

Following the recent near-landslide election results in India, Shelley Kuhn, manager of the Neptune India Fund, looks at the implications for the Fund.

The Neptune India Fund was one of the first onshore UK funds established to focus solely on the Indian market. Drawing on Neptune's global sector research process, the Fund is designed to take advantage of India's immense long-term secular growth and has, since launch at the end of 2006, returned 2.5%. This is a significant outperformance of its peer group, the IMA Specialist sector, where the average return was -9.5%* over the same period.

**Neptune India Fund Update
By Shelley Kuhn, Fund Manager**

21st May 2009

The decisive victory of the incumbent Congress-led UPA coalition in India over the weekend is extremely bullish for markets as it gives the government a strong mandate to pursue its reform agenda. Moreover, the absence of the Left parties in the support base will mean that the Congress-led UPA will be better able to push through the proposed economic reforms. Furthermore, with the reduction of political risk, the risk premium for India will come down significantly and the equity market will re-rate.

Specific sectors that will benefit directly from Dr Manmohan Singh's reform agenda, such as banks, insurers, infrastructure plays and potentially the mining sector, will outperform the broader market. The Neptune India Fund is well placed to benefit from these market moves with a large overweight position in financials and significant exposure to infrastructure themes, both in the industrials and the materials sectors. We will continue to add to these core positions and trim exposure to the low-beta healthcare and consumer staple sectors.

Our long-term view on Indian economic growth continues to be positive, driven by structural factors such as the extensive infrastructure investment programme, strong consumption growth and favourable demographics: over 50% of India's population (1.2bn people) is under the age of 25, which bodes well for long-term economic growth**. India's domestically-driven, endogenous economy has been largely insulated from the slowdown in OECD demand. It has not, however, been immune to external events, with the global financial crisis and credit crunch resulting in a flight of foreign capital out of India. However, political stability, continued economic liberalisation and de-regulation, and proposed reforms in the areas of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) norms bode well on this front.

We are optimistic about the long-term potential for the Fund and, going forward, believe that Neptune's global sector research process will continue to identify those sectors best placed to benefit from the recent developments.

*Source: Lipper as at 19.05.09, based in sterling with net income reinvested, no initial charges. Launch date: 29.12.2006

** Source: Neptune Economics

Neptune Investment Management