

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

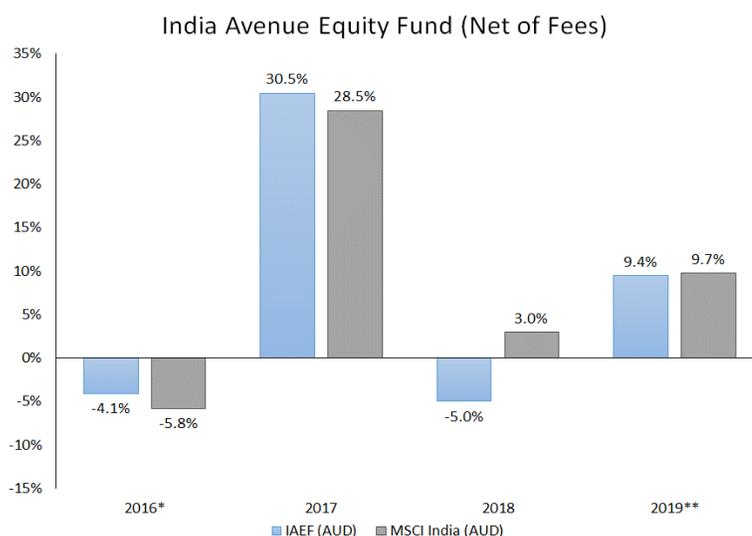
Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 th September 2016
Fund Size	\$32.3 million
Unit Price	Wholesale: 1.2733 Retail: 1.2625
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
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: May 2019

The month of May was a very eventful period for Indian markets, as May 23rd marked the national election results. Indian equity markets hit an all-time high with the incumbent government and Prime Minister, Narendra Modi, coming to power at the centre for the second time in a row, backed by a thumping majority. This continuity brings in much needed stability and policy predictability as well continuing India's growth and reform agenda. This is discussed in greater detail on the next page.

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 this period, the India Avenue Equity Fund was up **14.52%**, outperforming the index by **1.49%**. Pleasingly, the fund delivered outperformance of its benchmark in a broader rally as investors sought companies with more favourable growth and valuation. However, the long-term relative numbers remain impacted by 1 year, 2018 (as can be seen below) driven by a handful of large index stocks. Despite the nuances of the index (heavy stock and sector concentration that can cause large relative performance deviations) stock selection has added significant value (~+9%) when we dig deeper into the fund's performance attribution since inception.



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	2.07%	14.52%	13.90%	10.67%	6.80%	10.11%
MSCI India	1.81%	13.03%	13.67%	17.05%	10.85%	12.16%
Excess	0.26%	1.49%	0.23%	-6.38%	-4.05%	-2.04%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception (p.a.) #
IAEF	2.04%	14.42%	13.70%	10.10%	6.34%	7.96%
MSCI India	1.81%	13.03%	13.67%	17.05%	10.85%	11.87%
Excess	0.23%	1.39%	0.03%	-6.95%	-4.51%	-3.91%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st May 2019 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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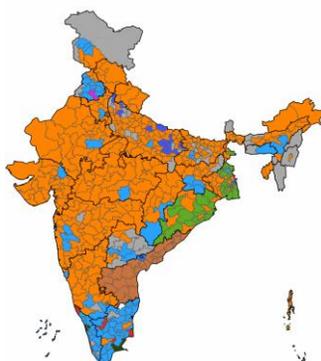
Modi 2.0 – Landslide Victory... Again

Prime Minister Narendra Modi scored an emphatic victory in India's elections as the National Democratic Alliance (NDA) captured 353 seats of the 543-seat Lok Sabha (65%) (Lower House). Modi's own Bharatiya Janata Party (BJP), which sits within the NDA, captured an estimated majority on its own right with 303 seats. (56%). Some interesting points on the 2019 National Election results are as follows.

- PM Modi became the first Indian prime minister to be re-elected with both an increase in the total percentage of votes along with a full majority
- Voter turnout was 67.1%, the highest ever, up from 65.8% in the previous election. Voter turnout by women was also the highest ever
- Around 900 million people were eligible to vote, an increase of 84 million voters since the last election, making it the largest-ever election in the world. Amazingly, 15 million voters aged 18–19 years became eligible to vote for the first time
- India officially does not have an opposition party, as the Indian National Congress (INC) failed to get the minimum 10% required. The opposition leader, Rahul Gandhi, lost one of his seats, held previously by his mother, his father and his uncle. The Gandhi family has collectively held this seat for decades and is a growing sign of their gradual decline in power in Indian politics.

The thumping win was hard to believe for many, when six months ago his "faulty" reforms were seen by media outlets as limiting India's growth potential. India is clearly ready to back Modi and growth, despite the short-term pain from large scale reforms. He was on the front page of the Wall Street journal following the victory as the result was not just big for India but the world as India's delta to world GDP growth gathers momentum.

India is Orange – NDA/BJP Dominate



Modi on the Front Page of the WSJ



What do we expect going forward?

Post his win, PM Modi has already shaped his cabinet and the 2019 budget by the newly elected Finance Minister in July will be the first sign of things to come. In terms of reforms, we expect retuning of current reforms (GST and the bankruptcy code). Reforms to labour and land regulations are also likely to help with job creation and development of infrastructure. Manufacturing is targeted to rise to 25% of GDP from 18% which is critical for India to continue its growth trajectory. Finally, digitisation needs to be given further drive to remove inefficiencies and bottlenecks in the system. PM Modi certainly has his work cut out for him over the next 5 years.

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Company Revenue Generated Locally



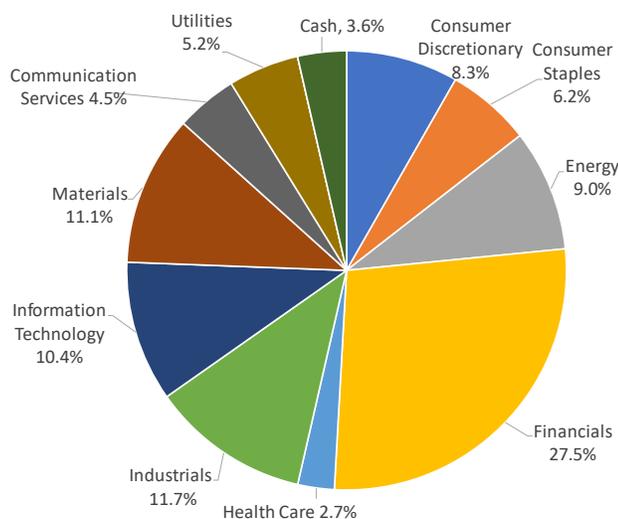
Source: Bloomberg

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 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	5.4%
Reliance Industries	Oil & Gas	5.0%
Infosys	IT Services	4.6%
HDFC Bank	Banks	3.2%
HDFC	Housing Finance	3.2%
NTPC	Power & Renewables	3.1%
State Bank of India	Banks	2.8%
Tata Motors	Automobiles	2.6%
Wipro	IT Services	2.2%
Mahindra & Mahindra	Automobiles	2.0%
Axis Bank	Banks	2.0%
Sun Pharmaceuticals	Pharmaceuticals	2.0%
Kotak Mahindra Bank	Banks	1.9%
Dalmia Bharat	Cement	1.9%
HDFC Standard Life Insurance	Insurance	1.9%
Bharti Airtel	Communication Services	1.9%
Zee Entertainment	Media	1.8%
SpiceJet	Aviation	1.8%
Chambal Fertilizers	Agriculture & Chemicals	1.8%
Crompton Greaves Consumer	Consumer Electricals	1.7%

Sector Allocation



Source: India Avenue, Bloomberg

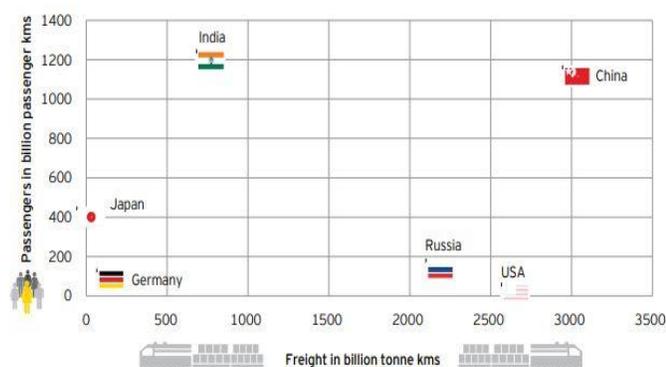
India Macro News

- Foreign Direct Investment (FDI) to India grew by 6% to US\$42 billion in 2018, with strong inflows in the manufacturing, communications, financial services and cross-border merger and acquisition activities, according to a UN report. India was among the top 20 host economies for FDI inflows in 2017-18. It also reported some megadeals such as the acquisition of Flipkart, India's biggest e-commerce platform, by American giant Walmart. In addition, telecommunication deals involving Vodafone (UK) and American Tower (US).
- In line with the NDA's (Modi's coalition) election promise of Rs 100 trillion (US\$1.5tn) investment in the infrastructure sector by 2024, the NDA government is targeting spending on Metro projects, inland waterways, natural gas grids and airport privatisation, to give a fillip to private sector investment in the first few months of its tenure. This focus will continue to improve its efforts in terms of achieving higher execution rates to meet the ambitious targets. For example, the Government's manifesto talks of doubling the length of national highways by 2022 and building 60,000 km over the next five years. In terms of Airports, there were 65 functional airports in 2014 which has risen to 101 today. The plan is to double the number of functional airports over the next 5 years.
- India is forecast to overtake the UK to become the world's fifth largest economy this year and projected to surpass Japan according to a report by London based global information provider IHS Markit. As India continues to ascend in the rankings of the world's largest economies, its contribution to global GDP growth momentum will also increase. India will also play an increasingly important role as one of the Asia-Pacific region's major economic growth engines, helping to drive Asian regional trade and investment flows.

Thematic: India's Dedicated Freight Corridor

Indian railways is a mammoth public sector organisation owned and managed by the Government of India through the Ministry of Railways. India has the fourth largest railway system in the world, spread over 67,368 kms after the US, China and Russia. It is also the single largest employer in India and eighth in the world employing around 1.4 million people. Although India has around 13,000 trains that carry over 23 million passengers every day its freight capacity of 1.2 billion tonnes annually is deficient and sub-optimal. This is despite it having the highest railway traffic compared to other major economies, as can be seen below.

Railway Traffic in Select Countries



Courtesy: Railway Sector – A key driver for 'Make in India' Program by FICCI-EY

One of the main reasons for this is that currently road transport is predominantly used for freight transport as there is no separate railway line for freight. As a result, the Government in conjunction with Japan has been building six Dedicated Freight Corridors (DFC) that carry freight only along the four key transportation routes known as the Golden Quadrilateral - connecting Delhi, Mumbai, Chennai and Howrah. DFC is necessary because of increased transport demands, over congested routes and greenhouse gas emissions associated with road transport. DFC will result in trail loads increasing from 5,000 to 15,000 tonnes, increase in container capacity, reduction of cost of freight transport and shorter transit time (by half in some cases). Over the next 5 years, the Government proposes to invest US\$140bn in railways with another US\$18bn on DFC. Spending will be focused on many themes such as modernization of existing tracks, new generation electric locomotives, passenger amenities, station redevelopment, warehousing and enhancement in freight carrying capacity. The Government has also allowed 100% FDI in railway infrastructure, which has opened up opportunities such as high-speed railways, railway lines to and from coal mines and ports, projects relating to electrification, high-speed tracks and suburban corridors.

Our portfolio has several companies in the infrastructure, power and manufacturing space that are likely to directly or indirectly benefit from the Dedicated Freight Corridor. For example, Bharat Forge is an Indian multinational technology driven global leader in metal forming with a market capitalisation of US\$3.1 billion. The company has a forging capacity of 625,000 MTPA and advanced manufacturing technology to supply critical engine components and other products to both the local and overseas railway sector.

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