

Emerging-markets focus pays off

Bhim Asdhir has built a family of mutual funds that focus on India and a host of other emerging and frontier markets

BY JADE HEMEON

IN 1996, WHILE WORKING AS an actuary setting up small insurance companies for clients in and around Toronto, Bhim Asdhir paid a visit to his native India. By the time he returned to Canada, the seeds were sown in his mind for a company that would blossom into Excel Funds Management Inc. of Mississauga, Ont., a mutual fund firm specializing exclusively in emerging markets.

"I'd heard a lot of buzz about activity picking up in India, and I was aware that the [gross domestic product] numbers were picking up," says Asdhir, president and CEO of Excel. "My goal was to observe and keep an open mind. I went to look at the house where I was born, which used to be surrounded by jungle, and saw that the area was developed. When I put what I could see happening on the ground together with the growth statistics and the enormous population of India, I saw huge potential."

Asdhir, who speaks fluent Hindi, had some business contacts in India. He arranged to be introduced to the owners and executives of Indian money-management

firms, some of whom were interested in advising international clients. Although Asdhir had nursed a passion for the stock market since his days studying actuarial science at the University of Waterloo, his growing knowledge of India had ignited his excitement about the potential for Indian stocks.

"I had the idea of launching an Indian mutual fund, and I wanted to do it in Canada before anyone else ran with it," recalls Asdhir. "I made a commitment to myself that I would never go back to being an actuary. That was critical, because with all of the challenges I faced in the early stages, it would have been easy to give up."

Asdhir's persistence has paid off: Excel has grown to hold almost \$1 billion in assets under management, and has a family of 11 funds specializing in emerging-markets stocks as well as fixed-income. Excel India Fund, with about \$400 million in AUM, is the original fund, and the largest, but Excel's lineup also includes funds specializing in China, the BRIC nations (Brazil, Russia, India, China), Eastern Europe and Latin America, as well as a more diversified emerging-markets fund that covers all emerging markets, including frontier markets such as Vietnam, South Korea, Taiwan and Egypt.

"In my heart," Asdhir says, "I felt that building an emerging-markets mutual fund company would be my contribution to the world [and] that it would be a profitable enterprise."

Despite running into skepticism when he first set out to launch the company, Asdhir managed to rustle up 22 investors and lenders who put up capital. He also sunk all his

own money into the venture, which was launched with \$150,000 in seed capital for Excel India Fund. Asdhir, who owns 88% of Excel, waited patiently for five years for the company to turn a profit.

"At first, I was working out of my unfinished basement at night while I did consulting work to make an income during the day," he says. "It was so cold that I would put on my hat and gloves, but I was completely engrossed in [the work]."

The challenges were many. Some investors had recently been burned by the "Asian flu," and were leery of emerging markets. Within a month of the launch of Excel India Fund in 1998, India conducted nuclear weapons tests and trade sanctions were imposed by Canada on the Indian market.

However, the following year, India caught the information-technology wave, and Excel India Fund's performance put it at the top of the Canadian mutual fund heap. That caught the attention of financial advisors, and money started to flow in. However, a few years later, the boom turned to bust, and Excel India Fund endured another tough period. Excel briefly introduced a couple of funds focusing on Canada and the G3 (U.S., Europe and Japan), but Asdhir later closed them down after renewing his commitment to an emerging-markets focus.

Overall, performance has been rewarding. As of Aug. 31, the flagship Excel India Fund had an average annual return of 11.4% since its 1998 inception, beating the 8.4% return of its benchmark, the Bombay Sensex index.

"It takes a lot of nerve and entrepreneurial savvy," says Rudy Luukko,

investment funds and personal finance editor with **Morningstar Canada**, "to build a fund company from scratch at a time when there is a lot of consolidation in the industry. And Excel has built an extensive lineup of emerging-markets funds, both in equities and, more recently, in fixed-income. Bhim Asdhir has been riding the trend as emerging markets have increased their share of world market capitalization, and sometimes it's been a rough ride, with significant ups and downs."

It's been Asdhir's priority to find top-ranked portfolio managers for every fund. Much like Excel India Fund's manager, Birla SunLife AMC of India, Excel's fund managers have a presence in the country in which the investments are being made. The key is to invest in growing, globally competitive companies, and often the best opportunities are found before the firm is included in the market index, says Asdhir: "You can't just invest in the index. We want managers who speak the local language, and understand the corporate strategies."

In developing relationships with advisors, Asdhir has focused on "knowledge rather than schmoozing." A big part of his advisor education strategy is bringing portfolio managers to Canada to meet directly with advisors.

Excel also produces statistical material on emerging markets, showing the progress in their development. Not only is GDP increasing rapidly in developing countries, but, unlike some major developed countries, many are also benefiting from upgrades in their government- and corporate-debt credit ratings as well as strengthening currencies. These developing countries also boast

young populations, massive infrastructure development and a rising middle class as incomes increase.

In many cases, the price/earnings ratios of emerging markets are more attractive than those of developed markets, and this gap will close as investors become more confident. New York-based **Goldman Sachs Group Inc.** has predicted emerging markets' stock capitalization will be valued at US\$80 trillion by 2030 compared with US\$66 trillion for developed markets. At the end of 2010, emerging markets' capitalization was US\$14 trillion, less than half the US\$30 trillion of developed markets.

"Emerging markets will continue to grow at a rapid rate during the next five to 10 years," says Asdhir. "I personally believe they are less risky than developed markets, with higher growth potential."

Although Asdhir is not afraid to be invested substantially in emerging markets, statistics from the Toronto based **Investment Funds Institute of Canada** show that emerging-markets equity mutual funds make up a scant 2.3% of total equity fund assets of \$238.3 billion. If that proportion rose to just 5%-10%, Excel would probably benefit handsomely as the only Canadian fund company focused exclusively on emerging markets.

Excel will continue to add to its emerging-markets product line and is considering some sector funds, such as those specializing in infrastructure or real estate, Asdhir says. He is also looking at bringing in an institutional investor as a strategic partner to help take Excel to the next level of growth. **IE**