

Current thoughts on India

The delta on the market's key worries is turning positive

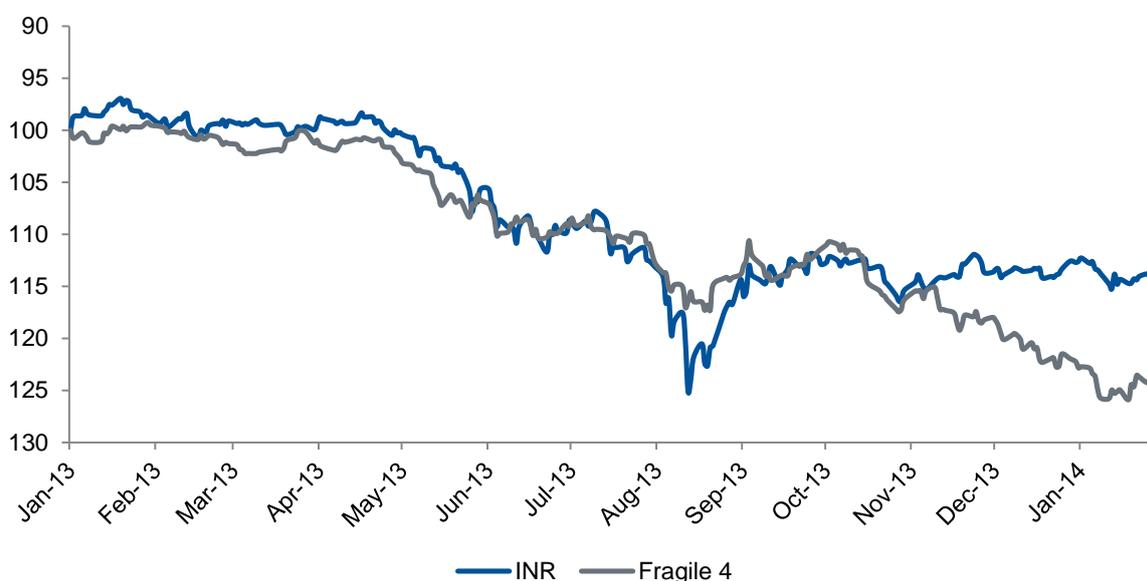
Our intention is to highlight that on several fronts India's investment outlook is looking up. This is predicated on an improving macro-economic outlook and a view that the forthcoming national election is unlikely to throw up a market negative outcome.

Additionally we want to highlight the robust performance of the Gateway to India Fund which is capitalising on compelling valuations through its concentrated, unconstrained, bottom up, multi-cap investment philosophy. Below we have highlighted important aspects of the turnaround and appropriate risks.

➤ The currency

- Recent stability in the FX market as terms of trade improve, a better fiscal performance, and confidence in India's ability to manage quantitative tightening
- A marked improvement in the trade deficit driven by a fall in imports (non-oil & gold), whilst exports are recovering
- The reduction in the current account deficit is helping to stabilise the currency
- FX reserves have stabilised at circa US\$300bn (7 months of import cover)
- The additional US\$35bn cushion recently raised offshore by the Reserve Bank will support to the INR as the Fed tapers

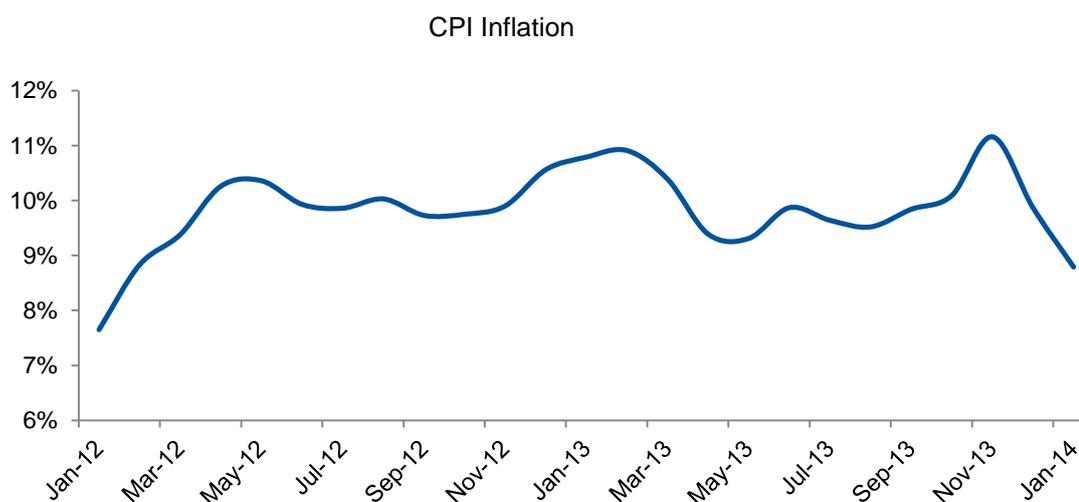
Indian Rupee v Fragile 4 - Turkey, SA, Indonesia & Brazil



Source: Bloomberg

➤ Inflation

- Food inflation is falling, driving down CPI. Stable international oil prices and a resilient INR are also reducing the impact of imported inflation
- But second round effects in input costs and services are supporting core inflation presently
- This will keep the Reserve Bank “on hold” in the short term, restricting the market’s upward move
- However, the RBI’s efforts to suppress the inflationary grip should be applauded and will set the stage for easier monetary policy in the future
- The timing of easier monetary policy may coincide with the inauguration of a new pro-business Government, positively impacting confidence levels



Source: Bloomberg

➤ Politics

- The opposition (BJP) party’s momentum is building, with current predictions forecasting between 200-210 seats, up from 180-190 at year end
- Congress lacks leadership, whilst the AAP are stumbling on key issues
- There is a high probability that the new coalition will be led by one of the National political parties
- The beginning of a new political term provides fresh opportunities for reform, irrespective of Government make up
- The political structure post-election will look superior than it does today

➤ Risks

- The election is still three months away, with inevitable instability around predicting the final outcome, and plenty of opportunities for sentiment to change
- Corporate India remains sluggish providing limited visibility on future growth
- This, combined with maintenance of tight monetary policy, limits the potential to upgrade earnings forecasts
- The Reserve Bank’s resilience to fight inflation may delay the easing cycle

➤ Gateway to India Fund

| US\$ Performance 13 Feb 2014 | YTD | Since launch (10 Sep 2012) | Since Sanjoy Bhattacharyya (1 Apr 2013) |
|---------------------------------|--------|-------------------------------|---|
| GTIF | -0.60% | 9.96% | 3.29% |
| BSE Dollex 30 | -5.62% | 0.97% | -6.65% |

- The portfolio contains 31 stocks, a median market cap of US\$1.5bn (US\$18bn for the benchmark)
- The portfolio has an active share of 86.2%, with a turnover of 20% and is in compliance with “days to cash” daily liquidity requirements
- After a sustained period of underperformance to the large caps (CY13, 14.7%), Mid Cap India is outperforming
- Detailed attribution analysis on the portfolio validates the investment philosophy
- The fund’s size gives it the ability to hunt for value across the market cap spectrum, providing the best opportunity to deliver positive risk adjusted returns in excess of the market
- The alpha generation has come from stock selection, and of that, the majority has emanated from the portfolio’s exposure to high quality, cash generating, attractively valued, and well managed mid cap stocks
- Thus eClerx (IT, US\$590m), VST Tractors (Industrials, US\$115m), PI Industries (Materials US\$519m), and Supreme Industries (Plastics, US\$882m) are all portfolio holdings contributing to positive attribution. (market capitalisation in brackets)

➤ Valuations (historic)

- Although, at 17.6x earnings (13x FY15, from March 14) the market valuation is in line with long term averages
- The portfolio trades at 18.6x earnings, whilst delivering a 5 year average earnings growth of 46% compared to 9% for the market
- 5 year average ROE of 25.2% versus the market average of 19.2%
- 1.8% dividend yield versus the market yield of 1.3%

➤ Factsheet

For a copy of the most recent factsheet for the Gateway to India Fund and a detailed presentation, please visit the Ocean Dial website www.oceandial.com

Important Information

Any views expressed within this article are those of the Fund Manager as at the date of issue which may be subject to change, and should not be taken as advice to invest. We do not undertake to advise you as to any changes in our views. If you are unsure about the suitability of any investment, please consult an Independent Financial Adviser. The Gateway to India Fund is a subfund of Ocean Dial Investment Funds plc, an Irish open-ended investment company. Emerging market equities can be more volatile than those of developed markets and equities in general are more volatile than bonds and cash. Currency movements may also have an adverse effect on the capital value of your investment. Investing in a country specific fund may be less liquid and more volatile than investing in a diversified fund in the developed markets. Past performance is not a guide to future performance and investment markets and conditions can change rapidly. The value of your investment may go down as well as up and there is no guarantee that you will get back the amount that you invested. This fund should be seen as a long term investment and you should read the Prospectus whilst paying particular attention to the risk factors section before making an investment. Please refer to the Prospectus for specific risk factors. Where reference to a specific Class of security is made, it is for illustrative purposes only and should not be regarded as a recommendation to buy or sell that security. Issued by Ocean Dial Asset Management, authorised and regulated by the Financial Conduct Authority. Registered office: Cayzer House, 30 Buckingham Gate, London SW1E 6NN.