

# 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.

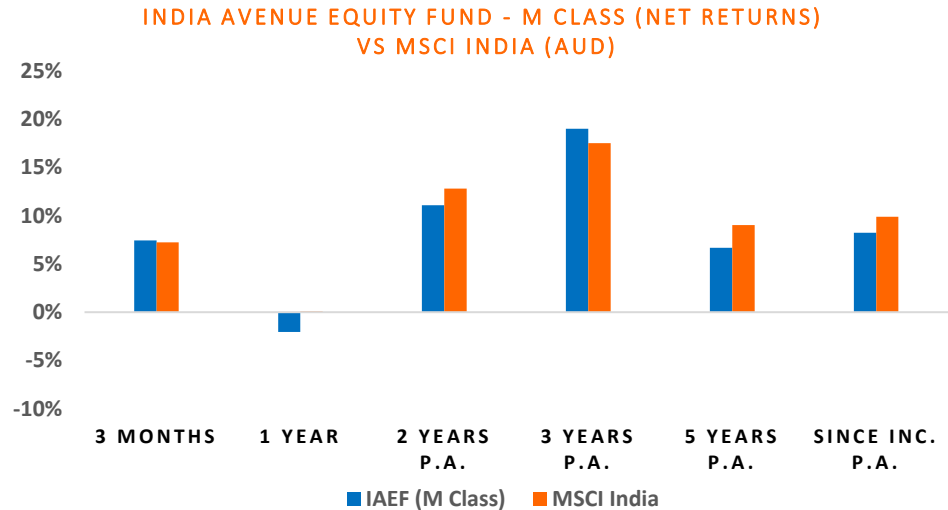
## Fund Rating

Lonsec Rating: Recommended<sup>1</sup>

## Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Investment Management Trust
Inception Date – M Class	6 <sup>th</sup> September 2016
Fund Size	A\$68.2m
NAV	M Class 1.4571 H Class 1.4241 L Class 1.1587
Base Currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Frequency	Yearly 30 <sup>th</sup> 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 vs Benchmark - 30<sup>th</sup> April 2023



M Class (as of 30/04/2023)	3 months	1 year	2 years	3 years	5 years	Since Inception 06/09/16
Fund Returns (net)	7.44%	-2.04%	11.09%	19.02%	6.68%	8.22%
MSCI India (AUD)	7.22%	0.06%	12.79%	17.50%	9.02%	9.88%
Relative Performance	0.22%	-2.10%	-1.71%	1.52%	-2.34%	-1.66%

The India Avenue Equity Fund – M Class units, underperformed the MSCI India benchmark by 2.10% in AUD terms, over the 12 months to 30 April 2023. Since November 2022, the Fund's performance has improved significantly against the benchmark as investors have refocused on investing in companies able to grow earnings, despite the difficult environment. The Fund's performance was impacted in 2022 by its bias towards growth and quality. These styles are favoured by foreign investors seeking exposure to the **compounding earnings** offered by Indian listed companies, which tend to be **significant players in growing addressable markets**.

H & L Class (as of 30/04/2023)	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)	7.33%	-2.46%	10.54%	18.45%	6.16%	6.96%	13.06%
L Class (net)	7.48%	-1.88%	11.02%	17.50%	9.02%	9.56%	14.52%
MSCI India (AUD)	7.22%	0.06%	12.79%	17.50%	9.02%	9.56%	14.52%

Source: MSCI

The Fund adopts a bias towards large cap companies which have transparent earnings growth and RoE, as foreign investors (who typically invest in large and liquid companies) will continue to seek this exposure as identified above. For our mid and small cap exposure in particular, attractive valuations are sought as a **margin-of-safety is required** when investing in **'undiscovered and underinvested' companies**. Our multi-styled approach to investing allows us to build a portfolio which **can adopt a different style for different segments** of the market. To summarise, the India Avenue Equity Fund provides investors with a blend the growth (large/mid-cap) and value styles (mid/small cap) in different capitalisation segments.

*Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 28<sup>th</sup> April 2023, net of fees and assuming reinvestment of dividends. Returns of longer duration than 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

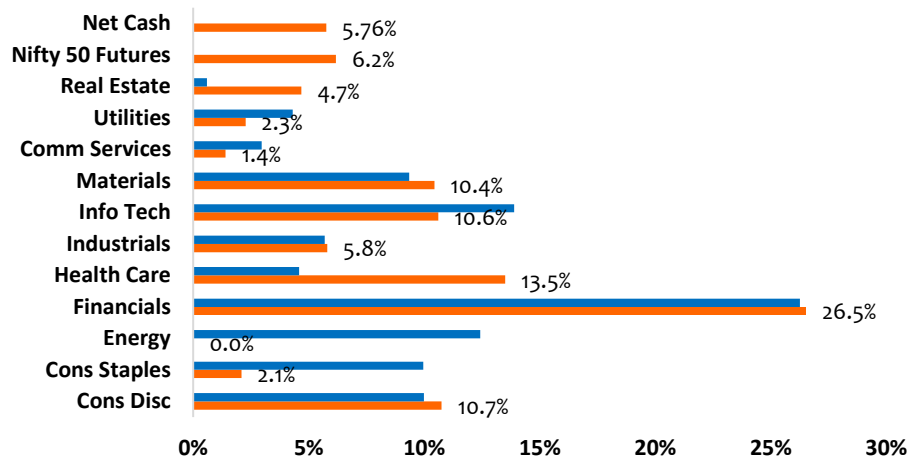
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H Class	611374586	AU60ETL04784	ETL0478AU
L Class	611374586	AU60ETL28148	ETL2814AU
	Citi Code	Morningstar	
M Class	NFCK	41512	
H Class	NF2H	41828	
L Class		44362	

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## Portfolio by Sector

INDIA AVENUE EQUITY FUND BY SECTOR VS MSCI INDIA AS AT 30 APRIL 2023



Source: MSCI

The positioning of the India Avenue Equity Fund has deviations from the sector weightings of the MSCI India benchmark. The Fund is overweight in Real Estate, Healthcare and Materials sectors, whilst being underweight in Utilities, Energy and Consumer Staples. Currently the Fund has a weighting of just over 11% in cash, with 6% of that equitised with Nifty-50 futures. Occasionally tactical positioning of this nature can occur, where it is anticipated that the mega/large capitalisation stocks may fare well in the immediate upcoming period. Therefore as cash is received from investors, rather than adopting an actively positioned stance straight away (by investing in stocks), we may adopt a slower approach to investing, but at the same time participate in the market by holding exposure to futures contracts.

## Top 10 Stocks as of 30 April 2023

Name of Company	Industry	Weight
Bajaj Finance	Non-Bank Financial	5.22%
ICICI Bank	Private Bank	4.87%
Redington	Electric / IT Equipment	2.96%
Infosys	IT Outsourcing	2.65%
Axis Bank	Private Bank	2.56%
Shriram Finance	Non-Bank Financial	2.55%
HCL Technologies	IT Outsourcing	2.38%
Aurobindo Pharma	Pharmaceutical	2.37%
Hindalco	Metals / Aluminium	2.17%
Cipla	Pharmaceutical	2.10%

The Fund has some exposure to large capitalisation companies like Bajaj Finance, ICICI Bank, Axis Bank (financials) which should benefit from foreign investors flows to India (typically buyers of financials to play the India story and prefer large cap names for liquidity). IT Outsourcing will continue to be in favour as Indian IT firms benefit from cloud migration and increasing use of digital platforms globally. Finally, Aurobindo and Cipla are companies which benefit from improving dynamics in the Pharma industry after a period of intense price competition. Two small/mid-cap stocks in our top 10 are Redington (small cap), a leading IT technology solutions provider and Shriram Finance (mid-cap), India's largest commercial vehicle financier.

## India Macro & Micro News

The Union Minister of Ports, Shipping & Waterways informed that FY23 saw India's major ports reached unprecedented heights, collectively handling a record-breaking 795m tonnes of cargo, registering 10.4% growth y-o-y. In addition, the highest-ever output per day of 17,239 tonnes was achieved, witnessing an increase of 6% y-o-y. The best-ever operating ratio was achieved of 48.54%. Major ports recorded their highest-ever number of vessels handled, reaching a total of 21,846 vessels in the year.

According to data released by the Ministry of Finance, India's GST collection in April 2023 increased 12% y-o-y, to reach an all-time high of US\$22.9bn. The strong mop-up was primarily driven by increased year-end sales, data analytics that improved compliance, and sustained economic growth. The previous highest collection was US\$20.5bn April last year.

According to data provided by the Reserve Bank of India, India's services exports rose by a record 26.6% in 2022-23 to US\$322bn, bridging the gap with merchandise exports, which climbed only 6% to US\$447bn at the same time. While software exports continue to dominate India's services exports, "other business services" exports have recently increased significantly, accounting for 24% of total services exports in the first nine months of FY23 (April-December), up from 19% in FY14. Legal services, accounting, auditing, bookkeeping, and tax consultancy services; management consulting, managerial, and public relations services; and advertising, market research, and public opinion polling services are all included in this area.

In value terms, Unified Payments Interface (UPI) transactions increased 43% y-o-y in April 2023 to a new high of US\$172.4bn. It increased 59% y-o-y in volume as well, reaching a record high of 8.9bn.

Source: [www.ibef.org](http://www.ibef.org)

## Portfolio Characteristics

	IAEF	Benchmark
Dividend Yield	1.0	1.3
P/E Forward 12-Month	17.6	20.2
PEG Ratio Forecast 12-Month	0.9	1.2
Price to Book	3.0	3.4
Dividend Growth Hist 5 YR	26.0%	20.4%
EPS IBES Actual 5 YR Hist Growth	21.7%	19.9%
Revenue 3 YR Hist Growth	8.1%	8.9%
Net Profit Margin	26.1%	19.2%
ROE Common Equity	18.4%	20.0%
Weighted Average Market Cap	A\$27.8bn	A\$84.4bn
Number of stocks	63	113
Active Share	71%	0%

Source: MSCI, Refinitiv

The portfolio characteristics of the India Avenue Equity Fund reveals a **value bias relative to the benchmark**, with a forward P/e of 17.6x relative to the benchmark 20.2x. In our view one of the prime reasons to consider investing in India is the PEG ratio (P/e divided by growth). The Fund offers a more attractive valuation in comparison to the benchmark using consensus growth forecasts for its companies relative to the constituents of the MSCI India.

Important to note however that **the Fund is NOT seeking to buy unprofitable companies, cash proxies or mature utility type businesses** to achieve a lesser valuation than the benchmark. Rather, the focus is on investing in a portfolio of companies growing earnings, which are either under researched or underinvested or alternatively have sustainable growth beyond the market's horizon.

## Market Capitalisation

The Fund is intentionally positioned with a lower weighted average market capitalisation than the benchmark. The MSCI India is "top heavy", with the top 10 stocks by market capitalisation representing over 45% of the benchmark constituent weighting. Our positioning prioritises the following:

- Investing in companies experiencing earnings growth, with good management and governance
- NOT being driven by liquidity and benchmark awareness or anchoring in stock selection
- NOT paying an excessive valuation for this growth, especially in an environment of higher inflation and interest rates, where P/e's are likely to remain more compressed relative to the last decade.

Hence it is likely that the India Avenue Equity Fund will retain a substantially **lower weighted average market capitalisation when compared to its benchmark**. To a large degree the desire to invest alongside undiscovered and under-invested companies drives the high active component of the Fund (active share of 71%).

## 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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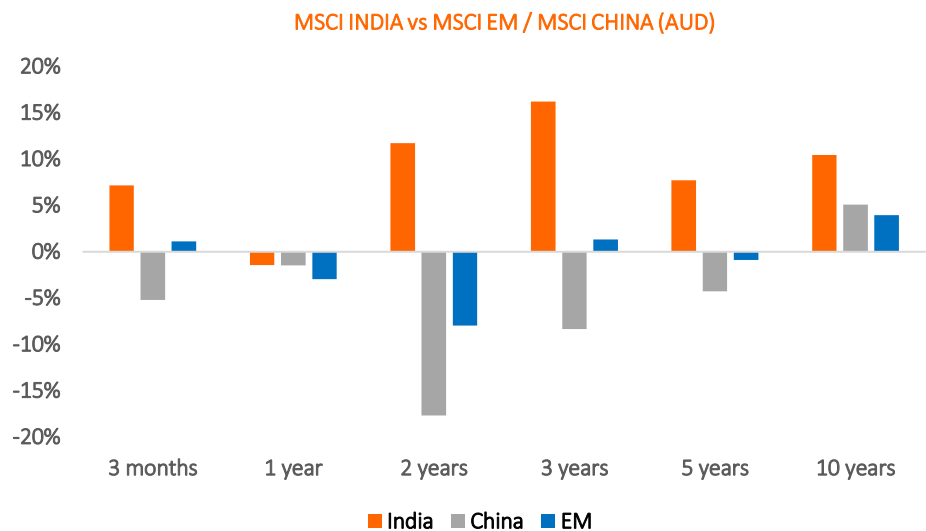
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## India vs Emerging Markets

The most asked question when it comes to considering a regional investment for inclusion in a client portfolio is “why not a broader opportunity set and allow the experts to choose”. Most broad based Emerging Markets managers have been positive on India’s long-term fundamentals, gradually increased their exposure (as an aggregate group) as India’s weighting in the MSCI EM grew from 8% in 2016 to 14% currently. We expect that by the end of this decade, the weighting of India may be well above 20% of the MSCI EM.



Source: MSCI, Refinitiv

The chart above illustrates that a focused regional investment in a country like India can pay-off more than a broad based investment. There are many reasons this may hold true, and we list some of them below:

1. The correlation benefits of investing in a region with differing fundamentals to Australia or New Zealand may be “washed away” in a broader based allocation. This is becoming more important in a world of de-globalisation where economic and market performance of regions are showing greater dispersion.
2. A dedicated regional investment allows you to maintain a long-term structural allocation to the region rather than a tactical one which presumes that timing decisions to the specific region are made appropriately. India may be always perceived to be over-valued, but the return story above shows it is best to stay invested.
3. Given a secular long-term investment positive thesis for India (which is almost a consensus view by investors globally), it makes sense to have time in the market to benefit from compounding earnings growth, rather than trying to time the market
4. Over time, a focused investor in a region, with local know-how and an understanding of local corporate ecosystems, should be able to outperform the equivalent regional ‘sleeve’ of exposure to that region, within a broad based fund.

*\*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.*

## 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](http://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.

<sup>1</sup> *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>*