

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	\$42.8m
NAV	Wholesale: 1.3007 Retail: 1.2940
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: February 2021

Over the last 6 months the Fund has returned **27%** beating the benchmark's **19.6%** by **7.46%**. Outperformance was driven mostly by stock selection and our structural overweight exposure to companies outside the top 10 stocks, given our focus on depth.

Whilst returns have been strong for both the Indian market and our Fund, we are still very much upbeat about the potential to move up markedly from here. Whilst pullbacks in markets occur from time to time, the next cycle in India's structural ascent is just beginning in our view. As we have been saying in previous factsheets, India's broad stock market performance for the 2018-2020 period was weak and returns primarily driven by a handful of large cap stocks. The root cause of this has been due to a lack of earnings growth and poor capex as capacity utilisation levels remained benign. The last two earnings periods have seen marked upgrades to earnings and an expansion of P/E multiples. Unsurprisingly to us, this has seen significant returns for our portfolio companies, particularly those in the mid and small cap segment, that have been held for the past 2-3 years.

India's Nifty 50 rose 6.6% in February, driven by a highly stimulatory, growth focused Budget. The Budget was a clear sign of the Government's intention to return the economy towards its long-term growth trajectory and maintain their commitment to achieving a US\$5 trillion economy by 2025. Despite the setback from the pandemic, the Government pushed ahead with the reform agenda and accepted a short-term rise in the fiscal deficit to kick-start the next leg of India's growth story. Several announcements were made that covered cleansing of banks through the creation of a "Bad Bank", improving infrastructure through significant increases to funding and greater self-reliance through a focus on manufacturing locally and building strong partnerships with global firms. This is likely to have multiplier effect across the economy leading to expansion of India's capital formation, external position and create jobs and spur consumption. This bodes well for corporate earnings and our Fund which performs well when corporate earnings continue to grow at a normalised pace. For more detail on the relationship between alpha, GDP growth and corporate earnings, [click here](#).

Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically 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 story.

Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	10.24%	27.03%	6.72%	9.13%	4.57%	6.97%
IAEF (Retail)	10.13%	26.77%	6.26%	8.66%	4.06%	
MSCI India	7.79%	19.57%	7.51%	9.40%	7.29%	8.61%
Excess vs. MSCI India	2.45%	7.46%	-0.79%	-0.26%	-2.73%	-1.64%

Past performance is not an indicator of future performance

*Above returns are calculated based on the exit price of 28th Feb 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

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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

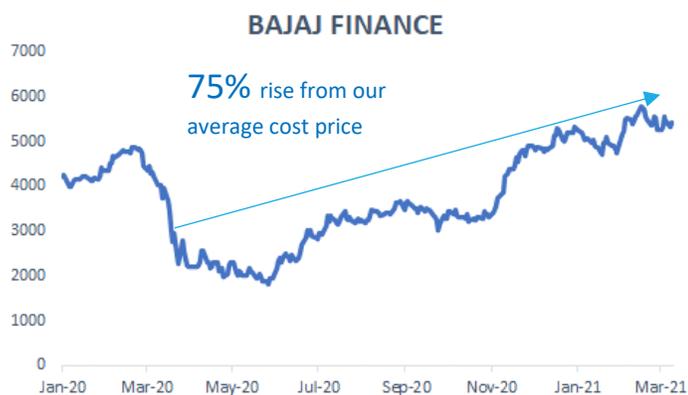
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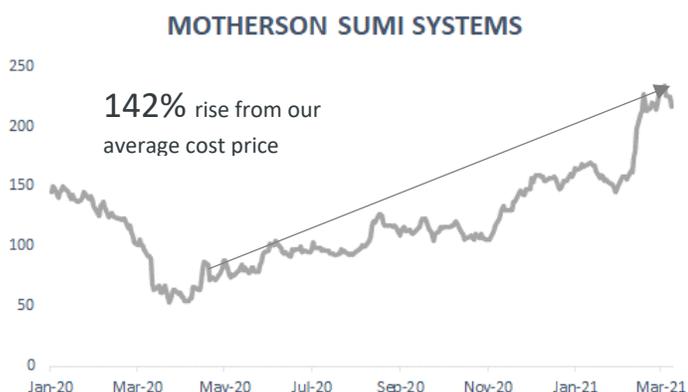
India Avenue's Rebounders

The market correction from the COVID-19 pandemic in March and April 2020, saw companies around the world fall precipitously. India was not immune, and many high-quality businesses fell to new lows, in some cases by over 50%. Below we highlight some of the names that our local advisers based in India saw an opportunity to either top up or initiate completely new positions. Despite heavy selling pressure, they remain high-quality names that were unjustifiably punished from a valuation perspective during the market rout.

Bajaj Finance is India's leading non-bank financial services company, primarily focussing on consumer and business lending. We took the opportunity to increase our position to this company during the market selloff, given our confidence in such a high quality franchise. Today it is our largest holding.



Motherson Sumi Systems is a system solutions provider to automotive and other industries, offering services from design and prototyping to production and delivery of solutions. We initiated a new position in the company in May 2020.



Info Edge is the only pure play, listed internet company in India. The business segments include online recruitment, matrimony, real estate and education-related services. The company also owns a stake in Zomato.com for online food services. and is one of our largest positions which we started accumulating in March 2020.



An Opportunistic Play in the Indian Real Estate Sector

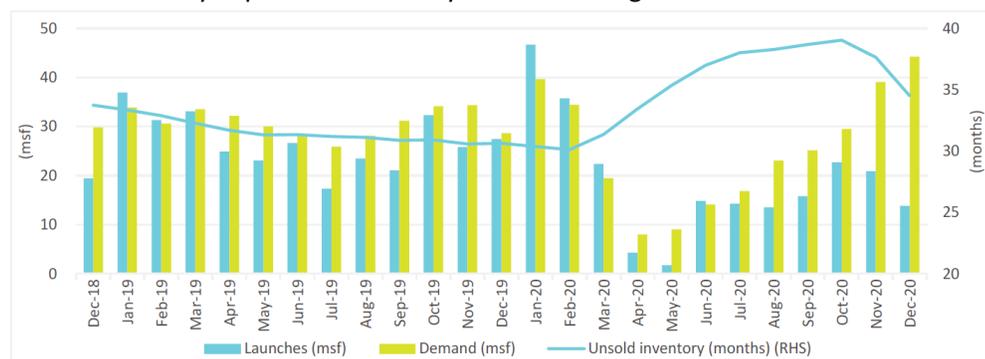
India's property market has been weak for a long time due to poor sales, swelling inventories, weak prices and occasionally suffering bouts of severe liquidity strains. This can be seen by the weak performance of the sector over the last 10 years.



Despite the headwinds, regulatory actions such as demonetisation (the property market has historically been a hiding ground for black market transactions), simplification of taxes through reforms such as GST and the introduction of the Real Estate Regulation Act (RERA) to protect home buyers from malpractices of builders and developers are slowly cleansing the sector.

Historically there have been funding constraints for many developers, particularly in tier 2 and 3 cities as lending to these players has slowed down dramatically given the NPL issues for many state-owned banks. This caused the RBI to initiate prompt corrective action (PCA) to stop weak banks from lending. With bank consolidation and budget reforms to remove bad loans through the creation of a "Bad Bank" and allow credit growth to pick up, we are likely to see rapid consolidation in the Real Estate sector that has historically been highly fragmented. Hence, we envisage the share of major developers to increase at the expense of small players.

One of our advisers on the ground has helped us identify a grassroots trend of increasing demand and falling inventories playing out post the fallout from the COVID-19 pandemic. With demand outstripping supply, unsold inventory declined 8% YoY in India in CY20. Kolkata, MMR, and Pune witnessed the biggest correction in inventory (-11% to -13% YoY). Whilst inventory levels are still high from a historic level, the mismatch in supply and demand is significant and is likely to remain for the time being. We initiated three positions in this sector in November 2020 to take advantage of this and have already experienced healthy share market gains from these investments.



India Macro & Micro News

- In the next 5-10 years, the Indian packaged food industry is forecasted to double to US\$ 70 billion, pushed by factors like economic growth, demographic dividends, and rising e-commerce. Nestlé India Chairman and CEO Mr. Suresh Narayanan said India is expected to add nearly 140 million households to the aspiring and affluent class between 2018 and 2030." He also said India has around 140 million customers in the e-commerce market, this is projected to be almost triple by 2030. The total number of people who access the internet, which is around 600-650 million and is estimated to grow to 1 billion.
- A recent research report released by RBSA Advisors has revealed that India has emerged as Asia's biggest destination for fintech deals, beating China in the quarter ended June 2020. With around 33 deals valued at US\$ 647.5mn, India surpassed China's US\$ 284.9mn. The fintech market in India was valued at US\$ 26.5bn in 2019 and is expected to reach US\$ 85.5bn by 2025, growing at around 22% during the 2020-2025 period.
- Amazon India has announced that it will start manufacturing electronics products in India. To begin with, Amazon is going to start manufacturing Amazon Fire TV sticks later this year. The device manufacturing program will be able to produce hundreds of thousands of Fire TV Stick devices every year, catering to the demands of customers in India.

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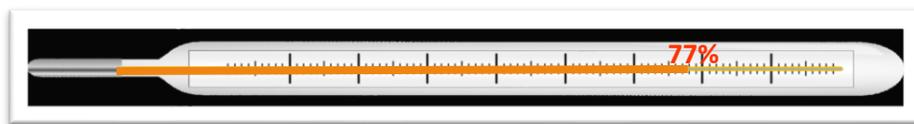
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The focus of the Fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

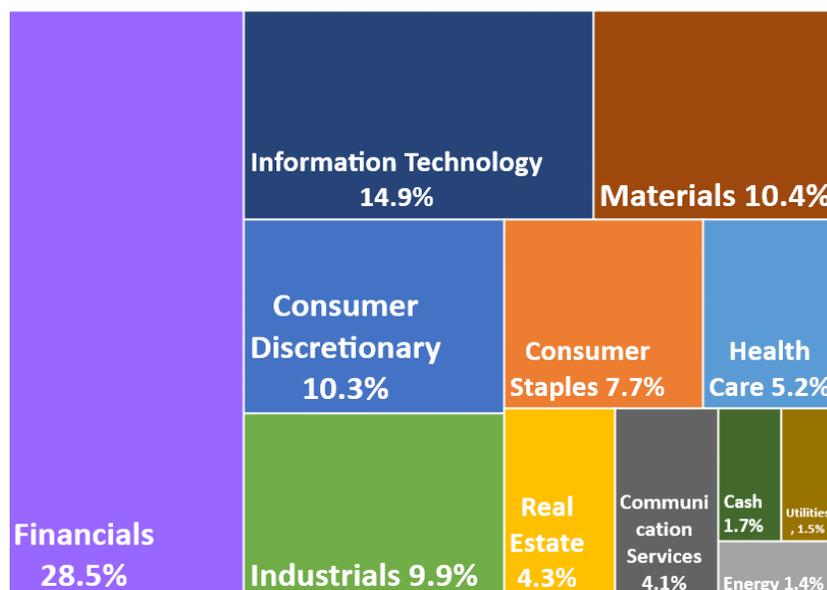


Top 20 Stocks

Name	Industry	Weight
HDFC Bank	Banks	4.54%
Bajaj Finance	Consumer Finance	4.46%
Infosys	IT Services	4.40%
Kotak Mahindra Bank	Banks	3.79%
HDFC	Thriffs & Mortgage Finance	3.54%
Tata Consultancy Services	IT Services	3.20%
Redington India	Electronic Equipment, Instruments	3.16%
Indian Energy Exchange	Capital Markets	3.08%
Info Edge	Interactive Media & Services	2.76%
UPL	Chemicals	2.74%
ICICI Bank	Banks	2.62%
HCL Technologies	IT Services	2.37%
Maruti Suzuki India	Automobiles	2.21%
Motherson Sumi Systems	Auto Components	2.12%
Avenue Supermarts	Food & Staples Retailing	2.01%
Endurance Technology	Auto Components	1.83%
Divis Laboratories	Life Sciences Tools & Services	1.80%
Jindal Steel & Power	Metals & Mining	1.77%
DLF	Real Estate Management	1.76%
Chambal Fertilizers	Chemicals	1.71%

Source: India Avenue, Thomson Reuters

Sector Allocation



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