

Portfolio manager: Timothy Orchard

## Approach and Style

## Performance over month in USD (%)

Fund -2.4

Market index -4.7

MSCI India Index Capped 8% (N)

Tim Orchard aims to generate outperformance mainly through stock selection in India. Asset allocation by sector or market capitalisation is primarily a result of his bottom-up approach. He favours high quality companies with scalable business models and strong management track record available at reasonable valuations. He also keeps an eye on macro-indicators, especially for cyclical companies, to understand their stage in the business cycle. The portfolio tends to have high active money. However, his quality bias leads to a more defensive beta relative to the comparative index.

Market index is for comparative purposes only.

These figures relate to the fund's past performance, which is not a reliable indicator of future results. The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. Source of fund performance is Fidelity. Basis: nav-nav with gross income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.

## Market Environment

Indian equities declined in November, underperforming their global and emerging market peers. This was partly on account of fears that a provincial election defeat for the ruling alliance would limit the government's ability to clear critical legislative reforms. The fears appeared unfounded as the government announced the opening up of more sectors of the economy to foreign investors, and promised to continue down the path of reforms. Equity market weakness was also partly a result of quarterly earnings disappointment. Forward earnings expectations moderated in the wake of the latest results season with materials producers declining most significantly. On a more positive note, the announcement that government employees could receive a substantial pay increase boosted sentiment, mainly towards the consumer sector. In terms of reforms, the government announced a comprehensive package on restructuring power sector debt. Macroeconomic indicators were mixed. Quarterly GDP growth was in line with expectations as the economy grew by 7.4% over the quarter compared to the same period last year. Industrial production growth at 3.6% over an year ago in September proved disappointing, as weakness in consumer durables category dragged overall performance. From a sector perspective, consumer discretionary, utilities and consumer staples gained, whilst health care and industrial sector performance disappointed. Foreign investors were net sellers of Indian equities in November, but domestic investors remained net buyers in line with recent trends.

## Fund Performance

The fund outperformed the index in November amid broader market weakness. Holdings in companies with changing operating dynamics, strong revenue growth and superior management gained. Stock selection in the industrials sector buoyed returns as high-conviction holdings gained in light of a significant rise in capital expenditure in the public sector, particularly in the power and transport infrastructure segments. The position in Crompton Greaves enhanced returns. The firm's decision to demerge its consumer business; reports that it was in talks to sell its overseas power business; and strong balance sheet for its core industrial, power and transmission and distribution business, boosted investor confidence. Construction and engineering services provider KEC International gained as it benefits from increased capital expenditure in the power transmission and distribution space. The firm gained an edge over competitors as it refrained from undertaking unrelated diversification. This discipline could help the firm to win new orders. Earlier, the company reported that its overall quarterly revenue growth disappointed, but savings due to lower interest costs and commodity prices boosted its profit margins. Elsewhere, growth in internet usage supported the outlook for companies such as Info Edge India, which owns and operates online employment, search, restaurant review and real estate portals. Its quarterly earnings were in line with estimates, while growth expectations were driven by increased smartphone usage and strong growth prospects from its employment search portal Naukri.com, the dominant leader in the Indian online job market. The fund's underweight position in Dr Reddy's Laboratories bolstered relative performance as its share price declined sharply following the receipt of a warning letter from the US industry regulator.

## Fund Positioning

A stable and business-friendly government at the centre is likely to be a positive for Indian equities as it should help to improve economic fundamentals and boost growth in the medium term. Economic growth forecasts have been revised up for the next year, against the backdrop of a decline in inflation and a fall in the current account deficit, aided by the sharp downtrend in crude oil prices. Overall, the focus remains on stock picking and investing in companies with good quality management, scalable business models and reasonable valuations. The fund has a strong overweight position in the financials sector, mainly driven by banks such as HDFC Bank. The bank is run by an excellent management team and has a very strong balance sheet, the lowest cost of funds and best-in-industry asset quality. Housing Development Finance owns a 23% stake in HDFC Bank and has business interests in life insurance, asset management and general insurance. The company is held at an overweight stance as a fall in interest rates could help it to gain significant market share in housing finance. Its other business segments are also expected to do well. The Indian government has initiated various policy changes and targeted spending in an effort to reignite growth. The fund has a high-conviction stake in Power Grid Corporation, India's central transmission utility. The fund also has a stake in engineering and construction firm Larsen & Toubro, which is best positioned to gain from a revival in capital expenditure. In November, the manager increased the stake in Infosys and Sun Pharmaceutical Industries at attractive valuations following the recent fall in share prices. On the other hand, the holding in Just Dial was closed in view of disappointing earnings and weak revenue growth.

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Performance attribution is produced in the currency shown below. For funds with multiple share classes, the attribution return reflects the aggregate performance across all the share classes. It may therefore deviate from the published return for a particular share class. When using the analysis for hedged share classes, please consider that the attribution is shown before the impact of hedging.

The contributions shown in the tables are before the impact of charges. If charges are applied, their effect is captured in the "Other" category in the tables and will also be reflected in the fund return.

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