Indian Fixed Income - Opportunity balancing between fiscal concerns and global disinflation

In the global risk-off environment, the Indian economy has demonstrated significant resilience when compared to other emerging markets. India continues to have the highest GDP growth rate with indicated growth of 7.5%+ projected by the OECD for 2016 and 2017. Strong macro indicators, a stable fiscal deficit and falling inflation have contributed to India emerging as a good resilient spot for global investors. In addition, over the last twelve months the Indian rupee has been more resilient than other emerging market currencies.

These factors make a strong investment case for India. In a world of low nominal interest rates, there is a lack of yield. Nearly 70% of global fixed income assets are yielding 2% or less. This should result in more fund flows to quality EM bonds with relatively higher nominal yields, like India. The Indian 10-yr government bonds yield around 7.75% today.

Indian sovereign bonds continue to be an attractive option in the negative or low rate global environment. Real interest rates in India remain positive and domestic growth still offers increased upside potential.

Amongst its emerging market peers, India continues to be the less exposed to the current global upheaval driven by China, US Fed rate hike or any other geopolitical event. The Union Budget due on 29th February this year will be keenly watched for structural reforms and fiscal consolidation policies of the Government.

In its latest policy meeting held on 2nd February 2016 India's central bank (RBI) left the Repo rate and CRR unchanged at 6.75% and 4.00% respectively. Despite the central bank reiterating its accommodative stance, India's bond yields have moved upwards in past few months. While hardening of bond yields across the emerging markets have played a part and limited supply of bonds in the domestic market has also intensified.

There have been outflows from emerging markets amid prospects of a Fed lift-off since May 2015. However, India received around $2.7 billion inflows in government bonds and around $5.6 billion inflows in corporate debt in 2015.

The RBI is likely to continue to cut rates after the Union Budget. Government actions and a well behaved inflation outlook will offer the Government the necessary room to do so. Globally, falling bond yields, central bank stimulus and sluggish growth prospects will support a search for higher sovereign returns. The RBI purchased OMO (injecting liquidity in the system) and buybacks as well as the quarterly increases in FPI limits will support bonds. With all these factors, we expect global investor's to invest at least $8 billion in Indian debt securities in FY2017.

The sweet spot in the Indian fixed income market is the space occupied by SOE (Sovereign Owned Enterprises) bonds due to the relatively higher yields of 60-70 bps vis-à-vis government bonds coupled with the highest credit rating profile. The **LAM Sun Global ZyFin India Sovereign Enterprise Bond UCITS ETF** offers global investors exposure to a basket of Indian public sector corporate bonds. The ETF is the world's first Indian fixed income ETF and is also Europe's first physically replicating Indian ETF backed i.e. the ETF is backed by the real underlying securities as opposed to notional securities or derivatives. The ETF is listed on Xetra and Börse Frankfurt.

The Fund tracks the performance of the ZyFin India Sovereign Owned Enterprise Bond Index and contains bonds from companies of national interest that are majority-owned by the Government of India, so-called Sovereign Owned Enterprises (SOEs). The corporate bonds are denominated in Indian rupees, have an AAA rating and a residual maturity between 4 to 20 years with current average maturity of 7.05 years. Although partly state owned, the average yield of the portfolio is close to 8.19% (in INR) that is higher than the yield of Indian sovereign bonds.

Performance of **LAM Sun Global ZyFin India Sovereign Enterprise Bond UCITS ETF**

Index Data as on 31st Jan 2016 (Returns)

Period	USD Index Return (TR) (CAGR)
Since Inception (i.e. 31-March-2010)	1.70%
1 Yr (01-February 2015 to 31-Jan 2016)	-3.58%
2 Yr (01-February 2014 to 31-Jan 2016)	6.10%
3 Yr (01-February 2013 to 31-Jan 2016)	-0.07%
4 Yr (01-February 2012 to 31-Jan 2016)	0.85%
5 Yr (01-February 2011 to 31-Jan 2016)	0.85%

01-February 2015 to 31-Jan 2016	-3.58%
01-February 2014 to 31-Jan 2015	16.72%
01-February 2013 to 31-Jan 2014	-11.43%
01-February 2012 to 31-Jan 2013	4.26%
01-February 2011 to 31-Jan 2012	0.85%

Main Fund Characteristics

Ticker	GNT1 , CURY (USD) & CRRY (GBX)
Fund Type	UCITS
Domicile	Ireland
NAV	US$ 9.85
ISIN	IE00BYZ5HD97
Replication method	Direct (Physical)
Sampling	No
Securities Lending	No
Base Currency of the Fund	USD
Trading Currency	USD & GBX
Total Expense Ratio p.a	0.79%p.a.(estimated)[1]
Currency risk	Yes
Income treatment	Accumulating
ISA Eligible	Yes
SIPP Eligible	Yes
UK Distributor Tax Status	Yes
Rebalance Frequency	Quarterly

Source: ZyFin, January 31, 2016

1. The estimated total expense ratio is less than the ongoing charges provided in the KIIDs, which refer to the maximum annual charges

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