SPOTLIGHT

Global retail money hot on India

Even as the govt mulls allowing direct entry of individual foreign investors into the Indian stock market, there are a host of funds providing foreign retail investors a good exposure to the burgeoning Indian economy. Over 150 such funds with a corpus of a whopping $70 billion exist today; a dozen were launched in the past 16 months alone

Sarika Malhotra

FOREIGN FUND managers are looking at emerging economies as hot destinations and India is unravelling as their best bet. Even as the Indian government is considering to allow individual foreign investors to buy shares directly in Indian companies there are a host of funds providing foreign retail investors a good exposure to the burgeoning Indian economy. Consider this: While equity markets tanked globally, fiscal 2009-10 marked the launch of eight India-focused funds and seven funds in which India was an integral part of the investment kitty of the emerging markets basket. Fiscal 2010-11 has already seen the launch of four India-focused funds, catching the eye of the global retail investor and fund managers alike. These funds, ranging from equity funds, ETFs and bond funds, are providing ample opportunities to foreign investors to participate in the India growth story, which, as per recent IMF projections, is slated to grow at a staggering 9.4% in 2010.

India calling

Launched in 1993, today there are more than 150 funds catering to individual foreign investors trading globally that either focus entirely on India, or offer exposure to India in their investment basket. Arthur O'Byrne, head of business development, Financial Express Holdings Ltd, estimates that the total corpus of India-focused fund is a whopping $70 billion.

Given the success of FF India Focus Fund Blend, Morgan Stanley India Investment Fund (IIF), WisdomTree India Earnings, PowerShares India, many fund management firms are targeting the Indian market. Recently, Thailand's Kasikorn Asset Management announced plans to raise $247 million to sell Thailand's first mutual fund investing in bonds of Indian banks and companies. Reportedly, the fund will invest in five state-owned and private companies, including Indian Oil, ICICI Bank and Export-Import Bank of India.

US-based Emerging Global Advisors launched Emerging Global Shares Indxx India Small Cap Exchange Traded Fund on July 7 on the NYSE. Richard C Kang, chief investment officer and director of research, Emerging Global Advisors, says earlier China and Brazil were the focus, but now India looks like a hotter market. "All existing India-focused funds are in the large-cap segment, so we decided to explore the small and mid-cap segment, which is driven by the domestic consumption story. The response to the fund has been phenomenal."

Kang explains that India has been the most overlooked of the BRIC nations. The underlying differentiator between India and other emerging markets is that Brazil and China have been export reliant, whereas India has been driven by its domestic consumption. China is trying to change from the export to the consumer model as it has realised that exports will not be the way forward. As long as India will consume, the fund will do well. Emerging Global Advisors is also targeting mid-August for the India Infrastructure ETF and Kang seems excited. "Don't be surprised if we have more plans for India soon," he says.

Given the increasing interest of foreign retail investors in investing in India, an official spokesperson from the NYSE Euronext confirms that the growing interest in India-focused funds is fueled by investors' appetite for yield. "India's economy is destined to grow sustainably in the foreseeable future, and US and global investors seeking to diversify their portfolios are allocating increasing portions of their investment portfolios into other countries, especially emerging markets, on the expectation of higher yields. GDP growth forecasts for India are consistently calling for sustained high levels of growth, and its economy has already been a strong performer recently. So that explains why the interest and inflow of funds has been growing (trading volumes in Indian stocks through NYSE-listed ADRs have also experienced high growth)."

There is also a growing number of India-focused ETFs listed on the LSE. Currently, 19 funds are active on the exchange that either focus entirely on or offer exposure to India-based companies. These include Lyxor ETF India (S&P CNX NIFTY) and iShares Msci Emerging Markets (OTC), among others. Sanjiv Shah, ED, Benchmark Mutual Fund, says, "With active management funds underperforming, ETFs are the best way to access India's growth story." This is also evident from seven India-focused ETFs trading at the NYSE with a market capitalisation of over $2.5 billion, with WisdomTree India Earnings topping the list with a market capitalisation of $1 billion.

PowerShares India Portfolio (PIN), one of the most successful India-focused ETF listed on the NYSE since 2008, has assets worth $423 million under management. Ed McRedmond, SVP of institutional and portfolio strategies at Invesco PowerShares, says while narrowing down on the product, their team looked at a number of factors such as investor demand, size of the market, uniqueness, etc. "PIN was one of the first ETFs offering exposure to local Indian securities and the fund has seen steady inflows this year. We expect that investors will continue to look for opportunities to invest in markets offering above average long-term growth potential, and India certainly fits that bill."

Korea-based Mirae Asset Global Investments launched their first India-focused product, an equity fund domiciled in Korea, Mirae Asset India Discovery Fund in 2005 for Korean investors to capture the growth of the Indian economy. Given the increasing demand for India-related products in Korea, Mirae Asset launched two more India equity funds in 2006 and 2007. The total AUM of three funds dedicated to India is approximately $558 million. However, Mirae Asset also has ChIndia combo, Global Emerging, AP regional equity funds that also hold Indian stocks in their portfolios. Thus, the AUM for India surpasses $859 million. Cheon Woong Park, associate director and international chief marketing officer, Mirae Asset Global Investments, says it is considering an equity fund product focused on mid-caps. "However, this will be an option for only savvy investors. We are also keen to strengthen our fixed income capabilities. We want to introduce a 'great consumer' theme to investors. The concept is different from the traditional consumer sector funds, which focus mainly on the consumer discretionary and staples stocks. Rather, the theme embraces broader sectors and stocks that are benefiting from the consumption growth in emerging economies. We believe the increasing size of the middle class in India will have a positive spillover effect into various sectors."

Kalpesh Shah, CEO, *investmentguruindia.com*, says till recently, investors have had little access to opportunities in India. Even among emerging economies, the Indian ADR basket is not as full or as varied as those from China or Brazil. Earlier, many investors seeking global exposure didn't venture beyond Europe or Japan. Echoes Patricia Oey, ETF analyst at Morningstar, "International investors have become more interested in India relative to other large emerging markets, given India's high single-digit domestic growth outlook and its relatively lower exposure to exports. While China is also expected to grow at a high single-digit rate this year, there are concerns that a government-engineered slowdown (to prevent an asset bubble) and a weaker global recovery (China's economy is more export-oriented) could result in weaker-than-expected growth."

Leading the way

The shift towards the emerging economies can be well gauged from the fact that for India, China and Brazil, the index provider for Emerging Global Advisors was also an Indian company, Indian Indexx LLP. Anupam Ghose, founder, Indus Advisors, which manages the index on which the PowerShares India Portfolio (PIN) is based, says Brazilian stocks have a longer history of trading on the NYSE and the trading volumes are higher, whereas India was always a difficult market to access. "Even as Russia has been drawing considerable interest, it is essentially the resource play that is paramount in the Russian investment scenario. The West wants to be a part of the India-China growth story. The big question for the West is how to invest in China and India? This growing excitement about India is also due to the role played out by the NRI community in mobilising opinion." Ghose adds that as long as the India story is intact, which is evident from the FII flows, India will continue to generate substantial interest. "India-focused funds will rise and such investment products will reflect what is going on in the Indian market. India has emerged as the premier destination for global growth. Going ahead, fixed income products will draw considerable interest from fund managers as interest rates are higher in India," he says.

It's not just that specific India-focused funds are gaining ground, India is also finding flavour among fund managers across the board. A recent report by Morningstar quotes Brent Lynn, manager of Janus Overseas (JAOSX), saying that Janus owns some Chinese stocks, but for years his fund's most noteworthy country exposure has been its large stake in India and the second-biggest holding in Janus Overseas' portfolio is Reliance Industries. As substantiated by Sanjeev Bhalla, head, equities and alternatives, Bank of Bahrain & Kuwait, "Global funds always focus on quality blue chip names across sectors, as there are plenty of opportunities in promising markets like India." As per estimates, equity markets in India have about 6,500 stocks with a total stock market capitalisation of about $1.5 trillion and the top 500 companies account for about 95% of this size. Cameron Brandt, senior analyst, EPFR Global, confirms that India offers a nice combination of growth and defensive qualities—its limited exposure to trade and its domestic market—which fits the bill for overseas investors who are currently nervous, yet yield hungry.

Finding the right mix

Rajeev Baddepudi, senior fund research analyst, Lipper, a Thomson Reuters' company and global leader in mutual fund information and fund ratings, feels that given the two main objectives of fund management are capital appreciation and capital preservation, any investment would have to meet either the objective or both before being included in the portfolio. "The typical approach entails a three-tiered look at the broad market, the sectors within and fundamentally strong securities within those sectors, either to positively effect portfolio return or minimise portfolio risk. There is ongoing consolidation and expansion in several of India's equity sectors (pharmaceuticals and telecom, for instance) and its debt markets are deepening (the government has recently raised the limits for foreign holdings of Indian sovereign and corporate debt)." Baddepudi adds that June 2010 saw a lot of interest in the technology, media and telecom (TMT) and related services sectors (funds allocating to the sector were up 11% on average in June), but over the first half of 2010, funds allocating to pharmaceuticals (21%) and non-cyclical consumer goods (20.6%) stocks saw more sustained growth (TMT allocations were up 10.4% by contrast).

A right mix is what fund managers are looking for. Girish Vanvari , executive director, KPMG, says movement of money is where growth is. "Every India-focused portfolio will have a right mix of infra-related companies, PSUs and small and mid-cap companies. So invariably, you will find Infosys, which is the biggest testimony for India's success; Reliance, which means you are buying into the Indian economy; and SBI, which is hedging the Indian economy, and with ITC you are covering the gambit." Going ahead, Vanvari says how the government regulates and deregulates certain sectors will hold the key to investments.

Winds of caution

However, India may well feel the heat from other emerging economies such as Indonesia, Russia and Brazil. William Samuel Rocco, senior fund analyst, Morningstar, points out that developing countries have enjoyed positive economic and demographic trends during the 2000s, coupled with improved governmental and corporate policies and practices. "Equity funds that focus on the developing world have capitalised on these favourable conditions. The average diversified emerging markets fund has earned a 10.6% annualised gain over the past decade, while the foreign large-blend, foreign large-growth and foreign large-value offerings have posted 0.8%, 1.0%, and 3.0% annualised returns, respectively. Diversified emerging markets funds will produce good returns and outpace foreign large-cap offerings in the long run," he says.

The economic downturn has further added sheen to the emerging economy funds. Bhalla says the idea of diversifying equity exposure internationally was reinforced after the crisis. "Global emerging market investors are shifting away from markets exposed to global recovery to those that are domestic demand-focused."

As per estimates by Morningstar, emerging markets bond funds received $11.5 billion in inflows during the twelve months ended June 30 this year, and have around $28 billion in assets. Brandt says, "There has been a real re-rating of emerging markets. The dedicated emerging markets bond funds we track have already taken in double the amount they took in during 2005—their best year before this one—and flows have favoured funds with the riskier, but potentially more rewarding local currency mandates."

Among the emerging markets, the BRIC block is in the spotlight. Baddepudi, says each BRIC country has its unique investment rationale and amidst rising uncertainty globally, a diversified portfolio of these makes the most investment sense. Observers say the shift has a lot to do with the way in which fund managers are treating emerging economies. Bhalla says, "Earlier emerging markets were viewed as a single asset class, but now investors have started looking at individual markets."

Maneesh Kumar, managing director, Burgeon Wealth Advisors, points out that deep value managers may opt to take exposure toward Russia, especially if they believe that with global economic recovery, prices of energy will remain stable or improve from here onwards. China has embarked towards revaluation of the yuan. This, coupled with the protectionist inclinations of the US, portends a tepid financial market for China in the short to intermediate future. India, being domestic demand-driven, will continue to be less affected by export diminutions. Recently, credit growth has picked up in the range of 20-22%. This, coupled with expected near normal monsoons, will be beneficial for the economy. Kumar draws contrast to the US, where evidence for growth picking up is still lacking. "If negative economic crisis news flow from economies other than US, there is a lower probability of money seeking safe haven such as the US dollar. This bodes well for continued inflow into emerging market focused funds, including India-focused funds," he says.

Brandt points out that among emerging economies, Korea or Indonesia, both of which are getting increased attention from fund managers, might lead the way. "Korea had a 'good recession', with many of its companies wresting market share from rivals, while Indonesia offers decent growth, a potential reform story and possible inclusion in the BRICs universe." Going ahead, Brandt says, a lot will depend on how well the US and Europe muddle through. "If they do, then India may slip back a bit, as investors run with the cyclical theme. If they don't, then India and China's domestic consumers will attract more attention and money."

Our first India-focused product, Mirae Asset India Discovery Fund, was launched in 2005. Due to increasing demand for India-related products in Korea, we launched two other India equity funds in 2006 and 2007. The total AUM of three funds dedicated to India is approximately $ 558 million. We are keen to introduce a 'great consumer' theme to investors

— **Cheon Woong Park,** Associate Director & International Chief Marketing Officer, Mirae Asset Global Investments Ltd

PowerShares India Portfolio (PIN) was one of the first ETFs offering exposure to Indian securities. PIN currently has assets of $426 million and has seen steady inflows this year. We expect that investors will continue to look for opportunities to invest in markets offering above average, long-term growth potential, and India certainly fits that bill

— **Ed McRedmond,** SVP of institutional & portfolio strategies at Invesco PowerShares

All existing India-focused funds are in the large cap segment, so we decided to explore the small and mid-cap segments, which are driven by the domestic consumption story. We are targeting mid-August for the India Infrastructure ETF. Don't be surprised if we have more plans for India soon

—**Richard C Kang,** Chief Investment Officer, Emerging Global Advisors

India-focused funds launched in 2009 & 10

Allianz - RCM India I
Dec 29, 2009
Hedge/Stru Prod Equity

BNP-EasyETF DJ India
Apr 15, 2009
Equity- India

Emerging Global Shares Indxx India Small Cap
July 7, 2010
Equity India

Fortis-Flexi III Convertible Bonds India Plus
Sept 11, 2009
Convertible

Fortis - Flexi III Indian Convertible Bonds
June 26, 2009
Convertible

Fullerton - India
Apr 17, 2009
Equity- India

iShares S&P India Nifty 50 Index
Nov 18, 2009
Equity- India

Kotak-India Infrastructure & Realty A
Nov 30, 2009
Equity- India

Kotak - India Mid Cap A
May 25, 2010
Equity-Asia-Pacific

Reliance-Emergent India B
June 7, 2010
Mixed Asset-Intl

OpenWorld-India Focus Equity
March 8, 2010
Equity- India

WIOF-India Performance A
Match 18, 2009
Equity- India

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