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EGShares launches India small-cap ETF in US

Indira Kannan / New York July 9, 2010, 0:25 IST

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EGShares, a New York-based asset management company that focuses on emerging markets, launched an India-specific exchange-traded fund on Wednesday.

The fund, called the Emerging Global Shares Indxx India Small Cap Index Fund, is the first ETF to offer US investors access to India's small-cap companies. The India Small Cap ETF is listed on the New York Stock Exchange (NYSE: SCIN) and closed at \$20.42 on low volumes of 1,186 at the end of the first day of trading.

The new ETF will track the Indxx India Small Cap Index, and invest in 75 publicly-traded companies with market capitalisation between \$100 million and \$2 billion. The top-five sector weights of the index are commercial banks, followed by information technology services, software, textiles, apparel and luxury goods, and metals and mining.

TOP PICKS

Top holdings of India small-cap ETF (NYSE: SCIN)

- Patni Computer
- Indian Bank
- Mangalore Refinery
- UCO Bank
- Godrej Industries

Referring to the decision to pick India's small-cap segment, Richard Kang, chief investment officer of Emerging Global Advisors, the investment advisory firm that sponsors EGShares' ETFs, said: "We wanted to focus on the best growth stories in the best growth country." EGShares wants to capitalise on what it sees as a growing trend in India's domestic consumption, and believes these products and services are more likely to come from smaller cap companies.

Kang admits that the higher growth potential of small-cap companies would also mean higher risk, but believes that US investors are ready to take on the risk, especially when the options are an equal amount of risk and volatility in US equities

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for a much lower return. He points that during 2007-2009, American investors saw a drop of over 50 per cent in the markets, and of up to 85 per cent in some particular sectors. The outlook for US equities is now in the 0-5 per cent range.

But, why would investors choose an India-specific ETF over a more generic emerging market ETF? "The correlation of broader emerging market ETFs with major indices like S&P500 is very high," said Kang, adding, this would make it pointless to invest in a generic emerging market ETF if the objective is portfolio diversification. When it comes to real returns, Kang says, "Emerging markets look good; India looks better; and Indian small cap companies look the best."

For now, EGShares believes the biggest impact on the Indian stock market will come from prices and actions of the Reserve Bank of India.

EGShares had planned to launch its first India-specific ETF, the India Infrastructure ETF, in May. Kang said they decided to bring forward the launch of the small-cap ETF because, with this fund, they could best differentiate themselves from the other four India-focused exchange-traded products in the market, which are all large-cap funds.

EGShares now aims to launch the India Infrastructure ETF "before the end of this summer".

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