

An Investment Case

Indian Equities via India Avenue

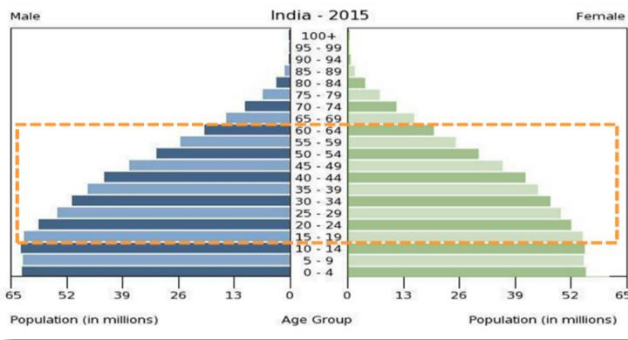
1. Investment Case for Indian Equities (covering the long-term tailwinds, GDP Growth, corporate earnings, ROE etc)

Forecast Growth India vs Regions/World

	World Bank 2018-2020*
India	7.4%
China	6.3%
Advanced Economies	1.9%
Emerging Economies	4.6%
World	3.0%

*March 2018 Forecasts, ** Oct 2017 Forecasts

India's growth is expected to be superior to all developed or major developing countries over the next two decades. This will be largely driven by the youth and size of its population, its infrastructure requirements and the potential to export more of its competitive advantages to the rest of the world. Perhaps much in the same way China commenced doing so in the 1980's.



India's demographic chart shows its bulge lies between the ages of 0-24. Close to 46% of its population lies in this category (compared to China's 30%). This statistic is significant given the population of 1.3bn. 64% of the population is working age (15-64 as highlighted by the orange box). The Oxford School of Economics predicts India's GDP per capita will increase four-fold from a very low base over the next 20 years.

The National Council of Applied Economic Research (NCAER) estimated there are 267m people as at 2016 in this class (defined by income earned). By 2025-2026 this is forecast to rise to 547m people. As the size of the middle class and its spending power increases it is likely to create significant opportunity for its corporates involved in Consumption, Healthcare, Infrastructure, Utilities, Telecommunications. This has been driving strong corporate earnings growth for well over two decades and is likely to drive it at an even steeper pace once reforms put in place to clear bottlenecks due to bureaucracy, poor infrastructure and corruption have deeper impact.

	2005	2015	2025
Affluent Households as % of total*	4%	8%	16%
Share of affluent households in total consumer spending	17%	16%	40%
% consumption from Tier II, III and IV cities**	20%	27%	34%
Nuclear households as % of total	59%	70%	78%
Average household spend (AUD)	\$1973	\$6250	\$16601

*Households with spending above \$19,500,

**Cities with populations between 50,000 and 1,000,000

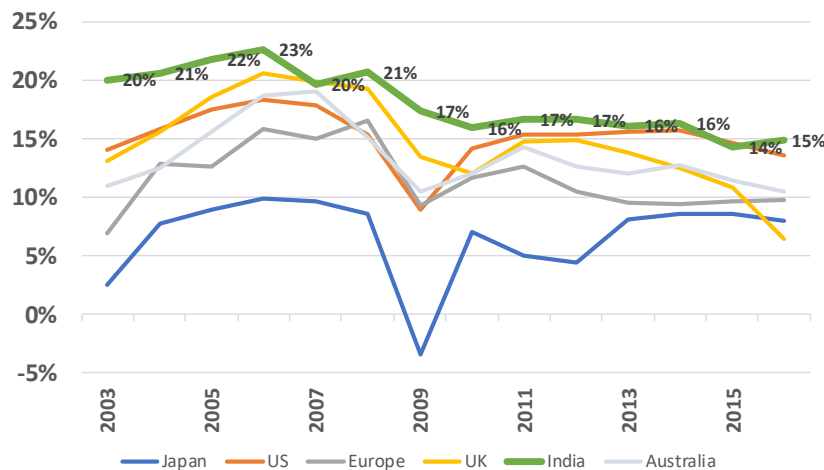
India's consumption expenditure has grown significantly to US\$1.4tn as at 2016¹. Consumption is expected to grow at over 10%pa to becoming the third largest consumer economy in the world over the next 10 years. A Boston Consulting Group² article written in 2016 also highlighted the changing face of Indian consumers.

In several economies we have seen that strong GDP growth has not necessarily translated to corporate earnings growth. Given that India has a high level of private ownership (75%), the relationship is more direct. In fact, over the past 20 years adding India's average GDP and average inflation (13-14%) provides an approximation of what corporate earnings growth has been over that period. Compare this to China's high component of State owned enterprises, which are a significant part of market capitalisation.

¹ www.tradingeconomics.com

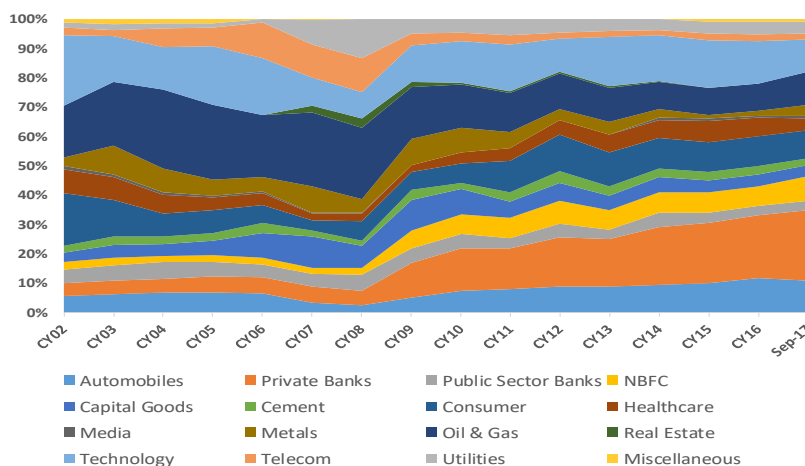
² Singhi, A / Jain N, Asia Pacific, Oct 2016, Boston Consulting Group, *The Rise of India's Neo Middle Class*

RoE over the last 14 Years



Given a significant ownership of listed corporates by founders, ROE's have been quite high – indicating alignment with shareholder maximisation.

ROE has been significantly higher than most countries over the last 10 – 15 years.



Consumption rising through Autos, Consumer and Healthcare.

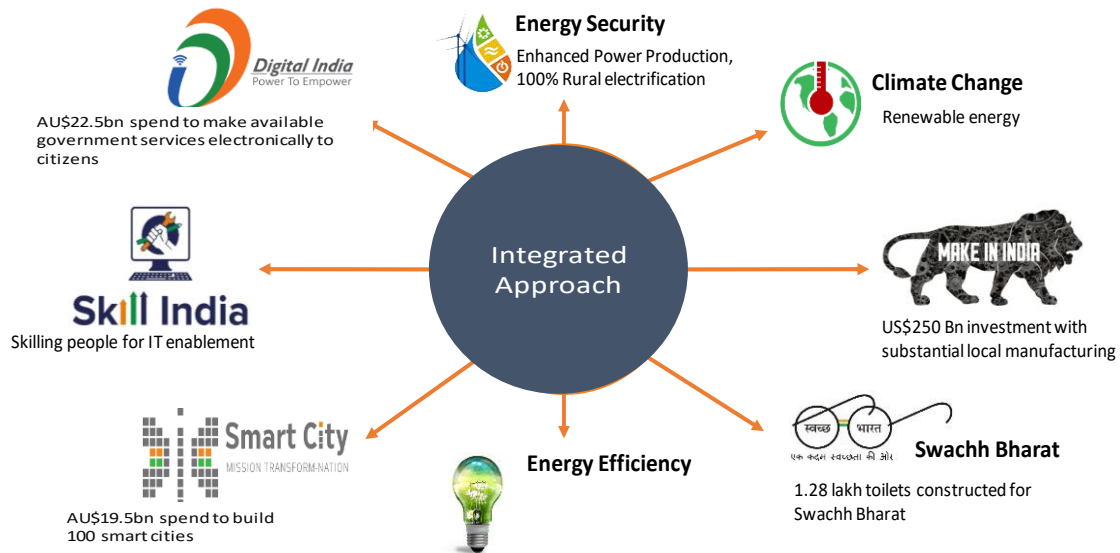
Banking becomes more dominant signalling changing preferences and is far more nascent than Australia.

Traditional industries are losing importance over time

Reforms - Apart from favourable demographics, significant reforms are underway and spearheaded by the ruling BJP Party under Prime Minister, Narendra Modi. While reforms were on the table since 1991 when the country embarked on an economic liberalisation path, the pace of execution since 2013 has changed significant headwinds to tailwinds. These economic reforms are seeking to transform India over the next generation and are intended to:

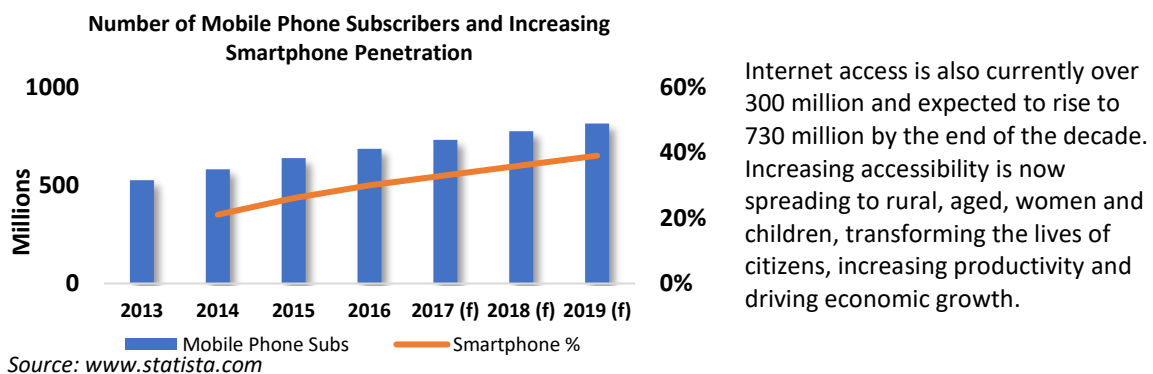
- Create employment opportunities to drive growth and foster increasing wealth for citizens;
- Promote India as a domicile for foreign investment to enable job creation;
- Provide greater participation in wealth gains across various income classes

India's economy has historically emerged from agrarian biased towards a focus on services over the past few decades. However, the economy needs to increasingly focus on manufacturing to provide job growth thus allowing the middle-class effect to benefit the economy. Hence a strong focus by the Indian Government on reducing corruption, improving the ease of doing business rankings and promoting India as a nation seeking reform. Apart from these reforms, the Modi Government has announced significant initiatives such as Demonetisation, GST implementation, Bankruptcy Code and Recapitalisation of Banks. These initiatives are focused on improving transparency, reducing sources of corruption, increasing digital transactions and the level of tax collections.



Exports: India’s export opportunities continue to grow and are driven by their level of economic complexity. A recent Harvard report highlighted that India’s economic complexity embedded in its exports is likely to drive growth. This essentially states the moat behind the export capability of India is very different to that which drove China’s export success. What this means is that Indian companies and their advancement, in certain industries, is more related to intellectual property rather than the cheaper cost of labour. India’s story will not purely be about exporting lower cost through a labour and people arbitrage, but rather through R&D, manufacturing processes and technology. Hence Indian corporates are likely to continue thriving when they have saturated their market in India by being able to export successfully.

Digital Transformation: Another powerful phenomenon sweeping India is digital transformation. This is changing social and cultural beliefs in India. For example, the number of Indian’s with access to a mobile phone today is over 616 million and expected to top 1 billion by 2020³. That means one out of every 5 people who own a mobile phone is Indian! Of this, over 275 million are smart phones, which exceeds the US.



Digital empowerment is changing the way Indians invest and transact, buy and sell, educate and socialise, read and select. In fact, this compounded with India’s youthful demographics, social, political and cultural change as well as a high level of saving with the potential for increasing credit off-take (household debt to GDP is 9% relative to Australia’s 122%!), leads us to consider the significant opportunity for several companies thriving from consumption of goods, services and infrastructure.

Infrastructure: India’s infrastructure requirement is significant at over US\$1.5trillion over the next decade⁴. For context purposes this is equivalent to the size of Canada’s GDP. Developments are numerous and include

³ GSMA Research, “The Mobile Economy: India 2016”

⁴ Times of India “India needs \$1.5trillion for Infrastructure” – Arun Jaitely June 2016, Invest in India

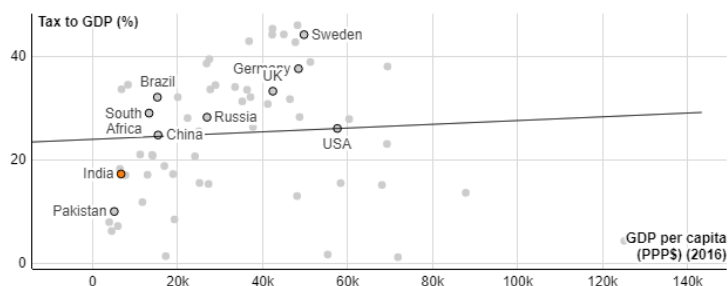
projects like building smart cities (to encourage broader urbanisation patterns), affordable housing for all as well as improving the general infrastructure of rail, roads and ports. This is likely to be funded partially by government spending, through Public Private Partnerships (PPP) and global investors (corporates and pension funds) who are seeking to gain greater exposure to India. This requirement is likely to drive a significant component of growth and create employment across the economy. This is essential to leverage from the demographic dividend in India.

GST & Demonetisation: Two significant reforms have occurred in the last 18 months. First was demonetisation, where Modi’s Government announced the removal of high currency notes (86%) from circulation. This had the impact of cleansing the system and creating a concern for those who sought illicit manner to receive payment (thereby impacting corruption). Additionally, it increased the level of digital transactions in the systems as cash flowed into the banking systems and into more productive financial assets than being tied up in physical assets.

GST was introduced in July 2017 and will have the profound impact on the economy over time. Firstly, it institutionalises India in the form of tax collection. Tax to GDP in India is very low:

India's tax-to-GDP ratio is on the lower side when compared to major economies

Tax-to-GDP (%) vs. a country's average income level



"Tax-to-GDP" includes social security contributions. Data pertains to 62 countries with GDP size \$100 billion or more and for which data was available. India's tax-to-GDP ratio (including contributions for pension and retirement) was 17.2% in 2015-16

Source: OECD, UNU-WIDER tax database, IMF WEO • Get the data • Created with Datawrapper

GST should increase the Tax to GDP of India, which will release the pressure on its fiscal deficit and allow the Government to spend more on Infrastructure.

Additionally, GST increases transparency and reduces the cost of doing business. This is a significant step in terms of foreign businesses assessing the potential of India.

2. Why Indian Equities in a Growth Portfolio (sustainable growth, low volatility of earnings, diversification)

India's Equity Market

India has 2 stock exchanges, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). There are around 6000 listed companies in India, making it the largest in the world in terms of number of listed companies. there are several companies across multiple sectors to choose from. To put the size into perspective, we have compared the Indian stock market to the Australian Stock market below.

India vs Australia: Market Characteristics

	INDIA	AUSTRALIA
Number of Companies Listed	5835	1989
Total Market Cap	AU\$2.5TN	AU\$1.7TN
Average Traded \$ Value/Day	AU\$5BN	AU\$5.5BN

Strong corporate earnings growth with low volatility compared to other markets

India's corporate earnings growth has been historically superior to many other markets. We feel this trend will continue going forward due to the following points;

- **Strong top line revenue growth** – The GDP reflects the size of the opportunity presented to most corporates. This is likely to expand through increasing consumption and expenditure from both the private and public sector

- **Stable EPS growth** – Indian share markets have a diversified industry profile, dominated by companies predominantly focused on growing their earnings through local consumption demand, rather than offshore sales
- **Sustainable capital management** – Indian corporates are amongst the highest RoE generators in the world. Their management teams and/or founders have been able to deliver this through ‘sweating’ their assets and managing costs, creating more efficiently utilised shareholder capital

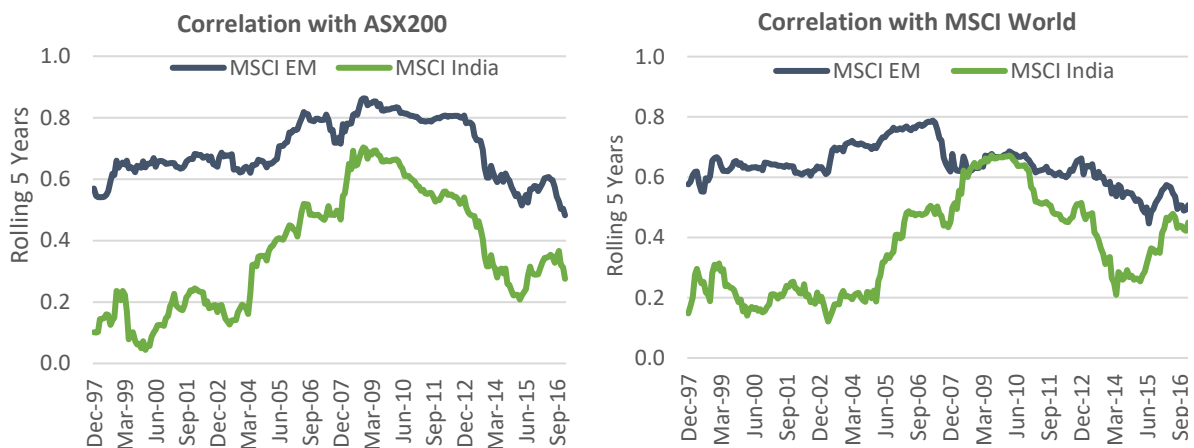
MSCI Index	Std Dev of EPS growth since 2002	Avg ROE growth since 1996
India	13%	18%
China	19%	13%
Brazil	44%	13%
Russia	45%	13%
Emerging markets	27%	13%
All Country World Index	34%	12%
US	33%	15%
Developed markets	35%	12%

Source: Morgan Stanley research

A Better Diversifier for Equity Portfolios

Investors have often naively branded that any single country (apart from their own country of course!) exposure is risky. We feel this misses the point as they assess risk by looking at the investment in isolation without thinking of its risk and return contribution to their portfolio. They also look at volatility as their only measure of risk, rather than the downside potential from concentrated exposure in highly valued assets.

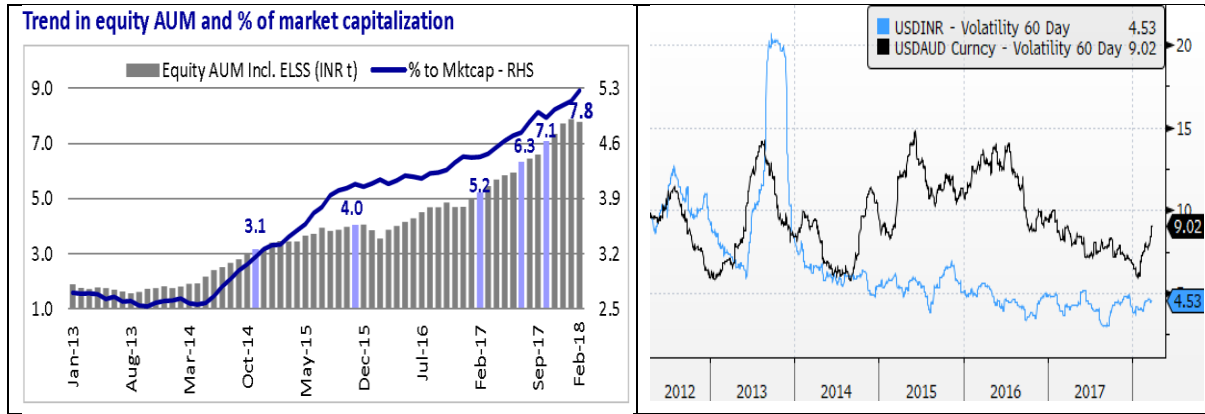
Indian equities have provided superior correlation benefits compared to broad EM indices. The main reason for the higher correlation experienced by Australian investors is that broad emerging markets have significant exposure to cyclical and commodity linked stocks. Furthermore, India’s economy is driven by domestic consumption (thus less influenced by global growth and trade) and benefits from lower commodity prices as it is a net consumer of commodities like Oil and Coal.



Source: MSCI, Bloomberg

Indian equities have become less volatile over time as liquidity increases from domestic mutual fund equity flows. This means the susceptibility of the market to foreign outflows reduces making the market more robust.

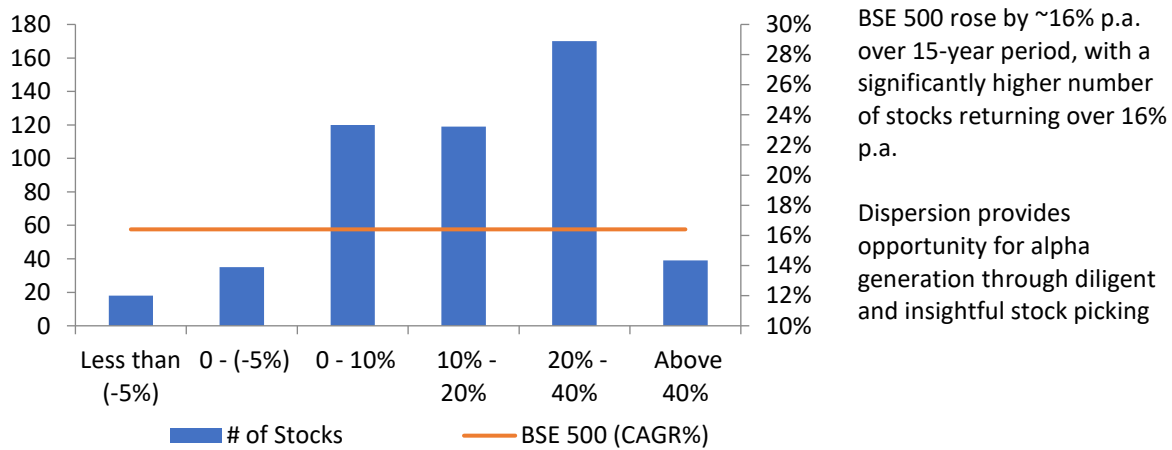
From a currency point of view, stronger FX reserves, lower deficits and structurally lower inflation results has resulted in a less volatile Rupee. Interestingly the volatility of the AUD has been more than double that of the INR over the last 3 years.



Source: Motilal Oswal, Bloomberg

3. Why active management is important (alpha achievement of local managers, ecosystem for generating alpha in India)

India’s stock market provides significant opportunity to identify undiscovered growth stocks through additional insights and market knowledge. Dispersion amongst stocks is also large affording significant opportunities for alpha through diligent and insightful stock picking.



BSE 500 rose by ~16% p.a. over 15-year period, with a significantly higher number of stocks returning over 16% p.a.

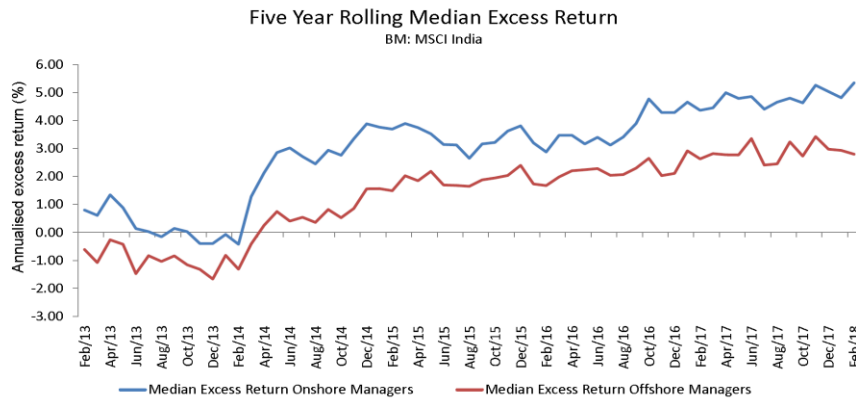
Dispersion provides opportunity for alpha generation through diligent and insightful stock picking

Market inefficiency exists in India given the nuances and ownership structure of India’s corporates. Institutional ownership of the stock market in India is relatively low at 35% of market cap. Promoters are close to 46% and retail investors hold 19%. The US share market has an institutional ownership level closer to 75%, which is synonymous with higher levels of market efficiency.

Stockbrokers service large global funds tend to focus on the top 150-200 stocks listed in India. However, there are 2,000 stocks which trade daily on the BSE and NSE exchanges, providing significant opportunity for local managers, with a strong knowledge of the reforms, industry trends, promoter relationships and awareness of the IPO pipeline, to add value through their stock selection as we discuss next.

Local Network, Local Connectivity

Global investors have typically adopted a top down approach to India through liquid and large caps. These investors accordingly focus more on macroeconomic fundamentals rather than the micro drivers of change. This creates an opportunity for “arbitrage” and outperformance for locally based investors as shown in the chart below.



We feel this occurs due to the local investor premium, where being located on the ground in India is a significant advantage, relative to knowledge and insights approaching it from a global lens. Local network and connectivity is established by years of operating within the market. This provides insights on:

- Promoter/founder behaviour and their track records, which is critical knowledge for investing in Indian markets given that promoters own over 45% of the market cap. Understanding promoter psyche including motivation, character, history and relationships is critical in assessing the virtues of a company
- Industry rivalry and competition in a marketplace which is experiencing rapid change. Local investment advisers have much better insight into the overall value chain and business cycle of companies. This is achieved through connectivity with the stakeholders, competitors and service providers of a business

4. Why India Avenue (our structure, our advantages)

India Only Focus:

- Our business is built on our view that India's capital markets will prosper over time and deliver returns over and above the returns of either the MSCI World, MSCI EM and ASX 200
- Our commitment to research and knowledge content is driven by our single focus on the region
- Over time we expect our focus on India to lead to stronger output than our competitors
- It also places us in a position to play the role of adviser / consultant to those seeking exposure to

Our Local Presence in India:

- The presence of some of our founders in Mumbai allows us to provide our clients with a deep understanding of investment markets
- Our team in India is focused on reviewing our selected investment advisers
- We meet with companies, brokers, regulators and other participants, adding to our grass roots capability
- We encourage our investors to visit India, which provides them with significant insight into capital markets

Strong Due Diligence Overlay:

- Investors typically feel nervous about investing in markets like India's given poor understanding and questions on transparency, corruption, volatility and valuation
- Given our team's extensive experience and breadth of understanding of markets and investors, we feel we are well positioned to provide clarity and knowledge to our clients
- Our experience in asset allocation, portfolio construction and structuring investment mandates, control risk and provide a robust way to access one of the world's most exciting markets
- We seek to add value to our clients through our vast experience both globally and in India

Our Experience:

- Our Founders have over 100 years accumulated experience in financial services, spanning investments, operations and marketing. Most of this experience is directly related to investing in India's capital markets
- Our Founders all worked together at ING Investment Management (Australia/India) and built a track record spanning over 3 years, utilising a similar process with robust results
- Our experience in building the appropriate structure allows greater efficiency, reduced costs and taxes incidence – something which usually is glossed over by Global / EM Funds

Our Structure:

- Our experience building investment structure allowing investors to take advantage of India's growth story is beneficial to our client base. Embedded in our structure is the optimal process operationally, to ensure costs and trading are minimised and efficiency maximised
- Rajeev Thakkar has over 20 years of experience in dealing with India's custodian, brokers, accountants and regulators to ensure a seamless transition for Australian investors, either through our investment products or customised exposure

5. Our investment process (how does it work, explaining the mandate structure, why we do it this way)

India Avenue's investment philosophy is centred around two main points.

- India's expected strong economic growth over the next few decades is likely to lead to significant investment returns through compounding earnings growth from investing in its capital markets
- Active management, particularly in India, where markets are less efficient, is likely to produce superior returns over the long term in comparison to passive investing

We have designed our investment process such that we can capitalise on the investment opportunity articulated in our investment philosophy.

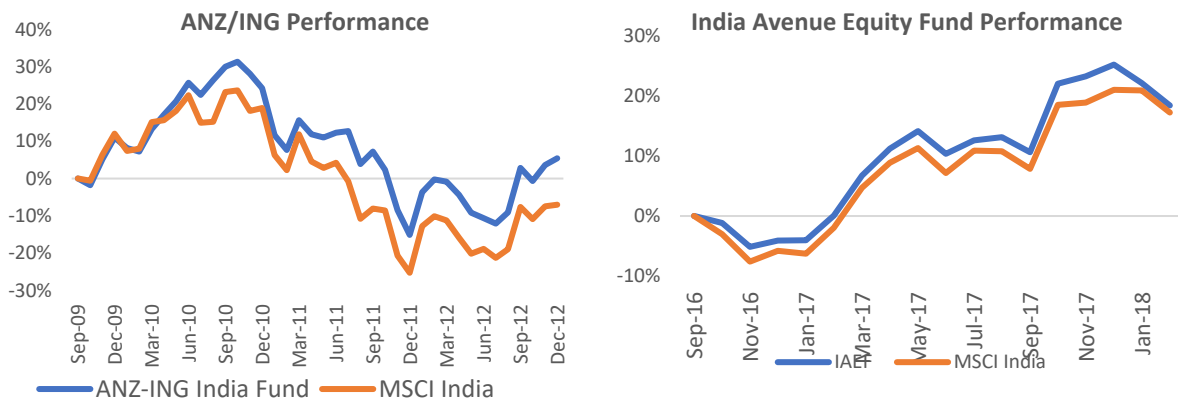


1. India Avenue’s Investment Team build the investment case for India through a macroeconomic view over a 3 to 5-year period. **Our investment team and investment committee’s significant experience** with capital markets, global asset allocation and macroeconomics play an important role in identifying the themes over this period
2. Portfolio construction considers the next 12 months when seeking to build appropriate exposures. **We allocate based on views on style and positioning.** This is dynamic and considers risk and return
3. Our stock selection **in-sources the significant on-the-ground experience of our local investment advisers** who are carefully selected from India’s talent pool. This allows us to kick-the-tyres of many more companies in building a robust portfolio – **advice comes in Real-Time in the form of stock names and conviction weightings provided to us**
4. Our role in risk management considers both **active and absolute risk through investment mandates given to our advisers.** Additionally, we utilise investment tools to understand the underlying risks of our final portfolio
5. **Trading is conducted by India Avenue’s Investment Team** and checked and verified by our Operations Team. Direct Implementing our portfolio allows **us to control for tax incidence, costs and efficiency** Our Team actively reviews and monitors our portfolio on a constant basis for appropriateness to our views and to ensure our process delivers to our objective

6. Our track record (ING days and India Avenue EF so far)

The investment team at India Avenue were involved in running a long only Indian equity fund with a 3.25-year track record for ANZ/ING from Australia. Despite a weak period for Indian equities, the Fund was able to deliver a 3.9% p.a. outperformance.

The India Avenue Equity Fund track record is over 18 months and to 20th Mar 2018 has delivered 15.3% compared to the benchmark which is up 14.94%. From a relative perspective, the Fund is up 0.39% after fees with volatility slightly lower than the benchmark. After outperforming by 3% p.a. to 2017, the Fund has experienced an alpha drawdown since the start of 2018 as discussed below.



Over the long term, our portfolio is expected to be superior to that of a passive index, given the local insights from our advisers and pricing inefficiencies in the Indian market. However, in short-term periods i.e. the first few months of 2018, there has been narrow leadership with the Index heavy weights outperforming the market (The top 5 market cap stocks make up approx. a third of the Index). In this environment we expect the portfolio to underperform as we will underweight the top few names in aggregate. This is primarily due to our philosophy of providing deeper exposure to India. Currently, we are 21% underweight these names as seen below.

Top 5 MSCI India Index Constituents

Top 5 Index Stocks	Benchmark Weight	IAEF Weight	Relative Weight	2018 Excess Return
HDFC	9.5%	2.2%	-7.3%	9.9%
Reliance Industries	8.1%	2.6%	-5.5%	1.2%
Infosys	7.1%	3.5%	-3.6%	16.4%
TCS	4.5%	1.7%	-2.8%	10.9%
Axis Bank	3.3%	1.9%	-1.4%	-3.0%
Total Weight	32.5%	11.9%	-20.6%	

From an attribution point of view, the underperformance has predominantly come from stock selection (-2%). Sector allocation (-0.8%), whilst a by-product as our advisers don't make sector calls, also detracted due to overweight positions in Health Care and underweight positions in IT.

Attribution – 2018 YTD (until March 20th, 2018)

	% Average Weight			Contribution to Return (%)			Total Attribution (Alpha) (%)	Allocation Effect (%)	Selection Effect (%)
	Port	Bench	+/-	Port	Bench	+/-			
	100.0	100.0	0.0	-7.7	-4.9	-2.8	-2.8	-0.8	-2.0
Cash	6.5	0.0	6.5	0.0		0.0	0.3	0.3	0.0
Consumer Discretionary	12.5	12.4	0.1	-1.7	-1.3	-0.4	-0.4	0.0	-0.3
Consumer Staples	8.7	9.5	-0.8	-0.2	-0.3	0.1	0.1	0.0	0.1
Energy	6.3	12.5	-6.2	-0.4	-0.7	0.3	0.0	0.1	-0.2
Financials	22.7	23.7	-1.1	-1.4	-0.9	-0.5	-0.6	0.0	-0.6
Health Care	9.1	5.7	3.3	-0.9	-0.7	-0.2	-0.1	-0.3	0.1
Industrials	7.6	6.0	1.6	-0.8	-0.2	-0.6	-0.5	0.0	-0.4
Information Technology	8.4	15.3	-6.9	0.4	0.9	-0.5	-0.8	-0.7	-0.2
Materials	10.2	9.8	0.4	-1.6	-0.9	-0.7	-0.7	0.0	-0.6
Telecommunication Services	3.2	3.0	0.2	-0.9	-0.7	-0.2	-0.2	-0.1	-0.1
Utilities	4.8	2.0	2.8	-0.2	-0.2	0.0	0.2	-0.1	0.1

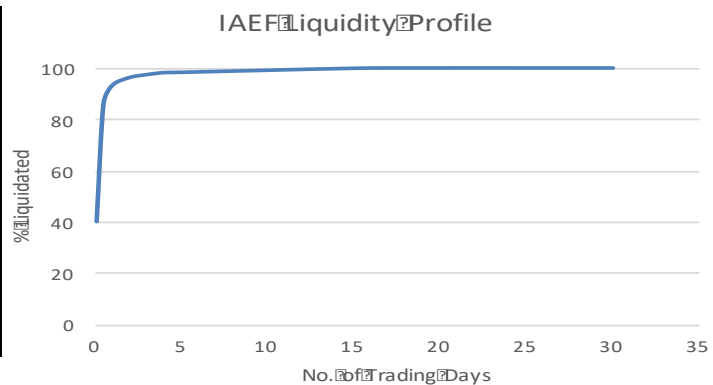
7. Details of the India Avenue Equity Fund

Benchmark	MSCI India (net in AUD)
No of Stocks	40 – 80 companies listed predominantly on Indian Stock Exchanges
Asset Allocation	Indian Listed Equities: 70% - 100%, Cash and Cash Equivalent: up to 30% Derivatives: up to 10% fully cash backed and only for hedging
Offering	Retail and Wholesale
Responsible Entity	Equity Trustees
Custodian	Mainstream BPO (Australia) BNP Paribas (India)
Administrator	Mainstream BPO
Auditor	KPMG (Australia and India)
Dividend Distribution	Annually (30 June)
Fees	Management fee: Wholesale 1.10% p.a., Retail 1.50% p.a. Performance fee: 10% of the outperformance with high-watermark Buy/Sell spread: 0.5%/0.5%
Fund Constraints	Maximum Stock Weights: 10%, Maximum Cash Weight: 30% Maximum Derivatives: 10% (to either protect portfolio or equitise cash)
ICR	Wholesale: 1.3306% (FY2016-17)
Liquidity	Daily Valuation & Liquidity

8. Liquidity

IAEF invests only in the listed equities which are of market capitalisation > \$A200m. As a result, at US\$100 million we can liquidate 98% of the portfolio in 5 days.

Trading Days	Tradeable Cash Weight	Tradeable Benchmark Weight
0.10	40.11	74.87
0.50	86.11	94.40
1.00	93.21	96.60
2.00	96.24	98.12
3.00	97.40	98.70
4.00	98.14	99.07
5.00	98.30	99.15
10.00	99.08	99.54
15.00	99.87	99.93
20.00	100.00	100.00



Redemption Steps:

Day	Action
T = 0	redemption request received before cut off time 2 pm AEST every working day
T = 0	Mainstream communicates the redemption amount to fund manager – 3 pm AEST
T = 0	IAIM sells stocks (if sufficient cash is unavailable) – by 3:30 pm IST
T = 0	IAIM communicates trades to BNP Paribas – by 7:30 pm IST
T = 1	Mainstream publishes NAV for T=0 – by 5:30 pm AEST
T = 1	BNP Paribas matches trades with exchange and prepares for settlement – by 9:30 am IST
T = 1	BNP Paribas sends trades details to KPMG to prepare tax amount – by 5pm IST
T = 1	BNP Paribas sends trades details to KPMG to prepare tax amount – by 5pm IST
T = 2	KPMG signs of tax compliance or instructs tax payable for compliance
T = 2	BNP Paribas receives cash from exchange and surrenders shares – by 10:30 am IST
T = 2	T=2 final audit confirmation regarding tax compliance – by 2 pm IST
T = 2	T=2 IAIM instructs BNP Paribas to remit redemption proceeds to IAEF account with NAB – by 2:30 pm IST
T = 3	Mainstream confirms funds in the NAB account – by 2:00 pm AEST
T = 3	Mainstream transfers redemption proceeds to investor account – by 4 pm AEST

Note: This is the ideal flow but the PDS allows IAIM five business days to pay redemption proceeds into the client account. The allowance allows for any delay in auditor sign off and tax payments, if needed.