

Mirae Asset Emerging Bluechip Fund (India)

Demographics Support Wealth Creation in India

Q&A with Neelesh Surana (CIO – Equity)



Neelesh Surana
CIO – Equity
Mirae Asset Global
Investments (India)

What is Mirae Asset Global Investments’ advantage regarding Indian equities?

Our core advantages in managing Indian equities are our stable investment staff, a replicable and robust investment process, consistent performance, and considerable experience coupled to strong research capabilities. Mirae Asset is one of few foreign asset management

companies with nearly a decade of operation in India. Our mutual fund products in the domestic market have satisfactory track records across market cycles.

Mirae Asset has been present in India as a foreign institutional investor (FII) since 2004* and we began our domestic business in 2008. On a global consolidated basis, we have USD 1.55 billion invested in Indian equities and USD 264 million in Indian fixed income instruments (as of July 31, 2016). We are positive on Indian markets as a whole and India is amongst the top five markets we invest in.

Our “on-the-ground” investment teams are located across strategically important emerging markets throughout five

continents. This extensive footprint affords the scale and resources to provide clients with primary research and deep coverage of global emerging markets, including India. In addition to our local resources, the Asian regional investment presence is complementary to identifying sustainably competitive companies who exhibit quality management.

Mirae Asset Global Investments

Source: Mirae Asset Global Investments (September 2016)



* The FII activities are operated by Korea and Hong Kong whereby Mirae Asset Global Investments (India) does not manage these funds.

How did you enter the industry and what is your take on investing?

I've had an interest in markets since my college days. An exciting part of this profession is the constant learning, given that the opportunities to create wealth change across businesses and over time. The pressure to generate superior performance vis-à-vis markets and peers is intense, as well as exciting. Overall, assuming trusteeship of investors' wealth and compounding it over time is immensely satisfying and a responsibility of great care and seriousness.

“ Our investment philosophy is centered on participating in quality and competitive businesses up to a reasonable price, and holding them over an extended period. ”

What is the investment philosophy and the key differentiating factors of the strategy?

Our investment approach is to focus on stock selection as we believe that the returns are driven by individual merit of business. Our investment philosophy is centered on participating in quality and competitive businesses up to a reasonable price, and holding them over an extended period. From a portfolio construction perspective, the approach is to have diversification across sectors and stocks for an optimal risk-adjusted return.

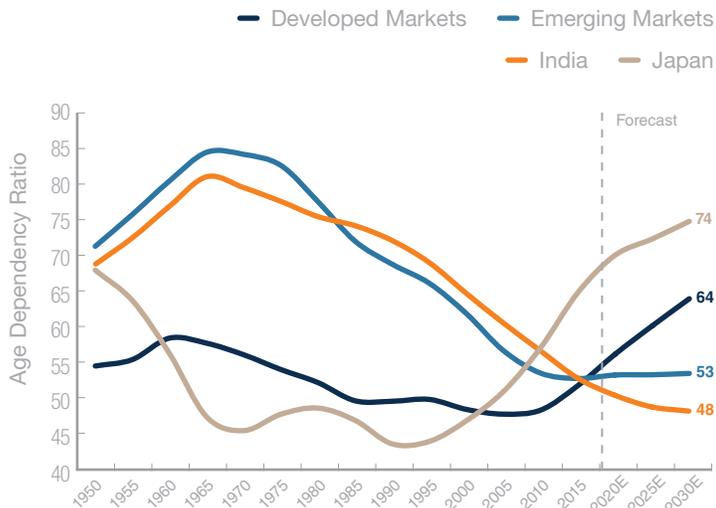
What are the major investment themes within the Mirae Asset Emerging Bluechip Fund?

The fund is sector agnostic as it looks to invest in growth businesses which have large opportunity, run by competent management and are still available at reasonable valuations.

The domestic consumption theme has been in force in India for decades and is an interesting space from a top-down perspective. This is driven by long term structural drivers related

Global Demographics: India Apart

Source: UN, Department of Social Economic and Social Affairs, World Population Prospects (2015 Revision)



The Indian Consumer On the Rise

Source: International Monetary Fund, World Economic Outlook Database (April 2016)



to favorable demographics, rising per-capital income, and increased urbanization. India is a relatively young population, with more than 50% of its population below the age of 25 and more than 65% below the age of 35.¹ It is expected that by 2020, the average age of the population will be 29 years, compared to 37 for China and 48 for Japan.² By 2030, India's dependency ratio (non-working population under 15 and over 65 per 100 working population aged 15-64) will be around 48, compared to 53 in emerging markets, 64 in developed markets, and 74 in Japan.³ Given the young population and trend of rising per capita income from the current level of USD 1,800, there is significant room for growth, particularly in under-penetrated consumer categories.⁴

The fund has overweight positions in many of these consumption-oriented businesses such as financials, autos, building materials and media. We are also overweight on chemicals and healthcare space.

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Describe the genesis of the Mirae Asset Bluechip Fund and its investment universe?

Mirae Asset Emerging Bluechip Fund was launched in July 2010 as our flagship scheme in the mid-cap space. Since then the fund has delivered a return of about 24% CAGR, which is an alpha of about 13% over the benchmark. We have generated those returns by being in the right place amid significant divergence across sectors and stocks. The mandate is to invest a minimum of 65% in mid-sized companies which are not in the top 100 companies by market capitalization.

What are the stock selection criteria that shape portfolio construction?

Our stock selection process has three aspects: business selection, management analysis, and valuation. We look at quality businesses with decent growth prospects as well as return characteristics, such as Return on Capital Employed (ROCE). Our second filter is in respect to management analysis, which is a bit subjective but you have to look at the track record and corporate governance. A well-managed company will have better capital efficiency so the ROE's tend to be better than other companies' in the same sector. The last factor is to arrive at a particular value. Value has to be higher than the market price so that there is a margin of safety. The idea is not to buy cheap companies, but good companies at reasonable valuations.

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What are the differences between evaluating mid-cap stocks and large-cap stocks?

Mid-caps are relatively less researched compared to large caps. Thus, primary, or on-the-ground research, is paramount while investing in such companies. Qualitative evaluation of the management in terms of thought leadership, intellect and integrity are important factors to evaluate.

What are the most important factors for alpha creation in India?

India remains a market where bottom-up stock picking is rewarded. Over time, we have witnessed companies evolving from being mid-sized to large corporations, and also from large size to giant ones.

¹ UN, Department of Social Economic and Social Affairs, World Population Prospects (2015 Revision)

² Ibid ³ Ibid ⁴ International Monetary Fund, World Economic Outlook Database (April 2016)

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Right now, there are about 30 companies which are above USD 10 billion in market capitalization, and about 70 companies in the USD 3 billion to USD 10 billion range. Additionally, there are about 125 companies with market capitalization bucket of between USD 1 billion and USD 3 billion. If you are able to identify quality businesses from the set of companies that are between USD 0.5 billion and USD 3 billion (that's about 250 companies), then the wealth creation potential is huge

There are three factors needed for the transformations from a small company to a bigger one. The first is a large growth opportunity; the second factor is decent ROCE (i.e. business is good); and the last factor is competent management. Over time we have seen that when these three factors are in place it invariably creates huge wealth.

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How does the Goods & Services (GST) Tax Bill impact the economy and financial markets?

The passing of the GST bill promises to unify India's 29 states and seven Union territories into a single marketplace of 1.3 billion people for the first time. This is a milestone reform that could enhance economic growth by several percentage points annually. In the medium term there could be execution challenges, but in the long term it will make it easier to do business.

What is your outlook for India in the medium-term?

The Indian economy is on the right track towards growth given the significant improvement in macros like current account deficit, inflation and interest rates. Coupled with concerted efforts by the government to revive the investment cycle, the benefits of decent monsoons and the pay hike for government employees, these changes will revive corporate earnings growth, which has been muted for few years. India remains one of the few regions with structural long term growth drivers, and we expect market returns to follow the upward track of revived earnings.

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Product Labelling

Mirae Asset Emerging Bluechip Fund is suitable for investors who are seeking*

- Long term capital appreciation
- Predominantly investments in Indian Equities and Equity related securities of companies which are not part of the top 100 stocks by market capitalization

*Investors should consult their financial advisers if they are not clear about the suitability of the product

RISKOMETER

