Source: etftrends.com

India’s 5-year return profile

Investors who are investing savings for growth should have a long-term investment horizon as their needs are generally to meet long-term goals. Whilst goals can be anywhere from 3 to 20 years away, most associate a horizon of 5 years as an adequate time frame to assess an investment.

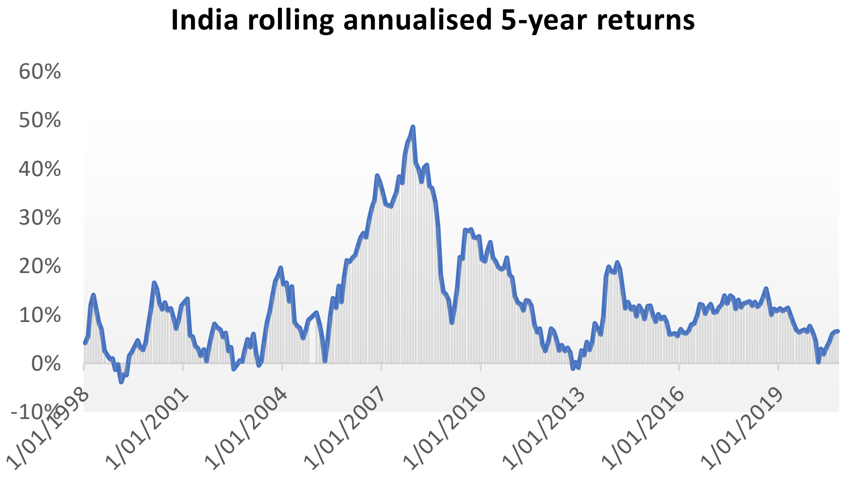
When considering investment in a market like India, our experience is that most clients are looking at 2-5% in their growth bucket. Whilst one can argue it should be higher given India’s demographic opportunity and its low correlation to Australia’s ASX 300 and AUD, the initial ‘fear factor’ for most investors will lead to 3% being a general rule of thumb.

With this in mind, we assessed returns achieved by investing in India’s equity markets on a local currency basis. Why did we consider it in local currency terms rather than AUD terms – well currency is less predictable in the future and is influenced from several factors in the future which may not have been present in the past.

Rolling 5-year returns over the past 28 years

Average returns have been 12.6% p.a. and only 3.8% of rolling 5 periods have seen an outcome below 0% p.a. return. Since 2018 returns have dropped closer to zero and after March 2020 (COVID-19 month) reached 0.23% on a 5-year basis. This has led some investors to question the validity of India’s fundamental growth story. However, history will tell us that even structural long-term growth stories have short-term cycles which influence it.

Chart 1:



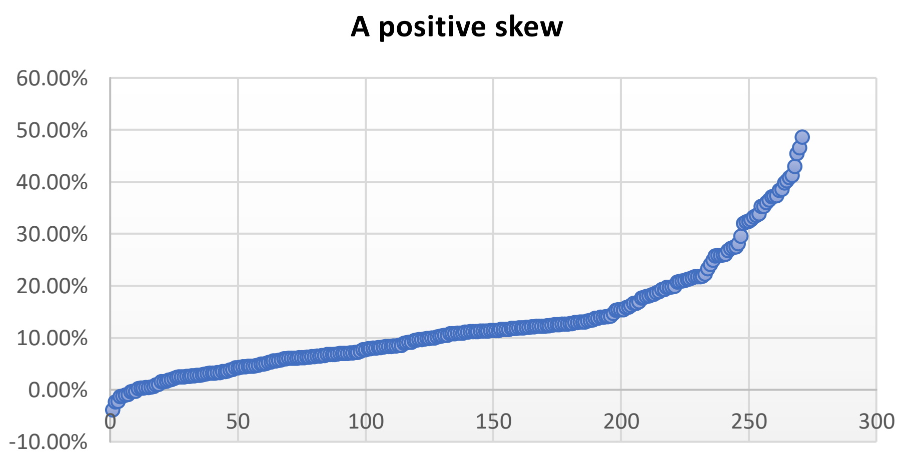
Source: Refinitiv, MSCI, India Avenue

In the last 3 years India has had to absorb significant reform undertaken by the Modi Government in a way to structurally pivot India towards a better future. Reforms are leading to the finalisation and digitalisation of India, improving the ease of doing business, lowering the cost of capital and improving transmission as well as structurally changing labour and agriculture slippages of the past towards greater efficiency and wealth.

Long-term growth Investing requires a positive skew

A positive skew is required when investing for the long-term. That essentially means that whilst the risk of downside always exists (e.g. 3.8% of 5-year rolling periods have been below zero, with the worst outcome being an annualised loss of 3.85% over 5 years i.e. a loss of 18% of capital). However, on the other side of the ledger, the best outcome was 48.61% p.a. or 7x return on investment. It sounds like the odds are stacked in your favour! (based on history). The chart below sorts the 272 rolling 5-year observations from lowest to highest return. It is quite evident that the skew is significantly positive.

Chart 2:



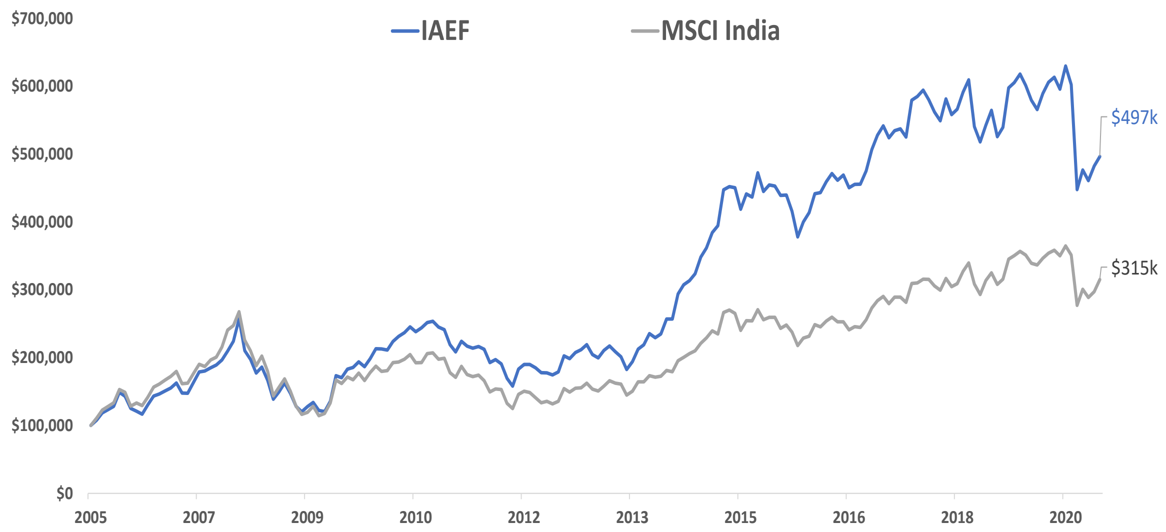
Source: Refinitiv, MSCI, India Avenue

Passive Exposure or Not

The above analysis is done using MSCI India in local currency terms. However, history shows us that over time active management has delivered a better compounded outcome for investors in India. This is usually because during periods of strong growth in India (which happen more frequently than periods of weakness), local investors who understand India's ecosystem, markets and economics are in a far better place to take advantage. During periods of India's cyclical weakness, this advantage is reduced as markets reward short term safety and liquidity rather than growth.

When we look at the achievements of our underlying local adviser partners (who are our localised stock selection experts) over time, this highlights that the there is potential to add significantly to India's already robust rolling 5-year return achievements over history.

Chart 3: India Avenue Equity Fund (using adviser returns, rebalanced 6m) vs MSCI India



Source: Refinitiv, MSCI, India Avenue Research

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