New Fund Update: MIRAE ASSET INDIA-CHINA CONSUMPTION FUND

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Consumption Story

Post the 2008 crisis, when the world experienced sharp drop in economic growth, the hope of recovery in the world was kept alive by China and India. China and India have emerged from the crisis relatively unscathed. These two economies were protected as a result of their burgeoning local consumption. As these two economies are roaring back to their pre-crisis growth rates, the domestic consumption by people and the government helped the companies that are in the consumption arena to have good revenue and profit growth in the coming years. So, as to capture this profit trend to the investors, the Mirae AMC has come out with the MIRAE ASSET INDIA-CHINA CONSUMPTION FUND.

Salient features of the fund

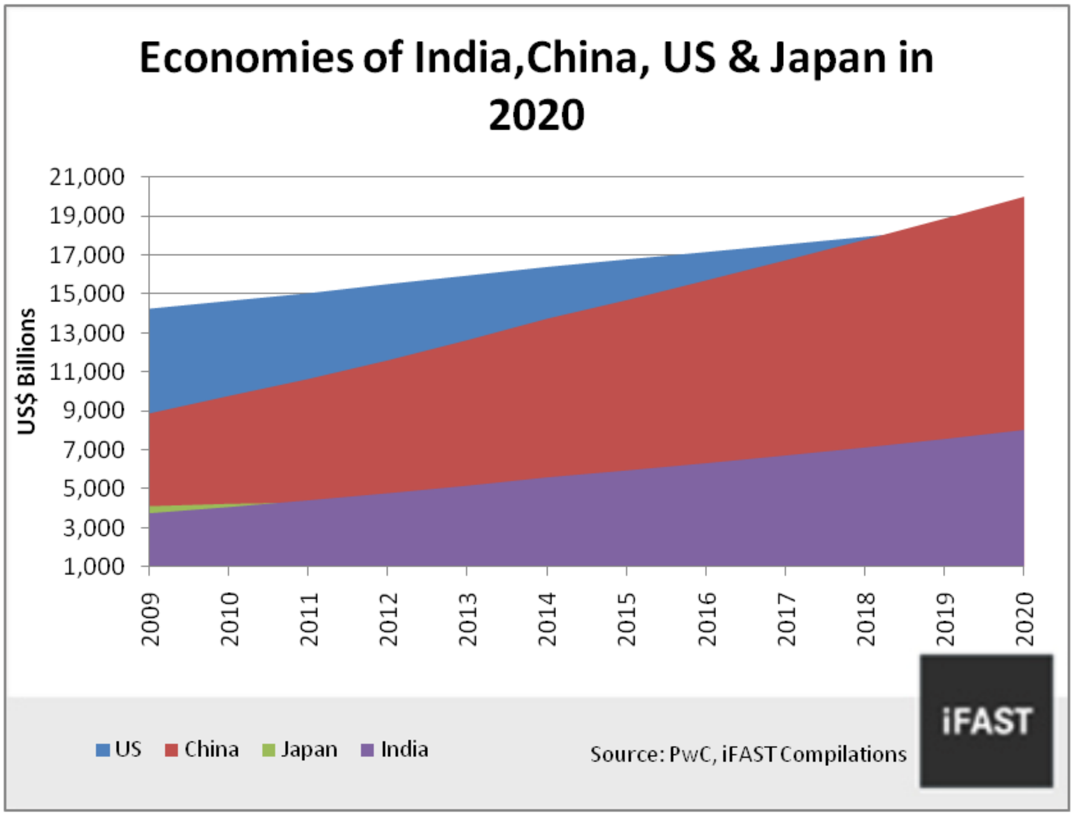
This fund will invest a major portion (65%-90%) of its assets in Indian companies which target the domestic consumption sector in India. This asset allocation has been done to let the investors avail the equity fund tax benefit. This fund will also invest 10%-35% in Chinese companies that target the domestic consumption sector in China. Liquidity in the fund is taken care by an allocation of 0%-25% in the money market instruments. This fund is not a fund of funds and will directly invest in Chinese securities.

Consumption category is a broad category and includes sectors like FMCG, consumer durables, auto, telecom, banks etc. The products and the services which are used by the common man can be considered as sectors focusing on the consumption side and this is applicable to both the countries.

Why the euphoria on domestic consumption in India and China?

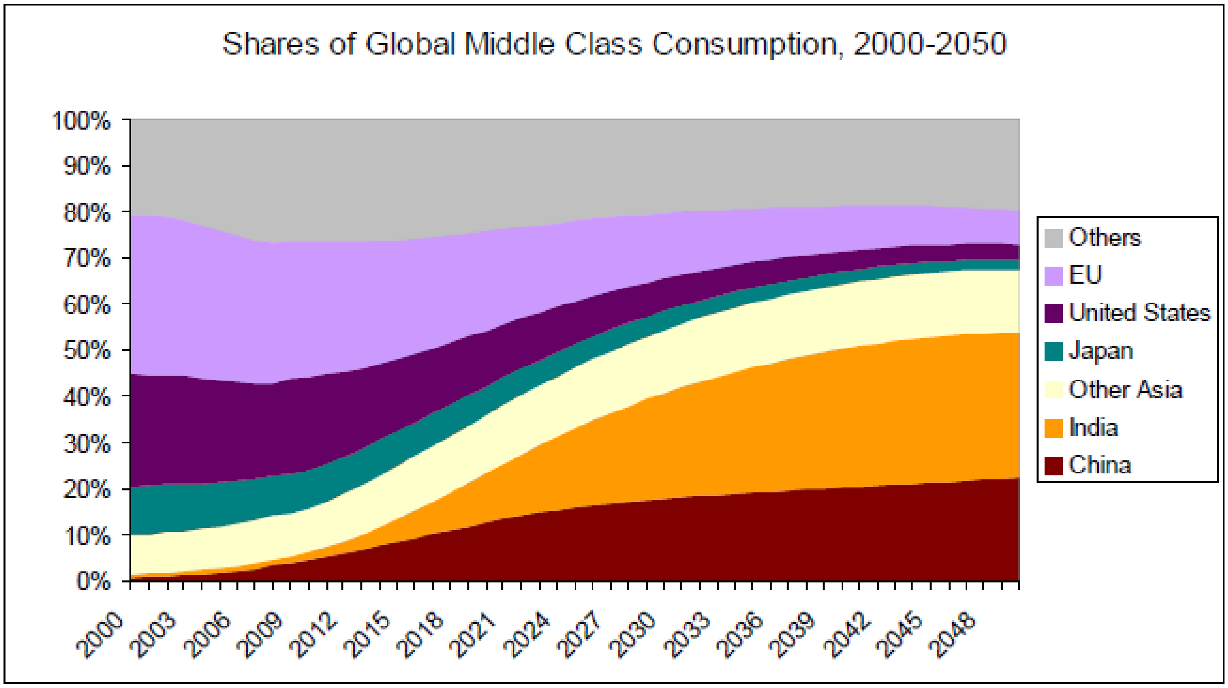
According to the projections by Price Waterhouse Coopers; the Chinese and the Indian economies are expected to double by 2020. According to the same estimates, China is expected to become the largest economy in the world, overtaking US by 2020 and India is expected to overtake the Japanese economy in the next 2-3 years. By 2050, China will be the top economy in the world followed by India.

Chart 1: Projections of economic growth of India, China, US and Japan up to 2020



The rapid economic growth in these two countries will increase the number of middle class people in both the nations. According to a research paper published by Homi Kharas and OECD and as seen in Chart 2, India will have the largest middle class in the world by 2050 followed by China.

Chart 2: Global Middle class share from 2000 to 2050



Source: The emerging middle class in developing countries by Homi Kharas, OECD

The rising GDP and increasing middle class would mean more money in the hands of the middle class. With more money, they would have a higher disposable income which would in turn increase the consumption of basic amenities. According to ENAM's estimate organized retail, Air conditioners, Home Loans and cars sales will have more than 20% CAGR from 2010 to 2020. Two wheelers, packed foods, Cable and DTH and refrigerators sales will have a CAGR of more than 10% from 2010 to 2020.

With higher consumption from the masses, the companies focusing on delivering these products and services will thereby, benefit from higher revenues and profits.

Our take on this NFO

This fund offers a unique opportunity to Indian investors to profit from the rise in domestic consumption in India and China. Although there are funds in India which focus towards India and China, but none of them focus towards the opportunity to profit from the growth in domestic consumption in these two countries. In this case, the investor benefits from the geographical diversification and the growth in the share prices of companies in the consumption category.

The fund although carries risk of exchange rate fluctuations due to investments in China, the exchange rate risk is low because at least 65% of the assets would be invested in Indian companies. So, we advise the investors to allocate a maximum of 5-10% of their equity portfolio in this fund as it provides a good diversification allocation.

New Fund Offering Details

Nature of the Fund	Open ended Equity fund
NFO Opens on	9th March 2011
NFO Ends on	23rd March 2011
Scheme reopens for sale and repurchase	5th April 2011
Minimum Investment	Rs. 5000
Taxation	Treated as an equity fund
Fund Managers	Gopal Agarwal – Head of Equity and Deputy CIO
	Neelesh Surana – Domestic Equities
	Basavaraj Shetty – Overseas Investments
Entry load	Nil
Exit load	1% if redeemed before 365 days after units allocation
Benchmark	MSCI India Consumption Index (65%) + MSCI China Consumption Index (35%) (Price in INR)