India looks a better investment bet than China

Savers in the UK put £31.3bn into their pensions in the year to April 2020, according to numbers released this week.

That was up from £27.9bn the year before, says HM Revenue & Customs. Some 9.4m people contributed to personal pensions — with an average annual contribution of about £3,300.

Add up all the tax reliefs this comes with, and the net cost to state coffers was over £22bn. That last number is key — it doesn't just represent the immediate income tax relief you get when you contribute but the capital gains tax and the dividend taxes you never have to pay when your money is protected in a pension.

In other good news, the majority of the new cash is coming via our excellent auto enrolment programme — and 65 per cent of the contributions are paid by employers (so most people are effectively paid rather more than they think they are).

It all adds up to real money sitting in real people's pension accounts looking for a home. The problem, an increasingly obvious one, is that with most markets looking expensive and inflation building, good homes are hard to find.

One way to look at this, possibly the only way, is to think as long term as you can. With valuation risk and interest rate risk (central banks might find that the effect of supply crunches on prices mean they have no choice but to raise rates) overhanging everything we must assume there will be a nasty correction (possibly a crash) at some point fairly soon and we must just buy the investments that we think will be the least bothered by such disruption in 10 years' time.

One thing to look at in this context is how a market is priced — the UK remains far too cheap (I know you are bored with me telling you that).

Another is the extent to which its internal dynamics and growth might make any fuss over short-term valuations look silly in a decade — in the way that those of us who fussed at the price of Google and Amazon a decade ago now look very silly.

And so to India. A few months ago the news from India seemed utterly appalling. The news was jammed with stories of uncontrolled Covid infections and overflowing hospitals. But, after a nasty peak in early May, cases have fallen fast and the vaccination programme has stepped up a pace.

And the stock market? The Sensex index of top Indian shares has more than doubled since last year's March lows, is up 22 per cent this year and hit 60,000 for the first time last week.

All the long-term structural reasons to be keen on India are in place. It has a fast- growing and increasingly affluent middle class (50m today and headed for well over 400m), a young, educated population and wages are low relative to much of the rest of the emerging world.

India also has a reform-minded government — the country regularly ranks among the top 10 improvers in the World Bank's Ease of Doing Business Rankings. In the shorter term, there is, says Chris Wood of Jefferies, "growing evidence of a new residential property cycle" under way after a seven-year downturn: affordability remains at attractive levels and sales have been rising.

The Julius Baer Global Lifestyle Report puts Mumbai at number 22 in its index of liveable cities calling it a "dynamic and diverse financial hub".

However, there are two new things to watch in India. The first is its technological revolution. India's open-minded young tend to be early adopters, says India Capital Growth's David Cornell and the rollout of the world's largest 4G network combined with lockdowns, low-cost data and widespread smartphone usage (1.1bn users) has massively accelerated the advent of ecommerce and digital banking. In India, 99 per cent of all online activity happens on phones.

This transformation is not yet reflected in the stock market: the

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digital and technology sector makes up only 1 per cent of market capitalisation versus 30 per cent in the US. That is about to change. There is, says Mick Gilligan of Killik & Co, a "wave of IPOs coming down the tracks". The unicorns are coming.

The second change is a growing realisation that the country is not China. The past few years have alerted multinationals to their overdependence on Chinese manufacturing in a time of political tension. They need to diversify and where better for this than cheap English-speaking India, with its well-established chemical, electrical and pharmaceutical manufacturing base?

Investors might have the same sort of feeling: in the wake of anti-market regulatory crackdowns in China, they appear to fancy moving some of their emerging markets exposure too — and where better than digital-savvy, investor-friendly India?

None of this comes cheap: the average price/earnings ratio across the Sensex is just over 30 times. But with earnings at what Wood calls an "inflection point" on the upside and a possible tech boom to come, that number should look better soon — and perhaps be a distant memory when you come to draw your pension.

There are a few good trusts in the area. You might start with the Baillie Gifford-managed Pacific Horizon trust. It is not just India-focused but it has invested in three new Indian companies pre-IPO (10 per cent of the firm's assets can currently be invested in private companies) and in the rise in the share of the portfolio held in India from 7 per cent to 29 per cent in the same year, while Chinese exposure fell.

Long-term manager Ewan Markson-Brown has recently stepped down (you can find him at Crux Asset Management where he will be launching a similar fund but inside a smaller management firm) but the portfolio has been left in good shape.

Another option is the India Capital Growth Fund which invests in mid- and small-cap companies only. Performance has been good and you can buy it on an 8 per cent discount to its net asset value. This seems good value: the board has arranged for investors who want to redeem their holdings to do so at a discount of 6 per cent at the end of the year). Finally, there is the Ashoka Indian Equity Trust which again focuses on mid- and smaller-sized companies. It has a performance fee (I don't like these) but it is earning it — the shares are up 34 per cent this year alone.

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