

September 2010

Indian summer heating up

INSIGHTS

India is a large and diverse market that is expected to offer attractive investment opportunities in the coming decades.

India is in the privileged position of containing an extremely large population (1.1 billion people) with a median age of just 25. This coupled with rising income levels and urbanisation holds significant advantages for its economy.

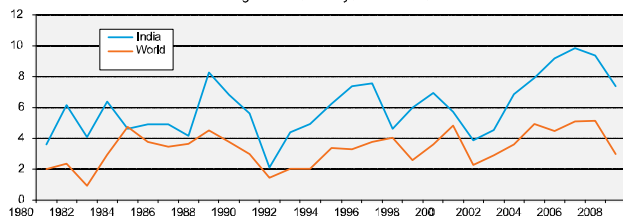
The AMP Capital Asian Equity Growth Fund is exclusively focused on Asian (ex Japan) equities, providing clients with access to diversified exposure across the Asian region, including India - markets that we believe hold long-term potential for investors. Here we consider some of the factors affecting the Indian economy and equity market including GDP growth, debt levels, transparency, disclosure and the profitability of Indian companies.

GDP growth

As investors look for new opportunities, the GDP growth of an economy gives us a scorecard. Economies that are able to grow without excessive debt should provide ample investment opportunities.

India has shown impressive GDP growth rates over the past 20 years, exceeding global and developed countries. The economy has also shown great resilience during periods of stress. Over the last fiscal year (to Mar 2010), the economy has grown 7.4% despite the global financial crisis, and 8.7% (year-on-year) in the last quarter. Furthermore, during the 1997 Asian currency crisis India still recorded reasonably robust economic growth despite a severe downturn in the region (see figure 1).

Figure 1: Year on year GDP Growth %



Source: Worldscope, Factset, MSCI, Morgan Stanley Research

Debt levels

Until recently, Standard & Poor's gave Indian Government Debt an inferior rating to Greece (BBB- for India versus BBB+ for Greece until its downgrade to BB+). At first glance, it highlights that India is running a sizeable fiscal deficit. However, upon closer look a large domestic savings pool is revealed, so overall credit to GDP is low compared to the Western world.

The key is that despite the Government spending more than it is collecting it is financed domestically by the savings pool. Very little of this debt is external, which is reassuring to investors. Even if the economy deteriorates, there will be little likelihood of India facing the refinancing problems that have plagued Dubai, Iceland and Greece.

In contrast to the government sector, the household sector in India is in a financially strong position. Bank deposits dominate the household balance sheet, making up more than 50% of total household assets. Household debt is very low, not just compared to developed markets but to other Asian nations, in total making up only 10% of GDP. Debt levels in India at this stage should not be an impediment to further economic growth (see figure 2).

Figure 2: Household debt to GDP

Australia	109.1
UK	100.6
US	96.1
Korea	67.2
Singapore	66.9
Malaysia	63.1
EU	62.0
Taiwan	53.3
HK	52.3
Thailand	17.7
China	12.4
India	10.3
Indonesia	7.6

Source: Citigroup, CEIC, Haver, IMF and ABS, 2008

Transparency and disclosure

There seems to be a view that it is safer to invest in US, European or even Australian equities that are exposed to Asia rather than investing directly.

Delving deeper, this view seems to stem from concerns around disclosure and accounting standards. India has a market capitalisation of US\$1.4 trillion and close to 4,000 listed companies. Disclosure standards vary across companies, from some of the best in the region to the bare minimum.

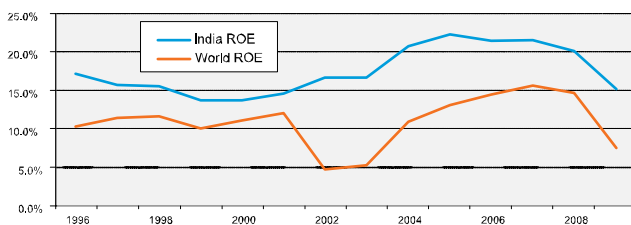
As an example, Infosys Technologies, an Indian and US listed company with excellent disclosure, consistently reports its results 10 business days after the end of each quarter, giving details on hiring plans, industry exposure and customer wins. Dismissing the whole Indian equity market based on transparency and disclosure alone is severe.

Profitability of Indian companies

A metric that we use to assess companies is return on equity, which is simply the profit a company generates relative to the net assets of the company. This metric allows us to compare the performance of companies not only within their own industries but also across the region.

Ideally, we are seeking companies that earn attractive returns on equity and are able to continue growing their business. Over the years, Indian companies have generated high returns on equity, approximately 15% to 20%, which is consistently higher than the global average, as shown in figure 3.

Figure 3: Return on Equity



Source: Worldscope, Factset, MSCI, Morgan Stanley Research

In addition to the profitability of companies we consider the volatility of earnings. Companies with volatile earnings can be difficult to manage and can encounter problems when financing their growth. This is another reason why we prefer to avoid companies with high levels of debt, as it can make earnings highly volatile. Listed Indian companies have displayed less earnings cyclicality compared to the other emerging markets. The ability to earn high returns on equity combined with lower earnings volatility is another attractive quality when considering Indian equities.

Performance of Indian equities

The Morgan Stanley Capital International (MSCI) India Index has performed strongly over the last year, returning 26.8% in US dollar terms (at 3 September 2010). Longer-term performance has also been significant, with the MSCI India index significantly outperforming the MSCI World and MSCI Australia indices.

Figure 4: Global share market returns

\$US Gross Annualised Returns	1 year	5 year	10 year
MSCI India	26.80%	17.97%	15.82%
MSCI Australia	16.00%	9.08%	12.94%
MSCI USA	12.32%	0.30%	(1.38%)
MSCI AC World	10.59%	2.33%	1.08%

Source: MSCI as at 3 September 2010. Past performance is not a reliable indicator of future performance.

So why invest in India?

India remains a large, diverse market for investment. We have chosen to focus on a few of the attractions we see when investing in India or more precisely, factors that we believe are not as well appreciated by investors in Australia. However, market and equity valuation risk has not been assessed in this paper. It is important to understand that investing in India comes with additional risks specific to emerging markets. These risks need to be carefully considered prior to proceeding with any investment in India.

Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com.au, or contact one of the following:

Financial Advisers **Your Business Development Manager or call 1300 139 267**

Private Clients **Your Financial Adviser or call us on 1800 188 013**

Wholesale Investors **AMP Capital's Client Service Team on 1800 658 404**

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