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By Kathleen Gallagher



Edward McIlveen

Gate-crashers Michael and Tareq Salahi may have stolen the show, but Indian Prime Minister

Manmohan Singh was actually the guest of honor at a White House state dinner late last year.

And for good reason, says Ed McIlveen, director of performance analytics and research at Francis Investment Counsel in Pewaukee.

The Indian economy has grown at an annual rate of about 8% in the last five years, and it held up well during the global economic downturn in 2009, McIlveen said.

"In the last 20 years, this nation has transformed itself from a socialist, nearly bankrupt country into a more liberalized economy poised to grow," McIlveen said. "There's a theme of economic resilience specific to India that's appealing."

Singh and his party gained political capital in the May 2009 elections, easing investors' fears of an indecisive outcome and setting the stage for more stability, McIlveen said.

India has a relatively self-contained economy with just 15% of it tied to

exports, and a rising middle class that is not burdened with high debt, he said. More than half of the country's population is under 29 years of age.

"Think of what the baby boom generation did for our nation in terms of increased productivity," McIlveen said.

There's always a risk of social unrest or that commodity-poor India could be hurt by a big energy price spike. The admission by Satyam Computer Services in early 2009 that it had been inflating earnings is also a reminder that fraud can surface.

But McIlveen sees opportunities for investors in India, where stocks trade at an average of 15 times their estimated earnings for the next 12 months.

Companies like **Unilever** (UL, \$27.04), **Colgate-Palmolive Co.** (CL, \$78.09) and **Vodafone Group** (VOD, \$20.10) all stand to benefit from India's rising middle class, he said.

Oppenheimer Developing Markets (ODMAX, \$27.73) is a decent international fund with a 14% exposure to India compared with about 8% for the MSCI Emerging Markets Index.

Wisdom Tree India Earnings (EPI, \$21.48) is an even more targeted way to get India exposure, McIlveen said. This exchange-traded fund tracks an

index that was created based on the earnings of Indian companies.

McIlveen says his favorite direct play on India is an actively managed fund run by a firm dedicated to investing in that part of the world:

Matthews India Fund (MINDX, \$17.21) targets two-thirds of its assets to small and midsize companies.

"That's what we feel are the strong growth drivers," McIlveen said. "There's an information advantage with this kind of approach."

McIlveen said he talked with lead portfolio manager Sharat Shroff, a native of India who seemed to have great expertise and knowledge of the country.

The fund has a reasonable expense ratio, and the biggest risk McIlveen sees is the volatility that comes with smaller company stocks and emerging markets. It has traded as high as \$18.72 and as low as \$11.48 in the last 52 weeks.

McIlveen recommends investors put no more than 5% of their assets in the fund, which could provide a return of as much as two percentage points more than the Standard & Poor's 500 index over the next five years.