

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.

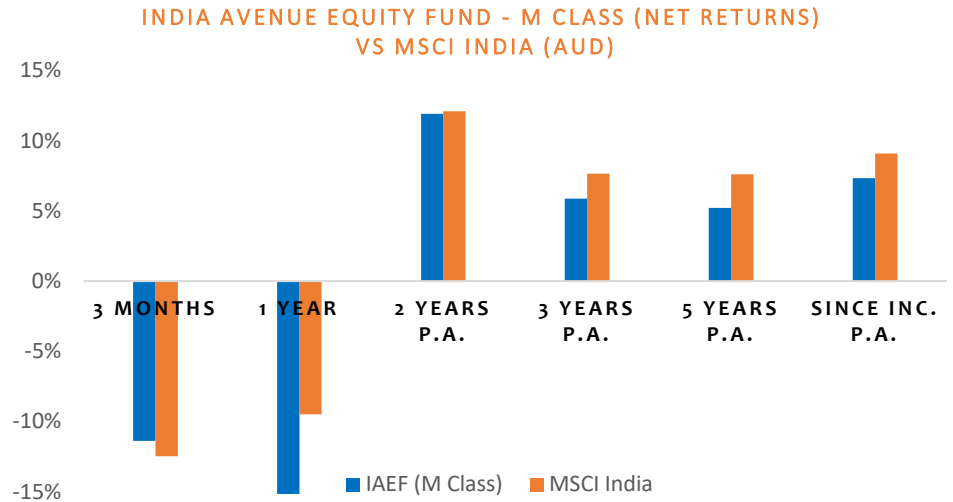
Fund Rating

Lonsec Rating: Recommended¹

Fund Facts

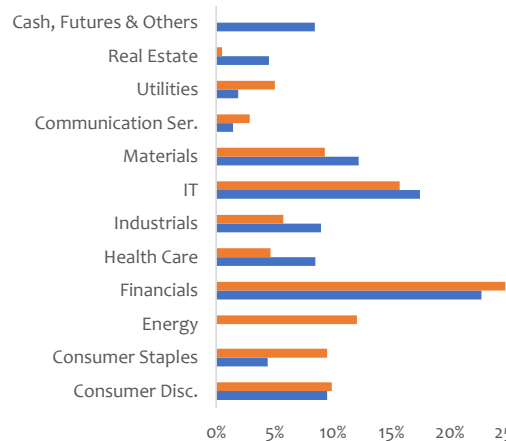
Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6 th September 2016
Fund Size	A\$60.46m
NAV	M Class 1.3561 H Class 1.3268 L Class 1.0780
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
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: 31st January 2023



M Class	3 months	1 year	2 years	3 years	5 years	Since Inc.
Fund Returns (net)	-11.38%	-16.82%	11.93%	5.89%	5.21%	7.34%
MSCI India (AUD)	-12.47%	-9.48%	12.10%	7.64%	7.61%	9.08%
Relative Performance	1.08%	-7.34%	-0.17%	-1.76%	-2.39%	-1.74%

IAEF by Sector vs MSCI India



Top 10 Stocks	Industry	Weight
Bajaj Finance	Cons Fin	4.22%
ICICI Bank	Banks	3.77%
Redington (India)	Elec. Equip	3.46%
Infosys	IT Services	3.45%
Shriram Finance	Cons Fin	2.62%
Hindalco Industries	Metals & Mining	2.48%
Tata Cons Services	IT Services	2.38%
Tech Mahindra	IT Services	2.32%
Persistent Systems	IT Services	2.26%
Axis Bank	Banks	2.22%

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)	-11.48%	-17.13%	11.38%	5.38%	4.70%	5.97%	10.41%
L Class (net)	-11.35%	-16.57%	11.38%	5.38%	4.70%	5.97%	10.41%
MSCI India (AUD)	-12.47%	-9.48%	12.10%	7.64%	7.61%	8.67%	12.20%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st January 2023, 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 **-16.82% for the 12 months ending 31st January 2023, underperforming its benchmark, MSCI India (AUD) by 7.34%**. The months of December 2022 and January 2023 have seen the MSCI India fall by 12.85%, driven partly by the continued steep appreciation (4.6% over the 2 months) of the Australian Dollar versus most currencies, including the Indian Rupee. Additionally, Indian equity markets fell by 7.74% over the 2 months as investors refocused on the China "re-opening" trade and other emerging markets linked to trade with China and the potential for easing interest rate rise pressures.

Local investors continue to support the Indian stock market with buying of US\$32bn over CY22, the largest ever. Most of their buying has come from foreign based selling of US\$17bn. It is likely that as foreign investors return to Indian equities (given the earnings growth available) that prices may be pushed higher, given local investors have been resilient and supportive.

India's equity markets, which had been a strong outperformer in 2021 and most of 2022, took a back seat and cheaper valuations available in other EM's drove flows. The other big news in January was the release of the Hindenburg report which led to the unravelling of share prices of the Adani Group of companies. Whilst the downside was largely curtailed to the 7 listed Adani Group companies, plus associated entities, the broader market continued to see foreign investors avoid India, particularly during the month of January 2023.

The India Avenue Equity Fund outperformed its benchmark over the last two months by 2.90% given zero exposure to the Adani Group companies or related entities, which you can read further about in this link bit.ly/IAExposureAdani. The issues related to the Adani Group in our view has also refocused the market on quality and transparency of growth and valuation. It is our view that this is a positive development for high quality, compounding growth companies in India, particularly where valuation is becoming more appealing.

The Adani Group plus associated companies' vs MSCI India (in local currency return):

	30-Dec	10-Feb	Fall
Adani Enterprise	3858	1847	-52%
Adani Total Gas	3693	1255	-66%
Adani Transmission	2589	1187	-54%
Adani Ports and SEZ	818	584	-29%
Adani Power	300	164	-45%
Adani Green	1932	724	-63%
Adani Wilmar	618	436	-29%
Ambuja Cements	524	361	-31%
ACC	2442	1880	-23%
MSCI India	1647	1581	-4%

Source: Refinitiv, MSCI. The Hindenburg Report was released on the 24th January, 2023.

Interestingly, we can see that at an approximately weighting of 5.75% in the MSCI India across the Group stocks, that the fall in the Index, is largely driven by the fall in the stock prices of Adani Group companies, rather than creating a broader systemic fall in India's equity markets.

**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

The Reserve Bank of India (RBI) which measures the adoption of online transactions, digital payments across India have registered growth of 24% over the year to Sept-22. The newly constituted RBI's Digital Payments Index stood at 377.5 in September 2022 vs 304.1 12 months ago.

India has become the third largest aviation market in the world, after the number of airports in the country increased from 74 in 2014 to 147 in 2022. Indian Railways is also emerging as a modern institution with many inaccessible areas being added to the rail map of the country. The Government's regional air connectivity program, modernization and electrification of Railways is likely to pay dividends.

The Union Budget 2023-24 presented by Ms. Nirmala Sitharaman, Union Minister of Finance and Corporate Affairs. The focus of the budget was on empowerment and inclusiveness. This included a technology-driven and knowledge-based economy with strong public finances, and a robust financial sector. To achieve this vision the priorities are facilitating ample opportunities for citizens, especially the youth, to fulfil their aspirations; providing strong impetus to growth and job creation; and strengthening macro-economic stability. The focus will be on "last mile", infrastructure and investment, green growth, youth power and financial sector development.

According to the All India Survey on Higher Education (AISHE) 2020-2021, the enrolment in higher education institutions increased to 41.4 million during 2020-21. It registered an increase of 7.5% from 2019-20 and 21% from 2014-15. The female enrolment has increased to 20 million in 2020-21 from 18.8 million in 2019-20. Female enrolment also witnessed a 28% increase in the number since 2014-15 to around 4.4 million.

Source: www.ibef.org

Perhaps the last tightening prior to a pause

On February 8th, 2023, the Reserve Bank of India decided to increase the policy repo rate by 25 basis points to 6.50%, with immediate effect. The Monetary Policy Committee (MPC) decided to remain focused on the withdrawal of accommodation to ensure that inflation remains within the target upper band of its tolerance limit going forward (4% +/- 2%). However, the chart below indicates that 6.5% is not excessive, whilst India has been able to grow at 6.5-7.0%.



Global Economy: The outlook on global growth has improved in recent months, despite the persistence of geopolitical hostilities and the impact of monetary policy tightening by central banks across the world. Nonetheless, global growth is expected to decelerate during 2023. Inflation is exhibiting softening from elevated levels, prompting central banks to moderate size and pace of rate actions.

Domestic Economy: India's GDP is expected to grow at 7% year on year for FY23 (ending March 23), driven by private consumption and investment and 6.4% for FY24. Inflation is projected at 6.5% for FY23 and 5.3% for FY24, assuming a normal monsoon and Oil prices at US\$95/bbl. High frequency indicators suggest that economic activity remains strong in Q3 and now Q4 FY23, with PMI's well over 50, Industrial Production rising 7.1% in November 2022 and capacity utilisation in manufacturing above its long-term average. Port freight traffic, e-way bills and toll collections were buoyant in December.

With inflation now at 5.7%, India is one of few regions globally, with positive real rates. Given a slowing global economy and its impact on India's growth, it is likely that the RBI may pause on the current level of interest rates, assessing inflationary pressures, global economic growth and its impact on the domestic economy. For India, slowing GDP growth is a far bigger issue than dealing with inflation. Since the turn of the century, inflation has averaged close to 6%.



Source: Reserve Bank of India, Monetary Policy Statement, Feb 2023

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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Increasing Exposure to Pharmaceuticals

The India Avenue Equity Fund's **pharmaceutical Holdings has increased to close to 9%**, across 9 companies which range from generic/API manufacturers, clinical research and nutraceuticals. This is relative to the MSCI India constituent weighting for the sector of 5%. These 9 companies account for US\$11bn revenues across the Pharmaceutical Industry (and associated industries).

In 2015, the Pharmaceutical Industry became dominant in terms of market capitalisation, with Sun Pharmaceuticals, at one stage being the largest listed company by market cap. India at that point was the third largest pharmaceutical industry in terms of volume and the 13th largest by value. It was expected that the Industry will grow at 20% p.a. from 2015 to 2020 by India Rating (a Fitch Group company). Whilst 8 years later, India is still 3rd by volume and 14th by value, it is the largest provider of generic medicines globally, occupying a 20% share in global supply volume and is the leading vaccine manufacturer globally. Exports total US\$24.6bn in FY22, whilst Foreign Direct Investment of US\$1.4bn came into the sector in just FY22 alone.

India has the **highest number of US-FDA compliant plants outside of the USA** and is home to more than **3,000 pharma companies** with a network of **over 10,500 manufacturing facilities** and a **highly skilled resource pool**.

Similarities to India's Tech moment of 2000...

In the 1990s and 2000's, India seized an advantage in outsourcing due to its labour cost advantage, English speaking, skilled and technical large pool of resources as global firms increasingly sought to reduce their labour costs and increase efficiencies. The arbitrage created significant opportunity for now a US\$200bn industry. In the 1990's, economic reforms directed at the sector as well as the Y2K bug issue globally created a huge opportunity.



A similar opportunity can be seen today in Global Pharma, with firms impacted by levels of debt and cash flow as well as patent expiry, creating an opportunity for scale to be built in growth of generics and vaccines as well as molecule research and shifting the base of research to India. The Pharmaceutical Industry in India is around US\$50bn presently, but has a significant opportunity to grow over the decade.

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>*