Fund Update: 31st December 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	Muguntham Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016
Fund Size	$39.7 million
NAV	Wholesale: 1.2322 Retail: 1.2266
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU$
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

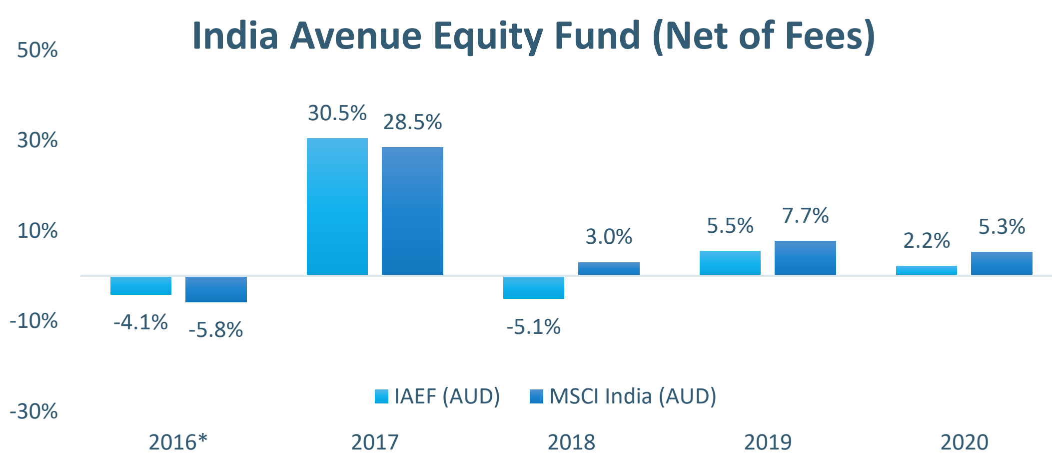
Fund and Market Commentary: December 2020

India's equity market hit an all-time high at the end of December, with the Nifty 50 index just shy of the 14,000 mark, making India one of the best performing markets in the world since the COVID pandemic. Over the last 6 months the fund has beaten the benchmark by 2.1% to return 26.3% in AUD terms. Unfortunately, the strong appreciation AUD has detracted from returns given the market is up 39.5% in Indian Rupee terms. However, we saw the reverse of this during the market correction, when the AUD fell sharply, which helped cushion the markets fall.

One of the major reasons for India's outperformance has been due to strong inflows from foreign institutional investors (FII) amassing US$23.4bn in 2020, the highest since 2012. FII's have been buoyed by India's corporate earnings which have surprised on the upside given faster than anticipated economic and demand recovery. This has led to an earnings upgrades across the broking community. The last 2 quarters of FY21 (Sep 20 to Mar 21) for India will be critical for justifying the recent price appreciation. Our view is that selective cyclical companies as well as certain market leading firms that enjoy strong business moats will justify their valuations compared to a blanket index approach that is agnostic to earnings quality.

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market/Asian funds or indices. Our locally based advice partners in India have a strong record of identifying tomorrow's winners. We feel this is an important ingredient to generate long-term growth and therefore the best way to play the India story.



Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	16.23%	26.24%	2.19%	3.84%	0.81%	5.91%
IAEF (Retail)	16.10%	25.95%	1.72%	3.38%	0.31%	
MSCI India	12.43%	24.14%	5.27%	6.49%	5.31%	8.34%
Excess vs. MSCI India	3.81%	2.09%	-3.08%	-2.66%	-4.50%	-2.43%

Past performance is not an indicator of future performance
Above returns are calculated based on the exit price of 31st Dec 2020 assuming 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 professionally 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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The Start of India's Next Earnings Cycle

The year 2020 will go down in history for all the wrong reasons. India garnered plenty of unwanted attention and negative headlines given their case numbers from the pandemic. Short-term investors have been led astray by the negative news flow, and unfortunately not participated significantly in the market rebound. If anything, it is a reminder of how fickle and unpredictable equity markets can be in the short term, not just in India, but all over the world. Hence, we always maintain our attention on the long-term opportunity in India and how we see that evolving in terms of economic growth and corporate earnings.

Our biggest focus over the last few years has been on identifying India's next uptick in earnings. Whilst India's corporate earnings growth have averaged 10% p.a. over the last 25 years with minimal volatility, the last decade has been poor. Corporate profits to GDP have dropped from a peak of 7% to less than 2%. This has been driven by low private investment due to excess capacity and high cost of capital (a banking crisis has played a role) as well as flagging demand, particularly over the past 3 years.

Source: Kotak Institutional Equities

Admittedly our view on India's earnings upgrade has been a little premature as the last few years have seen plenty of Government reforms, but little in the way of a meaningful pick up in corporate profitability. Nonetheless, we feel the stars are aligning and that India can achieve solid GDP growth and achieve its goal of US$5 trillion GDP by CY2026, which will kick off the next earnings cycle. The following points highlight why we feel India's earnings drive is just around the corner.

- Reforms and initiatives taken by the Modi Government over the last few years will start improving and productive economy, minimising the slippages and increasing effectiveness and efficiency.
- Business shifting from unorganised to organised.
- Excess capacity, lower oil prices and interest rates are in place. In a similar period of 2003-2007, India's corporate earnings grew at > 20% p.a.
- IPO's are set to rise as is a massive privatisation exercise of Government owned assets which should boost investment and liquidity for Indian markets.

India's Market-cap-to-GDP has averaged 0.8 over the last 10 years, which we think can sustain above 1.0 (The US market is currently at 1.8x GDP), particularly if earnings pick up. This would take India's market cap to US$4-5tn in the next few years.

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India Avenue Investment Management

India Macro & Micro News

- Google recently announced that it has invested in two Indian start-ups as part of its US$ 10 billion Google for India Digitisation Fund. Google's 7.7% stake in Jio Platforms earlier in the year is also a recognition that the rise of new internet users in the country is unprecedented. For example, in the last two years, 100 million new internet users have come online from rural India. Rural consumption now accounts for approximately 45% of the country's total mobile data use.

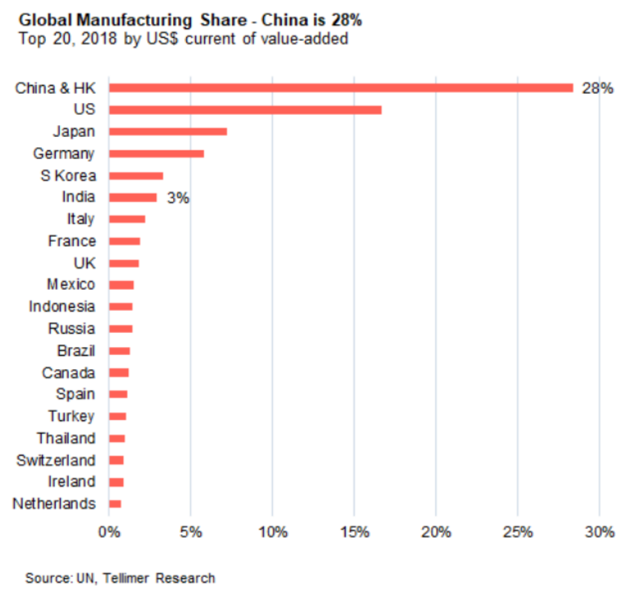
- India has become the world's second largest smartphone manufacturer behind China. This rise to 2nd place has been driven by the extraordinary growth experienced over the last 5 years in the manufacturing space. To put this into perspective, in 2014, India had only two smartphone factories but today it now has over 260 factories, and this is expected to grow over the foreseeable future.

- Amazon invested has invested US$ 1.5 billion in FY20 to strengthen its foothold in India. This is on top of the US$ 5.5 billion invested in India since they entered the Indian market and makes India one of Amazon's biggest markets outside the US and a key growth booster to its business.

- FDI Equity increase 21% from the previous corresponding period (April-Oct 2020) due to growth sectors such as computer software and hardware, services, chemicals, and automobiles. Countries such as Singapore, United States, United Kingdom, France and Japan lead the way in terms of funding.

India's Manufacturing Push

Globally there has finally been a recognition that at nearly 30% of worldwide manufacturing, China is too dominant in supply chains. The fact that it took a pandemic for this realisation to set in, illustrates the incredible stranglehold that China had on business around world. However, the question remains whether this will result in a redistribution of the concentration seen in the chart below.



Although such shifts gradually take time to occur, India is a prime candidate to capture incremental share of China's dominance given their scale, value-add, technology and improving conditions for doing business. Whilst India is unlikely to be the next China in this space anytime soon, even an incremental market share grab of global manufacturing from 3% to 5% can add 10% to India's overall GDP and absorb much of India's growing labour pool. Unsurprisingly, this is now one of the Government's main agendas which they have been pushing through reforms such as *Make in India* as well as the introduction of production linked investment (PLI) schemes that focus on value added exports to encourage local and foreign enterprises to invest in India's manufacturing sector. Under PLI, the Government will distribute US$20 billion to remunerate manufacturers for increasing total manufacturing output in India. The table below highlights the eligible sectors and product lines.

Sector	Product Line Examples
Advance Chemistry Cell (ACC) Battery Manufacturing	ACC Batteries
Electronic/Technology Products	Semiconductors, IoT Devices, Servers, Computer Hardware
Automobile and Auto Components	Automobiles and Auto Components
Pharmaceuticals	Biopharmaceuticals, Complex generic drugs, Active Pharma Ingredients (APIs) /Key Starting Materials (KSMs) and /Drug Intermediaries (DIs), Cell based or gene therapy products
Telecommunication Products	4G/5G, Next Generation Radio Access Network and Wireless Equipment, Switches, Routers, Internet of Things (IoT) Access Devices and Other Wireless Equipment
Textiles	Man-Made Fiber Segment, Technical Textiles
Food Processing	Ready to Eat / Ready to Cook (RTE/ RTC), Marine Products,Fruits & Vegetables
Solar PV manufacturing	Solar PVs
White Goods	Air conditioners, LED's
Steel Products	Coated Steel, High Strength Steel, Steel Rails, Ally Steel Bars & Rods

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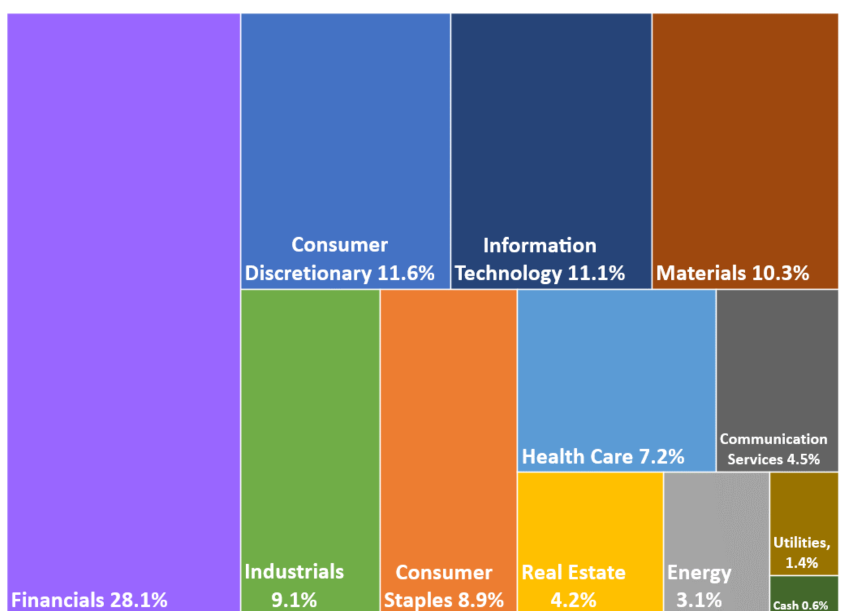
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 20 Stocks

Name	Industry	Weight
Bajaj Finance	Non-Bank Finance	4.8%
HDFC Bank	Banks	4.6%
Infosys	IT Services	4.5%
Kotak Mahindra Bank	Banks	4.4%
Tata Consultancy Services	IT Services	3.6%
Maruti Suzuki	Automobiles	3.4%
HDFC	Housing Finance	3.4%
Info Edge	Interactive Media and Internet Services	3.2%
ICICI Bank	Banks	2.7%
UPL	Agrochemicals	2.5%
Indian Energy Exchange	Power Trading	2.4%
Divi's Laboratories	Pharmaceuticals	2.3%
Reliance Industries	Oil & Gas, Telco and Retail	2.2%
Avenue Supermarts	Hyper/Super Markets	2.2%
Endurance Technologies	Auto Ancillaries	2.1%
Redington India	IT Hardware & Supply Chain Solutions	2.1%
Motherson Sumi Systems	Auto Ancillaries	2.1%
Nestle India	Consumer Staples	1.9%
AIA Engineering	Engineering	1.8%
Aurobindo Pharma	Pharmaceuticals	1.7%

Source: India Avenue, Thomson Reuters

Sector Allocation



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