

# AVENUES

## INDIA AVENUE EQUITY FUND

SQM Research Rating: Superior ★★★★★

### MARKET COMMENTARY: DECEMBER 2016

The India Avenue Equity Fund fell by 1.30% (net of fees) for the quarter ending December 2016, outperforming its benchmark, MSCI India, which fell 2.76% over the same period, in Australian Dollar terms. This outperformance can be attributed to adopting a fairly conservative strategy in stock selection in an uncertain global macroeconomic environment.

The quarter saw Trump's surprising win in the US election, the US Federal Reserve raising interest rates and the Government on India embarking on a 'Demonetisation' initiative to curb corruption. This initiative saw liquidity sucked out of the ecosystem with all cash having to be deposited into bank accounts. Corporates, particularly involved in consumption, were impacted severely in the short-term. In the two weeks post the announcement, Indian markets fell by 7% in local currency terms. Despite the short-term pain, we see the impact of Demonetisation as being long-term significantly positive for the Indian economy. Given these short-term concerns we increased our cash weighting to 14.2% and look to deploy when a better opportunity arises and the transparency of the outlook for earnings improves.

### FUND PERFORMANCE (Net of management fees and fund expenses)

	3 Months	Since Inception*
India Avenue Equity Fund (AUD)	-1.30%	-4.09%
MSCI India (AUD)	-2.76%	-5.78%
Out/Under Performance	1.46%	1.69%
ASX 300	5.48%	6.25%
MSCI EM (AUD)	1.60%	-0.31%
MSCI World (AUD)	8.30%	7.38%

Source FundBPO and Bloomberg

\*Inception Date: 6th Sept 2016

### FUND OBJECTIVE

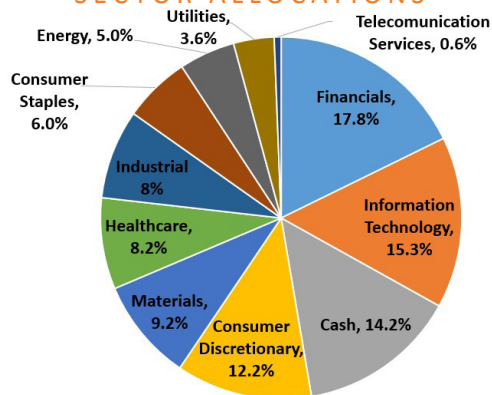
The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's growing economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5 year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

### 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	\$6.4 Million
Unit Price	0.9591
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%
Performance Fee*	10% of the excess return above the benchmark

\*Subject to a high watermark.

### SECTOR ALLOCATIONS



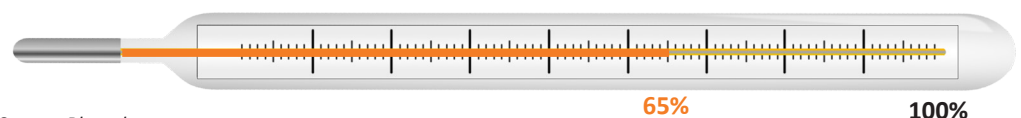
Source: IAIM Research and Bloomberg

### TOP 5 INDUSTRIES

Industries	Weight
Software & Services	15.3%
Banks	15.2%
Automobiles	11.3%
Materials	9.2%
Pharmaceuticals	8.2%

Source: IAIM Research and Bloomberg GICS Sectors (31 December 2016)

### 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.

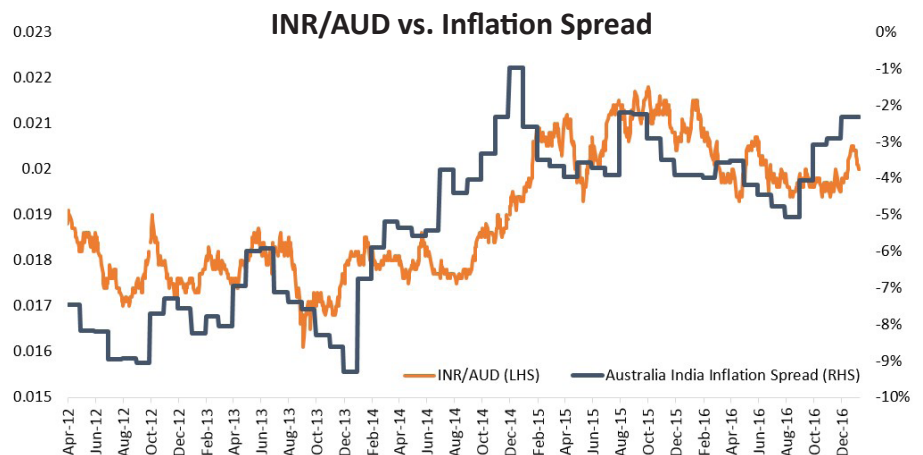
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## TOP 10 STOCKS

Name	Description	Weight
Infosys	Software & Services	5.8%
Maruti Suzuki India	Automobiles	5.5%
Larsen & Toubro	Capital Goods	4.9%
Tata Motors	Automobiles	4.8%
HCL Technologies	Software & Services	3.9%
Kotak Mahindra Bank	Banks	3.5%
Sun Pharmaceuticals	Pharmaceuticals	3.4%
Ambuja Cements	Materials	3.3%
Hindustan Unilever	Household & Personal	3.3%
Wipro	Software & Services	3.3%

Source: IAIM Research and Bloomberg

## TO HEDGE OR NOT TO HEDGE



Source: Bloomberg, IA Research

A common question we often get is on the Rupee and whether we hedge the currency or not. Whilst we can partially hedge the currency, we feel that a sustained and prolonged depreciation of the currency is unlikely to occur in the same manner as it has in the past. Hence our view is to remain strategically unhedged for the following reasons.

- Hedging the Rupee is costly and locks in the loss. The cost of hedging the portfolio is around 4% p.a.<sup>1</sup> Hence Rupee depreciation compared to the cost of hedging must be factored into decision making
- The Rupee provides diversification benefits for the portfolio. Due to a more robust reserve bank and FX reserves, it is no longer a fragile 5 currency. During this market correction, remaining unhedged has cushioned the fall by 2.1%<sup>2</sup>
- Indian macro fundamentals compared to many developed and developing countries appear very attractive and are likely to support and help stabilise the Rupee.
- India-Australia inflation spread is likely to fall as bottlenecks in India are reduced. The chart below shows the relationship between inflation spreads and the INR/AUD rate
- The RBI have explicitly stated that they want to “minimise situations of extreme volatility and intervening in situations when the exchange rate becomes extremely volatile”<sup>3</sup>

<sup>1</sup> Approx. forward points on a 12 month AUD/INR NDF

<sup>2</sup> Over the last 4 months till January 6th

<sup>3</sup> RBI Statement, Feb 2016

## 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

- ARSN: 611 374 586
- ISIN: AU60ETL04826
- Citi Code: NFCK
- Bloomberg: ETL0482 AU
- Morningstar: 41512

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