



JP Morgan Fleming Indian Investment Trust

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JII Snapshot 

Passage to India

Fat Prophets surveyed first hand the Indian investment climate after visiting the country in December 2003. In April (FAT30) we reviewed the Indian economy and stock market and arrived at the clear conclusion that India has an extremely promising future.

We anticipate the Indian economy will be a global powerhouse over the next 25 years and, accordingly, some exposure to the country is warranted. The JPMorgan Fleming Indian Investment Trust (JII) represents an excellent investment vehicle in our opinion.


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JII is a LSE listed investment trust. The Trust invests in a diversified portfolio of international companies that predominately derive income from within India. The Trust aims to produce long-term capital returns in-excess of the Bombay Stock Exchange National 100 Index, which is the Fund's benchmark index. The Trust has a current net asset value of approximately £90 million.

After being largely overlooked by the market during 2001 and 2002, JII has gained prominence over the last twelve to eighteen months. In April 2004, JII traded at a record high of 139.5p. Unsurprisingly, given the rapid advance, a correction has ensued over recent months. While further consolidation appears likely in the near-term, we believe that the pullback presents a longer term investment opportunity.

The Trust's manager JP Morgan Fleming Asset Management (JPMFAM) was appointed at the fund's launch in 1994. The management contract can be terminated with one year's notice.

Mr Edward Pulling is the Trust's fund manager and is based in Hong Kong. He joined the firm in 1995 as a fund manager and was appointed as a managing director of JPMFAM in 2001. Mr Pulling has been successfully managing JII since January 1998.

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JPMFAM is remunerated at a rate of 1.2 percent per annum, calculated on the basis of the Trust's monthly net assets. In addition, there are other fees which are levied directly against the Trust which include custodian, audit, listing and other company charges. The Trust's total management expense ratio (MER) is reasonable at around 2.3 percent per annum.

Over the 5 years to 31 May 2004 the Trust's net asset value (NAV) has appreciated 61.8 percent versus the benchmark index, which rose 13.3 percent – representing a significant level of out-performance. Over the last year the Trust has recorded exceptional performance, with share price appreciation briefly exceeding 100 percent on a rolling 12 month basis, before the recent stock market pullback.

JII's share price has historically traded at between a 10 and 20 percent discount to the Trust's NAV. This discount has largely dissipated over 2003-2004 and currently sits at just 0.6 percent.

The Trust has a tracking error of 6.94 over the most recent 3 year period, suggesting the fund manager is prepared to back his judgment on a stock and take active portfolio positions against the benchmark index. Fat Prophets are active investors and when recommending an investment fund, we look for a fund manager with a commensurate investment philosophy.

The JII portfolio is currently underweight the energy and financial sectors, while overweight industrials, materials and the consumer discretionary sectors. The portfolio's largest three holdings were Infosys, Reliance Industries and Bharat Heavy Electricals.

Infosys represents nearly 9 percent of the JII portfolio and provides consulting and IT services globally. It is listed in both India and the US and has over 25 thousand employees and is capitalized at approximately £6.6 billion.

Reliance Industries represents over 7 percent of the JII portfolio and is one of India's largest companies with total revenues in-excess of US\$17 billion and net profits of US\$1.2 billion.

The company's revenues are equivalent to about 3.5 percent of India's GDP, with its capitalisation approximately £10 billion. The Group's activities span exploration and production (oil and gas), refining and marketing, petrochemicals, textiles, financial services, power and telecoms. ^

Bharat Heavy Electricals accounts for over 5 percent of the JII portfolio. The company is the largest engineering and manufacturing enterprise in India, manufacturing over 180 products for a number of different sectors which include power, transportation, defence, telecommunications and oil. The company's revenues are expected to be approximately US\$2.0 billion, with net profits around US\$150 million and share market capitalisation £1.6 billion.

The JII Trust does not extensively use borrowing to leverage the portfolio. The manager has the ability to repurchase up to 15 percent of its issued shares. To JPMFAM's credit, stock was repurchased during 2003, when the share price was trading at a discount to NAV.

The Indian economy grew extremely strongly in the first quarter of 2004, expanding by 8.2 percent. This economic growth was largely driven by rising farm incomes which spurred consumer spending. This excellent quarterly expansion follows an impressive 10.5 percent growth in the December 2003 quarter. Over the March quarter Indian agricultural production (22 percent of the economy) rose 10.5 percent, while manufacturing (17 percent of gross domestic product (GDP)) expanded 7.6 percent. Service providers in India, which account for more than 50 percent of the Indian economy, also recorded excellent progress – with an index measuring transport companies and hotels jumping 14 percent in the quarter.

In their last review JPMFAM remained bullish on the outlook for the Indian market, although the view was tempered by a near 100 percent rise in the market from the 2003 lows and the continued flurry of capital raisings. We are therefore encouraged by comments from the fund manager that the rise in the market had made them more sensitive to valuation related issues.

Fat Prophets believe that while the Indian economy is comparatively small today, with GDP estimated at around US\$575 billion, it will grow considerably in the next 25 years. We believe companies that are able to successfully access the large pool of intellectual capital, and the

rising middle class incomes, will prove excellent investments. The fund manager has developed an impressive investment track record, demonstrating a superior stock-picking ability. We are confident that JII will prove an excellent investment vehicle for harnessing this burgeoning economy. **Fat Prophets believe the recent pullback provides Members with a timely entry opportunity, and we recommend JII to Members as a buy up to 106p.**

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