



The Incredible Mr. Modi

Robert is clearly a Modi believer! Massive economic potential if trust in finance grows. Neither the Indian Ocean Fund, nor the Lloyd George China Fund are available in Canada, as yet. However, we find him to be an exceptional writer and 'student' of investments.

Enjoy!

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

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Investment Outlook

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In speaking at the Access Alts Asia-Global Hedge Fund Summit in New York recently, I referred to Mr. Modi as the “Trump of India,” but with a greater degree of humility. I believe that it is still true to say that Mr. Modi is an unknown quantity in the West; and even though he has been in power for almost three years, it is worth explaining his character and philosophy, in order to justify our enthusiasm for investing in Indian shares today. Since independence in 1947, India’s population has grown from around 400 million to 1.3 billion today, of whom 79% are Hindus. Narendra Modi is a devout Hindu from a humble background in Gujarat. His father sold tea on the street; and Modi, rejecting an arranged marriage at the age of 18, became a devout Hindu and adopted the practice of ascetic yoga, with an austere lifestyle, no immediate family, and frequent fasting. In the opinion of one of the top business leaders in Bombay, he is “the greatest prime minister India has ever had,” even compared to Nehru, who was Prime Minister from 1947 to 1964. Nehru was, of course, a Fabian socialist whose guiding philosophy held India’s progress back for many decades.

Modi’s philosophy is very much pro-business, as well as freeing the vast rural population of his country to participate in real economic progress. In order to achieve this, Modi has set a high personal standard of ethics, of integrity, and a bureaucratic efficiency. In doing so, he has attempted to cut out the middlemen, the bribes, and the “black money” that has plagued India for a long time. This was the reasoning behind his shock demonetization in November last year, which has been successfully completed in two months. He has also introduced a new national identity card system, called Aadhar, which together with the new goods and service tax (GST), will cut the cost of doing business in India, in our estimation, by almost 20%. There are also almost 300 million new bank accounts, which have been opened in the past 2 years.

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



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The rules of foreign investment have been greatly eased in defense, banking, insurance, retail, and broadcasting, with the result that over US\$63 Bn. of FDI has come into India in the past 18 months. Mr. Modi has personally visited 45 countries in quest of his “Make in India” campaign to boost manufacturing, exports, and job opportunities in India.

The result of all this is that Modi has had a triumph in the recent regional elections in Uttar Pradesh. Nobody in the West might notice a regional election in India, but Uttar Pradesh has nearly 200 million people, so it is at least the size of Brazil and considerably larger than Russia. Mr. Modi’s triumph, therefore, was not an unimportant one because it enables him to continue his radical reforming legislation through the general election in 2019 and, hopefully, until 2024. India will be transformed. Not least, it will have a fully operational national grid of electricity reaching all the population by 2019. India is “the perfect solar candidate” and will add nearly 1 gigawatt of capacity in solar energy at REWA for less than US\$1 per watt.

Our Indian Ocean Fund is now US\$83M. It has risen nearly 10% since launch on the first of December and is 95% invested, of which 71% is mainly in midcap Indian shares. We have heavily over-weighted the Indian banks and financials, which account for 9 positions and nearly 20% of the total portfolio. Our conviction is that the move towards digital payments and on-line transactions will be very beneficial to bank profits. We have already seen deposits jump 15% since the demonetization; and the private banks, which do not suffer from the NPL problem of the state banks, are gaining market share at their expense. In addition, we have invested in consumer products, in the automobile sector, in healthcare, in IT, and in food and beverage.

In the rest of Asia, we have seen good economic numbers from China, which has come out of nearly five years of deflation to record positive numbers on its Producer Price Index (PPI). Somewhat more surprising is the strong rise in real estate sales in China, which we continue to believe is a bubble supported by government policy which has pushed prices in Shanghai, Beijing, and the South to unsustainable levels. Over the past 35 years, I have seen this cycle play out several times in Hong Kong, and it is inevitably followed by a severe correction. The



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usual cause is rising interest rates, but the recent clamp down, on Chinese capital outflow, may also have an impact, at least in Hong Kong.

Our Bamboo strategy continues to perform well and is up nearly 5% in the first 3 weeks of March, with strong performance not only in India but in our Chinese shares, and in Malaysia, and in Taiwan. Recent events in the Korean peninsula continue to suggest a cautious approach to that market, although it is interesting that the arrest of the Samsung Electronics chairman has not severely impacted the share price. Samsung's business continues to perform well. Our outlook for Asia in 2017 continues to be positive, although much will depend on events in Europe and the USA.

Robert Lloyd George
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Hong Kong

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