India Avenue Investment Management

Fund Update: 30th September 2021

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges with 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

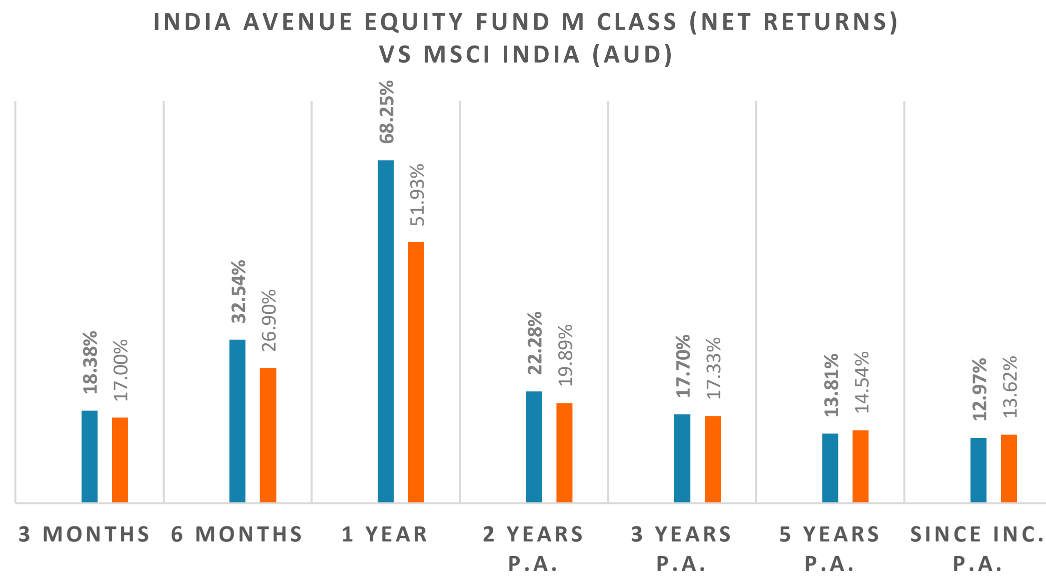
Lonsec Rating: Recommended[1]

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Muguntham Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016*
Fund Size	$66.59m
NAV	M Class: 1.7836 H Class: 1.7669 L Class: 1.4079
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	M Class: 1.10% H Class: 1.50% L Class: 0.95%
Buy-Sell Spread	0.35% / 0.35%
Performance Fee	Excess return above benchmark
M & H Class	10%, high watermark
L Class	15%, high watermark
FY21 Distribution	M, H, L Class: 0.0 cpu

*M Class Inception Date

Fund Performance and Characteristics: 30 September 2021



H Class	3 months	6 months	1 year	2 years p.a.	3 years p.a.	Since Inc. 11-04-17
Fund Returns (net)	18.16%	32.04%	67.24%	21.62%	17.11%	11.97%
MSCI India (AUD)	17.00%	26.90%	51.93%	19.89%	17.33%	13.67%
Relative Performance	**1.16%**	**5.14%**	**15.31%**	**1.73%**	**-0.22%**	**-1.70%**

L Class	3 months	Since Inc. 19-04-21
Fund Returns (net)	18.29%	40.30%
MSCI India (AUD)	17.00%	34.47%
Relative Performance	**1.29%**	**5.83%**

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th September 2021, net of fees and assuming reinvestment of dividends. Returns after 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.

Top 10 Stocks by Weight

Company Names	Industry	Fund Weight
HCL Technologies	IT Services	4.9%
Bajaj Finance	Financials	4.6%
Indian Energy	Cap Mkts	4.3%
Tata Consult. Serv.	IT Services	3.8%
Infosys	IT Services	3.1%
Redington (India)	Electronics	3.0%
Avenue Supermarts	Retailing	2.8%
Info Edge	Internet	2.7%
Tata Steel	Metals	2.7%
Brigade Enterprises	Real Estate	2.6%

Weights by Sector

Sector	Fund Weight	MSCI Weight
Financials	22.4%	25.4%
Information Tech	21.3%	17.8%
Industrials	12.1%	4.3%
Consumer Discretionary	9.9%	8.1%
Materials	7.6%	9.6%
Health Care	5.2%	5.2%
Consumer Staples	5.1%	9.2%
Real Estate	4.8%	0.4%
Communication Serv.	4.4%	3.4%
Energy	1.8%	12.5%
Utilities	1.4%	4.2%
Cash + Futures	3.6%	0.0%

Source: India Avenue, Thomson Reuters

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About India Avenue

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The India Avenue Equity Fund is managed by the team at IAIM and 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 have access to a growing addressable market. Additionally, if they have sound management and a 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

Identifiers	Citi Code	Morningstar
M Class	NFCK	41512
H Class	NF2H	41828

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Fund Commentary

The India Avenue Equity Fund returned 68.25% over the year ending 30 September 2021, outperforming its benchmark (MSCI India in AUD) by 16.32% over the period. Indian equity markets have continued to benefit from an economic and corporate recovery, driven by the country's vaccination rate (approaching 1 billion people) and supportive fiscal (including production linked incentives to support local manufacturing) and monetary policy. Additionally, concerns with regards to China's policies and approach has led investors to focus greater attention on India. Finally, there have been several new equity mutual funds launched and a spate of recent IPOs to keep market sentiment positive.

Corporate earnings are likely to be the driver of market direction from here onwards. Whilst a substantial improvement in earnings is already factored in, Indian companies are on the cusp of embarking on capacity additions, heralding the beginning of a new capex cycle which should drive further earnings upgrades. The risks to be considered are rising oil / energy prices, structural inflationary pressures and shocks and any earnings disappointments.

The Fund's outperformance over the last 12 months was driven by:

1. allocation to outperforming industries/sectors which was particularly relevant as India's economy dealt with a "K-shaped" recovery,
2. a greater weighting towards outperforming stocks within certain industries/sectors; and
3. broader positioning of the Fund in comparison to the concentration of the market capitalisation weighted benchmark.

Whilst we do not focus on the benchmark and its constituents, the comments below reflect the reasoning for our outperformance relative to MSCI India (AUD).

Positioning	Logic
Underweight to Reliance Industries	Reliance is a mega cap stock which underperformed the market after a period of significant outperformance from 2016-2020.
Overweight exposure to Real Estate stocks	Post COVID-19 Wave 1, Real Estate stocks were positively impacted by rising salaries and low interest rates.
Overweight exposure to external facing industries	Exposure to Auto-ancillaries, IT Services, Manufacturing and Pharmaceuticals and in general industries which export to off-shore markets.
Stock selection within Financial Services	Lower exposure to "lenders" post COVID-19. Exposure to Indian Energy Exchange, which is driven more by transaction fee related revenue.
Stock selection within IT Services	Exposure to mid-cap IT Services firms, benefitting from faster growth than larger firms during labour shortages.

It is our view that investing in India's equity markets is best undertaken in partnership with locally based investment advisers who are highly capable stock pickers with established track records, managing money within the local ecosystem. A combination of their skillsets and our approach provides a more robust return experience in our view. It provides our investors the opportunity to invest in potential sustainable growth companies at an earlier stage in their life cycle and prior to most global institutional investors.

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India Macro & Micro News

India is set to achieve 450 GW renewable energy installed capacity by 2030 according to the Ministry of New and Renewable Energy. 39% of installed capacity is non-fossil fuel sources (target being 40% by FY22). This process will be accelerated as battery storage costs reduce and opportunities in “green hydrogen” are explored further.

HCL Technologies, one of India’s leading IT services firms (and our largest stock by portfolio weight) has announced an expanded partnership with Google Cloud to mutually launch healthcare and life sciences solutions for customers. As the healthcare and life sciences industry grow, there is a need to digitally transform them.

By the end of March 2022, India is planning to complete some bilateral trade agreements, with the likes of Australia and the UK. The Government is seeking is to benefit from being seen as a possible alternative to China in global supply chains. India achieved global exports of US$100bn for the first time in the September 21 quarter.

The RBI met last week and voted to keep interest rates at their current level of 4% to support economic growth. Whilst global energy prices are rising, it was the consensus view that inflation would recede from current levels. Subsequently, the inflation reading for September 2021 came in at 4.35% (Aug 5.3%).

The Government has announced plans to build an electric highway between Delhi and Jaipur to accelerate development of expressways. Trucks and buses can travel on this highway at 120 km/h. This is likely to reduce logistics costs by 70%. The Government plans to accelerate development of expressways to boost activity/productivity, lower logistical costs and boost toll revenue.

Source: IBEF.org, tradingeconomics.com

The Privatisation of India begins….

Last week the sale of Air India to the Tata Sons was announced for US$2.4bn. The Government of India flagged a privatisation program in 2019 that stalled due to COVID-19. Several non-core government assets were being considered for sale to create funding for to fund infrastructure plans to remove bottlenecks and increase productivity.

Tata Sons is a private entity and the owner of the Tata Group (with shareholdings in several businesses including Tata Consulting, Tata Motors, Tata Tea, Tata Power) which won the bid for the national carrier. The carrier has been money consuming and debt-ridden (close to US$10bn) and was the most problematic of the Government’s assets. Ironically, the airline was originally owned by the Tata family (68 years ago) and was known as Tata Airlines before being nationalized.

The aviation industry in India has been riddled with problems including the insolvency of a leading carrier in Jet Airways, the decline of Air India and poor profitability for the industry overall (our Fund holds Indigo, India’s market share leader in aviation). Privatisation of the industry will increase the efficiency and stop the bleeding from the Government’s perspective.

However, in our eyes, this is far more than just the privatisation of the national carrier. It is the first significant asset which has been sold by the Government in its privatisation program, which should trigger more sales. We see this as a landmark shift in Indian markets as it should bring the following:

- Rising return-on-invested-capital through improved capital allocation practices
- Improving governance structures
- Rational business strategy and thinking
- Strong customer engagement and service levels
- Improvement in the Government balance sheet providing capital for spending on infrastructure

This is a positive development for India’s economy and corporate performance. The Government is now likely to switch its attention to other assets like BPCL (oil marketing), Container Corporation (transport) where a complete sale can be considered as non-core assets. Additionally sell-down of some core assets, thus increasing private ownership will increase the competitiveness of these businesses and their industries.

From a macroeconomic viewpoint, privatisation will allow the Government to reduce its fiscal deficit. This should shift India towards one of the best positioned from a macro front, which will be a far cry from its “fragile five” days during the taper tantrum in 2013.

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Power Plays coming to the fore

Globally energy costs are spiraling due to shortages experienced in the face of a global economic recovery. This has sent high energy intensity commodities like oil and coal prices soaring. Whilst this is leading to rising inflation and has the potential to slow down the progress of the recovery, there are certain companies/industries which are benefitting. We explore the impact on three such stocks (which are not constituents of the MSCI India) in our Fund.

Indian Energy Exchange (4.3% of Fund)

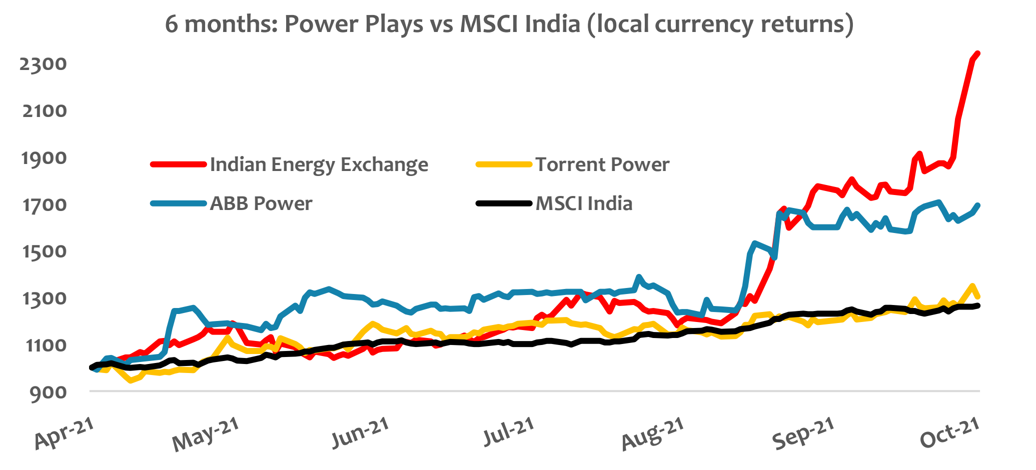
IEX is India's premier energy trading platform, providing a nationwide automated trading platform for physical delivery of electricity, renewables, and certificates. With energy efficiency being at its utmost importance (given shortages and wastage), product proliferation and cross border trade volumes are increasing significantly. Almost all the traded volumes (above 99%) in India are via IEX's platform. Since listing in 2017 at Rs.165 and bottoming out post COVID-19 at Rs.110, the stock price has benefitted from the significant tailwind of being close to a monopoly in an addressable market which is growing rapidly and further propelled by India's increasing focus on energy efficiency. Today the shares are trading at close to Rs.791.

Torrent Power (1.4% of Fund)

TPW is an Indian energy and power company which is involved in power generation, transmission and distribution, as well as the manufacturing and supply of power cables. The company has 3879 MW of generation capacity, over 3.6 million customers and operates across 7 cities. Being privately owned, it is one of the most efficient utility companies in the country. A significant component of the power generation is from gas based and renewable power plants. The company is benefitting from increasing energy intensity which is commensurate with a country transitioning towards greater productivity and wealth.

ABB Power Products & Systems (2.3% of Fund)

ABB is the Indian arm of Hitachi Energy, a global leader in power technologies providing a comprehensive grid portfolio across the value chain. The company focuses on bringing power to its customers through their products, systems, services and solutions. India is experiencing growing demand for electricity, which is commensurate with rising GDP-per-capita. The company seeks to be a solution provider for customers in utility, industry and transport and infrastructure to plan, build and operate their power infrastructure sustainably.



Source: Thomson Reuters

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India Avenue Equity Fund's Target Market Determination is available on our website www.indiaavenueinvest.com

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