

January 06, 2016

BSE-30: 25,580

Period Under Review:

December 2015

KIE's foreign fund-flow tracker gives a comprehensive view of the market-flow by listed funds into India and its emerging market (EM) peers. These market participants are further classified based on their investment styles (passive ETFs or active non-ETFs) in an attempt to understand the intent and sentiments governing the flows.

The key constituents of the report are as follows.

### Country flows

Listed fund activity in CY2015 remained volatile with 2HCY15 outflows (US\$6 bn) offsetting inflows in the first half of the year. Most of these redemptions can be attributed to active funds (US\$4.1 bn). In contrast, ETFs recorded net inflows worth US\$1.7 bn during the period. Most of these inflows were India-dedicated and were seen during 1HCY15.

### Country allocations

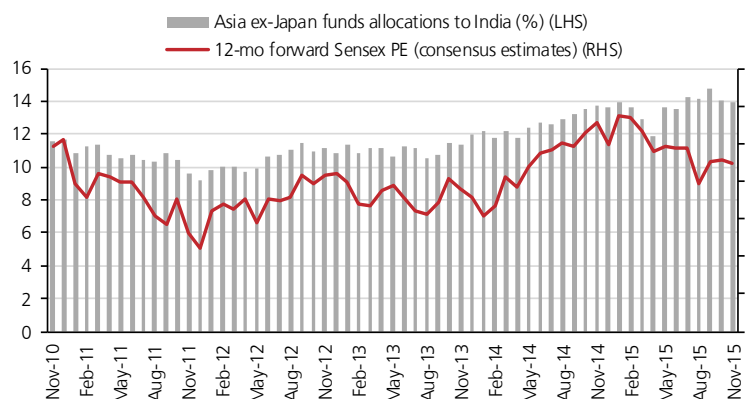
Fund allocations to India by regional funds remained stable in November. Although active GEM funds brought down exposure to India by 0.3% during the period, they continue to remain substantially overweight on India

### Fund flows

Active EM funds continued to see redemptions taking their three-month tally to US\$7.2 bn

#### Allocations to India by Asia ex-Japan funds at 13.9%

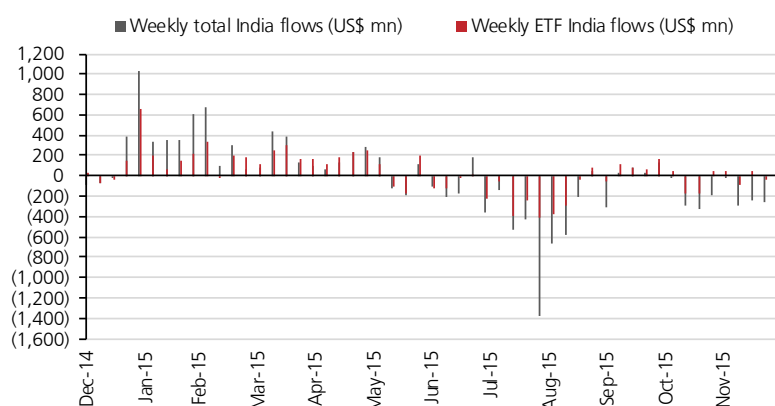
India allocations in Asia (ex-Japan) versus Sensex valuations



Source: EPFR, Factset, Kotak Institutional Equities

#### Net listed fund outflows worth US\$0.8 bn in December

Weekly total and ETF flows into India (US\$ mn)



Source: EPFR, Kotak Institutional Equities

Saifullah Rais

Saifullah.rais@kotak.com

Mumbai: +91-22-4336-0895

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Fund flow and country flow data in the report is as of December 30, 2015; country allocations are as of November 30, 2015

## COUNTRY FLOWS

# COUNTRY FLOWS

## Total and ETFs

Listed funds have recorded outflows exceeding US\$6 bn in 2HCY15; CY2015 saw outflows from active EM funds

India EPFR fund inflows (net) with segregation by geography and investment style (US\$ mn)

	India-dedicated AUM		EPFR universe India AUM		Total India inflows			India-dedicated inflows			EM-dedicated inflows into India		
	non-ETF	ETF	India-dedicated	All EPFR funds	non-ETF	ETF	Total	non-ETF	ETF	Total	non-ETF	ETF	Total
1-month	24,796	11,004	35,800	104,358	(777)	(68)	(845)	(211)	(279)	(490)	(317)	135	(182)
3-months	26,022	11,954	37,976	106,748	(1,432)	32	(1,400)	(288)	(538)	(826)	(780)	389	(391)
6-months	27,436	13,806	41,242	113,001	(4,137)	(1,993)	(6,130)	(918)	(1,707)	(2,624)	(1,719)	(241)	(1,960)
12-months	23,492	10,241	33,733	109,074	(1,995)	1,730	(266)	1,532	1,762	3,294	(2,024)	(459)	(2,482)
CY2015	24,643	10,779	35,422	99,402	(1,995)	1,730	(266)	1,532	1,762	3,294	(2,024)	(459)	(2,482)
CY2014	23,492	10,241	33,733	109,074	(1,129)	2,513	1,384	(993)	2,557	1,564	(298)	(279)	(578)

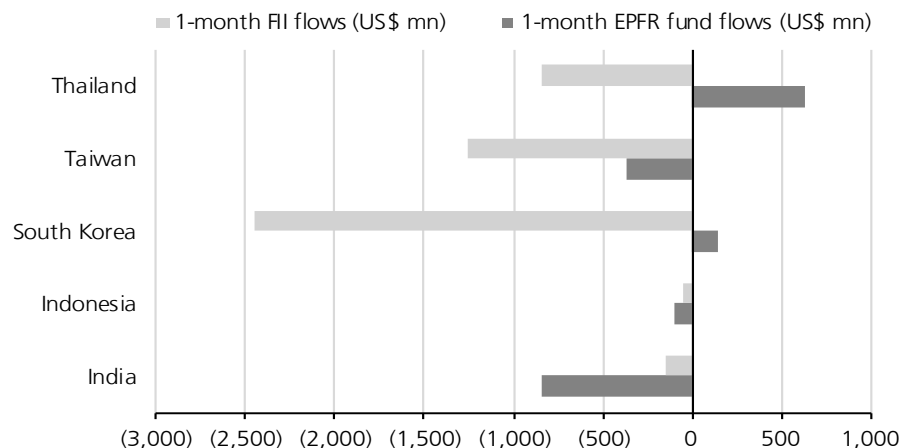
Notes:

(a) Due to availability of weekly data, we consider the time periods in the following manner — one-month: four weeks, three months: 12 weeks, six months: 26 weeks, 12 months: 52 weeks.

Source: EPFR, Kotak Institutional Equities

### Total FPI activity remains negative across most emerging markets

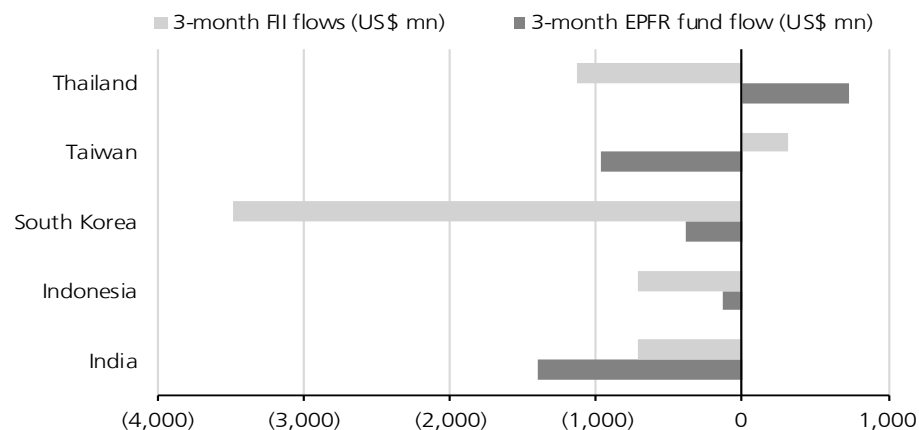
Country flows on a one-month basis - total funds versus total FII flows (US\$ mn)



Source: SEBI, Bloomberg, EPFR, Kotak Institutional Equities

### FPIs sold equities worth US\$5 bn across major EM regions in December

Country flows on a three-month basis - total funds versus total FII flows (US\$ mn)



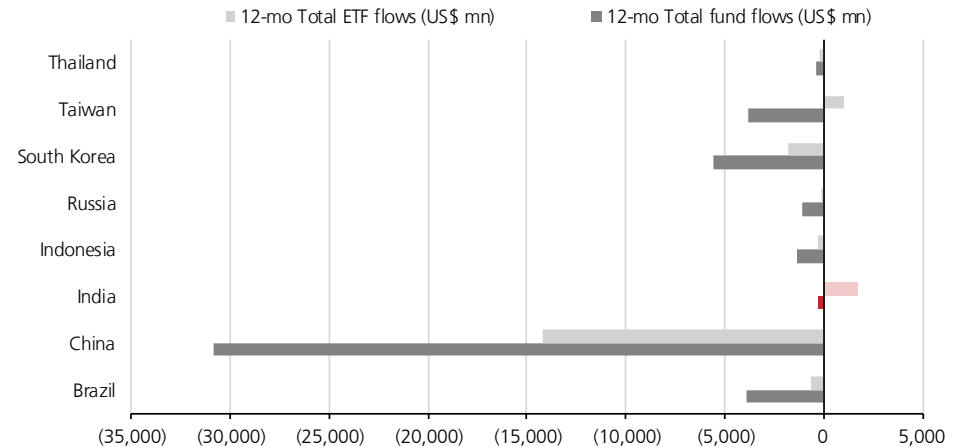
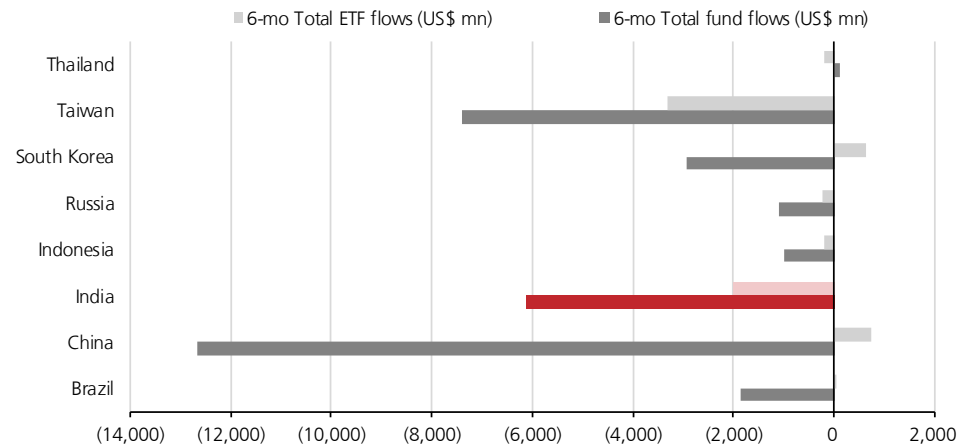
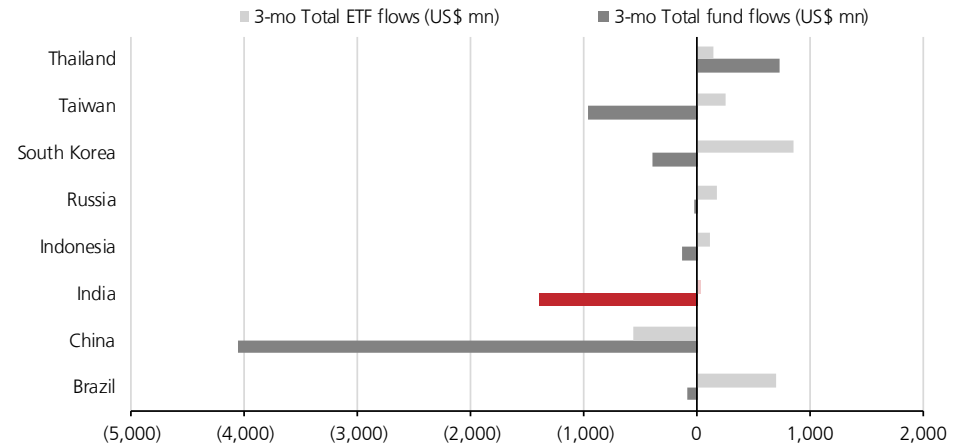
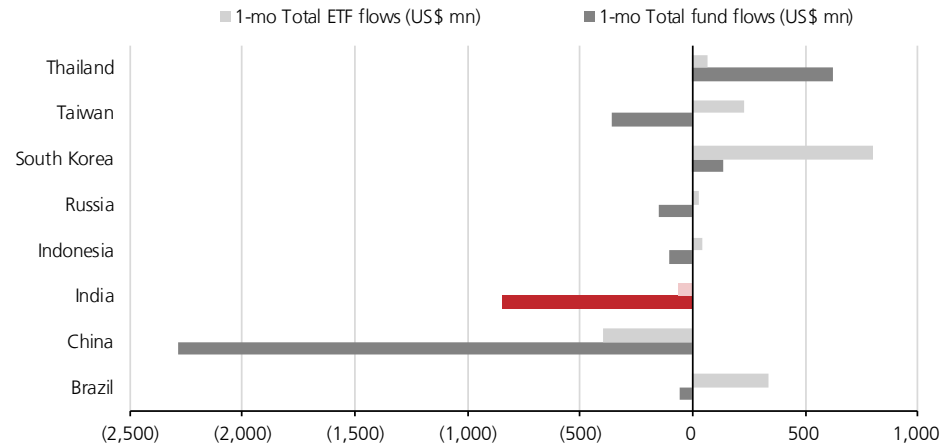
Source: SEBI, Bloomberg, EPFR, Kotak Institutional Equities

# COUNTRY FLOWS

## Total and ETFs

EM outflows amount to US\$47 bn in CY2015; ETFs account for US\$14 bn of the total outflows

Country flows into EM regions

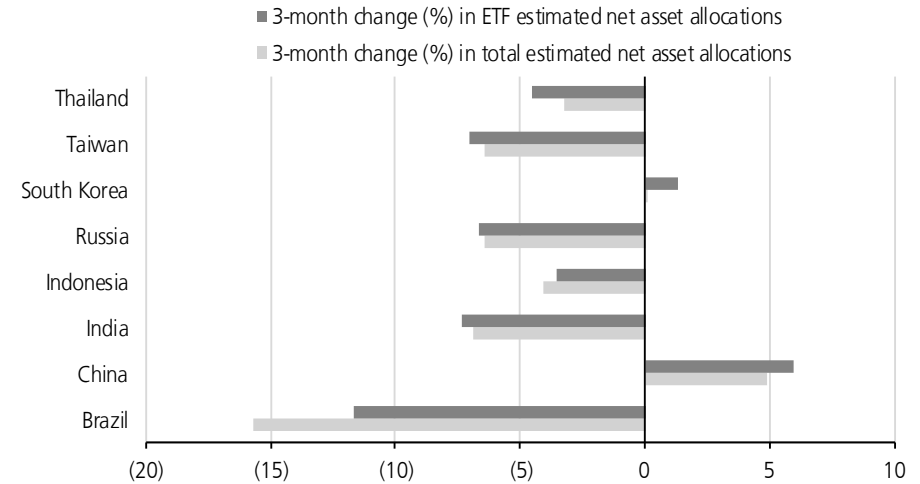
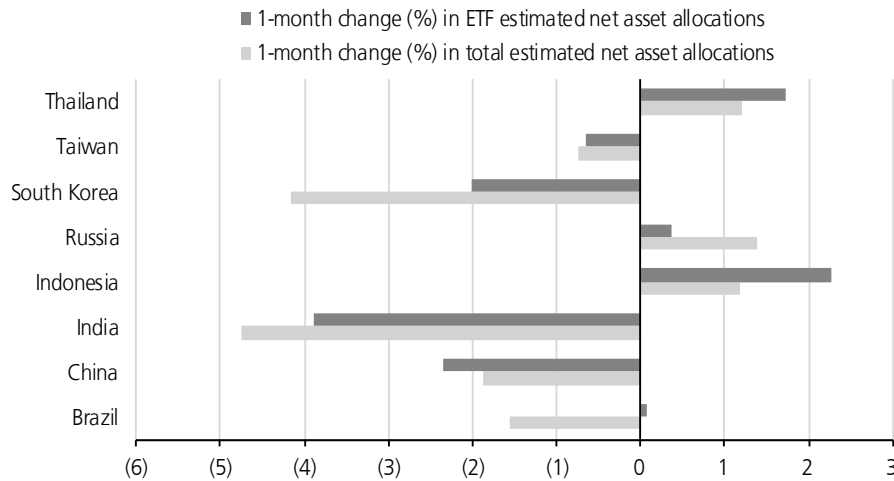


Source: EPFR, Kotak Institutional Equities

# COUNTRY FLOWS

## Changes in estimated net asset allocation

Thailand, Indonesia and Russia saw marginal increases in net asset allocations in December; most regions saw a drop on a three-month basis



### Notes:

(a) Estimated allocation/US\$ is calculated by aggregating the allocations of all fund groups that have invested in the country.

(b) Country estimated net asset allocation (US\$ mn) =  $\sum$  ( country allocation % x fund types net assets).

e.g.: India estimated net asset allocation = Estimated Indian assets in different fund types like Global Emerging Markets, Asia ex-Japan, etc.

(c) Due to availability of weekly data, we consider the time periods in the following manner — one month: four weeks, three months: 12 weeks, six months: 26 weeks, 12 months: 52 weeks.

Source: EPFR, Kotak Institutional Equities

## COUNTRY ALLOCATIONS

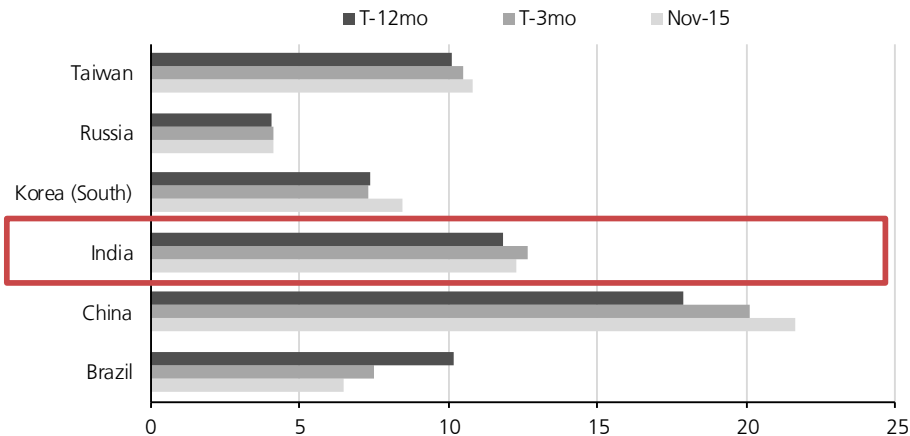
# COUNTRY ALLOCATIONS

## Allocations to India by GEM and Asia ex-Japan funds stabilize in November

- Allocations to India and China constitute more than one-third of the average Asia ex-Japan fund's portfolio
- GEM funds stabilize allocations to India in November 2015 (down 0.1% mom)
- Asia ex-Japan fund allocations to India remain at 13.9% (from 14% in October)
- Active GEM funds have reduced exposure to India by 0.3% in November

### Allocations to India remain at 12.3% (down 0.1% mom)

Country allocations by GEM-dedicated funds (%)

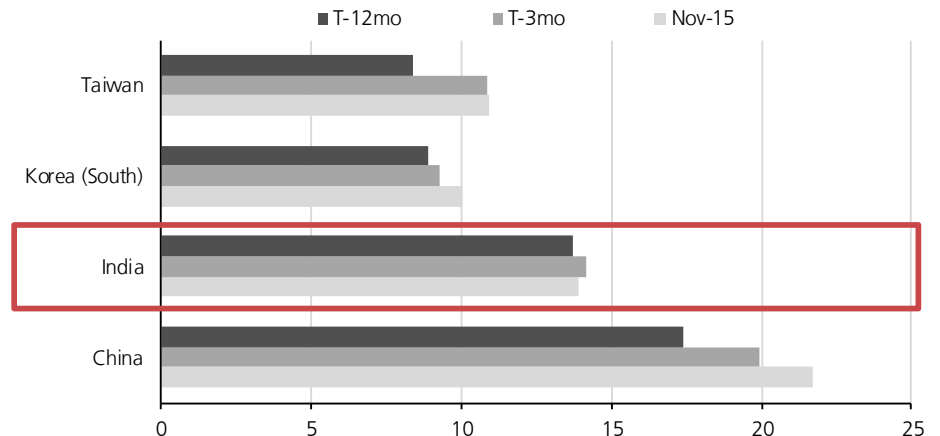


Notes:  
(1) T=November 30, 2015.

Source: EPFR, Bloomberg, Kotak Institutional Equities

### Exposure to India at 13.9% (down 0.1% mom)

Country allocations by Asia ex-Japan universe of funds (%)



Notes:  
(1) T=November 30, 2015.

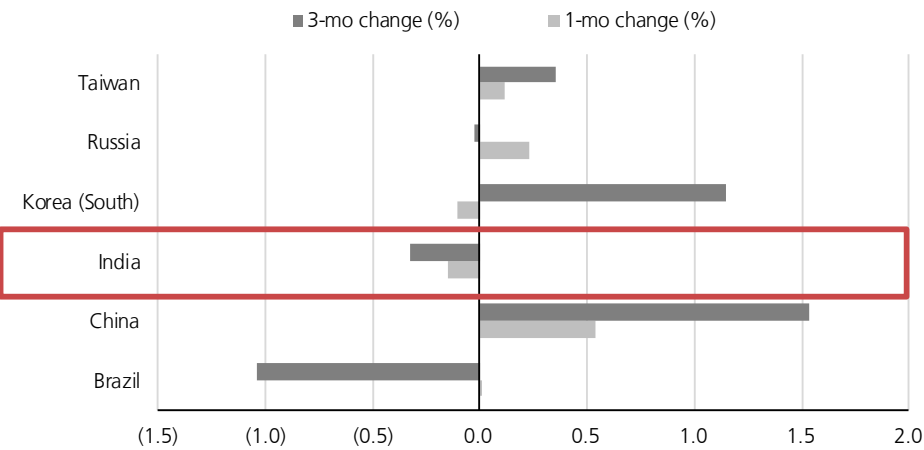
Source: EPFR, Bloomberg, Kotak Institutional Equities



# COUNTRY ALLOCATIONS

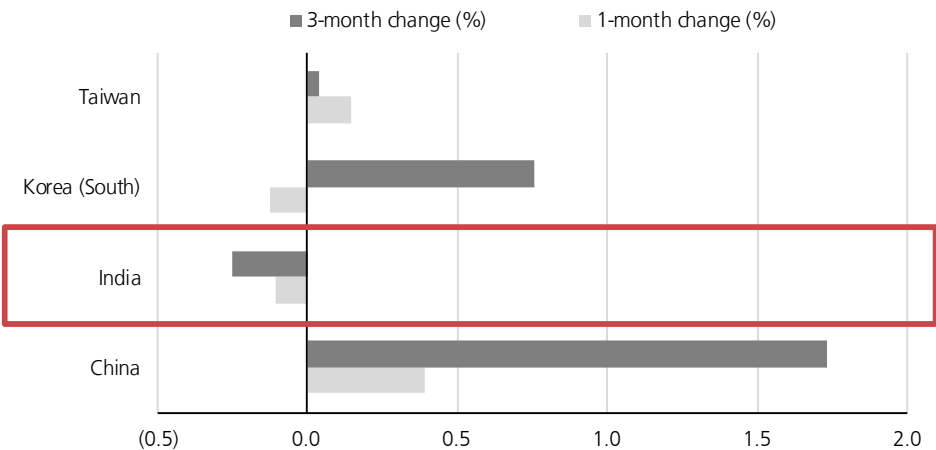
## Percentage change

Korea and China have gained portfolio share in the last three months  
GEM funds (percentage change in allocations)



Source: EPFR, Kotak Institutional Equities

Allocations to China up 1.7% over the last three months  
Asia ex-Japan (percentage change in allocations)



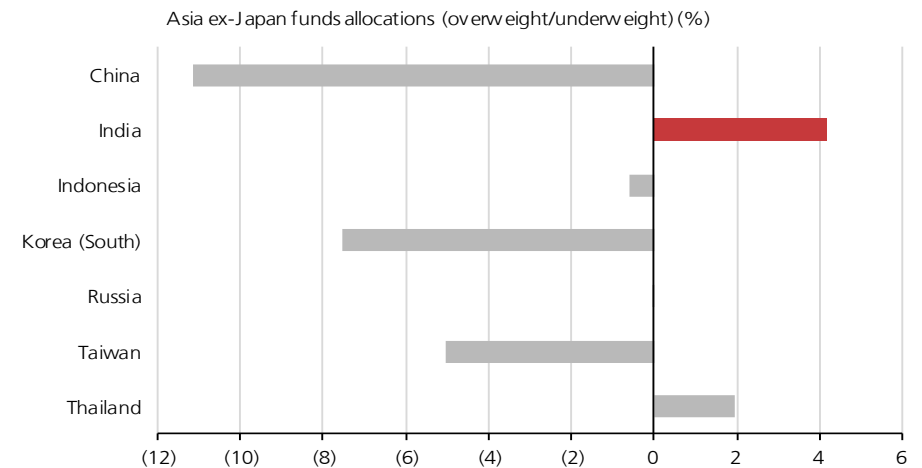
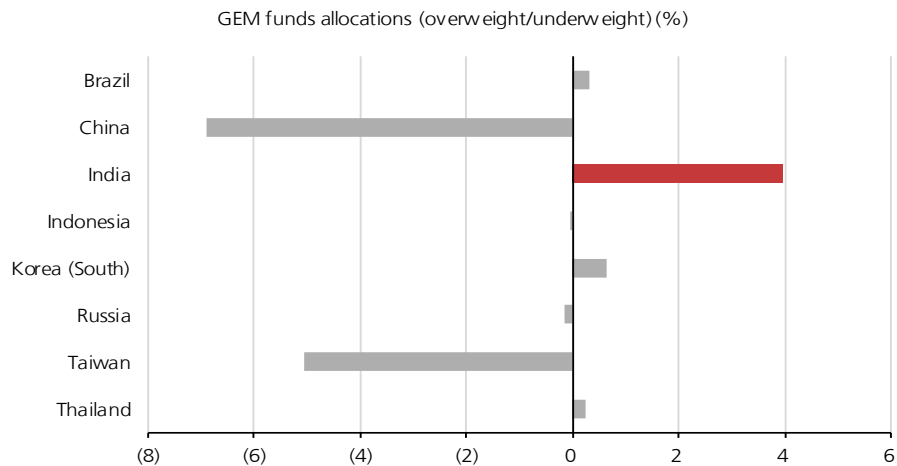
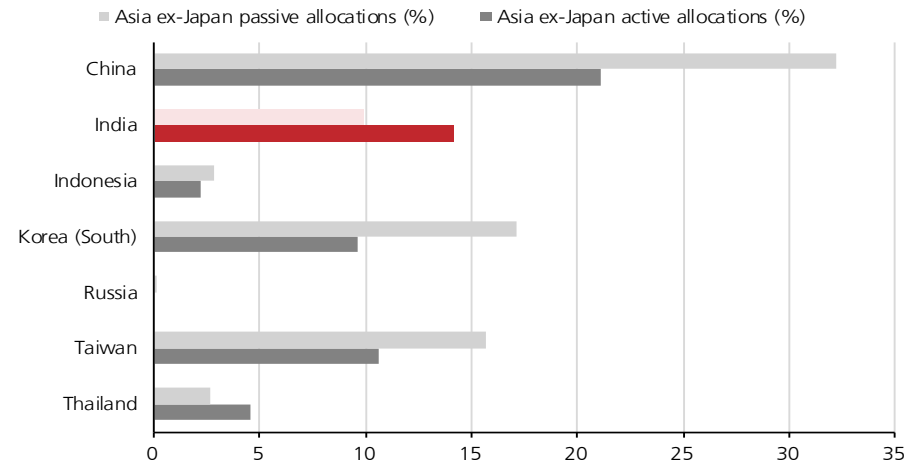
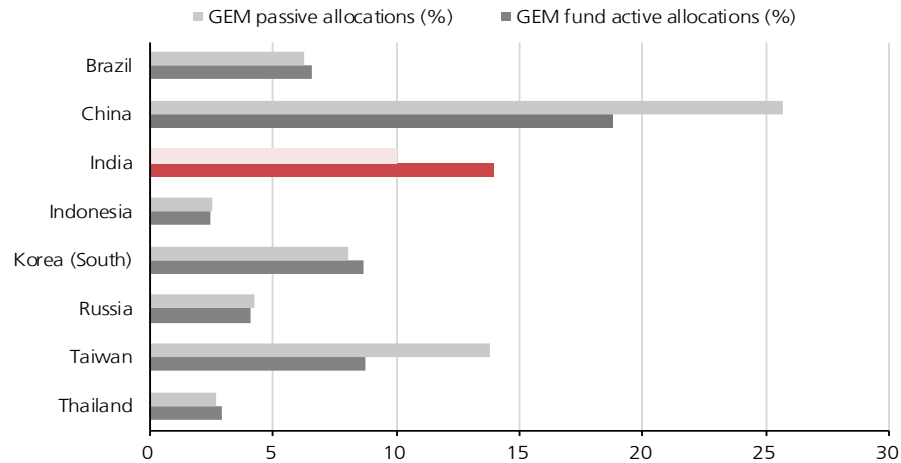
Source: EPFR, Kotak Institutional Equities

# FUND ALLOCATON

## GEM and Asia ex-Japan fund allocation

**Global regional funds remain substantially overweight by ~4% on India**

Fund allocations to various markets by GEM and Asia ex-Japan funds (%), October 2015



Source: Bloomberg, Kotak Institutional Equities

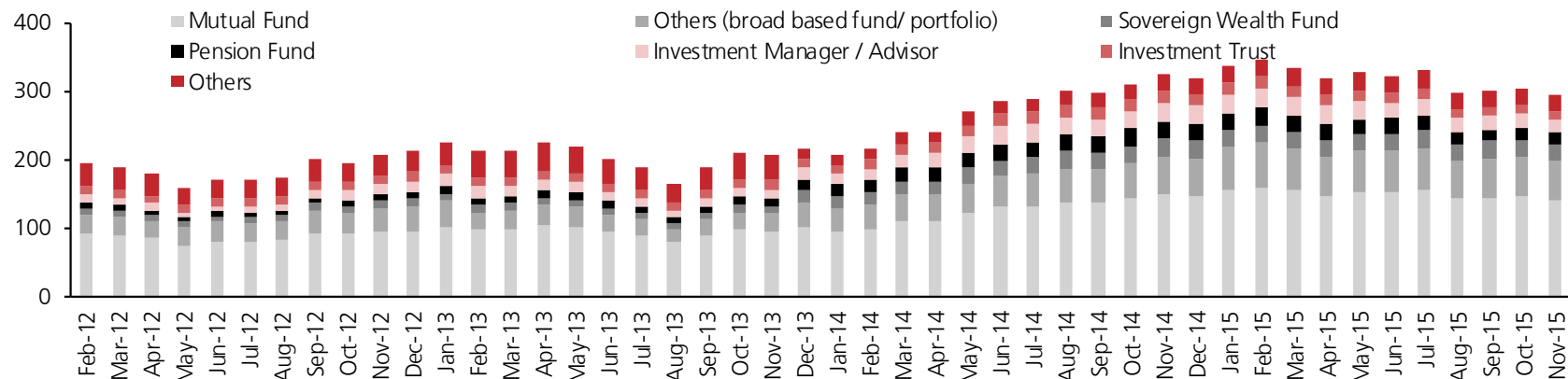
INDIAN FPI ACTIVITY

# INDIA FPI ACTIVITY

## FPI equity flows—broken down into sectors and participants

Direct exposure to India by global pension funds has dropped over the year to US\$17 bn (from US\$26 bn in December 2014)

Total FPI AUC classified based on client-type, 2012-15 (US\$ bn)



Source: SEBI, Kotak Institutional Equities

The first half of December 2015 saw consumer discretionary attract inflows even as health care and financials lost out

Sector-wise net FPI inflows (US\$ mn) and market participation (% of total FPI inflows), December 15, 2015

Sectors	FPI inflows (US\$ mn)						FPI market participation (%)					
	1-mo	3-mo	6-mo	CYTD15	CY2014	CY2013	1-mo	3-mo	6-mo	CYTD15	CY2014	CY2013
Consumer Discretionary	307	781	732	883	2,671	1,730	(39)	(95)	(21)	32	17	9
Consumer Staples	(84)	(135)	(519)	(493)	(206)	(525)	11	16	15	(18)	(1)	(3)
Energy	(141)	(198)	(209)	1,655	1,368	1,829	18	24	6	59	9	9
Financials	(231)	(191)	(46)	826	5,008	3,435	30	23	1	30	32	17
Health Care	(290)	(443)	(509)	2,754	309	1,863	37	54	15	99	2	9
Industrials	(155)	(296)	(797)	760	38	2,027	20	36	23	27	0	10
Information Technology	(64)	(114)	(598)	(1,365)	1,143	3,157	8	14	17	(49)	7	16
Materials	(21)	(115)	(517)	(982)	332	457	3	14	15	(35)	2	2
Telecommunication Services	(66)	(156)	(289)	159	1,431	418	8	19	8	6	9	2
Utilities	(19)	(23)	(318)	(486)	1,196	2,399	2	3	9	(17)	8	12
Others	(19)	67	(443)	(919)	2,560	3,029	2	(8)	13	(33)	16	15
<b>Total</b>	<b>(782)</b>	<b>(823)</b>	<b>(3,509)</b>	<b>2,787</b>	<b>15,853</b>	<b>20,001</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: NSDL, Kotak Institutional Equities

## FOREIGN FUND FLOWS

# FUND FLOWS

The EPFR universe of EM funds classified according to their benchmark indices

## EM-dedicated funds see outflows worth US\$6 bn in recent times; passive instruments remain positive

- Active funds benchmarked to the MSCI EM continue to see redemptions over the past month
- EM-focused ETFs are relatively stable with marginal inflows for the major funds
- Funds tracking MSCI India saw outflows worth US\$302 mn in the past month alone

### EM-focused active funds continue to see redemptions; take their three-month tally to US\$7 bn

The EPFR universe of EM funds classified as per their respective benchmark indices and investment styles

Benchmarks	AUM (US\$ mn)			Flows in/out (US\$ mn)					
	Total	Non-ETF	ETF	Total (net)		ETF (net)		Non-ETF (net)	
				4-wks	12-wks	4-wks	12-wks	4-wks	12-wks
EM and Asia-focused funds									
FTSE Emerging Markets	34,368	—	34,368	(355)	(266)	(355)	(266)	—	—
MSCI Emerging Markets	222,110	192,524	29,587	(3,167)	(6,349)	206	879	(3,373)	(7,228)
MSCI AC Asia Pacific ex Japan	30,101	30,100	2	(417)	(588)	0	0	(417)	(588)
MSCI AC Asia ex Japan	26,382	22,517	3,865	(598)	(512)	68	137	(666)	(649)
FTSE AWW Asia Pacific ex-Japan	4,564	4,564	—	(63)	(385)	—	—	(63)	(385)
MSCI Emerging Markets Free	5,255	5,255	—	(20)	(325)	—	—	(20)	(325)
MSCI AC Asia Pacific ex Japan Small Cap	1,971	1,971	—	(101)	(164)	—	—	(101)	(164)
MSCI EM Asia	2,742	1,282	1,460	(9)	(123)	(1)	(96)	(8)	(27)
MSCI BRIC	982	801	181	(12)	35	(3)	(7)	(8)	42
India-dedicated funds									
MSCI India	15,249	9,174	6,075	(302)	(670)	(120)	(329)	(182)	(341)
IFCI India	1,804	1,804	—	(3)	(46)	—	—	(3)	(46)
WisdomTree India Earnings	1,596	—	1,596	(87)	(117)	(87)	(117)	—	—
BSE 100	1,677	1,677	—	(38)	(19)	—	—	(38)	(19)
S&P CNX Nifty	1,858	178	1,681	(31)	(29)	(30)	(32)	(0)	3
BSE SENSEX	143	37	106	(3)	(11)	(3)	(9)	(0)	(1)
CNX Nifty Index	232	—	232	1	9	1	9	—	—
Other regional funds									
MSCI AC Far East ex-Japan	7,979	6,119	1,860	(13)	(13)	125	193	(138)	(206)
MSCI AC Pacific ex-Japan	5,316	3,324	1,991	17	(100)	10	(37)	7	(63)
Hang Seng	16,916	2,288	14,627	185	346	183	357	2	(11)
FTSE China 25	6,027	—	6,027	(175)	(409)	(175)	(409)	—	—
MSCI Golden Dragon	5,399	5,399	—	(128)	(337)	—	—	(128)	(337)
MSCI China 10/40	3,850	3,850	—	(27)	(65)	—	—	(27)	(65)
MSCI China	8,586	5,950	2,637	207	522	231	290	(24)	232

Source: EPFR, Kotak Institutional Equities

# Appendix

## Details of the fund universe

- Details of the fund-flow universe considered are given below

Emerging market universe of ~1,500 funds have AUM of ~US\$800 bn

Details of the fund-flow universe

Region	No. of funds	Cumulative net assets (US\$ bn)
India-dedicated	73	28
Asia ex-Japan	652	178
Global Emerging Markets	377	238
Emerging Markets	1,389	579

Source: EPFR, Kotak Institutional Equities

## Fund-flow calculation methodology (most recent data point – week ending December 30, 2015)

- Weekly net flows (US\$) = (Weekly net change) – (Weekly portfolio change).
  - Weekly net change = (End of week total fund asset) – (Beginning of week total fund asset) – (Weekly forex change).
  - Weekly portfolio change = (Beginning of week total fund asset) x (Weekly change in NAV).

## Country allocations (most recent data point – November 30, 2015)

- Data tracks the actual country and regional weightings, in percentage terms, of individual funds and average weightings by investment manager and fund group.
- We use the fund-weighted average method to calculate allocation.
  - Fund-weighted average involves calculating the US dollar amounts invested in each country for all funds individually, and then adding up the US dollar amounts for each country and dividing by the total assets of all funds combined.

## Country flows (most recent data point – week ending December 30, 2015)

- Country flows are estimated using fund-flow data along with the country allocations for each fund.
- Country flows =  $\sum$  (Fund flows x country allocation).

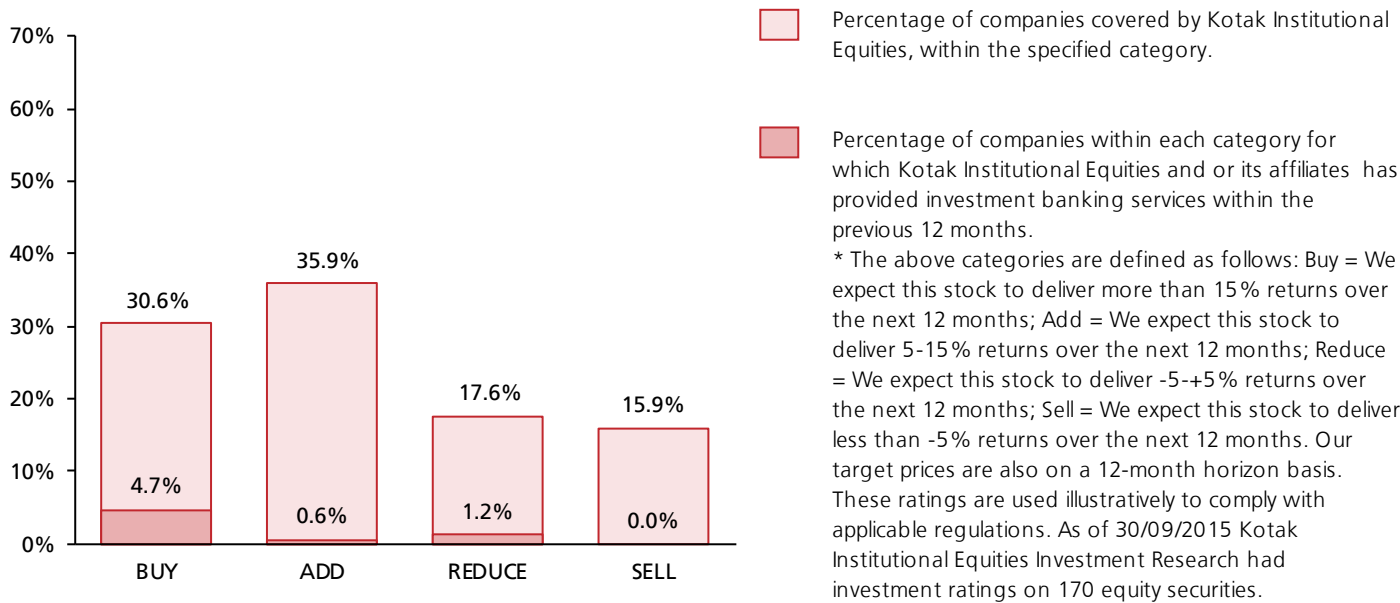
Activity by non-regulated market participants (such as hedge funds, proprietary desks, sovereign wealth funds, etc.) not in scope

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2015



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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com). SEBI Registration No: NSE INB/INF/NE 230808130, BSE INB 010808153/INF 011133230, MSEI INE 260808130/INB 260808135/INF 260808135, Research Analyst INH000000586, AMFI ARN 0164 and PMS INP000000258. NSDL: IN-DP-NSDL-23-97. CDSL: IN-DP-CDSL-158-2001. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022- 4285 6825 or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com)