



Avenues

Market Commentary: February 2018

The India Avenue Equity Fund rose **18.20%** over the last year. Since inception, the fund is up **12.05% p.a.** and has outperformed the index **after fees** by **0.69% p.a.** The Indian market fell 4.6% in local currency terms in February, on the back of both domestic and global market volatility. Indian equities corrected in February 2018 after the Government unveiled a proposal to levy 10% long-term capital gains (LTCG) tax on equity investments in the Union Budget of FY2018-19 and mirroring a sell-off in global equities.

The fund's currency positioning is unhedged and therefore benefitted from a falling Australian dollar, with the market in Australian dollar terms falling less, down 3.1%. Generally, offshore currencies such as US\$, Yen, Euro and Pound for Australian investors have provided protection in down markets. Interestingly investors holding Rupee exposure (as they do in our fund) have also benefitted from this natural hedge and this is one of the many reasons why we like to keep the portfolio unhedged.

In terms of the macro news, India's GDP grew at a five-quarter high of 7.2% in Q3 FY2017-18, up from 6.5% in the previous quarter. The Index of Industrial Production increased to 7.1% in December 2017, slowing from the revised growth of 8.8% in the previous month. The manufacturing sector was the key contributor, growing at 8.4% Y-o-Y in December, followed by the electricity and mining sectors, growing at 4.4% and 1.2%, respectively. Capital goods grew 16.4% supported by a low base last year, while consumer non-durables rose 16.5% on a Y-o-Y basis. The Consumer Price Index remained largely unchanged at 5.1% in January 2018 from 5.2% in the previous month. Food inflation moderated to 4.7% from 5.0% earlier.

The earnings growth outlook remains positive led by improving capex, fiscal spending, and buoyant consumer demand that is showing signs of rebounding. This rhetoric is echoed by consumption companies in their quarterly updates, particularly from the rural sector, given its emphasis in this year's budget.

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

| | 3 months | 6 months | 1 year | Since Inception [#] |
|-----------------------------------|---------------|---------------|---------------|------------------------------|
| IAEF - Wholesale | -3.92% | 4.63% | 18.20% | 12.05% |
| MSCI India | -1.39% | 5.79% | 19.55% | 11.36% |
| <i>Excess vs MSCI India Index</i> | <i>-2.53%</i> | <i>-1.16%</i> | <i>-1.35%</i> | <i>0.69%</i> |
| iShares India ETF | -3.49% | 3.16% | 15.30% | 8.05% |
| <i>Excess vs MSCI India ETF</i> | <i>-0.43%</i> | <i>1.47%</i> | <i>2.90%</i> | <i>4.00%</i> |
| ASX 200 | 1.72% | 7.52% | 10.10% | 12.00% |
| MSCI EM | 3.97% | 12.61% | 29.00% | 20.45% |
| IAEF - Retail | -4.04% | 4.45% | | 6.83% |
| MSCI India | -1.39% | 5.79% | | 9.08% |
| <i>Excess vs MSCI India Index</i> | <i>-2.65%</i> | <i>-1.34%</i> | | <i>-2.25%</i> |
| iShares India ETF | -3.49% | 3.16% | | 5.65% |
| <i>Excess vs MSCI India ETF</i> | <i>-0.54%</i> | <i>1.29%</i> | | <i>1.18%</i> |

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 28th February 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 th September 2016 |
| Fund Size | \$17.5 million |
| Unit Price | Wholesale: 1.1649 Retail: 1.1626 |
| 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

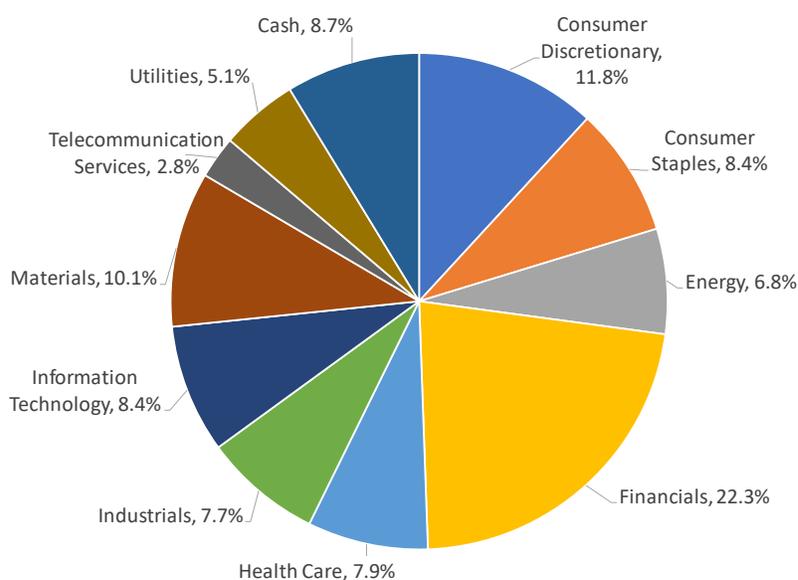
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

| Name | Description | Weight |
|---------------------|----------------------------|--------|
| Kotak Mahindra Bank | Banks | 4.3% |
| Mahindra & Mahindra | Automobiles | 3.9% |
| ICICI Bank | Banks | 3.7% |
| NTPC | Power and Renewables | 3.6% |
| Infosys | IT Services | 3.4% |
| Sun Pharma | Pharmaceuticals | 3.4% |
| State Bank of India | Banks | 3.4% |
| Larsen & Toubro | Construction & Engineering | 2.8% |
| Bharti Airtel | Telecommunications | 2.8% |
| Reliance Industries | Oil and Gas | 2.7% |

Source: India Avenue, Bloomberg

Sector Allocation



India Macro News

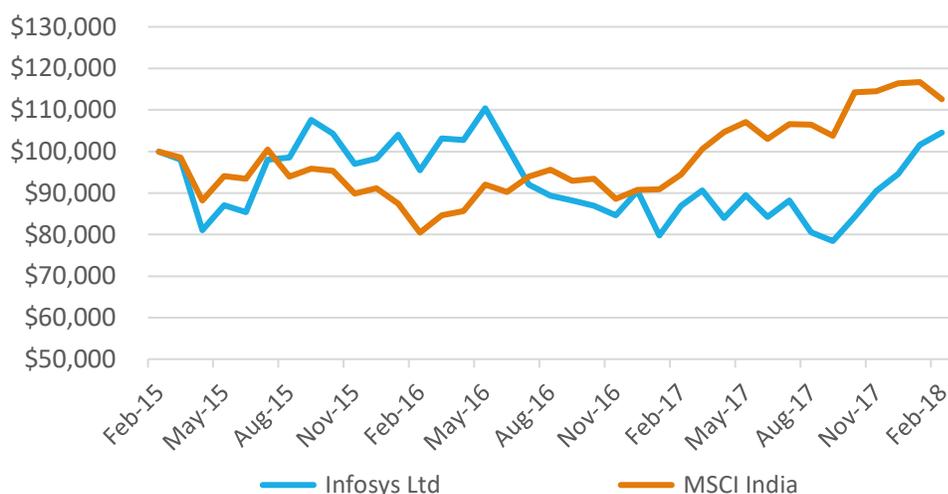
1. With an "ambitious government undertaking comprehensive reforms", India has "**enormous growth potential**" compared to other emerging economies, **the World Bank said**, as it projected the country's growth rate at **7.3% in 2018 and 7.5% for the next two years**
2. The **Index of Industrial Production** was **8.4%** in November 2017, as compared with 5.1% growth in November 2016
3. Infrastructure output in the country **increased by 6.7% Y-o-Y** in January 2018. Infrastructure output is comprised of eight sectors accounting for over 40% of country's industrial output

India Micro News

1. Indian consumers, especially women and new internet users from smaller cities, are going to drive digital consumer spending, which is expected to more than **double to US\$100bn by 2020**, said a joint report released by Google India and The Boston Consulting Group. The adoption of online transactions amongst Indians still lags markets like the US and China. For instance, only one in five internet users in India buy products online compared to four in five for US and three in five for China
2. Ikea India plans to **invest \$AU800m** in the state of Maharashtra to set up multi-format stores and experience centers. **Ikea plans to open 25 stores by 2025 in India**
3. The **world's largest solar park** has been set up in the state of Karnataka. **The 2,000 MW park, named as 'Shakti Sthala'**, spans across **13,000 acres** and was completed in 2 years. The state has set a goal of at least 20% of power use to be produced by renewable projects

Stock Story: Infosys Ltd

Growth of \$100,000



- Infosys provides IT consulting and software services to corporations. The company also provides data management, systems integration and project management
- Key industries that Infosys provides services to include financial services, insurance, manufacturing, telecommunication, retail and consumer goods
- North America is the biggest market for Infosys, accounting for 62% of revenue. Services contribute 96% of their revenues
- Infosys runs a global delivery model, where they provide services to the company from any location, be it the client's office, in India or any other location where the costs might be lower. They can do this very efficiently as they have offices in all over the world
- Infosys has built a software development center in Shanghai and Hangzhou to develop software talent to meet both local and global demands
- Infosys is one of many large IT services and software firms in India. Indian competitors include Tata Consulting Services, Wipro and HCL Tech
- New CEO, Salil Parekh took over the reins from Vishal Sikka in January 2018. His strategic priorities and plans around capital allocation will be articulated and communicated by the end of April
- Growth of the Indian IT sector should gradually pick-up from current 6-7% as digital services proliferate making a case for increasing the shift to digital business from onsite. This will be good for Indian IT firms as India remains the hub for IT talent globally
- Infosys has been investing in new services and solutions with currently 11% of revenues coming from services / solutions that didn't exist two years ago
- Infosys is currently trading at 16.5x trailing 12m EPS, is generating a RoE of 22% and its EBIT margins at 24.3% remain strong

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