

MONTHLY REPORT | MARCH 2024 | INDIA AVENUE EQUITY FUND

FUND DETAILS

Fund Manager	India Avenue Investment Management
Structure	Registered Investment Management Trust
Inception date	6th of September, 2016
Fund size	A\$99.9m
Base currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Benchmark	MSCI India NR (AUD)
Distribution Frequency	Yearly as at 30 June
Management expense ratio	1.10% p.a. (M Class)
Buy-sell spread	0.35% / 0.35%
Performance fees	10% of excess above benchmark
ARSN Number	611374586

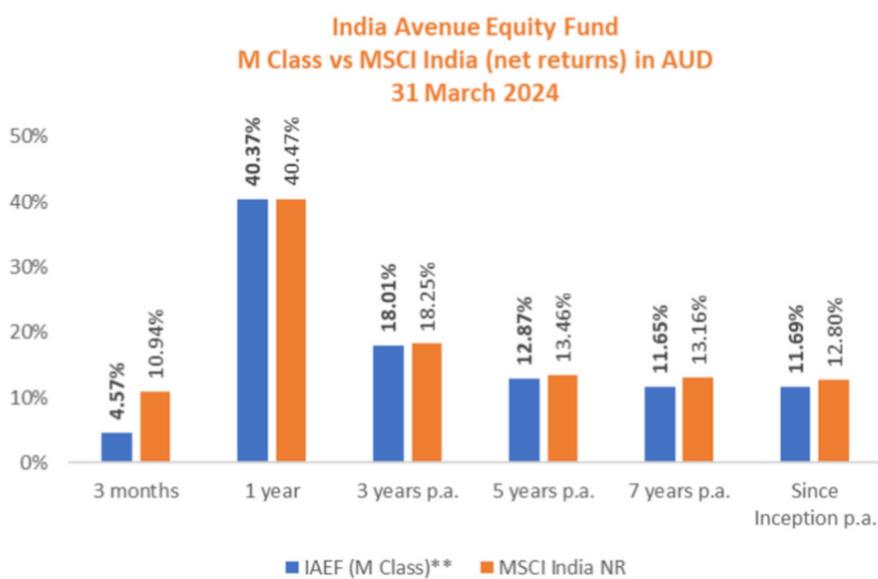
FUND OBJECTIVE

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 : Recommended ¹
(refer to the disclaimer section on page 5)

INVESTMENT PERFORMANCE



Performance Table for Unit Classes

Performance by Unit Class#	Inception Date	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.
M Class#	6/09/2016	4.19%	38.50%	16.46%	11.93%	10.97%
M Class (net)	6/09/2016	4.57%	40.37%	18.01%	12.87%	11.65%
H Class#	6/04/2017	3.70%	37.41%	15.77%	11.34%	
H Class (net)	6/04/2017	4.09%	39.27%	17.32%	12.27%	
L Class#	19/04/2021	3.73%	38.06%			
L Class (net)	19/04/2021	4.12%	39.92%			
MSCI India (AUD)		10.94%	40.47%	18.25%	13.46%	13.16%

Source: MSCI. Each unit class has a different inception date and hence is not illustrated comparatively against the benchmark. #performance is calculated on a post fee, but pre-CGT and withholding taxes paid in India. Australian domiciled clients receive a partial credit for these taxes in their annual tax refund.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st March 2024, net of fees and assuming reinvestment of dividends. Returns of longer duration than 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.

PERFORMANCE COMMENTARY

The Fund returned 4.57% (M Class Units) over the first quarter of 2024, underperforming its benchmark over the same period by 6.37%. The robust return of the benchmark over the first calendar quarter was driven by large-cap, benchmark heavyweight stocks. Additionally, Industries that performed well over the quarter include government-owned Banks, Oil & Gas and Utilities, which our Fund has low exposure to. These segments typically have lower growth expectations relative to the rest of the investment opportunity set but have seen an uptick in their valuations due to expectations that their profitability could rise.

Over a 12-month period, the Fund returned 40.37% which was in line with the benchmark. This was despite a period of strong outperformance from April to November 2023. The last four months (Dec 23 – Mar 24) saw significant underperformance relative to the benchmark due to retracement of Small and Mid-Cap (SMID) stocks. This weak phase can be seen below in the chart. The India Avenue Equity Fund has a long-term structural positioning of being overweight in the SMID segment (due to the much broader opportunity set, more diverse growth opportunities available and selectively better valuations) as part of our proposition.

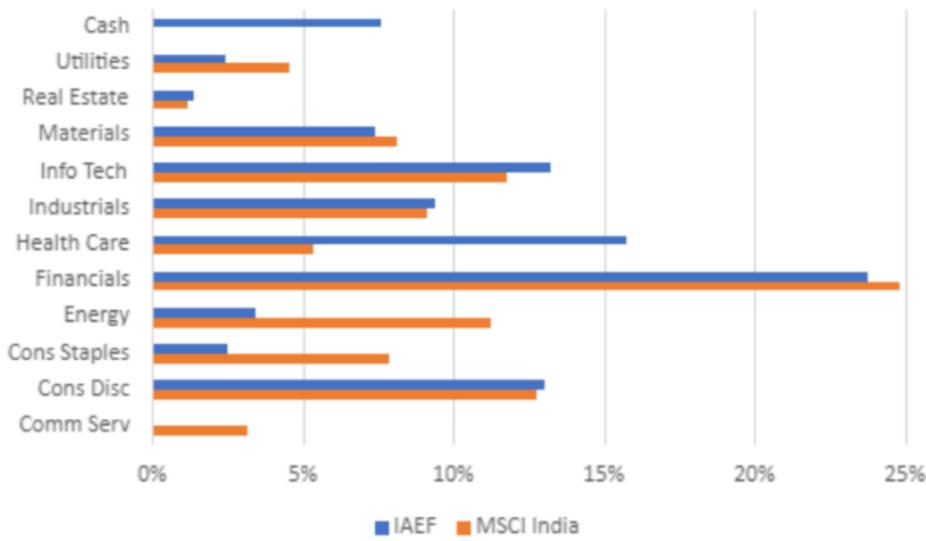
Performance of midcaps and smallcaps vs. largecaps over the last 12 months



Source: Motilal Oswal, Bulls & Bears April 2024

FUND BY SECTOR

IAEF vs MSCI India - Sector Composition as at 28 March 2024



Source: Foresight Analytics

SIGNIFICANT SECTORS

The Fund continues to have a significant overweight position in the Healthcare sector, through its exposure to Pharmaceutical companies. Indian Pharma is benefitting from rising market share in the global pool, given the region being the number one location for generic manufacture outside the US, with over 100 FDA-approved sites. With significant upcoming patent expiry in 2025/2026, Indian Pharma is poised for increased global share due to its lower cost of labour and significant talent pool of scientists. The local market also continues to expand as spending on healthcare continues to rise post-COVID-19 as well as through initiatives launched by the Government, which focus on affordability and “health care for all”.

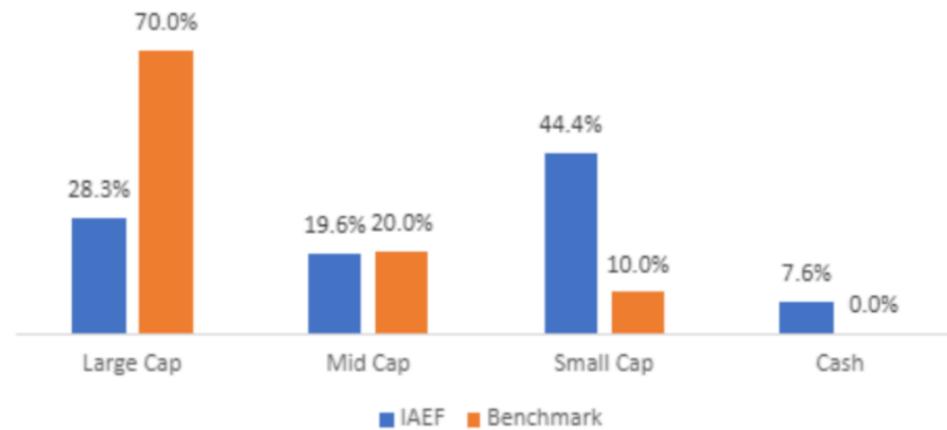
TOP 10 STOCKS

IAEF Top 10 stocks (as of 31 March 2024)		
Company	Industry	Fund Weight
HDFC Bank	Private Bank	4.35%
Bajaj Finance	Non-Bank Lender	4.31%
Hero MotoCorp	Automobiles	4.14%
ICICI Bank	Private Bank	3.19%
Infosys	IT Outsourcing	2.68%
Tata Motors	Automobiles	2.60%
Bharat Petroleum	Oil Refining	2.47%
HCL Technologies	IT Outsourcing	2.34%
Axis Bank	Private Bank	2.16%
Redington	IT Equipment	2.12%
Top 10 Weight		30.37%

The exposure to the top 10 stocks in the Fund has risen from 27% to over 30% as the Fund has sought to increase its allocation to Large Caps given broad SMID valuations seem excessive in some areas. Whilst the top 10 contains four Private Banks/NBFCs, the Fund overall remains underweighted to Financials relative to the benchmark weight.

EXPOSURE BY CAPITALISATION

Market Capitalisation Split vs Benchmark 28 March 2024



Source: Foresight Analytics

We define Large Cap in this chart at the 46 stocks which represent the top 70% of India’s market capitalisation. Mid Cap is defined as the next 20% of the market cap, with Small Cap representing the last 10%. The focus of the Fund is to be capitalisation agnostic in finding favourably priced, growth opportunities within its investment universe (typically the top 1000 stocks by market cap).

The Fund’s exposure to the Large Cap component has been rising over the last quarter. We have directed new flows to this component given the broad valuations of mid and small-cap companies being expensive in the short-term. Whilst the growth potential remains strongest in selective small-cap companies, we are conscious of the significant liquidity that has been invested in this segment broadly.

FUND CHARACTERISTICS

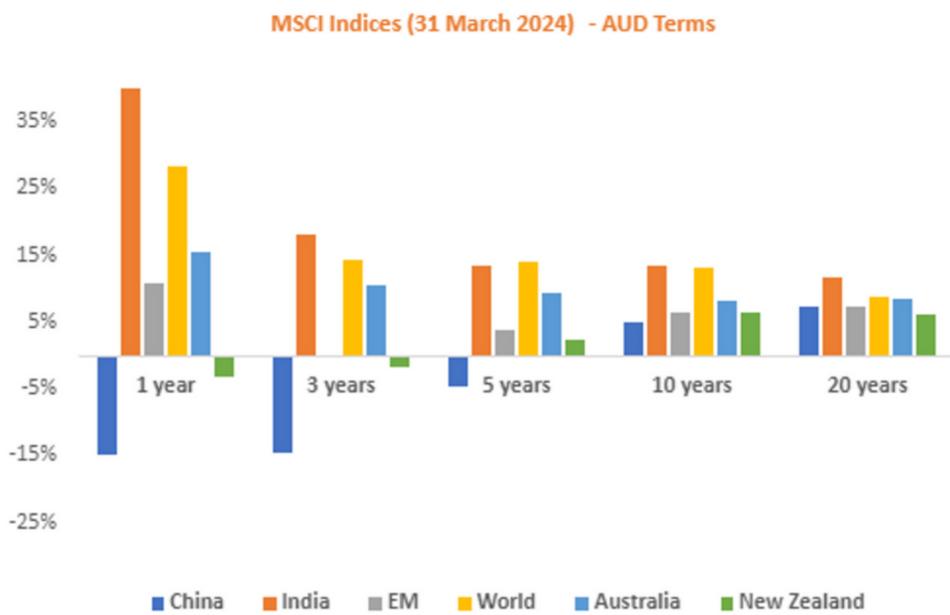
	IAEF	MSCI India
Dividend Yield	1.00%	0.97%
P/E Trailing 12-Month	24.79x	29.28x
P/E Forward 12-Month	18.89x	23.60x
PEG Ratio Trailing 12-Month	1.26	1.54
Price-to-Book Ratio	3.66x	4.45x
Dividend Growth Hist 5 YR	19.49%	20.87%
EPS Actual 12m Forward	22.73%	22.76%
EPS Actual 5 YR Hist Gr	12.82%	16.41%
Revenue 12m Fwd Revenue Gr	13.71%	13.79%
Revenue 5 YR Hist Gr	14.10%	14.71%
Net Profit Margin	16.83%	18.56%
Operating Profit Margin	20.03%	20.98%
ROE Common Equity	16.22%	18.07%

Source: Foresight Analytics

The characteristics of the Fund reveal that in aggregate its P/E 12 months forward is trading at 18.9x which reflects a 20% discount to the P/E of MSCI India, trading at 23.6x. This P/E discount is not achieved by sacrificing forward growth expectations, which are in line with the benchmark.

The Fund seeks exposure to companies that are undergoing an inflexion point in their growth story due to an improving industry, growth in the addressable market they operate in, or through economic scalability, improving margins and RoE.

INDIA VS OTHER MARKETS



Indian equities have showcased outperformance compared to most equity asset classes, across all time periods. This includes MSCI World, MSCI EM, China, Australia and New Zealand.

The country’s returns over 20 years stand out, particularly note worthy given this includes the GFC (2008), India’s “fragile five” currency status (2011), stagflationary period (2011-12) and a non-performing loan problem for the banking system (2018).

Of late India has received far greater attention given the weakness of China’s economic growth and the fall of its equity markets.

INDIA’S MACRO

Economic Factors (as of 31 March 2024)		
GDP Growth	8.4%	Dec-23
GDP per capita	US\$2,848	2024*
Inflation	5.09	Feb-24
Cash Rate	6.50%	Apr-24
Balance of Trade	-US\$18.7bn	Feb-24
Manufacturing PMI	59.1	Mar-24
Services PMI	61.2	Mar-24
Industrial Production	3.8%	Jan-24
Forex Reserves	US\$646bn	Mar-24
Population	1.436bn	Feb-24
Unemployment rate	7.6%	Mar-24
Capacity Utilisation	74.7% (s.a.)	Dec-23
Consumer Confidence	98.5	Mar-24
Government Debt to GDP	86.5%	Mar-23
Household Debt to GDP	40.3%	Dec-23

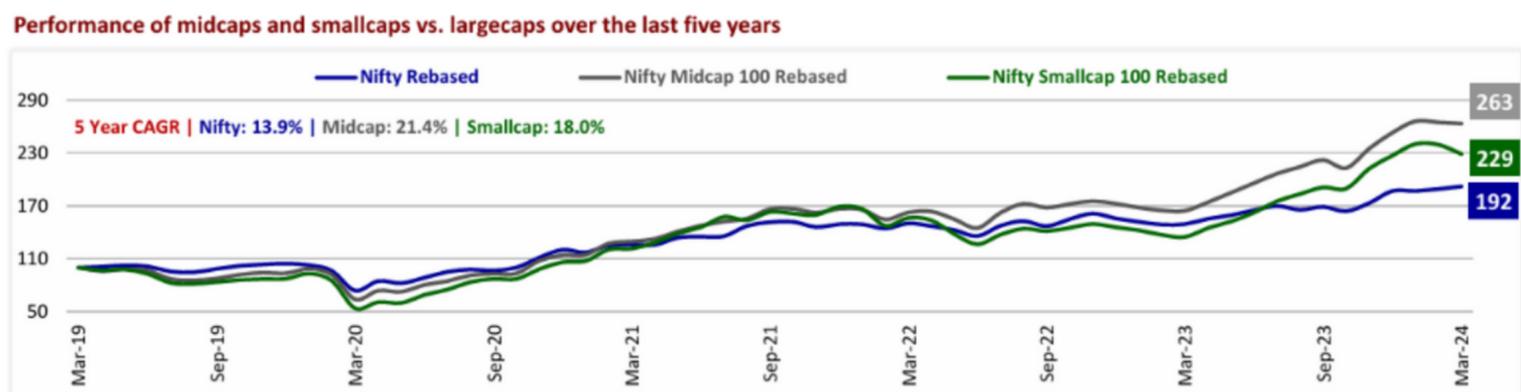
Source: tradingeconomics.com, *Statista estimate 2024, RBI

India’s CPI is currently at 5.09% as of February 2024, which is well within the Reserve Bank of India’s range of 4% +/- 2%. It is also well below the average inflation recorded over the last 35 years of 7.6%. India’s inflation has been structurally receding as Food and Energy components become a lower weighting in the Index. This also means that the nature of the CPI measurement is becoming less cyclical.

Another point to note is the current level of Forex Reserves held by India at present. With US\$646bn of reserves, India has reached the highest level of reserves it has ever held.

UNDERPERFORMANCE OF SMALL AND MID-CAPS IN INDIA

Over the last 12 months Mid Caps and Small Caps have gained 60% and 70% respectively, while Large Caps have only risen 29%. Over 5 years a similar story is illustrated below.



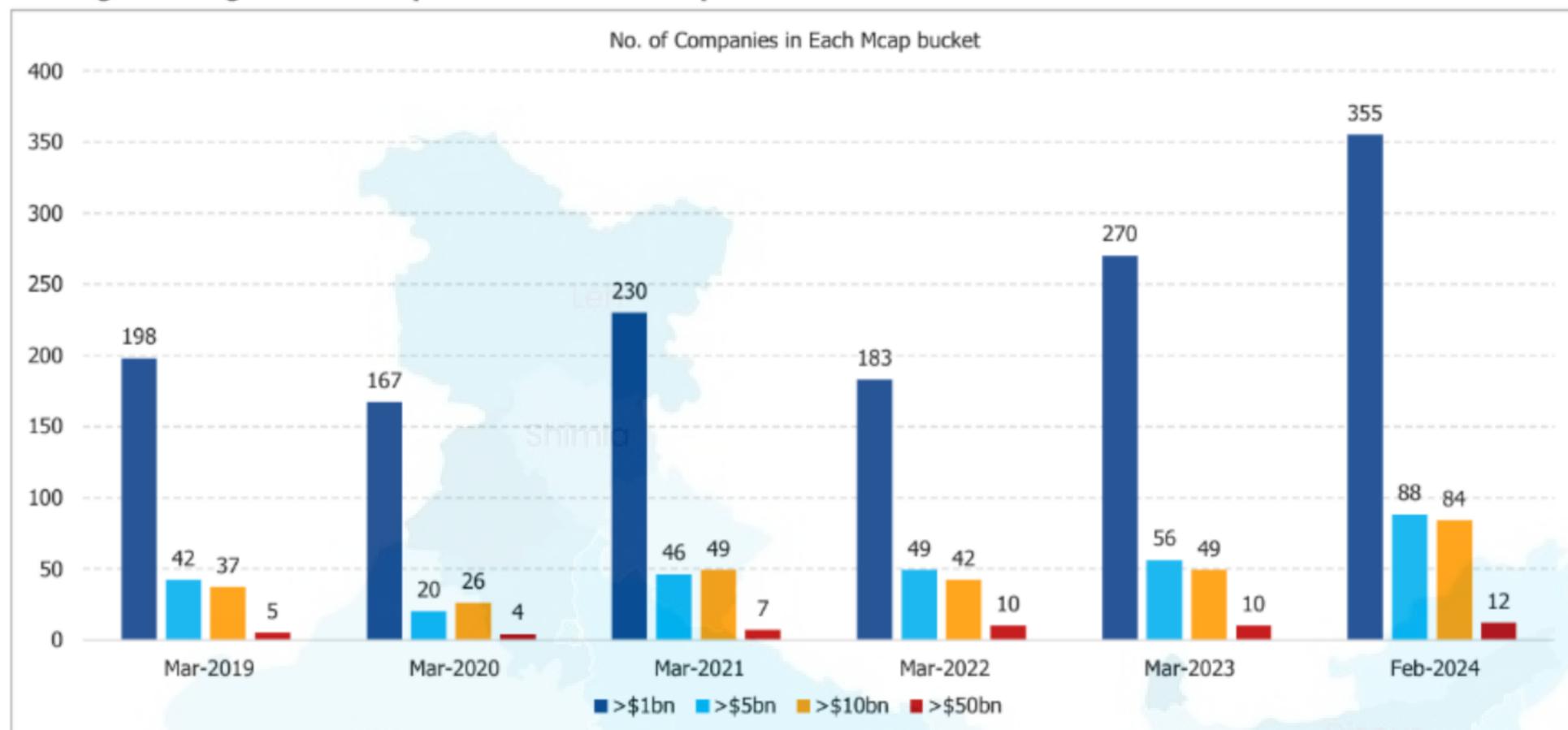
However, there are phases like 2018 (slowing GDP growth due to reform indigestion and lack of investment) where market sentiment moves to risk-off and investors favour Large Caps and liquidity in the short term. In 2018 the top 10 stocks by market cap drove the market return to a slight positive over the calendar year, but with several Mid and Small Caps falling by 20-30% relatively. A similar outcome was seen in 2022, despite a different reason for a shift of sentiment to risk-off (rising interest rates/inflation).

SHIFTING PROFIT POOL PARTICIPATION

In the decade between 2010-2020, profit pool concentration was occurring across industry segments in India. Formalisation of industries like retailing meant that larger, organised players were winning market share from smaller, less efficient players who required greater operating leverage and industry growth for success. Reforms like Demonetisation and GST made it easier for larger players to build efficiency, benefit from scale and win share.

However, in the 2020s so far some of that trend is reversing as small players have become more agile and efficient in adopting digitisation/technology to increase their reach and the level of government capex and infrastructure improvements being injected in aiding smaller businesses in staying competitive. Given robust economic growth in the post-COVID-19 recovery, small firms are generating stronger profit growth.

Leading to 80% growth in companies with market cap of less than USD 1 bn



Source: Bloomberg, Elara Securities Research

LOGIC BEHIND OUR STRUCTURAL POSITIONING

The India Avenue Equity Fund continues to maintain a structural positioning favouring Mid and Small Cap companies. Whilst the top 50 companies in India make up approximately 75% of the US\$4.5tn market cap, there are several exciting opportunities for growth in the remaining 950 which form part of our universe (top 1000 companies by market cap).

Large Cap companies tend to be over-owned and over-researched, with minimal opportunity for “price discovery” to take place given that the transparency of their growth trajectory is already priced in. However, with India in growth mode, there are new beneficiaries emerging every day that can capitalise on this trajectory, which offers a more palatable entry price point.

This provides our investors with exposure to companies that are unlikely to be present in their existing portfolios (other global equity funds, emerging market funds or India ETFs) and an alignment to long-term capital growth.

FUND DETAILS

31.03.2024	M Class	H Class	L Class
NAV	1.7607	1.7317	1.4279
Management Fee	1.10%	1.50%	0.95%
Performance Fee	10% of excess	10% of excess	15% of excess
FY23 Distribution	0.1201	0.0972	0.0686
ARSN	611374586	611374586	611374586
ISIN	AU60ETL04826	AU60ETL04784	AU60ETL28148
APIR	ETL0482AU	ETL0478AU	ETL2814AU
Citi Code	NFCK	NF2H	
Morningstar Code	41512	41828	44362

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Any and all forward looking statements are expressions of our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these statements. 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. You should consider its appropriateness regarding your particular objectives, financial situation and needs and consider obtaining independent advice before making any financial decisions.

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

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.

1 Lonsec Disclaimer: The Lonsec Rating (assigned March 2023) 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>

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