

AMC EXPERT FUND – AMC Indiac

Review

The Indian market made a rip-roaring start to 2012, bouncing upwards by almost 20% between 1 January and mid-February before embarking on a more sedate spell. Plentiful liquidity and the relative attractiveness of the Mumbai market owing to its underperformance in 2011 were the main driving forces behind the rally. This powerful start to 2012 proved costly for the sub-fund in terms of its relative performance.

Although we had not adopted a particularly defensive stance, the sub-fund's portfolio did not have a number of lower-quality stocks that skyrocketed, with some soaring by 40% to 50% in the opening fortnight of 2012. In addition, rules applicable to investing in the Indian market make it awkward to undertake sudden shifts in the sub-fund's positioning. As a result, its underperformance over the quarter came in January, with the situation stabilising afterwards.

Outlook

One major cloud of uncertainty is hanging over the Indian market relating to the taxation of capital gains. For now, most foreign investors, who bring quite considerable influence to bear on the market, invest in India via Mauritius, avoiding this tax. This state of play has been once again challenged, only this time the threat to the status quo is more potent. If the government's proposals are approved by the Indian parliament, the mere fact of having an affidavit attesting that the investor is a taxpayer in Mauritius, as is the case for the sub-fund, will not be enough to avoid the tax. The rate of capital gains tax has, moreover, been lifted from 10% to 15% on short-term gains (made over less than 12 months). The risk cannot be ignored, but the Indian authorities are acutely aware of the significant risk that a flight away from India by foreign investors would pose.

On a more positive note, the Reserve Bank of India will be turning more accommodating, which should lend some support to the stock market.

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