

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges to 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	\$46.6m
NAV	M Class: 1.3457 H Class: 1.3382
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	M Class: 1.10% H Class: 1.50% L Class: 0.95%
Buy-Sell Spread	0.35% / 0.35%
Performance Fee**	10% of excess return above benchmark for M and H Classes, 15% for L Class
FY20 Dividend	M Class: 0 cpu H Class: 0 cpu

** Subject to a high watermark

Fund and Market Commentary: March 2021

The India Avenue Equity Fund returned 48.5% over the last 12 months, outperforming its benchmark by 6.79%. The Fund has benefited from India's speedy economic recovery from its COVID-19 induced lockdown and resulting slippages. While India's second wave of COVID infections is a little concerning, the vaccine rollout and knowledge embedded from first experience will lead to less slippages.

Most of the outperformance relative to the benchmark has come in the last 6 months as equity markets in India have shifted from polarisation towards large cap, index heavyweights (seen from 2018-2020) towards normalisation and greater breadth of companies which have participated in the rally. During trend and above trend growth in GDP and reasonable corporate profitability, Indian equity markets generally display characteristics which are ideal for bottom-up stock picking.

One-year returns were even more significant in local currency terms however, the appreciation of iron-ore boosted AUD from a low point in March 2020 has curtailed returns for investors in AUD terms on an unhedged basis. The India Rupee remains attractive given India's significant build-up of foreign reserves, increasing appetite of foreign investors for exposure to the country and low correlation to AUD based assets.

India's corporate recovery has also been evident in 2Q (net profits up 17% y-o-y) and 3Q (up 22%) results which illustrated strong rebound in profitability from cost containment, using technology to reduce customer acquisition costs, rising level of demand from budget stimulus, incentives, corporate tax cuts and abundant liquidity in the system. The market eagerly awaits 4Q results which should set a year-on-year profit rise above 50% give the low base effect from the pandemic impact on the March 2020 quarter. This trend will spill over into 1Q FY22 which will benefit in comparison to the "lockdown quarter" of the previous year. The most pleasing trend however is that earnings growth when compared to FY19, which had no negative pandemic impacts, signifying that corporate India is on the road to recovery with a more powerful earnings rally to come.

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market/Asian funds or indices. Our locally based advice partners in India have a strong track record of identifying tomorrow's winners. This is an important ingredient to generate long-term growth and in our view is the best way to play the India growth story.

Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (M Class)	9.21%	26.94%	48.50%	5.47%	6.60%	7.64%
IAEF (H Class)	9.10%	26.66%	47.85%	4.99%	6.09%	
MSCI India	6.49%	19.72%	41.71%	6.64%	9.44%	9.37%
Excess vs. MSCI India	2.72%	7.22%	6.79%	-1.17%	-2.84%	-1.73%

Past performance is not an indicator of future performance.

Above returns are calculated based on the exit price of 31st March 2021 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.

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 professionally managed and carefully selected listed companies

Fund Identifiers

Identifiers	M Class	H Class
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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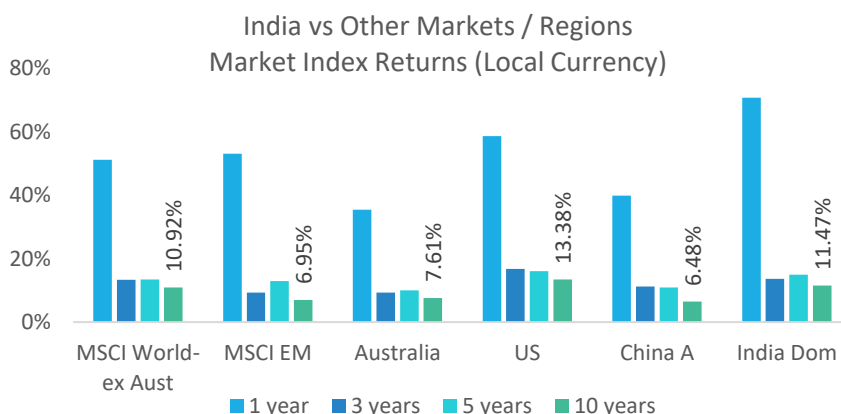
India's Economic, Corporate and Market Rebound

Originally when COVID-19 hit, the IMF projections for India's GDP growth was dire given the population density of the country and the lack of medical infrastructure. However, after recording a contraction of 8% in 2020, India's economy is forecast to grow by 12.5% in 2021 and further 6.9% in 2022. Both the IMF, World Bank and other agencies, brokers/forecasters have been scrambling to keep pace with upgrades for growth. The Modi's Government's goal of achieving a US\$5 trillion economy by 2024 does not look achievable given the hockey stick imparted by COVID's drag on the economy. However, it looks likely that this goal can be achieved by 2025-26, alongside the dream of becoming the world's third largest economy at some point in the next decade. This was looking a forlorn hope from 2018-2020 as the economy hit the skids from reform indigestion, weakening consumption, poor credit growth and a lack of private investment. COVID deepened the crisis but from necessity came a pivot towards growth and significant stimulus and incentives towards its pursuit.

Corporate earnings lagged GDP for most of the last decade as low-capacity utilisation kept private investment and capital formation at low levels. Thus, only consumption and banking related companies grew earnings, leaving those operating in industry, manufacturing and rural segments behind. Typically, India's corporate earnings have grown at a pace on parallel with nominal GDP growth long term. However, it is likely that the current decade will see an accelerated pace of earnings growth from a low base and through a broadening of growth contributors apart from credit and consumption.

YoY Growth %	Q1FY21A	Q2FY21A	Q3FY21A	Q4FY21E	Source: Motilal Oswal
Revenues	-29.4%	-6.4%	-0.7%	17.7%	Nifty 50 Earnings
EBITDA	-10.4%	7.9%	15.6%	25.9%	
PAT	-30.2%	16.9%	22.4%	65.2%	

The above table illustrate the earnings growth by quarter on a year-on-year basis. After the "black-hole" quarter of Q1FY21 when the country spent more than half the time in full lockdown, the economy began recovering and businesses benefitted from time to reflect on their models, reducing their cost line and ability to access capital at a lower cost. Going forward the tailwinds for earnings will be low interest rates (highlighted by a dovish central bank with scope to cut rates if needed), significant stimulus and incentive schemes as part of the Union Budget for FY22, lowering of fixed costs and smarter business practices, increasing productivity of reforms as well an India's now ready digital infrastructure and financialisation.

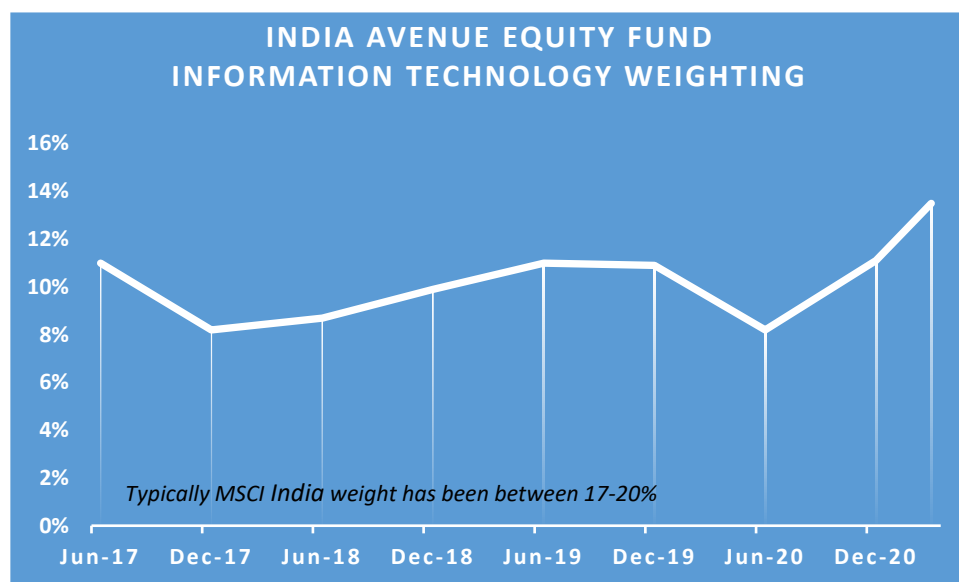


India Macro & Micro News

- India is now experiencing Wave 2 of the COVID virus with numbers rising rapidly. Numbers of confirmed cases are currently rising at above 140,000 per day. As a result, certain parts of India where the numbers are rising have now been placed in a partial lockdown. However, the difference in comparison to the initial impact of COVID is the vaccine. Initially, the vaccine roll out was focused on the age group of over 60. The change in intensity has lowered the age group of focus to 45 and over and aims to immunize 400m people. The vaccine is currently being administered at 3.4m per day.
- Tesla has taken steps to enter India's market. This is despite concerns about India's bureaucracy and resulting inefficiencies, lack of charging infrastructure and affordability of the cars. However, Tesla plans to manufacture in India which spares Indian buyers from massive import duties. Despite the headwinds presented by "experts", Elon Musk sees immense opportunities from a population which is tech savvy, at least a significant portion of wealthy individuals and a strong need for clean energy.
- Recent results of Avenue Supermarts indicate that the retailer has a significant opportunity standing in front of it. Same store sales growth was 17.9% higher in Q1FY21 compared to Q1FY20. The company opened 22 new stores in the quarter taking numbers to 234 and continued to increase its fulfillment centres in ramping up its digital sales. The company is embarking on the 'Walmartisation' of India.

Upping Technology

A sector we have been selectively adding exposure to is Information Technology. Typically, this sector is not our favoured way to gain exposure to the local demand driven India story as most of the revenue from India's Tier I and II IT firms comes from offshore through businesses who are outsourcing their technology needs when seeking to transform their business. However, there are a few reasons why our Fund is in the process of shifting from an exposure of approximately 10% to this sector to a weighting closer to 20-25% - a substantial increase indeed!



Why Information Technology

- ✓ Global growth is forecast to be close to 6% in CY21 according to the IMF. This is likely to result in global spend on technology increasing significantly.
- ✓ The spend should be sustainable over the next 3-5 years and firms incur capex to grow and reduce their cost base.
- ✓ IT firms are likely to move from market P/E multiples to a premium multiple as they experience higher growth, are extremely "clean" from an ESG perspective.
- ✓ Indian IT firms having reduced the cost base of several global firms for three decades are ideally placed to expand their consulting activities in the technology space i.e., in areas like digital transformation and analytics, artificial intelligence.
- ✓ The Biden Government has also shown its hand in being more pro-India through its administration and partnerships. Additionally, the H1B visas which Trump clamped down on are now likely to be revisited and channels re-opened.

An example of this is Infosys which has been winning contracts of size from the likes of Google, Daimler, Arcelor Mittal, Vanguard. We expect this deal flow to increase. However, it won't necessarily be plain sailing as IT firms will have to incur costs of employment which gets more expensive as demand for staffing rises to cope with capacity and this will have an impact on margins. However, it is our view that the operating leverage which will come from the added workplace capacity will have a significant positive impact on profitability over the next 3 years.

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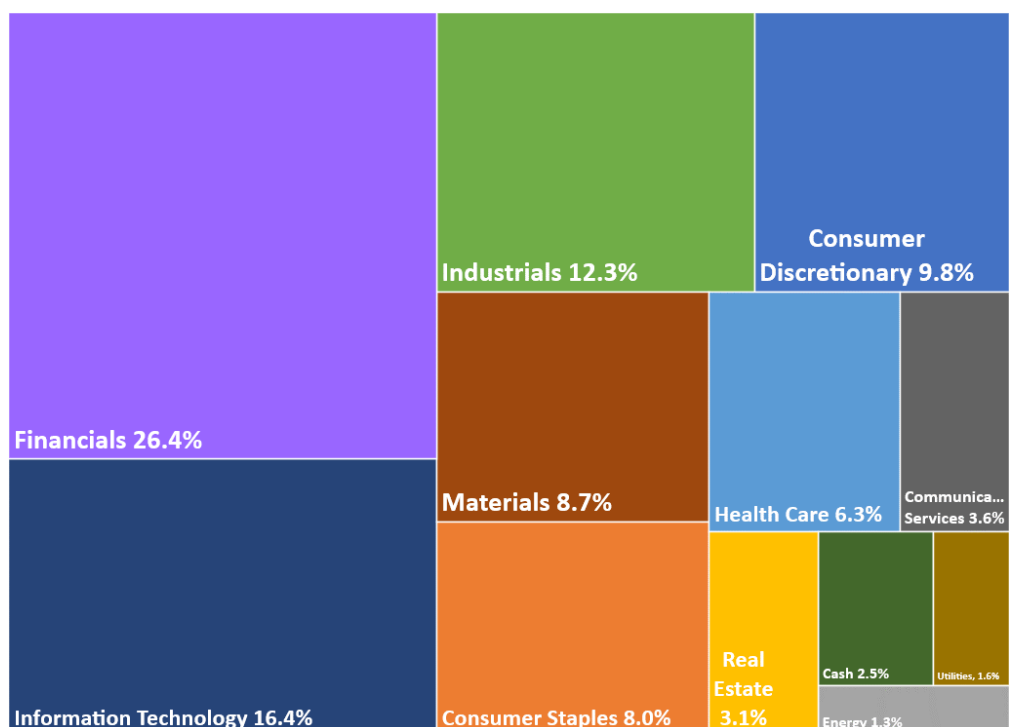
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Top 20 Stocks

Name	Industry	Weight
Bajaj Finance	Consumer Finance	4.40%
HDFC Bank	Banks	4.19%
Infosys	IT Services	4.18%
Kotak Mahindra Bank	Banks	3.40%
Tata Consulting Services	IT Services	3.26%
HCL Technologies	IT Services	3.13%
Indian Energy Exchange	Electricity / Power Trading	3.01%
UPL	Chemicals	3.00%
Redington	Electronic Equipment, Instruments	2.84%
HDFC	Housing Finance	2.82%
Maruti Suzuki	Automobiles	2.53%
ICICI Bank	Banks	2.53%
Info Edge India	Internet	2.49%
Aurobindo Pharma	Pharmaceuticals	2.33%
Avenue Supermarts	Food & Staples Retailing	2.21%
Motherson Sumi Systems	Auto Components	2.02%
Divis Laboratories	Pharmaceuticals	1.98%
Endurance Technologies	Auto Components	1.80%
ABB Power	Electricity / Power	1.79%
ITD Cementation	Construction	1.71%

Sector Allocation



Source: India Avenue, Thomson Reuters

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