**31 March 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**

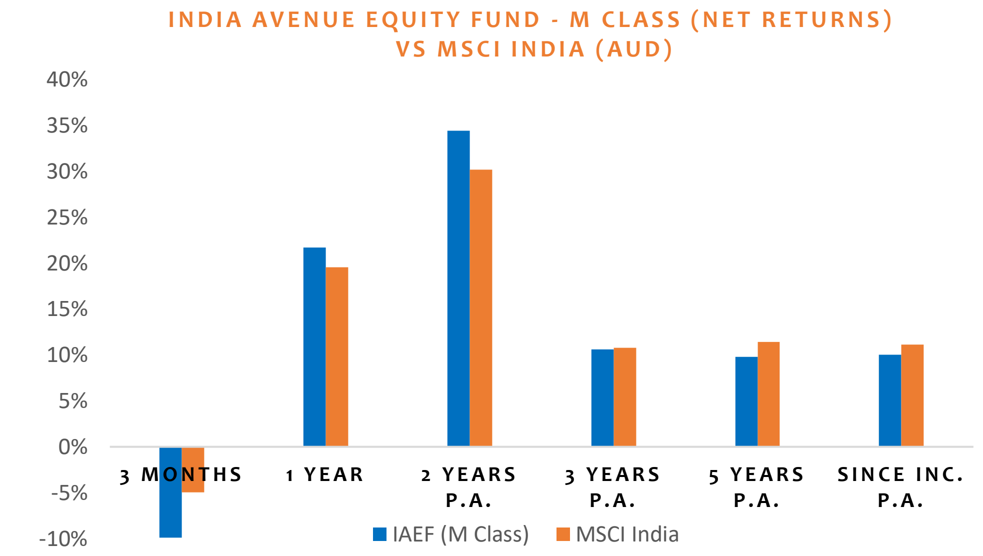
## Fund Rating

**Lonsec Rating: Recommended[1]**

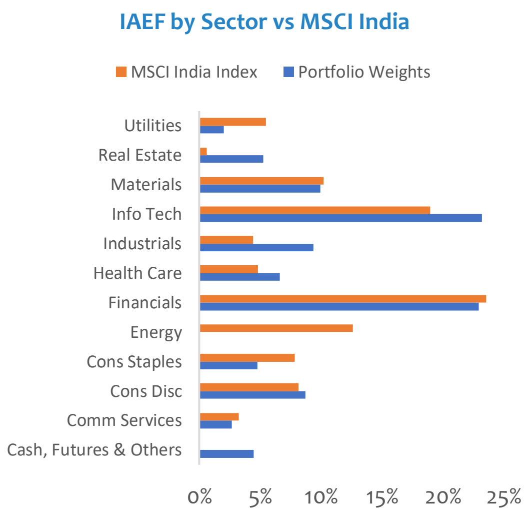
## Fund Facts

| | |
|---|---|
| **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$66.49m** |
| **NAV** | **M Class 1.6375**<br>**H Class 1.6193**<br>**L Class 1.2945** |
| **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.**<br>**H Class 1.50% p.a.**<br>**L Class 0.95% p.a.** |
| **Buy-Sell Spread** | **0.35% / 0.35%** |
| **Performance Fees**<br>**M & H Class**<br>**L Class** | **Excess Return above Benchmark**<br>**10%, high watermark**<br>**15%, high watermark** |
| **FY21 Distribution** | **0.0 cpu** |

## Fund Returns and Characteristics: 31st March 2022




| M Class | 3 months | 1 year | 2 years | 3 years | 5 years | Since Inception |
|---|---|---|---|---|---|---|
| **Fund Returns (net)** | -9.90% | 21.69% | 34.43% | 10.62% | 9.80% | 10.04% |
| MSCI India (AUD) | -4.98% | 19.54% | 30.16% | 10.78% | 11.43% | 11.13% |
| **Relative Performance** | **-4.91%** | **2.14%** | **4.27%** | **-0.16%** | **-1.63%** | **-1.09%** |




| Top 10 Stocks | Industry | Weight |
|---|---|---|
| Infosys | IT | 3.97% |
| Bajaj Finance | Cons Fin | 3.68% |
| HCL Tech | IT | 3.65% |
| Indian Energy Exch. | Capital Market | 3.12% |
| Tata Cons Ser | IT | 3.11% |
| Brigade Ent | Real Estate | 3.10% |
| ICICI Bank | Banks | 3.04% |
| Hitachi Energy | Elec. Equip. | 2.70% |
| Cyient | Software | 2.60% |
| Avenue Supermarts | Retailing | 2.53% |

***Source: MSCI***

| 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)** | -9.94% | 21.00% | 33.76% | 10.08% | 8.79% | |
| **L Class (net)** | -9.64% | - | - | - | | 29.00% |
| MSCI India (AUD) | -4.98% | 19.54% | 30.16% | 10.78% | 10.89% | 26.67% |

***Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st March 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.***

# Avenues

## 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 |

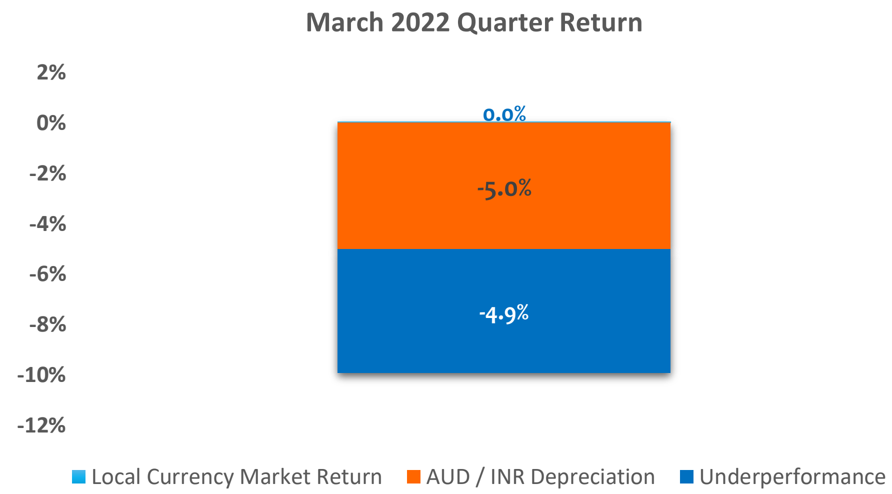
## Contact Details


**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


## Fund and Market Commentary

The India Avenue Equity Fund achieved a return of 21.69% for the year ending 31st March 2022, outperforming its benchmark, MSCI India (AUD) by 2.14%. The Fund's outperformance over the last year has been driven by the economic recovery, rising earnings growth expectations and broader market participation. However, over the last 3 months to 31 March 2022, the Fund (-9.21%) underperformed its benchmark (-4.98%) by 4.91%. This underperformance was driven almost the opposite of what we state as the drivers for outperformance over 12 months; slowing recovery, questions on earnings growth given rising inflation and narrower market participation.

Equity markets globally experience a negative quarter given the headwinds of rising inflation (driven by supply chain issues and rising commodity prices) and interest rates and therefore lesser liquidity as well as escalating tension between Russia and Ukraine, which eventually lead to conflict. Rising oil prices were also a concerning outcome given India's significant reliance on importing its requirements. Typically rising oil prices and inflation tend to de-rail the Indian economy's macroeconomic balance and destabilise its equity, bond and currency markets. As mentioned in our prior notes and fact sheets, the level of forex reserves has played a significant role in giving foreign investors' confidence when it comes to rupee denominated assets.




The decomposition of return for the March 2022 quarter illustrates that the losses were driven by a strong AUD relative to most currencies around the world given the high correlation to commodity prices. Additionally, the Fund experienced negative alpha after a sustained period of outperformance. It is our view that this occurred due to the following:

- Risk-off sentiment returning to the forefront of global investors' minds
- Question marks over the sustainability of growth in the short/medium term
- Rising inflation, driven by oil prices

The India Avenue Equity Fund has illustrated the characteristics of going through periods of underperformance of its benchmark in this environment. Over time this tends to revert once the foreign investors return seeking structural and sustainable growth. We do not see that structural path changing, despite periods of cyclical downturn being inevitable and providing opportunity for long-term investors / believers in the structural story.

***Past performance is not an indicator of future performance***

# Avenues

## India Macro & Micro News

**India and Australia signed an Economic Co-operation and Trade Agreement (ECTA) on April 4, 2022**. It is India's first trade agreement with a developed country for over 10 years. The Agreement is the first step in encouraging and improving trade between the countries. It covers almost all the tariff lines. This includes labour-intensive sectors of interest to India such as Gems and Jewellery, Textiles, Leather, Footwear, Furniture, Food, Agricultural Products, Engineering Products, Medical Devices and Automobiles. India will be offering preferential access to Australia on over 70% of its tariff lines, primarily raw materials such as coal, mineral ores, wines etc.

**India's Merchandise Exports have reached USS418bn in FY22, which is an all-time high.** Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles, Piyush Goyal said that India had truly gone from 'local to global'. **Rigorous efforts for domestic capacity enhancement for deepening integration in the Global Value Chains are being made** by working in partnership with the industry to identify areas where India's competitive advantages lay. Mr. Goyal said **the Government is now working on rolling out the District Export Hub Initiative to strengthen the export infrastructure, logistics** at district level to facilitate exports.

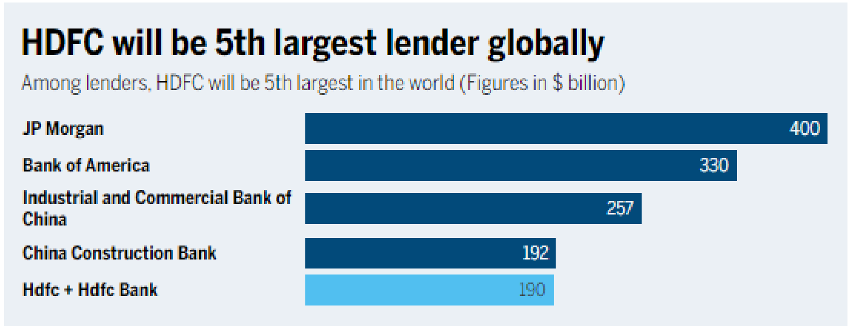
A study by ICRIER and Broadband India Forum found that internet contributed 5.6% to GDP in 2015-16. This figure increased to 16% of GDP in 2020, out of which 8% was contributed by apps. Another study by the World Bank found that every 10% rise in broadband penetration, leads to higher GDP growth by 1.38% in developing countries. These studies highlight the importance of internet penetration and apps in India.

***Source: www.ibef.org***

## A Giant Merger between HDFC Ltd and HDFC Bank

HDFC Bank is India's largest private bank, headquartered in Mumbai. By market capitalisation (US$190bn) the company is close to being one of the top 10 Banks in the world (April 2022). Recently HDFC Bank announced a merger with its parent company and housing finance business, HDFC Ltd. This merger of two big organisations will be the biggest merger in Indian corporate history.

In accordance with the merger, shareholders of HDFC Ltd will receive 42 shares of the HDFC Bank for 25 shares held in HDFC Ltd. Shares held by the housing finance company in the lender will be extinguished and HDFC Bank will become a full-fledged public company. The transaction is expected to be completed in 18 months, subject to regulatory approvals. The merger is approximately US$40bn and create a lender with a balance sheet of US$237bn.




***Source: Times of India***

The interesting aspect of the merger is the logic or reasoning behind the decision, particularly given it has long been discussed:

- The merger will create a significantly larger balance sheet and access to capital at a lower cost, both locally and overseas if required.
- The Group's market share will increase from 11% to 15%, still well below SBI's 26%, but much ahead of its next rival in ICICI Bank.
- The regulatory gap between Bank's and NBFC's have narrowed significantly, with the latter coming under far more scrutiny than the past.
- HDFC Bank's penetration in the housing market is very low and competition is intense. Home loans assigned to HDFC Ltd from HDFC Bank has grown by 24.5% p.a. over the past 12 years[1].
- The merger will enable the writing of larger loans, including infrastructure loans
- The thematic globally is focused on consolidation to drive greater market share and thereby lowering cost of capital and pricing power. The business is also preparing for a more competitive environment ahead of them.
- Transparency is the need of the hour and prior holding company structures may no longer be relevant from an efficiency and effectiveness perspective.

We expect to see more of these simplified structures where possible going forward. While some of it may be largely optics, there is some logic to the transaction when you consider that the company will increasingly find itself into global portfolios given liquidity and being a play on Consumption and Banking.

[1] ***HDFC Bank Presentation***

# Avenues

## 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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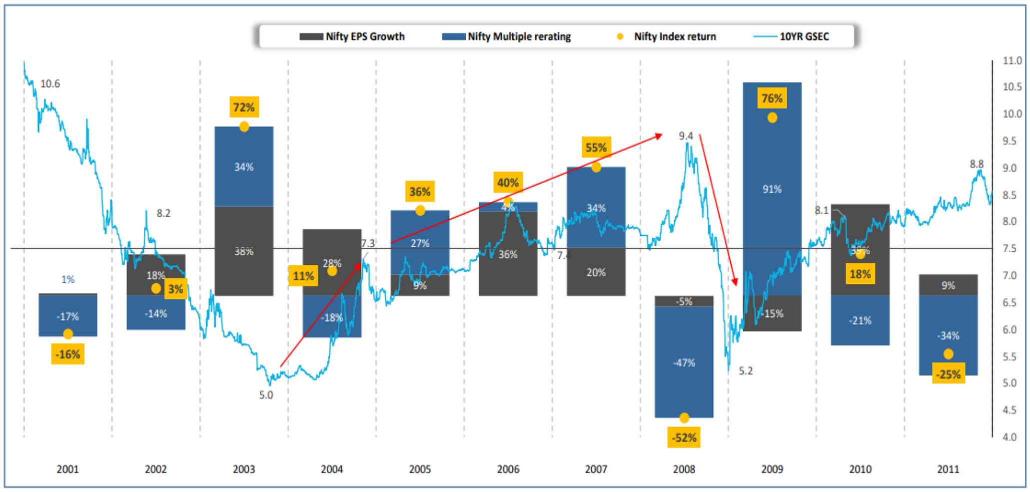
## India's Equity Market Parallels to 2003-2007

In 2002 Oil prices were US$23 per barrel, before embarking on an upward trajectory towards US$85 per barrel in 2007. Typically, rising oil prices aren't favourable for India's economics given it imports close to 85% of its requirement. Additionally, an environment of rising commodity prices is also harmful as India is a net importer. It not only impacts the country's economics, but also corporate margins.

Rising inflation, bond yields and interest rates in conjunction with a commodity upcycle is supposed to be negative for Indian equities. 2003-2007 saw a similar backdrop, however, GDP growth was strong and corporate earnings growth averaged over 20%, foreign direct and investment flows were strong, and the currency was resilient. The US Federal Reserve hiked interest rates several times during this period.




The chart above illustrates that whilst 10-year bonds moved up quite steeply (2003-2008), the equity market generated significant returns due largely to earnings growth (more so that multiple re-rating). However, there is one key difference – valuations are far higher as a starting point in 2003 (P/E 12x). Therefore in the next cycle (2022 onwards) it is likely that equity markets will be driven by earnings growth, which should override losses from multiple de-rating.

Also important to note is the type of industries that tend to drive in the environment. In 2011-2020, India's economy was driven by leveraging of consumers from a low base, which created substantial opportunity for Banks and Financial Services and Consumption. Meanwhile corporates were in deleveraging mode. In fact in terms of invested capital, equity now forms an unprecedented 80% (FY21). Net Debt to Equity of BSE-500 companies (India's 500 largest firms by market cap) has fallen to 42%.

Strong corporate balance sheets, low level of debt and strong cash flow being generated at presented is likely to lead to capacity expansion. Early indicators of rising activity include Environmental Clearances Granted which have risen at 47% p.a. over the last 3 years. Another clear giveaway is the push on China + 1 type initiatives which is leading to manufacturing being the go to sector when it comes to new business registrations (risen from 12% to 22% over the last 3 years), despite the strong incumbent position of India as a Services dominated economy. Food for thought on which sectors will lead India's growth in the 2020's.

***Source: Spark Capital Research***

# Avenues

India Avenue Investment Management

## 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.*