

Indian Stock Markets +17%

Surprising Election Results Very Positive for Indian Economy

Prime Minister Dr. Manmohan Singh's United Progressive Alliance (UPA) party re-election victory is probably the best result in 20 years. It will help his party to implement reforms much quicker to boost the economy.

The first positive impact of these results will be stability. With 206 seats, (the UPA won 260 seats via alliances out of 543) Congress requires support of just 3 - 5 other parties to form the government compared to the last 5 years, when they needed support from every other party. The near collapse of India's communist party paves the way for long awaited reforms in insurance, pension funds, banking and retailing. A GDP growth above 6% for FY 2009/10 now seems more realistic.

The victory also raises hopes of a revival in foreign direct investments. Long overdue economic reforms should accelerate sharply as the left parties' opposition have no weight anymore. Over 300 million voters under the age of 30, comprising 40% of the voting population, have seen huge opportunities open up in the economy in the last few years. Mr Singh's ruling Congress party will start forming a new government today which will rule for the next 5 years.

The Indian stock market halted trading today after the Sensex shot up to 14'273 (+17.2%). The Rupee appreciated over 3% vs. the US Dollar. Even though today's massive market movement might be overdone, we believe that these political changes will lead to a long-term economic improvement, a stronger currency and a higher Indian stock market.

BSE Sensex since 2004



Indian Rupee vs. US Dollar since 2004



Our **Cat Asia Convertible Bond Fund** holds **16.4% Indian convertibles** of companies mainly active in infrastructure and telecommunication. The parity of these CB's will rise on a stronger Indian Rupee thus benefiting CB prices.

We are also in the final stages of launching a new tranche for the Cat Group of an **Indian equity long/short fund** in which we are seed investor. Details are available on request.

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