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Corporate Finance & FX Advisory

Should Australian Family Offices listen to global investors' view on India

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Out of the 284 Australian family offices that we regularly speak to, 22% have shown strong interest to invest into India. Yet, we are only aware of 7% who have been investing into India to date.

Ever since our efforts began over the past 4 years to educate the family office sector about the India opportunity, we have started to observe the transition over the past 2 years, where Australian family offices are now looking at India along with their Asian and emerging markets strategy to allocate smart capital.

Family offices in general like to have exclusive access and invest early into opportunities that institutions or mainstream investors would even consider. The main advantage is that they have the investment expertise in-house, and also have the ability to bring domain experts into the team to carry out the due diligence. The principals of these family offices are the key to such decisions, as they are well travelled and have strong networks into such regions.

Out of the 7% of those Australian families who have been investing into India, few have gone via U.S. fund of fund , where they had ongoing relationships with advisors from Singapore or Hong Kong. Another family who has been been investing into India for over 20 years, has had exposure to Indian real estate, also through a U.S. fund of fund.

India has now become the topmost attractive destination for foreign investment, especially in the last three years, where the government has eased 87 FDI rules across 21 sectors to accelerate economic growth and boost jobs. FDI inflows were at $55.6 billion for the year ending March 2016, which was a record. In 2016-17, the FDI inflows were even higher at $60.08 billion.

"India remains the fastest growing economy in the world and it will get a big boost from its approach to GST which will - reduce the cost of doing business for firms, reduce logistics costs of moving goods across states, while ensuring no loss in equity," said Junaid Ahmad, World Bank Country Director in India.

According to the recent World Bank report, May 2017. 'India development update':

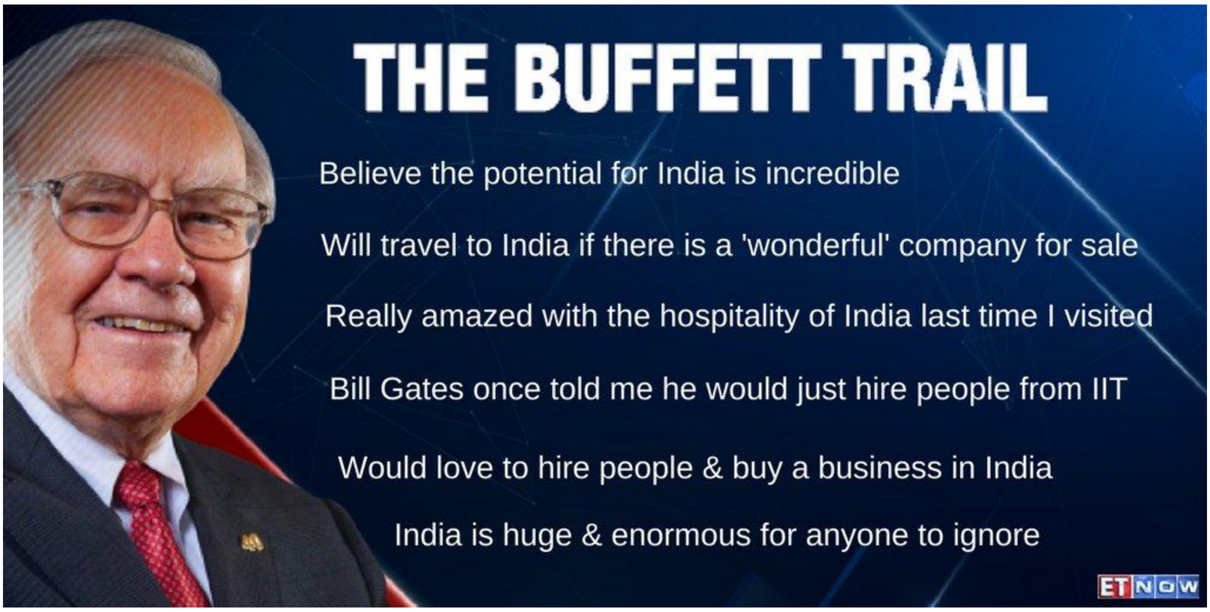
- India remains the fastest growing economy in the world - economic fundamentals are strong, and reform momentum continues.
- GST is on track for implementation in the second quarter of the fiscal year, and is expected to yield substantial growth dividends from higher efficiencies, and raise more revenues in the long term.
- Fundamentals of the Indian economy remain strong, with robust economic growth, strong fiscal consolidation, low current account deficit, higher agricultural output, growing FDI, low inflation and higher wages in rural areas. Favorable monsoons boosted agriculture and rural consumption, while urban consumption remained robust and exports rebounded in the third quarter of 2016-2017.
- India will achieve a major reform of indirect taxes through the GST without increasing the burden on the poor. Given the efficiency and revenue gains that the reform will eventually achieve, the overall impact of the GST on equity and poverty is likely to be positive.

Several such insights and reports shed light on the tremendous growth trajectory that awaits India, as it ventures ahead to claim a well-rounded economic status in the emerging world.

Global investors such as Warren Buffet, Prem Watsa, Jim Rogers and Mark Mobius have recently shared strong views about India as an investment destination

Warren Buffett - Berkshire Hathaway

American business magnate, investor, and philanthropist. He is considered by some to be one of the most successful investors in the world.

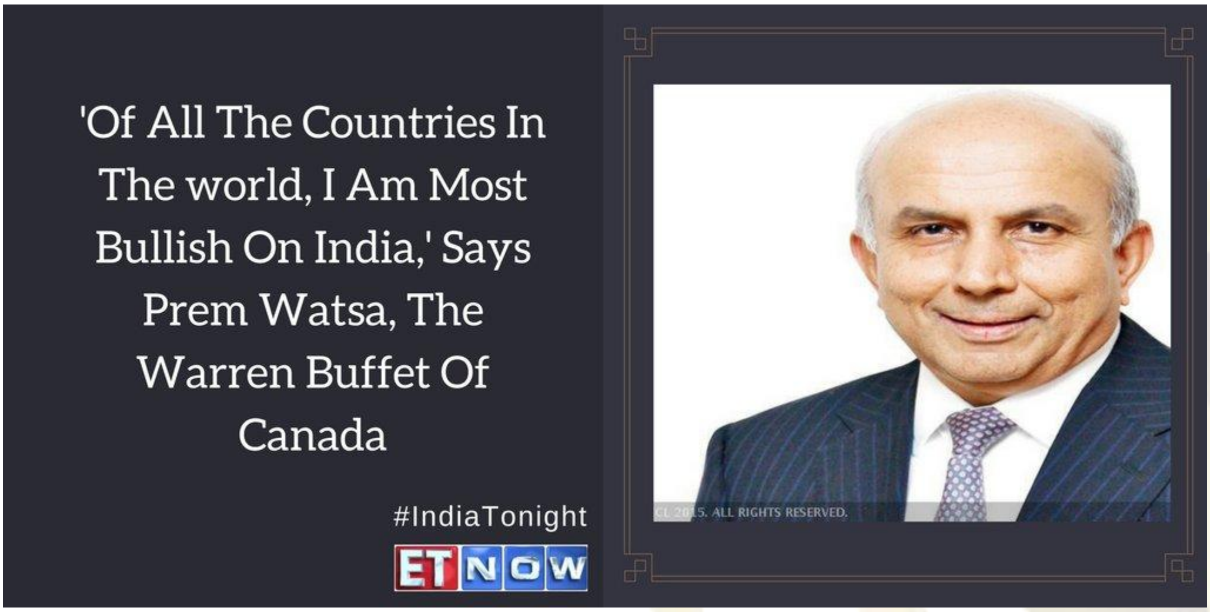


Warren Buffett has highlighted why the potential for India is incredible, and if a wonderful company in India is available for sale, he will be there the next day.

Observing that the per capita income will go up in the country; he said there is a lot of buying power in a big market like this. He commented that India's future in the world is huge, not just market wise, but also because it has a billion people. He went on to say that India should be in the top of foremost emerging markets, not China or Israel.

Prem Watsa - Fairfax Financial

Canadian businessman based in Toronto, commonly referred as the "Canadian Warren Buffett". He began snatching up insurance companies, modelling his business after the success of his idol: Warren Buffett.



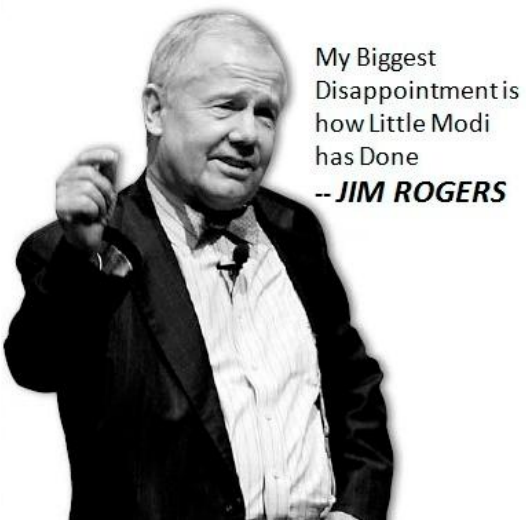
Prem Watsa stands a testimony to this bullish approach towards India, whose recent comments on the new governmental reforms and PM Narendra Modi is very positive, calling Mr. Modi 'the Lee Kuan

Yew of India'. He stated that the dramatic changes of the Indian sub-continent makes the economy a very exciting investment avenue - "We invest long term. Trust, integrity and values are most important things we look for" – who has made prominent investments in the country.

He has invested $1.5 billion into India since the new PM came to power, for his business-friendly and economic growth oriented policies. Other investments in the country include acquisition of Thomas Cook, Sterling Holiday, $300 million into a Chemicals company based out of Chennai, as well as stakes in the Bengaluru International Airport.

Jim Rogers – Roger Holdings & Beeland Interests, Inc

American businessman, investor, traveller, financial commentator and author based in Singapore. He was the co-founder of the Quantum Fund and creator of the Rogers International Commodities Index (RICI).

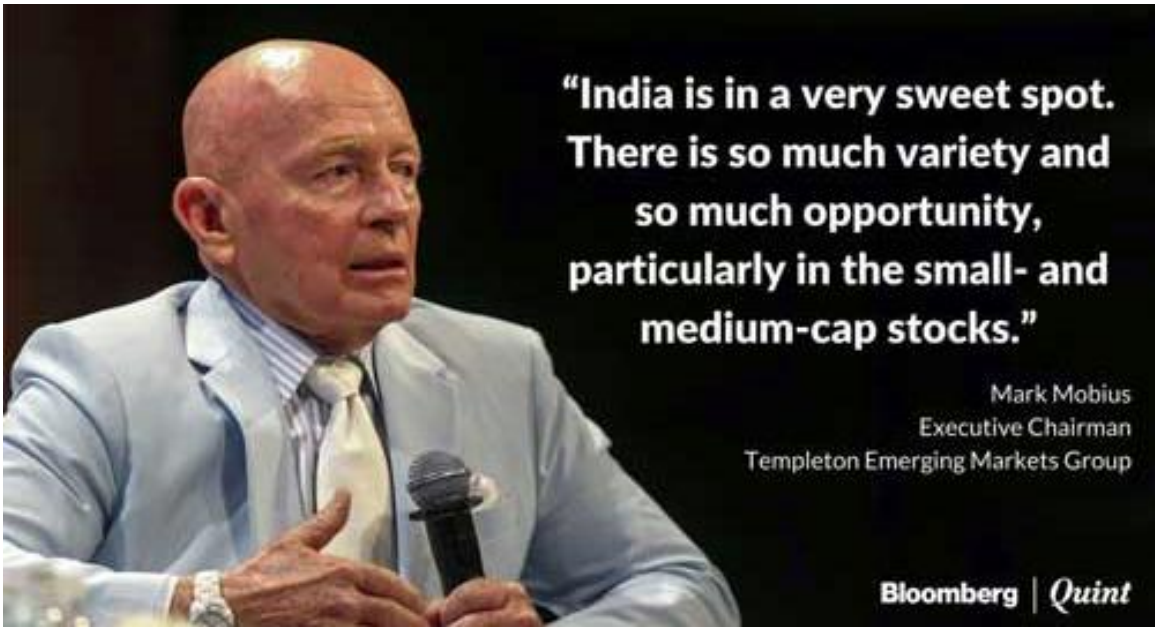


Jim Rogers regrets his decision on selling Indian equities - "Where I was wrong was that Modi had run a campaign that he would do all sorts of things, but he did not do anything for quite some time. He knew what he was supposed to do, but I was disappointed and so I sold out (Indian equities). I should have been more patient. Had he told us he was going to get it done, I would have stayed around"

The investment veteran surprised at the passing of the much needed GST law said, "Yes, I am impressed, and I see that the markets are at an all-time high; currency is going up—they are making new highs without me, and that does not make me happy. If Modi continues doing stuff like GST, then not just me—everybody has to pay a lot more attention to India."

Mark Mobius - Franklin Templeton Emerging Markets Group

Joined Templeton in 1987 and currently directs the Templeton research team based in 18 global emerging markets offices and manages emerging markets portfolios.



Mark Mobius had commented, "while the Indian market may be expensive at the moment, small-cap stocks are still a good investment." The small and medium-cap companies are attracting investor attention as there are thousand such listings, and they don't tend to move up as much as the large caps.

He said his top 2 investment destinations in 2017 for emerging markets is China and India, with bigger investments in both the areas, which they expect to grow as they move forward. Commenting on the demonetisation, he said, "The economy will slow down a little bit because of the currency changes but later this year or next year, things will pick up again."

He mentioned in particular how India's economy is growing faster than China's, and the tax reform implemented under Prime Minister Modi is a positive for the market. The strengthening of the rupee vs the US dollar, no interest hikes by RBI (Reserve Bank of India), and recent govt. reforms are the other positives.

The 2017 India Investment Outlook by Franklin Templeton mentions that despite the close to 3% rupee slump against the US dollars, INR was still among the better performing emerging market currencies in 2016.

In Franklin Templeton's Emerging and Frontier Markets report, it mentions India as one of the top 10 fastest growing economies with an average annual GDP of 7.6% forecasted for Feb'17 as per EIU. With India falling third, only behind China & US in the internet usage, the new digitisation era holds a lot of promise for the sub-continent. The report also draws attention to the high growth potential, reform movements, improving sentiment, cheap valuations and favorable demographics that investors could highly benefit from in an emerging market.

"I think in India the reason why we have seen this good market is the reforms Prime Minister Narendra Modi is making. First of all, the tax rules are being changed, and that is a big, big win. The fact that he has been successful in the (recent state) polls, also gives people confidence that the ongoing reforms will continue. These are main factors underpinning this rally. I was worried demonetisation might weaken Modi; but, in fact, it didn't. He pulled that off successfully. I think the rally will last."

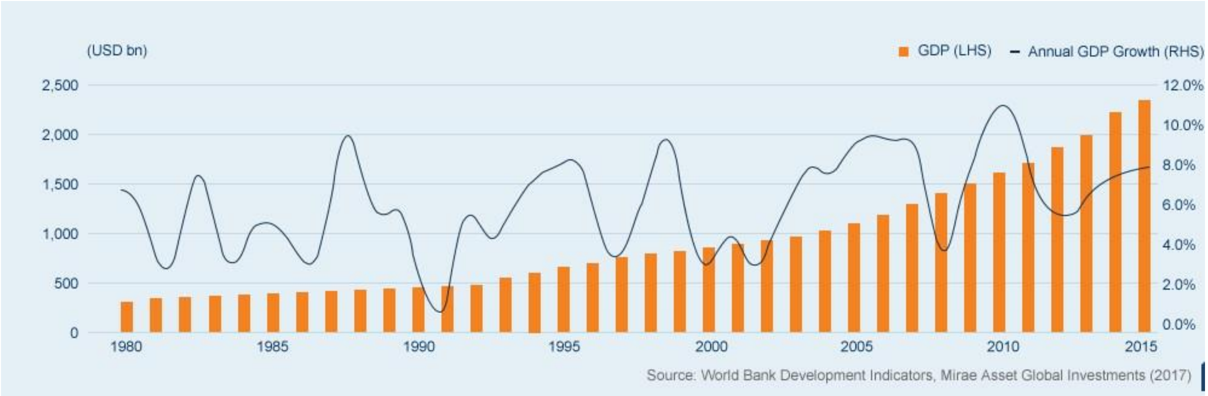
Rahul Chadha - Mirae Asset Global Investments

Co-Chief Investment Officer at Mirae Asset Global Investments (Hong Kong), responsible for overseeing the firm's Asia Pacific Ex Japan investment strategies.

Mirae is another investment company that strongly favors investment in the sub-continent, saying they are overweight on India. Rahul Chadha, Co-CIO of the investment company, recently said, "The way we look at India is that we have got a 20% rally over last six months despite demonetisation. Despite somewhat subdued earnings, that market has been positively surprised by the policy overdrive of government."

He also mentioned, "probably from a near term upside there is higher or a greater upside in China, Korea in the near term but from the medium term perspective, India is a must have in portfolios and that is why we continue to have overweight India in our regional funds." As of March 31, 2017, Mirae manages more than $2 billion in Indian equities and $250 million in Indian fixed income instruments.

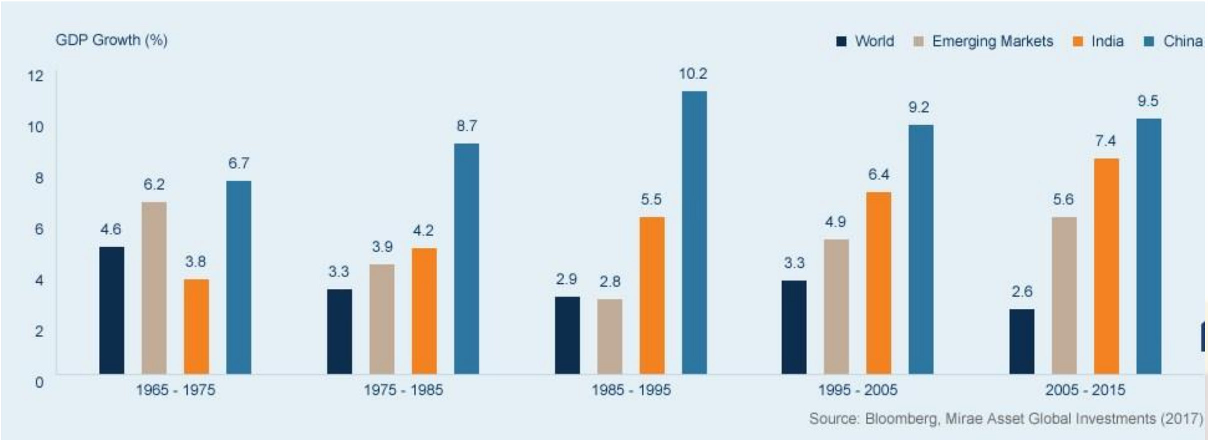
In their investment outlook, Mirae highlights the steady growth trend India has achieved over the years (image below), the dominant population stats of the young working population, increasing FDI & foreign reserves to its favor, among others.



As the second largest country population wise, only next to China, the median age for the individuals is expected to be 29 by 2020, making India the youngest country in the world, with huge growth potential. Highly productive labor force is however only one chip of the block, as reducing inflation, increasing consumer & investor confidence, infrastructure initiatives like Smart Cities shows that the economy is having an all-round, organic growth.

The 2016-17 Global Competitiveness Index of World Economic Forum shows this interesting aspect of India's growth story, as it has jumped 16 places for the second time in a row, to settle at 39. This is by far the largest YoY jump by any country.

Mirae also draws parallel to how the economy has been growing at a pace which far exceeds the rate of emerging markets as well as the world at large (image below). Thereby drawing attention to the upward thrust that the Services sector has brought to India's growth story.



Adding to the momentum, as per a recent report by Boston Consulting Group, India will be the third-largest consumer market by 2025, and the consumption expenditure will rise three times to reach $4 trillion.

Kerr Neilson - Platinum Asia Investments

Platinum Investment Management Limited is an Australian based fund manager, which specialises in investing in international equities. Platinum currently manages around A$23 billion, with the aim of achieving absolute returns for investors.

With the PAI fund's focus on the Asian market, its India approach shows a positive approach, calling it the economic powerhouse, albeit with a restrained eye on the expensive consumer market. The latest May update mentions the strong continuity of the economy's renaissance, its accelerated growth and how the falling inflation, interest rates, current account deficits are to the investor's favor.

Neelesh Mehta & Stephen Hopley - Jaipur Asset Management

Jaipur Indian Growth Fund is a 'fund of funds' offer formed in partnership with three Indian asset managers, Birla Sun Life Asset Management, SBI Funds Management, and the Unit Trust of India.

Jaipur Asset Management chair Stephen Hopley, who founded Jaipur Asset Management alongside Neelesh Mehta, said in an interview with InvestorDaily that India has 'come of age' as an investment opportunity, adding that the Modi government's reforms had assisted in this.

PATIENCE IS A VIRTUE

NEELESH MEHTA, an alumnus of Kolkata's St Xavier's College, has been associated with the Indian markets for over three decades now. Be it in India or Australia, he has built a reputation for shaping the DNA of organisations in competitive landscapes. Apparently, he knows how to work with large organisations and high net worth founders/families in establishing transparent and robust governance and operating procedures.

As co-founder and managing director of Jaipur Asset Management Pty Ltd, an India-focussed, Australia-based specialist asset management firm, Mehta carries with him a wealth of experience in capital markets and financial services in South-East Asia and in Australia. His experience spans mergers and acquisitions, investments, capital raising, corporate restructuring, finance, governance and treasury management.

According to Mehta, though the Indian market tends to look expensive and risky, in a global backdrop of uncertainty, it is hard to find corporate earnings growth of 20 per cent-plus annually over the next few years, that too, driven by internal consumption and investments and relatively insulated from global events. If one looks back over the last many years, what looked like India's place in the sun had come several times but other countries seized those opportunities and attracted the investment community's headspace. The opportunity seems to have presented itself again. The pace of reforms being undertaken by the Modi government is impressive and is likely to have long-term social impact, besides creating significant opportunity.

INVESTMENT STRATEGY

Mehta's investment philosophy revolves around growth at a reasonable price, or GARP. His thrust is on value and growth with an emphasis on risk mitigation as a critical component. "We invest for the long term, through strong asset management groups, into businesses that are likely to outperform their sector due to inherent competitive advantage. We track their records over multiple cycles and an inherent inertia is critical for us. Also, weightage is given to liquidity," says Mehta.

"Imbibed in our psyche is to begin with the end – we ask ourselves how and when do we expect to get out. I tend to look at five reasons why I am investing in something, be it a country, fund, strategy or stock. I also note five possible risks or things that could go wrong. Revisiting these parameters at regular intervals keeps one honest to oneself and takes the emotion out of one's decision."

"India is now the world's fastest growing major economy with China-style GDP growth, currently over 7.5 per cent per annum," he said.

"Whilst as we've seen with China, growth can stagnate, it is important to understand that India is decoupled from the global economy and her growth is driven by domestic consumption not export-led."

According to Jaipur Asset Management, the three partner asset managers have combined funds under management of about A$75 billion, and Mr Hopley said facilitating investor exposure to India through these firms would yield better results for investors due to their "extensive experience in the market".

Fiducian India Fund

The Fiducian Group is a specialist financial services organisation providing financial planning, funds management, investment platform administration, information technology and accounting/accountancy resourcing services.

Country	5 Year annualised return (to the market peak*)	Peak to Trough (Feb-09)	Trough to end Jul-10
US	13%	-53%	65%
UK	12%	-43%	52%
Australia	18%	-51%	42%
India	42%	-56%	121%
Japan	12%	-58%	35%
China**	45%	-71%	53%
Germany	23%	-52%	69%
France	16%	-56%	44%

Source: Iress Market Technology
* Market peak is taken to be the end of September 2007. Returns are compounded monthly.
** China's annualised return is for 4 years. China's market peak is taken to be the end of October 2007 and its trough was October 2008.

The management team is known for its rigorous selection of Indian fund managers, offering investors a wider stock diversification from the NSE/BSE. Like every other famous investors and investment management companies, what attracts Fiducian group to India is its growth trajectory and the rapidly expanding consumer market. Thus helping the Indian stock market in recent times to significantly out-perform most share markets in the more advanced economies, says Fiducian.

In its investment case report, it strikes focus on India's independent growth ability, reporting that in 2008, only less than 15% of India's GDP was from exports (compared to China's 40%), and how the global financial collapse was no major deterrent in its functioning.

In 2015, Fiducian's multi-asset, multi-style approach was highly lauded for their higher return on investment such as the Fiducian India Fund, which delivered a 41% return. With a $72m fund size, the India Fund outperformed its benchmark by 10% pa (approx.) after fees over the last 5 years.

Fidelity India Fund

Fidelity International offers world-class investment solutions and retirement expertise, with investment of AU$384.8 billion globally on behalf of clients in Asia-Pacific, Europe, the Middle East, and South America.

Following a similar performance standard is the Fidelity India Fund, which aims to invest in a diverse range of companies in one of the world's fastest growing economies. It has been outperforming the MSCI India Index NR by 1.6% pa since its '05 inception. With a fund size of $133m and a direct sub-continental exposure, this conservatively managed fund boasts of a good 10-year track record.

Morphic Global Opportunities Fund

Morphic Asset Management is a global equity investment manager based in Sydney.

The recent April 2017 FS of Morphic Global Opportunities Fund also draws attention to India's positive investment landscape and the rising momentum by attributing dominant percentage of fund gains to Europe and also selected emerging markets, especially India. It states how India's better capital expenditure outlook, with its renewable energy focus and its program to connect over 4,000 villages that lack power grid has been instrumental in the fund's performance.

Highlighting the economic momentum in South Asia, it mentions how the convergence of an improving credit cycle, next year's general elections and a bright expansive fiscal policy with rural and infrastructure focus would further add to India's gain. The fund's investment in the companies including the world's largest electricity operator (Power Grid Corp); Mumbai's domestic and automotive natural gas retailer (Mahanagar Gas); India's largest road builder and toll road operator (IRB Infrastructure), and in specialist lender to power infrastructure (Rural Electrification Corporation) stands a testimony to this.

Mugunthan Siva, India Avenue Investment Management

With 20 years experience in portfolio construction, manager selection as well as credit and equity research at companies such as Macquarie Bank and Westpac. Mugunthan has also managed multi-asset, alternatives and global/emerging market share portfolios.

Recently, Mugunthan looked at the seven reasons why Australia should not overlook investment into India, highlighting the fact that Australia has a low rate of investment into modern India, contrary to the views of global investors from Europe, UK and the US. Mugunthan goes on to question, "What is making India more compelling to other developed market investors?"


AUSTRALIA HAS A low rate of investment into modern India, yet global investors from Europe, the UK and the US don't share our scepticism.

What is making India more compelling to other developed market investors?

We can identify seven key factors:

1. **Prime Minister Modi is an investment magnet**

ability to attract foreign investors into India is often unseen as people focus instead on the politics. His big investment targets have been Japan, US, Canada and the UK.

A record was set in March 2016 when global investors bought US$4.1 billion ($5.4 billion) of shares. On top of this the PM has attracted massive foreign direct investment for the needed infrastructure to underpin urban

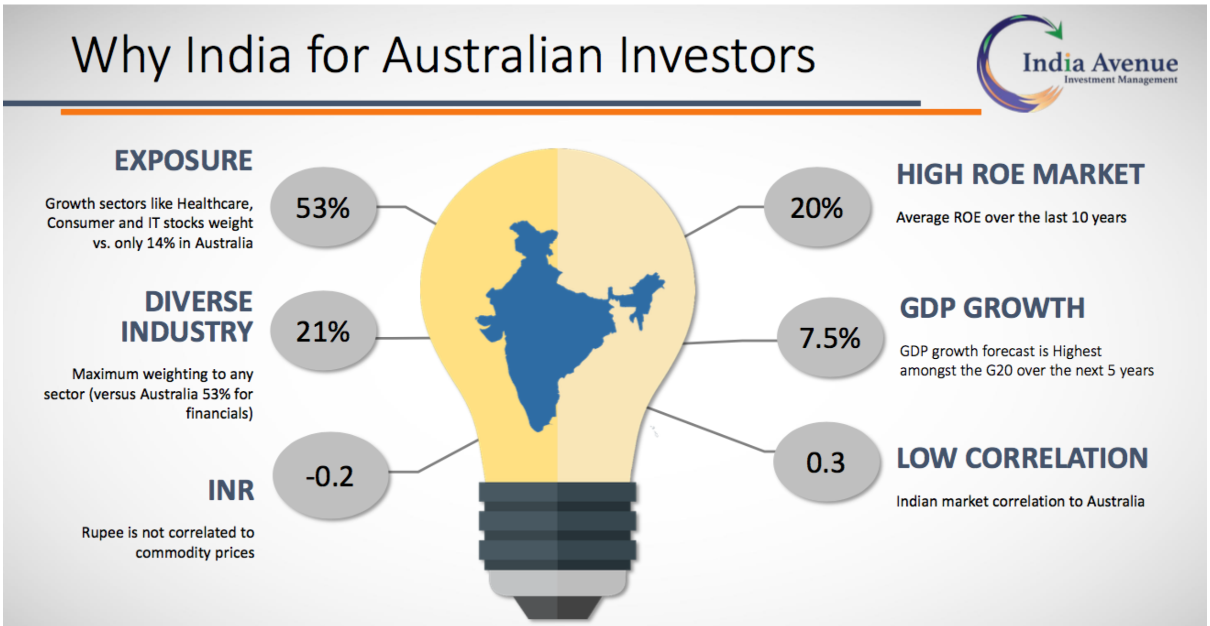
Modi's active policy stance is feeding into the economy, with gross domestic product (GDP) growth currently above seven per cent, and forecast to be the highest among the G20 economies over the next five years.

2. **India is the new bright spot of emerging markets**

India has become the world's top performing major emerging

Mugunthan has been dispelling the myths that are surrounding the Indian market like corruption, lesser reforms, risk and ambiguity, as he throws light on the strong growth potential and diversification benefits that India offers to its investors.

He draws attention to the largest ever biometric presence Aadhaar, increase in electronic payment channels from AU$400 billion in 2011-12 to AU$1.3 trillion in 2014-15, the biggest GST tax reform, strong ROE, etc., and the economy's resilience and performance during morbid global crisis. For instance, the country saw a return of 12.7% p.a. as against S&P500's 5.3% p.a. in the last 15 years, equating to a 385% difference over time.



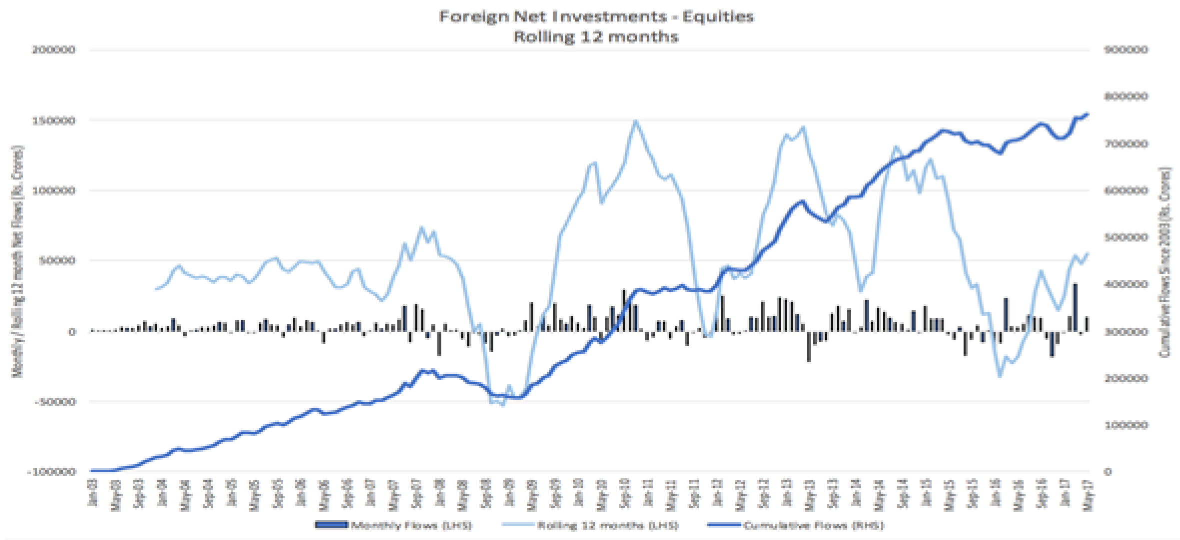
Even in his conversation with experienced journalists Leon Gettler and Garry Barker, Mugunthan Siva along with Fund Manager Mrinal Singh share their thoughts on the competitive investment opportunities in India, wherein they pinpoint the fast growing market with a rising GDP, and a thriving entrepreneurial ecosystem to the investors benefit. As 75% of the economy is privately held, it shows the potential for further market entry, wherein sectors like infrastructure are already seeking a vast external investment inflow.

The much needed reforms that has seen the light of day through the new govt, along with efficient automation processes, a pro FII/FDI policy has definitely scaled up the market, and with a keen eye on the role of local partnering, cultural influence, etc., the Australian corporates could expect to stand much gain, say the two experts.

Though Aussie has been a laggard with respect to India, and with Canada, Middle East, etc., making their inroads, they comment that being the foremost commodity exporter, Aussie could heavily benefit from India's huge commodity consumption.

With rising digitisation, a young Indian base, and a growing market, along with low commodity prices, significant and successful diversification benefits awaits a long term investor, says Mugunthan.

Interest in Indian equities heightening



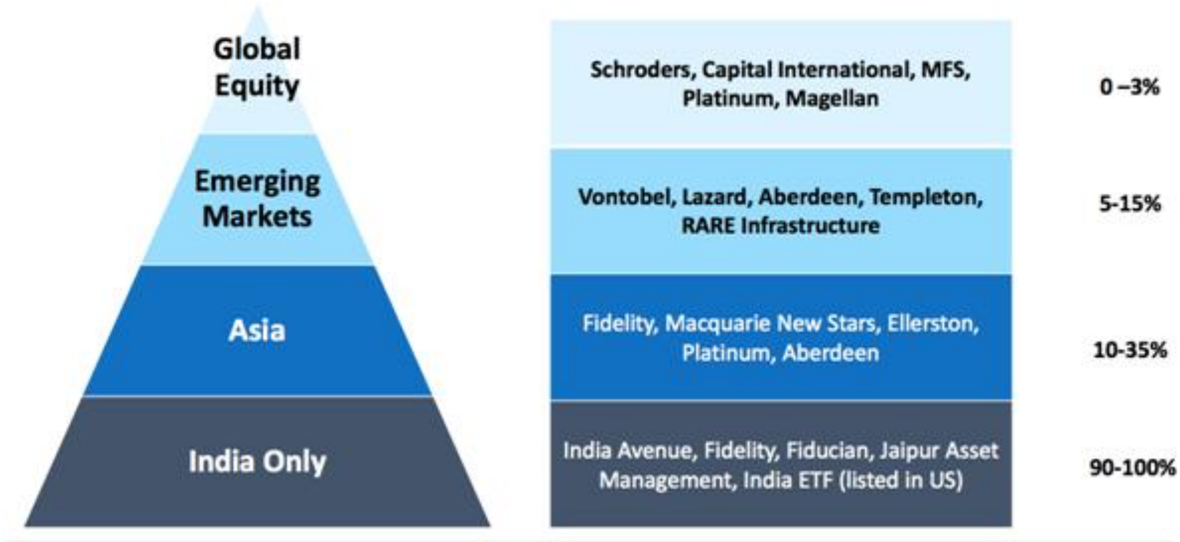
Inflows to come

- Expected flows of $25-35bn per annum to India from foreign investors
- Post 2014 several investors have increased interest in India as part of their asset allocation strategy
- Local mutual fund investments are expected to be $12-15bn per annum ✓ Add insurance company inflows
- India is one of the lowest Pension Funds / GDP market in the world at 4% - indicating the future opportunity for investment increasing

Difficulty in Accessing India

- Investing in Indian equities requires either an Indian passport or a foreign investors license (FPI)
- Wholesale and retail investors find it cumbersome to complete licensing requirements
- Institutions in Australia also find it difficult. Implementation time frames are significant, with most adopting inefficient access via p-notes, ADR/GDRs or ETFs

Accessing Indian Equities in Australia



In conclusion

It is clear that the view of the investors aligns with the timing right now being the best to invest in India. The examples of the managers mentioned above are just a few that provide access into the India equity markets.

We have also tracked the Indian private equity and venture capital opportunities, which can be accessed through investors on the ground such as Sequoia, Alpha Capital, Soft Bank's SBI Ven Cap, ACCEL, ICICI, Tata Capital, Light House, etc. Whom we will be meeting on our upcoming trip to India in November. We are planning to take a delegation of family offices and private equity investors from Australia to experience the opportunity on the ground.

'Register your interest here in joining us on the family office delegation to India on 20-23 November 2017'.

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