

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	\$30.6 million
Unit Price	Wholesale: 1.2318 Retail: 1.2221
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: March 2019

Indian equity markets rose strongly in March as foreign investors started increasing their exposure to the country. Foreign investors had largely been absent in 2018 given headwinds for Emerging Market equity markets and currencies, typical during rising US interest rates and USD. India faced added problems of rising crude oil prices and political uncertainty. *However, three months can be a long time when it comes to sentiment.* Since mid-February India's equity markets have been on a tear, with foreign investors identifying that oil prices had largely receded from their October 2018 highs and political uncertainty was fading as Prime Minister Modi and his party, the BJP, made strong inroads towards another term.

As we have commented several times during 2018, the Indian equity markets were held up largely by the mega caps of the markets from January 2018-January 2019. However, this gave way to a broader rally (from mid-February 2019) as investors sought potential winners from a more desirable political outcome for India's equity markets.

As a result, we witnessed a powerful rally during March 2019, with Indian equity markets up over 7% and aided by a strengthening Rupee against the Australian Dollar (appreciating 2.4% during March). Our benchmark, MSCI India (AUD) rose by 9.4% during the month. Pleasingly, the Fund delivered outperformance of its benchmark in a broader rally as investors sought companies with more favourable growth and valuation than purely the largest and most liquid stocks. Banks were the clear winner over the month in the face of a significant turnaround in profitability given falling provisioning costs and improving margins. ICICI Bank, one of our biggest holdings was up 14.4% in local currency terms during the month. IndusInd Bank, another one of our favoured banks was up 20.8% for the month.

There are several positive factors that are likely to continue to be supportive of Indian equity markets. The Reserve Bank of India (RBI) has already shown its hand with a rate cut in January and one likely to follow in April, given India's high real rates and inflation is in check. Corporate earnings also look likely to pick up pace from the last few years as Bank's become a more significant contributor. With the World Bank forecasting India to grow at 7.5% GDP growth in the next 12 months (year ending March 2020), it seems an opportune time to consider India as a component of a growth investment for long-term investors who are finding growth an increasingly scarce commodity.

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	10.78%	5.86%	10.58%	8.91%	8.59%	9.38%
MSCI India	9.40%	6.20%	11.91%	15.27%	12.43%	11.57%
Excess	1.39%	-0.34%	-1.33%	-6.36%	-3.83%	-2.18%

Retail	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception (p.a.) #
IAEF	10.75%	5.76%	10.36%	8.30%		6.88%
MSCI India	9.40%	6.20%	11.91%	15.27%		11.08%
Excess	1.35%	-0.44%	-1.56%	-6.98%		-4.20%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st March 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

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Don't Time a Structural Investment

The Indian equity market in our eyes is very much a long-term structural investment story. Trying to time entry into such a market can be fraught with danger and may lead to procrastination on entry point and thus not being invested at all.

MSCI India Returns – Monthly Analysis from April 1999 to March 2019

Maximum Monthly Return	25.45%
Minimum Monthly Return	-20.08%
Average Monthly Return	1.08%
Standard Deviation Annualised	24.07%
Worst Consecutive Drawdown	
3 months (Sep-Nov 2008)	-34.88%
Subsequent time to recovery	6 months

Over the last 20 years, the MSCI India in AUD has produced an annualised return of 10.35% (April 1999 – March 2019). However, if we exclude the 10 best returning months i.e. just 4% of the sample of 240 months, then annualised returns drop to 2.15%. This can change the investors assessment of an investment outcome quite substantially. Emerging Markets like India's quite often suffer the same fate, given they are treated as peripheral investments by a developed market investor.

Unfortunately, this can create a false perception about the volatility of an investment in a region like India. In fact, foreign investors quite often create the price volatility themselves, despite the fundamentals driving corporate earnings in India exhibiting quite low volatility. Essentially, this means the fundamentals of these markets suggest a long-term structural investment is warranted, but price volatility, created by those who fear it, keep investors shy of increasing their exposure.

The table above indicates that Indian equity markets can fall substantially from time to time. It is more likely to be caused by sentiment or cyclical factors like rising oil prices, geo-political risks, inflation or a weak currency. However, it is unlikely to be because of a change in structural fundamentals, hence investors are likely to return once prices deviate from the region's fundamental tailwinds for too long. Perhaps a better strategy when investing in a structural growth market is to add on cyclical weakness, one that many of our current investors have successfully employed.

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Company Revenue Generated Locally



Source: Bloomberg

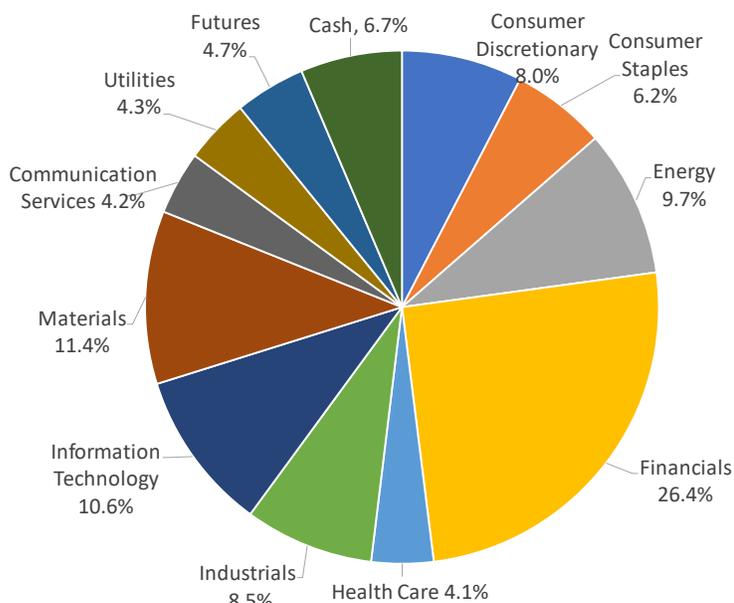
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Reliance Industries	Oil & Gas	5.8%
ICICI Bank	Banks	5.3%
Infosys	IT Services	4.3%
HDFC Bank	Banks	3.2%
Tata Motors	Automobiles	2.7%
State Bank of India	Banks	2.6%
Sun Pharmaceuticals	Pharmaceuticals	2.4%
HDFC	Housing Finance	2.3%
Mahindra & Mahindra	Automobiles	2.2%
NTPC	Power & Renewables	2.1%

Source: India Avenue, Bloomberg

Sector Allocation



India Macro News

- Total Gross GST revenue collected by the Government of India in the month of March, 2019 was Rs. 1.07tn (AU\$22bn) making it the highest since the introduction of GST. The revenue for the last quarter in the financial year 2018-19 was 14.3% higher than the revenue collected during the same period last year. These figures indicate that the revenue growth has been picking up in recent months, despite various reduction in GST rates

India Micro News

- India's share in consumer goods is expected to double by 2030 and the favourable demographics will soon take it ahead of China, according to a report by Credit Suisse. Demographics favour India over China in the long run, pointing out India's strengths like population growth. It said in 2015, China had 150m more people in working age than India, but by 2045 will have 300m less people than India in the bracket. They see 'high' growth potential as the per capital income of the country grows in industries such as apparel, meat, beverages, cars, cereals, personal computers, smart phones and education. From a consumption perspective, the Chinese prefer more of travel and entertainment-related options, it is staples that dominate the Indian story
- SpiceJet, a local Indian airline has joined global airlines' grouping International Air Transport Association (IATA) as a member, becoming the first Indian low-cost carrier to get the membership. SpiceJet Chairman and Managing Director Ajay Singh said "the membership will further enable us to inculcate global best practices and innovations as well as provides us a platform to closely work and collaborate with other airline members and expand our network through code shares and agreements with partner airlines." Recently, SpiceJet received IATA's Operational Safety Audit (IOSA) certificate

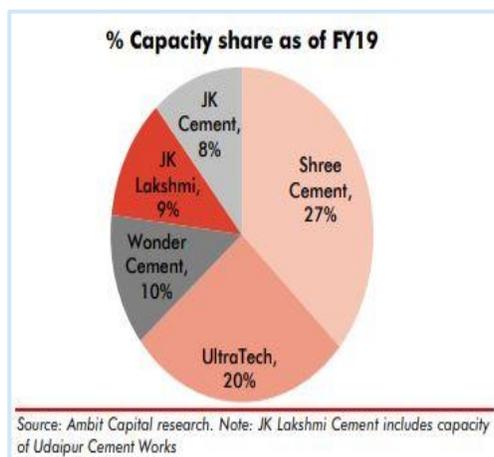
Thematic: The Cement Industry

With the World Bank forecasting India's GDP growth at 7.5% for FY20, it's likely that we will see certain industries continue to benefit greatly from the infrastructure thematic. The Cement Industry in India is a significant benefactor of the Government's push on low cost housing in rural and urban areas (*Housing for All by 2022*), development of up to a 100 Smart Cities, Project Bharatmala (road building of 83,677 kms, costing US\$74bn) and the general level of development and construction. Unsurprisingly, the Indian cement industry displayed strong growth of 9% in 2018.

The implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA) also brought about a paradigm shift in the construction sector with recommencement of some stalled projects. The recent budget passed in February 2019 saw an allocation of approximately US\$12bn to the roadways and US\$2.7bn to rural roads development. Overall, India has an investment requirement of US\$725bn in infrastructure by 2022 for sustainable development. Foreign investment in India continues to be strong as it aims to help fund some of these exciting growth projects.

India is the second largest producer of cement after China, with an integrated capacity of 502 million tonnes (MT) per year in 2018. The industry is currently producing 280MT for domestic demand and 5MT for exports. The housing and real estate sector accounts for 65% of the total consumption in India, public infrastructure for 25% and industrial development at 15%. Indian cement companies are well placed to leverage of rising demand given their capacity allows room for further production.

Top 5 Manufacturers hold 75% Capacity Share as of FY 2019 in India



One company in this sector that we like is Ambuja Cements Ltd. The company is a part of the global conglomerate Lafarge-Holcim and is among the leading cement companies in India. It provides, home-building solutions that are tailored for India's climate. Currently, the company has a cement capacity of approximately 30MT with five integrated cement manufacturing plants and eight cement grinding units across the country. It recently approved a new project for capacity appreciation which requires an investment of US\$338mn.

The company ranks 5th in the Dow Jones Sustainability Index 2018 because of its sustainable operations and environment-friendly practices and ranks 2nd in global Carbon Disclosure Project Index.

The India Avenue Equity Fund holds four companies, both national or regional plays in the Cement industry that will benefit significantly from this exciting thematic.

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