GRANT'S
INTEREST RATE OBSERVER®

Vol. 33, No. 03c Two Wall Street, New York, New York 10005 • www.grantspub.com FEBRUARY 6, 2015

Passage to capitalism

The 50 million share initial public offering of Fairfax India Holdings Corp.—FIH on the Toronto Exchange—went off in understated Canadian fashion on Jan. 30. Priced at $10, the stock edged down a sedate quarter point. On the same day, a very different IPO went off 500 miles to the south. Shake Shack debuted on the New York Stock Exchange at $21 and instantly zoomed to $47. Value investors shuddered.

We write to plug Fairfax India, corporate offspring of Fairfax Financial Holdings, the C$14 billion Canadian insurance group under the leadership of its founder, CEO and 44% owner, V. Prem Watsa. From 1985 through 2013, Fairfax delivered average annual gains in book value of 21.3%. Warren Buffett, as people are wont to say, is America's own Prem Watsa.

We incorporate, by reference, the bullish *Grant's* view on India (see the issues of March 21, April 4 and May 30). Yes, the Indian market has had a run, and no, at 16 times the forward earnings estimate, the Bombay Stock Exchange index is hardly cheap. The bull case concerns the out years, on which we optimists project the possibility of great doings. Under Prime Minister Narendra Modi, the bullish vision has it, India will shake off its long-lingering socialist incubus and commit to enterprise. If hope becomes reality, India could prove the great growth story of the era. If not, you are left with a market trading slightly above its 10-year average P/E multiple. Which is to say, you could lose a lot of money.

Fairfax India, like Fairfax Financial, is clearly Watsa's show (super-voting shares in the hands of Fairfax Financial assures it). It's probably just as well. Hamblin Watsa Investment Counsel Ltd., Fairfax's wholly owned investment manager, has invested in India since 2000, generating an annualized return since inception of 20.5%. This alone would not necessarily clinch the case for investing in Fairfax India: Over the past one-, three- and five-year periods, Matthews India Fund (MINDX), India Fund (IFN) and Morgan Stanley India Investment Fund (IIF) have also excelled.

Fairfax India shows a different face to the world than do the mutual funds just enumerated. You don't know exactly what you are getting with Fairfax, colleague David Peligal points out. You have reason to believe, based on the prospectus, that Watsa et al. will favor concentrated positions and not shy away from an illiquid investment merely because it's illiquid.

"Fairfax India will not be an index fund," a knowledgeable India hand tells Peligal. "If you have a dynamic and changing environment like India, this vehicle should be able to take advantage of many more opportunities than an index fund could offer. That gives an argument for having something like the Fairfax India Fund in your portfolio. To invest in this kind of product, Watsa is probably the only guy who could do it, and the only guy an experienced Indian investor would do it with. It doesn't mean there would be a 100% likelihood of success—far from it. But who else would you give your money to and feel comfortable? The names just don't jump out. Even some small on-the-ground India investors are far more likely to get it wrong than Watsa is."

•