

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

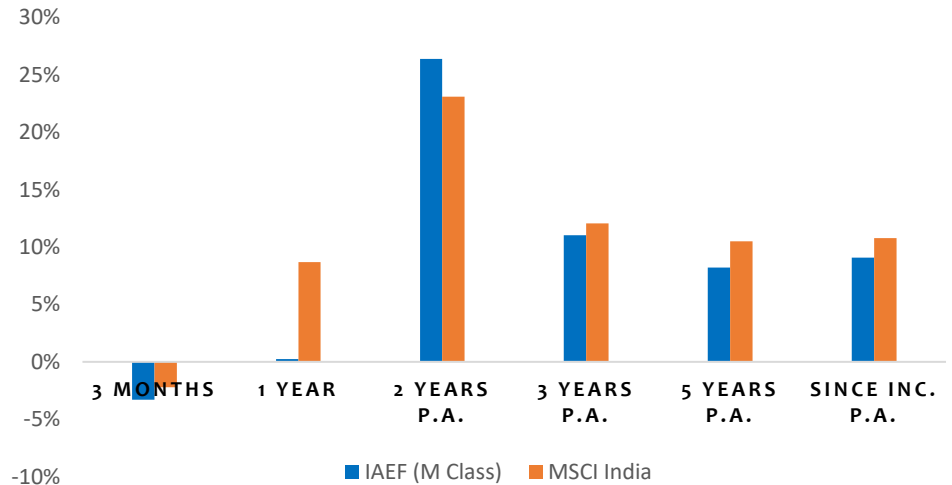
Lonsec Rating: Recommended¹

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\$62.14m
NAV	M Class 1.4384 H Class 1.4103 L Class 1.1425
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
FY22 Distribution	M Class: 15.274 cpu H Class: 16.005 cpu L Class: 11.637 cpu

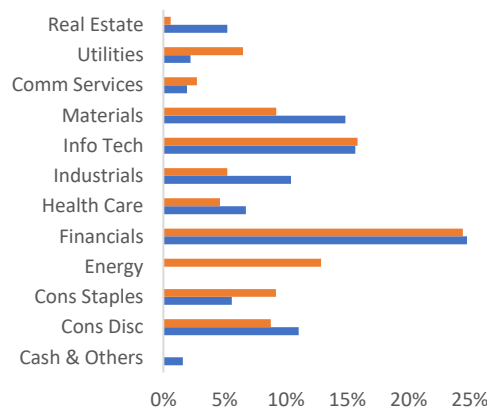
Fund Returns and Characteristics: 29th July 2022

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)	-3.30%	0.23%	26.38%	11.03%	8.21%	9.07%
MSCI India (AUD)	-2.22%	8.70%	23.09%	12.05%	10.51%	10.77%
Relative Performance	-1.08%	-8.47%	3.29%	-1.02%	-2.30%	-1.69%

IAEF by Sector vs MSCI India



Top 10 Stocks	Industry	Weight
Bajaj Finance	Cons. Fin.	4.11%
ICICI Bank	Banks	3.75%
Infosys	IT	3.52%
Brigade Enter.	Real Estate	3.26%
Hindalco Ind.	Metals	3.19%
Shriram Trans. Fin	Cons. Fin.	2.84%
Hitachi Energy	Elec. Equip.	2.72%
Kotak Bank	Banks	2.65%
Avenue Supermarts	Retailing	2.63%
Cyient	Software	2.55%

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)	-3.41%	-0.10%	25.76%	10.48%	7.70%	7.78%	26.49%
L Class (net)	-3.26%	0.62%	23.09%	12.05%	10.51%	10.50%	28.69%
MSCI India AUD	-2.22%	8.70%	23.09%	12.05%	10.51%	10.50%	28.69%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 29th July 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

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M Class	611374586	AU60ETL04826	ETL0482AU
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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 returned 0.23% for the 12 months ending 29th July 2022, underperforming its benchmark, MSCI India (AUD) by 8.47%. The underperformance was driven by weak relative performance of the Growth and Quality styles as well as Mid/Small capitalisation stocks. Given the Fund's positioning is linked to these structural long-term biases, which we believe are aligned with the India's long-term compounding growth story, the Fund underperformed its benchmark. Pleasingly, over the month the Fund outperformed its benchmark by 1.36%, producing a return of 9.10%. July saw a reversal of some of the global and therefore imported local macro events that had driven weakness in equity markets around the world. Additionally, foreign investors returned to India in July (with a net positive inflow) after 9 months of outflow to the tune of US\$35bn – the largest sustained outflow India's equity markets have been subjected to.

Another factor which has impacted relative performance is our philosophical view on screening out harmful sectors from an ESG perspective. Stocks which have been viewed more positively from an ESG lens have been held by an increasing amount of impact investing funds. As a result, this investing bias has now seen some pullback due to a need for investor liquidity.

Improving macro and micro fundamentals

	CPI Inflation	Forex Reserves	CAD-to-GDP	Oil Prices
2022 Peak	7.9%	US\$640bn	-1.7%	US\$128
Now	6.7%	US\$573bn	-1.7%	US\$98
Last 10 years	6%	US\$440bn	-1.5%	US\$70

Source: tradingeconomics.com

Oil prices are typically detrimental to India's macroeconomic health. Commodity prices in general are also inversely impactful on India's corporate margins as a whole. Developing economies like India have generally had to deal with higher structural inflation due to infrastructure "bottlenecks" and thus the current 6.7% is pleasing relative to other economies and is not far from the average over the last 10 years. USD Forex reserves of India have also climbed to the 4th largest in the world due to the strength of industries like IT Services. Typically, rising Oil prices has been the detrimental "uncontrollable" for India as it leads to a rising Current Account Deficit, its risk has been somewhat mitigated by improving export competitiveness and in future by a slow but rising reliance on renewables.

	Manuf. PMI	Services PMI	Bus Confidence	Con Confidence
2022 Peak	56.4	59.2	137.8	76.0
Now	56.4	55.2	134.7	76.0
Last 10 years	52	52	115	85

Source: tradingeconomics.com

Google mobility measures / economic activity levels indicate the economy is exceeding pre-Covid operating levels. However, the handbrake applied this year so far is "imported" from the global issues. If Oil prices remain rangebound around current levels and inflation recedes then India is poised to benefit from any weakening of the US dollar (from current 20 year highs) in terms of foreign flows and improving macro/microeconomics.

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India Macro & Micro News

The Reserve Bank of India (RBI) is optimistic that the Indian economy is on target to become the fastest growing economy in the world despite concerns about a global recession. The Indian economy has been demonstrating signs of resilience and dynamism. Strength of the southwest monsoon's recovery and a rebound in sowing activities, the agriculture sector has shown encouraging signals, bolstering hopes that rural demand will soon catch up with urban spending and solidify the recovery.

Under the vaccine 'Maitri' initiative, India has supplied over 235 million total supplies of COVID-19 vaccines to 98 countries of the world. With nearly 2bn doses reaching all parts of the country, including the most remote areas, India's vaccine manufacturing ecosystem has produced the most extensive free vaccination programme in the world.

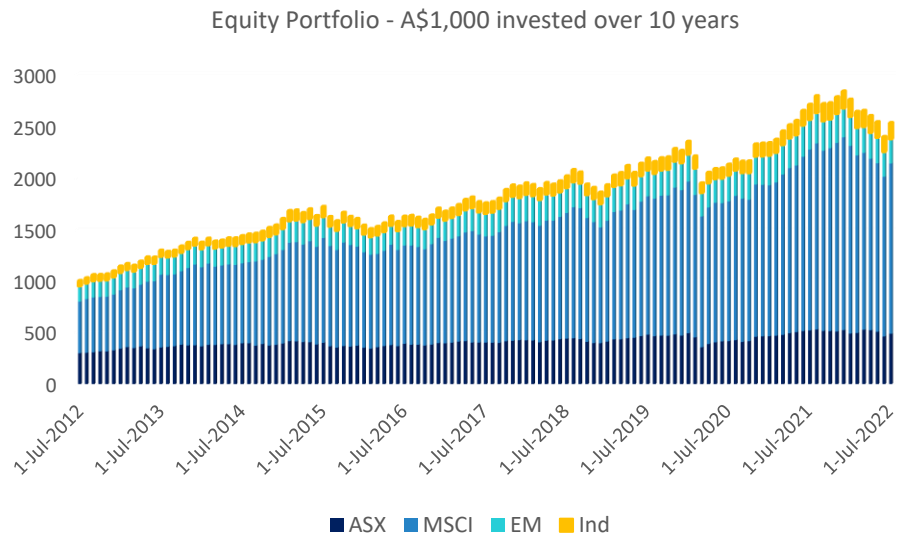
According to the India Bio Economy Report 2022 by Biotechnology Industry Research Assistance Council (BIRAC), India's bioeconomy is expected to touch US\$150bn by 2025 and over US\$300bn by 2030. The number of biotech startups in the country has increased from 50 to over 5,300 in the last 10 years because of the growing enabling ecosystem and priority to the sector. India has approximately 3% share in the global biotechnology industry

According to a study conducted by SBI research, incomes of farmers have doubled for certain crops in some states from 2017-18 to 2021-22. In order to achieve the government's target to double farmers' income by 2022-23, the government has announced a plethora of measures like an increase in MSP, crop insurance, focus on kisan credit card and soil health cards, boosting e-NAM and food parks, and increasing the coverage of institutional credit.

Source: www.ibef.org

Indian Equities in a Client Equity Portfolio

Typically, investors domiciled in Australia have exposure to Australian Equities, Global Developed Equities and Emerging Market Equities which make up the equity component of their Balanced, Growth and High Growth client risk profiles. Other fringe exposures may be Global Listed Infrastructure, Global Small Caps, Asian Equities or NZ Equities if based in New Zealand.



Source: Refinitiv, MSCI

The chart above shows that over the last 10 years, A\$1,000 invested has grown to A\$2,500 in AUD. Portfolio weightings have changed from initial setting to final outcome on 31 July 2022 as per the table below:

	ASX 200	MSCI World	MSCI EM	MSCI India
Starting Weight 31/7/2012	30%	50%	15%	5%
Finishing Weight 31/7/2022	19%	65%	9%	6%

This illustrates that equities as an asset class performed relatively well in client portfolios over the last decade. However, the asset class was supported by a good starting point through lower valuations (US Debt ceiling issues and higher inflation) and low interest rates/high liquidity over the period. Structural stories won the day over cyclical stories (US, India > Australia, EM). Going forward, given P/e's remain elevated and interest rates are rising, it can be expected that earnings growth may win the day over the next 10 years. This should favour EM/India, particularly given the benefit of a starting point which reflects a 20-year high for the US Dollar against other currencies.

A point to note is that the general shift towards deglobalisation or regionalisation may lead to greater dispersion in returns of regions within Developed and Emerging Market Equities. This may provide surprising correlation and thus portfolio benefits which aid in improving client portfolios.

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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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India's Booming IT Services Industry

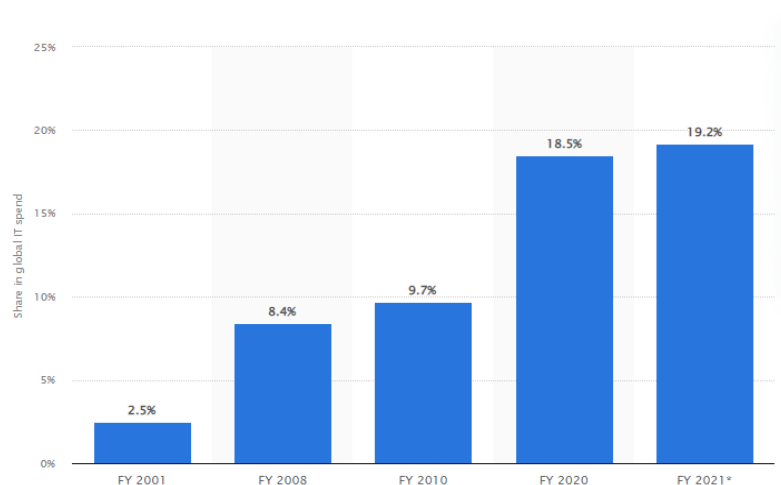
India's IT and BPM Industry accounts for 9.3% of GDP and represents over 56% of the global outsourcing market. Within that, Indian IT services have become the boom industry in India again, with revenue of closing in on US\$250bn as at the end of FY22 and to grow to US\$350bn by 2026*. The industry added close to 500,000 employees in FY22 (44% of which were women).

In the 1990's the IT industry grew speedily as corporates around the world lowered the costs by outsourcing their business and technology related activities to India given the country's structural labour cost advantage. Fast forwarding 30 years, the industry is not being driven so much by labour cost saving, but by increasing IT capex, as corporates seek to migrate to the cloud, build digital business platforms, focus on cybersecurity needs, undertake greater data analytics and lower customer acquisition costs.

It is our view that IT capex is unlikely to be withheld even in the event of a US recession, given the shift for from "want" to "need". Enterprises continue to spend more on cloud-based infra and software products. Commentary suggests, enterprises need to invest aggressively in technology products to digitally transform legacy operating models and that remains the key growth driver for cloud-based products, which in many cases are taking away greater wallet share of IT spending.

Whilst in recent Q1FY23 quarterly results companies reported lower margins due to hiring costs, attrition levels, wage hikes, subcontracting costs and travel costs. Margin contraction was between 100-250bps, reaching all-time low levels for most of India's leading IT firms. However, revenue growth is likely to be around 15% for FY23 and commentary on the demand outlook from large firms like Infosys, Tata Consulting Services reflects a positive outlook (in fact in some cases an improved outlook). Deal pipeline commentary appears to reflect improving momentum over 2022-2023.

The growth of the Indian IT industry will come primarily on the back of digital services, which currently accounts for 30% of the industry's revenue, but its share is expected to go up to 50% over the five years totalling to around \$170 to \$200 billion of revenue for the industry*.



Source: Statista

* NASSCOM – National Association of Software and Services Companies

Source: Antique Stockbroking

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>*