JPMorgan Indian Investment Trust

Conservatively-managed play on a growth market

Investment trusts

JPMorgan Indian Investment Trust (JII) seeks long-term capital appreciation through investments in India or in companies that earn a material part of their revenues in India. An Indian fund, such as JII, provides focused, managed exposure to a major developing market where prospective economic growth is expected to be three times the rate of advanced economies (see Indian market outlook, page three). There are challenges and risks in India but growth forecasts have already been tempered and, on the corporate front, there are signs that earnings estimates are bottoming out. Coupled with market valuation measures that look reasonable in a world context and compared with historical levels (page 5), there are grounds for seeing this as a favourable entry point on a three- to five-year view. JII's long-term performance record against its benchmark (MSCI India Index in sterling terms) is strong and more recently it has performed close to the index (page nine).

12 months ending	Total share price return* (%)	Total NAV return* (%)	MSCI India GR GBP (%)	MSCI Emerging Markets GR GBP (%)	MSCI World GR GBP (%)
31/05/10	20.8	34.2	37.5	36.2	16.9
31/05/11	2.7	0.6	(2.3)	14.0	19.2
31/05/12	(24.1)	(19.8)	(24.5)	(14.5)	(7.2)
31/05/13	22.8	23.2	24.6	16.2	30.5

Note: *Twelve-month rolling discrete performance.

Investment strategy: Sustainable growth

Managers Rukhshad Shroff and Rajendra Nair aim to invest in companies with the potential for sustainable growth; they look for characteristics that will help maintain a company's market position and for opportunities to invest for further growth. Portfolio companies' management are expected to display capital discipline and sensitivity to risks. Investments are selected with a long-term horizon that is well suited to the closed-end structure of the trust. In the managers' view, this approach results in a quality bias in the portfolio, which should be appealing to investors with a similar perspective.

Indian market outlook: Challenges and opportunity

In the long term the performance of the Indian market has been very strong, outperforming emerging markets and the UK market. More recently it has lagged advanced markets. The challenges the country faces relating to political logjams, corruption scandals and bureaucracy are familiar and factored into expectations but, arguably, the opportunities are not adequately reflected in equity valuations.

Valuation: Wider discount

The trust's discount has widened recently to 13.7%, compared with a range of 2-15% over the past three years. A turn in sentiment as earnings expectations and economic indicators become more favourable could see this movement reverse.

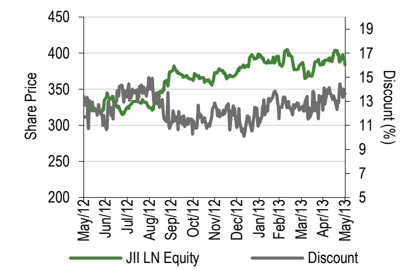
3 June 2013

Price	**384.0p**
Market cap	**£404m**
AUM	**£493m**
NAV*	444.93p
Discount to NAV	13.7%
Yield	Nil

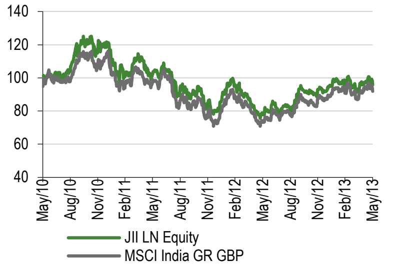
*Including income, assuming subscription shares exercised, as at 27 May 2013.

Ordinary shares in issue	105.3m
Code	JII
Primary exchange	LSE
AIC sector	Country specialists: Asia-Pacific

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	405.0p	311.5p
NAV* high/low	465.03p	356.7p

*Including income.

Gearing

Gross	3.0%
Net	0.0%

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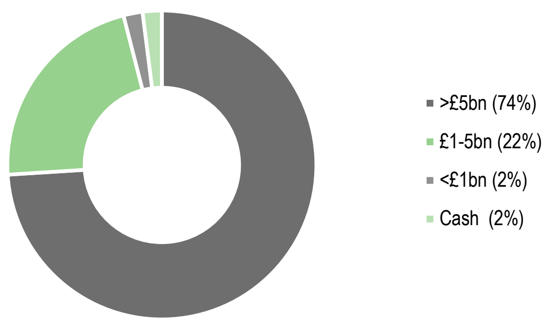
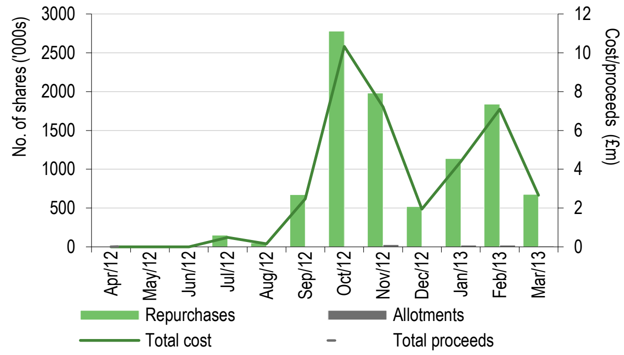
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
The trust seeks long-term capital appreciation through investments in India or in companies that earn a material part of their revenues in India. The company will not invest in other countries of the Indian sub-continent or Sri Lanka. The trust aims to outperform its benchmark, the MSCI India index expressed in sterling. The company does not pay dividends, reflecting its focus on capital appreciation and the low average yield available in the Indian equity market.	15 February 2013: IMS. In Q313, 5.3m shares were bought back. 21 December 2012: Full-year results announcement diluted NAV +5.1% vs benchmark index +3.7%.

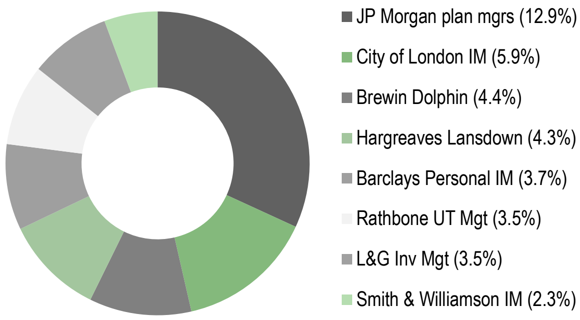
Forthcoming		Capital structure		Fund details	
AGM	January 2014	Total expense ratio	1.5%	Group	JPMorgan Asset Management
Preliminary results	December 2014	Net gearing	3%	Managers	Rukhshad Shroff, Rajendra Nair
Year end	30 September	Annual mgmt fee	1.2% of total net assets	Address	Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ, UK
Dividend paid	N/A	Performance fee	None		
Launch date	1994	Trust life	Indefinite	Phone	+44 (0)20 7742 4000
Continuation vote	Every five years	Loan facilities	$25m one year	Website	www.jpmindian.co.uk

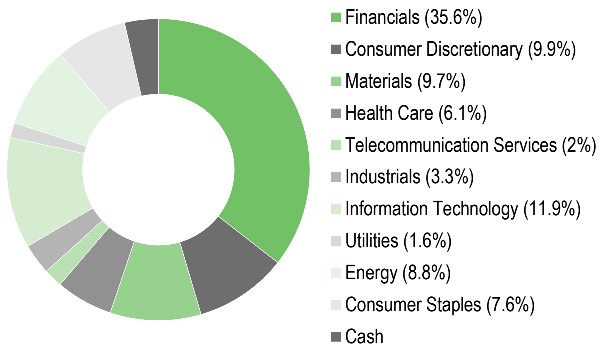
Distribution of holdings by market capital (February 2013)	Share buyback policy and history
Over 70% of portfolio assets were accounted for by companies with market caps of over £5bn.	JII is authorised both to repurchase up to 14.99% of its ordinary shares and to issue shares from treasury.





Shareholder base (as at 15 May 2013)	Sector exposures of portfolio (as at 30 April 2013)





Top ten holdings (as at 30 April 2013 and 31 October 2012)

			Portfolio weight %		Active weight %
Company	**Country**	**Sector**	**30 April 2013**	**31 October 2012**	**30 April 2013**
HDFC Bank	India	Financials	9.9	9.3	2.5
Housing Development Finance Corp.	India	Financials	7.6	6.8	(1.2)
ITC	India	Consumer staples	7.0	7.3	1.8
Infosys	India	Information technology	6.9	8.1	0.1
Reliance Industries	India	Energy	6.8	8.1	(0.4)
IDFC	India	Financials	4.2	4.7	3.1
Tata Motors	India	Consumer discretionary	3.8	3.5	2.1
Ambuja Cements	India	Materials	3.6	4.2	2.8
Tata Consultancy Services	India	Information technology	3.6	3.5	(1.0)
Kotak Mahindra Bank	India	Financials	3.4	N/A	2.0
Top ten			**56.8**	**59.4**	**11.6**

Source: JPMorgan Indian Investment Trust, Bloomberg, Edison Investment Research

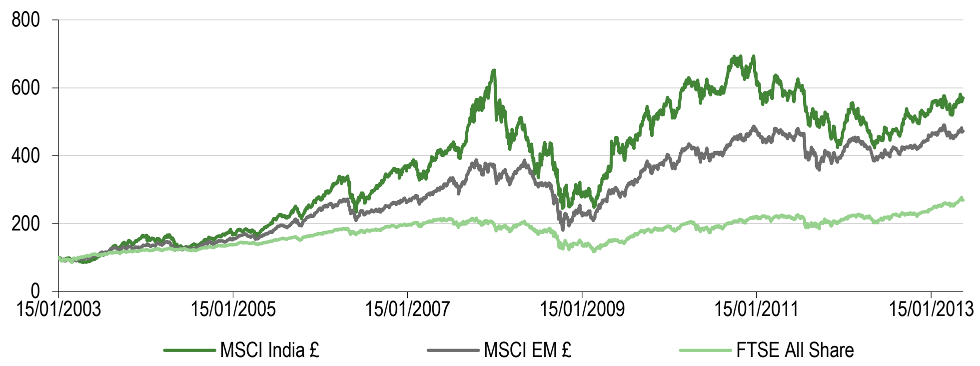
Indian market outlook: Will the potential be realised?

The attraction of a country-specific investment such as an Indian fund is that it allows investors to focus or balance the geographical mix of their portfolios according to their own requirements, potentially as an alternative to a broad emerging market fund, for example. Adding an Indian fund to a portfolio could have diversification benefits, and it would provide managed exposure to an economy expected to see much faster growth than advanced economies (and some other developing economies).

Before looking at the economic and political background it is worth reminding ourselves of how the Indian market has performed. Exhibit 2 shows the trust's benchmark, MSCI India (£) Index compared with the MSCI Emerging Market and FTSE All-Share indices[1]. Here we can see that the Indian market outperformed both emerging markets as a whole and the UK market over a ten year period. Over five- and three-year periods, India underperformed the other indices, with these periods bearing the impact of marked underperformance in 2008 (financial crisis) and 2011 (Eurozone concerns). Over one year (and year to date) the Indian market has outperformed the emerging market index; however, both Indian and emerging markets have underperformed the UK index and (not shown) the MSCI World Index as a migration into equities has been led by developed markets.

Therefore, in simple terms, the long-term Indian market performance has been very strong but it has been sensitive to global market corrections and, while up 6% year to date, it has lagged developed markets, in part reflecting disappointment with the pace of structural reforms. This prompts the question of whether there is now potential for stronger relative performance.

Exhibit 2: MSCI India, MSCI EM and FTSE All-Share performance compared



Source: MSCI, Thomson Datastream

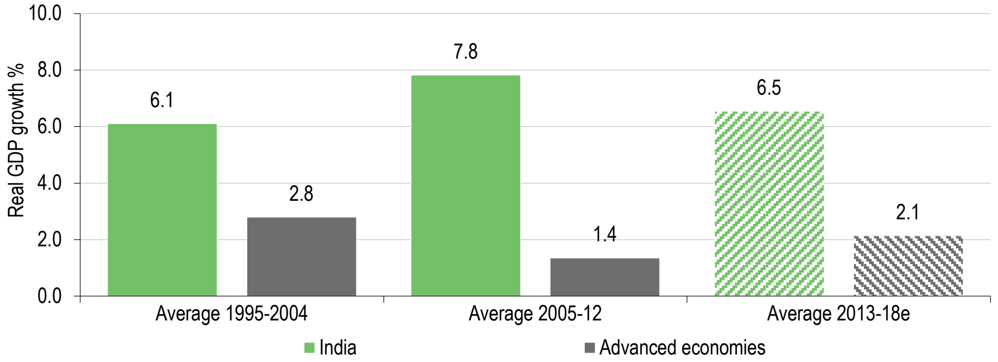
In thinking about this we should bear in mind the economic and political challenges facing India. Much commentary on India highlights the difficulties created by bureaucratic obstacles to business development, corruption and political logjams that inhibit measures to introduce structural reform. In a recent article the Economist focused on the possibility that India's demographic dividend (the youthful profile of its population, growing potential workforce and falling dependency ratio) could be squandered if reforms are not implemented[2]. While investors should weigh these considerations, we note that some moves towards liberalisation have been implemented (see fund manager comments page 6) and economic forecasts have already moderated, and are likely to discount many of the political/structural impediments to more rapid growth.

[1] All total return and in sterling.

[2] Economist, 11 May 2013, India's demographic challenge: Wasting time.

Looking more closely at potential economic growth, we have used the recently published IMF forecasts and historical data to demonstrate the more rapid economic growth recorded by and expected for India when compared with advanced economies (Exhibit 3). Although GDP growth of 4% last year was well below the level of 9-10% for 2005-7 and 11% for 2011, we note that forecast growth for India does not require a significant upward shift in growth rate compared with long-term averages and is below the 2005-12 average. Any positive surprises on the political front could warrant upgrades to forecasts.

Exhibit 3: Real GDP growth – India vs advanced economies



Source: IMF, Edison Investment Research

Exhibit 4 sets out some key metrics for India and selected emerging countries. In the context of the other countries, notable features are the higher level of inflation in India (a threat among other things to the value of the rupee) and the forecast population growth, which is only surpassed by Indonesia. The relatively low level of per capita income underlines the pressure on the government to facilitate growth to reduce the level of poverty further, and the potential for acceleration of consumer demand once this measure moves towards that of other emerging markets.

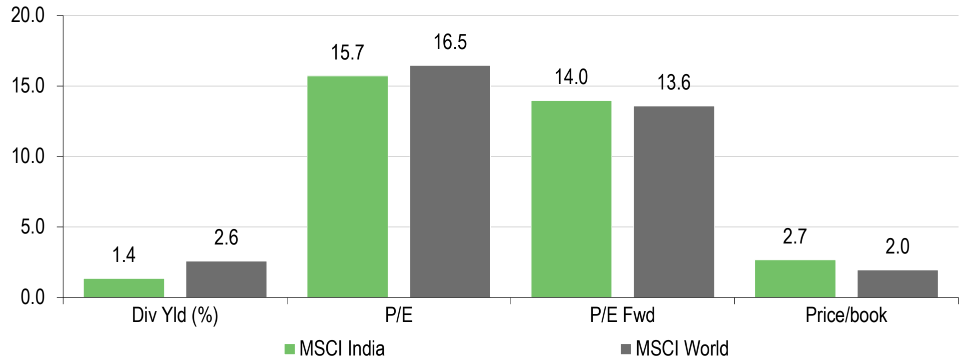
Exhibit 4: Comparing IMF April 2013 economic forecasts (% except where shown)

Country/area	Ave GDP growth 2013-18e	GDP per capita 2012 ($)	Inflation 2013e	Unemployment 2013e	Population 2012 (m)	Pop. growth 2011-2018e
India	**6.5**	**1,492**	**10.8**	**N/A**	**1,223**	**8.2**
Brazil	3.9	12,079	6.1	6.0	198	4.3
China	8.4	6,076	3.0	4.1	1,354	3.0
Indonesia	6.4	3,592	5.6	6.1	244	8.9
Russia	3.6	14,247	6.9	5.5	142	(2.1)
South Africa	3.2	7,507	5.8	25.7	51	7.4
World	4.0	10,331	3.8	N/A	6,941	7.2
Advanced economies	2.1	40,390	1.7	8.2		
Emerging market and developing economies	5.8	7,020	5.9	5.6		

Source: IMF, Edison Investment Research. Note: at the end of May the IMF reduced its 2013 GDP estimate for China from 8% to around 7.75%

Although economic growth prospects appear to amount to a qualified positive signal for potential investors in India, experience suggests the linkage between economic trends and stock market performance is not direct. Nevertheless, as our earlier stock-market performance comparison showed, the Indian market has outperformed the UK and emerging markets as a group over the long-term (10 years) by a comfortable margin lending some support to the idea that faster GDP growth should eventually feed through to related equity values. The next step is to examine valuation measures for the market to gain a sense of whether it is relatively fully or modestly valued.

Exhibit 5: Indian and developed market valuation comparison



Source: MSCI as at end-April 2013

The chart above (Exhibit 5) shows that, despite the prospective economic growth premium, the MSCI India Index trades on a prospective P/E that is only marginally above that of the World index; the yield and price/book comparisons are less favourable but the current values are not expensive in the historical range for India. Compared with the other developing markets shown in Exhibit 6[3], India is at or towards the expensive end of the range in terms of P/E and price to book but, again, not exceptionally so in the context of history or taking into account growth potential and governance issues. Supporting a valuation premium is the Indian market's return on equity of 15.2%, which compares well with the world average of 10.6% (or 18.8% vs 12.2% on ten-year averages).

Exhibit 6: Comparing historical equity valuation measures (over five years)

Price to earnings	Last	High	Low	Ten-year avg	Last % of average
India	14.7	28.7	10.3	17.7	83%
Brazil	16.2	18.4	7.3	12.2	133%
China	7.8	32.6	6.4	13.5	58%
Russia	5.6	16.4	3.4	9.8	57%
South Africa	16.2	19.1	7.9	14.2	114%
BRICS	10.1	23.0	6.5	12.9	78%
World	15.7	20.3	8.6	15.8	100%
Price to book					
India	2.4	4.5	1.3	2.5	97%
Brazil	N/A	N/A	N/A	N/A	N/A
China	1.4	4.7	1.0	2.0	69%
Russia	0.8	2.4	0.5	1.3	61%
South Africa	2.6	3.2	1.5	2.3	114%
BRICS	1.4	3.3	0.9	1.8	76%
World	1.9	2.5	1.1	1.9	98%
Return on equity (%)					
India	15.2	22.4	14.9	18.8	81%
Brazil	10.0	26.8	10.0	19.3	52%
China	15.4	20.4	12.9	16.6	93%
Russia	14.4	22.0	8.6	16.6	86%
South Africa	15.3	25.6	12.4	19.0	81%
BRICS	14.1	21.8	12.4	17.6	80%
World	10.6	16.7	4.6	12.2	87%

Source: Thomson Datastream as at 28 May 2013. Note P/Es 12 months trailing.

Our conclusion is that, while the extent of political reform and prospective level of economic growth remain uncertain, Indian market expectations have been tempered. Current valuations are at a level that could provide a reasonable entry point for investors with significant upside opportunity, were the macro backdrop to prove more favourable than current consensus expects.

[3] Exhibit 6 uses measures for Datastream indices so the last values shown do not match the MSCI figures in the previous chart. Note that using Datastream one-year forward figures the Indian market would trade on a 12.3x P/E a 6% discount to the World market prospective P/E.

Fund profile: Long-term play on Indian market

Launched in May 1994, JPMorgan Indian Investment Trust is an investment trust quoted on the London Stock Exchange (LSE) and is currently the largest (market capital over £400m) of just three UK-quoted, general equity, Indian investment trusts. The country-specific fund focuses purely on Indian exposure and will not invest in other countries on the Indian subcontinent or in Sri Lanka. The trust may invest in companies that earn a significant part of their revenues in India. The fund's benchmark is the MSCI India Index expressed in sterling and currency exposure is not hedged.

The fund managers: R. Shroff and R. Nair

The managers' view: Positive for the medium term

Managers Rukhshad Shroff and Rajendra Nair aim to invest in companies with sustainable advantages and opportunities for growth. The managers' view is that, after a slowdown, Indian GDP and corporate earnings growth seems to have stabilised. Positively, there are signs that, with elections due by May 2014 at the latest, the government have woken up to the need to address the political deadlock and to attempt to introduce reforms to address the challenges mentioned in the Indian market outlook section.

While the managers see the increased reform activity as encouraging they acknowledge that, as the election date approaches, progress is likely to pause. Subsequently, reforms are likely to resume and the managers take a more positive view than some analysts who see the political process as being irretrievably sclerotic. They also highlight that negative political headlines such as those that characterised 2012 do not necessarily hold market performance back (MSCI India +30% in rupee terms).

Exhibit 7: Recent Indian government initiatives

	Announced
Substantial hike in diesel prices, initial steps to deregulation	January 2013
Foreign Direct Investment (FDI) allowed in organised retail, aviation	September 2012
Restructuring loans to State Electricity Boards	September 2013
Hiking FDI limit in Insurance from 26% to 49% (requires parliamentary approval)	September 2012
Potentially deferring controversial tax proposals	February 2013
Disinvestment of stakes in a raft of state owned enterprises	Various
Cabinet Committee on Investment set up	December 2012
New policy on urea and gas pricing being formulated	January 2013
Passenger rail fares being hiked – first time in ten years	January 2013
Direct cash transfer of subsidies being rolled out	February 2013

Source: JPMorgan Indian Investment Trust, Edison Research

A further positive for the managers is the apparent bottoming out of earnings expectations in the Indian market. Between December 2010 and February this year, market earnings estimates for 2013 fell by nearly 21% but now appear to have stabilised, holding out the hope that expectations are more realistic and have a more balanced upside and downside risk profile.

As far as the exchange rate is concerned, the trade weighted index for the rupee has strengthened somewhat from the end-December level, but it is still down more than 8% on a two-year view and is one standard deviation below the nine-year average. While the managers do not take a formal view on the exchange rate, they can see the potential for the rupee to strengthen. If borne out by future movements, this would be helpful for the trust's NAV and for the economy as a whole, given the prevailing current account deficit.

While the managers do not expect GDP growth to accelerate rapidly and warn that the risk of earlier-than-expected national elections could be an overhang for the market, their view is becoming distinctly more positive based on easing interest rates, the bottoming out of growth expectations and valuations below long-term averages. They also report that, on a bottom-up basis, they are finding good opportunities for investment.

Asset allocation

Investment process: Select for profitable sustainable growth

In implementing the consistent investment process, the two managers have the benefit of substantial experience and work with the other members of the India team in Hong Kong[4] and Mumbai (see Exhibit 8 below). They also have access to the broader JPMorgan Asset Management business to provide multi-asset insights and profile with corporates. Total India-dedicated equity funds' AUM is about $5bn, most of which is managed from Hong Kong.

Exhibit 8: JP Morgan Asset Management Indian equities team: Hong Kong and Mumbai

	Function/title	India-related experience	Based
Rukhshad Shroff	Fund manager, managing director	20 years	Hong Kong
Rajendra Nair	Fund manager, executive director	12 years	Hong Kong
Johnny Wong	Dealer	14 years	Hong Kong
Chi Sam Mann	Dealer	5 years	Hong Kong
Harshad Patwardhan	Fund manager, executive director	18 years	Mumbai
Amit Gadgil	Fund manager, vice president	6 years	Mumbai

Source: JPMorgan Asset Management. Note: Rukhshad Shroff became joint manager of JII in 2003 and Rajendra Nair in 2006.

The managers aim to identify companies with the potential for profitable sustainable growth. The process for doing this takes into account whether companies have sustainable advantages, famously characterised by Warren Buffett as "defensive moats". For the growth part of the objective, the managers also look for businesses with the opportunity to reinvest cash flow profitably in order to benefit from a compounding effect.

Target company management should have a focus on profitability and exercise capital discipline so that returns on equity are not needlessly diluted. A clear understanding of risk by management is also important. This is particularly salient in the financial sector, where the managers have avoided some former state-owned companies on the basis that the culture is not sufficiently risk-sensitive.

The valuation framework takes account of more than just 12-month forward P/Es or price to book ratios. Growth, profitability and sustainability are factored in and a long-term time horizon is employed.

As an example of the process in action, the largest portfolio holding, HDFC Bank has been in the portfolio for over 10 years, with the rationale for maintaining the position including long-term growth in banking as the Indian market has very low penetration, market share gains versus state banks and strong management. While it has normally commanded relatively full valuation metrics, the earnings growth and share price performance have been very strong and the managers see the investment case as remaining intact.

Turning to portfolio construction, the managers aim to understand the sources of expected return and size positions according to the level of conviction in an idea. Fundamental developments are tracked for evidence of departure from expectations that might call the original investment case into question. Risks are monitored closely with attention paid to intended and unintended exposures.

Sell decisions are based on three key triggers: if the managers make and recognise an investment mistake, if the investment achieves its objective or if a more compelling opportunity is identified.

[4] In common with other managers that manage offshore Indian assets, JPMorgan Asset Management managers must be located outside India to ensure tax efficiency for fund/trust investors.

The managers believe outcomes from their investment process include a quality bias in their selections, a long-term mindset[5] and conviction borne of a comprehensive valuation framework and team discussions.

Specific risk mitigation limitations on investment set by the trust include the following.

- At time of purchase, exposure to a company cannot be more than 14.99% of total assets.
- No more than 10% of assets will be invested in unquoted investments.
- Gearing may be employed for tactical purposes, up to a maximum of 15% of shareholders' funds.
- As noted earlier, the company will not normally invest in other countries of the Indian sub-continent or in Sri Lanka.
- No more than 15% of gross assets may be invested in other UK-listed investment companies, and the company does not invest more than 10% of its assets in companies that may invest more than 15% of gross assets in investment companies.

Overview

The fund has around 50 holdings, of which half are outside the MSCI benchmark Index, accounting for about 25% of the asset value. The benchmark index has 72 constituents, compared with more than 5,200 and 1,600 listed on the BSE and NSE exchanges respectively. As at the end of April 2013, the top portfolio 10 holdings accounted for 56.8% of net assets (index 53%). Equities were 96.4% of assets, cash 3.6% and there was no fixed income allocation.

As illustrated in Exhibit 9, sector-active weights were recently within +/- 5% of the benchmark index, with the largest overweight being financials. These account for over 30% of both the index and the portfolio, giving broad exposure to development in the Indian economy.

Exhibit 9: Sector allocations as at 30 April 2013

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Financials	35.6	31.8	3.8	1.1
Consumer discretionary	9.9	6.4	3.4	1.5
Materials	9.7	6.5	3.2	1.5
Healthcare	6.1	6.3	-0.2	1.0
Telecommunication services	2.0	2.3	-0.3	0.9
Industrials	3.3	4.8	-1.5	0.7
Information technology	11.9	14.3	-2.4	0.8
Utilities	1.6	4.3	-2.6	0.4
Energy	8.8	11.8	-3.0	0.7
Consumer staples	7.6	11.6	-4.0	0.7
Cash	3.6	0.0	3.6	N/A
Total	**100.0**	**100.0**	**0.0**	

Source: JPMorgan Indian Investment Trust, Edison Investment Research. Note benchmark is MSCI India £ Index

Current portfolio positioning

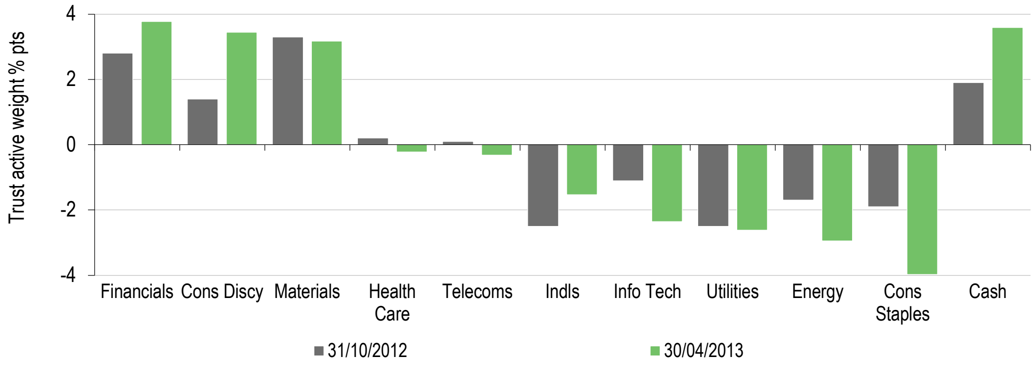
The direct geographical exposure of the trust is straightforward as a single country fund. Indirect exposures in, for example, the Information Technology sector, would qualify this focus but essentially the trust is geared to Indian developments.

The way in which the sector positioning has developed recently is illustrated in Exhibit 10 below, which shows how the active weights have changed between October 2012 and April 2013. The overweights in financials and consumer discretionary sectors have increased, modestly increasing the portfolio's sensitivity to a cyclical improvement. The consumer staples, information technology and energy underweights have been raised. This has helped fund some additions at the margin to domestically-focused cyclical names and rate-sensitive stocks such as infrastructure lender IDFC

[5] Average portfolio turnover of 25% over the last two years is evidence of this mindset.

and building materials stocks. Having said this, the managers make clear that their main focus is stock selection and that they would not normally budget for specific sector exposures.

Exhibit 10: JII active weights, October 2012 and April 2013

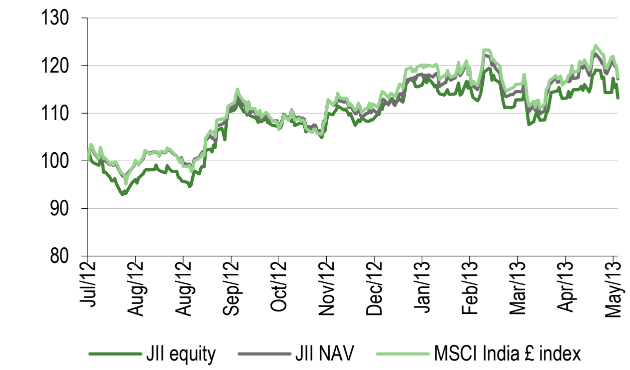


Source: JPMorgan Indian Investment Trust

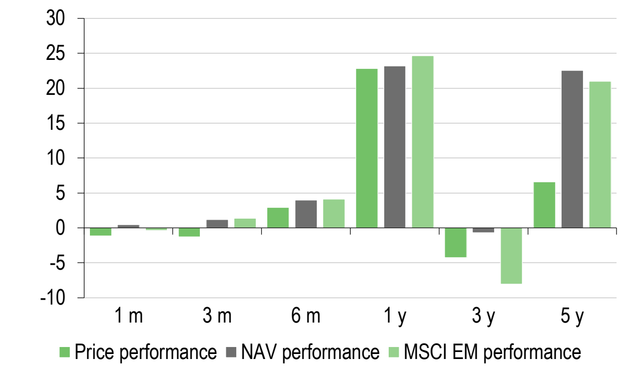
Performance: Ten-year outperformance

Exhibit 11: Investment trust performance

Price, NAV and benchmark total return perf, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research

The trust's NAV total return performance has been quite close to the benchmark over one, three and five years, with a clear margin of outperformance over 10 years (67 percentage points ahead of the benchmark). The NAV relative performance for the trust, compared with emerging market and UK indices, has shown some weakness over three- and five-year periods but significant outperformance for the 10-year period.

Looking at risk-adjusted returns, the Sharpe ratios for one, three and five years, of 0.2, 0.2 and 0.1 are low, but are not substantially different from the peer averages and have shown improvement more recently.

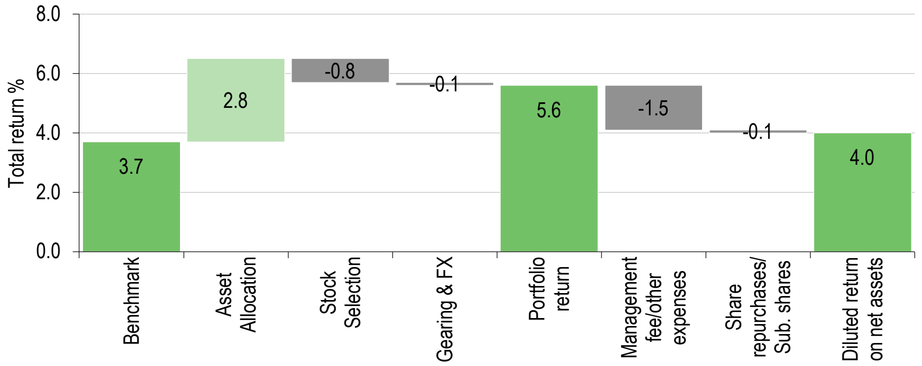
Exhibit 12: Share price and NAV total return performance, relative to benchmarks

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI India £	(0.8)	(2.7)	(1.2)	(1.8)	3.8	(14.4)	88.7
NAV relative to MSCI India £	0.8	(0.2)	(0.2)	(1.4)	7.4	1.6	67.4
Price relative to MSCI EM £	(1.2)	2.0	(4.3)	6.6	(17.6)	(18.0)	236.0
NAV relative to MSCI EM £	0.4	4.5	(3.3)	6.9	(14.0)	(2.0)	214.8
Price relative to FTSE All-Share Index	(4.1)	(6.2)	(12.4)	(7.3)	(48.3)	(28.6)	439.2
NAV relative to FTSE All-Share Index	(2.4)	(3.8)	(11.4)	(6.9)	(44.7)	(12.7)	417.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2013 and indices £ adjusted.

The attribution analysis for the trust's last financial year to end-September 2012 demonstrates a positive contribution from the fund managers as a result of asset allocation, offset partly by a small negative effect from stock selection. After expenses, the trust produced a diluted return modestly ahead of its benchmark index.

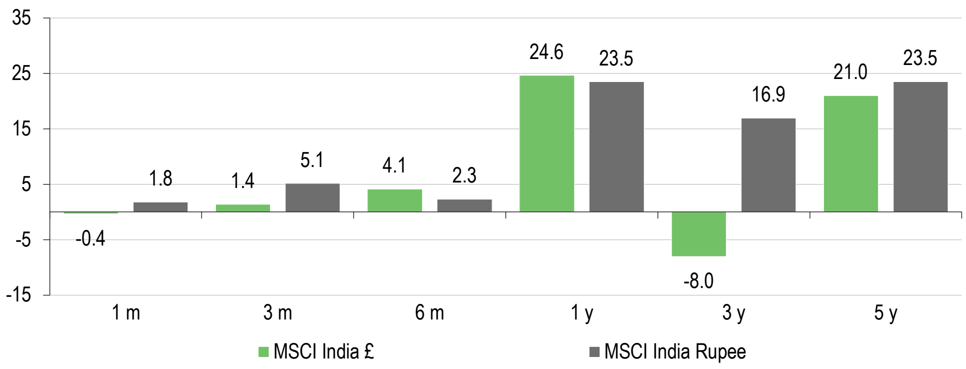
Exhibit 13: Attribution of JII NAV performance in the 12 months to 30 September 2012



Source: JP Morgan Indian Investment Trust

The impact of rupee/sterling translation moves is not hedged and therefore included in the NAV performance. The impact of currency moves is captured in Exhibit 14 below, which compares the performance of the sterling and rupee versions of the MSCI India Index. While the three-year performance differential is significantly adverse (reflecting rupee weakness of approximately 18% over this period), for other periods the differential is much more modest, a point that may provide reassurance to investors with a longer-term horizon.

Exhibit 14: Comparing MSCI India sterling and rupee denominated indices



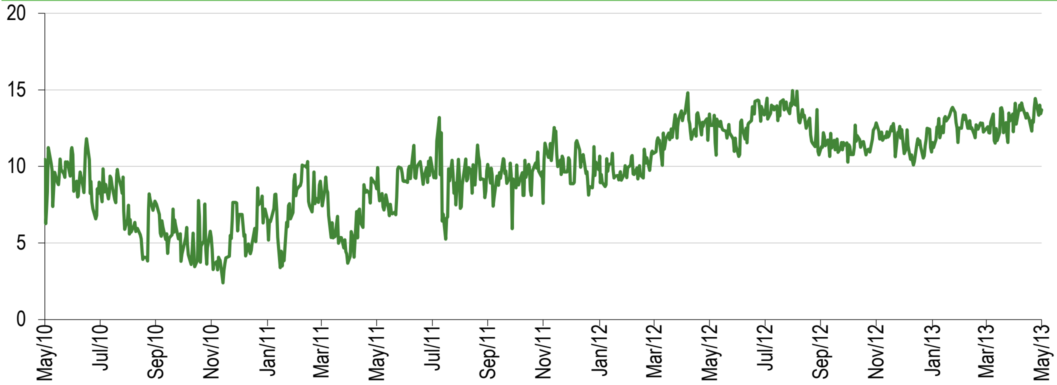
Source: Thomson Datastream (to end May 2013)

Discount: Has widened somewhat recently

The board operates a share repurchase programme that aims to moderate volatility in, and the absolute level of, the share price discount to NAV. An explicit discount target level has not been stated. In the last financial year 3.3m shares were repurchased into treasury (2.9% of opening balance). In the first half of the current year (six months to end-March) the company has repurchased 6.2m shares and at the beginning of May held 14.7m shares in treasury.

Over the past year the discount has fluctuated in a band between 10% and 15% (Exhibit 15) and has recently widened somewhat to 13.7%. This may reflect a combination of factors: the Indian market has lagged advanced markets as confidence in US economic recovery has become more established. Also, the Indian Union budget (end-February) was seen as disappointing, prompting subsequent market weakness. Having said this, the apparent bottoming out of earnings expectations and some better-than-expected economic indicators recently point to the potential for more favourable sentiment and a narrowing of the discount.

Exhibit 15: Discount over three years



Source: Morningstar, Edison Investment Research. Note: Positive values indicate a discount; negative values indicate a premium.

Capital structure and fees

JII has 120m ordinary shares and nearly 6m subscription shares in issue. The subscription shares were issued as a bonus issue on a one-for-five basis to ordinary shareholders in November 2008. Each subscription share confers the right, but not an obligation, to subscribe for one ordinary share on any business day until 2 January 2014 at a price of 291p. The company publishes undiluted and diluted NAVs, and in mid-May, the dilutive effect of assuming exercise of the subscription rights was 2%. The company may buy back up to 14.99% of the issued share capital and issue new shares representing approximately 10% of the existing capital.

The trust has an unlimited life subject to a continuation vote due at its AGM in January 2014 and every fifth year thereafter.

The trust may employ gearing for tactical purposes up to a maximum of 15% of shareholders' funds; the company has a one-year floating rate loan facility of $25m with the Royal Bank of Scotland. Current gearing stands at about 3% and while it has been at a low level in recent years, the managers would be prepared to raise gearing significantly were they to become sufficiently confident about the investment outlook for the Indian market taking into account the economic, political and valuation positions.

The management fee paid by the trust is 1.2% per year of the group's assets less current liabilities, and the contract can be terminated without penalty given one year's notice. There is no performance fee and the continuing charge is 1.5%.

Dividend policy

The company does not pay a dividend, reflecting the low prevailing yield in the Indian market (about 1.4% for the MSCI India index) and the trust's emphasis on capital appreciation. The managers believe this matches the growth-centred expectations of most overseas investors in India.

Peer group comparison

As Exhibit 16 illustrates, there is only a small peer group of sterling-denominated, closed-ended funds devoted to general Indian equities. Among the four funds shown, JII ranks second for total

NAV return over three and five years. We also include selected mutual funds where sterling classes are available; the average performance for these funds is similar to the investment trust average over one and three years but higher for five years (37% versus 28%). Reflecting the relatively high volatility of the market and currency, the Sharpe ratios for all the trusts are relatively low over the periods shown but have improved in the shorter term. Otherwise we note that gearing is absent or modest for all the trusts while the average TER is below that for the open-ended funds. JII is differentiated from the other investment trusts by the absence of a performance fee.

Exhibit 16: Funds investing in general Indian equities: Total returns, Sharpe ratios and discounts

% unless stated	Mkt cap/fund size £m	TR 1 yr	TR 3 yr	TR 5 yr	Sharpe 1 yr	Sharpe 3 yr	Sharpe 5 yr	Discount (Ex Par)	3Y Avg Dscnt (Ex Par)	TER	Perf Fee	Net gearing
Investment trusts												
JPMorgan Indian	**413**	**26.7**	**2.3**	**27.1**	**0.2**	**0.2**	**0.1**	**-13.6**	**-9.8**	**1.5**	**No**	**100**
DPF India Opportunities	60	34.6	-3.6	-20.9	0.4	0.1	-0.3	-8.6	-14.0	3.0	Yes	103
India Capital Growth	29	24.0	-23.1	-39.1	0.4	-0.1	-0.3	-25.3	-18.4	2.7	Yes	97
New India	141	27.6	14.3	67.5	0.4	0.4	0.4	-13.7	-9.3	1.5	Yes	99
Average (wtd)		27.5	3.2	28.4	0.3	0.2	0.1	-13.7	-10.4	1.7		100
Mutual funds												
Aberdeen Global - Indian Equity	3,224	28.6	15.1	70.6						2.1		
BlackRock Global Funds - India	353	28.0	-11.2	19.2						2.0		
Fidelity Funds - India Focus	1,321	23.2	-1.6	15.3						2.0		
Franklin India	748	22.7	-0.6	46.7						1.9		
HSBC Global Indian Equity	2,125	27.0								2.0		
Jupiter Global Fund India Select	235	20.1	-4.8	40.1						1.9		
Average (wtd)		26.4	5.1	37.4						2.0		

Source: Morningstar 29.5.13. Note: TR=total returns of NAV for investment trusts, TER=total expense ratio. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 36-month period by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as percentage of shareholders' funds.

The board

The board (five members, all non-executive and independent of the manager) are Hugh Bolland (chairman), Richard Burns, Nimi Patel, Hugh Sandeman and Peter Sullivan. The average length of service for the directors is 4.9 years.

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