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	Muguntham Siva
Structure	Registered Managed Investment Trust
Inception Date	6th September 2016
Fund Size	$36.8 million
NAV	Wholesale: 1.2188 Retail: 1.2178
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU$
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: February 2020

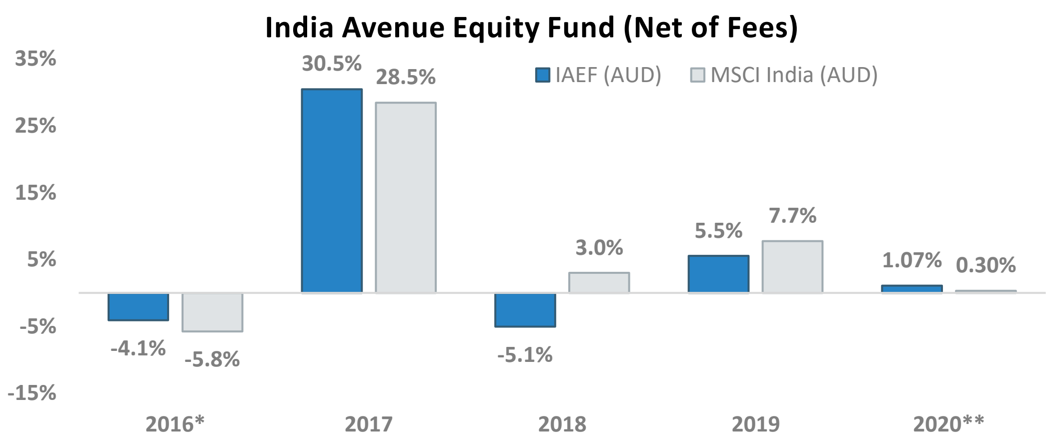
The India Avenue Equity Fund (wholesale) returned 11.6% (net) for the 12 months to February 2020, outperforming the MSCI India index by 0.3%. The month of February witnessed heightened volatility across global financial markets, driven by the spread of COVID-19. As discussed in a note recently, whilst India is not immune to the effects of the virus, it is still relatively less impacted economically for the following reasons:

- India is not a big part of the global value chain (exports are only 11% of GDP) compared to China, which is around 20% of their GDP
- The RBI has potential to cut cash rates significantly (currently 5.15%) unlike most of the developed world. They also have US$475bn of FX reserves to defend the currency if required
- A substantial fall in the oil price which will reduce the current account deficit and inflationary pressures in India (India imports over 80% of its oil usage)

However, the key risk for India is the virus spreading amongst India's significant population of 1.3bn, without appropriate healthcare systems and medication for all. Having a young population will certainly help in combating the virus. You can read our specific Covid-19 and India report here. Our India team has been keeping up with developments and we will keep our readers informed as events unfold.

Like the rest of the world, there has been a significant correction for India's stock market. However, knowing when markets will rebound on a sustained basis is guesswork. What we do know is that it is not very often that you can buy high quality growth stocks at P/E's in the teens and cyclical growth companies for single digit P/E's in a market like India. We are re-aligning our Fund to add exposure to both these segments.

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	-4.39%	-1.82%	6.48%	11.61%	3.51%	8.19%	7.05%
MSCI India	-3.72%	-2.02%	4.36%	11.31%	7.18%	11.16%	8.93%
Excess	-0.67%	0.20%	2.12%	0.29%	-3.68%	-2.97%	-1.88%

Retail	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF	-4.42%	-1.93%	6.20%	11.10%	2.98%	-	4.77%
MSCI India	-3.72%	-2.02%	4.36%	11.31%	7.18%	-	8.09%
Excess	-0.70%	0.09%	1.84%	-0.21%	-4.21%	-	-3.32%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 29th February 2020 assuming the reinvestment of dividends

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

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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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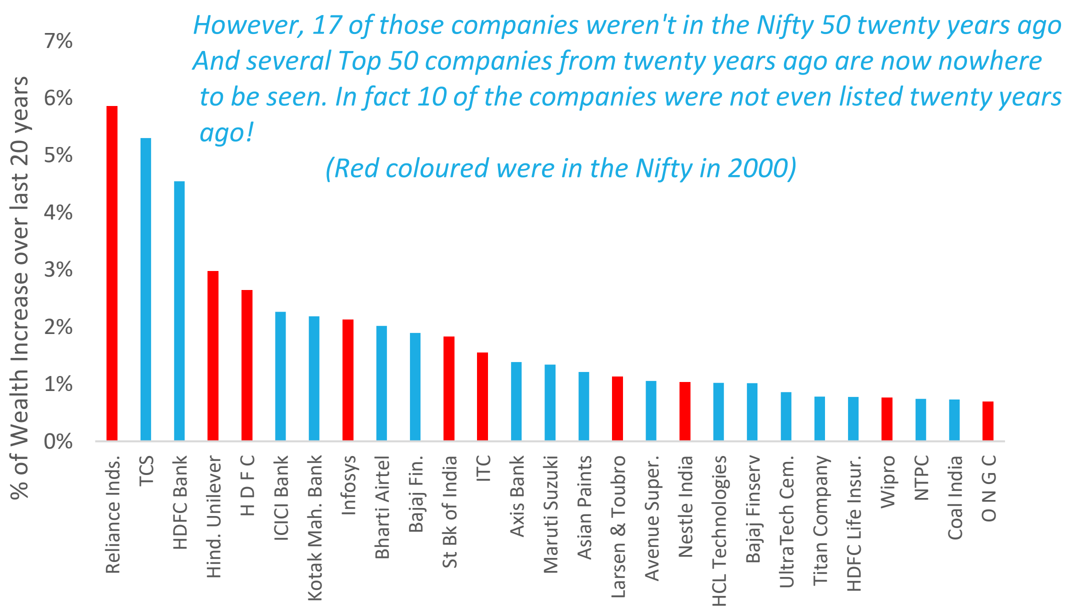
Long Term Wealth Creation in India

We conducted an analysis of market capitalisation changes of listed Indian companies (sample of over 6,400 companies) from February 2000 to February 2020. We found that market capitalisation had risen from 9.7tn rupees to 147tn rupees over the last 20 years - an increase of 14.5% p.a. Interestingly, we found that 50% of the wealth increase was accounted for by 27 companies. That was just 0.4% of the sample size assessed. Just 10 of these companies were part of the Nifty 50 Index in February 2000 and had remained there by February 2020. Another 7 had increased market cap to make it to the Nifty 50 by February 2020 and the last 10 were not even listed in 2000.

Our summation being that India's demographics, growing consumption demand, evolving landscape in the global supply chain and developing comparative advantages (technology, automobiles, textiles, electronics and pharmaceuticals) are leading to new growth opportunities. Most Global/EM Fund managers and passive/ETF's might focus on the 10 companies which might be in the Nifty today and remain there for the next decade. However, there is added opportunity in the companies which grow strongly given their comparative advantages and moats as well as those which may be privatised over the next decade. The Government of India is in the process of divesting several businesses that will go from being less efficiently managed, to being far more efficient in their capital allocation (refer to our note on Privatisation here).

Additionally, this market sell-off provides a great opportunity to buy India's high quality, sustainable franchises at reasonable prices. They continue to have a strong moat, low exposure to offshore revenues, low debt and strong cash flows and can easily withstand lower profits or even losses for the next few quarters. They will again emerge as tomorrow's winners in India. We are tilting our portfolio heavily towards these companies, whilst not losing sight of some cyclical companies which will be survivors and have been battered.

27 Companies in India have created 50% of the stock markets wealth increase over the last 20 years



Source: Motilal Oswal, India Avenue

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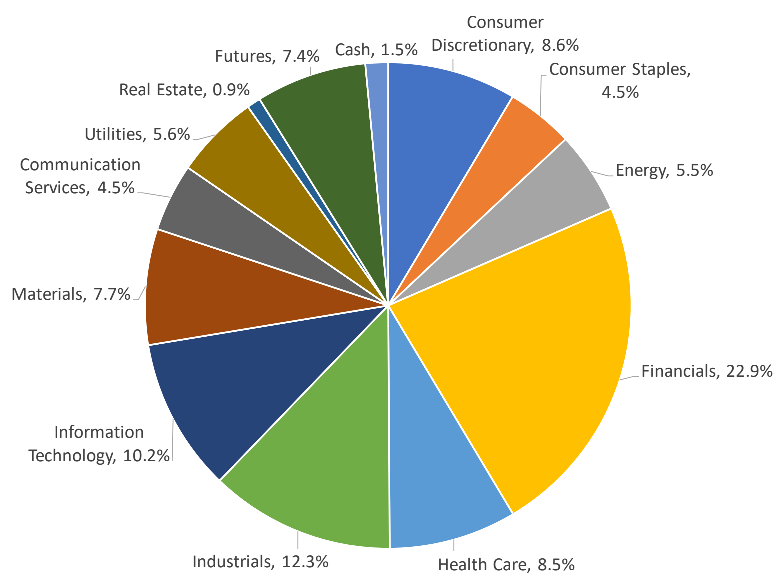
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

Top 20 Stocks

Name	Industry	Weight
Infosys	IT Services	5.5%
ICICI Bank	Banks	5.3%
Bharti Airtel	Communication Services	4.5%
HDFC Bank	Banks	3.5%
HDFC	Housing Finance	3.4%
Reliance Industries	Oil & Gas	3.2%
Axis Bank	Banks	2.8%
NTPC	Power & Renewables	2.6%
Tata Motors	Automobiles	2.4%
L&T	Construction & Engineering	2.3%
HCL Technologies	IT Services	2.2%
Lupin	Pharmaceuticals	2.0%
State Bank of India	Banks	1.9%
Bajaj Finance	Personal Finance	1.9%
Sun Pharmaceuticals	Pharmaceuticals	1.6%
Mahindra & Mahindra	Automobiles	1.6%
Escorts India	Tractors & Railway Equipment	1.6%
Mayur Uniquoters	Textile Products	1.6%
Crompton Greaves	Household Durables	1.5%
Wipro	IT Services	1.5%

Sector Allocation



Source: India Avenue, Thomson Reuters

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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.

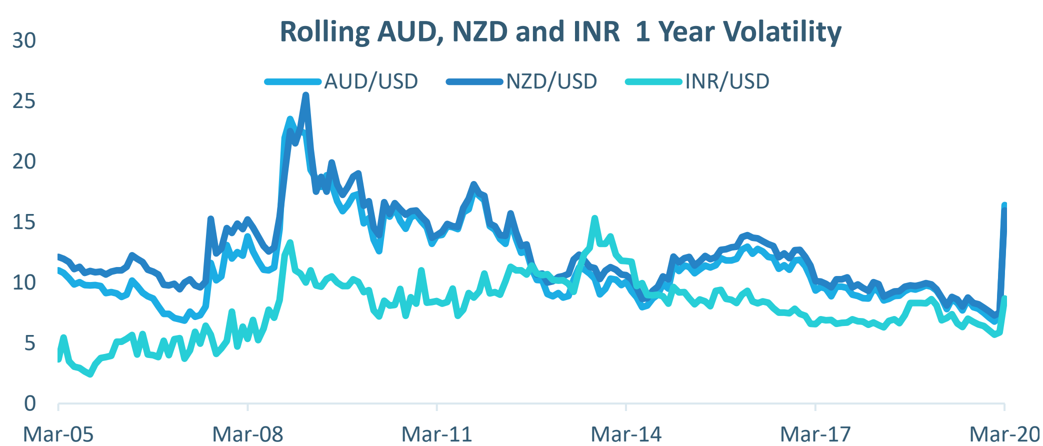
- As per the Government's National Electricity Plan, the contribution of renewable energy sources is estimated to be around 21% of the total electricity demand by 2021-22. The major efforts being taken by the Government to meet this include Foreign Direct Investment up to 100% under the automatic route, 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.

- Indian IT major Tata Consultancy Services won a contract worth US$ 1.5 billion from pharma company Walgreens Boots Alliance, spread over a period of 10 years. As per the contract between the two companies, TCS will be responsible for providing managed services including application maintenance and support, required infrastructure and security operations in retail and wholesale to transform their IT operating model.

Myth Busting Indian Rupee Volatility

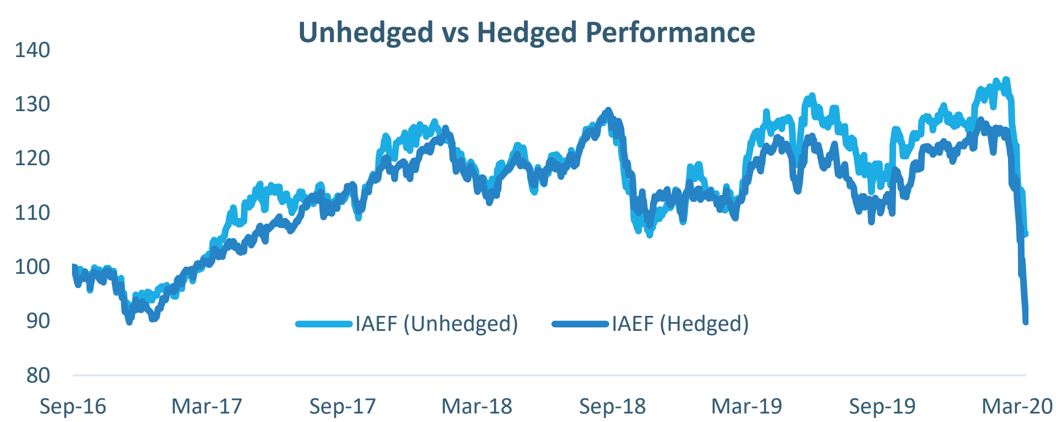
Emerging market currencies are typically considered risky given their constant headlines in the media. However, this analysis is typically considered against the USD. In a previous note, we wrote about how the Australian Dollar has a high correlation to EM currencies, (at 0.9 one could almost treat it as one). Given its liquidity (5th most traded currency in the world), large reliance on China and high exposure to commodities, many global investors trade it as a liquid play on EM currencies.

The Australian and NZ dollar has been far more volatile against the USD than the INR as shown below. Whilst the Indian currency has had issues in the past, particularly during the fragile 5 period of 2013, India is in a much better position to handle a crisis compared to then with lower inflation, higher FX reserves and better current account and fiscal balances. This is evident in the current crisis, where volatility has risen sharply for AUD and NZD but significantly less so for INR.



Source: India Avenue, Thomson Reuters

Since we launched the fund, we have continued our unhedged proposition to our clients given our views. This has been justified to date given the AUD has weakened against the INR by over 15%. Pleasingly, a significant part of that fall has happened during the current crisis. The chart below shows our performance compared to a hypothetically hedged portfolio (excl. hedging costs, including costs would drag the hedged performance further down). Perverse to common perception, this has significantly reduced the drawdown for Australian and NZ investors.



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