

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 6th September 2016

Fund Size \$31.2 million

Unit Price Wholesale: 1.2475
Retail: 1.2373

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 Commentary: April 2019

Indian equity markets rose strongly over the last 3 months, driven by improving sentiment, expectations for corporate earnings to pick up and greater appetite by foreign investors. Over the last 3 months, the India Avenue Equity Fund was up **15.17%**, outperforming the Index by **1.34%**. Pleasingly, the Fund delivered outperformance of its benchmark in a broader rally as investors sought companies with more favourable growth and valuation. Unfortunately for most of the last 14 months, India's equity markets have been primarily driven by the largest and most liquid stocks, irrespective of valuations as we have shown in previous factsheets.

Whilst it is very difficult to forecast what the environment is likely to be like going forward, we can confidently say that in an environment where the market rewards actual fundamentals (which throughout history it does most of the time), stock picking will prevail. Our analysis shows that the largest contribution to sustainable outperformance over the long-term comes from skilful stock picking from specialists on the ground in India, given their local grassroot insights and primary research. This has amounted to 5% p.a. of added performance (relative to the benchmark) over the last 15 years, resulting in returns twice the amount of the index as can be seen in the chart below. The effect of compounding maybe slow to play out but reaps significant rewards over 5 years or greater.



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	1.27%	15.17%	16.91%	4.12%	7.10%	9.60%
MSCI India	1.49%	13.83%	19.60%	10.58%	11.07%	11.81%
Excess	-0.22%	1.34%	-2.69%	-6.46%	-3.97%	-2.21%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	1.25%	15.09%	16.67%	6.43%	6.63%	7.25%
MSCI India	1.49%	13.83%	19.60%	10.58%	11.07%	11.41%
Excess	-0.24%	1.26%	-2.93%	-4.15%	-4.44%	-4.16%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th April 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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The Biggest Election in History

India is the world's largest democracy which means that come national election time (every 5 years), it stages the world's largest election. This time, over 900m people are eligible to vote up from 814m in 2014. To facilitate this, it requires over one million polling stations around the country over a 5-week period in 7 phases beginning on April 11th and ending on May 19th. Thankfully, given the sheer number of votes, all voting is electronic and on May 23rd the votes will be counted, and the results announced.

There are currently 2 major parties. The Bharatiya Janata Party (BJP) led by the current Prime Minister Narendra Modi and the Indian National Congress (INC) led by Rahul Gandhi, whose father, grandmother and great-grandfather were prime ministers. There are also 5 other national parties, 26 state parties and over 2000 small political parties. India's lower house of parliament, the Lok Sabha, has 543 elected seats. Any party or coalition needs a minimum of 272 member of parliament (MP's) to form a majority government. Whichever party hits that number, outright or by building a coalition, chooses the next prime minister. In the last election (2014), the BJP won with an outright victory, winning 282 seats. This was the first political party to win an outright majority in 30 years.

In this election, at the time of writing, 6 of the 7 phases of voting had been completed, meaning 483 of 543 seats in the lower house of parliament had voted. Whilst voting is not compulsory, according to the Election Commission of India, the overall turnout so far has been 63.3%, roughly the same turnout as the previous election.

Our View

If history is a guide, pre-election periods ushers in heightened volatility in the equity market. In our view, the market is pricing in a continuation of the current government but under an alliance, National Democratic Alliance (NDA), which is led by the BJP rather than a majority for BJP itself. In the last election, the BJP gained significantly at the expense of the INC from rural voters who make up around 65% of India's population. More than 60% of votes received by the BJP were from rural voters. However, anti-incumbency and economic stress to rural areas caused by droughts and poor wage growth are expected to benefit the INC. Hence state based and other smaller parties could become critical in creating a coalition. If exit polls are anything to go by, they are suggesting a coalition of parties led by the B.J.P. could keep its majority in Parliament, paving the way for Mr. Modi to secure another five-year term as prime minister. While an immediate upside to the market due to re-election of the incumbent government would occur, there is likely to be significant downside if the NDA fails to get a majority.

One very interesting point to note is that at the previous general election, India's 1.3bn citizens had barely 100m smartphones in use. Today they have more than 400m and India has become the biggest market for Facebook (more than 300m accounts) and WhatsApp (more than 200m active users). Campaigning via social media has thus become critical and whilst BJP and Modi himself have been very active on social media, the impact from this new paradigm is an unknown factor at play.

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Company Revenue Generated Locally



Source: Bloomberg

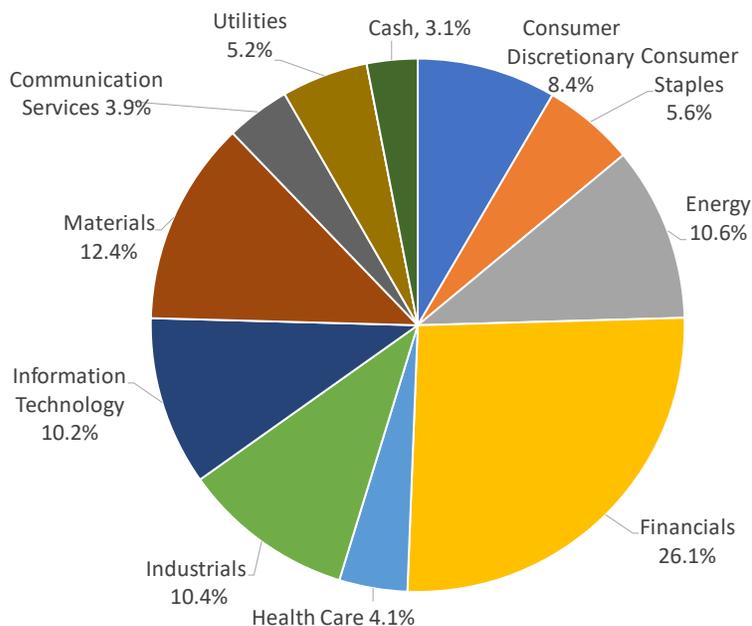
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 10 Stocks

Name	Industry	Weight
Reliance Industries	Oil & Gas	6.9%
ICICI Bank	Banks	5.3%
Infosys	IT Services	4.2%
Tata Motors	Automobiles	3.3%
NTPC	Power & Renewables	3.2%
HDFC Bank	Banks	3.1%
State Bank of India	Banks	2.5%
Wipro	IT Services	2.3%
HDFC	Housing Finance	2.3%
Sun Pharmaceuticals	Pharmaceuticals	2.2%

Source: India Avenue, Bloomberg

Sector Allocation



India Macro News

- India is adding 40 million new internet users on average every year, led by the rise of the non-English speaking Internet user according to Google. Google's latest report said that 9 out of 10 new internet users in India are likely to be Indian language users. At 400 million active internet users, India is the second largest internet user market after China. Consumers in non-metros are searching for products related to international travel destinations, beauty, and life insurance more frequently than their counterparts in the metros. They are no longer restricted by the lack of information or access to technology.
- Private equity (PE) and venture capital (VC) inflows rose to US\$4.4 billion in April, 79% increase from over USD 2.4 billion in same month last year. The number of deals announced in the month were the highest ever at 102 for any month, compared to 75 in the same period last year. 2019 is likely to be a landmark year for PE/VC investments, particularly in the infrastructure space with some large deals in the pipeline according to EY.

India Micro News

- Pharmaceutical Export Promotion Council's year-end report has pegged the total pharma exports from India at \$19.14 billion for 2018-19 with a growth of 10.7% over \$17.28 billion in pharma exports last year. The double-digit growth has returned to pharma exports after three years of flat-to-marginal export growth. The pharmaceutical agency maintained that the price erosion was beginning to plateau and recovery in margins was seen in the US. The US continues to be the largest export destination with over 38.6% per cent of the total generic exports to that country at \$5.24 billion.

Thematic: Digitisation in Manufacturing

The Hannover Fair in Germany in 2011 saw the beginning of a new phase in Industrial Revolution called 'Industry 4.0' - the digitisation of manufacturing. Basically, Industry 4.0 is Industrial Internet of Things (IIoT) or smart manufacturing that marries physical production and operations with smart digital technology, big data and machine learning by gathering and analysing real time data across machines to provide intelligent insights and prompt smarter decision making. This creates a more holistic and better-connected ecosystem for companies, suppliers and consumers. Industry 4.0 is well and truly underway in India and according to McKinsey India, around 20% of companies are already undertaking automation to improve productivity.

Companies such as Larsen & Toubro, Reliance Industries and others are getting into Industry 4.0. Unlike in the past, investment in technology is being seen as a value add to help companies add revenue. The Government of India's planning body NITI Aayog along with private sector companies are organising workshops on manufacturing in the age of digitisation to support transformation for entrepreneurs, policy makers, state government functionaries and technology experts. The manufacturing sector in India is likely to benefit a lot from this revolution. Below are examples of Indian corporates that are manufacturing goods as well as using this technology in their operations.

Bharat Forge Ltd. Bharat Forge's Mundhwa plant, is the world's largest forging factory supplying forged parts for many sectors to clients all over the world. (e.g. BMW, Caterpillar, Boeing etc) We have visited the plant several times and it is a state-of-the-art complex with heavy investment in technology and R&D combined with a scientifically skilled workforce, and strong focus on robotic technology and automation.

Larsen & Toubro Ltd., an Indian multinational conglomerate company has launched a 'Nxt Initiative' and has built an in-house digital platform that seamlessly connects diverse operations. In its Mumbai office, it has a control room that gathers real-time data from 400 company sites operating miles away. It collates all bits of data no matter how small to improve efficiencies. One example is the collection of electricity usage consumed by machines or the weight hauled by a crane at a construction site. This data is analysed to optimize energy consumption and wear and tear on machines allowing L&T to improve performance.

Mahindra & Mahindra Ltd., a car manufacturing company has partnered with Siemens to set up a digitalized platform that quickly translates market requirements into a viable vehicle platform and includes reducing time taken for new product launches. This holistic approach stretches over the complete manufacturing value chain, right from product design, production design, operations and service.

India has several strengths in manufacturing: a large pool of engineers, a young labour force, wages that are half that of China's and well-established core sectors such as textiles, auto components and petrochemicals. Although there are significant requirements domestically, India's growing competitiveness globally means they will increasingly grab a greater slice of the global trade pie and satisfy the needs of international governments, corporates and consumers.

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