

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*

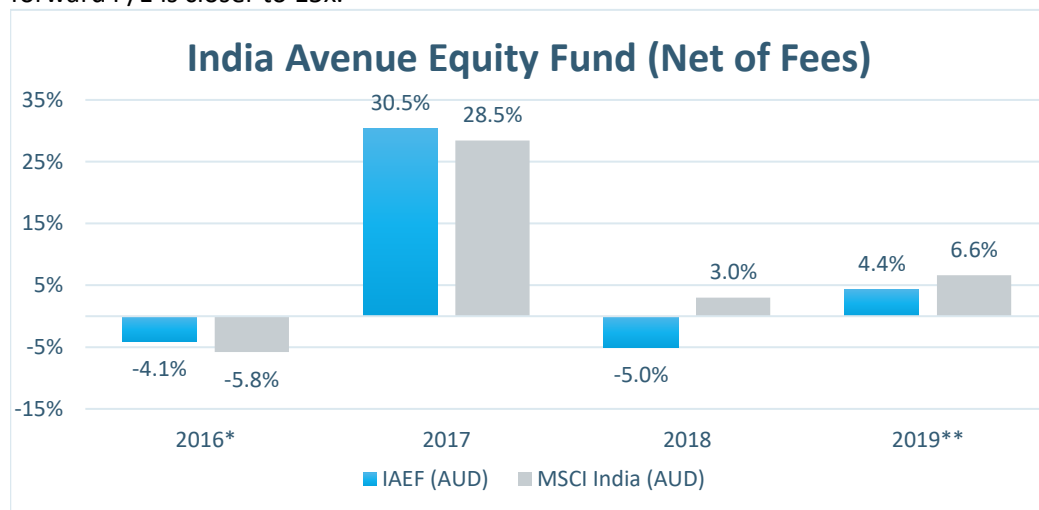
Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 th September 2016
Fund Size	\$33.1 million
Unit Price	Wholesale: 1.1887 Retail: 1.1904
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: September 2019

The India Avenue Equity Fund (wholesale) delivered a return of 4.22% for the month of September 2019, which was above the MSCI India benchmark of 2.97% for the equivalent period. Over a one-year period the Fund achieved a return of 9.04%, trailing its benchmark by 3.34%. As previously discussed, the Fund's performance is reflective of the corporate health of India's broader equity market. It has less exposure to the top 15 stocks by market capitalisation, which are significant weights in the benchmark, but do not necessarily represent the breadth of the "India growth story". The last 18 months in India have seen a period of extremely narrow leadership in outperforming stocks as investors in India have reduced their willingness to take on exposure in small and mid-cap companies or anything cyclical, with strong linkages to economic growth. This has created significant dispersion in valuations of companies with low corporate earnings volatility (which are priced at a significant premium today) to companies which are likely to thrive when the cyclical weakness we are experiencing in India today is over (priced at a significant discount to the top 15 stocks by market capitalisation). With significant stimulus from monetary policy and Government reforms (see our attached article on Corporate Tax reform announced in September 2019), it is likely we are closer to a pick-up in economic activity, which our Fund is positioned well for. Today the Nifty 50 trades at a 1-year forward price-earnings multiple of approximately 18x, whereas our fund's forward P/E is closer to 15x.



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

	Wholesale	1 Month	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF		4.22%	-1.40%	9.04%	5.95%	8.50%	7.30%
MSCI India		2.97%	0.40%	12.36%	10.99%	11.12%	9.73%
Excess		1.25%	-1.80%	-3.32%	-5.04%	-2.62%	-2.43%
	Retail	1 Month	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF		4.17%	-1.59%	8.60%	5.45%	-	4.78%
MSCI India		2.97%	0.40%	12.36%	10.99%	-	8.92%
Excess		1.20%	-1.99%	-3.76%	-5.54%	-	-4.14%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th September 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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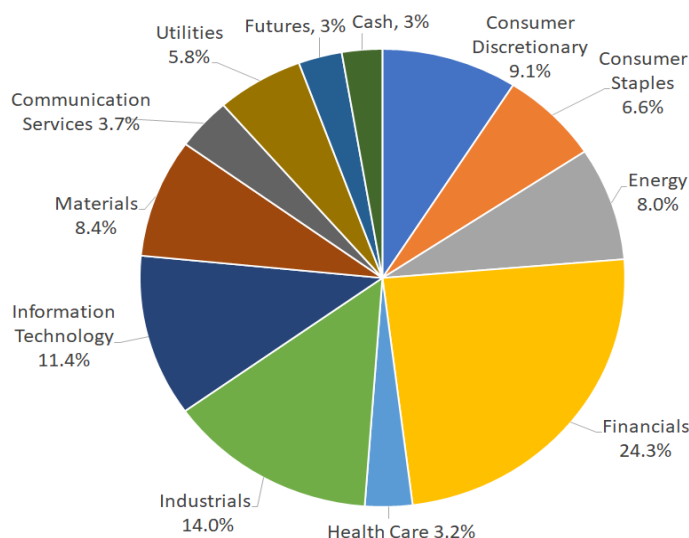
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	6.1%
Infosys	IT Services	5.3%
Reliance Industries	Oil & Gas	5.0%
NTPC	Power & Renewables	3.7%
HDFC Bank	Banks	3.2%
Bharti Airtel	Communication Services	2.9%
HDFC	Housing Finance	2.9%
Mahindra & Mahindra	Automobiles	2.7%
Axis Bank	Banks	2.6%
L&T	Construction & Engineering	2.4%
HCL Technologies	IT Services	2.4%
IndusInd Bank	Banks	2.0%
Kotak Mahindra Bank	Banks	2.0%
Mayur Uniquoters	Textile Products	1.9%
Bajaj Finance	Personal Finance	1.9%
Sun Pharmaceuticals	Pharmaceuticals	1.8%
Polycab India	Wires & Cables	1.8%
Hindustan Unilever	Consumer Household Products	1.8%
Tata Motors	Automobiles	1.8%
Crompton Greaves	Consumer Electrical Equipment	1.7%

Sector Allocation



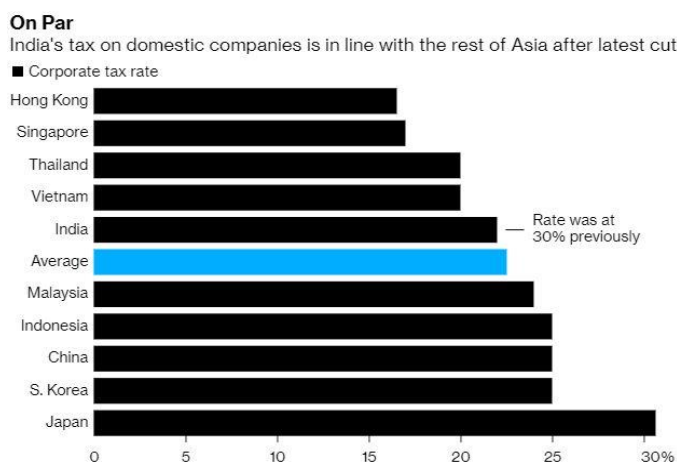
Source: India Avenue, Bloomberg

India Macro & Micro News

- India is focusing on **improving pollution** by shifting to the BS VI vehicle emission norms by April 2020. Additionally, there is a reduction in “stubble” burning by farmers, due to machines handed out by the Government. Roads are also being built to divert commercial vehicles from major cities like Delhi. The Minister highlighted that out of 273 days till 30th September in 2019, number of 'Good', 'Satisfactory' and 'Moderate' days were 165 as against 104 in 2016
- India's Income Tax Department will usher in a paradigm shift in its working by introducing faceless e-assessment to impart greater efficiency, transparency and accountability in the assessment process. This new initiative of faceless assessment is expected to increase ease of compliance for taxpayers as the cost and anxiety of taxpayers are likely to be greatly reduced. This is critical for India's attempt to broaden its tax base through compliance
- Dispelling the fear that a slowing economy may affect consumer behaviour, e-commerce majors Flipkart and Amazon India have said they witnessed record transactions on their platforms on the first day of their recent annual festive sale. Walmart, said it registered two times more sales on Day One of its flagship sale event Big Billion Days (BBD) over last year, rival Amazon claimed it witnessed the biggest opening day sale ever with a huge surge in participation from smaller towns
- Prospects of an early conclusion of the India-US trade deal have brightened with the two sides reducing their differences and agreeing to allow more goods to be shipped by both countries. Early signs are the deal will include medical devices and better trade access

Thematic: Corporate Tax cuts to Kickstart New Capex Cycle

The Indian Finance ministry surprised investors by reducing the corporate rate tax on domestic companies to 22% from 30% previously. The effective tax rate after including all additional levies is now 25.2%. This move brings India's tax on domestic companies in line with the rest of Asia and is expected to boost corporate profit growth, kick start the private investment cycle, attract global investors and stimulate the economy from its recent slowdown. Whilst the tax cut will cost the Government US\$20.5 billion in revenue and will test India's aim to narrow its deficit to 3.3% of Gross domestic product despite, a US\$24 billion windfall from the Reserve Bank of India as well as a lower tax rate to incentivize new players into the formal economy should offset this. In addition, new companies formed from October 2019, will attract 15% corporate tax which brings it to the same level as Singapore. Prime Minister Narendra Modi further aims to simplify India's tax regime and bring tax on equity investments in line with global standards.



Source: KPMG, India Finance Ministry

Sectors that are likely to benefit are capital goods, banks, automobiles, consumer durables, infrastructure, fast moving consumer goods, real estate, logistics and cement. The impact on information technology and pharmaceuticals will be negligible.

The tax cut is likely to positively impact automotive and industrial consumable sectors. The Indian automobile sector contributes to 7% of India's GDP and around 49% of its manufacturing GDP. However, the sector has been under the weather because of factors such as liquidity crunch, reduction of availability of retail finance, slow-down in economic activities and increase in total cost of ownership led by long-term insurance and implementation of safety regulations. The companies are likely to invest in technology upgradation and R&D and product development to gear up with the future of BS-VI vehicles and electric vehicles. The Electric Vehicle industry is likely to benefit from the tax cut. Currently, most of the critical electrical and electronic parts for vehicles made in India are imported. The imports have become expensive due to the falling rupee and hence most manufacturing companies will look at localization of components under the new tax regime. The tax cut decision will give impetus to growth of new manufacturing companies linked to the Electric Vehicle sector and attract investment around lithium-ion batteries, charging equipment and power electronics.

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