

**GAIM**

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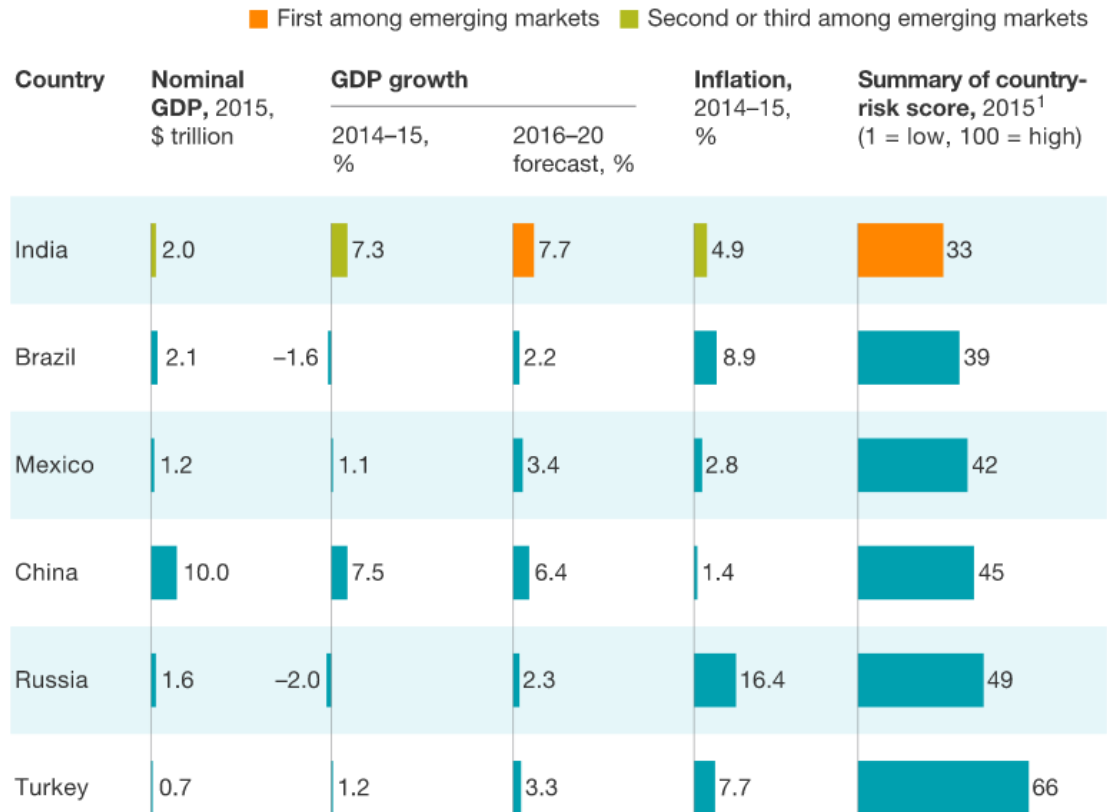
**June 2017**

# Exploiting the India beta opportunity



Robert E. Kiernan III

# INDIA OPPORTUNITY

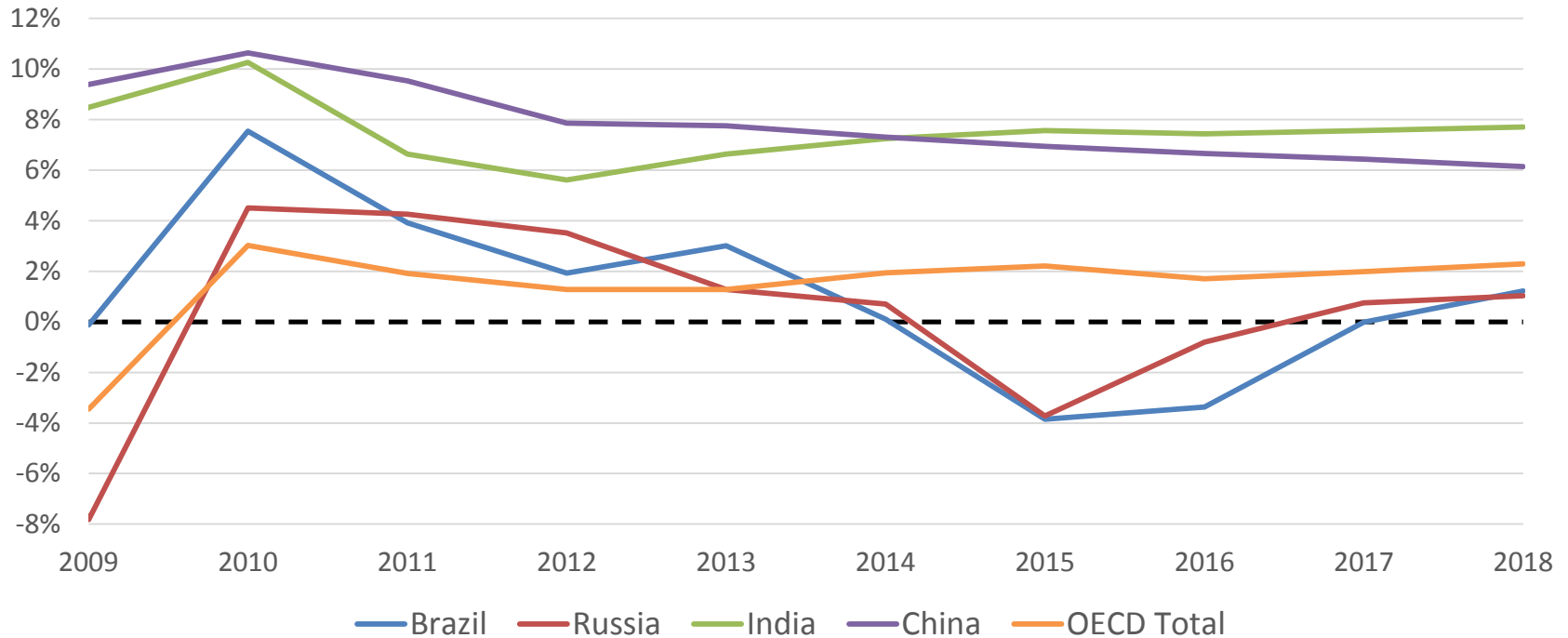


Source: McKinsey; Country-risk score is a composite index (political, financial and macroeconomic)

*India presents more attractive growth potential relative to other emerging markets*

# SECULAR GROWTH

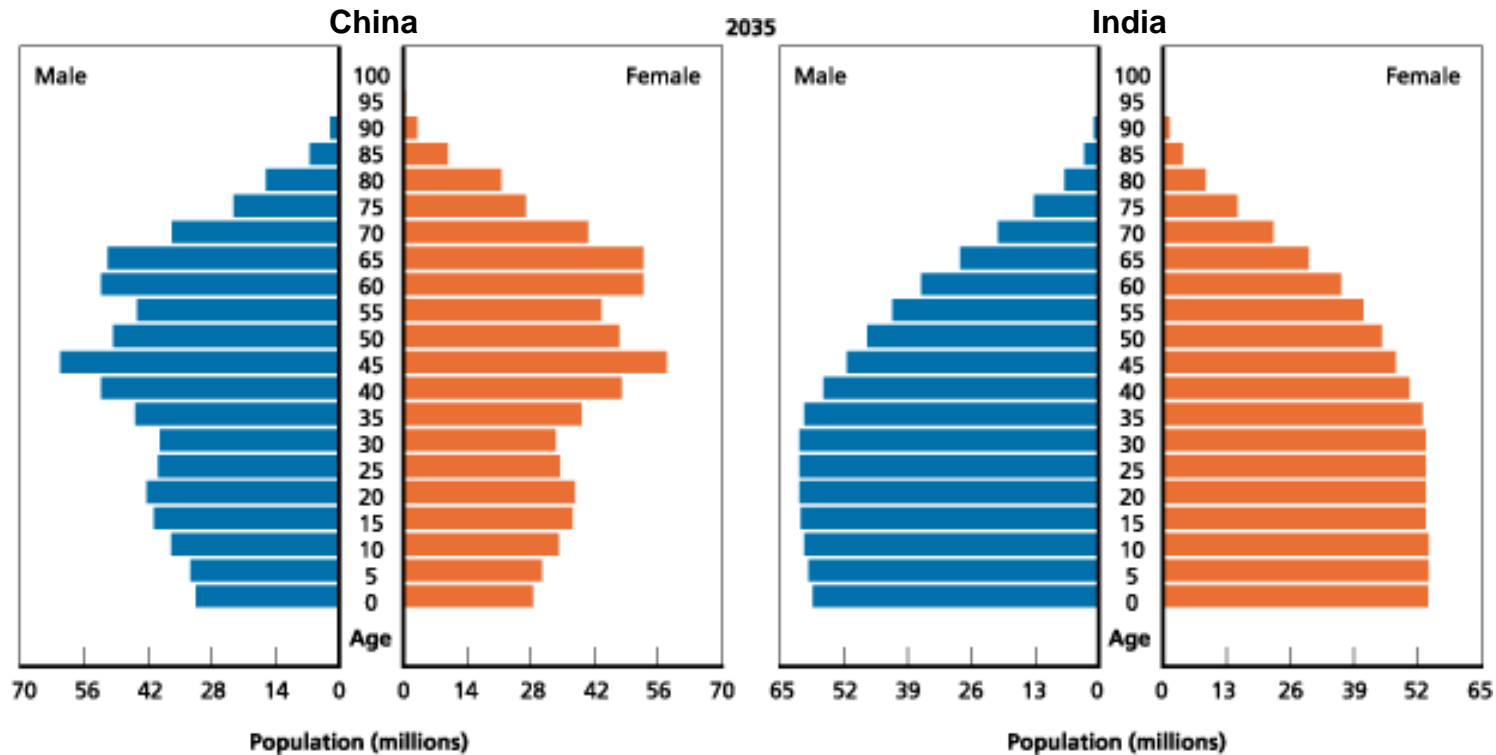
## GDP Growth



Data Source: OECD; Forecasts for 2017-2018

*Among the BRIC countries, China's \$11 trillion economy continues to decelerate, Brazil and Russia both remain overshadowed by political problems and the recent commodity rout, while India has instead presented a robust uptrend of secular growth, achieving a 2016 GDP of \$2.3 trillion with a growth rate of over 7%*

# DEMOGRAPHY

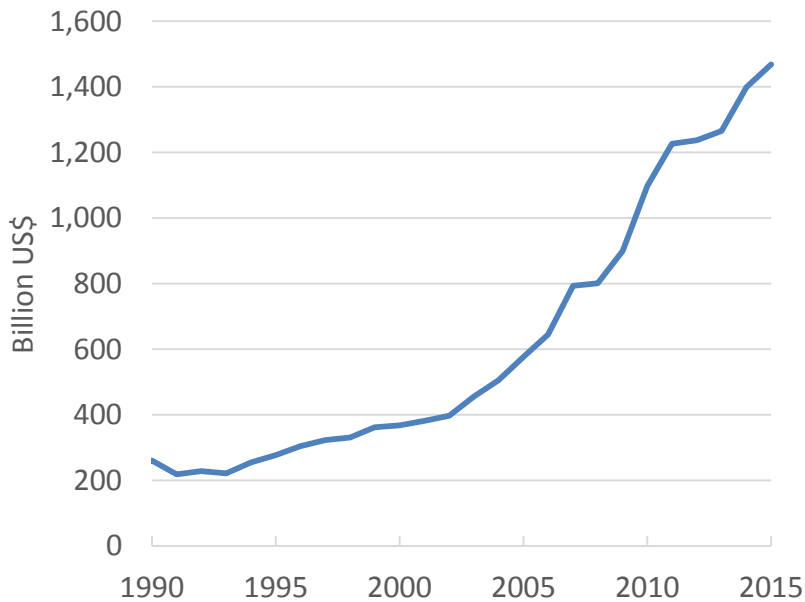


Source: RAND, US Census Bureau

*“India has the largest concentration of young people in the world at any time in recorded history – 420 million Indians are between the ages of 15 and 34, and every month for the next several years, 1 million Indians are turning 18.” -- Somini Sengupta*

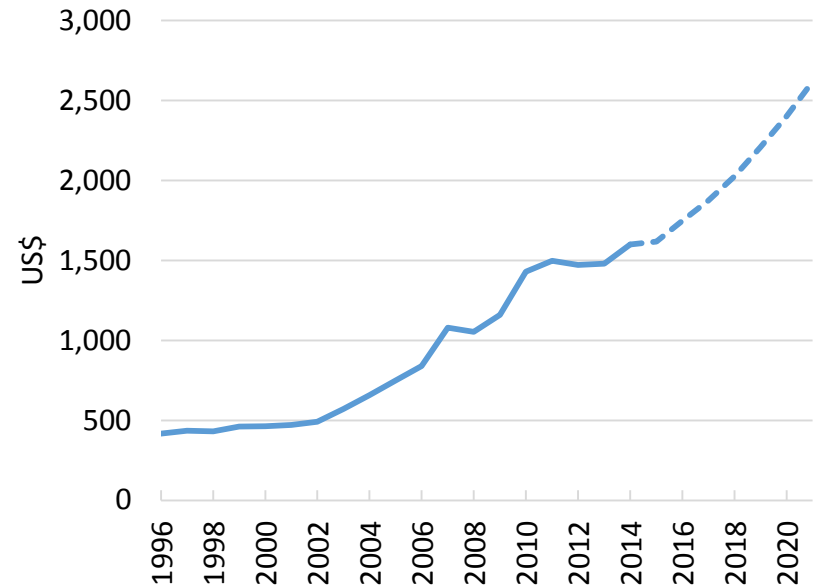
# CONSUMPTION OPPORTUNITY

### Annual final consumption



Data Source: World Bank

### GDP per capita



Data Source: IMF; Forecast shown by dashed line

*Domestic consumption accounts for over 70% of the GDP and Indian consumption will continue to be supported by the GDP and income growth*

## Achieved reforms

- Universal goods and services tax (GST)
- Easing FDI restrictions
- Reforms in power sector
- Capex plan in railways
- New bankruptcy code
- Faster clearance of projects
- Assimilation of unmeasured, untaxed “cash” economy

## Major potential reforms

- Land reforms
- Labour reforms

*Western capital has under-appreciated the incremental changes and increasing bureaucratic efficiency that are unfolding<sup>1</sup>*

1. The Modi Government's Reform Program: A Scorecard, CSIS (<http://indiareforms.csis.org/>)

## Indian markets subject to local and global risks



### External causes

- 2006: EM selloff in May
- 2008: Financial Crisis
- 2013: US Fed Taper
- 2015-16: EM & Energy Turbulence

### Internal causes

- 2004: Unfavorable market perception during Indian General Election
- 2011: Fiscal Deficit & Inflation
- 2016: Demonetization

*India has periodically experienced deep sell-offs linked to both internal and external causes*

# DYNAMIC HYBRID APPROACH

## Enhanced Passive 30-60%

- 3 to 5 years
- Multi-sector security selection within large-cap and mid-cap equities, typically most influenced by earnings growth
- Dynamic market capitalization biases depending on relative valuations
- Dynamic balancing between domestic consumption and exports
- Moderation on total portfolio risk exposure contingent on economic cycle

## Unconstrained Active 30-60%

- 6 months to 2 years
- Offers additional security selection advantages with medium-term thematic expression on both longs and shorts, typically most influenced by valuation gaps
- Fast developing and broad single-stock futures market allows for successful idiosyncratic shorts
- Capture local market trading opportunities
- Exploit specific local market capital flows

## Opportunistic Tactical 0-40%

- 3 to 9 months
- Additional opportunity to capture markets corrections which appear every 18-36 months due to external and internal causes
- Careful evaluation of historical sell-offs enhances timing of tactical entries and exits
- Sub-strategy provides powerful risk management tool for nimble de-risking and re-risking overall exposure

*Dynamic allocation amongst three sub-strategies, predicated on global and domestic economic and valuation considerations, creates robust risk management*



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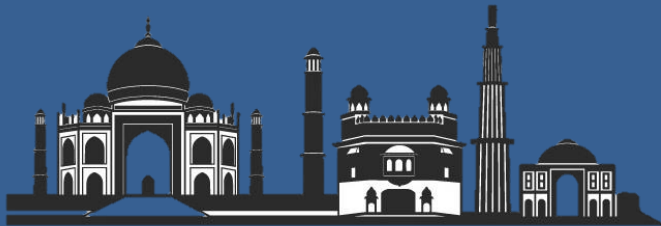
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# EXPLOITING THE INDIA BETA OPPORTUNITY

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