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Ian Cowie: I'm in danger of falling in love with my first 10-bagger

Ian Cowie from **interactive investor**

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INFY ↓ 0.35% **IBN** ↑ 2.08% **JII** ↑ 0.83% **IGC** ↑ 0.21% **AIE** ↑ 0.89% **ANII** ↑ 0.57%

While all eyes have been on the UK this week, new data shows India has leapfrogged Britain's economy. Our columnist assesses prospects after the recent performance of his first 10-bagger turns rotten.

While Britain is busy navel-gazing about our new prime minister Liz Truss, our economy has been overtaken by a rapidly growing former colony, according to the International Monetary Fund (IMF).

The United Kingdom now ranks sixth in the global pecking order by size of gross domestic product (GDP), a measure of economic output. That puts us behind India, in fifth position, and

- in ascending order - Germany, Japan, China and the United States.

Unsurprisingly, this week's news from the IMF, a global organisation of 190 countries intended to "promote high employment and sustainable economic growth", got more media coverage in India than it did from Fleet Street's finest. The calculation is based on US dollar valuations in the final quarter of 2021 and India's lead is expected to have widened in the first quarter of this year.

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This fresh evidence of the growing importance of some emerging markets comes just over 75 years since India gained independence and less than two years after the Association of Investment Companies (AIC) launched a separate 'India' sector.

The good news for individual shareholders seeking diversification away from developed economies is that valuations remain depressed amid a tentative recovery from the coronavirus crisis, so it is not too late to gain some exposure at double-digit discounts to net asset values (NAVs).

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For example, **India Capital Growth Ord IGC** ↑ **0.21%** , the sector top-performer over the last decade, when it produced total returns of 263%, continues to trade at a 16% discount to its NAV. That may be explained by this smaller and medium-sized companies specialist's more modest returns of 23% and 1.9% over the last five and one-year periods.

Aberdeen New India Ord ANII ↑ **0.57%** , the sector top-performer over the last five years, followed a similar pattern with total returns of 200%, 29% and -7.8% over the last decade, five and one-year periods and trades at a 20% discount to NAV.

Ashoka India Equity Investment Ord AIE ↑ **0.89%** leads this sector over the last year with a total return of 13% and is priced at a 3% premium to NAV. But having been launched in July 2018, lacks a five or 10-year track record. It also reflects the growing maturity of the Bombay Stock Exchange (BSE), the oldest in Asia, having traded since 1875.

AIE's top 10 holdings include the food giant Nestlé India; the self-descriptive **ICICI Bank Ltd ADR IBN** ↑ **2.08%** ; and the information technology group **Infosys Ltd ADR INFY** ↓ **0.35%** . The latter was founded by the billionaire Narayana Murthy, who is probably best-known in Britain as the father-in-law of our former chancellor and runner-up in the recent vote to become prime minister Rishi Sunak.

Sad to say, at the opposite end of the performance tables over most periods stands the share that I have held continuously for longer than any other; **JPMorgan Indian Ord JII** ↑ **0.83%** .

This is the largest investment trust in its sector, with total assets of £810 million. But 'big' does not mean 'best' with total returns of 158%, 11% and minus 1.1% over the last decade, five and one-year periods. No wonder JII shares are priced 22% below their NAV.

To be candid, it is not clear to me why JII is lagging behind most of its rivals so consistently. Its top 10 underlying holdings include ICICI Bank and Infosys mentioned earlier as well as other familiar names, including Tata Consultancy and Hindustan Unilever.

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They say you should never fall in love with a share - because it will never love you back - but I may be in danger of breaking this rule. JII was my first 10-bagger or share that soared tenfold after I invested in June 1996, when I paid 63p for shares that cost 834p this week.

So, although recent returns have been rotten, I remember happier times with JII and remain inclined to take a long-term view. More recently, I added IGC to my 'forever fund' last September, paying 121p for shares that cost 118p this week.

None of the four investment trusts in the India sector pays any dividends. This may become more of a problem in a world of rising inflation and interest rates, when investors - including me - increasingly prefer to be paid to be patient.

I was among a minority of commentators who regularly reported on the importance of dividends during the go-go years of 'growth at any price' when 'jam tomorrow' stocks were all the rage. But I don't want to swing to the opposite extreme now and ignore shares that remain focused on capital growth in future.

Diversification remains the simplest tried-and-tested way to diminish the risk inherent in stock market investment but a diversified portfolio will not just include different companies, countries and currencies. It should also include different investment styles, with varying objectives - including income and capital growth.

While GDP is not necessarily reflected in stock market valuations, this week's news from the IMF - under-reported as it was - may eventually raise awareness of what is now the world's fifth-largest economy, as well as its biggest democracy. Truss beat Sunak to Downing Street but India beats Britain for economic growth and should be considered by investors seeking international diversification.

Ian Cowie is a freelance contributor and not a direct employee of interactive investor.

Ian Cowie is a shareholder in India Capital Growth (IGC) and JPMorgan Indian (JII) as part of a diversified portfolio of investment trusts and other shares.

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