

# 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\*

## Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 <sup>th</sup> September 2016
Fund Size	\$20.1 million
Unit Price	Wholesale: 1.1139 Retail: 1.1073
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU\$
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	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
FY18 Dividend	Wholesale: 0.67 cpu Retail: 0.67 cpu

\*\* Subject to a high watermark

## Fund and Market Commentary: September 2018

September was a tumultuous month for Indian markets as the MSCI India index lost 9.1%. Whilst India had weathered the emerging market malaise for most of 2018, now with crude prices rising past US\$80/bbl and the Rupee rising above Rs.70 per USD, macroeconomic headwinds gathered pace. Investor's concerns around rising inflation and the Government's ability to remain fiscally prudent also saw 10-year bond yields rise above 8%, tightening liquidity. Despite the fall in September, Indian equity markets have still significantly outperformed many other Emerging Markets this year.

During the turmoil, both the Government of India (GoI) and RBI announced measures to reiterate India's strong economic position and reassure investors. For example, the GoI relaxed regulations to encourage foreign capital and contain India's CAD. They also reiterated their commitment to a 3.3% fiscal deficit. GoI also reduced the borrowing target by INR700b for the 2<sup>nd</sup> half of FY19. To alleviate liquidity concerns, the RBI recently announced open market operations of INR360b to increase liquidity in the system. During the month, there was also market expectations for the RBI to raise rates to stymie the Rupee's decline. Whilst we saw evidence of intervention in the FX market via drawing down of FX reserves, the RBI did not bow down to pressure to raise interest rates. In our view, the RBI is a highly credible and independent Central Bank, with a well credentialed monetary policy committee. They have been sticking to their mandate of controlling inflation through monetary policy, rather than using interest rates to control the exchange rate or to satisfy Government concerns.

In terms of fund performance, 2018 continues to be a tough year relative to our benchmark, particularly given our exposure to the very large companies in India continues to be low relative to a market-cap weighted benchmark like MSCI India. Furthermore, our fund's overweight position to financials has hurt in this environment as tighter liquidity and the potential for rising funding costs for banks and non-bank financials (NBFC's) saw financial stocks take the brunt of the selling. However, indiscriminate selling across all sectors has created several opportunities and we are increasing our exposure to high quality, attractively priced Indian companies.

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

	Wholesale	6 months	1 year	2 years (p.a.)	Since Inception <sup>#</sup>
IAEF		-1.51%	2.95%	8.23%	6.46%
MSCI India		3.00%	9.63%	10.50%	8.48%
<i>Excess vs MSCI India Index</i>		-4.51%	-6.68%	-2.27%	-2.02%
iShares India ETF		1.06%	8.08%	8.98%	6.73%
<i>Excess vs MSCI India ETF</i>		-2.57%	-5.13%	-0.75%	-0.27%
	Retail	6 months	1 year	2 years (p.a.)	Since Inception <sup>#</sup>
IAEF - Retail		-1.87%	2.38%	-	3.40%
MSCI India		3.00%	9.63%	-	10.05%
<i>Excess vs MSCI India Index</i>		-4.87%	-7.25%	-	-6.65%
iShares India ETF		1.06%	8.08%	-	4.79%
<i>Excess vs MSCI India ETF</i>		-2.81%	-5.70%	-	-1.39%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30<sup>th</sup> September assuming the reinvestment of dividends

<sup>#</sup>Inception Date: Wholesale 6<sup>th</sup> Sep 2016, Retail 6<sup>th</sup> April 2017

## 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

## Contact Details

India Avenue Investment Management Australia Pty Ltd  
AFSL 478233 | ABN: 38 604 095 954  
Level 3, 183 Macquarie Street,  
Sydney, NSW 2000, Australia  
T: +612 8937 2487  
E: [info@indiaavenueinvest.com](mailto:info@indiaavenueinvest.com)  
W: [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com)

## A Tumultuous September for Indian Equities

Earlier this month we published a piece on the market turmoil in India that occurred in September. We summarise the note below, but for those who wish to read more detailed note, please visit our website [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com).

The month of September 2018 was a very weak one for Indian equity markets. The MSCI India index fell approximately 10% for the month in AUD terms. To put this into context, historically, the last time we experienced a 10% fall in Indian markets was January 2011 and in the last 25 years such a fall has happened 20 times or 6.7% of months. Digging a bit deeper, six of those months were in the "Tech Wreck" between March 2000 and March 2001 and five of those months were in 2008 during the "Global Financial Crisis". In the remaining 23 years, this has been a very infrequent occurrence. The chart below shows the frequency of monthly returns over the last 25 years.



Despite these corrections, a long-term investor in India who has accepted the inevitability of market corrections has made double-digit returns. Investing in growth markets like India, typically experience larger drawdowns than many developed markets like the US and Australia. Hence, we aim to keep all our investors informed of what is going on in India regarding both the good and the bad!

What led to the fall in September 2018? The Indian market had ignored global factors such as trade wars, geopolitical tension and US Fed talk for most of this year, particularly given India remains largely immune to these. However, in September India specifically felt the pinch from two additional India-specific risk factors.

- Rising Brent Crude as prices rose well above US\$80 reflecting supply side restrictions and rising demand
- Rising bond yields, weakening Rupee vs USD and tightening domestic liquidity in India put pressure on margins and funding costs for financing companies

Going forward, we feel whilst Indian markets could continue to be volatile if macro headwinds remain elevated and uncertainty increases around the outcome of the National Election (May 2019). However, as markets have corrected by close to 10%, valuations have become cheaper and with earnings currently showing signs of positive momentum, it is in this period where it is likely that the best bargains are likely to be found by patient investors.

## 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

## Contact Details

India Avenue Investment Management Australia Pty Ltd  
AFSL 478233 | ABN: 38 604 095 954  
Level 3, 183 Macquarie Street,  
Sydney, NSW 2000, Australia  
T: +612 8937 2487  
E: [info@indiaavenueinvest.com](mailto:info@indiaavenueinvest.com)  
W: [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com)

## Company Revenue Generated Locally



Source: Bloomberg

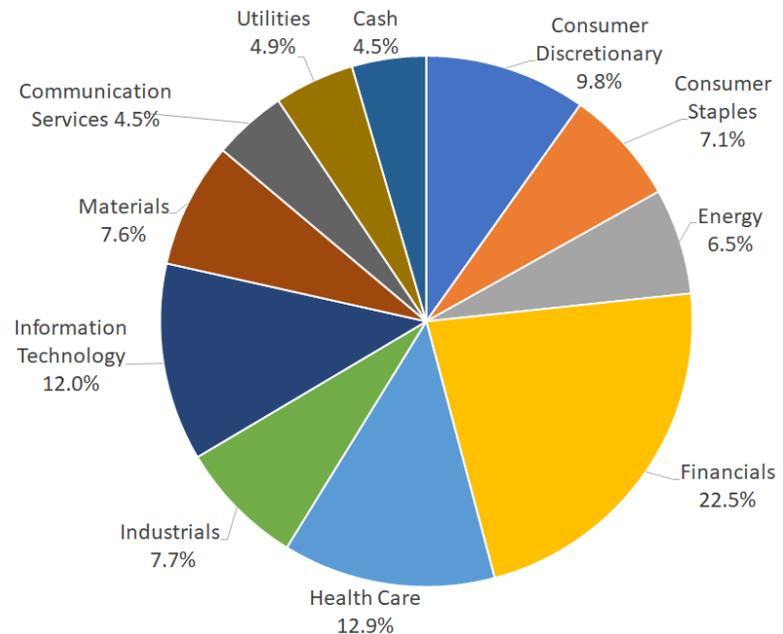
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

## Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.6%
Infosys	IT Services	4.5%
Mahindra & Mahindra	Automobiles	3.9%
Reliance Industries	Oil & Gas	3.6%
NTPC	Power & Renewables	3.1%
ICICI Bank	Banks	3.0%
HDFC Bank	Banks	3.0%
Wipro	IT Services	2.7%
State Bank of India	Banks	2.5%
HDFC	Housing Finance	2.4%

Source: India Avenue, Bloomberg

## Sector Allocation



## India Macro News

- India attracted USD 22 billion of FDI flows in the first half of 2018, according to a UN report. However global foreign direct investment fell by 41% in the first half of 2018, to an estimated USD 470 billion from USD 794 billion mainly due to large repatriations by the US parent companies of accumulated foreign earnings from their affiliates abroad following tax reforms
- Growth in India is firming up and projected to accelerate to 7.3% in the 2018-19 fiscal and 7.5% in the next two years, the World Bank
- India's personal wealth is expected to grow at a CAGR of 13% to USD 5 trillion by 2022, according to a report by the Boston Consulting Group (BCG). Its personal wealth was estimated to be USD 3 trillion in 2017. The country is also expected to become the 11th wealthiest nation globally by 2022 in terms of total personal wealth, improving its rank by four places from 2017

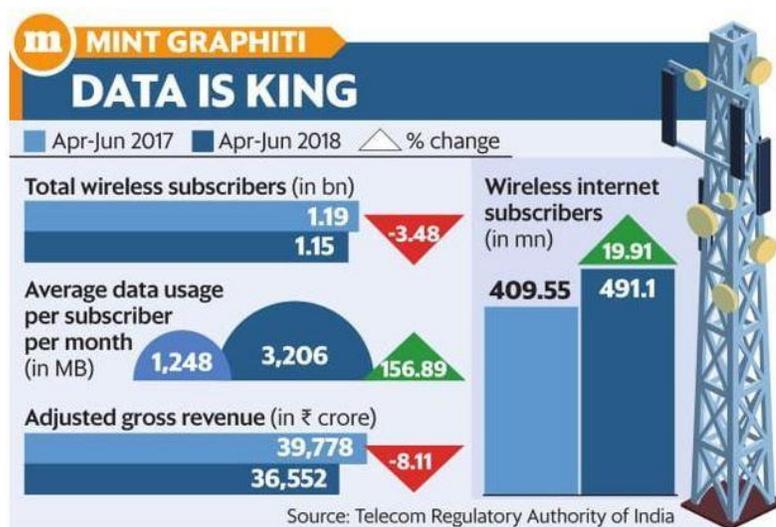
## India Micro News

- The Indian Mutual fund industry managed to gather AU\$1.5bn through systematic investment plans (SIPs) in September, a surge of 40% from the year-ago period, despite corrections in equity market as per the Association of Mutual Funds in India (AMFI). SIP's continued to be the preferred route for retail investors to invest in mutual funds as it helps them reduce market timing risk, the industry body noted
- Tractor sales are expected to grow in the range of 10-12% this fiscal on the back of factors like enhanced agriculture cash flows and healthy haulage demand, according to India's rating agency ICRA. The domestic tractor industry has grown by 22% in April-August of the current fiscal as compared to the same period of previous financial year

## Thematic: Telecommunication Sector

The Indian Telecom industry has seen major disruption in the last two years. The entry of a new player, Reliance Jio, offered free voice calls and data at a cheaper rate to quickly gain market share. Within the first two years they have achieved 20% market share going from zero to more than 200 million subscribers, all of them on a nationwide 4G network. As a result of this move, India is now the biggest consumer of wireless data, consuming more mobile data than USA and China put together!

Falling prices has seen a significant decline in the gross revenue of the telecom industry, falling 8.6% in 2017 as per Telecom Regulatory Authority of India (TRAI). The shrinking profit pool has resulted in industry consolidation with the number of players falling from over 10 to now only 3 major players. It has also slashed profits for the other two major players, Bharti Airtel Ltd, and Idea Cellular and caused the latter to merge with Vodafone to overtake Bharti Airtel as India's biggest operator. Despite this, the Indian telecom sector's mobile user base grew from 873.36 million to 1.17 billion in the last five years and the wireless internet subscribers have risen by nearly 20% in the last year to 491 million. The Government of India is also aiming for the commercial role out of fifth generation (5G) services by 2020 and recently unveiled the National Digital Communication Policy in which aims to attract US\$ 100 billion worth of foreign investments and generate around 4 million jobs in the sector by 2022.



Source: As users dip, data drives growth in India's telecom sector, 09 October 2018, Livemint.

Despite the uncertainty in near term profits, the long-term opportunity for those that survive the consolidation is immense. We feel both Reliance Jio and Bharti Airtel will thrive once the industry rebounds through innovative product offerings and significant market share. For example, Reliance Jio Infocomm Limited which is owned by Reliance Industries plans to also launch home and office broadband connections named JioGigaFiber and has targeted around 50 million home broadband connections. Bharti Airtel has operations across Asia and Africa and its product offering includes 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high speed home broadband, DTH and enterprise services. Airtel is coming up with competitive prepaid plans to increase their customer base and stymie any competition.

*The views and opinions contained in this document are those of India Avenue Investment Management Australia Pty. Ltd. (IAIM) (ABN 38 604 095 954) & AFSL 478233. Equity Trustees Limited (Equity Trustees) (ABN 46 004 031 298) AFSL 240975, is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT), is the Responsible Entity of the India Avenue Equity Fund. This document has been prepared to provide you with general information only and does not take into account the investment objectives, financial situation or particular needs of any person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. IAIM does not express any view about the accuracy and completeness of information that is not prepared by IAIM and no liability is accepted for any errors it may contain. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the product disclosure statement before making a decision about whether to invest in this product. No part of this material may be copied, duplicated or redistributed without prior written permission of IAIM or Equity Trustees. The user will be held liable for any unauthorised reproduction or circulation of this document, which may give rise to legal proceedings. Information contained here is based on IAIM's assumptions and can be changed without prior notice. It is not, and may not be relied upon in any manner as legal, tax or investment advice or a recommendation or opinion in relation to an IAIM financial product or service, or any other financial product or service. Please consult your advisors, read the relevant offer document and consider whether the relevant financial product or service is appropriate for you before making any investment decision. Investment in securities involves risks and there is no assurance of returns or preservation of capital. Neither IAIM, Equity Trustees, nor any of its related parties, their directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost capital, lost revenue or lost profits that may arise from or in connection with the use of this information. The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036.*

*\*Lonsec Disclaimer: The Lonsec Rating (assigned June 2017) 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>*