

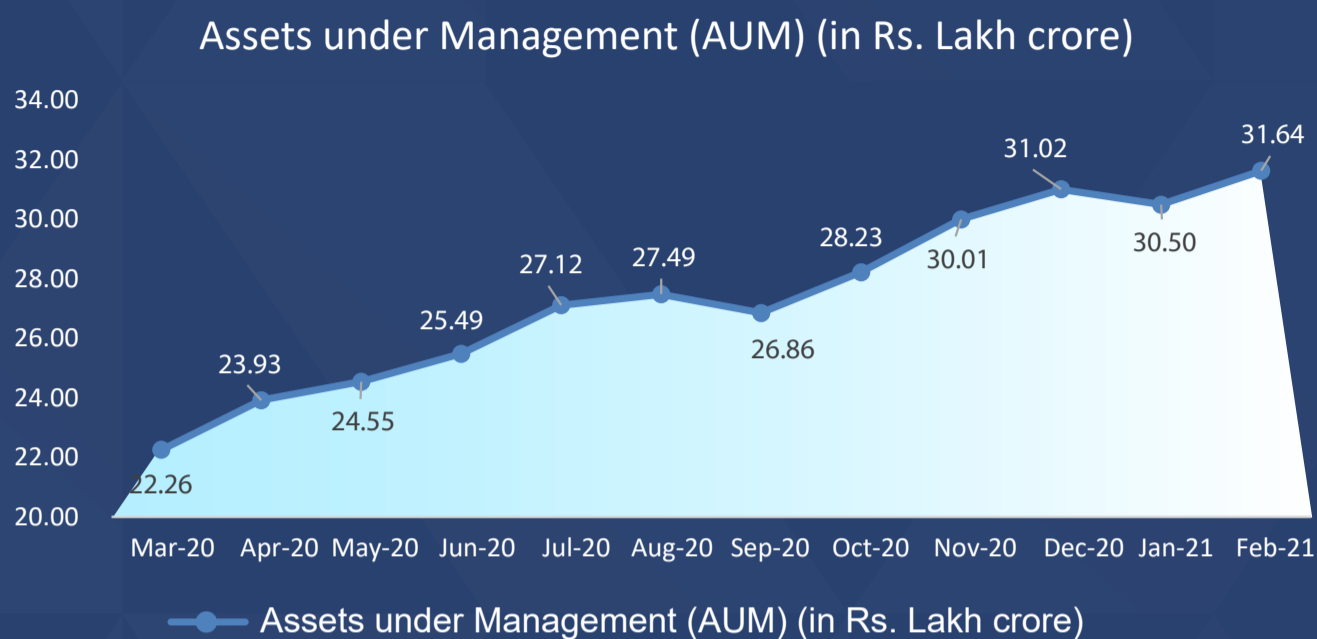


Foundation of Independent Financial Advisors

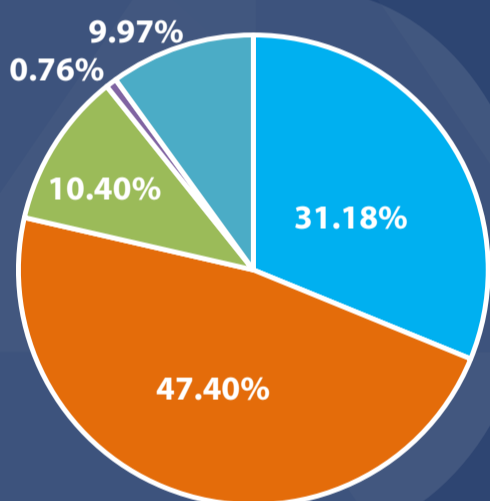
FEB 2021 —

What's New?

AUM Movement over the last 12 months



AUM Composition as at 28 th February 2021



Type of Fund

- Equity Schemes
- Soluton Oriented Schemes
- Hybrid Schemes
- Debt Schemes
- Others (ETFs/ Index Funds/ FOFs)

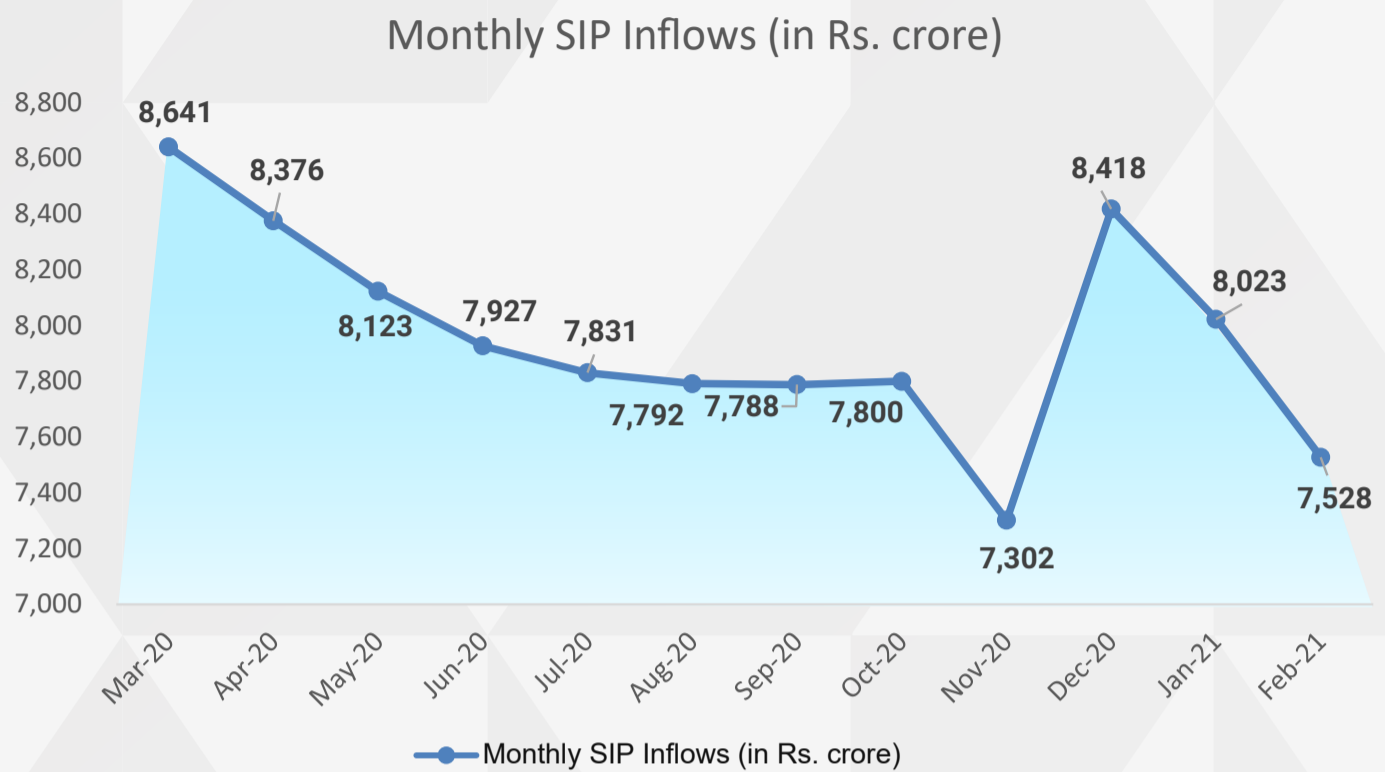
How has the AUM changed over the last month?

(All figures in Rs. crore)

| Particulars | AUM as at 31-Jan-21 | Net Inflows/ (Outflows) | Increase/ (Decrease) due to market movements | AUM as at 28-Feb-21 |
|---------------------------|---------------------|-------------------------|--|---------------------|
| Equity Schemes | 9,15,057 | (6,889) | 78,474 | 9,86,642 |
| Debt Schemes | 14,99,318 | 1,373 | (1,073) | 14,99,618 |
| Hybrid Schemes | 3,17,244 | 4,703 | 16,268 | 3,38,215 |
| Solution Oriented Schemes | 22,052 | 1,003 | 1,013 | 24,068 |
| ETF/ FOF/ Others | 2,96,459 | 3,899 | 15,213 | 3,15,571 |
| Total | 30,50,130 | 4,089 | 1,09,895 | 31,64,114 |

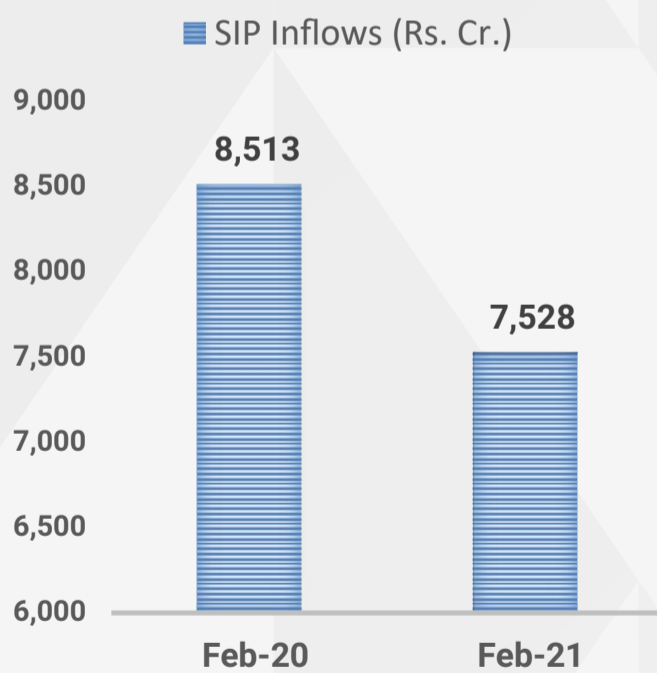
Source – Association of Mutual Funds in India (AMFI)

SIP Trends

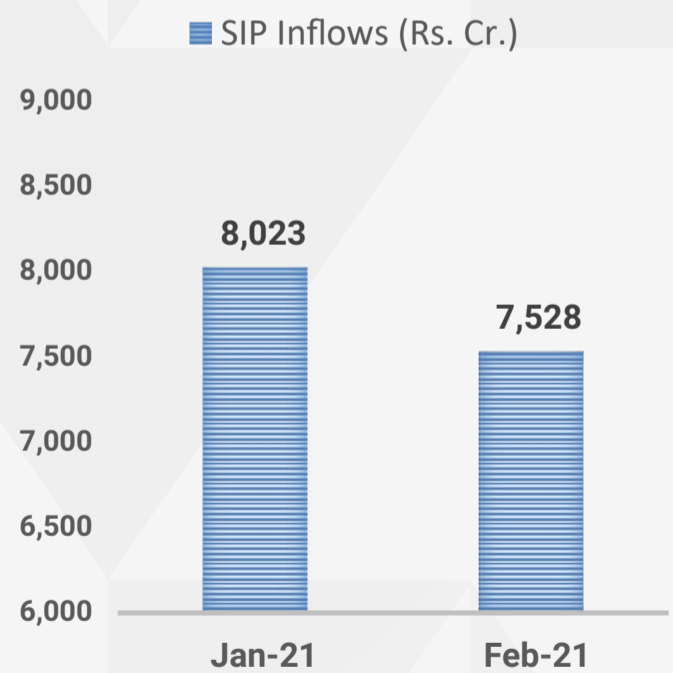


Growth in SIP Inflows

FEB-21 VS. FEB-20



FEB-21 VS. JAN-21



FIFA WELCOMES NEW MEMBERS

| Memb Category | Memb No. | Type | Organisation | Member Name | Location |
|---------------|----------|------|------------------------------|------------------------------|----------|
| General | O2329 | Ind | Anilkumar Naurangrai Agarwal | Anilkumar Naurangrai Agarwal | Thane |
| General | O2330 | Ind | Gautam Kumar | Gautam Kumar | Garhwa |
| General | O2331 | Ind | Isidorio Caetano Fernandes | Isidorio Caetano Fernandes | Mumbai |
| General | O2332 | Ind | Raghuram Kudli | Raghuram Kudli | Shimoga |

On 11th Feb 2021 Mr. Dhruv Mehta, Chairman FIFA was awarded as “The Responsible MFD Heroes” Awards 2021 by Axis MF & Cafemutual.

On 12th Feb, 2021, FIFA had conducted zoom session.

Topic : “Learnings from Nick Murray”

Speaker : Mr. Dhruv Mehta

This session was attended by more than 296 IFA’s.

Recording of the webinar has been uploaded on the FIFA Website.

Please find the link/ path of the recording.

<https://www.fifaindia.org/uploads/audios/member/12thfeb21.mp3>

On 18th Feb, 2021, FIFA had conducted zoom session.

Topic : Should India care about rating agencies?

Speaker : Ms. Uma Shashikant

This session was attended by more than 128 IFA’s.

Recording of the webinar has been uploaded on the FIFA Website.

Please find the link/ path of the recording.

<https://www.fifaindia.org/uploads/audios/member/Uma-Shashikant-sessin-on-18th-Feb-21-Should-India-care-about-rating-agencies.mp3>

On 19th Feb, 2021, FIFA had conducted zoom session on FAQ’s for Mutual Fund Distributor.

Topic : “To highlight the key recommendation”

Speaker : Mr. Dhruv Mehta, Mr. Lalit Gianchandani & Mr. Yasir Varawala

This session was attended by more than 208 IFA’s.

Recent Changes in Investment Norms of Debt Funds

SEBI vide Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated 10 March 2021 has notified certain changes in investment norms of debt funds that pertain to the investment in debt instruments with special features and valuation of perpetual bonds. The changes are summarized as below:

1. Ceiling for Investment in Debt Securities with Special Features

Certain debt securities with special features are allowed to be issued under the regulatory framework, e.g., subordination to equity (loss absorption before equity capital), convertible option, etc. Additional Tier I bonds and Tier 2 bonds issued under the Basel III framework can be considered as some of such instruments carrying such special features. Such instruments may continue to be classified as non-convertible debentures till such a special feature is triggered. In contrast, such securities' risk characteristic continues to be different from the plain vanilla debt securities. Accordingly, SEBI has proposed to provide for following prudential investment limits for such instruments:

- A) No single mutual fund house can own more than 10% of such debt securities issued by a single issuer under all its schemes taken together.
- B) A mutual fund scheme cannot invest more than 5% of its debt portfolio in such debt securities issued by a single issuer.
- C) A mutual fund scheme cannot invest more than 10% of its debt portfolio in such debt securities issued by different issuers.

The above limits are in addition to the overall single issuer limits specified to mitigate the concentration risk. However, to avoid disruption to debt markets due to portfolio rebalancing to meet the new requirements, the investments above the prescribed limits will be grandfathered. Still, mutual funds shall not be allowed to make fresh investments in such securities until the investment comes below the specified limits.

2. Provisions for Segregated Portfolio

Mutual fund schemes that have existing investments in such securities or have provisions for such investments in the Scheme Information Document (SID) should also carry the enabling provisions for segregated portfolios in the SID. If the debt security is written off or converted to equity according to any proposal/ decision, the said proposal's date will be considered the trigger date. In case there has not been any formal announcement/ proposal for such write-off/ conversion, the date of actual write-off/ conversion can be considered the trigger date. Once the credit event is triggered, the mutual fund may create a segregated portfolio for such securities as per the extant SEBI (Securities & Exchange Board of India) Regulations.

3. Valuation of Perpetual Bonds

Perpetual bonds are such bonds that are issued without any maturity date. However, such securities may carry the call and/ or put options that may provide an option to the issuer/ investor for the maturity of such bonds after completing specified periods. As per the prevailing regulatory framework to make such bonds eligible to be classified as Tier-1 capital, a call

option for such bonds' redemption may be provided by post expiry of 5 years while NBFCs (Non-Banking Financial Companies) may provide such a call option post expiry of 10 years.

As per the prevailing industry practice, the primary assumption underlying such bonds was that the issuer would exercise such a call option, and the maturity date was considered accordingly. SEBI has now provided that such perpetual bonds should be valued considering the tenor to be 100 years. Since such bonds' duration will increase, the interest rate risk for such bonds is expected to increase. As an immediate impact, such bonds' valuation is expected to be impacted adversely due to the increased duration and the prevailing yield curve in the Indian debt markets. Further, due to the change in the underlying assumption for such bonds, close-ended schemes will not be allowed to invest in perpetual bonds, which could otherwise invest in such bonds with a call option date before the maturity of such close-ended scheme.

Market Update – February 2021

Equity Markets Update

Indian equity markets celebrated the Union Budget, with both the benchmark indices giving around 6% returns during the month. The bullish sentiments in the markets were also helped by the better corporate earnings, softening in the retail inflation, and favorable revisions in the GDP growth estimates. However, a resurgence in Covid-19 cases across the country coupled with the rise in global yields dampened the bullish sentiments to some extent.

Debt Market Update

The US Treasury yields hardened during the month, lending support for the greenback currency (USD). Domestically, Govt.'s large borrowings program projected in the Union Budget pushed the G-Sec yields higher. From 5.95% as at Jan-21 end, the 10-year benchmark G-Secs ended February 2021 at 6.23%. The yields could have been higher sans the Open Market Operations (OMO) conducted by the Reserve Bank of India. The credit spreads for AAA-rated 10-year bonds were at 71 bps as of Feb-21, leading to an effective borrowing rate for such entities for 10-year tenor at 6.94%.

Mutual Fund Industry Update

While equity funds continued to witness outflows during February 2021, it was a month of consolidation for money market schemes. Passive schemes with ETF/ Fund of Funds (FOFs) and other schemes attracted around Rs. 3,900 crores during the month. The AUM of the Mutual Fund industry ended the month at record Rs. 31.64 lakh crores as compared to Rs. 30.50 lakh crores in January 2021. The increase was contributed primarily by the MTM gains of Rs. 1.10 lakh crores and net inflows of Rs. 4,089 crores. The monthly SIP inflows dropped to Rs. 7,528 crores which can be primarily attributed to the last working days in February 2021 being weekends. As such, the monthly SIP inflows in March 2021 may reflect a partial spillover effect.

Currency Update

While Indian Rupee had been strengthening for a major part of the month, the last-day volatility pushed the rate to Rs. 73.04/ USD at Feb-21 end in comparison to Rs. 72.95 as at Jan-21 end. However, the global yields movement will continue to overpower the fundamental attribute of the USDINR movement in the short term.

Quiz

- Q.1 - With effect from 1 April 2021, mutual fund schemes cannot hold more than 10% of their debt portfolio in debt instruments with special features.
- A) True B) False
- Q.2 - Mutual fund schemes with AUM of less than Rs. 100 crores are allowed a higher ceiling of Total Expense Ratio (TER).
- A) True B) False
- Q.3 - The NAV of an International Equity Fund is disclosed in foreign currency and not Indian Rupees.
- A) True B) False
- Q.4 - What is the lock-in period under the Equity Linked Savings Schemes (ELSS)?
- A) One year B) Two year
C) Three year D) Five year
- Q.5 - The interest rate risk increases with the increase in the duration of the debt fund.
- A) True B) False

Ans. Q.1 - A), Q.2 - B), Q.3 - B), Q.4 - C), Q.5 - A)

All Members are requested to update their email IDs and cell numbers on telegram and database. Also, please provide the GST Number. All those Members who have not paid the Annual Fee are requested to do so at the earliest.

Your contributions for our monthly newsletter is requested. Please share any stories/original articles/events that you may be conducting. Our readers will be very motivated to hear about fellow MFDs and RIAs onward journey especially during 2020.

Mail to response@fifaindia.com

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