

One to buy and one to watch

Individual foreign investors can buy Indian stocks, but it's a highly bureaucratic process and few people can be bothered. Unfortunately, the selection of Indian stocks listed on foreign exchanges is limited and doesn't give you access to many of the most promising sectors. So this is a market where most people are best served by buying an investment trust.

There are two obvious candidates, depending on your view of the economic outlook. **Aberdeen New India Investment Trust (LSE: ANII)** holds a diversified portfolio of mostly larger, high-quality

companies (it has around 23% of the portfolio in financials, for example, but these are groups such as HDFC and Kotak Mahindra Bank, rather than PSU banks or those that are likely to be hit by problems in the NBFC sector). It has reasonable charges for a fund in this sector (ongoing charges of 1.25% last year) and trades at a discount to net asset value of 14.5% (compared with a five-year average of 11.5%). This is the steady choice and would be the best pick if you wanted to invest in India now.

Alternatively, the **India Capital Growth Fund (LSE: IGC)** is weighted towards

smaller firms (almost 60% of the portfolio is in stocks with a market cap of under \$2bn), which may deliver stronger returns over the long term. The fund's share price is up 138% over the past five years, compared with 94% for Aberdeen New India (and 84% for the large-cap focused **JP Morgan Indian Investment Trust (LSE: JII)**, the third main trust in the sector).

But the kind of investments it holds are likely to be more volatile, as recent news has shown: they include Dewan Housing Finance, which was caught up in the sell-off of NBFCs in the wake of the

default of IL&FS, as well as Yes Bank, which slumped around the same time after the RBI forced it to change its chief executive over concerns that Yes has been understating problems with bad loans. A fund like this is often good for taking full advantage of a boom, but at this point I would wait to see how India's financial-sector wobbles and the wider global jitters play out before buying. A discount to net asset value of 12.5% doesn't look like an obvious opportunity either, compared with its five-year average of 16.8%. The fund has an ongoing charge of 1.87%.