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Exchange-traded funds flex muscles in domestic market

Muthukumar K

Posted: Monday, Sep 12, 2011 at 0251 hrs IST

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GROWING INFLUENCE	
Name of India-based ETFs	Assets under management* in \$ million
WisdomTree India Earnings Fund	1,081
iPath MSCI India Index ETN	594
PowerShares India Portfolio	403
iShares S&P India Nifty 50 Index Fund	191
Market Vectors India Small-Cap Index ETF	48
EGShares India Infrastructure ETF	68
EGShares India Small Cap ETF	27
EGShares India Consumer ETF	2
Total	2,414

* as of August 18, 2011 Source: Indxx Capital

Mumbai: India-focused exchange-traded funds (ETFs) listed abroad are increasingly influencing the last one month when foreign institutional investors dumped Indian equities, ETFs alone accounted for about 30% of it.

Still, ETFs' influence on Indian markets is not as much as in other emerging markets such as Taiwan (71%), South Korea (51%) India-focused ETF assets as well as new filings in US indicate that their influence is going to grow from hereon.

"ETFs are increasingly influencing index stocks creating gaps in valuations between large-caps and mid-caps over the short term manager at DSP BlackRock Mutual Fund. This, he explains, has made fund management much more challenging for long-term benchmarked to Nifty and any instances of risk aversion among ETF investors leads to pressure on Nifty stocks than otherwise

As of today, India-focused ETFs have about \$2.4 billion of assets under management with Wisdom Tree India earnings fund, i India portfolio and iShares S&P India Nifty 50 Index Fund among the top.

However, the ambit of ETFs is much wider. These funds invest in Indian markets based on their specific portfolio allocation to Kotak Institutional Equities, in recent times, eight out of the 10 largest outflows in the emerging markets have been made by ex

Recently, eight new India-focused ETF filings have been made with US regulatory authorities by Emerging Global Advisors for

"Going by the number of filings of India-specific ETFs in US, there should be some launches in the near future," said Naveen K which devised the Indxx India Consumer Index launched by EGSHARES last month on NYSE.

Interestingly, he mentions that most of the Indian ETFs are not structured to just mimic popular benchmark indices like Nifty. They style-based indices such as leveraged ETFs or inverse ETFs. While the former invests in the derivative market by taking leverage opposite of the index movement.

Globally, ETFs have turned popular with their assets lagging behind only that of hedge funds with assets under management o

According to market participants, India-focused ETF investors include both retail investors as well as institutions in equal proportions, hedge funds and pension funds. Hedge funds use ETFs for short strategies. It is also believed that pension funds are increasingly using management tool to 'equitize' cash they were holding until they could invest the assets in a new asset class.

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