



Avenues

Market Commentary: November 2017

The India Avenue Equity Fund rose **8.90%** over the last 3 months and **29.80%** over the year to November 2017. Since inception the fund is up **18.41% p.a.** and has outperformed the index **after fees** by **3.33% p.a.**

India's real GDP for Q2FY18 (July to Sep 2017) accelerated to 6.3% YoY from 5.7% YoY in the previous quarter. The bounce in GDP after hitting a three-year low was welcomed by the market given the overhang from events such as demonetization and GST implementation. The last quarter also marked the first quarter recording the impact of the GST on the economy. Inevitably, given the pace of reforms being pushed through, there have been initial hiccups such as applicable tax rates, technology adoption and the extent of tax credit, etc., creating uncertainty. Nevertheless, the benefits of GST implementation remain positive for the economy with a simplification of the indirect tax structure, widening of tax base, better supply chain management, reduction in inter-state trade barriers and fillip to investment as distinction between goods and services is removed under GST.

By their own historical standards, India has endured weak earnings growth over the last few years. However, the 2QFY18 earnings season has been a welcome change, rekindling hopes that the earnings cycle has troughed with expectations of an earnings revival in the next year. Importantly, the quality of earnings was much superior compared to the previous few quarters given the breadth of companies and sectors reporting earnings upgrades. The key takeaway from the 2QFY18 earnings season was the revival of consumption, especially rural on the back of good monsoon and a recovery in real rural wage growth. Corporate commentaries in consumption-oriented sectors like Autos, FMCG, Durables and Discretionary Consumption clearly pointed toward a consumption revival. One area of concern for India's fiscal position has been the rally in crude prices, particularly if prices were to rally further (US\$60-70/bbl range). This is because the government does not have the fiscal room to manage any sudden spike in crude prices (fiscal deficit has reached 96% of budget estimates in the first seven months of FY18). This is an area we are keeping a close eye on.

Fund Performance (Performance in AUD, net of management fees and fund expenses)

	3 months	6 months	1 year	Since Inception ^{#A}
India Avenue Equity Fund Wholesale	8.90%	7.98%	29.80%	18.41%
MSCI India	7.28%	6.80%	28.66%	15.08%
Out/Under Performance	1.62%	1.18%	1.15%	3.33%
iShares India ETF	6.89%	5.46%	27.09%	12.94%
ASX 200	5.70%	6.62%	14.61%	13.00%
MSCI EM	8.32%	11.34%	30.24%	21.14%
India Avenue Equity Fund Retail	8.84%	7.90%		12.50%
MSCI India	7.28%	6.80%		10.62%
Out/Under Performance	1.56%	1.10%		1.88%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30 November assuming the reinvestment of dividends

[#]Inception Date: Wholesale 6.9.16, Retail 6.4.17

[^]Returns above 1 year are annualized

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on the Indian stock exchanges or on other exchanges, with significant exposure to India's growing economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5 year periods.

Fund Rating

- Lonsec Rating: Recommended*

Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 th September 2016
Fund Size	\$15.6o million
Unit Price	Wholesale: 1.2185 Retail: 1.2176
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Fund BPO / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU\$
Distribution Freq.	Yearly at 30 June
Management Fee	Wholesale: 1.10% p.a. Retail: 1.50% p.a.
Buy-Sell Spread	0.50% / 0.50%
Performance Fee**	10% of the excess return above the benchmark
Dividend History	Wholesale: 1.16% Retail: 1.15%

** Subject to a high watermark

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 and has a bias towards companies which are experiencing strong growth through rising local demand. The Indian economy's robust ecosystem provides a tailwind for several well managed and carefully selected listed companies.

Fund Identifiers

Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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Company Revenue Generated Locally



Source: Bloomberg

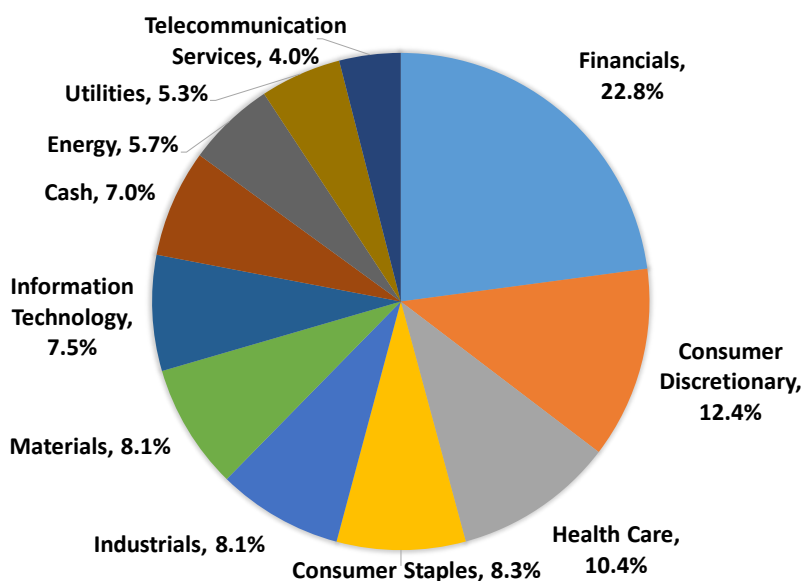
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Description	Weight
NTPC	Power and Renewables	4.7%
State Bank of India	Banks	4.5%
Mahindra & Mahindra	Automobiles	4.2%
Sun Pharma	Pharmaceuticals	4.0%
ICICI Bank	Banks	4.0%
Bharti Airtel	Telecommunications	4.0%
Kotak Mahindra Bank	Banks	3.2%
Engineers India	Construction & Engineering	3.1%
Larsen & Toubro	Construction & Engineering	2.9%
Hindustan Unilever	Household Products	2.8%

Source: India Avenue, Bloomberg

Sector Allocation



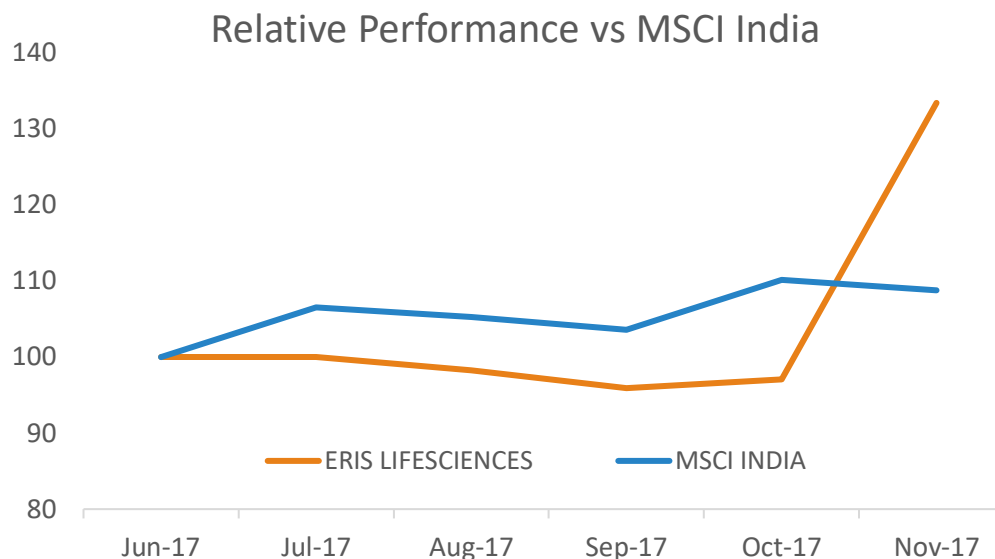
India Macro News

1. Credit rating agency **Moody's Investor Services** has upgraded India's sovereign rating to **Baa2** from **Baa3** due to the wide ranging economic reforms undertaken in the country
2. **India's real GDP is expected to surpass Germany and Japan** in nominal GDP terms by 2028, according to a report by Bank of America Merrill Lynch
3. India is expected to account for **one-third of world's energy demand by 2040** as growth in its oil demand will surpass China after 2025, according to International Energy Agency
4. **India has improved its ranking in the World Bank's Doing Business Report by 30 spots** and is ranked 100 among 190 countries in 2018 edition of the report

India Micro News

1. India mutual funds total **assets under management increased 40 per cent year-on-year** to hit a record US\$ 358.78 billion at the end of November 2017
2. The monthly data usage per smartphone in **India is expected to increase from 3.9 GB in 2017 to 18 GB by 2023**, according to a report by Ericsson
3. **India's air traffic is expected to grow by 8-10 per cent annually** over the coming two years, according to rating agency, Moody's Investor Service
4. **Debit and credit transactions in India have increased 84 per cent year-on-year** to US\$ 11.43 billion in September 2017, backed by the Government of India's boost to non-cash payments

Stock Story: Eris Lifesciences



- Eris Lifesciences was founded in 2007 with a focus on developing, manufacturing and marketing products which are linked to lifestyle related disorders that are chronic in nature
- An increase in lifestyle disorders has increased the prevalence of chronic diseases. As per International Diabetes Federation, India had the second highest number of diabetics in the world in FY 2015 with 69.2 million adults living with diabetes. This number is likely to touch 87 million by FY 2030 as per IDF estimates. India also has amongst the highest rates of cardiovascular disease globally
- The company was set up to confront the exponentially growing lifestyle disorders in India. They have successfully identified diagnostic gaps in specialty and super-specialty pharmaceutical segments
- Unlike many of the Indian drug manufacturers they focus on the India rather than offshore markets like the US and Europe. Furthermore, they focus predominantly on specialty and super specialty segment of the pharmaceutical market
- They manufacture branded prescription based pharmaceuticals products in select chronic and acute therapeutic areas, such as cardiovascular, anti-diabetics and vitamins etc
- Today they are the fastest growing company in the chronic category of the Indian Pharmaceutical market with a CAGR of 28.9%, EPS CAGR of 43% and FCF CAGR at 58% p.a. over the FY 2013-17 period
- They have a rapidly growing Distribution network of 500,000 retail chemist and over 1200 stockists
- The company was recently listed (28th June 2017) and has a market cap of US\$1.6bn. They have made several acquisitions to diversify their product offerings

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