
India Avenue Equity Fund – well positioned post elections

The first thought on our minds this week is the impact of India's General Elections of the India Avenue Equity Fund, as well as its positioning for the aftermath of the event, with an eye to the next term (2024-2029). Refer to our previous note on the India's General Election results, which was titled **Democracy wins in India** (and is available on our website www.indiaavenue.com.au).

As the only pure India focused investment management firm operating in Australia and New Zealand, we take great pride in our proposition and embedded insights and knowledge, which help our clients understand their investment, with greater depth. **One of the strengths of our proposition is our network in India.** This includes not only our investment advisers, but also a panel of brokers / strategists, industry experts and corporate management.

The India Avenue Equity Fund harnesses the skill sets of three locally based investment advisers in India. Their knowledge of the corporate ecosystem and investing within it, provides significant advantages which are embedded in our stock selection and overall portfolio construction.

Active Advantage

The India Avenue Equity Fund has an active share of over 70% to the MSCI India (our benchmark). We seek to focus on growth companies and try to identify good valuation entry points to access the compounding earnings story (through our underlying advisers). The Fund's largest active positions currently are:

Stock	Industry	MSCI India Weight
Hero MotoCorp	2-wheelers	0.60%
Bajaj Finance	NBFC	1.69%
Aurobindo Pharma	Global leader in Generic Medicines	0.30%
Interglobe Aviation	Market leader in Aviation	0.67%
Amara Raja Energy & Mobility	Battery Manufacturing	0.0%
Nagarjuna Construction	Construction and Infrastructure	0.0%
Kirloskar Oil Engines	Engineering / Pumps	0.0%

The Fund is capitalisation agnostic (benchmark unaware) in selecting companies and its portfolio weightings. Our advisers are carefully selected from investor-led organisations, focused on bottom-up stock selection to generate alpha, rather than the benchmark as a starting point for allocations.

Adviser Insights

We had conversations with our incumbent advisers post the Election outcome and note the following observations on their thinking on stock selection / portfolio construction:

Positioning

- The advisers are comfortable with their current positioning which is reflection of their understanding of the local corporate and political ecosystem. Whilst the result was a little surprising, portfolios were positioned appropriately, requiring only minor tweaks.

- The market will reorient towards fundamentals and this transition will weigh on index heavyweights and provides a good opportunity for active stock selection.
- Valuations will be justified by growth, rising penetration for several industries, and increasing share of the global economy. 18% of the global population and 4% of GDP must lead to market share gains for India in terms of global GDP.
- Generally, the Fund is underweight on government reliant, cyclical businesses such as state-owned enterprises (PSUs). However, our Fund has added selective government owned businesses in 2024, which were deserving due to rising ROEs in gas, refining and power related industries.

Results and Government

- BJP's individual seats of 240 is still a decent majority relative to any other party and ahead of the major party seat share in previous coalition governments. Prime Minister Modi has a strong personality and is likely to ensure policy continuity as the leader of the BJP.
- The BJP Government will continue to be reformist and have growth on their agenda. This will continue the focus on manufacturing, defence, infrastructure, capex, power, and renewables. Plans will be more evident in the upcoming Union Budget (July) and the 100-day plan, post Budget.
- Unlike what most participants think about a coalition government changing the policy framework, it might be more a reflection than the previous policy was too narrow in its focus.

Rebalancing towards Rural

- Rural distress exists and was ignored by the Government.
- There will be a likely tweak towards some social spending which may include an increase in minimum support prices for farmers, rural hand-outs/subsidies, healthcare, and low-cost housing. This is likely to be funded by rising tax collections and the recent larger dividend payout by the Reserve Bank of India.
- Consumption is less likely to be the driving force behind GDP growth, due to the rise in household leverage (above 40%). There are some signs of delinquencies in credit cards etc. Corporate's wont drive loan growth as cash flow is abundant at the company level. Thus financials (particularly Bank's) may continue to be in a period of time correction.
- Job creation needs to be high on the agenda and government incentives will focus on this area, particularly for youth and the bottom of the pyramid.

Macro & Micro

- From a macro perspective, we will continue to see fiscal restraint, stable currency and inflation remaining within the Reserve Bank range of 2-6%.
- From a micro perspective, corporate earnings growth will remain in the vicinity of 13-15% p.a. over the next two years and remain relatively robust in SMID caps. We will see several smaller companies migrate towards larger companies. The environment for entrepreneurs remains highly conducive in the medium term.
- Interest rates in India remain lower than in history given lower structural inflation. This is a significant difference to the Western World. India is essentially importing inflation from the West (wage inflation).

Sector Thoughts

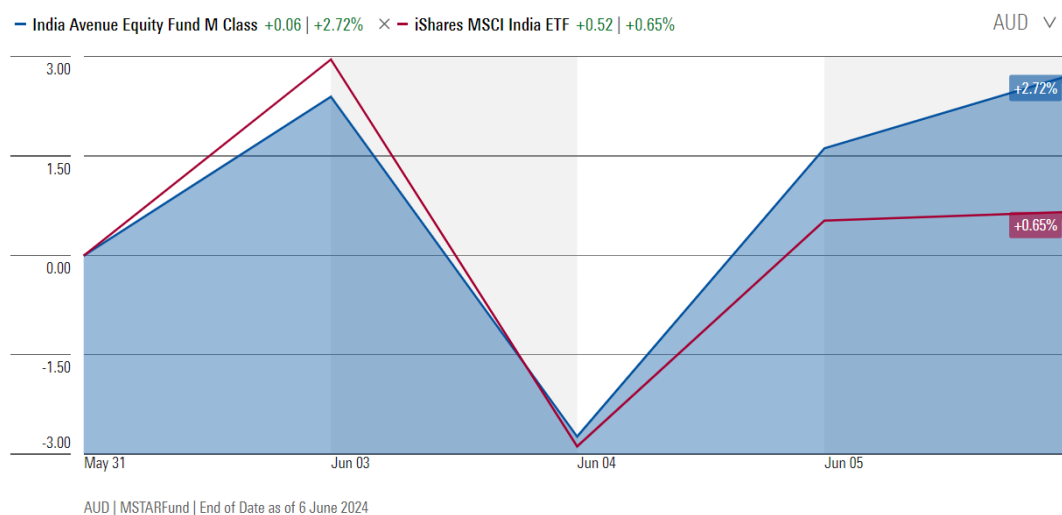
- Real Estate and Equity investing will continue to flourish as money moves from savings towards physical and mutual fund assets. India's interest rates are not high enough to warrant increased financialisation through household saving.
- Private sector capex should occur over the next two years. If it occurs it will have a multiplier effect. Capacity utilisation is close to 75%, a zone where additions are made.
- Healthcare, Agriculture, Low-cost housing as well as small ticket discretionary items should do well.
- The impact of La Nina and Monsoons (starting soon) also needs to be monitored.

Focus on Demographics rather than Government!

- India story remains intact as the major driver of that are demographics more than anything else.

Weathering the Storm

We looked at portfolio performance relative to our benchmark in the month to date to understand performance during the volatile start to the month. The exit polls came out on Monday 3rd of June and looked like a massive majority for the BJP Government. The portfolio underperformed as all the government related businesses outperformed (which are significantly underweight in). However, as the results came in and a coalition government was likely, the portfolio outperformed significantly as the market refocused on fundamentals, rather than pushing cyclical businesses to even greater highs. This is a positive sign for our portfolio from a relative perspective.



**Source Morningstar – India Avenue returns are after fees and taxes, which is akin to the iShares MSCI India experience. Past performance is not a true indicator of the future expectations of the performance of a Fund nor is it a guarantee of expected return.*

Robust Earnings

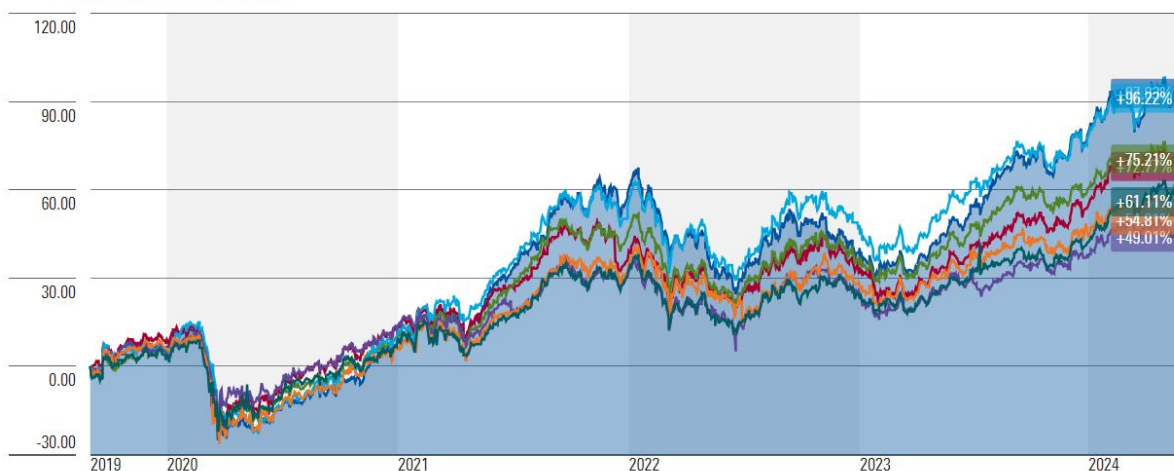
Whilst we expect earnings growth of 13-15% over the next two years, **our Fund's companies averaged 20% y-o-y for FY24** (year ending March 2024), indicating the robust nature of the earnings profile of our companies. This was significantly higher than the market average (13%).

Leading the Pack

The India Avenue Equity Fund continues to lead the pack over 1, 2, 3 and 4 years relative to other active India-only Funds or India-only ETF's available for retail investors in Australia and New Zealand. We reiterate our three key philosophical beliefs:

- 1) India will remain the world's fastest growing major economy over this decade and most of the next due to its demographics, making it an attractive single country destination for equity investors.
- 2) In emerging market economics like India, active managers are rewarded for well-constructed portfolio and active stock selection given that broker coverage drops away generally after the top 150 stocks by market cap for liquidity reasons.
- 3) Local fund managers (who are advisers to our Fund) are best placed to benefit from active management given the depth of their knowledge of the India's corporate ecosystem, political system, regulatory changes, and founder behaviour. Over 40% of India's US\$5trillion market cap is owned by local founders – thus a deep understanding of their ethics is required to successfully navigate towards alpha generation.

■ India Avenue Equity Fund M Class +1.16 | +97.83%
 ✕ iShares MSCI India ETF +33.79 | +72.77%
 ■ Fidelity India +28.00 | +75.21%
 ✕ Fiducian India +2.26 | +96.22%
 ■ BetaShares India Quality ETF +3.96 | +49.01%
 ✕ Global X India Nifty 50 ETF +25.76 | +54.81%
 AUD ▼
 ✕ Ellerston India +0.71 | +61.11%



AUD | MSTARFund | End of Date as of 6 June 2024

***Period of 2/9/2019 to 6/6/2024 is used to allow all active funds and ETF's to be included i.e. Betashares and Global X only commenced in 3rd quarter 2019.**

***Source Morningstar – India Avenue returns are after fees and taxes, which is akin to the iShares MSCI India experience. Past performance is not a true indicator of the future expectations of the performance of a Fund nor is it a guarantee of expected return.**

Please contact me if you have any questions Mugunthan Siva on +61466624701 or via email on mugunthan@indiaavenue.com.au

Disclaimer

- This Note (**Note**) has been produced by India Avenue Investment Management Limited (**IAIM**) ABN 38 604 095 954, AFSL 478233 and has been prepared for informational and discussion purposes only. This does not constitute an offer to sell or a solicitation of an offer to purchase any security or financial product or service. Any such offer or solicitation shall be made only pursuant to a Product Disclosure Statement, Information Memorandum, or other offer document (collectively **Offer Document**) relating to an IAIM financial product or service. A copy of the relevant Offer Document relating to an IAIM product or service may be obtained by writing to us at IA@indiaavenue.com.au or by visiting www.indiaavenue.com.au. This Note does not constitute a part of any Offer Document issued by IAIM. The information contained in this Note may not be reproduced, used, or disclosed, in whole or in part, without the prior written consent of IAIM.
 - 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.
 - Statements contained in this Note that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of IAIM. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Additionally, this Note may contain “forward-looking statements”. Actual events or results or the actual performance of an IAIM financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any license or right to use any trademark displayed without the written permission of the owner.
 - Certain economic, market or company information contained herein has been obtained from published sources prepared by third parties. While such sources are believed to be reliable, neither IAIM nor any of its respective officers or employees assumes any responsibility for the accuracy or completeness of such information. None of IAIM or any of its respective officers or employees has made any representation or warranty, express or implied, with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this and they expressly disclaim any responsibility or liability, therefore. No person, including IAIM has any responsibility to update any of the information provided in this Note.
 - Neither this Note nor the provision of any Offer Document issued by IAIM is, and must not be regarded as, advice or a recommendation or opinion in relation to an IAIM financial product or service, or that an investment in an IAIM financial product or service is suitable for you or any other person. Neither this Note nor any Offer Document issued by IAIM considers your investment objectives, financial situation, and particular needs. In addition to carefully reading the relevant Offer Document issued by IAIM you should, before deciding whether to invest in an IAIM financial product or service, consider the appropriateness of investing or continuing to invest, having regard to your own objectives, financial situation, or needs. IAIM strongly recommends that you obtain independent financial, legal and taxation advice before deciding whether to invest in an IAIM financial product or service.
-