

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	\$37.5 million
NAV	Wholesale: 1.2747 Retail: 1.2741
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

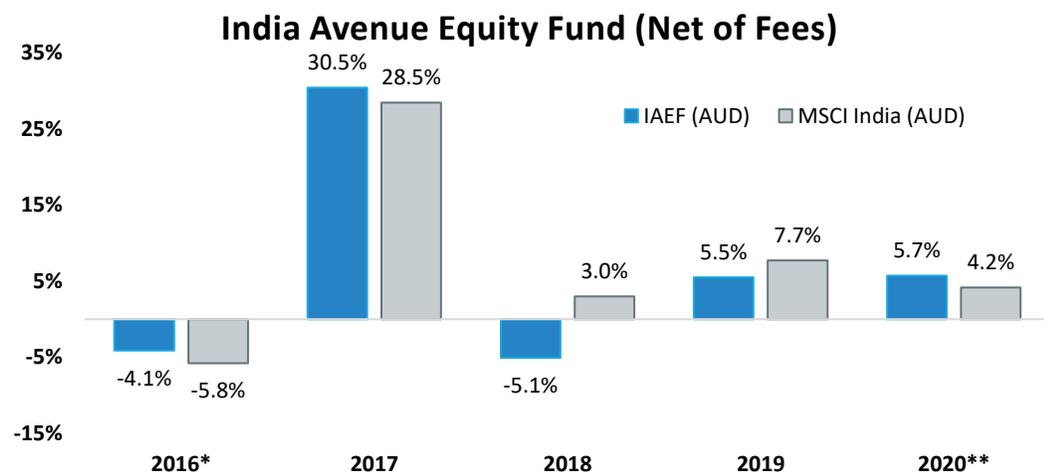
Fund and Market Commentary: January 2020

The India Avenue Equity Fund (wholesale) returned 5.7% for the month of January, outperforming the MSCI India index by 1.5%. Over the last 12 months the fund delivered 19.8%, beating its benchmark by 1.3%.

Despite weak headline numbers, digging deeper shows that the underlying growth dynamics for the economy appear to be bottoming out with some high frequency indicators showing positive trends. Rural consumption is recovering, given the increase in food inflation, the likelihood of a strong harvest season and high reservoir levels. Also, auto monthly numbers and PMI data for manufacturing are surprising on the upside. We expect GDP to gradually recover from FY21 as the Government removes some of the fiscal constraints as it rolls into the next financial year. This should see further initiatives and reforms to address the current growth slump.

Given this backdrop, we expect India to outperform most Emerging Markets in 2020. In this scenario, we envisage a turning point where companies which have been beaten down for having economic exposure, will start benefitting from reforms and stimulus. We have already seen some evidence of this with Mid and Small caps (often heavily linked to local demand) notably outperforming the Large cap indices during the month.

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	5.71%	3.96%	8.69%	19.82%	4.21%	11.37%	8.64%
MSCI India	4.17%	3.07%	7.64%	18.53%	7.55%	14.26%	10.37%
Excess	1.53%	0.89%	1.05%	1.29%	-3.34%	-2.89%	-1.73%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since Inception (p.a.) #
IAEF	5.66%	3.84%	8.41%	19.30%	3.69%		6.60%
MSCI India	4.17%	3.07%	7.64%	18.53%	7.55%		9.79%
Excess	1.48%	0.77%	0.77%	0.77%	-3.86%		-3.19%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st January 2020 assuming the reinvestment of dividends

#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

About India Avenue

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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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India FY20-21 Union Budget

The Government of India (GoI) is currently stuck in a dilemma between managing a challenging economic environment (slow growth, rising inflation and weak tax revenues) whilst maintaining fiscal prudence. Hence it was of little surprise to us that whilst the budget continued with its infrastructure push, simplification of the personal tax regime for middle income taxpayers and improvising ease of doing business, to a large extent their hands were tied. This is evident from the fact that the Budget off-balance sheet funding has grown 8% over FY20. Having said that, we expect that spending will likely pick up significantly in FY21 (April 2020-March 2021). Below are some of the key aspects of this year's budget.

Fiscal Deficit

GoI raised the FY20 fiscal deficit target to 3.8% of GDP from 3.3% set earlier. The fiscal deficit target for FY21 was set at 3.5% of GDP.

Disinvestment

GoI raised the divestment target to INR 2.1tn (USD 29bn), more than double the previous year's target of INR 1.05tn (USD 15.2bn). Privatisation examples include a few big ticket SOE's like Bharat Petroleum Corporation Limited and a stake sale via an IPO of India's largest life insurance player, Life Insurance Corporation of India.

Taxation

A 100% tax break was offered for sovereign wealth funds for investment in infrastructure. A reduced tax rate of 15% for new power generation investment. Removal of dividend distribution tax at the hands of the company and charging it in the hands of shareholders at their individual rates (particularly beneficial to foreign companies as they are subject to a withholding tax of merely 5-10%).

Infrastructure

The GoI continues to emphasise infrastructure as its key development focus. Key areas include building 100 more airports by 2024, development of 9,000kms of economic corridors, 2,000kms of coastal roads connecting ports and 2,000 kms of strategic highways.

Measures to attract foreign capital:

Proposal to increase foreign portfolio investor limits in corporate bonds from 9% to 15%. Tax exemptions for Sovereign Wealth Funds fulfilling certain conditions, for dividends, interest and long-term capital gains arising from a debt or equity investment made in India.

Our View

The slowing economy and the Government's current constraints to spend its way out of the slowdown remains a concern. This had led to a large dichotomy in returns with investors seeking "safety" in Large cap names. Names outside the top-15 have fallen significantly and priced in this concern over the last 2 years whilst India's mega caps reach all time high prices and valuations. We emphasise that India is a not simply a beta story, as the country rapidly changes, typical of an emerging market country. India today will look markedly different in 5 years' time and astute investors need to be ahead of the curve to fully participate in India's ascent to the 3rd largest economy by 2025.

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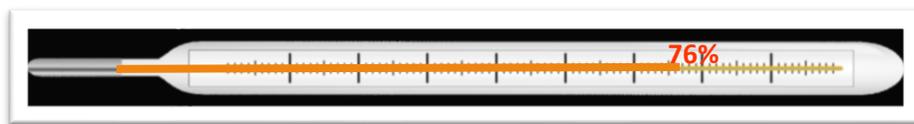
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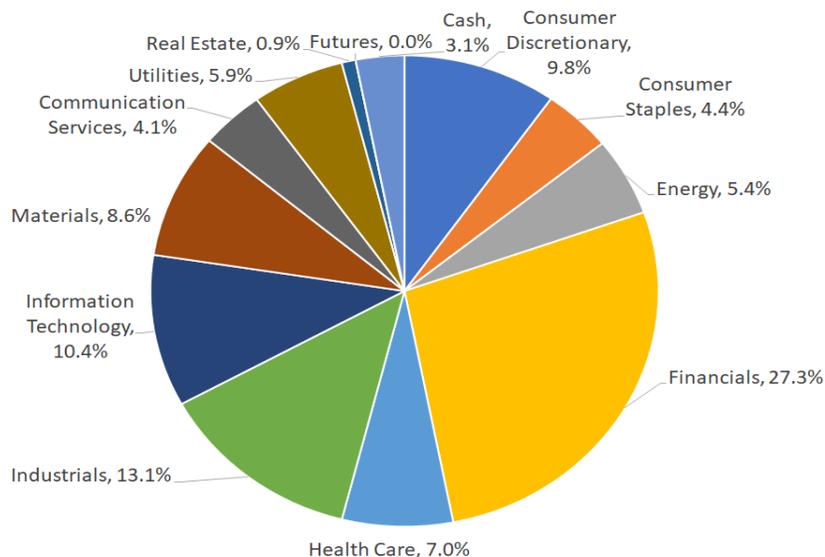
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
ICICI Bank	Banks	7.1%
Infosys	IT Services	5.6%
Bharti Airtel	Communication Services	4.1%
HDFC	Housing Finance	4.0%
Reliance Industries	Oil & Gas	3.5%
HDFC Bank	Banks	3.2%
Tata Motors	Automobiles	3.1%
State Bank of India	Banks	3.1%
NTPC	Power & Renewables	2.7%
L&T	Construction & Engineering	2.6%
Axis Bank	Banks	2.5%
HCL Technologies	IT Services	2.3%
Lupin	Pharmaceuticals	2.1%
Mayur Uniquoters	Textile Products	1.9%
Mahindra & Mahindra	Automobiles	1.8%
Kotak Mahindra Bank	Banks	1.8%
Sun Pharmaceuticals	Pharmaceuticals	1.8%
Bajaj Finance	Personal Finance	1.8%
Chambal Fertilizers	Agrochemicals	1.6%
Escorts India	Tractors & Railway Equipment	1.6%

Sector Allocation



Source: India Avenue, Thomson Reuters

India Macro & Micro News

- In 2019, private equity and venture capital investments in India reached an all-time high in terms of both value and volume. In terms of value, investments increased at 28% to US\$ 48 billion, compared to US\$ 37.4 billion recorded in 2018. The growth witnessed was on the back of increased investments in the infrastructure sector which alone accounted for 30% of the overall investments in 2019 by value compared to 12% in 2018, as per EY data.

- As per the Government's National Electricity Plan, the contribution of renewable energy sources is estimated to be around 21% of the total electricity demand by 2021-22. The major efforts being taken by the Government to meet this include Foreign Direct Investment up to 100% under the automatic route, strengthening of Power Purchase Agreements, , setting of Ultra Mega Renewable Energy Parks to provide land and transmission on plug and play basis to investors and the laying of transmission lines under the Green Energy Corridor Scheme. The Government has set a target to install 175 GW of renewable energy capacity in the country by the year 2022. This includes 100 GW from solar, 60 GW from wind, 10 GW from biomass and 5 GW from small hydro power. India has made a pledge under the Paris accord that by 2030, 40% of its installed power generation capacity shall be from non-fossil fuel sources.

- The Purchasing Managers' Index (PMI) for manufacturing increased to 55.3 in January 2020 reaching its highest level in nearly 8 years. This positive news is important at a time when there is lot of debate given the prolonged slowdown. Another indication of improvement was GST collections in January crossed Rs 1.10 lakh crore (US\$ 15.74 billion), the second highest collection since GST began in July 2017. This improvement in the manufacturing sector is also expected to have better impact on the job creation.

Thematic: Infrastructure dominates PE/VC investments

Private equity and venture capital investments in 2019 reached all-time high in India. In terms of value, PE/VC investments grew 28% to US\$48 billion. The growth was driven by significant investments in the infrastructure sector which alone accounted for 30% of all investments in 2019 by value compared to 12% in 2018. In fact, infrastructure recorded an increase of 225% to US\$14.5 billion compared to US\$4.5 billion in 2018. Global Infrastructure asset managers and pension giants such as Brookfield, ADIA, Australian Super and Canada's Public Sector Pension Investment Board have all allocated significantly to India given attractive IRR's and valuations.

TOP 10 DEALS, EXCLUDING INFRASTRUCTURE AND REAL ESTATE, IN 2019				TOTAL PE/VC INVESTMENTS YEAR-WISE	
Company/project	Investors	Amt (\$ mn)	Stake (%)	Value (\$mn)	No. of deals
One 97 Comm (Paytm)	Alibaba Group, Softbank	1,000	NA	2015 19,672	767
SBI Life	Carlyle, CPPIB	817	11.0	2016 16,234	588
OravelStays (Oyo)	SoftBank	810	NA	2017 26,174	595
				2018 37,416	769
				2019 48,019	1,037
TOP 10 DEALS IN INFRASTRUCTURE AND REAL ESTATE IN 2019				TOTAL PE/VC INVESTMENTS SECTOR-WISE	
Company/project	Investors	Amt (\$ mn)	Stake (%)	Value (\$mn)	No. of deals
RILJio's tower arm	Brookfield	3,660	>50	Infrastructure 14,512	51
RIL's EW Pipeline	Brookfield	1,888	90	Financial services 9,103	188
GVK Airport	ADIA, PSP, NIIF*	1,076	49	Real estate, hospitality & construction 6,144	71
				E-commerce 4,329	134
				Technology 3,945	147

Source: EY

The Government of India is taking every possible initiative to boost the infrastructure sector. Announcements in the Union Budget related to infrastructure included:

- India plans to spend US\$ 1.4 trillion on infrastructure in the next five years
- Communication sector allocated US\$ 5.4 billion to development of post and telecommunications departments and US\$ 1.2 billion to boost telecom infrastructure
- The Indian Railways received allocation under Union Budget of US\$ 9.3 billion
- Road transport and highway to receive US\$ 11.5 billion
- US\$ 541 million to increase capacity of Green Energy Corridor Project along with wind and solar power projects

Following are some of the key achievements of the government in the past four years:

- Metro rail network has touched 657 Km
- The total national highways length increased to 122,434 kms in FY18 from 92,851 kms in FY14
- India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of doing business - "Getting Electricity" ranking
- Energy deficit reduced to 0.7% in FY18 from 4.2% in FY14

As discussed in many of our publications, our fund has been selectively increasing exposure to attractively valued players across several sectors directly and indirectly related to Infrastructure. This includes sectors such as Ports, Airlines, Engineering and Construction, Communication Services, Road, Railways and Manufacturing.

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