

# 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 <sup>th</sup> September 2016
Fund Size	\$20.9 million
Unit Price	Wholesale: 1.2183 Retail: 1.2131
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	0.50% / 0.50%
Performance Fee**	10% of the excess return above the benchmark
FY18 Dividend	Wholesale: 0.67 cpu Retail: 0.67 cpu

\*\* Subject to a high watermark

## Fund Commentary: July 2018

The India Avenue Equity Fund has provided investors with a return of 12.2% p.a. since inception#. Over this period, the Fund has underperformed its benchmark (MSCI India in AUD) by 0.47% p.a., but continues to outperform the respective **MSCI India ETF by 1.1% p.a.** As mentioned in our previous factsheets, the Indian stock market continues to rise with very narrow breadth in 2018. The top 5 companies have generated 95% of returns for the index. As a result, many Indian equity investment strategies, which are benchmark unaware, are going through a period of underperformance in 2018. Since we also run a benchmark unaware strategy, our results in 2018 have not been a surprise. However, we remain very confident of our positioning long-term i.e. being benchmark unaware as it is our view that less well researched companies in India have a greater chance of being mispriced over time.

Investor sentiment in India continues to remain buoyant driven by generally strong earnings growth reported by companies in India's first quarter FY19 earnings season. Excluding corporate bank results, the earnings by the top 50 stocks by market capitalisation (Nifty Index) saw sales growth of 23%, EBITDA growth of 21%, and adjusted Profit after Tax growth of 19% year-on-year. In terms of flows, July 2018 saw Foreign Institutional Investors (FIIs) become net buyers of Indian equities with US\$200m after they had been net sellers in each of the previous three months. Domestic Institutional Investors (DII's) remained net equity buyers for the 16th consecutive month at US\$600m. A strong earnings season and receding oil prices have been the main reasons for increase in flows, particularly from foreign investors.

India's retail inflation for July remained below market expectations and rose 4.17% YoY, easing from 4.92% in the previous month, driven falling food prices. Industrial Production for June surged 7%, YoY, improving from the 3.2% growth in the previous month. The GST Council also cut GST rates of 88 consumer items, the bulk of which were reduced from 28% to 18% tax rate slab. Early signs show that companies are passing on the rate cuts to consumers which augurs well for volume growth in items such as footwear, refrigerators, washing machines and TV's. Portfolio holdings such as Crompton Greaves Consumer Electrical are set to benefit from this.

## Fund Performance (Performance in AUD, net of management fees and fund expenses)

Wholesale	3 months	6 months	1 year	Since Inception <sup>#</sup>
IAEF	1.68%	1.95%	10.63%	12.22%
MSCI India	3.25%	3.73%	13.08%	12.69%
Excess vs MSCI India Index	-1.57%	-1.78%	-2.45%	-0.47%
iShares India ETF	3.60%	3.72%	12.26%	11.10%
Excess vs MSCI India ETF	-1.92%	-1.77%	-1.63%	1.12%
Retail	3 months	6 months	1 year	Since Inception <sup>#</sup>
IAEF - Retail	1.53%	1.69%	10.15%	9.93%
MSCI India	3.25%	3.73%	13.08%	12.45%
Excess vs MSCI India Index	-1.72%	-2.04%	-2.93%	-2.52%
iShares India ETF	3.60%	3.72%	12.26%	11.10%
Excess vs MSCI India ETF	-1.92%	-1.77%	-1.63%	-0.84%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31<sup>st</sup> July assuming the reinvestment of dividends

#Inception Date: Wholesale 6<sup>th</sup> Sep 2016, Retail 6<sup>th</sup> April 2017

^Returns above 1 year are annualized

## 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 well managed and carefully selected listed companies

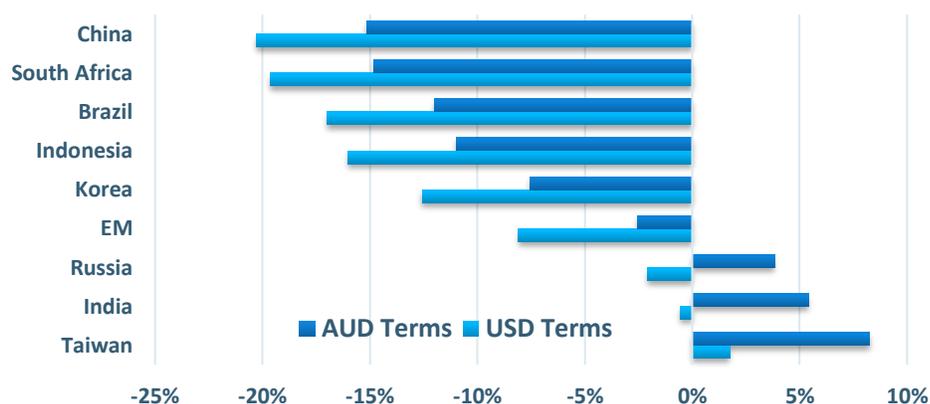
## Contact Details

**India Avenue Investment Management**  
AFSL 478233 | ABN: 38 604 095 954  
Level 3, 183 Macquarie Street,  
Sydney, NSW 2000, Australia  
T: +612 8937 2487  
E: [info@indiaavenueinvest.com](mailto:info@indiaavenueinvest.com)  
W: [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com)

## Emerging Markets Commentary

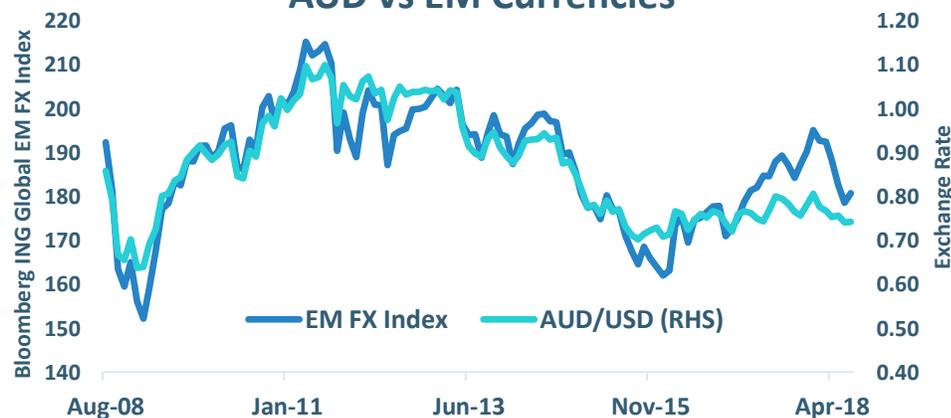
So far, 2018 has been a tumultuous period for many Emerging Market stock markets and exchange rates due to tightening of US monetary policy resulting in a stronger USD. Political events such as trade wars and sanctions have also hurt and countries such as China, Turkey and South Africa have taken most of the brunt. Despite this, Indian equities have performed well (see chart below) and perhaps have been seen as a place of "safety" within EM. We feel the major reason for this is a lower reliance on global trade with most corporate earnings tied to the virtues of the local economy. Also unlike in 2012-2013, where India was classified as one of the fragile five economies due to high inflation, a steep current account deficit and low FX reserves, India's economy and financial position is now in a much stronger position.

### EM Returns in 2018



One key point to note in the chart above, is the improvement in returns in AUD compared to USD terms. Understandably, much of the financial market commentary out there is from the perspective of USD terms. However, for AUD and NZD investors, there is some protection with lower volatility and higher returns. To illustrate why, we look at the relationship between AUD and EM currencies (correlation is very high 0.89 and 0.81 for NZD). We feel the reason for this is the AUD's exposure to commodities, carry trade, risk-on sentiment and current account deficits that are common amongst many EM economies and Australia/NZ. It is the major reason we don't always seek to hedge the currency, as it is costly to do so, and you don't benefit from this free diversification.

### AUD vs EM Currencies



## 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 well 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

## Contact Details

**India Avenue Investment Management**  
AFSL 478233 | ABN: 38 604 095 954  
Level 3, 183 Macquarie Street,  
Sydney, NSW 2000, Australia  
T: +612 8937 2487  
E: [info@indiaavenueinvest.com](mailto:info@indiaavenueinvest.com)  
W: [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com)

## Company Revenue Generated Locally



Source: Bloomberg

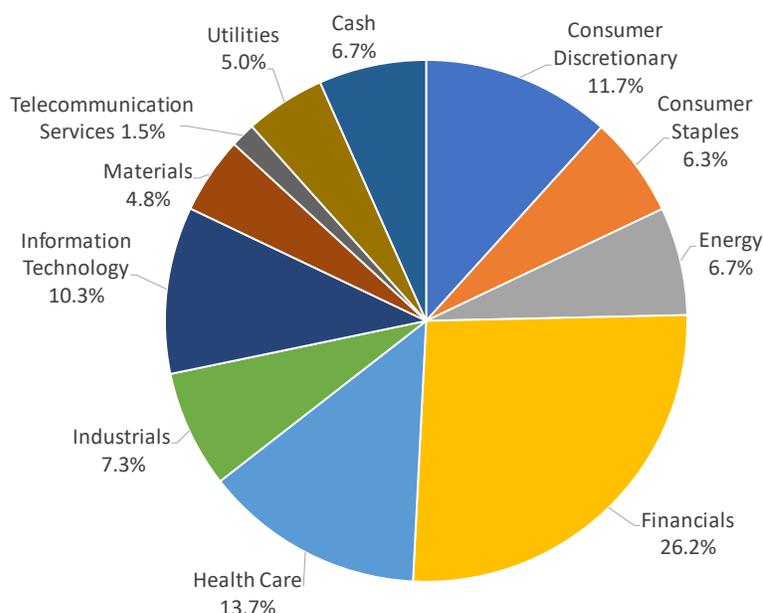
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

## Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	5.9%
Infosys	IT Services	4.6%
Mahindra & Mahindra	Automobiles	4.1%
Reliance Industries	Oil & Gas	3.4%
Cipla	Pharmaceuticals	3.3%
Kotak Bank	Banks	3.2%
ICICI Bank	Banks	3.0%
NTPC	Power & Renewables	2.9%
HDFC Bank	Banks	2.8%
HDFC	Housing Finance	2.7%

Source: India Avenue, Bloomberg

## Sector Allocation



## India Macro News

- After dipping to a low of 6.7% in FY18, India's economic growth is expected to rebound to 7.3% in FY19, notes the International Monetary Fund (IMF). They also expect India to grow at 7.5% in FY20. The IMF expects the Government to stick to the path of fiscal consolidation and projected fiscal deficit and debt to decline in the coming years.
- PM Modi stated that according to a Government study, over 7m jobs were created in the formal sector alone last year. He stated that creation of jobs in the formal sector has a spin off effect on job creation in the informal sector which is critical since the sector constitutes around 80% of all jobs. There are also more than 15,000 start-ups which the Government has helped via incentive schemes which he argued are job multipliers.

## India Micro News

- According to the data from Reserve Bank of India, at the end of May, the loan outstanding in microcredit segment was close to Rs 197bn, against Rs 142bn in May, 2017, representing a growth of about 38%. Against this, the gross bank credit growth in the industry in the same period has been around 11%. There has been a large interest among Non-Banking Financial Companies (NBFC's) to fund microfinance companies. At present, about 30-35% of their fund requirement are met by NBFC's.
- Australia witnessed 19% growth in tourist arrivals between June 2017-May 2018, with 330,700 Indians visiting the country. Spending by Indian tourists grew by 14% between April 2017 and March 2018, with visitors spending AUD1.53bn. This is the fourth year where Australia has recorded double-digit growth in both arrivals and spend, indicating the destination's growing preference among Indians, Tourism Australia said. This has made India the eighth largest inbound market.

## Thematic: Rural

The 'Rural India' theme has suffered over the last few years due to deficient rain falls and reforms such as Demonetisation and GST which disrupted historical norms of doing business and consumption. However, we feel recent policies, a pre-election year and better monsoons offer some interesting investment opportunities. Around 65% of India's population i.e. over 700 million people live in rural areas. From a political point of view, this represents a large voter base. Hence unsurprisingly this year, we have seen pro-rural reforms and spending, particularly focusing on the agricultural sector (the primary source of livelihood). For example, the Government has increased the minimum support price on Kharif crops to 1.5 times the production cost and has allocated nearly Rs.13trillion towards creation of employment opportunities in rural areas. This is expected to lead to better farm income and an increase in rural spending.

One such industry that is expected to flourish in the Rural India theme is the Automobile Industry. Notably, companies like Maruti Suzuki, Hero MotoCorp and Mahindra and Mahindra generate about 35-50% of their sales from rural areas and with the tailwinds described above, they are focusing their strategy on increasing their penetration in rural and semi-urban areas of India. Mahindra & Mahindra (M&M) is a company we like in this space. It has a market cap of US\$20.7bn company and is known for its rugged and reliable tractors and automobiles (passenger, commercial and utility vehicles). M&M attributes a large share of its auto sales volumes (40%) to semi-urban and rural areas. The company has focused on its rural strategy by;

- Increase in Footprint** – M&M is planning to expand its dealer touchpoint network for passenger and light commercial vehicle (PV and LCV) divisions by 35% in a year's time in rural areas mostly.
- Introduction of New products** - India has 6.5m tractors – only 40% of the estimated requirement of 16.2m. M&M rolled out lower priced model which costs 5-10% lower than peers and is likely to attract first time tractor buyers.

Companies like M&M engaging in a dedicated rural strategy are likely to be major beneficiaries of the growth of the rural economy in India.

## Small towns set new pace for PVs

Passenger vehicle sales in India grew 7.89% in 2017-18, touching a record high of almost 3.3 million units, driven by demand from smaller towns and the increasing popularity of utility vehicles.

Segment	Year-on-year change in %
 Passenger cars	3.3
 Utility vehicles	20.9
 Vans	5.7
<b>Total PVs*</b>	<b>7.89</b>
 Total CVs	19.94
 Total 3-wheelers	24.19
 Total 2-wheelers	14.8
<b>Total</b>	<b>14.22</b>

\*Total PVs are inclusive of cars, utility vehicles and vans; PVs: passenger vehicles; CVs: commercial vehicles  
Source: Siam

*The views and opinions contained in this document are those of India Avenue Investment Management Australia Pty. Ltd. (IAIM) (ABN 38 604 095 954) & AFSL 478233. Equity Trustees Limited (Equity Trustees) (ABN 46 004 031 298) AFSL 240975, is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT), is the Responsible Entity of the India Avenue Equity Fund. This document has been prepared to provide you with general information only and does not take into account the investment objectives, financial situation or particular needs of any person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. IAIM does not express any view about the accuracy and completeness of information that is not prepared by IAIM and no liability is accepted for any errors it may contain. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the product disclosure statement before making a decision about whether to invest in this product. No part of this material may be copied, duplicated or redistributed without prior written permission of IAIM or Equity Trustees. The user will be held liable for any unauthorised reproduction or circulation of this document, which may give rise to legal proceedings. Information contained here is based on IAIM's assumptions and can be changed without prior notice. It is not, and may not be relied upon in any manner as legal, tax or investment advice or a recommendation or opinion in relation to an IAIM financial product or service, or any other financial product or service. Please consult your advisors, read the relevant offer document and consider whether the relevant financial product or service is appropriate for you before making any investment decision. Investment in securities involves risks and there is no assurance of returns or preservation of capital. Neither IAIM, Equity Trustees, nor any of its related parties, their directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost capital, lost revenue or lost profits that may arise from or in connection with the use of this information. The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036.*

*\*Lonsec Disclaimer: The Lonsec Rating (assigned June 2017) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold India Avenue Investment Management Limited's product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to Lonsec's website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>*