ETFS Investment Research

ETF Securities | The intelligent alternative | December 2019

India: Down But Not Out

Key Points:

- India's economy has underlying strengths and over the past 12 years has become an economic powerhouse, jumping from the 11th to the 5th largest economy in the world.
- After a 2 year slow down, India's outlook remains positive. Reliance Nippon Life Asset Management forecasts GDP growth to recover towards 7% over the next 12-15 months.
- NDIA allows investors access to the Indian share market, a notoriously difficult region to invest in, by tracking the performance of 50 of India's leading blue-chip companies.

India has been increasingly moving into the spotlight of many investors in recent years. Over the past 12 years India has jumped from the 11th to the 5th largest economy in the world and is likely to take 3rd position within a decade. This makes it difficult to ignore India when building a global equity portfolio.

Further, the recent launch of ETFS Reliance India Nifty 50 ETF (ASX code: NDIA), Australia's first Indian-focused ETF, has provided investors with ready access to a market that was previously difficult to invest in.

The case for India

Structurally, India's economy has underlying strengths that have enabled robust growth and provide a strong macro story.

- **Demographics**: with a median age of 28 years, India's population is highly skewed towards young working-age people who drive both income and consumption. By 2030 India's median age is forecast to rise to just 31, compared to 40 in the U.S. and 42 in China. Further, a dramatic urbanisation of the population is in progress, which will create a massive need for infrastructure investment across housing, transport, communications and utilities.

- **Low debt levels**: To this point Indian economic growth has not been excessively reliant on debt. Household leverage in India remains one of the lowest in the world, which presents a huge opportunity for sustained economic expansion.

- **Strong domestic consumption:** Nearly 60% of India's GDP is driven by domestic private consumption, as compared to 40% in China. This provides India with a degree of protection against external demand shocks. Furthermore, India's per capita spending is way below China's and more in line with levels seen in China in the mid-2000s.

- **Progressive reforms:** India has undergone many reforms in the last 5 years. Most have been aimed at increasing compliance and transparency and removing red tape across the financial system. Longer-term, a stable and reform-focused regime should support an environment conducive to business and investment.

Future Outlook

While Indian growth has slowed over the past two years, the outlook remains positive. Reliance Nippon Life Asset Management forecasts GDP growth to recover towards 7% over the next 12-15 months. Key factors driving near-term growth include;

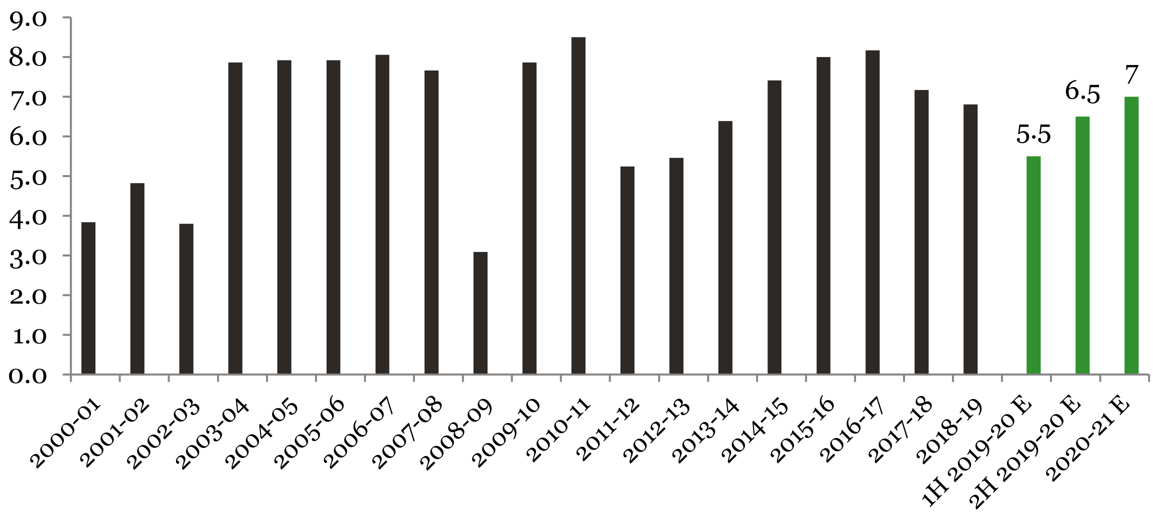
- **Corporate tax cuts:** India has recently reduced its effective corporate tax rate to 25.1% from over 30%. In addition, firms who set up new manufacturing units will enjoy an effective tax rate of 17.1%. This is expected to attract significant investment from foreign companies looking to access India's domestic market and those looking to diversify away from China as uncertainty continues with regards to the global trade and tariff situation.

- **Infrastructure spending:** Government initiated infrastructure projects are a key driver of the Indian economy. It was recently announced that India will spend about $US 1.4 trillion over the next five years on projects including, for example, doubling the number of highways, airports and the capacity of ports, building 50 new metro systems in cities, electrifying and standardising the rail network and improving both rural irrigation and household access to piped water.

- **Monetary policy:** The RBI has cut policy rates by 1.35% over the past year to 5.15% to provide stimulus to the economy and counter the weakness seen in global demand.

- **Low inventory levels:** Inventory levels across the economy are well positioned to provide a favourable base for a recovery across the manufacturing sectors.

India Real GDP growth (%yoy)



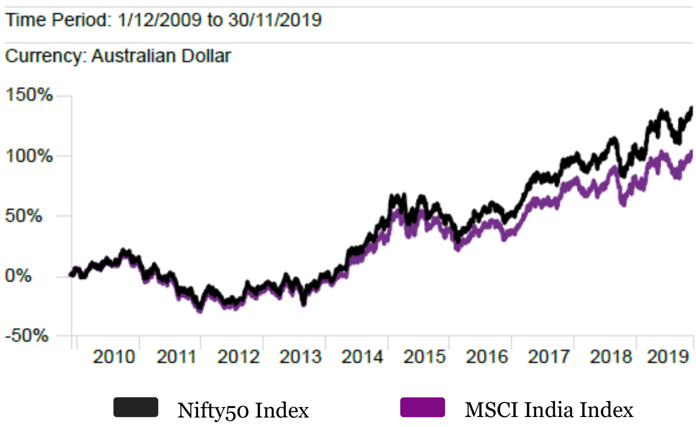
Source: Reliance Nippon Asset Management, October 2019

Access to India

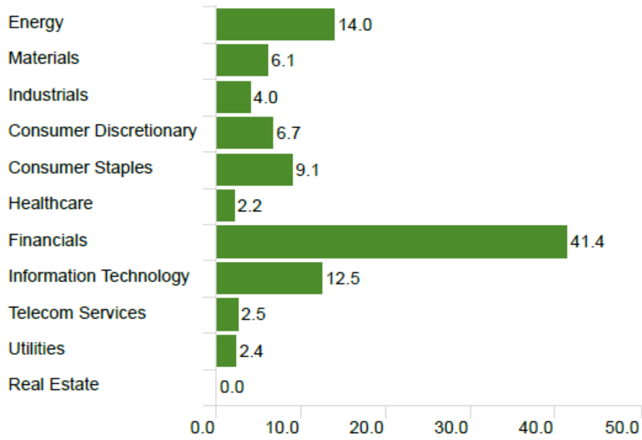
The ETFS Reliance India Nifty 50 ETF offers Australian investors the ability to access the Indian share market via the ASX for the first time.

NDIA tracks the Nifty50 Index, which is the primary benchmark for the Indian equity market. It not only provides a measure of the performance of 50 of India's leading blue-chip companies, it also provides a representative picture of the entire Indian market. The 50 constituents account for 67% of overall Indian market capitalisation and 53% of total trading volume, as well as providing a broadly similar sector exposure to the wider market.

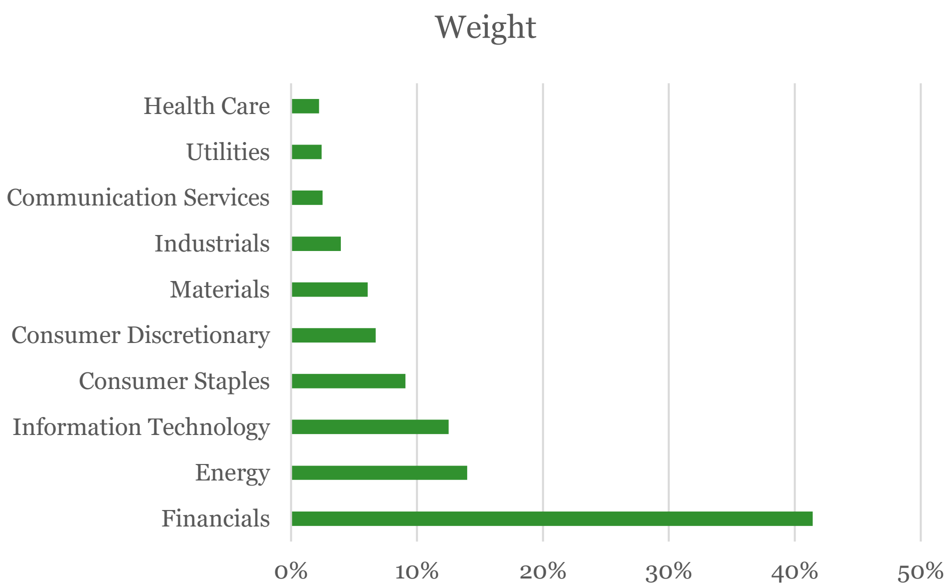
10 Year Investment Growth of Benchmark



Sector Allocation %



Source: Morningstar, as at 30 November 2019



Source: Morningstar, as at 30 November 2019

Trailing returns

	1 Month	3 Months	6 Months	YTD	1 Year	3 Years	5 Years	10 Years
ETFS Reliance India Nifty 50 ETF	1.68%	7.12%	—	—	—	—	—	—
Nifty50 Index	2.22%	8.64%	1.52%	13.87%	17.83%	16.72%	10.32%	9.05%
MSCI India Index	1.28%	6.51%	0.51%	10.29%	14.25%	14.16%	8.40%	7.26%

Source: Morningstar, as at 30 November 2019. Currency: Australian Dollar.

Using India in a portfolio

Investors looking to take a meaningful exposure to the Indian growth story should consider taking an exposure beyond broad emerging markets/Asia. India currently accounts for just 2.6% of global equity market capitalisation, despite having over 17% of the world's population and 9.5% of the world's GDP. In comparison, China, which is the most comparable country from a population perspective, currently accounts for 8.2% of global equity markets.[1] A tactical overweight to India would provide investors with a fairer reflection of India's potential.

While historical data does not present the entire picture of the Indian growth opportunity as it stands today, it is worthwhile investigating the impact that a heightened India exposure would have had on historic portfolio returns. To do so, we focus on the Asia ex Japan segment of world equity markets and compare the performance of the MSCI Asia ex Japan Index, which includes roughly a 10% allocation to India, to a portfolio comprised of 90% MSCI Asia ex Japan and 10% Nifty50 Index. The blended portfolio contains approximately a 19% India allocation. Cumulative returns over the past 20 years are shown in Chart 1.

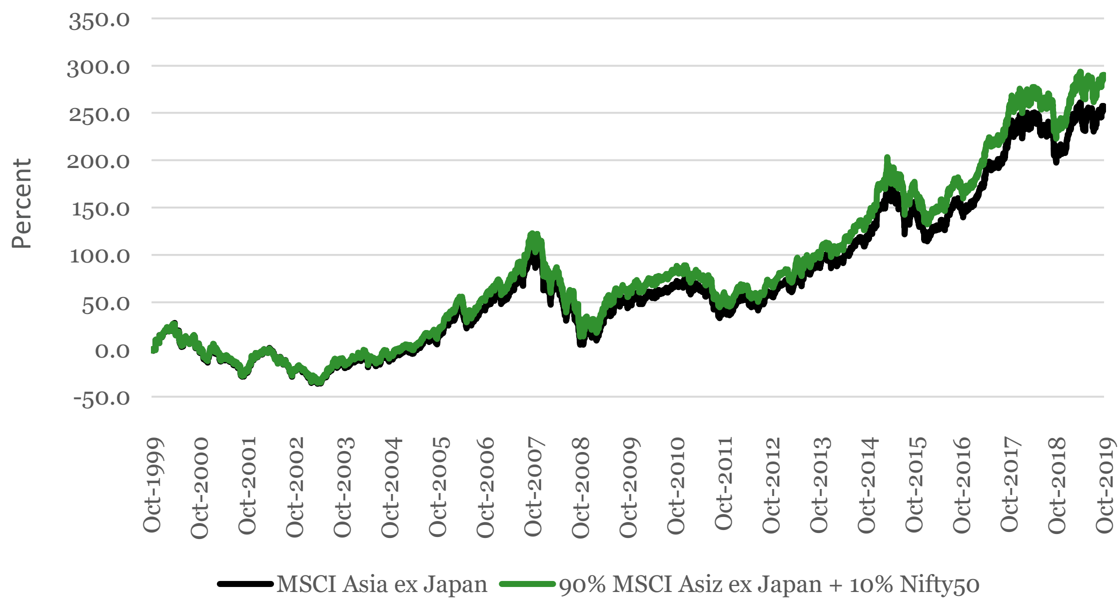


Chart 1: Source: Morningstar Direct as at 30 November 2019.

[1] Source: Bloomberg as at 30 November 2019.

Over the full 20-year time series, the portfolio including the Nifty50 outperformed by 0.51% per annum, exhibited 0.5% per annum lower volatility and saw a 1% lower drawdown. By extension, risk-adjusted returns were also improved.

Table Y summaries the portfolio risk and return characteristics over 3, 5, 10 and 20 years to give a picture of the contribution India would have made over a range of time horizons. In each case the overweighting of India was positive for the portfolio from both a return and a risk perspective.

	3 Year		***5 Year***		***10 Year***		***20 Year***	
Return	12.44%	12.72%	10.30%	10.47%	9.27%	9.41%	6.56%	7.04%
Std Dev	15.14%	14.73%	16.80%	16.43%	17.16%	16.81%	21.76%	12.27%
Max Drawdown	-15.17%	-14.37%	-23.69%	-23.41%	-23.94%	-23.50%	-50.07%	-49.06%
Sharpe Ratio	0.67	0.71	0.37	0.39	0.46	0.48	0.36	0.39

100% MSCI Asia ex Japan
90% MSIC Asia ex Japan + 10% Nifty50

Table Y: Morningstar Direct as at 30 November 2019

Fund in Focus

Name	ETFS Reliance India nifty 50 ETF
ASX Code	NDIA
Management Fee	0.85% p.a.*
Benchmark	Nifty50 Index
Inception Date	19 June 2019
Distributions	Annual

*Plus expense recoveries up to a maximum of 0.15% p.a.

NDIA Factsheet
NDIA Product Page

GET MORE INFORMATION

To sign up for future ETF Securities Investment Research, email infoAU@etfsecurities.com.au

Contact ETF Securities

Sales
Phone: +61 2 8311 3488
Email: infoAU@etfsecurities.com.au

Trading
Phone: +61 2 8311 3483
Email: primarymarkets@etfsecurities.com.au

Disclaimer

This document is issued by ETFS Management (AUS) Limited ("ETFS") (Australian Financial Services Licence Number 466778). This document may not be reproduced, distributed or published by any recipient for any purpose. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy, any securities, investments or other financial instruments.

The information provided in this document is general in nature only and does not take into account your personal objectives, financial situations or needs. Before acting on any information in this document, you should consider the appropriateness of the information having regard to your objectives, financial situation or needs and consider seeking independent financial, legal, tax and other relevant advice having regard to your particular circumstances. Any investment decision should only be made after obtaining and considering the relevant product disclosure statement

This document has been prepared by ETFS from sources which ETFS believes to be correct. However, none of ETFS, ETFS Capital Limited, nor any other member of the ETFS Capital Group, nor any of their respective directors, employees or agents make any representation or warranty as to, or assume any responsibility for the accuracy or completeness of, or any errors or omissions in, any information or statement of opinion contained in this document or in any accompanying, previous or subsequent material or presentation. To the maximum extent permitted by law, ETFS and each of those persons disclaim all any responsibility or liability for any loss or damage which may be suffered by any person relying upon any information contained in, or any omissions from, this document.

Investments in any product issued by ETFS are subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither ETFS, ETFS Capital Limited nor any other member of the ETFS Capital Group nor any of their respective directors, employees or agents guarantees the performance of any products issued by ETFS or the repayment of capital or any particular rate of return therefrom.

The value or return of an investment will fluctuate and an investor may lose some or all of their investment. Past performance is not a reliable indicator of future performance.