

# Morgan Stanley Indian Equity Strategy

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | STRATEGY PROFILE | 2017

The **Morgan Stanley Indian Equity Strategy** seeks to deliver long term risk adjusted returns by investing in Indian equities. It integrates top down macro thematic research with bottom up analysis to build a growth-oriented portfolio.

## Investment Philosophy

We believe that an approach integrating macro-thematic research and bottom-up analysis works best in India. Our India portfolio has a growth bias, which we think is a natural outcome of investing in a fast-growing economy like India. We do not compromise on quality of management and corporate governance. Our experience of managing money in India for over two decades has taught us that a fairly concentrated portfolio of 30-50 stocks comprising high conviction names offers the best mix of diversification\* and activeness.

## Investment Process

The team follows a disciplined investment process that integrates top-down sector allocation with bottom-up security selection (see display on next page):

Analyzing macro trends is challenging in India, given that data releases come with a lag and are often subject to large revisions. To work around these shortcomings, we have created our own dashboard of high frequency indicators (for example diesel consumption, cement dispatches, power generation and automobile sales) which we believe are far more reliable and timely at picking up inflection points and trends of acceleration or deceleration in sectors compared to headline GDP growth rates or inflation numbers.

After identifying trends from the macro dashboard, the second question is how to pick stocks, particularly when the universe of listed stocks on the Indian exchanges of over 5,000<sup>3</sup> names. Over the years, we maintain (and of course constantly review and update) a short list of companies that meets our criteria on parameters such as quality, governance, size, liquidity and track record and that we feel best transmits a sector view. So, once the high frequency dashboard throws up a sector that is at an inflection point, or confirms a trend, we waste little time in making up our mind on which stocks will likely benefit from the sector tailwind. Our long institutional memory, coming from a stable and experienced team, serves us well here.

## STRATEGY AT A GLANCE

Inception	February 1994
Benchmark	MSCI India Index <sup>1</sup>
Market Capitalization	All-cap strategy
Security Weight <sup>2</sup>	Typically within +/- 3% of the benchmark
Sector Weight <sup>2</sup>	Typically within +/- 10% of the benchmark
Issuer Weight <sup>2</sup>	Maximum of 10% (at purchase)
Typical number <sup>2</sup> of Holdings	Approximately 30–50 securities

<sup>1</sup> The MSCI India Index is a free float-adjusted market capitalization index that is designed to measure the large and mid-cap equity market performance of India. It is not possible to invest directly in an index.

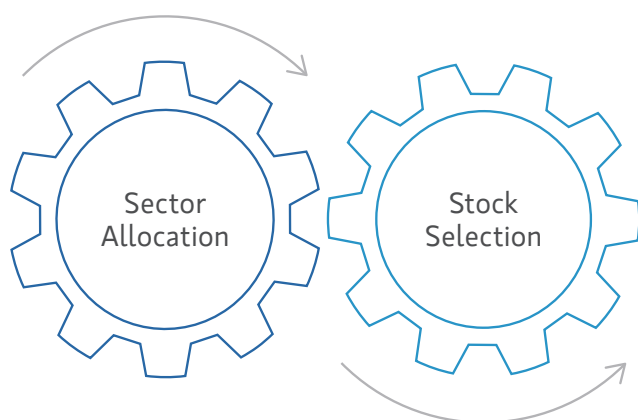
<sup>2</sup> The weights and number of securities provided are a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

\* Diversification does not eliminate the risk of loss.

<sup>3</sup> Source: BSE, NSE

**DISPLAY**

**We translate macro-thematic research and fundamental bottom-up analysis into a growth-oriented portfolio**



The information presented represents how the portfolio management team generally applies their investment management process under normal market conditions.

Overall, we believe MSIM can offer you the diversity, experience and local market knowledge required to deliver compelling returns in India. In particular, we believe the Strategy can offer you the following competitive advantages:

- **PIONEERS IN THE EMERGING MARKETS AND INDIA, LONG INSTITUTIONAL MEMORY:** As a pioneer in emerging markets investing, MSIM has demonstrated expertise and commitment to the region. MSIM was an early mover in emerging markets, first investing in the asset class in 1986, originally in emerging Asia. We were one of the first foreign institutional investors in India in 1989, and the first foreign mutual fund in India. We have had a local office since 1993 and have a deep understanding of the local context, which we believe is critical to investing in India. We have long institutional memory of companies and managements and are able to leverage this with a stable team – the members of our investment team have been with the firm for a minimum of 10 years.
- **INTEGRATED TOP-DOWN, BOTTOM-UP INVESTMENT PROCESS CUSTOMIZED TO WORK IN AN INDIAN CONTEXT:** Over the years, we have customized our investment process to work around the specific challenges of investing in India, and we believe this has been critical to our investing success. We follow an approach integrating macro thematic research as well as bottom up analysis, with an emphasis on substantial internal research. This ensures our portfolio differs from a typical benchmark-driven large-cap portfolio.

- **CONCENTRATED PORTFOLIO:** Our experience of managing money in India for over two decades has taught us that a concentrated portfolio of 30-50 stocks comprising high conviction names could potentially offer the best mix of diversification and activeness. We believe that the most critical element in portfolio construction is appropriate sizing of the position. We believe in taking significant active positions, so that the alpha generated from these is meaningful in an overall portfolio context.
- **LEVERAGING THE EXPERTISE OF A HIGHLY EXPERIENCED AND STABLE GLOBAL INVESTMENT TEAM:** As part of our Global Emerging Markets Equity team, Indian Equity Team contributes to and draws on the strength of our global macroeconomic, thematic and cross-regional fundamental research to help identify opportunities presented by India-specific companies. Our interactions with the global team help us in country and sector comparisons across an increasingly interconnected world. Our best ideas are routinely presented to the global team during our weekly calls or semi-annual roundtable sessions for their perspectives and critical analysis, so that we constantly re-assess our conviction levels.
- **GOVERNMENT AND INDUSTRY RELATIONSHIPS:** Morgan Stanley's global presence, reputation and extensive resources help the team in their fundamental research and assists the team in establishing long-term relationships with governments and invested companies.

### Investment Team<sup>4</sup>

The Morgan Stanley Indian Equity strategy is co-managed by Ruchir Sharma and Ashutosh Sinha based in New York and Singapore respectively with inputs from the portfolio advisory team comprising Amay Hattangadi and Swanand Kelkar, based in Mumbai. They are supported by the Global Emerging Markets Equity team. The team believes that their extensive collective investment experience, obtained throughout various market cycles, enables superior investment decision-making and can help generate attractive long-term returns.

<sup>4</sup> Team members may change without notice from time to time.

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