India Avenue
Investment Management

Fund Update: 31st July 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	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016**
Fund Size	$56.5m
NAV	M Class: 1.6013 H Class: 1.5864 L Class: 1.2616
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
FY21 Distribution	M, H, L Class: 0.0 cpu

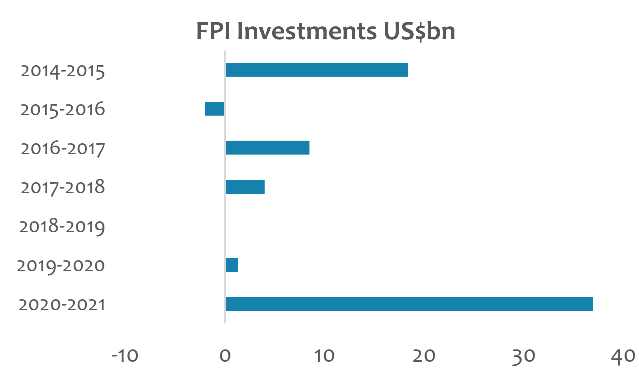
** M Class inception date
*** Subject to a high watermark

Fund and Market Commentary: July 2021

Strategy	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF (M Class)	21.54%	32.57%	59.36%	16.85%	10.20%	10.97%
MSCI India	14.38%	21.13%	39.39%	13.76%	10.27%	11.19%
Excess Return	7.16%	11.44%	19.97%	3.09%	-0.07%	-0.22%
IAEF (H Class)	21.12%	31.99%	58.30%	16.18%	9.60%	9.69%
MSCI India	14.38%	21.13%	39.39%	13.76%	10.27%	10.92%
Excess Return	6.74%	10.86%	18.91%	2.42%	-0.67%	-1.23%
IAEF (L Class)	20.78%					25.72%
MSCI India	14.38%					18.40%
Excess Return	6.40%					7.32%

The India Avenue Equity Fund (IAEF) returned 59.36% over the last 12 months in AUD terms, outperforming its benchmark by 20.0%. The outperformance continues to be driven by broader market participation as India's economy and corporates recover from Wave 2 of COVID-19, with mid/small cap companies continuing to perform better than market cap weighted indices. Additionally, our stock selection within mid/large cap companies, contributed significantly to the outperformance of the Fund.

Equity market returns in India have benefitted from rising local and foreign investment. Foreign investors (FPI's) who reduced their investment during Wave 1 and Wave 2, continue to keep returning to India due to its long-term fundamentals. With vaccinations (1st dose) now covering 70% of urban and 40% of the overall population, it is likely that India's economic recovery with be driven by capital expenditure (low interest and tax rates), government spending (reforms, initiatives and infrastructure) and consumption (pent-up demand, monsoons and festival season). FPI investment is expected to continue to accelerate on the back of the recovery, as well as several new IPO's coming to the market.



Source: fpi.ndsl.co.in

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 in generating long-term growth and outperformance, and in our view is the best way to invest in India.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th Jul 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. The only difference between the M, H and L class are the management fees and performance fees charged. The underlying investments of each class 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	ARSN	ISIN	APIR Code
M Class	611374586	AU60ETL04826	ETL0482AU
H Class	611374586	AU60ETL04784	ETL0478AU
L Class	611374586	AU60ETL28148	ETL2814AU

Identifiers	Citi Code	Morningstar
M Class	NFCK	41512
H Class	NF2H	41828

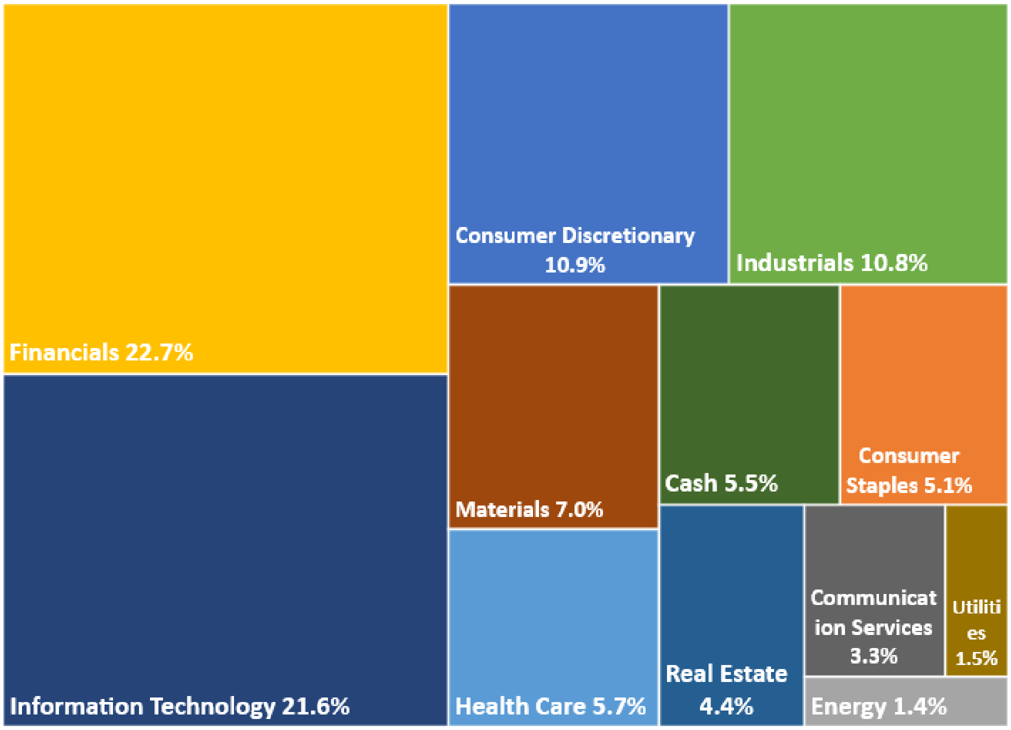
Contact Details

India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 2, 33 York Street,
Sydney, NSW 2000, Australia
T: +612 8245 0507
E: info@indiaavenueinvest.com
W: www.indiaavenueinvest.com

Top 20 Stocks by Weight

Name	Industry	Weight
Bajaj Finance	Consumer Finance	4.5%
HCL Technologies	IT Services	4.3%
Redington (India)	Electronic Equipment & Components	4.1%
Infosys	IT Services	3.6%
Tata Consultancy Services	IT Services	3.6%
Indian Energy Exchange	Capital Markets	3.3%
Tata Steel	Metals & Mining	2.9%
Avenue Supermarts	Food & Staples Retailing	2.7%
Info Edge (India)	Interactive Media & Services	2.6%
ICICI Bank	Banks	2.5%
Divis Laboratories	Life Sciences Tools & Services	2.5%
Brigade Enterprises	Real Estate	2.4%
Cyient	Software	2.4%
Maruti Suzuki India	Automobiles	2.4%
Motherson Sumi Systems	Auto Components	2.3%
HDFC Ltd	Mortgage Finance	2.2%
ABB Power Products & Systems	Electrical Equipment	2.1%
Aurobindo Pharma	Pharmaceuticals	2.0%
Kotak Mahindra Bank	Banks	1.9%
Endurance Technologies	Software	1.8%

Sector Allocation



Source: India Avenue, Thomson Reuters

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India Macro & Micro News

PM Narendra Modi launched a national campaign to meet a US$400bn export target. Merchandise exports from India have been hovering around US$260-330bn for the past nine years. July 2021 recorded the highest-ever monthly level of US$35.2bn

Amazon India opened a new specialized centre and expanded an existing one. The new centre in the state of Telangana is Amazon's 5th in India. The expansion in Telangana is part of the company's aspirations to boost national storage capacity by over 40% by 2021.

In FY21, India was the second-largest producer of steel in the world (total 102 MT). However, by value, India's steel fetches US$600-800 per ton of export compared to imported steel cost of US$2000-2500 per ton. The Government has launched a production linked incentive (PLI) scheme for specialty steel which will reduce the reliance on imports, create manufacturing jobs and allow the industry to move up the value chain.

India's Manufacturing PMI bounced back to 55.3 in July, after weakness in May-June 2021 due to Wave 2 of COVID-19. Output, new orders, exports, quantity of purchases and input stocks all returned to expansion territory. At the same time, employment rose marginally, ended a 15-month sequence of job shedding.

Zomato, a market leading company in food delivery in India, listed on Indian equity markets via an IPO recently. The company is playing on a shift in the long-term from cooked home food (over 90%), especially within India's significant young population. The company is already trading at a significant premium to its IPO price of Rs.76 but is yet to be profitable.

Source: IBEF.org, tradingeconomics.com

An India Fund with no HDFC Bank or Reliance Industries in the Top-20?

For most EM or Asia focused funds, exposure to HDFC Bank and Reliance Industries are essential in playing the India story. Both these companies are stalwarts of India's growth given their business activities relate to consumption, credit and communication. The weighting of these companies together adds up to 19% of the Nifty-50, an index housing India's top-50 companies (and representing over 70% of total market-cap).

However, in many cases both these mega-cap companies are also held due to the "benchmark anchoring" practices of most fund managers. In our view, large weights to these companies can be a "lazy" capital allocation, especially when compared to the broad opportunity set of India's top 1000 companies (our investable universe). Providing growth exposure to clients, via India as an investment destination, should also result in "earlier" identification of India's fastest growing companies.

We anticipate that there will be significant turnover in India's top-50 companies over the next decade as we welcome a new business cycle (lower rates, more capex, infrastructure) and new industries appear and grow rapidly. In our view the following industries should play a more dominant role in the future. Our portfolios have exposure to these industries, in some companies which today are not part of India's Nifty-50 (companies not in the Nifty-50 at present are in bold).

Industry	Logic	Companies
Technology	Increase capex spend on technology will favour outsourcing. Localised consumer tech firms will IPO on markets and grow rapidly.	Infosys, TCS, HCL Tech, **Cyient**, **Coforge**, Wipro **Zomato, Info Edge, Redington**
Pharmaceuticals	Becoming more dominant in global supply chains, skilled professionals, investment in R&D.	Divis Laboratories **Aurobindo Pharma** **Indoco Remedies**
Auto/Ancillaries	The base of car and component manufacturing will shift to lower cost regions like India.	Maruti Suzuki, **Motherson Sumi, Endurance Tech**
Manufacturing	India's focus on manufacturing and self-reliance will lead to incentives to drive employment and global scale.	**AIA Engineering, ABB Power Products & Systems, Symphony, Polycab**

India Avenue's proposition revolves around providing "unique growth" exposure to Australian and New Zealand client portfolios. Buying significant weights in large, already scaled businesses leads to greater correlation to other equity portfolios***. Investing in India with a view to outperforming an India focused benchmark makes less sense to us than focusing on providing "true" growth exposure and diversity to a client's portfolio.***

A company like HDFC Bank remains an attractive proposition relative to most of the rest of the world banks. This is due to India's fundamentals, rising financialisation as well as HDFC's business strategy and strong management capabilities. However, it may not offer the best risk-return profile to justify allocating a significant weight in a portfolio, within a subset of Indian companies, let alone Indian financials. ***Every decade brings new winners, which are not yet priced for success!***

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How to play the economic recovery through consumption

As India's economy recovers from Wave 2 it is likely that urban consumption will see a strong bounce. This will be driven by:

- Pent-up demand,
- India's upcoming festival season,
- The south-west monsoon (which has been in line with expectations), and
- The vaccination drive which has been more significant in India's urban centres.

Urban consumption is a thematic which we are building exposure to in the India Avenue Equity Fund by participating in industries like food delivery, restaurants/hospitality, hypermarkets, real estate, passenger vehicle automobiles, convenience food and household equipment. Whilst some of these businesses have suffered from Wave 1's national lockdown and self-imposed State lockdowns in Wave 2, they are now poised to benefit from withheld consumption given the upcoming Diwali season (equivalent to Christmas as a festive season in Australia / New Zealand). However, we have so far avoided industries like aviation and hotel chains until the vaccination drive covers a greater proportion of the population (40% have had 1 dose).

It is important to point out why we prefer urban consumption as a theme. Wave 1 and 2 have led to significant loss of employment, wealth and therefore ability to consume. Those at the bottom of India's significant population pyramid are likely to be most impacted through the "informal" employment.

Monthly Consumption Expenditure	All-India		Urban		Rural	
	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20
Rs 1,000 or below	6.0	9.0	3.0	5.4	7.5	10.9
Rs 1,600 or below	23.5	31.6	14.5	21.7	**27.9**	**37.0**
Rs 2,000 or below	38.3	48.3	25.7	35.7	44.4	55.2
Rs 2,400 or below	52.1	62.6	**37.9**	**49.5**	59.0	69.7
Sample Size	433021	499879	278759	331809	154262	168070

Source: Consumer Pyramid Household Survey

The table above indicates the slippage on ability to consumer due to the pandemic. This is particularly high in rural India, where less skilled and informal workers originate from. States such as Bihar, Jharkhand and Uttar Pradesh, which house over 25% of India's population indicate long-term joblessness especially among younger workers.

Due to this we have reduced our exposure to the "rising rural" thematic as we expect extended economic loss at the bottom end of the pyramid. This will also impact non-bank financial companies and micro finance companies in terms of their asset quality. Whilst India's corporate balance sheet was impacted from 2012-2019, we expect retail to be more impacted due to the pandemic, whilst corporate India has deleveraged.

Hence the India Avenue portfolio has shifted its emphasis over the last 12 months in responding to the pandemic:

- ***A shift towards the urban consumer (as recovery is imminent)***
- ***More external facing businesses (exporters, outsourcing)***
- ***Consolidation of financial exposure (pristine asset quality)***
- ***Manufacturing and/or B2B businesses***

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