



MEDIA RELEASE

28 February 2017

Released for: India Avenue Investment Management phone 02 8937 2487

Released by: Manallack PR phone 0407 334 938

Active vs passive debate needs country by country basis: EM specialist

Passive may be currently favoured against active investing in Australia and other developed markets, but investors need to be careful when applying this thinking to developing or emerging markets where the opposite may be true.

Investors benefit from a “horses for courses” approach when investing overseas, according to Mugunthan Siva, Managing Director of specialist India-focussed investment house, India Avenue Investment Management. “What works in a developed, more efficient market such as Australia, may not work abroad. Convenience and cheapness do not necessarily equate to a better proposition for clients.”

Mr. Siva said this was evident when analysing exchange traded funds (ETFs), which can provide access to an index via a stock exchange, and is currently popular among investors. “Passive approaches such as ETFs are viable in relatively efficient markets like Australia. But the passive approach falls over when applied to inefficient investment markets, such as China, India, and other emerging markets.

“Research shows that ETFs have dramatically underperformed active managers in these markets. Accessing these markets via ETF means you are leaving returns on the table.”

He said the track record among active managers in India served as a prime example. “India has more than 6,000 companies listed on two main exchanges, with over 2,000 companies traded daily. Yet institutional brokers only research the top 100-150 stocks in detail.

“The potential to produce a strong out performance of the benchmark, if researched well and selected appropriately, is enormous.”

Other factors come into play, such as the potential for holding too many inferior stocks when buying an index. “If you buy an index strategy for India you will be holding the good and the bad, including companies which may have corporate governance issues.

“There is a gulf in valuations and performance between companies with strong and not-so-strong corporate governance in India. Only active management can target these well-run companies.”

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Research shows the average manager in India has outperformed the passive MSCI India index over the last 10 years by 4.5% per annum, and has outperformed the most popular ETF available by more than 8% per annum over 5 years:

AUD Returns (to 31 Dec 2016 net of fees)

	1 Year	3 Year	5 Year
Top Quartile manager	5.8%	27.3%	19.0%
Median manager	2.0%	25.5%	17.4%
India ETF*	-2.2%	12.3%	9.3%

Source: Bloomberg, ACE India, India Avenue Research

* US-listed ETF called INDA which replicates the MSCI India Index

“When even the average manager can outperform comfortably you know something is different. It’s a good reminder that different markets need different approaches”, Mr Siva concluded.

About India Avenue Investment Management:

India Avenue is an Australian investment house dedicated to investing in Indian listed companies and is domiciled in Sydney, with a research affiliate based in Mumbai.

Retail and wholesale investors access our specialised approach via the India Avenue Equity Fund, an open-ended, unlisted fund which aims to outperform the MSCI India index. The Fund has been given a “Superior” rating by independent research house SQM Research.

We also provide advisory services and research to institutional investors seeking to build India-focussed exposure in their portfolios, which can be customised in the areas of portfolio construction, operational efficiencies and more.

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