

## MONTHLY COMMENTARY

# PineBridge India Equity Fund


**Capital at Risk:**

All investments involve risk. The value of your investment and the income from it will fluctuate and a loss of capital may occur.



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## HIGHLIGHTS

- The Indian economy slowed down in the March quarter.
- The fund underperformed its benchmark index during May.
- The significant divergence between larger capitalized stock price movements versus smaller capitalized stocks over the past two years has opened up opportunities to deploy capital.

## MARKET OVERVIEW

India's economic growth rate hit a low of 5.8% for the quarter ending March 2019, due to a slowdown in consumption and investments. The reason for this slowdown, in the team's opinion, is the inability of government owned banks to lend money due to their poor capital ratios. The government owned banks, which control 72% of the deposits, have a credit-deposit ratio of 70%, while private banks have a credit deposit ratio of 90%. This lack of lending leads to a lack of investments, which then leads to a lack of employment and poor consumption. Despite this, the team believes the worst is behind and things are improving as the overall credit-deposit ratio has improved more than 120 basis points (bps) for all the banks' last fiscal year. Also, the system wide number of bad loans has come down from 6.2% of assets to 3.8% during the last fiscal year. Post providing for bad loans, the team expects that capital will get shored up for banks, which should lead to accelerated lending and a revival of India's economic growth rate. However, it may take a few quarters for the growth to be reflected in the economic statistics.

## PERFORMANCE REVIEW

The fund underperformed (gross and net of fees) its benchmark, the MSCI India Daily Total Return Net Index, during May. An overweight in materials was the biggest contributor to fund performance, while an overweight in health care was the biggest detractor. The fund remains overweight in health care, industrials and materials.

We have always emphasized the importance of investing in companies with robust business advantages. Such advantages are rarely visible during benign times. When times become treacherous, such companies stand out. One of our long term holdings in healthcare has not been performing recently due to the challenges associated with the US generics market. The difficult market conditions have affected all participants in the whole industry. However, our investee company has now become the largest US generic player in the world by market capitalization and maintains a balance sheet with net cash when other players have significant amounts of debt. This is a testimony to its better business practices when compared to peers. As other companies struggle to service their liabilities, it should be able to capitalize on growth opportunities.

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## OUTLOOK AHEAD

It is said that there are 50 Eskimo words for snow. A good and accurate vocabulary is very important for effective communications. However, when we talk about markets and their outlook, we end up using very limited vocabulary: i.e., cheap, expensive and fairly valued, to name a few. These words are vague at best and hence some analysts attempt to use numerical values to better define valuations. However, any user of these 'precise' values knows that they are not as trustworthy as they appear. Therefore, we believe it is important for the asset management industry to come up with more terms to describe valuations. Unfortunately, until then, we have to rely on existing vocabulary.

The team believes that the Indian economy will improve gradually and during this period of improvement there can be good opportunities to invest. With a stable government, low oil prices and a recovering banking system, it is a matter of time for economic growth to accelerate. The recent crisis amongst some NBFCs (non-bank lenders) is, in the team's view, localized and not systemic. On balance and based on present attractive valuations – of some individual stocks and not necessarily of the total market – the team would encourage investors to deploy capital.

**Key Risks**

Potential investors should consider the following key risks before investing in the Sub-Fund:

**Market Volatility Risk**

All types of investments and all markets are subject to market volatility based on prevailing economic conditions. Price trends are determined mainly by financial market trends and by the economic development of the issuers, who are themselves affected by the overall situation of the global economy and by the economic and political conditions prevailing in each country. As securities may fluctuate in price, the value of your investment may go up and down.

**Investment Loss Risk**

Investments may decline in value and investors should be prepared to sustain a total loss of their investment.

**FDI Risk**

The prices of FDI can be highly volatile. In addition, the use of FDI also involves certain special risks depending on the type of FDI, including but not limited to correlation risk, counterparty credit risk, legal risk, settlement risk, margin risk, as well as other possible risks that may arise.

**Equity Risk**

The value of shares and securities related to shares may fall due to issuer related issues, financial market dynamics and world events including economic and political changes.

**Emerging Market Risk**

Emerging markets are typically smaller, less transparent and subject to evolving, less stable political and regulatory regimes.

The risk factors described should not be considered an exhaustive list of risks, which potential investors should consider before investing in the Sub-Fund. For more details on the Sub-Fund's potential risks please read the Prospectus and Key Investor Information Documents at [pinebridge.com/funds](http://pinebridge.com/funds)

**PineBridge India Equity Fund Endnotes**

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PineBridge India Equity Fund (the "Fund") is a sub-fund of PineBridge Global Funds, an Irish domiciled UCITS umbrella fund, authorised and regulated by the Central Bank of Ireland. The Fund's Investment Manager is PineBridge Investments Asia Limited, authorised and regulated by the Securities and Futures Commission in Hong Kong.

The launch date of Class 'Y' of the Fund was 12 September 2005.

Where performance is presented herein it is representative of Class 'Y' in U.S. dollars.

The benchmark for the Fund is the MSCI India Daily Total Return Net Index (the "Index"). The Index is an India-dedicated index consisting of Indian stocks with appropriate weightings for individual stocks based on their liquidity.

Any performance presented is historical, assumes reinvestment of all interest, dividends and capital gains, and is not indicative of future results. Investment return and principal value of an account will fluctuate, and there can be no assurances that losses will not be incurred.

Rates of return and asset valuations, if shown, are in U.S. dollars, unless otherwise stated and are computed using a time-weighted rate of return. Any performance results for periods of less than one year are not annualized. Income is included net of irrecoverable withholding tax deducted at source in accordance with the domicile of the underlying portfolios. Portfolios are valued on a trade date basis.

Where gross performance returns are quoted, they are presented net of transaction costs and before the deduction of management fees and all operating costs (which include custodian and administration fees).

Where net performance returns are quoted, they are presented net of transaction costs and net of the deduction of management fees and all operating costs (which include custodian and administration fees). These fees reduce a client's return.

Fund fees and expenses are described in PineBridge Global Fund's offering documentation, which is available upon request.

Past performance may not be a reliable guide to future performance. The value of units and the income from them may fluctuate.

Copies of PineBridge Global Fund's Prospectus including the Supplement for this Fund, all Country Supplements, as well as the Key Investor Information Document (KIID) for this Fund may be obtained from the Manager, PineBridge Investments Ireland Ltd. of PineBridge Investments Ireland Ltd. 78 Sir Rogerson's Quay, Dublin 2, Ireland. The KIID is also available from <http://www.pinebridge.com>

In Germany, copies of this documentation may be obtained from BHF-BANK AG, Bockenheimer Landstraße 10, 60323 Frankfurt.

Copies of the most recent financial statements available from the Manager and BHF-BANK AG.

The information presented relates to an account that is subject to laws and regulations that may be different from those applicable to an account for an investor in a different jurisdiction. Therefore, results may differ materially due to different investment limitations, regulatory environments and portfolio compositions.

The Fund is authorised for public distribution in Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Italy, Luxembourg, Macau, Netherlands, Norway, Singapore, Slovakia, Spain, Sweden, Switzerland, Taiwan (ROC) and the United Kingdom

The units of the Fund may not be offered, sold or delivered in the United States or to or for the account of U.S. Persons.

Last updated as of 16th April 2019.

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