

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

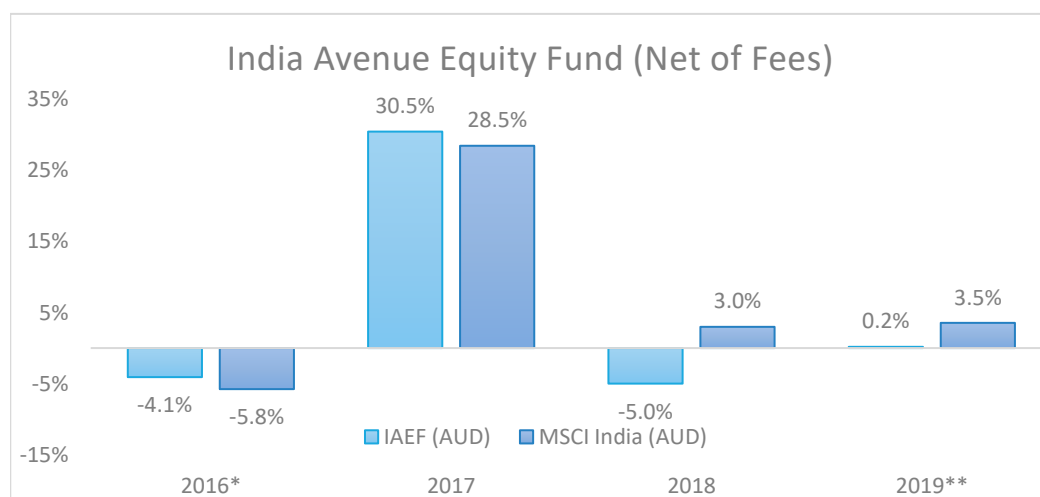
Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 th September 2016
Fund Size	\$31.1 million
Unit Price	Wholesale: 1.1406 Retail: 1.1427
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
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
FY19 Dividend	Wholesale: 2.653 cpu Retail: 1.248 cpu

** Subject to a high watermark

Fund and Market Commentary: August 2019

Indian markets subdued corporate earnings (7% y-o-y for quarter ended June 2019), slowing auto demand and expectations for a lower GDP print has dented sentiment. The Government has been swift to implement changes to encourage investment. For example, the Finance Minister has announced a series of measures including simplifying some Foreign Direct Investment (FDI), Know Your Customer (KYC) and GST requirements, recapitalization of USD 9.8bn to Public Sector Banks (PSB), withdrawal of an additional surcharge on capital gains and several measures to revive demand in the automobile sector. The Government also announced the amalgamation of ten Public Sector Banks into four, bringing down the total number of PSB's from 27 to 12.

Our fund's overweight position to select mid and small caps continues to detract from performance despite them being attractively valued. The significant divergence in performance between the index heavyweight names and the rest of the market is unlikely to turn around until sentiment improves. Given the fundamental approach to stock selection, the fund is well positioned to succeed over the long term as the market reverts to fundamentals. Our portfolio is trading at over 2 multiples cheaper than the index with superior earnings growth. Furthermore, mid-caps are now trading at 14.9x about 20% cheaper than the large cap Nifty index. We discuss this more on page 3.



India Avenue Equity Fund Performance (in AUD and net of fees)

Wholesale	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	-2.40%	-8.47%	4.81%	-7.22%	2.61%	6.03%
MSCI India	-0.69%	-5.64%	6.66%	-0.87%	7.92%	8.94%
Excess	-1.71%	-2.83%	-1.85%	-6.35%	-5.31%	-2.91%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	-2.43%	-8.57%	4.62%	-8.09%	2.12%	3.17%
MSCI India	-0.69%	-5.64%	6.66%	-0.87%	7.92%	7.92%
Excess	-1.74%	-2.93%	-2.04%	-7.22%	-5.80%	-4.75%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st August 2019 assuming the reinvestment of dividends

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

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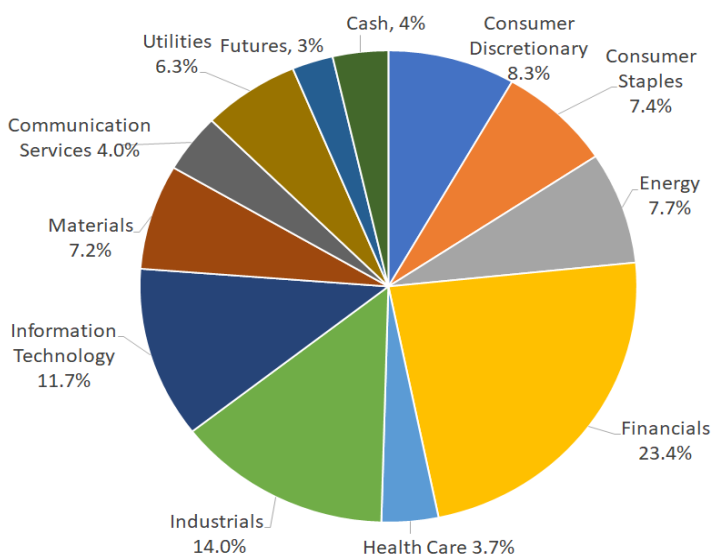
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	6.1%
Infosys	IT Services	5.6%
Reliance Industries	Oil & Gas	4.9%
NTPC	Power & Renewables	4.1%
HDFC	Housing Finance	3.3%
HDFC Bank	Banks	3.1%
L&T	Construction & Engineering	2.3%
Mahindra & Mahindra	Automobiles	2.3%
Sun Pharmaceuticals	Pharmaceuticals	2.2%
IndusInd Bank	Banks	2.2%
Wipro	IT Services	2.0%
Bharti Airtel	Communication Services	1.9%
State Bank of India	Banks	1.9%
Tata Motors	Automobiles	1.8%
Kotak Mahindra Bank	Banks	1.8%
Hindustan Unilever	Consumer Household Products	1.8%
HCL Technologies	IT Services	1.8%
Polycab India	Wires & Cables	1.7%
Crompton Greaves	Consumer Electrical Equipment	1.7%
Spicejet	Aviation	1.7%

Sector Allocation



Source: India Avenue, Bloomberg

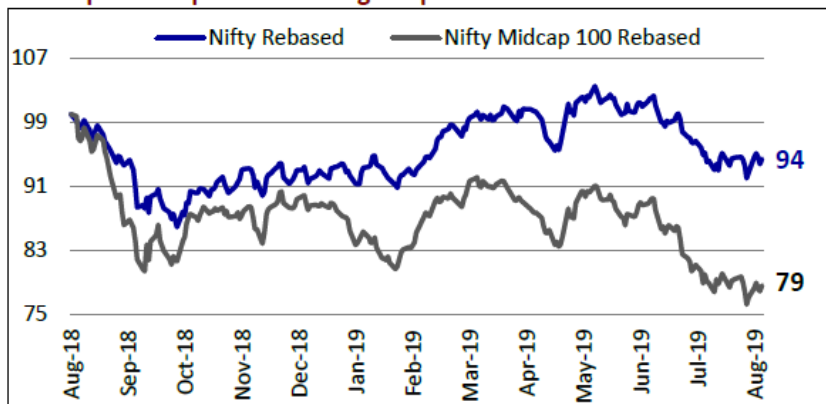
India Macro & Micro News

- India is expected to overtake Japan to become 3rd largest economy in 2025. This is after India overtook the UK to turn into the world's fifth biggest economy. In May 2019, the re-election of BJP government, led by Prime Minister, Mr Narendra Modi and the Ministry of Finance has developed an economic roadmap to 2025 to transform India from a US\$ 3 trillion economy in 2019 to a US\$ 5 trillion economy by 2025. To do this, the government is aiming to create a virtuous cycle of investment, funds and exports in order to maintain rapid economic growth over the next five years.
- Foreign institutional investor (FII) inflows in the first six months of 2019 are at their highest in five years. FII's flows have been increasing in the initial half year of 2019 in Indian equities. FIIs have seen a total investment of US\$11.5 billion from January to June 2019, similar to what was seen in 2014. This increase in flow was driven by different global factors including a shift in stance on monetary policy by various central banks including India.
- Power demand in India grew at 7.4% year over year in June. The thermal power generation sector, which remains the highest contributor to the overall general basket (83%), saw an improvement in total generation to 112.8 billion units because of higher year over year accessibility of both domestic and imported coal. Coal imports expanded 28% year over year to 5.7 million tons in June 2019.
- Singapore's sovereign wealth fund GIC will put US\$ 611.6 million in a private Infrastructure Investment Trust run by IRB Infrastructure Developers Ltd. As a part of the transaction, IRB will transfer nine of its BOT (Build, operate and transfer) road projects into the Investment Trust in which IRB will hold the controlling stake of 51% stake. Three of these projects have recently become operational and the balance six are under different phases of construction.

Thematic: Mid Cap Underperformance Continues...

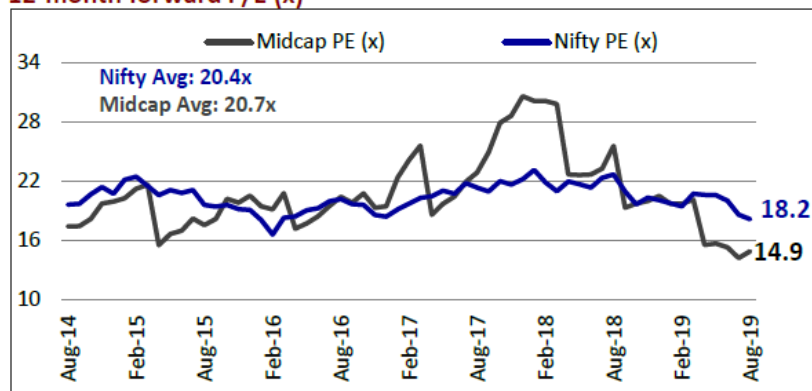
The last 12 months has continued to see the Nifty 50, India's largest 50 companies by market cap outperform the rest of the market as sentiment remains weak. To put this into perspective, mid-caps are down 21.4% compared to the Nifty's fall of 5.6% over the last year.

Mid-caps underperformed large-caps in the last 12 months



From a P/E multiple perspective, the Midcap 100 index P/E ratio has corrected from 25.6x in August 2018 to 14.9x currently. The mid-cap premium to the Nifty (13% in August 18) has also turned into a discount of 18% in August 2019. Hence, from a valuation point of view, the market is reasonably cheap in small and midcaps, fairly valued in large caps and extremely overvalued in super-large caps i.e., the top 5 names.

12-month forward P/E (x)



Source: MOFSL, Bloomberg for Midcap valuation.

In terms of flows, domestic mutual fund flows continue to remain strong offsetting foreign outflows. Foreign institutional investors were net sellers (US\$ 2.3bn in August 2019) while Mutual funds bought equities worth US\$ 2.4bn in August 2019. The divergence in performance and valuations over the last year imply good risk reward characteristics and as a result, we are very selectively increasing our small-caps and mid-caps exposure in a staged manner.

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