

India Update

Monthly Commentary

January 2012

Market Overview

- Indian equities fell in December, ending the year sharply lower, amid persistent worries over faltering growth, the weak rupee and Europe's debt crisis. Also hurting sentiment during the month was the government's abrupt decision to suspend the liberalisation of the local supermarket sector following a fierce public backlash.
- The central bank held interest rates steady as inflation appeared to be moderating and GDP growth continued to slacken.
- Industrial output declined in October for the first time in more than two years. On a positive note, the latest purchasing managers' index suggested that manufacturing activity would improve on the back of better employment and an increase in new orders.
- The government approved a food subsidy bill that will give the poor access to cheap grains but could further strain the fiscal deficit. Meanwhile, plans to set up an independent anti-corruption agency stalled due to disagreement among lawmakers.
- Foreign individuals will be allowed to invest directly in shares of India-listed companies, subject to existing limits for selected sectors.

Model Portfolio News

There were no major changes to the portfolio in December.

Note:

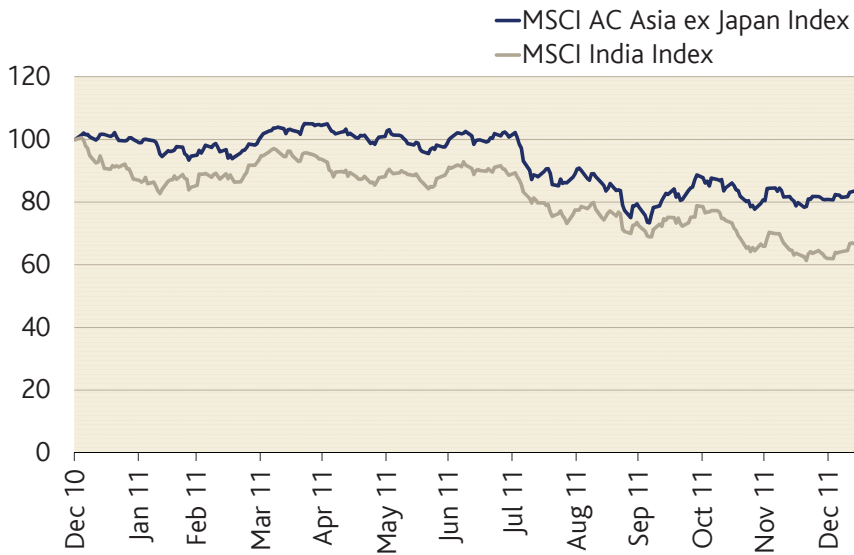
Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.

Corporate News

Hindustan Unilever has used on its strong market position to raise the prices of some of its products, which will help maintain its operating margins. **Infosys Technologies** will acquire Australia-based Portland Group, a sourcing and category management services provider, for 1.95 billion rupees to expand its overseas presence in a value-added segment. **Nestle India** will invest up to 5 billion rupees in a noodle and confectionary plant in Gujarat to cater to growing domestic demand.

We hold the companies highlighted above.

Focus – A volatile year ends, a new one begins



Source: Bloomberg, 13 Jan 12

India's stockmarket fell almost 40% in 2011. Persistently high inflation, elevated funding costs and policy stasis took their toll on the economy, unnerving foreign investors already distressed by Europe's worsening debt crisis. The resulting outflows weighed on the rupee, which hit a record low against the US dollar and was Asia's worst performing currency. Given the ongoing risks, attracting new capital flows will be the main challenge for policymakers in 2012. Still, we would not be surprised if the domestic market corrected further. Despite the sharp decline in 2011, the domestic stockmarket had appreciated by more than 100% over the previous two years. And although foreign institutional investors withdrew US\$357 million last year, they had invested US\$29 billion in 2010. Nevertheless, we remain sanguine about India's long-term outlook, underpinned by a huge domestic market, young and growing workforce, an expanding middle class and dynamic entrepreneurs.

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