

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 6th September 2016

Fund Size \$34.5 million

NAV Wholesale: 1.0977
Retail: 1.0936

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

FY20 Dividend Wholesale: 0 cpu
Retail: 0 cpu

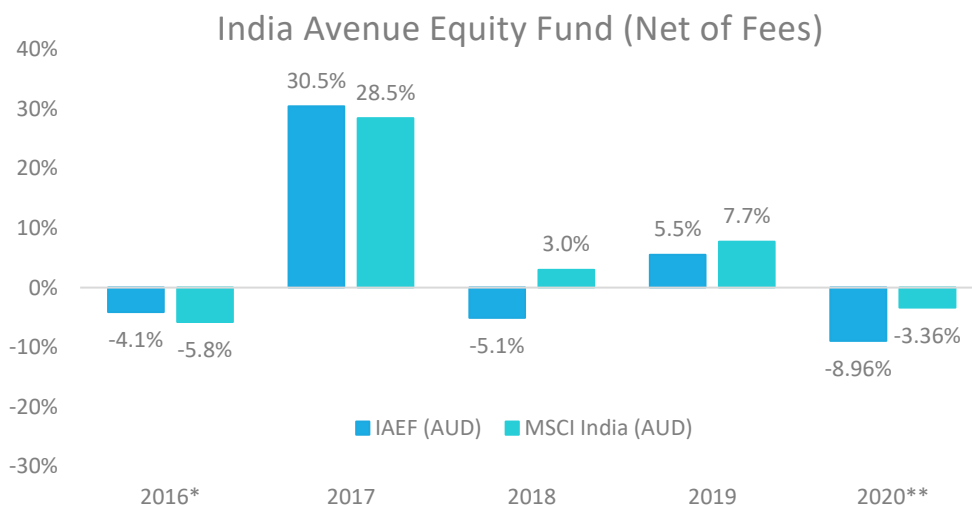
** Subject to a high watermark

Fund and Market Commentary: October 2020

India's equity market continues to recover, up around 12.5% over the last 6 months in AUD terms. Our Fund has outperformed that by 1.3% over that period. The main drivers have been 2-fold. Firstly, the recovery following the pandemic sell off has seen a broader participation of stocks irrespective of their market cap. Secondly, the June-September quarter has witnessed a bumper earnings period, relative to consensus broking expectations across most sectors. Furthermore, we are hearing upbeat management commentaries with pent up demand which bodes well for profitability going forward. So far, profits for the 40 companies (within the Nifty-50) that have posted results at the time of writing have grown 22% YoY (v/s consensus of a 1.8% decline). The breadth of earnings outperformance and consequent upgrades to future expectations has come about from a strong demand recovery and ability to contain costs.

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market funds or Emerging market indices. Our locally based advice partners in India have a strong record of identifying tomorrow's winners. We feel this is an important ingredient to generate long-term growth, rather than purely investing in companies based on how big and liquid they are. We remain patient and vigilant, knowing this is the best way to play the India growth story.



Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	9.25%	13.83%	-10.47%	2.34%	-2.17%	3.24%
IAEF (Retail)	9.13%	13.58%	-10.86%	1.89%	-2.64%	
MSCI India	7.54%	12.52%	-4.39%	7.49%	3.06%	6.48%
Excess vs. MSCI India	1.70%	1.31%	-5.60%	-5.14%	-5.23%	-3.23%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st Oct 2020 assuming reinvestment of dividends
#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

Excess returns illustrated above are for the India Avenue Wholesale Fund. The only difference between the Wholesale and Retail funds are the management fees charged. The underlying investments are identical.

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 professionally 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

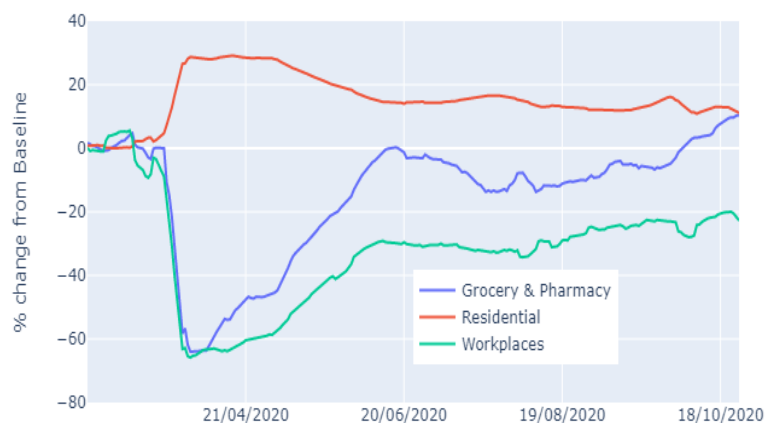
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India's Economic Recovery continues!

India's economy continues to recover from the COVID-19 lows with some segments reaching near-normalcy while others are expected to do so in the coming months. The following data points give you an example of the recovery so far

- PMI Manufacturing came in at 58.9 (the highest since January 2012)
- Automobile sales numbers for September 20 saw a sharp uptick ahead of the November festive season, with passenger vehicle sales up 31% YoY
- Energy consumption for September grew by 4.4% YoY, vs. -2.1% in August
- India unemployment rate improved to 6.7% in September compared to 8.4% in August and 23.5% in April
- Toll collections improved by 13% MoM in September, now back at pre-Covid levels
- Google's mobility report shows continuous improvement in key areas



Why a long-term view is critical, especially in India!

India's Rolling 5-year returns over the past 28 years on average have been around 12.6% p.a. with only 3.8% of those rolling 5 periods delivering below 0% p.a. return. After March 2020 (COVID-19 month) correction, 5-year returns reached 0.23%. This has led some investors to question the validity of India's fundamental growth story. However, history will tell us that even structural long-term growth stories have short-term cycles which in fact create long term opportunities. In the last 3 years India has had to absorb significant reform undertaken by the Modi Government in a way to structurally pivot India towards a better future. Reforms are leading to the financialisation and digitalisation of India, improving the ease of doing business, lowering the cost of capital as well as structurally changing labour and agriculture slippages of the past towards greater efficiency and wealth.

India rolling annualised 5-year returns

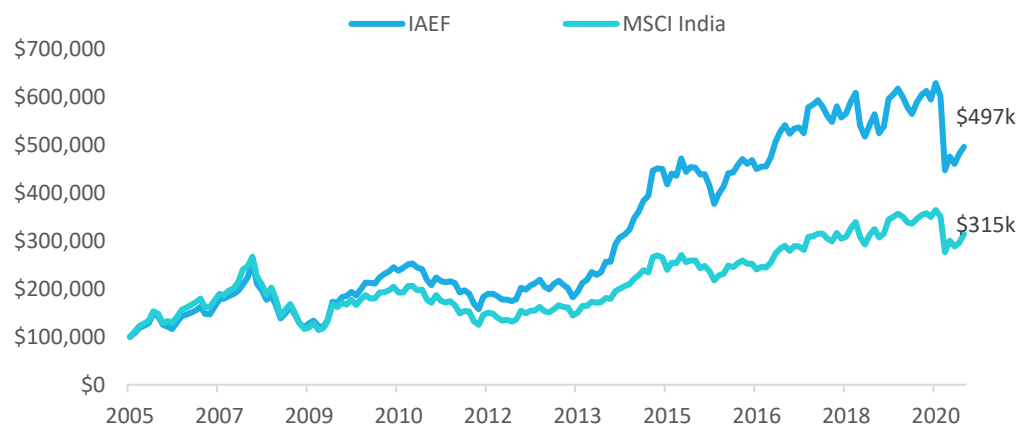


India Macro & Micro News

- India's manufacturing sector improved for the third straight month, with businesses growing production to the greatest extent in 13 years. The IHS Markit India Manufacturing Purchasing Managers Index (PMI) increased from 56.8 in September to 58.9 in October. Indian manufacturers' levels of new orders and production continued to recover from the COVID-19 induced contractions.
- India's first developed Covid-19 vaccine, Covaxin developed by the Bharat Biotech in collaboration with the Indian Council of Medical Research to commence its Phase III clinical trials. The phase 3 clinical trial will cover around 28,500 subjects, aged 18 years and above, conducted in 21 sites across ten states. Bharat Biotech is in discussions with more than 10 countries that have shown an interest in a potential COVID-19 vaccine.
- Venture capital investments in India grew to US\$ 3.6 billion in July-September quarter more than double the amount from US\$ 1.5 billion in the June quarter. To accelerate India's transition to a digital economy, Google had announced a US\$ 10 billion fund in July 2020 and Reliance's Jio Platforms received major investment from Google (US\$4.5 billion) and Facebook's (US\$5.7 billion) as well as investments from large US PE firms.

The same short-term underperformance cycles appear in active management. This is usually because during periods of strong growth in India (which happen more frequently than periods of weakness), local investors who understand India's ecosystem, markets and economics are in a far better place to take advantage. During periods of India's cyclical weakness, this advantage is reduced as markets reward short term safety and liquidity rather than growth. To illustrate this, we look at the achievements of our underlying local adviser partners (who are our localised stock selection experts) over time. There are periods like the last 3 years where outperforming the benchmark have been tough. However, the last 3 years have also coincided with cyclical weakness, particularly in earnings. There have also been bumper years like 2009 and 2017 where outperformance can be significant.

India Avenue Equity Fund (using adviser returns, rebalanced 6m) vs MSCI India



Whilst taking a long-term lens has been extremely rewarding in India, particularly on an active front, it obviously is a look back at history. So, what about going forward? The following points are a futurist's outlook for India over the next 5-10 years are likely to propel and compound the earnings of India's best of breed businesses.

- To become the 3rd largest economy in the world behind USA and China
- India will become a manufacturing option for the world and an alternative to China. Manufacturing to move towards 25% of GDP (from 15% today), allowing employment/productivity gains
- By 2030 India will have a low dependency ratio. In fact, lower than China's
- GDP-per-capita is set to rise as experienced by China in the last 30 years.
- Reforms will improve livelihoods, lead to efficiency and productivity gains
- Massive financialisation of savings (shift from physical assets to equity assets) will occur in India leading to gains for the equity markets
- Entrepreneurial and tech capabilities allow for unicorns to emerge given scale in India. India is already one of the entrepreneurial capitals of the world and with cheap and accessible data, a youthful and tech savvy population, the opportunities to create are significant
- GDP to reach US\$5tn plus, corporate profitability to rise from a low point and further investment to occur leading to tailwinds for equity market gains

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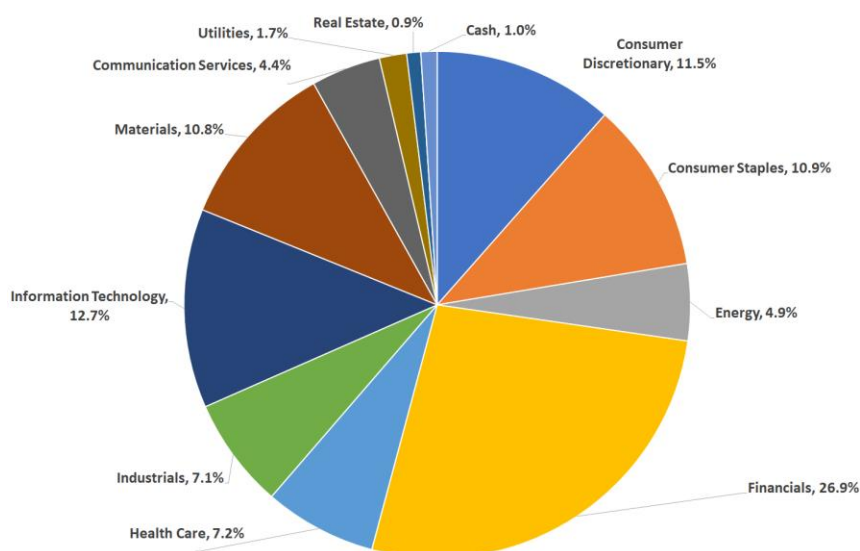
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
Infosys	IT Services	4.9%
HDFC Bank	Banks	4.8%
Kotak Mahindra Bank	Banks	4.0%
Tata Consultancy Services	IT Services	4.0%
Reliance Industries	Oil & Gas, Retail & Telco	3.9%
Maruti Suzuki	Automobiles	3.7%
Bajaj Finance	Non-Bank Finance	3.6%
HDFC	Housing Finance	3.3%
ICICI Bank	Banks	3.1%
Redington India	IT Hardware & Supply Chain Solutions	3.0%
Info Edge	Interactive Media and Services	2.8%
Indian Energy Exchange	Power Trading	2.5%
Divi's Laboratories	Pharmaceuticals	2.3%
Nestle India	Consumer Staples	2.2%
Avenue Supermarts	Hyper/Super Markets	2.2%
UPL	Agrochemicals	2.0%
Motherson Sumi Systems	Auto Ancillaries	1.8%
Torrent Power	Utilities	1.7%
Bharti Airtel	Telecommunications	1.6%
Symphony	Coolers & Air Conditioners	1.6%

Sector Allocation



Source: India Avenue, Thomson Reuters

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