Foundation of Independent Financial Advisors

MAR 2019

What's New?

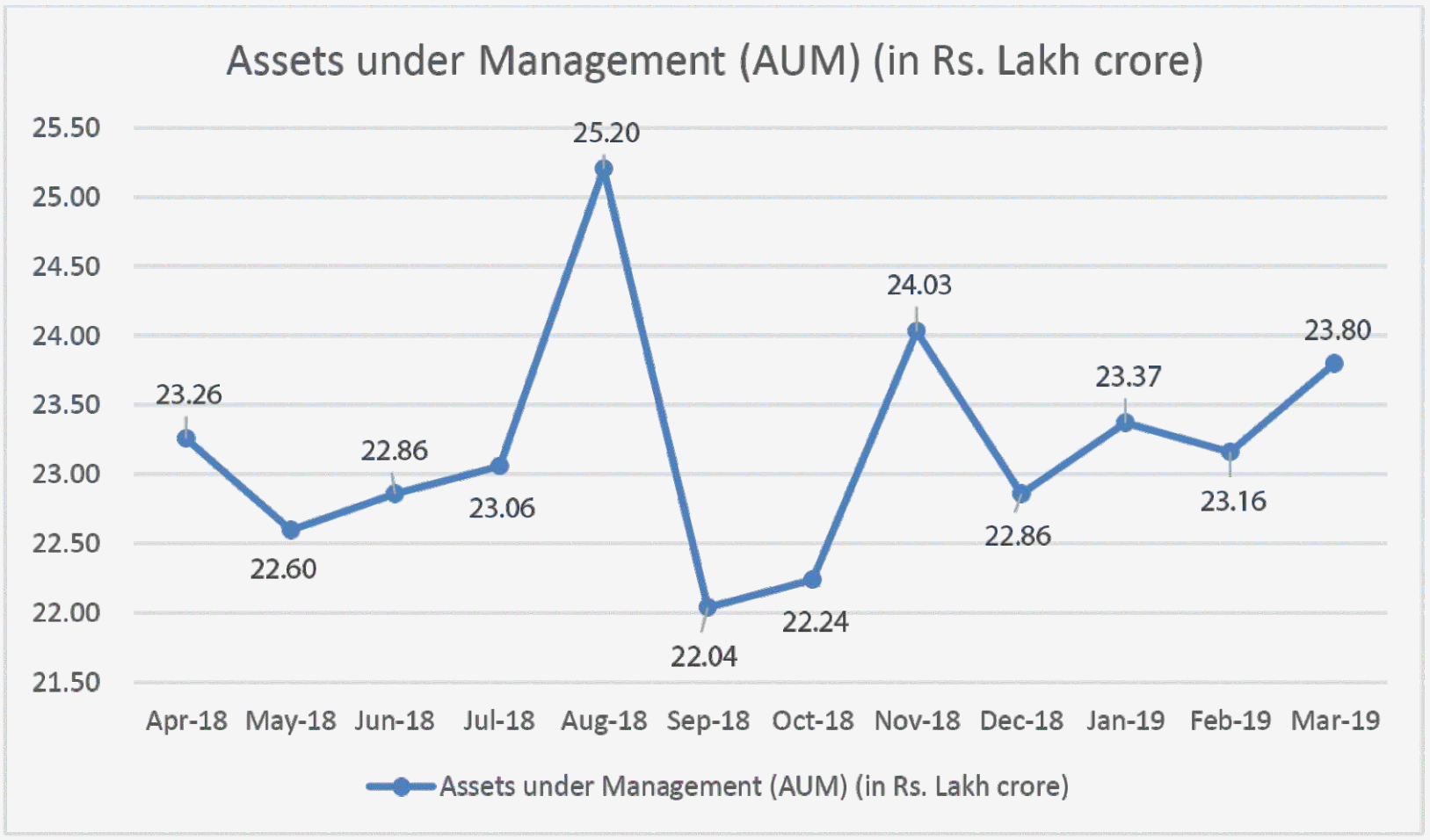
Market Performance during March 2019

The Indian equity markets ended the financial year 2018-19 on a buoyant note on the back of strong FII flows and positive domestic and global cues. Both the benchmark indices, S&P BSE Sensex and NSE Nifty50, gave around 8% returns during March 2019. Even on an annual basis, both these benchmark indices rewarded the investors well with 17% and 15% returns respectively. With all the sectoral indices generating positive monthly returns for the investors, the markets seemed 'high on the josh' with easing Ind-Pak tensions and strengthening of rupee against the greenback.

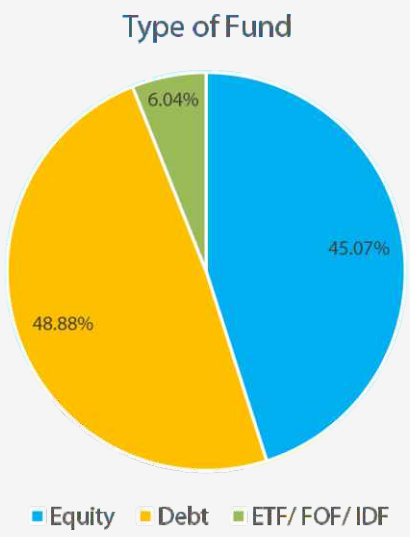
S&P BSE Realty Index emerged as the biggest gainer of the month with around 16% returns over the month, as the first public issue of REIT (Real Estate Investment Trust) got encouraging subscription numbers. On an annual basis, S&P BSE IT Index and S&P BSE Bankex shared the top honors with around 26% returns for the investors over the year. While IT index gained during the year supported by the depreciating rupee, Bankex performed well due to expected bottoming out of the stressed assets cycle. In terms of the debt market, the 10-yr benchmark G-sec yield decreased by six bps to end the month at 7.35%, as compared with 7.41% as at 28th February 2019. The 10-year credit spreads for an AAA-rated entity sequentially decreased from 105 bps as at Feb-19 end to 76 bps as at the end of March 2019. With the optimism all around, higher FII inflows helped the Indian currency appreciate by 2.3% over the month to close at Rs. 69.11 per USD.

Going forward, the crude oil movement along with the verdict of the country's voters will be the key triggers for the markets. With the current populist announcements surrounding the election rallies, Indian fiscal health may be a critical factor to watch out. However, the long term growth outlook has continued to stay strong. As such, the clients may be advised to invest in the balanced advantage funds or hybrid schemes. Further, exposure in mid cap and small cap schemes may also be increased in a staggered manner through SIPs, to counter volatility over the short term and build wealth over the long run.

AUM Movement over the last 12 months



AUM Composition as at End

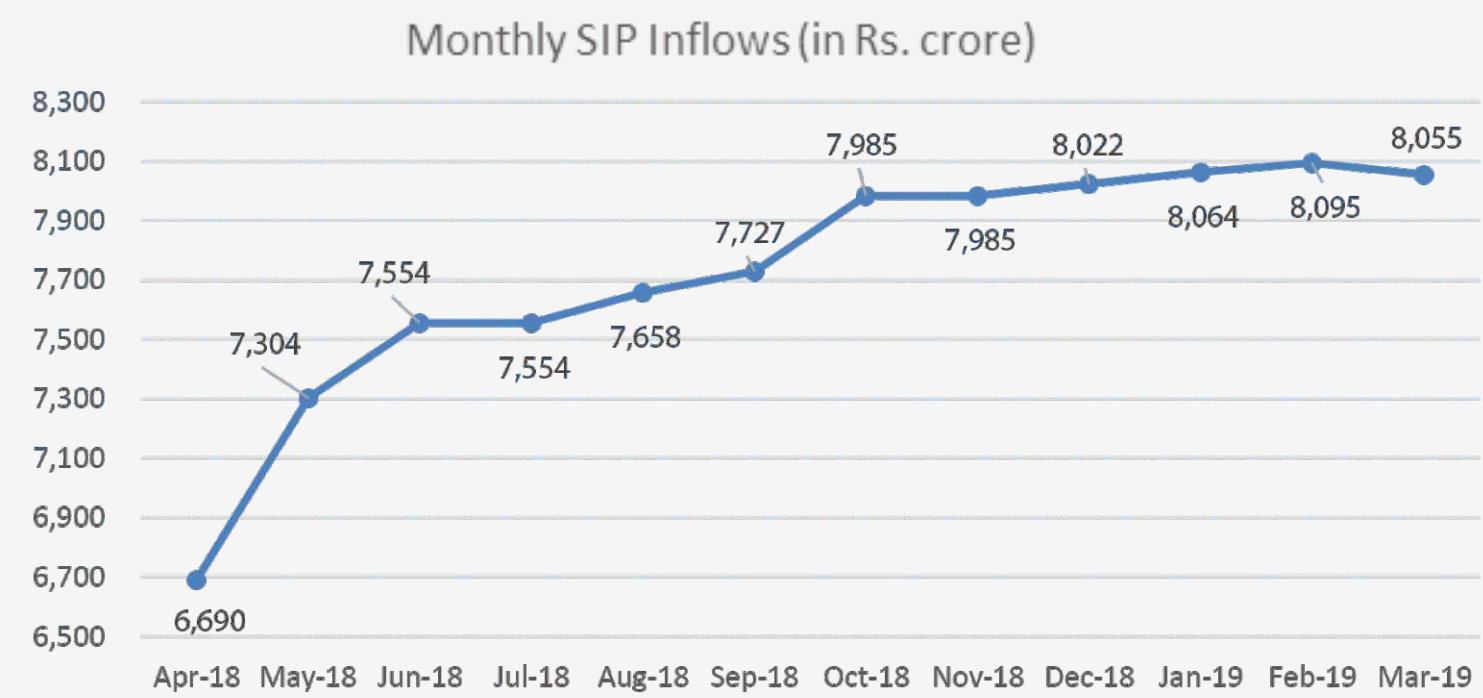


How has the AUM changed over the last month?

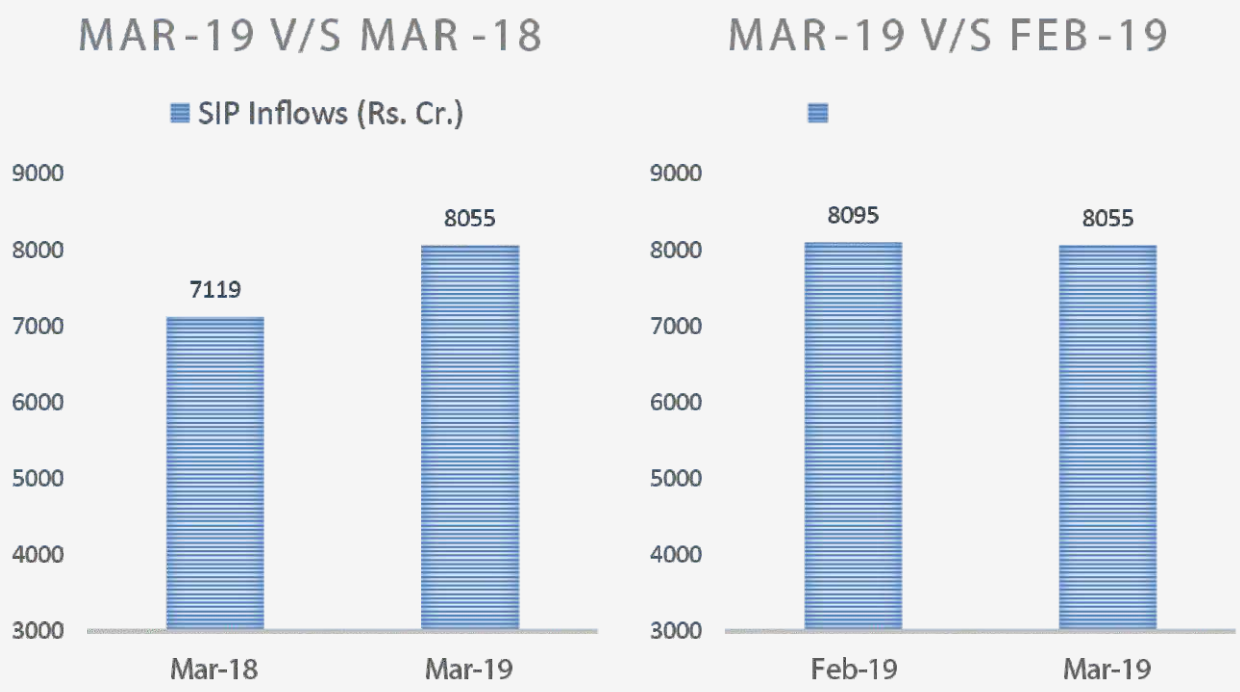
(All figures in Rs. lakh crore)

Particulars	AUM as at 28-Feb-19	Net Inflows/ (Outflows)	Increase/ (Decrease) due to market movements	AUM as at 31-Mar-19
Equity	10,01,965	4,577	66,207	10,72,749
Debt	11,91,694	(37,449)	8,997	11,63,242
ETF/ FOF/ IDF	1,22,744	10,515	10,413	1,43,672
Total	23,16,403	(22,357)	85,617	23,79,663

SIP Trends



Growth in SIP Inflows



FIFA Welcomes New Members

M TYPE	MEM. NO.	TYPE	Member/Organization	LOCATION
General	O1931	Ind	Arun Kumar Sahoo	Bhubaheshwar
General	O1932	Ind	Zubin Rohinton Jambusarwala	Bharuch
General	O284	Indv	Balkar Singh upgrade from General to Life on 11th March 2019	Ludhiana
General	O1236	Indv	Shavinder K Mittal upgrade from General to Life on 11th March 2019	Moga
General	O557	Indv	Rakesh Garg upgrade from General to Life on 20th March 2019	Bathinda
General	O1431	Indv	Ashwani Jairath upgrade from General to Life on 20th March 2019	Ludhiana
General	O208	Indv	Chetan V Gala upgrade from General to Life on 26th March 2019	Mumbai

On 9th March, 2019 Ms.Roopa Venkatkrishnan conducted session in Vadodara which was attended by large IFAs.

On 15th March, 2019 Mr. Sanjay Khatri conducted session in Chennai which was attended by many IFAs.

On 16th March, 2019 Ms. Roopa Venkatkrishnan conducted session in Aurangabad which was attended by many IFAs.

On 16th March, 2019 Mr. Sanjay Khatri conducted session in Nagpur which was attended by many IFAs.

On 22nd March, 2019 Ms. Roopa Venkatkrishnan conducted session in Chennai which was attended by many IFAs.

Ms Sangeeta Jhaveri conducted session on debt market in Mumbai on 23rd March 2019 in coordination with Axis Mutual Fund which was well attended by many IFAs.

On 12th March 2019 Mr Dhruv Mehta, Ms Roopa Venkatkrishnan, Mr Yasir Varawala, Mr Lalit Gianchandani Mr Gurpreet Singh, Mr Lekhan Thakkar Director DEA and two other officials had a meeting with Mr Subhash Garg Secretary Department of Economic Affairs, Ministry of Finance in New Delhi. The gist of the meeting is given below:

UPDATE : March 12, 2019 : FIFA had a meeting with Mr Subhash Garg , Secretary Department of Economic Affairs , Ministry of Finance.

From FiFA Mr Gurpreet Singh , Mr Lalit Gianchandani , Mr Yasir Varawala , Ms Roopa Venkatkrishnan and Mr Dhruv Mehta attended.

Mr Lekhan Thakkar , Director DEA and 2 other
Officials also attended the meeting.

The objective was to share FIFA's vision for the MF industry and the Challenges .

The meeting was good.

Mr Garg was keen on knowing from us whether investments in MF were happening from the JanDhan accounts and also whether demonetisation had helped flows in the MF industry.

We presented FIFA's vision of making all households financially Independant. And then discussed the challenges especially the recent moves of SEBI to cut expenses ratios and consequent lowering of commissions and the ban on upfront commissions.

He gave us a patient hearing and we had a healthy discussion.

On the issue of TER they were given to understand that the Expense Ratios being charged were actually lower than the SEBI limits and therefore the proposed cuts would not have a significant impact.

We were informed that SEBI note on TER reduction had mentioned FIFA's study on expense ratios.

It gives credibility to our Study on Expense Ratios .

We pointed out that expense ratios were lower than the prescribed limits in the case of Debt funds but not equity funds .

On the issue of reduction in TER of 15 bps in lieu of exit load he has requested for data on how much has been passed on to the distributors and how much has been borne by the Mutual Fund...

Then in respect of further cuts in TER which are to come into effect from 1st April 2019 he suggested we should get back to him on the impact after 6 months.

Third on the issue of the GST on distributor commission not allowed to be passed on to the customer, he saw merit in our case and he has requested for a detailed representation.

Debt Funds and RBI Monetary Policy

During its bi-monthly monetary policy review on 4th April 2019, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) announced a decrease of 25 basis points (bps) in both, Repo and Reverse Repo Rate. As such, the repo rate and reverse repo rate post the policy nnouncement stand at 6.00% and 5.75% respectively.

Repo Rate is the rate at which RBI lends the money to banks, while the reverse repo rate is the rate at which RBI borrows money from banks. As such, a decrease in policy rates aims to increase the money supply in the economy and hence, fuel the economic growth.

Impact of Interest Rate Movements on Debt Funds

Debt funds invest in a basket of fixed income securities and hence, expose the investors to interest rate risk. As such, the changes in the interest rates will impact the valuation of the debt funds. Considering the interest rate risk, the valuation of debt securities is dependent upon two key parameters:

1. Direction of the Interest Rate Movement

The debt securities are generally issued in line with the market interest rates. The coupon rate for new debt security will be fixed by the issuer company based on risk-free interest rate, as increased by the suitable credit risk premium. The risk-free interest rate is denoted by the G-Sec yield rate for equivalent tenor, while the credit spreads indicate the credit risk premium.

As such, the G-Sec yields and the interest rates generally move in the same direction. The yields of different securities adjust through the market forces to reflect the currently prevailing interest rate scenario since the investors will value the securities based on current interest rates and not on the basis of the coupon rates. As such, post the decrease in the interest rates, the securities issued at a higher coupon rate earlier will get more attractive for the investors and hence, fetch premium valuations. As such, the yields get adjusted through such an increase in the market valuation of the securities. Similarly, when the interest rates are rising, the existing securities issued at lower interest rates will adjust their valuations to reflect the currently higher yield and hence, trade at a discount to the face value.

2. Remaining Maturity of the Debt Securities

The changes in the valuation of debt securities are also dependent upon the remaining maturity of the securities. The longer the remaining time to maturity of the fixed income securities, higher will be the impact on the valuation and yield, as securities with longer maturities will tend to be impacted by the changes in the interest rates for a more extended period. For example, if a company has issued corporate bonds for 5-year and 10-years at similar coupon rates and the interest rate decrease by 50 bps, the valuation of 10-year bond will tend to reflect higher increase as compared to the five-year bond. This is because the investors in the 10-year bond will be able to get more benefit of higher coupon rates, as against the currently prevailing lower rates.

So, the next time you see a policy action, you may be able to reasonably forecast how the valuation of debt securities will move.

Reviewing Mutual Fund Portfolio

The mutual fund portfolio must be reviewed on a periodical basis, to ensure that the investment journey of the client is going on the right path to achieve the desired financial goals. Further, such a review also provides an opportunity to implement the changes in the investment strategy, to align it with the changes in the financial goals. While it is essential to weed out the underperforming mutual fund schemes, the investors must make sure that they replace the underperforming schemes with better performing schemes. This helps the investors to stay invested in the markets, albeit with a different fund.

Mutual fund fact sheets disclose critical and vital information about the mutual fund schemes, which among other things includes specific key ratios for the scheme. You can analyze the performance of the mutual fund portfolio for your clients with the help of the following ratios:

1. Fund performance and Alpha

SEBI Guidelines require the mutual fund schemes to disclose 1-year, 3-year, 5-year and since inception returns of the scheme and also the comparative returns for the similar period for the benchmark index (Total Returns Index). Such disclosure helps the investors to compare the relative performance of different mutual fund schemes. Since the returns of the benchmark are also required to be disclosed, the investors can get a fair idea if the fund is underperforming or outperforming its benchmark. The higher returns generated by the mutual fund over and above the benchmark index are referred to as alpha generation. As such, the funds generating negative alpha regularly may be considered to be replaced with better performing funds.

2. Beta

Beta denotes the sensitivity of the mutual fund schemes as against the benchmark index. As such, if the beta value is one, the mutual fund scheme will tend to mirror the benchmark index performance. In a rising market, funds with beta more than 1 are suitable, whereas, in a falling market, funds with a beta less than 1 are more desirable to protect the portfolio downside.

3. Standard Deviation

Standard deviation reflects the implied risk in the mutual fund scheme, in terms of the statistical volatility in the returns. As such, a mutual fund scheme with a higher standard deviation may be preferred by aggressive investors, but may not be suitable for conservative investors.

4. Sharpe Ratio

It is an implied expectation that the returns from a mutual fund scheme should be commensurate with the risk taken. As such, the scheme performance should be reviewed against risk-adjusted returns. Sharpe Ratio helps you to determine the performance of the fund for every additional unit of risk taken. As such, the fund with a lower Sharpe ratio reflects that the fund is not able to generate better returns out of the additional risk undertaken by the scheme.

5.Yield to Maturity and Average Maturity

These two ratios are helpful for analysis of debt funds. Yield to Maturity (YTM) refers to the returns that the investor can expect from the mutual fund portfolio, assuming no changes take place until the maturity of such securities. As such, YTM gives a fair idea of the portfolio composition on a given date. On the other hand, average maturity reflects the remaining maturity period of the debt securities, calculated on an average basis for the fund portfolio. The average maturity will be lowest for overnight funds and liquid funds and higher for gilt funds and long duration funds. The average maturity also determines the extent of the impact of the interest rate movements in the market.

Quiz

Q.1 - Cnveredit Risk Funds cannot ist in AAA-rated corporate bonds.

A) True B) False

Q.2 - Capital Gains from liquid funds are eligible for deduction up to Rs. 10,000 per year.

A) True B) False

Q.3 - Close-ended funds are required to be listed on stock exchanges.

A) True B) False

Q.4 - STP stands for:

A) Systematic Transfer Plan B) Small Travel Plan

C) Smart Transfer Plan D) Sw itch to Portfolio

Q.5 - Mutual funds cannot charge any entry load from the investors.

A) True B) False

Ans. Q.1 - B), Q.2 - B), Q.3 -A), Q.4 - A), 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 for both 2017-18 & 2018-19.

Your contribution towards this newsletter is solicited. Please share your views on events that you at your end.

Mail to response@fifaindia.com

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