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FIDUCIAN INDIA FUND

The Investment Case for India

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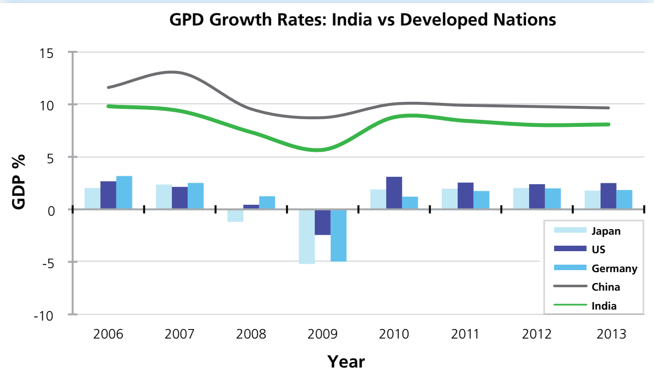
Why India?

India is one of the world's strongest economic growth opportunities along with China. Growth in consumption, productivity gains, efficiency enhancement and innovation are factors contributing to national income growth of between 6 and 9% annually. Whilst there appears some policy risk around inflation, corporate profits in India are still projected to increase 20% to 30% per annum over the next three to five years. It is anticipated that India will have the largest and youngest labour force in the world by 2030. Labour force productivity itself is a major driver of economic growth. It is only a matter of time before India's population will exceed that of China.

What does the GDP differential look like?

The differential is material and can be presented as follows:



Source: IMF World Economic Outlook Database, April 2010

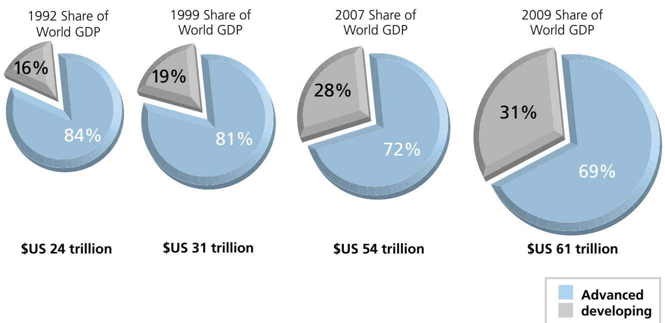
Where is the opportunity?

A number of domestic or international share funds managed in the US, UK and Australia seek to invest in shares exposed to the India or China story. Fund managers are positioning their portfolios in this way due to the solid earnings growth potential from exposure to economic growth in emerging markets relative to developed economies. Few companies will benefit from this shift as much as emerging companies on the ground in India.

The Fiducian India Fund provides investors with this exposure.

How much do developing nations contribute to World GDP?

The increasing contribution of developing nations to World GDP can be displayed as follows:



Source: IMF

Is India's growth dependent on the developed world – particularly the USA and Western Europe?

India has a relatively low exposure to the under-performing developed economies such as the US and Western Europe. India's economic growth stems mainly from domestic consumption and productivity gains. This differs from countries such as China that are manufacturing export-driven and Russia which is oil export-driven. In 2008, less than 15% of India's GDP was derived from exports, of which only 15% was exported to the US and 4% to the UK. As a comparison, China's exports as a percentage of GDP reached nearly 40% in 2008, of which nearly 18% went to the US and over 20% went to the EU (CIA – The World Factbook).

How has the Indian share market performed relative to other parts of the world?

The Indian share market has performed remarkably well in the last 10 years despite considerable swings in the economic prospects of its industrialised peers. Whether analysed on a return basis or risk to reward basis, India ranks very highly. In simple terms, Indian equities as an asset class have been very valuable in constructing an optimal portfolio i.e. maximising returns whilst minimising risk.

Figures over key time periods are as follows:

Country	5 Year annualised return (to the market peak*)	Peak to Trough (Feb-09)	Trough to end Jul-10
US	13%	-53%	65%
UK	12%	-43%	52%
Australia	18%	-51%	42%
India	42%	-56%	121%
Japan	12%	-58%	35%
China**	45%	-71%	53%
Germany	23%	-52%	69%
France	16%	-56%	44%

Source: Iress Market Technology

* Market peak is taken to be the end of September 2007. Returns are compounded monthly.

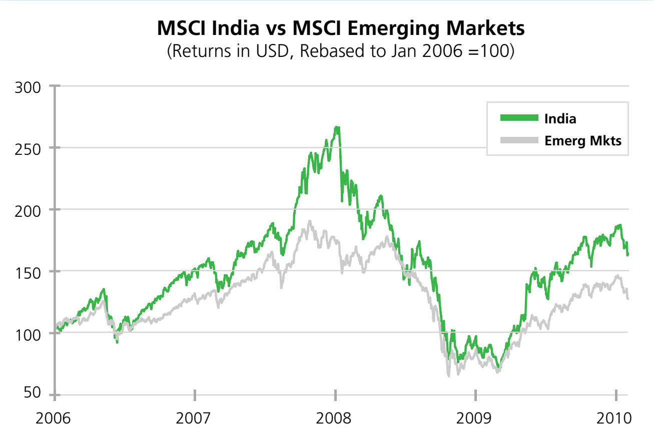
** China's annualised return is for 4 years. China's market peak is taken to be the end of October 2007 and its trough was October 2008.

What about India's prospects relative to International Shares and Emerging Markets?

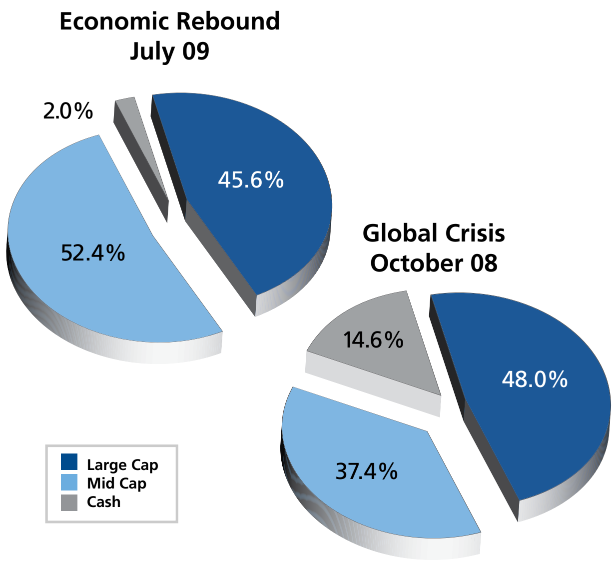
In terms of international shares, an index-aware international fund would have a large weighting to the US, where domestic economic growth prospects relative to India appear modest. Developing nations are steadily increasing their share of World GDP. However, the term "Emerging Markets" can be a misconception. Whilst many countries included in an emerging markets fund may require economic development, few are driving economic development and growth as much as India or China.

What does India's performance relative to Emerging Markets look like?

Stock price performance of India relative to Emerging Markets since 2006 is as follows:



An example of how this was applied can be presented as follows:



By tactically allocating between these exposures based on analysis of macroeconomic fundamentals and utilising on-the-ground research to select stocks with the best potential, the Fiducian Investment Team can work towards achieving an optimal outcome for investors over the longer term.

India's share market has done very well. Does that mean it is over-priced?

The mid capitalisation company sector of India is trading at a forward weighted average price-to-earnings ratio of 13x (as at September 2010) and estimates are for earnings to grow between 20% and 35% over the next few years. The large cap company sector is trading at a forward weighted average PE of 19x with earnings forecast to grow in excess of 20% over the same time period (source: Sundaram BNP Paribas Asset Management). This could make Indian shares on aggregate an excellent share investment relative to alternative share investments that do not exhibit the same value to growth credentials at present.

Why the Fiducian India Fund?

The Fiducian India Fund utilises the research ability of two of India's best domestic fund managers and blends these underlying portfolios to achieve an optimal outcome over the longer term.

One of the underlying fund managers focuses on mid cap and some small cap stocks. These are usually the first to rally after a significant down-turn in capital markets and have the potential for long-term capital out-performance. This manager invests with a growth style bias.

The other underlying fund manager focuses mainly on large cap stocks. They also invest with a growth style bias. Large cap stock allocations can out perform in the short-term relative to their smaller counterparts when confidence is weakening and a perceived 'flight to quality' is occurring.

Our investment team also has the flexability to allocate up to a 25% cash weighting in the fund to manage downside risk.

What about currency risk?

The long-term trend is a story of increasing demand for the Indian Rupee – mainly due to foreign capital flowing into India but also due to a growing demand for India's exports. Even though there may be deviations from this trend in the shorter term – it is expected the Rupee will appreciate relative to global currencies over the longer term.

How has the Fiducian India Fund performed?

The Fiducian India Fund outperformed its benchmark, net of fees, over the 2 years to August 2010.

Historical Performance Figures ($AUD)

	3 Month	6 Month	1 year	2year (p.a.)
Fiducian India Fund**	0.2%	8.3%	18.0%	11.9%
Benchmark (BSE 100)	-0.3%	7.8%	14.2%	8.1%
Added Value	0.5%	0.5%	3.8%	3.8%

** Note: Performance figures are calculated using month end exit prices, after fees and reflect the reinvestment of distributions. The funds future performance may bear no relationship to its past performance

So what is the next step?

The Fiducian India Fund is a great tool for investors to diversify existing international or emerging market exposures and potentially benefit from a slightly greater exposure to high economic growth prospects in India. A good first step is to contact your Financial Adviser.

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