31st May 2023

# Avenues

India Avenue Investment Management

## 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.**

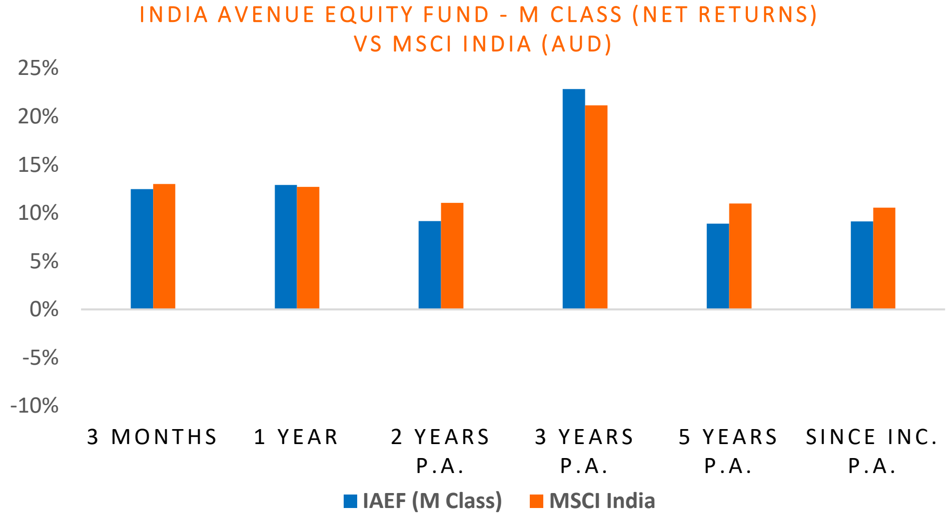
## Fund Rating

**Lonsec Rating: Recommended[1]**

## Fund Facts

| | |
|---|---|
| Fund Manager | India Avenue Investment Management |
| Portfolio Manager | Mugunthan Siva |
| Structure | Registered Investment Management Trust |
| Inception Date – M Class | 6th September 2016 |
| Fund Size | A$73.45m |
| NAV | M Class 1.5444<br>H Class 1.5088<br>L Class 1.2286 |
| Base Currency | AUD |
| Responsible Entity | Equity Trustees Limited |
| Custodian | Apex / BNP Paribas |
| Auditor | KPMG |
| Benchmark | MSCI India in AUD |
| Distribution Frequency | Yearly 30th June |
| Management Expense Ratio | M Class 1.10% p.a.<br>H Class 1.50% p.a.<br>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<br>H Class: 16.005 cpu<br>L Class: 11.637 cpu |

## Fund Returns vs Benchmark – 31st May 2023




| M Class (as of 30/04/2023) | 3 months | 1 year | 2 years | 3 years | 5 years | Since Inception 06/09/16 |
|---|---|---|---|---|---|---|
| **Fund Returns (net)** | 12.46% | 12.91% | 9.17% | 22.85% | 8.88% | 9.11% |
| MSCI India (AUD) | 13.00% | 12.71% | 11.04% | 21.14% | 10.97% | 10.56% |
| **Relative Performance** | **-0.54%** | **0.20%** | **-1.87%** | **1.71%** | **-2.08%** | **-1.45%** |

The India Avenue Equity Fund – M Class units, outperformed the MSCI India benchmark by 0.20% in AUD terms, over the 12 months to 31st May 2023. The fund's performance continues to improve in 2023 (after a difficult 2022) as both foreign investors have returned to India, seeking to increase exposure to India's economy which grew at 7.2% real GDP growth over FY23. The fund's focus on earnings growth and ROE in the large cap space, complemented by a margin-of-safety in its mid and small cap exposure, is now leading to outperformance, particularly over the last 6 months (fund return 2.91% vs benchmark -1.80%).

Foreign investors, seeking exposure to higher earnings growth regions with reasonable transparency, are likely to continue to add to their India exposure. Local investors are likely to continue to strategically increase equity investment over the long-term in India. Corporate earnings are expected (consensus forecasts to grow at 12-15% p.a. over the next two years. Global risk factors such as sticky or rising inflation, geopolitical risks in Eastern Europe or effects of recession in developed markets remains a risk to equity investment in general.

| H & L Class (as of 30/04/2023) | 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)** | 12.34% | 12.42% | 8.62% | 22.27% | 8.36% | 7.93% | |
| **L Class (net)** | 12.53% | 13.10% | 9.22% | | | | 15.85% |
| **MSCI India (AUD)** | 13.00% | 12.71% | 11.04% | 21.14% | 10.97% | 10.31% | 16.61% |

*Source: MSCI*

***Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st May 2023, net of fees and assuming reinvestment of dividends. Returns of longer duration than 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.***

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. 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 | ARSN | 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 |

## Contact Details

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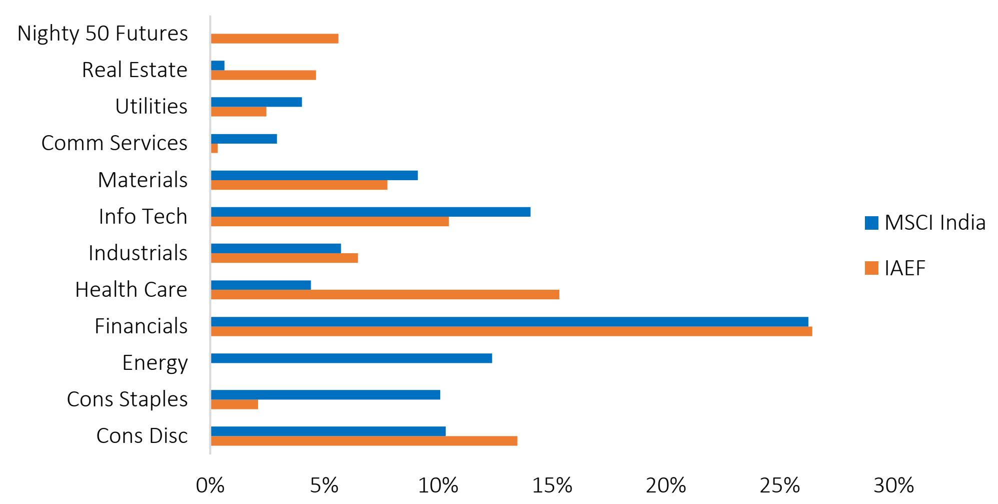
## Portfolio by Sector

INDIA AVENUE EQUITY FUND BY SECTOR VS MSCI INDIA AS AT 31 MAY 2023




***Source: MSCI***

The India Avenue Equity Fund has similar exposure to the benchmark in financials. The sector has benefited greatly from a "clean-up" which commenced in 2016 with the Insolvency and Bankruptcy Act as well as a concerted effort to improve balance sheets and reduce impaired assets. In 2018, the Indian banking system had as much as 11% of non-performing loans on their balance sheet. This has reduced to 5% as corrective action has been taken by corporates to deleverage balance sheets and by banks to improve their lending practices. The current environment sees Banks/NBFCs at almost peak profits due to lower provisions and cycle high, net interest margins. Sectors where the fund is overweight include Real Estate, Healthcare and Consumer Discretionary (mainly in the recovering Auto sector).

## Top 10 Stocks as of 31st May 2023

| Name of Company | Industry | Weight |
|---|---|---|
| ICICI Bank | Private Bank | 5.67% |
| Bajaj Finance | Non-Bank Financial | 5.64% |
| Axis Bank | Private Bank | 3.07% |
| Infosys | IT Outsourcing | 2.97% |
| Shriram Finance | Non-Bank Financial | 2.52% |
| Cipla | Pharmaceuticals | 2.49% |
| Redington | Electric / IT Equipment | 2.47% |
| HCL Technologies | IT Outsourcing | 2.42% |
| Aurobindo Pharma | Pharmaceuticals | 2.39% |
| SBI Life Insurance | Insurance | 2.25% |

The Fund has some exposure to large capitalisation companies like Bajaj Finance, ICICI Bank, Axis Bank (financials) as its top 3 companies by weight. IT Outsourcing will continue to be in favour as Indian IT firms like Infosys and HCL Technologies benefit from cloud migration and increasing use of digital platforms globally. Our healthcare overweight is represented by pharmaceutical companies like Aurobindo and Cipla. Two small/mid-cap stocks in our top 10 are Redington (small cap), a leading IT technology solutions provider and Shriram Finance (mid-cap), India's largest commercial vehicle financier.

# Avenues

## India Macro & Micro News

In April 2022, the Indian Government launched Open Network for Digital Commerce (ONDC) as a prospective alternative to giants like Amazon and Walmart. ONDC is a non-profit company whose network will enable the display of products and services from all participating e-commerce platforms Transactions of have grown 500x and the merchants have grown by 40x since the start of 2023. In a statement, ONDC said that it has significantly worked towards adding more network participants, merchants, cities, and transactions (orders per day) to the network.

PM Narendra Modi has inaugurated an event marking National Technology Day, 2023. Several projects were dedicated to the nation related to scientific and technological advancement in the country worth more than US$ 708.1 million (Rs. 5,800 crore). The aim of these projects is to strengthen the scientific institutions in the country, in line with the Prime Minister's vision.

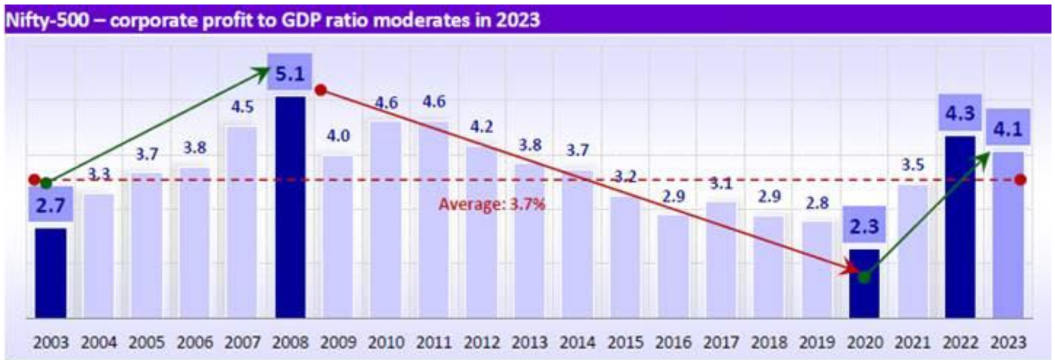
Colliers, a provider of real estate services, conducted a survey that found that during 2017-2022, foreign institutional inflows into India's real estate market climbed by three times, amounting to US$26.6bn. This was possible due to the structural and policy reforms which enhanced transparency and ease of doing business in the sector.

According to the World Bank, India will continue to be the fastest-growing economy among major nations. It retained India's growth prediction for FY24 at 6.3%. "Greater than expected resilience in private consumption and investment, and a robust services sector in India, is supporting growth in 2023. Growth is projected to pick up slightly through FY26 as inflation moves back toward the midpoint of the tolerance range and reforms payoff". India reported GDP growth of 7.2% for FY23, way above estimates.

***Source: www.ibef.org***

## Corporate Earnings – FY23

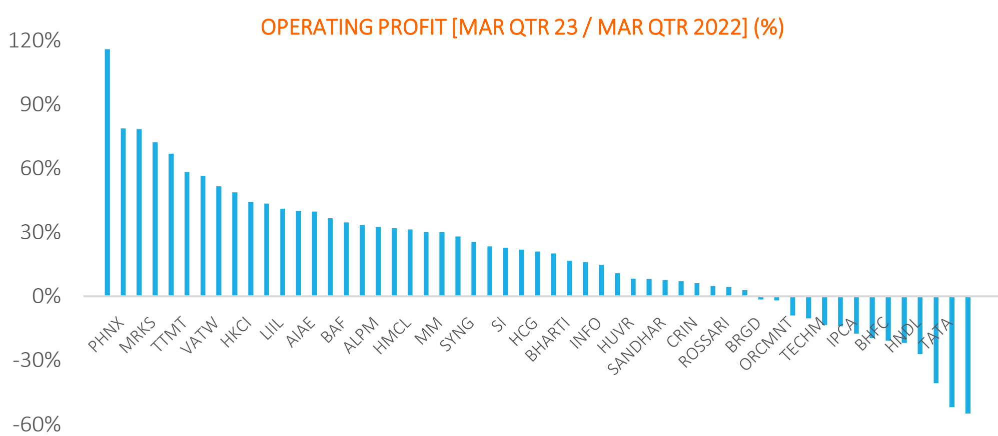
India's financial year ends as of 31st March and hence in the months of April and May companies report their year-end profits. At the end of the last decade India's corporate profits hit a low point in 2020, culminating 12 years of weaker profit growth than economic growth. India's growth was driven purely by consumption / financial services from 2010-2020 as capex and infrastructure businesses focused on repaying debt. This represents the top 500 companies by market cap. However, when considering the overall economy, **corporate profits fell from 7.8% (2008) to 2.0% (2020), indicating the environment was even harsher on MSME's given significant reforms which were initially difficult to digest i.e. Demonetisation, GST**.




***Source: Motilal Oswal***

Since the pandemic, corporate earnings have been rising as given significant debt reduction, improved cash flow and a cleaner banking system. The economic and corporate recovery commenced in 2020-2021 and whilst 2022 was a period, which saw higher inflation and interest rates, these did not impede local demand and growth significantly. Long-term bond yields and interest rates have been far higher in India over time and inflation today (at 4.7%) is very much within the RBI's ranges of 4% +/- 2%. Hence a strong rebound in corporate earnings has commenced from 2020's low point and is expected to extend to 2025-2026 at least.

We assessed the results of the companies in our portfolio**. The weighted average growth rate was 19.2%**, and well ahead of the broader market. In our analysis we removed companies distorting the growth rate such as Interglobe Aviation, SBI Life and Natco Pharma, as these companies returned to profit after a period of loss. In some cases cyclical profit lows provide attractive long-term entry points for investors seeking a margin of safety.




***Source: India Avenue research, Trendlyne***

# Avenues

## 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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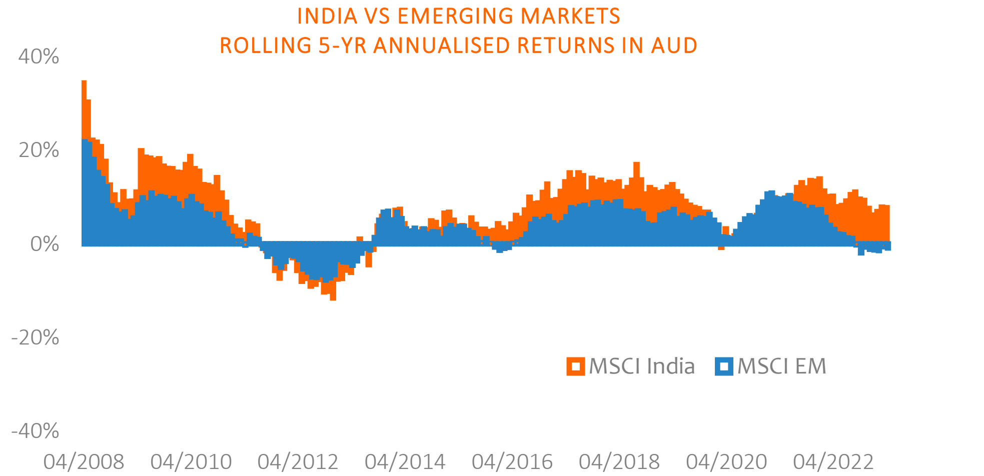
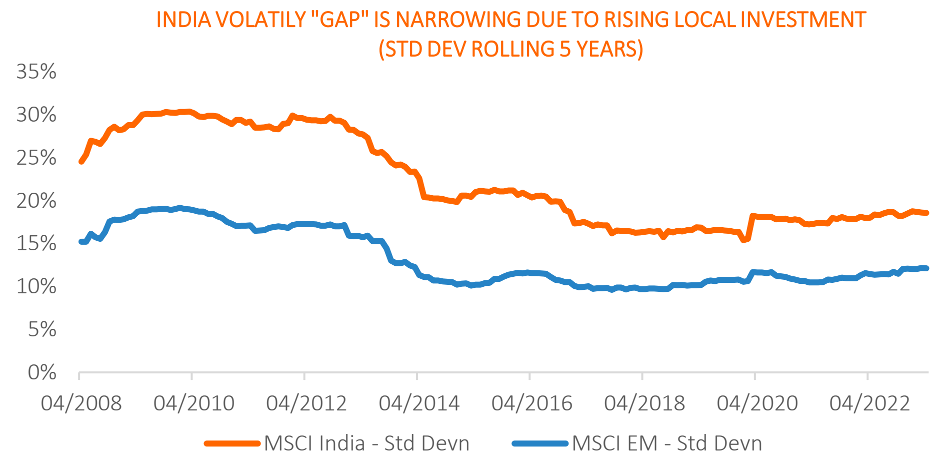
## India vs Emerging Markets (cont'd)….

Last month we discussed India vs Emerging Markets. Generally investors have one bucket for satellite equity investments. Typically this exposure holds longer term growth assets which can provide some diversity (lower correlation to developed markets) and additional growth.




**Over any rolling 5 year periods (over the last 20 years), India has outperformed Emerging Markets, 75% of the time. Over the entire 20 years India has produced an annualised return of 11.4% vs Emerging Markets 5.9% in AUD terms.**

One of the major reasons why investors prefer investing in broader exposures like Emerging Markets over regional exposures like India is the stand-alone volatility which sometimes become unpalatable when explaining portfolios to clients. Whilst India may be a better portfolio fit based on returns and correlations, it has higher volatility than Emerging Markets.




***Source: MSCI, Refinitiv***

However, volatility of investing in India as a single country is falling relative to history and the gap to Emerging Markets is closing as macro fundamentals are robust, forex reserves are high and local investment rises rapidly. In fact the higher volatility in India can be associated more to upside volatility than much difference in drawdown profile of the two assets.

***Past performance is not an indicator of future performance. None of the above is to be construed as financial advice. Investors should consult their financial advisers before considering an investment in this product.***

# Avenues

## Our Philosophy

**IAIM's investment philosophy focuses on three key aspects:**

1. **India will be a high GDP growth region relative to other regions given its strong fundamentals.**
2. **Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
3. **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*