

Reinvesting for the compounding growth offered by India's equity markets

Australian Unit trusts, such as the Indian Avenue Equity Fund (the Fund) must distribute their realised gains and dividends achieved in every financial year (FY) (to end June). At the end of FY22, the India Avenue Equity Fund paid a distribution of approximately 10% of its value. This was due to the fact that CY2021 saw a return of 47% for the fund and some profit taking (or trimming of weights) in stocks led to the generation of realised gains in the Fund.

The distribution was paid out as at the 30 June 2022 unit price. When the investor ticks the box asking for a cash distribution as opposed to reinvesting the distribution back into the buying units in the Fund (i.e. increasing the number of units), they are effectively reducing their exposure to the Fund by approximately 10% (in the case of FY22). When reinvesting, investors are maintaining their exposure to the fund. Sometimes the timing of the distribution can also be less opportune, particularly if you are reducing exposure at a point when equity markets have fallen. It can impact the potential of compounding over the long term.

India Avenue Equity Fund - Adjusted Unit Price (for Distributions)

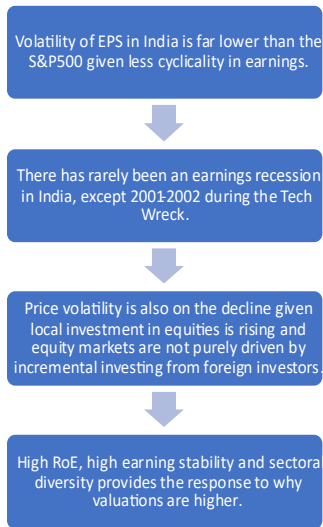
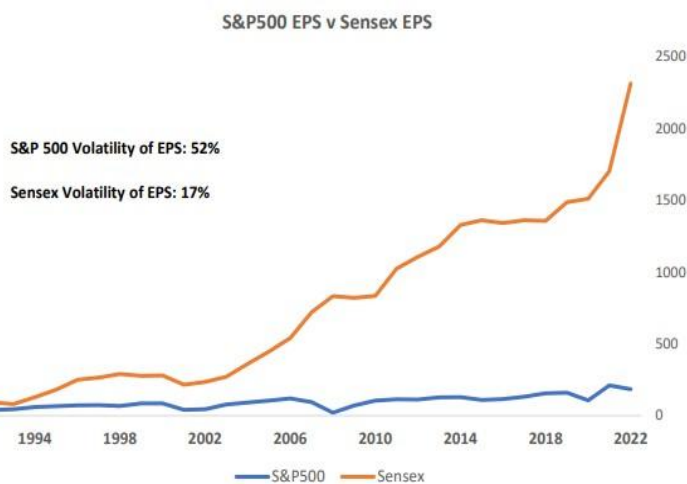


Source: India Avenue research

Typically investors investing in India focused funds are placing the investment in the growth component of their portfolio. By this we refer to the component which is seeking capital growth which benefits from investing in companies which are experiencing compounding earnings growth over time (as many of the companies in India are due to the underpinning of the countries fundamentals).

To underscore this point, and by way of illustration, Indian equities have over time achieved higher earnings per share (EPS) growth than many other global equity markets, and they have done this at a lower level of volatility. This is illustrated in the chart below which compares EPS growth of the Sensex 30 (the largest 30 companies in India to the US S&P 500, in local currency). One of the key drivers of equity market growth over the long term is earnings growth (i.e. the ability of companies to grow their profits). Perhaps the most noticeable aspect is the low volatility growth of EPS of the Sensex over the last 30 years.

Volatility of Earnings Far Lower than S&P 500



Source: India Avenue research, Yardeni, Motilal Oswal

FY2023 Distribution Estimates

We are likely to experience a similar distribution in FY23 for the India Avenue Equity Fund. We anticipate this to be in the vicinity of 7-8% of the value of the investment (at this stage, this is an estimate; we won't know the exact amount until after 30 June 2023). It is our general view that investing in India is a compounding story and these investments tend to prosper in a portfolio (in their specific role of providing capital growth) with reinvestment of distributions, rather than withdrawals of capital.

Several investors, investing via a platform or by habit of investing in income or yield focused investments, typically have a default option of taking the cash every distribution period. However, given the growth nature of Indian equities, if appropriate, you may like to consider re-investment of any distributions.

These comments are of a general nature only and as ever, we strongly recommend that you speak to your financial adviser.

Our Disclaimer:

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The India Avenue Equity Fund Target Market Determination is available. India Avenue Equity Fund's Target Market Determination is available on our website: www.indiaavenueinvest.com/our-fund. A Target Market Determination 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.