EXCHANGE TRADED FUND

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MCB India Sovereign Bond ETF

MCB Capital Markets

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Introduction

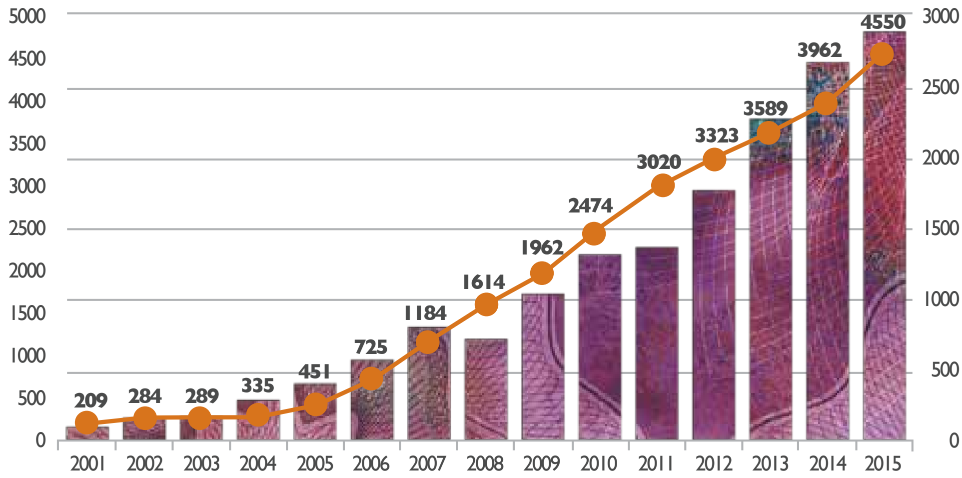
MCB India Sovereign Bond ETF is the world's first Exchange Traded Fund to provide international investors dedicated access to the Indian Sovereign Bonds market.

An Exchange Traded Fund ("ETF") is an investment vehicle that, in its typical form, is designed to enable investors to track a particular index through a single liquid instrument that can be purchased or sold on a stock exchange.

An ETF offers the characteristics of an investment fund (such as low costs and broad diversification) but also characteristics more commonly associated with equities (such as access to real time pricing and trading).

Since the launch of the first ETF back in 1993, ETFs have seen dramatic growth in recent years, in terms of assets invested and the number of products available. Globally, there was around USD2.9 trillion invested in ETFs as at December 2015.

ETFs evolution over last 15 years



Data source: ETFGI Asset (USD billion) - RHS Number of ETFs - LHS

ETFs are increasingly being used by both institutional investors such as pension funds, government agencies and private banks, and individual investors as they now provide access to almost all markets and asset classes across the world.

MCB India Sovereign Bond ETF is promoted by MCB Capital Markets which is a trusted leader, with a sustained track record over the past 25 years, in providing innovative investment products to individual and institutional investors.

Objective of the MCB India Sovereign Bond ETF

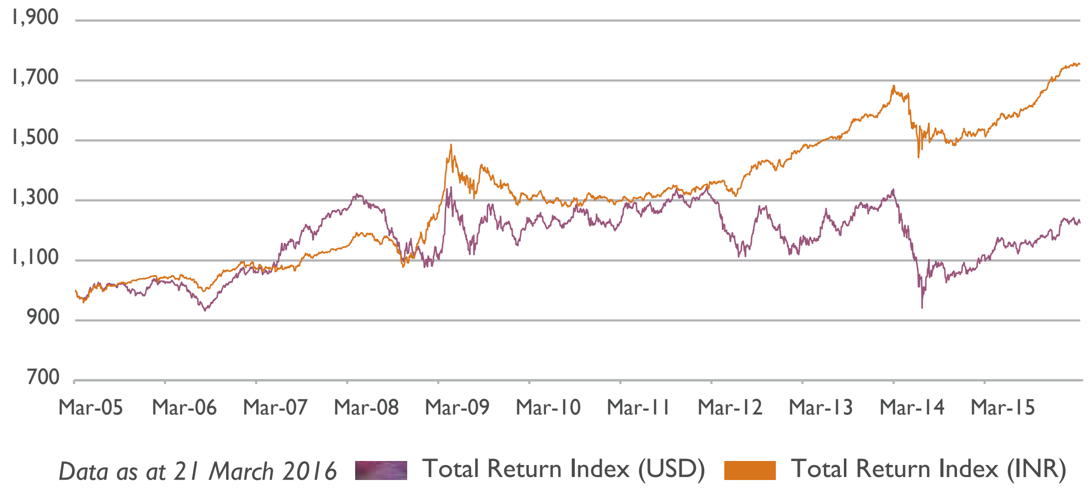
The main objective of the MCB India Sovereign Bond ETF is to provide investors with regular short-term returns through the payment of half-yearly dividends and longer-term capital appreciation by replicating the ZyFin India Sovereign Bond Liquid Index which tracks the performance of the most liquid, fixed rate, INR-denominated bond issued by the Government of India.

The investment universe of the ETF is typically Indian government bonds with residual maturities between 8 and 13 years meeting also the following criteria.

The bonds must:

- have principal and interest denominated in INR
- be fixed coupon bonds with semi-annual coupon payment frequency
- have an outstanding amount in issue of at least INR 50 billion
- have traded for at least 50% of business days in the month
- not be special bonds (such as Oil Bonds) issued by the Indian Government
- not be in FII Restriction (Negative Investment) list

The performance of the index since inception (31 March 2005) is provided below:



Why Indian Sovereign Bonds?

There are multiple reasons why investors globally are increasingly investing in Indian Sovereign Bonds. The Indian economy presents an interesting investment case, driven by the following factors:

- **Investment grade status:** India is an investment grade country (S&P BBB-) and has not been downgraded for more than a decade, despite several domestic and global crises.

- **Third largest economy in the world:** Based on Purchasing Power Parity (PPP), India is now the third largest economy in the world. According to IMF data, India's nominal GDP has grown more than 9-fold from 1982 to 2014 to reach USD2 trillion. India's sovereign and debt market is also the third largest amongst Asian peers and it is now opening up further to foreign investors.

- **High GDP growth:** India has shown sustained real GDP growth over the last 33 years (6.2% p.a. on average). Forecasted figures of close to 8.0% p.a. for 2016 to 2018 (according to World Bank Global Economic Prospects Report, January 2016) are the highest as compared to Emerging Markets peers.

- **Favourable demographics:** India has a low dependency ratio. The young population has increasing access to education and the country's middle-income class is growing, giving rise to new infrastructure and other governmental projects which will require the raising of fund through bond issuances.

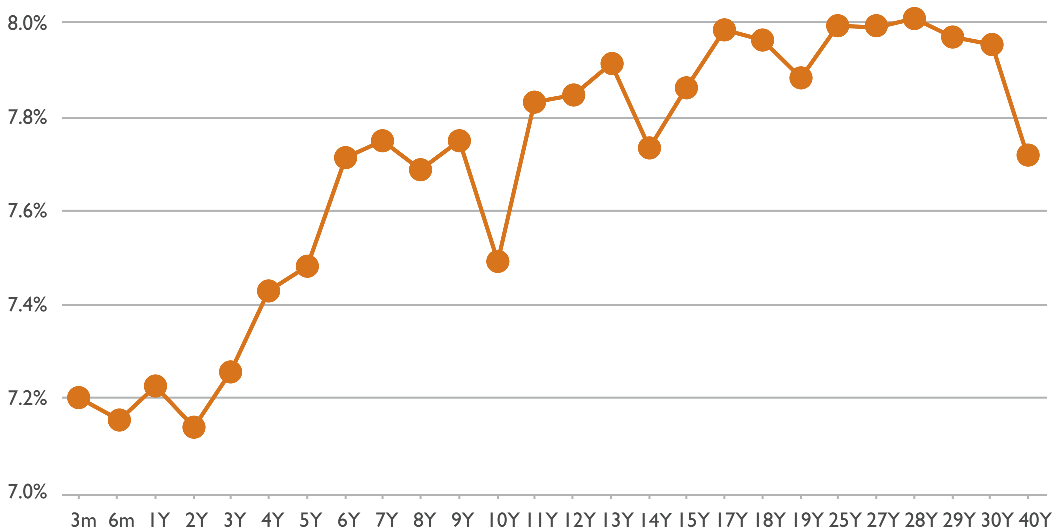
- **Attractive yields:** Yields on sovereign bonds remain attractive over the long-term in USD terms with an annualised return of 6.25% per annum achieved on 10-year bonds over the last 17 years, based on data from the S&P BSE India 10-year Sovereign Bond Index (USD).

Why a single-bond portfolio?

The MCB India Sovereign Bond ETF invests in the most liquid (measured in terms of aggregate value traded over the last month preceding rebalancing of the portfolio) sovereign bond with a typical maturity between 8 and 13 years for the following reasons:

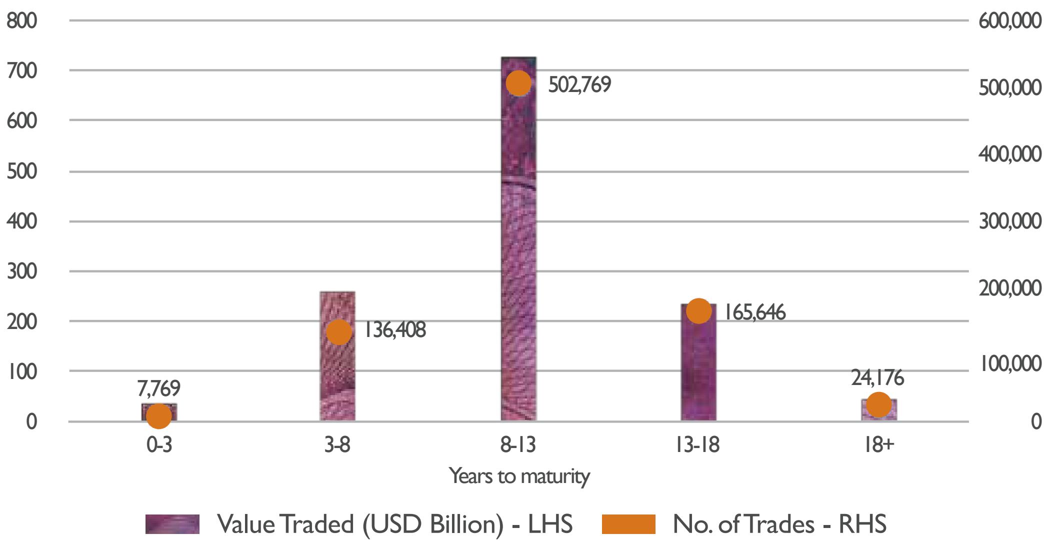
- There is no issuer's risk diversification to be achieved by holding more than one bond given that there is only one issuer which is the Government of India.
- When it comes to duration diversification, the risk-return trade-off is not optimal as the yield curve demonstrates less than 50 bps premium for holding longer-term bonds, which increases duration risk in a rising interest rate environment.

The Indian Sovereign Bond Yield Curve



Source: Bloomberg, 30 March 2016

- Liquidity is king in such a market. As demonstrated from the chart below, liquidity is significantly lower and almost non-existent on the longer-term bonds.



Data source: Trade data published by CCIL India, covering period from April 2015 to March 2016. Special securities such as Oil Marketing Bonds are excluded upon identification.

Who should invest in the MCB India Sovereign Bond ETF?

The objective of this ETF makes it suitable for institutional and individual investors:

- looking to access the Indian sovereign bond market, thereby diversifying their fixed income portfolio
- looking for regular returns in USD from coupon income and potential long-term gains from capital appreciation of the underlying bonds
- having an investment horizon of at least 5 years

Why invest in the MCB India Sovereign Bond ETF?

- **Attractive yields:** The Indian sovereign bond market has a strong track record of offering attractive yields to investors. Annualised returns on 10-year bonds over the last 17 years amount to 6.25% p.a. in USD, based on data from the S&P BSE India 10-year Sovereign Bond Index (USD).

- **Low minimum investment:** Access to the main board of the Indian sovereign bonds market requires a minimum of INR50 million, equivalent to around USD750,000 today. Smaller amounts can be traded on the odd lot board, but liquidity is poor and yields are less attractive. MCB India Sovereign Bond ETF allows investors with as little as USD10 (the indicative price of one share) to have access to the main board.

- **Low cost structure:** There are no entry and exit fees applicable on MCB India Sovereign Bond ETF. The Total Expense Ratio of the ETF is less than 1% p.a. Transaction fees on fixed income ETFs are only 0.10% per trade as compared to 0.35% for other ETFs.

- **Favourable tax regime:** MCB India Sovereign Bond ETF is domiciled in Mauritius and authorised as a Global Fund. As such, it benefits from taxation treaties between India and Mauritius whereby all capital gains are currently exempt and income is taxed at 5%.

- **Seamless access to a highly regulated market:** Ownership by foreign investors is limited on Indian government bonds due to complicated and lengthy regulatory approval processes. MCB India Sovereign Bond ETF provides a seamless access for investors to this highly-regulated market.

What are the main risks?

It is important to understand that ETFs are not guaranteed products – just like any investment in the stock or bond market, your investment may be subject to capital losses. MCB India Sovereign Bond ETF invests in listed fixed-rate bonds denominated in Indian Rupees and is therefore particularly exposed to market risk, currency risk, interest rate risk and emerging markets risk. Please refer to the Prospectus for further details.

Other important information about the ETF

	Description
Sponsor and Manager	MCB Investment Management Co. Ltd
Investment Advisor	ZyFin Capital Limited
Custodian	Citibank N.A, Mumbai, India
Market Maker	MCB Stockbrokers Ltd
Registrar & Transfer Agent	MCB Registry & Securities Ltd
Banker	The Mauritius Commercial Bank Limited
Secretary	GFin Corporate Services Ltd
Listing exchange	The Stock Exchange of Mauritius
Benchmark index	ZyFin India Sovereign Bond Liquid Index
Dividends	Payable usually twice per year immediately after a coupon receipt or realisation of interest income accrued, provided the net income of the fund allows for a meaningful dividend to be paid
Total Expense Ratio	0.99% per annum
Entry Fees	Nil
Exit Fees	Nil
Recommended holding period	5 years
Initial issue price	USD 10.00
Liquidity	Daily during market trading hours

MCB India Sovereign Bond ETF vs Mutual Funds peers

The following table compares the MCB India Sovereign Bond ETF to traditional active mutual funds investing in Indian Government Bonds.

	MCB ETF	Actively-managed mutual funds
Structure	Open-ended fund	Open-ended fund
Investment objective	Replicate an index	Outperform an index
Trading	Intraday during trading hours	Once a day or less frequent
Accessibility	On the exchange, via a stockbroker	Via fund manager or fund supermarkets
Pricing	Priced continually during market hours	Priced daily at close to NAV
Expense ratios	0.99% p.a.	Between 1.50% and 2.5% p.a.
Bid/ask spread	Yes	Yes, unless single-priced
Dividends	Distributing	Distributing or Accumulating
Entry fees	None	Usually 1%-5%
Exit fees	None	Usually 0.25%-3%
Trading fees	0.10%	None
Manager selection risk	No	Yes

How to invest in the MCB India Sovereign Bond ETF?

During the initial offer period – 26 April to 27 May 2016

- You can subscribe to the shares of the ETF at USD10 per share by filling in the application document available from the Authorised Participant, MCB Stockbrokers Ltd
- Minimum initial investment: USD5,000
- Settlement should be made by 4pm on 27 May at latest
- Trading and other fees applicable: None

After the initial offer period – As from the 6 June 2016

- You will be able to purchase shares of the ETF on the Stock Exchange of Mauritius at market price by placing your order through MCB Stockbrokers or through your usual stockbroker
- Minimum initial investment: 1 share
- Settlement will happen through the normal settlement cycle of the Exchange, i.e., on t+3
- Trading and other fees applicable: 0.10% + price spread

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This Fund is authorised by the Financial Services Commission of Mauritius ("FSC") and is suitable only for those persons described in the Prospectus and the Securities Act 2005.

The Fund aims to track the performance of the ZyFin India Sovereign Bond Liquid Index in USD (the "Index"). The Index is published by ZyFin Research Private Limited (the "Index Provider") and the Index Provider does not guarantee the accuracy and/or the completeness of the Index or any data included therein. MCB Investment Management Co. Ltd and/or the Fund shall have no liability for any errors, omissions, or interruptions therein. The Index Provider makes no warranty, express or implied, as to results to be obtained by the Fund, owners of the Shares of the Fund or any other person or entity from the use of the Index or any data included therein. Without limiting any of the foregoing, in no event shall the Index Provider have any liability for any special, exemplary, punitive, direct, indirect or consequential damages (including loss of profits), however caused and on any theory of liability, whether in contract, strict liability or tort (including negligence or otherwise), resulting from the use of the Index or any data included therein, even if notified of the possibility of such damages.

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Investors can have access to additional information and documents, including the Fund's Prospectus, from the Fund's website at **www.mcbcm.mu/etf.** Hard copies of these documents are also available on request and free of charge from the Manager at MCB Centre, Sir William Newton Street, Port Louis.

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