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THE INDIA OPPORTUNITY AWAKENS

Understanding India's market consolidation and the opportunity ahead

29 May 2026

Drawdown History, Currency Dynamics and Forward Return Outlook

Three independent and mutually reinforcing signals converge at this moment, each reflecting a consistent historical pattern in the Indian equity market's recovery behaviour and the India Avenue Equity Fund (IAEF) performance through those cycles.

Table 1: Drawdown and Response

Metric	Current Reading	Historical Context
MSCI India trailing 12M (AUD)	-19.80%	On average, when MSCI India's rolling 1Y returns are less than -15%, the market returns 43% in the subsequent year (IAEF subsequent returns are 53%)
INR/AUD trailing 12M	-20.40%	On average, when INR/AUD rolling 1Y returns are less than -15%, the market returns 22% in the subsequent year (IAEF subsequent returns are 27%)
IAEF DDM forward return model	26.30%	Highest since 2020

Source: MSCI India, Bloomberg, India Avenue Research

- The current rolling 12-month MSCI India AUD return of -19.76% places the market in its deepest drawdown bucket, a zone from which Indian equities, and IAEF in particular, have historically recovered most strongly.
- The AUD drawdown is overwhelmingly currency-driven: MSCI India in INR was essentially flat over the same period (+0.78%), with the INR/AUD having depreciated 20.4% over 12 months as of April 2026, a level of weakness from which AUD investors have historically received a substantial tailwind.
- India Avenue's proprietary expected return model[1] currently forecasts a 26.3% forward 12-month return – its highest reading since April 2020.

[1] The model utilises reversion to 10-year mean for forward P/E and consensus earnings growth forecast expectations to build a return expectation. From an alpha perspective our funds valuation discount and EPS growth premium to the index – are additive to the return expectation.

Part 1: Indian Equity Market Recovery After Drawdowns

Historical analysis of MSCI India (AUD) rolling 12-month returns since September 2016 reveals a consistent pattern: the deeper the prior drawdown, the stronger the subsequent recovery. With the rolling 12-month MSCI India AUD return currently at -19.8%, the Indian market has entered its deepest historical drawdown bucket (5 occurrences in the last 10 years), and based on prior observations, the forward return outlook is its most attractive.

Returns in AUD - When MSCI India (AUD) Rolling 1Y Return is Negative					
Scenario - MSCI India AUD 1Y rolling return range	Frequency (months)	Avg Subsequent 1Y Return		Avg Subsequent 3Y p.a. Return	
		MSCI India (AUD)	IAEF (AUD)	MSCI India (AUD)	IAEF (AUD)
0% to -5%	12	29.20%	36.30%	14.10%	17.10%
-5% to -10%	8	40.60%	52.00%	17.10%	20.90%
-10% to -15%	3	27.50%	36.60%	17.50%	20.20%
Less than -15%	5	43.10%	52.90%	20.10%	22.60%

Source: MSCI, IA Internal.

The MSCI India Net Return Index in AUD is used to represent MSCI India. Analyses subsequent 1Y and 3Y p.a. returns for IAEF and MSCI India following negative rolling 1Y return environments. Based on monthly returns Sep 2016 - Apr 2026. Subsequent returns are measured from the end of the month in which the rolling 1Y MSCI India (AUD) falls within each band. 3Y p.a. figures are annualised compound returns.

Key Observations

- **The current drawdown environment (-19.8%) falls in the deepest drawdown band: This has historically preceded the strongest subsequent returns.**

The average 12-month forward return for MSCI India (AUD) in this bucket has been 43.1%, while IAEF has averaged 52.9% over the same period.

- **IAEF outperforms in every bucket:**

Across all four negative bands, IAEF has consistently and materially outperformed the MSCI India benchmark on both the 1-year and 3-year p.a. subsequent return metrics. The fund has demonstrated a stronger recovery when markets have fallen.

- **Recovery is structural, not just a bounce:**

The 3-year p.a. returns confirm the pattern is not merely a short-term bounce. In the “Less than -15%” category, MSCI India has compounded at 20.1% p.a. and IAEF at 22.6% p.a. over the subsequent three years, suggesting durable and structural recovery dynamics at play.

- **Every drawdown bucket has rewarded investors:**

Even the mildest negative band (0% to -5%) has historically produced a robust subsequent 12-month IAEF return of 36.3%, demonstrating that any period of Indian market weakness has proven to be an attractive entry point on a historical basis.

Part 2: The Currency Factor

The pain experienced by AUD investors has been almost entirely driven by currency, not by the underlying Indian equity market. Understanding this distinction is essential to appreciating both the nature and the scale of the current opportunity; the analysis below provides further insight into the drawdown recovery profile of both the market and the fund.

Returns in AUD - When INR/AUD Rolling 1Y Return is Negative					
Scenario - INR/AUD 1Y rolling return range	Frequency (months)	Avg Subsequent 1Y Return		Avg Subsequent 3Y p.a. Return	
		MSCI India (AUD)	IAEF (AUD)	MSCI India (AUD)	IAEF (AUD)
0% to -5%	35	12.70%	12.30%	12.20%	12.60%
-5% to -10%	11	27.90%	31.80%	15.90%	18.00%
-10% to -15%	8	34.70%	45.70%	18.30%	21.50%
Less than -15%	6	21.80%	26.80%	18.90%	19.50%

Source: MSCI, IA Internal

Analyses subsequent 1Y and 3Y p.a. returns for IAEF and MSCI India following INR/AUD weakness. Based on monthly returns Sep 2016 - Apr 2026. INR/AUD return reflects currency weakness from an AUD investor's perspective: a negative figure means INR has depreciated against AUD. Subsequent returns are in AUD, and therefore include any currency recovery tailwind.

Key Observations

- **Currency weakness precedes stronger AUD returns:**

The pattern across currency drawdown bands shows a clear positive relationship between the magnitude of prior INR/AUD weakness and the strength of subsequent AUD-denominated returns. As currency weakness deepens, mean reversion creates a meaningful additional tailwind for AUD-denominated investors in Indian equities.

- **Current bucket suggests strong 1Y and 3Y forward returns:**

The “Less than -15%” INR/AUD bucket (current positioning) has historically delivered subsequent 12-month AUD returns of 21.8% for MSCI India and 26.8% for IAEF. Notably, the 3-year p.a. returns in this bucket (18.9% and 19.5% respectively) are among the strongest across all bands, suggesting that extended periods of INR weakness tend to unwind over a multi-year horizon, rewarding long-term investors.

- **Double tailwind for AUD-denominated investors:**

The decomposition highlights that subsequent AUD returns incorporate two return streams: the underlying INR equity market return, and a currency recovery tailwind as the INR mean-reverts from oversold levels. Both components are historically supportive at the current juncture.

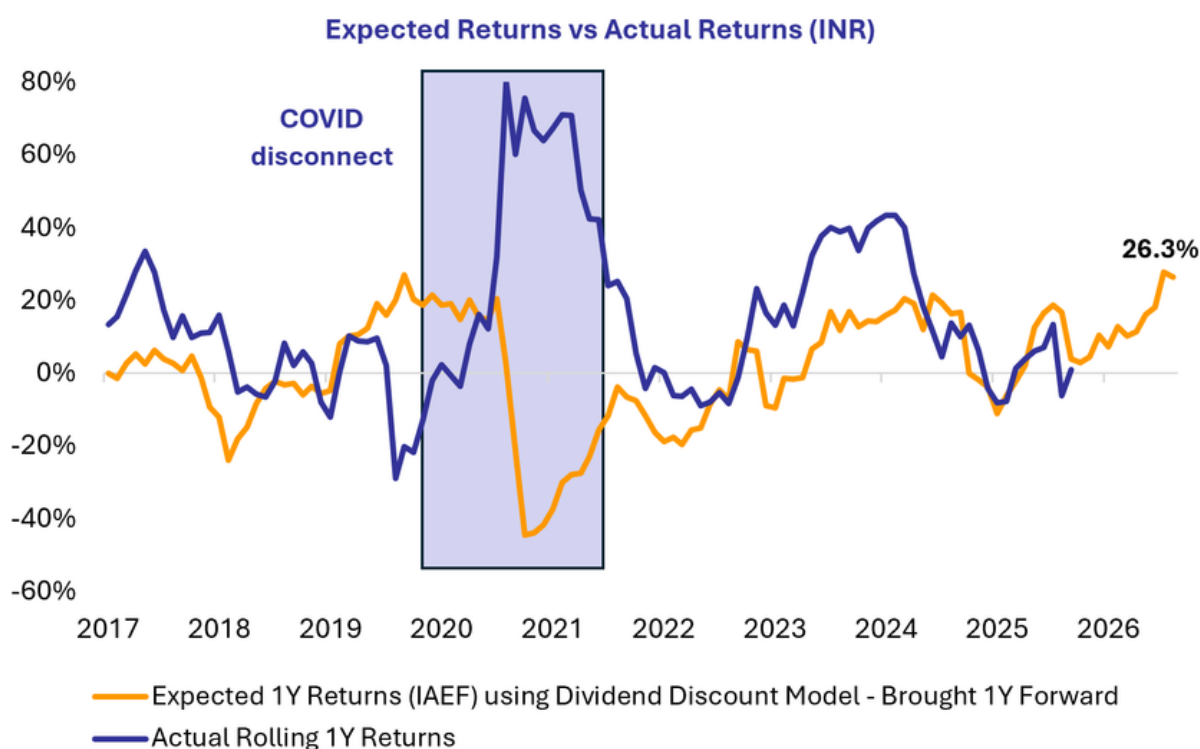
- **Nuance on timing:**

The “-10% to -15%” band produced the highest subsequent 1-year AUD returns (both the market and IAEF), suggesting that the most severe currency episodes (“Less than -15%”) can involve some additional time for stabilisation before the full recovery materialises – reinforcing the case for a longer-term investment horizon at this point in the cycle.



Part 3: Internal Expected Return Model

The current model output of 26.3% represents the highest expected return reading produced by this framework since 2020, the depth of the COVID-19 market dislocation. The model is now flashing a comparably elevated signal driven by the combination of compressed valuations, earnings growth premium, and the extreme currency discount embedded in current AUD prices of Indian assets.



Source: MSCI, Foresight Analytics, IA Internal.

What Drives the Elevated Reading Today

1. Valuation compression in the Indian market: India's equity market valuations have compressed materially relative to their own history. Despite robust structural growth fundamentals, the market is trading at levels that the DDM model considers attractive on an absolute basis.

2. IAEF EPS premium at a valuation discount: The IAEF portfolio's EPS growth profile continues to run at a premium to the broader MSCI India index. The fund's active stock selection process means it is exposed to companies with higher structural growth trajectories than the broader market, and the current environment has created an unusually widespread between this earnings premium and the fund's relative P/E discount to the market.

3. Combined effect creates the highest signal in five years: When the DDM-implied market return is combined with IAEF's structural alpha sources (EPS premium and P/E discount), the total forward return estimate reaches 26.3%. The model does not incorporate currency; any INR/AUD mean reversion would represent upside to this estimate for AUD-based investors.

Conclusion

The quantitative drawdown analysis (Part 1), the currency decomposition (Part 2) and the proprietary expected return model (Part 3) are independent methodologies that each point to the same conclusion: the current environment represents an unusually attractive entry point for IAEF, with the fund's structural characteristics positioning it to outperform not only relative to its own history, but relative to the already-strong recovery that broad Indian equities have historically delivered from comparable market conditions.



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