MONTHLY REPORT | JANUARY 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$97.3m
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

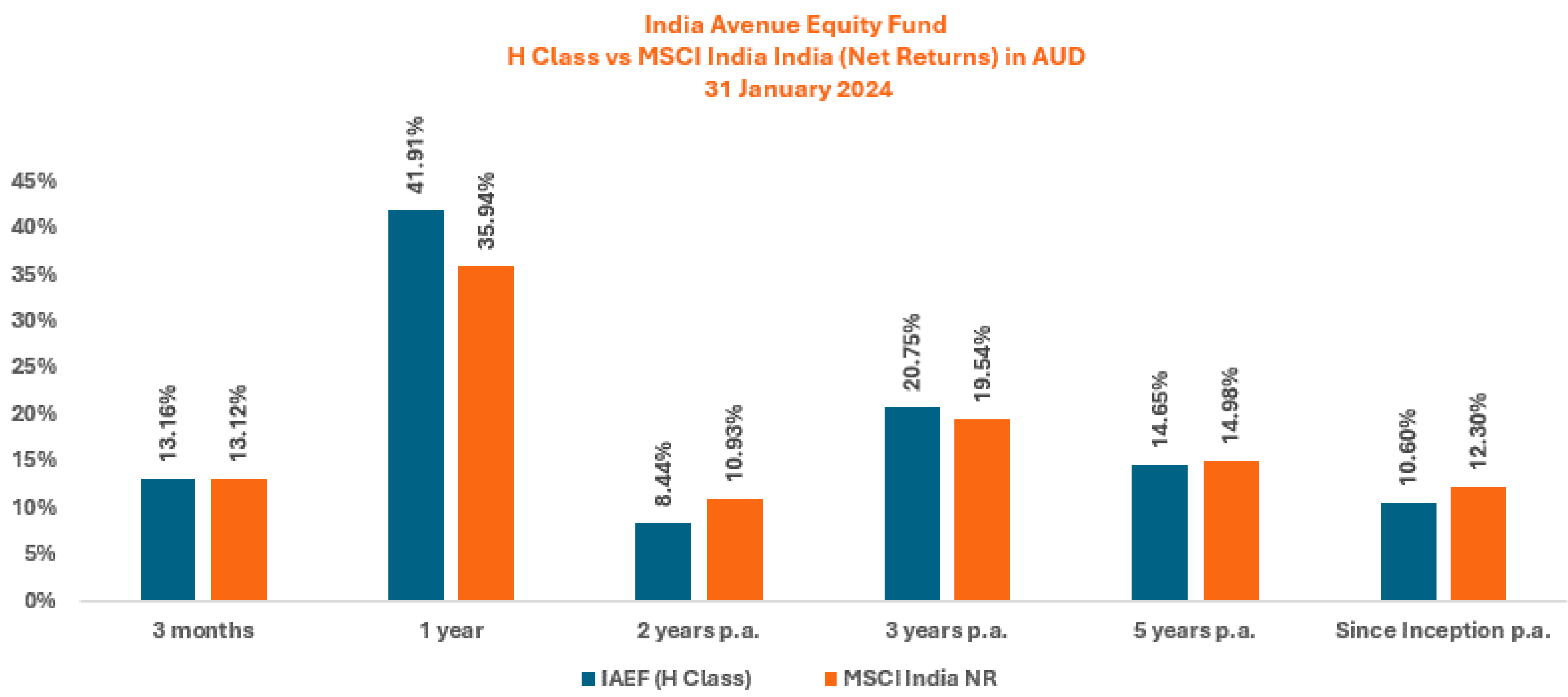
FUND OBJECTIVE

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)

FUND RETURNS VS BENCHMARK - 31ST JANUARY 2024



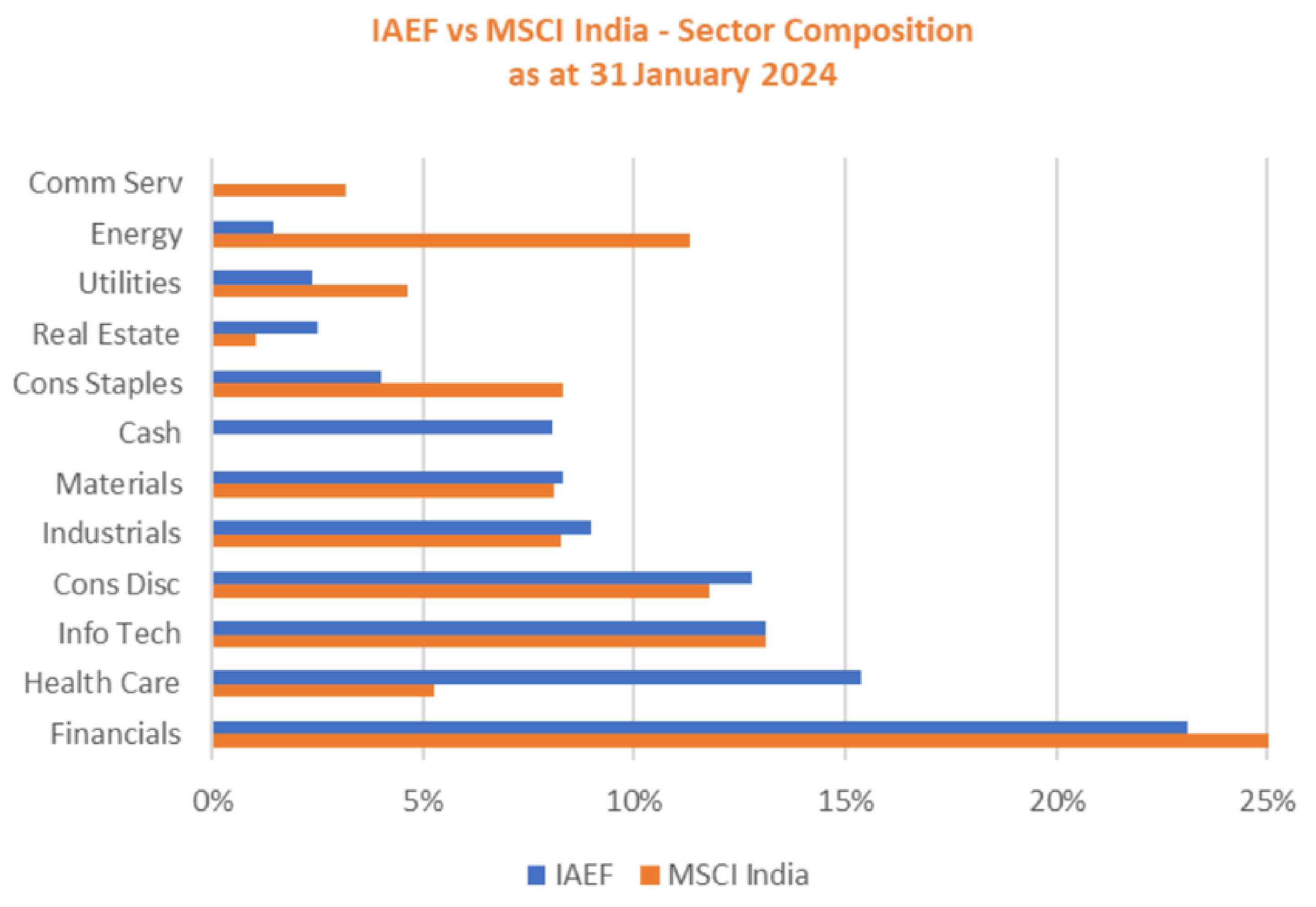
The Fund returned 13.16% (H Class Units) over the last quarter, outperforming its benchmark over the same period by 0.04%. The robust return over the quarter was the continuation of the trend which saw the Fund return 41.91% over the 12 months to 31 January 2024, outperforming its benchmark by 5.97% over the same period. Whilst much of the outperformance over the year was driven by the bias towards mid and small cap stocks, the last 3 months saw a significant surge in flow into Indian markets, particularly from foreign investors in December. This led to a more balanced result across market capitalisation segments over the quarter. Given India's strong GDP and corporate earnings growth, investors continue to increase their exposure and become more open to regional allocations.

Additionally, the Union Budget in early February illustrated the Government's continued focus on capex and infrastructure spending as the main growth engine, despite the expectations of some populist measures in the lead up to India's national elections in May/June 2024 (refer to the *Why India* section in this factsheet).

Over the last 12 months the Fund has benefitted from sector overweights to Pharmaceuticals, Industrials and Real Estate as well as stock selection in Financials and Information Technology. The focus of the Fund is on investing in growth stocks at favourable valuations, which in our view cannot be attained unless you accept a mid/small cap bias.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st January 2024, 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



Source: Foresight Analytics

SIGNIFICANT SECTORS

Financials, Healthcare, Information Technology and Consumer Discretionary sectors continue to dominate the exposure the Fund holds, accounting for 64% of the weight. Whilst India's "financialisaton" is driving an increasing weight to Financials in the benchmark, our exposure has been highly selective, being driven by Private Banks (HDFC Bank, ICICI Bank and Axis Bank) and NBFC's (Bajaj Finance, Shriram Finance and Cholamandalam Finance), rather than government owned banks.

Technology exposure has slowly been edging up from an underweight position. The Fund holds large cap exposure like Infosys, HCL Technologies, Wipro and Tech Mahindra. Additionally, we own mid cap IT firms like Coforge and Zensar Technologies. India is expected to continue to illustrate a competitive advantage in IT outsourcing and consulting and win a greater share of the global profit pie going forward. We expect the Fund to increase exposure towards an overweight position in future.

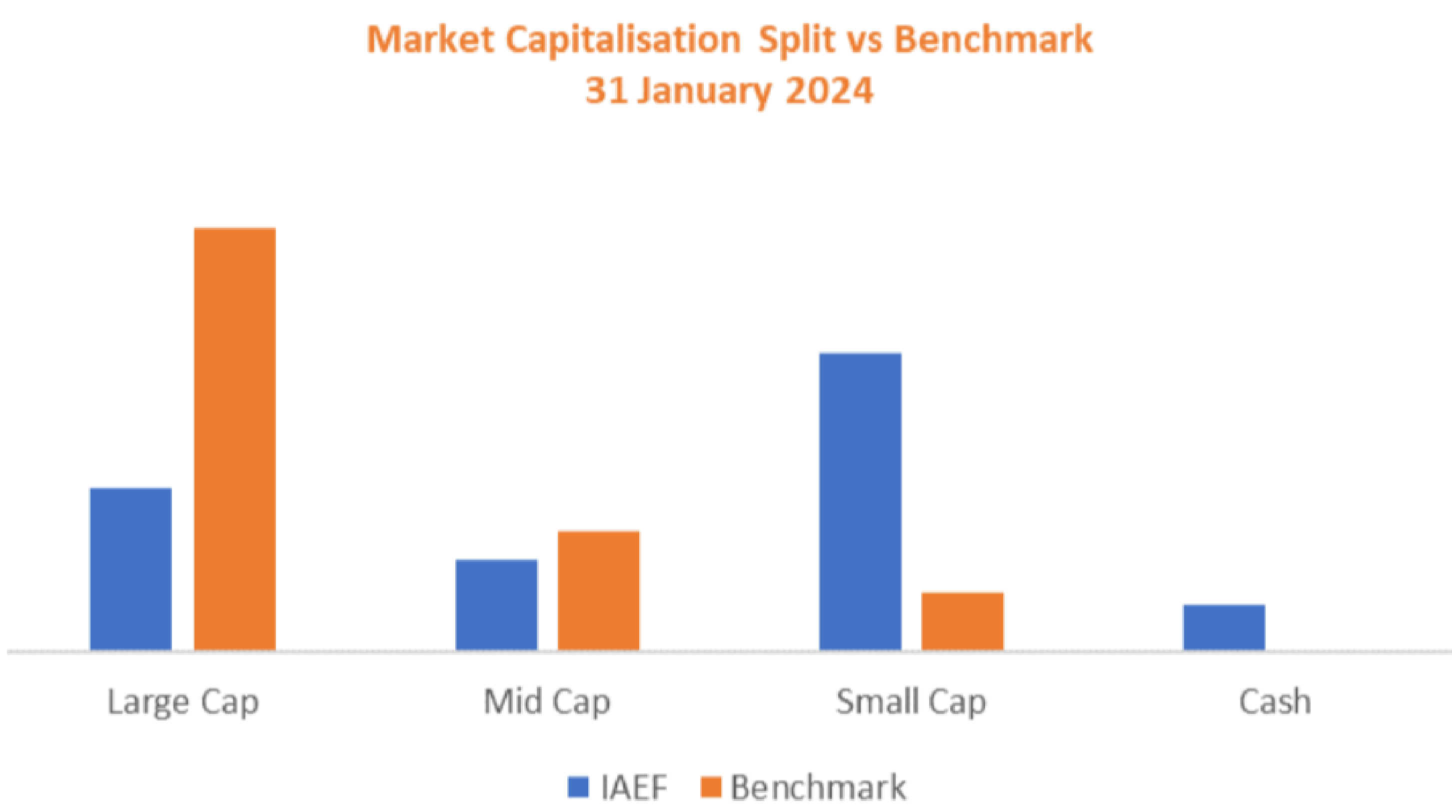
TOP 10 STOCKS

IAEF Top 10 stocks (as of 31 January 2024)		
Company	**Industry**	**Fund Weight**
HDFC Bank	Private Bank	4.07%
Hero Motocorp	Automobile	3.80%
Bajaj Finance	Non-Bank Lender	3.64%
ICICI Bank	Private Bank	2.70%
Infosys	IT Outsourcing	2.64%
HCL Technologies	IT Outsourcing	2.43%
Aurobindo Pharma	Healthcare	2.23%
Shriram Finance	Non-Bank Lender	2.13%
Tata Motors	Automobile	2.09%
Glenmark Life Sciences	Healthcare	2.05%

HDFC Bank moves to top spot in terms of weighting in the Fund. After a significant period of underperformance within the industry, it is our view that the company is positioned more conservatively in terms of their loan book, whilst experiencing sustainable growth. We have added to the position and trimmed some of other private bank exposure which have outperformed the industry, including Axis Bank and ICICI Bank.

Also entering our top 10 by stock weights is Glenmark Life Sciences who develop, manufacture, and distribute active pharmaceutical ingredients to their partners globally. It is another one of the Fund's pharmaceutical holdings, joining Aurobindo Pharma in the top 10.

EXPOSURE BY CAPITALISATION



Source: Foresight Analytics

We define large caps in this chart as representing the top 70% of the MSCI India's market cap. The MSCI India has 131 stocks at present. Mid- caps are defined as the next 20% of market cap, with small caps representing the last 10%. The Fund's weighting to the top 70% of market capitalisation is 27%. However, the Fund has a significant representation of 49% in the bottom 10% of market cap. In our view, this segment has far more diversity by sector and represent some of India's best growth opportunities.

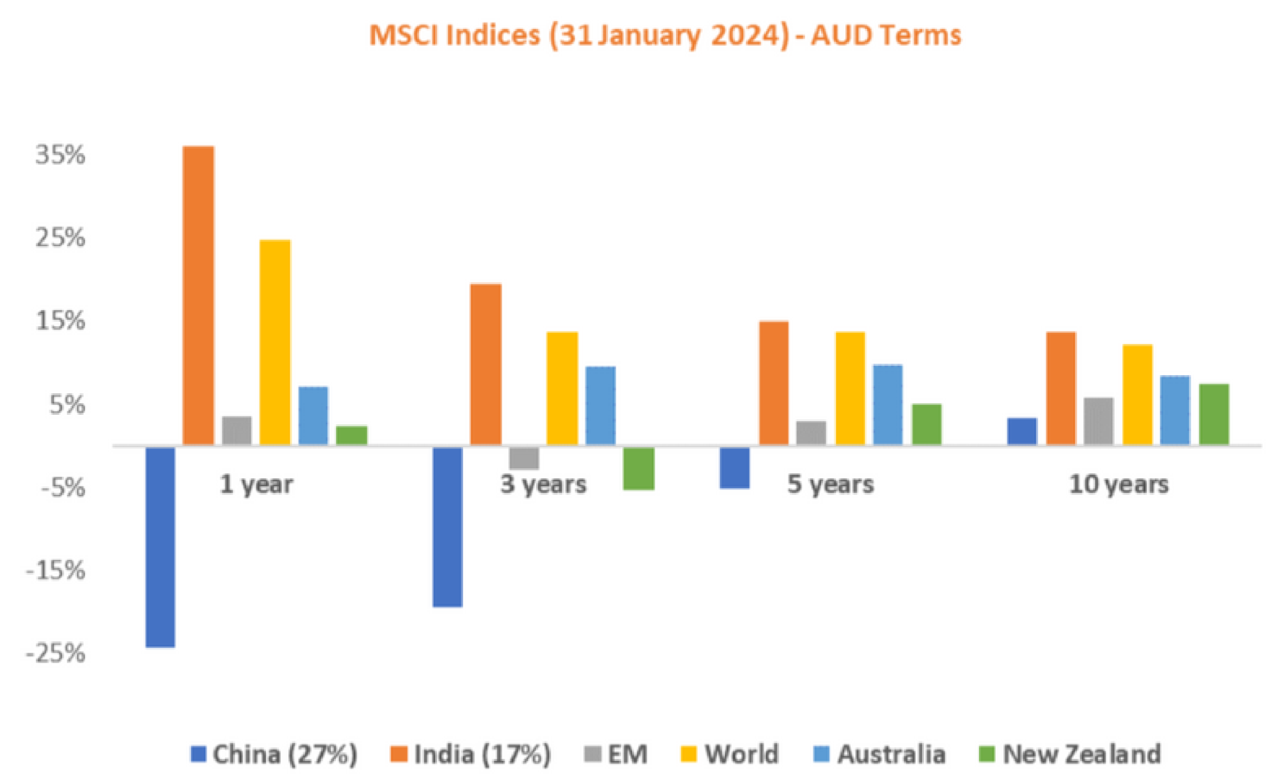
FUND CHARACTERISTICS

	IAEF	MSCI India
Dividend Yield	0.94%	0.98%
P/E Trailing 12-Month	24.43	28.24
P/E Forward 12-Month	**19.78**	**23.55**
PEG Ratio Trailing 12-Month	1.20	1.54
Price-to-Book Ratio	3.75	4.33
Dividend Growth Hist 5 YR	19.03	20.46
EPS Actual 12m Forward	**21.79%**	**20.63%**
EPS Actual 5 YR Hist Gr	12.84	16.36
Revenue 12m Fwd Revenue Gr	13.40%	13.05%
Revenue 5 YR Hist Gr	13.76	14.69
Net Profit Margin	16.33	18.53
Operating Profit Margin	19.86	20.95
ROE Common Equity	**16.21**	**18.04**

Source: Foresight Analytics

The characteristics of the Fund reveal that in aggregate its P/E 12 months forward is trading at 19.8x which is at a discount to the benchmark MSCI India, trading at 23.6x. Whilst the P/E of the Fund is below the benchmark valuation, the 12-month forward EPS growth is slightly ahead of the benchmark. The Fund's ROE tends to be lower than the benchmark due to our advisers approach in aggregate, seeking opportunities for acceleration in ROE, rather than paying up for "optimal" ROE.

INDIA VS OTHER MARKETS



Source: Foresight Analytics

India's equity market returns continue to stand out relative to other regions. Its stark difference to China's performance also tells us why Emerging Market returns as an asset class have been impaired. China comprises 24% of MSCI EM, down from over 40% pre COVID-19. India meanwhile has risen from 8% of MSCI EM to 18%. Impressively, India's 10-year returns are ahead of the MSCI World, which has been driven by a large weighting to the US equity market. Australia and New Zealand markets have lagged over most periods relative to the MSCI World and India. India has benefitted, over the last 12 months, from China's weakness as allocators have shifted focus from playing the re opening" trade towards India's growth story.

INDIA'S MACRO

Economic Factors (as of 31 January 2024)		
GDP Growth	7.6%	Sep-23
GDP per capita	US$2,601	Oct-23
Inflation	5.07	Dec-23
Cash Rate	6.50%	Jan-24
Balance of Trade	-US$19.8bn	Dec-23
Manufacturing PMI	56.5	Jan-24
Services PMI	61.8	Jan-24
Industrial Production	2.4%	Nov-23
Forex Reserves	US$617bn	Jan-24
Population	1.436bn	Feb-24
Unemployment rate	8.7%	Dec-23
Capacity Utilisation	74.5% (s.a.)	Sep-23
Consumer Confidence	92.2	Nov-23
Government Debt to GDP	86.5%	Mar-23
Household Debt to GDP	40.3%	Jun-23
Electricity Production	115.947 (GW/h)	Dec-23
Steel Production	12,100 (thousand tonnes)	Dec-23

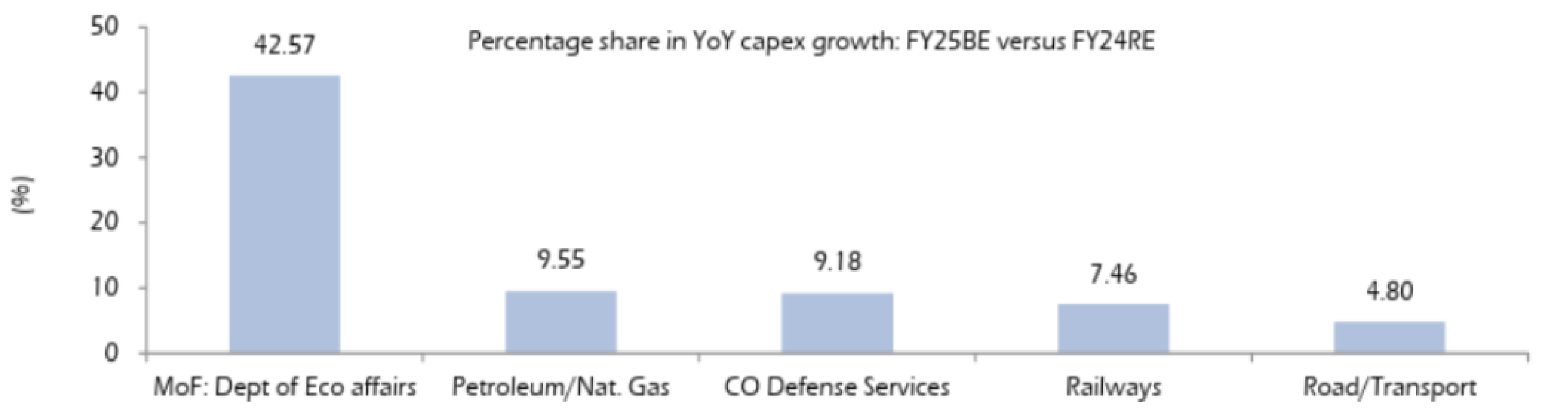
Source: Tradingeconomics.com

Capacity Utilisation was released by the Reserve Bank of India for Q2 FY24 (September 2023 Quarter). The Survey covers 803 manufacturing companies and provides a snapshot of demand conditions in India's manufacturing sector during this quarter. On a seasonally adjusted basis, Capacity Utilisation was measured at 74.5%. Manufacturers reported higher new orders compared to the previous quarter and the corresponding quarter last year. Since the Survey started, the highest reading occurred during 2010-2011 (83).

Currently India's corporates have robust balance sheets, with debt-to-equity less than 50% (whenexcluding Financials). If the demand environment remains robust locally and shows some sign of improvement globally (unlikely till post slowdown caused by higher interest rates), then Indian corporates are well poised to increase capacity and continue to win global market share across segments. This will also ride on the coattails of government capex and infrastructure spending.

WHY INDIA?

On Thursday February 1 st , the Minister of Finance, Ms Nirmala Sitharaman detailed the Interim Union Budget for FY25 (India's fiscal year is from 1 April to 31 March). The final budget will be passed in July 2024 (given its an election year). The Government has undertaken fiscal consolidation since expanding the deficit post COVID-19. For FY24, a forecast deficit of 5.8% was announced, with expectations for this to drop to 5.1% by FY25 and targeted to be below 4.5% by FY26. There were no new taxes or schemes announced. Whilst the Government looks all but assured of a victory at the National Election in May-June 2024, it took the opportunity to keep the Budget free from populist measures. These measures are typical in a pre-election year in India and usually involve increasing hand-outs and subsidies to the masses, particularly in rural locations as well as a general boost to consumption. In contrast to this, sectors which are likely to see continued benefit from existing policy in place include Renewable Energy, Housing, Tourism, Healthcare and Railways.



Source: CEIC, Budget documents, GoI, Elara Securities Research.MoF=Ministry of Finance, Department of Economic Affairs; CO=Capital Outlay on Defense Services

Expenditure is set to see growth of 6.1%. Capex however is forecast to grow 16.9% and become an increasing component of overall expenditure. Revenue growth is set to be 3.2% and rising from FY24 due to increasing personal and corporate taxes in a fast-growing economy.

Source: CEIC, Budget documents, GoI, Elara Securities Research

The lower-than-expected borrowings should be positive for India's bond markets (10-year bonds currently trading at 7.1%). Additionally, post June 2024, India's bonds will be included in the JP Morgan EM Bond Index, which should be positive in seeing flows and reducing yields. Typically, as India's bond yields fall towards 6.5%, it becomes more conducive to private capex and spending.

Key Themes	Industry Themes
Reduced Cost of Capital	Development of EV ecosystem
Focus on Logistics	Bio-manufacturing/Bio-foundry to promote sustainability
Focus on Renewable Energy	Aim of achieving 500GW installed capacity by 2030
Limited Consumption Impetus	Capital goods and railways to develop infrastructure corridors
	Aviation will benefit from rising number of airports
	Building materials and NBFCs due to the focus on affordable housing
	Energy security initiatives to reduce the cost of gas. Development of green energy projects and initiatives

Source: Elara Capital Research FY25 Union Budget by Garima Kapoor

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FUND DETAILS

31.01.24	H Class
NAV	1.7646
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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