue

India Avenue Investment Management (IAIM) is a boutique investment company focused on providing investment solutions for clients in Australia and New Zealand who seek exposure to India's growth potential through its capital markets.

The India Avenue Equity Fund is managed by the team at IAIM and has a bias towards companies which are experiencing strong growth through rising local demand. The Indian economy's robust ecosystem provides a tailwind for several well managed and carefully selected listed companies

Fund and Market Commentary Continued….

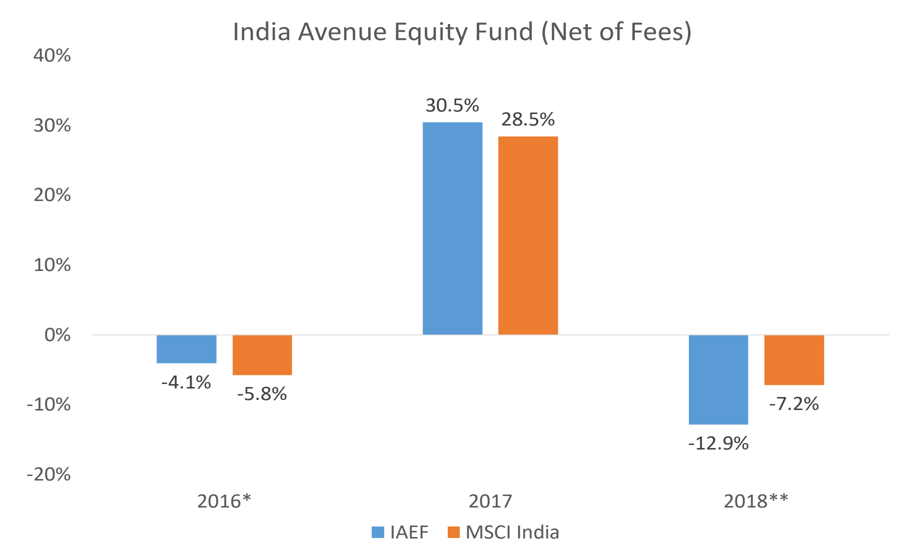
Our experience investing in India's equity markets, tells us that periods where the index heavyweights outperform can and do occur and that it is important that we stick to our core philosophy, rather than to close the gap on our large underweights to the top 5 index names. We remain very confident this strategy will reap benefits in the long term as the "undiscovered companies", by definition, take time to be recognised by the market and can produce significant outperformance, if well selected.

Unfortunately, the steep underperformance experienced in 2018 YTD has impacted our 2 years and since inception returns. The fund's calendar year performance is shown in the chart below the performance table to show that whilst 2016 and 2017 years were good for outperformance, this year is where all the underperformance has occurred.

India Avenue Equity Fund Performance (***in AUD and net of all fees***)

Wholesale	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception
IAEF	-4.20%	-12.41%	-10.94%	-10.62%	5.03%	4.10%
MSCI India	-5.03%	-10.46%	-7.54%	-5.25%	7.64%	5.56%
iShares India ETF	-4.88%	-10.89%	-7.69%	-6.37%	6.58%	4.01%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception#
IAEF	-4.23%	-12.58%	-11.24%	-11.12%	-	-0.62%
MSCI India	-5.03%	-10.46%	-7.54%	-5.25%	-	2.85%
iShares India ETF	-4.88%	-10.89%	-7.69%	-6.37%	-	1.24%



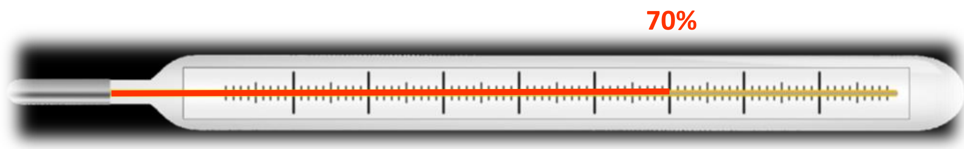
*6th Sep 2016, ** 31st Oct 2018

Contact Details

India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 3, 183 Macquarie Street, Sydney, NSW 2000, Australia
T: +612 8937 2487
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

Avenues

Company Revenue Generated Locally



Source: Bloomberg

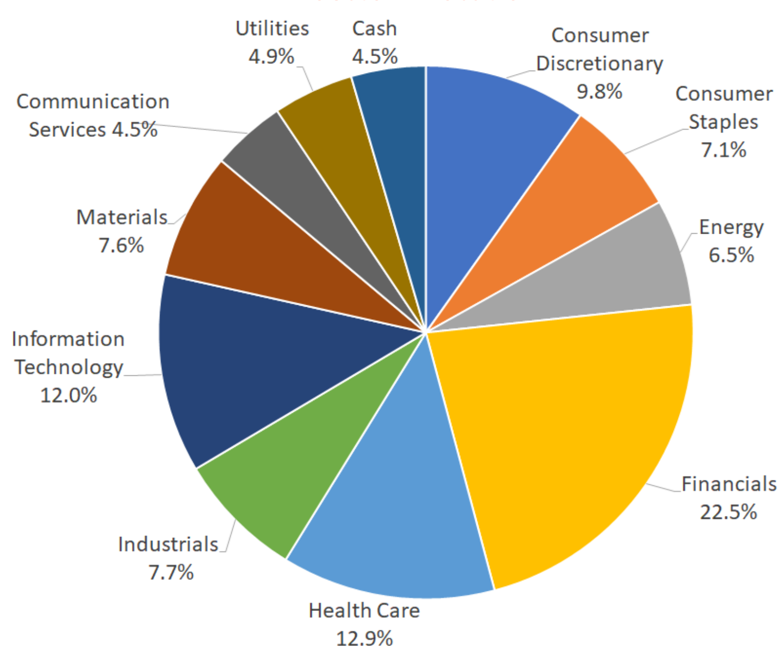
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.0%
Infosys	IT Services	4.1%
ICICI Bank	Banks	3.8%
Mahindra & Mahindra	Automobiles	3.9%
HDFC Bank	Banks	3.0%
Reliance Industries	Oil & Gas	3.0%
NTPC	Power & Renewables	2.9%
Wipro	IT Services	2.7%
State Bank of India	Banks	2.6%
Kotak Mahindra Bank	Banks	2.1%

Source: India Avenue, Bloomberg

Sector Allocation



About India Avenue

India Avenue Investment Management (IAIM) is a boutique investment company focused on providing investment solutions for clients in Australia and New Zealand who seek exposure to India's growth potential through its capital markets.

The India Avenue Equity Fund is managed by the team at IAIM and has a bias towards companies which are experiencing strong growth through rising local demand. The Indian economy's robust ecosystem provides a tailwind for several well managed and carefully selected listed companies

Fund Identifiers

Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

Contact Details

India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 3, 183 Macquarie Street,
Sydney, NSW 2000, Australia
T: +612 8937 2487
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

Avenues

India Avenue Investment Management

India Macro News

- The World Bank released its latest Doing Business Report ranking India at 77 among 190 countries, a jump of 23 positions against its rank of 100 in 2017. The World Bank has recognized India as one of the top improvers for the year making it the second consecutive year for which India has been recognized as one of the top improvers. Such progress has been the a result of the commitment of the Government to carry out comprehensive and complex reforms.
- India will soon have a banking point within the reach of 5 kms of every citizen, Minister of Finance Shri Arun Jaitley said. He observed that during the period of 2014 to 2018, access to banking services rose from 58% to almost 100%. He stated that in order to reduce corruption, it is necessary to reduce interfaces and customers need not visit a bank.
- Suresh Prabhu, the Commerce Minister said that India produces nearly 600 MT of agri products and its strategy is to increase farmer's income by doubling production it and reducing the wastage of food products. Alongside domestic strategy, the Government is also focusing on exporting agricultural products to the world. India ranks first in terms of total number of organic producers and 9th in terms of worlds organic agricultural land

India Micro News

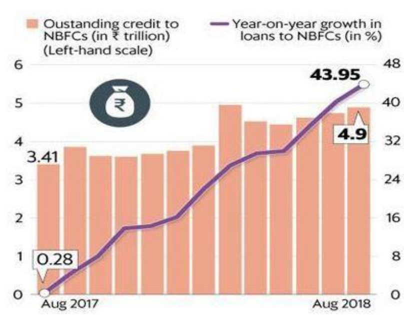
- India has overtaken the US to become the second largest smartphone market in the July-September 2018 quarter, according to a report by research firm Canalys. India which saw a shipment of 40.4 million units during the third quarter was second to China where 100.6 million smartphones were shipped. Smartphone shipment in the US was 40 million units in the July-September 2018 period.

Thematic: Non-Bank Financial Companies

In India, the Non-banking finance companies (NBFC) sector are an important funding source as well as financial service provider for retail as well as MSME's (Micro, Small and Medium enterprises).

NBFC's are common financial institutions around the world and provide a more specialized service than most corporate banks. They are also much smaller in size and thus can provide funds to businesses too small to be considered by many banks. Whilst colloquially referred to as shadow banks, this terminology is often associated with no regulation, however in India, NBFC's are regulated by the Reserve Bank of India (RBI). In fact, there are 249 systemically important non-deposit accepting NBFC's that face prudential regulations such as capital adequacy requirements and provisioning norms, besides reporting requirements. Housing finance companies (HFC's) have capital requirement of 12% versus 15% for NBFC's and 9% for banks.

Given the nascency of India's financial system compared to the developed world, the NBFC sector has outpaced corporate bank growth considerably, rising 22% p.a. since 2006. Due to their distribution reach, they have been able to provide credit to the under-banked population in India for micro-finance, commercial vehicles loans, small business loans, affordable housing and personal loans. NBFC's also became a main source of raising funds for Infrastructure projects in India. Currently, NBFC's account for around 15% of the lending in India. Over the last five years, almost 50% of the incremental credit in the economy has come from NBFC's and HFC's, with the top 10 NBFCs contributing almost 30%.



Source: Livemint

However, a recent default by Infrastructure Leasing & Financial Services Ltd. (IL&FS) caused panic in local Indian credit and share markets which caused the RBI to introduce around INR 360 billion in October through open market operations to increase liquidity in the market. During the month, the RBI, Securities and Exchanges Board of India and the government closely monitored the developments. They, however, reiterated that the NBFC sector was strong and the supervisory and regulatory framework governing it was robust.

The whole sector has been battered in September and October, after being a strong outperformer over the last few years. Whilst funding costs have risen, solvency risk for quality names in this space are not an issue as NBFC's with strong balance sheets will get easier access to money at more competitive rates. However, weaker NBFC's, will find it difficult to raise capital. Hence in our view, select quality NBFC's currently offer attractive valuations and we maintain our exposure in those names.

The views and opinions contained in this document are those of India Avenue Investment Management Australia Pty. Ltd. (IAIM) (ABN 38 604 095 954) & AFSL 478233. Equity Trustees Limited (Equity Trustees) (ABN 46 004 031 298) AFSL 240975, is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT), is the Responsible Entity of the India Avenue Equity Fund. This document has been prepared to provide you with general information only and does not take into account the investment objectives, financial situation or particular needs of any person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. IAIM does not express any view about the accuracy and completeness of information that is not prepared by IAIM and no liability is accepted for any errors it may contain. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the product disclosure statement before making a decision about whether to invest in this product. No part of this material may be copied, duplicated or redistributed without prior written permission of IAIM or Equity Trustees. The user will be held liable for any unauthorised reproduction or circulation of this document, which may give rise to legal proceedings. Information contained here is based on IAIM's assumptions and can be changed without prior notice. It is not, and may not be relied upon in any manner as legal, tax or investment advice or a recommendation or opinion in relation to an IAIM financial product or service, or any other financial product or service. Please consult your advisors, read the relevant offer document and consider whether the relevant financial product or service is appropriate for you before making any investment decision. Investment in securities involves risks and there is no assurance of returns or preservation of capital. Neither IAIM, Equity Trustees, nor any of its related parties, their directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost capital, lost revenue or lost profits that may arise from or in connection with the use of this information. The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036.

**Lonsec Disclaimer: The Lonsec Rating (assigned June 2017) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold India Avenue Investment Management Limited's product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to Lonsec's website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings*