



Investing in “Incredible India”

India's resilience during the global financial crisis has not gone unnoticed. The economy grew 6.7% at the end of the fiscal year 2008/09, slowing from rates of 9% or more in the previous three years. The combination of domestic consumption and a tightly regulated financial sector has pulled their economy through almost unscathed. Growth for the fiscal year ending March 31, 2010 is expected to be about 7.5% according to Ministry of Finance officials, and next year, it could reach 8.7%.

The stock market continued its uptrend in March after experiencing some volatility in the month of February. It touched higher levels in March 2010 and its 25 week high on 29 March 2010. The Nifty (an index of 50 companies representing the 24 sectors of the National Stock Exchange of India) closed the month with a 6.6% gain while the Sensex (an index composed of 30 of the largest and most actively-traded stocks on the Bombay Stock Exchange) was up approximately 7% during the month of March 2010. This was mostly driven by the expectations of strong earnings growth in coming results and overall improvement in global equities market.

India's strength comes from the fact that its internal market is large, but is also better insulated than other emerging markets from exogenous shocks. India's domestic consumption accounts for nearly 57% of its GDP compared to China's 37% while exports constitute a mere 20% of its financial system. The confidence in the domestic economy is in part based on an extremely high savings rate of 32.5% and an investment rate of 34.9% that has propelled India among the fastest growing nations. India has a large, educated middle class who now have the capacity to spend money and buy products that were once considered luxuries. This generates tremendous economic activity without trade balance issues arising. India's growing young population, as opposed to the ageing population found in most other countries, also bodes well for long-term growth.

Higher growth has given reassurance that the government can take itself out of its wide fiscal deficit using higher tax revenues. This year's fiscal deficit is about 6.9%, but is projected to fall to 5.5% next year and 4.8% in the fiscal year 2011/12.

India's wholesale price inflation rate held at a 17-month high of 9.9% in March, down 0.01% from February and still far above the Reserve Bank of India's (RBI) projection of 8.5%. It is likely to remain elevated at the current level for another two months and the Central Bank may have to take action if it accelerates. A rate hike of 25 basis points at the review meeting on April 20 2010 by the Indian Central Bank is a near certainty, and the markets have already priced in it. Analysts don't believe that the inflation poses a serious threat to the growth of the economy as measures have already been taken to keep it under control.

Investors can benefit by adding some exposure to India in a portfolio as India continues to make the fiscal and social changes that will lead to greater sustained growth in the long-run. There are 3 Exchange Traded Funds (ETFs) in particular that are worth the mention.

The **iShares S&P India Nifty 50 Index ETF (ticker: INDY)** seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Nifty. It began trading on 20 November 2009 and has an expense ratio of 0.89%. The top holdings include Infosys Technologies Limited, Icici Bank Limited and Reliance Industries Limited. As at 14 April 2010, the ETF was up 10% YTD.

The **WisdomTree India Earnings ETF (ticker: EPI)** tracks companies selected for the Wisdom Tree India Index that are incorporated and traded in India and are profitable and eligible to be purchased by foreign investors. They are weighted based on their earnings in the prior fiscal year. The fund's 125 holdings include various sectors and also include Infosys and Icici Bank. The fund has a low net expense ratio of 0.88% and as at 14 April 2010, the fund climbed 9.7% YTD. This is the most liquid of the three ETFs discussed.

The third ETF is the **PowerShares India ETF (ticker: PIN)**. This is based on the Indus India Index which is designed to replicate the two major Indian equity markets (BSE and NSE) through a diverse group of approximately 50 Indian stocks. YTD, this ETF has gained 6.4%. There is a cheaper expense ratio of 0.78% to invest in this as compared to the INDY and EPI. The EPI, however, does have a wider inclusion of companies within its portfolio.

India's current performance is impressing investors world wide. Its internally driven growth, young, educated workforce, expanding factory output and smart fiscal policies should propel its economy at a faster pace in 2010/11 and beyond than previously expected.

Current Happenings in Local and International Markets:

- Drought may push food prices higher
- NEL shares most traded
- GK gains US\$12b from sale of investments
- Housing Starts, Permits Rise as U.S. builders rebound
- European Stocks fall, trimming weekly gain, Stoxx 600 drops 0.3%
- Mexico's central bank may keep benchmark rate at 4.5%

Table 1: Regional Market Performance (as at 15 April 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	819.73	-0.03	1.78	6.84	1.33
All Trinidad	1,163.33	-0.43	-0.25	5.45	5.43
JSE Index	86,424.59	0.08	1.36	3.75	8.38
JSE Select	2,306.19	0.78	4.32	21.50	34.02
All Jamaica	83,678.26	0.13	3.49	17.91	31.11
BSE Composite	762.48	0.26	-0.51	-3.03	-12.92

Table 2: International Market Performance (as at 15 April 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,211.67	2.13	5.32	6.94	42.20
Nasdaq Composite	2,515.69	3.24	6.50	8.98	54.64
Dow Jones Industrial	11,144.57	1.99	4.72	5.30	38.79
German Dax	6,291.45	1.94	6.57	4.02	38.28
FTSE 100	5,825.01	1.97	4.13	5.90	46.78
Nikkei 225	11,273.79	0.95	4.85	5.81	28.95
Hang Seng	22,157.82	1.33	5.12	1.53	41.41
Eurostoxx	3,012.65	2.39	4.95	-0.17	33.13

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