



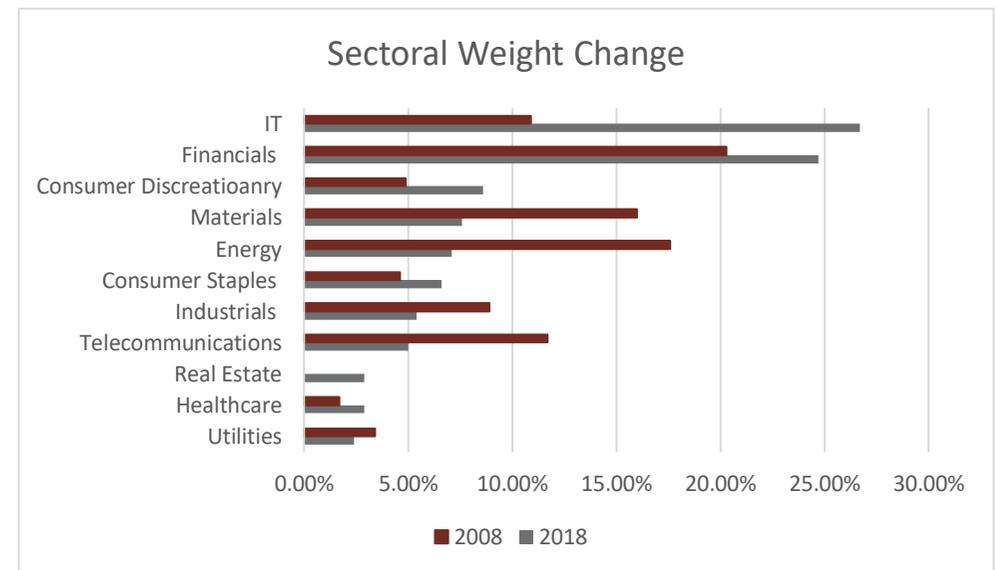
MSCI Emerging Markets Index

Equities is one of the most popular and liquid asset classes globally. The concept of shares or stocks was started by the Dutch East India Company. They were also the first to open a stock market in Amsterdam. Soon enough the developed economies of the west were operating one of the biggest stock markets in the world with total market capitalization reaching into trillions of USD. Developing economies also started operating their own stock markets with BSE becoming Asia's first stock exchange. As the rapid growth opportunities shifted from developed economies to developing economies, investors around the world started pumping money in equity markets of developing countries. Investors and markets started using stock indexes to measure stock market performances. This was used to for computing returns generated, benchmarking and asset allocation purposes. Today, a lot of money is dependent on these indexes as investors compare their returns and make investment decisions based on index performances.

MSCI EM Index

MSCI stands for Morgan Stanley Capital International which is a global leader in creating and maintain equity indexes around the world. Their global equity indexes are used by professional investors across the world for investment analysis, performance measurement, asset allocation, hedging and creation of index derivatives, funds, ETFs and structured products. The MSCI Emerging Market Index is designed to represent the performance of large and mid-cap securities in 24 emerging markets. As of March 2018, it had more than 830 constituents and covered approximately 85% of the free float adjusted market capitalization in each country. As

per Morningstar and Bloomberg compiled data, there are USD 1.9 Trillion in assets benchmarked globally to this index suite. The index was started on 1 January 1988 with only 10 constituent countries representing less than 1% of world market capitalization. The index has undergone significant change over the years with new countries and sectors added. China has the highest weightage today at 29.9% of the index which is almost double of what it was 10 years back. Similarly weightage of Telecommunications and Energy sector has gone down significantly in last 10 years whereas that of IT sector has grown.



Foreign investors rely heavily on this index to invest in emerging markets to capture the high growth opportunities. Although having strong growth

potential, emerging markets have an inherent political and monetary risks. The index helps investors to diversify the risk across markets.

India in the Index

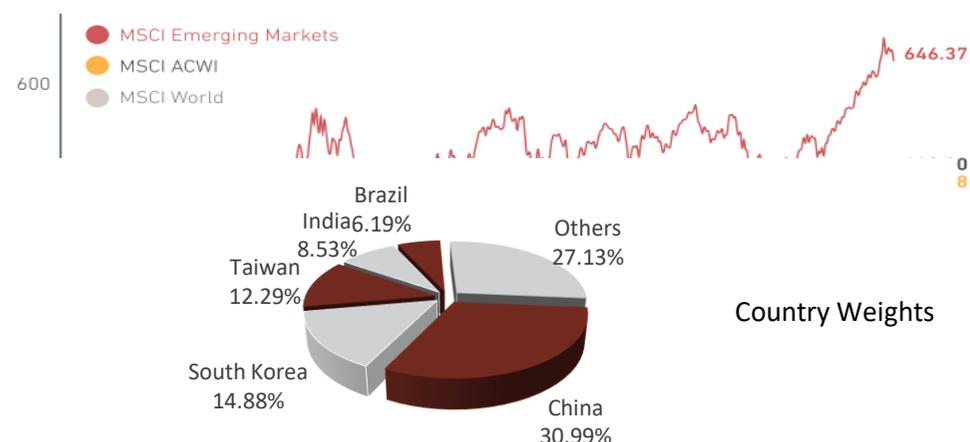
As foreign investors use the EM index as a benchmark, their investment allocation is closely related to the weightage of countries and sectors in the index. If a country's weightage in the index goes up, investors rebalance their portfolio to match the allocation with the index leading to inflows in that country. India's weightage has increased over the years and as on September end it stands at 8.53%. In August 2018, MSCI included certain A-share stocks of China, post which India's weightage declined slightly. India's weightage is also under threat as MSCI decided to cap the weightage of Indian market for limiting investor access due to lengthy regulatory registration process. It also expressed concern over a dispute between Indian stock market NSE and Singapore Exchange as after NSE barred foreign bourses from trading in Nifty derivatives. The final decision on caps on weightages will be taken in December. The latest companies to enter the index from India were Canara bank, IndusInd Bank, LIC Housing Finance, Lupin and Ultratech Cement after which the total number of Indian companies in the index has gone up to 64.

Company	Country	Adj. Market Cap (USD Bn)	Index Wt. (%)
Tencent Holdings	China	235.52	4.54
Taiwan Semiconductor Manufacturers	Taiwan	211.78	4.09
Samsung Electronics	South Korea	201.61	3.89
Alibaba Group holdings	China	190.51	3.68
Naspers	South Africa	94.59	1.82
China Construction Bank	China	84.06	1.62
Baidu	China	60.56	1.17
China Mobile	China	60.56	1.17
Ping AN Insurance	China	52.97	1.02
ICBC	China	50.76	0.98

Conclusion

MSCI is a widely followed index compiler around the world. When it comes to emerging markets, EM Index is an important benchmark and hence a lot of foreign fund inflow is based on the index. The index has outperformed many developing market indexes

MSCI EMERGING MARKETS INDEX PERFORMANCE CHART³ - GROSS RETURNS (USD)



(Source: MSCI)

EM Index has given a compounded return of 7.98% since inception compared to 5.6% return of MSCI World index which tracks markets across the world. However, the returns for last three years have been below the MCI World index's return.

Parameters	MSCI EM Index	MSCI World Index
Returns Till date	7.94%	5.60%
Returns in last 3 Years	9.78%	11.35%
Sharpe ratio	0.3	0.21

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