

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	\$34.3 million
NAV	Wholesale: 1.2279 Retail: 1.2287
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	0.35% / 0.35%
Performance Fee**	10% of the excess return above the benchmark
FY19 Dividend	Wholesale: 2.653 cpu Retail: 1.248 cpu

** Subject to a high watermark

Fund and Market Commentary: October 2019

The India Avenue Equity Fund (wholesale) delivered a return of 2.78% for the month of October 2019, which was above the MSCI India benchmark of 2.13%. Over a one-year period, the Fund has returned 17% for investors. After a difficult 20-month period (Jan 2018 to August 2018) for relative performance, the fund has outperformed by around 2% over the last 2 months, as investors begin to focus more on company specific fundamentals and valuations rather than macroeconomics. In the long run, stock prices are ultimately driven by earnings and with prices heavily discounted outside the top 50 along with attractive fundamentals, we continue to selectively increase our exposure here. We are currently halfway through the September quarter earnings period in India and so far, there has been above expected performance from Financials, Auto's and the Small and Mid-cap space. These sectors feature prominently in our portfolio.

For the fifth time in a row, the Reserve Bank of India (RBI) cut policy rates by 25bps to 5.15%. This is the fifth rate cut of 2019 resulting in a cumulative 135bps of cuts. With significant stimulus from monetary policy rate cuts and Government reforms (see our article on [Corporate Tax reform](#) announced in September), it is likely we are closer to a pick-up in economic activity, which our Fund is positioned well for. Today the Nifty 50 trades at a 1-year forward price-earnings multiple of approximately 18x, whereas our fund's forward P/E is closer to 15x.

India Avenue Equity Fund (Net of Fees)



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

Wholesale	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF	2.78%	4.55%	0.07%	16.99%	2.26%	8.87%	8.02%
MSCI India	2.13%	4.44%	1.03%	20.83%	7.00%	11.87%	10.18%
Excess	0.66%	0.12%	-0.96%	-3.84%	-4.74%	-2.99%	-2.16%

Retail	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF	2.70%	4.40%	-0.18%	16.46%	1.75%	-	5.71%
MSCI India	2.13%	4.44%	1.03%	20.83%	7.00%	-	9.50%
Excess	0.58%	-0.04%	-1.21%	-4.37%	-5.25%	-	-3.79%

Past performance is not an indicator of future performance

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

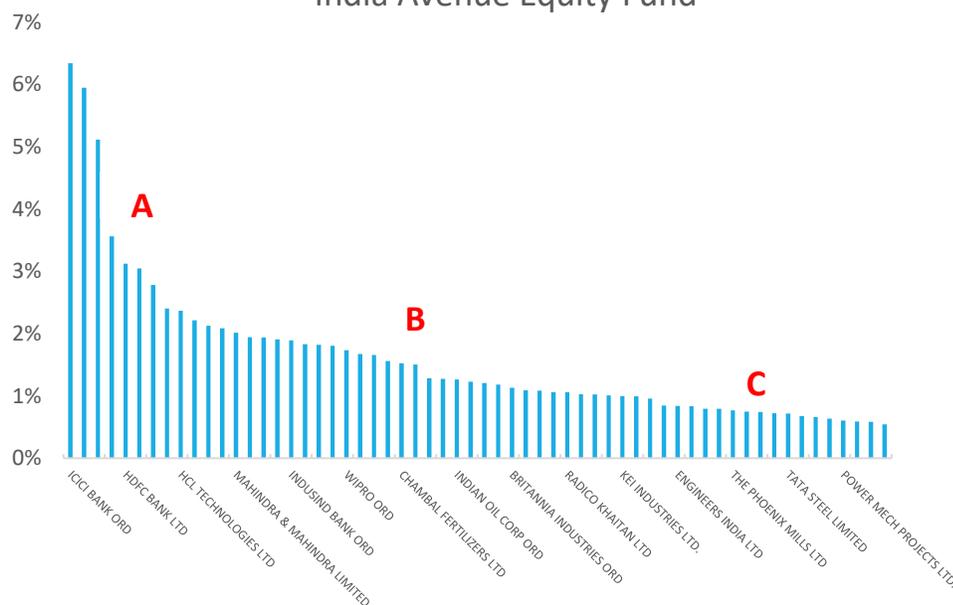
Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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Portfolio Construction

India Avenue Equity Fund



Our portfolio is made up of A, B and C category stocks in terms of our portfolio construction. We define these categories as follows:

A – Weighting of 2.5 – 7.5% where conviction is higher and generally held in higher weight by one or two of our advisers i.e. ICICI Bank, NTPC, Bharti-Airtel (29.9%).

B – Weighting of 1.0 – 2.5% is linked to companies which are held by one of our advisers that are unique and typically fall in the mid and small cap sector in India. Typically, these are not found in the index and reflect a positive view on a company, which is under appreciated by the investor marketplace. These currently include Polycab, Mayur Uniquoters, Chambal Fertilisers, Crompton Greaves and Spicejet (52.9%).

C – Weighting < 1.0% are typically positions which have been initiated by one of our advisers, with a view to building further exposure. Alternatively, they can also be positions which we are exiting after holding for some time. Typically, these tend to be shorter-term or cyclical positions such as Tata Steel, Coal India, Power Mech Projects, Dalmia Bharat (14.1%).

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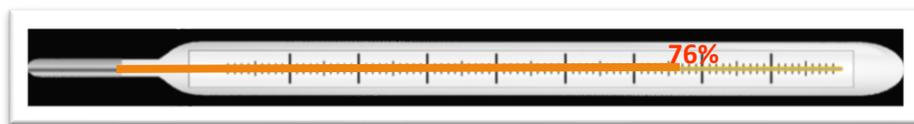
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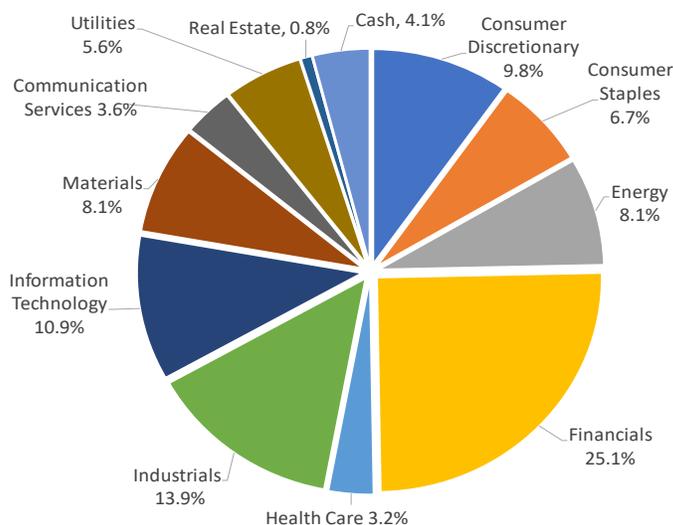
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	6.2%
Reliance Industries	Oil & Gas	5.2%
Infosys	IT Services	4.7%
NTPC	Power & Renewables	3.7%
HDFC Bank	Banks	3.1%
HDFC	Housing Finance	2.9%
Bharti Airtel	Communication Services	2.8%
Mahindra & Mahindra	Automobiles	2.8%
Tata Motors	Automobiles	2.5%
HCL Technologies	IT Services	2.4%
L&T	Construction & Engineering	2.4%
Polycab India	Wires & Cables	2.1%
Axis Bank	Banks	2.1%
Sun Pharmaceuticals	Pharmaceuticals	1.9%
Mayur Uniquoters	Textile Products	1.9%
Hindustan Unilever	Consumer Household Products	1.9%
IndusInd Bank	Banks	1.8%
Kotak Mahindra Bank	Banks	1.8%
Bajaj Finance	Personal Finance	1.7%
Wipro	IT Services	1.7%

Sector Allocation



Source: India Avenue, Bloomberg

India Macro & Micro News

- India is planning to start 100 additional airports by 2024 and include 1,000 new routes to connect with smaller towns and villages. The plan was discussed in a meeting to review infrastructure needed by 2025. Steps to start a plane-lease financing business in the country as well as enhancing the number of locally trained pilots to 600 a year and double the domestic aircraft fleet to 1,200 during the period. To build airports in next 5 years, Government of India has committed the investments of Rs 1 trillion.
- India's household wealth has more than doubled to US\$ 12.6 trillion in calendar year 2019, irrespective of the decrease in overall economic growth. According to the report by Swiss bank Credit Suisse, the total wealth held by households in India stood at US\$ 5.972 trillion in 2018. The report says, around 4,500 possess wealth of over US\$ 50 million, while 1,790 have over US\$ 100 million. India holds fifth rank among the countries with ultra-high net-worth individuals.
- In September 2019, Foreign Portfolio Investors (FPIs) invested a net US\$ 938.30 million and US\$ 543.71 million in October. This came after steps taken by the Government of India to revive domestic economic activity which was favoured among foreign investors. Also, a reprieve in the US-China trade war increased risk-appetite among global investors. Going forward, FPI flows will be influenced by how the economy performs and how soon corporate earnings recover. The Fed's monetary policy stance and global liquidity will also be crucial.

Thematic: Markets Looking for Government Divestment

The Government of India is likely to announce divestment of majority owned government assets to help fund further stimulus and infrastructure to kick-start the Indian economy from its current slowdown. The Government is starting to show a level of urgency with regards to getting divestments done prior to the end of the current fiscal year (31 March 2020), given their target of A\$22bn for FY20. For this to happen announcements on divestments need to be made in this calendar year, with a roadshow to follow.

The Government does not have a strategic intent in owning Coal, Oil, Shipping and Infrastructure assets. Additionally, the Government is unlikely to desire cross holdings across various entities to achieve majority ownership as this leads to inefficient structures being formed. The existing sell-down of some holdings through an ETF is the preferred route for ongoing divestment in smaller parcels. However, this does create an overhang in the valuation of these businesses.

	Disinvestment: targets and achievements									
	UPA 2					NDA 2				
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Actuals (INR Cr)	23,553	22,144	13,894	23,957	15,819	24,349	23,997	46,247	1,00,057	84,972
BE (INR Cr)	No target fixed	40,000	40,000	30,000	40,000	43,425	41,000	56,500	72,500	80,000
Actuals as share of BE		55.4	34.7	79.9	39.5	56.1	58.5	81.9	138	106.2
Actuals as % of GDP	0.37	0.29	0.16	0.24	0.14	0.2	0.17	0.3	0.59	0.45

Source: Department of Investment and Public Asset Management, Ministry of Finance, GoI

Low valuations

Shares of most public sector enterprises trade at low valuations, with some even being de-rated over the years.



Divestment formula

It is our view that we are likely to see a significant divestment announced in CY2019. The most likely candidate discussed in the marketplace is Bharat Petroleum (BPCL), an oil marketing company of which the Government currently owns a 53.3% stake. The sale of BPCL alone can fetch close to Rs.700bn (Government divestment target of Rs.1.05 trillion). The current market capitalization of BPCL is Rs.1.13 trillion (valuing the Government's stake at over Rs.600bn). Any strategic investor will gain 34 million tons of refining capacity and access to 25% of India's fuel marketing.

However, rather than an IPO, it is widely expected to opt for a strategic stake sale. The key to this will be how much of the "ownership or control" premium will the Government receive. A recent IPO of the Indian Railway Catering business was completed at a price far lower than what could have been received in a strategic sale with a pre-bid consultation. With greater insight into the potential of a business, suitors are far more likely to be able to decipher the unlocked value that exists for their business to make a strategic purchase.

It is more likely that the Government will relinquish control entirely, rather than sell down their stake. This will have the positive impact of improving governance and efficiency of these businesses. The Government does not see the need to hold onto assets or "control", unless there is a strategic requirement e.g. Defense, Power. This can potentially create value for these businesses by unlocking the existing de-rated multiple and provide positive sentiment for the broader market, especially given the knowledge that the Government is likely to be putting in place much needed reform.

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