



Avenues

Market Commentary: March 2018

The India Avenue Equity Fund rose **8.3%** over the last year. Since inception[#], the fund is up **9.7% p.a.** and has outperformed the index **after fees** by **0.43% p.a.** The Indian stock market has corrected 9.5% from its peak (29th Jan 2018) on the back of both local and global risks. The public-sector banking NPA issues and the PNB bank fraud weighed down on sentiment locally. Globally, the typical headline fears that cause markets to panic in the short term such as Fed monetary policy uncertainty, global GDP growth concerns, geopolitical risk and protectionism measures also returned to markets.

Given the recent correction, valuations of Indian equities have moderated from their recent highs. The Nifty now trades at a 12-month forward P/E of 17.1x, compared to its 5-year average of 18.4x. This offers a good buying opportunity as the price correction coupled with better earnings expectations over the next few months as we go into 4QFY18 and FY18 reporting season. Looking further forward there are signs of consumption-driven growth, particularly in the rural economy. There are also green shoots appearing on the capex side, particularly in Oil and Gas, Cement and Power.

In terms of the macro news, the Index of Industrial Production grew 7.5% Y-o-Y in January 2018 compared with 7.1% in December 2017, owing to growth in manufacturing and electricity sectors. Capital goods expanded to 14.6%, indicating a pick-up in private investment activity, while consumer goods rose 8.0%. Consumer Price Index based inflation declined for the second consecutive month to 4.4% in February 2018 from 5.1% in the previous month. Food inflation fell 3.3% in February 2018 from 4.7% in January 2018 led by a sharp decline in milk products, vegetables and cereals. This bodes well for the RBI whose primary objective is to keep inflation in line with its target range of 4% +/- 2%.

Foreign Portfolio investors returned to net buyers of Indian equities worth US\$2.1 billion in March 2018. Domestic mutual funds also continued buying worth US\$1.2 billion of equities in March 2018.

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

Wholesale	3 months	6 months	1 year	Since Inception [#]
IAEF	-7.65%	4.53%	8.26%	9.68%
MSCI India	-5.12%	6.43%	9.63%	9.25%
<i>Excess vs MSCI India Index</i>	<i>-2.53%</i>	<i>-1.90%</i>	<i>-1.37%</i>	<i>0.43%</i>
iShares India ETF	-3.69%	6.94%	9.23%	8.25%
<i>Excess vs MSCI India ETF</i>	<i>-3.96%</i>	<i>-2.41%</i>	<i>-0.97%</i>	<i>1.43%</i>
Retail	3 months	6 months	1 year	Since Inception [#]
IAEF - Retail	-7.78%	4.33%		5.37%
MSCI India	-5.12%	6.43%		6.84%
<i>Excess vs MSCI India Index</i>	<i>-2.66%</i>	<i>-2.10%</i>		<i>-1.47%</i>
iShares India ETF	-3.69%	6.94%		6.17%
<i>Excess vs MSCI India ETF</i>	<i>-4.09%</i>	<i>-2.61%</i>		<i>-0.80%</i>

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 28th February 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 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*

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	\$17.3 million
Unit Price	Wholesale: 1.1375 Retail: 1.1347
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

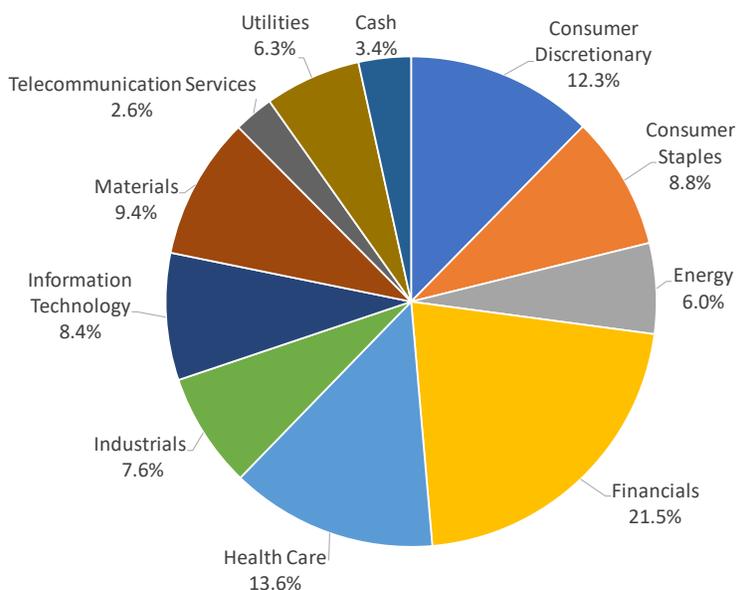
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.4%
Mahindra & Mahindra	Automobiles	4.0%
NTPC	Power and Renewables	3.9%
Infosys	IT Services	3.4%
ICICI Bank	Banks	3.4%
Kotak Mahindra Bank	Banks	3.2%
Larsen & Toubro	Construction & Engineering	2.9%
Hindustan Unilever	Household Products	2.8%
Bharti Airtel	Telecommunications	2.6%
Reliance Industries	Oil & Gas	2.5%

Source: India Avenue, Bloomberg

Sector Allocation



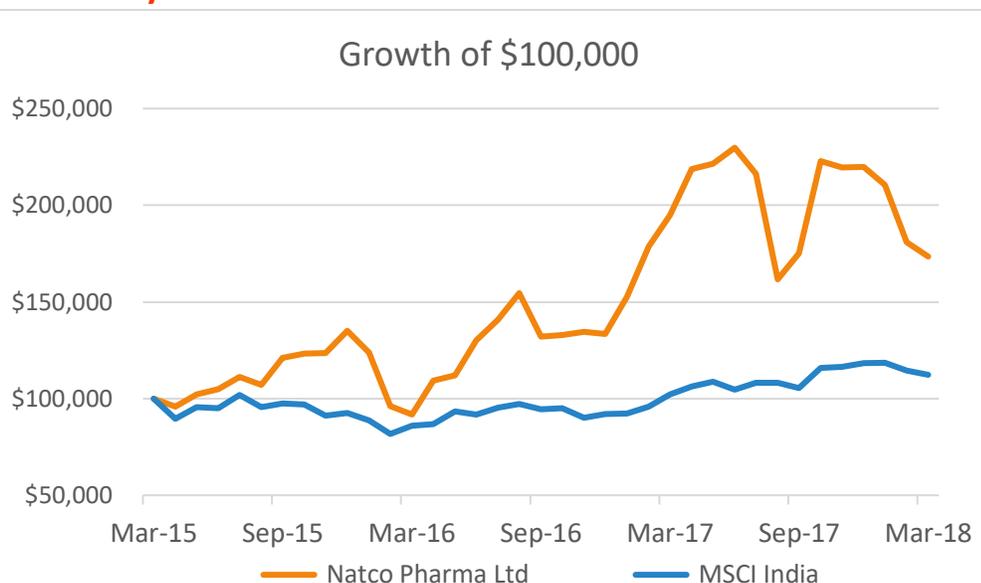
India Macro News

1. The National Highways Authority of India signed a pact for its maiden international project, part of the India-Myanmar-Thailand Trilateral Highway. **The 1,400 km long highway will boost trade, business, health, education and tourism ties among the three countries**
2. Investment firms such as Macquarie, Morgan Stanley, I Squared Capital and many other Indian firms are raising several billion dollars as demand from investors globally has grown rapidly. For example, **Macquarie Group recently bid US\$1.5bn and won 9 toll road assets across India**
3. With more than 50% of its population under the age of 27, **India can play a pivotal role in shaping the global fourth Industrial revolution** in a responsible, scalable and inclusive manner and accelerate its transition to a developed nation according to the President of the World Economic Forum (WEF)

India Micro News

1. **Sales of passenger and commercial vehicles and two and three-wheelers hit a new record during 2017-18.** Whilst the top 20 cities make up 50% of sales, there has been rapid growth from smaller towns and semi-urban areas. Many major automobile companies are trying to foray into those markets
2. **New Delhi's Indira Gandhi International Airport has jumped six notches to break into the league of the top 20 busiest airports in the world** in terms of traffic volumes. It is **one of the fastest growing airports in the world for passenger traffic**, as per the Airports Council International

Stock Story: Natco Pharma Ltd



- Natco Pharma was incorporated in 1981 and is headquartered in Hyderabad, India. It is listed in India with a market capitalisation of US\$2.7bn
- The company manufactures branded as well as generic dosage forms (products in the form in which they are marketed for use), bulk actives (biologically active) and intermediates (stepping stone in the synthesis of the final product) locally as well as across the globe
- They employ over 4,300 employees across all locations and have a strong focus on research with over 300 employees dedicated to R&D
- They market and distribute their products in over 40 countries including Australia. In fact, in 2014 they established Natco Pharma Australia in Melbourne for sales and distribution. Currently they have two key oncology products under review by the Therapeutic Goods Administration, Australia's equivalent of the US's FDA
- In terms of geographic revenue split, 57% of revenue comes from India, 29% from the US, 11% from Europe and the 4% from the rest of the world
- Their focus is primarily on niche therapeutic areas and complex products with strong brand positioning in the domestic Oncology and Hepatitis – C
- The firm stated gaining traction in 2003 when they launched their oncology division, developing a generic version of Imatinib (for treatment of Chronic Leukemia), particularly for the local market where such medicines were limited. At the time, cancer was one of the fastest growing ailments in India and Natco saw an opportunity to tap this untapped market
- Whilst many Indian pharma companies have focused on offshore markets like the US, Natco have decided to intensify their strategic focus and resource allocation towards India and other emerging economies

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