

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	\$39.5m
NAV	Wholesale: 1.2079 Retail: 1.2020
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: January 2021

Over the last 6 months the Fund has beaten its Benchmark by 5.1%, returning 20.2% in AUD terms. India's equity market hit an all-time high at the end of December, and despite taking a breather in January, the recovery from the pandemic induced market correction has been spectacular. To put this into perspective, India's bellwether index, the Sensex, fell 32% in 13 sessions but bounced back to pre-Covid levels in just 76 trading sessions – one of the fastest recoveries in the last 30 years. The recovery has been primarily driven by foreign institutional investors, with USD2bn of inflows in January 2021 and cumulatively over USD32bn since March 2020.

Previously, we highlighted that the rebound has primarily been driven by two factors.

- 1) Vastly improving sentiment, after catastrophic consequences were priced into markets in March 2020, which proved to be exaggerated; and
- 2) corporate earnings and sector outlooks are reviving and outpacing expectations.

Whilst the first point is more about mean reversion, the second point warrants significant attention as it suggests a structural change for Indian corporates is underway. For the third quarter in a row, we have seen the broad-based outperformance of broker expectations by many Indian companies, with earnings upgrades across most sectors. Corporate India has used this period wisely to improve efficiencies and cut cost across their businesses. Even though sales have declined, EBITDA margins and profitability have risen sharply.

We expect many companies will permanently retain some cost savings. Additionally, the demand environment should start to improve to kickstart the next business cycle. The combination of higher earnings growth and improving ROE, along with favourable monetary and fiscal policy, justify higher valuations for Indian equities.

For more information on why we think the next business cycle is in place, please refer to the December 2020 factsheet.

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the typically large and liquid ones found in Global/Emerging Market/Asian funds or 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 and therefore 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)	10.04%	20.21%	-5.24%	6.56%	0.96%	5.32%
IAEF (Retail)	9.91%	19.95%	-5.66%	6.09%	0.48%	
MSCI India	7.00%	15.07%	-0.74%	8.47%	4.72%	7.74%
Excess vs. MSCI India	3.04%	5.14%	-4.50%	-1.91%	-3.75%	-2.42%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st Jan 2021 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

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 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 Reform Journey

From the time India's current Prime Minister Narendra Modi and his political party, the BJP came into power in 2014, we have seen a plethora of reforms and acceleration/revamping of existing policies that take advantage of technology and India's knowledge and know how. Since there has been so much happening in India's dynamic economy, making it hard for investors to keep track of, we have put together a summary, of what we feel are a pivotal set of reforms, which will be crucial for India next phase of growth.

Reform / Initiative	Action Taken	Impact
Aadhaar Card	1.2bn people biometrically identified	Identity, audit, efficiency, trace and reducing slippages
Jan Dhan Yojana	400m bank accounts opened	Financialisation to link with national ID, mobile phones
Insolvency & Bankruptcy Act	Clean up of bad debts within the financial system	Rules for lender recourse, resolution process and confidence in the financial system
Demonetisation	Cleansing "black money" by withdrawing currency from the system	A shift to financialisation and digital payments, with an audit trail
GST	Introduction of national tax	Increasing tax revenues over time, less complexity. Reducing the impact and dispersion of state duties and taxes
Corporate Tax Cut	Cutting corporate taxes from 30% to 22%	Globally competitive tax rates with other manufacturing locations
Labour Reform	Setting a standardised labour code	Transformed work environment and basic rights
Agri Reform	Removal of price setting and allowing market price determination for farmers	Increase private investment in agriculture and increased productivity
Make in India	Promotion of India's manufacturing capabilities	Greater importance in the global supply chain. Place to do business
Smart Cities	Expansion of Wi-fi enabled cities along major routes	Improving urbanisation and physical and digital infrastructure
Digital India	Improve India's digital infrastructure via smart phones, national ID, internet	Improve the connectivity of India and enhance business and inclusion
Skills India	Training 400m people in different job skills	Create job opportunities for youth to capture the "dividend"
Swaach Bharat	Clean up via access to services and infrastructure	Improvement of livelihoods at lower socio-economic groups and increased productivity.

India Macro & Micro News

- United Nations Conference on Trade and Development highlighted that Foreign Direct Investment (FDI) into India rose by 13% in 2020, boosted by interest in the digital sector (e.g. Facebook's 9.9% stake in Reliance Jio platforms) whereas fund flows declined in major economies such as the UK and the US due to the pandemic. The report reveals that India and China were the only 2 major economies that bucked the trend.
- India ranks third position in terms of scientific publications for some time only behind China and the United States, but it now features among the top 50 innovative economies globally as per the Global Innovation Index (GII), placing it ahead of many developed and developing countries. According to data from the US agency, the National Science Foundation (NSF), India's growth rate of scientific publication was 12.9%, as against the world average of 4.9%.
- With an objective to boost domestic manufacturing and attract large investments in the Medical Device Sector, the Department of Pharmaceuticals has launched a Production Linked Incentive (PLI) Scheme to ensure a level playing field for the domestic manufacturers of medical devices with a total financial outlay of US\$ 469.63 million for the next 6-7 years.

India's Controversial but needed Agricultural Reforms

India's Agricultural sector employs around 650 million people and contributes nearly 15% of the output of India's \$2.9 trillion economy. Around 85% of India's farmers are considerably small, owning less than 2 hectares of land and lack the means to sell beyond local markets, even if that means forgoing better prices. This is despite India's agricultural market being heavily regulated, originally planned to help farmers to sell to the market, but also protect them from the whims of the open market. Historically, such regulation has been a responsibility of the State, where each State had their own system on how wholesale markets (*mandis*) operated. Mandis had licensed middlemen who were regulated by the Government to ensure that farmers were not exploited.

However, many middlemen were often found to collude to take advantage of the farmer. Furthermore, variations in regulations across States hindered interstate trade opportunities. Given this, the need for reform was heavily warranted and in September 2020, three complementary bills were passed by the Modi Government.

1. Reduce the role of the regulated mandis in marketing farm produce by allowing trade outside of mandis, including electronic trading within and across States
2. Allowing restrictions on stock produce only in the case of strong price spikes when hoarding becomes a concern
3. Set up a framework for direct formal contracting between farmers and the agribusinesses that buy from them

Agricultural reforms have been a long time coming and will impact many lives. Protestors and critics argue that the direction seems to imply a slippery slope, moving towards private sector control and leaving farmers potentially at the mercy of the corporate India. However, the expectation of the Government is that creating a unified national market and removing inter-state barriers to trade will create competition for the farmers' produce effectively and efficiently.

We personally feel that reforms in India are continuously going to be met with push back given the size of India's informal market. What many people forget (particularly those outside of India) is that being the world's largest democracy and industrialising very rapidly, whilst long-term beneficial, will have its own unique set of challenges. This reform is arguably one of India's largest in recent history and whilst it is a significant fillip for the private sector, especially large agribusiness, it brings the country closer to developed market practices.

Research on agricultural markets in India have typically concluded that they are inefficient, characterised by a high level of wastage with some evidence suggesting that produce can go through as many as five-six different hands before it reaches the end-consumer. This rate of wastage from ineffective supply chains is four to five times that of most large economies. However, experience from India and globally shows that large buyers often prefer to deal with larger farmers with larger volumes. Nonetheless, collectively, the reforms are bold, revolutionary and will reduce barriers in the agri-food supply chain. The Agri-tech market is also an exciting space as India's entrepreneurs are selling farmers apps to connect them to big buyers. With real-time prices available on affordable mobile phones and ultra-cheap data, the process of price discovery and selling goods should increasingly become more transparent and in time will help lift many Indians into higher income categories.

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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.

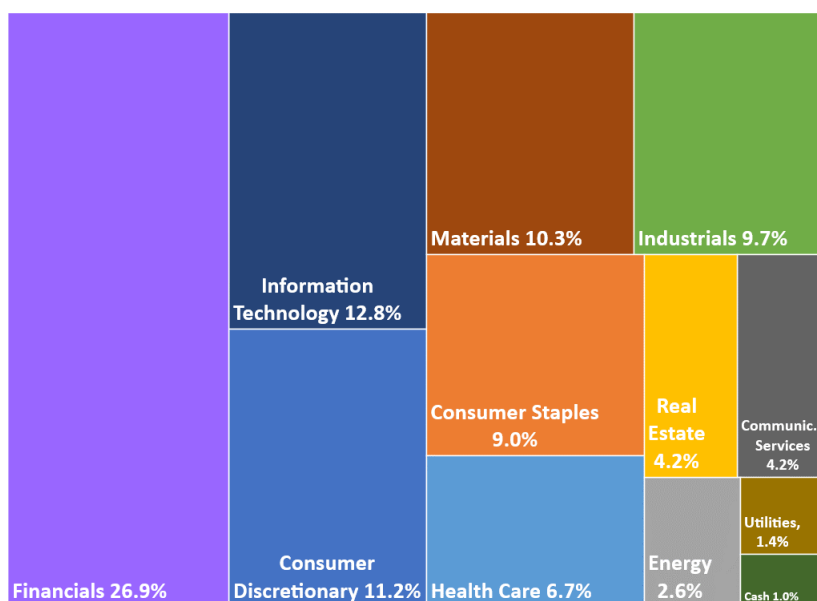


Top 20 Stocks

Name	Industry	Weight
HDFC Bank	Banks	4.5%
Infosys	IT Services	4.5%
Bajaj Finance	Consumer Finance	4.4%
Kotak Mahindra Bank	Banks	3.8%
TCS	IT Services	3.5%
Maruti Suzuki India	Automobiles	3.2%
HDFC	Thriffs & Mortgage Finance	3.2%
UPL	Agrochemicals	3.1%
Info Edge	Interactive Media & Services	2.8%
ICICI Bank	Banks	2.7%
Indian Energy Exchange	Capital Markets, Power Trading	2.6%
Redington India	Electronic Equipment & Components	2.4%
Endurance Technologies	Auto Components	2.2%
Avenue Supermarts Limited	Food & Staples Retailing	2.1%
Divis Laboratories	Life Sciences Tools & Services	2.0%
Motherson Sumi Systems	Auto Components	1.8%
Nestle India	Food Products	1.8%
Chambal Fertilizers	Agrochemicals	1.8%
AIA Engineering	Machinery	1.8%
Reliance Industries	Oil & Gas, Telco and Retail	1.7%

Source: India Avenue,
Thomson Reuters

Sector Allocation



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