

Avenues

Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges with 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: Recommended¹

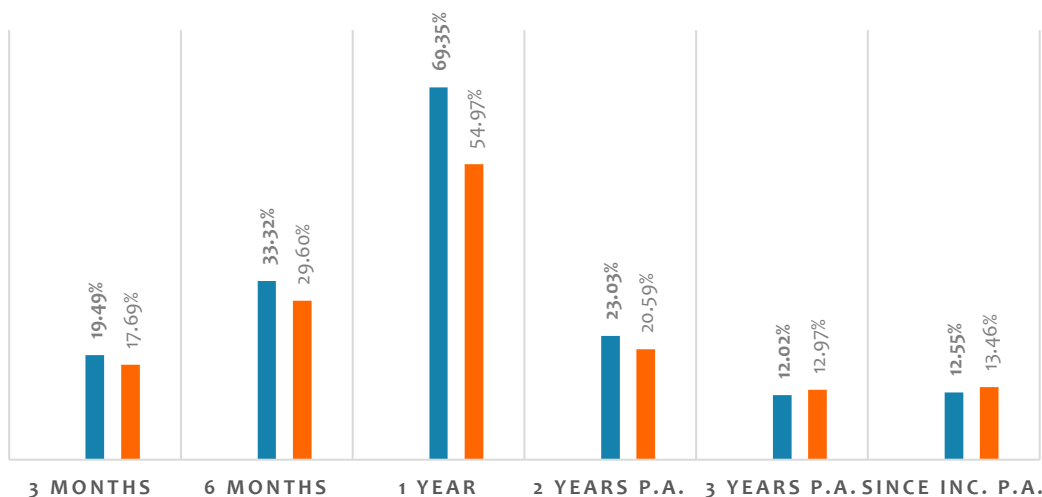
Fund Facts

| | |
|--------------------------|---|
| Fund Manager | India Avenue Investment Management |
| Portfolio Manager | Mugunthan Siva |
| Structure | Registered Managed Investment Trust |
| Inception Date | 6 th September 2016* |
| Fund Size | \$63.33m |
| NAV | M Class: 1.7340 H Class: 1.7197 L Class: 1.3711 |
| Base Currency | Australian Dollars |
| Responsible Entity | Equity Trustees Limited |
| Custodian | Mainstream / BNP Paribas |
| Auditor | KPMG |
| Benchmark | MSCI India in AUD |
| Distribution Freq. | Yearly at 30 June |
| Management Expense Ratio | M Class: 1.10% H Class: 1.50% L Class: 0.95% |
| Buy-Sell Spread | 0.35% / 0.35% |
| Performance Fee | Excess return above benchmark |
| M & H Class | 10%, high watermark |
| L Class | 15%, high watermark |
| FY21 Distribution | M, H, L Class: 0.0 cpu |

*M Class Inception Date

Fund Returns and Characteristics: 31 August 2021

INDIA AVENUE EQUITY FUND M CLASS VS MSCI INDIA INVESTMENT RETURNS AS AT 31 AUGUST 2021



Outperformance – M Class

| Period | Outperformance |
|-------------------------|----------------|
| 3 MONTHS | 1.80% |
| 6 MONTHS | 3.72% |
| 1 YEAR | 14.38% |
| 2 YEARS P.A. | 2.44% |
| 3 YEARS P.A. SINCE INC. | -0.95% |
| P.A. | -0.91% |

| Period | H Class | | | L Class | | |
|--------------|----------------|------------|-------------------------|----------------|------------|-------------------------|
| | H Class Return | MSCI India | Out / Under Performance | L Class Return | MSCI India | Out / Under Performance |
| 3 months | 19.3% | 17.7% | 1.6% | 19.4% | 17.7% | 1.7% |
| 6 months | 32.9% | 29.6% | 3.3% | | | |
| 1 year | 68.5% | 55.0% | 13.5% | | | |
| 2 years p.a. | 22.5% | 20.6% | 1.9% | | | |
| 3 years p.a. | 11.3% | 13.0% | -1.7% | | | |
| Since Inc. | 11.5% | 13.5% | -2.0% | 36.6% | 32.1 | 4.5% |

*Inception date 6 April 2017

*Inception date 19 April 2021

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st August 2021, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. The only difference between the M, H and L class are the management and performance fees charged. The underlying investments of each class are identical.

Top 10 Stocks by Weight

| Names | Industry | Weight |
|------------------------|--------------|--------|
| Bajaj Finance | Cons Finance | 5.0% |
| HCL Technologies | IT Services | 4.7% |
| Redington (India) | Electronics | 4.0% |
| Infosys | IT Services | 3.6% |
| Tata Consult. Services | IT Services | 3.5% |
| Indian Energy Exchg. | Cap Mkts | 3.3% |
| Tata Steel | Metals | 3.3% |
| Avenue Supermarts | Retailing | 2.8% |
| Info Edge (India) | Internet | 2.8% |
| ICICI Bank | Banking | 2.5% |

Weights by Sector

| Sector | Fund Weight | MSCI Weight |
|------------------------|-------------|-------------|
| Financials | 23.5% | 26.2% |
| Information Technology | 22.2% | 18.2% |
| Consumer Discretionary | 11.0% | 7.5% |
| Industrials | 10.9% | 4.3% |
| Materials | 8.4% | 10.0% |
| Healthcare | 5.93% | 5.4% |
| Consumer Staples | 5.2% | 9.5% |
| Real Estate | 4.5% | 0.3% |
| Communication Services | 3.6% | 3.2% |
| Cash | 2.1% | 0.0% |
| Energy | 1.6% | 11.4% |

Source: India Avenue, Thomson Reuters

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 driven by India's fundamentals. The Indian economy's robust ecosystem provides a tailwind for these companies which have access to a growing addressable market. Additionally, if they have sound management and a business moat, it makes a compelling case for long-term investment.

Fund Identifiers

| Identifiers | ARSN | ISIN | APIR Code |
|-------------|-----------|--------------|-----------|
| M Class | 611374586 | AU60ETL04826 | ETL0482AU |
| H Class | 611374586 | AU60ETL04784 | ETL0478AU |
| L Class | 611374586 | AU60ETL28148 | ETL2814AU |

| Identifiers | Citi Code | Morningstar |
|-------------|-----------|-------------|
| M Class | NFCK | 41512 |
| H Class | NF2H | 41828 |

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Fund Commentary

The India Avenue Equity Fund returned 69.4% over the year ending 31 August 2021, outperforming its benchmark (MSCI India in AUD) by 14.4% in the same period. The outperformance of the Fund was driven by value added from stock and sector selection. Our investment process partners us with locally based investment advisers who are highly skilled and knowledgeable in understanding India's economy and local business ecosystem. In our opinion, this provides our Fund with a distinct advantage compared to other ways of gaining exposure to India's growth story via its equity markets.

The outperformance of our Fund was also driven by the tailwind of mean reversion in mid and small cap companies, after a phase of extreme underperformance from January 2018 to April 2020. As India's economy and corporates recovered from COVID wave 1 and 2, small and mid-cap companies have experienced significant outperformance relative to our benchmark's return over the same period, given the latter's heavy weighting to large and mega-cap companies.

Over the last few months our Fund has been pivoting from a broad market strategy, favouring mid and large cap exposure, towards an approach focusing on industries and companies with greater profit sustainability. In our view companies who are dominant in market share, have strong balance sheets/low financial stress and investing for growth, are likely to be the winners in the next cycle. Whilst this holds generally across all equity markets, in India we are witnessing a significant shift towards organised formats which is favouring industry leaders. Sometimes this is mistaken for mega and large cap companies, however we also hold mid and small cap companies which are strong businesses and are dominant in their respective industry.

| Company | Business Activity |
|------------------------|--|
| Indian Energy Exchange | 99% of traded volumes on electricity trading exchanges |
| Redington (India) | Electronic equipment distribution across India/MENA |
| Symphony | Leading global player in air-coolers |
| Astral Polytechnik | CPVC pipe manufacturer |
| TTK Prestige | Manufacturer of kitchen appliance and cookware |
| Zomato | Food delivery and restaurant ordering |
| Jubilant Foodworks | Fast food (Dominoes) |
| Info Edge (India) | A leader across Internet, Interactive Media categories |
| ABB Power Products | Global leader in power technologies (Hitachi) |
| Indigo | Market leader in consumer aviation services |

None of the companies listed above are components of the Nifty-50 (India's 50 largest companies) but form a significant weighting in our portfolio. It is our expectation that companies, such as the those noted above are likely to be move into the Nifty-50 at some point during the next investment cycle. Not only are they market leaders, but they also operate within significant and growing addressable markets.

Over the last two decades there has been a significant shift in market share towards organised and branded formats, meaning a massive increase in revenue and profits for the top players. This is synonymous of an economy and business ecosystem which has experienced significant reform, regulation, urbanisation, financialisation and digitalisation. This trend is likely to continue for at least the next two decades.

India Macro & Micro News

The Government of Singapore invested \$64m into the latest placement of Phoenix Mills, a mall developer and landowner in India. Phoenix Mills (one of India Avenue's holdings) will use the funds as growth capital and for acquisitions. It is also part of an increasing trend for the Government of Singapore to invest in Indian listed companies.

The Government of India has budgeted US\$7.7bn of export incentives in FY22 and will clear all pending disbursements to speed up growth. Exports in India have seen robust growth of 67% in the first five months of FY22 relative to FY21 and up 23% over FY20 (pre-COVID).

India's Vehicle Scrapage Policy has been launched. The policy will help phase out unfit and polluting vehicles in an environmentally friendly manner. The set-up of new vehicle scrapping infrastructure is also likely to create significant opportunity and job creation.

GST collections in India continue to exceed the Rs. 1 lakh crore mark (US\$13.7bn) in August (after first exceeding it in July 2021). August collections were 30% higher than last year and mark a clear trend in the economic recovery. Broadening the tax base and uniformity across states are critical for India's growth story.

The Reserve Bank of India, in its recent monetary policy meeting, kept rates at the same level of 4%. The Bank noted signs of an economic recovery through levels of activity. Buoyant exports and manufacturing were leading the way. Urban demand is expected to pick up post higher levels of vaccination. The Bank was also keeping a watchful eye on inflation at 5.6% (just inside the RBI's band of 4% +/- 2%).

Source: IBEF.org, tradingeconomics.com

India Avenue's White Paper

– A case for Indian Equities in a Global Equity Portfolio

India Avenue recently released a *White Paper* which made a case for an allocation to Indian equities as part of constructing a portfolio of global equities. Whilst we acknowledge that each client requires customisation to their circumstances, we outline the generic logic behind our view. For the full paper click on this [link](#).

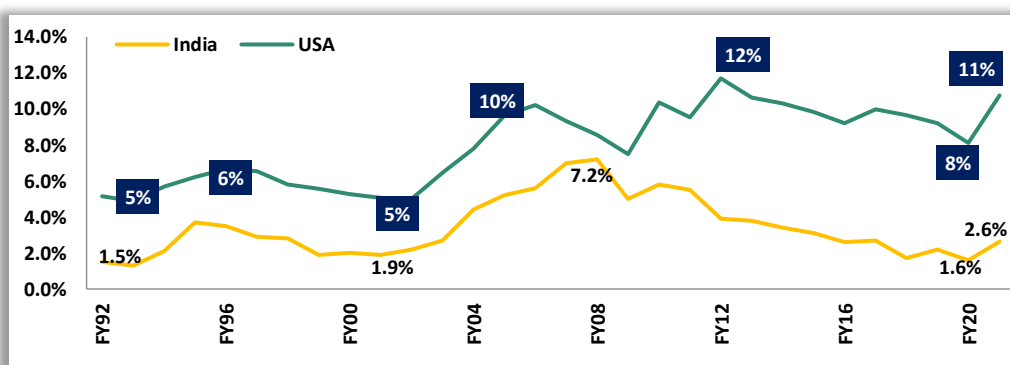
We are often asked if Indian equity markets have run ahead of themselves, given the investment returns experienced over the past 18 months and if valuations are too high. In fact, several broad-based funds like Emerging Markets and Asian focused funds find better opportunities from a valuation perspective in other regions.

Whilst we identify India as a structural play given its significant fundamental tailwinds, we also point out why, from an investment cycle perspective, the equity market looks appealing on a medium-term perspective. These include;

- Reforms undertaken by the Modi Government since winning office in 2014 are likely to be at their most productive going forward, after a "J-curve"
- The cost of capital has fallen, and this is a lead indicator of the next business cycle commencing in India. During the last cycle, earnings growth was above 20% p.a.
- India's exports will benefit from an increased focus on manufacturing, global partnerships and the China + 1 strategy adopted by those seeking to diversify their global supply chains
- India's equity markets exhibit low correlation to AUD/NZD based assets, making it an attractive inclusion in a global equity portfolio, given the sustainability of its growth profile.
- India is close to the bottom of its earnings cycle, relative to other regions. Corporates have significant operating leverage to an economic recovery, which is now underway.

India's corporates over the last decade have gone from being overleveraged and overinvested (capacity created > demand) to being in great shape financially, with the capacity to invest at a much lower cost of capital. This should lead to a significant earnings recovery from bottom of the cycle earnings relative to other regions like the US and Australia.

India vs US Corporate Profit to GDP – bottom of cycle vs top of cycle (Source: Spark Capital, India)



These are the views of India Avenue's investment team and does not constitute advice to our readers. Each investor should seek financial advice from their own financial adviser before seeking to construct investment portfolios suitable for their own circumstances.

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The Changing face of India's Food Consumption

Over the last month the India Avenue portfolio has started increasing exposure to companies leveraged to urban consumption thematics. Given India's vaccination drive, it is anticipated that close to 100% of India's urban population above the age of 20 will be vaccinated (currently vaccinating at a pace of more than 10m per day) by the end of 2021.

Recently we have added stocks to the portfolio which are focused on the food delivery model or restaurant chains and fast-food outlets that are likely to benefit from rising propensity to eat out of home. India's food delivery market is expected to grow from around US\$5bn to over US\$20bn¹ over the next five years. Factors which are propelling online delivery are:

- Changing lifestyles and eating habits, driven by the lack of availability of time and rising wealth as well as the rising prominence of the change of household structure in cities.
- Rising digitization (internet and smart phone penetration), particularly amongst India's significant millennial population.
- Rising urbanisation of India
- Growing working population, particularly amongst young women.
- COVID-19 has propelled the urge to eat prepared food with contactless delivery points introduced by Zomato, McDonalds, Pizza Hut, KFC, Dominoes etc.

Food tastes and preferences have also been through a process of evolution in the last decade. This has created a significant restaurant industry, which is increasingly proliferating in formats. The number of times Indians eat out rose from 2-4 times per month in 2010 to 6.6 times by the end of the last decade. Additionally, the average spends of a consumer rose from Rs.1000 to Rs.2500 in a month². This was especially prevalent amongst India's millennials in Tier I and Tier II city locations. This trend has been accentuated by food technology, social media and marketing, health, and wellness and as well as the evolution of consumer palates for ethnic diversity in food choice.

The India Avenue portfolio has had recent additions (in total of 4-5%) of the following companies to take advantage of these trends, which have many more years to play out. Organised formats and restaurant chains have a low market share compared to other countries with a more developed foodservice industry.

| Company | |
|------------------------------|--|
| Devyani International | Largest franchisee of Yum Brands operating brands like KFC, Pizza hut and Costa Coffee (655 outlets across 155 cities) |
| Zomato | Leading market share amongst food delivery companies in India |
| Barbeque Nation | Chain of 150 branded casual dining restaurants |
| Jubilant Foodworks | Owns brands of Dominoes, Dunkin' Donuts, Popeyes and Hong's Kitchen. Over 1380 restaurants across 298 cities |

¹ Renub Research – India Online Food Delivery Market by Delivery Type

² Federation of Indian Chambers of Commerce and Industry

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