



FUND INSIGHTS

INVESTING IN INDIA: ON THE PATH TO RECOVERY

EASTSPRING INVESTMENTS – INDIA EQUITY FUND
OCTOBER 2014



Economic recovery in India began almost simultaneously as the political guard was inevitably about to change. Some measures taken by the previous government since late 2012 coupled with the initiatives of the new government are slowly bearing fruit; early signs of recovery are visible.

The country's GDP accelerated to a two-year high of 5.7% in the June 2014 quarter from a year earlier, driven by growth in services and industry. Industrial production has been expanding at a healthy pace for a few months. Inflation has been moderating. Foreign reserves have increased by approximately USD 45 billion from the lows seen in August to September 2013 to around USD 316 billion. Consequently, the Indian Rupee too has been in a tight range and confidence has been restituted in the currency.

Against this backdrop, the new government's reform aspirations coupled with a decisive political mandate to smoothly execute them has triggered an overall sense of optimism for the country's future, visible in the buoyant asset markets.

But rooted in this optimism are high expectations for the new government to deliver on the promised reforms. Scepticism however remains in many quarters. This is not surprising given that the previous government failed to deliver on their set of reforms.

SO COULD IT BE DIFFERENT THIS TIME? WE THINK SO.

For one, Modi's party has won a majority mandate, effectively removing the policy paralysis created by coalition governments that have characterised Indian politics for long. Second, Modi's 12-year economic track record in the Indian state of Gujarat has been well appreciated with growth exceeding 10%³ over most of his governing period. True, Gujarat's small size and homogeneous society cannot be compared to India's heterogeneous population. While different challenges will arise, these are definitely not insurmountable, in our view, given Modi's institutionalised, process-driven problem solving approach.

We are now confident that the worst is behind.

The new government seems extremely focused on mending the past inaction. It was never going to be an easy task and course correction could only happen gradually over time. However Modi's government has a few low hanging fruits and his cabinet is rightly focused on plucking those first; the single largest being clearing a pile of stalled projects to push growth. As per our meetings with the Project Management Group of Indian government, projects up to USD 100 billion have been cleared in the last few months.

³Source: Central Statistical Organisation, CLSA India as at January 2014.



Initiatives such as combining key ministries for smooth functioning and quick decision making will be key to make progress in the infrastructure segment. Furthermore they have been tactfully introducing numerous small initiatives rather than big – bang reforms which may face opposition in the upper house of the parliament.

Modi’s maiden budget also revealed both near-term and medium-term priorities. It laid the foundation for a path to higher medium term growth, rather than an attempt to accelerate this year. The government’s key thrusts are inflation moderation, infrastructure, manufacturing, job creation and fiscal consolidation. Fiscal consolidation is a key focus; financial year 2015 target is pegged at 4.1% of GDP and down to 3% by 2017, by reducing subsidies and increasing tax collections. Subsidy on diesel fuel has now successfully been abolished with monthly price increases effective since January 2013.

THE EASTSPRING INVESTMENTS – INDIA EQUITY FUND IS POSITIONED TO BENEFIT FROM THESE DEVELOPMENTS

The Fund has been benefiting from the above developments in the Indian economy and also at the corporate level. Our portfolio manager has been positioning the Fund for an economic recovery since early 2013. Using our unique investment approach, we identified and invested in valuations outliers which were out of favour and beaten down; examples include select banks and beaten down companies active in the Indian industrials space. These have since recovered smartly, aiding the Fund’s relative performance.

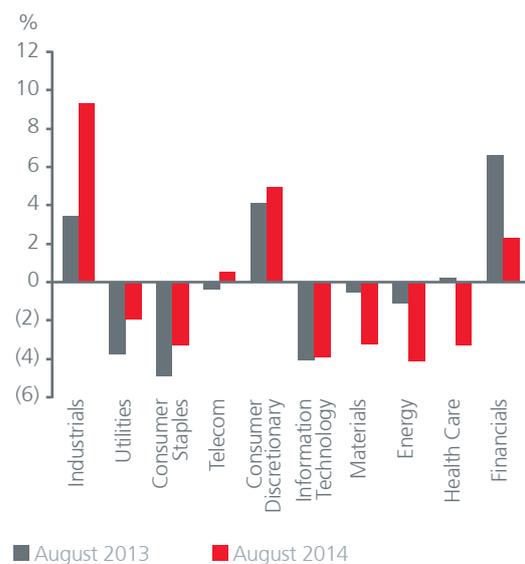
Over a one-year period, from August 2013, the Fund has posted 58.2% (bid to bid basis), outperforming the benchmark by 5.8%.

The portfolio manager continues to maintain an adequate tilt towards fundamentally strong and attractively valued companies from cyclical sectors such as financials, industrials and consumer discretionary which are likely to benefit the most from the growth recovery phase.

Fig.1. Some of the key initiatives by the new government since assuming office include:

Foreign Direct Investment	Increasing Foreign Direct Investment limit in Defence and Railways.
Inflation / Agriculture	Containing support price increase for Agricultural products and setting minimum export price to ensure domestic supply of staple vegetables.
Infrastructure	Empowering Project Management Group. Extending web-based project clearance to environment and mining.
Fiscal / Budget Management	Raised passenger and freight railway fares.
Labour / Manufacturing	Tweaking Labour laws, to increase efficiency and aid ease of doing business.

Fig.2. Change in fund positioning (August 2013 versus August 2014).



Source: Eastspring Investments, 29 August 2014.



VALUATIONS ARE NOT DEMANDING IN OUR VIEW

Valuations are looking stretched has been the common refrain given the run up in the market. But we think that valuations may not be reflecting entirely the benefits of a range of reforms and measures that may be underway. While they are no longer at distressed levels seen in the 3Q 2013 and have normalised to historic mean levels, they are only at fair levels in our view.

Consensus estimates suggest that earnings growth is expected to be around 16% for the current and next two calendar years, from the single digit growth in the last three calendar years. While this is an improvement, the current estimates have yet to reflect any meaningful earnings upgrades. History suggests that the analysts' revisions usually lag the market. Hence further upside is likely in our view.

With the expected expansion in economic activity, companies with operating leverage particularly can witness significant upside to their earnings' estimates.

On a forward looking view, valuations appear fair to attractive.

Finally, as Fig.3. suggests, India traded above average historic valuations during phases of high earnings growth. The same is likely as corporate earnings trend up.

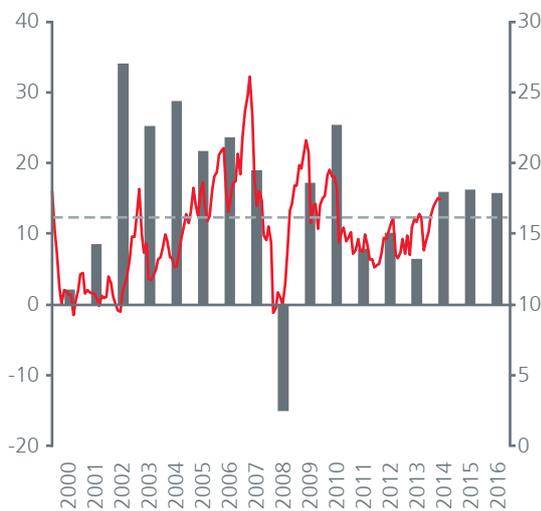
OUTLOOK AND STRATEGY

India is a long term story and our portfolio manager remains positive about the country's long-term outlook. Under the leadership of Prime Minister Modi, the new government's strong mandate is widely expected to set the country back in motion. The government's key focus areas such as inflation, infrastructure and policy reforms are likely to yield structural benefits.

Improved macroeconomic factors coupled with fast track clearance to stalled projects may accelerate growth recovery. Improved business and consumer sentiment post election is likely to bolster investments and demand.

The Fund is positioned to benefit from a pickup of domestic economic activity. The portfolio manager maintains exposure to companies with strong cash flows, which are levered to perform better during a growth recovery phase.

Fig.3. Earnings outlook (%) and valuation (x)



■ MSCI India Earnings per share YoY Growth% (LHS)
— MSCI India Price to earnings (x) (RHS)
- - - Price to earnings 10 year average (RHS)

Source: IBES, MSCI India, from Thomson Reuters Datastream September 2014.



Disclaimer

This document is issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H). Eastspring Investments (Singapore) Limited is the appointed Singapore Representative and agent for service of process in Singapore.

Hong Kong by Eastspring Investments (Hong Kong) Limited.

United Arab Emirates by Eastspring Investments Limited which has its office at Precinct Building 5, Level 6, Unit 5, Dubai International Financial Center, Dubai, United Arab Emirates. Eastspring Investments Limited is duly licensed and regulated by the Dubai Financial Services Authority (DFSA). This information is directed at Professional Clients as defined by the Conduct of Business rulebook of the DFSA and no other person should act on it.

Luxembourg by Eastspring Investments (Luxembourg) S.A., Grand-Duchy of Luxembourg.

United Kingdom by Eastspring Investments (Luxembourg) S.A. – UK Branch, 125 Old Broad Street, London EC2N 1AR.

This document has not been reviewed by the regulators of the above entities such as Securities and Futures Commission, Hong Kong, Monetary Authority of Singapore, Dubai Financial Services Authority etc.

The Fund is a sub-fund of Eastspring Investments (“the SICAV”), an open-ended investment company with variable capital (Société d’Investissement à Capital Variable) registered in the Grand Duchy of Luxembourg, which qualifies as Undertaking for Collective in Transferable Securities (“UCITS”) under relevant EU legislation.

All transactions into the Fund should be based on the latest available prospectus, Key Investor Information Document (KIID), and any applicable Fund or share class offering document of the SICAV. Hong Kong investors should refer to the Hong Kong Summary Prospectus and Product Key Fact Statements (“KFS”). Singapore investors should refer to the Singapore Prospectus and Product Highlights Sheet (“PHS”). Such documents, together with the annual and semi-annual financial reports and the articles of incorporation of the SICAV, may be obtained free of charge from Eastspring Investments (Luxembourg) S.A. at 26, Boulevard Royal, L-2449 Luxembourg, Grand-Duchy of Luxembourg, or at relevant Eastspring Investments business units/website and their distribution partners.

This document is solely for information and does not have any regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments.

Please refer to the offering documents for details on fees and charges, dealing and redemption, product features, risk factors and seek professional advice before making any investment decision. An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. The value of shares in the Fund and the income accruing to the shares, if any, may fall or rise. Where an investment is denominated in a currency other than your base currency exchange rates may have an adverse effect on the value price or income of that investment. You should not make any investment decision solely based on this document. Investors may wish to seek advice from a financial adviser before purchasing units of the Fund. In the event that he chooses not to seek advice from a financial adviser, he should consider carefully whether the Fund in question is suitable for him.

Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments. There are limitations to the use of indices as proxies for the past performance in the respective asset classes/sector.

The Fund may use derivative instruments for efficient portfolio management and hedging purposes.

The Fund may, at its discretion, pay dividends out of capital or gross income while charging all or part of its fees and expenses to its capital, resulting in higher distributable income. Thus, the Fund may effectively pay dividends out of capital. Payment of dividends out of capital (effective or not) amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment, which may result in an immediate reduction of the net asset value per share/unit. The distributions, including amounts and frequency, are not guaranteed and are subject to the discretion of the Fund. Past dividends declared are not a forecast or projection of future distributions.

The preceding paragraph is only applicable if the Fund intends to pay dividends / distributions. ►



Eastspring Investments companies (excluding JV companies) are ultimately wholly-owned / indirect subsidiaries / associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

United Kingdom

For the purpose of UK law, the SICAV fund, which information is hereby disclosed, is a recognised scheme under section 264 of the Financial Services and Markets Act 2000. Please note that the protections provided by the UK regulatory system, especially for retail clients, do not apply to offshore investments. Compensation under the UK Financial Services Compensation Scheme will not be available and UK cancellation rights do not apply. Relevant information on the SICAV is also available at Eastspring Investments (Luxembourg) S.A. - UK Branch, 125 Old Broad Street, London EC2N 1AR and on www.eastspring.co.uk.

Norway

The fund has been notified and registered with the Norwegian Financial Supervisory Authority (Finanstilsynet) in accordance with UCITS Directive 2009/65/EC.

Sweden

The SICAV is a UCITS which has been passported into Sweden for marketing and sale to the public for the purpose of the Swedish Investment Funds Act (Sw. lag (2004:46) om investeringsfonder) and has therefore been registered by the Swedish Financial Supervisory Authority (Sw. Finansinspektionen) pursuant to the Swedish Investment Funds Act. This marketing material only refers to sub-fund(s) and share classes of the SICAV which have been passported for marketing and sale into Sweden under the Swedish Investment Funds Act.

Switzerland

In Switzerland, the documents referred to above may also be obtained free of charge from (i) First Independent Fund Services Ltd, having its registered office at Klausstrasse 33, CH-8008 Zurich, who is acting as Swiss Representative Agent of the SICAV and (ii) NPB – New Private Bank Ltd, having its registered office at Limmatquai 1/am Bellevue, CH-8022 Zurich, who is acting as Swiss Paying Agent of the SICAV.

For more information contact content@eastspring.com | Tel: (65) 6349 9100



A member of Prudential plc (UK) 

Singapore | Hong Kong | Dubai | Ho Chi Minh City | Jakarta | Kuala Lumpur | Mumbai | Seoul | Shanghai | Taipei | Tokyo | Chicago | Luxembourg | London