COULD INDIA "RUN THE TABLE" LIKE CHINA?

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I had the opportunity to speak with Rob Lutts, CIO of Cabot Wealth Management, who is a friend and client of WisdomTree, about a research trip to India he had just taken. India has been a standout among emerging market countries, and Lutts' outlook is that India remains a very attractive place to allocate part of his growth portfolio capital. Below are some highlights of our conversation. **India's New Government** Lutts cited a conference in Delhi he attended, where a group of government ministers spoke. Each conveyed a paradigm shift in the Indian government, which has traditionally been an obstacle to progress. Under the new pro-business regime, India hopes to go from the bottom of the World Bank's "Doing Business" ranking—142nd out of 189—to the top 25 in four years. An ambitious goal! Lutts believes India's problem was essentially having a democracy on steroids. This new government, which is intensely focused on improving efficiency and achieving real reform in finance, insurance and bankruptcy laws, is, in his opinion, a game changer. **India's Demographic Dividend** Sixty-five percent of Indians are under the age of 35. In 25 years, China grew its economy 17-fold, while India's only quadrupled over the same period. With such an immense and young population, Lutts believes India has a chance to "run the table" the way China did and be a driving force in the global economy. **Educating the World's Leading Engineers** One of India's great strengths is its education system. India produces one of the world's largest pools of engineers, and the country has a lot of smart people working on the world's most complex challenges. Again, India's youthful demographic and sheer population size should allow its productivity to catch up with the rest of world. **Indian Budget and Infrastructure Building Out** India's latest budget announced, February 28 (something we covered on our blog here), had a nominal growth target of 11%, with 3% inflation, in other words, 8% real growth. This is a major ratcheting up of growth from recent years. **Modi's Leadership Incentivizing a Better Tax Plan for Growth** Lutts was most impressed by India's Minister of State for Finance, Jayant Sinha. Lutts said Sinha knew issues better than any government officials who had come before him. India currently collects tax revenues of only 16% of gross domestic product (GDP)—Lutts thinks it needs to get up to 24%. The plan is to shift toward goods and services taxes and away from wealth tax. It also includes giving states two-thirds of tax revenue and have them, in turn, be responsible for proper allocation of funds—the hope being that they'll do a better job of it than the central government. **India Has Been Hard to Access for Foreigners. Until Now.** According to Lutts, India needs capital from the outside. The Indian government will be creating some new structures to help finance this growth—things such as preferred stock and convertibles could be enhanced to allow creative financing. Foreign ownership restrictions are about to be relaxed to help finance the needs of the country. **Lutts Banking on—and in—India** Lutts likes the banking sector in India, as he sees India as a very "under-banked." The average bank in India grows annually at 15%. For example, the State Bank of India (which Lutts believes is middling or poorly run) has seen 10%–12% growth per year; Housing Development Finance Corporation (HDFC), which Lutts thinks is managed better, has seen growth at 20%–25% on an earnings basis. He believes 50 years from now 75% of Indians will have bank accounts, and this creates a large growth opportunity for the banks. **Final Thoughts: Optimistic on Innovation** Lutts has been looking for growth and sees innovation accelerating at a pace that is hard to imagine. He cited developments in the alternative energy industry and biotechnology fields. He has been studying growth companies over 30 years—there tends to be a lot of value destruction for old guys, and value creation for new entrants. He is very optimistic about future technology development potential in these areas and others. *Lutts sees India as a long-term opportunity. He doesn't think it's the best investment for next three weeks or three months but really a long-term piece of his portfolio that he's looking at over the coming years.* ***Unless otherwise noted, data source is Bloomberg, as of 2/28/2015.***

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Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention or political developments and investments focused in India can be increased by the impact of events and developments associated with the region, which can adversely affect performance. Foreside Fund Services, LLC is not affiliated with Cabot Wealth Management.

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World Bank's "Doing Business" Ranking : The Doing Business project provides objective measures of business regulations and their enforcement across 189 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Preferred stock : A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

Convertibles : Securities, usually bonds or preferred shares, that can be converted into common stock. Convertibles are most often associated with convertible bonds, which allow bond holders to convert their creditor position to that of an equity holder at an agreed upon price.