

Indian confidence vote 'good news for economy', says Mahtani



This week's vote of confidence in India's Prime Minister Manmohan Singh is good news for the country as the government now has an opportunity to implement reforms that are likely to have a positive impact on the economy, according to Sam Mahtani, F&C's India specialist.

"The past few years has seen the left wing coalition parties block major reforms, and they are now no longer part of the government," he said. "This week's vote gives the Congress-led ruling coalition the opportunity to push through reforms such as the insurance deregulation bill."

Singh's coalition government won a bigger than expected majority of votes in the 541-member lower house of parliament on Tuesday. "This vote of confidence also provides a mandate to pursue the civil nuclear energy with the US, with companies such Larsen & Toubro Ltd and Bharat Heavy Electricals likely to benefit most", he commented.

F&C's emerging markets team's positive outlook for the country was clearly reflected recently, when the firm's global emerging market (GEM) portfolios moved significantly overweight in India.

"We took an overweight position in India two weeks ago when we sensed excessive pessimism in the market," he explained. "The growth story is definitely set to continue and we believe that we are close to the peak on inflation and interest rate concerns". Mahtani's view is that at present India is one of the most attractive countries on a long-term fundamentals basis.

"Valuations have come down to 12x forward earnings and we think that earnings growth will be solid over the next couple of years", he

continued.

His favourite Indian companies include Bharat Heavy Electricals Ltd, the infrastructure player, Reliance Industries, the oil and gas giant, and HDFC, the country's largest mortgage provider.

Cheeseman buys strategic bond fund

The F&C fund of funds team has recently added the M&G Strategic Bond Fund across four portfolios: the F&C Multi-Manager Distribution, F&C Multi-Manager Cautious, F&C Lifestyle Defensive and F&C Lifestyle Cautious funds.

Dean Cheeseman, Head of Retail Multi-Management at F&C explained: "A number of existing bond funds held in the portfolios have been trading in a very similar fashion recently, with their managers taking a heavy bias towards banking credits given the excess yields currently available."

He added: "We are not saying this underlying trade is wrong but we want to broaden our bets to reduce potential volatility, so we have added the M&G Strategic Bond Fund to further diversify stock, credit and style risk."

According to Cheeseman the M&G Strategic Bond Fund scores highly on F&C's Traffic Light Analysis screening system and it currently only holds 11% in banks.

Euro opportunities despite slowdown

Although the economic slowdown in Europe will continue to erode corporate earnings for some time, the current conditions also create opportunities to initiate positions or add exposure to companies based on shares price weakness, claims Peter Jarvis, manager of the Foreign & Colonial Eurotrust.

"The already high Eurozone inflation has risen further, prompting the ECB to raise interest rates by 0.25% to 4.25%", Jarvis commented.

"After this move we expect the ECB to hold tight while it monitors forecasted slower activity and the risks of second round effects from global inflation developments."

Current high inflation mixed with the credit and property crisis suggests the

possibility of stagflation and negative real rates globally. Jarvis commented: "While we believe these are legitimate concerns, at current levels the market has adjusted significantly lower and offers sufficient valuation support." Jarvis added that the industrialisation of emerging markets should also continue to cushion a developed economy slowdown.

In the trust's interim management statement for Q2, Jarvis explains he has been adding exposure to companies that can better stand the global headwinds. "We like companies that exhibit pricing power to offset rising input costs and generate cash earnings, irrespective of the economic cycle," he said.

Within financials, Jarvis has further reduced the trust's exposure to banks, selling Bank of Ireland. On the other hand, he added to the portfolio's insurance weighting, buying Zurich and Allianz. He also added to German listed Hypo Real Estate.

The European Oil & Gas sector is another area where Jarvis identifies attractive investment opportunities. During Q2, Jarvis initiated positions in Petrolia Drilling and Galp. The latter is Portugal's leading integrated oil and natural gas group, with a growing presence in Spain and Brazil.

Yule appointed Head of UK Retail

This week F&C announced it has entered into an agreement to merge F&C's property asset management operations in the UK and Ireland with property specialist REIT to create a new major property investment group F&C REIT Asset Management. The CEO of F&C REIT on completion will be Nick Criticos.

As a result of Nick's appointment, John Yule has been appointed Head of UK Retail at F&C, reporting to Cristobal Mendez de Vigo, Head of Distribution & Business Development.

F&C fund wins Product of the Year

The innovative multi-asset F&C Diversified Growth Fund was crowned 'Product of the Year' at the 2008 European Pension Awards ceremony in London last week. The award was judged by a panel of experts from consulting firms, trade bodies, asset managers and major pension schemes.

Contacts:

Jason Hollands
Tel: +44 20 7011 4168

Paula Garrido
Tel: +44 20 7011 4190
paula.garrido@fandc.com

Jennifer Donohoe
+44 20 7011 5017
jennifer.donohoe@fandc.com

Veronique Sant
Tel: +44 20 7011 4278
veronique.sant@fandc.com