




A Prudential plc company 

India Strategy



Why invest in Indian equities?

India is one of the most dynamic and thriving countries within global emerging markets.

The reform agenda implemented over the past several years is beginning to transform the domestic economy, allowing it to better realise its full potential. Providing further support to the economy and the attractiveness of India as a destination for global capital are favourable demographics, accelerating digitalisation, rising urbanization, advanced manufacturing capabilities, and its stable democracy.

Through democratic elections, India's lower and upper houses of parliament came under the same political party in 1982, paving the way for massive reforms to the labour and real estate markets, insolvency and bankruptcy codes, infrastructure, and tax codes. While change has been slow in the making, the government has pushed through these reforms in order to promote the business and economic climate, as well as to boost large scale domestic manufacturing in order to capture a larger proportion of global market share. This has helped stimulate job creation and drive more sustainable economic growth.

India's highly favourable demographics imply that India will continue to have a young and growing work force, further enhancing its growth potential. The median age of India's population is expected to be 30 years of age in 2030, and its share of working-age population is forecasted to continue rising and plateau at a high level over the next two decades. Meanwhile, income per household is expected to rise which will in turn spur consumer spending. The continued urbanisation will also help drive economic activity as at present, only one-third of India's population lives in urban areas. Over the next 15 years, India's urban population is set to increase by 125-130 million, or about the size of France and United Kingdom combined¹.

Digitalisation will also be an important growth and earnings driver for India, helping to lift productivity, creating new investment opportunities and enabling companies to reach lower tier cities more quickly and cheaply. Between FY2016 and FY2021, India added 480 million internet users. Over the same period, data pricing fell by 98%, resulting in a 16-fold increase in

data consumption per user². With digitalisation, the government should see a more efficient execution of social schemes.

The Indian equity market, represented by the MSCI India Index, is one of the most diverse equity markets in Asia and within global emerging markets. By having sizable and diverse sectors that derive revenues from both within and outside of India, there are many opportunities for investors to generate alpha. Fig. 1 compares the weight of the different sectors against the average sector weight. The MSCI India Index has a much lower variance score versus many of its emerging market peers, implying that it is much more diversified.

Fig 1: The Indian equity market is one of the most diversified markets in Asia

MSCI Sector Weight (%)	India	China	Indonesia	Korea	Malaysia	Philippines	Thailand
Consumer Discretionary	9.88	29.67	6.07	8.85	5.41	3.98	8.07
Communication Services	2.89	19.99	11.02	7.24	8.54	6.39	8.15
Consumer Staples	9.74	5.59	9.51	2.97	12.87	7.44	13.40
Energy	12.15	2.48	4.31	1.58	3.73	-	12.95
Financials	25.43	15.25	57.89	9.20	39.89	22.18	7.93
Healthcare	4.58	6.11	2.58	4.92	3.92	-	8.86
Industrials	5.35	5.40	-	9.74	5.80	31.61	9.30
IT	16.29	5.86	-	46.29	1.68	-	5.73
Materials	9.17	3.61	8.62	8.73	9.01	-	10.73
Real Estate	0.50	3.47	-	-	-	23.75	4.82
Utilities	4.02	2.56	-	0.48	9.14	4.66	10.06
Variance	50.2	77.3	378.5	173.9	121.1	126.7	7.0

*Variance is the sum of square of the difference between each value and mean. In this context, the lower the variance, the more diversified the index.

Meanwhile, the ratio of India's earnings as a percentage of GDP is low given multiple exogenous shocks which have negatively affected India over the last five years, including COVID-19. As the economy continues its transformation, India's corporate earnings can rebound from a low base, helping temper market valuations which are elevated relative to both developed markets and emerging markets peers.

Why Eastspring for India Strategy

Eastspring Investments is a global asset manager with Asia at its core. Since 1994, we have built an unparalleled local presence in 11 Asian markets including an investment advisory joint venture between our parent Prudential plc and ICICI called ICICI Prudential Asset Management Company (“IPAMC”). We have a long heritage of investing in India - Prudential plc invested in India railway bonds as far back as 1863. Today, Eastspring has a strong track record managing high conviction India equities, with over USD 1 billion in assets under management and a 10+ year track record.

Strong research partnership between Mumbai and Singapore investment teams:

- ▶ Leverages IPAMC’s Mumbai-based research team comprised of 15 sector-focused specialists for fundamental research inputs and idea generation to complement our proprietary research process. On the ground insights help uncover off-benchmark investment candidates that have the potential to deliver superior risk-adjusted returns and less correlated alpha.
- ▶ The lead portfolio manager of the Strategy has 25+ years of investment experience, of which 17 years have been dedicated solely to managing Indian equities.
- ▶ A high conviction portfolio of 35-60 best ideas, the ability to invest across the full market capitalisation spectrum, and a valuation discipline that focuses on growth at a reasonable price differentiates our approach and strategy.

Eastspring India Strategy

- ▶ We aim to generate consistent risk-adjusted returns by identifying mis-priced securities of publicly listed Indian companies, which have the potential to generate sustainable earnings over the medium term and offer attractive valuations relative to their upside potential.
- ▶ Apply a contrarian tilt to portfolio rebalancing which helps us build a margin of safety.
- ▶ A high conviction, best ideas portfolio of 35-60 stocks diversified across multiple sectors and market capitalisations.
- ▶ Ability to invest in off-benchmark names (currently approximately 40% of the portfolio) which we believe can generate significant excess returns while also enabling us to produce less correlated alpha relative to other Indian equity managers.
- ▶ Strong track record since inception with top quartile peer rankings over 1, 3, 5 and 10 years³.

How we build the strategy



An ethical mantle

We believe that we make the best possible investment decisions by incorporating environmental, social and governance (ESG) factors into our investment process.

- ▶ We incorporate environmental, social and governance (ESG) considerations into our investment process, using proprietary inputs into our fundamental research process which allows the team to assess all material factors which might impact earnings and future growth potential for a company.
- ▶ We utilize MSCI ESG Research tools and the Sustainability Accounting Standards Board (SASB) financial materiality framework to assist our deep due diligence, and assign propriety ESG rankings based on our fundamental assessment of material ESG risks.
- ▶ We actively engage with companies on material ESG concerns and also monitor dialogue and engagements to track progress on ESG issues.



Investment philosophy

We believe that:

- ▶ Businesses that operate in sectors with macro/secular tailwinds and that have quality management teams can generate consistent value through business cycles.
- ▶ A market capitalisation agnostic, high conviction portfolio which has the flexibility to invest across the multiple sub-sectors of the Indian economy is better enabled to generate all weather market performance.
- ▶ Contrarian timing for portfolio rebalancing builds margin of safety.
- ▶ Emotional detachment, deep research, and a disciplined framework minimise mistakes.



Our investment process

Our investment process involves bottom-up stock picking in sectors that are aligned to macro-economic conditions. Our four-stage investment process includes:

- **Analyst Model Portfolio:** Using a combination of qualitative and quantitative factors, our analysts screen and narrow the investable universe of 5000 stocks to about 350 stocks and assign a fair value price range to each potential investment candidate.
- **Focus list:** Our portfolio manager further refines this list to about 100 buy candidates by applying a proprietary checklist and assigning a fair value score to each security.
- **Portfolio Construction:** We seek to invest in the strongest candidates from the focus list, leveraging contrarian purchase timing to create a margin of safety. We include a wide breadth of sectors to reduce volatility from macro events.
- **Risk Mitigation:** We monitor our portfolio holdings continuously via our performance attribution system and holdings analysis to facilitate an intense review at the strategy, sector and stock levels.

Investment team lead



Anand Gupta, CFA
Portfolio Manager, Eastspring Singapore

Our three person Singapore-based research team led by Anand Gupta, is supported by a team of more than 15 sector specialists based in Mumbai, which provides on the ground research coverage.

Strategy details

Style: Growth at a Reasonable Price (GARP)

Inception Date: 14 December 2011

Strategy AUM: USD 1.1 billion
(as at 31 December 2022)

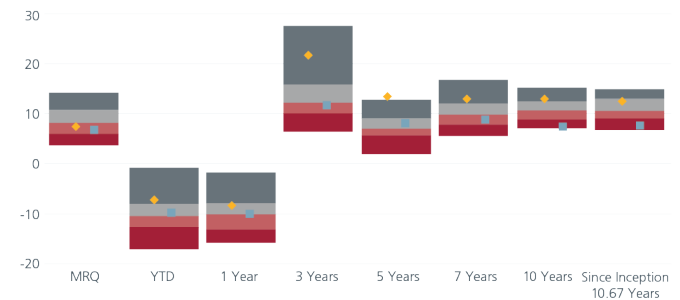
Benchmark: MSCI India Index

Strategy characteristics

Portfolio Characteristics (Data as at 31 December 2022)

No. of Holdings	41
Target Alpha	2%
Tracking Error	2-6%
Sector Range	Broadly diversified
Market capitalisation	All capitalisation
Currency Hedging	Unhedged

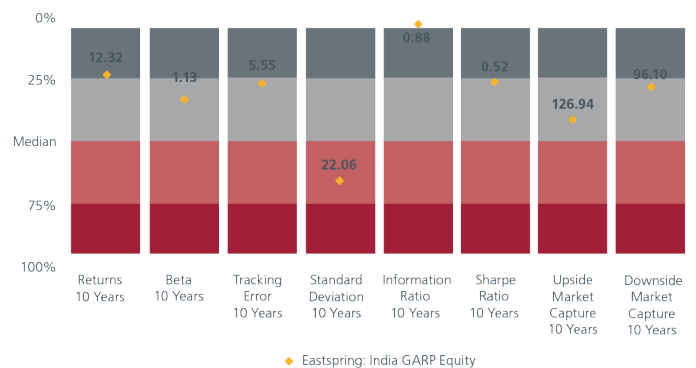
eVestment Peer Rankings as at 31 December 2022 Top Quartile performance over 1, 3, 5 and 10 years



Product Name	MRQ Rank	YTD Rank	1Yr Rank	3Yr Rank	5Yr Rank	7Yr Rank	10Yr Rank	S.I. Rank								
India GARP Equity	7.20	60	-7.23	20	-8.29	31	21.38	11	13.31	2	12.83	19	12.79	20	12.23	31
MSCI India-ND	6.50	71	-9.74	41	-9.94	48	11.51	55	7.98	40	8.58	66	7.27	87	7.16	89

◆ Eastspring: India GARP Equity ■ MSCI Index: MSCI India-ND

eVestment Peer Ranking and Trailing performance as at 31 December 2022



◆ Eastspring: India GARP Equity

Sources: Fig. 1. Source: Eastspring Investments. MSCI. Data as at 14 February 2023. The information provided herein are subject to change at the discretion of the Investment Manager without prior notice.

¹UN World Population Prospects, IndiaDataHub. 28 January 2022. ²Jefferies Research as of November 2021, latest data.

³eVestment. As at 31 December 2022.

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