India Avenue Investment Management

28th February 2023

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.

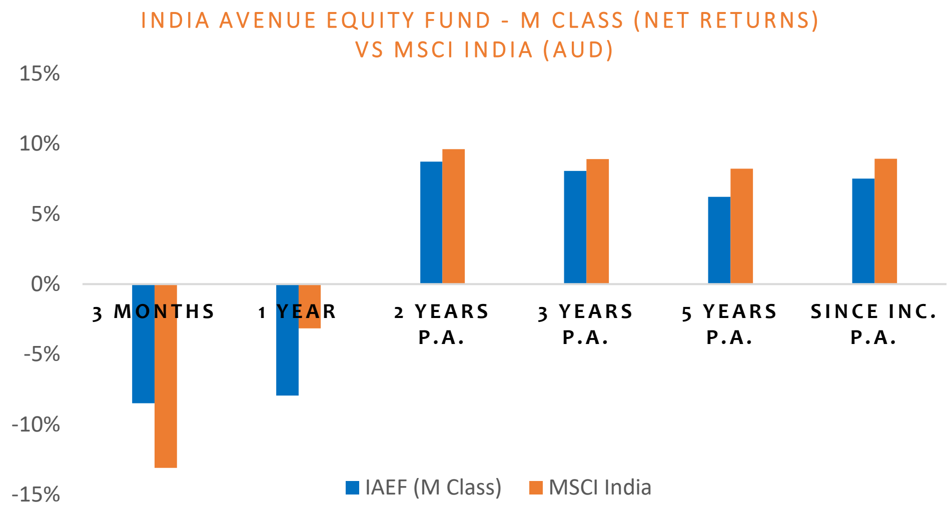
Fund Rating

Lonsec Rating: Recommended[1]

Fund Facts

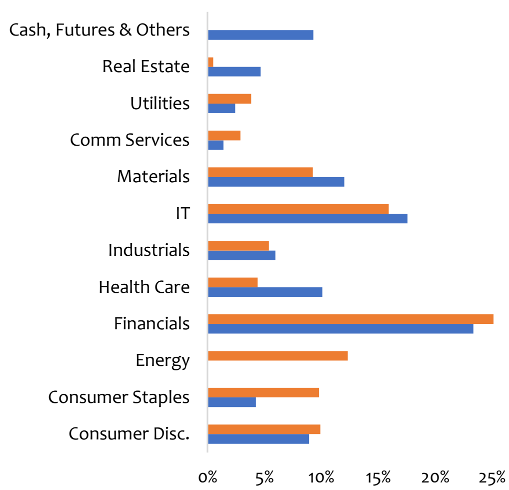
Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6th September 2016
Fund Size	A$61.56m
NAV	M Class 1.3781 H Class 1.3478 L Class 1.0956
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Frequency	Yearly 30th June
Management Expense Ratio	M Class 1.10% p.a. H Class 1.50% p.a. L Class 0.95% p.a.
Buy-Sell Spread	0.35% / 0.35%
Performance Fees	Excess Return above Benchmark
M & H Class	10%, high watermark
L Class	15%, high watermark
FY22 Distribution	M Class: 15.274 cpu H Class: 16.005 cpu L Class: 11.637 cpu

Fund Returns and Characteristics: 28th February 2023



M Class	3 months	1 year	2 years	3 years	5 years	Since Inc.
Fund Returns (net)	-8.49%	-7.94%	8.73%	8.06%	6.21%	7.51%
MSCI India (AUD)	-13.10%	-3.16%	9.62%	8.91%	8.22%	8.92%
Relative Performance	**4.61%**	**-4.79%**	**-0.88%**	**-0.85%**	**-2.00%**	**-1.41%**

IAEF by Sector vs MSCI India



Top 10 Stocks	Industry	Weight
Bajaj Finance	Cons Fin	4.43%
ICICI Bank	Banks	3.92%
Infosys	IT Services	3.39%
Redington	Elec. Equip	3.22%
HCL Tech	IT	2.60%
Tech Mahindra	IT	2.55%
Shriram Trans. Fin	Cons Fin	2.48%
Persistent Systems	IT	2.34%
Axis Bank	Banks	2.17%
Hindalco Ind	Metals & Mining	2.14%

Source: MSCI

H & L Class	3 months	1 year	2 years	3 years	5 years	Since Inception H Class (06/04/17)	Since Inception L Class (19/04/21)
H Class (net)	-8.59%	-8.33%	8.19%	7.54%	5.69%	6.17%	
L Class (net)	-8.44%	-7.79%					10.93%
MSCI India (AUD)	-13.10%	-3.16%	9.62%	8.91%	8.22%	8.50%	11.50%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 28th February 2023, 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.

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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. The Fund 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 benefit from participating in growing addressable markets. Additionally, if they have sound management and a strong 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

	Citi Code	Morningstar
M Class	NFCK	41512
H Class	NF2H	41828
L Class		44362

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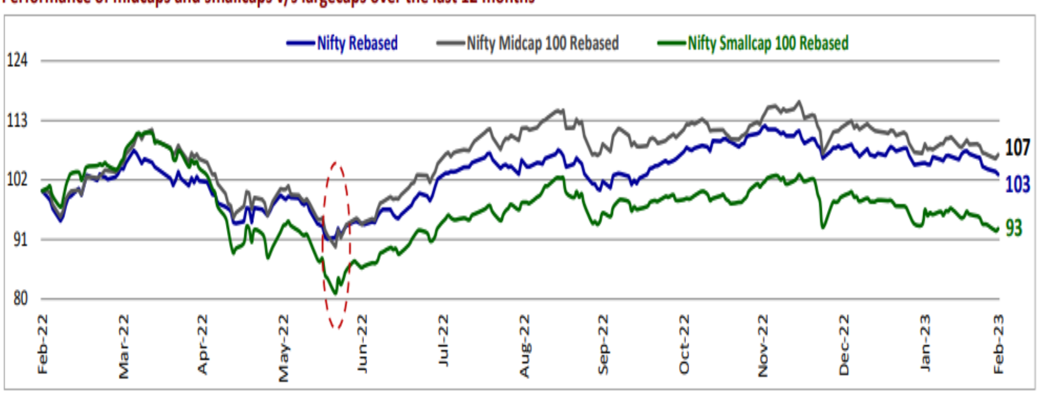
Fund and Market Commentary

The India Avenue Equity Fund returned **-7.94% for the 12 months ending 28th February 2023, underperforming its benchmark, MSCI India (AUD) by -4.79%.** However, the fund outperformed significantly over the last quarter (by 4.61%) given it had no exposure to the Adani Group of stocks or associated entities. The Group companies were impacted by the Hindenburg Report and short selling which resulted in significant volatility in their share prices. The **month of February saw a positive return of 1.62% for the fund**, despite weakness in the Indian markets. This positive return was achieved by outperformance of 1.9% relative to the benchmark as well the INR's appreciation of 3.6% relative to the AUD. The depreciation is typical for the AUD during a phase of weak market sentiment and is a reversal of the recent trend which saw the AUD strengthen as global markets bounced in 2023.

Over a 12 month basis the fund's alignment to a growth style and lower capitalisation in comparison to the benchmark led to its underperformance, as highlighted in our fact sheets over the last year. The chart below indicates the underperformance by small caps over 2022.

Performance of midcaps and smallcaps v/s largecaps over the last 12 months



Source: Motilal Oswal – Bulls & Bears Report – February 2023

Our fund proposition is aligned to providing exposure to areas which are typically not benchmark heavyweights or success stories from the last decade (Consumption, Financials, Information Technology) which you might find more significantly in an EM fund exposure to India or in an India focused ETF. The India Avenue Equity Fund is overweight in **Industrials** (Engineering, Aviation, Wiring), **Materials** (Cement, Steel, Pipes, Fertilisers, Chemicals), **Healthcare** (Pharmaceuticals) and **Real Estate**. These are businesses which should participate significantly in the next capex cycle and inevitable heightened focus on infrastructure.

Companies benefitting from the China + 1 thematic i.e. manufacturers/external facing businesses should be beneficiaries and represented more significantly in the benchmark by 2030 (as they were at the top of the last capex cycle in 2010). Today the valuations of Consumption, Technology and Financial stocks (significant representation in the benchmark of 60%) make India look like a perennially expensive market relative to more cyclical oriented EM's. The evolution of industries in India has over time led to a fair degree of 'churn' in market leadership – understanding this is in our view the way to invest in India, without overpaying.

****Past performance is not an indicator of future performance. None of the above is to be construed as financial advice, Investors should consult their financial advisers before considering an investment in this product.***

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India Macro & Micro News

In 2022, about 1,300 start-ups with a technology focus were added, bringing the overall number of active tech start-ups to 25,000-27,000. In addition, India added around 23 unicorns in 2022, which was the second-highest number in the world. A total of US$73bn in equity investments have been raised by tech start-ups in India, of which US$ 18bn came in 2022. A woman is at least one of the founders or co-founders of 36% of unicorns and potential unicorns.

The Quality Council of India (QCI), India's national certifying body, was recently placed 5th worldwide in the Global Quality Infrastructure Index (GQII) 2021. The 184 economies in the world are ranked by the GQII according to the quality of their infrastructure (QI).

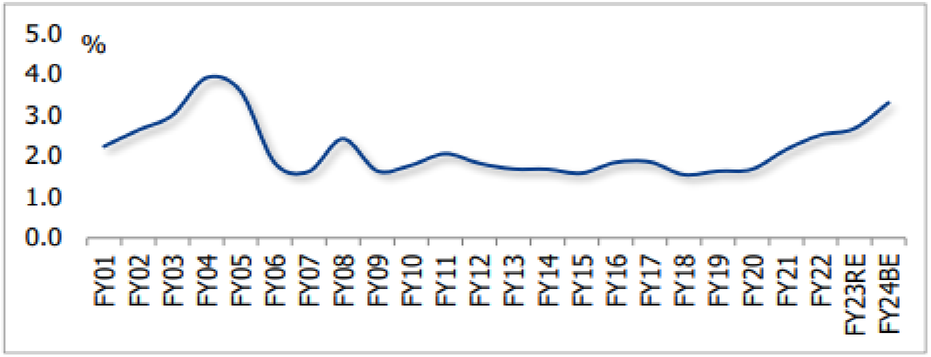
The automotive electric two-wheelers (E2W) industry grew by more than 300% in the calendar year 2022 (CY22), according to a Cyber Media Research (CMR)'s report - 'India Electric 2-Wheelers (E2W)'. the share of E2Ws and connected two-wheelers (C2W) is expected to surpass 50%.

Latest data by the Reserve Bank of India (RBI) showed bank credit grew at 16.3% y-o-y in the fortnight ended January 27 to US$161bn. As system liquidity has slowed, banks have gradually increased deposit interest rates to raise money for the rapid credit expansion in the economy.

India and Australia are Indo-Pacific partners with a shared vision for a resilient, inclusive, open region. In the fiscal year (2022), India is Australia's 9th largest trading partner, and Australia is India's 17th

Union Budget highlights significant Capex / Infrastructure

The Government of India presented a its pre-election year Union Budget for FY24. Typically, this is more populist in nature in an effort to gather votes. However, this time the focus was more on capex and fiscal discipline, rather than subsidies and handouts. There was a projection of a rise of 37% year-on-year in government capex in FY24, representing INR 14.9 trillion and driven by: a) Railways (INR 2.93 trillion, increase 15% y-o-y), b) Roads (INR 2.59 trillion, increase 25% y-o-y), c) Defence (INR 1.62 trillion, increase 8% y-o-y), d) Power (INR 0.78 trillion, increase 47% y-o-y).



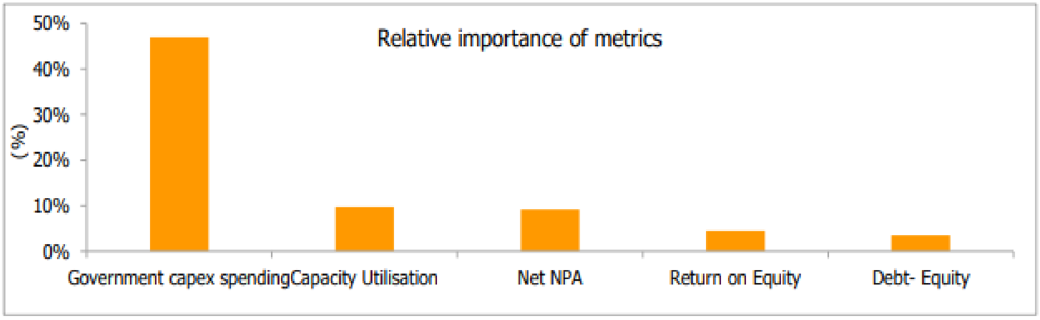
Note: FY23RE and FY24BE; Source: CMIE, Elara Securities Research

Capex spending as a percentage of expenditure increased significantly from 12% to 23% (FY24) and over 3% of GDP (aligning with the beginning of the last capex boom in 2003-04). Additionally, the Government stuck to a fiscal discipline roadmap by targeting a deficit of 5.9% of GDP in FY24 compared to the FY23 target of 6.4% and aiming for a target of 4.5% by FY26. Increasing tax collections are playing a role in containing the deficit, with projections for gross tax revenues to rise by 10.4% in FY24.

The Budget also lacks consumption support as FY24 revenue expenditure is forecasted to rise 2.5% (versus rising taxes of 10.4. Typically populist Budget's tend to focus on rural consumption given 2/3rd of India still depends on the agrarian income source. On the positive side, the shrinking of disposable income should be non-inflationary.

Government spending on capex is looking to induce the appetite for private sector capex. With capacity utilisation rising to 74%, net financial system non-performing assets approaching a low point over the last 10 years (0.8%), return on equity rising (>15%) as well as corporate balance sheets in good health (<50% D/E) – it means India's is primed for a capex boom. This is currently only being held back by a global slowdown / recessionary environment and is primed to accelerate into CY2024.

India capex – Factors that induce private capex appetite



Source: Elara Securities (based on a multivariate regression model 2002-2022, R-square 0.94).

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Our Focus and Experience

The founders of IAIM worked together at ING Investment Management in Australia and India over a period spanning from 2003-2013.

Our rich experience in investing in Indian equity markets is aided by our local network (fund managers, stockbrokers, corporates and other market participants in India).

This, alongside our singular focus on India as an investment region, provides our clients with significant insights on investing in this fast-growing region.

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Key Themes from the India Avenue Grassroots Tour to India

India Avenue hosted a group of investors, potential investors, financial advisers and media from Australia and New Zealand in India from February 19-25th. The Grassroots India Tour is run annually (with an absence in 2020-2022 due to COVID-19) and is focused on the continual education of our 'client network' on the virtues of investing in India's growth story as a part of their investment portfolios. Our Tour went to Mumbai, Pune and Delhi which are Tier I cities in India of over 10 million people. Our meetings included the following:

1) Reserve Bank (member of the Monetary Policy Committee)
2) Economic Policy Adviser to the Government of India (Niti Aayog)
3) Insights of high quality, experienced locally based fund managers and strategists
4) Meeting with Business Founders and Corporate Management (11 companies)
5) Experiences in Consumption, Transport/Logistics

Key takeaways from the Tour include the following (please email us at info@indiaavenueinvest.com if you would like a copy of our full report on the Tour).

Thematic	
China + 1	India is benefitting from supply chain diversity from the need for governments and corporates globally to diversify their reliance to China. Compounded with India's large employable population, this will lead to an increase in manufacturing, exports and consumption.
Infrastructure and Capex	Government Capex was significant in India's Union Budget and this plus improved financial position of India's banks, and its corporates is likely to lead it to greater capex and more improved infrastructure.
Capacity	Capacity utilisation is currently at 74% on the RBI Index and corporates are set for increasing capacity as and when the environment improves. Several companies highlighted blockages which are impeding realization of underlying demand.
Digitisation	India's internet and mobile phone penetration is rising fast, allowing the digitisation of India and much cheaper last mile connectivity as well as greater inclusiveness.
Corporate Balance Sheets	Debt-to-equity levels are as low as they ever have been after a decade of deleveraging. This comes at an ideal time as interest rates rise. Corporate India is poised for growth when appropriate.
Economic Policy	Policy has been stable given 9 years now under the Modi led BJP regime. It is also likely that they will remain in power till at least 2029, which provides stability in terms of policy directive.
Compounding Growth	The benefits of the compounding growth story were evident at all meetings. Given the underpinning of positive demographics, a more stable political front and macroeconomics, companies have been providing investors with significant compounding earnings and high RoE's due to India's scale and operating leverage.

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Our Philosophy

IAIM's investment philosophy focuses on three key aspects:

1. **India will be a high GDP growth region relative to other regions given its strong fundamentals.**
2. **Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
3. **Locally based asset managers in India have an advantage relative to global investors when it comes to investing in Indian equities due to their knowledge of the local laws, business principles and overall ecosystem.**

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India Avenue Equity Fund's Target Market Determination is available on our website:

www.indiaavenueinvest.com/our-fund

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