India Avenue
Investment Management

MONTHLY REPORT | AUGUST 2023 | 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$79.9m
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	1.50% p.a. (H Class)
Buy-sell spread	0.35% / 0.35%
Performance fees	10% of excess above benchmark

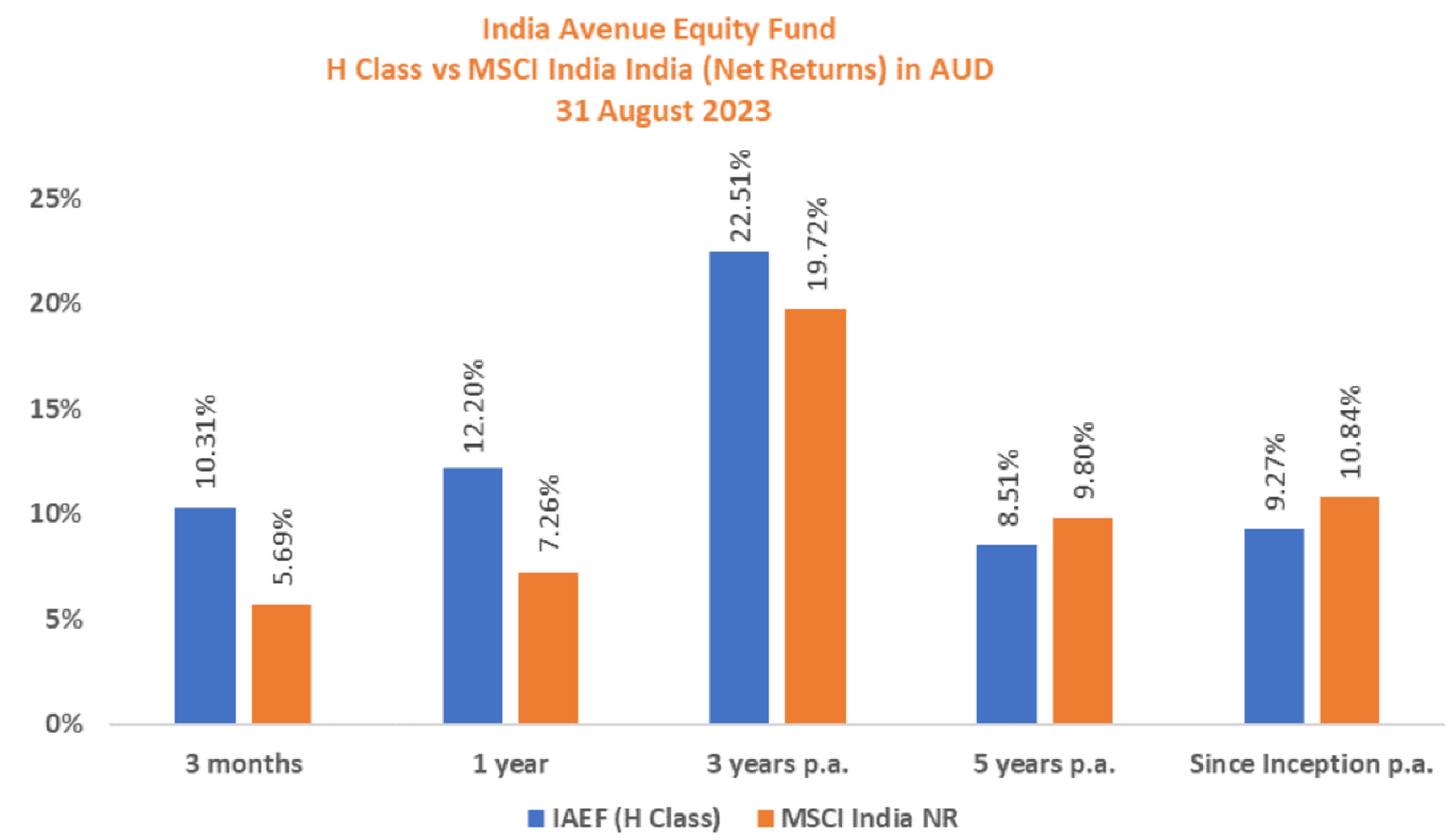
FUND OBJECTIVE

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)

FUND RETURNS VS BENCHMARK - 31ST AUGUST 2023



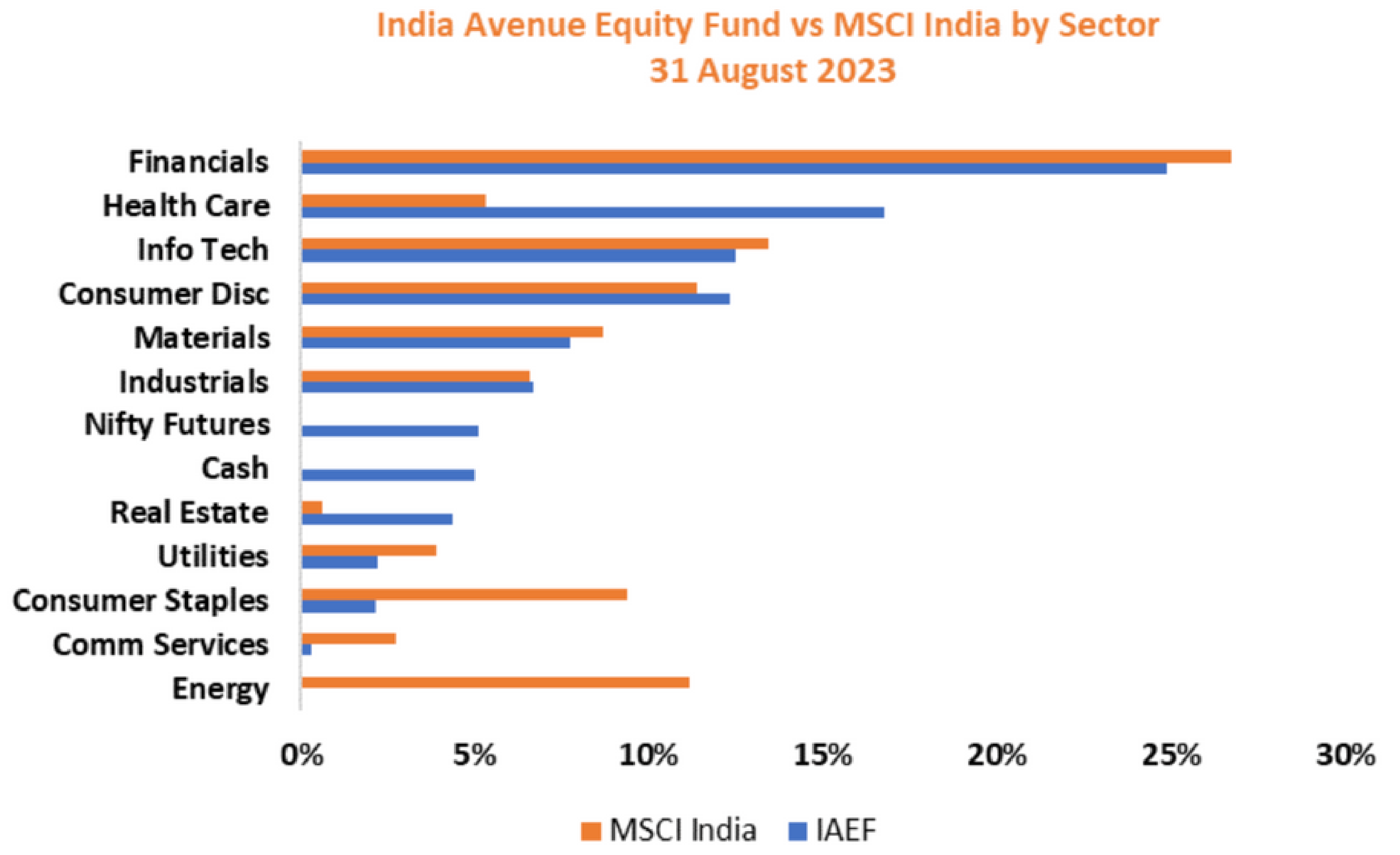
The Fund (H Class) returned 3.94% in the month of August 2023, outperforming its benchmark by 1.87% over the period. Over the last quarter the Fund outperformed by 4.62%, driven by the relative outperformance of mid and small cap stocks over large cap stocks, the latter of which has a greater weighting in the market capitalisation weighted, MSCI India.

Foreign investors, after withdrawing investment from Indian equity markets in CY2022 (due to rising inflation, oil prices and interest rates) and early CY2023 (due to concerns over the Adani Group), have returned to investing in India from March 2023. This has also been driven by concerns over China's property markets and overall growth. Investors have sought what appears to be more "transparent" GDP / Earnings Growth in India. Additionally, flows have been in the form of single country allocations to India, with foreign investors exploring investment opportunities in mid and small cap stocks in seeking growth and value. This environment has been conducive to the India Avenue Equity Fund's positioning.

The June Quarter reporting period saw companies signalling a weakening in revenue growth, primarily due to signs of a slowing global economy. However, profit margins rose due to falling input costs as inflation receded to 4-5% over the quarter. Corporate earnings in India are still tracking at in excess of 15% per annum, but dispersion between sectors and stocks have been rising, which is aiding active managers in the ecosystem.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st August 2023, net of fees and assuming reinvestment of dividends. Returns of longer duration than 1 year are annualised. Performance calculations are not inclusive of any rebates.

FUND BY SECTOR



SIGNIFICANT SECTORS

The Fund's weight in IT stocks has been slowly rising and is up to 12.5%. This is after a period where the Fund was underweight, relative to the benchmark in this sector as a weakening global economy saw a drop in IT outsourcing and spending. This was reflected in the outlook statements of Indian IT outsourcing firms. However, going forward, with improved valuations and the return to the inevitable "outsourcing to India" trend, it is likely that the Fund will shift to an overweight position in this industry over the next 6-12 months.

The opposite is unfolding in the Financial Services sector, with the Fund's weight being pared back. The industry, in our view, is approaching peak profit levels / margins, and credit growth is significant at close to 20% y-o-y. Valuations appropriately reflect the strength in this sector, and it is prudent to pare back some of the exposure. Finally, the Healthcare (predominantly Pharmaceutical companies) and Real Estate sectors continue to be overweight positions in the Fund, relative to benchmark weights.

TOP 10 STOCKS

IAEF Top 10 stocks (as at 31 August 2023)		
Bajaj Finance	Non-Bank Lender	4.59%
Axis Bank	Private Bank	3.12%
Infosys	IT Outsourcing	3.08%
ICICI Bank	Private Bank	2.93%
Cipla	Pharmaceuticals	2.75%
HDFC Bank	Private Bank	2.46%
Hero Motorcorp	Automobiles	2.32%
HCL Technologies	IT Outsourcing	2.25%
Shriram Finance	Non-Bank Lender	2.07%
Redington	IT Hardware/Software	2.02%
Top 10		**27.59%**

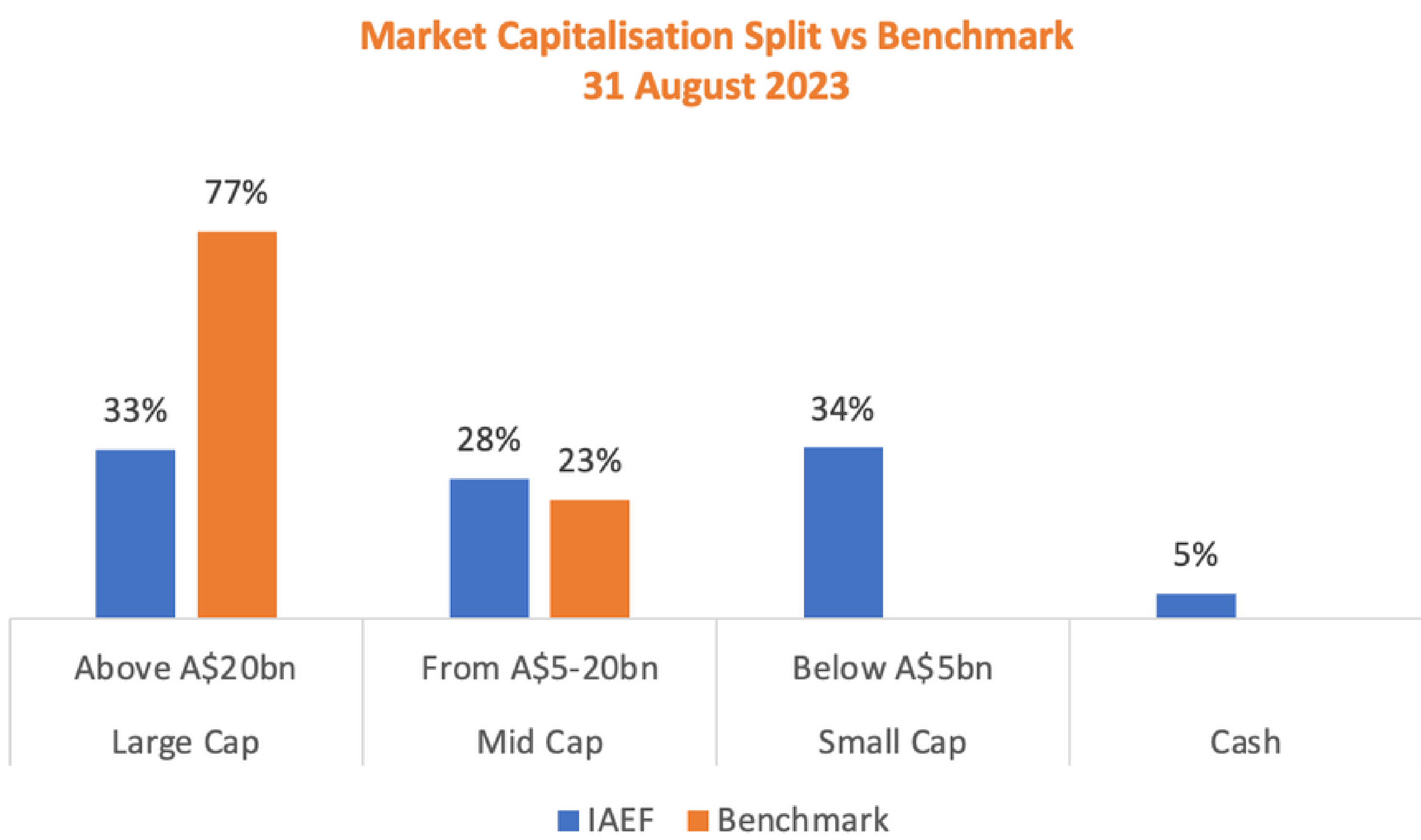
FOCUSING ON DIVERSIFICATION

Over the last month we have started reducing our exposure to mid and small caps, given the outperformance of these stocks relative to large cap stocks. In our view this is prudent given the significant returns from mid and small caps over the last 4-5 months. From here, we expect rising correlations of sectors and stocks after a period of low correlation, which was conducive for actively managed funds.

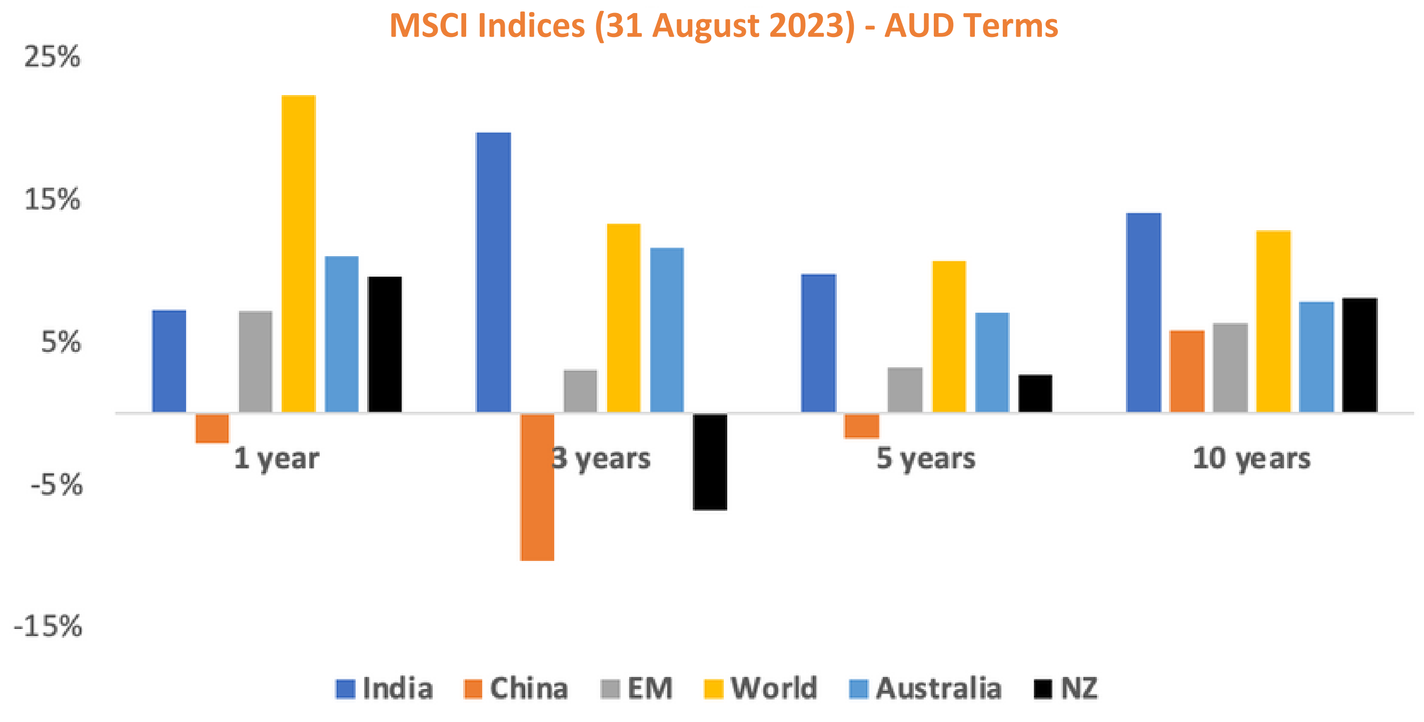
The 61 stocks we hold in the Fund on 31 August 2023, range from a weighting of 4.6% to 0.3%, indicating a fairly diversified portfolio, with a cautious approach to taking on risk to one specific company or industry. In the longer-term we remain focused on finding companies exposed to growing addressable markets at what we feel are reasonable valuations.

EXPOSURE BY CAPITALISATION

Over the last month we have reduced some of the exposure to mid and small caps and increased our weighting to large caps. Given that mid and small cap stocks have had a period of significant outperformance of large caps and the MSCI India, it was prudent to reduce the exposure in our view. Reducing this type of exposure has less of an impact cost on the portfolio during periods of outperformance, rather than during periods of consolidation or underperformance. However, it is important to note that the strategic long-term positioning of the Fund is biased towards small and mid-cap stocks, given their more attractive valuations and a greater likelihood of mispriced growth opportunity due to lesser broker coverage (in our view).



INDIA VS ROW



INDIA LEADING THE PACK

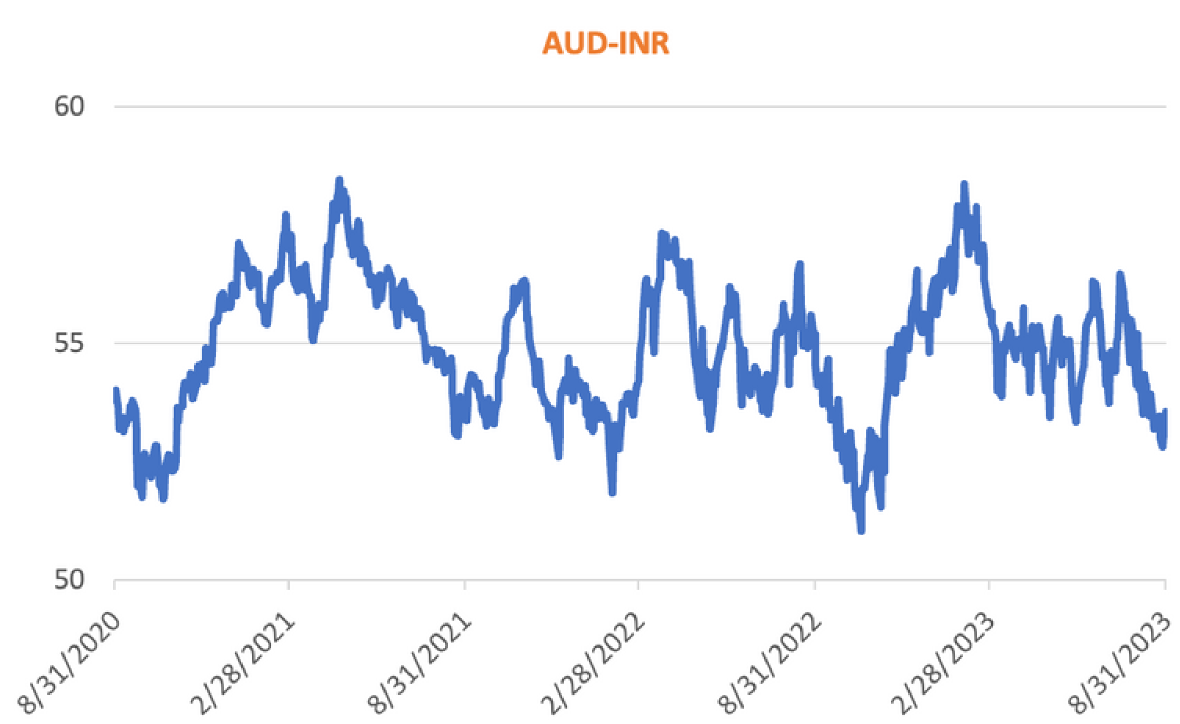
The MSCI India leads most other major markets/regions over the 3 and 10 years in AUD terms. This is despite the US performing well over the last decade. The Indian equity market has thrived despite rising oil prices, COVID-19 and localised issues to grapple with such as Demonetisation, GST and slowing GDP growth leading into the pandemic.

Whilst the US and Japan have performed exceptionally over the last 12 months, driven by a rising USD and improving fundamentals in Japan, the Indian market has continued to be one of the better performing Emerging Markets, particularly relative to China.

WEAKENING AUD

The month of August saw a negative return for Indian equity markets in local currency terms. However, the AUD depreciated by 2.8% relative to the INR over the month of August. This boosted the return for investors in the Fund given that it is unhedged. Whilst the longer-term fundamentals for the AUD appear positive with a growing trade surplus and an increasing net debtor position to the rest of the world (from a capital perspective), in the short-term the weakening economy in China and the RBA keeping rates on hold relative to hikes elsewhere is leading to weakness.

Going forward, the INR also looks susceptible to some weakness given it has been one of the stronger Asian currencies this year. Typically also in the run up to India's national election in May 2024, the currency can have some volatility and weakness. At some point in the near future there may be an opportunity to consider hedging part of the portfolio against appreciation of the AUD relative to the INR.



Since COVID-19 the AUD-INR currency pair has ranged between Rs.51-58 and we continue to monitor this with a view that the AUD has some headwinds at present, but potentially some long-term tailwinds relative to other currencies.

INDIA'S MACROECONOMICS

Economic Factors (at 31st August 2023)		
GDP Growth	7.8%	Jun-23
GDP per capita	US$2,389	Dec-22
Inflation	7.4%	Jul-23
Cash Rate	6.50%	Aug-23
Balance of Trade	-US$21bn	Jul-23
Manufacturing PMI	58.6	Aug-23
Services PMI	60.1	Aug-23
Industrial Production	3.7%	Jun-23
Forex Reserves	US$595bn	Sep-23
Population	1.430bn	Aug-23
Unemployment rate	8.0%	Jul-23
Capacity Utilisation	76.3%	Mar-23
Consumer Confidence	88.1	Jul-23
Government Debt to GDP	55.1%	Dec-22
Household Debt to GDP	36.4%	Dec-22
Electricity Production	127,383 (GW/h)	Jun-23
Steel Production	11,500 (thousand tonnes)	Jul-23

Source: tradingeconomics.com, World Bank, worldometer.info, CEIC

BALANCE OF TRADE

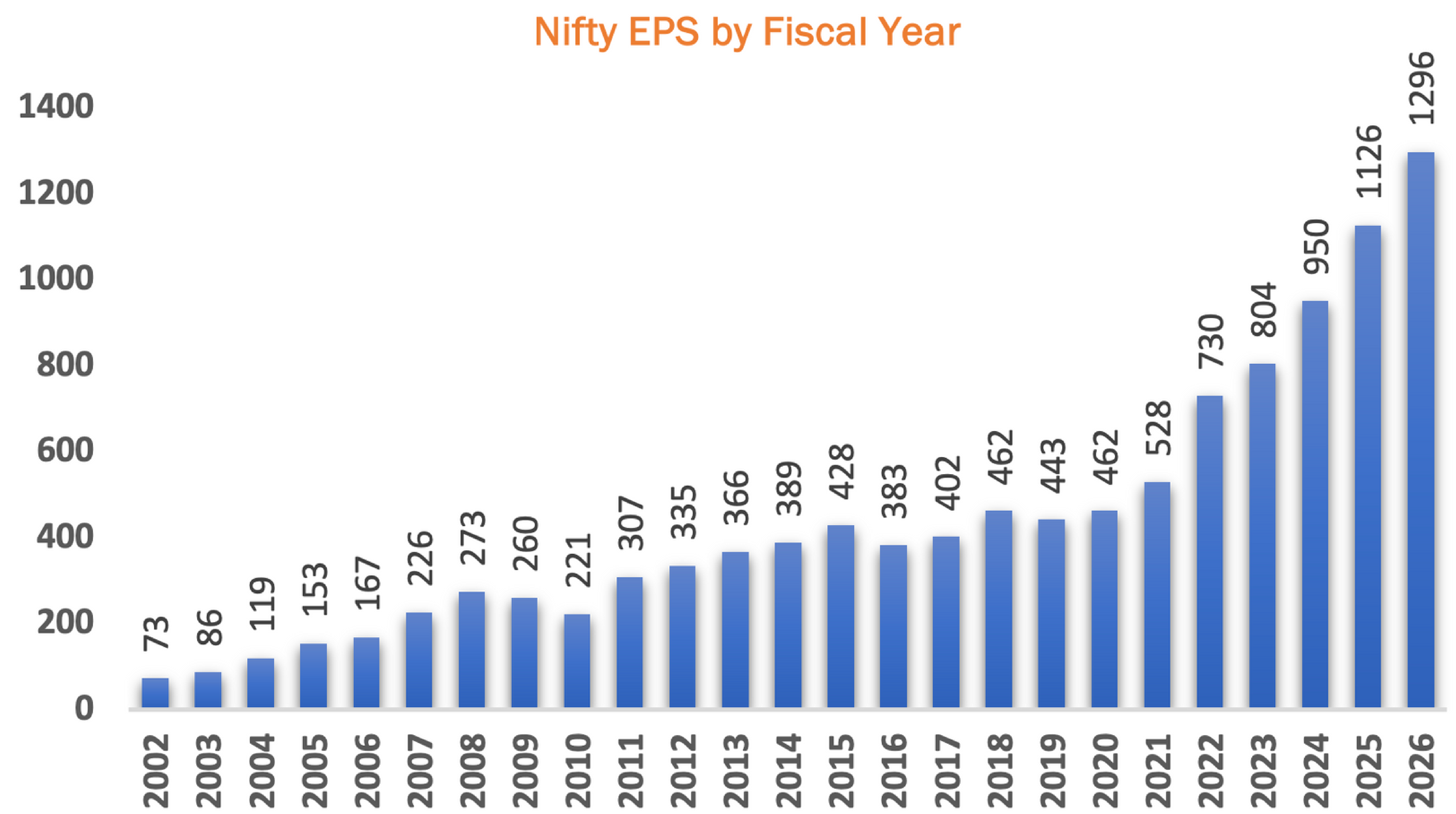
India's Trade Deficit is expected to fall is expected to fall over coming months according to Commerce and Industry Minister, Piyush Goyal. This is expected due to positive export growth. Mr Goyal said he expected India to continue to benefit from its global outreach. In July exports fell 15.9% year-on-year, however, but the trade deficit narrowed from US$25.4bn to US$20.7bn over the last 12 months because imports fell by a hefty 17%.

The last three years has seen the trade deficit swing quite significantly from positive post COVID-19 to a significant negative due to the rising price of oil and a global slowdown in 2022. However the recent improvement has the potential to be more sustainable. India has been active in establishing trade partnerships and bi-lateral deals. This is likely to create a scenario which may see India's exports rise and narrow the trade deficit.

WHY INDIA?

First quarter earnings for FY24 have now been reported (June 2023 Quarter) and the results were well ahead of broker consensus forecasts. For the Nifty 50 companies, Revenue, EBITDA and Profit after Tax grew by 8%, 22% and 30% respectively. Most of this was driven by exceptional results in the Financials Sector (which is close to 40% of the Nifty constituent weightings). Whilst revenue growth was more in line with expectation, profit margins provided the surprise as falling commodity prices and inflation broadly helped the bottom line.

It is our view that one of the reasons investors are looking at India at an investment destination is due to its underlying fundamentals, which are driven by its demographics. Earnings growth over the last two years (from a COVID-19 induced low in FY21) have been strong. In fact from 2020-2026, earnings are expected to accelerate at 19% p.a., after a period of relative flat earnings from 2008-2020 (4.5% p.a.). The period from 2008-2020 was a period of low private capex and weaker investment. The driving force in that period was consumption. The financial system was clogged with bad loans. However, post COVID-19 and focused policies on growth and employment, 'Make in India', increasing productivity from reforms, increasing government capex on infrastructure and a robust banking system.



Source: Antique Stock Broking, Avendus Spark Research, Bloomberg

Given India's forecast earnings run rate of close to 20% for the next 3 years, it is expected that foreign investors may continue to view the region attractively. Earnings growth from sectors such as Automobiles, Cement, Pharmaceuticals, Industrials (Capex, Infrastructure) and some areas of Financials and Consumption, are expected to lead to their outperformance over the broader market.

If the US economy can avoid a hard landing and interest rates globally, are unlikely to go much higher than current levels, then it is likely that India will continue to benefit from a growing share of global trade, increasing local and foreign investment in its manufacturing capability and increasing productivity from infrastructure spend. This should lift Indias GDP-per-capita to closer to US$4000-5000, which in turn should spur increasing consumption levels.

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https://indiaavenueinvest.com/our-research/
https://indiaavenueinvest.com/india-avenue-in-media/

FUND DETAILS

31.08.23	H Class
NAV	1.5652
Management Fee	1.50%
Performance Fee	10% of excess
FY23 Distribution	0.0972
ARSN	611374586
ISIN	AU60ETL04784
APIR	ETL0478AU
Citi Code	NF2H
Morningstar Code	41828

DISCLAIMER

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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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