

Investible Index for India

The PowerShares India Portfolio is an ETF providing direct exposure to stocks of Indian companies. The Indus India Index, on which the India Portfolio is based, is designed to replicate the Indian equity markets as a whole, through a diverse group of 50 Indian stocks, selected from a universe of the largest companies listed on the two primary India exchanges. The unique methodology, using a metric called “IndusCap”, ensures that the Index is totally investible at all times for foreign (i.e. non-Indian) investors.

Q: How is the PowerShares India Portfolio different from other India-focused ETFs in the market?

A: The PowerShares India ETF is based on the Indus India Index constructed by Indus Advisors. Indus India Index is the only fully investible index which takes into account foreign holding limits on Indian securities.

In the early 1990s India began its gradual transition from a socialist economy to a market economy. One of the many elements of that gradual change is the limit placed on foreign ownership of Indian companies at 24%.

In other words, foreign investors in the aggregate can only buy 24% of an Indian company (certain sectors have other limits). However, if a company wants to invite or allow additional foreign holdings, it could pass a board resolution to raise the limit from 24% to higher levels, and the new level becomes effective upon approval by the regulators. Currently, about 160 companies have

raised their limits from 24% to a level between 25% and 49%; another 46 companies have raised their limits to between 50% and 75%; and 21 companies have no limits at all, i.e. , foreign investors can buy 100% of the stock of these companies.

The equity markets in India have about 6,500 stocks with a total stock market capitalization of about \$1.5 trillion; the top 500 companies account for about 95% of this size.

The only way in which a foreign investor can invest in an Indian company is through an entity registered with the regulators as an FII–Foreign Institutional Investor. As foreign institutional investors buy and sell stock through the usual intermediaries, banks and brokers, RBI, the Reserve Bank of India, monitors all transactions on a daily basis so that the total foreign ownership is updated.

This was recognized as an important factor when we began to consider indexes for possible use as a basis for open-ended funds in the U.S. in-



RANGA NATHAN, CFA, is the Managing Director of Indus Advisors and a member of the Index Committee

Nathan has several years of experience in developing indexes and structuring index products including ETFs, as an officer of Nuveen Investments and PowerShares Capital Management; and as a consultant to such entities as Oppenheimer, PanAgora, First Trust, Quantum Systems, Beeland and others. He is a member of the Review Committee of the Journal of Indexes; and was on the Editorial Board of Derivatives Quarterly.

Nathan has written articles in *Euromoney*, *Global Pensions*, *Derivatives Quarterly*, *Journal of Indexes*, and other publications. He has also contributed chapters in such books as: *Global Investment Risk Management*, *Core-Satellite Portfolio Management*, and *Institutional Investor's* annual publications on ETFs.

PowerShares India Portfolio

Symbol	PIN
Website	www.invescopowershares.com
Address	Invesco PowerShares Capital Management LLC 301 West Roosevelt Road Wheaton, IL 60187
Tel. No.	800-983-0903
Inception	03/05/2008

PORTFOLIO

Total Net Assets*	\$48.0
Number of Securities	50
Avg Mkt Cap (\$ Weighted) *	\$27,885
Average Price/Earnings Ratio	15.54x
Average Price/Book Ratio	4.57
Return on Equity	32.25
Fund Market Cap Allocations	
Large-Cap Growth	67.23%
Large-Cap Value	32.19%
Mid-Cap Growth	0.58%

INDEX DATA

Indus India Index	III
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5-YEAR ALPHA & BETA

	Alpha	Beta
MSCI India	0.97	1.03
Sensex	2.32	1.13
S&P 500	29.67	1.60

PERFORMANCE

	Fund	Index
Since Inception	-4.36% (NAV)	-4.89%
Since Inception	-3.99% (Sh. Pr.)	-

FEES AND EXPENSES

Total Expense Ratio	0.78%
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*millions

Data through: 03/31/2008

Source: Company Documents

“The liberalization of India is one of the most significant global economic developments of the last 20 years, turning the new market-based economy into one of the largest and fastest growing in the world.”

cluding exchange-traded funds. Until a couple of years ago, three indexes covered Indian equity securities: Nifty 50 created by the National Stock Exchange has fifty components; Sensex, created by the Bombay Stock Exchange, has thirty components; and MSCI India, currently with sixty-two companies. Each of them then had, and continues to include, some companies which have already reached their respective foreign holding limits. Therefore, if you want to create a fund in the U.S. based on any of these three indexes, you would not be able to totally replicate the indexes.

After some analysis and theorizing, we came up with a concept called, “Indus Cap.” There are two well-known capitalization measures. Market cap is the total market capitalization of a company, being the product of the number of shares outstanding in a company and the price per share. Float Cap is the value of all shares available in the secondary market. Stocks that are locked-in and not available to the secondary market are excluded in Float Cap. Taking this one more step, if we remove shares not available to foreign investors, you get IndusCap. Thus, IndusCap is the capitalization in each company that is available to foreign investors.

Q: So IndusCap looks past market cap and float cap and focuses on the available float to foreign investors.

A: Correct. IndusCap takes into account not only the foreign holding limit for each company, but also the current foreign holdings. For example, if a company has a limit of 70%, and foreign investors already own 60%, then only 10% of the cap is available. This has to be modified,

where necessary, by promoter-held and other locked-in shares.

Q: How is the Index constructed, starting from IndusCap?

A: We start with the largest 300 companies or so that trade either on the Bombay Stock Exchange or on the National Stock Exchange or both, and calculate their respective IndusCap values. The companies with the largest 50 IndusCaps are chosen for the Index.

First, the stocks are weighted by their IndusCap values. Then these weights are modified to meet the diversification requirements of RIC (U.S.) and UCITS (Europe). We then apply certain Sector limits, and change weights if necessary. The result is the Indus India Index.

Q: How often is the reconstitution and what happens on that day?

A: The Index is reconstituted quarterly. A more frequent re-constitution might result in a high turn-over. At the same time, we did not want to wait for a year (as most other India indexes do) because our index is sensitive to the current movements in the purchases and sales by foreign investors of Indian stocks. This is because, as mentioned earlier, one of the considerations is current foreign holdings.

Some of the information that we need comes from the quarterly corporate filings with SEBI, the Securities and Exchange Board of India, due at the end of the month following each quarter. Because this information is critical to the calculations, we reconstitute not at the end of the calendar quarters, but at the end of the months following the calendar quarters.

Q: How does the Index maintain its Investibility?

A: First, on each re-constitution date, only companies which have capitalization available to foreign investors are selected.

Second, if a company reaches its foreign holding limit between two re-constitution dates, it is removed from the Index, so that the Index remains totally investible.

There are two things to note in this regard: Because of the selection process, this event does not occur as frequently as experienced by other indexes. It has happened only four times in the past four years. Second, because low IndusCap companies are more likely to reach their limits, and low IndusCap companies have low weights, only a small part of the Index is affected by this event, infrequent as it is.

Q: Why is Investibility important?

A: If an index is not completely investible, its performance record is not reliable as a basis for an investment in a fund which follows it.

For example, Tata Steel was a member of all indexes we have reviewed at the beginning of 2007. Tata Steel reached its foreign holding limit in late May 2007. This company went on to register a gain of 49% from that day to the end of 2007. An index which continued to include Tata Steel would include this price appreciation in its performance; but an open-ended fund (e.g. ETF) following this index would not enjoy the price appreciation in full.

Thus, an index which is not totally investible might show one performance record, and the fund will show another. Therefore investors

can not completely rely upon the historical performance record of a non-investible index for strategic or tactical asset allocation.


Q: How does the performance of IndusCap compare to those of MSCI, Nifty and Sensex indexes?

A: The Compounded annual return during the five years (2003-2007) for the Indus India Index was over 52%; the comparable performance of the other indexes were all below 50% with MSCI at the highest (49.6%) and Nifty at the lowest (46.2%). Standard deviations for all are similar. The correlation of Indus performance with the other three is 96% to 97%.

The similarity in standard deviation and the high level of correlation suggest that Indus would have the same performance pattern as the other, better-known indexes. However, the performance level has been higher for Indus than for the other three, by between 3% and 7% per year. Finally, because Indus is the only Investible index, its performance is more reliable for investment decisions than is the case for the other indexes.

Q: How is the Indus India Index maintained on an on-going basis?

A: We have a team in Bangalore, India, which monitors not only price action of the stocks, but also regulatory changes, foreign holding limits, current foreign holdings, corporate actions, etc. This team maintains the Index on a daily basis.

In addition, Standard & Poors has been retained as the Index Calculating Agent, and independently calculates the index on a real-time basis; and arranges publication over the usual quotation systems (Bloomberg, Reuters, and other). 

Indus India Index

FUND FACTS		
Index Provider	Indus Advisors, LLC	
Website	www.indusadvisorsllc.com	
Inception	12/31/2001	
PORTFOLIO		
Sector Weightings - Top Three		
Technology/Telecom	27.1%	
Energy	23.6%	
Industrial	20.8%	
Constituents - Top Three		
Reliance Inds.	10.0%	
Infosys Tech.	9.6%	
ONGC	7.5%	
RECONSTITUTION		
Last Bus. Day	January, April, July, October	
PERFORMANCE		
Index	1 Year	5 Years
Indus India	28.68%	46.35%
MSCI India	30.63%	44.03%
Sensex	19.68%	38.69%
S&P 500	- 5.08%	11.32%
MANAGEMENT TEAM & INDEX COMMITTEE		
Ranga Nathan, CFA	Managing Dir	
Terry F. Martell, Ph.D.	Committee Mem	
Vijjanta J. Ruparel, Ph.D.	Committee Mem	
<i>*millions</i>		
<i>Data through: 03/31/2008</i>		
<i>Source: Company Documents</i>		

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