# MONTHLY REPORT | SEPTEMBER 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$81.9m |
| **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)

## INVESTMENT PERFORMANCE - M CLASS UNITS

| M Class as at 30/09/2023 in AUD | 1 month | 3 months | 1 year | 2 years p.a. | 3 years p.a. | 5 years p.a. | 7 years p.a. | Since Inc. p.a. |
|---|---|---|---|---|---|---|---|---|
| IAEF (net of fees, but before Indian capital gains and withholding tax)* | 1.45% | 9.86% | 15.45% | 5.85% | 23.49% | 12.85% | 11.54% | 10.97% |
| MSCI India (net) - Benchmark | 2.03% | 5.94% | 9.69% | 5.35% | 19.03% | 12.38% | 11.84% | 11.22% |
| **Outperformance** | **-0.58%** | **3.92%** | **5.76%** | **0.50%** | **4.46%** | **0.47%** | **-0.30%** | **-0.25%** |
| IAEF (net of all fees and taxes)** | 1.45% | 9.59% | 14.05% | 4.22% | 22.26% | 12.11% | 10.98% | 10.42% |

*Net of fees, but before CGT and withholding taxes paid in India. Australian clients receive a partial credit of these taxes in their annual tax refund.
**Unit price calculation of investment performance based on exit prices

## PERFORMANCE COMMENTARY

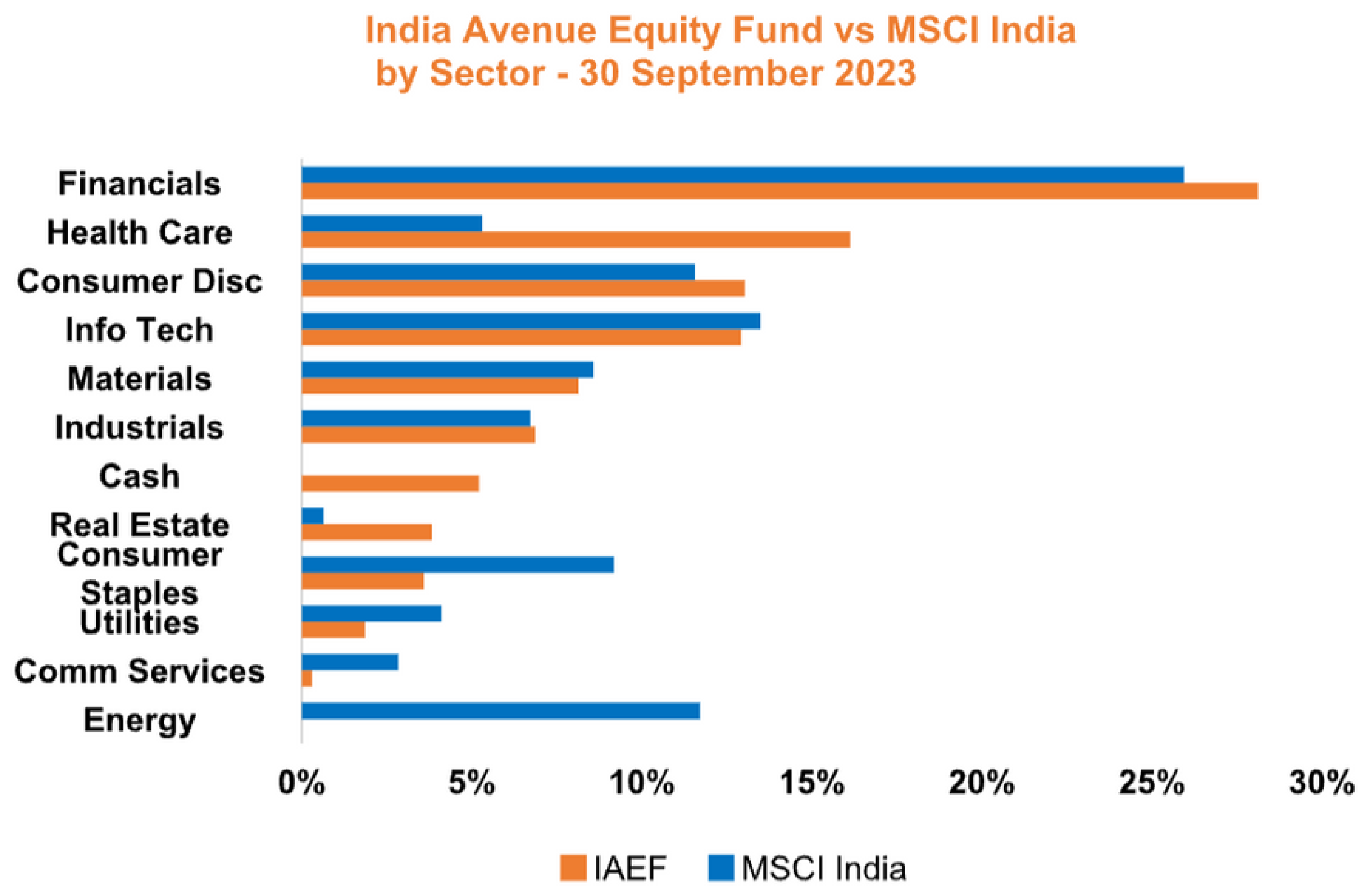
The Fund (M Class) underperformed its benchmark by 0.58% over the month. However, over the September quarter the Fund outperformed its benchmark by 3.65%. The Fund's mid and small cap bias has led to outperformance of 4.37% over the last 12 months. As investors have looked more specifically at regions like India and Latin America, this has led to increasing investments down the capitalisation curve in these regions. Foreign investors have invested over US$20bn into Indian equities, with a majority from Mar 23 – August 23. September was the first month of outflows since February, as investors grew cautious on equity markets and saw US Bond yields rise well over 4.5%. Local investors continue to increase their investment in Indian equities, with over US$18bn flowing into markets over the last 12 months. September quarter earnings results will be monitored with interest for signs of a slowdown due to slowing global growth, the potential for consumer retrenchment and stubborn inflation. Last quarter, companies reported weaker revenue growth, but improved margins as inflation had signs of receding and supply chains easing. The Fund continues to have significant exposure in Banks and NBFC's, Pharmaceuticals and Consumer Discretionary (automobiles).

## OTHER UNIT CLASSES

| Performance by Unit Class# | Inception Date | 1 month | 3 months | 1 year | 2 years | 3 years | 5 years |
|---|---|---|---|---|---|---|---|
| **H Class#** | 6/04/2017 | 1.42% | 9.74% | 14.95% | 5.42% | 22.91% | 12.33% |
| **H Class (net)** | 6/04/2017 | 1.41% | 9.48% | 13.55% | 3.79% | 21.68% | 11.59% |
| **L Class#** | 19/04/2021 | 1.52% | 9.71% | 15.45% | 5.97% | | |
| **L Class (net)** | 19/04/2021 | 1.51% | 9.45% | 14.06% | 4.35% | | |
| **MSCI India (AUD)** | | **2.03%** | **5.94%** | **9.69%** | **5.35%** | **19.03%** | **12.38%** |

Source: MSCI. Each unit class has a different inception date and hence is not illustrated comparatively against the benchmark. #performance is calculated on a post fee, but pre-CGT and withholding taxes paid in India. Australia domiciled clients receive a partial credit for these taxes in their annual tax refund.
*Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th September 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

In this segment we discuss sectors such as Energy, Communication Services, Utilities and Consumer Staples, where the Fund has low exposure relative to the benchmark.

Energy Services weight in the benchmark is almost 80% represented by Reliance Industries. Other companies in this sector are government owned oil marketing, LNG and coal producing companies. Typically, fossil fuel importing, refining, marketing distribution and exporting companies which are either private or government owned are not the best opportunities, from a growth perspective.

Communication Services has been a difficult industry to generate compounding profitability due to regulation and competition. This is despite the attractiveness of participating in India's digitisation.

Utilities are also typically government owned, or by the Adani Group and can be heavily regulated. Whilst yields may be high, growth potential is less transparent and there are associated risks.

Consumer Staples should be a very attractive sector in India, given rising GDP per capita from a low base and favourable demographics of a young, aspirational population. However, this is well recognised by investors. As a result, most of the stocks in this sector trade at hefty P/E multiples of over 40x earnings. Some companies are screened out by our process as they are involved in Tobacco or Alcohol industries.

| IAEF Top 10 stocks (as at 30 September 2023) | | |
|---|---|---|
| Bajaj Finance | Non-Bank Lender | 5.20% |
| Axis Bank | Private Bank | 3.45% |
| ICICI Bank | Private Bank | 3.06% |
| Infosys | IT Outsourcing | 3.04% |
| Cipla | Pharmaceuticals | 2.55% |
| HDFC Bank | Private Bank | 2.46% |
| Hero MotoCorp | Automobiles | 2.40% |
| HCL Technologies | IT Outsourcing | 2.33% |
| Aurobindo Pharma | Pharmaceuticals | 2.17% |
| Tata Motors | Automobiles | 2.02% |
| **Top 10** | | **28.73%** |

## FOCUSING ON DIVERSIFICATION

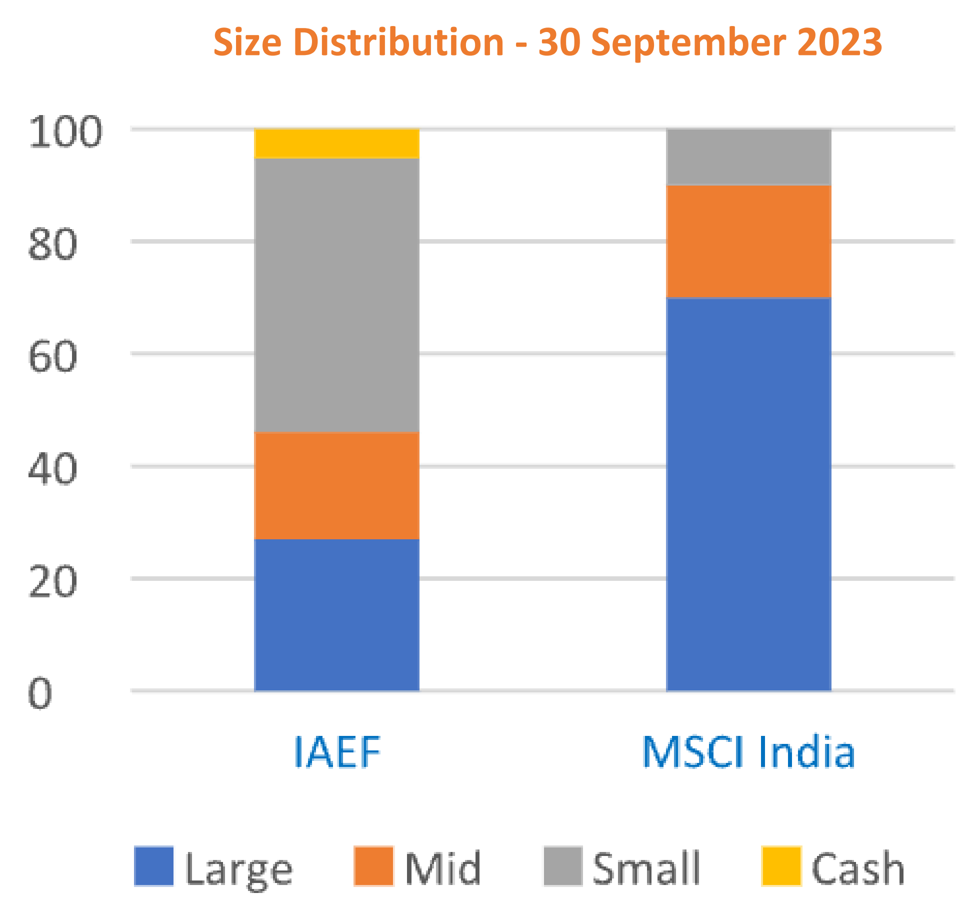
Our top 10 stocks are plays on the India growth story. Financials like Bajaj Finance (NBFC, consumer financing), Axis and ICICI Bank (Privately owned Banks, corporate banking) and HDFC Bank (Privately owned Bank, retail banking) have been the growth engine for India as it has "financialised" by shifting from physical assets to financial assets and experienced higher credit growth.

Going forward we expect companies from Information Technology, Healthcare and Consumption to also feature in our top 10. This is already evident in our Top 10 by weight, with Cipla and Aurobindo Pharma (pharmaceuticals, both locally and internationally), Infosys and HCL Technologies (IT outsourcing, typically to the US and Europe) and Hero MotoCorp and Tata Motors (Auto consumption plays).

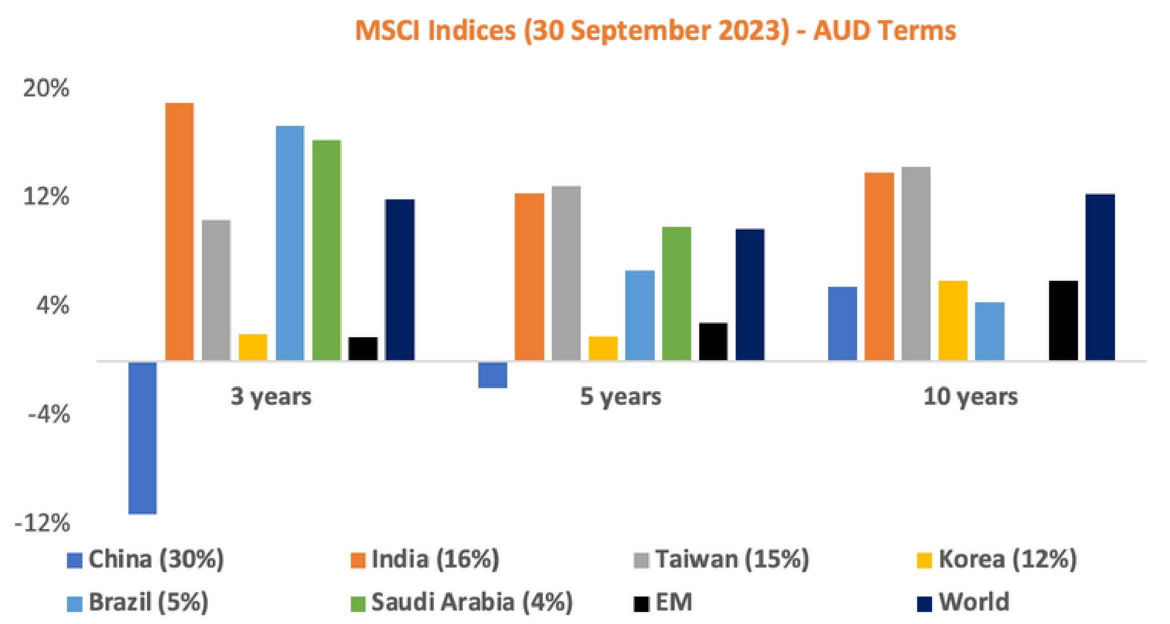
By the end of the decade we expect that the leaders may come from businesses which are benefitting from India's demographics but also leveraging their scale and capability to manufacture and service the broader global economy.

## EXPOSURE BY CAPITALISATION

The India Avenue Equity Fund is positioned with a greater exposure to mid and small cap companies relative to the MSCI India benchmark. We have grouped the top 70% of the weight of MSCI India as representing large caps (in this example), followed by the next 20% as mid-caps. The final 10% is grouped into small caps. We
illustrate our exposure in these categories as 27% (large caps), 19% (mid-caps) and 49% (small caps). Therefore our positioning reflects our bias towards finding growth companies at a lower valuation, further down the capitalisation curve.



## INDIA VS EMERGING MARKETS




## INDIA LEADING THE PACK

The chart above illustrates comparative 3, 5 and 10 year per annum returns for MSCI Indices across most of the large Emerging Markets (top 6 EM's are 83% of the MSCI EM – weights in brackets) as well as the MSCI EM and MSCI World. The returns are in AUD and include dividends.

Emerging Market returns have been impacted by China's negative contribution over the last years, especially given its significant weighting. India and Taiwan have been long term outperformers of note – one being led underlying demographics and another by global leadership of its largest company (Taiwan Semiconductors). Brazil and Saudi Arabia have risen to prominence over the last 3 years in particular, due to the rising price of oil and commodities.

Whilst many have questioned why Emerging Markets haven't performed and continue to be laggard, the answer is in the break-up of the asset class into regional equity markets where the dispersion has increased. In our view this has been driven by a greater focus on regions and the role they play in "de-globalisation", "friend-shoring" and "supply chain diversification" rather than basket-type investing in broad indices like Emerging Markets.

## RETURN CONTRIBUTION

Over the last five years there have been varying contributors to return for the India Avenue Equity Fund. This is illustrated in the graph below. What is interesting to note is that the Indian equity market (as represented by our benchmark, the MSCI India) has produced a positive return in each calendar year in local rupee terms. Other contributors to return are the movements in AUD-INR, given the fund is unhedged and therefore an appreciation of the AUD relative to the INR can impact investment returns (as we saw in 2020 and 2022).

Alpha or outperformance of the fund relative to its benchmark can also be a significant contributor as we saw in 2021 and so far in 2023 (whilst negative in 2022). For unhedged investors the depreciating AUD can soften the impact of weak market returns. The AUD is generally correlated with equity market sentiment and thus when markets recede, it can cushion some of the blow for Australian based investors who are investing offshore.

## INDIA MACROECONOMICS

| Economic Factors (as at 31 August 2023) | | |
|---|---|---|
| GDP Growth | 7.8% | Jun-23 |
| GDP per capita | US$2,601 | Jun-23 |
| Inflation | 6.8% | Aug-23 |
| Cash Rate | 6.50% | Oct-23 |
| Balance of Trade | -US$24.2bn | Aug-23 |
| Manufacturing PMI | 57.5 | Sep-23 |
| Services PMI | 61.0 | Sep-23 |
| Industrial Production | 5.7% | Jul-23 |
| Forex Reserves | US$591bn | Sep-23 |
| Population | 1.430bn | Aug-23 |
| Unemployment rate | 7.1% | Sep-23 |
| Capacity Utilisation | 76.3% | Mar-23 |
| Consumer Confidence | 88.1 | Jul-23 |
| Government Debt to GDP | 55.1% | Dec-22 |
| Household Debt to GDP | 36.4% | Dec-22 |
| Electricity Production | 126,313 (GW/h) | Jul-23 |
| Steel Production | 11,900 (thousand tonnes) | Aug-23 |

*Source: tradingeconomics.com, World Bank, worldometer.info, CEIC, Forbes India*

## VEHICLE SALES

Post the pandemic, car production in India fell significantly due to weaker demand and supply chain blockages. However, recently car production has been picking up as some of the supply chain blockages have eased and local demand continues to be robust. 2023 has seen a significant increase in production in response to demand from consumers. With India's upcoming festival period in October and November, volumes are expected to be much higher.

India pipped Japan in 2022 to become the 3 rd largest car market in the world behind the China and the US. In terms of production, it is the 4 th largest car market and also one of the fastest growing markets in 2022/23. Its market for EV is growing rapidly from a low base. This will have a pro-found impact for its reliance on fossil fuel imports, should the S-curve be as expected and provides opportunities for India's OEM's as well as foreign OEM's operating in India.

Toyota, for example, is planning to establish a third car plant in India (their first expansion in a decade in India), which will increase its capacity by 30%. Additionally, it is focusing on a new SUV designed specifically for the Indian market. Its global partnership with Suzuki is seeing it experience significant growth in India, given Maruti Suzuki have over 43% share in passenger vehicles in the country.

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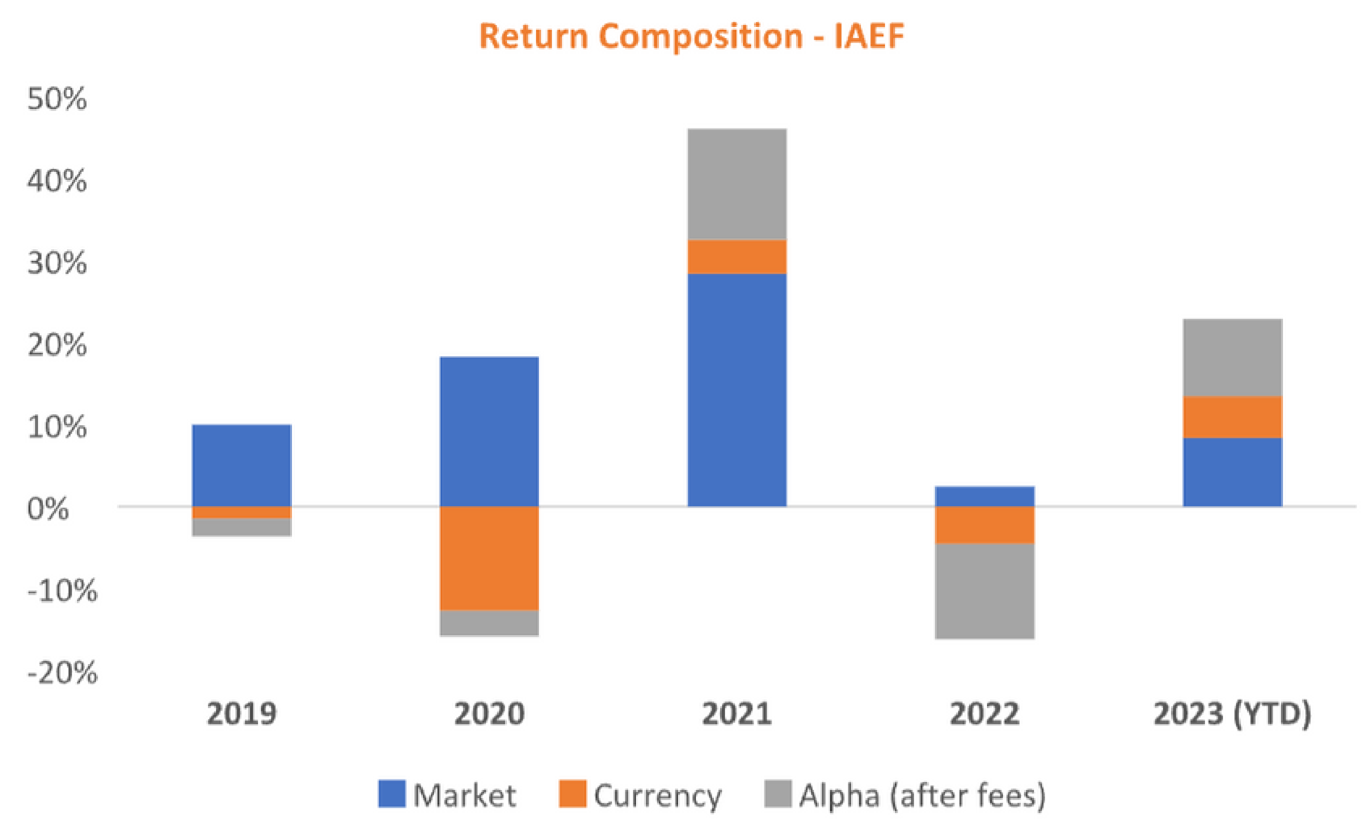
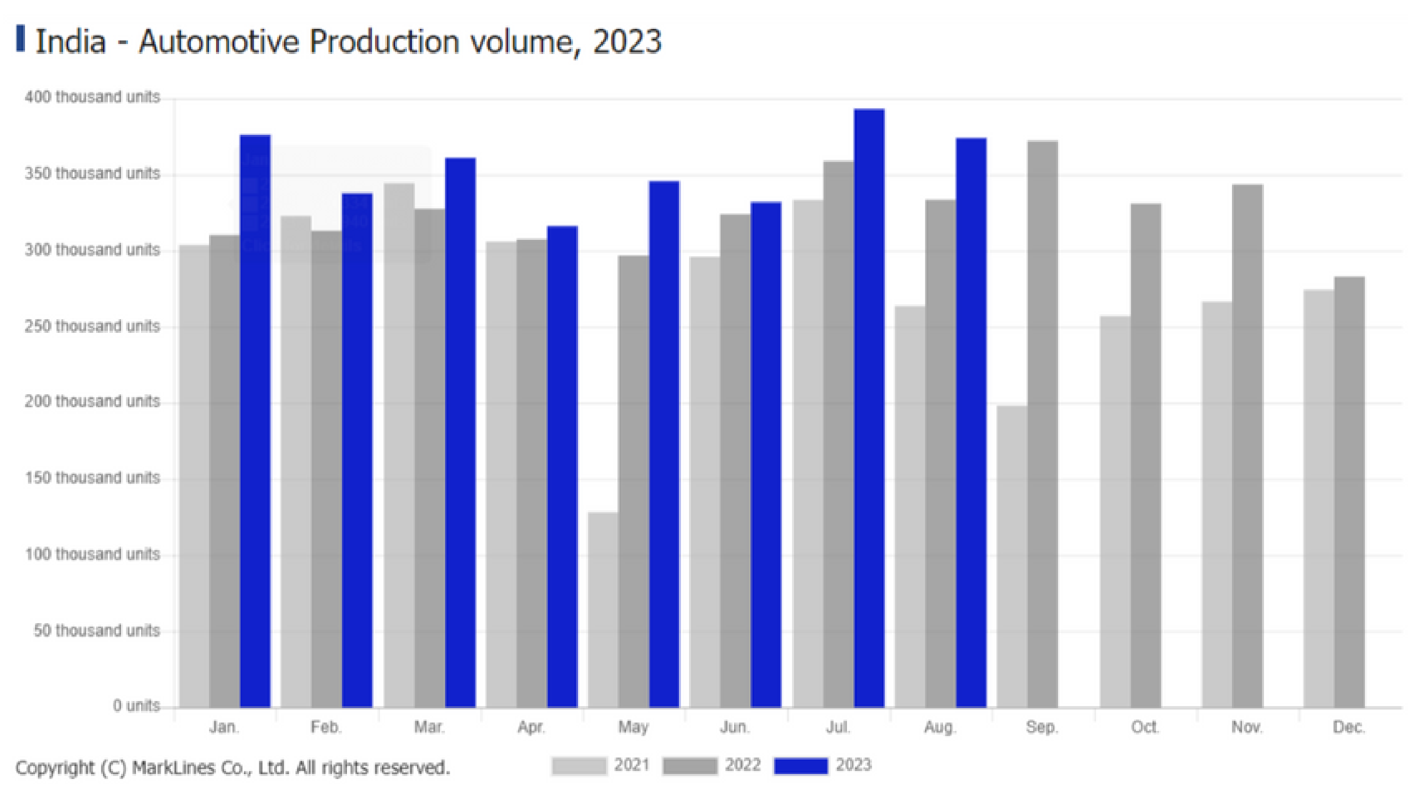


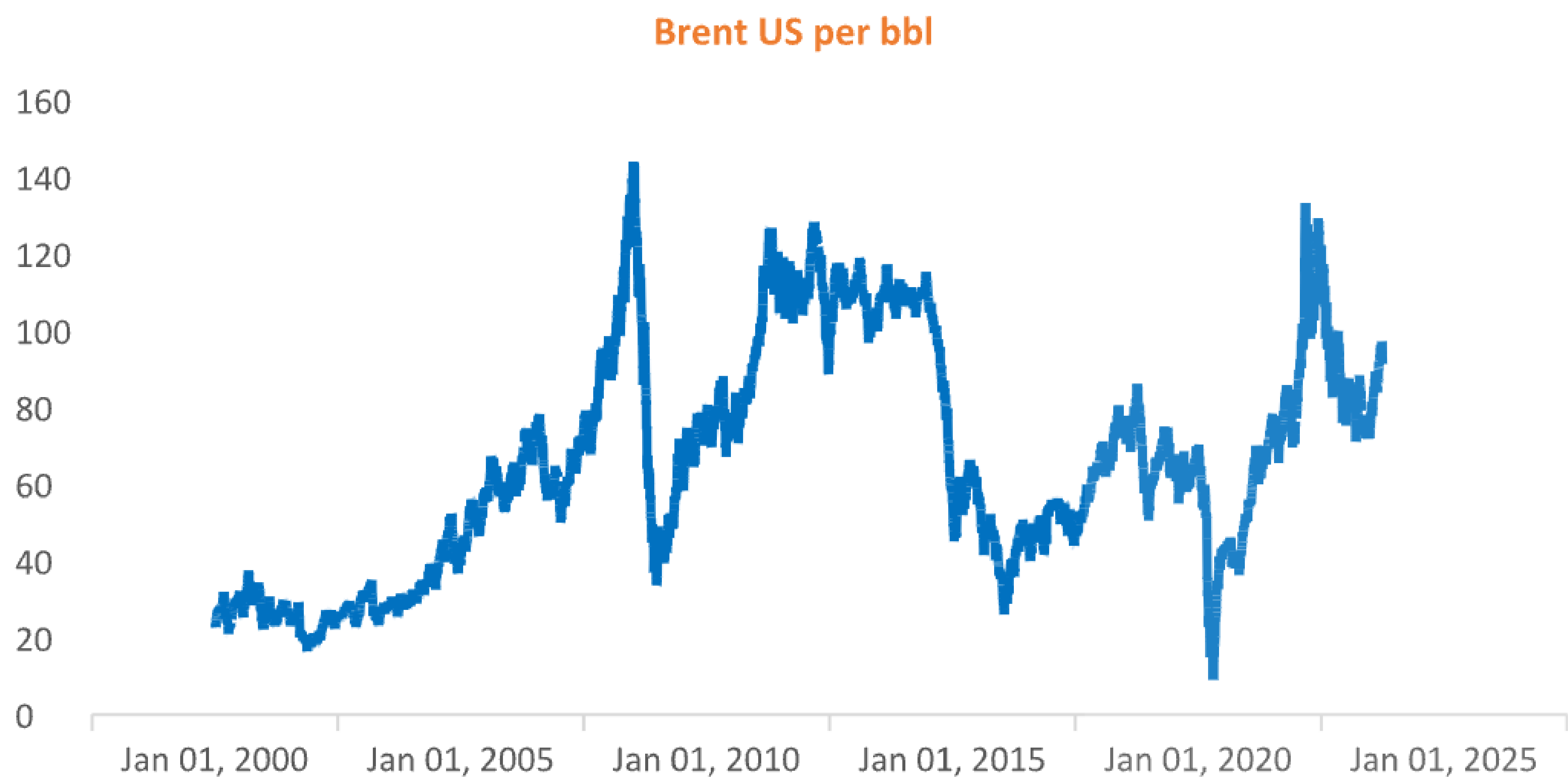




*Source : tradingeconomics.com*

# WHY INDIA?

With oil prices rising towards the US$100 mark, investors are questioning if the Indian economy is robust enough to withstand the impact this time. Rising oil prices in the past have been the "death spiral" for India's economy, equity markets and currency. This was witnessed as recently as 2010-2013, during a period of stagflation in India where its economy was one of the 'fragile five'.

Typically, when oil prices rise, it is a significant burden on India given its reliance on importing to meet growing demand for the commodity. Over 80% of India's oil comes from imported sources and this has the impact of destabilising India's current account, inflation and currency as well as to create fiscal imbalances, given the Government of India subsidises the cost of fuel.

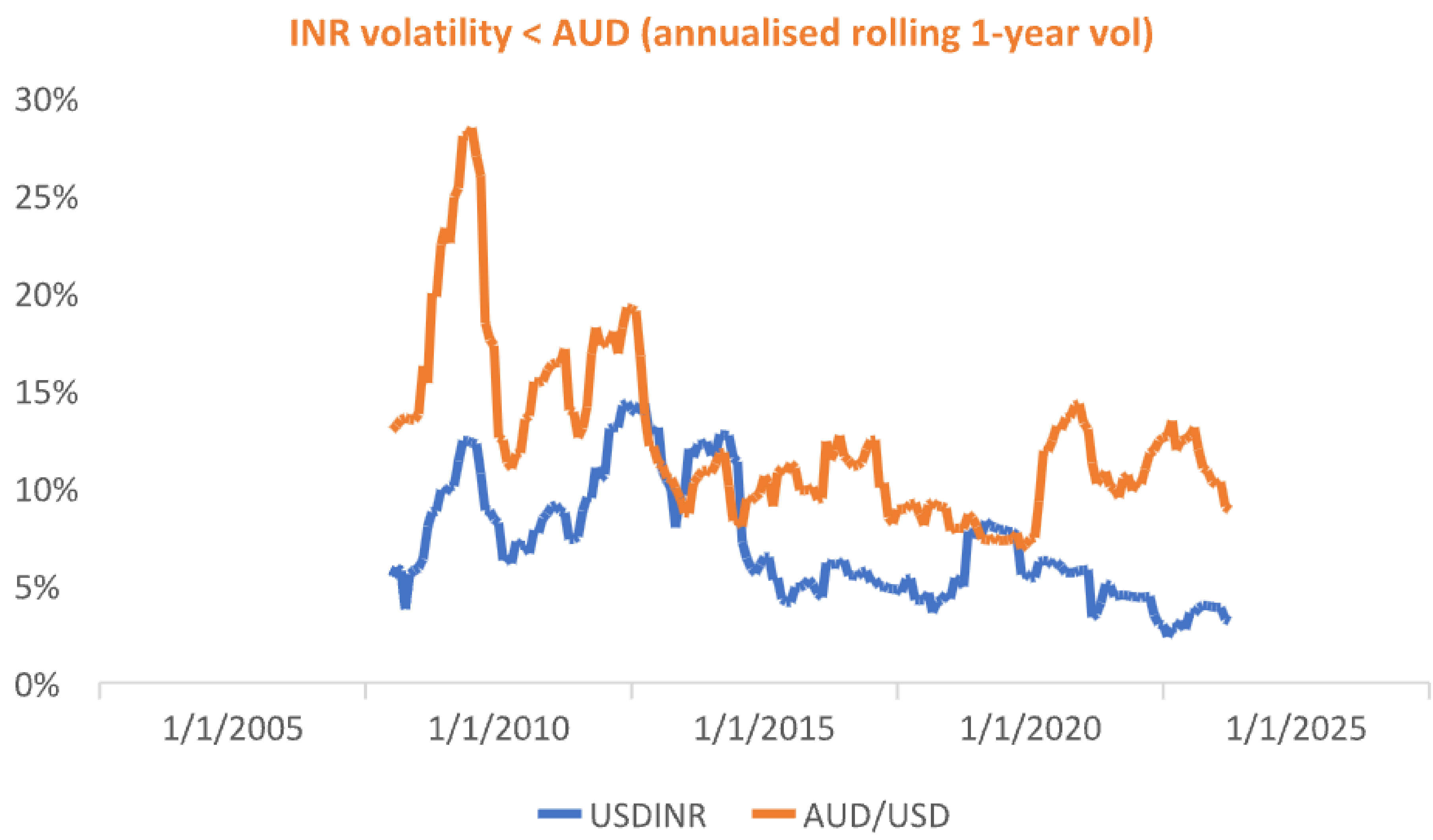


Source: EIA

In the period of 2010-2013 India's economy was part of the fragile five due to inflationary forces (fuel prices are a significant impact in CPI) acting as a handbrake to growth and creating deficits. CAD-to-GDP hit 4.8% in 2012 and hit 2.6% in 2022 when oil prices touched US$120bbl. However, there are several differences to the India of 10-15 years ago, in comparison to today.

- The IT outsourcing industry has been a boon for India, providing significant inflow of foreign capital.
- Foreign direct (FDI) flows and foreign portfolio (FPI) flows have been significant over the last 10 years.
- India's forex reserves have doubled to US$600bn over the last 10 years. This has been driven by rising services exports which has added significant robustness to the economy and its currency.
- Structural inflation, previously closer to 7% has receded to levels between 4-6% over the last 5 years
- Local investors have become significant, reducing market volatility typically induced by foreign investors.

The volatility of the INR today has dropped substantially relative to its "fragile" period



Source: Yahoo finance

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https://indiaavenueinvest.com/our-research/
https://indiaavenueinvest.com/india-avenue-in-media/

## FUND DETAILS

| 30.09.2023 | M Class | H Class | L Class |
|---|---|---|---|
| **NAV** | 1.6047 | 1.5873 | 1.3047 |
| **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 |

## DISCLAIMER

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India Avenue Equity Fund's Target Market Determination is available on our website: [www.indiaavenueinvest.com/our-fund](http://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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