

Avenues

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: Recommended¹

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6 th September 2016
Fund Size	A\$63.09m
NAV	M Class 1.5317 H Class 1.5135 L Class 1.2112
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Frequency	Yearly 30 th 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

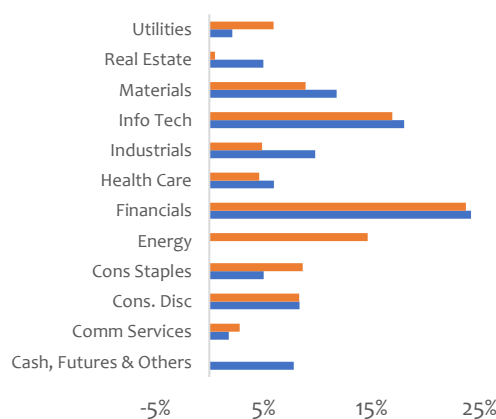
Fund Returns and Characteristics: 31st May 2022

INDIA AVENUE EQUITY FUND - M CLASS (NET RETURNS) VS MSCI INDIA (AUD)



M Class	3 months	1 year	2 years	3 years	5 years	Since Inc.
Fund Returns (net)	-8.31%	5.55%	28.14%	6.99%	6.91%	8.46%
MSCI India (AUD)	-2.91%	9.39%	25.60%	8.45%	9.40%	10.19%
Relative Performance	-5.40%	-3.84%	2.55%	-1.45%	-2.49%	-1.73%

IAEF by Sector vs MSCI India



Top 10 Stocks

Stock	Industry	Weight
Bajaj Finance	Cons Fin	3.98%
Infosys	IT	3.36%
ICICI Bank	Banks	3.36%
Tata Consulting Ser	IT	3.00%
Brigade Ent.	Real Estate	2.99%
Hitachi Energy	Elec. Equip.	2.90%
Hindalco Ind	Metals	2.76%
Avenue Supermarts	Retailing	2.69%
Redington	Elec. Equip.	2.39%
Shriram Trans Fin	Cons Fin	2.35%

Source: MSCI

H & L Class	3 months	1 year	2 years	3 years	5 years	Since Inception H Class 06/04/17	Since Inception L Class 19/04/21
H Class (net)	-8.41%	4.95%	27.50%	6.47%	6.42%	7.08%	
L Class (net)	-8.26%	5.47%					20.70%
MSCI India AUD	-2.91%	9.39%	25.60%	8.45%	9.40%	9.85%	22.79%

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

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Fund and Market Commentary

The India Avenue Equity Fund achieved a return of 5.55% for the year ending 31st May 2022, underperforming its benchmark, MSCI India (AUD) by 3.84%. As we highlighted in our April 2022 ending Factsheet, the Fund's underperformance in 2022 (YTD) is driven by the following factors:

- Impact to India's economic recovery from rising inflation, driven by higher commodity prices. The Fund is aligned to the growth story, playing out over the long-term.
- Rising interest rates to ward off inflation. The Reserve Bank of India has shifted its focus from growth to inflation in its recent wording and towards "normalisation". They tightened rates again by 50bps in early June to 4.9%.
- Outperformance of stocks which are more aligned to the value style over the growth style as the discount rate/cost of capital rises. The Fund's positioning indicates a willingness to pay for earnings growth. This has been a common shift in global markets, with investors deserting growth stocks in favour of value.

Over the second half of 2022, we expect that the Fund's relative performance is less likely to be influenced by its growth style bias, given the significant de-rating of growth stocks which has already occurred. Also, to some degree investors have priced in that higher inflation may linger for longer than expected.

We also note that despite the Fund's relative underperformance in the last 6 months (which has had an impact on overall relative returns for all periods), **the returns received by investors have been superior compared to most commonly invested asset classes from an Australian investors' perspective.**

	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since Inception p.a.
Fund Returns (net)	5.55%	28.14%	6.99%	6.91%	8.46%
MSCI India (AUD)	9.39%	25.60%	8.45%	9.40%	10.19%
MSCI World (AUD)	1.13%	9.89%	9.68%	8.62%	10.10%
MSCI EM (AUD)	-15.57%	3.75%	1.46%	2.11%	4.35%
ASX 200 (AUD)	0.69%	11.93%	4.07%	4.73%	5.11%

It is our view that India's economy will benefit from the following factors, which are differentiated to the performance of other economies in the medium term:

- India's exporting companies are reporting positive results and full utilisation as well as increasing exports to other countries – a positive of the China + 1 thematic and the Government's Production Linked Incentive Scheme for manufacturing
- Rising tax collections because of an economic recovery and a broadening catchment which will increase funds available for the Government
- The potential for an improving rural sector (which had lagged since COVID-19) due to rising Agri prices and a predicted normal upcoming monsoon. This could lead to significant consumption spending later this year.
- Inflation levels which appear to have peaked in the short term on last reading, with inflation fell from 7.9% to 7.0% in May.

**Past performance is not an indicator of future performance. None of the above is to be construed as financial advice, Investors should consult their financial advisers before considering an investment in this product.*

India Macro & Micro News

According to the forecast high-net-worth-individual (HNWI) growth figures published in the latest Henley Global Citizens Report, which tracks private wealth and investment migration trends worldwide, India will see a significant increase in the number of millionaires/billionaires over the next decade by 80%, compared to 20% in the US and 10% in France, Germany, Italy, and the UK.

May 2022 was a busy month for India Inc, with 190 agreements totaling US\$19.1bn, representing the second-highest monthly value in four years. In May, 40 M&A transactions totaling US\$11.9bn were completed, led by Adani Group's US\$10.5 bn acquisition of Holcim's Indian assets, the country's largest-ever infrastructure transaction. Retail, Technology and Start-Ups continue to dominate deal volumes.

Under Phase-II of the FAME India Scheme, the Ministry of Heavy Industries has approved 2877 charging stations in 68 cities across 25 states/UTs. In addition, MHI has approved 1576 electric vehicle charging stations throughout 16 highways and 9 expressways as part of this phase. The Fame India scheme was launched to encourage electric vehicle purchases by subsidies.

India, the world's fourth-largest automobile market, is seeing a spurt of interest from global carmakers racing for green mobility. Volkswagen's EV will be up against Honda Motor Co.'s first hybrid electric sedan in India, priced at 1.95mn rupees (US\$25,000). Toyota Motor Corp. has agreed to consider adapting its hydrogen-powered fuel cell car for local road and weather conditions. Kia Corp. is bringing its first electric car to the country later this year, while Hyundai Motor Co. has vowed to roll out six battery models by 2028 and launch its first electric crossover SUV in 2022.

The Quality Drift

The **quality investment style** does not have a precise definition or measurement yardstick. Generally, those applying quality filters look at return on capital, levels of debt, low accruals and low earnings volatility. In India, over the last decade the consistent compounders of earnings have generally been in Financials or Consumption stocks as these were the sectors that drove the economy from 2009-2019 i.e. GFC to COVID. Household balance sheets were under-leveraged, and the decade saw consumption being funded by credit and thus those sectors contributed heavily to GDP growth. However, capex oriented and more economically cyclical industries generated far less earnings growth and experienced volatility.

As a result foreign investors seeking India's compounding growth stories often identified the region as too expensive relative to their other options. **Locally based quality focused investors continued to invest in these companies despite higher valuations given their ability to continually compound earnings as addressable markets experienced strong growth due to the secular fundamentals at play.** Thus the quality style was dominant in India from 2010-2019. There were several factors which drove this:

- A formalization of the economy, driving concentration in profit pools towards market share leaders across industries
- Weaker performance from businesses requiring operating and financial leverage to succeed, especially after Corporate India was leveraged to the hilt during/post GFC.
- The fallout of Public Sector Banks, as the major lender to unproductive projects, was that Private Banks grew their profitability and market share significantly by offering banking services and products to households
- Low and falling interest rates during economic slowdown (2015-2020), meant businesses with a strong brand presence and a moat were able to thrive.

Quality Style during rising Interest Rates / Inflation

During COVID-19 and subsequently with supply chain issues and rising commodity prices, the ability to generate sustainable and growing profits now shifts to different industries and not sit only within Private Banks, NBFC's, Technology and Consumer Staples.

One of India Avenue's three investment advisers applies a Quality based investment philosophy to stock selection. Industries which were not present in the portfolio previously are now starting to appear given the emergence of more nascent addressable growth markets. This is driven by increased excellence in manufacturing and rising exports, the potential of rising rural wealth (rising crop prices), e-commerce growth outstripping other formats and increasing prominence of healthcare. New entrants include:

- Apollo Hospitals (Healthcare), Motherson Sumi Wiring / Clean Science and Technology / Tube Investments (manufacturing/exports), Delhivery / Nykaa (e-commerce)

Our Quality style investment advisers' portfolio had 74% allocated to Financials, Consumption and IT as at 31/05/21. This has now reduced to 67% and is likely to continue falling as sustainable growth industries change hands due to the shifting underlying economics and market fundamentals in the face of the pandemic, rising inflation (and commodity prices) and scarcer liquidity.

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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Hindalco Industries – It's not always structural stories

Description

- Hindalco Industries Limited is engaged in the production of Aluminium and Aluminium products, and copper and copper products
- The Company's products include Aluminium Ingots/Rolled Products, Copper Cathodes and Concast Copper Rods. The Company's Aluminum downstream offerings include extrusions, flat-rolled products, foils, wire rods and billets.
- Clients of the company are in automotive and transport, building and construction, industrial applications, pharmaceuticals and packaging, and white goods.
- Hindalco is the parent company of Novelis (based in Atlanta, Georgia) and is the world's largest producer of rolled sheet Aluminium, with operations across 11 countries and nearly 11,000 employees.

Thematic Drivers

- Positively impacted by China supply chain disruption
- High potential in automotive segment due to supply chain/semiconductor issues
- Rising demand for renewables
- Cost competitive, scalable and higher margin (special grade alumina)
- Hedge the rising cost of commodities impacting India's macroeconomics and margins.
- Rising prices allow for significant debt payoff

Typically, Hindalco Industries is not the type of stock foreign investors seek to own in India as it doesn't emerge from a structural long-term demographic story. However, given the current environment and the potential for an elongated period of higher commodity prices which may be harmful to margins and hence profitability of many such structural stories, it makes sense to diversify the portfolio with businesses that can participate during rising inflation.

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	34,830	1,32,349	1,78,112	1,82,200
Add: Depreciation	67,400	77,084	63,047	64,351
Interest (net of tax)	37,380	32,428	36,586	36,910
Others	38,030	55,516	72,149	69,953
Less: Changes in WC	(5,320)	(1,69,061)	(1,01,730)	(92,756)
Operating cash flow	1,72,320	1,28,316	2,48,164	2,60,658
Less: Capex	(2,50,890)	(64,542)	(57,250)	(58,000)
Free cash flow	(78,570)	63,774	1,90,914	2,02,658

Source: Edelweiss Research

Minting Cash

At the current point in the cycle the company is generating significant profit whilst Aluminium prices remain high. This is visible in the profit growth of FY22, which alongside lower capex requirements of the business will lead to significant cash flow generation for the business. This will almost wipe out the net debt on the balance sheet by FY24 and place the company in a great position to add capacity if required or pay back to shareholders. These positions can provide a hedge against short-term impediments to a portfolio seeking to play out the long-term structural growth story.

Source: Edelweiss Research, Edelweiss Securities

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>*