

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: Recommended¹

Fund Facts

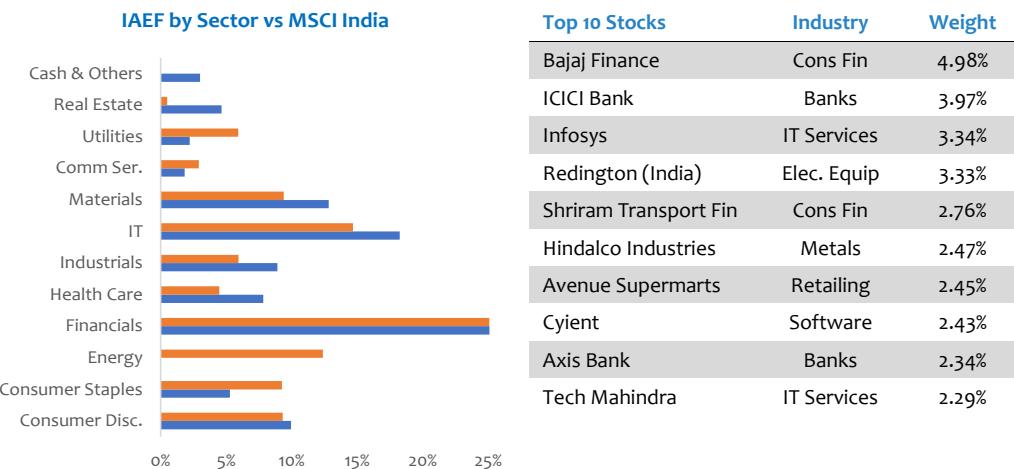
Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6 th September 2016
Fund Size	A\$62.9m
NAV	M Class 1.4196 H Class 1.3894 L Class 1.1282
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Frequency	Yearly 30 th June
Management Expense Ratio	M Class 1.10% p.a. H Class 1.50% p.a. L Class 0.95% p.a.
Buy-Sell Spread	0.35% / 0.35%
Performance Fees	Excess Return above Benchmark
M & H Class	10%, high watermark
L Class	15%, high watermark
FY22 Distribution	M Class: 15.274 cpu H Class: 16.005 cpu L Class: 11.637 cpu

Fund Returns and Characteristics: 30th December 2022

INDIA AVENUE EQUITY FUND - M CLASS (NET RETURNS) VS MSCI INDIA (AUD)



M Class	3 months	1 year	2 years	3 years	5 years	Since Inc.
Fund Returns (net)	-6.76%	-12.84%	13.38%	9.52%	5.66%	8.22%
MSCI India (AUD)	-3.31%	-1.32%	14.98%	11.65%	9.08%	10.40%
Relative Performance	-3.45%	-11.52%	-1.60%	-2.13%	-3.42%	-2.18%



Source: MSCI

H & L Class	3 months	1 year	2 years	3 years	5 years	Since Inception H Class (06/04/17)	Since Inception L Class (19/04/21)
H Class (net)	-6.86%	-13.16%	12.82%	8.99%	5.14%	6.92%	
L Class (net)	-6.73%	-12.49%					13.98%
MSCI India (AUD)	-3.31%	-1.32%	14.98%	11.65%	9.08%	10.12%	17.49%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th December 2022, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. The only difference between the M, H and L class are the management and performance fees charged. The underlying investments of each class are identical.

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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. The Fund has a bias towards companies which are experiencing strong growth driven by India's fundamentals. The Indian economy's robust ecosystem provides a tailwind for these companies which benefit from participating in growing addressable markets. Additionally, if they have sound management and a strong business moat, it makes a compelling case for long-term investment.

Fund Identifiers

Identifiers	ARN	ISIN	APIR Code
M Class	611374586	AU60ETL04826	ETL0482AU
H Class	611374586	AU60ETL04784	ETL0478AU
L Class	611374586	AU60ETL28148	ETL2814AU
	Citi Code	Morningstar	
M Class	NFCK	41512	
H Class	NF2H	41828	
L Class		44362	

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Fund and Market Commentary

The India Avenue Equity Fund returned **-12.84% for the 12 months ending 30th December 2022**, underperforming its benchmark, **MSCI India (AUD)** by **11.52%**. In our last factsheet we had explained, via a note, the reasons behind our underperformance of the benchmark in 2022. In December we saw a reversal, with the fund outperforming its benchmark by 0.92%.

However, the month of December 2022, saw Indian markets fall by 4% in local currency terms and the AUD appreciate by 2.4% relative to Indian Rupee (INR). This led to a fall in the MSCI India (AUD) of 6.65%. Most emerging markets suffered similar pain in December, with the exception of China as the “re-opening” trade was on the table despite increasing Covid-19 cases.

The MSCI India (AUD) ended the calendar year of 2022 down 1.3%, faring much better than most regional equity markets. However, a large part of the relative outperformance of India to its peers in 2022 was driven by a narrow group of companies such as the Adani Group and Government-owned companies, which our fund has no exposure to as highlighted in our previous notes.

India's Economic and Equity Market Outlook for 2023

The outlook for India in 2023 remains bright the presence of some short to medium term clouds, which we will address in this factsheet. We also highlight the reasons behind India's stellar economic and equity market performance relative to peers.

A look back at 2022

In late 2021 and 2022 markets were impacted due to concerns over global supply chains being tight and rising commodity prices which eventually led to rising inflation and wages. Rising inflationary expectations led to globally coordinated interest rate rises, led by the Federal Reserve in the US. Whilst initially believed to be transitory and caused by post Covid-19 recovery, inflation remained sticky with the potential of a more structural longer-term impact.

In India inflation rose to a peak of 7.8% in April 2022 and remained as high as 7.4% in September 2022, before retreating to the last reading of 5.9% in November 2022. This was driven by rising food and commodity prices which have significant weighting in India's CPI basket. Nevertheless, the fall below 6% is the first time in 2022 that the CPI retreated below the upper band for the Central Bank's (RBI) level of tolerance (4% +/- 2%). In response to rising inflation, the RBI increased rates from 4% to 6.25% by December 2022. Over the course of the year there were 5 rate hikes. The RBI has forecast inflation at 6.7% for FY23 (March ending).

Macro Variables	End of 2021	End of 2022
GDP Growth	5.4%	6.3% (Sept-22)
CPI	5.7%	5.9% (Nov-22)
Cash Rate	4%	6.25%
10 Year Bond Yield	6.68%	7.33%
Current Account	US\$23.0bn (Dec 21 Qtr)	US\$36.4bn (Sept 22 Qtr)
Forex Reserves	US\$635bn	US\$550bn
Manufacturing PMI	55.0	57.8
Services PMI	52.0	58.5
Business Confidence	139.0	134.4
Consumer Confidence	63.7	83.5

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India Macro & Micro News

The Production-Linked Incentive (PLI) scheme for automobile and auto components has attracted proposed investment of around US\$8.17bn, against the target estimate of US\$5.13bn investment during five years. 85 applicants have been approved in OEM and component manufacturing from Korea, US, Japan, France, Italy, UK and Netherlands. This highlights India's standing as a world class manufacturing destination.

A collaboration between Indian Space Research Organisation (ISRO) and Microsoft was announced to fuel the growth of space technology start-ups in the country. The start-ups identified by ISRO, through this tie-up, will be onboarded onto the 'Microsoft for Start-ups Founders Hub' platform, through which start-up founders in India will have free access to tech tools and resources required to build and run the business.

The Uttar Pradesh Government has signed initial pacts worth US\$2.3bn with firms in the US and Canada, ahead of the UP Global Investors Summit 2023 (GIS). Simultaneously conducted, were around 51 government-to-government (G2G) and business-to-business meetings (B2B) in the span of three days. Sectors include logistics, defence and aerospace and it will create numerous job opportunities.

After hitting a low point of US\$525bn in October 2022, India's forex reserves have once again started rising and have reached US\$562bn in January 2023. India's forex reserves provide stability and support to the INR during the rise of Oil prices globally, which typically play a destabilising factor for India's currency. The IT Services sector has provided significant growth and inflow to counteract India's oil import requirements.

Whilst India remains in a strong macroeconomic position, some of the shock absorbers which were in place at the end of 2021 are more challenged. Particularly noteworthy is the rising Current Account Deficit which is at 4.4% of GDP (Sept Qtr) – the highest it has been since 2013. This has come about due to rising commodity prices and a weaker INR which impacts the trade balance. Forex Reserves from a healthy position of US\$635bn has been depleted to US\$525bn before some recovery in the last few months of 2022. These are important to maintain India's healthy external position.

Macro Risks

The risks for India now relate to a weakening global economy. No economy is completely decoupled from global economic activity. A hard-landing scenario will deprive India of volume growth which is needed for the economy and corporates to benefit from operating leverage. The early signs of weakness in the Current Account Deficit, falling reserves, currency depreciation and high frequency data points indicate the potential for a worsening environment should a global recession persist. A further depletion of forex reserves will lead to tighter liquidity conditions in the banking system which may impact credit growth, tax collections and government spending.

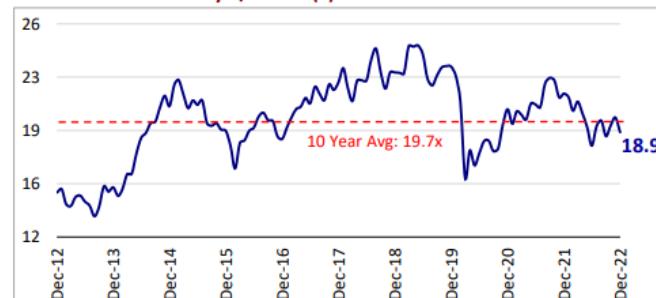
Positives at play

- A capex recovery seems to be at play with Government's increasing their overall spending on infrastructure and renewables. However, a broader revival is dependent on the private sector coming to the party. This will require global capex, fiscal policy support and liquidity conditions both globally and locally.
- Tax Collections have increased by close to 25% in FY23 relative to FY22 thus far and continue to show an expansion of the tax base over time.
- The possible inclusion of India's Government Bonds as part of the JP Morgan World Bond Indices would see substantial demand support to the bond market and currency. The inclusion may see up to US\$30bn of flow.
- A return of foreign investors (outflow of US\$16.6bn in CY22) as the macro environment improves as well as continued structural long-term investment from local investors will continue to be supportive to equity markets and currency. Foreign ownership is at its lowest level since FY14 at 17.6% of market cap.

Valuations

Valuations are at a slight discount relative to history but at a significant premium relative to other markets like China, Europe etc. However, Indian markets have generally traded at a premium due to structural tailwinds (witnessed through high RoE, compounding and stable profit growth). Relative to higher cash rates and bond yields, the equity market looks more expensive at current levels. This may impact the structural nature of local flows.

12-month forward Nifty P/E ratio (x)



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Our Focus and Experience

The founders of IAIM worked together at ING Investment Management in Australia and India over a period spanning from 2003-2013.

Our rich experience in investing in Indian equity markets is aided by our local network (fund managers, stockbrokers, corporates and other market participants in India).

This, alongside our singular focus on India as an investment region, provides our clients with significant insights on investing in this fast-growing region.

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Outlook

In an environment where inflation recedes and the need for further significant tightening dissipates, it is likely that a positive macro backdrop will present an opportunity for India. In this environment India will thrive due to its ability to participate in global supply chains and win economic market share. In such a scenario public and private capex are likely to spark the next capex boom as capacity is added to cater not just for local demand but also global. This will lead to operating leverage for India's corporates who are well positioned to take advantage (given low debt to equity and cash flow generation). This risk to this scenario is a hard-landing scenario for the rest of the world, which takes away India's opportunity to scale up and benefit from operating leverage. It will also hurt the balance of payments / current account.

Another scenario is lower inflation leading to Central Banks halting their rate hikes. This would be likely to lead in a resumption of the growth cycle and spending and will be selectively positive for equities. However, the fear is that this will lead to a resumption of inflationary forces, led by commodity price rises. From India's perspective, it is likely to increase market share in global GDP and maintain a steadier trajectory in earnings growth than its peers. However, a watching brief must be kept on Balance of Payments, Currency, Liquidity, Credit Growth and Forex Reserves.

It is likely that investors will seek growth in 2023, but be more cautious about the valuations paid and the margin of safety available.

Portfolio Positioning and Commentary

From a portfolio perspective we highlight the following characteristics relative to our benchmark:

	As at 31 December 2022	Portfolio	Benchmark
Dividend Yield	0.98	1.21	
P/E Trailing 12-Month	22.77	24.25	
P/E Forward 12-Month	21.61	22.11	
PEG Ratio Annual	1.38	1.43	
Price to Book	3.90	3.57	
Price To Cash Flow Per Share	16.22	14.78	
Dividend Growth Hist 5 YR	21.36%	16.00%	
EPS IBES Actual 3 YR Hist Growth	10.95	7.61	
Revenue 3 YR Hist Growth	12.31	7.53	
Net Profit Margin	28.75%	18.52%	
Operating Profit Margin	19.38%	20.94%	
ROE Common Equity	22.12%	18.71%	
Market Cap	A\$31.7bn	A\$84.4bn	

The India Avenue Equity Fund illustrates characteristics which we seek, with a bias towards growth and quality. However, these typically are priced at above market valuations due to foreign investors seeking these compounding growth, high quality businesses. Given the outflows from foreign investors in 2022, growth and quality stocks appear less expensive than previously, which is reflected by the portfolio's slight discount to the benchmark P/E (despite having growth and quality characteristics superior to the benchmark).

The key question now is when are foreign investors likely to return to India as a preferred investment destination. This is more likely to coincide with increasing risk appetite, a weakening USD and a soft-landing scenario. In a hard-landing scenario, it is likely that investors will avoid equities as an asset class, which will impact flows. In this scenario the management of our portfolio will shift towards more of a focus on valuation. Strong structural flows from local investors (now 16% of market cap in India) must also be monitored in the face of higher interest rates which provide an alternative for capital.

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Our Philosophy

IAIM's investment philosophy focuses on three key aspects:

- India will be a high GDP growth region relative to other regions given its strong fundamentals.**
- Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
- Locally based asset managers in India have an advantage relative to global investors when it comes to investing in Indian equities due to their knowledge of the local laws, business principles and overall ecosystem.**

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*India Avenue Equity Fund's Target Market Determination is available on our website:
www.indiaavenueinvest.com/our-fund*

A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

¹ *Lonsec Disclaimer: The Lonsec Rating (assigned April 2019) 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>*