

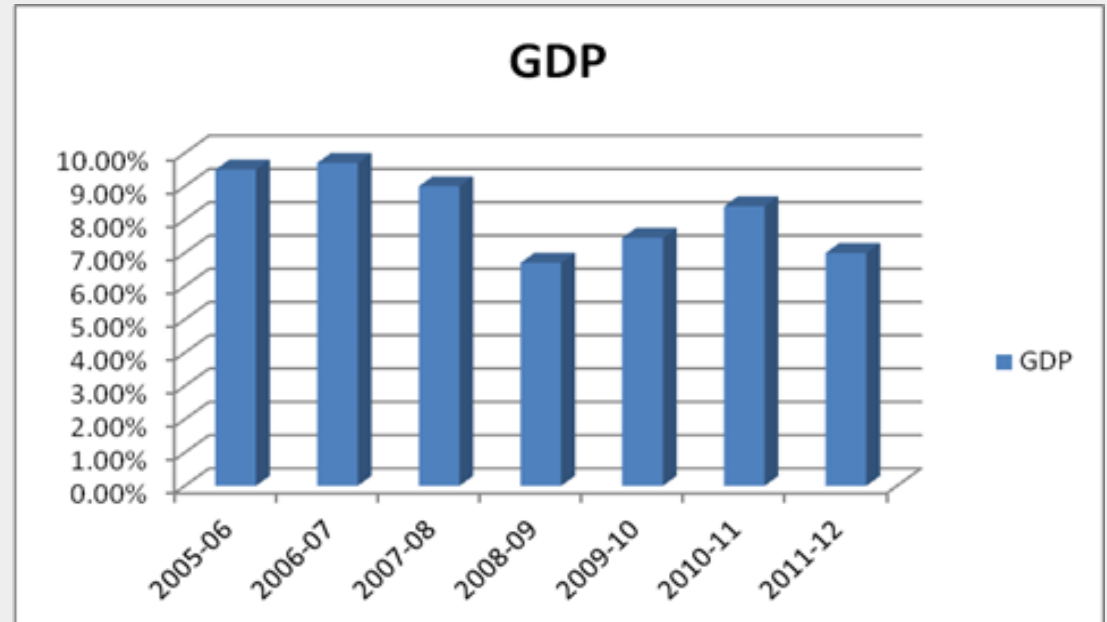


India- Macro Headwinds, Still a Preferred Investment Destination

Anand Singh, Head (Sales), Prime Brokerage, Edelweiss Financial Services Ltd, India

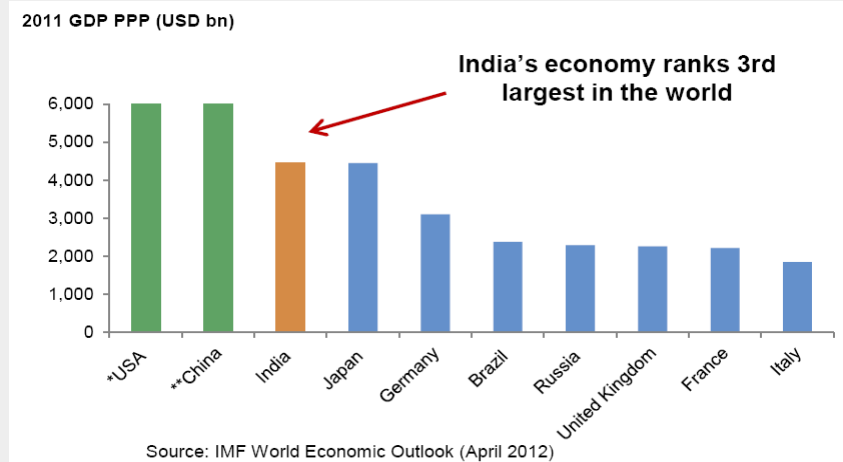
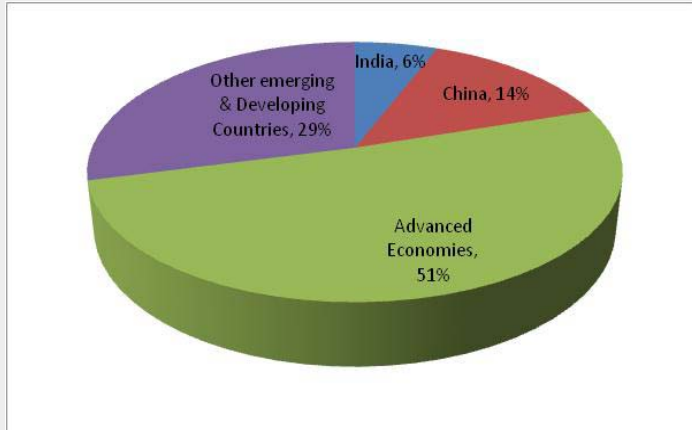
Despite the slowdown, India has still managed to grow above par & figures amongst top 15 nations in terms of GDP at constant price

- Eleventh Largest in the world by Nominal GDP
- Third Largest by Purchasing Power Parity (PPP)
- Second fastest growing economy after China
- India ranks 42nd in the World Economic Forum's Global Competitiveness Index for 2011, ahead of Russia & South Africa.
- Attractive destination for business & investments, huge manpower base of 1.3 Billion people, diversified natural resources & strong socio-economic culture
- Goldman Sachs predicts India to be the second largest economy in the world by 2050 after China.



Among emerging markets, India is next only to China with respect to share in world GDP

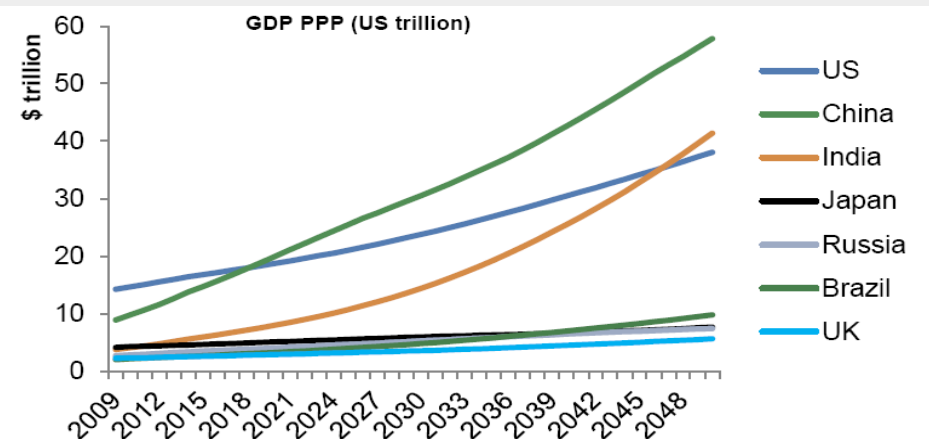
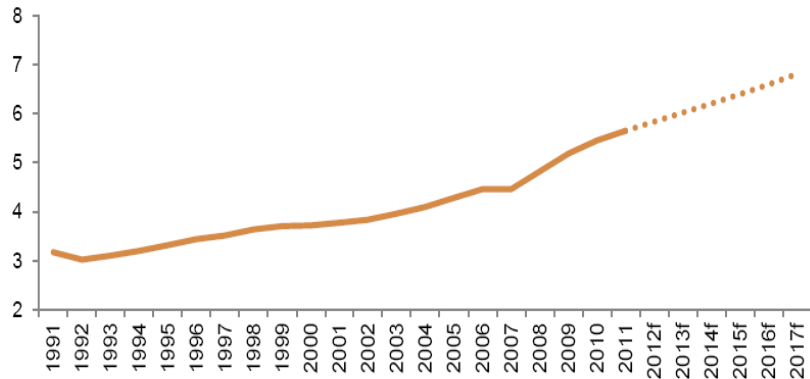
Share in world GDP (PPP), 2011



.. and it has been increasing steadily

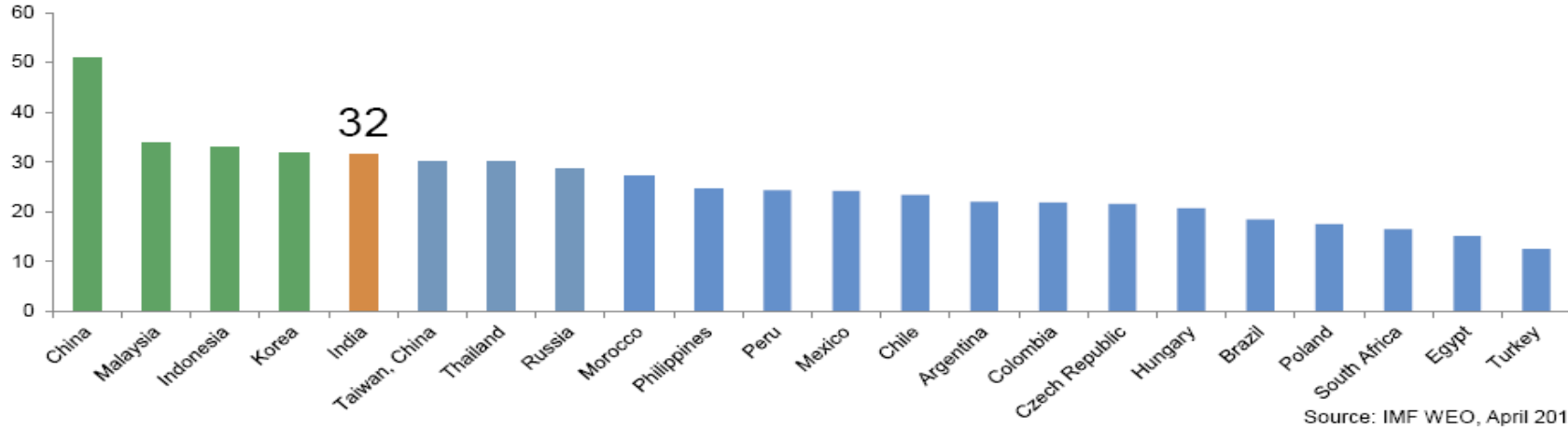
Goldman pegs India economy to be second largest by 2050, second to China

India's share in world GDP (% of world total) (PPP current USD)



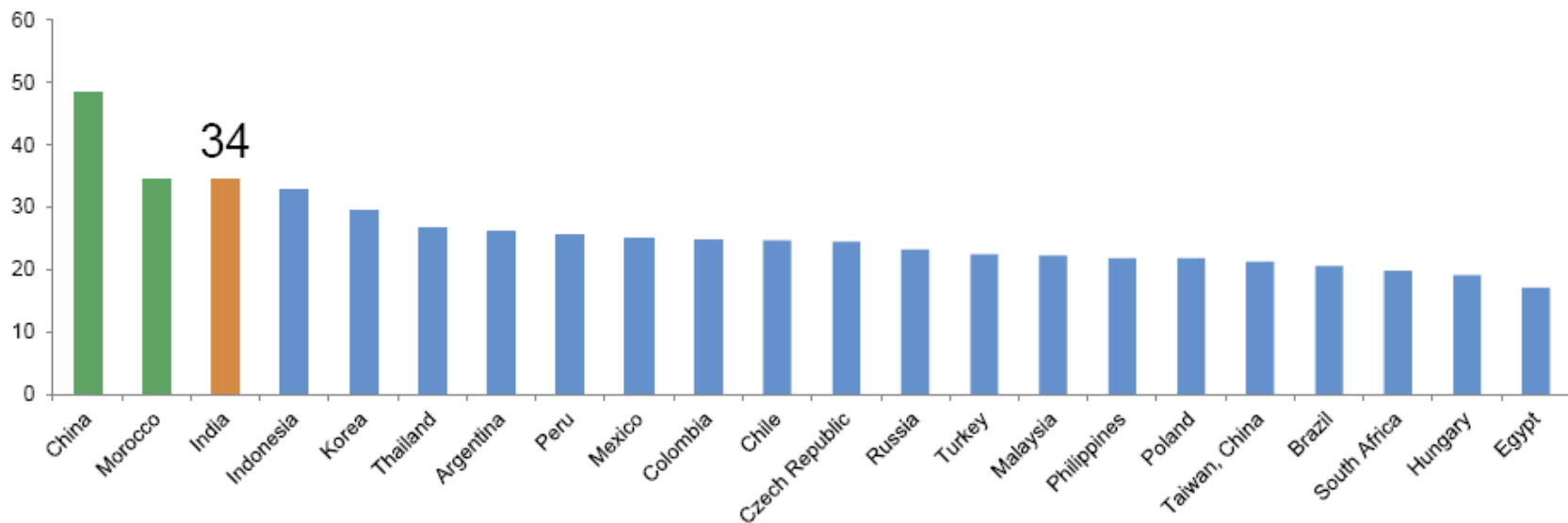
Savings & Investments rates are among highest in the world

Savings (% of GDP) 2011



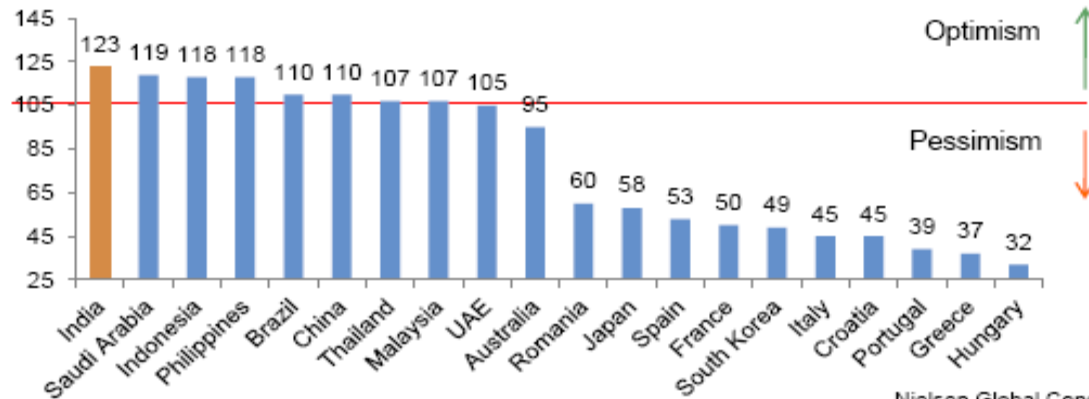
Source: IMF WEO, April 2012

Gross Domestic Investment (% of GDP) 2011



Indian consumers are most optimistic about the state of the economy

Consumer confidence index score

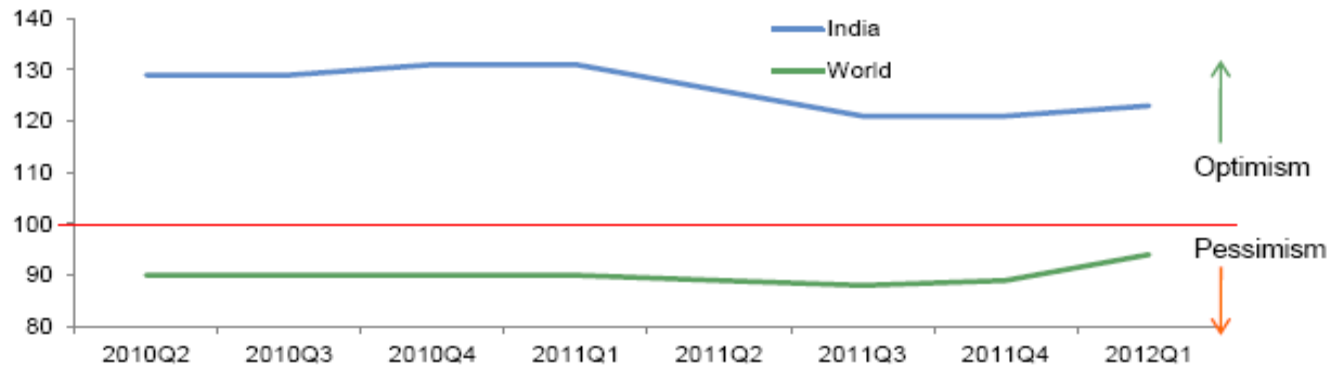


Optimism ↑
Pessimism ↓

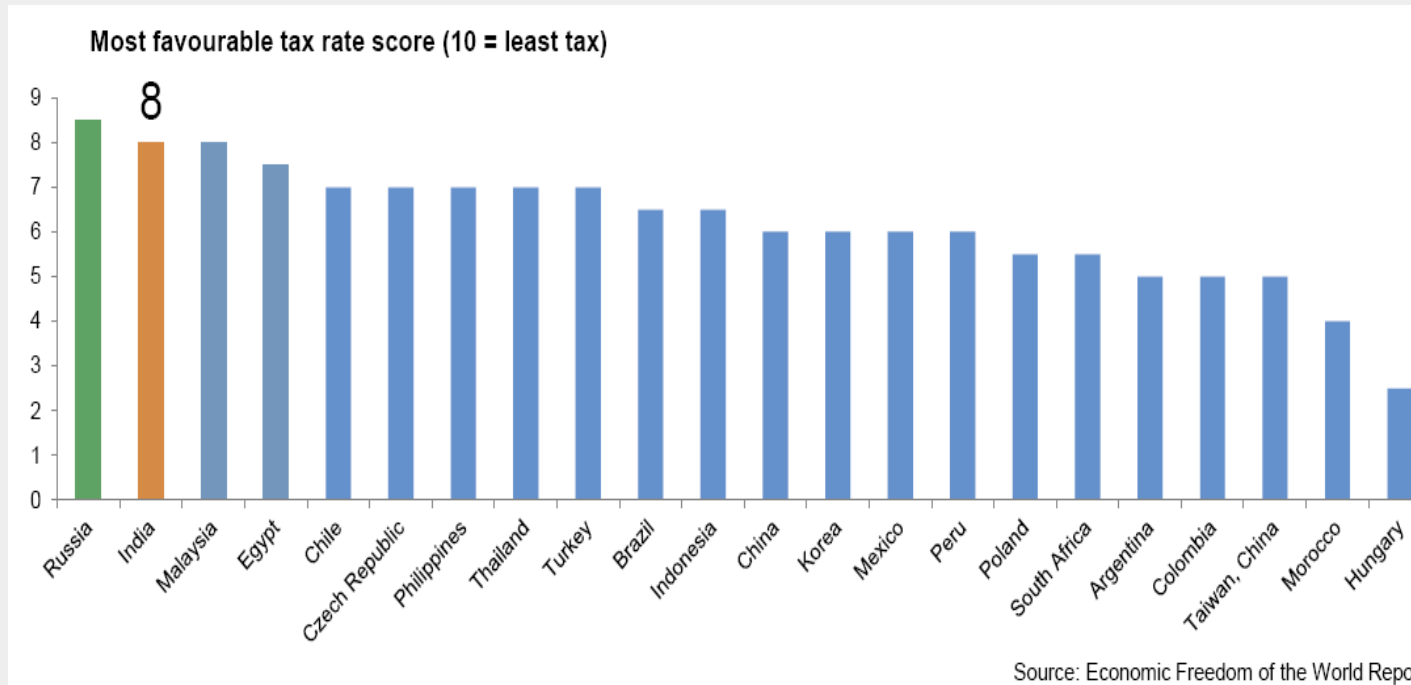
According to the latest global consumer confidence findings (for the first quarter in 2012) from Nielsen, optimism over job prospects and state of personal finances are up from last quarter as Indian consumers continue to be the most confident across the globe for the ninth consecutive quarter, rising one index point to 123 in Q1 2012 over the previous quarter

Nielsen Global Consumer Confidence Report, Q1 2012

Consumer confidence has been consistently above the world average



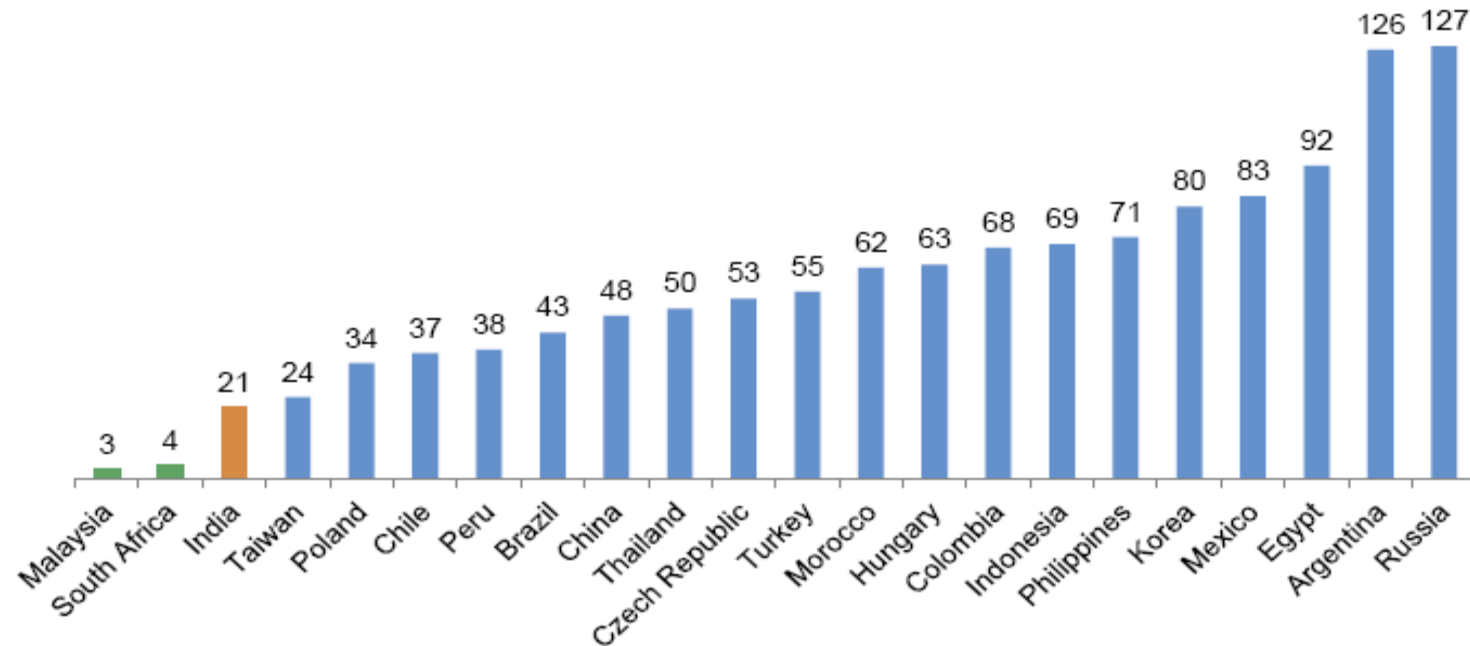
Among emerging markets, India has one of the most favorable tax regimes, a very crucial factor for attracting foreign investment



- The GAAR Effect – Although investments & business sentiment have taken a hit due to the uncertainty surrounding the introduction of GAAR in Budget 2012, the new FM is likely to defer it by 3 years to FY 17, as per the recommendations of the Shome committee.
- India has comprehensive Double Tax Avoidance Agreements (DTAAs) with as many as 79 countries in the world. Mauritius still being the preferred route for India-bound investments, both into public & private markets, followed by Cyprus, Cayman, Singapore amongst others.

In terms of financial market development India ranks much better than most EMs

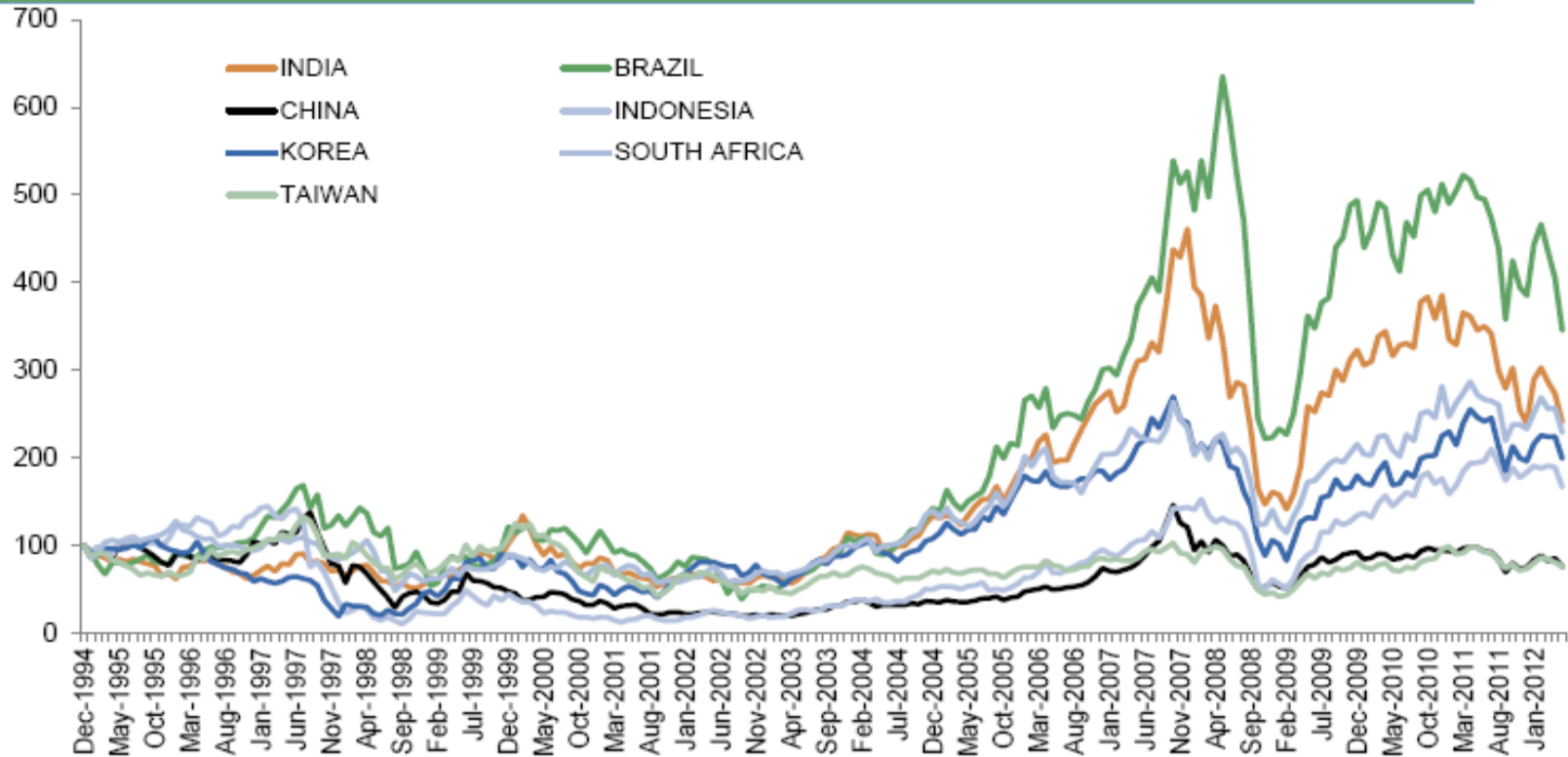
Financial Market Development Rank (1=best)



Source- World Economic Forum- Global Competitiveness Report 2011-2012

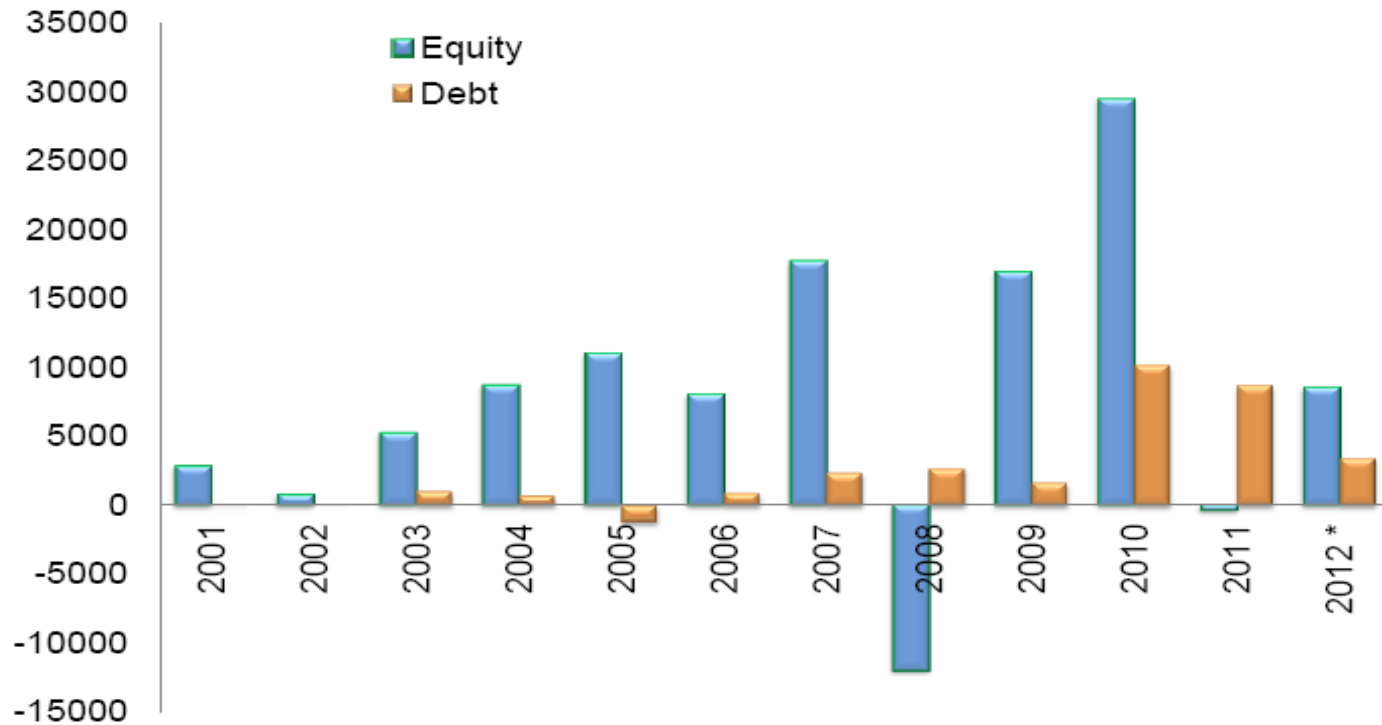
USD 100 invested in Dec 2001 would have yielded USD 325 by July 2011 !

MSCI India – USD Index performance



- India has been amongst the best performing markets in its peer group , since liberalization
- Indian equities have delivered a CAGR of 14% over the last two decades

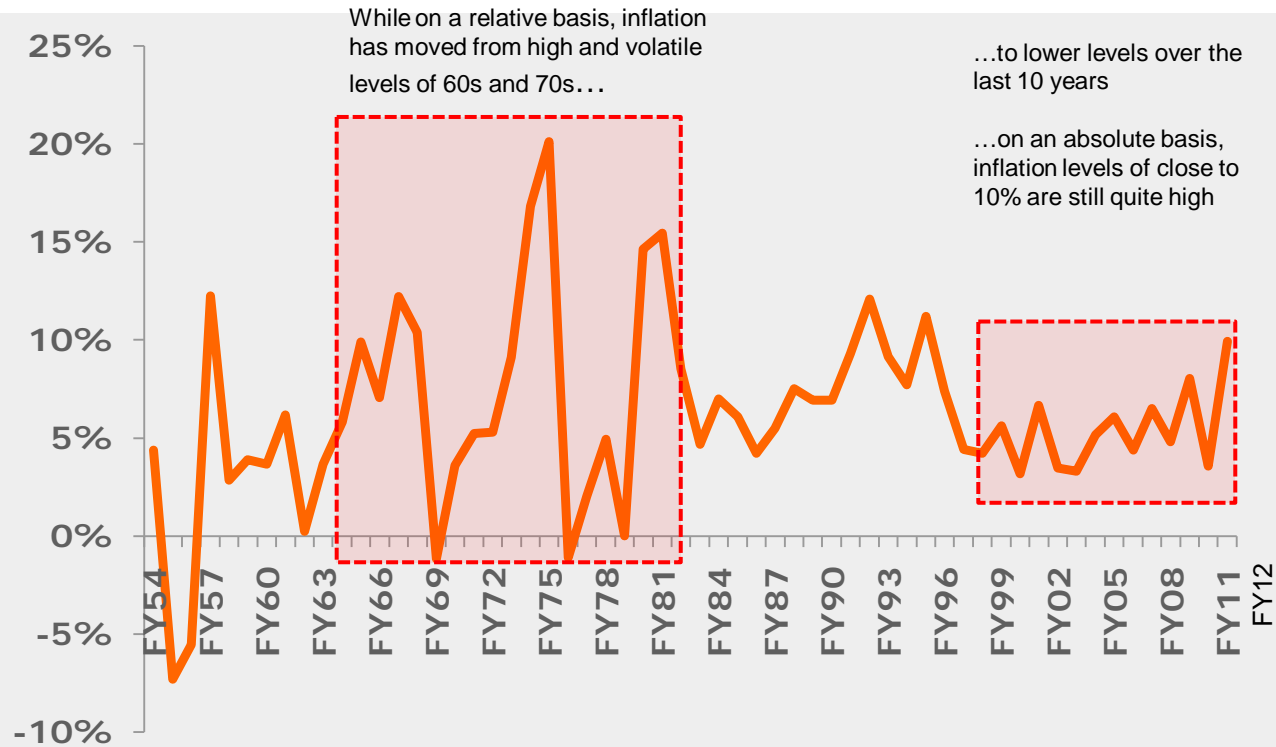
Significant FII inflows in equity and debt



- 2012 Data is up to 31st August 2012
- Figure in USD Million

Source- SEBI

Inflation



In response, the Indian central bank has raised rates 12 times in the last 21 months, which has slowed down growth

Rupee Devaluation

Currency devaluation is a prominent threat to overall growth. Rupee touched life lows and is still stubbornly trading at close to 56/\$. This has resulted in higher import bill, BOP problems, lesser realization for Indian exports, chances of FCCB defaults by Corporates & inflation.

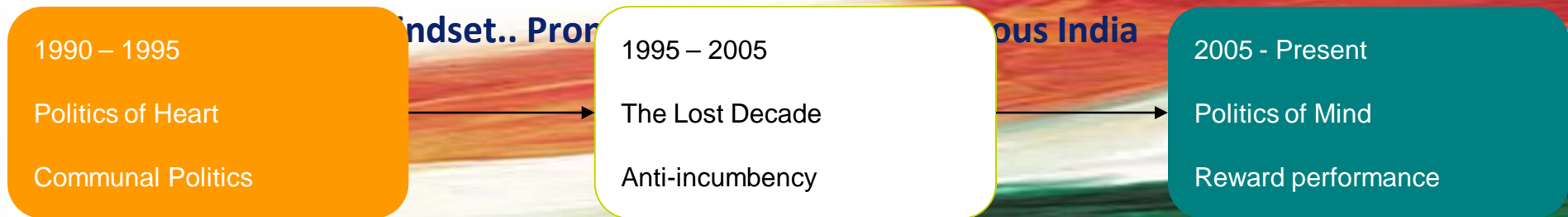


Regulatory Arbitrariness

- Introduction of General Anti Avoidance Rule (GAAR) – Investor sentiment took a hit, especially on funds coming from Mauritius as India threatened to retrospectively tax Investments that that took tax benefit & failed to establish commercial substance. However the recent recommendations by the Shome committee has proposed to defer it by FY 2017. We hope the sentiments to get better post new FM taking Office.
- Federal policy has been unclear/slow in certain sectors
 - Retail
 - Insurance
 - Land & Labour reforms
- Implementation of reforms has slowed down in sector like
 - Infrastructure
 - Education
- Slow at privatizing some sectors like Defence, etc.

Despite Macro level Challenges, India still is attractive from a long term perspective given the scope of improvement in Federal & Corporate governance. Followings are the positives-

- India's core domestic consumption growth continues to growth at a decent pace, though has come off from the highs, but still better than other developed markets in the world
- Inflation & interest rate have started beginning to peak out. India is expected to return to core growth of over 6.5% & more
- The new FM promises to significantly improve business & investment sentiment. Few steps taken in that direction is the proposed deferment of GAAR by FY 17 & recommendation to abolish the Capital gains, to be offset by a marginal increase in STT
- Indian Corporates, despite the slowdown, have managed to grow at a decent pace, thanks to the inherent nature of domestic consumption, thereby reducing overseas dependence.
- Despite the slowdown, Foreign Direct Investments is at a record high. Big ticket investments into hospitality, infrastructure & reality are at a high. High interest rates have attracted huge NRE deposits which have, to some extent, offset the FII outflow.
- Ceiling raised for FII investments in Government & Corporate Bonds, thus attracting long term sustainable money in Debt.



Electoral Mindset

“Only a leader from my community will take care of my needs”

Electoral Mindset

“The incumbent leader is no good, maybe the new one will be better”

Electoral Mindset

“I will elect those who deliver performance”

The two mindsets were aligned to each other but both were unaligned to development & performance

The two mindsets were unaligned with each other, with citizens seeking performance and politicians delivering communal linkages

The two mindsets are aligned to each other and also to development & performance

Political Mindset

“Development is not getting rewarded, hence align with citizens’ hearts, and not minds”

Political Mindset

“Focus on the short term as every election would result in defeat of the ruling party”

Political Mindset

“Development is key to political success”

Thanks

Application of SGX Nifty futures

Geoff Howie
Markets Strategist

13 September 2012

SGX The Asian Gateway

SGX Product Application

- As the Asian Gateway, SGX products provide access to a wide span of Asian markets to global participants.
- The range of Asian index futures offered for trading on SGX enable investors to execute views based on one part of Asia or multiple parts of Asia.
- As demonstrated in the following examples, application can be based on relative performance or mean reversion of two Asian indices based on economic fundamentals or quantitative observations.
- The two Index futures covered S&P CNX Nifty, MSCI Taiwan are all USD based, while the iShares MSCI India ETF is also USD based which mitigates against embedded currency risks.

Index Introductions

- The S&P CNX Nifty Index captures the price performance of a market capitalisation weighted index that comprises 50 component stocks representing 53.75% of the total market capitalisation of the Indian bourse.
 - The top 3 sectors of the Index are similar to that of MSCI India Index with Financials (26%), Information Technology (14%) and Energy (13%).

- The MSCI Taiwan Index is a free-float adjusted market capitalisation weighted index designed to capture the equity market performance of Taiwanese securities listed on the Taiwan Stock Exchange and the GreTai Securities Market.
 - Composed of 114 constituents; largest sectors Information Technology (54.94%) and Financials (15.04%). Note Taiwan Semiconductor Manufacturing Company Limited (18.02%), Hon Hai Precision Industry Co Ltd (7.97%).

- The ishares MSCI India ETF consists of approximately 70 stock holdings that are weighted to track the MSCI India Index and a relative small amount of cash and cash equivalents. This method of ETF construction is referred to as representative sampling. In this particular case, the ETF invests indirectly into the Indian market through a wholly owned subsidiary incorporated in Mauritius.
 - The top 3 sectors of the MSCI India Index are Financials (26%), Information Technology (17%) and Energy (12%), together accounting for 55% of the total index.

Contract Notional Values

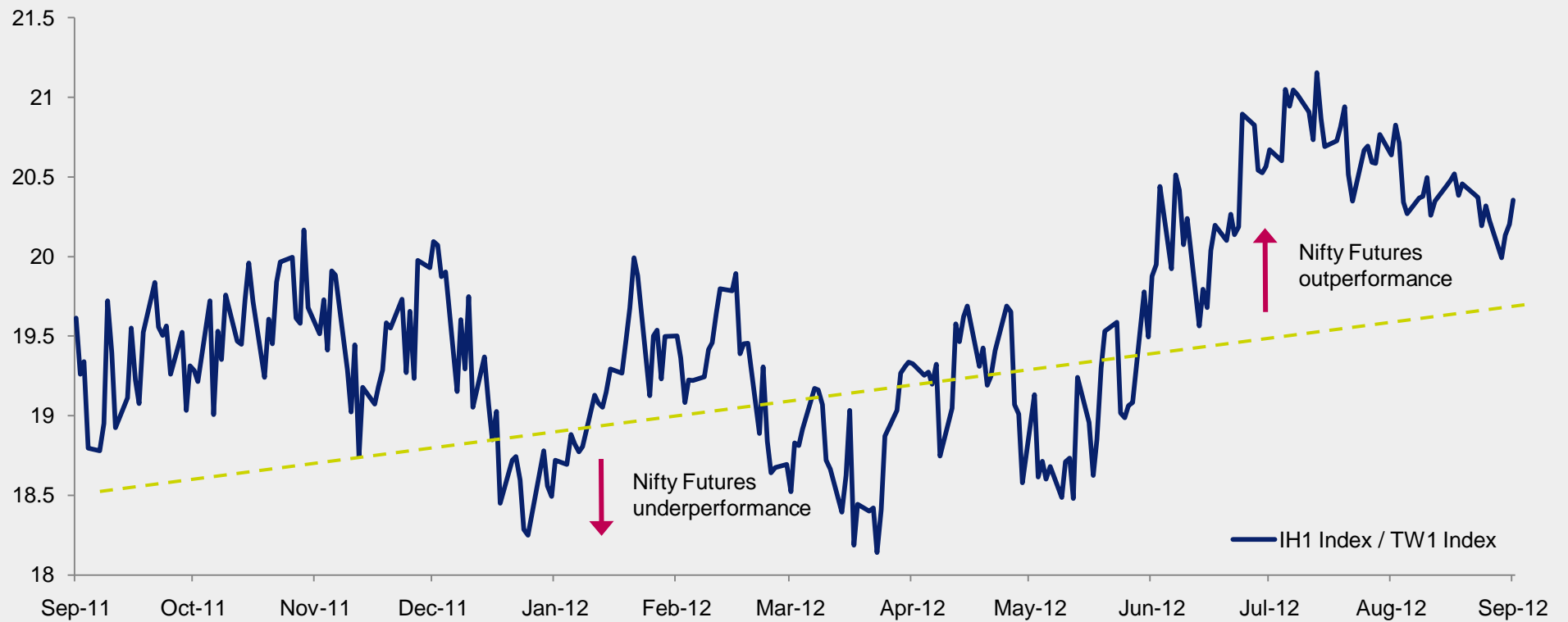
Index	Last Price 06 Sep 2012	Contract Value	Notional Value	YTD Change	2011 INDEX Change
MSCI Indonesia	4875	US\$2	US\$9,750		-18.5%
MSCI Taiwan	263.2	US\$100	\$263.2	+3.8%	-20.4%
Nikkei 225	8,690	¥500	¥4,345,000		-15.4%
S&P CNX Nifty	5,270	US\$2	US\$10,540	+13.9%	-24.6%
FTSE China A50	7,040	US\$1	US\$7,040	-5.1%	-15.0%
MSCI Singapore	342.5	SG\$200	S\$68,500	+14.0%	-20.0%

Contract Delta Ratio

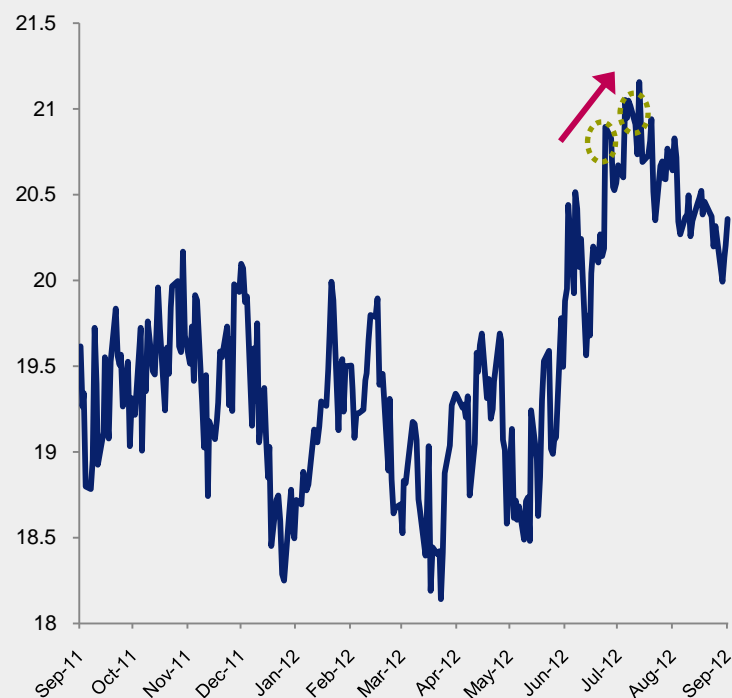
Inter-Commodity Spread	Margins		Credit Rate	Delta Spread Ratio				
	Initial	Maint.						
Nifty vs MSCI Taiwan	US\$1,500	US\$1,200	0.50	3	Nifty	vs	1	MSCI Taiwan

Relative Value

Price Ratio: SGX Nifty Futures / SGX MSCI Taiwan Futures



Example 1: Buy 3 Nifty & Sell 1 MSCI Taiwan in July 2012



Outperformance of India versus Taiwan:

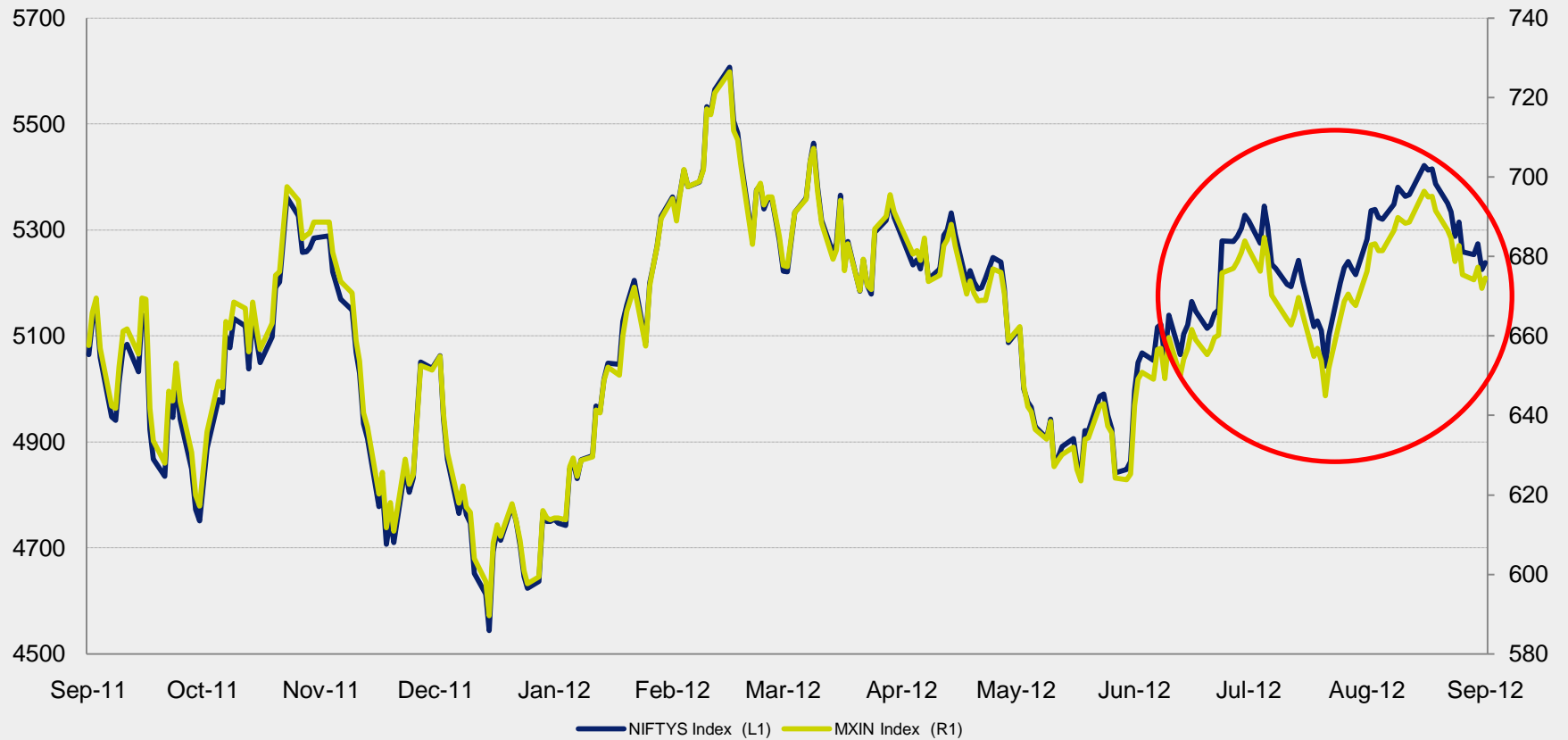
02 Jul Bought 3 Nifty Futures @ 5290.0
 Sold 1 MSCI Taiwan @ 254.0
 Notional Values = US\$31,740/US\$25,400
 Price Ratio = 20.83

13 Jul Sold 3 Nifty Futures @ 5242
 Bought 1 MSCI Taiwan @ 249.4
 Notional Values = US\$31,452/US\$24,940
 Price Ratio = 21.02

Return = (US\$288)+US\$460=US\$172

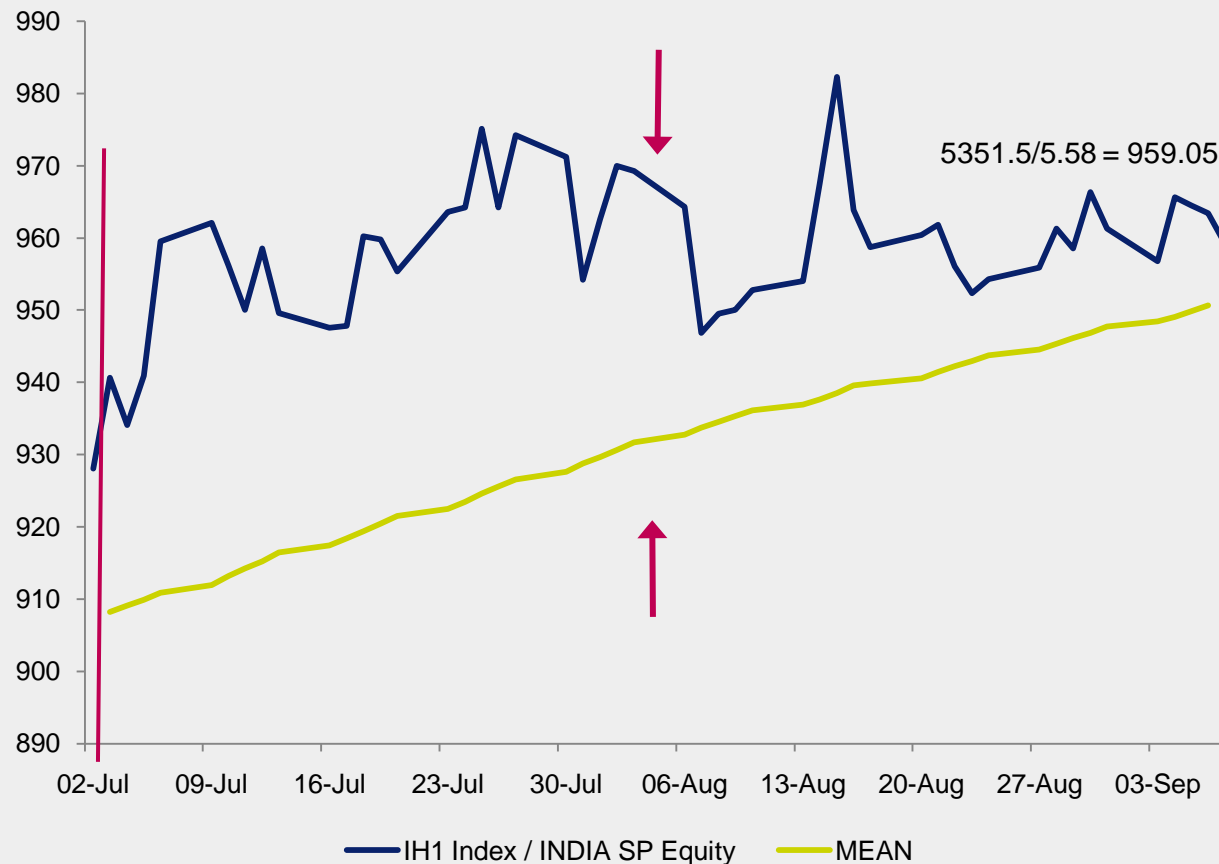
Please note transaction costs not taken into account.
 Past results do not guarantee future results
 Trading involves potential for returns and losses

Nifty Index vs MSCI India



Arbitrage & Mean Reversion

Price Ratio: SGX Nifty Futures/ ishares MSCI India ETF



Mean Reversion

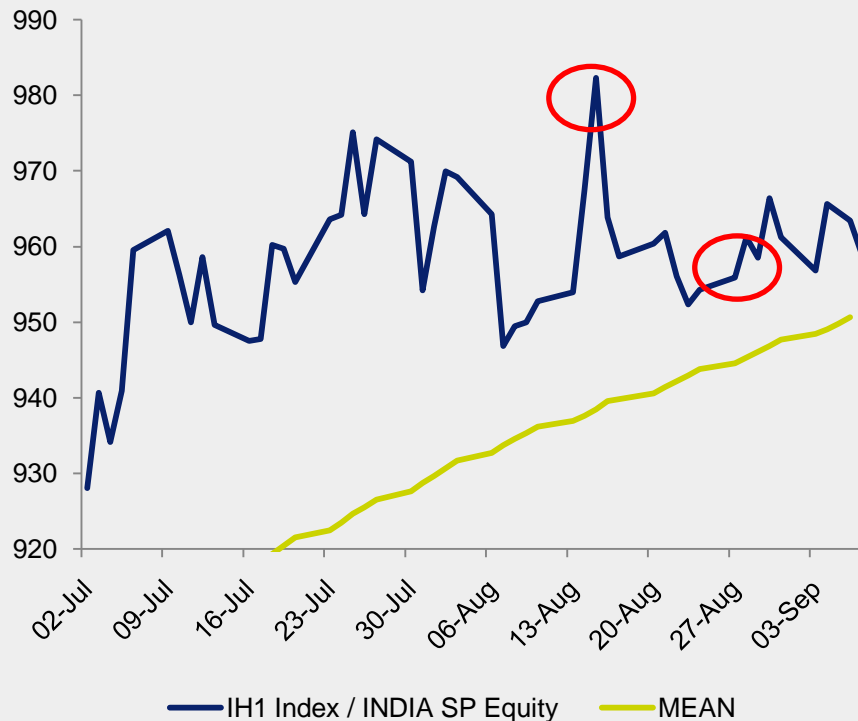
Mean reversion is a pair trading strategy that is based on the expectation that the two futures contracts, in this case the SGX Nifty futures Index and ishares MSCI India ETF, will revert to the mean price ratio based on historical prices.

The risk associated with this strategy is that a change in significant fundamentals can negate the previous reversion relationship.

When the current ratio is above the historical mean, assuming market fundamentals remain in check, the mean reversion strategy is to structure a trade that provides returns with the ratio falling back to the mean.

When the current ratio is below the historical mean, and again, assuming market fundamentals remain in check, the mean reversion strategy is to structure a trade that provides returns with the ratio rising back to the mean.

Example 2: Sell 6 Nifty & Buy 12 lots ishares MSCI India ETF



15 Aug Price Ratio = 982.27 and Mean = 939.60
 Sold 6 Nifty Futures @ 5402.5
 Bought 12 ishares MSCI India ETF @ 5.50
 Notional Values = US\$64,830/US\$66,000

27 Aug Price Ratio = 955.87 and Mean = 945.32
 Bought 6 Nifty Futures @ 5372
 Sold 12 ishares MSCI India ETF @ 5.62
 Notional Values = US\$64,464/US\$67,440

Return = US\$366+US\$1,440=US\$1,806

Please note transaction costs not taken into account.
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Nifty Options

- SGX S&P CNX Nifty Index Puts and Calls have a US\$2 .00 multiplier and follow the same settlement as the SGX S&P CNX Nifty Index futures. At a price of 100.0 points, the notional value of an Sep 5200 call option with a Sep 2012 expiry would be USD\$200.
- Nifty options provide an access market that provides a cost efficient alternative to investing in the onshore market. For that reason, the market will price in the application that Nifty Call options have to investors looking for an alternative market to capture the performances of the Indian stock market.
- An equity investor has an access advantage from trading the offshore SGX S&P CNX Nifty Index. This access advantage can also be priced into options, resulting in a smirk in the implied volatility curve, implying that in-the-money calls are generally more expensive than out-of-the-money calls.

Investment channels across Developing Asia



Region	IMF 2013 GDP Growth Estimate (July 2012)
World	3.9%
Advanced Economies	1.9%
NIE Asia	4.2%
Developing Asia	7.5%
China	8.5%
Indonesia Malaysia Philippines Thailand Vietnam	6.1%
India	6.5%

Thank you

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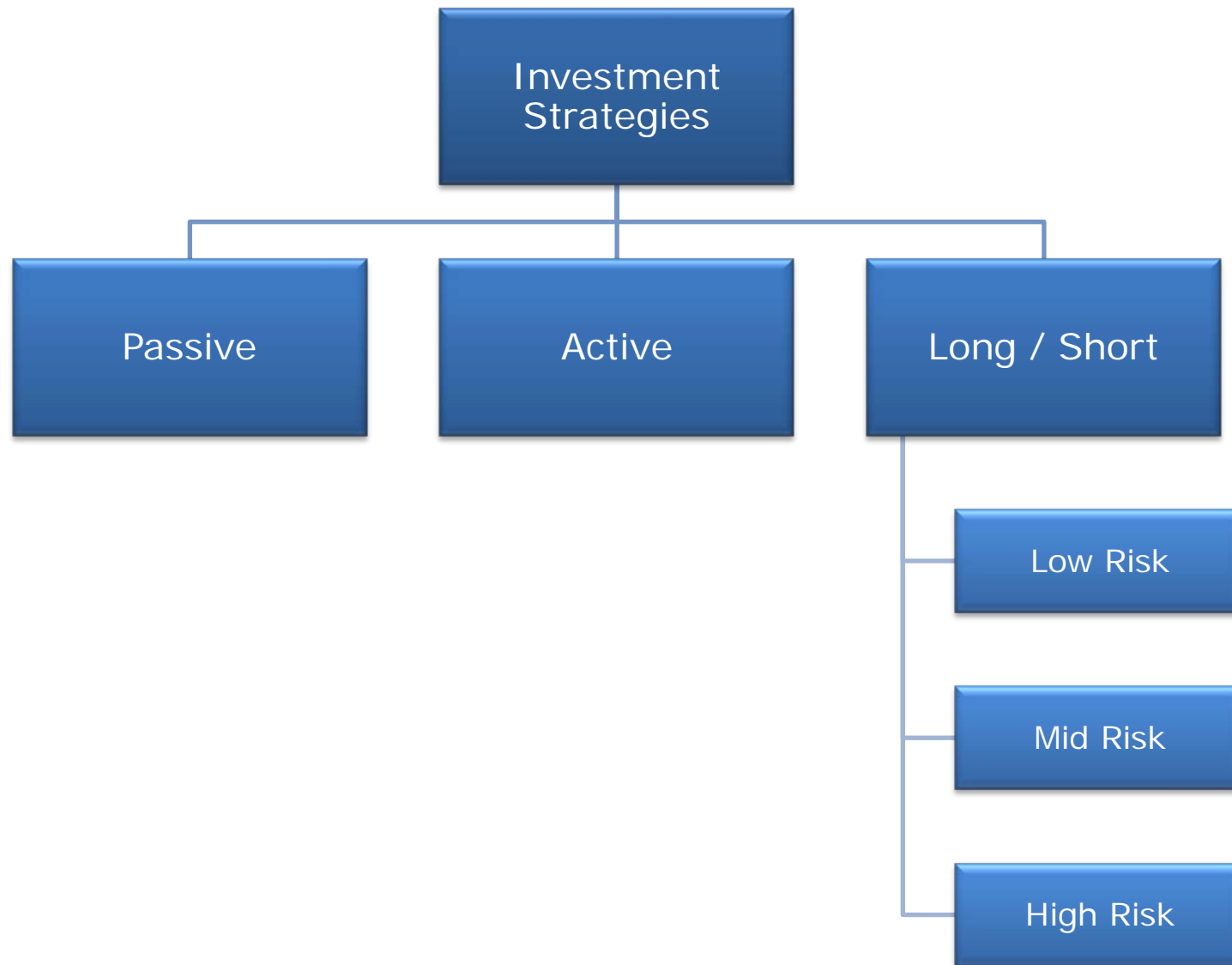
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Investment Strategies





Passive

Active

Long / Short

- * Efficient market hypothesis – In the Long run performance is equal to market returns
- * No attempt to distinguish attractive from unattractive securities, or forecast securities prices, or time markets and market sectors
- * Tracking the Index - Indexes may be based on stocks, bonds, commodities, or currencies
- * Non Leveraged in Nature
- * ETFs – Exchange traded funds provide broad market exposure
- * As of June 2012, in the United States, about 1200 index ETFs exist, with about 50 actively managed ETFs.



Passive

Active

Long / Short

- * The goal is to outperform an investment benchmark index
- * The active manager exploits market inefficiencies
- * Research-based approach focusing on Valuation and Asset allocation
- * The most obvious disadvantage of active management is that the fund manager may make bad investment choices or follow an unsound theory in managing the portfolio
- * Over a long run it has been established that Fund managers fail to beat the market on a consistent basis



Passive

Active

Long / Short

- * Used primarily by hedge funds, Proprietary desk, Delta One Desk
- * Focus to generate high returns using Leverage
- * Can be divided in three broad categories:
 1. Low Risk – Arbitrage (between different segments or different exchanges or geographies in asset classes like Index, Stock, Commodities)
 2. Mid Risk – Pair trading, Stat Arb, Option Arb (Skew trading)
 3. High Risk – Technical trading, Directional trading, Option trading (Volatility trading, Directional Spread)



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