



Avenues

Market Commentary: December 2017

The India Avenue Equity Fund rose **13.19%** over the last 3 months and **30.45%** for 2017. Since inception the fund is up **18.54% p.a.** and has outperformed the index **after fees** by **2.94% p.a.**

In 2017 global investors bought US\$7bn of local Indian equities, more than double that seen in 2016 of US\$3bn. Local mutual funds bought equities worth US\$18bn compared with US\$7bn in 2016. Strong flows into India has been driven by positive sentiment due to some of the following reforms and events that took place over the year;

- **GST** - This has simplified the tax regime in India significantly. The expectations are that it will broaden the tax base and increase tax compliance by both businesses and individuals
- **Bank Recapitalization plan** - In a deal worth US\$32.7 billion, the government has recapitalised the public-sector banks. This is expected to help resolve their Non-Performing Loans (NPL) problem and allow them to increase lending
- **Targeted infrastructure spending** - "Bharatmala", a Government sponsored and funded road and highways project worth US\$108.5 billion
- **State Election victories** in key states like Gujarat and Uttar Pradesh reiterating the political stability
- **Foreign acknowledgement of fiscal improvement** - Moody's upgrade of India's sovereign bond rating and rise in Ease of Doing Business ranking improved external perception

As we enter 2018, we expect earnings to grow significantly driven by increased formalisation of the economy, pick up in credit growth, increase in capacity utilisation and the low base effect. The federal budget (most likely the last before national elections in 2019) could be a key trigger for the growth trajectory to continue. It will continue to prioritise spending in infrastructure, particularly roads and railways, and boost allocation for affordable housing and rural development.

Fund Performance (Performance in AUD, net of management fees and fund expenses)

	3 months	6 months	1 year	Since Inception ^{#,^}
India Avenue Equity Fund Wholesale	13.19%	13.44%	30.45%	18.54%
MSCI India	12.18%	12.90%	28.46%	15.60%
Out/Under Performance	1.01%	0.53%	1.99%	2.94%
iShares India ETF	11.04%	11.27%	25.71%	13.10%
ASX 200	7.64%	8.37%	11.79%	13.17%
MSCI EM	7.73%	13.95%	27.08%	19.90%
India Avenue Equity Fund Retail	13.13%	13.29%	-	14.25%
MSCI India	12.18%	12.90%	-	12.61%
Out/Under Performance	0.95%	0.38%	-	1.65%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31 December assuming the reinvestment of dividends

#Inception Date: Wholesale 6.9.16, Retail 6.4.17

^Returns above 1 year are annualized

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on the Indian stock exchanges or on other exchanges, with significant exposure to India's growing economy. The Fund aims to outperform its benchmark in AU\$ terms, after fees and over rolling 5 year periods.

Fund Rating

- Lonsec Rating: Recommended*

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 th September 2016
Fund Size	\$17.00 million
Unit Price	Wholesale: 1.2317 Retail: 1.2304
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Fund BPO / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU\$
Distribution Freq.	Yearly at 30 June
Management Fee	Wholesale: 1.10% p.a. Retail: 1.50% p.a.
Buy-Sell Spread	0.50% / 0.50%
Performance Fee**	10% of the excess return above the benchmark
Dividend History	Wholesale: 1.16% Retail: 1.15%

** Subject to a high watermark

About India Avenue

India Avenue Investment Management (IAIM) is a boutique investment company focused on providing investment solutions for clients in Australia and New Zealand who seek exposure to India's growth potential through its capital markets.

The India Avenue Equity Fund is managed by the team at IAIM and has a bias towards companies which are experiencing strong growth through rising local demand. The Indian economy's robust ecosystem provides a tailwind for several well managed and carefully selected listed companies.

Fund Identifiers

Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

Contact

India Avenue Investment Management

AFSL 478233 | ABN: 38 604 095 954
Level 3, 183 Macquarie Street,
Sydney, NSW 2000, Australia
T: +612 8937 2487
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

Company Revenue Generated Locally



Source: Bloomberg

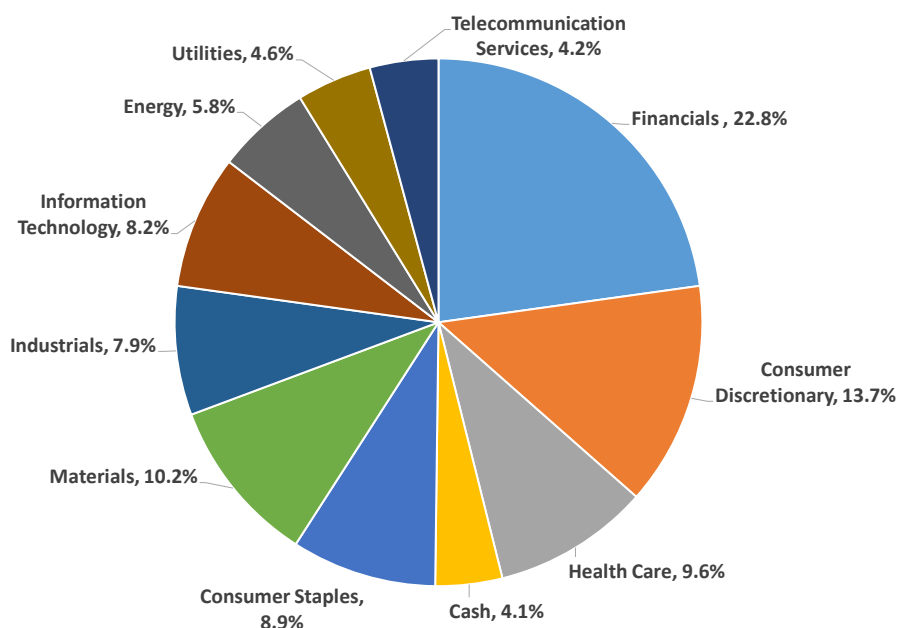
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Description	Weight
Bharti Airtel	Telecommunications	4.2%
Mahindra & Mahindra	Automobiles	4.2%
NTPC	Power & Renewables	4.1%
State Bank of India	Banks	4.1%
ICICI Bank	Banks	3.9%
Sun Pharmaceuticals	Pharmaceuticals	3.8%
Infosys	IT Services	3.2%
Engineers India	Construction & Engineering	3.0%
Kotak Mahindra Bank	Banks	3.0%
Hindustan Unilever	Household Products	2.9%

Source: India Avenue, Bloomberg

Sector Allocation



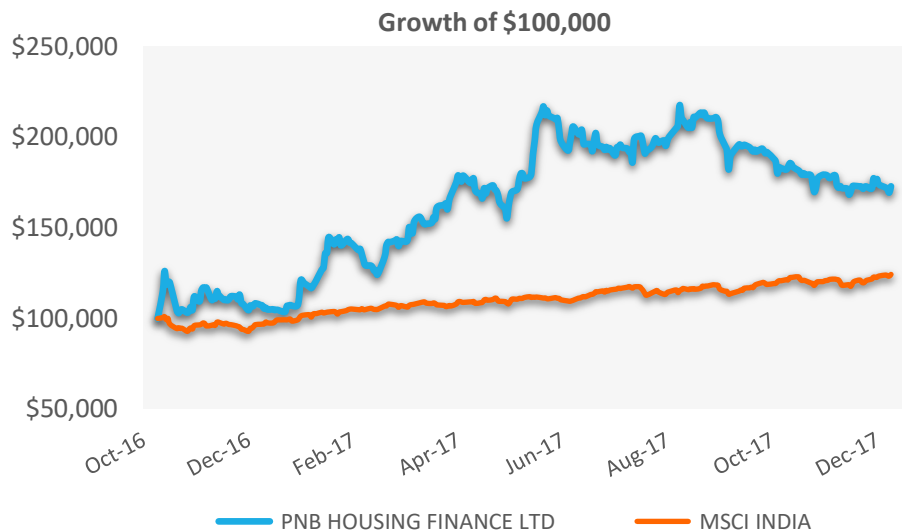
India Macro News

1. India's economy is **expected to overtake the UK and France to become the world's fifth largest in dollar terms in 2018 and third largest in 2032** according to the World Economic League Table
2. **The Union Cabinet approved a number of amendments to liberalise and simplify its FDI policy** in its efforts to improve the ease of doing business in India
3. India is one of the **largest consumers of gold with an estimated total stock of over 23,000 tonnes valued at over US\$1tn** as per World Gold Council data
4. **Direct Tax collections up to December 2017, show that net collections are 18.2% higher than the net collections for the corresponding period of last year**

India Micro News

1. The **digital commerce market in the country is expected to cross USD 50 billion** by the end of 2018 from the current level of US\$38.5 billion, on the back of a growing internet population and increased online shoppers
2. India's **healthcare market may see a threefold jump in value terms to US\$372 billion by 2022**, driven by growing incidence of lifestyle diseases
3. The **Indian media and entertainment industry is expected to double its revenue to reach Rs7.5-8 trillion** by 2022 from an estimated Rs4.5 trillion in 2017, said a report published by BCG
4. India will have **100,000 startups in the next 7-8 years, employing around 3.25 million people and creating US\$500 billion** in value according to local sources

Stock Story: PNB Housing Finance Limited



- The mortgage market in India remains underpenetrated with mortgage-to-GDP ratio at around 9%, far lower than other developing economies (15%-30%) and some developed ones (80%+)
- Total demand for urban housing is estimated to be 4.2 million units over the next 4 years across the top eight cities in India
- The 'Housing for all by 2022' mission created by prime minister Modi continues to pick up pace and will be a key factor in pushing mortgage penetration levels further. Housing starts under this segment are already up 150% year-on-year
- With implementation of GST and Real Estate Regulatory Authority (RERA) which seeks to protect home-buyers as well as help boost investments in the real estate industry, there could be a shift to more formal sources of financing
- PNB Housing Finance (PNB HF) registered strong loan growth across segments with a loan book CAGR of 60% over FY12-17, driven by increased market penetration and expansion into new territories
- The company has 66 branches in 40 cities, and aspires to achieve at least 8-10% market share in every city where it operates. Its India wide market share has increased from around 0.5% to over 2%, making it the fifth largest housing finance company (HFC) in India
- Unlike other HFCs which are now focusing more on the affordable housing segment, PNBHF caters largely to the middle and upper-middle class segment. Its average ticket size of INR3.2m in home loans is approximately 30% higher than other big players such as HDFC and Indiabulls Housing Finance

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