



# Avenues

## Market Commentary: January 2018

The India Avenue Equity Fund (IAEF) rose **27.2%** over the 12 months to 31 January 2018. Since inception the Fund has returned **15.3% p.a.**, **outperforming its benchmark by 0.77% p.a. after fees**. In month of January 2018, the Fund experienced its largest one-month underperformance against its benchmark (by 2.3%). Although it is only one month, given the extent of the drawdown, we wanted to provide our investors with some insight into what happened and why we believe it is not a structural issue.

Whilst our fund aims to provide investors with exposure to a carefully selected portfolio of Indian listed companies irrespective of the index, we have been very selective in stocks outside the index, particularly in the small and mid-cap segment, given the valuations of some of these names. However, over the long term, we feel our portfolio will be far superior to that of a passive index, but in periods like January, where there was narrow leadership, with the top 5 stocks in India outperforming the market (approx. a third of the index), we expect the portfolio to underperform. Furthermore, approximately half of the underperformance can be attributed to our sector positioning. Overweight positions in Health Care and Utilities (both sectors performed poorly) and underweight positions in IT and Financial Services (which performed well) impacted the Fund's performance relative to its benchmark.

In terms of the macro news, the Index of Industrial Production (IIP) increased to a 17-month high of 8.4% in November from 2% growth in October. The manufacturing sector was the key contributor, growing at 10.2% YoY. The FY19 Budget also saw a few notable announcements. The Finance Minister brought back the long-term capital gain tax for investors. From an Australian and NZ investor's perspective, this change does not have an impact as Capital Gains Tax paid in India is returned to investors in the form of a tax credit – given the tax treaty in place. There were also continued infrastructure spending with an emphasis on expansion of roads, railways and airport capacity. All these measures can benefit the economy, particularly, rural consumption, infrastructure and agriculture-related companies. Some of our portfolio companies leveraged to this theme include Mahindra & Mahindra, L&T and Hindustan Unilever.

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

	3 months	6 months	1 year	Since Inception <sup>#</sup>
IAEF - Wholesale	0.09%	8.50%	27.20%	15.29%
MSCI India	2.01%	9.01%	28.95%	14.52%
Out/Under Performance	-1.92%	-0.51%	-1.75%	0.77%
iShares India ETF	1.32%	8.24%	24.88%	12.35%
ASX 200	3.02%	7.89%	12.18%	12.41%
MSCI EM	7.02%	17.54%	32.90%	22.92%
IAEF - Retail	-0.02%	8.32%		11.39%
MSCI India	2.01%	9.01%		12.51%
Out/Under Performance	-2.03%	-0.69%		-1.12%

*Past performance is not an indicator of future performance*

*Above returns are calculated based on the exit price of 31st January 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 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 Rating: Recommended\*

## Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 <sup>th</sup> September 2016
Fund Size	\$17.2 million
Unit Price	Wholesale: 1.2018 Retail: 1.1996
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

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## Company Revenue Generated Locally



Source: Bloomberg

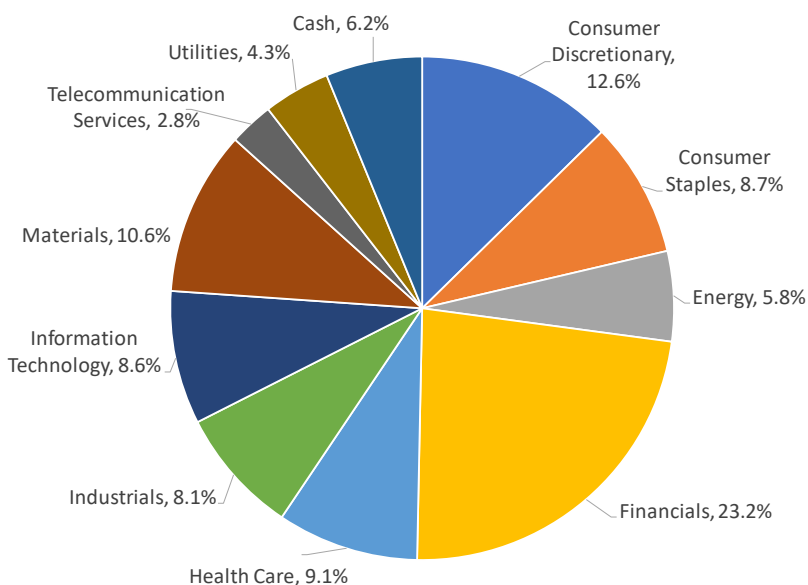
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

## Top 10 Stocks

Name	Description	Weight
ICICI Bank	Banks	4.2%
Mahindra & Mahindra	Automobiles	4.1%
State Bank of India	Banks	4.0%
NTPC	Power and Renewables	3.8%
Sun Pharma	Pharmaceuticals	3.7%
Infosys	IT Services	3.4%
Kotak Mahindra Bank	Banks	3.2%
Larsen & Toubro	Construction & Engineering	3.1%
Bharti Airtel	Telecommunications	2.8%
Hindustan Unilever	Household Products	2.8%

Source: India Avenue, Bloomberg

## Sector Allocation



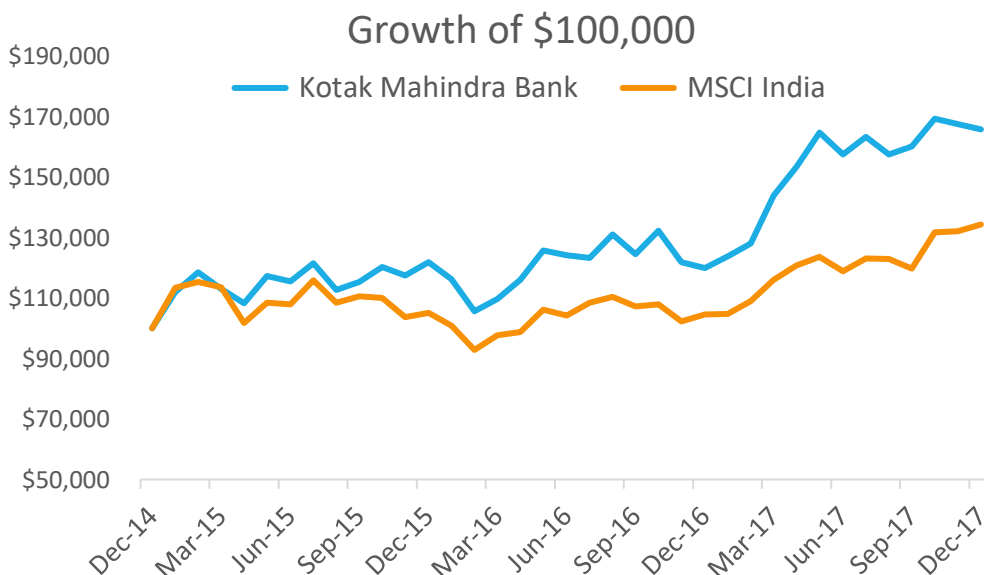
## India Macro News

1. India's Ministry of Railways has announced **one of the world's largest recruitment processes for 89,409 jobs** in various departments
2. India's financial capital Mumbai, with a total wealth of USD 950 billion, **has been named among the top 15 wealthiest cities globally**, says a report by New World Wealth
3. India has enormous growth potential compared to other emerging economies and is **expected to grow 7.3 per cent in 2018, according to the World Bank**
4. Direct Tax collections for FY 2017-2018 registered growth of **18.2% to USD 103.36 billion between April-December 2017**

## India Micro News

1. Entry of global players into India's digital payment space is expected to **grow the segment by about five-fold to USD 1 trillion by 2023**, investment banking firm Credit Suisse said in a report
2. India is expected to be one of the largest **outbound travel markets in the world in the next few years with over 50 million outbound tourists by 2020**, according to Yatra.com's Winter Travel Survey 2017
3. The **domestic air traffic in India increased 20.4 per cent year-on-year** in October 2017, according to a report by International Air Transport Association (IATA). More than twice the growth rate of China

## Stock Story: Kotak Mahindra Bank



- Kotak Mahindra Bank (KMB) is the 4<sup>th</sup> largest private sector bank in India offering full services for both commercial and retail clients
- The group has a strong presence across the financial services value chain (commercial, corporate, consumer, non-banking) in India. KMB has a pan-India presence with 1,375 branches and 2,171 ATMs as on Dec 31, 2017
- KMB has gone down the digital path (rather than physical branches) to connect with customers, particularly in the Rural segment. For example, they offer '811' accounts that are a full-service digital banking ecosystem available on mobile which require Biometric Authentication to login
- Some statistics on their digital services;
  - Mobile banking logins are more than 5 times that of Net Banking.
  - 70% of Mobile banking customers bank ONLY on Mobile App.
  - Mobile Banking Growth has grown in value and volume by 111% and 120% YoY respectively
- In 2017, KMB acquired BSS Microfinance. This acquisition gives Kotak a deeper reach into the low-income segment and at the same time increases the access of BSS Microfinance's customers to a wider array of banking products and services
- Gross NPA issues which has been an issue for the banking sector, particularly the public-sector banks (on average above 10%) with around 2% of loans not performing
- KMB's conglomerate structure places it well to ride the up-cycle across financial services in India. Backed by higher capitalization, diversified business loan book, strong risk management and presence across financial services, we believe KMB deserves to command premium multiples

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