



**CFA Society
India**



IAIP NEWSLETTER

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Quotable Quotes

Never test the depth of a river
with both of your feet.

Warren Buffet

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Message from the Board

Chetan G. Shah, CFA
Secretary and Director, IAIP



Dear Members,

You will be pleased to know that our Society, has won CFA Institute's Society Excellence Awards under the category "Developing Future Professionals" at the Annual Society Leadership Conference held at Philadelphia in May 2017. During the period of evaluation our society had come out with first country specific "Career Guide" covering local CFA Charter holder profiles. This can help budding Charter holders learn from their career graphs and build their own.

The resolve of the current government is visible with the implementation of Goods & Services Tax w.e.f. from July 1st as against speculation of its delay, marking a landmark reform on the indirect taxation front. Like in Canada and Brazil, both the Centre and States will have the power to levy taxes. Accordingly, the goods produced and sold within the same state will attract Central GST and State GST while inter-state movement will attract Integrated GST. The overall implementation has largely been smooth though there were some inventory destocking across consumer staples and discretionary sectors because of lack of clarity on tax set-offs on stocks in transition. While lot of literature is available on the net, this issue of newsletter gives a good perspective on the same.

Our members have also put in a good piece on the Alternative Investment Funds, which has attained good size of late. The field offers good scope as well as challenges like those of valuations. Two events were organized around early stage start-up investing in Mumbai & Chennai, thereby providing interesting insights in this world. The same are covered in this issue.

The PCE (Programming & Continuing Education) committee continues to arrange good speaker events across the country. We hope you take advantage of the same. Likewise other committees like Advocacy, Research Challenge, Membership, Technology and Communication are active and work selflessly to add member value. You too can join one of them and gain experience, which may not be possible in your current roles at your organization. This way you develop yourself as an all-round person and have a chance to stay connected with your fraternity.

Warm regards.

Rewards & Recognition

CFA Society India receives Society Award for Strategic Initiative...

IAIP or CFA Society India, emerged as a winner in the 2017 Society Awards Programme for the Strategic Initiative under Develop Future Professionals. As you may recollect, the IAIP is one of the few societies to have come out with local Career Guide. This guide covers local CFA Charter holders and their career paths so that others can develop their own.

This year, there were a record number of nominations received: 132 nominations from 51 societies were received for the 14 award categories (34% increase versus last edition). The review process consisted of a panel of 66 judges including PCRs, former PCRs, staff, and other volunteers. Many congratulations to all the volunteers of CFA Society India for your selfless efforts. Please keep your ideas coming, energy levels up, and the great work up. For all "Most Outstanding" and "Strategic Initiatives" award categories winners the prize includes USD 2,500.



Cover Story

Alternative Investments: An emerging asset class in India

Manish Jain, CFA

Rajni Dhameja, CFA

Shivani Chopra, CFA



The case for Alternative investments in India has rapidly gained momentum in recent years. Be it the funding rounds in India Inc. startup story backed by private equity firms or the versatile hedge funds techniques that investors are curious to know about. The private equity and venture capital firms invested more than \$103 billion in ~3,100 Indian companies between 2001 and 2015 with an overall increasing trend.

Alternative Investment Funds (AIFs) refer to any privately pooled funds and are mostly tailor made investment arrangements. They include hedge funds, private equity funds, venture capital funds, commodity funds, infrastructure funds, etc. The players in alternative investment industry employ techniques that are best described as non-traditional. They invest in wide range of assets that go beyond the traditional route of listed stocks and bonds (e.g.: unlisted equity, start up investing, commodities, stocks and bonds combined with complex derivative strategies etc.). These investments are primarily high risk-long term-illiquid nature, with a potential to generate higher returns. Hence, the access to these fund structures is mostly limited to wealthy individuals and financial institutions such as pension funds, life insurance corporations, endowments, etc. These investors can get higher diversification benefits as the correlation between the alternative investments and traditional assets is low. The other attributes of alternative investments include inflation hedging benefits, ability to improve overall risk-return profile of investor portfolio, etc.

Let's understand briefly about various types of alternative investments:

Hedge Funds are investment funds which pool capital from the accredited investors, and invests into variety of assets i.e. equity, debt, real estate, derivatives, commodities etc. Their objective is to maximize the return for a fee. They employ complex investment strategies to achieve their objective. These strategies are inherently risky due to their complex nature, which is why investment in these funds is permitted only for specified investors and not public at large. Hedge funds are generally long short funds as against the traditional long only funds. These funds generally employ leverage to amplify the returns.

Private Equity (PE) funds invest money in private companies or engage in buyout of public companies resulting in delisting. PE funds invest in companies for long term as it takes time to make a company public. Due to this inherent nature, investment in PE funds is suitable for those investors who have long term horizon to invest in the illiquid assets. Hence, the minimum investment amount is high in these funds. Fee structure in PE funds is different than the other alternative investment funds and traditional funds.

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Venture capital (VC) funds invest in start-ups and provide entrepreneurial capital to those businesses which are believed to have potential growth. These funds provide seed capital, invest in early stage or mid stage start ups. VC funds invest in early stage companies as against PE funds who invest in more matured companies.

Commodities as an alternative investment asset class are gaining importance. Exposure to commodities can be taken either buying it in spot market or taking position in commodity derivatives. Commodity derivatives provide an avenue for companies to hedge the price risk of the commodity. Commodities play an important role in over all asset allocation from the portfolio management perspective.

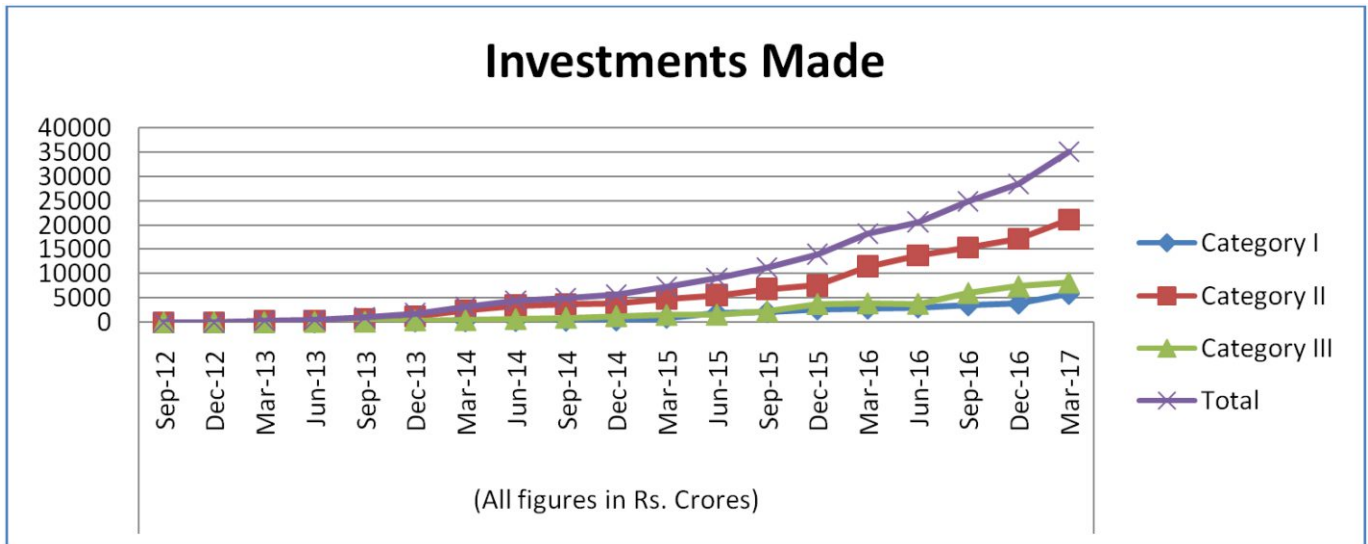
It's interesting to see how AIFs mobilize the savings of its investors. Most AIFs are closed ended and the fund raising takes 6-18 months. The fund will have a fixed lifespan of 10-15 years. During this time the fund managers identify opportunities in companies, securities or other assets in accordance to their investment mandate. Exiting the investment is the last step in the life cycle. The time for which the capital is deployed within a particular investment depends upon the strategy used in sub asset class of alternatives. E.g. Private equity buyouts seek to improve the operations of their portfolio companies and grow the cash flows for a period of 3-6 years. In contrast, the holding period in hedge fund strategies can vary from a few seconds to over a year. The cash flows back to the investors generally follow an unpredictable pattern as the exact timing or price of the asset can't be known in advance. So the investors should fully educate themselves with the cash flow pattern, liquidity constraints and the fee structures of these funds.

Alternative Investment Industry plays an important role in the development of a society as well. In a recent report by SEBI, it has been mentioned that AIFs provide a valuable service to Indian economy. They help create jobs, improve governance, promote innovation and economic growth. This industry is part of the wider financial system and depends upon intermediaries like banks, insurers, etc. As an example, leverage is applied in many strategies and banks can provide the necessary form of debt financing. So the higher demand for alternatives will certainly help the other players in the financial ecosystem.

In India alternative investments funds are permitted by SEBI under AIF regulation. Depending upon the nature and purpose of investment, funds are permitted under AIF I, AIF II and AIF III categories. Latest in the category are hedge funds permitted under AIF III category, which invest in listed and unlisted equity and derivatives. PE funds and VC funds are permitted under category I and II depending upon the businesses they invest in. Each category has separate guidelines on permitted investments, type of investor etc.

Alternative investment funds in India have experienced a dramatic growth in last few years. This growth has been aided by positive government reforms, robustness of Indian economy and tax breaks. The contribution of AIFs to overall fund raising has been significant. In 2016, it contributed 41% of the total India focused funds vs. just 11% in 2014. The total commitments raised across all categories- I, II and III stood at Rs 84,304 crores as of Mar'17.

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Source: Data from SEBI website

The above graph shows the increasing trend in the investments made. In the four year period of Mar'13 to Mar'17, the cumulative investments made grew from Rs 361 crores to Rs 35,099 crores. This represents an impressive CAGR of ~214%. Looking at the activities of AIFs, nearly 60% of the funds are raised and deployed in Category II. As of June 30th 2016, there were 253 SEBI registered AIFs and not surprisingly the largest count of 140 were in Category II only. Most of these funds have a diversified focus and ~75% are equity funds. The signing of India-Mauritius Double Tax Avoidance Agreement (DTAA) may further help in domiciling these funds in India.

Considering the current scenario of the Indian markets, the growth in AIFs is far from peak. Mr. Arvind Mathur, CFA - Chairman, Private Equity Pro Partners expressed his views on Indian Alternative investments industry. "Private equity and venture capital will grow dramatically in India based on India's large reservoir of entrepreneurial and engineering talent, high GDP growth prospects, large young population enabling scaling of businesses and a pro-reform mindset amongst policy-makers". But as the industry is still at its nascent stage, there are many challenges to grapple with. On this issue, Mr. Abhishek Loonker, CFA – VP, Ascent Capital opines, "The two most significant among these are (a) Enforcement of law- While we all sign hundreds of pages with all kind of rights including several veto rights, drag along, liquidation preference etc., but very rarely entrepreneurs on the other side honor them. (b) Quality pool of talent - While the industry is flushed with young talent, who are extremely good at their work, but dealing with difficult promoters, handling tough negotiations and various other challenges requires both relevant experience and skillset."

The alternative investments as an emerging asset class provides opportunities for entrepreneurs to convert their new ideas into reality, new avenue for investors to earn returns and opportunities for professional fund managers who can manage these funds.

Key References-

- Dec'16 SEBI Report on AIFs
- Report on Alternative Investments by World Economic Forum(WEF)
- SEBI Website

(The views mentioned above are personal views of the authors and not made on behalf of the employer organization or on behalf of IAIP).

Cover Story

GST: A Major Structural Reform

M Ashok, CFA



VAT- the precursor to GST

Globally, the movement to a VAT (value added tax) system has been greatest over the last 25 years. This was ushered in by cross-border trade and the concomitant need to be competitive. India steered towards a nationwide value added tax system called the Goods and Services Tax (GST) on July 1st. This is at a time when the lexicon of protectionism and anti-globalism attained a peak around the world.

Introduction of a VAT system was driven by the need to reduce double taxation and check the escape of goods and services from any form of tax. In India, ossified excise, service tax and state tax departments would many a times fail to detect transactions or taxed the same transaction twice. The lack of regulatory coordination compounded problems for the taxpayer in seeking a redress. A unified indirect tax structure would help address these issues. Also, such a system finds parallels with the income tax treaties that countries frequently sign up. Increased coordination between agencies and use of standard definitions and phraseology in tax codes would help the taxpayer as well the government.

First the 'anomalies'

Let's address firstly, some of the criticisms of GST. Has India embarked on GST with unusually high tax rates? Contrary to certain perceptions, it is not true that India GST rates are among the highest in the world. With a standard rate of 18% (covering 80% of goods), Indian GST is lower than that of Denmark, Norway, or Sweden, each of which has a 25% standard rate. UK and France have standard rates of 20% each. The weighted average VAT rate for OECD countries is 19.2%. The Indian standard rate is closer to this figure.

Its multi-tier tax structure is not unique either. UK, for instance, has a three-tier structure - a standard rate of 20% for most goods and services, a reduced rate of 5% for some goods such as home energy, and a zero-rate for essentials. Spain taxes basic necessities at 4%, in addition to a 10% and a 21% standard rate.

Therefore, the cacophony of arguments that seek to ordain a nationwide single tax rate is not borne by international experience. Unitary countries such as Singapore are an example of single rate GST. Malaysia too has a single rate. However, that is not the general experience even among developed countries.

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Worldwide, countries have been moving to a consensus that holds indirect taxes as being a fairer system of taxation compared to direct taxes. This runs contrary to academic understanding which hinges on the progressivity of direct taxes. High direct taxes discourage investment activity by corporate and savings habit of individuals. Needless to refer to the myriad activities that private entities engage in hiding income and avoiding taxes. A parallel economy is an unintended consequence of high tax rates. High rates also discourage foreign direct investment and impedes free movement of capital. This especially hurts countries that depend on foreign capital. A consumption tax, on the other hand, discourages spurious spending and encourages capital formation. Given its simplicity, an indirect tax such as the GST is easier to administer and collect.

Singapore, an economy that significantly depends on foreign capital flows, keeps GST rates low (7%). A low rate achieves two objectives. One, it helps achieve high compliance with little effort. Two, by reducing income tax rates significantly it helps attract foreign capital. Many countries around the world are moving towards a similar fiscal objective.

How indirect was the previous tax regime

Any indirect tax system is a tax at the point of sale. The place where the goods are sold - typically where the consumer resides - is the place of sale. The taxes due on that transaction accrues to the fiscal unit (that is the State) where the sale occurs. This is the accepted principle in any form of indirect taxation.

The pre-GST tax system, through a series of disconnected taxes, followed principles contrary to the general understanding mentioned above. For instance, the State where consumers are located, was not entitled to collect taxes. When a manufacturer in Maharashtra sends a product to a customer in Uttar Pradesh excise duty accrues to the State of Maharashtra, being the place of manufacturing activity. So, does taxes on the sale of the product accrue to Uttar Pradesh? Sadly, no. Even the sales tax accrue to Maharashtra, being the originating State. This is a winner-takes-all approach. Such a system perpetuates a vicious wedge between prosperous manufacturing States and poor consuming States.

By defining the place of supply rules in GST, taxation follows the physical movement of goods. Tax is levied at the point where the movement terminates. The tax revenue is shared between Centre and the State where the goods are finally consumed. Populous, yet fiscally weak States such as Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh among others will see their fiscal positions improve as a result of the new tax system.

Is GST fair and foolproof

Will GST ensure equitable and fair taxes for businesses? Anecdotal evidence suggests that the manufacturing sector has been burdened by excise duties. Evasion is generally not the norm since factories have a fixed presence (under the purview of inspectors), and tangibility of goods renders it hard to hide. Hindrances at check-posts too make evasion difficult. On the contrary, services easily escape taxation. This is roughly borne by the relative amount of excise duties and service taxes collected by the government. The service sector, despite being larger than the manufacturing sector, contributes lesser to tax intake. Also, service tax administration has been known to be ridden with evasion and corruption.

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However, with GST's inherent structure (continuous credit chain, mandatory invoicing etc) evading taxes could get harder. Especially, evasion should reduce among those in the b2b value chain. B2C providers, wouldn't notice a significant difference in the new system barring an increase in output tax rate (GST rate on services being 18%, versus 15% earlier including cess). Though, those with multiple input taxes (excise, sales taxes) which were a cost earlier, may see the benefit of setting off input taxes against output taxes.

Despite the checks and balances, even under GST, 'wholesale' evasion could continue to be an irresistible allure for some service providers. The age-old advice to customers - to insist on bills for every purchase - shall continue to hold true.

Reverse charge, the hot button issue

The industry is getting accustomed to a new mechanism under GST, called reverse charge. Sections of the industry have been making noises about its draconian nature. Generally, in an indirect tax system, the burden of a tax is shifted to the buyer. Under reverse charge, not only the tax, but the compliance costs also is borne by the buyer. That is, a registered dealer, when it procures goods from an unregistered entity, has to raise a self-invoice. It then has to remit the taxes within 20th of the subsequent month. Upon payment, it has to raise a payment voucher as well.

These activities add to the time and compliance cost of registered dealers. Given a choice, it would readily do business with another registered dealer. The micro and small business segment, which generally caters to the organised sector, may see some turmoil due to this.

From the lawmaker's perspective, the reverse charge mechanism is a clincher. On one hand, it manages to tax unregistered entity sales. On the other, it helps build an audit trail relating to activities of unregistered entities. Such data will come in handy for other agencies such as the Income Tax department.

The subtle message to unregistered entities is that continuing in its present form will no longer be easy. GST, being a self-policing system will nudge them to get registered.

Messy cesses

Cess, as part of a GST system, is unusual. Cesses typically exist in traditional tax systems where the government seeks to collect revenue tied to particular objectives (such as calamity fund) or to discourage particular consumption types. Despite hopes to the contrary, a cess was included in GST; certain goods taxed at the 28% slab attract an additional cess of 15%. For instance, motor cars attract a 15% cess on top of a 28% tax rate, totaling 43%.

This cess was legislated through a separate Act of the Parliament namely, the GST (Compensation to States) Act. The broader purpose of the legislation was to assure States that its current tax revenues, plus a nominal growth of 14%, would be maintained over the next five years (referred to as the transition period). The cess collections would partly fund the central government towards this compensation.

While aesthetically a cess in a GST regime appears inept, it's commendable that GST has contributed to abolishing sixteen different cesses. Some of these include clean energy cess, sugar cess, water cess, bidis cess and tea cess. Another ten cesses were removed over the previous two years in the run up to GST, such as cess on tobacco, salt, mines, and others. So in all, twenty-six cesses have been abolished in favour of one GST cess.

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Ease of doing business

The whole list of taxes subsumed within GST is numerous. About 15 tax codes have been made redundant. Some of the taxes absorbed include - value added tax, sales tax, purchase tax, tax on works contract, central sales tax, entry tax, octroi, local body tax, tax on luxuries, tax on entertainment, tax on advertisement and so on.

In the World Bank ease-of-doing business ranking, on a drill down, India lacks perceptibly with respect to taxes such as payment of taxes, post-filing index, and similar parameters. India ranks 172 out of 190 countries with respect to taxes. With GST, one should expect a significant jump in ranking because numerous taxes have been replaced with a single GST that can be paid electronically.

By far the greatest non-tax impact of GST has been the removal of check-posts at every State border. Various reports suggest dwindling of transit time for trucks plying between key cities such as Mumbai, Delhi and Bangalore. The savings could be huge. Faster time-to-market and savings in fuel consumption (fuel usage during idling at check-posts is substantial) can eventually lead to lower logistics costs. By some estimates, logistics costs embedded in the final product is about 15% in India, compared to the global average of 6%. In the case of agriculture products, the share of logistics costs is even higher at 25%. While few of the reasons for high logistics costs is beyond taxes, nevertheless, faster movement of goods should contribute to the competitiveness of manufacturing industry.

Robust regulatory framework

The legacy indirect tax system was prone to regulatory capture, something that is evident from the plethora of executive level instructions - exempting one activity, taxing another, foisting unreasonable procedures on some etc. Under the new system, one hopes the GST Council being an apolitical Constitutional body would be immune from flaws that plagued legacy systems. In the words of the Constitution (Article 279-A).....the Goods and Service Tax Council shall be guided by the need for a harmonised structure of goods and service tax and for the development of a harmonised national market for goods and services. As the GST Council derives independent power, it is not subservient to pressure groups, therefore, decisions are more likely to sound in economic reasoning.

Balancing ambiguity versus simplicity

Is the new GST law free from ambiguity? One always wishes for a certain and clear law. Despite the need for certainty, there is adequate space for the executive branch (tax administration) to issue notifications, quite similar to earlier excise and service tax regimes. Notifications, in a positive sense, should clarify rather than confuse legal understanding.

Even without executive meddling, there are gray areas in the tax code itself. For instance, there are doubts whether Composition Dealers would need to follow reverse charge mechanism when it buys goods from unregistered entities. Composition dealers pay a fixed percentage of tax on annual turnover. Since these are small entities, reverse charge procedures could become a burdensome obligation.

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Another instance is with respect to Composite Supply. The concept - though novel in the Indian context - can become litigious. A composite supply is a contract for a set of connected supplies, one of which is deemed the principal supply. For example, in an interior decoration turnkey project, there are many interconnected supplies. Such as, design services consisting of drawings and models, materials such as plywood, glass, veneer and numerous other items. Which of these do you deem as the principal supply? Alternatively, is it a works contract (a contract for construction, alteration, fabrication) attracting the standard rate applicable to services in general?

The next phase of structural reforms

When tax systems change, jurisprudence under an earlier law may not entirely fit in with the new system. Where necessary, courts may draw interpretation from international jurisprudence. After all, concepts such as composite, mixed supply, and others are found verbatim in many international GST laws (Indian GST heavily borrows content from Malaysian GST). Foreign companies doing business in India could take assurance that its understanding of VAT laws in its home country would somewhat help in navigating the Indian GST system.

GST has to keep its promise of simplicity, yet evolve its application, procedures, and jurisprudence with changing times. The model of GST Council springing out of the Constitution has wonderfully worked in the country's favour. One hopes other major factor and product markets reforms are ushered in a similar fashion.

About the author:

M Ashok is a chartered accountant and a CFA charterholder based in Bangalore. He works as an independent financial consultant.

"I renew my CFA Institute and Society membership as it enables me to upgrade my skills by participating in the continuing education, training, and networking opportunities provided throughout the year."

Jayesh Gandhi, CFA
Senior Portfolio Manager
Birla Sunlife AMC



In Conversation with...

Biharilal Deora
CFA, CIPM, FCA, CFP, CIWM



Biharilal Deora, CFA, CIPM, FCA, CFP, CIWM is currently working as Partner with BDVG & Associates specializing into investment consulting, cash management and credit rating advisory. He also acts as visiting faculty, advisor and member of academic councils to various higher education institutes. Previously, he had assignments with Credit Suisse, Fidelity Investments, FPSB India, Reliance Industries and Sutherland Global. He is also serving as Elected President Council Representative for Asia Pacific South for around a dozen CFA Societies.

How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?

Diversification is the key, I feel. Industry may seem vast but the functions have always been related, resulting in the visible growth over the years. However, there is a vast potential for progression still lying dormant. A space of alternatives and credit markets has always inspired and allured its participants and in the coming days, it shall expand its horizons to new limits. Nevertheless, this industry will only grow if there are accomplices who can take up the baton of curated set of skills. Finance has been known for its evolution; therefore, mastering the changing skill set is indispensable to nurture its growth. CFA charter holders have one substantial advantage when it comes to the term 'skill set'. They are chiseled to employ their proficiencies to capitalize the finest in this ever-growing industry. For the days to come, industry needs to be well equipped with professionals to take charge. CFA program creates a foundation for individuals and enables them to holistically be aware about the advancements in the industry and build specializations on top of it.

How did CFA help in enhancing your career objectives?

Being a Chartered accountant, I was good with numbers and accounting but I always felt this gap into my knowledge of global finance and investment management. CFA program came to rescue being a gold standard and global benchmark in Investment management. As a generalist in investment management industry, The CFA program is the only standard and leader in the global investment industry.

In Conversation with...

What does CFA Membership entails and why should one take it if he has already cleared CFA program? Does it provide an edge to aspiring finance professional?

The CFA program exams, content and learning are absolutely wonderful in providing the depth, width and appropriate global perspectives. However clearing exams is just 10% of what you signed up for in CFA program. The real fun and learning start with becoming a member and getting your covered CFA charter holder status. One goes through continuous education process not just on technical aspects but also on ethics which shapes your career. The amazing people you meet, the lifelong friendships you make, the absolutely fantastic mentors/coaches you come across are just the tip of the iceberg. You can derive as much value as you want from your membership of CFA membership in fact it's one of the multi-bagger investment you will ever make in your career. I can safely say that I have a friend with similar interest in almost every country of the world.

What guidance would you give CFA aspirants?

It's a costly exam to fail and requires dedication and depth of knowledge as expert. Prepare mentally as well as get used to the rigor involved. Take multiple practice exams; clear concepts, start again, and get enrolled for membership with your local society to get "on the court" guidance. It's a journey into a profession and not just an exam.

Good luck!!

Points noted above are personal views and not made on behalf of the employer organization or on behalf of IAIP.

"Being a member of the CFA Institute and IAIP enables me to be abreast of the latest trends in the financial markets, continuously upgrade my skills besides giving me an opportunity to interact and network with my professional colleagues and friends."

Sunil Singhanian, CFA
CIO – Equity Investments
Reliance Mutual Fund



In Conversation with...

Ankur Kapur
CFA



Ankur Kapur, CFA is a founder and managing partner of Plutus Capital, an investment advisory firm. Ankur has over 15 years of experience in the financial services space. He started his career with American Express and later worked as a management consultant with McKinsey & Company. Over the years, Ankur has worked across various finance areas such as valuation, M&A, wealth management, and even as a strategic guide to CFOs.

Ankur completed his under graduation from Hindu College, University of Delhi and graduation from Delhi School of Economics. He has also authored 'First-Time Investor', a financial planning book for individuals.

How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?

Often we discuss high inflation in India but rarely we reflect on income levels. The fact is that our income levels have risen far more than inflation in the economy. It took nearly 60 years for India to reach first trillion dollars (2008). The second trillion took seven years (2015). The next trillion is expected to reach by 2020. Every successive trillion dollar growth will take fewer years, irrespective of the political situation in India. This growing wealth needs to be managed well and we require a big force of high-quality investment advisers and wealth managers to do so. CFAs are very well suited to fill in this gap since there is no other professional qualification that builds a deep level of portfolio management skill.

How did CFA help in enhancing your career objectives?

At an age of 19, fascinated by the stock market, I started going to a broker. I would spend hours in front of the terminal but was not able to understand the process. I knew that I was not making money basis my skill but rather by luck. I started exploring what would help me understand the right process and later found CFA program to be quite relevant. After receiving my CFA charter that equipped me with the right skill and long-term investing view, I founded Plutus Capital.

How would you rate the CFA course with respect to content and structure including the pros and cons? Also, include aspects which give CFA course an edge over other courses.

Anyone who enrolls in the program should reflect on his/her career goals. CFA program is a world-class finance course but you need to be aware of how you can use the knowledge. In case you are looking for a career change from non-finance to finance, probably the course may not help. However, if you want to specialise in investment and portfolio management, I can't think of a better course than CFA program.

In Conversation with...

What motivated you to write the book, "A to Z for First Time Investor" ?

The level of financial literacy in India is extremely low. If the investor is informed, they are likely to take better investment decisions. As an investment professional, I believe in growing by sharing knowledge than by charging for information asymmetry. "A to Z for First-Time Investor" is a step to help people who have never invested. The book also helps the first-time investor become informed investor who can perform due diligence on any new adviser.

What guidance would you give to CFA aspirants?

CFA program is for those who want to build a career in the investment industry. CFA aspirant needs to size the market and have realistic expectation from the program. This may also include working in the investment industry and then enrolling in the program. Someone who is looking for a career change may want to evaluate other options.

"It's a privilege to be a part of the 138,000+ strong global, vibrant network of investment professionals actively promoting the highest standards of ethical conduct in the industry."

Sonia Gandhi, CFA
Chair – Membership Committee
CFA Society of India (IAIP)



Advocacy Updates

#Putting Investors First (PIF)

Putting Investors First (PIF) event '**Rethinking Financial Services for Millennials**' was held on 21st April, 5:30 p.m. onwards at the ICAI auditorium, Bandra Kurla Complex, Mumbai.

The event was jointly hosted by Institute of Chartered Accountants of India (ICAI), National Securities Depository Limited (NSDL) and CFA Society India.

[Putting Investors First](#) is a global CFA Institute initiative and part of the [Future of Finance](#) program. CFA Societies around the world organise Putting Investors First events to raise awareness and build support for aligning the interests of investors and their customers in a way that fosters trust and improves outcomes for investors.

For this year's annual event, our focus was on challenges faced by the financial services industry in serving millennials. Nearly 30% percent of India's population was born between 1980 and 2000. Compared to earlier generations, millennials save, borrow and invest in ways that differ significantly from older consumers. Through this event, we explored the nature of challenges facing the industry in serving millennials, and how companies, policy makers and regulators are responding to these challenges.

The event constituted two panel discussions:

Panel 1, **Mind of the Millennial** comprised experts, primarily from outside the financial services industry, who are millennials or have millennials as their primary customers. This diverse panel explored the ways in which millennials are different, their behavior, consumption and investment patterns and the different approaches that are used to communicate with this segment.

Panel 2, **Millennials and Financial Services** was a panel of speakers drawn from the financial services industry. This panel examined the specific challenges faced by the financial services industry in serving millennials, and the way firms have responded to these challenges.

Submissions to Regulators:

[IAIP Response to Companies \(Registered Valuers And Valuation\) Rules, 2017](#)

[IAIP Response to Investment Advisor Regulations](#)

[IAIP Response to Regulations pertaining to Wholesale and Long Term Finance Banks](#)

Volunteers Needed

- Writing articles for NSDL Magazine
- Subject Matter Experts for comment papers from Regulators

Insights from IAIP Events

Equity Valuation Methodologies

Contributed by: Kailash Chhabria, CFA

We are all very watchful for the price we pay for the things we buy. For example, if one is to buy a mobile phone, he would visit all the online portals, compare the price with Brick & Mortar store, check for offers and arrive at the best value for the product. We are extremely vigilant in determining the right value for the product. Investments are no different. Be it Real Estate, Gold, Equities, Bonds; we attain satisfaction only when we have paid the right price. But how do we really determine the right price while making Investments? What are the inputs one considers while making investments and how do we filter noise?



There is no doubt that approach like DCF is exhaustive and considers all aspects of mature businesses we are valuing. We consider all relevant criteria while applying DCF and base our assumptions on a lot of research we do on companies. The approach requires time and ability to make right judgements. Could we not consider other time bound relative valuation approaches while making an investment decision? The question then arises what is the right P/E or P/B ratio for a company & an Industry. How should one interpret the value of a company, its future potential by usage of mere ratios?

Insights from IAIP Events



Below are some of the key takeaways while considering relative valuation (Method of Comparables) approach to compare companies:-

While Brand visibility, distribution, Technology, Monopoly, access to natural resources are important for a business to succeed, they are not the sole drivers and firms could trade at low multiples to their peers in their respective industry. The likes of SBI trade at low multiples to peers and may not necessarily be the best investments. Low multiples do not necessarily mean attractive investments.

Read More: <https://iaip.wordpress.com/2017/04/11/equity-valuation-methodologies/>

Insights from IAIP Events

Quantamental Investing Across the World...

Contributed by: Chetan Shah, CFA, Secretary & Director, IAIP



Investors, professional as well as individuals, suffer from behavioral biases. The four important ones cited by Andrew Stotz, PhD & CFA, Co-Founder A. Stotz Investment Research, as investors' worst enemies are Loss Aversion, Confirmation, Hindsight and Overconfidence bias. You feel pain of a loss 2 to 2.5 times more than the joy from an equal gain. That is loss aversion bias. This affects your investment decisions. This bias can be overcome by zero-based thinking wherein one can ask questions like "if I didn't own the stock, will I buy it?" Confirmation bias, which is a tendency to search and put weight for information that confirms one's belief, can be corrected by considering opposing views and putting one's idea to test. Hindsight bias, a tendency to wrongly remember that you knew the event before it occurred, leads you to believe that the world is more predictable than it really is and can lead you to Overconfidence. Both these can be overcome by being humble and admitting that you don't know it all. Also the chances of success in investing can improve dramatically if you have a framework in place and ignore the noise in the marketplace.

Insights from IAIP Events

Hypothesis as well as back testing should form essential part of portfolio management. One needs to verify if strategies like owning high ROA (Return on total assets) or low P/B (Price/Book) generates higher returns. Andrew's tests showed contradictory results that companies with low ROA generate higher returns. Low P/B works only when companies are valued very low, not otherwise.

Read More: <https://iaip.wordpress.com/2017/04/14/quantamental-investing-across-the-world/>

"I renew my CFA Institute and IAIP membership to continue being a part of this profession which adopts the highest ethical standards, and has a strongly knit community (of CFA charterholders), connected globally across different areas of work and geography."

Anil Ghelani, CFA
Senior Vice President
DSP BlackRock



Insights from IAIP Events

French Elections – Importance and Impact

Contributed by: Meera Siva, CFA

National elections can have major influence on not just politics but economic policies, market, currency and investments, globally. The upcoming French election is interesting in what it could mean to the region's equation and its impact on other countries.



Insights from IAIP Events

France's two front-running candidates have different economic policies. Presidential contender Emmanuel Macron is a centrist while far-right leader Marine Le Pen has an anti-euro, anti-immigration platform. The election is held in two stages, with two top contenders picked for the 2nd stage. Polls predict that Macron, a former banker and economy minister in a Socialist government, could beat Le Pen comfortably in the May 7 final round. But the war in Syria and terrorist attacks may change the sentiment and results.

Long dollar, short euro

The fate of the euro is fragile, whether France decides to stay with the EU or leave, said Dr. Bobby Srinivasan – Professor of Finance & Trading, Great Lakes Institute of Management; active trader; author; Professor for well over 40 years. He says that Macron's win can bring some stability while Le Pen may accelerate the fall. Exit out of euro zone is a long process and Britain may take over 2 years to complete this. Also, the exit option is good for the old who want to keep away outsiders, but it is bad for the young who may find lesser job and education opportunities compared to the past.

Read more: <https://iaip.wordpress.com/2017/04/17/french-elections-importance-and-impact/>

"I renew my CFA Institute and Society membership because it provides me with cutting-edge continuing education and helps me widen my circle of influence by networking with the brightest minds in the investment business."

Rohit Rebello, CFA
Director – Credit Risk
Barclays, Wealth & Investment Management

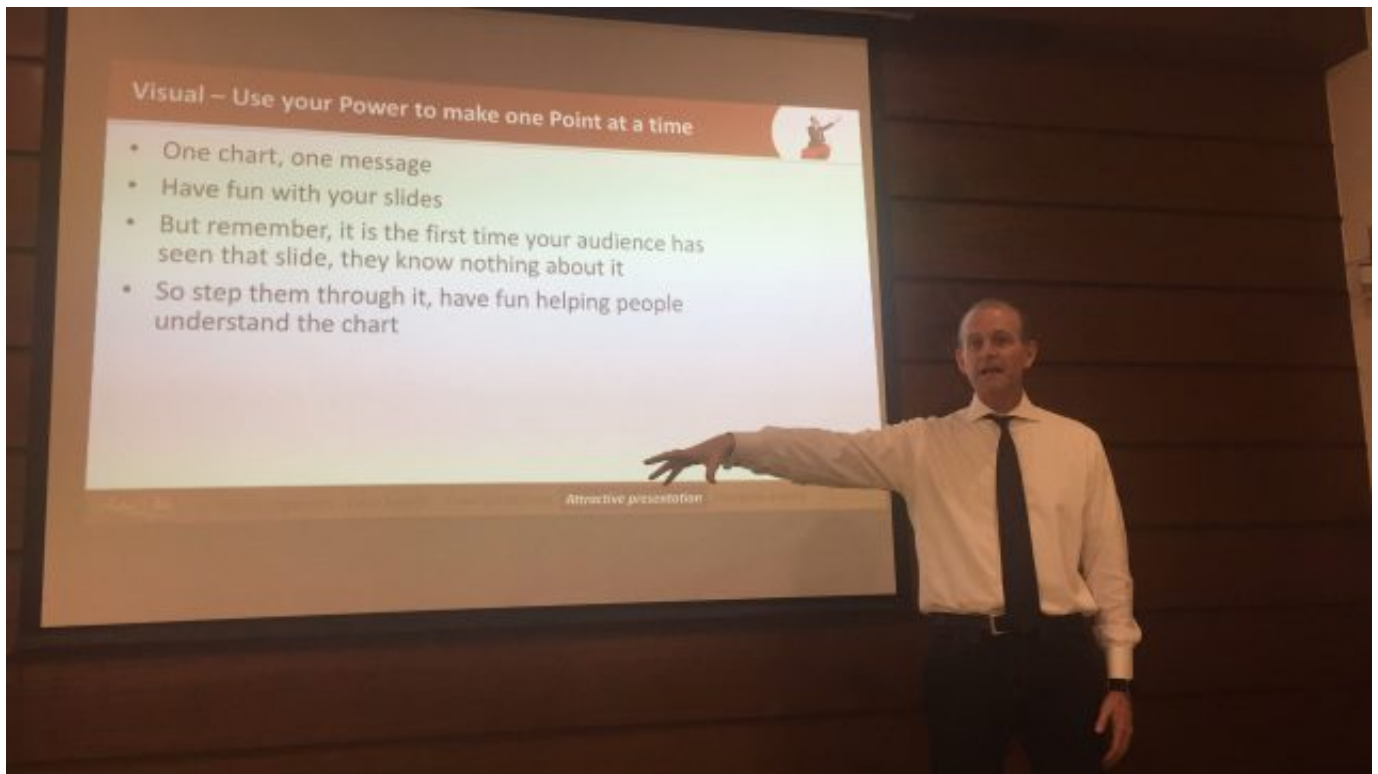


Insights from IAIP Events

Become a Great Presenter and Increase Your Influence

Contributed by: Manish Chandak

CFA Society India, Pune hosted a power-packed session on “Become a Great Presenter and Increase Your Influence” by Mr. Andrew Stotz on 15th April 2017. Andrew Stotz, who is known as one of the Thailand's leading equity analysts, is a CFA Charter holder and has graduated with a PhD in Management Science and Engineering at the University of Science and Technology of China. He has authored many books which include “Transform your business with Dr. Deming's 14 Points” and “You Won't Get Rich in the Stock Market...Until You Change the Way You Think About”. He firmly believes in Educating, Empowering and Exciting people from different walks of life.



Andrew began the session by asking his audience about their motivation for becoming a great presenter. His overriding theme for the session was: “a Great IDEA + a Great PRESENTATION = CHANGE THE WORLD!” He wanted to teach all participants excellent presentation skills so that they can present whatever great idea they have in such a way that it will change the world for better.

Read more: <https://iaip.wordpress.com/2017/04/23/become-a-great-presenter-and-increase-your-influence/>

Insights from IAIP Events

How to Value any Company in the World with Valuation

Contributed by: Ashwini Damani

On 24th April 2017, the Kolkata Chapter of CFA Society India organised a session on “How to Value any Company in the World with Valuation Model”. It was conducted by a prolific speaker, Andrew Stotz, CFA who has been voted the No. 1 Analyst in Thailand for the years 2008 and 2009. Being a tech savvy speaker that he was, the presentation started off in a unique style, with almost the entire presentation being run through an iPhone and live blogged by his associates sitting in Thailand. In fact, the entire presentation (replete with pictures of the day) was already uploaded by the end of the session on the blog <http://www.becomeabetterinvestor.net/myvac>



Andrew dwelled on the fact that, the world of investing and finance can be very complex, and hence it is imperative to keep things 'Simple'. It is only by keeping things simple, will you be able to make people follow you, hear you and understand you – “Simplicity is the ultimate sophistication” he said.

Read more: <https://iaip.wordpress.com/2017/05/04/how-to-value-any-company-in-the-world-with-valuation/>

Insights from IAIP Events

Stock Picking vs Portfolio Construction: The Role of Checklists

Contributed by: Jitendra Chawla, CFA

On 25 April 2017, CFA Society India –Delhi Chapter hosted Prof Sanjay Bakshi and Paresh Thakkar of ValueQuest Capital LLP for a talk on Stock Picking vs Portfolio Construction: The Role of Checklists. The event was a huge success with more than hundred enthusiastic participants attending the talk. The following is a summary of Prof Bakshi's and Paresh's speech/comments during the presentation.



Captain Sully and the Hudson River landing

Prof Bakshi started the talk by showing a clip from the movie Sully. On January 15, 2009, Chesley Sullenberger, better known as Captain Sully, was a pilot in command of a US Airways Flight 1549, an Airbus A320 taking off from LaGuardia Airport. Shortly after takeoff, the plane struck a large flock of birds and lost power in both engines. Quickly determining he would be unable to reach any airport, Sullenberger piloted the plane to a water landing on the Hudson River. All aboard were rescued by nearby boats.

Insights from IAIP Events



After the incident, there was an investigation and public hearing. During that hearing, it was alleged that Captain Sully made a mistake and endangered lives by landing the plane in Hudson. He should have tried to get to the nearest airport which was seven miles away.

The investigators even tried to replicate the situation on a flight simulator and showed that he could have landed the plane. Sully made a point in his defence that those trying to say he made a mistake are not taking into account the 'human element'. The pilot who had landed the plane in the simulation exercise had practiced it seventeen times before he could do it successfully. Later on, when they incorporated a 35 second delay (which is the least time any pilot would have taken to react in a real life situation) in the simulator exercise, the plane crashed.

Read more: <https://iaip.wordpress.com/2017/05/05/stock-picking-vs-portfolio-construction-the-role-of-checklists/>

Insights from IAIP Events

The Elephant & the Dragon: Changing Dynamics that affect Asia & Beyond

Contributed by: Ishwar Chidambaram, CFA



On 6th May 2017, CFA Society India- Mumbai Chapter hosted a talk by Mr. Xu Sitao, Chief Economist and Partner of Deloitte China. Mr. Xu said that most people view China as an important source of global demand. This view is correct, as you need to study Chinese investment and demand cycles in order to analyze commodity prices, which cannot be forecast using technical analysis alone. Further, if one neglects China, then one cannot correctly forecast global interest rates. For example the Reserve Bank of Australia cut rates twice last year because, in their opinion, China was headed for recession (hard landing) which would weaken commodities prices. Another example was the Fed's reluctance in the past to cut interest rates, fearing a Chinese hard landing. These examples reflect China's emergence as a center of gravity on the world stage.

Read more: <https://iaip.wordpress.com/2017/05/07/the-elephant-the-dragon-changing-dynamics-that-affect-asia-beyond/>

Insights from IAIP Events

Mind of Millennial

Contributed by: Rajni Dhameja, CFA

The Panel:

- Sachin Kalbag, Resident Editor, Mumbai, The Hindu
- Mandar Mhatre, Entrepreneur and Investor
- Talvinder Singh, Product Head, Flagship, OYO Rooms
- Sameer Somal, CFO, Blue Ocean Global Technology
- Ravi Subramanian, Executive Director, Sriram City Union Finance
- Sonia Gandhi, CFA: The Moderator, Board of Director, IAIP

Millennials, also known as Generation Y, is the name given to a generation born between 1982 and 2004. To be more generic, millennials is a generation which is exposed to technology from a young age, exposed to confused parenting and have information overload.

Millennials world over share the similar traits. They follow the YOLO (you only live once) principle. They focus on now rather than future. They have a fear of missing out hence they want to experience most of the things instantly. It is a generation which grew up using smartphones hence they are very much comfortable with the technology. They seek the information from various sources and are aware of many things. It helps them to take the informed decisions. The generation Y is characterized by impatience. It can act as an asset and liability both depending on the situation. They are believed to have the entitlement mentality. On the flip side, they are insecure about the future. They focus too much on their convenience.

Panelists shared the point of view that this is the generation which does not have a fear of failure. They are ready to try out the things different from what their parents did. There are two types of millennials and the aspiration levels differ between the two. The urban or the millennial who had easy access to things and the others who did not have easy access to things. The aspiration level for have not's are completely different than the aspiration level of the former.

Read more: <https://iaip.wordpress.com/2017/05/08/mind-of-millennial/>

Insights from IAIP Events

Millennials and Financial Services

Contributed by: Rajni Dhameja, CFA

The Panel:

- Navneet Munot, CFA, Chief Investment Officer, SBI Mutual Fund
- Parthalyengar, Co-Founder and Managing Partner, Life & Money
- Amit Kumar, Partner and Director, The Boston Consulting Group
- Kalpen Parekh, Joint President, DSP BlackRock AMC
- Rajiv Sabharwal, Partner, True North
- The Moderator: Uday Dhoot, CFA, Founder, oyepaisa.com

Millennials seek life balance and they aspire to get the financial freedom at the earlier age. This coupled with their present focused mind, pose a challenge for the financial advisors. To achieve the financial freedom at an earlier stage of life, it is important to start saving early and invest for long term. But Millennials have low disposable income as they are in the initial stage of their career and their present focused mind gravitates them towards spending more rather than saving more.

Financial advisors have to tailor the presentation of the advice to leverage upon the behavioral traits of the millennials. The tendency to spend more is attributable to one core factor of convenience. Spending is convenient, but the investment is not. Today financial companies are talking among themselves rather than engaging in a meaningful conversation with the end investor. They talk in terms of numbers and jargons which make the investment process really complicated for the generation Y hence they get gravitated in the opposite direction.

To address this issue, financial services industry needs to engage in dialogue with Generation Y in a language which this generation can identify with. For instance, talking in terms of goals rather than in returns. For instance, to enjoy an exotic vacation after four years, you need to invest so much amount in so and so asset.

Read more: <https://iaip.wordpress.com/2017/05/08/millennials-and-financial-services/>

"The CFA Institute charter and membership entails broad-based and constant learning. Over a period of time, seeking to upgrade knowledge and networking with like-minded individuals just becomes a part of your DNA."

Neha Goenka, CFA
Director
ATEN Metals Pvt. Ltd.



Insights from IAIP Events

Sensex @ 30,000...What Next?

Contributed by: Shivani Chopra, CFA

As the CFA Institute celebrates its 70th Anniversary this year, it remembers the seminal event that shaped the geographical reach of CFA Society network. Even today these events deliver value to the members by providing forums to learn and discuss issues of common interest. We witnessed another such event on 13th May 2017 when the Delhi Chapter of CFA Society India had the privilege of hosting Mr. Navneet Munot, CFA who delivered a very interesting talk on the current topic. An acknowledged expert on the topic, Navneet is the Chief Investment Officer of SBI Mutual Fund and Board of Director, Indian Association of Investment Professionals (IAIP).



What Next?

All the factors discussed above will have an important bearing on the Indian stock market. Things have just started to fall in the right place, be it liquidity or political stability. We have a reform oriented government and supply side economy is building up. Other than the twin balance sheet problem, macroeconomic situation is looking very bright. Taking clues from the past Sensex performance, there have been two set of periods when the market was down for two consecutive years (1995-96 and 2000-2001). After that we have not really seen any period and so logically the third year after two almost flat years should be good. Below are the contributors which will help sustain 30K level.

Insights from IAIP Events



Read more: <https://iaip.wordpress.com/2017/05/24/sensex-30000-what-next/>

"I renew my CFA Institute and IAIP membership because it provides opportunities for continuing education as well as interaction with the best people in the investment community. I also have a hugely satisfying experience from the volunteering opportunities provided by IAIP."

Navneet Munot, CFA
Chief Investment Officer
SBI Funds Management Pvt. Ltd.



Insights from IAIP Events

Feeling The Heat? – A view On Indian VC Industry

Contributed by: Meera Siva, CFA

June 2, 2017, Chennai

Is the start-up investment eco-system hot or feeling the heat? K A Srinivasan (KAS), Partner & CFO – Ventureast shared his views on the past and present state of VC investments, challenges in the Indian start-up ecosystem and the future, especially of tech ventures.



KAS focuses on Fintech and Food tech sectors and oversees fund administration, investor reporting, valuation and deal structuring besides helping portfolio companies in designing their internal controls and monitoring processes. He has over 25 years of experience in finance & accounting and operations across multiple verticals – Manufacturing, Processing and Services. Prior to Ventureast, he ran his own Finance and Accounting Outsourcing (FAO) business, and sold it to Aditya Birla group. Earlier, he was the Global Finance Controller for Sutherland Global Services and had held several senior positions in A V Thomas group and managed their agro operation. KAS is a Chartered and Cost Accountant.

Return expectations

Start-ups typically start bootstrapped operations with funds from family and friends, followed by angel funding and/or seed funding. The first institutional level fund raising from Venture Capital firms starts from Series A or sometimes from Pre Series A. VC firm will participate at least two more rounds and post that PE will enter.

Insights from IAIP Events

Investing in early stages means there are higher risks as there is not much data/numbers available. One needs to understand the operations, segment to place a bet. About 25% of investments give good returns 8-10x. About a fourth give 1-2x return. Another fourth may give 0.5-1x return and the rest is written off. So, for the portfolio, a return of 3x is a decent expectation. Ventureast's first fund gave a 6x return, in mid 2000s.

Read more: <https://iaip.wordpress.com/2017/07/10/feeling-the-heat-a-view-on-indian-vc-industry/>

"Being a charter holder helps me hone my professional capabilities while keeping abreast of the changes in the investment world."

Anitta Jaison, CFA
Senior Financial Officer, Structured Products
The World Bank



Insights from IAIP Events

Demystifying Early Stage Startup Investing: Opportunities & Challenges...

Contributed by Chetan G. Shah, CFA



The Indian Private Equity and Venture Capital industry has become sizeable over the last few years in terms of funds raised annually. Around 33 funds raised \$4.9bn for investments in Indian start-ups in CY16 compared to 21 funds amounting to \$4.5bn the previous calendar year per Venture Intelligence. Compare this with around \$7.0bn net inflows witnessed in the local mutual funds industry in CY16. Looking at the interests in this industry and the start-ups, IAIP organized a timely panel discussion on the opportunities and challenges faced by the industry. It invited Anil Joshi, Managing Partner, Unicorn India Ventures, Nikhil Vora, Founder & CEO, Sixth Sense Ventures Advisors and Vikram Gupta, Founder & Managing Partner at IvyCap Ventures Advisors.

While the panelist shared their experiences & journeys, hits & misses, they provided interesting insights on valuations. With little to look at in the past financial statements, one as to make assessment of the products or services, market opportunities, founders' vision & track record, management team and potential value it can create for the investors 3 to 4 years done the line. Valuations can become murkier if the industry the investee company is catering to is suddenly in demand like e-commerce, or taxi aggregation or foodtech, which at one point of time were the flavor of the month. The greater fool's theory is at work at such times. The investors too have different objectives with some capturing value through combination of their other strategic businesses and others having clear mandate & exit timeline to manage. Hence valuation initially is sort of negotiation between the founders and private investors. Sometimes too much value is captured by the investors and sometimes by the founders. Neither is helpful in the long term.

Insights from IAIP Events



Read more: <https://iaip.wordpress.com/2017/07/31/startup-investing/>

"I renew my CFA Institute and IAIP membership to stay connected to the global and local investment community. These forums offer great opportunities to network and learn from opinion makers. My role as a volunteer helps me to contribute to the industry's growth and benefit the society at large."

Amit Khurana, CFA
Director – Research
Dolat Capital Market Pvt. Ltd.



Women in Finance

The Case for Gender Diversity in India

Shivani Chopra, CFA



Women in Investment Management (WIM) is one of the important initiatives of CFA Institute since its launch in 2015. It acknowledges the underrepresentation of women within the industry, particularly in senior positions. The goals of this initiative have been set accordingly

- Increase the number of women who join the profession and earn the CFA® charter
- Retain women in the profession and influence culture from within
- Create demand for diversity as an industry imperative

Although more awareness is being generated through social media, gender equality in the industry is a global challenge. Some countries like India have more problems than others. In May 2016, CFA Institute completed the largest ever survey on the subject of gender diversity. With women constituting only 11.7% of its CFA Institute members, India ranked a dismal 51st out of 57 countries surveyed. Our immediate neighbour China fared much better and ranked in the top five with 31.3%.

In India, urban female workforce participation rate at 15% is again one of the lowest in the world. What are the main factors that constrain women to join the workforce? The ability of women to seek employment is the outcome of various social and economic factors. The primary responsibility of managing all the household chores, taking care of the dependents, etc is still considered a woman's duty. Parents instil this mindset in childhood and the result is an increasing number of females staying away from employment. Even the ones who beat the odds and take up the jobs may not get an equitable work culture. So, females regularly find it hard to manage work life balance. Many married women drop out of the workforce when they have children. In our investment management industry, they are confronted with one additional problem. It is widely perceived that this 'male dominated' profession demands long hours and higher stress at work. This further discourages women from pursuing a career in this industry and choose a different career path. As a result of all these challenges, their numbers are dwindling in senior positions.

There is an urgent need to acknowledge this issue. Industry studies have shown that mixed gender teams not only offer diversification but also improve investment performance.

Read more: <https://iaip.wordpress.com/2017/05/03/the-case-for-gender-diversity-in-india/>

Express on WordPress

Thinking about investment philosophy

Contributed by: Gaurav Ajjan, CFA



When to Sell a Mutual Fund

Introduction

There is an abundance of investment research on stock selection. By contrast, there are fewer studies on mutual funds. Moreover, these tend to be on the active versus passive debate or on selecting the right mutual fund. Research on the selling decision is sparse and tends to receive little attention.

Don't be a Returns Chaser

Before delving into the reasons to sell, one should be aware that the most important reason not to sell is recent under performance. There are many studies done on this, all of which conclude that poor performance in the short term is not a reliable indicator of future results. Yet, this continues to be the main reason most investors sell.

Style Drift

Now that we know when not to sell a fund, let's explore the reasons when we should. A change in the stated investment style is known as "style drift." An example of this is a large cap growth fund manager significantly increasing weight in small cap value stocks. The impact of this is a change in the risk-reward profile of the investor's overall portfolio. A "style drift" is often a repercussion of sustained underperformance. Often, poor performance is accompanied by outflows and can pressurize a fund manager to chase returns whereas he would be better off with sticking to his stated philosophy and investment style.

Fund Size

Another reason for style drift is the fund size. This is especially true for small cap managers who have had a good run and are attracting substantial high inflows. The upshot is that they start investing in larger cap stocks to absorb this new money when the prudent decision would be to close the fund for incremental flows.

Conversely, a drastic fall in a fund's assets, especially if it is the flagship fund or is a large proportion of a firm's assets, can be a reason to sell. This is because the firm's profitability will be affected which would inhibit its ability to hire and retain quality personnel.

Express on WordPress

Performance Extremes

Performance extremes give an indication if a fund manager is taking on too much or less risk. Ludicrous as it may sound, if your fund is doing much better than its peers, then you may want to consider selling it. For instance the balanced fund you own posts a 40% return while the peer group average return is 10%. This could be a result of too much equity exposure even though as an investor you have little to complain! Conversely, if all small cap funds are down 60% while the one that you own is down only 20% could mean that your manager is taking lesser risk than he should.

Manager Departure

If the manager of your fund leaves, the replacement manager may have a different philosophy. The new fund manager may revamp the portfolio, creating turnover and consequently higher expenses for the fund. In such a case it may be prudent to exit the fund. One may decide otherwise, if the firm has done proper succession planning, or if it has a pool of skilled analysts from which someone can easily step into the departing manager's shoes without any dramatic change to the fund.

Parting thoughts

The next time you are tempted to exit your fund or your investment advisor recommends that you sell, you may want to ensure that it is due to one of the reasons listed above and is not just temporary under performance. Else, in the words of the great Warren Buffet, your favorite holding period should be forever!!

Disclaimer: The views, opinions, findings or recommendations expressed in this paper are strictly those of the author. They do not necessarily reflect the views of any specific industry.

"Since the birth of IAIP, I have enjoyed being a part of this 'movement'. I cherish networking with IAIPians and enlightening sessions with numerous experts. Professionally, I feel that IAIP is my second home."

Jayen Shah, CFA
Head, Debt Capital Markets
IDFC Ltd.



Express on WordPress

China's Belt and Road Initiative: PaxSinica Redux or Economic Black Hole?

Contributed by: Ishwar Chidambaram, CFA, CIPM



"... (We must) hide our capabilities and bide our time, never try to take the lead..."

-Deng Xiaoping, Paramount Leader of the People's Republic of China (1978-1989)

On May 14, 2017, Deng Xiaoping would have been spinning in his grave at China's flagrant disregard for his sage dictum, when the heads of state of 29 nations converged on Beijing for the inaugural Belt and Road Forum. The 2-day extravaganza, touted as the biggest diplomatic event of the year, was designed to promote China's leadership of Eurasia under the Belt and Road initiative, an ambitious plan to realize President Xi Jinping's strategic vision. This vision calls for constructing a land economic belt to Central Asia and Europe, and a Maritime Silk Route to connect the Pacific Rim with the Indian Ocean and Africa. China has pledged more than \$100 billion under this initiative, popularly known as One Belt, One Road (OBOR).

Prominent attendees to the Forum included Russian President Vladimir Putin, Turkish President Erdogan, seven ASEAN leaders, the Prime Ministers of Pakistan and Sri Lanka, and heads of the United Nations, IMF and World Bank. Bucking the rising tide of protectionism in the Western world, 130 nations on 5 continents flocked to the event. Prima facie, this would appear to affirm China's position as a beacon of globalization, in an era where the Trump administration has slashed foreign aid and erected trade barriers in the name of "America First". OBOR might also be expected to consolidate the position and perpetuate the legacy of Chinese President Xi Jinping, arguably the nation's most powerful leader since the revered Deng Xiaoping. In his speech at the Forum, President Xi announced that total trade between China and other OBOR countries has already surpassed \$3 trillion from 2014 to 2016. China's investments in those nations have exceeded \$50 billion, with a target of \$4 trillion. It has set up 56 Special Economic Zones in 20 countries, which have collectively generated \$1.1 billion in tax revenues and created 180,000 jobs. But the project is not without risks, as outlined below, and has drawn criticism from various quarters.

Critics of the project contend that the entire scheme is poorly conceived and simply an ego trip for the powers that be in Beijing. They point out that China is merely exporting overseas its domestic model of debt-driven development.

Read more: <https://iaip.wordpress.com/2017/05/31/chinas-belt-and-road-initiative-pax-sinica-redux-or-economic-black-hole/>

Express on WordPress

The Economic Reality Of Non-Cash Charges

Contributed by: Gaurang S. Trivedi, CFA

The Art in Fundamental Analysis

Financial statement analysis, which represents the art in the fundamental approach to valuation of equities, enables creditors and investors to make better economic decisions. Statutory statements prepared for reporting purposes are a combination of accounting rules formulated to characterize the accrual process, management estimates based on past experience applied to projected events, and managerial judgment that is subject to cost-benefit rationale. An interested reader has to just glance through a corporate press release of a quarterly earnings announcement to assimilate what the aforementioned signifies. The net earnings per share number, which in the ultimate analysis increases shareholders' equity, is mostly neglected in management discussions and analysis. A majority of the managerial analysis is concentrated on alternative numbers arrived at by massaging the earnings information. The current use of pro-forma (read alternate) numbers to represent true operating earnings stems from the very real need for corporate managements to meet earnings estimates and support stock prices for companies that have meager, if any, positive net earnings to report. The ensuing treatise is an endeavor to reconnect the economic implications of the accounting for depreciation, goodwill amortization/impairment charges (universally assumed to be non-cash charges), as well as other one-time charges, that are being neglected by most investors when analyzing manipulated pro-forma earnings reports from corporate managements.

Case for Pro-Forma Adjustments

The theoretical support for pro-forma earnings stems from the perception that they depict the real economics of a business. Accounting earnings, though universally accepted to be the uniform language of business, are not considered representative of true economic income. To substantiate this premise let me first walk through the accounting treatment of depreciation and goodwill amortization/impairment in the corporate books.

Read more: <https://iaip.wordpress.com/2017/07/09/the-economic-reality/>

Express on WordPress

Market Outlook

Contributed by: Navneet Munot, CFA, CIO, SBI Mutual Fund & Director, IAIP



Indian equity market has been one of the best performing equity market year-to-date. Foreign investors' allocation to emerging markets has risen. Within that, India with an outlook of recovering growth and corporate earnings and reform oriented government, offers a lucrative opportunity. At the margin though, FIIs have pulled out money in last few weeks.

Looking ahead, global markets will be taking cues from political development in Europe (outcome of the French election, ECB's exit policy), tax-administration reforms of the US (Trump's reform agenda has been slow to pan out thus far) and developments in China. We also need to watch Geo-political events as they have the potential to out-turn the current regime of low volatility laid down in the global market due to comfortable liquidity and improving growth scenario.

In India, looking at the aggregate earnings growth could be misleading during this earning season. While NIFTY PAT is likely to post a double digit growth, it is largely driven by the low base of few cyclical sectors such as PSU banks, metals and oil & gas. Moreover, the positive tailwinds from soft commodity prices are fading and FY 2017-18 could face some disruption from GST implementation. To sum, despite the healthy earnings growth expectations for Q4 FY17, we remained cautioned at the quality of the earnings recovery.

Read More: <https://iaip.wordpress.com/2017/05/03/market-outlook-13/>

"Lifelong learning is increasingly becoming a norm across industries and professions such as technology, BFSI, medicine, and investing. Renewing membership and being a part of CFA Institute and IAIP is a way to do so. Besides learning from experiences of fellow professionals around the world, opens door for networking."

Chetan G. Shah, CFA
Senior Portfolio Manager
Religare Invesco AMC



Career Insights

How to Improve at Work When You're Not Getting Feedback

Too many managers avoid giving any kind of feedback, regardless of whether it's positive or negative. If you work for a boss who doesn't provide feedback, it's easy to feel rudderless. It can be especially disorienting if you're new in the role, new to the company, or a recent graduate new to the workforce. In the absence of specific guidance, is there any way to know what the average boss would want you to work on?

To read further: <https://hbr.org/2017/05/how-to-improve-at-work-when-youre-not-getting-feedback>

On a Lighter Note...

1. The good news is that, last year, the F.B.I. reported a 20% decrease in the number of people robbing banks.

The bad news is that there was a 100% increase in the number of banks robbing people.

2. The Dow is dropping so frequently they have decided to just add an 'n' to the end of it.

3. Situation of a Bear Market:

If you bought \$1,000 worth of Nortel stock one year ago, it would now be worth \$49.

If you bought \$1,000 worth of Budweiser (the beer, not the stock) one year ago, drank all the beer, and traded in the cans for the nickel deposit, you would have \$79.

My advice to you is to start drinking heavily.

Announcements and Credits

Feedback/Request for Articles

Please send feedback or interesting articles like book reviews, humor, lighter reading, personal experiences etc. to be covered in the Newsletter to: communication@iaipirc.org

Join fellow Charter holders on social media

Join IAIP member group on LinkedIn and Facebook by searching for Indian Association of Investment Professionals.

Updates at WordPress (iaip.wordpress.com)

Stay updated about the society events by visiting iaip.wordpress.com. Have strong expertise and views on any area of financial markets? Express on the WordPress. Have you read any interesting business, investment or finance book? Share your reviews with fellow Charter holders. Brief notes as well as select photographs of almost all the events since January 1st 2011 are posted on iaip.wordpress.com.

Programs and Events

Now you could register for the forthcoming event on the www.cfasociety.org/India page by clicking on the Events tab and Event Registration

(www.cfasociety.org/India/Pages/EventRegistration.aspx)

Kindly send in suggestions on topics around which you would like us to organize events. Members, having access to insightful speakers are requested to come forward and help in facilitating events around them. This will enhance value to the member community. Please email to the Programming, Events & Networking committee members: sonai.x.gandhi@gmail.com, or secretary@india.cfasociety.org.

Want to Volunteer?

IAIP is always looking to increase member participation and provide networking opportunities. You are most welcome to volunteer for our society to make it more vibrant. It will offer you with an opportunity to interact with members and the investment community, CFA charter holder community and keep in touch with the latest developments in the financial industry. It also provides a good platform for developing leadership skills. It is also an excellent forum for giving back to our profession.

To understand more and join one of the committees reach out to any of us or Volunteer Committee or Manisha and Mansi at secretary@india.cfasociety.org.

You could also fill in the form on the website www.cfasociety.org/india under Membership tab and Volunteer option. Complete list of committees and its active volunteers kindly visit page www.cfasociety.org/india under "About Us" tab click on the "Committees" button.

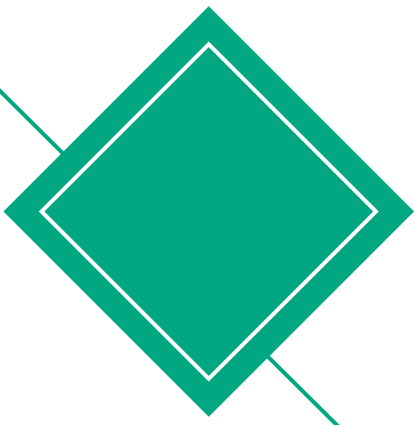
Membership benefits

IAIP - India CFA Society Membership Values	INR	USD
Free Financial Document Management Tool Access – Findoc	1,800	30
IAIP Renewing Member Discount - Annual Conference	6,000	100
Free Access to Jobline with Global Careers	8,820	147
Conference Discounts (Morningstar, IVCA, FIX etc.)	16,000	267
Executive Coaching and Coach Connect Subsidized Rates	16,500	275
Magazine Discounts (HBR, IJ, Outlook, Economist etc.)	80,170	1,336
Access to online Course at CFAI (minimum approx. value for 10 courses)	60,000	1,000
Free Software Trials (Preqin, Capitaline, Thinknum etc)	75,500	1,258
Access to around 100 IAIP Networking/Learning Event (Free for members)	100,000	1,667
Access and career advice from CIO, Fund managers, CEO, Strategists	<i>Priceless</i>	<i>Priceless</i>
Member only Events with Senior Leaders/Marquee Investors	<i>Priceless</i>	<i>Priceless</i>
Access to Member dedicated portal at www.iaip.in including directory	<i>Priceless</i>	<i>Priceless</i>
Free Access To Moody's Publication and IAIP Blog	<i>Priceless</i>	<i>Priceless</i>
Access to CFA App, Get Abstract and Seeking Alpha Contributor	<i>Priceless</i>	<i>Priceless</i>
Career Management Tools including Resume Design	<i>Priceless</i>	<i>Priceless</i>
Total Savings for Members (Annual)	364,790	6,080
Total Cost of Membership (Annual)	9500	150
Total Net Savings for Members (Annual)	355,290	5,930

"I renew my CFA Institute and Society membership as it enables me to network with right-minded people, get upgraded with regular continuing education events, and **helps me promote ethics and integrity** in the profession."

Biharilal Deora, CFA, CIPM
Director – Membership Committee
CFA Society of India (IAIP)





This issue is prepared by

Ishwar Chidambaram, CFA

Vikas Agrawal, CFA

Rajni Dhameja, CFA

Vivek Rathi, CFA

Manish Jain, CFA

Shivani Chopra, CFA

Jyoti Soni, CFA

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