

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

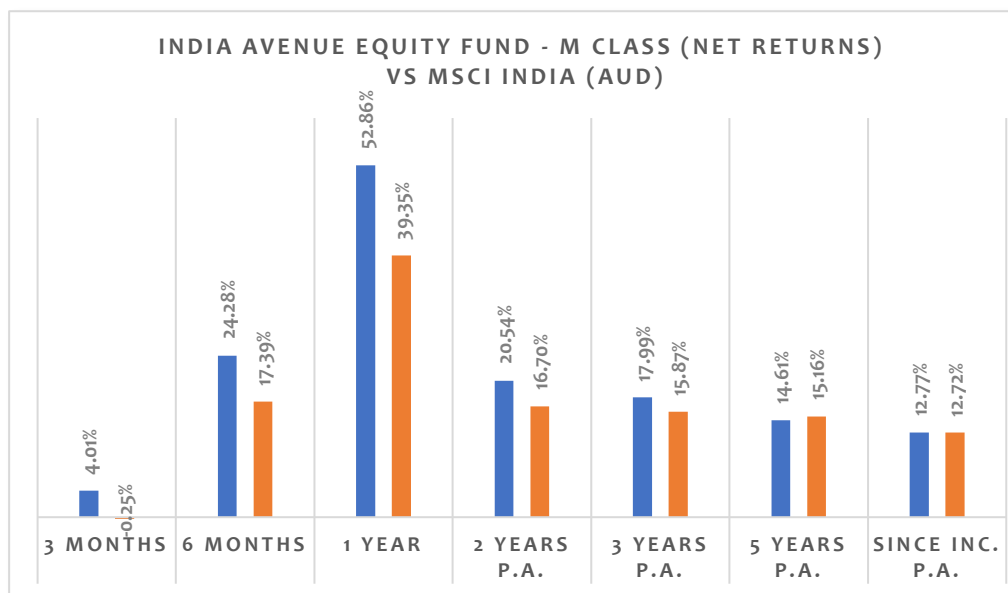
Lonsec Rating: Recommended¹

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	\$68.97m
NAV	M Class: 1.8035 H Class: 1.7848 L Class: 1.4211
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: 30 November 2021



H Class	3 months	6 months	1 year	2 years p.a.	3 years p.a.	Since Inc. (11-04-17)
Fund Returns (net)	3.79%	23.76%	51.90%	19.89%	17.40%	11.76%
MSCI India (AUD)	-0.25%	17.39%	39.35%	16.70%	15.87%	12.66%
Relative Performance	4.04%	6.37%	12.55%	3.19%	1.53%	-0.90%

L Class	3 months	6 months	Since Inc. (19-04-21)
Fund Returns (net)	3.64%	23.74%	41.61%
MSCI India (AUD)	-0.25%	17.39%	31.77%
Relative Performance	3.90%	6.35%	9.84%

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 30th November 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		
Company Names	Industry	Fund Weight
HCL Technologies	IT Services	4.53%
Bajaj Finance	Cons Finance	4.37%
Tata Consult. Services	IT Services	3.48%
Infosys	IT Services	3.07%
Redington (India)	Electronic	3.07%
Brigade Enterprise	Real Estate	3.02%
Avenue Supermarts	Retailing	2.90%
Indian Energy Exchg	Cap Mkts	2.88%
HDFC	Housing Fin.	2.73%
ABB Power	Industrials	2.68%

Weights by Sector		
Sector	Fund Weight	MSCI Weight
Financials	22.4%	24.8%
Information Technology	21.7%	18.4%
Consumer Discretionary	11.4%	8.2%
Industrials	11.2%	4.7%
Materials	5.7%	9.6%
Real Estate	5.4%	0.7%
Consumer Staples	4.7%	8.7%
Health Care	4.3%	4.9%
Communication Services	4.2%	3.4%
Energy	2.2%	11.9%
Utilities	1.5%	4.7%
Cash + Futures	5.2%	-

About India Avenue

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Identifiers	ARSN	ISIN	APIR Code
M Class	611374586	AU60ETL04826	ETL0482AU
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	Citi Code	Morningstar
M Class	NFCK	41512
H Class	NF2H	41828
L Class		44362

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Fund and Market Commentary

The India Avenue Equity Fund returned 52.86% over the year ending 30th November 2021, outperforming its benchmark MSCI India (AUD) by 13.51% over the same period. The month of November saw Indian equity markets, as measured by the benchmark, fall 2.68%. However, the AUD depreciated by 5% against the INR over the month, more than offsetting the weaknesses experienced in equity markets globally and in India. The volatility was essentially driven by COVID-19 variant Omicron, rising inflation in the face of energy costs and supply chain issues. Typically, the AUDs correlation to market sentiment/risk taking has led it to play a "smoothing" role for investors who hold unhedged foreign investments during bouts of volatility.

Whilst the fund's broader positioning in comparison to the benchmark added value, the outperformance continues to be driven by sector positioning and stock selection. Our underweight position to Banks continues to add value as the market evaluates potential disruption by fintech players and weak but improving asset quality. Overweight in Telcos (tariff hikes), Tech (revenue surprises), Capital Goods (global recovery) continues to benefit the fund relative to its benchmark.

Over the last 12 months the fund's outperformance has been driven by an improving local and global economy and the resulting outlook for corporates. Investors continue to be lured by the potential for earnings upgrades given a lower cost of capital which may trigger the next capex cycle.

Contribution to Return – 12 months

Top 10 Contributors	Contribution
Indian Energy Exchange	5.06%
Redington India	3.38%
Infosys	2.33%
Avenue Supermarts	2.24%
Bajaj Finance	2.23%
UPL	2.04%
Brigade Enterprises	1.87%
ABB Power Products & Systems	1.82%
ICICI Bank	1.61%
Tata Consultancy Services	1.41%

Over a 12-month period, several stocks have contributed strongly to performance. However, quite a few of them are yet to enter the MSCI India as constituents (Indian Energy Exchange, Redington India, Brigade Enterprises, ABB Power Products & Systems). Other businesses like Avenue Supermarts, India's leading hypermarket retailers, are far bigger in market cap than their MSCI India constituent weighting due to stock being tightly held by its founder. However, our positioning is not dictated by benchmark weights.

Another important factor behind strong equity market performance in India is the increasing participation from mutual funds via monthly investment plans. Post the reform of Demonetisation in 2016, savings started moving from physical assets towards financial assets. This has seen mutual funds become an increasing driver of equity market direction. More recently foreign investors have cut exposure to India seeking opportunities elsewhere or partaking in multiple primary market offerings. However, India's locally based mutual funds, which tend to invest with greater depth in capitalisation than foreign investors, have participated through new offerings and increasing flows. This increasing participation by local investors is also driving lower volatility in India's equity markets over time.

India Macro & Micro News

The Reserve Bank of India left policy rates unchanged at 4.0% in its December 2021 MPC meeting. The accommodative stance was supported by most members, with a view to being supportive to reviving growth. The RBI stated that the recovery was strengthening, with inflation trajectory being manageable and expected to trend lower. Liquidity is in the process of being normalized, whilst the reverse repo rate remains stable. GDP growth was expected to be 9.5% for FY22.

As of September 2021, India had 101.53 GW of renewable energy capacity and represents ~38% of the overall installed power capacity. The country is targeting about 450 Gigawatt (GW) of installed renewable energy capacity by 2030 – about 280 GW (over 60%) is expected from solar.

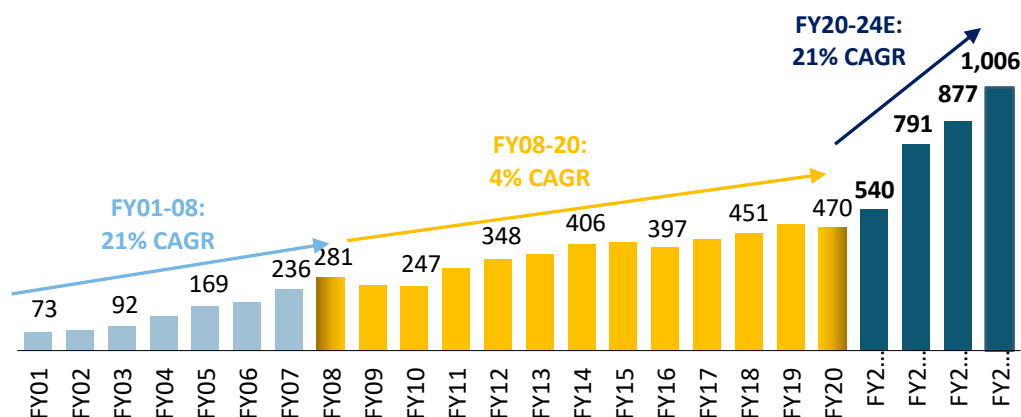
India's merchandise exports rose for 11th consecutive month, with October shipments rising 43% year-on-year to US\$35.7bn. Exports were up 35.9% over October 2019 pre-pandemic levels also. The growth is being driven by higher demand for engineering goods, petroleum products, specialty chemicals etc.

PM Modi stated during virtual event that the world is looking to India to supply affordable and long-term technology-enabled solutions which are affordable. This includes 5G technology to artificial intelligence, virtual reality, cloud, internet of things, and robots. India is on track to become the 'Techade' in this decade, with one of the most vibrant ecosystems for technology innovators and start-ups. India's IT and telecom sectors have played a critical part in the country's development and are prepared to lead the country to a brighter future.

Source: IBEF.org

India's Equity Market Valuation

Given the significant rally in equity markets since the drawdown induced by the pandemic in March 2020, there have been many questions regarding the appropriateness of valuations. Whilst P/e's are well ahead of their long-term average, it is our view that this provides a measure at one point in time without reference to the potential long-term earnings growth opportunity. The chart below depicts Nifty 50 (a market cap weighted Index of India's 50 largest companies) EPS as at fiscal year ending March. It represents approximately 65% of India's free float market capitalisation.



Source: Bloomberg, Spark Capital

Phase 1 2001-2008	Phase 2 2008-2020	Phase 3 2020-2024
Capacity addition, rising fixed capital formation, synchronised global growth	Slower global growth, bank asset quality, policy paralysis and reform indigestion, lack of private investment	Digitisation, financialisation and reform penetration. Switch from informal to formal. Rising exports and global growth. Low rates

Based on consensus forecast EPS for FY24, the P/e of the Nifty 50 at its current level is 17.4x. Applying a 1-year forward multiple of 20x for FY24 earnings (assumptions made based on a 10-year average of 19.1, risk-free rate of 5.1%, the Nifty's valuation should reach approximately 20,120 by March 2023. This relates to a potential level which is 15% higher over the next 15 months. The matrix below provides a guidance of various outcomes based on Nifty 50 EPS and P/e. **It is our view that the Nifty 50 Index remains at reasonable valuations at present.**

P/e	Nifty 50 EPS				
	956	981	1006	1031	1056
16x	15291	15694	16096	16498	16901
18x	17203	17655	18108	18561	19013
20x	19114	19617	20120	20623	21126
22x	21025	21579	22132	22685	23239
24x	22937	23540	24144	24748	25351

However, the analysis above is conducted at the index level. **Active stock picking allows for identification of companies which are growing at faster than Index's earnings growth or companies whose earnings are underappreciated in its current price.** Our universe of India's largest 1,000 companies allow for substantial further value add from the stock picking skills of our advice partners based in India.

The scenarios above are based on broad assumptions only and are not to be construed as advice to investors upon which to base investment decisions without consultation with your financial adviser.

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A play on India's financialisation and digitisation

Bajaj Finance is now well and truly entrenched as one of India's leading financial services providers and its share price has **risen by 125x over the past decade**. The company is **India Avenue's second largest position at 4.4% of the portfolio**. Compare this with the Commonwealth Bank of Australia who share price has risen 2x over the same period.

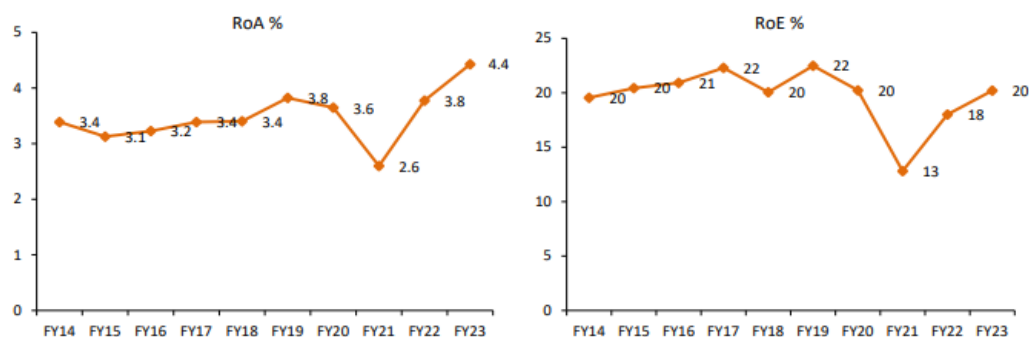
Bajaj Finance originally was incorporated in 1987 as Bajaj Auto Finance as a non-bank financial intermediary focusing on two and three-wheeler financing only. After listing in 1998, by the turn of the century the company ventured into durables finance before further diversifying into business and property loans.

The company has been transitioning from a physical business model of consumer finance towards a digital model. In the initial phase of its growth, the company rolled out branches across India's geography and relied on front and back end on a manual basis. Over this period its branch presence increased from 100 branches (3,500 distribution points) to over 3,300 (120,000 distribution points) over the last 10 years¹.

Bajaj Finance's management, widely regarded as one of the best in the country, have begun the transition (over the last 5 years) from physical to digital as the next phase of growth. This transition includes the use of a human workforce as well as technology to serve customers. During this transition period, the cost of operations and customer experience has improved.

The next step is to complete the entire transformation of the business to a digital platform (December 2021), which provides the 52.8 million customers and 98,000 merchants an omnichannel platform allowing them to transition between online and offline experiences in a seamless manner.

The company has successfully transitioned from being a traditional financier of consumer loans towards a fintech play through its use of digital analytics and artificial intelligence to build greater insight into customer behaviour, patterns, and spending habits. As a result, the valuation of Bajaj Finance has shifted from traditional P/B of 5-6x, as an aggressively growing NBFC, to a P/e of over 50x on a one-year forward basis as a high quality fintech/disruptor play.



Source: Phillip Capital, India

The company's five C's drive its strong asset growth and quality as noted by its ROA and ROE above. A focus on mass affluent customers (**Class**), a wider geographical **Coverage**, improving **Convenience and Customer** experience, lowering of **Costs and Collection** efficiency and efficacy has created a significant moat and valuation premium for the business.

¹ Phillip Capital, India: Bajaj Finance "Getting Future Ready; on the way to becoming a fintech"

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India Avenue Equity Fund's Target Market Determination is available on our website:

www.indiaavenueinvest.com/our-fund

A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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