HINDUJA BANK (SWITZERLAND) LTD

QUARTERLY HOUSE REPORT

First Quarter 2010

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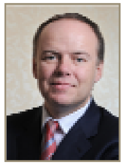
THE HINDUJA BANK (SWITZERLAND) LTD HOUSE REPORT
Is a quarterly publication providing informed analysis and on topics of interest for the private client and institutional investor. If you are not on our regular mailing list and would like to receive a copy, please contact Mr Andreas Luethi or Achille Deodato on +41 22 906 08 08, or email: adeodato@hindujabank.com

INTRODUCTION



Andreas Luethi

Head of Global Investment Solutions

Dear Investor,

First and foremost, I would like to welcome you to our first edition of the Hinduja Bank (Switzerland) Ltd House Report, which will be published on a quarterly Basis. The Hinduja Bank (Switzerland) Ltd House Report will be sent quarterly to clients and other interested parties. Readers are welcome to contact us for an in-depth discussion of any of the topics covered in the House Report.

A key aspect of the House Report is to provide readers with our insights regarding the global economic outlook and the implications of these insights for their investment portfolios. In addition, the House Report will cover specific growth markets and key industries that are of most importance to our clients' investment portfolios. A strong emphasis will be given to Developed and Developing Economies while also reflecting on our core competency in the dynamic Indian Economy, specifically identifying investment trends and opportunities that our clients can benefit from.

In this issue, we focus on the global economic outlook; the expectations for interest rates in key economies; key equity market developments and our forecasts for major commodities and currencies in the first quarter of 2010. Paterson Securities, one of the oldest stockbrokers in India and our new subsidiary provides updates to our readers with a quarterly Outlook for the Indian Capital Markets based on Research compiled by our Analysts located in Chennai, India.

Finally, we share the sector outlook from our in-house specialists detailing their asset allocation recommendations for the first quarter of 2010 and their specific equity investment recommendations.

We trust that our House Report provides you with some useful investment insights and wish you a successful investment year in 2010.

Yours sincerely,

MACROECONOMIC OUTLOOK

SUMMARY

We have seen the World Economy show strong signs of moving from recession to recovery in the last few weeks led by the Asian Economies. It is anticipated that this could lead to substantial economic growth appearing in many developed markets over the next two to three quarters. However, one of the biggest challenges for investors in 2010 is whether the real economy, without additional government stimulus packages, can sustain the high valuations already reflected in equity prices globally.

The collapse of Lehman Brothers caused a global liquidity crisis which was defused by Central Banks offering liquidity to keep the financial system functioning. The total breakdown of the financial system was narrowly avoided but this has caused the most severe global economic crisis since the Great Depression. However, the possibility of a second failure by another global financial institution is still on everyone's mind. Unfortunately, the additional injection of liquidity by Central Banks is not affordable given the high debt levels of Western Economies.

> "Asian Economies may anticipate a global recovery of world economy"

In addition, most of the liquidity already provided to banks has mainly been used to support and rebuild their balance sheets and to reduce their exposure to sub-prime positions, where we still see further considerable need for depreciation. It has not been used to lend to companies outside of the financial system which has led to many companies complaining that they are unable to obtain funding from their banks.
The real economy could weather the storm reasonably well by getting financial aid from government support, be it in form of direct subsidies or being allowed to introduce reduced working hours. However, the massive slump in demand has forced several leading companies in developed economies to restructure their businesses (i.e. downsizing) or to dissolve them.

An additional trend is the massive reduction in their inventory as a response to fewer orders from customers. At least that trend seems to be completed in many sectors and some companies have even started to build up their inventories in anticipation of a strong economic recovery. We expect that this trend will have a positive impact leading to an increase in orders, higher levels of turnover and will ultimately lead to an improvement in economic growth. As mentioned, we expect this positive tendency to last for a few quarters.

> ", the massive slump in demand has forced several leading companies in developed economies to restructure their businesses or to dissolve them."

However, we remain cautious because this positive process could be impacted by the continued process of deleveraging by stressed private households in Western Economies paying down their debts and increasing their savings to levels not seen in a generation. This behaviour is a direct consequence of the recent blast from the collapse of the property bubble and the continued increase in already high unemployment levels.

For most of the developed economies, we expect a low to moderate growth rate for 2010.

MACROECONOMIC OUTLOOK

FISCAL POLICY

The majority of Western Governments decided to fight the financial crisis with one of the most comprehensive fiscal packages ever to stave off a global economic collapse. Countries including the USA, the United Kingdom and Japan will produce budget deficits at or above 10% of their Gross Domestic Product (GDP) this year. Moreover, the European Union's budget deficit target of 3% can be disregarded given that it will be breached by many of its 27 member nations. Germany, one of the European Union's most responsible members fiscally, has indicated that its deficit will be close to 6% of its GDP while France anticipates a budget deficit of 8% of GDP (not including further state aid of EUR 30 Billion that has already been announced!).

> "USA, UK and Japan will produce budget deficit at or above 10% of their GDP this year"

This unfortunate trend of sustained high budget deficits amongst industrialised nations will last until the end of this year at the earliest. This increase in public debt levels places an unbearable burden on the present and the future citizens of these countries. In addition, any measures to consolidate the existing gaps between what these countries are taking in from their citizens in taxes and what they are paying out in the provision of public services will lead to a significant burden for their future economic growth prospects.

The unemployment situation in the USA and Europe is also a matter of concern. Despite the current high unemployment rate of 10% in the USA having a negative impact on personal consumption, a recovery is expected by the middle of 2010. Any substantial signs of an economic recovery (demonstrated by a strong increase in production, consumption or a reduction in the levels of unemployment) will force central banks to review their interest rate policies. However, the current low interest rates and the enormous amount of liquidity allocated to the market keeps inflation fears alive. The Federal Reserve (FED), as well as the European Central Bank (ECB), might be forced to increase interest rates in the second half of 2010 if an economic recovery takes hold.

> "The enormous amount of liquidity injected by central banks may lead to inflation"

Central Banks will likely try to delay any decisions as long as possible, as any potential recovery could be stalled if a tightening fiscal policy happens too early. The ECB will also be challenged to raise interest rates too aggressively given the recent "Double Credit Downgrade" of Greece and Portugal and with Spain being added to the "Negative Watch List". Any fiscal aid packages from the European Union being extended towards these countries ultimately leads to more borrowing from the 27 member states increasing their debt burden.

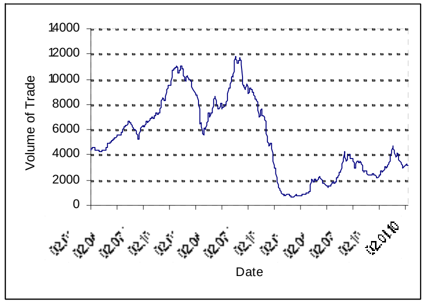
Another important factor to consider is the strengthening or weakening of major currencies based on their fiscal position and their economic growth prospects. The USD (United States dollar) is expected to remain weak versus the Euro and Japanese Yen as a by-product of the aggressive efforts by the Federal Reserve to stimulate the economy. This could provide the American export industry with welcome stimulus.

> "It is anticipated that the highest potential for economic growth is in Asia, with China and India providing the best prospects given their sustained high GDP growth"

It is anticipated that the highest potential for economic growth is in Asia, with China and India providing the best prospects given their sustained high GDP growth rates in spite of the economic downturn. Both nations have shown strong signs of recovery, which is not purely based on the export industry. India is seen by some as being more attractive given that it relies on exports for 17% of its GDP while China relies on exports for 38% of its GDP. As well, the expansive support packages of their respective governments have worked out well and internal demand has generally compensated for their decreased growth levels realised from exported goods. China was particularly successful in arranging large infrastructure projects soon after the crisis started. However, more recently there has been concern that some of this excess liquidity has leaked into the property and the stock markets causing new "bubbles" to establish themselves in China.

Another good indicator for signs of recovery can be found when analyzing the Baltic Dry Index, which measures the flow of global freight. The record level back in May 2008 was based on strong trade in Asia, where as the decline was a consequence of a massive slow down in demand in the same region. The strong recovery in 2009 is once again backed by increased trade volumes between China, South-East Asia and India (i.e. Intra-Asian Trade and not Trade between Western Economies and South-East Asian Countries).

Chart 1: Baltic Dry Index,



Source: Bloomberg 02.01.07-11.01.10

MACROECONOMIC OUTLOOK

CURRENCIES

The expansive monetary policy of the FED will leave its mark on the US Dollar. One of the dilemmas Ben Bernanke has, is keeping interest rates too low for too long – the level will remain close to zero until the third quarter of 2010. To complicate matters, this economic downturn was caused by the FED keeping interest rates for the USD at low levels for too long, causing and further exacerbating this credit and lending crisis. This policy encourages inflation if continued over the longer term.

Together with ongoing stimulus packages, it is anticipated that we will see further increases in stock market levels and the price of Gold measured in USD, at least for the time being as investors recoil from earning next to nothing on their bank deposits. Given the FED is holding interest rates at this low level, we anticipate forced monetary tightening by the FED to be the logical medium for the long term (triggered by higher yields on risk free assets as investors switch to higher risk/higher return assets in their search for yield).

Why would this be negative for the USD? To ease the pain of higher borrowing costs, we expect to see even more money to be printed by the FED, creating higher than normal inflation. This will lead once again to massive selling pressure for the Greenback, increasing the cost of basic commodities priced in USD such as Oil and Gold. China is also unlikely to allow the Remnimbi to appreciate versus the USD given its reliance on exports for 38% of its GDP growth; an unnatural and unfair export advantage achieved by its quasi peg to the US Dollar.

We expect the USD-EUR rate to be traded in a range of 1.52- 1.53 towards the end of the first quarter 2010. The Euro will regain some strength, after experiencing increased pressure in December on the fears experienced by investors looking more carefully at Greece's fiscal position. Nevertheless, we are not anticipating the Euro to strengthen, rather we anticipate a USD weakness to severely undermine the European Export economy at exactly the same time that China floods the European Union with artificially low priced goods (thanks to its cheap currency) and, therefore, deflation.

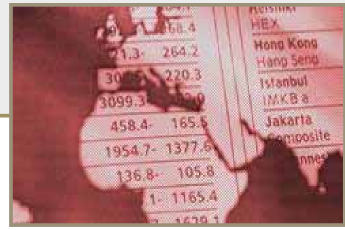
A similar tendency will be noticeable in Switzerland. The Swiss National Bank supports the market with ample liquidity, but makes sure that the Swiss Franc (CHF) does not become too strong versus the Euro. **We expect a stable exchange rate at or just above 1.50 to the Euro throughout this year.** However, we will also see the CHF strengthen on the back of a weaker USD. An exchange rate of just below parity would be a reasonable scenario.

> "We see the highest potential for currency appreciation in the Australian Dollar (AUD), the New Zealand Dollar (NZD) and the Canadian Dollar (CAD)"

We see the highest potential for currency appreciation in the Australian Dollar (AUD), the New Zealand Dollar (NZD) and the Canadian Dollar (CAD); the typical 'commodity currencies'. Benefiting from strong economic growth in Emerging Markets, these countries directly increase their exports encouraging higher levels of economic growth and currency appreciation.

MACROECONOMIC OUTLOOK

EQUITIES & CORPORATE DEBT



While Emerging Market indices in India and China demonstrated significant performance since March 2009, we expect this trend to continue in 2010. Our recommendation would be to slightly increase asset allocation in equities towards emerging markets with a continued focus on India and China given their positive economic outlooks.

One of the reasons will be the strong economic growth for the two countries and the South-East Asian Region, fuelled by a general global recovery and increased domestic demand in Asia. Additionally, cheaper raw material costs, continuous infrastructure developments and low cost funding will have a positive impact on these countries achieving close to double digit GDP growth rates.

> "Brazil and Russia will profit from international asset managers seeking for high growth rates"

Brazil and Russia (the other two BRIC countries) will, in our view, profit from international asset managers giving higher asset allocations to Emerging Markets as they seek growth rates and investment returns no longer available in Western Economies. An appreciation in their stock markets of between 5 – 10% in the first quarter of 2010 is a realistic expectation for China, India and Russia, while Brazil will likely show a more conservative increase in its equity market given its dramatic rise in 2009.

Equity markets have enjoyed a spectacular rally since March. Supported by an increase in demand, stringent cost controls and balance sheet consolidation, it is expected to see an increase of company profitability levels in the first six months of 2010. A further benefit is the relatively low inventory and the ending of inventory cycles, which will enhance investment activity. On the negative side we see high unemployment rates, the still reasonably high private household debt levels and a limited motivation on spending to spur private consumption. With a moderate real economic recovery, subsequent margin improvement and higher company earnings, we should see improved consumer sentiment.

We also see a better risk/reward with investors realising greater benefits from investments into high yielding equities from cash-flow rich corporations compared to corporate debt. The record issuance of bonds in 2009 has led to a significant spread tightening, which does not justify an overweight in that asset class. However, we see value in Investment Grade Bonds compared to Government Bonds, especially from large globalised companies. A further round of balance sheet restructurings for indebted countries and quasi-government owned banks will lead to downgrading pressure from Credit Rating Agencies, and we recommend staying away from these investments for the time being.

For the equity allocation, we favour EuroStoxx compared to S&P 500 Index, based on more attractive valuation levels and the cyclical orientation of the stocks. In past recovery phases, European stocks have performed better than American stocks. **In our equity recommendation list, we have selected stocks with an attractive expected dividend yield, low valuation and positive cash flow.** A more detailed description of attractive sectors and stocks follows in the latter part of this House Report.

MACROECONOMIC OUTLOOK

COMMODITIES

Overall, commodities remain attractive. A sustainable economic recovery will have a positive effect not only on the energy and the metal sectors, but also for soft commodities. Gold has a dual role for investors. On the one hand it protects against potential inflation, while on the other hand the relatively recent decreases in the amount of gold being mined annually has created a scarcity of supply and therefore inherent value. We expect a short term consolidation of the gold price towards USD 1'050, before we see a move to our 2010 target of USD 1'300. Oil and Copper will react sensitively to the global economic outlook given that their price increases are driven by increased levels of demand, and we predict a trading range of USD 75 – 85 for the Oil price in this quarter.

Chart 2: Gold spot index vs. USD spot index

Source: Bloomberg

INDIA EQUITY MARKETS

PATERSON SECURITIES PVT LTD

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Inspiring trust, creating wealth

About Paterson Securities Pvt Ltd

Established in 1935 with origins dating back to 1892, and based in Chennai, PATERSON SECURITIES PVT LTD is one of India's oldest stock broking firms and a founding member of the Madras Stock Exchange. Paterson's business operations focus on stock broking, derivatives trading, portfolio and wealth management, NRI services, government securities and investment banking. PATERSON is also a member of the National Stock Exchange and Bombay Stock Exchange for Currency Trading. In addition, Paterson is a SEBI-registered Portfolio Manager, Depository Participant with Central Depository Services and an AMFI (Association of Mutual Funds in India) –registered Mutual Fund Advisor.

Following a successful collaboration started in December 2008 and then acquisition by Hinduja Bank (Switzerland) Ltd of 51% of its stock, Paterson Securities Pvt Ltd has become an integral part of the Bank and a key platform for the Hinduja banking group in its integrated offer for accessing India.

INDIAN EQUITY MARKETS

OVERVIEW ON THE INDIAN ECONOMY

Amidst intervention by central banks to revive their respective economies post the financial crisis witnessed in 2008, India has grown by an impressive 6.7% in FY09 and ~6% in first half of 2009. Albeit lower than the average 8.8% recorded during the five-year period 2003-2008, India is still one of the fastest growing economies in the world, second only to China.

Although stimulus support from governments globally seems to be dwindling, we expect India to grow at an yearly rate of ~7% over the next two years. Unlike a few other Asian markets, India is predominantly a consumption driven growth story. Having said that, filling the void created by falling consumer spend in the US would be difficult to fill.

India has earmarked 6.2% of GDP in 2009-10 for infrastructure and plans to take this number to 9% of GDP by 2014. If implemented, this will further fuel growth. A high fiscal deficit (10.7% of GDP in 2008-09 *versus* 5.5% in 2007-2008) may restrict government spending to some extent. The government is thereby developing a roadmap to divest stake in certain profitable Public Sector Undertakings (PSUs) as an option to bridge the fiscal deficit.

> "The government is developing a roadmap to divest stake in certain profitable Public Sector Undertakings"

Hitherto the rock-bottom global interest rates are likely to move northwards as inflation is expected to rise globally. High personal and corporate savings and investment rate as well as recent buoyancy in equity markets have made India's economy less vulnerable to interest rate changes.

After evaluating the global scenario, India may have a few blips over the next couple of years. However, considering its political stability, improving business environment and corporate fundamentals as well as a young workforce, we see India as one of the best investment avenues over the longer term.

INDIAN EQUITY MARKETS

THE INDIAN STOCK MARKETS

The Sensex is up 110% from the lows it made just a few months ago in March. It could also be argued that the fall had been great, but there are a number of indicators that suggest that, although the market continues to power ahead, it faces strong headwinds.

Currently trading at around 22x the Sensex is close to its historic peak valuations on a price to earnings basis. Considering a lower GDP growth as compared to the period 2003-2008, high fiscal deficit, rising inflation based on wholesale price index (inflation based on consumer price index already in excess of 11%) and moderate growth projections by most large cap companies, markets do seem to be ahead of valuations.

> "The Sensex is close to its historic peak valuations on a price to earning basis"

A key catalyst for change in market direction has been foreign fund flows, and there has been no dearth of that in the recent past. $15bn has poured in over the last 8 months with a significant amounts of money waiting in the sidelines as many investors missed out on the last rally. However, as witnessed in 2008, a disruption in global financial markets may cause flight of capital from the country.

There has been a gradual return of business confidence and sectors such as IT, Auto, Banking and fast moving commercial goods are showing signs of recovery. Analyzing second quarter (fiscal year) 2010 results, wherein growth in bottom line of frontline stocks has been higher than the growth in their top line, it is expected a period of moderate growth in 2010.

The market is expected to maintain these levels for the moment. Markets are likely to move sideways as long as liquidity remains at similar levels to the fourth quarter of 2009. From a technical perspective, the levels that can turn as good support levels for the benchmark indices – Sensex (BSE) and Nifty (NSE) are 14720, 12700 (in Sensex) and 4410, 3820 (in Nifty). Similarly there could be significant resistance at the level of 5150 (Nifty) and 17200 (Sensex), before making an attempt to breach the earlier highs at 21206 (Sensex) and 6347 (Nifty).

> "sectors such as IT, Auto, Banking and FMCG are showing signs of recovery"

INDIAN EQUITY MARKETS

SECTORS TO WATCH

Auto

Concurrent benefits of the stimulus package followed by revival in the macroeconomic environment fuelled growth in the auto sector. In the period April-October 2009, domestic volumes grew by 14.6% Year on Year (YoY). Exports across most sub-segments, except the passenger vehicle segment, continued to remain sluggish.

In the second quarter (fiscal year) 2010, aggregate profit after tax (PAT) growth for the sector was ~ 80% YoY, as a result of strong volume growth coupled with margin expansion on the back of low raw material cost. However, subsequent to this dream-run in the sector, emerging obstacles are visible by way of hardening raw material costs and the possibility of the stimulus package being rolled back over the next few months. Therefore, despite the overall buoyancy in the demand environment (at current valuations) we remain circumspect on front-liners such as Maruti and Hero Honda. In case a bearish trend does emerge, we expect auto companies to outperform, as these companies are generating healthy cash flows. **We prefer the commercial vehicle sector which has a strong correlation with industrial growth.**

> "In the period April-October'09, domestic volumes grew by 14.6% year on year"

Companies under analysis

- Mahindra and Mahindra
- Tata Motors

INDIA EQUITY MARKETS > SECTORS TO WATCH > AUTO

Mahindra and Mahindra Limited

Mahindra started its journey in 1945 by assembling the Willys Jeep in India and is now a USD $6.3 billion Indian multinational company. They employ over 100,000 people across the globe and enjoy a leading position in utility vehicles, tractors and information technology.

Mahindra and Mahindra have a significant and growing presence in financial services, tourism, infrastructure development, trade and logistics. Mahindra is the only Indian company among the top tractor brands in the world and has forayed into the two-wheeler segment which began with the acquisition of Kinetic Motor Company Ltd. (KMCL). This further extended Mahindra's heritage and pedigree into the two wheeler space.

> "Mahindra is the only Indian company among the top tractor brands in the world"

The Mahindra Group expanded its IT portfolio when Tech Mahindra acquired a leading global business and information technology services company, Satyam Computer Services. The company is now known as Mahindra Satyam. Mahindra's Farm Equipment Sector is the proud recipient of the Japan Quality Medal, the only tractor company worldwide to be bestowed this honour. The US based Reputation Institute recently ranked Mahindra among the top 10 Indian companies in its Global 200: The World's Best Corporate Reputations list. Mahindra also has a partnership with Taiwan's Sanyang Industry Company Limited (SYM). A USD 1 billion automobile giant, SYM is a leading manufacturer of two-wheelers, including scooters, motorcycles and all terrain vehicles (ATVs). SYM has a complete, advanced research and design facility that develops products from concept up to production. The association with SYM translates into cutting edge technology and best products from Mahindra. The company has also launched India's first compact truck. The compact truck provides an unmatched mileage of 27 kmpl (kilometres per litre) and scores extremely low on maintenance. This would help Mahindra and Mahindra to build its market in the light commercial vehicle segment.

Recently, Mahindra and Mahindra entered into a joint venture with China's Yueda group to set up a R&D centre and a manufacturing plant for engines. Mahindra has also struck two landmark aerospace deals with the simultaneous acquisition of a majority stake in two Australian companies, Aerostaff Australia and Gippsland Aeronautics. Aerostaff Australia's acquisition will help catapult Mahindra and Mahindra into the burgeoning Defence Offset and Commercial Aviation market. Gippsland Aeronautics' acquisition signals Mahindra's entry into the 2 - 20 seater and turbo prop market, which is amongst the fastest growing segments in general aviation. Their domestic auto sale for the month of November 2009 stands at 21,387 units, as against 10,430 units in November 2008, an increase of 105.1%. Mahindra has posted a growth of 102% in total utility vehicles sales in November 2009, which includes the Scorpio, the XYLO, the Bolero and Pick-Ups stands at 15'193 units as against

> "The domestic auto sale of M&M for the month of November 2009 stands at 21,387 units, as against 10,430 units in November 2008"

INDIA EQUITY MARKETS > SECTORS TO WATCH > AUTO INDIA EQUITY MARKETS > SECTORS TO WATCH > AUTO

sales of 7'523 units in November 2008. Also, the company has registered a 48% increase in tractor sales for November 2009 as compared with November 2008. Various joint ventures and acquisitions backed by good brand image would really lead to a new growth story for M&M.

Tata Motors Limited

Tata Motors, the flagship company of the Tata group, is India's largest automobile company. With over three million of its vehicles plying in India, Tata Motors is the leader in commercial vehicles and the second largest in passenger cars. It is also the world's fifth largest medium and heavy truck manufacturer and the second largest medium and heavy bus manufacturer. Through its subsidiaries, Tata Motors is India's only fully integrated automobile manufacturer with a portfolio that covers trucks, buses, utility vehicles and passenger cars. The company's manufacturing base is spread across Jamshedpur, Pune and Lucknow. It has the unique distinction of giving India it's first and only indigenously built passenger car, Tata Indica, mini truck Tata Ace, and the sedan Tata Indigo. It is also the first company from India's engineering sector to be listed in the NYSE.

The company is consistently striving to maintain & improve its market share by introducing new variants to its existing models. The most recent model is the Indigo Manza, as well as bringing top models Jaguar and Land Rover (JLR) to capture niche segments. Due to improvement in economic activity, the medium and heavy commercial vehicle segment has provided good levels of growth. We expect this segment to post a Compound Annual Growth Rate (CAGR) around 14-17%. This would increase the Cap-ex plan of the company. Moreover, Linea & Punto, the cars produced by the Tata & Fiat joint venture have been well received by markets. The second quarter fiscal year 2010 profit of Tata Motors is the highest ever in terms of profitability as well as absolute terms. In the second quarter, sharper recovery in commercial vehicle (26% Quarter-on-Quarter (QoQ)) has led to increase in volume by 12% year on year YoY and 22% QoQ.

With steady retail sales & consistent cost cutting measures we expect JLR to post positive figures for EBIDTA in 5-7 Quarters. JLR has positioned its product portfolio towards higher margin products & we expect its breakeven level to reach ~65% from the current level of 85-90%. This would translate the sales unit to 180,000, which is in line with fiscal year 2010 expectations. After the recent equity infusion, the D/E ratio of the company has improved to 2.5X from the previous level of 3.2X. The standalone debt for the company in second quarter fiscal year 2010 stood at INR 186Bn as compared to INR 170Bn in first quarter fiscal year 2010. Moreover, the Co. is likely to spend ~ INR 25-30Bn in 10, of which INR 13Bn has already been incurred in the first half of fiscal year 2010. This shows the company is looking at its leverage and growth in a strategic manner. With the worst behind the auto sector, we believe that Tata motors will be able to emerge as a strong player in the existing upper-income segment as well as the fast expanding middle-income category.

INDIA EQUITY MARKETS > SECTORS TO WATCH > BANKING AND FINANCIAL SERVICES INDUSTRY

Banking and Financial Services Industry

Despite the severe liquidity pressure and poor credit appetite at retail and corporate levels, Indian banks managed to grow their advances and deposits by 24% YoY and 22% YoY respectively in fiscal year 2009. This growth was mainly driven by a sharp expansion in term deposits and growth in agricultural and large corporate credit. Despite poor pricing power, the lower cost of funds helped Indian banks grow their net interest margins in fiscal year 2009. Public sector banks out performed their private sector counterparts in terms of growth and franchise expansion in the last fiscal year.

With banks having complied with Basel II and having sufficient capital in their books, it will be a challenge to deploy the same safely and profitably in the event of persistence of economic slowdown. Banks are likely to concentrate more on non funded income in this scenario. The proposal for Cabinet's approval to allow public sector banks to bring down the government's stake in them below the stipulated 51%, which is yet to be tabled, can help banks raise substantial capital without borrowing at high rates. This provides the entities an opportunity to enhance their capital adequacy ratios besides competing with their private sector peers. Public sector banks have been very proactive in their restructuring initiatives be it in technology implementation or pruning their lost assets. While the likes of State Bank of India have already made attempts towards consolidation, others are keen to follow in that direction. Hence, probable divestment as well as consolidation may lead to public sector banks outperforming private banks over the next fiscal year.

Companies under analysis

- State Bank of India
- Shriram Transport Finance Company
- LIC Housing Finance

State Bank of India Limited

A proxy to the Indian banking sector, State Bank of India (SBI) is India's largest financial entity with an asset size of over Rs 5 trillion (USD 105 bn). Although the bank's loan book is largely skewed towards corporate clients, the retail side is also fast catching up. SBI is well positioned to benefit from its large customer base, technology deployment and a large network. It however faces challenges relating to an aging workforce, poor asset quality and issues relating to the merger of subsidiaries.

> "SBI is well positioned to benefit from its large customer base, technology deployment and a large "network."

LIC Housing Finance

Promoted by LIC and incorporated in 1989, LIC Housing Finance (LICHSGFIN), is a provider of housing loans to individuals, builders, non resident Indians (NRI's), corporate bodies and development authorities. The Loan book of the company has grown with a CAGR of 23% in past 5 years to over Rs. 300 bn currently. Despite the robust increase in loan book, gross NPA reduced from 4.4% in fiscal year 2004 to 1.07% in fiscal year 2009. The Outstanding Mortgage Portfolio as on September 30, 2009 was Rs. 319 bn as against Rs. 241 bn in September 2008, thus registering a growth of 32%. The Company recorded a Net Interest Margin of 2.44% for the second quarter (fiscal year) 2010 as against 2.45% in the first quarter (fiscal year) 2010. New loans at lower Loan-to-Value (LTV) has led to lower EMI/income ratio. This in turn would reduce the probability of default on loans. Moreover, low cost of funding & operating cost structure yielding high profit & return on equity (~23%).

LIC HFL held 39.3% stake in LIC Asset Management co. (AMC) & sold 19.3% to Nomura. The profit expected from this sale would be around Rs 1,380 mn. Closure for the sale is expected during the third quarter of fiscal year 2010.

Shriram Transport Finance Co. Ltd.

Shriram Transport Finance Company (STFC) is the country's largest asset financing NBFC (non-banking finance company) with 20% - 25% market share in pre-owned truck financing and 7% - 8% market share in new truck financing. It has a customer base of 6 million (91.3% of the country's truck owners) at the end of fiscal year 2009 with total AUM of US$ 5.6 bn as at Sept 30, 2009. STFC are looking to foray into new ventures of used tractor financing (estimated market size of Rs 192 bn in fiscal year 2009) through a joint venture with Mahindra and Mahindra, construction equipment financing (estimated size Rs 300 bn by fiscal year 2010) and passenger car vehicles financing (estimated market size Rs 70 bn in FY09). There are several policy and legislative factors (Bharat-III emission norms and legislation on banning trucks of age greater than 15 years) that are expected to propel the demand for 'younger' vehicles in the industry – leading to the phasing out of vehicles in the 5 to 12 years age profile and thus reducing the dominance of unorganized financers in the market.

> "STFC are looking to foray into new ventures of used tractor financing"

According to the management of STFC, its capital adequacy ratio of nearly 13% in fiscal year 2009 is sufficient for funding its incremental growth plans in the medium term.

Further, the conversion of warrants issued to promoters in the first quarter of fiscal year 2010 has further enhanced the company's capital adequacy enabling it to foray into the new segments as well as grow its asset book.

Information Technology (IT)

Despite the uncertainty in the global economy, the top three IT majors— Infosys, TCS and Wipro — have seen revenue growth from all important sources of income: from the North American and European regions, between fiscal years 2008 and 2009. Growth in IT spent in North America rebounded as well while IT spending from banking, financial services, insurance (BFSI) and retail industry returned back on track towards growth. India has retained its "numero uno" position in 'AT Kearney's' latest ranking of the top outsourcing destinations across the globe; with China and Malaysia at number two and three respectively. India's domestic market has also become a force to reckon with, as the existing IT infrastructure evolves both in terms of technology and depth of penetration.

Companies under analysis

- Infosys Technologies Ltd
- Tech Mahindra

Infosys Technologies Ltd.

Infosys is the second-largest IT services company in India and among the fastest growing IT services organization in the world. Infosys is also a leader in the offshore services sector with a pioneering global delivery model. During the last quarter, the IT sector witnessed a stupendous run on the bourses and Infosys was the torchbearer of the up move. The company has increased its hiring number for FY10 from 18,000 to 20,000, which can be seen as an indication of early signs of revival for the IT industry.

Infosys' growth over the last three to four years reflects its abilities to benefit from the improving macro environment. This was reflected in the above-average growth in its offshore revenues, key verticals and service lines compared to its competitors. The company will invest over US$ 50 million in the next two quarters of the current financial year towards increasing its sales and marketing staff overseas, building new capabilities, and hiring local resources for its international centres.

"The company will invest over US$ 50 million in the next two quarters of the year"

Tech Mahindra Ltd.

Incorporated in 1986 and headquartered in Pune in Maharashtra, Tech Mahindra (formerly known as Mahindra-British Telecom) is a provider of solutions and services to the telecommunications industry. The company is a partnership between Mahindra & Mahindra and British Telecommunications Plc. Tech Mahindra has software development centres across six cities in India, one in UK

and 13 sales offices across America, Europe and Asia-Pacific. This amounts to 15,000 professionals servicing clients across various telecom segments. The company's service offerings range from applications development and maintenance, solution integration, product engineering, lifecycle management and testing to high-end and value-added services, such as consulting, managed platforms and managed services. Recently, the Indian arm of Emirates Telecom orchestrated a deal with the middle east telecom major expected to be somewhere around USD 40-50 million. The company has also opened a BPO in Kolkata to serve Reliance Communication in the I-Phase of operation.
The business outlook has changed from one that was fundamentally deteriorating to a more stable and growing one following its agreement with BT wherein the latter would maintain business volumes in the core BT and Barcelona deal combined. Tech Mahindra has offered pricing discounts as per the agreement, the full effect of which has been taken in the current quarter. This puts to rest worries over revenue decline from BT (which account for 31% of TechM's revenues). Thus, we believe TechM to be a consistently improving story with good growth potential in long term.

INDIA EQUITY MARKETS > SECTORS TO WATCH > INFRASTRUCTURE

Infrastructure

If there is one perceptible difference between India and some of other emerging markets, it is the lack of infrastructure.

From a policy perspective, however, there has been a growing consensus that a private-public partnership is required to remove difficulties concerning the development of infrastructure in the country. The realisation finally seems to be setting in. This makes the future of the Indian engineering sector extremely bright. If India's nuclear deal with the US occurs as planned, it will mean big business for companies planning to enter nuclear power generation and consequently power equipment manufacturing. If the government opens up the defence sector to further participation from private players, this will open an additional avenue for large companies in the sector, which holds large potential. In the first half of 2009 there was a slowdown in accretion to order-book, due to elections.

> "private-public partnership is required to remove difficulties concerning the development of infrastructure in India"

Post elections, we have witnessed a healthy order inflow. Although the sector holds a lot of promise, a delay in sanctioning infrastructure projects as well as execution of orders, remains a concern.

Companies under analysis

- Lars & Toubro Limited
- GAIL India Limited
- Lanco Infratech Limited

INDIA EQUITY MARKETS > SECTORS TO WATCH > INFRASTRUCTURE

Larsen & Toubro Limited

Larsen & Toubro (L&T), one of the largest companies in India's private sector is a technology-driven engineering and construction organization with additional interests in manufacturing, services, and information technology. The order backlog currently stands in excess of INR 800 bn (US$ 17.5 bn) and is likely to swell with L&T entry into new verticals like ship building, aviation, nuclear, and defence. These have immense potential. A strong balance sheet, sound execution capabilities and an integrated set of operations (tailored to suit the India infrastructure growth), lead us to look forward to a positive outlook.

GAIL India Limited

GAIL India (GAIL) was established in 1984 by the Government of India to create gas sector infrastructure for the sustained development of the gas market in the country. The company has expanded into gas processing, petrochemicals, liquefied petroleum gas transmission, liquefied natural gas re-gasification, city gas distribution and telecommunications. While its natural gas and LPG transmission business has shown robust growth, GAIL's Petrochemical Margins are under pressure in view of subdued oil prices and addition of significant gas-based petrochemical facilities in the Middle East. The company has planned to add about 6,500 Km of pipeline to the existing network of 7,220 Km in coming fiscals. Around 400 Km would be added by FY10 & 1600 Km by FY11. Of the total current production of about 40 Million Metric Standard Cubic Meter Per Day (MMSCMD) Gail is transporting 25 MMSCMD. The government on Monday, November 16, 2009, announced an additional allocation of 51.6 MMSCMD of natural gas from Reliance Industries' Krishna Godavari D6 field. Now, the company is expected to transport around 40 MMSCMD from the fourth quarter (fiscal year) 2010 onwards. However, prospects for the segment largely depend on the tariff outlook going ahead which we believe will not be reduced as per the management's guidance.

Lanco Infratech Limited

Lanco Infratech incorporated over two decades ago as a civil engineering company. Lanco today, through twenty-two subsidiaries has operations across a synergistic span of verticals. In power generation, Lanco has a presence in thermal, hydro, wind and renewables. Projects in operation and those underway represent over 8000 mega watts (Mw). Lanco's expertise in civil engineering has been displayed across the years in the execution of dams, railways, roads, industrial structures, residential and commercial construction, canals and other areas. Lanco is also executing projects in ports, highways and airports. The total power capacity is likely to increase to 1,484 Mw by the first half of 2012. Lanco Infratech has at least 7,195 Mw of new generation capacity under various stages of execution, with secured off-take agreements and fuel linkages for half. The order book of the construction division stands at ~ Rs.150 bn.

GLOBAL SECTOR OUTLOOK

INTRODUCTION

Although the last quarter of 2009 provided some evidence of a global recovery, there are still areas of concern such as the US housing market which is still too dependent on government support programmes. Policy makers' decision not to withdraw state stimulus further highlights their continued apprehension on the current market situation.

Euro zone economic activity rose at its fastest rate for two years last November but this is no reason for anyone to get carried away, since, coupled with rising unemployment, it only serves to highlight the current fragility of the economy.

Meanwhile, much of the extreme policy stimulus – including direct purchases of financial assets – remains in place. The combination of economic recovery and unusually low policy rates continues to provide strong support to asset prices of nearly all equities in most regions of the world. Until signs emerge of a change in that environment, we recommend that investors maintain their allocations to exotic assets.

"Policy makers' decision not to withdraw state stimulus further highlights their continued apprehension about the current market situation."

GLOBAL SECTOR OUTLOOK

BANKING

The Banking sector is experiencing significant regulatory changes following the gearing up of banks going into the crisis and the deterioration of their financial positions as the environment worsened.

In 2010, we expect continuing developments in new regulatory proposals relating to increased capital requirements and minimum capital ratios, leverage, and funding mix requirements. In most cases, we should see a combination of higher interest expenses and limited growth potential, implying downside risks earnings and profitability forecasts.

Leverage

Regulators have suggested introducing a leveraging ratio as a supplementary measure to the Basel II risk-based framework, with details of the ratio being harmonised internationally, fully adjusting for accounting differences.

We are forecasting the sector to produce an average return on average equity (RoTE) of 9.3% in 2010, moving to 13.6% in 2011. Versus the street, this is still a rather conservative figure, reflecting our slightly more cautious view on asset quality. Largely the market expects 2011 to be a normalised year in terms of loan losses; however we are still forecasting 1% and expect loan losses to normalise in 2012.

We expect that loan losses will last for a longer period; we note that in the last banking crisis in Sweden, it took almost four years for all bankruptcies to be announced, and we have not yet reached this point from the start of the current crisis. We also note that the Swedish regulator published a report on 10 November, 2009 estimating that provisions for domestic banks such as Shinhan Bank will peak in 2012.

The main restructuring story within the sector at the moment is the forced divestment of assets to satisfy European competition regulators in return for state aid. At the heart of this have been the UK banks, namely Lloyds (agreeing to dispose of C&G and Intelligent Finance) and RBS (Citizens, Churchill, Green Flag, and Direct Line). KBC has also agreed to dispose of its European banking business and some of its CEE businesses. This is likely to spur more M&A in coming quarters, where the banks with much better capital positions and earnings visibility will be in a position to acquire these divested businesses. In addition, there is another, however voluntary, reason for divestments within the industry—namely the need to strengthen capital ratios. Again, the better positioned banks will benefit most from this.

"In the last banking crisis in Sweden, it took almost four years for all bankruptcies to be announced, and we have not yet reached this point from the start of the current crisis."

From our overview of the industry we would recommend investing in Credit Suisse. We envisage revenues to recover in the first quarter of 2010, partly because we expect to see growth in net new money in the wealth management division. In conjunction with balancing cost cutting measures with market growth, Credit Suisse can look forward to a positive first quarter in 2010.

GLOBAL SECTOR OUTLOOK > BANKING

With nearly 60% of Group capital expected to be tied up in investment banking by 11E, it's believed Barclays will continue to build higher capital buffers as a result of pending regulation. For 2010E and 2011E the c.2% upgrade is largely a result of higher asset margins, especially in Barclay Card and other unsecured lending. Barclays is our preferred name within the UK domestic banking sector.

GLOBAL SECTOR OUTLOOK

INSURANCE

The immediate economic crisis seems to have passed due to signs of stability within the market. However, uncertainties still persist such as restricted capital access and investment valuations.

Insurance executives anticipate their companies to be performing above general market expectations in 2010 but not until at least the second quarter.

However, our analysts anticipate slow demand, increased competition and a potential increase in interest rates that could prove detrimental to the industry. Last year approximately $50 billion in claims for natural disasters were paid out. To cover these outlays, insurers need to sell more policies but due to their customers looking towards downsizing assets, market conditions will remain fairly difficult.

> "our analysts anticipate slow demand, increased competition and a potential increase in interest rates that could prove detrimental to the industry"

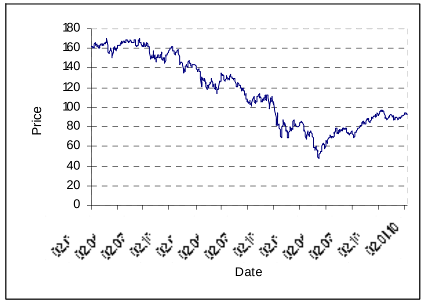
In addition, insurers find themselves in a 'catch 22' situation. On the one hand, low interest rates have acted as a hindrance for life insurers as it reduces their ability to sell saving schemes linked to bond investments. On the other hand, an increase in interest rates would produce higher bond yields and increase earnings in the long term, but in the short term it could result in contracting capital.

Analyzing all market conditions, we expect there to be an overcapacity of around 25% which should result in premiums reducing by around 5%.

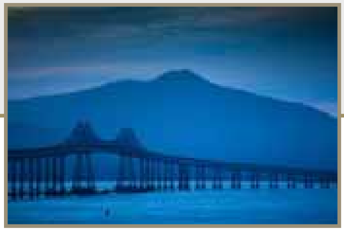
However, insurers plan to combat the global recession by diversifying into new emerging markets. The regions for planned investment are the 'BRIC' countries of Brazil, Russia, India and China which have shown potentially high growth rates. In these markets companies can grow by exporting their core competencies. Though this may be the case, it will not majorly impact on the first quarter of 2010. Therefore, insurers will have to look at different methods to further develop their core markets in developed economies.

Whilst analysing the sector, our analysts have identified Zurich Financial Services as a potentially good investment. We expect Zurich to benefit from low exposure in America and to capitalise upon emerging markets.

Chart 3: Bloomberg Europe 500 Insurance Index



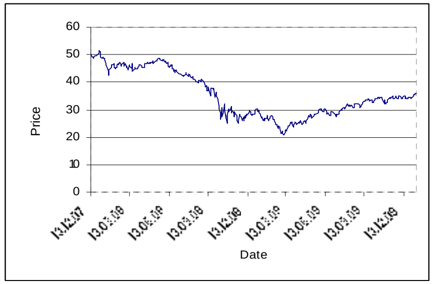
Source: Bloomberg 02.01.07-02.01.10



INFRASTRUCTURES

A crucial challenge that has always faced infrastructure projects is that many of these projects are state funded. Nearly two thirds of all public infrastructure spending is financed from government revenues. The global recession has resulted in a reduction of infrastructure projects due to the high cost of financial sector bailouts, under-funded pensions and other various costs which have impacted on their overall budgets, especially in developed economies such as the UK and US. In addition, universal high market risk premiums mean that for now, private debt or equity financing of large scale projects remains expensive.

Chart 4: iShares S&P Global Infrastructure



Source: Bloomberg 13.12.07-13.12.09

Asia can be viewed as leading the way with regard to infrastructure following the implementation of various stimulus packages from Asian governments. For example, China has allocated a large portion of its stimulus, approximately $220 billion, towards infrastructure projects. Over the last two quarters of 2009 there is clear evidence of rising demand within infrastructure related activities such as the Public Private Partnership (PPP) road programme in India and large investments into Chinese railways. Therefore, we anticipate infrastructure companies to perform well in the first quarter of 2010.

An additional benefit of these infrastructure projects is that it will cause a multiplier effect globally due to forward and backward linkages. Most of the forecasted infrastructure projects will be in Asia but as China relies on imports for its raw materials, companies who can supply China with the materials, sophisticated machines and commodities are likely to benefit the most.

We would suggest some exposure to cement companies and slight exposure in aluminium as these materials will be required for many infrastructure projects.
In the long-term, a potential concern is if inflation returns before growth stabilises. The government will then have to restrain monetary and fiscal expansion. A further concern is that many infrastructure projects are essentially funded on the basis of approximately 70-80% debt. A large increase in interest rates, as could be the case in India could severely impact those infrastructure companies who are awarded contracts.

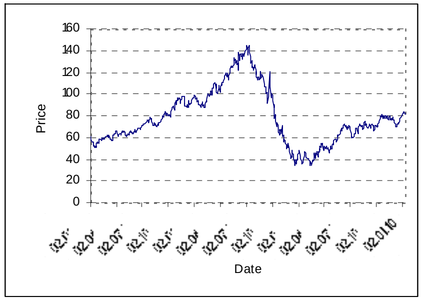
Holcim who are in construction stated that all countries except for Switzerland and Germany reported a decrease in operating profit and that this predicament is likely to stay. Holcim are looking towards Asia as our analysts have stated most firms would. They believe that projects such as the PPP road programme in India will increase growth and since they have a strong balance sheet compared to their competitors, they are able to maintain their strategic flexibility.

GLOBAL SECTOR OUTLOOK

ENERGY

The slight global recovery that we are starting to see is one of the main growth drivers of the current oil rally which has resulted in oil establishing its current price of around USD 80 per barrel.

Chart 5: WTI Crude Oil



Source: Bloomberg WTI 02.01.07-02.01.10

In the first quarter of 2010, we can look towards growth in Asian economies to provide the spring for a rebound in world oil consumption. The robust demand of the BRIC countries has also helped in recovering prices. An increase in world consumption combined with expected production cuts should drive oil prices higher, although not to the heights that we saw in 2008. While we believe this to be the case, if the economic recovery stalls and oil consumption does not re-bound, oil prices could fall as a result of a high level of inventories. China's commodity demand has been the big driver of recovery last year and continues to show signs of expanding rapidly. Its oil demand grew 11.5% YoY in October, and in absolute terms, over September and October, Chinese demand growth has averaged more than 0.9 million barrels per day (mb/d). This is the greatest demand increase recorded over a two-month period since the peak of the Chinese oil demand shock in 2004.

> "In the first quarter of 2010, we can look towards growth in Asian economies to provide the spring for a rebound in world oil consumption"

Natural gas prices hit a seven year low in 2009, and storage levels are estimated to be 12% above their five year average. The price of gas (Nymex) is currently approximately USD 5.75 million metric British thermal units (MMBTU). Even with a cold winter forecasted, it is thought that this will not be enough to bring supply back in line with demand. According to the International Energy Agency, we are set to have over supply for the next five years because of an increase in shale gas production. Between 2006-2008 potential gas resources increased by 39% in America. This over supply appears to be more of a concern for western markets, but mainly America. In Asia there is a complete contrast. It was recently reported that China and Thailand instructed domestic gas companies to increase production to meet demand and that they predict a fairly positive outlook for 2010. For the moment we believe that the natural gas market will struggle to overcome its current difficulties, mainly due to supply and demand issues and the difficulty of financing operations. Prices will continue to be at a low level because of these issues.

Although the industry is struggling, one of the main attractive features of the oil and gas industry is that it is strategically well positioned for the foreseeable future; there are no large scale substitutes that exist to replace hydrocarbons as the primary fuel for transport. Although

GLOBAL SECTOR OUTLOOK > ENERGY

there may not be much activity in 2010, one must take a long term view.

The electricity market should also recover in 2010 after producing fairly positive results in the third quarter of 2009. The recovery in this sector will be slow though as the industrial sector will need to initially recover.

Analysing the alternative energy sector, we expect that additional climate change legislation, combined with growing consumer demand will result in a positive outlook. There is a constant stream of investment into this sector and is increasing year on year. In order to promote alternative energies, governments now provide subsidies for utilising the technology meaning that cost is no longer as big an issue. In the USA, leasing plans for solar panels now exist and neighbourhood discounts are available.

When looking more specifically at the solar industry, photovoltaic technologies have increased the all around effectiveness of solar power. It is expected to further improve efficiency with new technology and to see capacity output and pricing. The UK there has been a big push towards the construction of wind turbines. All in all it appears that developed economies are keen to exploit these technologies, where as emerging markets would rather invest their capital into other sectors of the economy. No better was this illustrated than at the Copenhagen Climate Conference. However, one must take a long term view with alternative energies as it is unlikely that they have a major impact in Q1 2010.

In the energy sector, we have identified Chevron as a company to look out for. As global demand for oil increases, Chevron are structured in such a way that they stand to be one of the main benefactors.

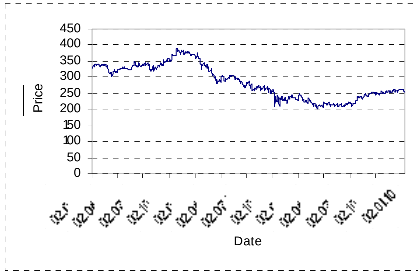
> "Additional climate change legislation, combined with growing consumer demand will result in a positive outlook"

GLOBAL SECTOR OUTLOOK

TELECOMS

European telecoms have had a sluggish year. Whilst the Euro Stoxx index is up around 18% since the start of 2009, the Dow Jones Europe Stoxx 600 Telecommunications Index is only up around 6%. The collapse of the telecoms market is shown below.

Chart 6: The Dow Jones STOXX 600 Telecom. Index



Source: Bloomberg 02.01.07-02.02.10

Many telecom companies are looking to venture into emerging markets where they believe that by exporting their core competencies increased profits can be achieved. This will inevitably lead to lower prices for consumers, in turn hurting profits for telecom companies in European markets. The impact in the first quarter of 2010 will not be that significant.

The BRIC countries are of particular interest to all present firms in the telecoms industry. For example, Brazil has seen a 6.25% increase in mobile telecom users for the first half of 2009. These are positive results amidst a global recession. There are many competitors in India e.g. Bharti Airtel and Tata Indicom which has resulted in prices continuously falling and has led Vodafone to re-examine their strategy. This being said, there still remains an opportunity for growth as only 40% of the population have a

mobile. A key indication of growth in the telecoms sector in India is that during financial year 2009, mobile subscriptions increased by 50%. The key challenge for telecom companies here is to expand into rural areas where they can bridge the digital divide. For this to occur though, the infrastructure has to be in place.

An interesting development in the telecoms sector is a sudden interest in Turkey. Turkey is believed to be ideally positioned for companies to achieve growth as there is a large young demographic who are well educated and relatively well paid.

For the first quarter of 2010 we envisage telecom companies to either stabilise or see some slight growth. This will be aided by telecom companies restructuring their organisations in order to save costs. An example of a firm looking to achieve this is Verizon.

> "Many telecom companies are looking to venture into emerging markets where they believe that by exporting their core competencies increased profits can be achieved"

GLOBAL SECTOR OUTLOOK
PHARMACEUTICALS

In February 2009, the growth rate in the pharmaceutical sector was 2%. From August 2009 onwards the growth rate has increased to 5% indicating an improvement in the sector.

Our analysts indicate that the US pharmaceutical sector is likely to see a higher use of generics, which mainly stands to benefit large Indian generic manufacturers who are located in the US.

We have identified the generics space in the market as we have seen rising generics penetration, patent expiries on larger selling drugs and a spur by governments towards cheaper generic drugs which Indian companies such Ranbaxy and Glenmark can provide.

It can take on average 7-10 years to formulate a highly complex drug at a cost of over $1bn. A generic drug however, takes only 2-3 years to develop and costs much less. As companies in all sectors look towards emerging markets to provide the global stimulus, these generic products which are being developed do not require patents to be sold in these markets (as they are not accepted), further reducing costs and therefore increasing profits.

> "With generic product penetration below 20% in developed markets, we can identify developed markets for an increase in growth looking forward in the first quarter of 2010."

It is not only emerging markets that will drive growth in this sector. Many developed economies presently have large budget deficits due to the financial crisis where many industries have had to be supported. As governments look to reduce their deficits, there have been considerable attempts to reduce healthcare costs. With generic product penetration below 20% in developed markets, we can also identify developed markets for an increase in growth in the first quarter of 2010.

As mentioned previously many patents are expiring leaving a gap in the market for generic products to seize upon. Although it may result in some price erosion due to increased competition, it still remains as a growth opportunity. In 2009 patents for GSK's Valtrex drug and in 2010 Eisai's Aricept drug will expire. Looking at only US sales, they accounted for $4.6bn in 2007.

During the global recession, pharmaceutical companies have reflected upon their business models and realise that it needs to be changed. One way that this has occurred is through partnerships arising between innovative companies and generic producers. A prime example of this is the joint venture between GSK and Pfizer-Aurobindo Pharma. Since many Indian companies in pharmaceuticals are USFSA regulated and are generic producers, they stand to benefit in terms of growing their business and being able to take advantage of strong marketing capabilities.

> "During the global recession, pharmaceutical companies have reflected upon their business models and realise that it needs to be changed"

Being USFSA (United States Financial Services Authorities) regulated also means that India is an attractive proposition for large trans-national corporations (TNCs) looking to outsource some of their operations due to low manufacturing and labour costs, approximately 50-60%

cheaper. The main reason for companies choosing India over other emerging markets such as China is that India is miles ahead in terms of regulations. This is an additional reason for an increase in M&A activity there.

Our analysts have highlighted two significant Indian companies which we predict should perform well in the first quarter of 2010. The first company is Dr. Reddy's Laboratories. They are already well positioned in the American market with close to 50 generic products and are continuously looking to launch and market new products and have recently announced a partnership with GSK. The second company is Ranbaxy Laboratories. They are currently looking to stabilise their US business and have access to the tightly regulated Japanese market (world's third largest pharmaceutical market) through its merger with Daiichi Sankyo.

Ranbaxy are also implementing global cost cutting measures alongside ensuring that their procedures become more efficient. However, even though the main benefits for Ranbaxy may not be seen straight away, we believe it would be a worthwhile opportunity. Johnson and Johnson, an American firm are one of the few firms from developed economies who have a promising outlook. Due to their varied product range, large financial resources and global sales capabilities, Johnson and Johnson are strategically positioned for the first quarter of 2010.

SECURE LIQUIDITY MANAGEMENT

AMAS USD BOND FUND

Bonds are long-term securities investments with low risk. At Hinduja Bank (Switzerland) Ltd, we have managed a USD Bond Fund with an outstanding 14 year track record above Libor. Although bonds are associated with lower returns compared to stocks, they can provide stability and liquidity to portfolios by effectively preserving capital. A further benefit is that bonds provide regular income at fixed intervals.

A more detailed overview of the USD Bond Fund is provided below.

INVESTMENT APPROACH

The Fund's investment objective is to offer a return superior to short- to medium-term maturity US Government bonds, by using synthetic durations and hedging techniques. The Fund is invested in the highest quality fixed-income instruments of excellent notations (exclusively AA and AAA), mostly high-grade borrowers established in G5 countries. A limit of 33% is imposed on the use of non-USD assets in order to limit currency risks. However, it must be stated that we currently take a very conservative view which is resulting in a slight underperformance versus the benchmark.

TERMS & CONDITIONS

Management Fee:
0.5 % per annum (HWM: 15%)

Subscription / Redemption:
each Wednesday

Assets Under Management:
USD 10'717'488 (31/12/2009)

Initial subscription price:
USD 1'000, min USD 50'000

Fund manager:
Hinduja Bank (Switzerland) Ltd

Administrator:
Kredietrust Luxembourg SA

ISIN:
LU0063827462

Auditors:
PricewaterhouseCoopers S.A.R.L Luxembourg

Custodian:
KBL European Privvate Bankers Sa, Luxembourg

BREAKDOWN BY PRODUCTS

- Bonds : 99 %
- Cash: 1 %

PERFORMANCE

	1 month	2010	1 year	3 years	Inception
Fund	-0.3%	0.2%	-2.8%	11.3%	91.7%
JP Morgan 3-5 years Gov. Bonds	-1.3%	0.2%	0.1%	22.7%	119.9%
Libor	-2.80%	-1.97%	-82.16%	-95.35%	-95.29%

Performance does not reflect commissions and fees charged on subscriptions and redemptions

ECONOMIC TRENDS

INTEREST YIELD TREASURIES

We present here our views, elaborated by our Investment Committee (IC) on the 3rd of December 2009, on the future trends that will affect (quarterly outlook) interest yields on treasuries, currencies, equity indices, as well as commodities and BRIC zone indices.

INTEREST YIELD TREASURIES

Rates	03.12.2009	13.01.2010	FACTORS: Rising rates/yields +	FACTORS: Declining rates/yields -	3 MONTHS: Trend	3 MONTHS: Views
USD 3 Months	0.26%	0.25%	Improving eco figures and housing bottoming out	Continued mortgage crisis problems. Lower inflation. LT stagflation.	↗	0.30%
USD 10 Years	3.33%	3.37%	Stimulus package = Increased deficit=increased bond issues= potentially bad for bonds.	Worsening economy, continued recession fears. China to continue US bond purchases, maintaining low yields.	↗	3.50% 3.75%
EURO 3 Months	0.68%	0.63%	Ireland, Spain & Greece downgraded by S&P. Improving economic figures and/or inflation reappearing. ECB to keep close watch on figures, ready to raise rates rapidly.	Lower growth expectations will force ECB to maintain low rates in 2010, printing machine still in full swing	→	0.70%
EURO 10 Years	3.20%	3.32%	Long rates much higher than ST rates. Continued signs of improving economy will spark immediate rate hikes by ECB.	Sluggish or worsening economy to put a lid on any rate increases.	↗	3.50%
CHF 3 Months	0.25%	0.25%	Improving economy and faster recession pull out will force SNB to raise rates rapidly in 2010	0% rate policy until economy turns around Increased unemployment.	↗	0.30%
CHF 10 Years	1.88%	2.00%	Rates expected to increase on anticipation of improved economic conditions.	CHF still remains a safe haven; worsening eco situation could spark lower rates.	↗	2.00%

ECONOMIC TRENDS

CURRENCIES

CURRENCIES

FX	03.12.2009	3 Months Fut.	13.01.2010	3 Months Fut.	FACTORS: Rising rates/yields +	FACTORS: Declining rates/yields -	3 MONTHS: Trend	3 MONTHS: Views
EUR / USD	1,5120	1,5115	1,4505	1,4502	Repatriation flow to strengthen bank's balance sheet, USD "mother" of carry trade, Deflationary scenario in the US, USD devaluation, Unwind of ECB Q.E, Central Banks Diversification	Possible exit strategy (FED), Unwind of carry trade	↗	1.52 1.53
USD / CHF	0,9974	0,9968	1,0203	1,0198	Possible exit strategy (FED), Unwind of carry trade, SNB Intervention	USD "mother" of carry trade, Deflationary scenario in the U.S, USD Devaluation, Central Banks diversification	→	0.97 0.99
EUR / CHF	1,5080	1,50641	1,4801	1,4789	Repatriation flow to strengthen bank's balance sheet, Unwind of ECB Q.E, Central Banks Diversification, SNB Intervention, Risk Appetite	Possible exit strategy (FED), Unwind of carry trade, Risk Aversion	↗	1.51 1.53

ECONOMIC TRENDS

EQUITY INDICES

FX	03.12.2009	3 Months Fut.	13.01.2010	3 Months Fut.	FACTORS: +	FACTORS: -	3 MONTHS: Trend	3 MONTHS: Views
D.JONES	10453	10495	10681	10636	Yield on equities higher than government bonds, a lower USD and continuing high exports will help lift markets. Printing machine, low rates to force investors into equity markets	Still huge concerns over credit and the health and survival of numerous large financial institutions and more write downs to come. Higher oil &commodities could slow eventual growth. Higher rates & technical factor	↗	0.00% 5.00%
S&P 500	1109	1115	1146	1142	Lower USD will fuel exports, new investments in infrastructure to create rebound in economic conditions	If we see higher rates and restrictions=negative impact on markets. Negative earnings in Q409 confirming slowdown. Higher oil, rates & commodities could slow eventual growth	↗	0.00% 5.00%
NASDAQ100	1791	1801	1886	1882	Lower USD will fuel exports, new investments in infrastructure to create rebound in economic conditions	If we see higher rates and restrictions=negative impact on markets. Negative earnings in Q409 confirming slowdown. Higher oil, rates & commodities could slow eventual growth	↗	0.00% 5.00%
NIKKEI225	9978	9960	10908	10902	Deflation, lower P/E as well interest rates to remain low. Many Japanese banks hurt by US. BoJ to pursue QE in 2010, highly linked to China consumption	JPY very strong, difficult for exports which have dropped strongly. Consumption still weak, consumer confidence still plunging. JPY to regain status as funding currency. Linked to China consumption.	↗	0.00% 5.00%

ECONOMIC TRENDS

EQUITY INDICES

FX	03.12.2009	3 Months Fut.	13.01.2010	3 Months Fut.	FACTORS +	FACTORS -	3 MONTHS Trend	3 MONTHS Views
CAC 40	3833	3827	4020	4020	Government reforms, strong EUR to keep inflation down, industrial stimulus package	Lower consumer confidence. Increased unemployment, lower GDP and higher rates. Strong EUR to hurt exports.	↗	0.00% 5.00%
DAX 30	5840	5843	5996	6002	Will Angela Merkel's stimulus package be sufficiently agressive	Higher inflation, credit crunch top of agenda after pre-election period which had ignored the problem.	↗	0.00% 5.00%
FTSE 100	5366	5368	5502	5459	Lower GBP and rock bottom rates, house prices rebounding but for how long	Government has lost credibility. Very high personal indebtness, Banks under serious capital pressure. Unemployment rising.	↗	0.00% 5.00%
SMI	6442	6451	6623	6565	SMI strong bank and pharma weighting to impact heavily on upswing	Further subprime write downs by banks. Strong CHF will hurt exports & industries.	↗	5.00% 10.00%

ECONOMIC TRENDS

COMMODITIES

CMDTY	03.12.2009	3 Months Fut.	13.01.2010	3 Months Fut.	FACTORS +	FACTORS -	3 MONTHS Trend	3 MONTHS Views
OIL	77	80	80	81	Supply adequate but subject to geo-political events, speculation, and fears that exporting countries production peaking Lower USD to cause price hike	Balance of supply/demand and return to positive. OPEC to have an important "say". Downturn in economy to spur lower oil consumption and demand. Price very re-active to political events	→	75 85
GOLD	1221	1223	1138	1140	Economic rebound, stimulus package = inflation and higher gold prices. China has been accumulating gold and is now in 5th place in terms of gold reserves, beating Switzerland, and increasing their holdings by 75% in 2009	Linked to commodity prices and weaker BRIC country demand - higher USD.	↘↗	Buy at <1100 Sell at >1300

ECONOMIC TRENDS

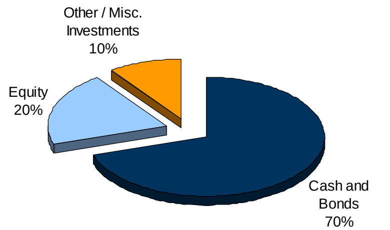
BRIC

BRIC	03.12.2009	3 Months Fut.	13.01.2010	3 Months Fut.	FACTORS +	FACTORS -	3 MONTHS Trend	3 MONTHS Views
HANG SENG INDEX (CHINA PROXY)	22554		2171		China has ended it's stimulus package, in reaction, markets are correcting. However China's growth in 2009 to exceed 8%, fuelled 50% by Government demand = huge support to economy. China can afford strong stimulus program but private demand will remain weak. China will not allow its currency to appreciate.			+ 5%
BSE SENSEX 30 (INDIA)	17321	17300	17585	17550	75% rise year to date, above peers on growth expectations (PE at 22.9), no major events to be market movers, if world economy keeps improving, India will be a prime beneficiary.			+ 5%
MICEX (RUSSIA)	1345		1451		Political crisis negative to markets, indices strongly weighted in energy stocks. Year to date market increased by 115%! PE at 20.6			+ 5%
BRASIL BOVESPA STOCK IDX	68615	68803	70385	70969	Country less touched by recession, domestic demand buffering international downturn. Inflation a structural success story, down from 10-15% in 2002-03 to 4.5% since 2005. Year to date market up 83%, PE 21.			+ 5%

RECOMMENDED ASSET ALLOCATION

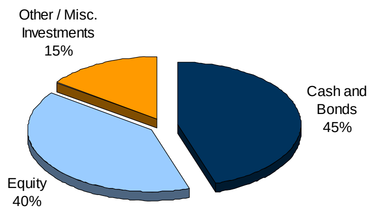
Conservative

- Preservation of Capital
- Generation of regular income and returns
- Low tolerance for risk
- Target time horizon of 3 years



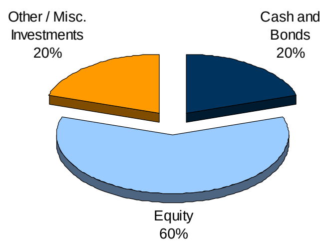
Balanced

- Increase real value of the assets in long term
- Generation of income in the form of interests, dividends and capital gains
- Medium tolerance to risk
- Target time horizon of 5 years



Dynamic

- Maximization of long term capital appreciation
- Generation of income in form of capital gains
- High tolerance to risk
- Target time horizon of 10 years



CURRENCY CONVERSION TABLE

Currencies	Code	1 CHF buys	In CHF
United States Dollar	USD	0.982	1.018
Euro	EUR	0.678	1.474
British Pound	Sterling	0.609	1.643
Indian Rupee	INR	44.910	0.022
Australian Dollar	AUD	1.063	0.941
New Zealand Dollar	NZD	1.328	0.986
Canadian Dollar	CAD	1.015	0.753
Japanese Yen	Yen	89.812	0.011
Brazilian Real	BRL	1.717	0.583
Russian Ruble	RUR	28.961	0.035
Chinese Yuan	CNY	6.706	0.149
Mauritian Rupee	MUR	29.389	0.034
Hong Kong Dollar	HKD	7.617	0.131

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