28 February 2022

Avenues

India Avenue Investment Management

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

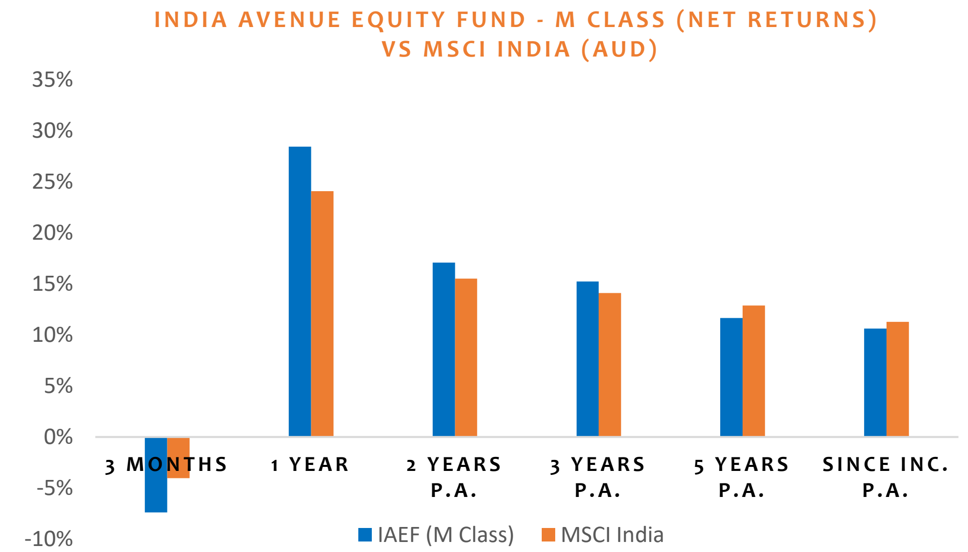
Fund Rating

Lonsec Rating: Recommended*

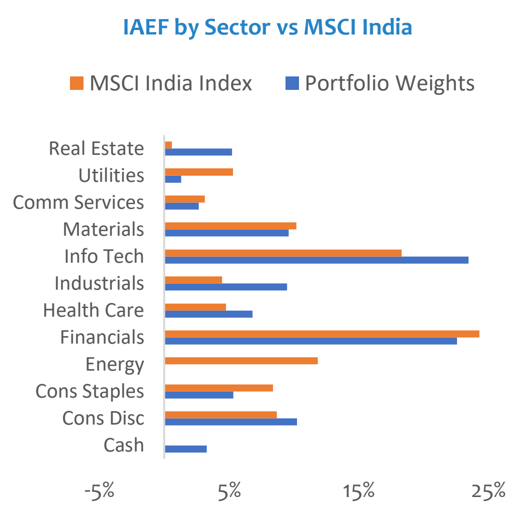
Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6th September 2016
Fund Size	A$66.48m
NAV	M Class 1.6704 H Class 1.6524 L Class 1.3203
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Frequency	Yearly 30th June
Management Expense Ratio	M Class 1.10% p.a. H Class 1.50% p.a. L Class 0.95% p.a.
Buy-Sell Spread	0.35% / 0.35%
Performance Fees	Excess Return above Benchmark
M & H Class	10%, high watermark
L Class	15%, high watermark
FY21 Distribution	0.0 cpu

Fund Returns and Characteristics: 28 February 2022



M Class	3 months	1 year	2 years	3 years	5 years	Since Inception
Fund Returns (net)	-7.38%	28.43%	17.07%	15.22%	11.66%	10.60%
MSCI India (AUD)	-4.03%	24.07%	15.50%	14.08%	12.87%	11.28%
Relative Performance	**-3.35%**	**4.36%**	**1.58%**	**1.14%**	**-1.22%**	**-0.68%**



Source: MSCI

Top 10 Stocks	Industry	Weight
HCL Tech	IT	4.30%
Infosys	IT	3.69%
Bajaj Finance	Cons Fin.	3.66%
Redington	Elec. Equip	3.27%
ICICI Bank	Banks	3.19%
Tata Consultancy Services	IT	3.13%
ABB Power	Elec. Equip	3.09%
Brigade Enterprise	Real Estate	3.08%
Avenue Supermarts	Retailing	2.83%
HDFC Ltd	Housing Fin.	2.72%

H & L Class	3 months	1 year	2 years	3 years	Since Incept H Class (06/04/17)	Since Incept L Class (19/04/21)
H Class (net)	**-7.42%**	**27.69%**	**16.49%**	**14.66%**	**9.40%**	
L Class (net)	**-7.09%**	**-**	**-**	**-**		**31.57%**
MSCI India (AUD)	-4.03%	24.07%	15.50%	14.08%	11.05%	26.47%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 28th February 2022, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. The only difference between the M, H and L class are the management and performance fees charged. The underlying investments of each class are identical.

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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. The Fund 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 benefit from participating in growing addressable markets. Additionally, if they have sound management and a strong 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

	Citi Code	Morningstar
M Class	NFCK	41512
H Class	NF2H	41828
L Class		44362

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Fund and Market Commentary

The India Avenue Equity Fund achieved a return of 28.43% for the year ending 28th February 2022, outperforming its benchmark, MSCI India (AUD) by 4.36%. The fund's outperformance over the last 12 months is almost entirely driven by stock selection.

The top 5 stocks which have contributed the most to outperformance over the last 12 months are not constituents of the MSCI India. This is an illustration of the India Avenue Equity's Fund proposition, which is aimed not only at purely investing in large cap, index heavyweight constituents, but also allocating capital to companies which are likely to be a dominant player in their industry or likely to emerge over time as a large capitalisation company.

Over the last two months of January and February, the fund has underperformed its benchmark because of a shift to a risk-off sentiment by global equity investors. This was driven by:

- Rising inflation and the potential for increasing interest rates.
- Rising oil prices
- Geopolitical tension driven by Russia and Ukraine's conflict

The India Avenue Equity Fund's return behaviour can be broken down into 9 distinct periods.

Period	Dates	No. Of Days	Market Behaviour	Mkt Return	Alpha
1	6 Sep 2016 – 24 Nov 2016	81	Market fell significantly after demonetisation was announced in India	-11.3%	2.2%
2	24 Nov 2016 – 31 Dec 2017	402	Broad market recovery and rally	36.5%	1.1%
3	31 Dec 2017 – 21 Aug 2019	598	Narrow rally. Top 15 stocks are up 30%, Market up 2% and remainder down over 30%. Low breadth rally on economic slowdown, risk aversion	3.8%	-11.1%
4	21 Aug 2019 – 31 Jan 2020	133	Corporate tax reform, rate cuts	11.4%	2.9%
5	31 Jan 2020 – 30 Apr 2020	90	COVID-19	-17.6%	-6.8%
6	30 Apr 2020 – 31 Jan 2021	276	Emergence from Lockdown, Economic Recovery, FII Inflows	20.4%	4.9%
7	31 Jan 2021 – 30 Jun 2021	150	Second Wave	17.6%	7.1%
8	30 Jun 2021 – 31 Dec 2021	184	Earnings Upgrades, Economic Recovery II	16.0%	4.6%
9	31 Dec 2021 – 11 Mar 2022	70	Omicron, Rising Inflation, Rising Oil	-8.1%	-2.9%

This indicates that the Fund tends to outperform during periods where India's economy is experiencing moderate to high growth, rather than periods where the growth story unravels for a short period of time. The periods highlighted in blue (3, 5 and 9) are environments where India's growth story was challenged through external and/or local issues. Over time we expect more upside in India's economy and equity markets to help the fund's positioning to deliver outperformance to investors.

What we have witnessed occurring during more recent downside moves in Indian equities is a softening of the impact from greater local investor participation to offset foreign bouts of selling. Typically, as foreign funds sold their Indian exposure in a shift towards risk-off sentiment, emerging markets like India suffered not only from losses in share prices but also a swift weakening of the currency. Given India's FX reserves are over US$630bn (top 10 for US foreign currency holdings) and locally domiciled investors are close to 15-20% of market cap, the losses have been more palatable. This is likely to shift the risk-profile of India's equity markets towards a less volatile trajectory in the eyes of foreign investors.

Past performance is not an indicator of future performance.

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India Macro & Micro News

The Union Budget of 2022-23 was presented on February 1, 2022, by the Minister for Finance & Corporate Affairs, Ms. Nirmala Sitharaman. The budget had four priorities: Inclusive Development, Productivity Enhancement and Investment and Financing of Investments. In the Union Budget 2022-23, effective capital expenditure is expected to increase by 27% at Rs. 10.68 lakh crore (US$ 142.93 billion) to boost the economy. This will be 4.1% of the total Gross Domestic Production (GDP).

As per the data published in a Department of Economic Affairs report, in the first quarter of FY22, India's output recorded a 20.1% YoY growth, recovering >90% of the pre - pandemic output in the first quarter of FY20. India's real gross value added (GVA) also recorded an 18.8% YoY increase in the first quarter of FY22, posting a recovery of >92% of its corresponding pre-pandemic level (in the first quarter of FY20).

Data between April-September 2021 indicates that the computer software and hardware industry attracted the highest FDI equity inflow of US$ 7.12 billion, followed by the automobile sector at US$ 4.93 billion, services sector at US$ 3.15 billion, trading sector at US$ 2 billion, metallurgical industries at US$ 1.3 billion, and construction activities at US$ 1.22 billion.

India is focusing on renewable sources to generate energy. It is planning to achieve 40% of its energy from non-fossil sources by 2030, which is currently 30% and have plans to increase its renewable energy capacity from to 175 gigawatts (GW) by 2022. In line with this, in May 2021, India, along with the UK, jointly launched a 'Roadmap 2030' to collaborate and combat climate change by 2030.

Source: www.ibef.org

The Impact of Rising Oil Prices

India imports close to 85% of its oil requirement, meaning that the price of the commodity places strains on the economy from time to time. As the price of oil rises so does India's import bill which negatively impacts the country's current account deficit. Typically rising crude also has a destabilising effect on the Indian Rupee, thus impacting the economy and returns for equity market investors.

Additionally, several companies use crude oil as a raw material input such for consumer goods like footwear, car tyres, lubricants, airlines and foods. Today while India's focus on renewables is increasing to reduce the dependency on fossil fuel commodities like oil and coal, the current dependency of a fast-growing economy on oil is significant.

Spark Capital, a broking firm based in Mumbai India, forecasts that oil prices have the following sensitivity to the Current Account Deficit and CPI Inflation. For every US$10/bbl. rise in the crude oil price, the CAD increases by US$12bn or 0.34% of GDP. Inflation also rises due to the impact of oil prices on Food, Energy prices and cost of Services/Transport.

	US$80/bbl	US$100/bbl	US$120/bbl
CAD/GDP FY23	-1.4%	-2.2%	-2.8%
CPI Mar-23	5.5%	6.6%	7.5%

Source: GOI, Spark Capital Research

Fiscal Mathematics of Rising Crude Oil for India

In India fuel prices are subsidized by the Government. Every US$10/bbl. rise in oil translates to a Rs.5 per litre increase. Thus to absorb some of the increase in oil prices through the dropping of excise duties, the Government would lose US$8.6bn in revenue. Liquefied Petroleum Gas (LPG, used mainly for fuel and food) is also subsidised heavily by the Government and would lead to a loss of US$1.5bn in revenue for a rise of US$10/bbl.

India's 10-year bonds, which fell to a trough of 5.8% in July 2020, have now risen to 6.8% because of rising inflation and the threat of looming interest rate rates to counter as well as to reflect a worsening macro position induced by rising crude oil prices.

Source: worldgovernmentbonds.com

As we have highlighted before, rising bond yield tends to slow down India's economic growth as the cost of capital rises in a capital scarce economy. Typically at the earlier stages of an economic cycle the economy is better equipped to handle this than late cycle.

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Our Focus and Experience

The founders of IAIM worked together at ING Investment Management in Australia and India over a period spanning from 2003-2013.

Our rich experience in investing in Indian equity markets is aided by our local network (fund managers, stockbrokers, corporates and other market participants in India).

This, alongside our singular focus on India as an investment region, provides our clients with significant insights on investing in this fast-growing region.

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Hitachi Energy – Powering Up

India made a commitment in terms of the Paris Agreement (2016) towards its goal for energy transition by 2030. That commitment included reducing greenhouse gas emission intensity of its GDP by 33-35% from 2005 to 2030, 45% of power capacity to be based on non-fossil fuels and to create an additional carbon sink of 2.5-3.0 billion tonnes of C02 equivalent through tree cover. At the recent COP26 climate change conference, PM Narendra Modi also grabbed headlines by announcing India would be net-zero emissions by 2070.

One of the thematics of the India Avenue Equity Fund is to invest in businesses which participate in the increasing energy intensity of a country encountering economic growth and rising GDP per capita.

Source: Manufacturingtodayindia.com

Hitachi's Power Grid has successfully commissioned one of India's longest ultra-high voltage direct current transmission links for Power Grid Corporation of India. The grid can meet the electricity needs of 80 million people!

Hitachi Energy is a business which provides pathways to accelerate the energy transition and is a global leader in power technology and energy systems. Their customers typically are in the industries of Utilities, Transportation, Data Centres, Smart Cities and partner with Hitachi on delivery of digital solutions across the power value chain. Hitachi's focus is meet the growing demand for electricity in an affordable, reliable, sustainable and modern way.

The company has four business units (Grid Automation, Grid Integration, High Voltage Products and Transformers) with local offices and research centres spanning 90 countries. This allows for local market expertise and knowledge for a closely networked 38,000 experts employed by the business globally. An example of this in India is Hitachi Energy India recently winning an order exceeding US$21m to speed up the electrification of India's railways. The company will deliver transformers to Indian Railways which seeks to be carbon neutral by 2030. Indian Railways in the 4th largest rail network in the world. Traction transformers are critical components in the traction chain that affect both train performance and operator services. More than half the world's electric locomotives and train sets are powered by Hitachi Energy transformers.

Hitachi Energy India is now 100% green when it comes to electricity for its own operations. Post COVID-19 impact to its business, the company is now poised to grow significantly given the structural tailwinds for the industry. The company's market cap is just under US$2bn and is largely absent from institutional investment at this stage. However, it is expected that its role in India will be significant given the urgency of energy transition. Profit grew by 52% in year ended December 2021. Whilst P/E multiples are more than 50x on a 1-year forward basis, the opportunity to participate cyclically and structurally in India growth story, should create a significant boost to profitability over the next 3-5 years.

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Our Philosophy

IAIM's investment philosophy focuses on three key aspects:

1. **India will be a high GDP growth region relative to other regions given its strong fundamentals.**
2. **Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
3. **Locally based asset managers in India have an advantage relative to global investors when it comes to investing in Indian equities due to their knowledge of the local laws, business principles and overall ecosystem.**

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India Avenue Equity Fund's Target Market Determination is available on our website:

www.indiaavenueinvest.com/our-fund

A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

[1] Lonsec Disclaimer: The Lonsec Rating (assigned April 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold India Avenue Investment Management Limited's product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to Lonsec's website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings