MONTHLY REPORT | JUNE 2023 | INDIA AVENUE EQUITY FUND

FUND DETAILS

Fund Manager	India Avenue Investment Management
Structure	Registered Investment Management Trust
Inception date	6th of September, 2016
Fund size	A$73.45m
Base currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Benchmark	MSCI India NR (AUD)
Distribution Frequency	Yearly as at 30 June
Management expense ratio	1.10% p.a. (M Class)
Buy-sell spread	0.35% / 0.35%
Performance fees	10% of excess above benchmark

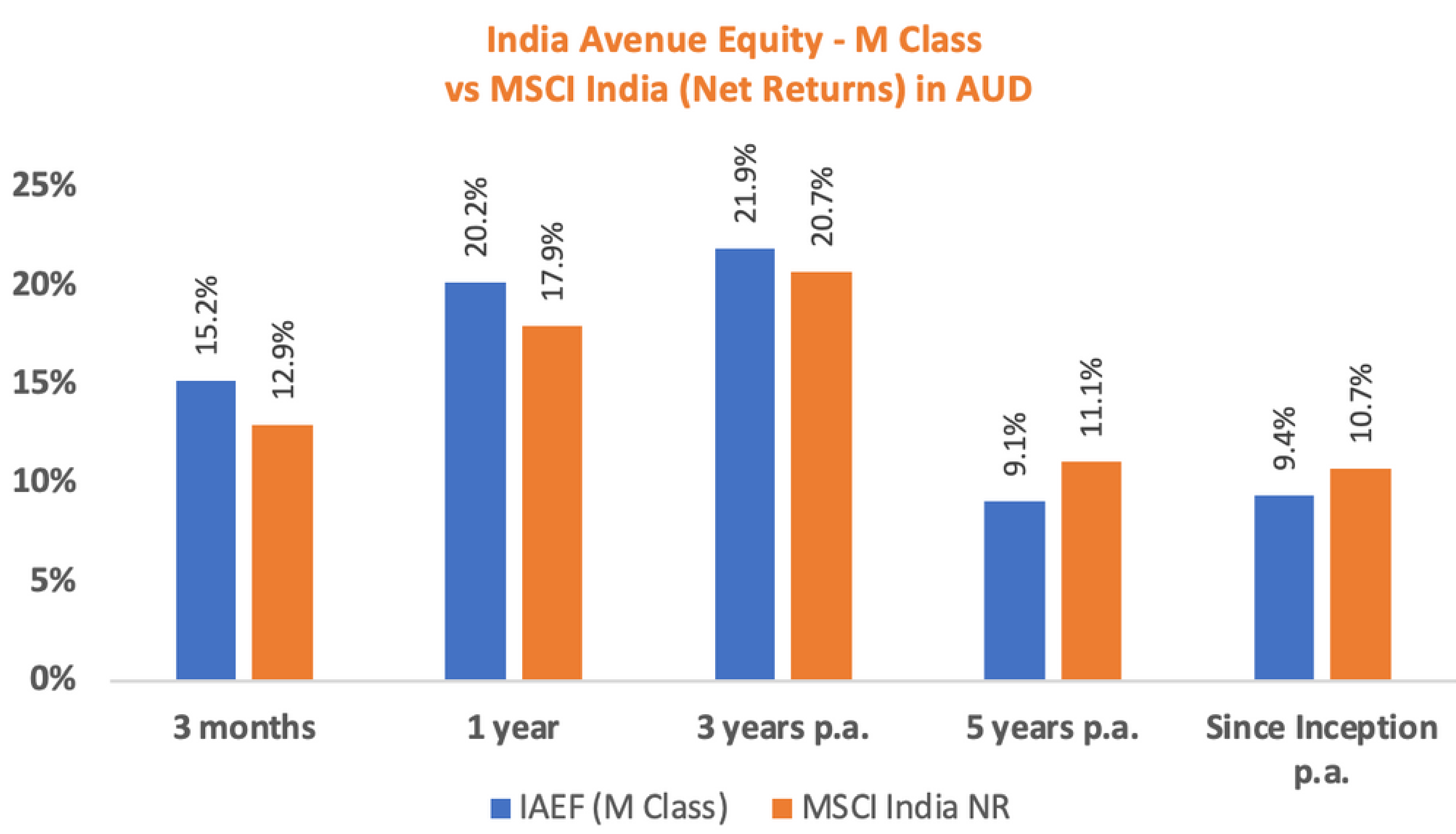
FUND OBJECTIVE

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 : Recommended [1]

FUND RETURNS VS BENCHMARK - 30TH JUNE 2023



The Fund returned 2.23% in the month of June 2023, outperforming its benchmark by 0.44%. This was driven by continued outperformance by small and mid-cap stocks relative to large caps. Over the last 12 months, returns from the Indian market have been strong relative to other regional equity markets and this alongside India's resilient macro and microeconomic environment is luring foreign investors back to investing in the region, after they looked elsewhere in Emerging Markets in 2022.

The Fund is well positioned to benefit from improving investor sentiment and a plateauing of interest rates and inflation in India. The RBI has been on hold over the last two MPC meetings, given inflation of 4.25% relative to cash rates of 6.5% in the midst of sustainable GDP growth expectations of 6-7%.

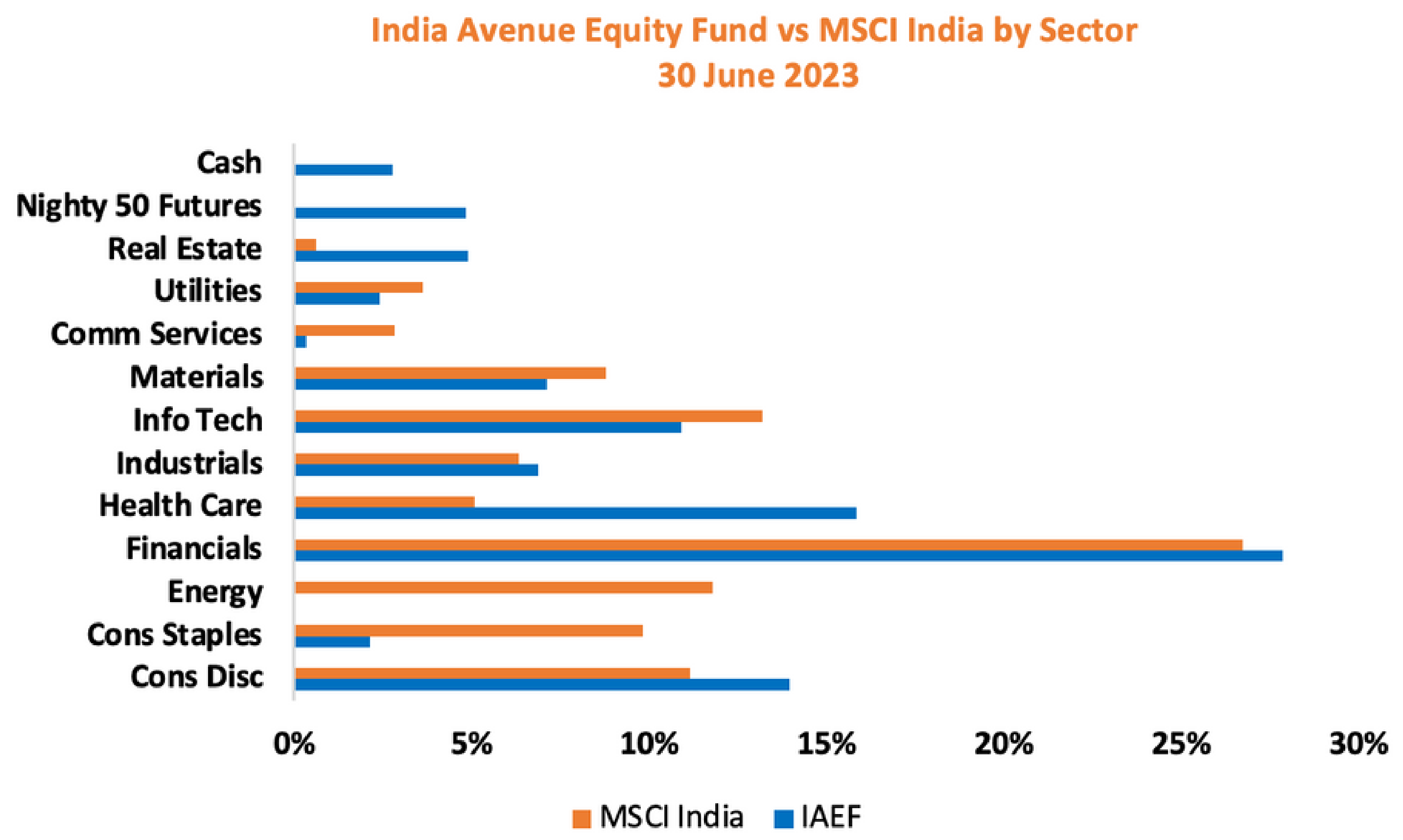
We have positioned the fund with a "growth" bias in large cap stocks in order to benefit from the return of foreign investors to India, seeking exposure to earnings growth and ROE. In the small and mid-cap space however, we favour a value tilt due to the requirement of a "margin-of-safety". Our multi-styled approach makes this possible.

Performance by Unit Class (net)	Inception Date	1 month	3 months	1 year	2 years	3 years	5 years
H Class	06/04/17	2.18%	15.05%	19.65%	7.83%	21.31%	8.53%
M Class	06/09/16	2.23%	15.18%	20.17%	8.32%	21.89%	9.05%
L Class	19/04/21	2.25%	15.26%	20.41%	8.48%		
MSCI India (AUD)		**1.79%**	**12.92%**	**17.93%**	**10.71%**	**20.68%**	**11.05%**

Source MSCI, *each unit class has a different inception date and hence is not illustrated comparatively against the benchmark.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th June 2023, net of fees and assuming reinvestment of dividends. Returns of longer duration than 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.

FUND BY SECTOR



TOP 10 STOCKS

IAEF Top 10 stocks		
ICICI Bank	Private Bank	5.05%
Bajaj Finance	Non-Bank Lender	5.01%
Axis Bank	Private Bank	3.24%
Shriram Finance	Non-Bank Lender	3.06%
Infosys	IT Outsourcing	2.94%
Aurobindo Pharma	Pharmaceuticals	2.58%
Redington (India)	IT Hardware/Electrical	2.58%
HCL Technologies	IT Outsourcing	2.45%
Cipla	Pharmaceuticals	2.38%
HDFC	Housing Finance	2.37%
Top 10		**31.67%**

SIGNIFICANT SECTORS

The Fund has significant exposure to Financials (Private Banks), NBFC's, Life Insurance and Credit Card businesses, with no exposure to government owned banks. Foreign investors, in particular, tend to hold significant exposure to India's banks and NBFC's as a way to play the growth story and the pace of financialisation continues from a low penetration and high savings base.

Overweight positions to the MSCI India benchmark are Healthcare (mainly pharmaceutical companies), Industrials (diversified industries), Consumer Discretionary (2-wheelers, cars) and Real Estate. These industries in our opinion are attractively valued for the growth they offer at this point in the cycle. Recently we have been increasing our exposure to Pharma stocks as US pricing erosion in generics seems to have approached a bottom. Several Indian pharma companies have exposure to this market.

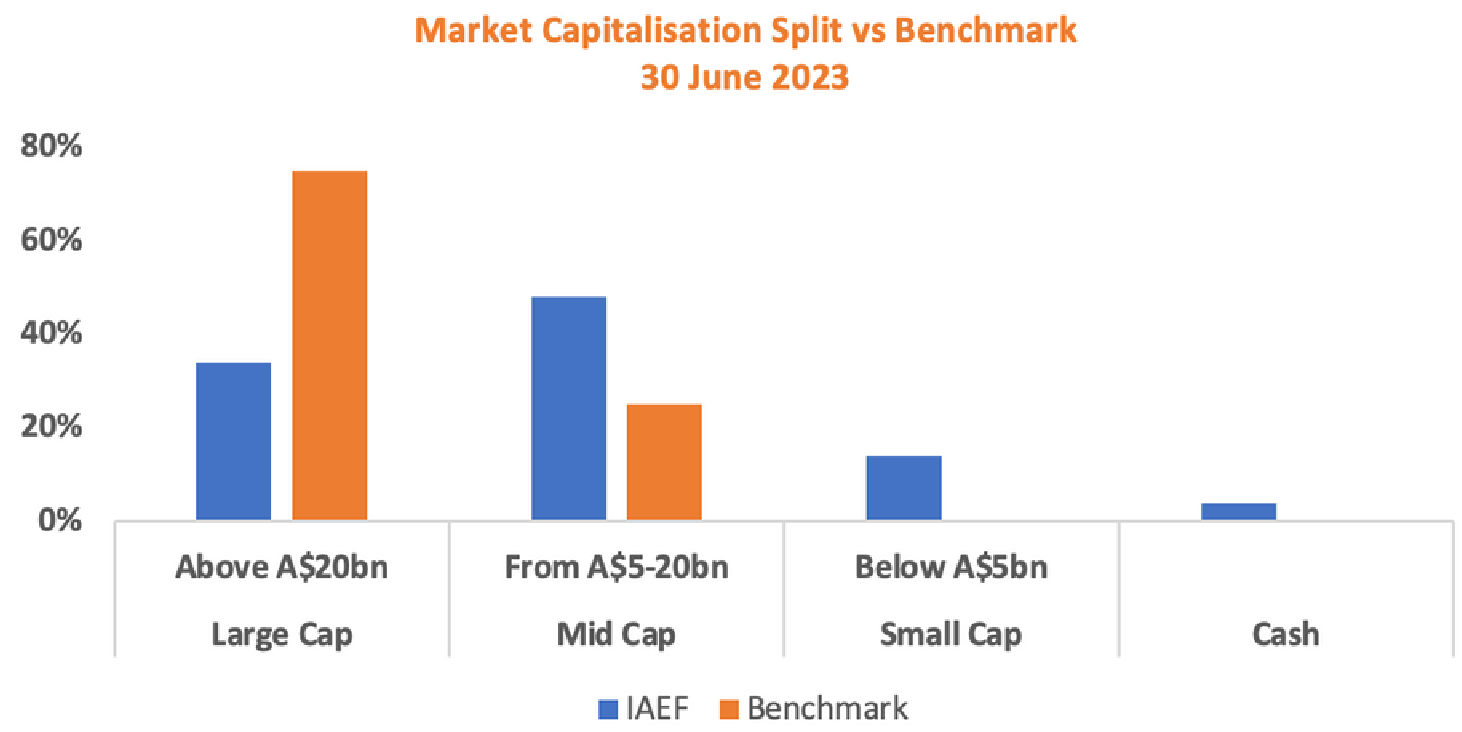
We are also starting to slowly pare back weighting to Financial Services, given last quarters results reported were close to peak margins and profits. Last quarter we had pared back our weighting to Info Tech, given expectations of a slowing economy and the impact that would have on global outsourcing, which the Indian IT firms target.

FOCUSING ON DIVERSIFICATION

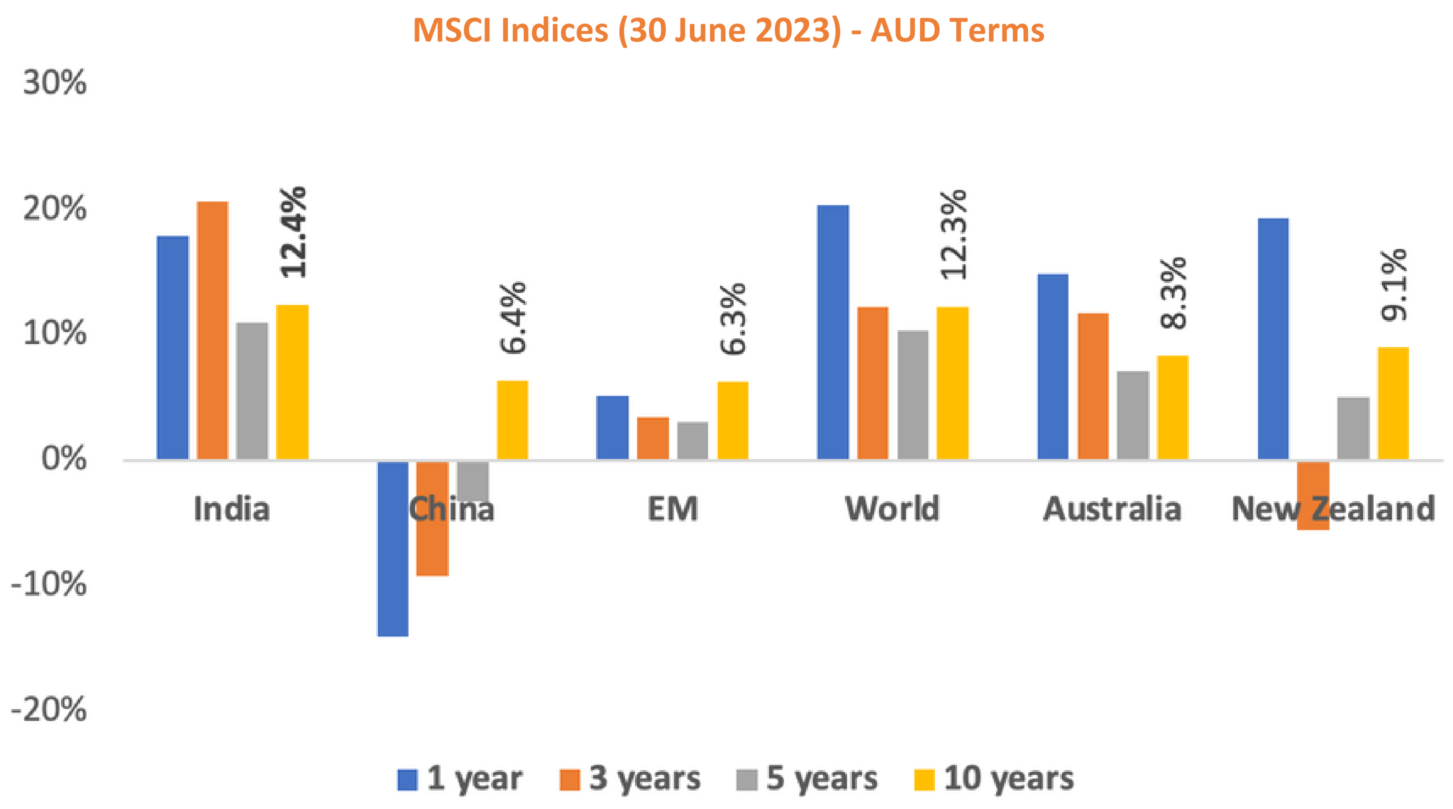
The top 10 stocks by weighting hold 32% of the exposure of the fund. Typically the fund holds positions from 5% weighting down to 0.5% across approximately 60 diversified companies. Given our exposure to mid and small cap stocks, it is preferred to be diversified to company specific risks within this segment.
The Fund also holds most of its exposure to financial services in large weightings, with close to 19% of its 28% overall held in four of the top 10 stocks. Our preference is to hold concentrated exposure to companies with a continuing runway for growth and in most cases, some margin of safety on valuations.

EXPOSURE BY CAPITALISATION

Exposure by capitalisation illustrates the Fund's bias towards mid and small cap stocks relative the MSCI India benchmark. It is our view that some of India's best growth opportunities are found in mid and small capitalisation stocks, which have less research undertaken on them at this stage and lesser institutional investors. India's stock market is over 40% owned by promoters/founders and several of these companies are less "discovered" from a price point of view.
It also mitigates some of the statements about India's equity markets being expensive in terms of valuations. This is due to large and liquid stocks have significant global investor interest and thus trading at higher valuations.



INDIA VS ROW



INDIA'S MACROECONOMICS

Economic Factors (at 30 June 2023)		
GDP Growth	7.2%	March 2023
GDP per capita	US$2,389	Dec 2022
Inflation	4.25%	May 2023
Cash Rate	6.50%	June 2023
Balance of Trade	-US$22bn	May 2023
Manufacturing PMI	57.8	Jun 2023
Services PMI	58.5	Jun 2023
Industrial Production	4.2%	May 2023
Forex Reserves	US$593bn	June 2023
Population	1,421 billion	July 2023
Unemployment rate	7.7%	May 2023
Capacity Utilisation	74.3%	Dec 2022
Consumer Confidence	88.5	May 2023
Government Debt to GDP	55.1%	Dec 2022
Household Debt to GDP	36.4%	Dec 2022
Electricity Production	126,602 (GW/h)	May 2023
Steel Production	11,200 (thousand tonnes)	May 2023

Source: tradingeconomics.com, World Bank, worldometer.info, CEIC

INDIA LEADING THE PACK

India leads the pack in terms of annualised returns over 3, 5 and 10 years. The pack essentially being investable groupings which asset allocators, in Australia and New Zealand, deem to be potential asset classes, within the equity category. This is a case of the underlying fundamentals of the region, driving GDP growth, corporate earnings growth and stock prices higher.

DESPITE THE ENVIRONMENT...

Over the last 12 months, India ranks three in this group in AUD terms. This is during a period of rising inflation and interest rates and high commodity prices. Typically this environment paints a difficult economic and equity market scenario for India. Nevertheless, India focused investors have still achieved a return of 17.93% at the Index level.

EMERGING MARKET CONUNDRUM

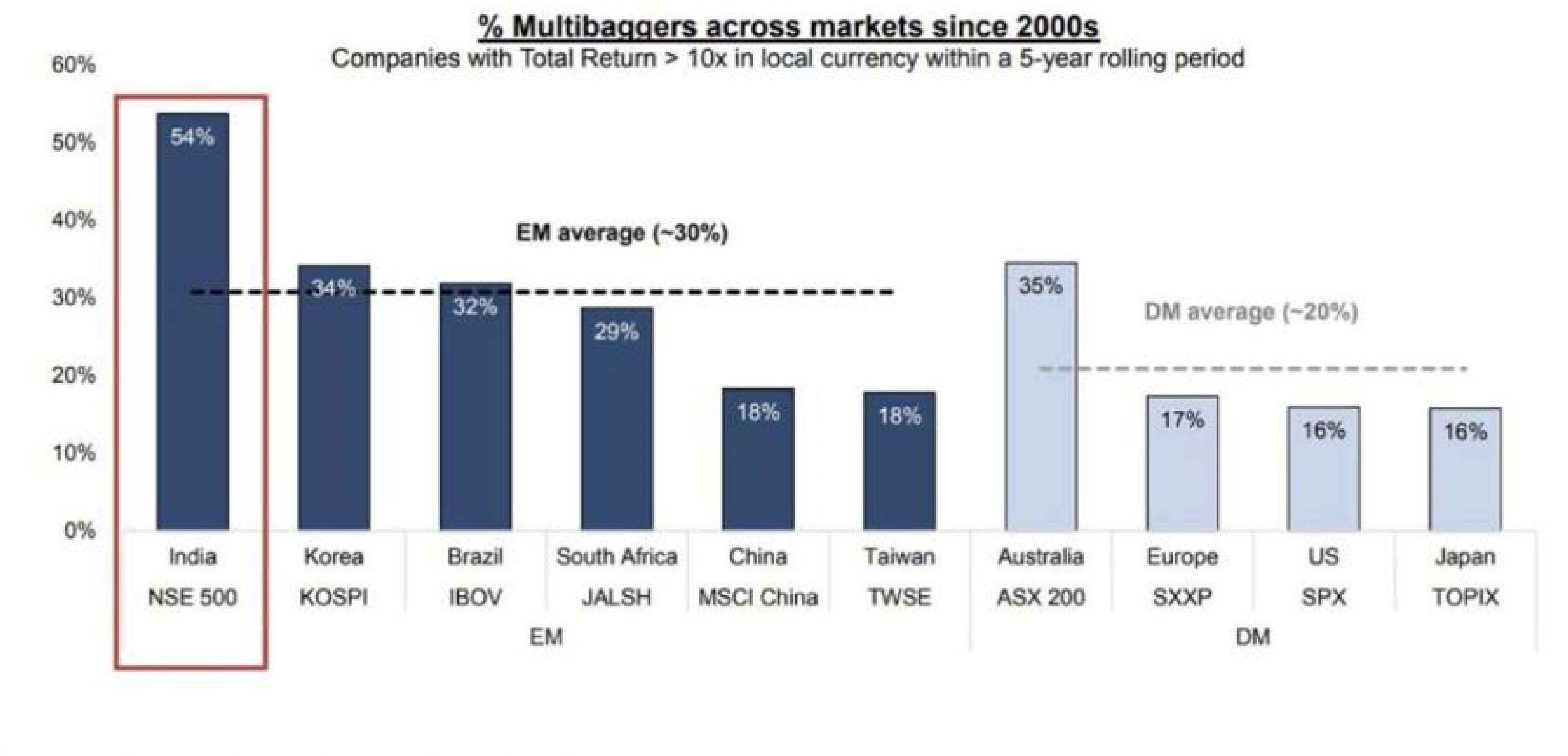
Importantly, within its regional peers, India leads China and Emerging Markets quite significantly over all time periods. Whilst other markets like Taiwan, Korea, Indonesia, Brazil, Mexico as well as Eastern Europe have also performed well within Emerging Markets, these markets don't have the same diversity of prospering industries or market depth of India (now 5th largest by country at a market cap of US$3.5tn). Excluding China, EM has prospered and this is increasingly leading allocators to question the traditional route of investing for growth and diversity in the equity asset class.

RECEDING INFLATION

The Reserve Bank of India focuses on price stability as one of its core mandates. Inflation over the last 20 years in India has averaged close to 6%. During 2012-2013, India had inflation as high as 12% in a stagflationary environment which would lead it be classified as a “fragile five” economy, with weak economic growth, a balance of payments problem, high inflation and a faltering currency. How things have changed over the last decade as structural inflation has receded with economic reform and infrastructure development.

The last reading of the CPI as at the end of May 2023, indicated a drop to 4.25%. This means India has positive real rates of 2.25% at present. It is also well inside the RBI's target of 4% +/- 2%. The RBI recognises that inflation has hit a weak patch in India due to falling food prices from a high base a year ago. The current south-west monsoon season is critical for India's food inflation and consumption. The RBI has forecasts inflation of 5.1% for FY24, which remains comfortable relative to India's history and in comparison, to other regions globally.

WHY INDIA?



Source: Bloomberg, Local Indices, FactSet, Goldman Sachs Global Investment Research

A recent report by Goldman Sachs Investment Research highlighted an interesting analysis of companies which had achieved a 10x in local current terms within a 5-year rolling period. Across developed markets, Australia has fared well with 35% of multi-baggers (as measured by an increase of 10x in wealth) since the 2000's. Across developed markets the average was 20% of companies.

In Emerging Markets, the success ratio was higher at circa 30%, with India leading the way at 54%. This highlights that India is a market where there are a significant number of "multi-bagger" type opportunities given companies are underpinned by the country's fundamentals of a young, aspiring and world-leading population of over 1.4 billion.

When you add the following factors to the underlying fundamentals, it is no secret that there has been a significant number of multi-baggers:

- Significant reform undertaken which commenced in 1991, with liberalisation of the economy and more recently accelerated by the Modi Government (over the last 10 years)
- Growth in addressable markets from a very low base, benefitting from rising incomes (albeit at a slower pace than China over the last 20 years)
- Drive from formalisation, financialisation and digitisation over the last 10 years in particular which is providing significant growth to companies which are dominant in market share

Whilst a lot of market commentators focus on challenges and issues of investing in India's growth, an actively managed portfolio can identify these compounding growth companies and buy-and-hold them over time to achieve robust annualised returns over time. Stocks like HDFC Bank, Infosys, Bajaj Finance, Maruti Suzuki, Asian Paints across Information Technology, Banking and Consumption dominate India's market cap weighted indices today (MSCI India) due to their compounding growth driven by India's fundamentals.

The next 10-20 years is likely to see more industries prosper, particularly through the diversification of global supply chains, a transition to renewables and rising wealth in India. Areas like Healthcare, Real Estate and Consumer and Energy transition industries are likely to be highly conducive to finding tomorrow's multi-bagger opportunities.

The next 10-20 years is likely to see more industries prosper, particularly through the diversification of global supply chains, a transition to renewables and rising wealth in India. In such event, areas like Healthcare, Real Estate and Consumer and Energy transition industries may likely be highly conducive to finding tomorrow's multi-bagger opportunities.

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FUND DETAILS

	M Class	H Class	L Class
NAV (pre-distribution)	1.5843	1.5471	1.2606
NAV (post-distribution)	1.4642	1.4499	1.1920
Management Fee	1.10%	1.50%	0.95%
Performance Fee	10% of excess	10% of excess	15% of excess
FY23 Distribution	0.1201	0.0972	0.0686
FY22 Distribution	0.1527	0.1601	0.1164
ARSN	611374586	611374586	611374586
ISIN	AU60ETL04826	AU60ETL04784	AU60ETL28148
APIR	ETL0482AU	ETL0478AU	ETL2814AU
Citi Code	NFCK	NF2H	
Morningstar Code	41512	41828	44362

DISCLAIMER

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.

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