A New Approach to Indian Equities

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Key Takeaways

- WisdomTree launched a new fund to tap the growing investing potential of India while mitigating currency risk: the WisdomTree India Hedged Equity Fund (INDH)
- The Indian equity market has exceeded global market returns over the past decade and recently outperformed the S&P500 with a 37% one-year return1—fueled by India's strong underlying economy, growth in services and manufacturing, increasing ease of doing business and other developments in politics and governance.
- As the cost of hedging Indian rupee (INR) exposure has been decreasing, we believe now is an ideal time to consider this new strategy from WisdomTree—an ETF maker with a history of providing exposure to both currency hedging and the Indian market.

Today, WisdomTree launched the WisdomTree India Hedged Equity Fund (INDH), combining ourcurrency-hedging knowledge with the increased interest in hedging exposure in the Indian market. In this blog post, we will outline this new, exciting approach to Indian equities.

Foreign investor interest in India is perking up.

India-focused ETFs had *inflows* of $6.7 billion over the last 12 months. To put those flows into context, China-focused ETFs had net *outflows* of $2.6 billion over this same period.2

One of the many reasons for this divergence in flows has to do with India's superior economic growth and stock market performance.

Bolstered by increased infrastructure spending by PM Modi's government, *India is transforming from the back office of the world to a leading manufacturer of cutting-edge technology*. Economic growth in India has continued to impress, posting an 8.4% surge in the last quarter of 20223. At this pace, India is set to surpass Japan and Germany to become the world's third-largest economy by 2027.4

The MSCI India Index (MXIN), a market gauge of 130 stocks, outperformed the S&P 500, MSCI ACWI and MSCI Emerging Markets Indexes in the most recent one-year period,5 providing investors with an almost 37% return. Over the last decade, MSCI India has had a 9.7% annual return, outpacing the global market (as measured by the MSCI ACWI Index) by more than 1%.1

Stock performance has been supported by a strong underlying economy, growth in services and manufacturing, a rise in the ease of doing business, better corporate governance standards, political stability and favorable global sentiment.

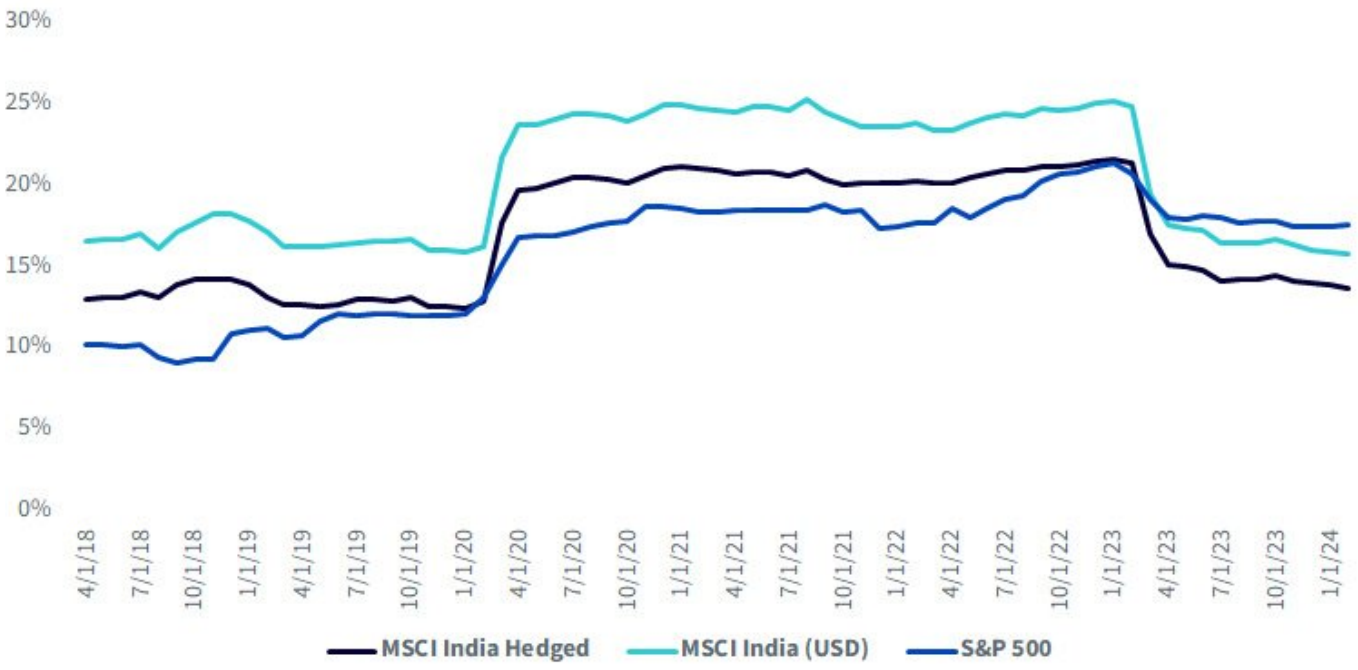
Why Hedge Your Currency Exposure for India?

Emerging market (EM) investors recognize that increased performance potential does not come without an increase in volatility, driven both by higher volatility in local stocks and added currency fluctuations. Over the last eight years, the average absolute difference between USD and local calendar year returns, which isolates currency volatility, was the following:

- Developed international (measured by MSCI EAFE): 5.15%
- Emerging markets (measured by MSCI EM): 2.60%
- India (measured by MSCI India): 4.74%

In the below chart, we can see the impact of hedging exposure to the Indian rupee (INR) for a U.S. dollar (USD) investor. On average, USD investors saw the volatility of their Indian exposure reduced by an average 3.5% annually when hedging out currency movements. This brought the volatility of their India exposure closer to—if not below—that of U.S. equity markets.

Rolling 36m Annual Volatility

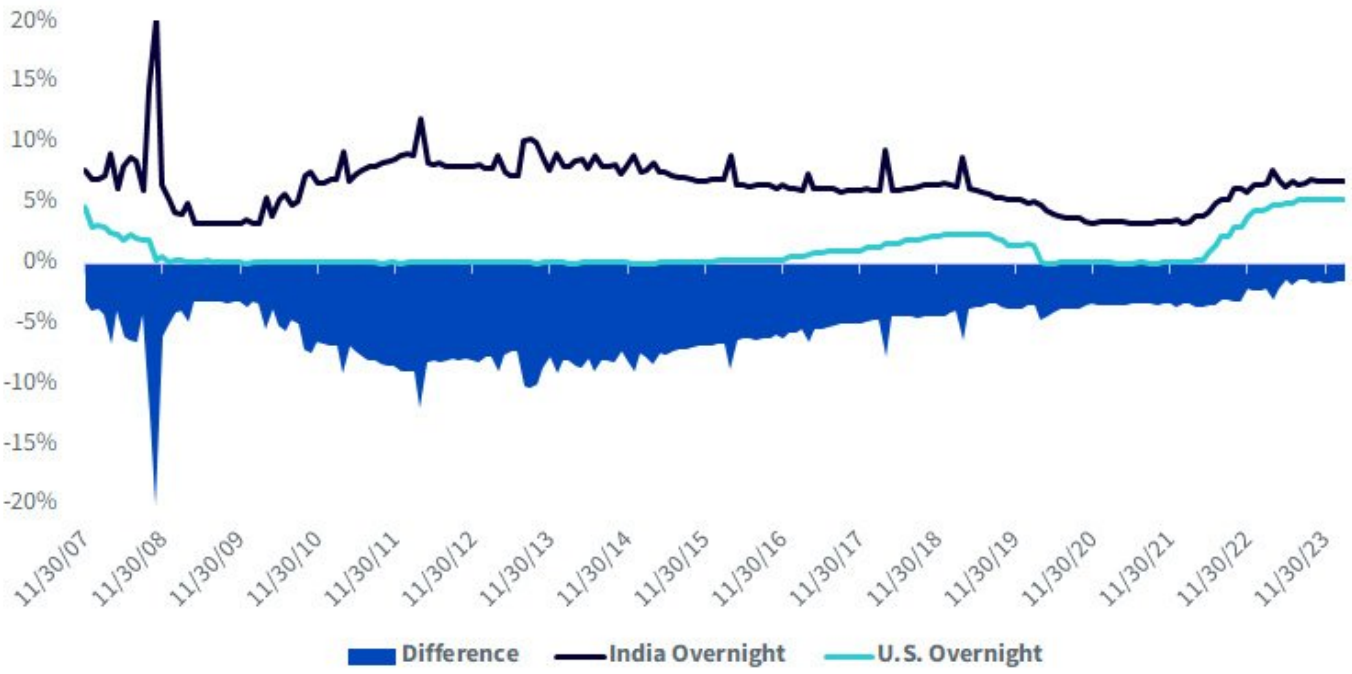


Sources: WisdomTree, FactSet. Data from 4/30/15–2/29/24. Past performance doesn't guarantee future results. It is not possible to invest directly in an index.

For definitions of indexes in the graph above, please visit the glossary.

One objection to hedging currency is that it can be expensive due to interest rate differentials—particularly for emerging market foreign exchange (FX). However, the cost of hedging INR exposure for a USD investor has come down significantly in the past few years as India's monetary policy rates have converged and the U.S. has become more restrictive in its inflation fight. The most recent six-month average implied cost of carry, or interest rate differential, was -1.54%—there were many years in the last decade with the Fed anchored at a zero lower bound when the cost of hedging was well over 5%.

Interest Rate Differential



Sources: WisdomTree, FactSet. Data from 4/30/15–2/29/24. Financial Benchmarks India Overnight Mumbai Interbank Outright Rate used as a proxy for India Overnight rate. U.S. Federal Funds Effective Rate used as a proxy for U.S. Overnight rate.

The WisdomTree India Hedged Equity Index

WisdomTree has been at the forefront of providing both exposure to the Indian market and currency hedging for a long time.

In 2008, WisdomTree launched its India Earnings Fund (EPI), which holds close to $3 billion in assets under management (AUM).

And in 2010, WisdomTree launched its currency-hedged franchise, which now includes nine funds and $9.5 billion in AUM as of April 2024.

Combining our currency-hedging knowledge with the increased interest in hedging exposure in the Indian market, WisdomTree launched its India Hedged Equity Index (WTIEQH) earlier this year.

The WTIEQH Index selects the 75 largest Indian securities and weights them by float-adjusted market capitalization. At rebalance, the single stock exposure is capped at 10%, and sector exposures are capped

at 30%. The Index is rebalanced annually in September using data as of the end of August. The Index is designed to neutralize fluctuations in the INR using one-month forward rates.

WTIEQH is intended to be a market-type exposure providing added value through its currency hedge.

Index Top Holdings

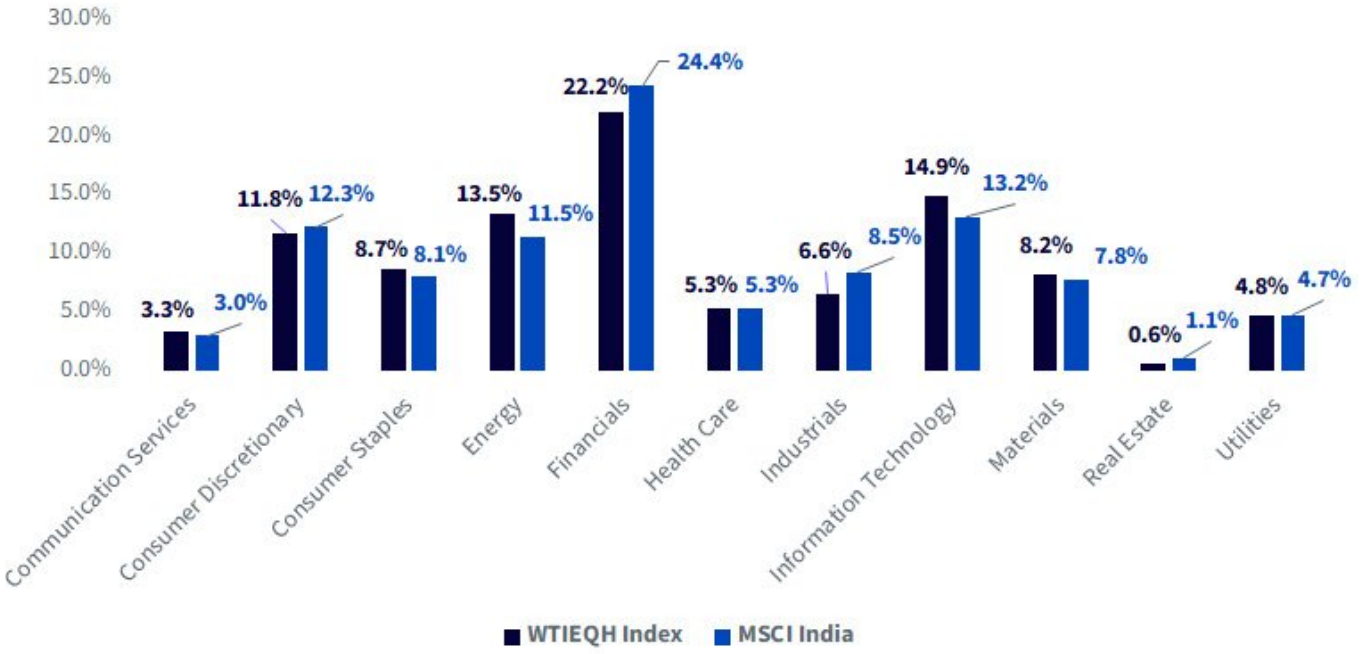
Rank	Name	WTIEQH Weight	MSCI India Weight	MSCI India Rank
1	Reliance Industries Limited	10.33%	8.63%	1
2	HDFC Bank Limited	7.47%	3.82%	4
3	Infosys Limited	6.47%	5.39%	2
4	ICICI Bank Limited	5.89%	5.29%	3
5	Tata Consultancy Services Limited	4.52%	3.64%	5
6	Bharti Airtel Limited	2.92%	2.45%	6
7	Axis Bank Limited	2.69%	2.38%	7
8	Larsen & Toubro Ltd.	2.45%	2.27%	8
9	Hindustan Unilever Limited	2.37%	1.93%	9
10	Mahindra & Mahindra Ltd.	2.05%	1.75%	11

Sources: WisdomTree, FactSet. Data as of 2/29/24. Holdings are subject to change.

Index Sector Weights

Like MSCI India, WTIEQH has significant exposure to the Financials, Information Technology and Energy sectors.

Sector Exposures



Sources: WisdomTree, FactSet. Data as of 2/29/24. Sector exposures are subject to change.

Introducing the WisdomTree India Hedged Equity Fund (INDH)

The WisdomTree India Hedged Equity Fund (INDH) seeks to track the price and yield performance, before fees and expenses, of the WisdomTree India Hedged Equity Index.

Why INDH?

INDH offers a compelling investment opportunity for those looking to gain broad equity exposure to Indian companies while addressing the potential risks associated with currency fluctuations. By incorporating a currency hedge, INDH mitigates the impact of the Indian rupee's volatility, ensuring that investors can maintain their exposure to Indian equities without the added uncertainty of currency movements relative to the U.S. dollar. This strategic approach allows investors to focus on the intrinsic value and growth potential of Indian companies rather than worrying about the adverse effects of exchange rate fluctuations on their investments.

1 Source: Bloomberg. Data as of 3/28/24.

2 Source: Babel, Ayush, "India for the Long Run", *WisdomTree,* https://www.wisdomtree.com/investments/blog/2024/03/21/india-for-the-long-run

3 Forecasts are inherently limited and should not be relied upon when making investment decisions. There is no guarantee projected growth will occur.

4 Source: WisdomTree. Data from 3/31/23–3/29/24.

5 Source: WisdomTree. Data from 3/31/14–3/29/24. Past performance doesn’t guarantee future results. It is not possible to invest directly in an index.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region that can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

EPI: As this Fund has a high concentration in some sectors, the Fund can be adversely affected by changes in those sectors. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs.

INDH: Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations and derivative investment risk, which can be volatile and may be less liquid than other securities, and the effect of varied economic conditions. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs.

Past performance is not indicative of future results.

You cannot invest directly in an index.