MONTHLY REPORT | JULY 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$75.3m
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

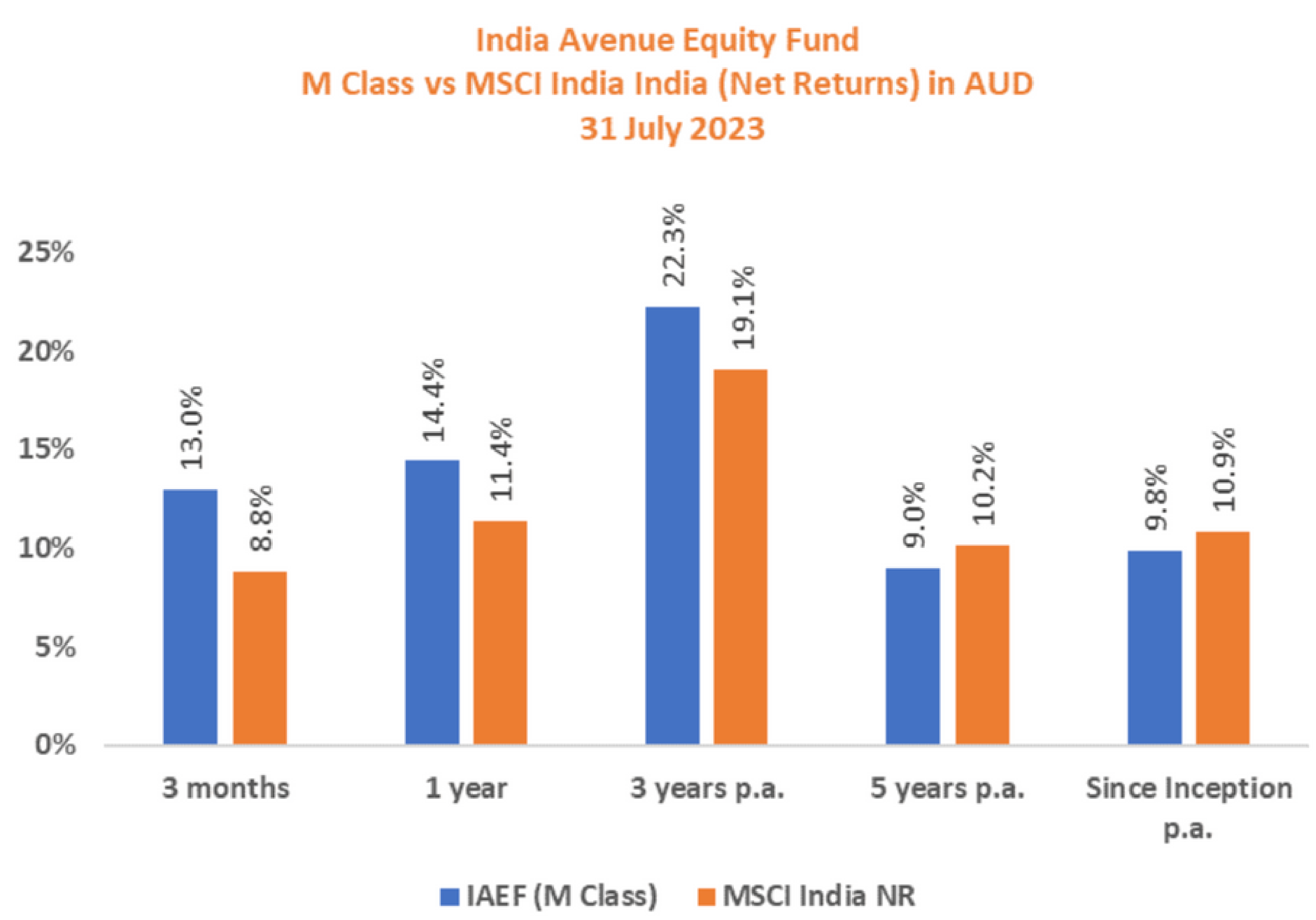
FUND OBJECTIVE

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]
(refer to the disclaimer section on page 5)

FUND RETURNS VS BENCHMARK - 31ST JULY 2023



The Fund returned 3.90% in the month of July 2023, outperforming its benchmark by 2.17%. This was driven by outperformance of small and mid-cap stocks relative to large caps. In the year to date, the Nifty 50 (largest 50 stocks by market cap) has returned 9.8% in comparison to mid-caps, 19.4% and small caps, 20.2%. As foreign investors have increased investment into India this year, investors have looked further down the capitalisation curve to find growth stocks with more valuation "comfort".

As investors have become increasingly enamoured with India's greater certainty of growth, the investment in India-only funds and ETF exposure have increased substantially. At some point this may lead to an asset bubble in Indian equities which may play out over the upcoming months. Also to note is India's upcoming national election (May 2024), as an event to watch out for in the medium term. However, in the long-term it is our view that the fundamentals of India will continue to drive economic growth and stock market returns.

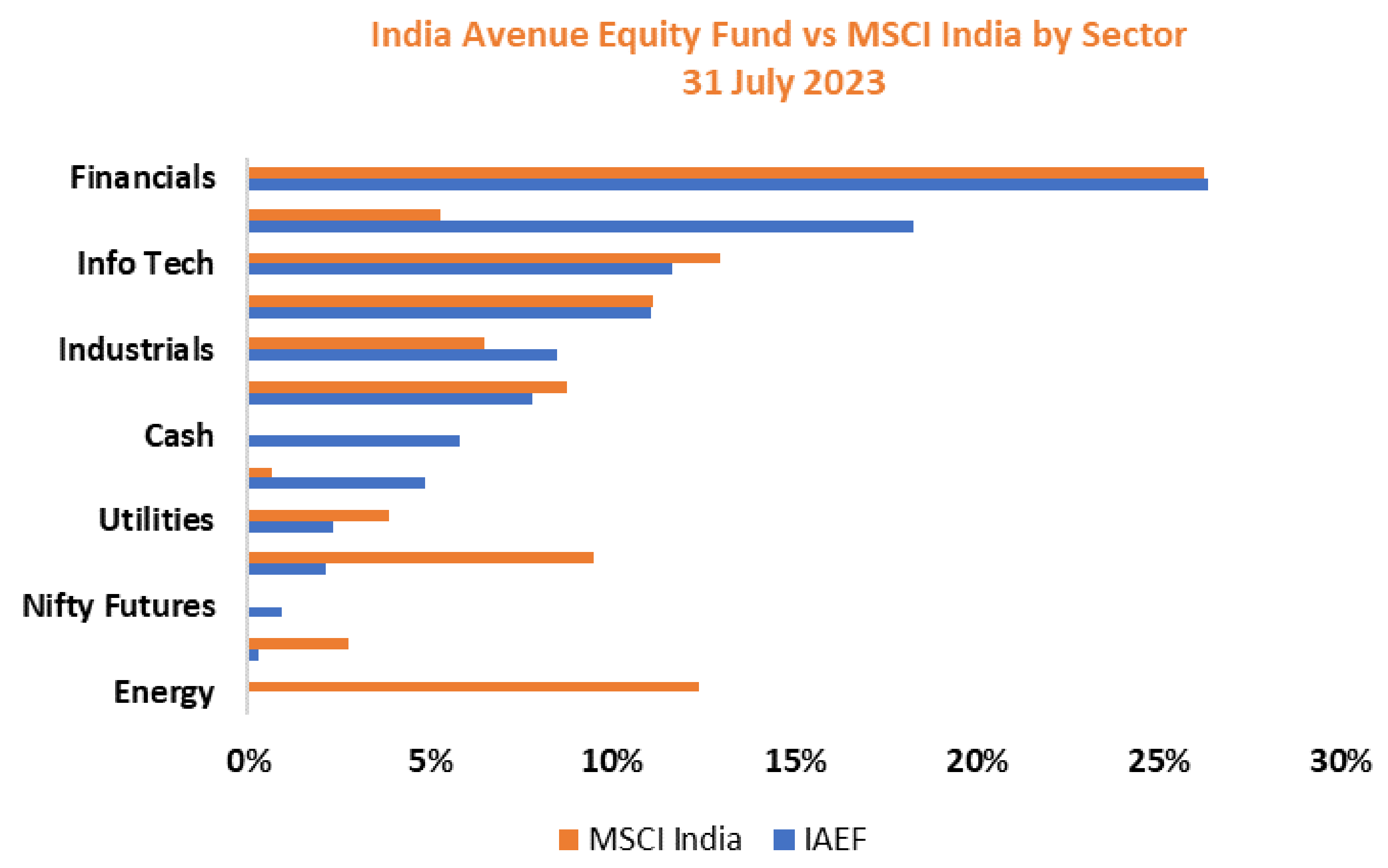
Our Fund is positioned to benefit from India's growth story over the next investment cycle. Along the way there will be volatility in returns. However, the growth of addressable markets in many industries in India allows for companies to continue to generate compounded earnings, which exhibit lower volatility than their western counterparts. This affords investors opportunities to increase their investment during points of weakening sentiment.

Performance by Unit Class (net)	Inception Date	1 month	3 months	1 year	2 years	3 years	5 years
H Class	6/04/2017	3.86%	12.83%	13.93%	6.69%	21.69%	8.43%
M Class	6/09/2016	3.90%	12.97%	14.43%	7.10%	22.27%	8.95%
L Class	19/04/2021	3.92%	13.06%	14.66%	7.41%		
MSCI India (AUD)		**1.73%**	**8.82%**	**11.36%**	**10.02%**	**19.05%**	**10.17%**

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 31st July 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



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. More recently exposure to private banks has been reduced (ICICI Bank) in favour of non-bank financials like IIFL Finance, Shriram Finance, LIC Housing Finance and regional banks like City Union Bank, with valuation on their side. It is likely that the weighting to Financials will be trimmed over the upcoming 1-2 quarters as well as diversified further across sub-industries, with a greater emphasis on valuation. Most companies in this sector are currently achieving strong margins and growth.

Our exposure to Healthcare (predominantly via Pharmaceuticals) reflects favourable valuation relative to Consumption driven industries and an upcoming cycle where firms will benefit from increasing volumes and additional spend on healthcare. On the foreign front we expect Indian pharma firms to increase their market share of generic drug exports to regions like the US. India as a nation has the greatest number of US FDA approved plants outside of the US (over 100 facilities). This will be favourable as several drugs come off patent over the next 2-3 years.

Other Industries where the Fund holds more exposure by Industry compared to its benchmark are Real Estate, Industrials and Consumer Discretionary. The later is an interesting choice, given higher interest rates. The positioning reflects a more positive view on rural India and consumers "trading down" towards "labels" over "brands". Valuations are more favourable and sentiment may improve leading up to the election next year as some populist measures may be taken by the Government.

FOCUSING ON DIVERSIFICATION

The top 10 stocks by weighting hold 31% of the exposure of the Fund. Typically the Fund holds positions ranging from 0.5-5.0%, across approximately 60 diversified companies. Given our exposure to mid and small cap stocks, diversification of company specific risks is important in reducing volatility that investors experience.

The top four stocks in the Fund (15.88%) are in the financial sector and include two of India's large private banks (ICICI Bank and Axis Bank) as well as two non-bank financial institutions in Bajaj Finance and Shriram Finance. Shriram Finance has been one of the Fund's best performers in recent months due to its valuations and improving business fundamentals.

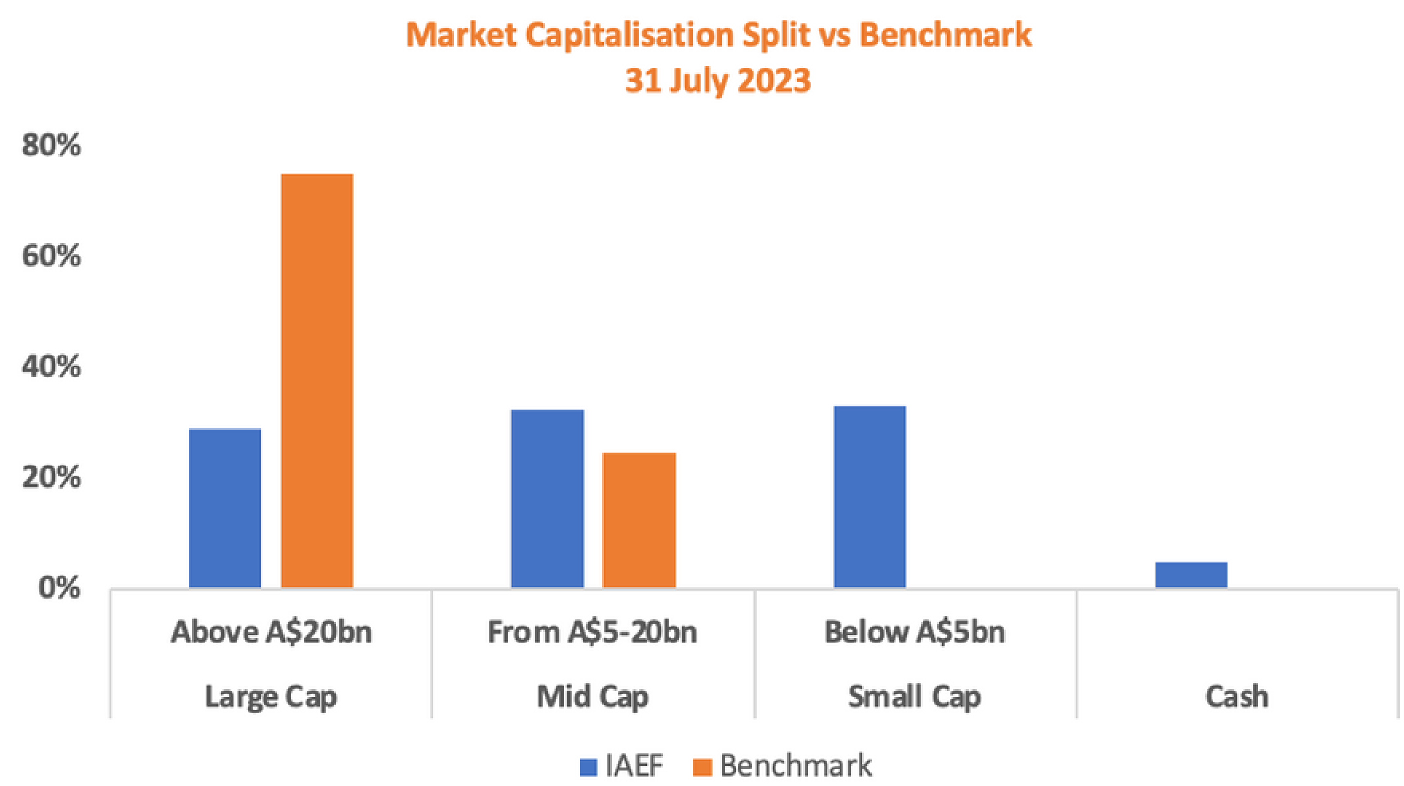
Whilst the Fund has exposure of close to 18% in healthcare sector (predominantly Pharmaceuticals), this is spread across 12 companies. The industry has the tailwind of positive business dynamics and reasonable valuations, but diversity reduces company specific risks in a sector where regulatory and compliance risks can emerge on a case-by-case basis.

TOP 10 STOCKS

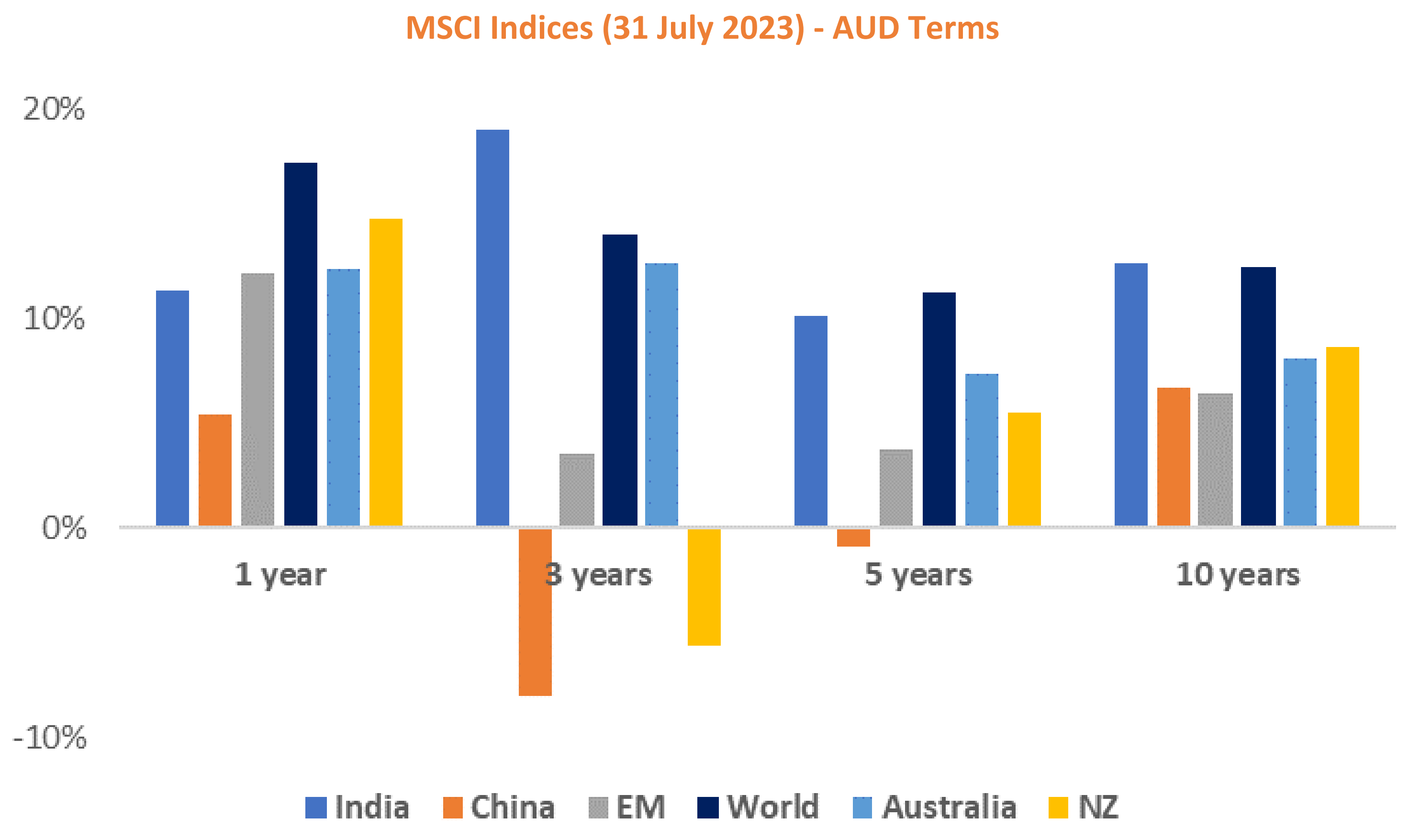
IAEF Top 10 stocks (at 31 July 2023)		
ICICI Bank	Private Bank	5.03%
Bajaj Finance	Non-Bank Lender	4.65%
Shriram Finance	Non-Bank Lender	3.20%
Axis Bank	Private Bank	3.00%
Infosys	IT Outsourcing	2.86%
Aurobindo Pharma	Pharmaceuticals	2.80%
HDFC Bank	Private Bank	2.56%
Cipla	Pharmaceuticals	2.55%
Redington	IT Hardware/Software	2.39%
HCL Technologies	IT Outsourcing	2.21%
Top 10		**31.24%**

EXPOSURE BY CAPITALISATION

Exposure by capitalisation illustrates the Fund's bias towards mid and small cap stocks relative to 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 and a lower number of 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, which is a function of large and liquid stocks having significant global investor interest and thus trading at higher valuations.



INDIA VS ROW



INDIA'S MACROECONOMICS

Economic Factors (at 31st July 2023)		
GDP per capita	US$2,389	Dec-22
Inflation	4.81%	Jun-23
Cash Rate	6.50%	Jun-23
Balance of Trade	-US$20bn	Jun-23
Manufacturing PMI	57.7	Jul-23
Services PMI	62.3	Jul-23
Industrial Production	5.20%	May-23
Forex Reserves	US$604bn	Aug-23
Population	1.430bn	Aug-23
Unemployment rate	8.00%	Jul-23
Capacity Utilisation	74.30%	Dec-22
Consumer Confidence	88.5	May-23
Government Debt to GDP	55.10%	Dec-22
Household Debt to GDP	36.40%	Dec-22
Electricity Production	127,383 (GW/h)	Jun-23
Steel Production	11,200 (thousand tonnes)	Jun-23

INDIA LEADING THE PACK

India leads the pack in terms of annualised returns over 3 and 10 years and is second over 5 years (as seen in the chart above). The "pack" essentially being investable groupings which asset allocators, in Australia and New Zealand, deem to be potential equity asset classes. In local market returns, India's indices have been far superior, however, the appreciation of the USD has led to outperformance of MSCI World (given the high weighting of US stocks in this Index). India's 10 year returns in AUD terms have been significantly better relative to China, EM, Australia and New Zealand (as measured by their respective MSCI Indices in AUD terms).

DESPITE THE ENVIRONMENT...

India's equity markets have been impacted over the last 12-18 months by concerns over rising inflation and interest rates globally. Foreign investors withdrew US$33bn between October 2021-June 2022. However, after 'flirting' with the China 're-opening' trade in early 2022, foreign investors have returned to India, with US$23bn inflow from July 2022-June 2023 (source www.fpi.nsdl.co.in).

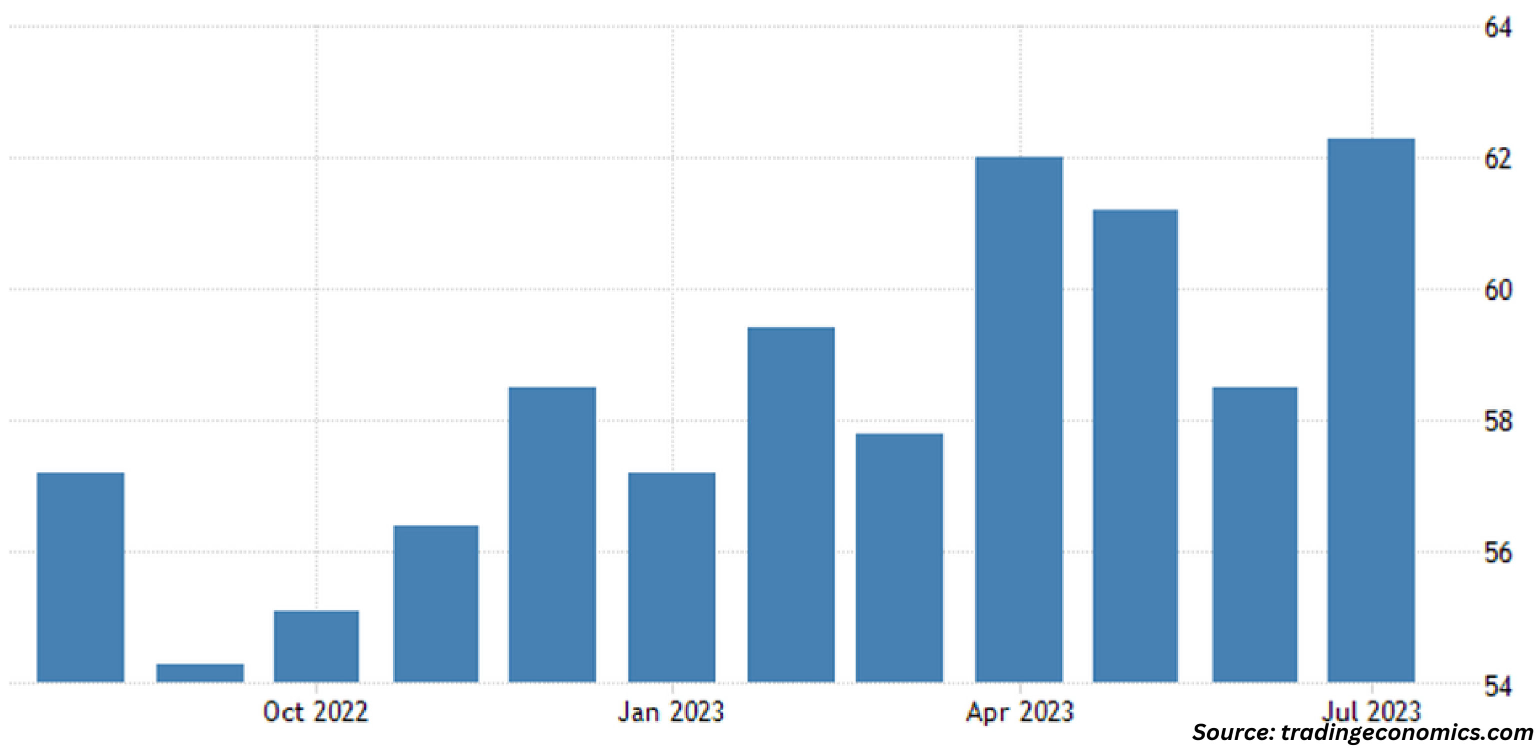
EMERGING MARKET CONUNDRUM

Increasingly investors are focusing on regional allocations to gain exposure to higher GDP growth regions. Funds flows have been focused on country allocations and tilted towards Asia as a region. Emerging Market returns have been impacted by the weak performance of China. Other regions like Latin America and Eastern Europe have experienced strong returns over the last 3 months, whereas markets like Greece, Egypt, Turkey and Brazil have recovered strongly over the last 12 months after being impacted by inflation and weakening currencies in 2022.

As a deep, investable equity market, offering compounding earnings growth from strong underlying fundamentals, investing in Indian equities offers an alternative to investing in Broad EM or Asia ex-Japan strategies. The logic of investing in an India-only allocation is to focus on breadth and depth, which provides greater exposure to the 'growth' story compared to Indian exposure available in broader mandates like Emerging Market or Asia funds.

SERVICES PMI

The S&P Global India Services PMI rose to 62.3 in July 2023, which was the highest reading over the last 13 years. This was boosted by rises in new orders, mainly in international sales. Export business was driven by Bangladesh, Nepal, Sri Lanka and the UAE being the key drivers. Competitive advantages continue to support demand for Indian services.

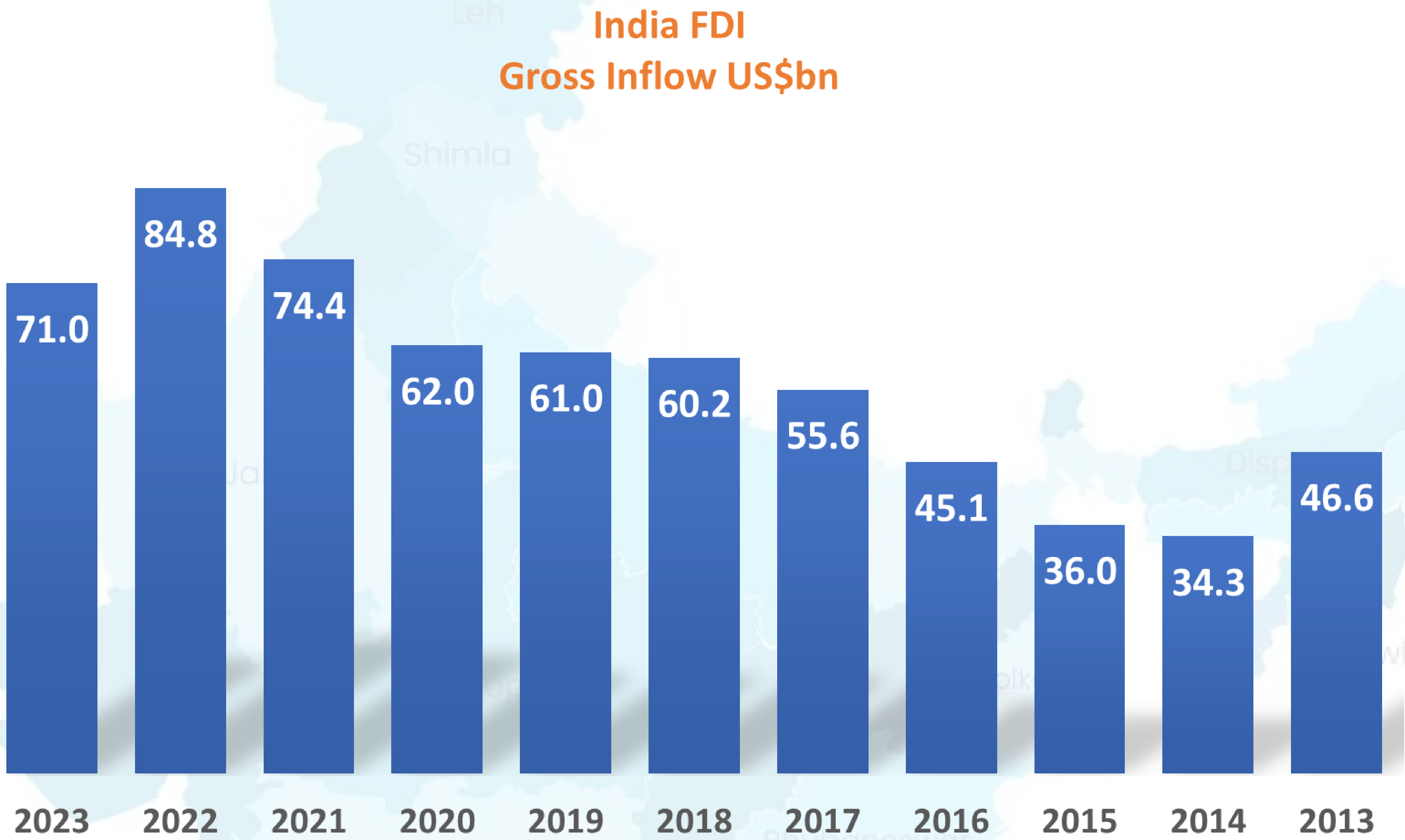


Also noteworthy was that input costs continued to rise due to higher food, labour and transportation costs. This was faster than the rate of increase in output costs as companies grappled with their pricing strategies. However, the rate of output price increase in India was more modest than other countries.

Other points to note are Forex Reserves rising above US$600bn for the first time since the dip experienced in 2022. Reserves were dipped into as oil prices rose. Industrial production also rose 5.2% year-on-year, which was higher than readings in the previous three months.

WHY INDIA?

Foreign direct investment (FDI) is an ownership stake in a foreign company or project made by an investor, company, or government from another country. Investments in India have surged over the past 10 years, reaching gross inflows of US$584bn. The significant increase in investment reflects the combined efforts of both the government and the private sector, as measured by the Gross Fixed Capital Formation (GFCF) in the Indian economy. FY23 saw a drop due to global uncertainty around geopolitical events and rising inflation. This should increase again in FY24.



The largest recipients of investment were Computer Software and Hardware which attracted US$9.4bn, whilst the Services sector was second with US$8.7bn. Other sectors which also received notable investments were Trading, Pharmaceuticals, Automobiles, Chemicals and Construction. The investments came from a spread of countries which include the Singapore/Mauritius (tax haven jurisdictions for investing in India), UK, US, UAE, Japan, Netherlands and Germany to name some.

Factors which are driving foreign investors to consider the direct investment route include India's growth, large and educated labour market, progressive policy and significant digitisation. Also increasingly the manufacturing sector is seeing more investments, with a rise of 57% over the last 8 years. Some companies which have made investments include Advanced Micro Devices (AMD, investing US$400m over the next 5 years in development of world class semi-conductors in a campus in Bengaluru) and Amazon (investing US$1bn to digitally enable MSME's and traders across India).

The 'Make in India' initiative launched in 2014 by the BJP Government has benefitted from lower corporate taxes (2019), improving ease of doing business ratings, foreign ownership limits being increased and removal of significant "red tape" for set-up of businesses. The Government of India also launched the Production Linked Incentive (PLI) Scheme in 2020 which covers 14 sectors and provide significant incentive for foreign companies manufacturing in India. This additionally, seeks to enhance India's manufacturing capability and therefore over time their ability to export.

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FUND DETAILS

	M Class	H Class	L Class
NAV	1.5213	1.5059	1.2387
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
ARSN	611374586	611374586	611374586
ISIN	AU60ETL04826	AU60ETL04784	AU60ETL28148
APIR	ETL0482AU	ETL0478AU	ETL2814AU
Citi Code	NFCK	NF2H	
Morningstar Code	41512	41828	44362

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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.

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