

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 th September 2016
Fund Size	\$22.4 million
Unit Price	Wholesale: 1.119 Retail: 1.1034
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

Market Update and Fund Commentary: February 2019

After a very difficult and frustrating 2018, the fund was up 2.65% in February. However, what was pleasing to see, was there was evidence emerging that the market was seeing greater breadth of companies performing well, rather than simply the top 5 largest names. This is an important signal for compounding of returns over the long run well in excess of any benchmark or ETF. See the next page for more information on this.

The Reserve Bank of India (RBI) cut its policy repo rate by 25 bps to 6.25% due to persistent weak inflation. Inflation has been running at the low end of the central bank's target range of 4% +/- 2% at 2.0% for January. Furthermore, they changed their stance from 'calibrated tightening' to 'neutral' and revised their inflation forecasts downwards for the second consecutive meeting.

Geopolitics reared its ugly head in February, as a terrorist attack by a Pakistani based militant group in the disputed state of Kashmir saw 45 personnel of the Indian central police force killed. India struck back both economically (restricting water supply to Pakistan through their inland river system) and through military retaliation by attacking a terrorist base camp in Pakistan. Post this, as patriotism rises in India, PM Modi's credibility as a decisive leader continues to rise.

The December quarter earnings showed a material improvement in asset quality trends for corporate banks. As a result, credit growth will continue to pick-up, along with increasing pricing power and lower credit costs. This will lead to stronger profit growth and RoE. Corporate Banks is a key thematic within the portfolio and key holdings include ICICI Bank, HDFC Bank, IndusInd Bank and Kotak Mahindra Bank.

There are several positive factors that should be supportive of Indian equity markets. India currently has one of the highest real rates in the world, meaning there is significant potential to reduce interest rates and further unlock growth rates. With favourable election results for Modi increasing in odds and corporate earnings on track to grow at 15-20% p.a. over the next three years, we think **now** is an opportune time to start building long-term wealth with an allocation to Indian equities.

India Avenue Equity Fund Performance (in AUD and net of fees)

Wholesale	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	2.65%	-0.54%	-11.48%	-4.00%	6.52%	5.28%
MSCI India	2.52%	0.56%	-7.06%	3.21%	11.09%	8.00%
Excess	0.13%	-1.10%	-4.42%	-7.21%	-4.57%	-2.72%
Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	2.63%	-0.63%	-12.14%	-4.56%		1.59%
MSCI India	2.52%	0.56%	-7.06%	3.21%		6.44%
Excess	0.11%	-1.19%	-5.08%	-7.77%		-4.85%

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 6th Sep 2016, Retail 6th 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

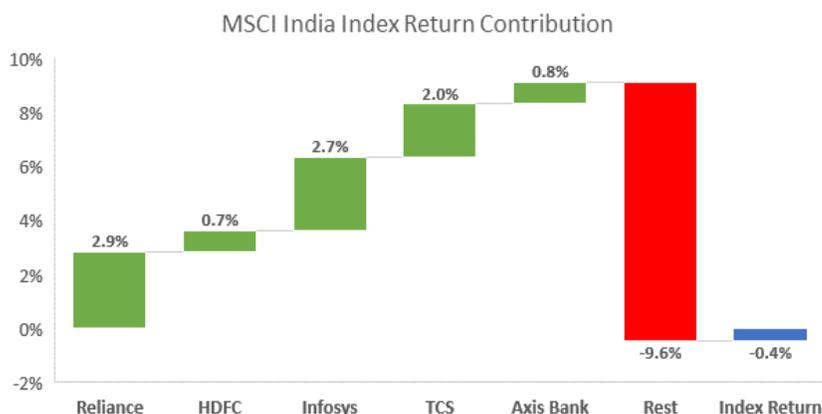
Fund Identifiers

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
W: www.indiaavenueinvest.com

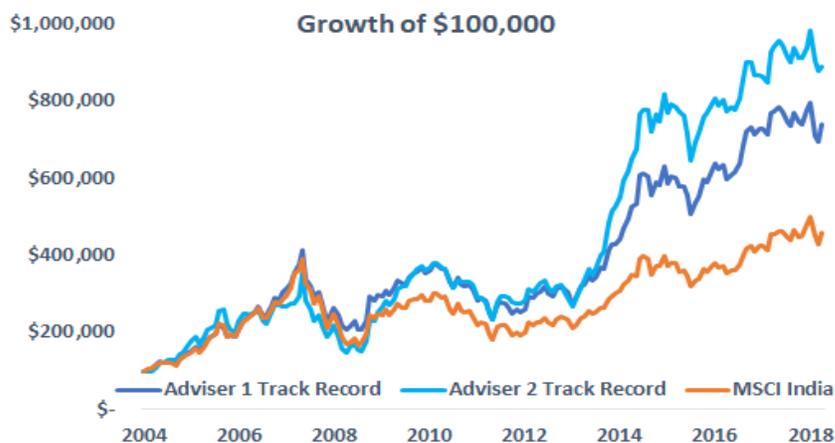
The top 5 stocks by market cap (~40% weight in the index) over the last 14 months have delivered on average 33% and have pushed the index up by 9.1%. Whereas the rest have fallen by 11% on average and detracted 9.6%!



This divergence of returns is more pronounced when looking at mid/small cap names in India compared to a large cap index. The chart below shows the performance of large, mid and small cap indices. The difference amounts to 17% and 24% respectively.



Over the long run, however, a portfolio of actively chosen listed companies across the market cap spectrum has produced superior returns to a passive benchmark, which is heavily skewed to the largest names. The 15-year track record of our portfolio advisers in India below illustrates this.



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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
W: www.indiaavenueinvest.com

Company Revenue Generated Locally



Source: Bloomberg

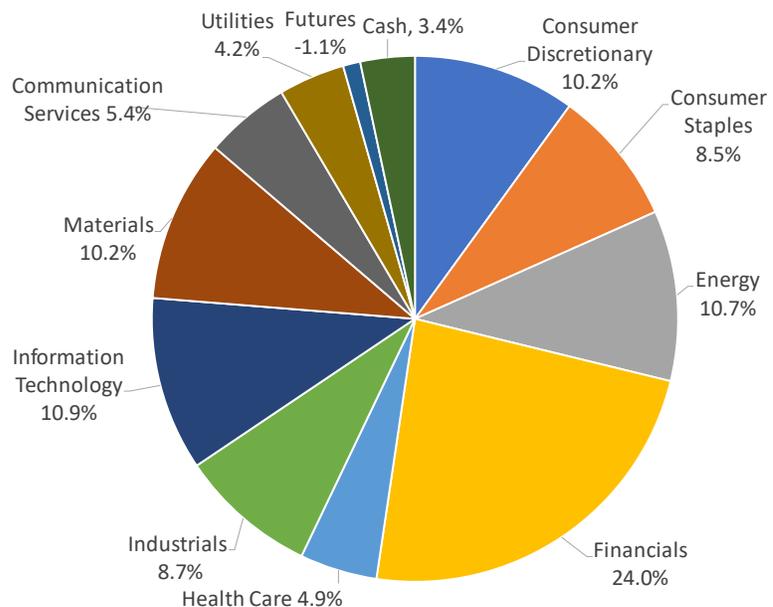
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Reliance Industries	Oil & Gas	6.2%
Infosys	IT Services	5.0%
ICICI Bank	Banks	4.6%
Tata Motors	Automobiles	3.7%
HDFC Bank	Banks	3.3%
Sun Pharmaceuticals	Pharmaceuticals	2.9%
Wipro	IT Services	2.9%
Mahindra & Mahindra	Automobiles	2.8%
Bharti Airtel	Communication Services	2.5%
NTPC	Power & Renewables	2.5%

Source: India Avenue, Bloomberg

Sector Allocation



India Macro News

- Overseas flows into domestic Indian equities in the month of February were the highest in 12 months. Foreign portfolio investors (FPIs) have bought stocks worth ~AU\$2.1bn
- The Nikkei India Services Business Activity Index rose to 52.5 for the 9th consecutive month driven by a quicker expansion in new work orders. New export orders rose sharply against a backdrop of weakening global demand and trade frictions. Compared to other emerging markets, PMI data showed that India outperformed those in Brazil, Russia and China by a considerable margin boosted by strong domestic demand

India Micro News

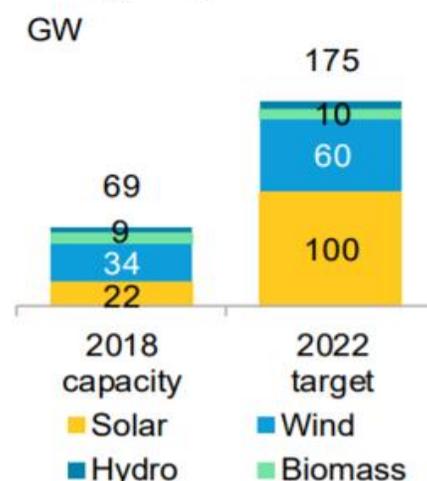
- Indian start-ups raised US\$7bn from Private Equity and Venture Capital firms in 2018 according to an EY report. The report highlighted that the majority of funding went towards building supply chains, expanding into new segments, global expansion and acquisitions. The deals that stood out include - Walmart's acquisition of Flipkart for \$16 billion, Alibaba's investment in BigBasket and Paytm, Tencent's investment in Dream11, and Naspers investment in Byjus and Swiggy
- India is on track to become Coca-Cola's top three market in volumes in the next three years with the local market expected to jump into the league of top five markets by the end of 2019. "The vision for India to be in the top three markets continues (currently sixth). So, we think there is a lot of potential for the Indian business to grow," James Quincey, president and chief executive of American beverage firm Coca-Cola, said in an interview

Thematic: Renewable Energy

The Indian renewable energy story is gaining rapid attention from both global and local investors given pollution levels in India. India's ambitious clean energy policies and extremely competitive renewable energy market has enabled it to rank 2nd in Climatescope 2018 report by energy researcher, *Bloomberg New Energy Finance*. The Indian market is home to the largest and most competitive renewable energy auctions in the world, which contracted over 10.5 GW from wind and solar in 2017 alone. India also has one of the most ambitious renewable energy targets globally as it aims to reach 175GW of clean energy capacity by March 2022 from its current capacity of 69 GW in 2018, with 100 GW coming from solar, 60GW from wind, and remaining 15GW from other sources.

The Government of India is committed to increased use of clean energy sources. They have reduced their coal capacity target for 2027 by 11 GW and are promoting significant foreign investment by allowing 100% FDI via the automatic route (i.e. no limits or prior government approval on foreign ownership). In fact, in the first half of 2018, investments in clean energy in India reached US\$7.4 bn. The solar capacity has increased 8 times and a total of 47 solar parks with generation capacity of 26,694 MW have been approved in November 2018. Inter-state distribution of wind power began in August 2018.

India's 2022 Renewable Energy Target



Source: Bloomberg NEF, Ministry of New and Renewable Energy

One company in this sector that we like is National Thermal Power Corporation Ltd. (NTPC Ltd.). The company is an Indian public sector undertaking engaged in the entire value chain of power generation and contributes 22.74% of India's total power generation. The company is also involved in consultancy, power trading, training of power professionals, rural electrification, ash utilisation and coal mining. From a renewable perspective, NTPC generates electricity via hydro, nuclear and other renewable energy resources to lower its carbon footprint. NTPC has also taken many initiatives to promote upcoming energy technologies, such as the development of charging infrastructure for electric vehicles. NTPC Ltd. has a total installed capacity of 53,166 MWs with 7 gas based, 1 hydro based station and 1 wind-based station and 11 solar PV projects. It expects to have a diversified fuel mix and by 2032, non-fuel-based generation capacity will make up 30% of its portfolio.

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