India Avenue Investment Management

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	Muguntha Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016
Fund Size	$22.5 million
Unit Price	Wholesale: 1.2561 Retail: 1.2559
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU$
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	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
FY18 Dividend	Wholesale: 0.67 cpu Retail: 0.67 cpu

** Subject to a high watermark

Fund and Market Commentary: August 2018

The India Avenue Equity Fund has provided investors with a return of **13.41% p.a.** since inception#. Over this period, the Fund has underperformed its benchmark (MSCI India in AUD) by 0.83% p.a., but continues to outperform the respective **MSCI India ETF by 0.81% p.a**. The total return for India remains positive this year, which is encouraging given the fall out experienced by Emerging markets, particularly in China, which have felt the full brunt of the trade war. India's growth, driven largely by strong internal consumption, has meant it is somewhat immune to trade conflicts. Having said that, the INR has fallen this year, depreciating around 11% relative to the USD. However, against the AUD, the fall has been much less significant, falling 2.7%. As discussed in last month's factsheet, our analysis shows that the AUD is highly correlated to Emerging market currencies and hence hedging currency risk along given the associated costs of doing so, is not optimal.

India's real gross domestic product (GDP) growth came in at 8.2% YoY during the June 2018 Quarter, its fastest pace in nine quarters. The GDP numbers were higher than the market consensus of 7.6% YoY growth and up from 7.7% YoY growth in 4QFY18. The pick-up in GDP growth during 1QFY19 was mainly driven by a pick-up in consumption growth, which grew by 8.4% YoY during the quarter from 8.1% YoY in the previous quarter. Manufacturing growth also surged to 13.1% YoY in 1QFY19 from 9.1% in 4QFY18.

Global rating agency, Moody's has increased its GDP forecast for India by 20 bps to 7.5% in 2018 from its earlier forecast of 7.3% in May. In its global macro outlook for 2018-19, Moody's said growth in India is supported by strong urban and rural demand and improved industrial activity. It said a normal monsoon, together with the increase in the minimum support prices for kharif (Monsoon) crops, should support rural demand. Thus, despite external headwinds from higher oil prices and tightening financing conditions, growth prospects for India will remain in line with the economy's potential.

India's economy appears to be on a recovery path supported by the ongoing recovery in rural economy, improvement in consumption demand, the Government's consumption expenditure, infrastructure spend and an industrial capex recovery. We think this will flow into stronger earnings for Indian corporates going forward.

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

Wholesale	3 months	6 months	1 year	Since Inception#
IAEF	9.18%	8.45%	13.47%	13.41%
MSCI India	11.42%	11.05%	17.48%	14.24%
Excess vs MSCI India Index	-2.24%	-2.60%	-4.01%	-0.83%
iShares India ETF	11.78%	12.86%	16.42%	12.60%
Excess vs MSCI India ETF	-2.60%	-4.41%	-2.95%	0.81%
Retail	**3 months**	**6 months**	**1 year**	**Since Inception#**
IAEF - Retail	9.52%	8.63%	13.46%	12.04%
MSCI India	11.42%	11.05%	17.48%	14.65%
Excess vs MSCI India Index	-1.90%	*-2.42*	-4.02%	-2.61%
iShares India ETF	11.78%	12.86%	16.42%	12.60%
Excess vs MSCI India ETF	-2.26%	-4.23%	-2.95%	-0.56%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 3sth July assuming the reinvestment of dividends

#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

^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

Is India immune to Emerging Market Contagion?

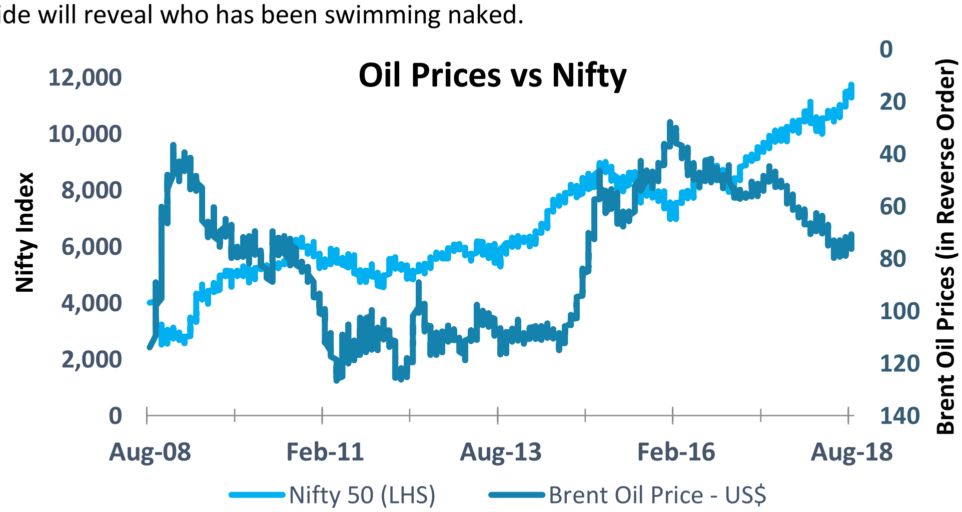
This year has been an interesting year for India with macro headwinds from emerging market contagion fears, trade wars, stronger USD, tightening global liquidity and rising oil prices. Despite this, equity markets have rallied whilst the INR has taken the brunt of these headwinds, falling 11% YTD relative to the USD.

Whilst in the short term, markets can seem to be in sync, investors in emerging economies should understand how fundamentally diverse these economies are and hence not be quick to generalise. Some have also evolved rapidly, and previous crises have taught them valuable lessons. Competent emerging economies can adjust, using exchange rates as buffers and to improve international competitiveness. They can also run down foreign-exchange reserves, tighten spending and delay investments.

Current financial commentary is dominated by concerns that emerging markets are facing a repeat of the 2013 "taper tantrum". However, looking at India (see table below), the situation is significantly different this time compared to 2012-13, where inflation was in double digits and India's CAD reached ~5% of GDP.

Factor	2012-13	2018
CPI	9-11%	4-5%
CAD/GDP	4 - 5%	1.5-2%
FX reserves	275bn	400bn
Oil Prices	$110-$120	$70-80
External Debt % of GDP	22%	20%
RBI Policy Rate	9-10%	6.25-6.75%

Higher oil prices have also been frequently cited as a concern for India. To some extent this is warranted as India is the world's third-biggest oil consumer and imports around 80% of its crude needs. However, historically (see chart below), Oil prices and India's stock market have not shown signs of correlation. Between 2011 and 2013, when Oil prices were around $120, Indian markets were weak, but this also coincided with a high CAD and inflation rate as well as Fed QE tapering. The short-term may see *ALL* EM countries clubbed together, driven by sharp sentiment swings rather than a deep analysis of individual economies. We feel this provides investors an opportunity to differentiate between those economies that are fundamentally strong and those that are not. As Warren Buffet so aptly stated, the low tide will reveal who has been swimming naked.



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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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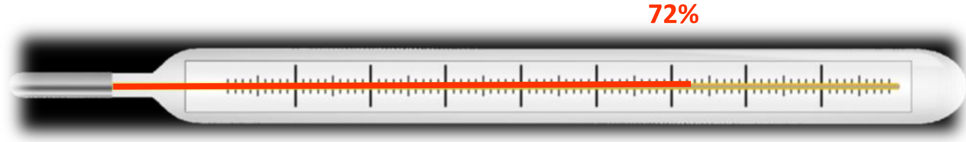
Company Revenue Generated Locally



Source: Bloomberg

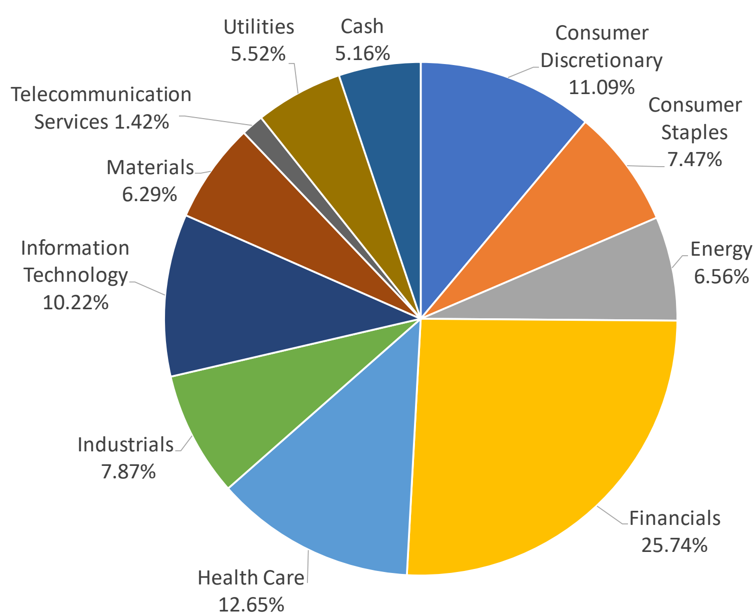
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.3%
Infosys	IT Services	4.0%
Mahindra & Mahindra	Automobiles	4.0%
Reliance Industries	Oil & Gas	3.3%
ICICI Bank	Banks	3.1%
NTPC	Power & Renewables	2.9%
HDFC Bank	Banks	2.8%
State Bank of India	Banks	2.7%
Yes Bank	Banks	2.5%
HDFC	Housing Finance	2.4%

Source: India Avenue, Bloomberg

Sector Allocation



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India Macro News

- The Government of India (GoI) approved fiscal incentives to attract investments and technology in raising oil and gas production from aging fields. Conventional oil and gas fields see output decline and recovery rates drop as they age. An increase by 5% in recovery rate of original in-place volume is envisaged to produce 120 million tonnes of additional oil in the next 20 years. Improving energy self-reliance is a key initiative by the GoI.

India Micro News

- Warren Buffet's Berkshire Hathaway Inc is set to acquire around 3-4% stake in One97 Communications Ltd, the company behind India's largest digital payments brand Paytm. Investment from Berkshire will value the company at more than US$ 10 billion, as per people involved in the deal. Other existing investors in the company include Softbank Group Corp, Alibaba Group Holding Ltd and Ant Financial. The industry is now expected to reach US$1 trillion from the current US$200 billion, as per Credit Suisse.

- Revenues have grown by 17.1% during the first quarter (Q1FY19), on a year-on-year basis. Consumer-oriented sectors like autos, FMCG, consumer durables, restaurants, airlines and commodity-linked sectors like cement, iron and steel and oil and gas continue to do well, while sectors like capital goods, pharmaceuticals, media and fertilisers have also witnessed strong revenue growth.

- Indian software major Infosys announced a strategic three-year partnership with the Australian Open tennis championship. Infosys, as the Official Digital Innovation Partner of the Australian Open, will leverage its expertise in emerging technologies like big data and analytics, artificial intelligence as well as virtual and augmented reality, to provide unique, innovative and engaging experiences for fans.

Thematic: ESG in India

ESG (Environmental, Social and Governance) investing is gaining significant traction globally and now constitutes over a quarter of all global managed assets. Despite this, ESG investing is still very niche in India. However, it is a theme that we feel is gaining significant ground as investors globally recognise the importance of fostering sustainable development. It is also being promoted by the Government and the Securities and Exchange Board of India to encourage responsible business practices. In fact, India was the first country in the world to make corporate social responsibility as law, by requiring companies (of a certain size) spend at least 2% of their average net profits during their previous three financial years on socially impactful activities. Until now, roughly US$30 billion is deployed in ESG investing strategies in India with less than 1% managed in India, but this is expected to reach US$240 billion in the next ten years as per a recent study by Oxfam-cKinetics.

Source: SustainabilityOutlook.in, Sustainable and Responsible Investing in India: An idea whose time has come

One such industry that dominates the list of strong responsible players in India is Information Technology. Indian technology companies like Wipro, TCS, Tech Mahindra, Infosys and HCL Technologies are amongst the highest ESG scorers in India. The IT-BPM industry contributed to 7.7% of India's overall GDP in fiscal year 2017. The global digital transformation market size is expected to grow from US$1.2 trillion in 2017 to US$2 trillion in 2020 in India. As companies innovate their operations, combined with the rise in global assets being managed with an ESG focus, it is likely that global managers will look for more ESG compliant companies like India's IT fraternity.

One company in this sector that we like is Wipro Limited. It provides information technology, consulting and business processes services globally. At Wipro, their sustainability initiative is built on eight pillars namely ecological footprint, people at work place, product & customer stewardship, supplier responsibility, systemic social issues, community engagement, disclosures and advocacy. A lot of initiatives have been taken by Wipro over the years– such as;

- 26% of Wipro India offices runs on electricity from renewable sources. It saved 93 million kWh in five years
- 38% of water used at Wipro India is recycled. It saved 800 Mn Liters of water in five years
- Greenhouse gas emissions reduction of 11,000 tons of CO_2 in 2017
- More than 93% of solid waste is reused and recycled

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