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**YOUR MONEY MATTERS****Heading East**

**Mutual funds have been rolling out new products that target India. That has been great for investors -- until recently.**

By **SHEFALI ANAND**  
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Even as foreign markets tumble amid the U.S. financial crisis, mutual-fund companies are rolling out products to invest in what had been, until recently, one of hottest markets overseas: India.

Four new investments providing exposure to India have been launched this year, following three last year. That gives U.S. individuals who want to bet on India almost triple the number of options they had just two years ago.

**THE JOURNAL REPORT**

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**Tax laws have changed<sup>2</sup>** in recent years with regard to charitable donations. Here's what you need to know. Plus, **socially responsible investing is<sup>3</sup>** no longer about just what you can't buy. And that makes it a lot easier to make money.

- See the complete [Your Money Matters<sup>4</sup>](#) report.

The Bombay Stock Exchange Sensitive Index, or Sensex, jumped 47% in 2007 and was up 157% over four years through the end of last year, putting India's stock market among the best-performing in the world until recently. The run-up, and the accompanying story of India's economic growth, attracted investor interest: From 2004 to 2007, \$5.5 billion flowed into the 108 India-dedicated funds for both individual and institutional investors tracked by Emerging Portfolio Fund Research around the world.

But the Indian market has been hammered recently as investors globally move away from riskier investments. The Sensex is down more than 19% this year, compared with a 5.3% drop in the Standard & Poor's 500-stock index, and Emerging Portfolio Fund Research says investors have pulled \$830 million out of the funds it tracks year to date, leaving them with total assets of about \$23 billion. The sharp reversal underscores the volatility and risks inherent in emerging markets like India, fund managers say.


The Indian "market always overreacts, both on the upside and down," says Punita Kumar-Sinha, the Boston-based manager of India Fund, a closed-end fund at Blackstone Group. "If you have a long-term view, you've got to be able to digest the volatility."

**Some See Opportunity**

Some analysts predict that India's economy -- which expanded at a 9.4% rate in the fiscal year ended March 2007 -- will grow at a slower 7% rate in the 2009 fiscal year. Some worry that if investor money stops flowing into India, the nation's growth plans, especially for developing much-needed infrastructure, could be affected.

Despite these challenges, money managers point out that unlike China, India has a lower dependence on exports to the U.S. as a percentage of its gross domestic product, which may help to partially insulate it

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from a U.S. economic slowdown. Given the longer-term growth potential, managers say the current downturn has made the Indian market attractive.

"I think it's a good opportunity because some of the froth has been taken out of the market," says Stephen Dover, the San Mateo, Calif.-based manager of Franklin India Growth Fund, which was launched by Franklin Templeton Investments in January.

**Passage to India**  
Some products for U.S. investors to invest in India

Fund Name	Ticker	Assets (in millions)	Net Expenses in percent	Minimum Investment
<b>India Fund</b>	IFN	\$1,912	1.21 <sup>1</sup>	None
<b>Eaton Vance Greater India Fund</b>	ETGIX	1,160	2.14	\$1,000
<b>Matthews India Fund</b>	MINDX	1,311	1.28	2,500
<b>iPath MSCI India Index ETN</b>	INP	777	0.89	None
<b>Morgan Stanley India Investment Fund</b>	IIF	832	1.35	None
<b>WisdomTree India Earnings ETF</b>	EPI	200	0.88	None
<b>Franklin India Growth Fund</b>	N/A	55	2.30 <sup>2</sup>	1,000
<b>JPMorgan India Fund</b>	JIDAX	49	2.00	1,000
<b>PowerShares India Portfolio</b>	PIN	25	0.78	None
<b>Greenwich Advisors India Select Fund</b>	N/A	N/A	2.35	2,500

<sup>1</sup> For the year ended Dec. 31, 2007    <sup>2</sup> Before waiver from management  
Source: WSJ Research

Still, financial advisers suggest that those who want to make a bet on developing markets like India limit this exposure to a small part of their portfolio, typically less than 5%.

Among the oldest India-focused funds available to U.S. investors are Eaton Vance Greater India Fund, India Fund and **Morgan Stanley India Investment Fund**. The Eaton Vance product is an open-ended fund, while the India Fund and Morgan Stanley products are closed-end funds. Closed-end funds issue a set number of shares and, depending on supply and demand, can trade at a price different from the net asset value of the fund.

Matthews India Fund, meanwhile, was launched in 2005, while JPMorgan India Fund was introduced last year.

Some innovative tools also have emerged: In 2006, **Barclays** PLC introduced an exchange-traded note, a type of debt security that trades like a stock on an exchange. The **iPath MSCI India Index ETN** basically promises to pay the return of the MSCI India Total Return Index, minus a fee.

This year saw the launch of the first India exchange-traded funds -- WisdomTree India Earnings Fund and PowerShares India Portfolio, which started trading in February and March, respectively. Last month, Direxion Funds launched its India Bull 2x Fund, which aims to double the return of the MSCI India index.

Each of these investments comes with a unique set of pros and cons.

When making comparisons, "the No. 1 thing is management fees," says Vijay Singal, a finance professor at Virginia Tech in Blacksburg, Va.

The open-end mutual funds are among the most expensive. For instance, the Eaton Vance fund has an expense ratio of 2.14% and can have an initial sales charge of as much as 5.75%. The Franklin fund has a similar sales charge and a 2.3% expense ratio, before a fee-waiver from management. This compares with an expense ratio of 1.3% or less for the Matthews India Fund and the two closed-end funds.

But because closed-end funds can trade at a premium or discount, "they are always risky, especially for the long term," says Mr. Singal. India Fund traded at about a 7.2% discount on April 11, the most recent calculation available, while the Morgan Stanley India Investment Fund is selling at a 7% discount.

**New Tools**

Investors hoped that Barclays' iPath India ETN would solve the premium and discount problem by tracking the MSCI India Index and trading close to its net asset value. It has an expense fee of about 0.90%.

Late last year, however, a change in Indian regulations forced Barclays to stop issuing these notes. With demand high and supply limited, the note started selling at a premium.

More recently, the fund industry came out with a better mousetrap: exchange-traded funds. These basically track an index of India-oriented stocks, and trade at a price close to the net asset value of the index. They, too, charge expenses of around 0.90%.

The WisdomTree and PowerShares ETFs don't track the MSCI India Index or the Sensex, mainly because regulatory restrictions on the size of stakes foreign investors can take in any one Indian company could cause the ETFs' returns to veer from those indexes.

Instead, the ETF companies used customized indexes to launch their products. WisdomTree, for instance, created an index of about 150 companies that can "accommodate large inflows of capital," says Luciano Siracusano, director of research at the New York-based investment firm.

The most recent addition to the India investing field is the Direxion India 2x Bull fund, a mutual fund that aims to provide double the returns of the MSCI Index. It invests in tools like the iPath ETN and the ETFs from WisdomTree and PowerShares, along with complex derivative instruments like swaps and futures, to enhance its returns. It charges a 1.5% expense fee. Still, such leveraged funds carry their peculiar risks, including the possibility of falling short of the double return promised. In a down market, they also double the potential for losses.

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