

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

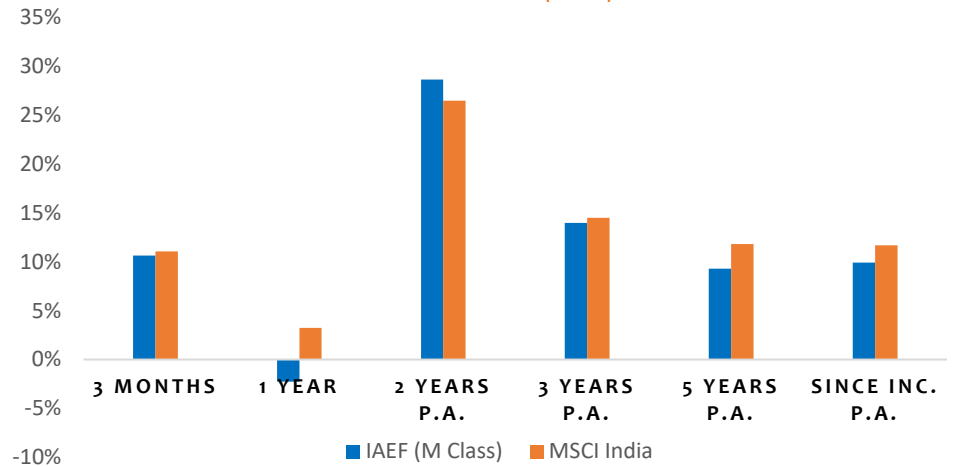
Lonsec Rating: Recommended¹

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\$65.99m
NAV	M Class 1.5160 H Class 1.4858 L Class 1.2043
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 L Class	10%, high watermark 15%, high watermark
FY22 Distribution	M Class: 15.274 cpu H Class: 16.005 cpu L Class: 11.637 cpu

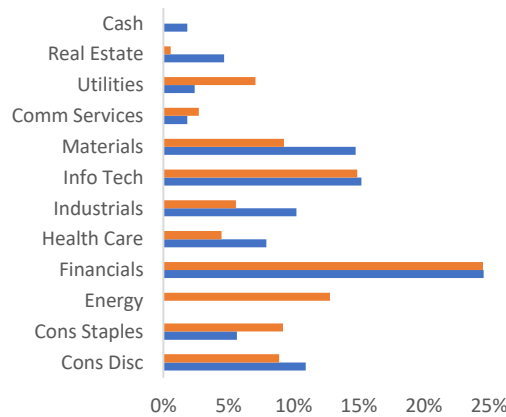
Fund Returns and Characteristics: 30th August 2022

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)	10.64%	-2.27%	28.65%	13.97%	9.28%	9.93%
MSCI India (AUD)	11.06%	3.23%	26.48%	14.50%	11.82%	11.68%
Relative Performance	-0.42%	-5.50%	2.17%	-0.52%	-2.54%	-1.75%

IAEF by Sector vs MSCI India



Top 10 Stocks	Industry	Weight
Bajaj Finance	Cons Fin	4.70%
ICICI Bank	Banks	3.87%
Infosys	IT Services	3.24%
Hindalco Industries	Metals	3.21%
Redington (India)	Elec. Equip	2.71%
Avenue Supermarts	Retailing	2.68%
Kotak Mahindra Bk.	Banks	2.67%
Shriram Trans Fin.	Cons Fin	2.65%
Brigade Enter.	Real Estate	2.58%
Cyient	Software	2.48%

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)	10.52%	-2.73%	28.01%	13.41%	8.76%	8.74%	
L Class (net)	10.67%	-2.23%					33.58%
MSCI India AUD	11.06%	3.23%	26.48%	14.50%	11.82%	11.52%	36.37%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th August 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.

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 returned -2.27% for the 12 months ending 30th August 2022, underperforming its benchmark, MSCI India (AUD) by 5.50%. As we have highlighted in our fact sheets this year, the underperformance was driven by our bias towards Growth, Quality and Small/Mid-Caps. Additionally, we do not hold any exposure to the Adani Group of stocks (refer to the next page), which have significantly outperformed the MSCI India benchmark as a result of rising corporate activity and infrastructure development.

July and August have seen an end to the bleeding as foreign investors have returned to India after flirting with increasing allocation to China based on cheaper valuations and potential for stimulus to revive their flagging economy. India is continuing to fare well given its significant build-up of US foreign currency reserves (over the last decade in particular) and an uptick in the corporate recovery post COVID-19. India's macro and micro have been relatively stable this far. Current levels of inflation (7.0%) and Household and Government debt are not uncomfortable in comparison to developed economies. In fact credit growth is currently at close to 15% given that economic activity is quite robust. The concerns however mount on the impact of a potential global recession and if that may put a dampener on India's growth from manufacturing and exports.

In AUD Terms	1 year	2 years p.a.	3 years p.a.	5 years p.a.
MSCI India	2.4%	25.2%	13.4%	10.6%
MSCI EM	-18.7%	-1.3%	-0.2%	1.2%
MSCI World	-10.5%	7.4%	6.6%	9.3%
ASX 200	-7.3%	7.4%	1.9%	4.1%
NZSE 50	-18.5%	-2.4%	1.0%	8.0%

Source: Refinitiv, MSCI

The table above indicates the strength of India's equity markets relative to other equity asset classes generally considered by Australian and New Zealand investors. The difference is particularly stark when compared to MSCI Emerging Markets which India is an increasing component of (8% to 14.5% over the last 6 years). It has to be recognised also that the results are post a period of significant oil and commodity price rises, inflationary forces, a weakening currency relative to the USD and significant foreign investor withdrawal.

Factors	31/08/2022	31/08/2021	31/08/20
Brent Oil	92.36	72.61	42.66
RBA Commodity Price Index	+22%	+51%	-9.0%
Inflation	7.0%	4.8%	7.0%
USD/INR	79.72	72.98	73.29
FPI Outflow (12m to)	-US\$24.7bn	+US\$25.3bn	+US\$12.2bn

Given the environment, typically Indian equities would go through a significant retracement, particularly as the currency retreated. However, the incremental buyer has been local investors in India i.e. Mutual Funds, High Net Worth Investors, Retail as well as Insurance Funds/Pensions. This increasing "financialisation" of wealth is providing strong support for equity markets. India has now risen to 3.4% of global market capitalisation.

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India Macro & Micro News

India surpassed China in the number of new unicorns (startups valued at US\$1bn or more) created in the first half of 2022. According to the Hurun Global Unicorn Index 2022, India added 14 new unicorns during the period, while China added 11. The US topped the list with 138 unicorns of a total of 254 added globally in 1H22.

According to Mercom India, India added 1.3 GW of open access solar power between January-June of this year, representing a 97% increase Y-o-Y. Open-access solar installations increased more than threefold to 680 megawatts (MW) for the quarter that ended in June, up from 210 MW last year. access solar project pipelines nationwide.

In 2022, Apple's India plants will manufacture around 11-12 million iPhones, which is expected to contribute 5-7% of the company's global iPhone shipments. In India, the three plants of the tech giant would manufacture iPhones to fulfil 85% of the domestic demand. The company is also gearing up to produce the iPhone 14 locally.

Foreign investors poured over US\$6.4bn into Indian equities markets in August, the largest inflow in 20 months, as risk sentiment improved, and oil prices stabilised. This follows a net investment of about US\$0.63bn by foreign portfolio investors (FPIs) in July, according to statistics from depositories.

India's position in the MSCI Emerging Markets Index has risen to second place, trailing only China's. India's country weight is 14.5% as of end-August, with 108 members. Over the last two years, the weightings of China and India in the EM index have shifted dramatically as a regulatory crackdown and tight Covid-19 limitations led to China's weighting has decreasing 9% since August 2020, while India's has increased by more than 6%.

Source: www.ibef.org

The Rise of the Adani Group

The Adani Group is multinational conglomerate headquartered in Gujarat, India. It was founded by Gautam Adani in 1988 in the form of Adani Enterprises. Today the empire has taken Gautam **Adani to the third richest man in the world, just behind Elon Musk and Jeff Bezos, with a net worth of close to US\$150bn** – ahead of the achievements of Mukesh Ambani of Reliance Industries and Jack Ma of Alibaba.

Adani Enterprises handled 4 Mt of cargo at Mundra in 2002 (established in 1995), becoming the largest private port in India. Later in 2006, the company became the largest coal importer in India with 11 Mt of coal handling. The company also expanded overseas in its journey by purchasing strategic coal assets in Indonesia (2008) and Australia in the Galilee Basin and Abbott Point. In 2012 it then added three further industries of Resources, Logistics and Energy. Today the company has emerged to being a significant play on India's infrastructure with assets which include ports, power plants, mines, ships and railway lines. Adani has spent the past few years growing its asset base and expanding into new growth areas like data centers, cement, media, food etc. It owns and operates India's largest private-sector port and airport, is the largest city-gas distributor and country's largest coal miner. Future plans seem to include telecom, green hydrogen and alumina.

The Adani Group of stocks are becoming more and more significant in the MSCI India through their increasing economic size and market capitalisation rise. This is starting to exert a significant influence on the Index.

Name	MSCI Weight	YTD Ret	Contribn
Adani Transmission	1.48%	129%	2%
Adani Enterprises	1.33%	109%	1%
Adani Total Gas	1.30%	107%	1%
Adani Green Energy	0.97%	72%	1%
Adani Ports	0.66%	30%	0%
MSCI India	100%	4%	4%

Source: Moneycontrol.com

However, there are increasing worries over the exponential growth the company is attempting. The group has been on a **deal making spree which has been predominantly funded with debt from public-sector banks in India**. Recent reports by Fitch and CreditSights both indicated concerns on the level of leverage inherent within the structure. Additionally flagged was the **level of transparency from the crossholding based structure**. There is a lack of broker research on the group despite its size. Several companies within the group have risen over 1000% since 2020.

The India Avenue Equity Fund and its investment advisers remain cautious on the Group and have remained on the sidelines till now. Whilst it appears the plans of the Government of India to develop infrastructure and put India on the road map economically concur with Adani's vision, the funding of the structure raises some eyebrows as does the lack of "professional" active investors on the shareholding register.

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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.

Fund Identifiers

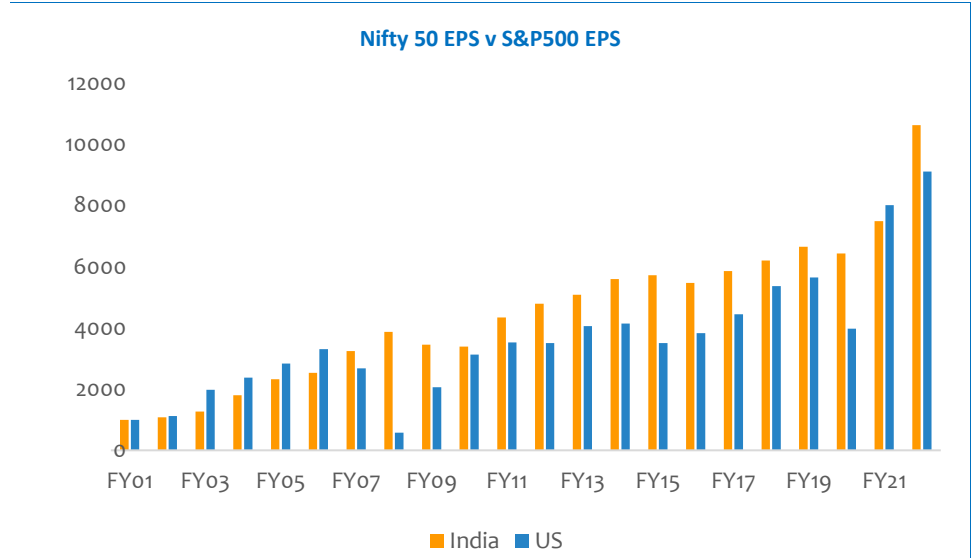
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India's Earnings Growth

India's earnings growth as measured by the Nifty-50 EPS over the last 20 years has been 12.1% which is not too dissimilar to its nominal GDP growth over that period. India's GDP growth has had a greater correlation to its corporate profitability than other economies where profitability tends to be a bit more cyclical. In some economies like China's the correlation of GDP and corporate profits have been low as a large part of the economy was not privatised.



The chart above reflects the EPS of a significant part of both India's and US's market cap. Whilst they are relatively similar in the ascent of EPS growth, there is one statistic worth looking:

	India	US
Annualised EPS growth %	12.1	11.1
Standard deviation %	14.4	64.8

Source: Motilal Oswal, Macrotrends

It's the volatility of EPS that is interesting – **India as a structural growth story has less cyclicality in its earnings.** Most of the industries are benefitting from growth of the addressable market and high weightings are in Financials, Technology and Consumption. The US market sector construct is similar however company earnings are far more cyclical as witnessed in the GFC, COVID-19. This then leads to an interesting question for asset allocators and portfolio constructors who are considering volatility in the underlying as well as price action. **Going forward if the price action of India will be less volatile due to the build up of forex reserves and the increases weight of local investors in market cap, then will allocators continue look more favourably on India.**

One argument is that it is already in the price. India's valuations on the 12m forward P/E front typically have been higher than most other markets. The data above gives us some understanding of why India may be expensive on this basis. **The power of compounding earnings growth is not to be understated and investors should place the length of investment horizon at a premium over timing of entry.**

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>*