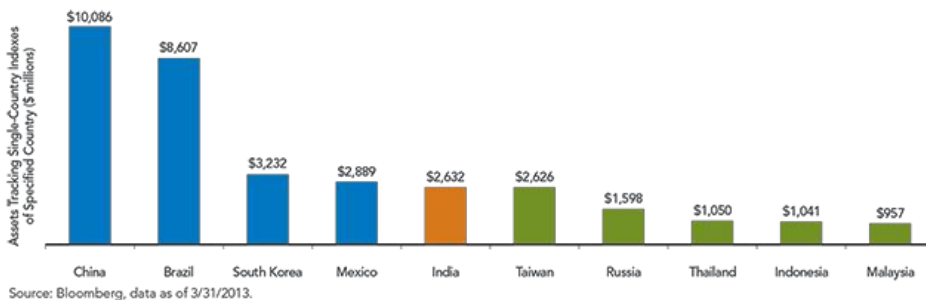


ARE INVESTORS UNDER ALLOCATED TO INDIA?

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05/09/2013

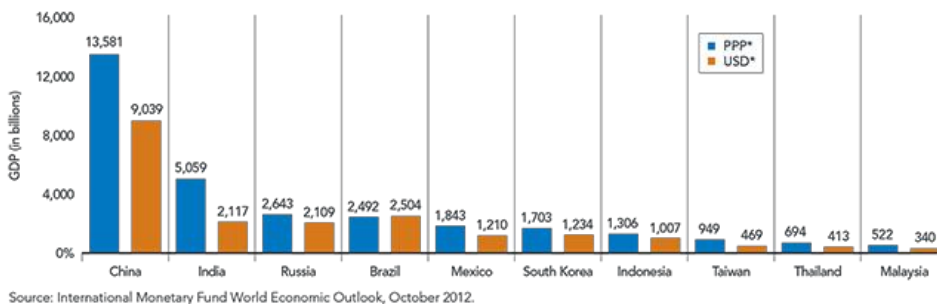
India has the world’s second-largest population¹ and one of the best long-term economic growth rates of all emerging market countries.² India also has an educated workforce and seems to embrace all forms of technology—with, notably, about twice as many cell phone subscribers as there are people in the United States. But with India being one of the so-called [BRIC](#) countries, we have to ask: Are investors potentially under-allocating? We believe they are. Our Assets-Under-Management (AUM) Figures we have reviewed all the listed ETFs in U.S. exchanges to determine ETFs focused on tracking the performance of equity market indexes specific to single emerging market countries. Throughout this piece, we’ll reference AUM in the following format: (“EM Country” AUM) for clarity, and this represents the total assets in U.S. exchange-listed ETFs tracking equity indexes of that country (data source: Bloomberg, as of March 31, 2013). We also limit our study to the top 10 countries by AUM, based on the MSCI classification of 21 emerging markets.

Top 10: Assets Tracking Emerging Market Single-Country Equity Indexes



• **Brazil & China:** China AUM is by far the highest, followed by Brazil AUM. After Brazil, there is quite a drop-off.
 • **South Korea & Mexico:** These countries are not part of BRIC, but the asset picture indicates significant interest. Both are ahead of the other two BRIC country AUMs, India and Russia. **Based on Economic Size and Growth Potential, Investors Appear Under-Allocated to India** One metric that suggests investors are under-weight: the relative size of the various economies.

Gross Domestic Product (GDP) by Country in Both U.S. Dollars & According to [Purchasing Power Parity \(PPP\)](#) Exchange Rates



• On a PPP basis, India is the second-largest economy behind China and third-largest economy with GDP measured in U.S. dollars.
 • The large difference between India’s GDP in

U.S. dollar terms versus PPP terms illustrates the potential for India's currency to appreciate over time. It doesn't necessarily imply immediate or significant appreciation of India's currency, but we believe differences in PPP value of a currency is a sign of the currency's undervalued nature. • India, Russia and Brazil are very similarly sized on a USD GDP basis. However, Brazil AUM is about five times the size of Russia AUM and about three times the size of India AUM. Based on economic size, it makes sense that China AUM ranks first—it's the largest economy on this list by a significant margin, whichever exchange rate measurement is used. However, what makes less sense to us (again, just looking at the GDP data) is that South Korea and Mexico AUM are larger than India AUM and that the margin between Brazil AUM and India AUM is so great. **Economic Growth** Admittedly, absolute economic size is only part of the story. The potential for growth of those economies also is important. • **India Ranks Fourth:** Of the countries included within our analysis, India exhibits the fourth-highest GDP growth rate based on International Monetary Fund estimates for 2013. This places it ahead of Brazil, South Korea and Mexico. In fact, by this metric, South Korea and Mexico are ranked 9th and 10th, respectively. **Conclusion** By these metrics, it intuitively makes sense that China ranks first in total assets among emerging market countries. However, after China, the allocation discussion becomes murky, when looking at economic size and growth. The size and growth potential of these economies do not show why Brazil, South Korea, or Mexico would have significantly more assets under management than India. In our next blog, we'll discuss the potential of risk, returns and diversification in offering further explanation for these AUM rankings. Read our full research [here](#). ¹Source: CIA World Factbook, July 2013 Population Estimate. ²Source: International Monetary Fund, World Economic Outlook, October 2012.

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DEFINITIONS

BRIC: An acronym for Brazil, Russia, India and China.

Purchasing power parity: Academic concept stating that exchange rates should adjust so that equivalent goods and services cost the same across countries, after accounting for exchange-rate differences.