

The Outlook on the investment environment 2008:

Factors which will influence decision on asset classes are:

1. India Growth Story: The story is intact and will remain through next year. Corporate sector will maintain the higher than average growth and economy will still remain robust due to demand through domestic consumption for India.
2. Currency: Rupee will remain volatile / strong and tendency towards 35 per dollar is more likely than crossing 40 again.
3. Crude: Will continue to remain high and will still be a large factor for global asset allocation.
4. Political: It will be the US President election year and that will have considerable impact on liquidity and risk appetite. Large fund managers will tend to prefer liquidity and safety in their portfolio than risk assets. Indian election also will come close on heels of American election and that will result in populist measures in India.

Hence, the Asset preferences:

1. Equity will remain attractive, but, may not scale the dizzy heights of 2007 for countries like India, but still, will return in line with a developing (read growing) economy compared to other developed markets. But within equity, value would be created only through a bottom up approach of stock picking. Investing in the right companies in the right businesses, which are insulated from broad macro headwinds would be the way to go. Hence investing from the top of the surface like it happened in 2007 with most index stocks could not provide the right returns. Merger and Acquisitions will reach even a higher scale, considering the need for consolidation and scale. Therefore, lot of investment from HNIs are bound to be close ended in structured product filling the funnels of M & A related deals. Private Equity will still remain in vogue in 2008 and more and more wealth will follow the exotic PE route with complex payout structures. Small and medium businesses will be bought only as investment assets by large HNIs in 2008 keeping the trend intact. In addition, with the government relaxing the norms for Indians investing overseas, the trend of HNI's investment in foreign assets could see substantially ramp up as people go in search of returns, which are getting priced out in India.
2. Fixed Income, I feel will make a return to the portfolio in some shape this year, compared to 2007, where it was almost negligible from asset allocation point of view. The capital protection in a portfolio comes through the allocation to fixed income and we expect this prudence approach to come back to investment style in 2008. It may come in various forms of structuring compared to plain vanilla debt papers purchase or bank deposits. Last quarter or second half of 2007 already saw a lot of capital protection products which were nothing but a combination of a

large debt exposure and a small leveraged equity play. Further, with global interest rate environment softening, initiated by the fed rate cuts, fixed income could experience the bull-run which was seen in the early part of this decade. Interest rates in India have peaked compared to other developed economies and may start falling, albeit slowly, in 2008. This will only give healthy return from fixed income portfolio.

3. Hedge funds will still have limited allocations as the equity boom will still attract people to remain in mainstream in the equity side.
4. Exotics like art will become more normal in an asset allocation and may move towards losing the exotic title in 2008 and coming years.

Last but not the least, real estate, and we want to specify, commercial real estate will become a key investment option for large HNIs as the option of yield rather than only capital appreciation looks viable in that segment. Similarly, second rung cities with SEZs opportunity will attract sizeable allocation. Large real estate companies may turn direct borrowers from HNIs in attractive structuring with higher coupon plus conversion kind of products.

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