

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

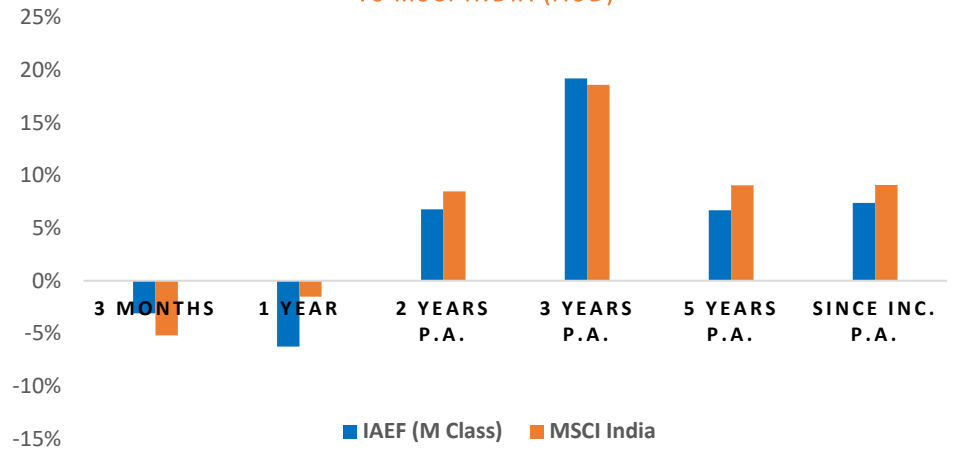
Lonsec Rating: Recommended¹

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\$63.76m
NAV	M Class 1.3755 H Class 1.3447 L Class 1.0937
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

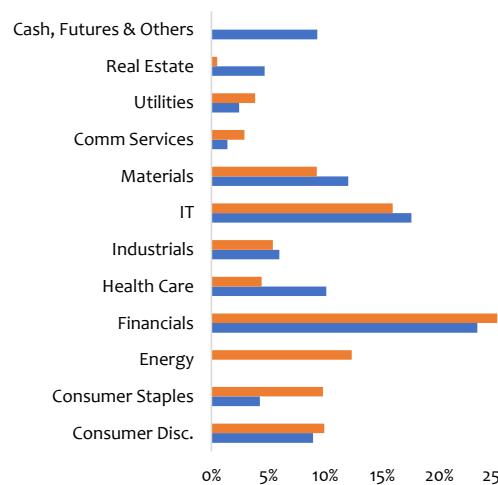
Fund Returns and Characteristics: 31st March 2023

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)	-3.10%	-6.27%	6.80%	19.20%	6.68%	7.38%
MSCI India (AUD)	-5.18%	-1.52%	8.50%	18.60%	9.07%	9.11%
Relative Performance	2.07%	-4.75%	-1.71%	0.60%	-2.39%	-1.72%

IAEF by Sector vs MSCI India



Top 10 Stocks

Stock	Industry	Weight
Bajaj Finance	Cons. Finance	4.0%
ICICI Bank	Banks	3.9%
Infosys	IT	3.2%
Redington (India)	Elec. Equip.	3.1%
Tech Mahindra	IT	3.1%
HCL Tech	IT	2.6%
Shriram Fin	Cons. Finance	2.5%
Persistent Systems	IT	2.2%
Axis Bank	Banks	2.2%
Hindalco Industries	Metals	2.1%

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)	-3.21%	-6.68%	6.27%	18.63%	6.16%	6.04%	
L Class (net)	-3.06%	-6.12%					10.33%
MSCI India (AUD)	-5.18%	-1.52%	8.50%	18.60%	9.07%	8.71%	12.02%

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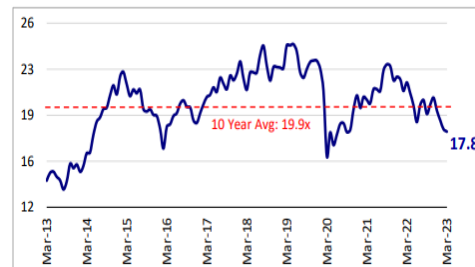
Fund and Market Commentary

The India Avenue Equity Fund returned **-6.27% for the 12 months ending 31st March 2023, underperforming its benchmark, MSCI India (AUD) by -4.75%**. However, over the last 3 months the Fund has generated outperformance relative to the benchmark due to its zero exposure to the Adani Group or associated companies, as well as a shift in the market sentiment towards a greater balance between the seeking growth as at appropriate valuations – in 2022 the market was focused on purely on valuation, with a bias towards cash proxies, utilities, low-growth, dividend paying companies. This behaviour has changed in the last 3-4 months, helping to close to the gap on our underperformance relative to the MSCI India benchmark in 2022, driven by the growth bias in the portfolio. We have commented on our bias and philosophy in our previous factsheets, which are available at www.indiaavenueinvest.com.

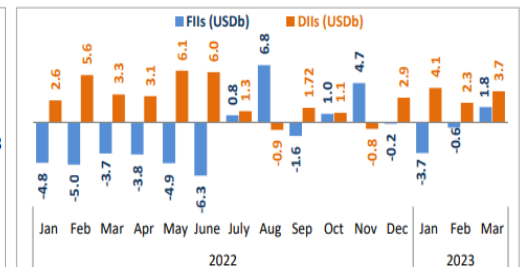
Over 3 years to 31 March 2023, since the deep impact of COVID-19 on equity markets, India has produced an annualised return of 18.6% p.a. in AUD terms. In USD terms, the MSCI India achieved 22.2% annualised over this period, compared to 7.8% p.a. for Emerging Markets and 16.4% p.a. for Developed Markets.

In March and the first half of April 2023, we have seen foreign investors come back to India as valuations improved due to India's relative underperformance in the first quarter of 2023. Foreign investors (FI's) had been largely exiting through 2022 and the early part of 2023, based on relative valuation in comparison to other EM's. However, India's visibility of earnings growth is likely to draw investors back as we witnessed in the last month and a half – especially with an apparent pause perceived to be in place on rate rises and softening inflation.

12-month forward Nifty P/E ratio (x)



Institutional flows (USD b) – Mar'23 saw FII inflows after three consecutive months of outflows; DII inflows remained strong



Source: Motilal Oswal – Bulls & Bears Report, 2023

Increasingly, local investors are having a significant influence on market behaviour given their allocation to equities over the last 5 years have increased substantially. Whilst part of this was related to lower yield on cash / fixed income, the other part is related to the financialisation of assets post the Demonetisation reform in India in 2016. **Local investors (mutual funds, high net worth and retail investors) are now at the point or surpassing the exposure of foreign investors** invested in India's overall market capitalisation of US\$3.2tn. As a result of the increasing incremental trade of local investors, **the biases which need to be captured for successful active management are evolving to favour primary research identifying companies early, with a more valuation centric mindset**, given the 6,000 plus listed companies on stock exchanges in India.

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India Macro & Micro News

The RBI kept its repo rate unchanged at 6.5%, taking a pause to assess the impact of a series of rate hikes from May 2022 (rates rose from 4.0% to 6.5% over the period). The RBI also projected inflation at 5.2% for FY24 and GDP growth at 6.5% (World Bank 6.3%). Interestingly the subsequent inflation reading for March 2023 dropped from 6.4% in February to 5.7%. Price stability is one of the key priorities for the RBI, using a guideline of 4% inflation +/- 2%. The latest reading of 5.7% therefore falls within the upside range.

A S&P Global survey has revealed robust demand and an easing of pricing pressures amid minimal job creation in the nation. As a result, the Purchasing Managers' Index (PMI) for India's services sector reached a 12-year high of 59.4 in February. Consumer services were the best-performing sector in February, recording the quickest gains in new orders and business activity. New orders placed with service providers increased further, with numerous firms reporting that competitive pricing benefited sales.

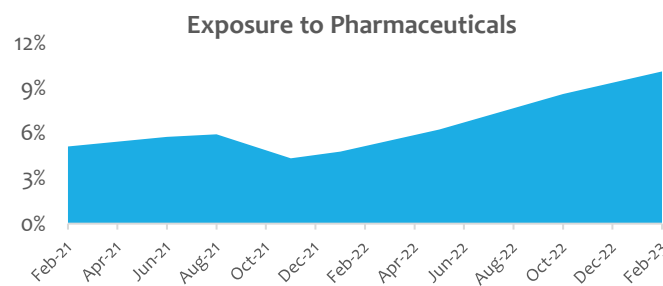
Respective Prime Minister's Anthony Albanese and Narendra Modi have finalised the Australia-India Education Qualification Recognition Mechanism. Deakin University in Australia will establish a global campus at Gandhinagar, Gujarat's GIFT City. The new system ensures that degree qualifications will be mutually recognised in Australia and India and takes into consideration the extremely sizable Indian diaspora in Australia (500,000 and growing).

Under the leadership Narendra Modi, more than 9,000 Jan Aushadhi Kendras have been opened across the country by the central government to make health facilities accessible to all people. The cost of quality medication to the public is reducing, accompanied by greater awareness and employment as a result.

Source: www.ibef.org

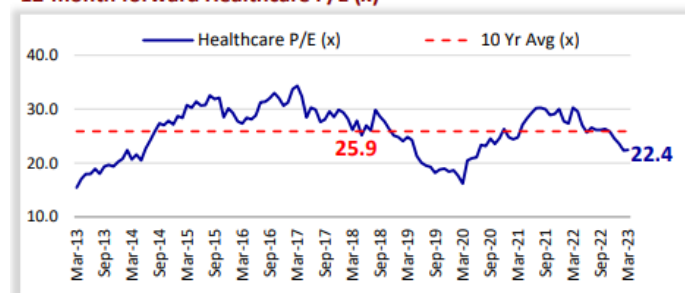
Increasing Exposure to Pharmaceuticals underpinned by Growth and Valuation

The India Avenue Equity Fund has been steadily increasing its exposure to pharmaceutical companies over the course of the last year. During COVID-19 and in the immediate ensuing period, these companies became a 'safe haven' fundamental tailwinds, given a diversified revenue currency base and India's developing expertise and scale in generic drug manufacturing as well as vaccines. The MSCI India holds less than 5% exposure to Pharma/Healthcare companies. Thus the MSCI EM holds less than 1% exposure to an industry which has all the makings of replicating the growth and presence of India's IT industry today.



Valuations also indicate that around mid-2021, alongside the market peak, healthcare stocks were expensive. After a phase of underperformance from late 2021 to early 2023, these companies now look attractive.

12-month forward Healthcare P/E (x)



The Indian Pharma industry is also poised to benefit from a visible ramp up in the US of specific drugs like RevLimid (bone marrow cancer) and experience double digit growth in domestic formulations and benefit from the depreciated INR.

Source: *Motilal Oswal*

Apart from improving fundamentals for the industry, margins should also improve from lower costs associated with inputs, energy and freight. This should lead to an increase of 2% in margins we expect in upcoming 4QFY23 results to be announced April-May 2023. This will produce decent profitability on top of double digit revenue growth.

In December 2022, an *EY FICCI report* noted there had been growing consensus over providing new innovative therapies to patients with India's pharmaceutical market estimated to be a major beneficiary. The overall market in India is expected to reach US\$130bn in value by the end of 2030. According to data, the industry is currently US\$50bn in size, with US\$25bn coming from exports. This is in context of the global market size of pharmaceutical products estimated to reach US\$1tn in 2023, allowing much room for further growth. We see the following tailwinds for the industry:

- A focus on research and innovation in India's pharma industry, which is leveraging off a significant and scalable local industry, a pool of scientists and demographics
- Improving manufacturing capabilities and regulatory standards with increased collaboration between the government and industry
- Transition from a volume to value mindset in India
- A focus on diversification in the global supply chain for global companies and a global increased focus on healthcare and nutrition.

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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M Class	611374586	AU60ETL04826	ETL0482AU
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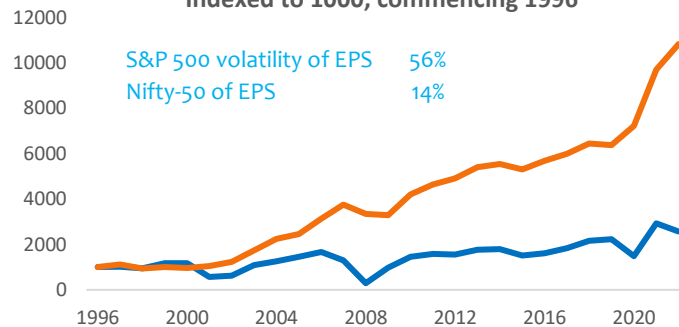
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Rolling 5-year returns – Linked to Low Volatility Earnings

The India Avenue Equity Fund now has over 180 observations of rolling 5-year net returns. Over time investors seek equity like returns, but ideally prefer limited drawdown in their value, given capitulation/selling can occur during these phases, as behavioural biases take over.

In India companies quite often achieve low-volatility compounding earnings growth, driven by the increasing size of their addressable market and increases in market share. The country's fundamentals which lead to robust GDP growth and a shift towards 'formalisation' of business from unorganised formats.

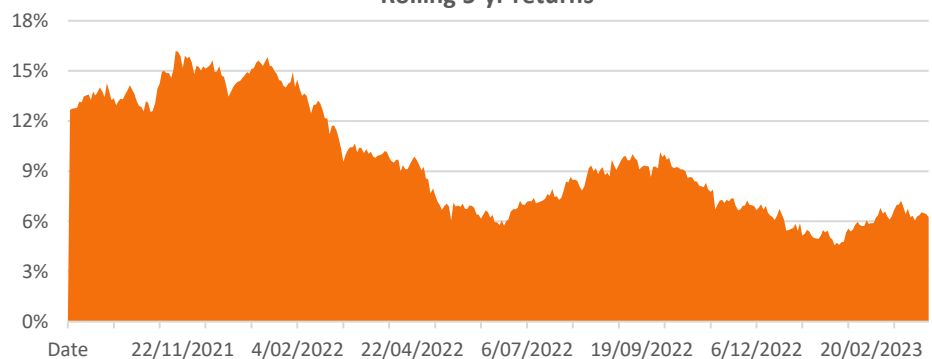
S&P 500 vs Nifty 50 - EPS by fiscal year
Indexed to 1000, commencing 1996



The Nifty-50 (orange) annualises at 9.6% in INR terms, whilst the S&P500 (blue) annualises at 3.7% in USD terms over the period. **However, the volatility of earnings is more interesting!**

The above chart indicates the impact of compounded earnings over time in local currency terms. Indian companies haven't had a significant downturn in earnings (except for 2001-2002, tech wreck). This indicates the underlying fundamental trend of nominal GDP growth (averaging close to 12% p.a. over the period) and diversity of industries. As a result of this fact, the Indian stock market has good long-term resiliency, with 5 year annualised returns ranging from 4.6% p.a. to 16.2% p.a. and averaging 9.6% p.a. over the 180 observations (as represented by the India Avenue Equity Fund) in AUD terms.

India Avenue Equity Fund (net returns)
Rolling 5-yr returns



The key to this is to stay invested given that there have been two spikes in returns in 2017 (30.5%) and 2021 (47.5%) in AUD terms. Stock market valuations are beholden to many factors as we know, however company earnings are easier to predict in a country like India given the secular, diverse growth story at play.

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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.

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