Why should people look outside of Canada for investment opportunities?
Generally, it’s because people should diversify away from their base country. That would apply to investors anywhere in the world. People should diversify into other markets and asset classes. But it’s also a good hedge for Canadian investors. If commodity prices are high, that’s not good news for India because it’s a net importer of oil—though it is good news for Canada. So it has opposite drivers, which is also good for diversification.

Why should people consider India?
It’s one of those emerging economies with a significant amount of growth potential. That growth potential will throw up a whole host of opportunities and that’s something equity investors can then capture.

How will this growth help investors?
Nominal growth is growing at between 12% and 14% per year. In 2010, we saw India grow at 20% in nominal terms. In the next 20 years, the size of the economy will grow to three to four times its current size. India is an entrepreneurial economy, so if there’s increasing growth, the private sector will open up more. There will be more opportunities in the service, manufacturing, exports and infrastructure sectors. India is about 10 to 15 years behind where China is today, so the opportunities will be significant as we believe that India will follow China’s path of unlocking it’s economic potential.

Why are investors looking more to India now?
You have to go back about 20 years. Back then, India’s growth would have been ahead of China’s, but then China started reforming and allowing more foreign investments. India didn’t and got left behind. The Indian government has been an obstacle, but they are aware that they need to push ahead with reforms. They pushed ahead in 1991 and they’ll push ahead again.

Our view is that reform will continue and we’ll see more foreign direct investment—companies like Bombardier are setting up business in India. People will come in and buy real estate. The rural economy is growing so fast—a lot faster than urban India—and that’s a compelling consumption story. People are starting to consume branded products and moving up the value chain, and this is good from a stock market point of view.

What risks do investors need to be aware of?
Government inaction is one thing; fiscal deficit is another. But the government owns a lot of companies—typically monopolies and oligopolies—so they could sell down these holdings and pay down the deficit. There’s also a high current account deficit—about 2% of GDP—but India wants to attract foreign investment to fund this deficit. It’s opening the stock market, opening the bond market, and the government has deregulated interest rates on some deposits. So we expect to see more money coming in.

There is also geopolitical risk, mainly internal issues in Pakistan. Things have been fairly quiet for the last three years, but it’s always something to keep in the back of your mind.

The Indian market has had some significant ups and downs over the years. What does that mean for investors?
India is a long-term player. In the short-term we will see blips—last year was dreadful for the Indian market. Pretty much everything that could go wrong, did. But a lot of the headwinds India faced in 2011 are in the past. If GDP grows, we’ll see returns coming through. So take a medium- and long-term view and don’t invest all at once. It is best to invest in tranches into India.

How do you find good investments in India?
We look for stocks that are profitable but attractively valued. In India, stocks in the same sector can trade at different return on equity multiples. India has become a two-tier market. A lot of people are buying expensive stocks because they want to hide in companies they see as safe. When we do a screening, we find a lot of cheap stocks. You can buy a bank in India that’s trading below one time price-to-book and generating a 20% return on equity (ROE), and trading at a price-to-earnings ratio of 5 times. That’s...
cheap. Other banks are four times price-to-book and have 20% ROE, and a price-to-earnings ratio of 20 times. We’re not looking to buy the expensive stocks. We want to exploit the market.

Where are the opportunities in the market?
We see opportunities across multiple sectors. This is another good thing about India—it’s one of the most diversified markets from a sector point of view, so no single sector dominates. The banking industry is the biggest, with 25% of the market; energy is just short of 20%, tech is 15% and then you have materials, consumer discretionary, healthcare and more. It looks like a developed market index. So we don’t look at a specific sector, we look for individual large-cap-oriented stocks. Today, it’s companies above $1 billion.

Do these companies pay a dividend like a North American large-cap?
Most companies would pay dividends, but yield in India is typically low. It’s a growth economy, so companies typically reinvest money back into the business.

What’s an appropriate asset allocation to India?
If you look at the Morgan Stanley Capital International (MSCI) World Index, India is maybe a per-cent-and-a-half weight. Emerging markets only have about a 15% weight. But look at the GDP of different countries and then India should have a higher weight. At a recent panel discussion, we asked how many people were overweight in India—only 1 person out of large hall full of people raised their hand. And if you look at the papers you see generally negative news. The country is in the top four economies on a purchasing parity basis and growing, in nominal terms, faster than China. So investors should have a higher allocation to India.

So the future looks good for the Indian market—and Canadian investors who buy an India-focused fund?
Definitely. BP recently put billions into some oil and gas fields. Sun Life has been investing in India for some time and many other companies are bringing money into the country. When people sit in a boardroom and ask themselves where the growth is—and they’re doing this now because of the problems in the U.S. and Europe—they’re doing this now because of the problems in the U.S. and Europe—India attracts, if not the most, a fair amount of attention.