India Avenue Investment Management

Fund Update: 31st July 2020

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	Muguthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016
Fund Size	$31.3 million
NAV	Wholesale: 1.0048 Retail: 1.0021
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU$
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
FY20 Dividend	Wholesale: 0 cpu Retail: 0 cpu

** Subject to a high watermark

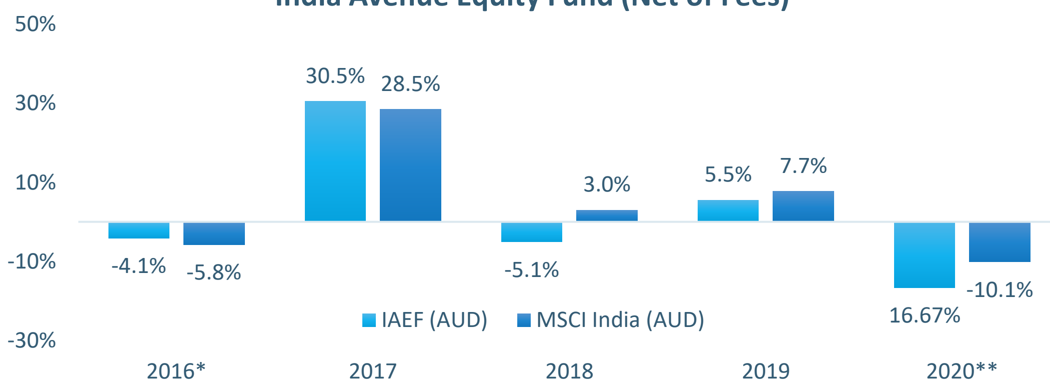
Fund and Market Commentary: July 2020

India's markets continued to recover up nearly 14.5% over the last 3 months in Indian Rupee terms. However, given the significant strength in the AUD vs. most currencies (largely a reversal from the sharp correction in May), the recovery in AUD terms has been a modest 4.7%. Whilst the pandemic continues to march on in India, dire expectations priced in March for now seem to have been 1QFY21 (April to June 2020) earnings have been ahead of expectations (albeit due to an extremely weak outlook), led by sharp cost cutting. Furthermore, company commentary and fast-moving economic indicators appear to suggest that demand is incrementally coming back.

However much like what is happening in the US with the S&P500, polarisation at an even greater level is happening in India. To give you an example, India's largest stock is Reliance Industries and is now around 15% of the index. Since late 2016 the stock has returned 318% versus the MSCI India's 29%. Despite being one of our largest stocks (with an average weight of 5% since we started). That differential in weight vs the index accounts for approximately all the cumulative underperformance since inception.

Our approach is to focus on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market funds or Emerging market indices. Our local advisors on the ground in India have a strong record of identify names that are tomorrow's winners rather than extrapolating that past winners will continue forever. We remain patient and vigilant knowing that this is the best way to play the India growth story in the long run.

India Avenue Equity Fund (Net of Fees)



Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	4.19%	-21.17%	-14.32%	-8.36%	-2.43%	1.14%
IAEF (Retail)	4.08%	-21.35%	-14.73%	-8.81%	-2.88%	
MSCI India	4.62%	-13.74%	-7.15%	-1.92%	2.84%	4.93%
MSCI India Small and Mid Cap	5.89%	-19.33%	-12.66%	-11.23%	-6.54%	-0.53%
Excess vs. MSCI India	-0.43%	-7.43%	-6.53%	-6.44%	-5.27%	-3.80%
Excess vs. MSCI India Small and Mid Cap	-1.70%	-1.84%	-1.66%	2.87%	4.11%	1.67%

Past performance is not an indicator of future performance
Above returns are calculated based on the exit price of 31st July 2020 assuming the reinvestment of dividends
#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017
Excess returns illustrated above are for the India Avenue Wholesale Fund. The only difference between the Wholesale and Retail funds are the management fees charged. The underlying investments 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 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
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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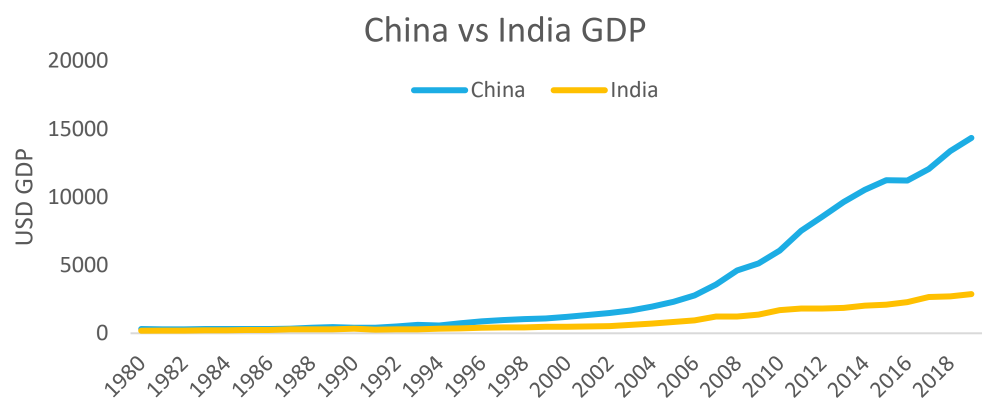
How to Play the India Manufacturing Story

In 1987, India and China's GDP in USD was almost the same. However, since then, particularly in the last 20 years, China has leapfrogged ahead. It did this by focusing its efforts on manufacturing, essentially exporting its way to success by utilising its huge population to build for the rest of the world at low cost.



China's GDP per capita currently is close to 5x that of India's. This has been driven by a focus on manufacturing and exports over the past 20 years. However, with China's population now ageing and the economy maturing, India's time is approaching if they can pivot their economy and take advantage of their demographic dividend.

Going forward China's growth rate will slow as its one child policy has left a larger proportion of its population moving into the dependent stage rather than employable. The economy is likely to pivot towards consumption as wealth has increased and the export advantage is eroded somewhat by wage inflation in China. The Services sector, whilst still providing strong growth to economy does not have the same multiplier effect as does Manufacturing. However, India chose the path of a Services driven economy over Manufacturing. Its largely agrarian population migrated from rural areas towards Tier 1 cities like Mumbai, Delhi, Chennai, Bengaluru, Pune and Kolkata. India's urbanisation thus far has led largely to informal employment in large cities in Services related industries. A pivot towards manufacturing and building physical infrastructure is required to create contractual jobs and rising GDP-per-capita and to create a multiplier effect for the economy. This will then reduce the divide between the informal poor and India's middle to upper class.

Make in India Initiative

This initiative was launched in Sept 2014, by the BJP Government. The initiative was set up to encourage companies to manufacture their products in India and incentivize dedicated investments into manufacturing. The target and focus of the initiative were to create:

- A conducive environment for investments
- Develop modern and efficient infrastructure
- Open new sectors to foreign capital
- Create jobs and enhance skills

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India Macro & Micro News

- Over 20 companies have pledged US$ 1.5 billion to set up mobile-phone factories in India given Government of India (GoI) incentives, US-China trade tensions and fall out from supply chain disruptions due to COVID-19. GoI announced incentives in March for electronics manufacturers to be eligible for a payment of 4-6% of their incremental sales over the next five years. Companies that have shown interest for example includes Samsung, Foxconn, Wistron Corp. and Pegatron Corp. GoI have also offered the same incentives to pharmaceutical businesses and are likely to cover more sectors such as automobiles, textiles. It is estimated that the program for electronics alone could generate US$ 153 billion worth of manufactured goods over the next five years and create about one million jobs directly and indirectly.

- Google plans to invest US$ 10 billion over the next five to seven years to help accelerate the adoption of digital technologies in India. Google will focus on several key areas:

    - Providing affordable access and information for every Indian
    - Developing new products and services focused on India's unique needs
    - Encouraging businesses as they continue or embark on their digital transformation
    - Utilising technology and artificial intelligence for social good, in areas like health, education, and agriculture

The stated objectives were to growing manufacturing at 12-14% per annum, create 100m additional manufacturing jobs by 2022 and increase manufacturing contribution to GDP to 25% by 2025 (currently 16%). However, we have witnessed slower growth than expected evidenced by declining gross capital formation, lower private sector share and inadequate industrial employment gains.

Whilst several of the goals set have yet to materialise, there is positive momentum occurring in foreign direct investment (FDI) into India. In the FY20 year India received US$73bn of FDI inflow – its highest ever. The pace has continued in the first quarter of FY21, particularly in the Tech sector. Foreign investments are arriving from US, UK, Japan, Germany, France, Netherlands etc. in India's Services (17%), Computer Hardware/Software (10%), Telecommunications (8%), Construction (9%), Automobiles (5%), Chemicals (4%) and Pharmaceutical (4%) industries.

The Path Forward

Success for India will be achieved with greater self-reliance and increasing its component of value-added exports, using their leverage to lower cost labour (relative to China), technical expertise and demand scale (given a young and significant population). This is likely to be driven by the following:

- Continuing reforms (GST and Corporate Tax cut, Land and Labour laws)
- An incremental shift towards India to diversify supply chains (India has only 3% share)
- A greater readiness of India's digital infrastructure (penetration, connectivity, speed)
- Improving ease of doing business (improving rankings now 63/190)[1]
- Favourable policy environment and skilling up the workforce[2]

As the pivot to India incrementally occurs, several companies which are capable of high-quality, value-driven exports should benefit. Companies like Motherson Sumi are an example, with operations in 41 locations globally. The company provides auto ancillary (e.g. wiring, vision systems, mouldings and parts etc) for the largest and most prestigious of automobile companies all over the world (Mercedes Benz, BMW etc.) www.motherson.com. Companies which can benefit from supplying India's local market, but also provide comparable quality exports should experience the next phase of growth. Whilst India's consumption and banking companies already reflect the potential for consumption and financialisation, the valuation multiples of existing and potential exporters does not reflect the same positivity.

[1] The World Banks Ease of Doing Business survey has India moving from 130 out of 190 to 63 in the last 5 years

[1] thetruepicture.org/skill-india-initiative-aseem-skill-mapping-corona-pandemic/

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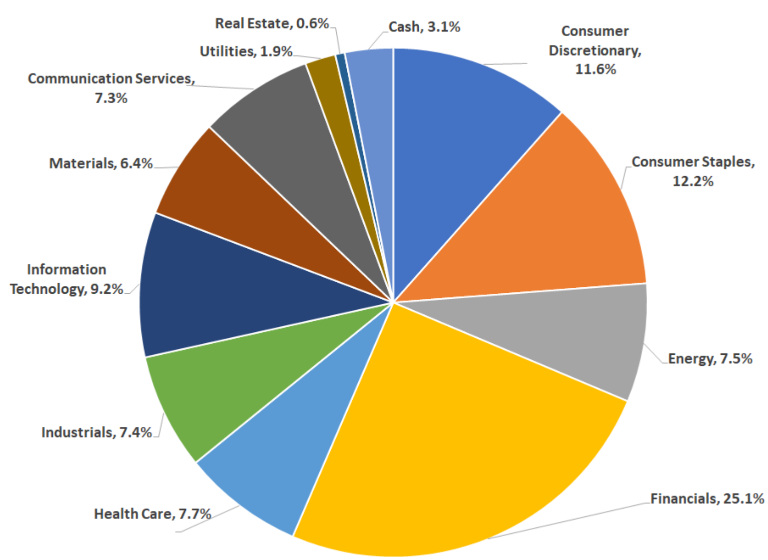
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 20 Stocks

Name	Industry	Weight
Reliance Industries	Oil & Gas, Retail & Telco	6.4%
Infosys	IT Services	4.4%
Bharti Airtel	Communication Services	4.4%
HDFC Bank	Banks	4.3%
Tata Consultancy Services	IT Services	4.0%
Kotak Mahindra Bank	Banks	4.0%
Bajaj Finance	Non-Bank Finance	3.7%
Maruti Suzuki	Automobiles	3.6%
HDFC	Housing Finance	3.5%
ICICI Bank	Banks	3.2%
Info Edge	Interactive Media and Services	2.8%
Avenue Supermarts	Hyper/Super Markets	2.4%
Nestle India	Consumer Staples	2.3%
Escorts	Tractors and Moving Equipment	2.3%
Divi's Laboratories	Pharmaceuticals	2.1%
Torrent Power	Utilities	1.9%
Symphony	Coolers & Air Conditioners	1.9%
Syngene International	Pharmaceuticals	1.9%
Hindustan Unilever	Consumer Staples	1.9%
Aurobindo Pharma	Auto Components	1.8%

Sector Allocation as at 31st July 2020



Source: India Avenue, Thomson Reuters

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