MSCI India

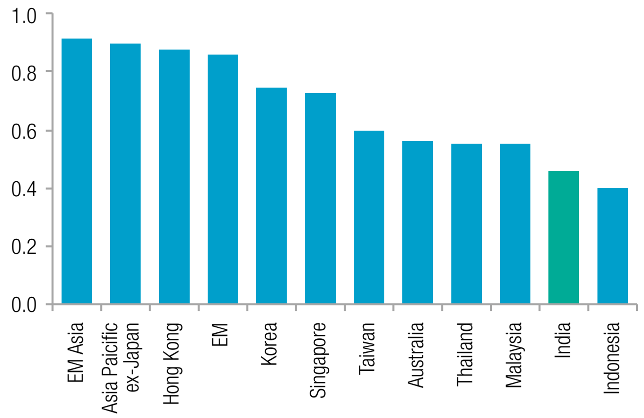
Protect portfolios from protectionism

Indian equities have proven less sensitive to escalating trade tensions compared to other emerging markets. The country relies far more on its internal growth engine and is less dependent on exports than China. The recent reinstatement of Prime Minister Modi also warrants political stability for the next five years, an important support for Indian equities.

Indian equities less sensitive to other emerging markets

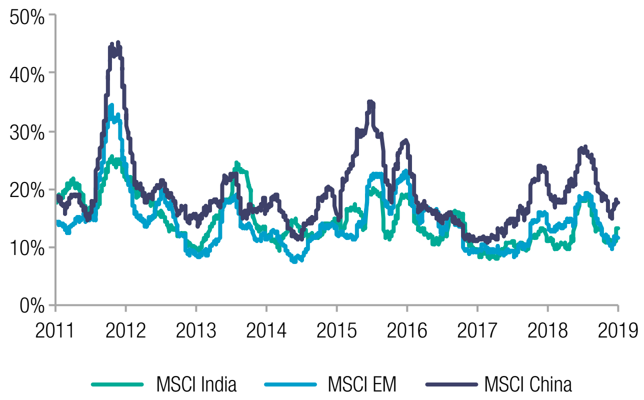
Indian equities are not completely insulated from the general sentiment on EMs, but the country has one of the lowest correlations in Asia with Chinese equities and has also exhibited a lower volatility.

India Low correlation vs. China



Correlation is calculated using the last five years of monthly returns (data as at 31/01/2019). Source: SG Cross Asset Research/ Equity Strategy Past performance is no guarantee of future results.

MSCI India less volatile than MSCI China



Volatility calculated on 90 days daily returns. Source: MSCI, Bloomberg, Lyxor AM International, data as at 30/05/2019

India the core of every EM portfolio

India is the second largest emerging market economy but has only a weight of 8.5% in the bellwether MSCI Emerging Markets benchmark, it is under represented in broad EM indices.[1] Adding a 20% overweight to India in a portfolio tracking the MSCI benchmark improved overall returns and reduced risk over the past five years. According to MSCI calculations, the annualised volatility of such a portfolio would have been around 5% lower than MSCI EM, while annualised returns were two times higher.[1]

Statistic	20% India + 80% EM	MSCI EM
Total Return* (%)	3.37	1.65
Total Risk* (%)	14.62	15.19
Return / Risk	0.23	0.11
Active Return* (%)	1.72	-
Tracking Error* (%)	2.81	-
Information Ratio	0.61	-
Sharpe Ratio	0.19	0.07
Historical Beta	0.95	-
Max Drawdown (%)	- 27.44	-29.77

[1]Source: MSCI, *5Y analysis as of end of December 2018. Based on Monthly data. Past performance is not indicative of future results.

Long-term capital gains tax made a come back

What's happened?

- The Union Budget 2018 imposed **10%** tax on long-term capital gains arising from listed equity shares, effective from April 2018

How can investors react to the new LTCG tax?

- Favoured routes to Indian equities such as Mauritius or Singapore will lose their historical appeal after 2019
- The **Netherlands** and **France** are attractive considering their tax treaties with India

Which vehicles may be well suited for Indian equity investors?

- Derivatives & synthetic ETFs are exempt for LTCG tax
- CGT is payable on many offshore ETFs (e.g. US domiciled ETFs)
- Non-US investors in US ETFs are likely subject to withholding tax
- French-domiciled ETFs are exempt from CGT

How might our ETF perform vs. physical competitors?

Estimated performance outlook with a simplified example assuming 10% annual return on MSCI India index[1]

						Expected performance vs. index		
ETF	Domicile	TER	Est. replication cost	CGT	Div. WHT	1Y	3Y	5y
Lyxor MSCI India ETF	**France**	**0.85%**	**0.80%**	**0%**	**0%**	**-1.65%**	**-4.95%**	**-8.25%**
Physical UCITS Competitor	Ireland	0.65%	0.20%	1%	0%	-1.85%	-5.55%	-9.25%
Physical US domiciled competitor	US	0.68%	0.20%	1%	0.30%	-2.18%	-6.54%	-10.90%

[1]Simplified hypothetical scenario: Period Total return index less period TER less annualised replication cost less period capital gains tax less period dividend withholding tax.
For the 3 years example ETF performance = 30% - (3x TER) – (3x replication cost) – (3 x 10% CGT) – (3 x 15% WHT on estimated dividend of 1.5%). Assumption is made for non-US investor.
Source: Lyxor Asset Management International, analysis for illustrative purpose only. Past performance is not a reliable indicator of future performance.

The obtaining of the tax advantages or treatments defined in this document (as the case may be) depends on each investor's particular tax status, the jurisdiction from which it invests as well as applicable laws. This tax treatment can be modified at any time. We recommend to investors who wish to obtain further information on their tax status that they seek assistance from their tax advisor.

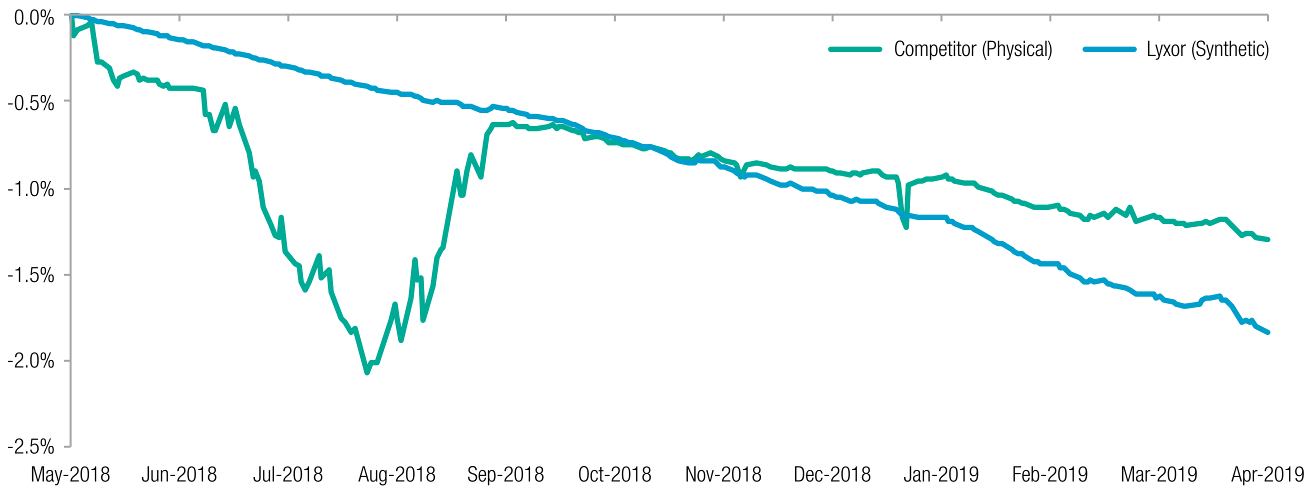
Why we use synthetic replication

Synthetic replication may be perceived as being more complex than physical, but the additional security or steadier performance it can offer should not be ignored

Robust risk management

- Operational challenges of managing EM finds are 100% outsources to the swap counterparty, offering a degree of protection.
- Synthetic ETFs have counterparty risk (mitigated by direct ownership of a substitute basket), but some physical ETFs engage in securities lending to boost performance, meaning they too are exposed.
- Another potential advantage of synthetic in EM is the stronger likelihood of lower tracking error

MSCI India ETFs – Tracking difference vs index[1]



[1]Source: Lyxor International Asset Management, Bloomberg. Data period from 30/05/2018 to 30/05/2019. Past performance is not a reliable indicator of future results.

What's the difference anyway?

- Physically replicated ETFs purchase all (or a representative subset) of the index holdings to mirror its return, while synthetic ETFs buy a substitute basket of physical assets and instead provide the index return through a financial transaction with a counterparty called a 'performance swap'
- The main difference between physical and synthetic replication is one of function: physical replication relies on the assets to deliver performance, while synthetic replication uses them for safety.

Why Lyxor for Indian equities?

Accomplished
The largest Indian equity ETF on the market, with **$1.2bn** in assets*

Liquid
The **most traded** India ETF on exchange, with the tightest spreads**

Dependable
The oldest India ETF on the market, with over **12 years** of track record*

Efficient
The **most efficient** India ETF on the market over one and 3 years**

Broad
Capture approximately **85%** of the Indian equity universe*

*Source: Lyxor International Asset Management. Data as at 28/05/2019. Statements refer to European ETF market.
**Source: Lyxor International Asset Management, Bloomberg. Data over one year as at 26/02/2019. Efficiency data is based on the efficiency indicator created by Lyxor 's research department in 2013. It examines 3 components of performance: tracking error, liquidity and spread purchase/sale. Each peer group includes the relevant Lyxor ETF share-class and the 4 largest ETF share-classes issued by other providers, representing market-share of at least 5% on the relative index. ETF sizes are considered as
an average of AUM levels observed over the relevant time period. Detailed methodology may be found in the paper 'Measuring Performance of Exchange Traded Funds' by Marlène Hassine and Thierry Roncalli. Statements refer to European ETF market. Past performance is no guide to future returns.

Knowing your risk

It is important for potential investors to evaluate the risks described below and in the fund prospectus on our website **www.lyxoretf.com**

Capital at risk
ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Underlying index. Investors'capital is fully at risk and investors may not get back the amount originally invested.

Replication risk
The fund objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

Counterparty risk
With synthetic ETFs, investors are exposed to risks resulting from the use of an OTC swap with Société Générale. In-line with UCITS guidelines, the exposure to Société Générale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending programme.

Underlying risk
The Underlying index of a Lyxor ETF may be complex and volatile. For example, when investing in commodities, the Underlying index is calculated with reference to commodity futures contracts exposing the investor to a liquidity risk linked to costs such as cost of carry and transportation. ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

Currency risk
ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Underlying index they are tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

Liquidity risk
Liquidity is provided by registered market-makers on the respective stock exchange where the ETF is listed, including Société Générale. On exchange, liquidity may be limited as a result of a suspension in the underlying market represented by the Underlying index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, or other market-maker systems; or an abnormal trading situation or event.

Contact us
www.lyxoretf.com

LYXOR etf
SOCIETE GENERALE GROUP