



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	6 th September 2016
Fund Size	\$27.6 million
NAV	Wholesale: 0.9062 Retail: 0.9051
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	0.35% / 0.35%
Performance Fee**	10% of the excess return above the benchmark
FY19 Dividend	Wholesale: 2.653 cpu Retail: 1.248 cpu

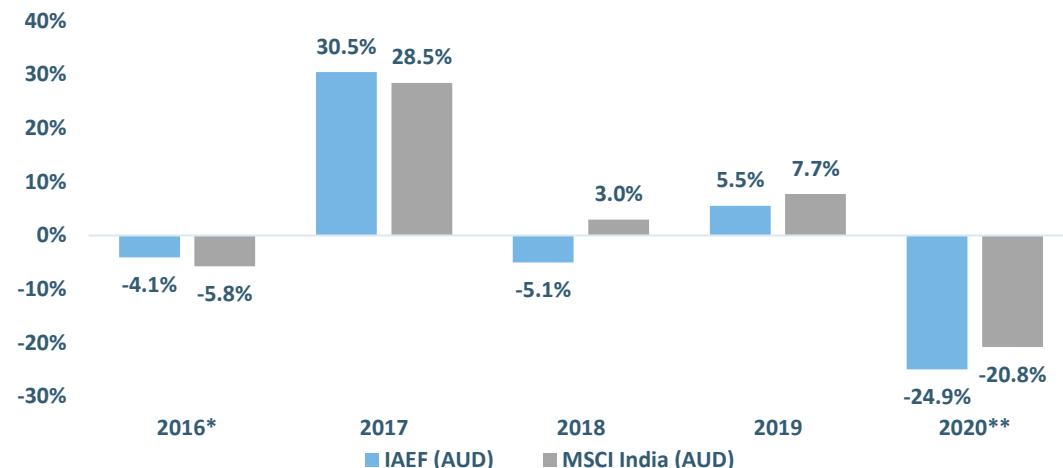
** Subject to a high watermark

Fund and Market Commentary: March 2020

The India Avenue Equity Fund (wholesale) fell by -25.65% (net) for the month of March 2020, as a fall-out of the COVID-19 crisis. The result was similar over a 12-month period with the fund falling 25.10% to the 12 months ending March 2020.

March 2020 was the continuation of what commenced the month before as investment markets started falling as global investors grappled with the impact of the Coronavirus on humanity, the global economy and individual companies. Over the month of March, we saw significant stimulus from Governments and Central Bankers, trying to calm their citizens and investment markets with regards to the potential impact of the virus.

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



	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.)
IAEF	-25.65%	-24.85%	-24.03%	-25.10%	-9.68%	-4.06%	-1.65%
MSCI India	-21.13%	-20.90%	-20.07%	-19.75%	-3.82%	0.47%	1.71%
Excess	-4.52%	-3.95%	-3.96%	-5.35%	-5.86%	-4.53%	-3.36%

	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.)
Retail	-25.68%	-24.94%	-24.24%	-25.44%	-10.14%	-5.26%	-5.26%
IAEF	-25.68%	-24.94%	-24.24%	-25.44%	-10.14%	-5.26%	-5.26%
MSCI India	-21.13%	-20.90%	-20.07%	-19.75%	-3.82%	0.47%	1.71%
Excess	-4.55%	-4.04%	-4.17%	-5.69%	-6.32%	-4.88%	-4.88%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st March 2020 assuming the reinvestment of dividends

#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

As the number of infections rose rapidly and spread outside of China, investment markets fell more substantially. Lockdowns across the world seemed to be the immediate answer to control the spread of the virus, but left companies dealing with almost no demand for their products in most cases and the potential massive unemployment as businesses would strive to reign in their fixed costs.

Given India's significant and high-density population, the likelihood of the virus spreading quickly was high. The Modi Government put the country into lockdown for 21 days (ending 14th April 2020), with only essential services continuing. This created a massive issue for India's informal, non-agricultural workers (estimated 450m), of which a significant proportion are migrant (estimated 150m from another town, city or state). Most of these workers are paid daily and with loss of jobs could suffer from hunger.

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About India Avenue

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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
ARN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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The stimulus from the Government thus far has been weak compared to other nations (0.8% of GDP) and was aimed at the lower socio-economic parts of society. We expect more will be forthcoming to address the problem of India's "urban poor". Thus far the impact seems to be mainly in metropolitan areas. Hopefully migrant workers travelling home to their families (as out of a job or returning for the harvest season in April-May) will not spread the infection to rural India.

The Reserve Bank of India chimed in with liquidity through lowering interest rates by 75bps to 4.40% as well as providing liquidity to banks for longer-term loans (1-3 years). This allows them to reduce their marginal cost of funding and transmit lower cost of funds to the corporate world, particularly medium and small sized firms. The liquidity injection was close to 3.2% of India's GDP.

However, there are some positives for India such as falling oil prices (as India imports close to 85% of its oil requirement), a globally competitive generic drug making pharmaceutical industry and the hope that the warmer weather and natural immunities built by some of India's population may slow the spread of the virus.

Why our Fund underperformed its benchmark so significantly in March 2020

The underperformance of our Fund during the month of March 2020 can be attributed to the following points:

- Our Fund positioning was aligned to an "Improving India", meaning we held exposure to companies that would benefit from improving growth prospects going forward after a 2-year slowdown caused by Demonetisation, GST and other reforms.
- We were underweight relative to our Benchmark in sectors such as Information Technology and Consumer Staples, which significantly outperformed the benchmark during March as investors sought protection in companies regardless of their valuation or forward outlook for growth.
- Close to 90% of our underperformance of the benchmark in March happened in just two trading days during the month. The benchmark Index appreciated significantly on these days, as investors sought safety or a "hiding spot" during the malaise. On these days (20th and 31st of March), the Index rose 6.58% and 4.75% respectively.
- Any exposure to mid or small cap companies were punished in during March despite as investors sought to liquidate from the portfolios which may be impacted detrimentally in the short term. We have reduced our exposure to some companies that may take some time to recover and increased exposure to quality companies – there was some impact cost in this trade.
- Mid-month we took the opportunity to transition our portfolio towards Quality companies which previously had been very expensively priced. We were able to add to positions like Kotak Bank, HDFC Bank and Bajaj Finance at much lower levels. Despite perceived weakness of Banks in this crisis, we felt quality companies would win market share. The trading to re-align the portfolio for the post COVID-19 environment would have had an impact on the portfolio.

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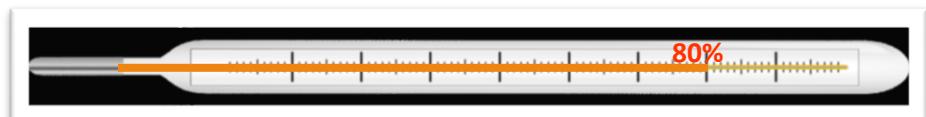
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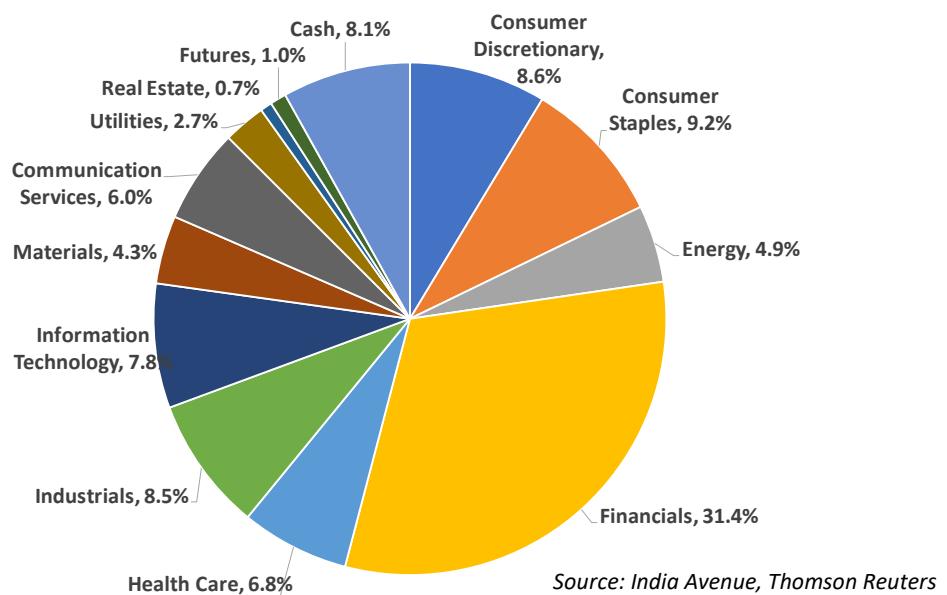
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	6.1%
HDFC	Housing Finance	4.8%
HDFC Bank	Banks	4.8%
Bharti Airtel	Communication Services	4.2%
Infosys	IT Services	3.9%
Reliance Industries	Oil & Gas, Retail & Telco	3.9%
Bajaj Finance	Non-Bank Finance	3.4%
Tata Consultancy Services	IT Services	3.3%
Avenue Supermarts	Hyper/Super Markets	2.8%
Kotak Mahindra Bank	Banks	2.2%
Maruti Suzuki	Automobiles	2.2%
L&T	Infrastructure & Engineering	2.0%
Axis Bank	Banks	1.9%
Escorts India	Tractors and Moving Equipment	1.8%
Info Edge	Human Resources	1.8%
Divi's Laboratories	Pharmaceuticals	1.6%
State Bank of India	Banks	1.6%
Nestle India	Consumer Staples	1.5%
Symphony	Coolers & Air Conditioners	1.5%
Chambal Fertilizers	Fertilisers	1.4%

Sector Allocation as at 31 March 2020



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India Macro & Micro News

- As at 11th April 2020, India's infected from COVID-19 was recorded as 8,453 and currently rising at 10-13% per day. Currently 290 deaths are recorded. The concern is that the low level of testing does not articulate the true numbers of infected. Currently the lockdown is due to be lifted by April 14th, but it likely to be extended till at least end of April. Some states are taking matters into their hands and extending already.
- India's pharmaceutical exports account for over 20% of global generic drugs in terms of volume. The Industry is valued at close to US\$40bn and is growing at close to 10% p.a. However, the Industry has been focused on highly competitive areas and thus only accounts for 3% by value. The Industry in India has had issues with rising compliance costs of the US FDA standards. Refer to our recent [report](#).
- Fitch, a US based ratings agency has downgraded India's GDP growth rate for year ending March 2021 to 2% - the slowest growth rate for the last 30 years (since liberalization in 1991). Fitch said that micro, small and medium sized enterprises are likely to be amongst the most affected amid reduced consumer spending.
- COVID-19 at this stage appears to be mainly a metropolitan problem for India. The migration of workers back to their homes for harvest (during April-May) has been slowed to limit the spread of the virus. The harvest at this stage looks set to be a good one given the last monsoon had plentiful rainfall and water resources are full. Additionally, rural workforces have not been impacted. However, the problem may be a logistical problem to ensure the harvest is not wasted, given shortages in the transfer mechanism.

Survive and Thrive Through Quality

As we have explained before, our investment process allows us to build an investment portfolio of listed companies, through the company selection skills of highly credentialled investment managers based locally in India. March 2020 was an extremely tough month for all active fund managers in India given it is an event that could not have been predicted or something one can prepare for. The lockdown in India effectively brings economic activity to a standstill.

In this environment it was our view that quality companies would outperform the benchmark going forward. Typically, quality companies in India have been very expensive to buy given investors love for compounding growth companies, with high return on their invested capital, strong brand leadership, low levels of leverage and solid profit and cash flow generation. However, the sell-off in March provides the perfect opportunity to buy-in to those companies at much more feasible valuations for the long-term success of the India Avenue Equity Fund.

Rather than simply buy into companies which will benefit in the next quarter given they lose less in the June 2020 quarter as a result of their fortuitous business model, we have used the opportunity to buy new companies and add to existing holdings which are likely to thrive from a competitive environment by winning market share. These companies are effectively either market leaders or close to in their segment.

Sector	Market Leaders	Weighting
Information Technology	Infosys, Tata Consulting	7.2%
Banks	HDFC, ICICI, Kotak	13.1%
Consumer Staples	Hindustan Unilever, Nestle	2.9%
Non-Bank Financials	HDFC Ltd, Bajaj Finance	9.5%
Pharmaceuticals	Cipla, Divi's Labs	2.9%
Consumer Electricals	Crompton Greaves, TTK Prestige, Symphony Titan (Jewellery, Watches) Britannia (Biscuits)	3.6%
Other Category Killers	Avenue Supermarts (Groceries) Maruti Suzuki (Automobiles) Info Edge (Job-seeking) Larsen & Toubro (Infrastructure) Reliance Industries (Oil & Gas) Bharti-Airtel (Telecom)	18.6%

Our three advisers in India are Aditya Birla, Axis (newly added in March) and Old Bridge (with Axis providing a focus on quality companies through their advice). Our portfolio is a combination of their advice in percentage that we determine based on our view of the environment, their skillset and their specific investment style. We continue to comb the landscape in India for those who investment managers who we can partner with and would be additive to our insights, value addition and capability.

All the investment firms and key investment personnel we partner with for stock selection advice have been through investment cycles, including environments like the current one previously and have a thorough understanding of which companies are more likely to be survivors and then thrive in the current and future environment.

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