

## Reasons to consider investing in India in the 2020's

It's been 3 years since the commencement of the 2020's and after a rough start for equity markets with the onset of the Covid-19 pandemic, some markets have rebounded strongly. It was expected that India would be one of the most impacted in terms of livelihood, hardship and economically. India's demographics tailwind turned into a headache due to population density and many lives were lost due the impact of the pandemic. In fact India was the 3<sup>rd</sup> most impacted by country, after the US and Brazil.



However, India's population, economy, corporates and equity markets have exhibited extreme resilience post COVID-19 and 3 years on, it emerged as one of the leading suppliers of vaccines globally, one of the beneficiaries to diversify global supply chains and its economy and equity markets have revived and are firing on all cylinders. This is despite a bout of rising inflation, volatile commodity prices and hedge fund attacks.

Returns in AUD as at 31.07.2023	3m	1 year	3 years p.a.
<b>India Avenue Equity Fund*</b>	12.83%	13.93%	21.69%
<b>MSCI India</b>	8.82%	11.36%	19.05%
MSCI China	3.57%	5.61%	-7.87%
MSCI World	6.42%	17.51%	14.01%
MSCI EM	6.32%	12.20%	3.59%
MSCI Australia	2.06%	12.38%	12.66%
MSCI NZ	-6.15%	14.83%	-5.63%

*Source: MSCI. \*Performance of the H Class units in AUD, net of fees and taxes. Past performance is not necessarily indicative of future results and no person guarantees the performance of any IAIM financial product or service or the amount or timing of any return from it. There can be no assurance that an IAIM financial product or service will achieve any targeted returns, that asset allocations will be met or that an IAIM financial product or service will be able to implement its investment strategy and investment approach or achieve its investment objective.*

India has been one of the best performing equity markets since COVID-19, especially when compared to China and Emerging Markets in general. This has largely been driven by the following factors:

- a “barbell” strategy of providing for the needy during COVID, but reserving some spending power for growth (i.e. Production Linked Incentive scheme inviting foreign firms to do business in JV with local partners at a discounted tax rate).

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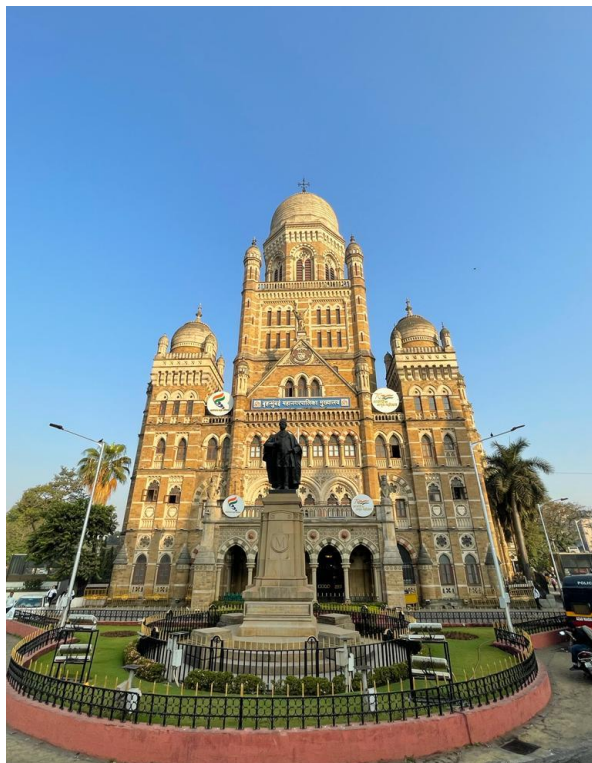
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- a focus on “Make in India”, especially when it comes to industries which have been typically dominated by China or playing into the thematic of diversification of supply chains
- strong corporate balance sheets, with significant cash flow generation and rising Return on Equity. India’s corporates are poised for capacity addition and winning global market share.
- earnings growth has compounded at a robust 20% per annum since 2020 lows, with some industries/companies growing much faster, providing great opportunities for stock pickers.
- Government spend on infrastructure has been significant, which is reducing the cost of logistics and improving productivity. This has been fueled by increasing tax collections
- rising productivity has also been fueled by the digitisation (smartphone, internet penetration), formalisation (increasing profit share to corporates in the economy) and financialisation of India (bank accounts, shareholder accounts, liquidity).

Whilst risks always remain when it comes to investing in any region, there is no doubting India’s underlying fundamentals (structural) and the aligning of the stars (cyclical) at present. Over the next year India will go through a National Election (May 2024) and may face rising commodity prices. However, whilst there will be bumps along the way, the long-term trend appears to be upwards.

It is our view that investing in regions like India is best played through an actively managed fund like the India Avenue Equity Fund. We list some of the reasons why we believe this to be the case:



- India’s equity markets are 40-45% owned by local founders. A lack of understanding of their focus on minority shareholders can yield less than optimal results to long-term investors.
- Investing alongside experts in the ecosystem provides benefits of years of experience in mitigating risk and identifying companies earlier in their ascent, rather than when their prices already reflect their market positioning and moat.
- We are in an environment where there is likely to be significant dispersion of profitability and investment returns across industries and companies (given higher interest rates and inflation).

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