India Avenue Equity Fund

With reference to underperformance to our benchmark (MSCI India), specifically over the last 12 months to 30 November 2022

Reiterating our Philosophy and Process

As a philosophy, India Avenue Investment Management has sought to provide transparency to its investors. It is our view that as a boutique investment firm focusing on India, we must provide both an investment experience and educational journey to help our investors understand the region. Over time this will reduce the risk premium of investing to benefit in India's growth story.

India Avenue's investment process involves identifying highly credentialled investment managers, based locally in India, with over 10 years of track record of managing equity portfolios successfully and build a blend of 3-4 of these managers into a portfolio. We do not invest in the funds of these managers, but build an investment mandate in partnership with these investments managers which provide the guidelines for the advice they provide to us. Thus these investment managers, essentially are investment advisers to our fund. We implement the portfolio and align weighting to each manager based on our view of the future which takes in our macro and micro views which we discuss at the India Avenue Investment Committee (India Avenue Investment Team plus two external industry veterans based in Australia and India).

Essentially, we are insourcing stock selection ideas and portfolio construction expertise of locally based practitioners who are highly knowledge of their own local economic and corporate ecosystem.

Our underperformance over the last 12 months

Over the 12 months to 30 November 2022 the fund has underperformed its benchmark by approximately 13.5%. We attribute this to the following reasons:

1) Our preference to run a quality bias as long. **It is our view that investors seek exposure to India's growth story through well managed companies which are leaders in their addressable markets, whether they be large or smaller industries. The growth of addressable markets over the next two decades will be significant.** This style bias has impacted the portfolio as several stocks which are high on quality (i.e. have a moat, higher margins and RoE) have underperformed as foreign investors have fled India's equity markets with the view that rising oil prices and higher inflation will impact investments into Indian equities and currency, as it has in the past. **This has led to their P/E premium being reduced, we believe temporarily.**

2) Underperformance of small cap stocks in India has been driven by a shift of investors from risk-on to risk-off which occurred at the end of 2021 as inflation rose due to congested supply chains and rising commodity prices. **The India Avenue portfolio has exposure to small cap stocks as we continue to seek businesses which likely to be leading players in their less established addressable markets. Our businesses are all profitable and when we invest in smaller caps, we pay lower P/E multiples given the higher liquidity risk.** However, in environments where investor sentiment switches to acute risk-off, then there is a more significant discount applied to this space. **We continue to see this segment as selectively undervalued, and feel there can be arbitrage given a low level of broker research and potential value add from our advisers primary research.**

3) The Adani Group of stocks have performed with distinction over the past two years as the Group has aligned itself with the needs for private capex spending in India. The focus of the Group has been on developing India's physical infrastructure via Renewables, Ports, Energy, Gas, Transmission. They have made several acquisitions along the way to build a vertically integrated platform for execution. **However, our advisers feel that this Group has done so on the back of a significant build up of debt financing and prior to profitability.** This is reflected by the P/E of several of the stocks (over 350x) in the Group.

Adani Group	30/11/2021	30/11/2022	1 Yr Return	MSCI Weight	P/E	P/B
Adani Enterprises	1662.85	3917.9	136%	1.45%	365	17
Adani Total Gas	1657.75	3632.75	119%	1.29%	788	165
Adani Green Energy	1295.4	2116.5	63%	0.83%	630	127
Adani Transmission	1797.15	2908.5	62%	1.01%	365	29
Adani Ports	683.85	881	29%	0.61%	36	6
Adani Power	99.35	332.75	235%	0.33%	12.41	7
Adani Wilmar	268.25	630.35	135%	0.00%	117.6	11.1

These stocks have contributed approximately 50% of the MSCI India's 9.5% local currency return in the last 12 months. **Our Fund continues to hold zero exposure to these companies due to our advisers concerns on the funding structure of these businesses and the lack of transparency. This may change at some point in the future, but until the debt question is answered and valuations are justifiable, this will remain the case. Active managers based in India are largely absent from shareholdings in the Adani Group.** It is tightly held with close to 70% ownership held by promoters and the remaining holders being passive funds, foreign investors and a government owned Insurance/Asset manager in India named LIC.

4) Government majority owned companies have significantly underperformed the market over the last 12 years. However, the last 12 months has seen strong outperformance of these cheaply valued businesses relative to their earnings. Typically, foreign investors have avoided State Owned enterprises for lack of efficiency, low growth and imposition of regulation and Government controls which may impact business activities. However, the last 12 months have seen withdrawals from foreign investors as noted earlier, which "value-oriented" buying from domestic funds have seen these companies rally due to their perceived margin of safety. **Our advisers typically hold the same views as us i.e. that Government owned businesses of heavily regulated or influenced industries are likely to be inefficiency or destroy shareholder value over time.**

Government Owned	30/11/2021	30/11/2022	1 Yr Return	MSCI Weight	P/E	P/B
Coal India	152	227.25	50%	0.46%	5.4	3.2
NTPC	127.25	172.2	35%	0.86%	9.9	1.2
SBI	460.55	602.45	31%	1.42%	13.1	1.8
Container Corp	620	771.95	25%	0.27%	41.2	4.3
GAIL India	86.53	94.75	9%	0.29%	5.3	0.65
Powergrid	206.75	224	8%	0.90%	10.5	2.2

Outlook

Looking forward, we feel our portfolio is well positioned to benefit from a continued strong period of outperformance from Indian equities relative to the MSCI World and MSCI EM. It is our view that Indian companies corporate earnings growth will stand out due to the following factors:

1) Low corporate leverage (in a rising rate environment)
2) Ability to add capacity in an environment where supply chains are shifting, and other economies will be more dormant due to higher corporate leverage as we exit the last cycle of low to zero interest rates. This will allow Indian companies to win market share in the global economy.
3) Rising share of global outsourcing as corporates globally try and cut their cost base, whilst seeking supply chain diversity. Indian IT services will continue to see strong order books
4) Rising GDP-per-capita leading to significant benefit to urban consumption
5) A banking system which is in far healthier shape than it was in in 2018 where the peak of the bad loan crisis was addressed by the Bankruptcy Code and a decade of repaying debt.

Once the focus shifts to India’s sustainability in earnings growth (we think 10-15% per annum is achievable over the rest of the decade), then foreign investors, alongside increasing structural local investment will focus on the growth story again rather than finding “hiding places” until the news improves.

Our portfolio currently trades at cheaper that MSCI India valuations, whilst offering higher growth in revenue and earnings. Additionally, margins (both net and operating) are far superior to the benchmark levels.

Characteristics	IAEF	MSCI India
P/E Trailing	21.0x	23.5x
PEG	1.28	1.44
Dividend Growth	21.4%	16.1%
EPS Growth (3 years)	15.2%	10.1%
Revenue Growth (3 years)	10.1%	8.3%
Net Profit Margin	28.0%	16.9%
ROE	21.8%	18.8%
Mkt Cap Average	A$32.9bn	A$90.5bn