India Index Services & Products Limited

WHITE PAPER

SERIES #12

NIFTY Equity Savings

'A suitable benchmark for Equity Savings Funds'

April 2018

Introduction

In financial investments, investors often face a challenge of consistently generating returns and keeping volatility lower. Right asset allocation strategy plays a critical role in achieving this. As a result, financial planning often revolves around finding the right balance between various asset classes like Equity and Fixed Income. It is known to us that every asset class has its own unique risk-return profile. For instance, equity historically has shown capacity to deliver higher returns albeit at higher risk, fixed income provides stable but lower gains and equity arbitrage provides a tactful way of managing exposure to equity based on one's view. Portfolio diversification is as much a science as it is an art and needs expertise and concerted efforts including regular monitoring. For investors willing to take marginally higher risk (as compared to debt funds) to earn higher tax-efficient returns, equity savings funds present a good option by combining equity, equity arbitrage and debt instruments.

In Union Budget 2014, the minimum holding period for debt funds to qualify as long term capital asset was increased from 12 months to 36 months. This change led to creation of a new fund category 'Equity Savings Fund' having a blend of equity, equity arbitrage and debt instruments. Equity Savings funds typically invest a minimum of 65% of its corpus in equity or equity related instruments and hence are treated at par with equity funds for long term taxation benefit making them more tax-efficient than debt funds. These funds seek to provide a fit for investors desirous of higher post tax returns (through equity) with stability (through debt) and a hedged equity exposure (through derivative product) to tide over volatility in capital markets.

India Index Services & Products Ltd (IISL), an NSE group company, launched NIFTY Equity Savings Index. This index captures performance of a portfolio having exposure to equity, equity arbitrage and debt instruments and is well suited for the benchmarking needs of Equity Savings Funds.

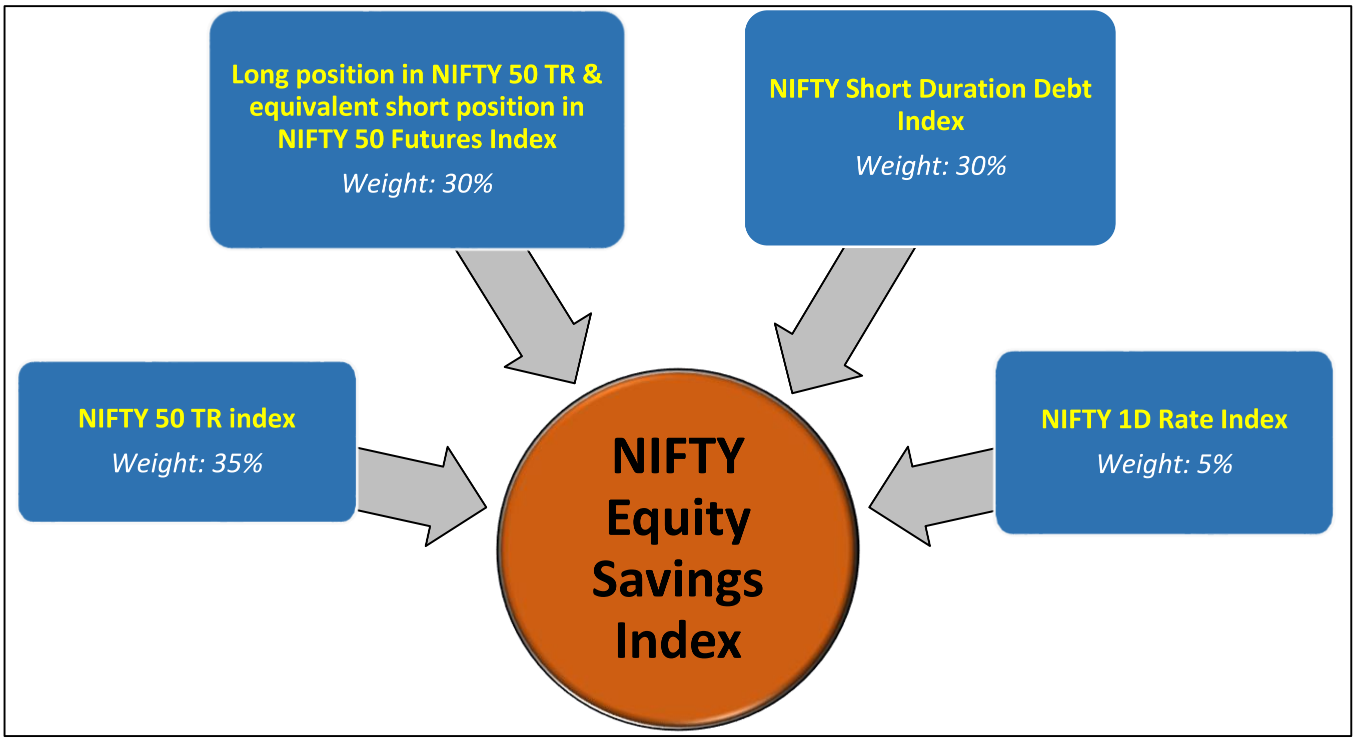
About NIFTY Equity Savings Index

The NIFTY Equity Savings index captures performance of a portfolio having exposure to equity, equity arbitrage and debt instruments. This index is a total return index capturing price return and dividend/coupon income.

The NIFTY Equity Savings Index includes the following components:

- 35% exposure to NIFTY 50 Total Return (TR) Index
- 30% exposure to equity arbitrage (long position in NIFTY 50 TR Index and equivalent short position in NIFTY 50 Futures Index)
- 30% exposure to NIFTY Short Duration Debt Index
- 5% exposure to NIFTY 1D Rate Index

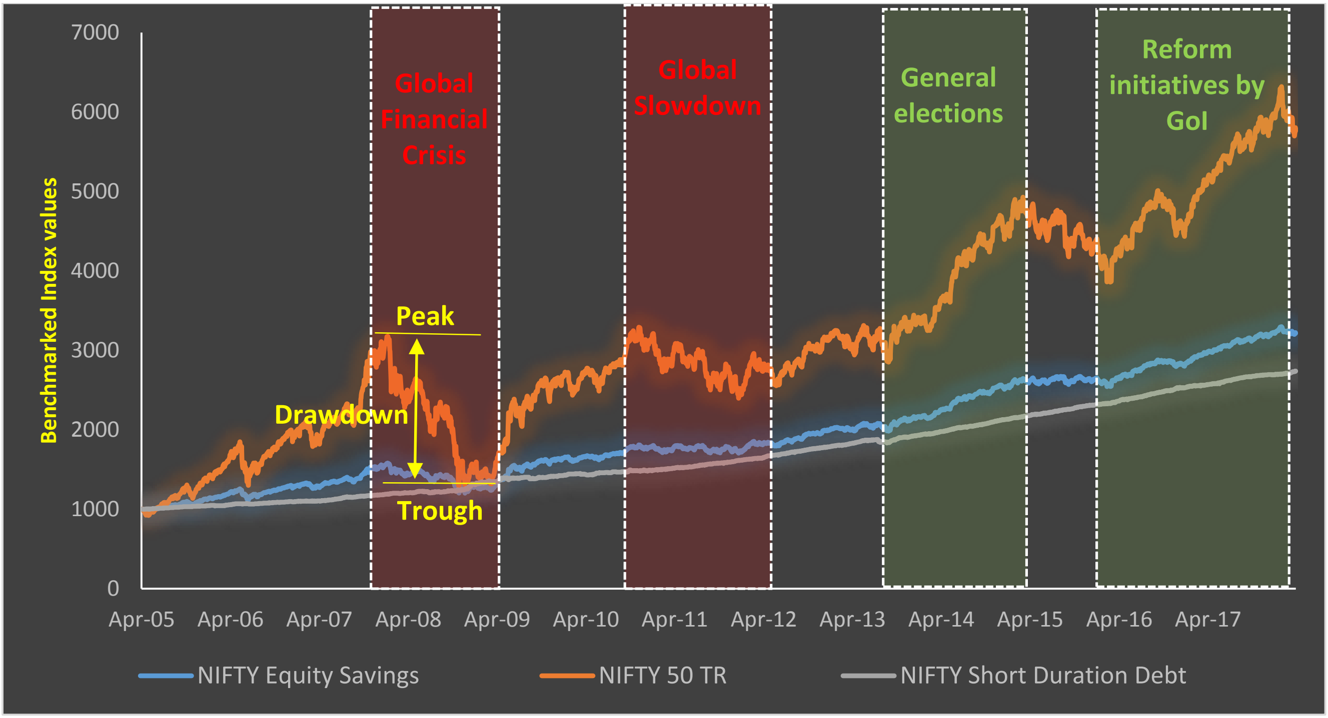
Exhibit 1: Composition of NIFTY Equity Savings Index



NIFTY Equity Savings Index delivered stable risk-adjusted returns since its inception

Exhibit 2 below shows the performance of NIFTY Equity Savings, NIFTY 50 TR and NIFTY Short Term Debt Indices from April 01, 2005 till March 28, 2018.

Exhibit 2: Performance comparison of NIFTY Equity Savings, NIFTY 50 TR & NIFTY Short Term Debt Indices



**Data as on March 28, 2018*

Exhibit 3: Calendar year returns of NIFTY Equity Savings, NIFTY 50 TR and NIFTY Short Term Debt Indices

Calendar year	NIFTY Equity Savings	NIFTY 50 TR	NIFTY Short Duration Debt
2005#	13.26%	39.32%	4.38%
2006	14.45%	41.90%	4.94%
2007	20.52%	56.80%	8.58%
2008	**-17.51%**	**-51.27%**	10.76%
2009	27.64%	77.59%	8.20%
2010	9.26%	19.22%	4.22%
2011	**-4.42%**	**-23.81%**	8.67%
2012	16.38%	29.43%	10.74%
2013	8.36%	8.07%	8.03%
2014	17.43%	32.90%	10.47%
2015	**4.24%**	**-3.01%**	8.55%
2016	6.92%	4.39%	9.29%
2017	13.71%	30.27%	6.33%
2018 YTD*	-0.32%	-3.59%	1.77%

**Data as on March 28, 2018, #Data since April 1, 2005*

Exhibit 3 above captures the calendar year returns of NIFTY Equity Savings, NIFTY 50 TR and NIFTY Short Term Debt Indices. From calendar year 2005 to 2018, NIFTY Equity Savings Index has delivered positive returns in 11 out of 14 instances compared to NIFTY 50 TR index which reported 10 such cases out of 14 calendar years (highlighted in green in Exhibit 3). Likewise, NIFTY Equity Savings index reported higher returns than NIFTY Short Duration Debt index in 9 out of 14 instances. Hence, NIFTY Equity Savings index seeks to deliver higher returns compared to a short term debt instrument with marginally higher risk (read volatility).

Further, stability in performance of NIFTY Equity Savings index is evident during periods of market turmoil. The fall in NIFTY Equity Savings Index was lower than NIFTY 50 TR Index during financial crisis of 2008 and during global economic slowdown of 2011. Likewise, in 2015 when the NIFTY 50 TR fell by 3.01%, the NIFTY Equity Savings Index delivered positive return of 4.24%.

Exhibit 4: CAGR returns, Volatility and Return-Risk ratio of NIFTY Equity Savings & NIFTY 50 TR Indices

Period	CAGR (%)		Annualized Volatility (%)		Return-Risk Ratio	
	NIFTY Equity Savings	NIFTY 50 TR	NIFTY Equity Savings	NIFTY 50 TR	NIFTY Equity Savings	NIFTY 50 TR
Since inception*	9.4%	14.4%	7.7%	22.8%	1.2	0.6
10 years	8.4%	9.2%	7.4%	21.6%	1.1	0.4
7 years	8.7%	9.5%	5.5%	15.4%	1.6	0.6
5 years	9.9%	13.6%	5.3%	14.6%	1.9	0.9
3 years	7.2%	7.4%	4.8%	13.6%	1.5	0.5
1 year	7.9%	11.8%	3.6%	10.0%	2.2	1.2

**Data as on March 28, 2018. Inception date: April 01, 2005*

Exhibit 4 above includes CAGR returns, annualized volatility and return-risk ratio for NIFTY Equity Savings & NIFTY 50 TR Indices as on March 28, 2018. As seen, NIFTY Equity Savings index has consistently delivered better risk adjusted returns as indicated by higher return-risk ratio as compared to NIFTY 50 TR across all time frames (1, 3, 5, 7, 10 years period and since inception) (Highlighted in ‘green’ in Exhibit 4 above).

NIFTY Equity Savings portfolio recorded lower drawdowns across all calendar years indicating robustness in performance during market downturns

Exhibit 5 below shows the calendar year drawdowns of NIFTY Equity Savings and NIFTY 50 TR. (As indicated in Exhibit 2, a drawdown is the peak-to-trough decline during a specific period of an investment). NIFTY Equity Savings index has consistently recorded lower drawdowns compared to NIFTY 50 TR index across all 14 calendar years indicating relatively lower downside during periods of market correction (indicated in 'green' in Exhibit 5).

Exhibit 5: Calendar year drawdowns of NIFTY Equity Savings & NIFTY 50 TR Indices

Calendar year	NIFTY Equity Savings	NIFTY 50 TR
2005#	-4.3%	-13.0%
2006	-11.4%	-29.7%
2007	-5.3%	-15.2%
2008	**-23.9%**	**-59.5%**
2009	-5.9%	-17.4%
2010	-3.6%	-10.6%
2011	**-5.4%**	**-25.4%**
2012	-3.2%	-13.7%
2013	-4.7%	-13.9%
2014	-2.1%	-6.5%
2015	-3.8%	-15.3%
2016	-4.1%	-12.4%
2017	-1.4%	-4.1%
2018 YTD*	-3.0%	-9.8%

**Data as on March 28, 2018, #Data since April 1, 2005*

The highest drawdown recorded by NIFTY Equity Savings index was -23.9% during global financial crisis of 2008 as against -59.5% of NIFTY 50 TR index. The NIFTY Equity Savings index also fell lower during volatile markets in 2011 during global slowdown as indicated by a drawdown of -5.4% vis-à-vis -25.4% of NIFTY 50 TR index.

Signing Off…

The NIFTY Equity Savings index captures performance of a portfolio having exposure to equity, equity arbitrage and debt instruments. The NIFTY Equity Savings index has consistently delivered stable risk-adjusted returns since its inception. The index also has lower drawdowns compared to NIFTY 50 TR index underlining the robustness in performance especially during periods of market downturns. NIFTY Equity Savings portfolio, thus, strikes the right balance between equity, debt and equity arbitrage strategy delivering better risk adjusted returns and is ideal for investors seeking stability in returns over long term investment horizons. Similar to the investment philosophy of equity savings funds, this index captures performance of a portfolio having exposure to equity, equity arbitrage and debt instruments and hence is an appropriate benchmark index for these funds.

For information on Index methodology and factsheet, please visit us at www.niftyindices.com

About India Index Services & Products Ltd. (IISL):

India Index Services & Products Ltd. (IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. IISL focuses upon the index as a core product. IISL owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. IISL equity Indices comprises of broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. IISL also maintains fixed income indices based on Government of India securities, corporate bonds and money market instruments. Many investment products based on IISL indices have been developed within India and abroad. These include index based derivatives traded on NSE, Singapore Exchange Ltd. (SGX), Chicago Mercantile Exchange Inc. (CME), Osaka Exchange Inc. (OSE), Taiwan Futures Exchange (TAIFEX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

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