

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	\$30.2 million
NAV	Wholesale: 0.9761 Retail: 0.9739
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

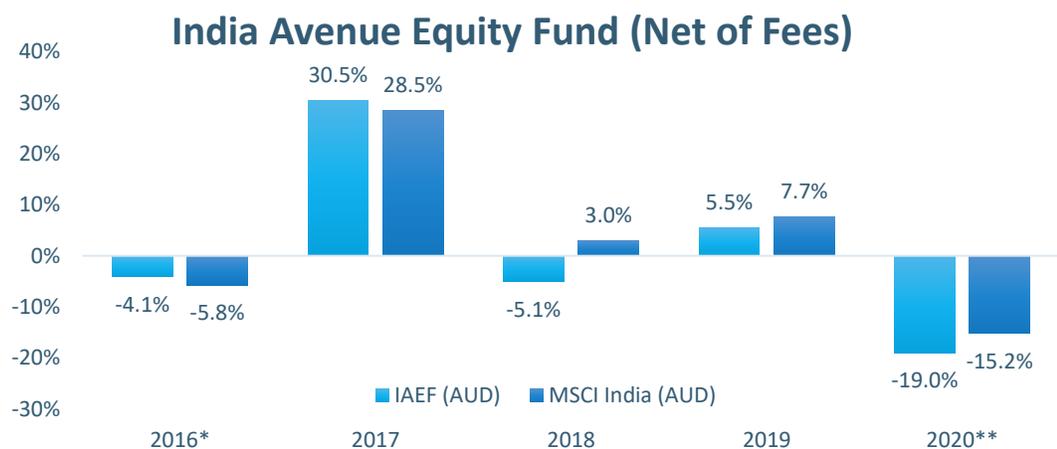
** Subject to a high watermark

Fund and Market Commentary: June 2020

The India Avenue Equity Fund (wholesale) rose 4.65% (net) for the month of June 2020, outperforming its benchmark by 1.68%, following the 0.84% outperformance in May. Our approach is to focus on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market funds or Emerging market indices. Despite this approach not being favoured since 2018 (mid and small cap stocks in India have underperformed Nifty 50 by over 50% over this period), we remain confident that our philosophy of building a portfolio from the insights and experience of experts on the ground in India is the best way to play the country's long-term growth story.

Over the last three months, there has been a change to broader participation outside the top 15 companies by market cap, possibly suggesting we are finally seeing a reversal of the dominance by the index heavy weight names – top 5 of the index is over 40%. We have also seen the Nifty Mid-cap index outperform the Nifty 50 since the start of the year.

After significant outflows from foreign institutional investors (FII) since the pandemic began, FII returned to India pumping USD2.5bn in the month of June, the highest in 7 months. The 4QFY20 (March 2020 ending) corporate earnings were impacted given the disruption from the COVID pandemic and the much-awaited earnings recovery has been pushed back at least a year as a result. However, investors are looking beyond FY21, and are likely to favour companies that have high quality balance sheets with strong cash flow generation to survive the current economic downturn.



	Wholesale	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF		4.65%	7.72%	-19.05%	-19.77%	-7.72%	-2.72%	0.40%
MSCI India		2.96%	7.19%	-15.21%	-15.45%	-1.97%	2.03%	3.46%
Excess		1.68%	0.52%	-3.84%	-3.84%	-5.74%	-4.75%	-3.07%
	Retail	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF		4.61%	7.61%	-19.23%	-20.15%	-8.17%	-3.17%	-2.69%
MSCI India		2.96%	7.19%	-15.21%	-15.45%	-1.97%	2.03%	1.80%
Excess		1.65%	0.41%	-4.03%	-4.70%	-6.20%	-5.20%	-4.49%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th June 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

Contact Details

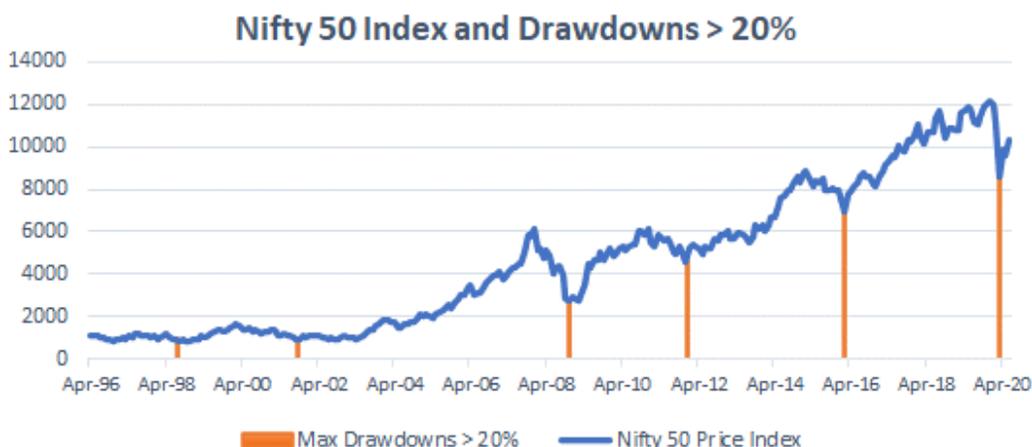
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India's Indicators Signal Signs of Recovery

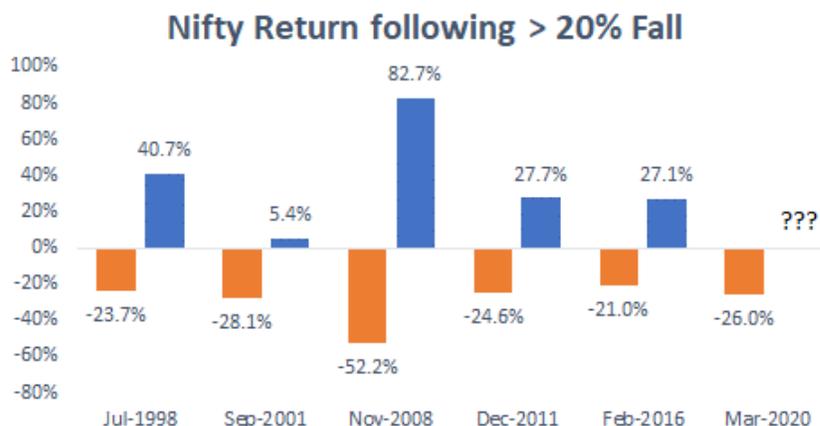
India's Covid-19 cases continue to rise since the end of the Government lockdown and a pivot towards balancing between lives and livelihoods, which is particularly important given poverty levels in India. As a result, India is slowly witnessing recovery as per various indicators:

- Data on rail freight suggests cement volume remained strong in June, recording YoY growth of 18.7% vs. a contraction of 8% in May
- Google mobility data shows that time at grocery stores is back to pre-Covid levels
- Railways - daily average of freight loaded in June 2020 was close to 90% of FY2019 average
- Unemployment level as estimated by CMIE survey has dropped from a peak of 27% to 11%.

During the last 24 years, Nifty 50 has had a maximum drawdown of over 20%, 6 times on a 1-year basis, with the last occurrence on March 2020 due to the COVID crisis as highlighted below.



When looking at the subsequent returns following a greater than 20% drawdown, one can see historically that the returns can be extraordinarily strong. We feel such declines should be used as an opportunity to build exposure for investors who believe in the long-term India growth story.



India Macro & Micro News

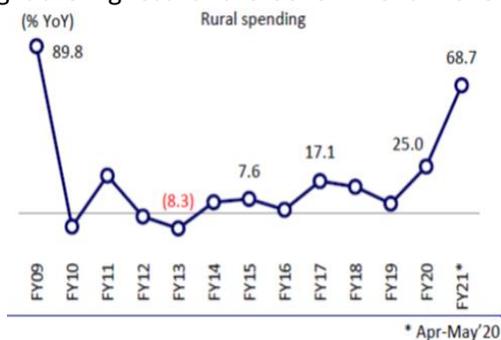
- India's foreign exchange reserves increased by US\$ 8.2 billion in the week of June 5 and has now crossed the milestone US\$ 500 billion mark for the first time in country's history. India has now overtaken Russia and South Korea emerging as the third-biggest holder of forex reserves only behind China and Japan.
- India became the fifth-largest country in terms of hydropower production capacity in the world surpassing Japan. Total installed base standing at over 50 Gigawatt (GW), behind Canada, US, Brazil and China, according to International Hydropower Association (IHA).
- In 2019, India emerged as the second biggest growth driver of primary energy consumption in the world, behind China. Energy consumption is made up of oil, natural gas, coal, electricity, and renewables. The contribution from renewables was the largest increase in energy terms on record and accounted for over 40% of the global growth in primary energy last year, more than any other fuel. Their share in power generation (10.4%) also surpassed nuclear for the first time.
- US technology giant Oracle Corp. launched its second cloud data centre in Hyderabad to support the increased customer demand for enterprise cloud services. This is in line with the Oracle's global plan to operate 36 "second generation" cloud data centres or regions by the end of 2020. In 2019, Oracle launched its Mumbai cloud region, making India its latest country with multiple cloud regions available.

India's Resilient Rural Sector

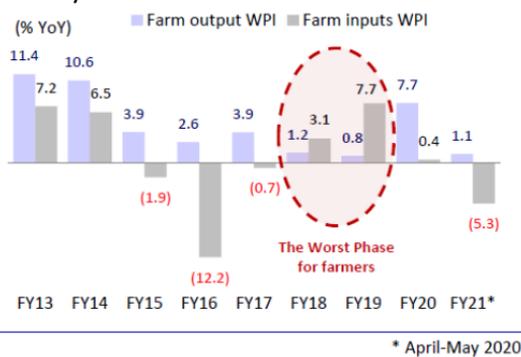
Amongst the chaos stemming from the lockdowns effectively putting an abrupt stop to economic activity for much of the world, one silver lining has been India's 'Rural' economy, which has seen lesser damage from the COVID pandemic. This is because COVID-19 has largely presented a problem for India's metropolitan centres like Mumbai, Delhi and Chennai. The virus to date has not spread significantly to rural areas (which still holds close to 2/3 of India's population) given the lockdown was put in place from mid-March to the end of the May. One of India's most populous and agrarian focused states in Uttar Pradesh (equivalent to the population of Brazil) has only 18,000 infections and 19 deaths (Brazil has over 60,000 deaths).

India's South-West monsoon has arrived on time and is expected to deliver rainfall equivalent to the long-term average. This monsoon is important to rural India in terms of planting and harvesting crops and given 50% of rural India works in agriculture, much of rural wealth is driven by this harvest. This has significant multiplier effects leading to consumption across multiple areas.

Another tailwind for the sector has been the Government's large scale spending on the rural sector which has increased 69% YoY in Apr-May 2020 and accounts for 23% of total spending, making it the highest for the Government in over a decade.



Additionally, farmer terms of trade continue to remain highly favorable despite farm wholesale output prices moderating to 1.1% during Apr-May 2020 as farm input prices have declined 5.3% during the same period. This is expected to lead to continued strong growth in profitability for the farm sector.



Source: Motilal Oswal

It is important to note that the agricultural sector's overall share in India's real Gross Value Add is approximately 15% in FY20 and thus unlikely to offset the fall in activity in the services and the industrial sectors. This highlights the need to remain highly selective and dig deeper than following the broad index that holds little exposure to this sector. Our portfolio has significant non-index exposure to rural growth through fertiliser, seed, tractors and rural consumption focused companies.

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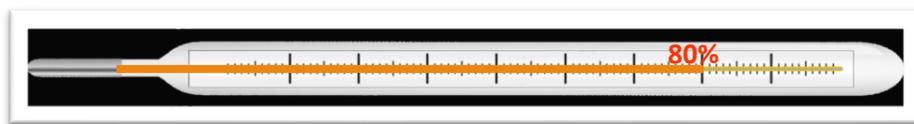
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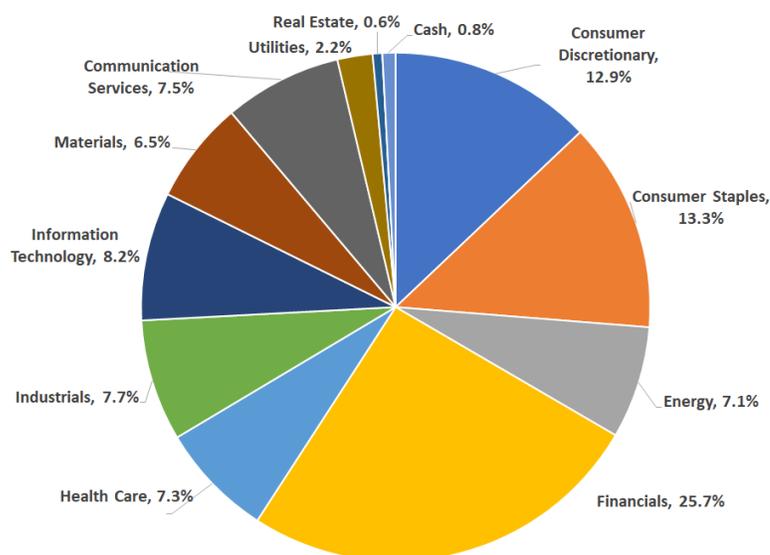
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
Reliance Industries	Oil & Gas, Retail & Telco	5.9%
HDFC Bank	Banks	4.9%
Bharti Airtel	Communication Services	4.8%
Kotak Mahindra Bank	Banks	4.1%
Tata Consultancy Services	IT Services	3.9%
HDFC	Housing Finance	3.9%
Infosys	IT Services	3.6%
Maruti Suzuki	Automobiles	3.5%
Bajaj Finance	Non-Bank Finance	3.4%
ICICI Bank	Banks	3.4%
Avenue Supermarts	Hyper/Super Markets	3.3%
Info Edge	Interactive Media and Services	2.7%
Escorts	Tractors and Moving Equipment	2.3%
Torrent Power	Electric Utilities	2.2%
Nestle India	Consumer Staples	2.2%
Symphony	Coolers & Air Conditioners	2.1%
Divi's Laboratories	Pharmaceuticals	2.0%
Hindustan Unilever	Consumer Staples	2.0%
Indian Energy Exchange	Power Trading	1.9%
Motherson Sumi Systems	Auto Components	1.7%

Sector Allocation as at 30th June 2020



Source: India Avenue, Thomson Reuters

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