India and China
Reflections on 25 Years and a Look Forward

Growth and, more important, legitimacy forecast to continue – population size and urbanization / gentrification. Robert's funds yet to be available in Canada.

Enjoy! Comments or questions welcome.

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LLOYD GEORGE
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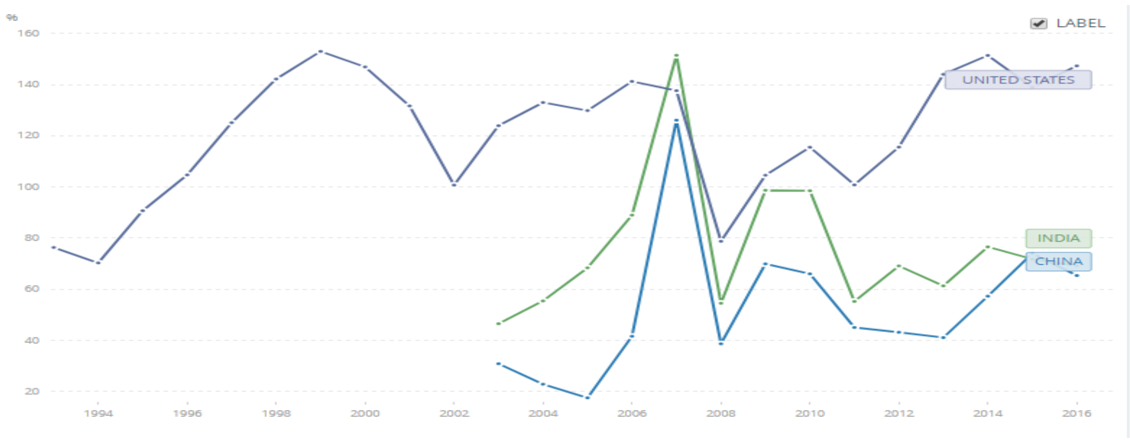
Investment Outlook

India and China
Reflections on 25 years and a Look Forward

I was invited to speak in Shanghai on 18 September about our two major Asian Emerging Markets and my experience in investing in them. Since we began, the average annual return in India has been 13.6% in US dollar terms over the past 25 years, compared to 12.9% in China, with the respective economies growing at a nominal GDP 13.5% and 15.2%. What is interesting in the following chart is that today the US market is valued at a 150% of GDP while China and India are still around 70%. For any US or international investors looking at the world today, it must be evident that growth in the next 10 years will continue to come from Asia and specifically from the spending of the growing middle class consumers in the region, which are estimated to reach 380 million in India, 350 million in China and 210 million in other Asian countries, so that 90% of the next billion people joining the middle class will be in Asia (adjusted for purchasing power parity).

Market cap as % of total GDP of country (1993-2016)



Source: World Bank

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Part of my bullish forward analysis comes from the fact that many of these middle class consumers are also investors in their own share markets, and that we see, for example in India today, that flows into the capital markets are coming much more from domestic investors than foreign investors. In China there is a shift away from real estate into equities and other financial products. Although both countries have a debt problem (this is not unique when we think of the Europe and US today), their respective growth rates of 6 to 8% will help them to grow out of this debt. In addition, it is worth reflecting on the fact that the PBoC (China Central Bank) has expanded its money supply by more than the Federal Reserve, the Bank of Japan and the Bank of England combined: One comment that I heard in Shanghai was that the China A-Shares or the domestic Chinese equities were receiving "a wall of money", which is supporting the economy and financial system.

The 19th National Congress of the Communist Party of China will be held on October 18th, and will be very important in cementing President Xi Jinping's leadership and the reform policy, which we expect him to follow. China A-Shares will also be included in the MSCI Emerging Markets by May 2018, and we expect a significant capital inflow from international institutions, to anticipate this important change. Both the Chinese Renminbi and Indian Rupee have strengthened this year against the US Dollar, and we forecast political, economic and currency stability in the next few years. Both Mr Modi in India and President Xi Jinping in China are attacking corruption and this is the "Key-Man Risk" in investing in each nation.

The sectors which we select in both markets are similar – internet, e-commerce, consumer, travel and tourism, healthcare and education. Just as in the United States the technology sector has been leading the market, so, too, in China has an even more advanced internet market led by Alibaba, JD.com, Baidu and Tencent.

In India, in the ten months since the demonetisation, there has been a shift from a 70% cash economy, to around 40%, with a rapid growth in digital and online payments. India today is at the take-off point, where China was 10 years ago, in terms of infrastructure, internet, e-commerce and accelerating economic growth. Based on the successful model, that we have developed for the Indian Ocean Fund, where we have experienced local advisors in Mumbai, Pakistan and Bangladesh, we have now identified such a partner in China which will enable us to invest capital for our clients, into China A-Shares, especially in the small and mid-cap companies listed both in Shenzhen and Shanghai. This is where we see the most interesting investment opportunities for the next decade.

R. Lloyd George

Robert Lloyd George
1 October 2017
Hong Kong