The Interview – Ian McEvatt, Iceman Capital Advisors: “India will experience a ‘North Sea oil’ effect over the next five to 10 years”

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Ian McEvatt, majority owner of Iceman Capital Advisors, says the London- and Amsterdam-listed Himalayan Fund it manages is narrowly focused on generating returns from opportunities in Indian stocks. Because of this, he says, Iceman concentrates on providing excellent communication and client servicing and a level of transparency and access that cannot be provided within any kind of institutional structure.

GFM: What is the background to your company and fund?

IME: Iceman Capital Advisors was founded and authorised in Jersey in 2006 to acquire the investment advisory contract for Himalayan Fund from Crédit Agricole Asset Management (now Amundi). The firm is majority-owned by Ian McEvatt, previously chief executive of Credit Agricole Asset Management Asia, CAAM’s London branch and CAAM UK.

Other shareholders active in the business are Eric Jostrom, who is also co-owner of Massachusetts-based Ipswich Investment Management, and John Owen, who is also chairman of the Fidelity China Special Situations Fund. Iceman is a foreign institutional investor registered with the Securities and Exchange Board of India. The firm has a research and market intelligence service contract with Indasia Fund Advisers of Mumbai, whose principal, Pradip Shah, is a founding director of Himalayan Fund.

Himalayan Fund is one of the oldest investment vehicles through which foreign investors can access Indian equity markets. A long-only, concentrated large and mid-cap Indian equity fund, it was launched in April 1990 with a follow-on offering in April 1994 and is listed on the London Stock Exchange and Euronext Amsterdam.

The fund’s shares trade weekly on the NYSE Euronext Fund Services platform and assets under management currently total USD20m. The fund has enjoyed tax-free status under the Dutch/Indian double taxation agreement since 1990, and it enjoys distributor status in the UK.

GFM: Who are your key service providers?

IME: Himalayan Fund’s auditor is Deloitte Auditors in the Netherlands, its administrator is FastNet Netherlands in Amsterdam, and the custodian is Citibank in Mumbai. The fund’s legal counsel is

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DeBraauw Westbroek in Amsterdam.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

IME: Our marketing advisors are Ivey Cox Consultants in Jersey. Our target market consists of family offices, private wealth managers, private banks and funds of funds.

•GFM: What is your investment process?

•**IME:** The key to the investment process is communication between Iceman and Indasia. A formal weekly conference call takes place to exchange views on strategy and tactics. The long history of the fund has generated a network of connections that provide valuable intelligence. Broker research is used for broad universe coverage.

•Indasia provides custom research and analysis on target names and topics. Macro economic analysis provides a framework for overall strategy; a quarterly review of investment themes is the basis of a formal report to the fund's investment committee.

All sources are used for information to support stock analysis. Each selection will have a briefing report to provide basic information for the investment committee. There is a twice-yearly company visit programme and regular management contacts through the Indasia team.

GFM: How do you generate ideas for your funds?

IME: The management team has a long stable history of involvement with the fund and with India. This has created a widespread network of connections and communication within the Indian business community. In addition, specialist background experience in emerging markets, finance and the oil and gas industry, for instance, has created valuable instincts for strategic direction and sources of value in individual stocks.

Our network of connections generates information for strategy formulation and stock ideas, while the results of custom research undertaken by our Mumbai partner are considered in weekly conference calls. Investment recommendations are developed from these conversations.

GFM: What is your approach to managing risk?

IME: We maintain a core of 70 to 80 per cent of the portfolio in a blend of frontline large-cap stocks chosen for yield and growth prospects. The remaining 20 to 30 per cent is committed to opportunistic themes, such as transformation plays or stocks with value-added potential due to distinct business prospects.

We screen stocks for governance standards and liquidity before making a decision to buy. We do not use derivatives or stock lending, and do not hedge currency exposure in India. The base currency of the fund is US dollars.

The board of the fund reviews risk exposure independentlyaccording to the requirements of Dutch regulation. The investment advisor provides a periodic risk analysis including common risk parameters such as standard deviation and Sharpe ratio.

GFM: How has your recent performance compared with your expectations and track record?

IME: Since Iceman's appointment, the fund has overall outperformed its benchmark, the S&P CNX Nifty index in US dollar terms. The periodic risk analysis shows that the style and approach does tend to add value for the degree of risk taken.

We see no need to change our style or approach in the foreseeable future. Recent performance has been a little under par due to a heavy commitment to upstream oil and gas, but emerging

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information on new discoveries and reserve upgrades will justify our position.

The prospects for stock returns and a major contribution to macroeconomic development from the oil and gas sector have been under-recognised, particularly by foreign investors. We believe that India will experience a 'North Sea oil' effect over the next five to 10 years.

GFM: What opportunities are you looking at right now?

IME: India's prospective GDP growth is supported by a prudent monetary and fiscal policy framework. The track record of the Reserve Bank of India as a manger of monetary aggregates is excellent and the recent government budget has been described as a model of fiscal probity by the Financial Times.

Against this background, supported by a major commitment to infrastructure development and rural poverty elimination programmes, the prospects for sustained earnings growth in the corporate sector are excellent. Administrative reforms are improving the efficiency of execution in major projects in power generation and road-building in particular.

These will generate a need for expansion of productive capacity and hence a surge in private sector investment demand. In turn, order books in capital goods, engineering and construction are booming. Further stimulus in these sectors is coming from the long-overlooked oil and gas sector, where there is a waiting list of discoveries pending evaluation and development.

Heavy weightings in these sectors where earnings visibility is already strong will provide excellent returns over a sustained period. In addition, government schemes to spread the benefits of growth widely through the population are now seeing success on a large scale, extending the power of consumer demand into the rural population. This is generating new market prospects for consumer goods, starting with staples but rapidly extending beyond as mobile phones, for instance, become staples in their turn.

Thus we have three major themes in our portfolio: core infrastructure development, oil and gas development, with capital goods investment related to both, and rapid expansion of consumer demand.

GFM: What events do you expect to see in your sector in the coming year?

IME: We expect large-scale disinvestment by the Indian government, supplying new stock to the markets, competition for liquidity from private sector companies looking to finance capital expenditure, and new discoveries of natural gas offshore in the Bay of Bengal, moving India away from excessive dependence on imported hydrocarbons with macroeconomic benefits for the trade and fiscal balances.

GFM: How will these developments affect your own portfolio?

IME: We have positioned our portfolio to benefit from the development themes we have identified over a two- to three-year timeframe. We believe that this will help us to generate superior returns over the medium term.

GFM: How do you assess investors' current expectations?

IME: Investors are becoming quite well aware of the potential rewards from investing in India but are not very decisive about taking the risk. Apart from the return potential, structural considerations, such as the benefits of the common law legal system, a long history of effective financial regulation and a capital markets mentality derived from more than a century of history of trading stocks, are poorly understood.

Furthermore, India is also commonly lumped together with other less promising markets in an 'emerging markets' portfolio. India has little in common, either politically or economically, with other emerging markets, apart from a long road to travel. As an economy that is predominantly driven by

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domestic demand, India is not dependant on any other country for its economic well-being, although it is exposed to the consequences of the ebb and flow of global liquidity as risk appetites fluctuate.

Against this kind of background, investors’ expectations on India are not well formed by and large, and where they are, they are often tied to valuation concepts that are limited by the standards that apply in developed markets. India is a distinctive field of opportunity that deserves to be given due consideration in its own right.

GFM: What differentiates you from other managers in your sector?

IME: We are narrowly focused on generating returns from opportunities we find in Indian stocks. Because of this, we concentrate on providing excellent communication and client servicing and a level of transparency and access that cannot be provided by any kind of an institutional structure.

GFM: How do you view the environment for fundraising over the coming 12 months?

IME: It will be very difficult. Big fund distribution silos are virtually closed to small, independent providers, so our efforts have to be carefully targeted and we have to spend a lot of time on relationship development.

In many situations we are offering India as an opportunity in a market where potential investors do not even have confidence in their own home markets. India is a stand-out opportunity for taking risk in an environment framed by almost zero percent interest rates, yet enticing new investors seems always to be “two months away”.

GFM: Do you have any firm plans for further product launches?

IME: We have an excellent idea for generating superior returns from investing in India and have a structure in place that can be rolled out quickly. The valuation basis and timing for deal flow is excellent now, so we are in active discussions with potential promoters and investors and hope to launch the product soon.

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