

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 6th September 2016

Fund Size \$33.2 million

NAV Wholesale: 1.0601
Retail: 1.0565

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 0.35% / 0.35%

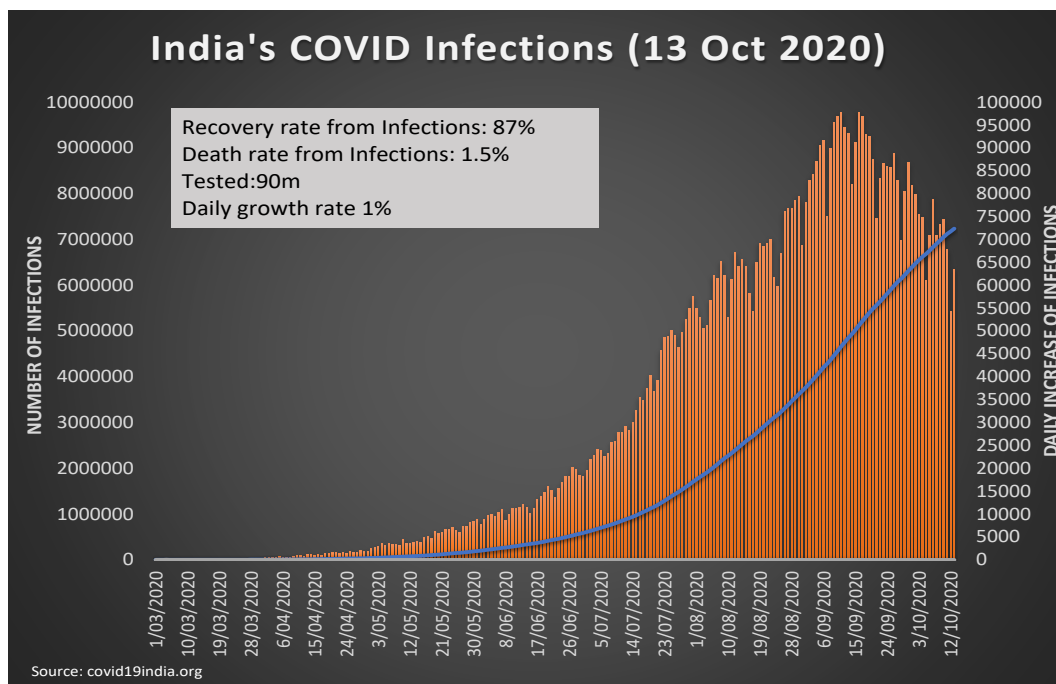
Performance Fee** 10% of the excess return above the benchmark

FY20 Dividend Wholesale: 0 cpu
Retail: 0 cpu

** Subject to a high watermark

Fund and Market Commentary: September 2020

India's equity market continues to recover, rising nearly 18% over the last 6 months in AUD terms. Although the headline number of COVID-19 infections appear in the headlines on a daily basis, given India is 2nd in the world behind the US, the number of daily cases continues to fall from a peak of almost 100,000 in early September to around 50,000-60,000 cases as seen below.



Whilst containing the virus in a country as densely populated as India is unfortunately extremely difficult to do. The spread of the virus and its health impacts have been less than once envisaged due to the following reasons:

- The young population has meant the death rate is remarkably low at 1.5%
- Relatively low level of testing given the size of the Indian population (around 90m at time of writing)
- Warmer weather and natural level of immunities
- An initial complete lockdown and general acceptance of wearing of masks

An important point that is often missed by casual observers of the Indian economy, is the rate of recovery with around 90% cases of the 8 million cases having now recovered.

Economic Recovery underway

With cases subsiding and India coming out of various stages of lockdown we have seen the economy gradually recovering. Unsurprisingly, the dramatic fall in GDP (as a result of the total lockdown between late March and early May) meant that nearly all services and factories were suspended. This was later followed by many state governments extending the lockdown, particularly from states that had been hit the worst like Maharashtra, Delhi, Tamil Nadu and Gujarat. From June 1st however, India has been slowly unwinding lockdowns in phases known as different versions of unlocking. (i.e. Unlock 1.0, 2.0 and so on) Currently Unlock 5.0 is underway and is not expected to

About India Avenue

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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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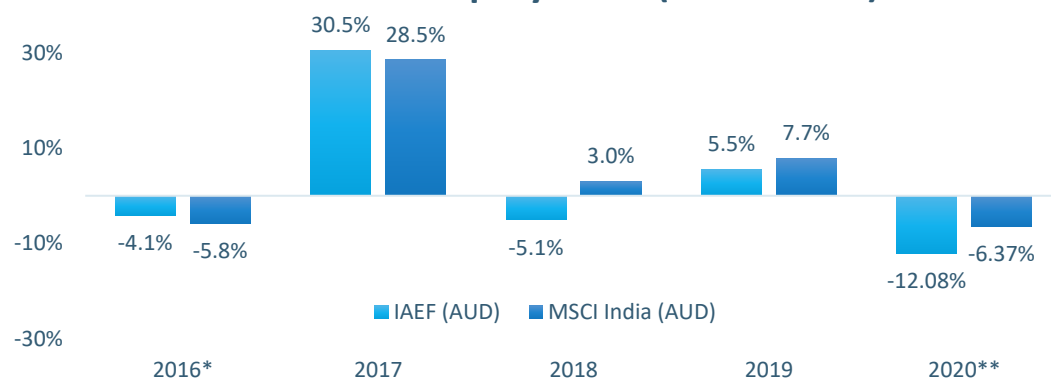
finish by the end of November. With restrictions gradually relaxing and the rate of growth in cases falling from the peak, sentiment and business/consumer activity has witnessed a sharp rebound with some segments now at pre-covid levels while others are expected to do so in the coming months. Few indicators that illustrate this are mentioned below.

- Railway Freight was up 15% compared to last year and power consumption was up 5% compared to last year
- PMI Manufacturing Survey came in at 56.8 (the highest since Jan 2012)
- Auto numbers for September saw sharp uptick ahead of the festive season with passenger vehicle sales up 31%
- Energy consumption for September grew by 4.4% YoY, vs. -2.1% in August
- India unemployment rate improved to 6.7% in September compared to 8.4% in August

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market funds or Emerging market indices. Our locally based advisors in India have a strong record of identifying tomorrow's winners. We feel this is an important ingredient to generate long-term growth, rather than purely investing in companies based on market cap. We remain patient and vigilant, knowing that this is the best way to play the India long-term growth story.

India Avenue Equity Fund (Net of Fees)



Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	8.60%	16.99%	-11.13%	-1.56%	-0.08%	2.43%
IAEF (Retail)	9.65%	-16.18%	-10.98%	-9.54%	-2.44%	
MSCI India	10.42%	18.37%	-5.39%	3.10%	5.23%	5.79%
MSCI India Small and Mid Cap	13.70%	29.36%	-2.89%	0.19%	-2.95%	2.10%
Excess vs. MSCI India	-1.82%	-1.38%	-5.71%	-4.66%	-5.32%	-3.36%
Excess vs. MSCI India Small and Mid Cap	-5.09%	-12.37%	-8.24%	-1.75%	2.87%	0.33%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th Sep 2020 assuming reinvestment of dividends

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

Excess returns illustrated above are for the India Avenue Wholesale Fund. The only difference between the Wholesale and Retail funds are the management fees charged. The underlying investments are identical.

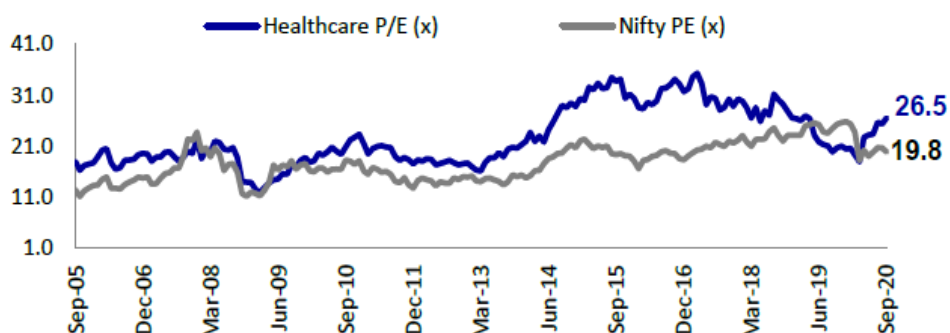
India Macro & Micro News

- The number of Internet subscribers in India increased to over 743 million as at March 2020. Reliance Jio has 52.3% of total market share, followed by Bharti Airtel (23.6% share) and Vodafone Idea held the third position as its internet subscriber base market share was at 18.7%. 96.9% or 720.7 million subscribers are using mobile devices for access of internet service. Whereas only 3.1% or 22.4 million of subscribers are using wired services.
- Mr Shaktikanta Das, the RBI Governor, stated that the Indian economy is displaying signs of stability and the central bank will take all the necessary measures to promote economic growth and ensure liquidity in the system. He further added that the recovery is going to be gradual. The Governor added that RBI had reduced its repo rate by 115 basis points to 4% since March 2020, wherein the high liquidity and low interest rate ensured low borrowing costs for the government. Exports which is leading to India's role in the global value chain is also likely to contribute to growth going forward.
- The Government has cleared a USD 100 billion proposal that allows manufacturers to export smartphones made in India to other parts of the world. Smartphone brands such as Samsung, Lava, Karbonn and contract manufactures Foxconn, Wistron, Pegatron are cleared to export smartphones made in India.

The Recovery of the Health Care Sector

The Indian Healthcare sector has underperformed the broader market over the last few years primarily due to pricing pressure and eroding margins in the US generics market. However, over the last 6 months since the Covid-19 pandemic began, the sector has seen a new lease of life with its multiple trading at 34% premium to the Nifty 50 from trading at a discount last year. Given the long-term history of profitability, the sector has typically traded at a premium multiple to the main index.

Valuation trend v/s Nifty P/E (x)



Source: Motilal Oswal

Whilst it has yet to be seen whether earnings will receive a fillip from the new focus on health, the signs remain promising given the following drivers at present.

- A renewed focus on health, particularly domestically and other Emerging countries has led to a more robust earnings profile, less dependent on the US market. Interestingly, the Chinese market has become lucrative due to easing of regulatory norms
- Despite the COVID led disruption, they have been able maintain their production/supply chain for existing products
- Are catering to the increased needs of COVID specific medicines
- The doctor-patient connect is improving gradually with enhanced use of teleconsulting. Established brands continue to gain market share compared to smaller brands. This is partly due to strong brand recall by doctors and adaptation to digital marketing
- Abbreviated new drug applications (ANDA) approvals by the USFDA are back to pre-COVID levels due to increased administrative efficiency as well as incentives to expedite approvals triggered by the pandemic situation.
- Virtual audit regarding US regulatory plant inspections. Considering the restrictions on international travel, the USFDA has provided guidelines on virtual audits and companies having compliant sites will benefit from timely approval for their products.

An improving demand for key generic drugs, promising pipeline of ANDA's and complex generics and the global pharma supply chain gradually diversifying away from China bode well for the continuation of the export business. However, the long term thematic around local manufactured drugs for local consumption and a focus on health and wellness (increased share of the wallet) in India, particularly as local GDP-per-capita rises from low levels remains a significant factor which is often discounted by investors given the historical lucrativeness of the US market.

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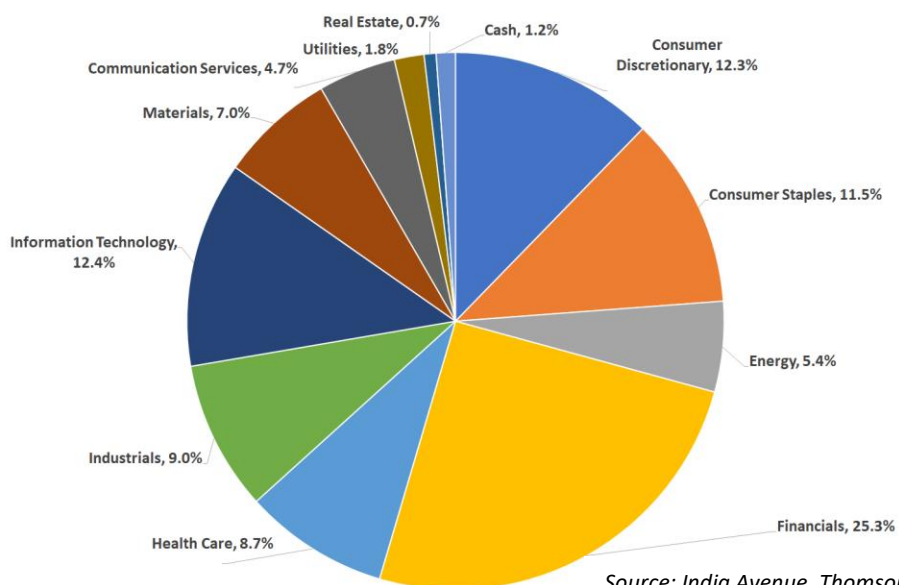
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
Infosys	IT Services	4.9%
Reliance Industries	Oil & Gas, Retail & Telco	4.5%
HDFC Bank	Banks	4.4%
Tata Consultancy Services	IT Services	3.9%
Maruti Suzuki	Automobiles	3.7%
Bajaj Finance	Non-Bank Finance	3.5%
Kotak Mahindra Bank	Banks	3.3%
HDFC	Housing Finance	3.0%
Info Edge	Interactive Media and Services	2.9%
ICICI Bank	Banks	2.9%
Indian Energy Exchange	Power Trading	2.8%
Redington India	IT Hardware & Supply Chain Solutions	2.8%
Avenue Supermarts	Hyper/Super Markets	2.7%
Escorts	Tractors and Moving Equipment	2.6%
Divi's Laboratories	Pharmaceuticals	2.3%
Nestle India	Consumer Staples	2.1%
Syngene International	Pharmaceuticals	2.0%
Motherson Sumi Systems	Auto Ancillaries	2.0%
Symphony	Coolers & Air Conditioners	1.9%
Torrent Power	Utilities	1.8%

Sector Allocation as at 30th September 2020



Source: India Avenue, Thomson Reuters

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