



Robert's perspective on the two largest, most dynamic, and most mysterious Asian countries. It would seem that clever and cautious investing will be well rewarded!?

Questions are welcome, for which we will seek answers.

Enjoy the study.

David Knight

Georgian Capital Partners
Scotia Plaza
40 King Street West, Suite 3405
Toronto, ON M5H 3Y2

Toronto: (416) 640-4100
Victoria: (250) 595-7955
www.georgiancapital.ca

June 7, 2016



LLOYD GEORGE ADVISORY

June 2016

Investment Outlook

The Tortoise and the Hare

Since starting in business in 1992 we have had a twin focus on the two Asian giants of India and China. That year both countries turned towards the free market and opened up to foreign investors. In the ensuing twenty five years, we have seen Chinese economy grow by 32 times and its foreign trade by 39 times, and the market capitalisation of the Shenzhen and Shanghai stock markets has grown from zero in 1990 to 3,024 billion and 3,729.3 billion as of today.

India by contrast has grown at a more sedate pace but has nonetheless made steady progress with an average GDP growth rate of 7.4%. We had very good return from our Indian investments over the last two decades, whereas Chinese SOEs have often disappointed due to corporate governance issues and political interference. The question today is where are we going in both India and China? China's economy is undoubtedly slowing down from a growth rate of almost 10% per annum for several years, to its current official 6.5%. The real growth rate is perhaps nearer to 4 to 5%.

India meanwhile is accelerating, and may even hit 8% this year. The Chinese Renminbi is weakening and many observers believe that it may devalue in the next 12 months. Under the Reserve Bank of India, and Governor Rajan, the Indian rupee has been fairly stable and its terms of trade have greatly improved with the fall in the oil price and a reduction in gold imports. Foreign direct investment (FDI) in India, has grown from US\$9 billion in 2011 to US\$37 billion last year. China's net FDI has fallen from over US\$200 billion in 2013 to US\$62 billion last year, and in the first quarter of 2016 there has been a net outflow of US\$23 billion. It is at least arguable that India today is where China was twenty years ago in terms of



LLOYD GEORGE A D V I S O R Y

infrastructure development, foreign trade, the development of manufacturing and the liberalisation of its economy.

Another key factor is demographics. Because of the one child policy in China between 1978 and 2015, China is facing a demographic crunch with the labour force falling by nearly 5 million last year. India is expected to overtake China's population in the next decade, and more importantly the average age in India is 22 compared to China's which is 36. India has a young, dynamic consumer population so the need for investment in schools, hospitals and roads is compelling.

Prime Minister Modi has been in power now for 2 years and like Xi Jinping (but with far less fanfare), has begun an anti-corruption campaign which has been quietly successful in cleaning up the banking sector and reducing much of the corruption and inefficiency in the Indian bureaucracy. Recent state elections in the south of India strongly suggest that Modi's term will be for 10 years, since the Congress Party continues to weaken and the BJP has strong support in the regions. This means that Modi can, over this long period, impose his reform program successfully, and revitalise India's economy.

China today has roughly 5 workers for every retiree. By 2040, this ratio will have collapsed to about 1.6. From 2000 to 2050 the median age in China will rise from under 30 to 46, making China one of the oldest societies in the world. At the same time, the number of Chinese older than 65 is expected to rise from roughly 100 million in 2005 to more than 329 million in 2050. Chinese economists say that demographics are already becoming a drag on growth.

By end of the century, China's population is projected to dip below 1 billion for the first time since 1980.



LLOYD GEORGE ADVISORY

Perhaps we can look beneath the data and the statistical noise to understand how these two Asian societies operate differently. Starting with stock exchanges, the Bombay market has been operating since colonial times in 1875, and has 5,542 companies listed (far more than any other global exchange). The comparative figure in the Shanghai market is 1,144 but that exchange only reopened in 1990.

There is a very large number of small and mid cap Indian companies of interest to us as investors, with a vibrant service sector. Private consumption in India is nearly 60% of GDP, double that of China. Unlike the state dominated sectors of heavy industry, banking and construction, in India, they have large private groups such as the Tata group of companies (Tata Steel, Tata Motors and Tata Consultancy Services, the largest IT company). They have also some very successful private shareholder owned banks such as ICICI, HDFC, Yes Bank and smaller mortgage lenders like Gruh Finance. Large engineering groups such as Larsen & Toubro are present not only in India but also in the Middle East. We do of course see state owned Chinese engineering businesses active all over Central Asia, Pakistan, Africa and elsewhere, but it is not so interesting for us as minority shareholders to invest in state owned enterprises.

Perhaps the most exciting area of development is the Internet, where we estimate that India is two or three years behind China. Mobile phone penetration is about 70% in both countries, and internet users rising quickly to over 50% (but India is constrained by its inadequate power grid).

China's Internet sector is protected and is dominated by the three large 'BAT' companies (Baidu, Alibaba and Tencent), whereas India has been always a more open economy to foreign companies such as Google and Facebook. This has created a fertile environment a new generation of Indian internet start-ups which are very interesting for us as investors.



LLOYD GEORGE A D V I S O R Y

In the 'soft' or cultural sectors of the two economies, it is interesting to notice that cinema attendance in India at nearly 3 billion annually, is more than 6 times higher than in China, and although China is now making an concerted attempt to build up its film industry, and make overseas acquisitions in Hollywood and so on, Bollywood has for many decades been a vibrant local cultural phenomenon. We have also invested in TV and broadcasting in India in companies such as Zee Entertainment.

Regarding the darker side of development, we know that the two most polluted major capital cities in the world are New Delhi and Beijing (and New Delhi holds the crown of being twice as polluted). Global CO2 emissions are headed by China with 8 billion tonnes, USA with 5 billion tonnes and India with 1.75 billion tonnes. Both countries spend heavily on military and defence systems with India the largest arms importer. We are however, reasonably confident that the current administrations in New Delhi and Beijing are intent on peaceful development.

Our Research has recently taken us to visit companies in the surrounding Frontier markets such as Pakistan, Bangladesh, Sri Lanka and even Myanmar. Here we find some of the highest growth rates, in the least researched markets, in the world. Like India, these countries will benefit from cheaper oil prices and improved terms of trade, and will open up to foreign investors. Elsewhere in the region, we have seen a new government in the Philippines and so far it has been well received by the market.

The Bank of Japan continues to espouse highly stimulative policies such as negative interest rates and perhaps 'helicopter money', which makes it more difficult for us to anticipate the market trend. We prefer to focus on real earnings growth in South East Asia and the subcontinent. Behind the global markets, there is still the uncertainty of a possible 'Brexit' on 23 June and a possible Trump presidency in November, with unpredictable consequences of both events for trade, investment and share markets.

A handwritten signature in dark ink that reads "R. Lloyd George". The signature is written in a cursive, flowing style.

Robert Lloyd George
6th June 2016



LLOYD GEORGE ADVISORY

China and India: A Comparison

	<u>CHINA</u>		<u>INDIA</u>	
	<u>2015</u>	<u>2050</u>	<u>2015</u>	<u>2050</u>
Population (million/estimate)	1,410	1,385	1,300	1,620
Urban Population (million)	780		420	
Rural Population (million)	608		880	
Life Expectancy	74.8 men		65.8 men	
	77.8 women		69.3 women	
Economies (trillion/US\$)	<u>2014</u>		<u>2014</u>	
	10.6		2.2	
GDP per capita (US\$/Estimate)	7,000		1,760	
% of Global Trade	<u>2015</u>		<u>2015</u>	
Exports	12.4		1.7	
Imports	10.3		2.4	
Forex Reserves (US\$/billion)	3200		325	
Workers' Remittances (US\$/billion)	59		70	
Foreign Debt (US\$/billion)	875		427	
Industrial Output (US\$/billion)	4000		532	
Services (US\$)	425		884	
Literacy	95%		62%	
Tea Production (million tonnes)	1.9		1.2	
Cotton (million)	6.9		6.7	
Oil Consumption (ggb/day)	11		3.8	
Coal				
Production (million tonnes)	1,844		243	
Consumption (million tonnes)	1,962		360	
Society (%)				
Religions				
Non-religious	52.0		79.5 Hindu	
Buddhist	18.0		14.4 Muslim (180 million)	
Christian and others	22.0		6.1 Christian and others	
Communist Party members	6.5			
Ethnic Group				
Han	95.0			
Uighur, Tibetan, others	5.0			

Source: The Economist



LLOYD GEORGE ADVISORY

*This Investment Outlook ("**Document**") is distributed by Lloyd George Advisory (HK) Limited ("**LGA**") in Hong Kong only to persons who are within of the definition of "professional investor" as set out in the Hong Kong Securities and Futures (Professional Investor) Rules. This Document may not be distributed to, or acted or relied upon by, anybody else. LGA is currently licensed under the Hong Kong Securities and Futures Ordinance (Cap. 571) ("**SFO**") to carry on Type 9 regulated activity (asset management). In particular and notwithstanding anything else in this document, this Document is not and should not be construed as LGA (or any affiliate or anyone else) offering or holding itself out as being willing or able to provide any service or to carry on any activity which it is not licensed to provide or carry on in Hong Kong.*

This Document is issued by LGA for information purposes only. No reliance may be placed for any purposes whatsoever on the information contained in this Document, or on its completeness, accuracy or fairness. Although care has been taken to ensure that the facts stated in this document are accurate, and that the opinions expressed are fair and reasonable, the contents of this Document have not been verified by independent auditors, third parties and/or LGA.

Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of LGA, or any of its members, directors, officers or employees or any other person. LGA and its subsidiaries, or any of their respective members, directors, officers or employees nor any other person acting on behalf of LGA accepts any liability whatsoever for any loss howsoever arising from any use of this Document or its contents or otherwise arising in connection with this Document.

The information contained in this Document may include forward-looking statements which are based on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about LGA and its subsidiaries and investments, including, among other things, the development of its business, trends in its operating industry, and future capital expenditures and acquisitions. In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Any forward-looking information contained herein has been prepared on the basis of a number of assumptions which may prove to be incorrect and, accordingly, actual results may vary.

The information and opinions contained in this Document are provided as at the date of this Document and are subject to change without notice.

Central Entity No. BEL384

© Lloyd George Advisory (HK) Limited