

*India Avenue Investment Management is a boutique firm, focused on providing investment solutions for investors seeking to gain from benefit from India's multi-decade growth story. Our firm is domiciled in Sydney, Australia and has strong connectivity through its network in India. This includes our team in India, our fund advisers, stockbrokers, and other industry participants. This allows us to provide deep insights to our clients when it comes to investing successfully in the world's leading growth economy.*

## FUND DETAILS

<b>Fund Manager</b>	India Avenue Investment Management
<b>Structure</b>	Registered Investment Management Trust
<b>Inception date</b>	6th of September, 2016
<b>Fund size</b>	A\$106.9m
<b>Base currency</b>	AUD
<b>Responsible Entity</b>	Equity Trustees Limited
<b>Custodian</b>	Apex / BNP Paribas
<b>Benchmark</b>	MSCI India NR (AUD)
<b>Distribution Frequency</b>	Yearly as at 30 June
<b>Management expense ratio</b>	1.50% p.a. (H Class)
<b>Buy-sell spread</b>	0.35% / 0.35%
<b>Performance fees</b>	10% of excess above benchmark (H Class)
<b>ARSN Number</b>	611374586

## FUND OBJECTIVE

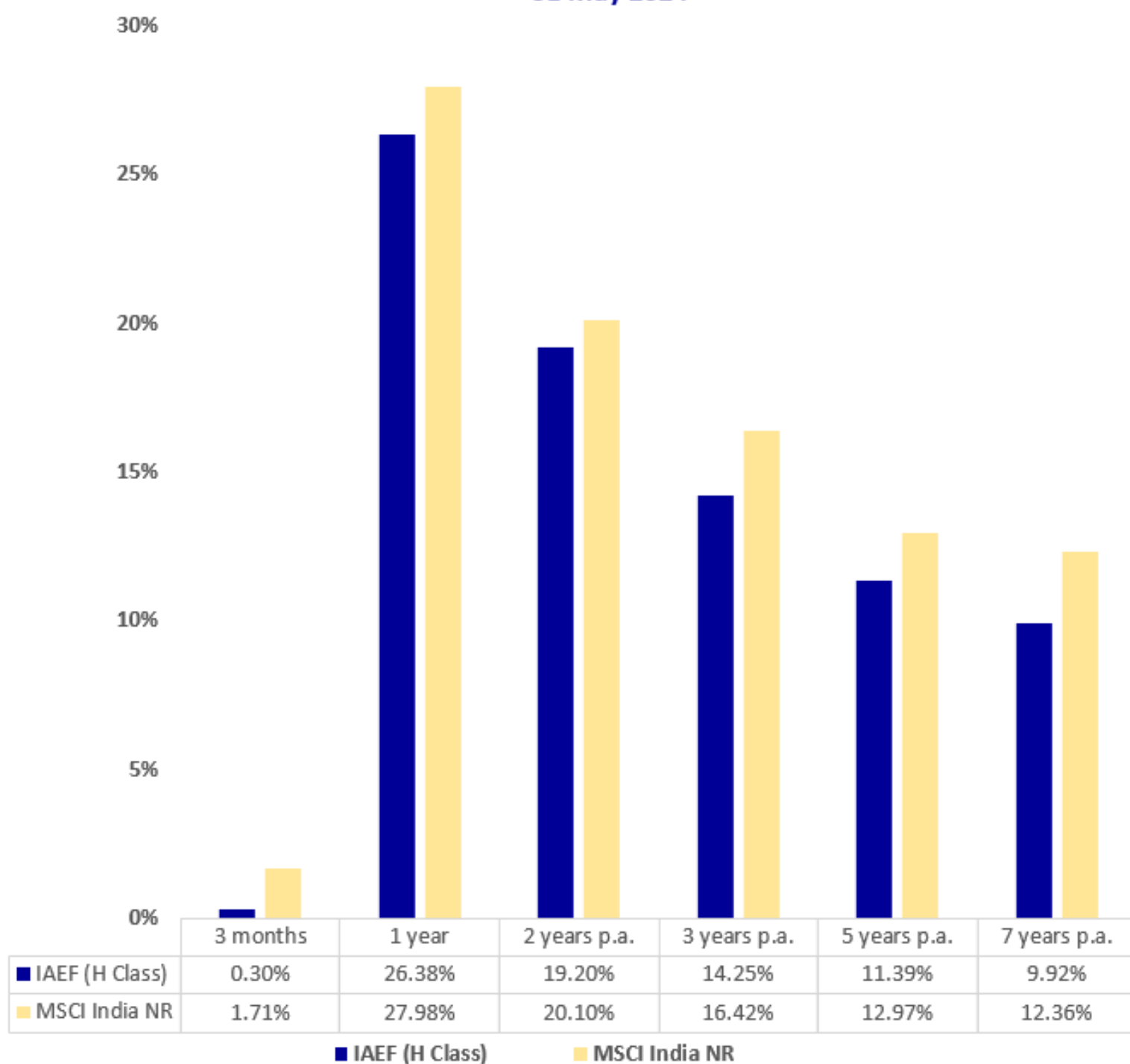
The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods.

## FUND RATING

Lonsec : Recommended <sup>1</sup>  
(refer to the disclaimer section on page 5)

## INVESTMENT PERFORMANCE

**India Avenue Equity Fund**  
H Class vs MSCI India India (Net Returns) in AUD  
31 May 2024



*Performance is calculated on a post-fee, post-CGT and with holding taxes paid in India. Past performance is not an indicator of future performance. Returns are calculated based on the exit price of 31st May 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.*

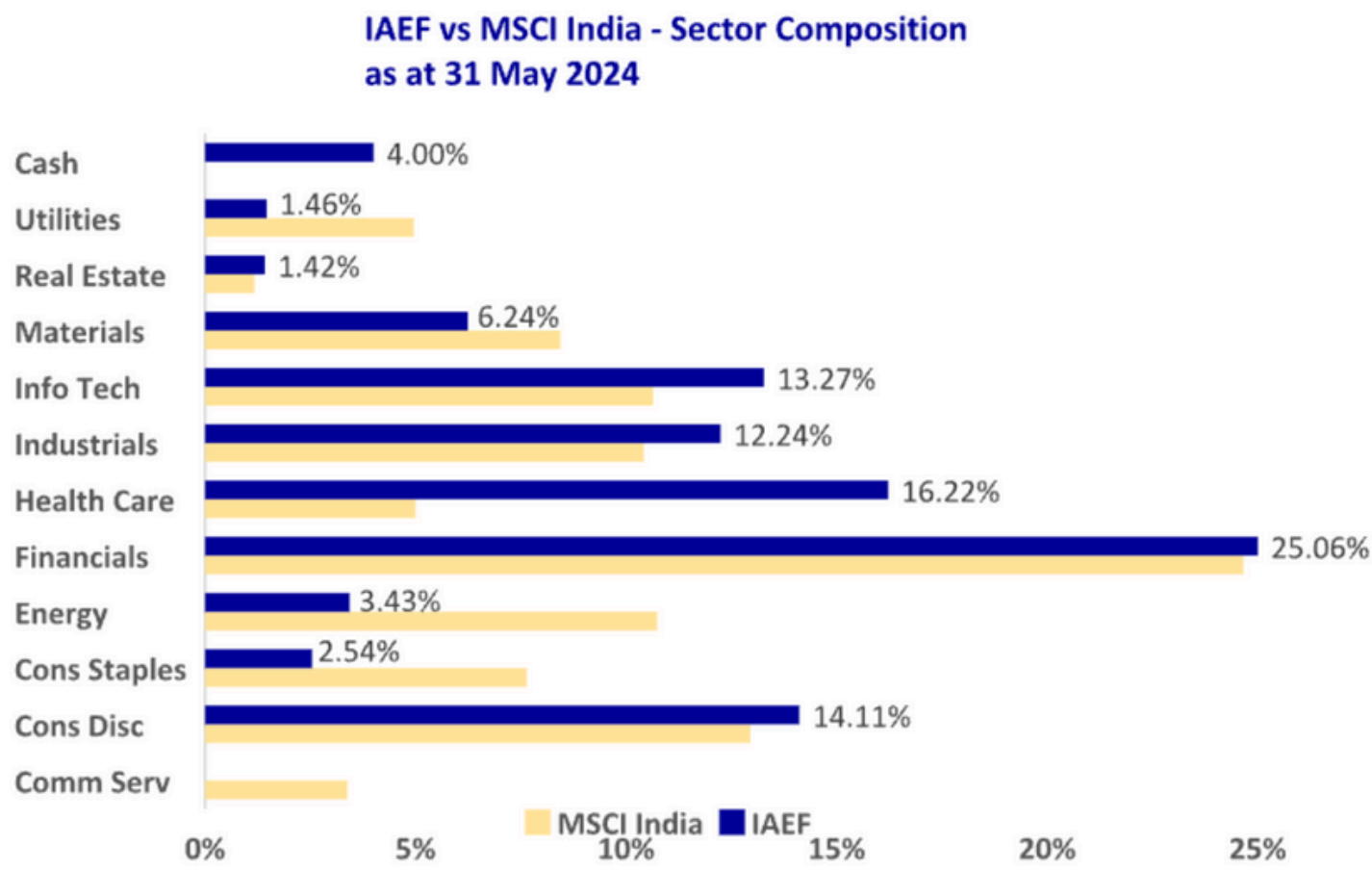
## COMMENTARY

The Fund returned 0.30% (H Class Units) over the last three months to 31 May 2024, underperforming its benchmark by 1.41%. Over the last 12 months the Fund returned 26.38%, underperforming its benchmark by 1.60% over the period. The Fund's underperformance from December 2023 – March 2024 was driven momentum in stocks with relationship to government capex and spending i.e. Energy, Utilities, State-owned Banks, which typically the Fund has low exposure to relative to the benchmark. The Fund remains overweight to sectors which should participate more in driving India's growth story than their representation in the benchmark.

In 2024 (CYTD) the MSCI India has returned 12.14% CYTD, still outperforming China, despite global investor views that India is expensively valued relative to the Emerging Markets pack. The only Emerging Markets that have outperformed CYTD are Taiwan, Turkey, Colombia, and Peru. While FIIs (Foreign Investors) may be absent for a while due to India's relative valuations, we expect local investors to continue their structural investment glide path.

It is our view that post the General Elections in India (results were reported on the 4th of June) and the upcoming Union Budget in early July, the Indian equity market will revert to a focus on fundamentals i.e. earnings growth in under penetrated industries at attractive long-term valuations. However, markets are likely to remain relatively volatile over the next 1-2 months as the Union Budget, Modi's Cabinet is allocated to roles and the Monsoon's progress is monitored (June-September).

SECTOR EXPOSURE



Source: Foresight Analytics

PORTFOLIO CHARACTERISTICS

Filters	IAEF	MSCI India
Return on Invested Capital	14.1%	13.2%
Gross Profit Margin	44.2%	40.0%
Asset Growth 3 years	15.1%	13.0%
Forecast LT Sales Growth	13.4%	12.7%
Earnings Growth 12m Forward	18.6%	16.9%
Price-to-book	3.45x	4.00x
P/E Forward 12-mth	20.2x	24.3x
Free Cash Flow Yield	4.49%	3.48%
Exposure to Inflation	0.14	0.11
Exposure to Oil Return	0.25	0.22
Beta	1.08	1.00
Mkt Cap	\$34.6bn	\$90.25bn

Source: Foresight Analytics

TOP 10 STOCKS

Bajaj Finance	Non-Bank Lender	4.4%
HDFC Bank	Private Bank	4.3%
Hero MotoCorp	Automobile	4.2%
Aurobindo Pharma	Healthcare	3.4%
Infosys	IT Outsourcing	3.0%
ICICI Bank	Private Bank	3.0%
Interglobe Aviation	Transport Services	2.7%
Axis Bank	Private Bank	2.6%
Amara Raja Energy & Mobility	Auto Components	2.4%
BPCL	Energy	2.4%
<b>Top 10 Weight</b>		<b>32.4%</b>

HIGHLIGHTS

- The Fund reduced its cash position by the end of May, with a view that the General Election outcome might be positive for markets and sentiment.
- Exposure was increased marginally in Information Technology, Industrials, Financials and Consumer Discretionary. Apart from Industrials, these sectors had underperformed over the last 12 months.
- Relative to the MSCI India, the Fund remains increasingly positive on IT, Industrials, Healthcare (mainly Pharmaceuticals) and Consumer Discretionary (mainly Autos and Ancillaries).
- The Fund held a small position in Nifty-50 Put Options leading into the General Election outcome as the cost of portfolio protection was relatively low, given low volatility in Indian equity markets.

- We have listed the positive characteristics biases of the Fund relative to the benchmark. The P/E discount remains close 20% to the benchmark, despite the performance of the Fund.
- The valuation bias of the Fund currently in aggregate is also highlighted by the free cash flow yield and price-to-book relative to the benchmark.
- Whilst our portfolio currently has lower historical earnings growth relative to the benchmark, it has stronger forecast earnings. This highlights our focus towards finding companies likely to grow their earnings, sourced at a lower valuation at our buy point.
- The market cap is a significant style bias for the Fund at a weighted average of A\$35bn compared to A\$90bn of the benchmark. This should be taken with the context given the top-heavy nature of the MSCI India benchmark.

- The Fund’s weighting to its Top 10 (32.4% vs 31.1%) continues to increase as incremental. Exposure to larger cap companies is with the intent of conviction rather than diversification.
- Over the month of May, we increased exposure to Hero MotoCorp, Infosys, and Axis Bank as attractive large cap stocks from a valuation perspective relative to their peers and broadly compared to the market.
- Stocks such as Interglobe Aviation and Aurobindo Pharma should find their way into the Nifty 50 over time. They play two key themes of under-penetration (aviation) and manufacturing expertise and rising global market share (pharmaceuticals).

**ATTRIBUTION HIGHLIGHTS**

Sector Selection - Value Add			Stock Selection – Value Add	
Cons. Staples	(uw)	1.53%	Materials	1.36%
Real Estate	(ow)	1.22%	Industrials	1.31%
Industrials	(ow)	0.64%	Financials	1.31%

Sector Selection – Value Detraction			Stock Selection – Value Detraction	
Cash	(ow)	-1.77%	Utilities	-1.22%
Utilities	(uw)	-1.14%	Consumer Disc.	-0.54%
Financials	(ow)	-0.91%	Consumer Stap.	-0.17%

Source: Foresight Analytics

**SUMMARY**

- Over the last 12 months the Fund’s attribution indicates a strong positive contribution from stock selection, primarily driven by Materials, Industrials and Financials. Detraction in stock selection occurred in Utilities and Consumer stocks.
- In sector allocation the Fund benefitted from being overweight Real Estate and Industrials. However, holding some Cash and being underweight in Utilities led to negative contribution from sector allocations.
- Utilities and Consumer Discretionary sectors have been a source of underperformance for the Fund over time as the former is not typical exposure for a fund focused on growth (as opposed to re-rating plays) and the latter has been impacted by a challenging environment.

**OUR STOCKS**

Playing to India's key mode of transport, EV transition and the potential for rising rural incomes (market cap A\$21bn)



\*Graph of stock price, indicating India Avenue Equity Fund initial buy point. Average buy price is Rs.3013. Returns calculated are in INR terms.

Hero MotoCorp is world’s leading multinational motorcycle and scooter manufacturer for the last 23 years and is headquartered in Delhi. The company has close to a 46% market share of India’s two- wheeler industry and a market cap of A\$21bn. The major shareholder is the Munjal Family, owning 40% of the stock. The company started operations in 1984, named Hero Honda due to it being a JV between Hero Cycles and Honda (the Munjal Family and Honda both owned 26%). The JV ended in December 2010 as the Hero Group bought out the shareholding of Honda in a phased manner.

The company sold 5.6 million units in FY24 (year ending March 2024) of which over 95% were domestic sales. The company is the market share leader with over 32% market share. The following opportunities exist for the company today:

Roll out of new products given the focus on premiumisation. Typically, Hero bikes have been focused on a cheaper price point in the 125-250cc segment. However, a partnership with Harley Davidson has led to the development of the X440 for the premium end of the market.

EV sales are rising through the company’s brand, Vida, which is now available in over 100 cities across the country. To do this, Hero MotoCorp has entered a partnership with Ather Energy for a charging network of over 2,000 charging points.

It is expected that the Government of India will focus more on rural development and growth. This should benefit the company as it has a strong rural presence given 2-wheelers are the favoured mode of transport and Hero dominates lower price points.

Please refer to the latest company presentation

<https://www.heromotocorp.com/content/dam/hero-aem-website/in/en-in/company-section/investors/annual-report/presentations/2023-2024/Hero-World-2024.pdf>

## CAPITALISATION

	IAEF	Top 500	MSCI Cap Band
Large Caps (Top 100)	48.5%	73.9%	A\$16-368bn
Mid-Caps (Next 150)	14.3%	17.7%	A\$4.8-16.0bn
Small Caps (Next 250)	28.3%	8.4%	A\$0.6-4.8bn
Micro Caps (Outside Top 500)	4.9%	0.0%	< A\$0.6bn
Cash	4.0%	0.0%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	

Source: Foresight Analytics

## INDIA AVENUE'S ADVISERS

Adviser	Style	No. of Stocks
1	Growth and Quality	20-30
2	Business Cycle, Value	10-20
3	Intrinsic Value	20-25
4. Portfolio Overlay (India Avenue)	Completion Strategy, Large Cap	10-15
<b>India Avenue Equity Fund</b>	<b>Value, SMID Caps</b>	<b>50-70</b>

## OUR NETWORK

India Avenue's network in India, apart from our advisers mentioned above, also includes our team based in Mumbai, our panel of stockbrokers (including strategists, economists, and analysts) and access to industry experts and company management.

- India's General Elections concluded, with close to 650 million people going to the polls over a 6-week period. The results announced on 4th June 2024 indicated an outcome of 293 to the NDA (BJP + Alliances), which exceeded the requirement for a majority of 272 seats in the Lok Sabha (lower house of parliament).
- While there are some questions on the continuity of policy, given the lack of a one-party majority (BJP won 303 seats in 2019, compared to 240 in 2024), it is the general view of our network that Modi 3.0 will continue to focus on nation building through infrastructure and capex.
- However, they will need to be more mindful of fiscal prudence (which they already have been) and social welfare (youth employment, rural subsidies, access to healthcare and availability of low-cost housing).

## INSIGHTS

- Over the month of May 2024, we have reduced Cash in favour of Large Cap exposure. Whilst the market has had a significant run-up over the last 12 months.
- The weight of money from local investors has been overpowering, whilst GDP growth and corporate earnings remain supportive.
- Our structural positioning continues to favour small caps, with a margin of safety in valuation, to capitalise on the investing preferences of locally based investors.
- It is also our view that the greatest mispricing of securities occurs in the Small and Microcap segment, given limited institutional investment and broker coverage.

The investment process applied by the Fund is focused on "insourcing stock selection" from locally based fund managers in India.

- We have recently increased exposure to the Portfolio Overlay strategy to gain exposure higher conviction in our large cap exposures like HDFC Bank, Hero MotoCorp, and Tech Mahindra. Whilst our long-term focus is on the alpha rich segment lower down the cap curve, at present we have favoured an incremental increase in liquidity.
- Our active positioning in Large Caps sees the portfolio being completely absent in exposure to Index heavyweights, Reliance Industries (8%), Tata Consulting Services (3%), Bharti-Airtel (3%) and Larsen & Toubro (2%).
- When volatility subsides and the economic policy direction is clearer for the next five years, we will focus on allocating to our highly active advisers.

Website

Our Research

Invest Now

In the Media

## FUND DETAILS

31.05.24	H Class
NAV	1.8252
Management Fee	1.50%
Performance Fee	10% of excess
FY23 Distribution	0.0972
ARSN	611374586
ISIN	AU60ETL04784
APIR	ETL0478AU
Morningstar Code	41828

## DISCLAIMER

Equity Trustees Limited (“Equity Trustees”) (ABN 46 004 031 298) (AFSL 240975), is the issuer and Responsible Entity for the India Avenue Equity Fund (“the Fund”). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). The Investment Manager for the Fund is India Avenue Investment Management Australia Pty. Ltd. (“IAIM”) (ABN 38 604 095 954) (AFSL 478233). This publication has been prepared by IAIM to provide you with general information only. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular 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. Neither Equity Trustees, IAIM nor any of their related parties, their employees, or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance and no guarantee of performance, the return of capital or a particular rate of return is given. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product ([indiaavenue.com.au/our-fund/](http://indiaavenue.com.au/our-fund/)).

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: [www.indiaavenue.com.au](http://www.indiaavenue.com.au)

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 Lonsac Disclaimer: The Lonsac Rating (assigned March 2023) presented in this document is published by Lonsac 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 Lonsac assumes no obligation to update the relevant document following publication. Lonsac receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsac’s Ratings methodology, please refer to Lonsac’s website at: <http://www.lonsacresearch.com.au/research-solutions/our-ratings>

## CONTACT DETAILS

India Avenue Investment Management 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](mailto:IA@indiaavenue.com.au)  
 W: [www.indiaavenue.com.au](http://www.indiaavenue.com.au)