



The Indian Elephant Wakes

An excellent, thought-provoking read. Much good about India and China – uncertainty about U.S. policy, but continued strength seems likely. Comments or questions always welcome.

David Knight | Partner | Georgian Capital Partners
Scotia Plaza, 40 King Street West, Suite 3405 , Toronto, ON M5H 3Y2
Toronto: (416) 640-4100 | E-mail: dknight@georgiancapital.ca
www.georgiancapital.ca

February 13, 2017



LLOYD GEORGE
MANAGEMENT

February 2017

Investment Outlook

The Indian Elephant Wakes

January has been a strong month for the Asian markets, and our Bamboo Fund has appreciated by 6.5%, especially reflecting the rebound of Indian shares after the demonetization shock in November/December. Our Indian Ocean Fund at US\$75M has also appreciated nearly 5% since its launch in December. We remain positive on the outlook for emerging markets, especially for India and the subcontinent but also for the growing consumer markets of the 600 million population bloc of ASEAN. We are looking afresh at Thailand, Malaysia, Singapore, and Indonesia, as well as the Philippines for opportunities in this sector. We have a nuanced approach to China, which is clearly experiencing some slowdown in exports and nominal GDP growth, but continues to report strong retail sales, travel and tourism figures, and spending on education, healthcare, and on-line purchases. (We have added Alibaba and Baidu as two leading companies in this space last month.)

The major question is what will happen to the emerging markets in the era of Trump. Has globalization and free trade peaked? Our view is that, despite short-term setbacks, the long-term trend towards freer movement of capital goods and ideas cannot be stopped. It is counterintuitive in the age of the internet for people to turn inwards and buy only domestic products. Britain will not be able to live without French and German imports, nor will the USA, despite the enormous size of its domestic market, be willing to exist without German and Japanese cars and cheap Chinese consumer goods. The trend of history seems irreversible, and it is, in the end, consumers who benefit most from the competitive pricing of imported goods.

LLOYD GEORGE MANAGEMENT (HK) LIMITED
SUITE 4004, TWO EXCHANGE SQUARE, CENTRAL, HONG KONG
TELEPHONE (852) 3468 7278 FACSIMILE (852) 3468 7163
EMAIL: BETTY@LLOYDGEORGEADVISORY.COM



LLOYD GEORGE
MANAGEMENT

The first few weeks of the new administration have been somewhat chaotic, with the ban on Muslim traveller from seven countries and the uncertainty about foreign and trade policies. The real economic impact of the change of thinking in Washington will be towards reflation, lower taxes, less regulation, more infrastructure spending, and, in general, a boost to the ‘animal spirits’ of the business community. We venture to believe this will benefit many of the companies that we visit in the Asia Pacific.

Nevertheless, we have taken a very cautious stance in not buying into the export sectors in Japan, China, and Southeast Asia. Strategically thinking, we have focused on India and its neighbors, which have less to lose than any other major developing countries from a US-protectionist stance. Even in India, we avoid the software and pharmaceutical sectors, which could be impacted by more restrictive trade policies (especially in the technology sectors) where the H1B visa has become very important to Silicon Valley companies bringing in Indian software engineers.

In January, I made a very interesting journey to Hong Kong through northern Thailand to India and eventually Sri Lanka. China’s influence on the economy of the Indian Ocean region cannot be underestimated. We visited Pakistan in November, which will see US\$50B of infrastructure development in the highways, ports, and power generations. Even more remarkable is Sri Lanka, where the Chinese are estimated to be investing almost US\$10B into an economy whose total size is only US\$80B. The new government, which succeeded Mahinda Rajapaksa nearly two years ago, had tried to find alternative sources of capital; but there has been virtually no investment from USA or Europe, and so after 18 months, they have turned back to the Chinese and are now going ahead again with Hambantota port, the highways, and the airports. Most striking is the 550-acre port city development in the heart of Colombo, which will include offices, commercial and residential space, as well as the port itself. We can see the impact of this huge investment on the construction sector as well as consumption and also the banks.

Looking forward, we believe the next few months will see a continued momentum of growth in these Asian nations which are belatedly catching up in terms of technology and



LLOYD GEORGE
MANAGEMENT

infrastructure. The impressive speed with which the Modi administration has implemented reform of taxes, banking, and national ID registration, will impact the country's economy deeply in the months and years ahead. We have invested heavily into the private-sector listed banks in Mumbai, including HDFC, ICICI, Yes Bank, Gruh Finance, Kotak Mahindra, and Shriram City Union Finance. These are the companies which, on the ground, are going to benefit most from loan demand, especially in mortgages and corporate lending at the local and retail level in the regions of India. The gradual inclusion, in the financial sector of the economy, of the 600 million Indians living in the rural provinces, will have a huge impact, not only on the banks but on the sales of consumer goods, on travel and tourism, and on the gradual spread of the internet. All of these trends we have seen in China in the past decade we are now beginning to see in the vast Indian subcontinent.

Robert Lloyd George
10 February 2017
Hong Kong

This Investment Outlook ("Document") is distributed by Lloyd George Management (HK) Limited ("LGM") 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. LGM 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 LGM (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 LGM 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 LGM.

Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of LGM, or any of its members, directors, officers or employees or any other person. LGM and its subsidiaries, or any of their respective members, directors, officers or employees nor any other person acting on behalf of LGM 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 LGM 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 Management (HK) Limited