MONTHLY REPORT | DECEMBER 2023 | INDIA AVENUE EQUITY FUND

FUND DETAILS

Fund Manager	India Avenue Investment Management
Structure	Registered Investment Management Trust
Inception date	6th of April, 2017
Fund size	A$89.5m
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	1.5% p.a. (H Class)
Buy-sell spread	0.35% / 0.35%
Performance fees	10% of excess above benchmark
ARSN Number	611374586

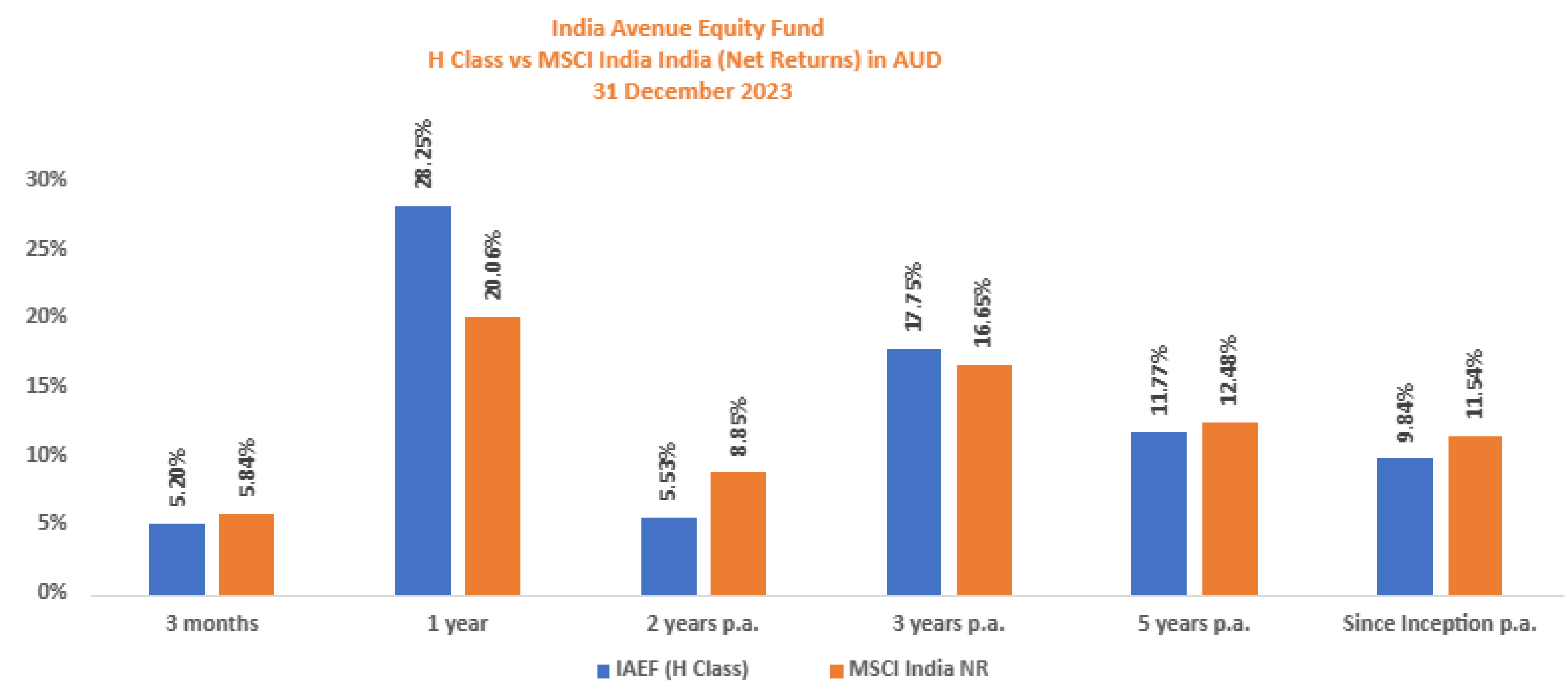
FUND OBJECTIVE

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 COMMENTARY

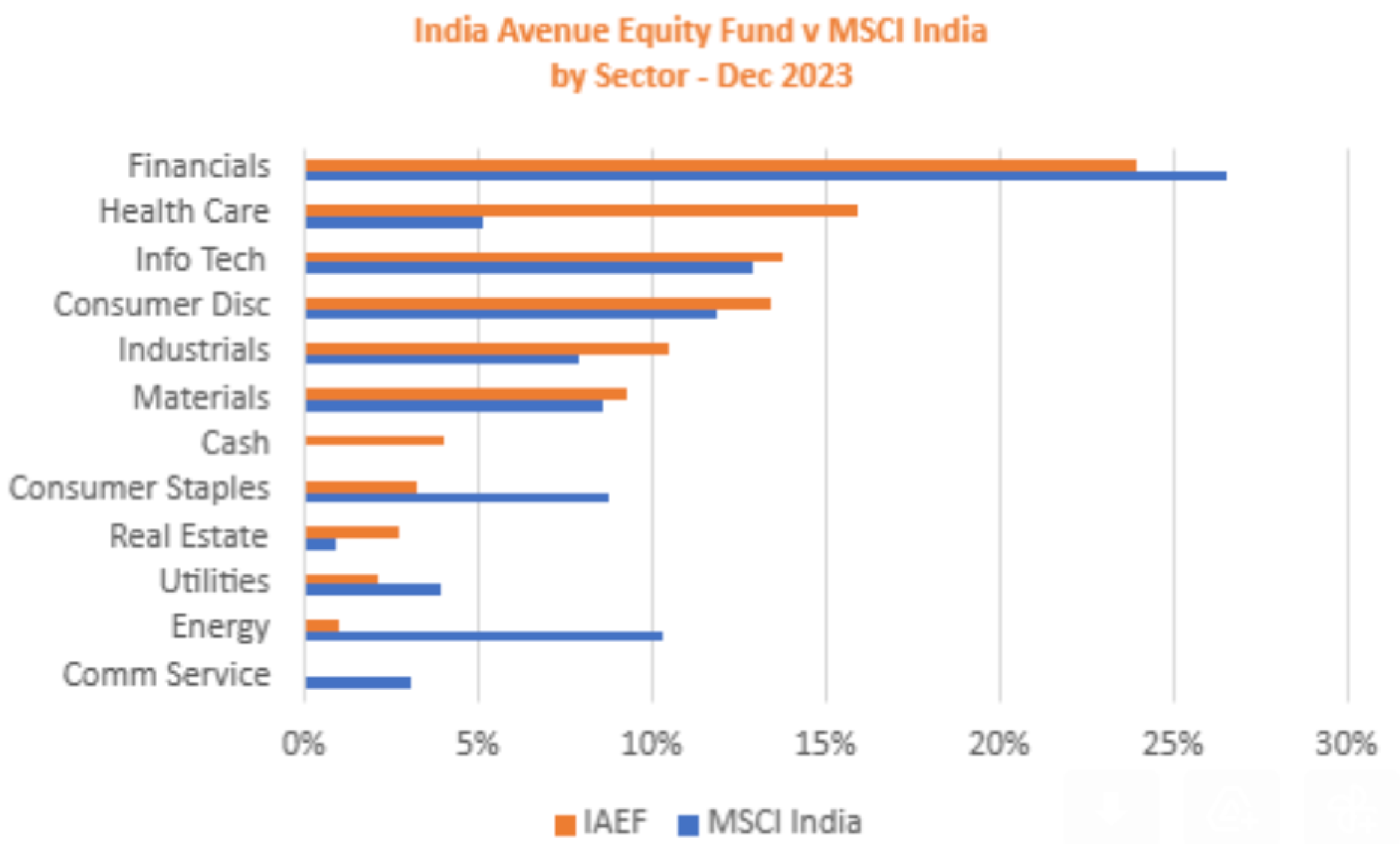
The Fund returned 5.20% (H class units) over the last quarter of 2023, underperforming its benchmark over the period by 0.64%. Over the calendar year of 2023, the Fund returned 28.25%, outperforming its benchmark by 8.19%. As highlighted in our recent factsheets, the outperformance was driven by exposure to mid and small caps, which outperformed large cap, higher weighted benchmark constituents by a significant margin.

Local and foreign investors aligned, to invest with a greater focus on valuation and increased their tolerance on liquidity. As a result, investors looked further down the "capitalisation curve" (with several India specific funds being set up in regions like Japan and Korea) for opportunities. 2023 saw around US$22bn inflow from foreign investors, with US$7bn of that coming in December 2023. This was after the outcome of five state elections where PM Modi's BJP party performed above expectations. On top of this local investors (mutual funds, HNW's, retail) continue to strategically increase investments, adding a further US$22bn of inflow.

The Fund benefited from sector and stock selection, particularly in the Industrials, Healthcare and Real Estate sectors. The Fund established overweight positions in these sectors post COVID-19 and was a beneficiary of a robust and recovering Indian economy and improving fundamentals for these industries.

Source: MSCI. Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st December 2023, net of fees and assuming reinvestment of dividends. Returns of longer duration than 1 year are annualised. Returns are exclusive of any rebates provided.

SECTOR



The Fund remains overweight in the Healthcare, Real Estate, Industrials and Consumer Discretionary sectors. Underweight sectors are Consumer Staples, Utilities, Communications and Energy. Points to note include; the diversity of Financials holdings, which include Banks, NBFC's and Insurance companies as well as the nature of Consumer Discretionary holdings, being automobile stocks (2w and PV's). The Fund has also recently introduced a few Utility companies, based on their valuation and ability to participate in increased capex occurring in India.

CAPITALISATION

	Portfolio Weight	Stock Count	Benchmark Weight	Stock Count
Large caps	27.3%	12	70%	46
Mid caps	18.1%	10	20%	48
Small caps	50.7%	40	10%	37
Cash	4.0%		0%	

The Fund has a structural bias towards small caps. 40 of the stocks in the portfolio (51% of the weight) form our small cap component. Market caps of these stocks range from A$5bn down to A$100m. These are typically companies from A$5bn to A$200m. India has close to 800 companies in this range of market cap. Ideally, we seek companies benefitting from growing addressable markets, with a more favourable valuation as these companies are either early in their growth phase, at the bottom of their business cycle and/or under-owned by institutional investors. The other 22 large and mid-cap stocks (45% of the portfolio weight) represent our exposure to the top 90% of market cap and represent companies growing earnings faster than GDP or more favourable valuation for the growth they offer.

CHARACTERISTICS

	IAEF	MSCI India
Dividend Yield	1.0%	1.0%
P/E Trailing 12-Month	25.0	28.2
P/E Forward 12-Month	**18.8**	**23.0**
PEG Ratio Trailing 12-Month	**1.1**	**1.5**
Price-to-Book Ratio	**3.7**	**4.3**
Dividend Growth Hist 5 YR	19.0%	21.0%
EPS Actual 12m Forward	**23.7%**	**20.6%**
EPS Actual 5 YR Hist Growth	12.7%	16.5%
Revenue 12m Forward Rev Gr	**13.5%**	**13.2%**
Revenue 5 YR Hist Growth	13.7%	14.7%
Net Profit Margin	16.2%	18.6%
Operating Profit Margin	19.8%	21.0%
ROE Common Equity	16.2%	18.2%

Source: Foresight Analytics

The Fund illustrates its value style bias when observing the P/E and P/B relative to the benchmark. Typically, global investors are frustrated by India's expensive valuations. We would argue that this is because they focus on mega-caps which are benchmark heavyweights and highly liquid. The Fund's focus is on investing for growth whilst being more respectful of valuations relative to that growth. Whilst quality factors like margins and ROE may be lower than the benchmark, this is a function of seeking attractive valuations with the expectations of improving ROE and profitability over time as scale and operating leverage start to drive earnings.

OUTLOOK FOR 2024

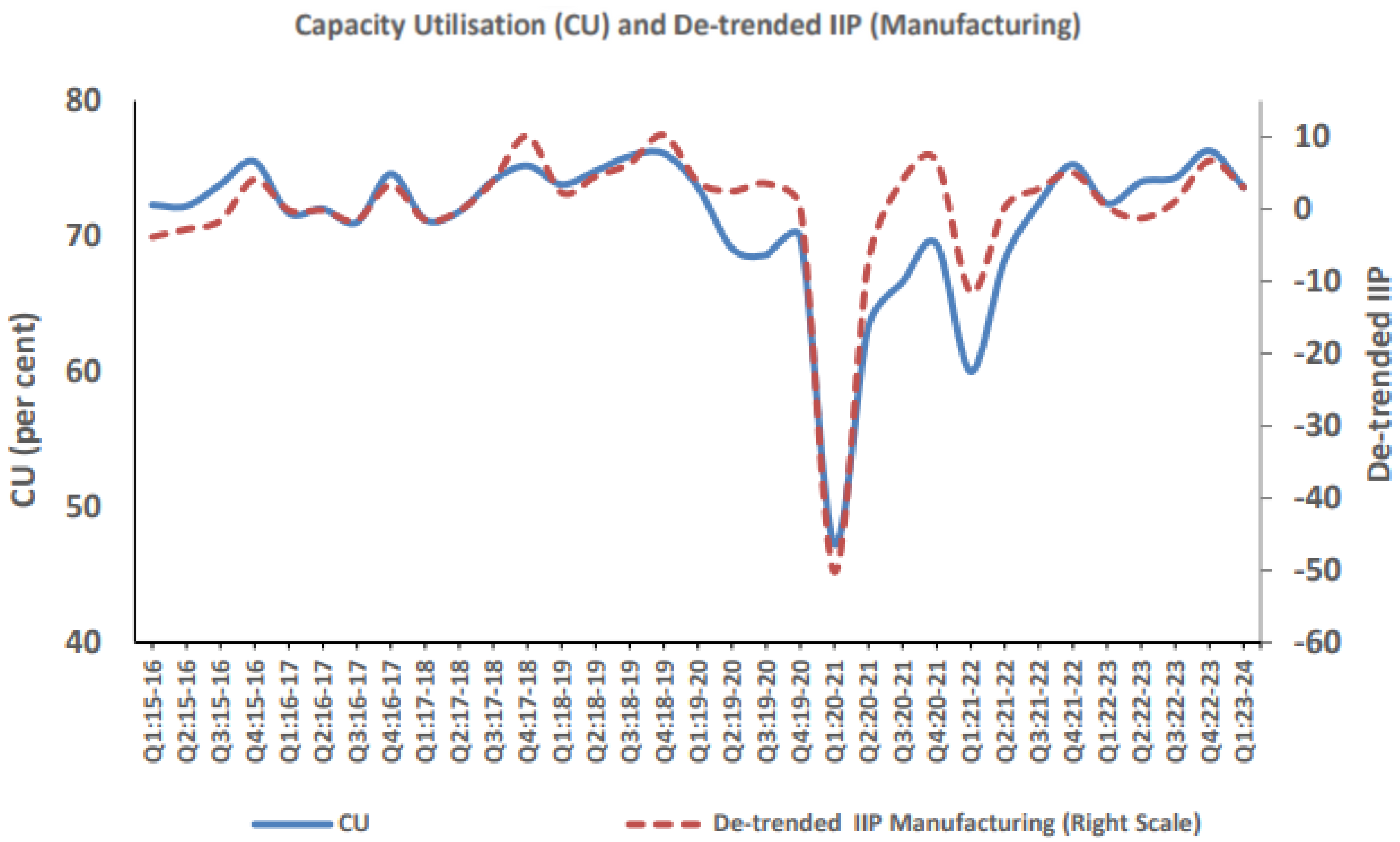
Indian equity markets rose by slightly over 20% in 2023 (MSCI India AUD), which was superior to most major markets and asset classes, aside Developed Equities, which was driven by the strong rebound in US markets (led by the magnificent seven). Since Covid-19, India has been the stand-out equity market, returning over 16.7% p.a. in AUD terms, taking it to the fourth largest in the world by market cap, at US$4.1 trillion.

Likely Outcomes in 2024

- Interest rate cuts globally are now more on top of mind than rising inflation. This will create some volatility in markets as investor's grapple with potential recession
- The threat of geopolitical risk rising due to events in the Middle East and Europe as well as election outcomes in regions like the US, Taiwan, UK and India.
- Foreign investors are likely to see India as an attractive equity market given real economic growth around 7% and corporate earnings growth between 10-15%. India will continue to attract capital relative to China and other lagging Emerging Markets as investors increasingly contemplate regional allocations
- PM Modi and the BJP Party likely to win the Indian national elections in May-June 2024 and continue forward with an agenda of growth and development, driven by capex and infrastructure. With excess capacity mostly absorbed, then next driver will be capacity addition.
- Interest rate cuts in India if inflation recedes, which can add further to the capex revival

Capacity Utilisation

Overtime capacity utilisation has averaged 73%, with a peak in 2011 of 83% and a Covid-19 low of 48% in 2020. This measure has been rising and the pace of growth in government funded capex is significant at present. Private sector capex is likely to chime in with further additions in 2024-2026 which will have a significant multiplier effect on economic growth and corporate earnings. With corporate balance sheets in their most healthy state this century, it looks likely that capacity additions will occur if demand comes through (locally and from foreign sources). This may be delayed if we encounter a ‘hard landing’ scenario globally.



Source: Reserve Bank of India, Survey of Order Books, Inventories and Capacity Utilisation (OBICUS) covering 707 manufacturing companies

Risks

Despite investors considering India's economy and markets to be in a “goldilocks” phase, there are several risks to consider. These include:

- Volatility around the Indian National elections in May-June 2024
- Several geopolitical risks globally, which we have outlined above
- A global recession which has an impact on demand and thus India's corporate earnings. Given market valuations, maintaining corporate earnings growth of 10-15% is critical over the 2024-2026 period.
- Recovery in China which sees funds flow out of other markets like India and back towards China

Consensus Earnings

Nifty-50 EPS growth is expected to range (Bloomberg forecasts) between 8-12% for the next two years (FY24-26). However, there are risks to these forecasts as well as variability in P/E expectations for the markets based on global and local economic and political risks, investor sentiment, interest rates and liquidity.

It is our view that India can hold its premium valuation to other Emerging Markets due to its macro stability, rising weights in global indices, investor inflows and corporate earnings transparency. However, the markets will not be immune to global investor sentiment turning negative towards equity markets.

FUND DETAILS

31.12.23	H Class
NAV	1.6698
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

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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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CONTACT DETAILS

India Avenue Investment Management Australia Pty Ltd
AFSL 478233 | ABN: 38 604 095 954
Level 2, 33 York Street, Sydney, NSW 2000, Australia
T: +612 8245 0507, E: IA@indiaavenue.com.au
W: www.indiaavenue.com.au