

# Analyst Report Excel India:

## Diversified approach helps reduce losses, but be wary

BY BHAVNA HINDUJA

Unitholders of Excel India have enjoyed a spectacular 34% annualized return over the past five years, but the ride was anything but a smooth one. And as tempting as its absolute returns are, the fund has trailed its benchmark by a significant margin in recent periods since the managers prefer to run a more diversified portfolio than the narrowly focused index. Nevertheless, we think this fund can add some zip to a well-diversified portfolio, so long as investors are prepared to stomach the downside risk associated with it.

In November 2007, Excel India experienced its fourth manager departure over its 10-year history, which is somewhat disconcerting. Previously led by Jayesh Gandhi, the fund is now run by former co-manager Ajay Argal, who was joined by Atul Penkar, a new addition to the team at Birla Sun Life AMC Ltd. Even though the current management is not entirely new to the fund and continuity in management has been maintained, the high level of manager turnover makes us question the ability of the sub-advisor to retain experienced management talent.

The fund invests in the equity securities of companies located in India using a bottom-up selection process.

Management searches for high-growth firms at a reasonable price. The fund will invest no more than 30% in any one sector and holds about 35 to 40 names. While the managers aim to keep cash within the 3% to 5% range, this may vary depending on their outlook on opportunities available for a given level of risk.

The team runs a portfolio that is more diversified than the SENSEX 30 Index, which tracks 30 of India's largest companies listed on the Bombay Stock Exchange. As a result, the fund's performance is not as heavily impacted by any one particular stock. For example, Reliance Industries makes up 15% of the index and its share price is up 75% over the past year. It is a top holding in the fund, but its weight is only half of what it is in the index. Therefore, the fund is likely to hold up better if these high-flying stocks take a significant hit.

The team also maintains significant exposure to mid-cap names. This portion has provided meaningful upside to the portfolio during market rallies but can often detract from value in tumultuous markets because these stocks can be more volatile than their large-cap counterparts. For example, the BSE Midcap Index is down 32% year-to-date versus 21% for the large-cap-focused SENSEX.

The team's more diversified approach has led to the fund's underperformance over the past couple of years after beating the SENSEX for 38 consecutive one-year trailing periods since the bursting of the technology bubble in 2001. Its recent three-year return of 17.7% lags that of the index by 13 percentage points.

That being said, even with better relative downside performance, investors should be wary of the losses asso-

ciated with a country-specific emerging-market fund. For example, this fund lost 13% in January following the major correction that the Indian stock market experienced earlier this year.

### OF NOTE

This fund is categorized as a Specialty fund since it has very little in common with typical emerging-market offerings.

Like many country-specific emerging-market indices, the SENSEX 30 shows a low correlation to most major world indices, which means there are substantial diversification benefits to adding this fund to a core portfolio.

The fund's management-expense ratio of 3.15% is one of the highest among all Asia-specific and emerging-market funds. However, we are encouraged by the fund company's efforts to reduce it from a high of 9.9% five years ago.

Unless investors have a call specifically on India, they can also consider a slightly more diversified offering, Excel Chindia, which is split about equally between Excel India and Excel China. Investors may also want to consider a diversified emerging-market fund, which in many cases provides significant exposure to both countries with less volatility.

Management doesn't hedge the fund's foreign currency risk. This leaves the fund susceptible to currency-related losses if the Canadian dollar strengthens versus the currencies to which it is exposed.

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