India Avenue Investment Management

Fund Update: 30th June 2021

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges with 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[1]

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Muguthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016**
Fund Size	$52.4m
NAV	M Class: 1.5067 H Class: 1.4953 L Class: 1.1903
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
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 both the M and H Class, 15% for L Class
FY20 Dividend	M Class: 0 cpu H Class: 0 cpu

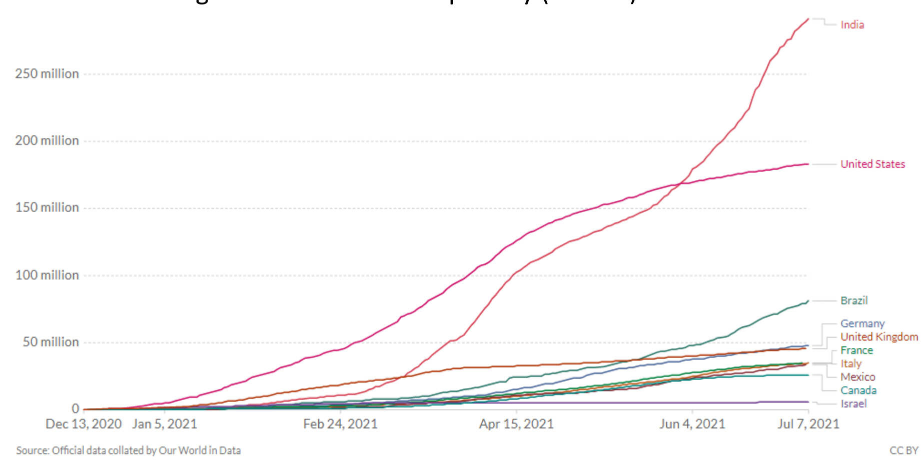
** M Class inception date

*** Subject to a high watermark

Fund and Market Commentary: June 2021

The India Avenue Equity Fund (IAEF) returned 54.4% over the last 12 months in AUD terms, outperforming its benchmark by 11.0%. The outperformance was driven by stock selection predominantly, but also from allocation successfully to certain sectors. The core theme to generating outperformance was driven by the equity market's shift from '*polarisation*' (2018-2020) towards '*normalisation*' (from April 2020 onwards). Whilst we have commented on this thematic several times in prior factsheets, we note than the shift to normalisation (akin to increasing market breadth/participation) is in our view only partially completed and correlated to India's economic recovery and improving corporate profitability. However, we also note that whilst the environment is likely to remain conducive for active managers, the ability to pick outperformers will become difficult once "easy" economic / corporate gains have been made from the recovery.

India' economic recovery has been linked significantly to its vaccination drive. While rate of vaccination given the large population ranks lower relative to the US, UK, Europe, Canada and Middle East, the numbers of absolute vaccinations remain significant. India administered an average of 4m vaccinations per day (in June).



Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Emerging Market/Asian funds or indices. Our 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 outperformance, and in our view is the best way to invest in India.

Strategy	3 months	6 months	1 year	2 years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (M Class)	11.96%	22.27%	54.35%	11.28%	9.55%	9.78%
MSCI India	8.47%	15.50%	43.39%	10.11%	11.28%	10.72%
Excess Return	3.49%	6.77%	10.96%	1.17%	-1.73%	-0.94%
IAEF (H Class)	11.74%	21.91%	53.54%	10.73%	8.99%	8.37%
MSCI India	8.47%	15.50%	43.39%	10.11%	11.28%	10.38%
Excess Return	3.27%	6.41%	10.15%	0.62%	-2.29%	-2.01%
IAEF (L Class)						18.61%
MSCI India						14.93%
Excess Return						3.68%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th June 2021, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. #Inception Date: M Class 6th Sep 2016, H Class 6th April 2017, L Class 19th April 2021. 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.

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About India Avenue

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The India Avenue Equity Fund is managed by the team at IAIM and has a bias towards companies which are experiencing strong growth driven by India's fundamentals. The Indian economy's robust ecosystem provides a tailwind for these companies which have access to a growing addressable market. Additionally, if they have sound management and a business moat, it makes a compelling case for long-term investment.

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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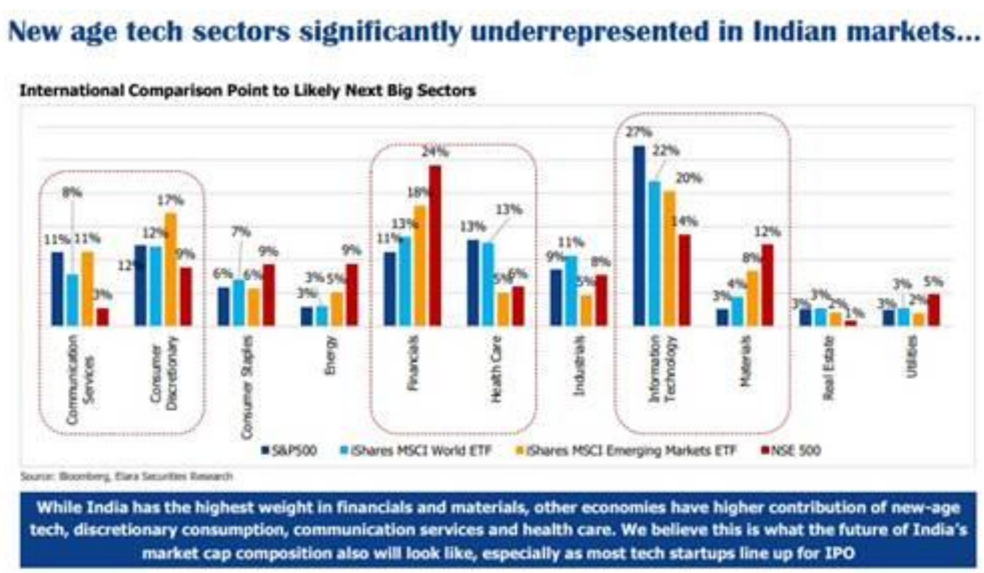
India's US$5tn market by 2026?

India's equity markets currently hover around US$3tn market capitalisation, which makes it one of the top 5 (after the US, China+HK and Japan). A recent report released by ***Elara Securities*** (an Indian stock broking firm) projects that India's market cap could reach US$5tn by 2026. The analysis makes some assumptions on rising market-cap-to-GDP, nominal GDP growth of 11% as well as corporate profitability of 15% annualised. Another significant component of the rise will be IPO's and privatization of government owned assets.

- Whilst India's long-term market-cap-to-GDP ratio has been just over 0.6, it is now set to rise as foreign investors (FII's) respond to rising free float with markets increasingly becoming privately held. Over history, rising FII investment has led to an increase in India's market-cap-to-GDP ratio. Elara Securities makes a case for this ratio to rise currently from 1.07x to 1.3x (US currently at 2.2x, Canada 1.7x).
- Nominal GDP growth of 11% can be achievable given India's GDP growth has been close to this level over the last 30 years and is linked with a lower dependency ratio, rising productivity from reforms recently undertaken as well as India's rising importance in global supply chains.
- Corporate profits should accelerate from a low base, low cost of capital and abundant supply and lower fixed costs.

Finally, and most importantly in our minds, is the significant number of IPOs to hit the marketplace over the next two years. India's equity markets are under-represented in new-age tech relative to the US, where the significance of new-age tech has led to the rise of market-cap-to-GDP. IPOs from new-age tech firms, disruptors and other big players is likely to be a big contributor to India's market cap growth.



Companies in India which have emerged as unicorns like e- Flipkart (e-commerce), Swiggy and Zomato (food distribution), Paytm (payments), Ola (rideshare) and Byjus (ed-tech) are likely to command significant interest from global and local investors when they list. Additionally, government privatisation (insurance, oil marketing) and company restructuring opportunities (Reliance Jio and Retail) will contribute to India's rising market cap.

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India Macro & Micro News

- India's merchandise exports in June 2021 were US$32.5bn, an increase of 47% y-o-y and an increase of 29.7% over US$25.0bn in June 2019. Areas where exports grew the most include Cereals, Iron-Ore, Chemicals, Cotton, Petroleum, Plastic, Rice and Engineering Goods.

- The Indian Government has developed a climate action agenda with the objectives of; deploying 175 GW of renewable energy capacity by 2022, construct 100 smart cities that employ energy efficient technologies by 2030, ensure 20% blending of fuels in transportation fuels by 2023.

- Zomato, a food ordering platform and "unicorn" announced its plans to raise US$1.25bn through an IPO. A large part of funds will be used by Zomato to fund growth in customer and user acquisition, delivery and technology infrastructure. It may also consider acquisitions. According to the company, the Food Services industry in India remains highly unpenetrated.

- According to JLL India, property consultant, institutional investment in the Indian real estate sector registered 9X growth to US$1.35bn between April 2021 and June 2021, due to the increasing inflow of funds in the warehousing projects.

- The RBI announced a set of measures with the objective of reviving the economy and to mitigate the adverse impact of the second wave of the COVID-19 pandemic. Under the Scheme, Banks can provide lending support to hotels, restaurants, travel agents, tour operators, aviation ancillary services and other services.

Source: IBEF.org

India Avenue's 100% Club

Given India's strongly rebounding equity market post COVID-19, we have outlined the companies in our portfolio which have risen by more than 100% relative to our average purchase price. Our outperformance of the benchmark can be attributed to several of these companies having minimal or zero weighting in the benchmark, despite being significant businesses by market share in their growing industries.

Name	Industry	Return vs Average Cost	MSCI India weight
Polycab India	Electric Cables	269%	0.0%
Astral Poly Technik	PVC Piping, Adhesives	164%	0.0%
Redington (India)	Electronic Equipment	126%	0.0%
Indian Energy Exchange	Energy Trading	126%	0.0%
Sundaram Finance	Consumer Finance	120%	0.0%
Motherson Sumi Systems	Auto Ancillaries	113%	0.5%
Hindalco	Aluminium / Copper	113%	1.0%
Divis Laboratories	Pharmaceuticals	111%	1.0%
Bajaj Finserv	Consumer Finance	108%	0.7%
Dalmia Bharat	Cement	106%	0.0%
Info Edge (India)	Internet / Media	101%	0.6%

Source: MSCI

These companies make up close to 20% of the India Avenue Equity Fund today and yet only have a 3.8% weighting in our benchmark. Several of these businesses may be small or mid-caps on a global comparative basis. However, capitalisation does not always provide a true reflection of their respective market share, pricing power and moat in respective industries. Several of India's industries are developing and with a tailwind of a significant and growing addressable market, are likely to do so in perpetuity over the next investment cycle.

The clear distinction between these companies and India's Index heavyweights is the exposure to a greater breadth of industries. Our benchmark, the MSCI India has a significant weighting to Consumer, Financials and Technology. Valuations in those industries already reflect their market growth opportunity to some degree. Companies within these industries may still grow significantly but are less likely to benefit from mispricing of their securities.

An example of this is ***Astral Poly Technik***, a company dominant in its industry. Astral is a clear leader in market share, pricing power and distributor relationships. It trades at P/e's above 50x next year's earnings. However, its addressable market continues to grow at a significant pace as infrastructure spending and the improving real estate market sees "rusty iron pipes" being replaced by CPVC pipes. This company is also benefitting from the cleaner and greener, improving livelihoods and infrastructure themes in India.

Another such example is ***Sundaram Finance***. Whilst the non-bank financial companies have encountered difficult times from 2018-2020 in India, this business has built a strong moat by being regional, niche and adopting a conservative approach to lending and thereby building a quality book of assets. Given the consolidation in the industry, businesses like Sundaram Finance are set to be able to continue to focus on asset quality whilst benefitting from economic recovery going forward.

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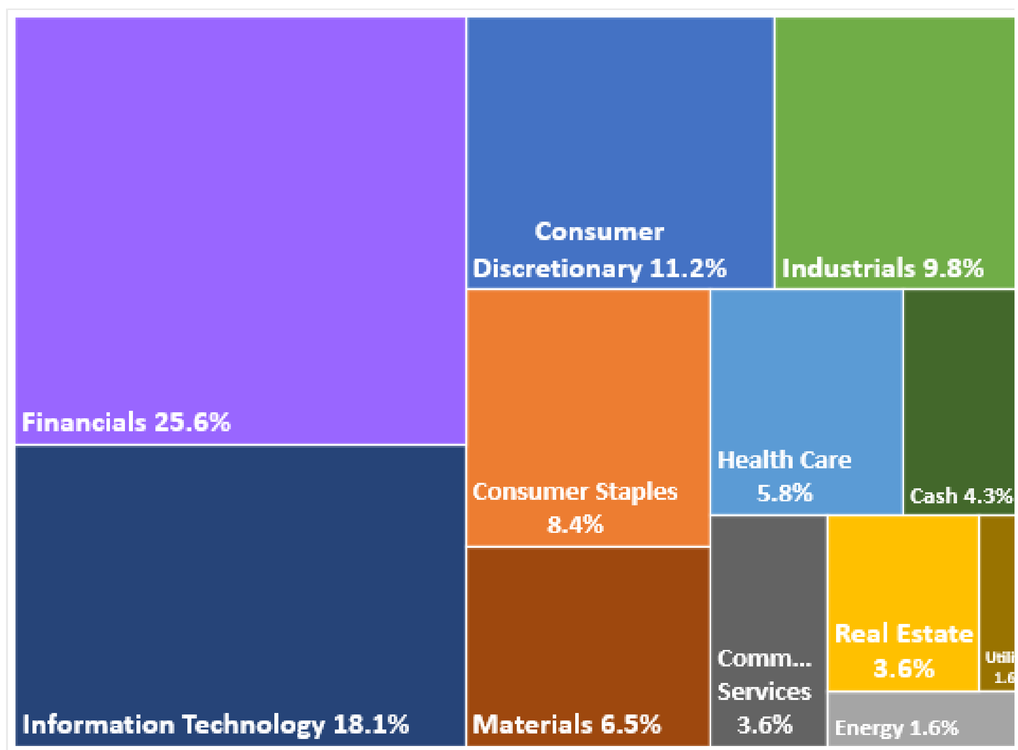
Top 20 Stocks

Name	Industry	Weight
Bajaj Finance	Consumer Finance	4.62%
HDFC Bank	Banks	3.58%
Redington (India)	Electronic Equipment & Components	3.58%
Tata Consultancy Services Ord	IT Services	3.55%
Infosys	IT Services	3.54%
HCL Technologies	IT Services	3.38%
Kaveri Seed Company	Food Products	3.10%
Indian Energy Exchange	Capital Markets	3.05%
Avenue Supermarts Limited	Food & Staples Retailing	2.71%
Maruti Suzuki India	Automobiles	2.69%
Info Edge (I)	Interactive Media & Services	2.57%
Motherson Sumi Systems	Auto Components	2.53%
Tata Steel	Metals & Mining	2.50%
ICICI Bank	Banks	2.46%
HDFC	Mortgage Finance	2.39%
Aurobindo Pharma	Pharmaceuticals	2.29%
Kotak Mahindra Bank	Banks	2.23%
Abb Power Products	Electrical Equipment	2.22%
Divis Laboratories	Life Sciences Tools & Services	2.16%

Sector Allocation



Source: India Avenue, Thomson Reuters

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