

Avenues

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	\$19.4 million
Unit Price	Wholesale: 1.1670 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: 0.67 cpu Retail: 0.67 cpu

** Subject to a high watermark

Fund Commentary: June 2018

The India Avenue Equity Fund is up **10.2% p.a.** since inception and has outperformed the index and ETF **after fees** by **0.37% p.a.** and by **2.30% p.a.** respectively. Though we have outperformed the index since inception, the performance of our fund can be broken into 2 periods. Prior to 2018 and the 2018. In the period prior to 2018 (6th Sep 2016 to 31st Dec 2017) the fund outperformed the index by 4.1% after fees. However, in the first 6 months of 2018 we have seen a sudden reversal in relative performance with flows moving towards the largest companies in India, driving the local Indian market indices higher. Although, looking beneath the surface we have seen significant performance dispersion between names within the top 5 stocks in India and the remaining index constituents. To put this into context, we have seen the top 5 names generate an average return of 28% this year vs -6% for the remainder.

As mentioned in previous fact sheets, our investment philosophy is to invest in companies that provide greater depth to India's broader growth thematic than a typical index does. As a result, we will perennially be underexposed to the top 5 stocks and in periods like so far in 2018, we will experience such alpha drawdowns. Given our long-term investment focus, we are very confident that our portfolio will outperform as companies are invested for 3-5 years. We expect to monetise several of these opportunities as the investment thesis plays out over longer periods of time.

We also paid our annual distribution in July to investors. One thing to note is the low distribution compared to a typical Australian/NZ equity fund. Again, this is something that we remind our investors to be aware of. The Indian equity market is a low dividend paying market (around 1.5%) as companies often reinvest earnings back into the business due to the high growth on offer. Given our fund also has low turnover, distributions of realised profit will also be low. Capital gains will be the primary driver of returns over the long term and in our view, a great diversifier for Australian/NZ investors who are often exposed to lower growth but higher yielding investments.

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

Wholesale	3 months	6 months	1 year	Since Inception [#]
IAEF	3.18%	-4.71%	8.10%	10.19%
MSCI India	3.19%	-2.09%	10.54%	9.82%
Excess vs MSCI India Index	-0.01%	-2.62%	-2.44%	0.37%
iShares India ETF	1.39%	-2.35%	8.65%	7.89%
Excess vs MSCI India ETF	1.79%	-2.36%	-0.55%	2.30%
Retail	3 months	6 months	1 year	Since Inception [#]
IAEF - Retail	3.03%	-4.98%	7.64%	6.90%
MSCI India	3.19%	-2.09%	10.54%	8.24%
Excess vs MSCI India Index	-0.16%	-2.89%	-2.90%	-1.34%
iShares India ETF	1.39%	-2.35%	8.65%	7.89%
Excess vs MSCI India ETF	1.64%	-2.63%	-1.01%	0.83%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th June assuming the reinvestment of dividends

[#]Inception Date: Wholesale 6.9.16, Retail 6.4.17

[^]Returns above 1 year are annualized

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	AU60ETL047
Citi Code	NFKK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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Company Revenue Generated Locally



Source: Bloomberg

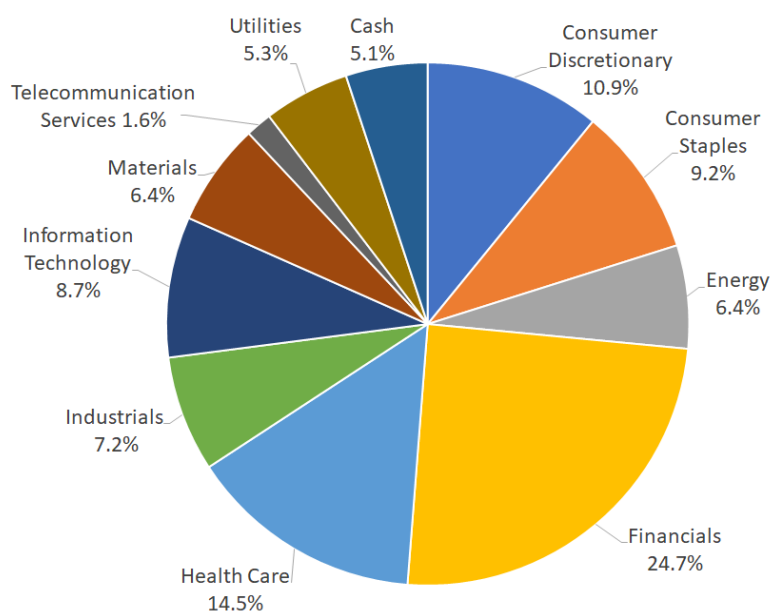
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.4%
Infosys	IT Services	4.8%
Mahindra & Mahindra	Automobiles	4.3%
Kotak Mahindra Bank	Banks	3.6%
Cipla	Pharmaceuticals	3.4%
NTPC	Power & Renewables	3.1%
HDFC	Housing Finance	3.1%
Reliance Industries	Oil & Gas	3.0%
Hindustan Unilever	Household Products	3.0%
ICICI Bank	Banks	2.9%

Source: India Avenue, Bloomberg

Sector Allocation



India Macro News

- India has received **A\$280bn** from foreign investors between May 2014 and February 2018. This amount is 43% more than the funds received between 2010 and 2014 and is primarily driven by a major change in foreign policy and ease of doing business under **Prime Minister Narendra Modi**
- India is emerging as a global manufacturing and start-up hub and many cars and smart phones are being made in India according to Prime Minister Modi. He noted that Samsung recently opened the world's biggest mobile phone manufacturing plant in the state of Uttar Pradesh. He also said 11,000 start ups have been registered in India in the last four years, making the country a land of start-ups

India Micro News

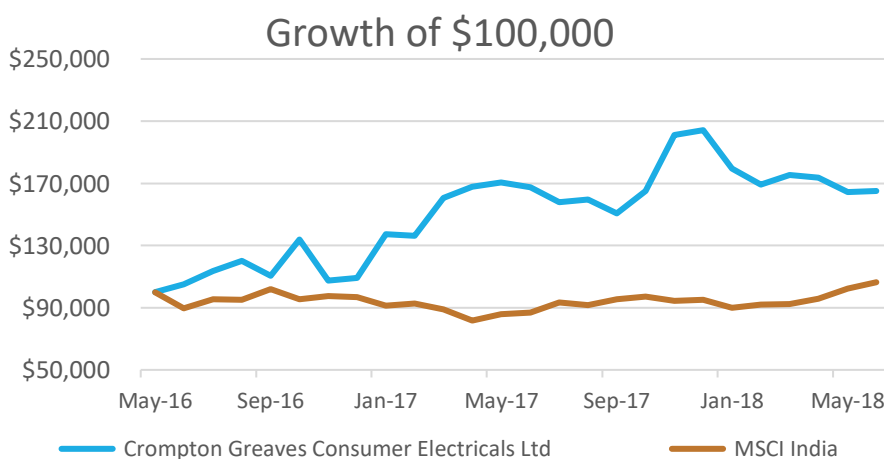
- After losing out to Walmart in acquiring online marketplace Flipkart, **Amazon's Chief Executive Jeff Bezos** is keen to show that he still means business in India. Last month Amazon infused Rs 26 billion (approximately A\$500 million) into their local Indian operation. This brings the total capital pumped into Amazon's e-commerce business in India to Rs 223.9 billion, or around A\$4.5 billion. During a recent investor call, Amazon CFO Brian Olsavsky had said the company would continue to invest in India as it sees great progress with both sellers and customers
- Walmart India** plans to double its wholesale store presence in the next 3 years with 20 new stores in the country. Walmart India currently operates 21 cash and carry stores across 19 cities. Interestingly this comes up at a time when Walmart agreed to buy a 77% stake in online retailer and local e-commerce player Flipkart for A\$21 billion. This two-pronged approach indicates Walmart's commitment and seriousness to be a major player in India's consumer market

Thematic: Consumption

The Indian consumption story is one of the biggest themes attracting global investors to India. The story is relatively simple and speaks for itself, India has 1.3bn people and is expected to overtake China as the largest population in the world by 2025. Furthermore, India's young demographics with 50% of the population under 25 means the spending on consumption over the next decade is likely to be unprecedented. This spending is most likely to occur in food, housing, consumer electronics and transport and communication. The growth in spending will also be helped by the current low GDP per capita base of US\$1500 which can grow at a much faster pace than many economies that have much higher GDP per capita base.

One component of consumption is the consumer electronics market. India is one of the largest growing electronics market in the world and is expected to grow at 41% p.a. between 2017-20 to reach US\$400bn. This strong demand growth is based on rising disposable incomes, urbanisation, government reforms to create affordable housing, easier access to credit through greater formalization of financial services, increasing electrification of rural areas and greater acceptance of e-commerce.

One company in this sector that we like is Crompton Greaves Consumer Electrical (CGCE). The company manufactures and distributes a wide range of consumer products ranging from fans, light sources, pumps and household appliances. They are the market leader in India within the fan and residential pumps space and growing their presence in lighting, household appliances and agricultural pumps. The company has seen margin expansion through product premiumization, reduction in costs and greater optimisation of their portfolio of product offerings. Over the last decade, there has been a shift from the un-organised market to the organised market and this shift has picked up pace since the introduction of the GST last year. Fan and lighting sales from the un-organised sector have declined significantly and this bodes well for companies like CGCE who are a major beneficiary of this migration towards the formal economy.



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