

## MONTHLY REPORT | JANUARY 2024 | INDIA AVENUE EQUITY FUND

### FUND DETAILS

|                                 |                                        |
|---------------------------------|----------------------------------------|
| <b>Fund Manager</b>             | India Avenue Investment Management     |
| <b>Structure</b>                | Registered Investment Management Trust |
| <b>Inception date</b>           | 6th of September, 2016                 |
| <b>Fund size</b>                | A\$97.3m                               |
| <b>Base currency</b>            | AUD                                    |
| <b>Responsible Entity</b>       | Equity Trustees Limited                |
| <b>Custodian</b>                | Apex / BNP Paribas                     |
| <b>Benchmark</b>                | MSCI India NR (AUD)                    |
| <b>Distribution Frequency</b>   | Yearly as at 30 June                   |
| <b>Management expense ratio</b> | 1.10% p.a. (M Class)                   |
| <b>Buy-sell spread</b>          | 0.35% / 0.35%                          |
| <b>Performance fees</b>         | 10% of excess above benchmark          |
| <b>ARSN Number</b>              | 611374586                              |

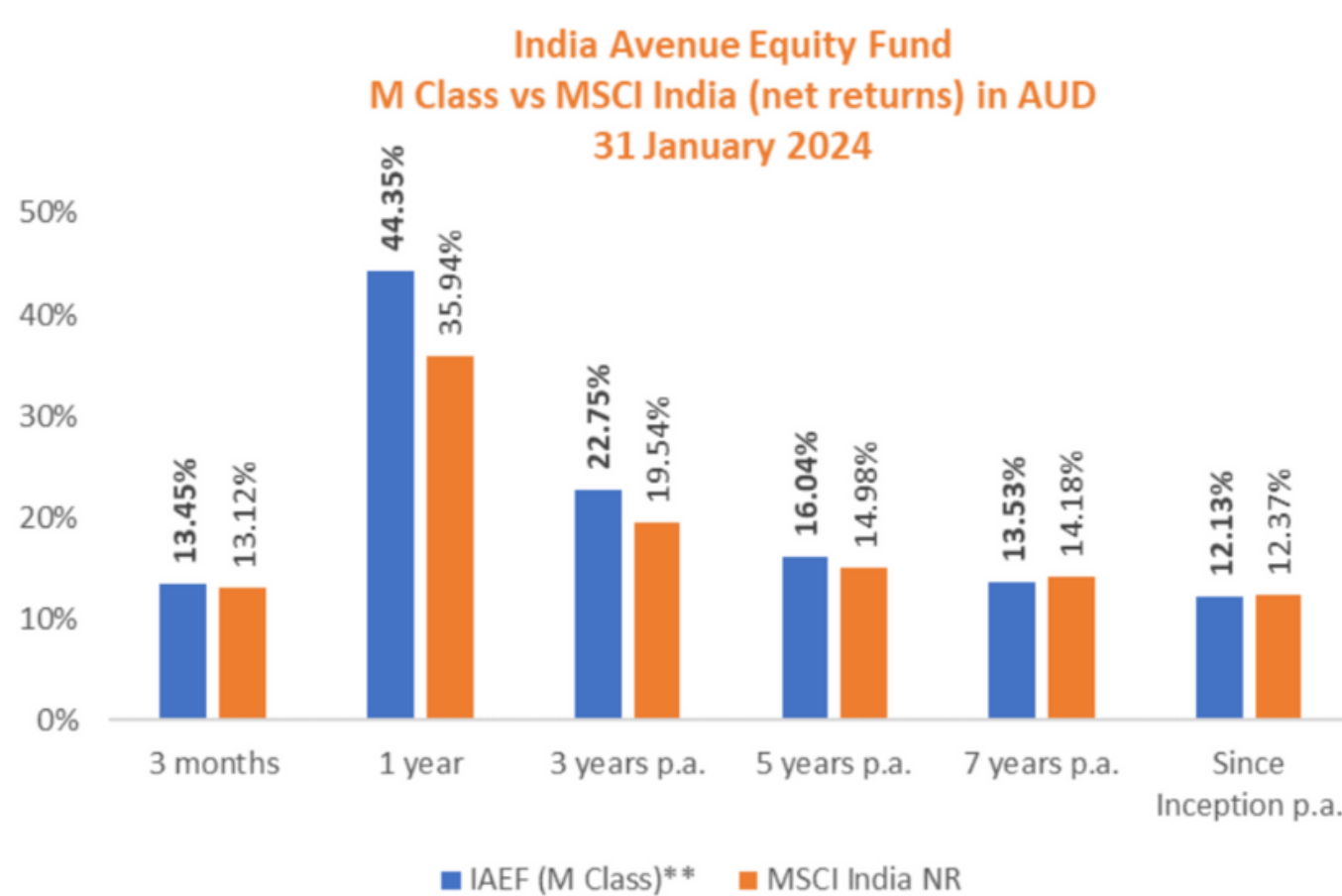
### FUND OBJECTIVE

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 <sup>1</sup>  
(refer to the disclaimer section on page 5)

### INVESTMENT PERFORMANCE



| Performance by Unit Class# | Inception Date | 3 months      | 1 year        | 3 years p.a.  | 5 years p.a.  | 7 years p.a.  |
|----------------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| <b>M Class**</b>           | 6/09/2016      | 13.45%        | 44.35%        | 22.75%        | 16.04%        | 13.53%        |
| <b>M Class (net)</b>       | 6/09/2016      | 13.27%        | 42.54%        | 21.32%        | 15.18%        | 12.90%        |
| <b>H Class**</b>           | 6/04/2017      | 13.33%        | 43.71%        | 22.17%        | 15.51%        |               |
| <b>H Class (net)</b>       | 6/04/2017      | 13.16%        | 41.91%        | 20.75%        | 14.65%        |               |
| <b>L Class**</b>           | 19/04/2021     | 13.49%        | 44.55%        |               |               |               |
| <b>L Class (net)</b>       | 19/04/2021     | 13.32%        | 42.76%        |               |               |               |
| <b>MSCI India (AUD)</b>    |                | <b>13.12%</b> | <b>35.94%</b> | <b>19.54%</b> | <b>14.98%</b> | <b>14.18%</b> |

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. Australian 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 31st January 2024, 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.

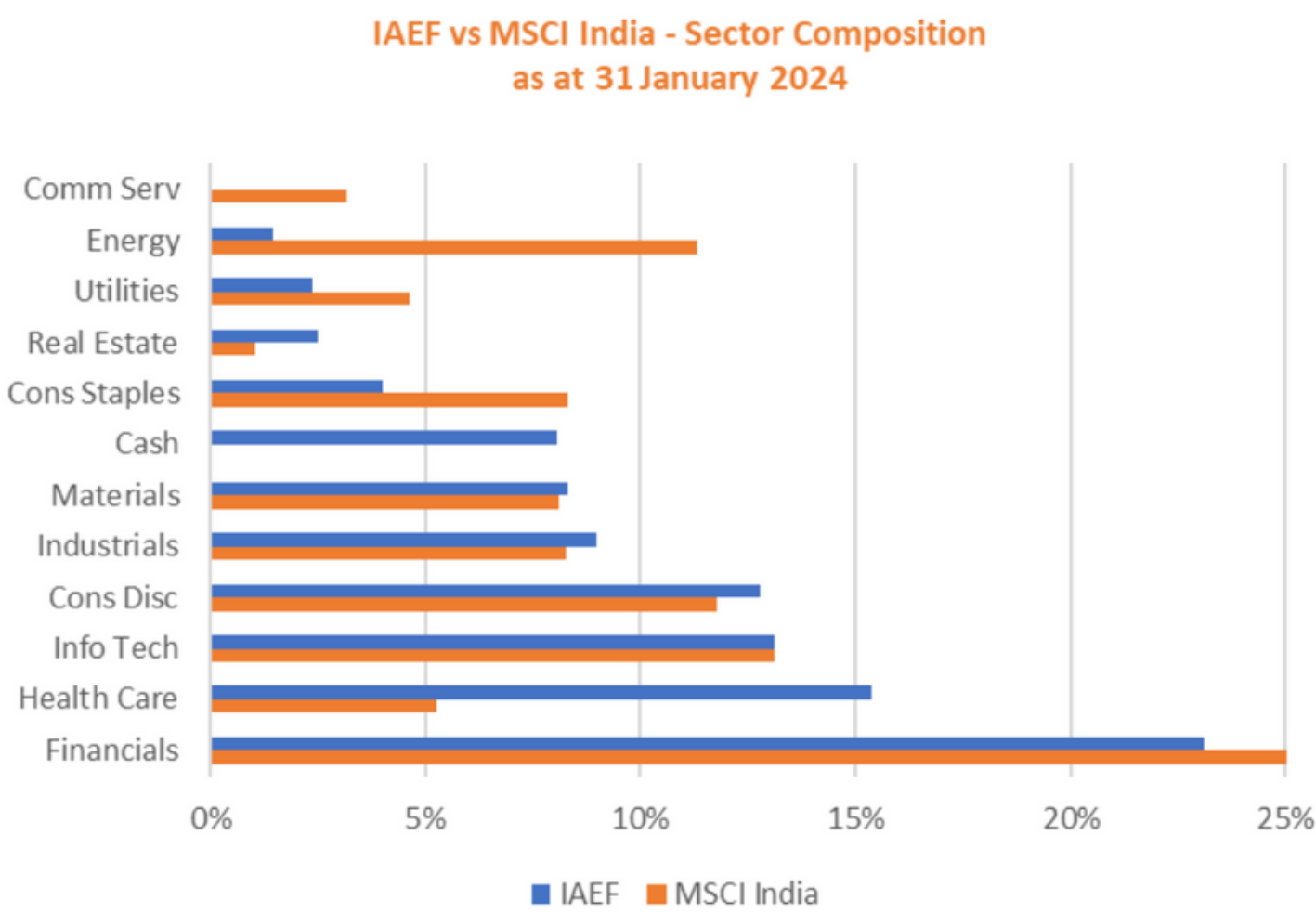
### PERFORMANCE COMMENTARY

The Fund returned 13.45% (M Class Units) over the last quarter, outperforming its benchmark over the same period by 0.33%. The robust return over the quarter was the continuation of the trend which saw the Fund return 44.35% over the 12 months to 31 January 2024, outperforming its benchmark by 8.41% over the same period. Whilst much of the outperformance over the year was driven by the bias towards mid and small cap stocks, the last 3 months saw a significant surge in flow into Indian markets, particularly from foreign investors in December. This led to a more balanced result across market capitalisation segments over the quarter. Given India's strong GDP and corporate earnings growth, investors continue to increase their exposure and become more open to regional allocations.

Additionally, the Union Budget in early February illustrated the Government's continued focus on capex and infrastructure spending as the main growth engine, despite the expectations of some populist measures in the lead up to India's national elections in May/June 2024 (refer to the *Why India* section in this factsheet).

Over the last 12 months the Fund has benefitted from sector overweights to Pharmaceuticals, Industrials and Real Estate as well as stock selection in Financials and Information Technology. The focus of the Fund is on investing in growth stocks at favourable valuations, which in our view cannot be attained unless you accept a mid/small cap bias.

FUND BY SECTOR



SIGNIFICANT SECTORS

Financials, Healthcare, Information Technology and Consumer Discretionary sectors continue to dominate the exposure the Fund holds, accounting for 64% of the weight. Whilst India’s “financialisation” is driving an increasing weight to Financials in the benchmark, our exposure has been highly selective, being driven by Private Banks (HDFC Bank, ICICI Bank and Axis Bank) and NBFC’s (Bajaj Finance, Shriram Finance and Cholamandalam Finance), rather than government owned banks.

Technology exposure has slowly been edging up from an underweight position. The Fund holds large cap exposure like Infosys, HCL Technologies, Wipro and Tech Mahindra. Additionally, we own mid cap IT firms like Coforge and Zensar Technologies. India is expected to continue to illustrate a competitive advantage in IT outsourcing and consulting and win a greater share of the global profit pie going forward. We expect the Fund to increase exposure towards an overweight position in future.

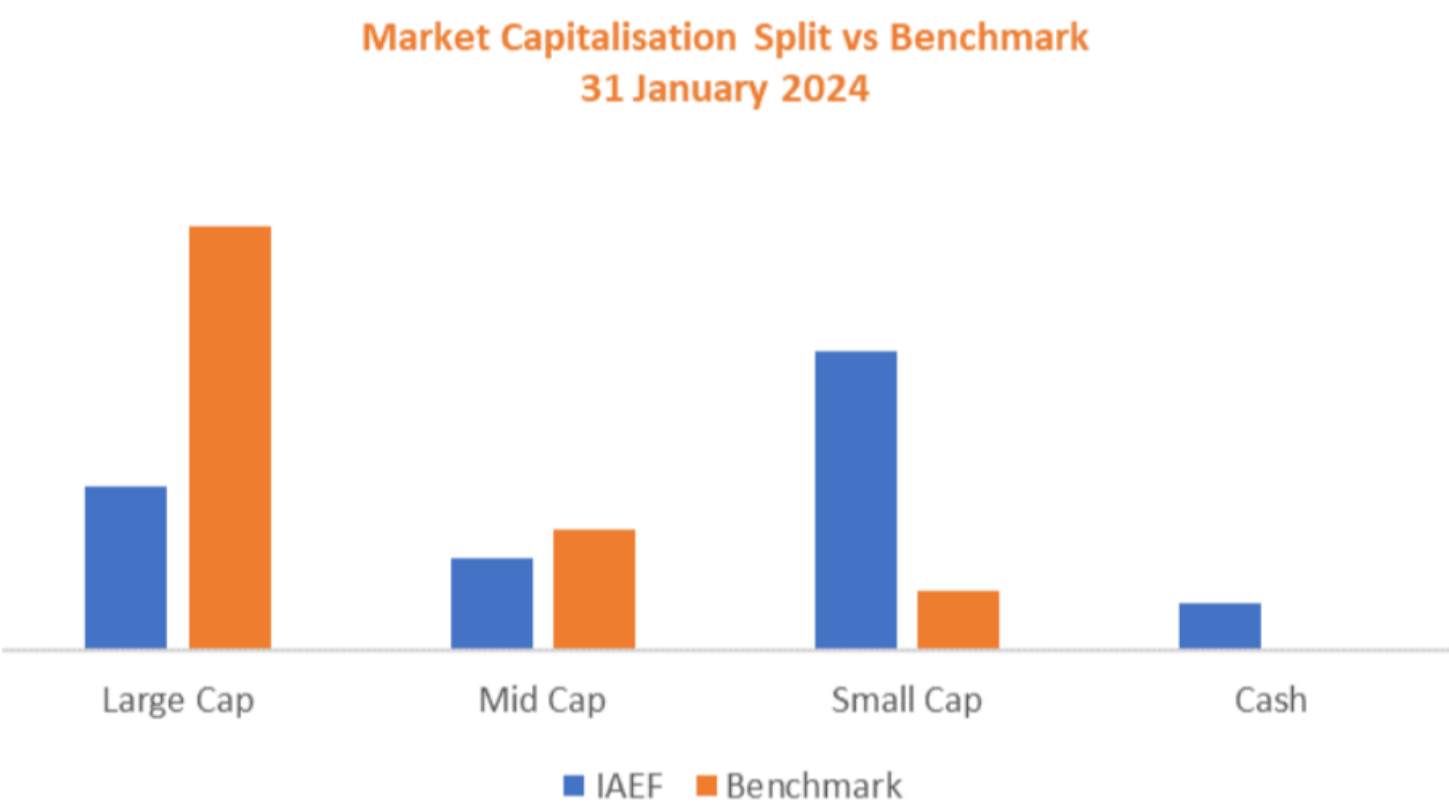
TOP 10 STOCKS

| IAEF Top 10 stocks (as of 31 January 2024) |                 |             |
|--------------------------------------------|-----------------|-------------|
| Company                                    | Industry        | Fund Weight |
| HDFC Bank                                  | Private Bank    | 4.07%       |
| Hero Motocorp                              | Automobile      | 3.80%       |
| Bajaj Finance                              | Non-Bank Lender | 3.64%       |
| ICICI Bank                                 | Private Bank    | 2.70%       |
| Infosys                                    | IT Outsourcing  | 2.64%       |
| HCL Technologies                           | IT Outsourcing  | 2.43%       |
| Aurobindo Pharma                           | Healthcare      | 2.23%       |
| Shriram Finance                            | Non-Bank Lender | 2.13%       |
| Tata Motors                                | Automobile      | 2.09%       |
| Glenmark Life Sciences                     | Healthcare      | 2.05%       |

HDFC Bank moves to top spot in terms of weighting in the Fund. After a significant period of underperformance within the industry, it is our view that the company is positioned more conservatively in terms of their loan book, whilst experiencing sustainable growth. We have added to the position and trimmed some of other private bank exposure which have outperformed the industry, including Axis Bank and ICICI Bank.

Also entering our top 10 by stock weights is Glenmark Life Sciences who develop, manufacture, and distribute active pharmaceutical ingredients to their partners globally. It is another one of the Fund’s pharmaceutical holdings, joining Aurobindo Pharma in the top 10.

EXPOSURE BY CAPITALISATION



We define large caps in this chart as representing the top 70% of the MSCI India’s market cap. The MSCI India has 131 stocks at present. Mid- caps are defined as the next 20% of market cap, with small caps representing the last 10%. The Fund’s weighting to the top 70% of market capitalisation is 27%. However, the Fund has a significant representation of 49% in the bottom 10% of market cap. In our view, this segment has far more diversity by sector and represent some of India’s best growth opportunities.

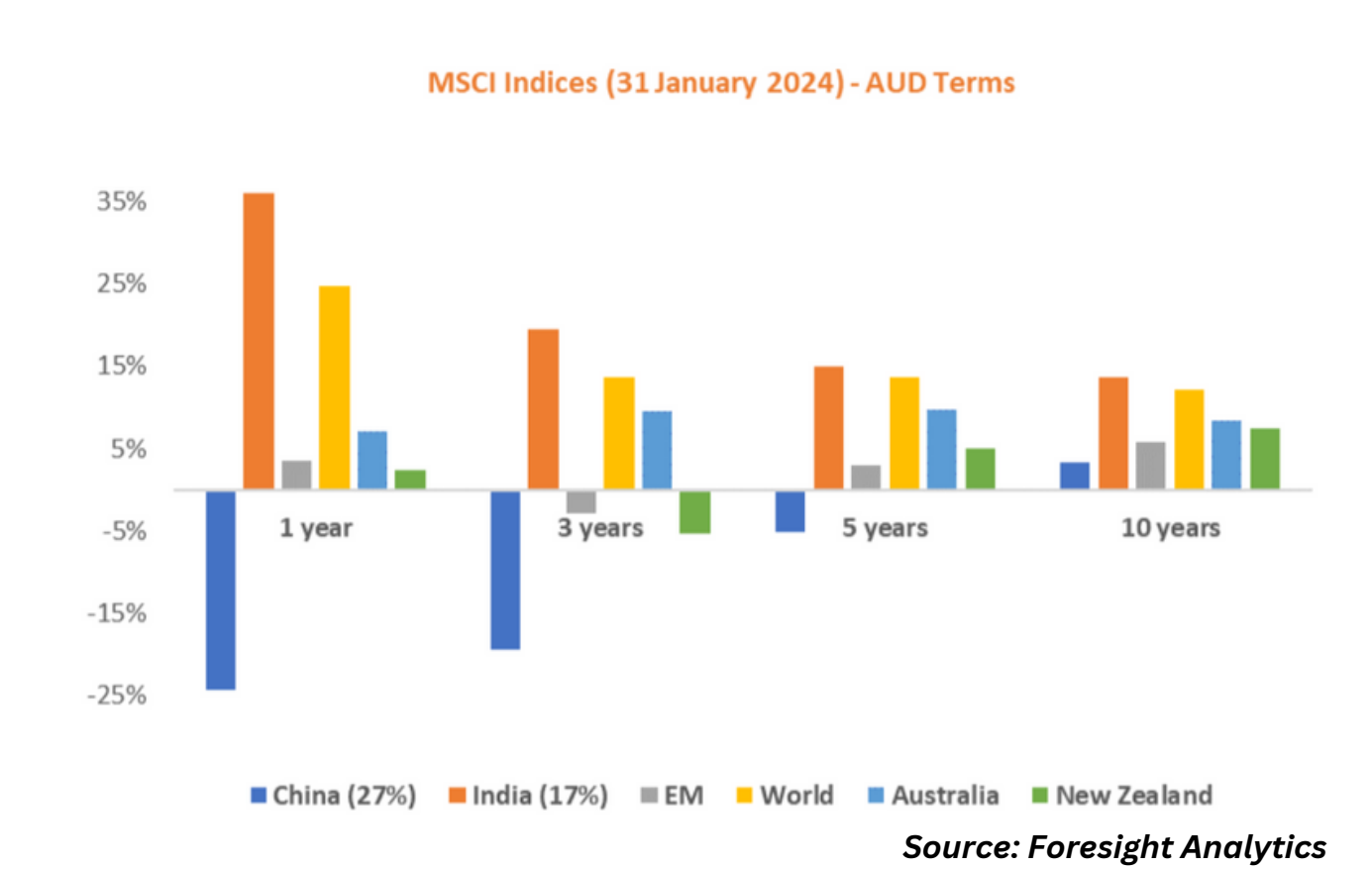
FUND CHARACTERISTICS

|                               | IAEF          | MSCI India    |
|-------------------------------|---------------|---------------|
| Dividend Yield                | 0.94%         | 0.98%         |
| P/E Trailing 12-Month         | 24.43         | 28.24         |
| <b>P/E Forward 12-Month</b>   | <b>19.78</b>  | <b>23.55</b>  |
| PEG Ratio Trailing 12-Month   | 1.20          | 1.54          |
| Price-to-Book Ratio           | 3.75          | 4.33          |
| Dividend Growth Hist 5 YR     | 19.03         | 20.46         |
| <b>EPS Actual 12m Forward</b> | <b>21.79%</b> | <b>20.63%</b> |
| EPS Actual 5 YR Hist Gr       | 12.84         | 16.36         |
| Revenue 12m Fwd Revenue Gr    | 13.40%        | 13.05%        |
| Revenue 5 YR Hist Gr          | 13.76         | 14.69         |
| Net Profit Margin             | 16.33         | 18.53         |
| Operating Profit Margin       | 19.86         | 20.95         |
| <b>ROE Common Equity</b>      | <b>16.21</b>  | <b>18.04</b>  |

Source: Foresight Analytics

The characteristics of the Fund reveal that in aggregate its P/E 12 months forward is trading at 19.8x which is at a discount to the benchmark MSCI India, trading at 23.6x. Whilst the P/E of the Fund is below the benchmark valuation, the 12-month forward EPS growth is slightly ahead of the benchmark. The Fund’s ROE tends to be lower than the benchmark due to our advisers approach in aggregate, seeking opportunities for acceleration in ROE, rather than paying up for “optimal” ROE.

INDIA VS OTHER MARKETS



India’s equity market returns continue to stand out relative to other regions. Its stark difference to China’s performance also tells us why Emerging Market returns as an asset class have been impaired. China comprises 24% of MSCI EM, down from over 40% pre COVID-19. India meanwhile has risen from 8% of MSCI EM to 18%. Impressively, India’s 10-year returns are ahead of the MSCI World, which has been driven by a large weighting to the US equity market. Australia and New Zealand markets have lagged over most periods relative to the MSCI World and India. India has benefitted, over the last 12 months, from China’s weakness as allocators have shifted focus from playing the re opening” trade towards India’s growth story.

INDIA’S MACRO

| Economic Factors (as of 31 January 2024) |                          |        |
|------------------------------------------|--------------------------|--------|
| GDP Growth                               | 7.6%                     | Sep-23 |
| GDP per capita                           | US\$2,601                | Oct-23 |
| Inflation                                | 5.07                     | Dec-23 |
| Cash Rate                                | 6.50%                    | Jan-24 |
| Balance of Trade                         | -US\$19.8bn              | Dec-23 |
| Manufacturing PMI                        | 56.5                     | Jan-24 |
| Services PMI                             | 61.8                     | Jan-24 |
| Industrial Production                    | 2.4%                     | Nov-23 |
| Forex Reserves                           | US\$617bn                | Jan-24 |
| Population                               | 1.436bn                  | Feb-24 |
| Unemployment rate                        | 8.7%                     | Dec-23 |
| Capacity Utilisation                     | 74.5% (s.a.)             | Sep-23 |
| Consumer Confidence                      | 92.2                     | Nov-23 |
| Government Debt to GDP                   | 86.5%                    | Mar-23 |
| Household Debt to GDP                    | 40.3%                    | Jun-23 |
| Electricity Production                   | 115.947 (GW/h)           | Dec-23 |
| Steel Production                         | 12,100 (thousand tonnes) | Dec-23 |

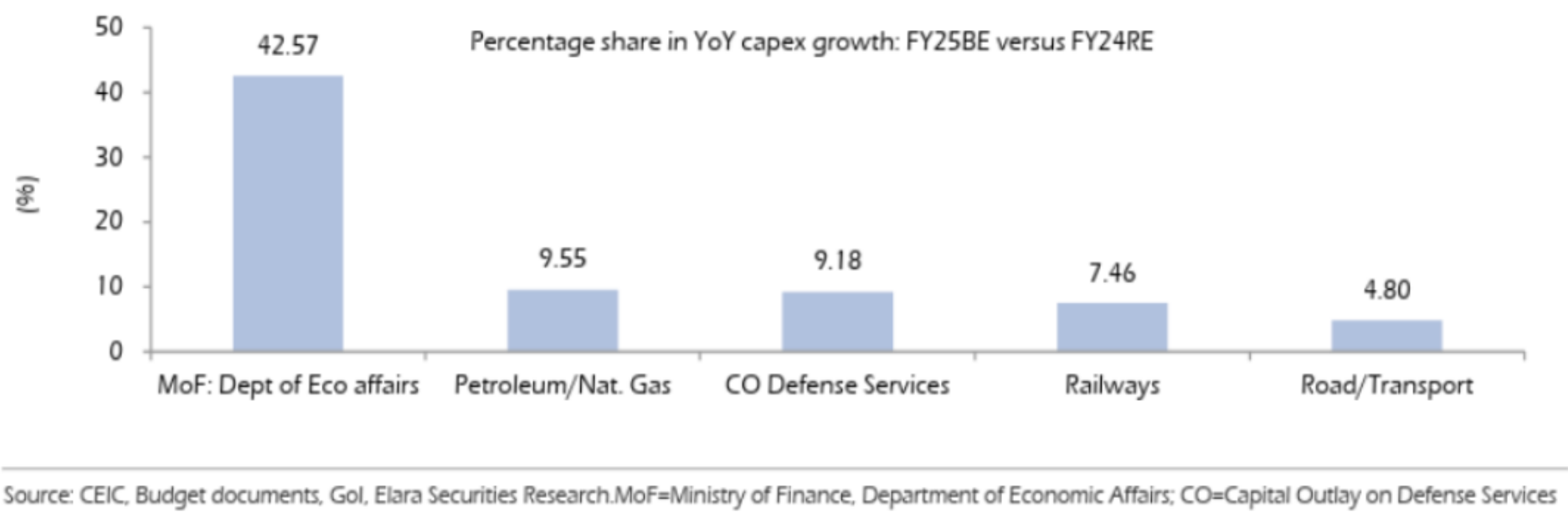
Source: Tradingeconomics.com

Capacity Utilisation was released by the Reserve Bank of India for Q2 FY24 (September 2023 Quarter). The Survey covers 803 manufacturing companies and provides a snapshot of demand conditions in India’s manufacturing sector during this quarter. On a seasonally adjusted basis, Capacity Utilisation was measured at 74.5%. Manufacturers reported higher new orders compared to the previous quarter and the corresponding quarter last year. Since the Survey started, the highest reading occurred during 2010-2011 (83).

Currently India’s corporates have robust balance sheets, with debt-to-equity less than 50% (whenexcluding Financials). If the demand environment remains robust locally and shows some sign of improvement globally (unlikely till post slowdown caused by higher interest rates), then Indian corporates are well poised to increase capacity and continue to win global market share across segments. This will also ride on the coattails of government capex and infrastructure spending.

WHY INDIA?

On Thursday February 1 st , the Minister of Finance, Ms Nirmala Sitharaman detailed the Interim Union Budget for FY25 (India’s fiscal year is from 1 April to 31 March). The final budget will be passed in July 2024 (given its an election year). The Government has undertaken fiscal consolidation since expanding the deficit post COVID-19. For FY24, a forecast deficit of 5.8% was announced, with expectations for this to drop to 5.1% by FY25 and targeted to be below 4.5% by FY26. There were no new taxes or schemes announced. Whilst the Government looks all but assured of a victory at the National Election in May-June 2024, it took the opportunity to keep the Budget free from populist measures. These measures are typical in a pre-election year in India and usually involve increasing hand-outs and subsidies to the masses, particularly in rural locations as well as a general boost to consumption. In contrast to this, sectors which are likely to see continued benefit from existing policy in place include Renewable Energy, Housing, Tourism, Healthcare and Railways.



Expenditure is set to see growth of 6.1%. Capex however is forecast to grow 16.9% and become an increasing component of overall expenditure. Revenue growth is set to be 3.2% and rising from FY24 due to increasing personal and corporate taxes in a fast-growing economy.



The lower-than-expected borrowings should be positive for India’s bond markets (10-year bonds currently trading at 7.1%). Additionally, post June 2024, India’s bonds will be included in the JP Morgan EM Bond Index, which should be positive in seeing flows and reducing yields. Typically, as India’s bond yields fall towards 6.5%, it becomes more conducive to private capex and spending.

| Key Themes                  | Industry Themes                                                     |
|-----------------------------|---------------------------------------------------------------------|
| Reduced Cost of Capital     | Development of EV ecosystem                                         |
| Focus on Logistics          | Bio-manufacturing/Bio-foundry to promote sustainability             |
| Focus on Renewable Energy   | Aim of achieving 500GW installed capacity by 2030                   |
| Limited Consumption Impetus | Capital goods and railways to develop infrastructure corridors      |
|                             | Aviation will benefit from rising number of airports                |
|                             | Building materials and NBFCs due to the focus on affordable housing |
|                             | Energy security initiatives to reduce the cost of gas.              |
|                             | Development of green energy projects and initiatives                |

Source: Elara Capital Research FY25 Union Budget by Garima Kapoor

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<https://indiaavenue.com.au/our-research/>  
<https://indiaavenue.com.au/india-avenue-in-media/>

FUND DETAILS

| 31.01.24          | M Class       | H Class       | L Class       |
|-------------------|---------------|---------------|---------------|
| NAV               | 1.7866        | 1.7646        | 1.4552        |
| 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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Any and all forward looking statements are expressions of our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these statements. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. You should consider its appropriateness regarding your particular objectives, financial situation and needs and consider obtaining independent advice before making any financial decisions.

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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