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RESEARCH | WEALTH MANAGEMENT | ASSET MANAGEMENT | CAPITAL MARKETS | ADVOCACY WITH REGULATORS

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From the Editor's Desk

In his piece on why we started India Insights, Vidhu Shekhar, CFA writes that not every member will be an expert on every topic, but all of us need a basic understanding of the issues that affect our work. Putting this edition together, I noticed most articles look at things we see every day but rarely question.

For instance, most of us can explain why we bought a stock, but how many review why we sold it? In our paper discussion, very few did. Similarly, many client presentations say asset allocation explains 90% of performance, though the original paper never said so. Further, Navin Vohra, CFA, works out the time value in preferential warrants, and Tushar Sharma, CFA explains how stablecoins spread the dollar into emerging economies.

Our survey, led by Pulkit Narang, CFA, finds that over a quarter of firms using AI have no governance framework, or are unsure. Anuj Tagra explains why his team writes down the assumptions behind every macro call.

As Vidhu mentions, a few part-time volunteers run this publication, so it grows only when members contribute. If you have a view backed by your own analysis, please write to us. Also, join our research paper discussion series, where we discuss one paper and its relevance to Indian markets

Kshitiz Jain, CFA

Editor, India Insights.



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Know Where You are in the Cycle: Anuj Tagra on Managing Bond Funds





Interviewer

Kshitiz Jain, CFA

Co-Chair, Research Advocacy & Standards Committee, CFA Society India

Interviewee

Anuj Tagra

Fund Manager, Franklin Templeton Mutual Fund

Introduction

The investment community hears often from CIOs and CEOs, but much less from the fund managers who run portfolios day to day. The Young Manager series tries to fill that gap. It gives charterholders, and people hoping to work in asset management, a closer look at the tools, skills, and thinking that practising fund managers rely on.

In this edition, Kshitiz Jain, CFA, speaks with Anuj Tagra, Fund Manager at Franklin Templeton Mutual Fund. Anuj started on a bank trading desk and now manages large institutional and retail funds, with a focus on market liquidity, duration management, and alpha generation. What follows is an edited transcript of their conversation on investment frameworks, risk management, and the behavioral side of fixed-income investing.



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From Equity Ambitions to Top-Down Macro

Kshitiz Jain | Question

Everyone comes into this industry differently. Fixed income in India is intellectually demanding, but it is rarely the first thing that draws newcomers. Take us through your early years, from your education to your first job on a trading desk. Was there a moment when you knew this was the career for you, or did it grow on you over time?

Anuj Tagra | Response

Like many people in India, I came into finance in a fairly ordinary way, and I got into fixed income by accident. I originally wanted to be an equity analyst. After graduating, I joined Fidelity in Gurgaon, where an Asia-Pacific equity research team sat next to us. Talking to them got me interested in markets, and I decided I wanted a career in finance, specifically in equities.

During my MBA, though, I got very interested in macroeconomics. I liked the idea of a top-down approach to investing, where you start from macro trends. One thing led to another, and I ended up in fixed income.

My first real break in investing was at ICICI Prudential Mutual Fund. I was lucky that my mentors there were strict top-down investors. We looked at everything through a macro lens first and then worked down to industries and individual businesses. That shaped how I analyze things.

After that, I spent about three years as a fixed-income trader at a bank. I learned a great deal, because it was a very turbulent period after 2009. Starting out in a volatile market is hard for any trader, but it teaches you a lot of hard lessons early. That rough start is really what got me going in fixed income.

From Bank Trader to Fund Manager

Kshitiz Jain | Question

You started in fixed income as a trader at a large public sector bank and later moved into fund management. Trading desks are execution-heavy and focused on short-term proprietary gains. Fund management needs a longer horizon and carries a heavy fiduciary responsibility. How did you handle the move from managing the bank's capital to managing public money?

Anuj Tagra | Response

It is a demanding transition, and a humbling one. On a bank trading desk, the orientation is completely different. The work is execution-heavy, and your job is to make money for the bank with its own capital.

In asset management, you take on a large fiduciary responsibility. You are managing the savings of retail investors and large institutions. If you keep that responsibility in mind, a lot of your work becomes simpler. You realize that a good share of the wealth that ordinary people and institutions in this country have built is in your hands.

That makes you much more process-driven and careful. You cannot get lost in your own thinking; you have to put real rigor behind every decision. Because you answer to so many people for what you do with their money, your process becomes far more disciplined. I do miss my trading days, but the responsibility that comes with fund management is humbling and very rewarding.

The Bradman Analogy: Consistency Through the Cycle

Kshitiz Jain | Question

I remember a video where you mentioned Don Bradman as an inspiration. A great batsman keeps a high average over a long career, and a fund manager needs the same kind of consistency rather than two or three lucky calls. How do you build an investment framework that gives you that consistency, and how do you stop short-term noise from shaking your conviction?

Anuj Tagra | Response

For a fixed-income investor, consistency comes down to one thing: working out where we are in the business cycle. If I can even roughly place us in the cycle for the markets I invest in, it keeps me from making very costly mistakes.

The main job of a fixed-income fund manager is to avoid extremes. To do that, you have to understand the economic cycle. It sounds simple, but anyone in finance knows how hard it is in practice.

When I look at an economy, whether India or the global markets I followed earlier, I focus on three domestic indicators to place us in the cycle:

- **Domestic credit growth:** the one-year and five-year trends.
- **Current account deficit (CAD):** a key measure of economic health for an emerging market.
- **Currency:** movements here matter a great deal in emerging economies.

If I study these three, I get a good sense of where we are in the macro cycle. Other factors, such as the yield curve, global interest rates, and commodity prices, add detail and refine the view. But the process always starts with the business cycle. If your conviction is anchored in hard macro data, it is easier to ignore short-term noise. And if you avoid the big mistakes, you will usually come out fine.

On Avoiding Extremes

The main job of a fixed-income fund manager is to avoid extremes. To do that, you have to understand the economic cycle. It sounds simple, but anyone in finance knows how hard it is in practice.

— Anuj Tagra on his investment framework

Running Several Mandates at Once

Kshitiz Jain | Question

Senior fund managers often run several mandates at the same time, from liquid and corporate bond funds to dynamic duration and gilt funds. In India, where corporate bond liquidity can be thin, how do you keep the biases or process of one portfolio from spilling into another? How do you take risk in some portfolios while staying away from it in others?

Anuj Tagra | Response

Once we have a rate view and a sense of where interest rates are headed, we look at each fund through its mandate and its investors' appetite for risk and return. The portfolio's risk-return profile has to match what the investor expected when they chose that fund.

Someone investing in a corporate bond fund has very different risk tolerance and return expectations from someone in a gilt fund or a long-duration fund. Fortunately, I do not manage the very short end of the curve, such as liquid funds. That is a specialized, time-consuming job where daily inflows and outflows largely dictate how you run the fund.

I mainly manage corporate bond funds, banking & PSU funds, gilt funds, and long-duration and medium-to-long duration funds. How each portfolio is built depends on how the fund is positioned and sold to investors. For example, I cannot put illiquid credit risk into a long-duration fund. An investor in that fund has not asked me to earn credit carry or take credit risk; they have signed up for a duration strategy. My only job there is to deliver the best returns I can within that duration mandate.

Staying Humble: Writing Down Your Assumptions

Kshitiz Jain | Question

The bond market humbles even very experienced people. Investing large sums needs high-conviction macro calls, but when a call goes wrong, how do you and your team stay humble enough to admit it and change your positioning?

Anuj Tagra | Response

It is a humbling profession, and everyone gets it wrong at some point. To guard against stubbornness, our team follows a simple process: whenever we take a macro call, we write down all the assumptions, and our expectations for each variable, that led to the decision.

If you do not put your thesis and variables in writing, it is very hard to change your mind when the market moves against you. You need an objective basis for reassessing. If the variables we wrote down do not play out as expected, that is our cue to reassess and flip the portfolio.

But we do not churn or flip the portfolio just because prices move against us. The market moving against you for a while is very different from your thesis being proven wrong.

Over the last decade or so, we have been through several six-sigma and black swan events, and my record has been mixed:

- **2013 was a complete miss for me.** I did not manage that period well.
- **2016 was an unusual double event.** Demonetization in India and the US presidential election happened on the same day. These were two very large and completely different events hitting the rates market at once. In the end, domestic liquidity and economic concerns outweighed what was happening abroad, and our macro call worked. Even so, my hits and misses that year were about 50/50.
- **2018 was when the earlier pain paid off.** We had a currency blip between April and August, oil went from the $40s to the mid-$70s and $80s, and bond yields rose to around 8.25%. Because of what we had learned in 2013 and 2016, we handled 2018 much better.

The main lesson for me is that if you follow your process and avoid panic-selling or flipping positions at market extremes, it pays off. If you panic and flip your portfolios at the extremes, it is very hard to recover.

What AI Changes, and What it Doesn't

Kshitiz Jain | Question

AI and large language models are improving very quickly and changing everything from execution to research. How do you see them affecting fixed income, and how are you using them, at work and personally?

Anuj Tagra | Response

As an organization, we are adopting AI to automate both complex tasks and routine ones. Personally, I am amazed by what these tools can do.

Data has been completely democratized. I can pull and format large datasets with a click, at almost no cost. In the past, even a team of four or five good researchers would have needed at least a day, if not a week, to compile and structure this kind of data from different sources. Now I can have it neatly laid out in an hour and make decisions much faster. It is powerful enough that you sometimes wonder whether human fund managers will become redundant.

Kshitiz Jain | Question

If data processing is being commoditized, what human skill or trait can't be replaced? If you were hiring today, what would you look for beyond technical or 'AI-native' skills?

Anuj Tagra | Response

You still need financial and academic knowledge to interpret data and make good decisions. But there is very little information arbitrage left today; we all have access to the same books, databases, and resources.

The most important thing I look for in a person is how they handle their emotions when markets are at extremes.

Everyone in this market is smart and has strong academic credentials, yet we still see huge bubbles and panics. Why? Because managing your emotions when a market is at an extreme is very hard. It takes real mental strength to stick to your process when you know you might look foolish in the short term.

After two decades in markets, I have come to think that investing is mostly about managing emotions. Oddly, people often abandon their process when things are going very well. Staying balanced through both extreme stress and extreme success is something AI cannot do.

On What AI can't Replace

The most important thing I look for in a person is how they handle their emotions when markets are at extremes. Everyone in this market is smart and has strong academic credentials, yet we still see huge bubbles and panics. Why? Because managing your emotions when a market is at an extreme is very hard.

— Anuj Tagra on hiring

On The Reading List:
"Misbehaving" and Behavioral Finance

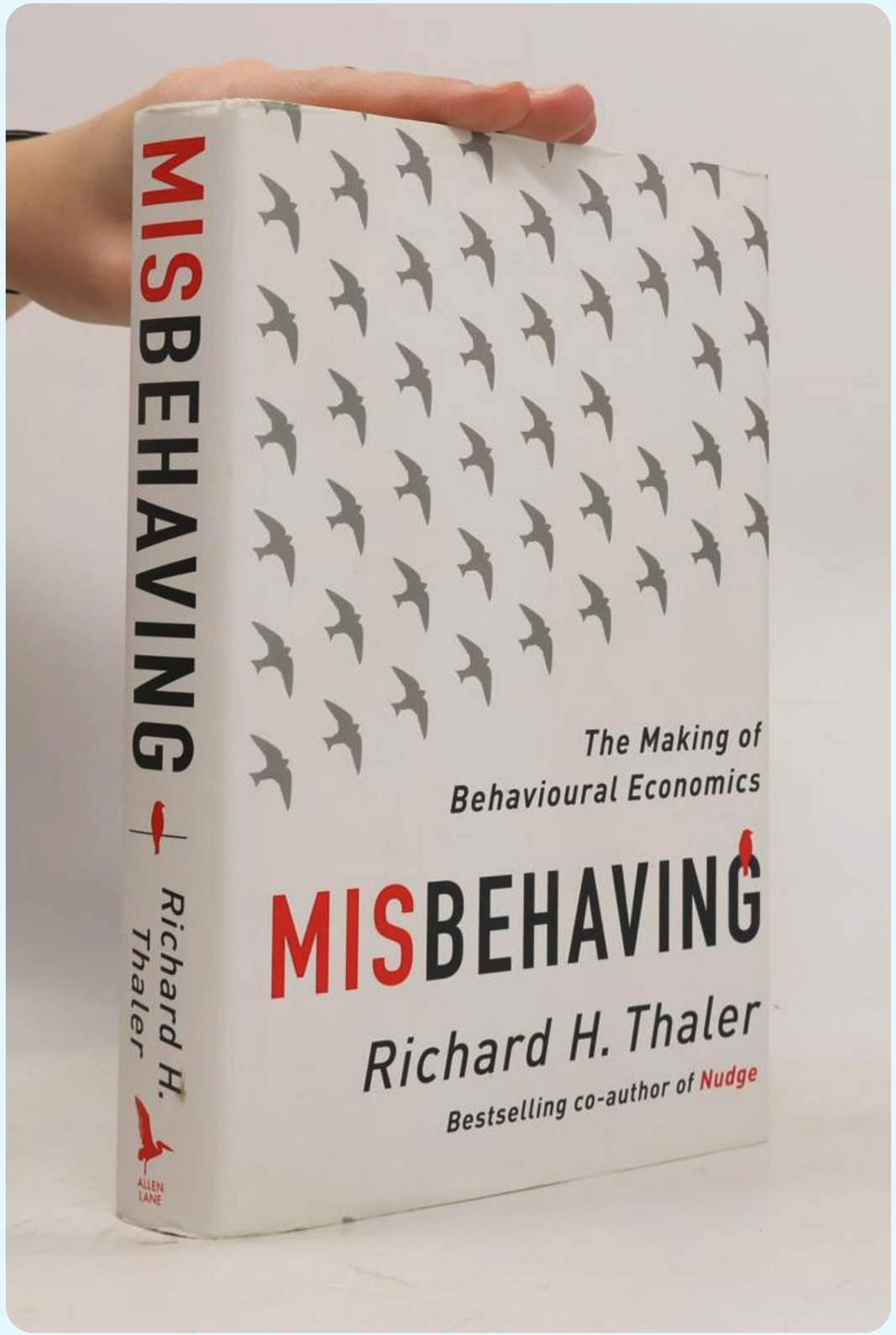
Kshitiz Jain | Question

On the behavioral side, are there books on finance, history, or psychology that have changed your thinking in the last few years?

Anuj Tagra | Response

I recently read Misbehaving: The Making of Behavioral Economics by Richard Thaler. I am more and more drawn to behavioral finance because, as we discussed, it deals with the human side that you cannot hand over to an algorithm.

The book is very good on how people react to different economic choices. For example, it explains why losing 100 rupees hurts far more than gaining 1,000 rupees feels good. I would recommend it to anyone who wants to understand the psychology behind investing.



Handling Stress and Avoiding Groupthink

Kshitiz Jain | Question

Fixed-income fund management is a high-pressure job. How do you stay physically and mentally fit enough to handle the daily stress?

Anuj Tagra | Response

Physically, it helps a lot to have at least one regular outlet, whether that is a sport, the gym, running, or cycling.

Mentally, I think stress mostly comes from not being prepared. The more thoroughly you prepare for different market scenarios, the less stressful the real situations are.

Managing your expectations matters too. There are no guarantees in this business; a process that worked well in the past will not necessarily keep working. Once you accept that and prepare for as many market paths as you can, the stress comes down on its own.

Kshitiz Jain | Question

Our industry is full of very smart people, which can lead to groupthink. How do you keep thinking independently and avoid consensus bias when you make final portfolio decisions?

Anuj Tagra | Response

Challenging consensus is something we deal with every day. I have no problem taking non-consensus calls, and I have done it many times in my career.

A consensus usually forms because everyone is looking at the same data and making the same assumptions. To challenge it, you cannot go on gut feel; you have to test those assumptions against hard, objective data.

Look at the S&P 500 and the Nasdaq about six months ago. It was fashionable to bash the 'Magnificent Seven', and a lot of people were warning of a 2000-style dot-com bubble. But if you looked at the actual numbers, these companies were generating huge, real earnings that supported their valuations. They have shown they can run their businesses as efficiently as some countries run their economies.

If you have hard data that contradicts the consensus assumptions, you should have the courage to go ahead with your call. Non-consensus calls backed by data end up being the most rewarding decisions of your career.

Advice for Aspiring Managers: Study Financial History

Kshitiz Jain | Question

To close, what three or four recommendations would you give young charterholders and others hoping to build a career in asset management?

Anuj Tagra | Response

Beyond financial theory, where programs like the CFA charter give you a very good grounding, and quantitative methods like econometrics, there is one area people often overlook: you need to become a student of financial history.

Business schools and certification courses rarely teach financial history in any depth, so you have to do that reading yourself.

As the saying goes, history doesn't repeat itself, but it often rhymes. Knowing how earlier economic cycles started, developed, and ended gives you a much better set of mental tools.

For example, look at:

- How past commodity shocks played out
- How the oil shocks of the 1970s, 1990s, and 2008 started and ended

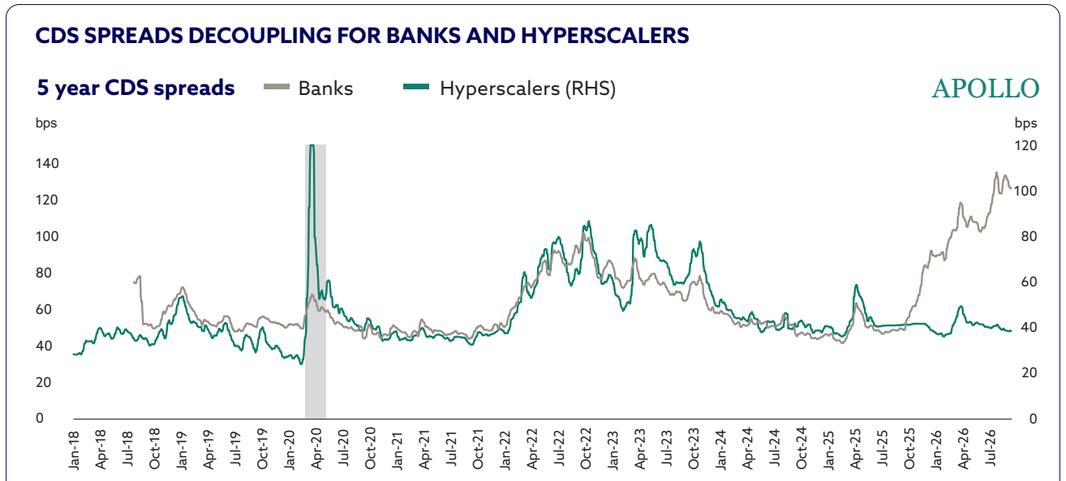
The demand-supply picture for oil was different each time, but knowing those historical patterns gives you more tools to work with. In this industry we work with very smart people and have good institutional resources. What sets you apart is paying attention to the details others miss, and financial history is one of those details that most people overlook.

Chart-o-Mania:

The Price of Protection

Kshitiz Jain, CFA, Volunteer, RASC, CFA Society India

For most of the last decade, five-year protection on Amazon, Google or Microsoft cost about the same as protection on JPMorgan or Citi. That changed in late 2025. Since then, hyperscaler CDS has more than doubled while bank CDS has barely moved.



Note: Banks include JP Morgan, Citi Group, Bank of America, Wells Fargo and US Bancorp. Hyperscalers include Amazon, Google, Microsoft and Oracle. Sources: Bloomberg, Apollo Chief Economist

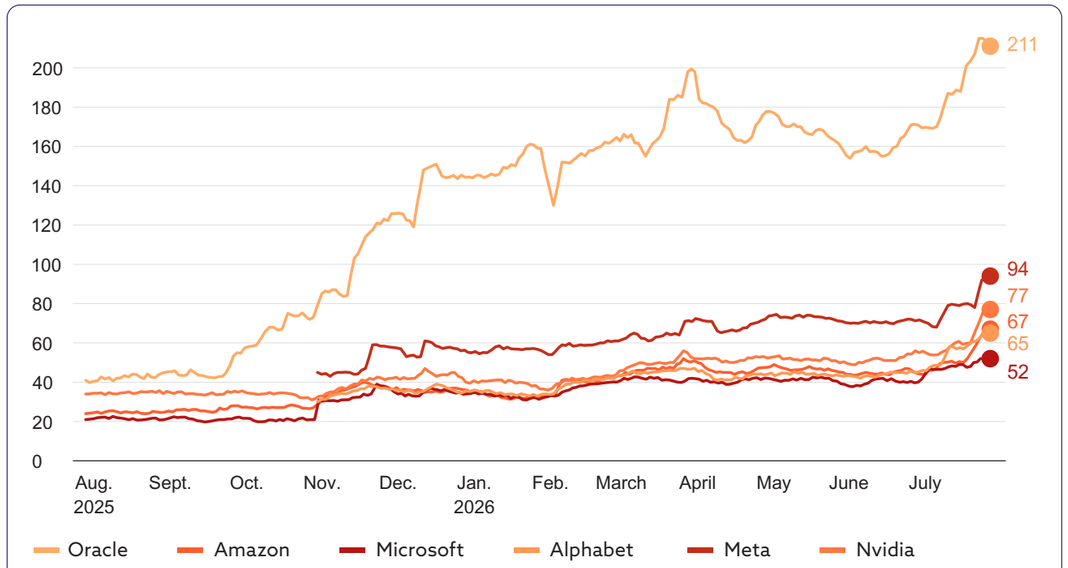
Chart 1: 5-year CDS spreads, US banks vs hyperscalers, Jan 2018–Aug 2026. Source: Bloomberg, Apollo Chief Economist.

The cause is borrowing. Capex at the five largest hyperscalers is estimated at close to $785 billion for 2026 and over $1 trillion for 2027, against about $225 billion in 2024. Cash flow is not keeping up, and debt is filling the gap. Hyperscaler issuance this year is near half a trillion dollars, about a third of all investment-grade corporate supply. Buyers have become more selective. Order-book coverage on hyperscaler deals reportedly fell from nearly five times in February to under two times by July. Over the same period, hyperscaler bond spreads widened by about 30bps year to date, against 2bps for the broader USD IG index.

What the wider spreads mean is less clear. Apollo's view is that the market is repricing fundamentals: rising leverage, negative free cash flow and uncertain payback on assets that depreciate. If dealers hedging new issues were driving the move, bank CDS would have widened too, because banks are the largest source of IG supply. Bank spreads have instead stayed near 40bps.

Others read less into the signal. CDS may be widening because it is a cheap and simple way to hedge growing AI exposure, not because investors expect default. The market is also thin. Daily CDS volume across 16 large tech names is about 4% of the broader corporate and sovereign CDS market. In addition, some buyers may be equity holders of levered names who use CDS because it costs less than puts.

The implied default numbers show how uneven the group is. Société Générale estimates the hyperscalers' CDS-implied cumulative default probability at around 7%, above the roughly 4.5% average for US IG, but says Oracle's figure of more than 16% inflates it materially. Chart 2 shows the same split: CoreWeave trades above 700bps and Oracle near 200bps, while the mega-caps sit at 50–85bps.



Note: Figures in basis points. Higher spreads are generally associated with higher perceived credit risk.
Source: S&P Global Market Intelligence | Danilo Masoni @Reuters

Chart 2: Credit protection costs hit fresh highs for AI capex leaders. Source: S&P Global Market Intelligence, Reuters.

Deal structure matters as much as the issuer's name. Senior parent debt is backed by durable core businesses, so its main risk is a downgrade. Project-level and securitised deals without parent support carry real risk of principal loss. In those deals, a four-year initial lease can sit against 20–30 years of financing. Such structures pay about 100bps more than the parent's public bonds when rated IG, and about 200bps more when rated high yield.

The number to watch is free cash flow. SocGen does not expect it to turn positive for at least two years. Consensus sees improvement from 2028, with gross issuance rising into 2027 and possibly peaking around 2028. If that timeline slips, spreads have further to widen.

The AI buildout is now as much a credit story as an equity one, and the bond market is starting to charge for the uncertainty.



From Individual Adoption to Institutional Advantage: Indian Finance and AI

Pulkit Narang, CFA, Volunteer, RASC, CFA Society India"

Findings from a survey of 139 investment professionals — 82% CFA charterholders, median 10 years of experience — on how artificial intelligence is being used, paid for, governed and second-guessed.

139 responses	65% at organisations adopting AI
78% still at surface-level usage	87% verify output often or always

Almost everyone in Indian finance is now using AI. Almost no one is using it deeply. That single sentence captures the central tension in our survey: adoption has become near-universal at the level of the individual professional, but it has stalled well short of the workflow, and further still of the institution. Two-thirds of respondents work at organisations that have formally integrated AI or are piloting it — though that two-thirds is spread very unevenly. Outside wealth management, 73% of organisations have adopted AI or are piloting it. Inside it, only 41% — the lowest of any sizeable category in this survey, and the one sitting closest to retail clients. Only five respondents in 139 have built or deployed anything custom.

1 Lack of Depth

The respondents were asked to rate themselves on how well they use AI: self-rated implementation averaged 6.4 out of 10, and 37% of respondents placed themselves at or above 8. But when we asked how AI is used rather than how much, that confidence thinned considerably. Four in five respondents describe their regular use as either general chat assistance or a specialised tool embedded in an existing application; 18% have reached automation and 4% have built anything of their own. Majority of AI is being used for basic implementation rather than a custom workflow that would fit well in an organization's existing SOP.

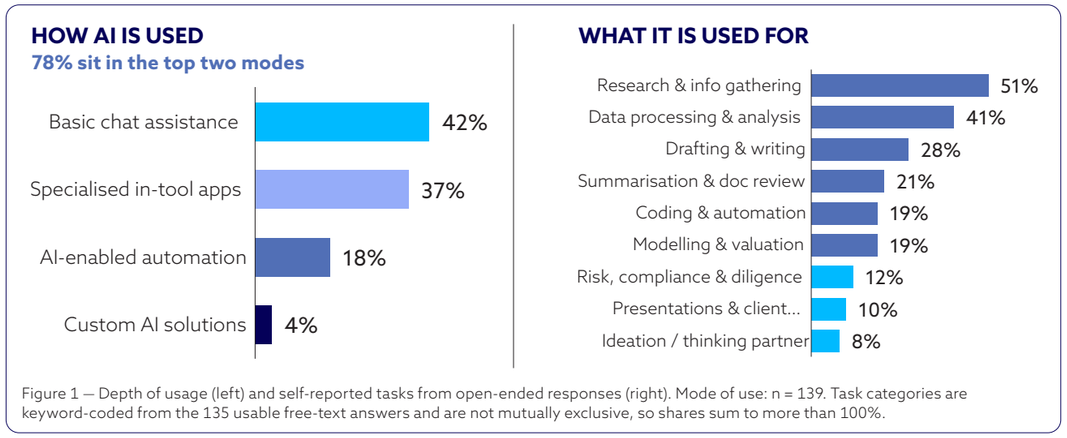


Figure 1 — Depth of usage (left) and self-reported tasks from open-ended responses (right). Mode of use: n = 139. Task categories are keyword-coded from the 135 usable free-text answers and are not mutually exclusive, so shares sum to more than 100%.

2 The Mid-career Pinch

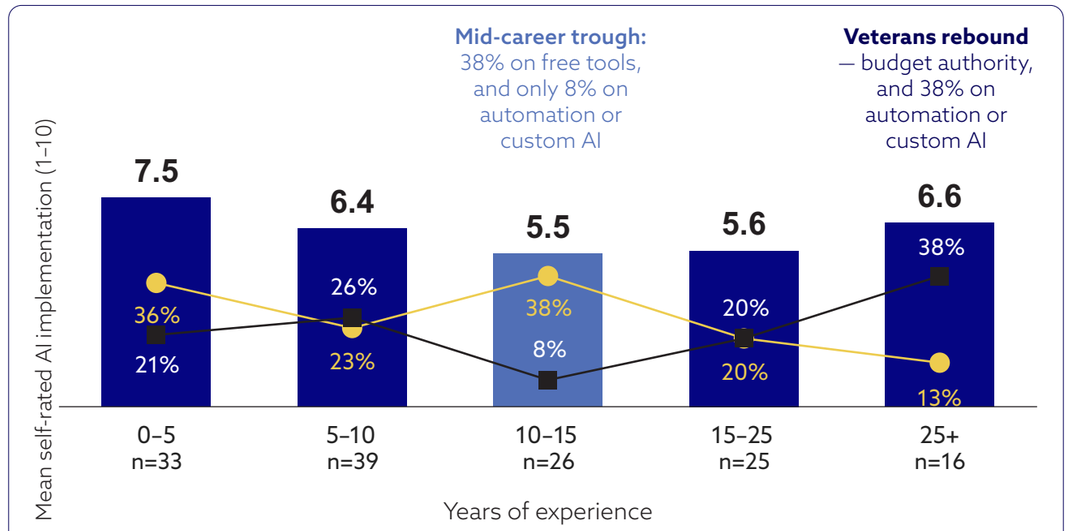


Figure 2 — Mean self-rated implementation (bars, left axis), share of respondents relying only on free AI tools and share using AI- enabled automation or custom AI solutions (lines, right axis), by experience band. n = 139.

The most uncomfortable finding is that fluency works against experience across most of the curve. The more experienced personnels are finding difficulty to adapt to this shift in technology, except for the ones ontop. Veterans — largely founders, directors and partners — seem to have a much better hold on this technology and are the less likely to be stuck on free tools, at 13%; they are also more likely to have reached automation or custom AI, at 38%. The trough runs from 10 to 25 years and is deepest at 10–15: the cohort carrying the heaviest execution load, with the least autonomy over spend. Almost two in five of them are on free tools, and just two in 26 have reached automation or built anything custom — the lowest share of any experience band. This is the group most exposed and least equipped for AI. Access is the cheapest lever available. Respondents on free tools only rated themselves 5.2, against 6.9 for those with employer-provided enterprise access — a 1.7-point gap.


This image has been generated using AI

3 Need for Review

Nearly nine in ten respondents scrutinise AI output often or always. Critically, this does not ease with fluency: 80% of those rating themselves 8–10 still review often or always, against 77% of those at 1–4. Familiarity is not breeding trust.

HOW OFTEN AI OUTPUT IS SCRUTINISED, BY SELF-RATED FLUENCY

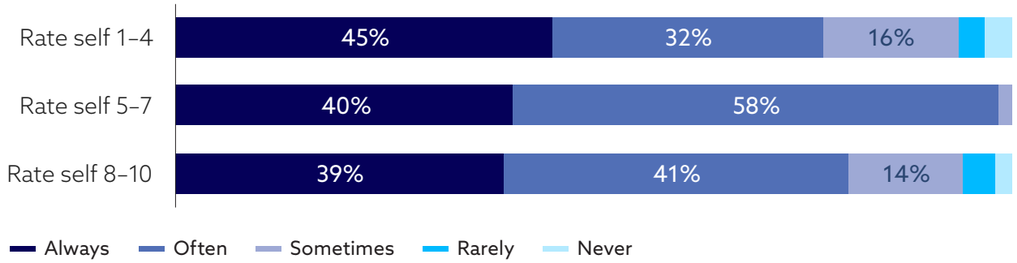


Figure 3 — Frequency of deep review of AI output, split by the respondent's own implementation score. n = 139.

This may have a direct economic consequence, if every output must be checked by a qualified professional,the marginal cost of AI-assisted work is bounded below by the reviewer's time, not the model's. It explains why the headcount effect remains muted in certain cases, and suggests productivity claims may requiresome scrutiny. For a profession bound by fiduciary duty, sustained scepticism is a step in the right direction.

4 Deployment has Outrun Governance

AI is already inside the workflow at two-thirds of the organisations in this survey. The rules meant to surround it have not kept up. Among the 91 organisations that have integrated AI or are piloting it, one in five has no formal governance framework at all, and a further 8% do not know whether one exists — so more than a quarter are running AI in live work with nothing written down to govern it. Only 26% respondents claim to have a fully functional governance policy.

ALL GOVERNANCE MATURITY
More than a quarter of AI users have no policy

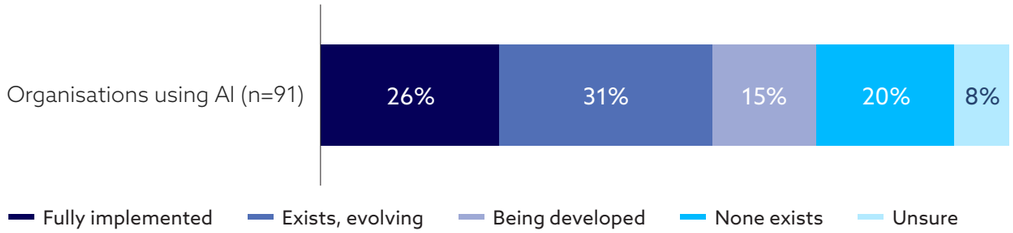


Figure 4 — Reported organisational approach to AI governance. The bar covers the 91 organisations that have integrated AI or are piloting it.

A policy helps an organisation decide who is accountable for what the tool produces and what would be the consequences or an action plan in case something goes wrong – over a quarter of respondents do not have such guardrails within their organizations.

5 Headcount: Quieter than Headlines

The employment effect is real, but it is smaller and more concentrated than the public conversation implies — and it appears only where AI has genuinely been implemented. Across the sample, 37% report a reduction in team size over the past two to three years, which is about thrice as much compared to the organizations that do not have AI implemented in in their organization.

TEAM-SIZE IMPACT OVER THE PAST 2-3 YEARS

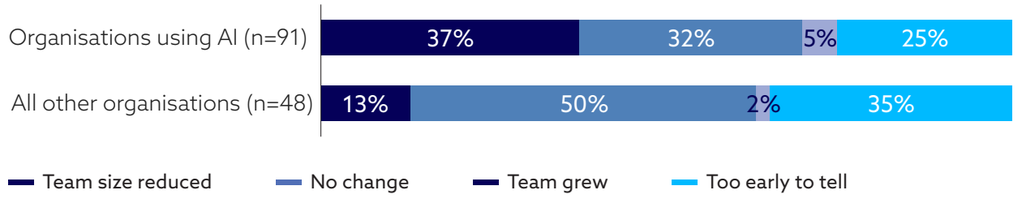


Figure 5 — Reported change in team size attributable to AI over the past two to three years, Organisations using AI covers the 91 organisations that have integrated AI or are piloting it.

There is a second story inside the same question. It is not about how many teams shrank, but about who can say. Among organisations that have implemented AI and have a governance framework, 17% said it was too early to tell whether AI had changed their team size. Whereas those that have implemented AI but do not have a governance framework, 48% did not know the impact of AI on their — nearly three times as many.


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CAN THEY SAY WHAT AI DID TO THEIR TEAMS?
Without a policy, 48% still cannot tell

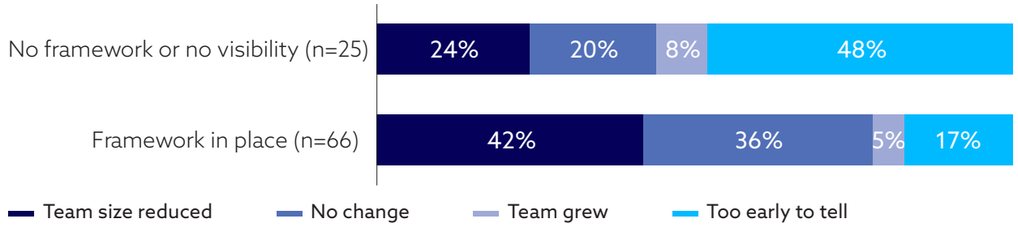


Figure 7 — Reported change in team size over the past two to three years, among the 91 organisations using AI, split by whether a governance framework exists. "No framework or no visibility" combines those reporting none and those unsure (n=25); "framework in place" covers frameworks fully implemented, evolving or in development (n=66). The difference in "too early to tell" is statistically significant (p = 0.006).

The pattern is simple enough to state. A framework does more than set rules — it fixes an owner, a reporting line and a review date, and those are the things that turn a deployment into something an organisation can actually measure. Firms without a governance framework have put AI into live work and are still waiting to find out what came of it.


This image has been generated using AI

6 Market Efficiency and Cost

We asked two questions about where AI's benefits will land. In each case respondents could say whether they expected the effect in public markets, private markets, both, or neither.

WHERE RESPONDENTS EXPECT AI TO HAVE AN EFFECT
Public markets lead on both questions

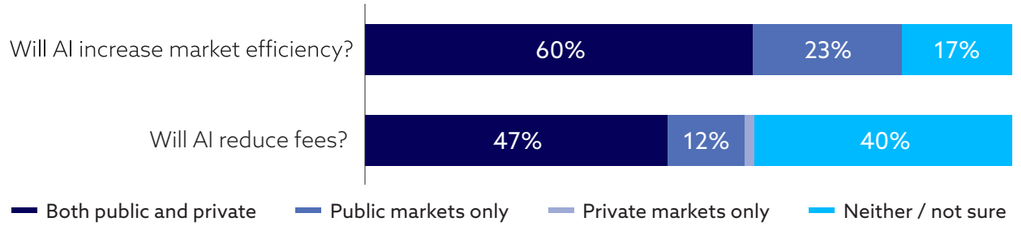


Figure 6 — Where respondents expect AI to have an effect, for market efficiency and for fees. n = 139 for both questions. Labels are suppressed for the private-markets-only bars, which carry no respondents on efficiency and two on fees.

Expectations lean towards public markets in both cases. On efficiency, 60% expect the gain in both public and private markets and a further 23% in public markets alone — not one respondent picked private markets only. On fees, 47% expect compression in both and 12% in public markets alone, with two respondents naming private markets only. The sharpest difference between the two questions is the size of the undecided group: 17% see no efficiency gain or are unsure, against 40% on fees.

What the data asks of us

Buy the tools.

A 1.7-point fluency gap separates free-tool users from those with enterprise access. No training programme is cheaper.

Target the middle.

The 10–15 year cohort is the least fluent and the most operationally loaded. Firms are training juniors who already know, and boards who already have budget.

Write the policy before the pilot.

More than a quarter of adopting organisations have no governance framework or no visibility into one — and they are the least able to say what AI has done to them. Nearly half cannot yet tell whether it has changed their team size, against one in six of those with a policy.

About the Survey

139 responses collected from CFA Society India members and the wider finance community. 85% are current Society members; 82% are CFA charterholders and a further 7% have passed Level III with the charter pending. Median experience 10 years; median age 35. Under the survey's organisation categories, respondents span wealth management (23%), professional services and outsourcing (22%), asset management (12%), investment banking and capital markets (9%), banking and lending (7%), technology (6%), alternative investments (6%), corporate and non-financial (4%), data, ratings and research (4%), academia (3%), insurance (2%), trading and brokerage (2%) and other (1%); shares are rounded. The free-text task question was answered usefully by 135. The sample is self-selected, 88% male, and proficiency measures are self-reported; figures are directional rather than representative of the profession as a whole.

Stable Coins - Soft Coin, Hard Power

A Warning for the EMs, a Weapon for the US



Tushar Sharma, CFA

Co-Founder & CIO, Hedgit Markets

All professions have their open secrets: hard facts that sit in plain view. Facts which everyone half-registers, and almost no one pauses to fully consider. The world of Finance is no different. Consider the fact that an obscure private crypto company, in just about 10 years, has come to own more US Treasuries than Germany — a major economy and a treaty ally of the USA. Moreover, this company and its peers have been quietly dollarizing chunks of foreign economies. In fact, they are even being championed by none other than US Treasury Secretary Scott Bessent himself, who testified in the Senate that these would "expand U.S. dollar usage... all around the world."

The open secret of the day, the one we shall explore, concerns the most fundamental asset of all: the US Dollar. Or more precisely, its crypto versions, which are collectively known as "Stablecoins". This is an asset class almost $300 Bn in size, growing at over 30% a year. It has travelled from being on the wrong side of US regulators, to becoming an instrument of American statecraft, and has stayed largely invisible the whole way.

THE STABLECOIN JOURNEY: FROM CRYPTO TO KOSHER

Stablecoins, as sizeable as they have become today, came from humble beginnings. They were created not by Wall Street wizards, nor by policy pundits, but by nerdy crypto communities. Then came along a private crypto company, best known today as, Tether. It made one product: a crypto coin backed one for one by real US dollars held in real banks and real institutions. They called it USD Tether, or USDT.

Why rebuild the dollar this way? Because just as anyone in the world can own Bitcoin without any regulated bank account, now anyone, anywhere, could also own US dollars without needing one. A farmer in Nigeria could hold USDT in an app on his phone, while the real dollar sat custodied in Tether's bank accounts. And to make his sales and purchases, our farmer could send that USDT from his phone to the phones of other local traders and friends. Of course, the government of Nigeria never sees any of this, so no taxman knocks.

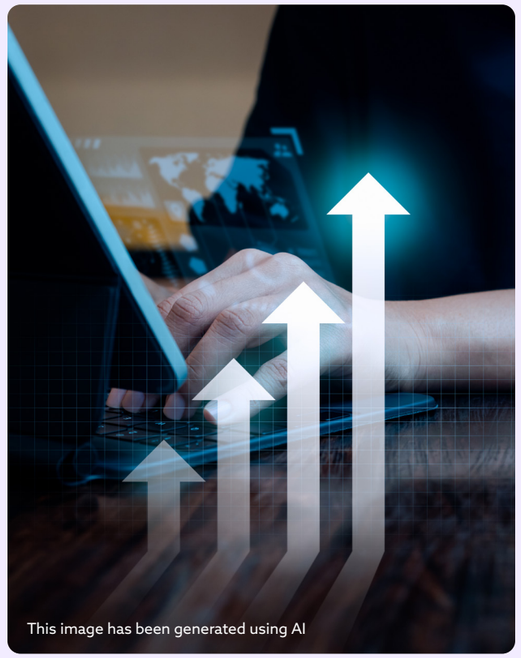
By August 2026, Tether has over $180 Bn of USDT in circulation, and claims to be the 17th largest holder of US Treasury securities in the world. Its US Treasury holdings of around $140 Bn are larger than those of major economies like Germany, South Korea and the UAE. So think back to the times you came across Tether's name in a headline and moved past it without a second thought. Know that you were not alone. Most of us did the same.

And boy, did Tether make a successful product. The Nigerian farmer's case would have already hinted at the product-market fit that USDT achieves. But we would still be underestimating. The Reserve Bank of India, RBI, which in this space is genuinely well ahead of its peers, has discouraged USDT by every means possible, and used every trick in the book short of an outright ban. And yet, not only has India become one of the largest stablecoin markets in the world, the demand is so strong that USDT trades at a 3-4% premium over the official USD-INR rate. This fact alone should set off warning bells in our CFA-trained minds. But before we drift there, let's take a peek at the other front of the story.

So, a new form of the dollar, a private dollar, is spreading through the world, quietly and quickly. Tether's USDT has been so successful that it has attracted competitors from Wall Street, with deeper pockets and bigger ambitions.

Each brings its own private dollar, and all are racing to expand. So why are the US government, the Federal Reserve or the SEC not stopping this privatization of their national currency?

The United States has said, at the most senior levels and on the record, that it wants precisely this. Every foreign community and economy that stablecoins touch becomes, automatically, part of the US monetary system. Automatically gets dollarized. The only genuinely surprising thing is how few of these communities have joined the dots, our own profession included. This piece is an attempt to connect these very dots.



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WHY WASHINGTON LEARNED TO LOVE STABLECOINS



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In 2025, dollar-backed stablecoins settled more value than Visa and Mastercard combined. The fact that stablecoins have quietly become one of the largest payment systems on earth is not lost on the existing players. Visa has now set up its own stablecoin settlement networks, and is already clocking an annual transaction volume of $7 Bn in a system that is just a few years old. When an incumbent enters into a self-disruptive technology, it is an implicit admission of defeat!

And it's not just Visa who has started using stablecoins. So have we, you and I, without really realizing it. A few years ago, cross-border transfers from Latin America or Africa into India took 5-7 days via correspondent banks. Today, they settle in hours because, behind the scenes, remittance giants like MoneyGram, Western Union, and Remitly route transactions over stablecoin networks which settle instantly.

Cross-border influencer payouts are quietly shifting to stablecoin infrastructure. When an American brand pays a Turkish YouTube influencer, the payment runs on stablecoins, because dollars are hard to send and the Turkish Lira is a currency no one wants, and the YouTuber just cashes these stablecoins out at his local exchange whenever he wants. Payroll platforms like Deel processed $250 Mn in stablecoin payouts last year. DoorDash, Stripe and Visa are using stablecoin payments for gig workers seeking instant settlement. Dollar stablecoins became essential infrastructure the moment they went invisible.

If the above succeeded in raising your eyebrows, think what hell it must have raised on Wall Street. As things stand today, BlackRock runs a tokenized money-market fund — think of it as an interest bearing stablecoin backed by money-market instruments rather than plain US dollars. JPMorgan does the same for its own money-market fund. Circle, the second-largest stablecoin issuer, listed on the New York Stock Exchange in 2025. And the biggest American banks, including JPMorgan, Bank of America, Citi and Wells Fargo, are quietly building rival networks of their own. The only thing holding them back was the pre-2025 regulatory uncertainty. But with the arrival of Donald Trump, whom the crypto industry backed with the largest corporate political spending of any US sector in 2024, the regulations are now anything but a hurdle.

In July 2025, Washington gave stablecoins its official blessing. The GENIUS Act established a framework for privately issued, regulated digital dollars. It mandates one-to-one backing by hard dollars and short-dated US Treasuries. In simple words, as per this statute, every new digital dollar must buy American government debt. Overnight, a payment novelty became a state-funding machine. Treasury Secretary Scott Bessent has laid out the calculus openly, promising stablecoins would "buttress the dollar's status as the global reserve currency" and drive "a surge in demand for U.S. Treasuries." He called it a "win-win-win," politely leaving the third win unsaid. At this point, the story ceases to be about technology. It becomes one about power.

THE EMPIRE OF RED-WHITE-BLUE, NOW EYEING GREY

Since 1945, the dollar has ruled global wholesale finance. The one space it couldn't reach was the retail economy of individual countries. Guarded by capital controls and local regulations, all but the most volatile countries could keep the dollar out of everyday commerce. That is, until stablecoins arrived.

Stablecoin adoption runs hottest where the local currency is weakest. They operate on individual phones, outside the purview of local banks, and are hard to stop. When Turkey was undergoing a currency crisis in 2024, the Lira-Stablecoin conversion volumes reached an alarming scale of 4.3% of the Turkish GDP. In Latin America, many farmers are demanding stablecoin payments for their agricultural exports. Across sub-Saharan Africa the story repeats. IMF reckons stablecoins account for more than 65% of Nigeria's total crypto inflows.

Stablecoin demand spikes precisely when a local currency cracks. Each fresh bout of inflation or devaluation drives another wave of savers into the digital dollar. More crucially, they never go back. Studying more than 130 economies, the Bank for International Settlements (BIS) found stablecoin flows are "largely unaffected" by capital controls, making this stealth dollarization "hard to reverse once established." Thus, once dollarized, a country does not quietly un-dollarize, and the share only ratchets up.

Federal Reserve Governor Christopher Waller explains the consequences himself, almost approvingly. When foreign citizens adopt dollar stablecoins, it acts "like a fixed exchange rate system," effectively "broadening the reach of US monetary policy" into that economy. The profits flow back too. Writing for the IMF, the London Business School economist Hélène Rey calls it the "privatization of seigniorage": every dollar a Turkish saver holds in stablecoins generates yield that accrues not to Ankara, but to the private stablecoin issuers like Tether, who park the reserves in US Treasuries and pocket the returns.

The infiltration of stablecoins has been even broader in another, rather unsavory, sector — the global grey economy. The United Nations Office on Drugs and Crime (UNODC) now identifies the dollar stablecoin as the settlement layer of choice in Southeast Asia for transnational organized crime. Even the informal cash economy, which is large and pervasive in emerging nations, has started the switch from local-currency cash to digital dollar stablecoins. For Washington, this is an unearned windfall.

The upside for Washington gets sharper still. Stablecoin issuers can freeze any digital wallet anywhere on earth at the command of the US Treasury. Tether has done so repeatedly. It froze $475 Mn linked to Iran's central bank upon government request, and shut down 131 wallets associated with ISIS within hours of their deployment. The same stablecoins that are quietly taking over the informal economies of the developing world, are handing Washington an instantaneous kill switch over the sectors they capture. This operational kill switch is deployable in minutes, without warning, and is capable of paralyzing a targeted sector of the foreign economy at will.

So let me set all the pieces side by side. We have a dollar that reaches where physical cash never could. A stealth dollarization that bypasses foreign capital controls and never retreats. A systematic drain of monetary profits from EM central banks into private American hands. And a kill switch anchored in Washington. This win for USA required no treaties, no military bases, no boots on the ground. And yet, a new digital American empire has taken root and is spreading fast while hiding in plain sight.

Which leaves an Indian reader with the one question that truly matters: how much of this has already reached home? The honest answer: more than you'd think, but still resolvable. Stealth dollarization is quietly reshaping India's economic landscape, yet it also opens a rare strategic window. Played right, India can not only defend its monetary borders but even boost its forex reserves cheaply, and lead a geopolitical counterpunch for the entire Global South. That, however, would be the subject of a sequel writeup, sometime in near future.

We know how to buy.
We never learned how to sell.

Notes from the CFA Society India paper-reading session on Selling Fast and Buying Slow



Research, Advocacy and Standards Committee, Research Paper discussion series.

Most of us can describe our buy process in detail. A coverage universe, a valuation model, a note, a thesis, and usually a committee before capital goes in. Ask the same person to describe their sell process and the answer gets vague. We sell to raise cash for the next idea. We sell because something ran up. We rarely wrote it down, and no one ever asked us to.

That gap is the subject of a 2021 paper by Klakow Akepanidtaworn, Rick Di Mascio, Alex Imas and Lawrence Schmidt, which we read in this session. But the paper was only the setup. The useful part was hearing how practitioners in the room already deal with the problem in their own shops, so most of this note is about that.

THE PAPER, IN ONE BREATH

The authors had daily holdings and trades for 783 long-only institutional portfolios, about $573 million in average size, covering roughly 4.4 million trades from 2000 to 2016. To judge a sell, they asked a fair question: instead of selling this stock, what if the manager had sold a random position from the book they held that same day?

Buys beat that random pick by around 120 basis points a year. Sells lagged it by about 80. The same managers who picked stocks well got rid of them worse than a coin toss. The explanation isn't ability, it's where the attention goes. Buying is slow, researched and defended; selling is often just the cash-raising step before the next buy, so managers reach for whatever is salient and dump their extreme winners or losers. Tellingly, on the days a holding reports earnings and the manager is forced to actually look, the sell decisions get good again. The skill is there. The process isn't.

That last point set up the discussion, because a missing process is something a firm can fix.

WHAT THE ROOM SAID

Fix it inside the firm before you fix the client report.
One participant made the point that counterfactual attribution, tracking how sold stocks did after they left, belongs internally first. At their firm, when the flagship fund crossed its fifteenth year, they went back through every exit and sorted each one into right or wrong. Where a sell was wrong, they asked a second question: was it a process error or a behavioural error? A process error tells you to fix the sell process. A behavioural error puts the onus on the manager to work on a blind spot. The argument was that once a firm has done this honestly and iterated on it, institutional clients and family offices actually value the sell-side rigour, but the internal work has to come first.

Judge the decision, not the outcome.
The same participant raised a subtler point, and it's a trap in the post-mortem itself. Don't file a stock under "wrong sell" just because it kept rising after you sold it. You have to go back to the manager's reasoning at the time. If the thesis was sound and the process was followed, a later rally doesn't make it a behavioural error. The paper is about a heuristic that corrupts selling; the review meant to catch it has its own heuristic to guard against.

Clients are already watching the sells.
Another discussant, drawing on time at a PMS, noted that where holdings are visible, clients notice what's gone, and they ask, especially in a momentum market when a sold name keeps running. There was no structured performance format for it, but the scrutiny was already there. The question for a firm is whether it gets ahead of that conversation or waits to be asked.

The documentation gap is real.
A participant pushed on whether anyone actually records the sell rationale at the time and checks later whether it held up. Mostly, no. The PMS example came up again: annual client meetings where sold stocks were explained after the fact, usually as overvaluation, higher risk, or a better opportunity elsewhere, but with no formal record and no investment committee for the sell side. That lines up with what the paper found: a buy has to be defended, a sell rarely does.

Give selling a ranking, so it isn't a reflex.
One participant made the case for ranking the book by expected return against current price and letting the weakest names sink to the bottom as the natural sell candidates. It turns the sell into an output of the same valuation work that drives the buy, rather than a reaction to whichever position is flashing on the screen.

WHAT TO TAKE BACK TO YOUR DESK

The room's fixes are cheap and mostly about process, not skill:

Run an exit review, and when a sell was wrong, split it into a process error or a behavioural one. The two need different remedies.

Guard that review against hindsight. A sale isn't wrong just because the stock went up afterwards; judge it on what was known at the time.

Write the sell thesis down when you sell, not when a client asks six months later.

Rank the book by upside to price and let the sell candidates fall out of the ranking, so salience isn't making the call.

Get ahead of the client by tracking how sold names did after they left, before someone asks you.

Give the sell decision a forum, even a light one. Most desks have an investment committee for buys and nothing for sells.



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WHERE MEMBERS COULD TAKE THIS

The point of this series is to hand members a thread worth pulling into their own research. A few came out of the discussion:

Does the pattern hold in Indian data? A study of exits in Indian mutual funds, PMS or AIFs, where disclosure norms differ, would be new work.

Turn the internal exit review into a shared standard. The process-versus-behavioural split could become a common framework a firm could adopt off the shelf.

Design a client-readable sell scorecard. What would counterfactual sell attribution look like on a PMS or AIF statement, one an investor could actually read? It's as much a product and compliance question as an analytical one.

Test the ranking rule. Does a disciplined, upside-to-price ranking measurably reduce the sell-side underperformance on a real book?

Follow the incentives. Do we reward good sell calls at all, or only good buys? If the appraisal only points one way, the skill only develops one way.

The consensus in the room wasn't that we're bad investors. It's that selling never got the research, the committee or the scorecard that buying did, and a few firms are already quietly building them. That's the opportunity, and it's a cheap one to start on.

Discussed at the CFA Society India Research & Advocacy Committee paper-reading session. Paper: Akepanidtaworn, Di Mascio, Imas & Schmidt (2021), SSRN 3301277, later published in the Journal of Finance.

Preferential Issue of Warrants:

A Valuer's Perspective

Navin Vohra, CFA, Director, CFA Society India

Estimating the economic cost of promoter warrants using option-pricing and DLOM frameworks

Preferential issue of warrants is among the more contentious forms of capital raising by Indian listed companies. While such warrants are theoretically open to eligible investors, in practice they are often issued to promoters or promoter group entities. Indian securities market regulations permit preferential issue of warrants subject to specified conditions. Supporters position such issuances as a sign of promoter confidence and a means of bringing capital into the company. Detractors, however, point out that the optionality embedded in a warrant may create an economic value transfer in favour of the warrant holder.

This note estimates the full economic cost of a warrant issued through preferential allotment.

ISSUE OF WARRANTS ON PREFERENTIAL BASIS: REGULATORY FRAMEWORK

The governing framework for issue of warrants on a preferential basis is primarily Chapter V of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), together with the Companies Act, 2013. Under this framework, warrants can be issued through the preferential allotment route by listed companies, subject to the key requirements summarised below:

Preferential issue and shareholder approval

Warrants can be issued under the preferential allotment route. Such an issue requires shareholder approval through a Special Resolution under Section 62(1)(c) of the Companies Act, 2013, read with the SEBI ICDR Regulations.

Pricing formula

The exercise price must be set with reference to the preferential issue pricing framework. Broadly, the price is determined with reference to the higher of the volume-weighted average price over the relevant 10 trading day and 90 trading day periods, subject to the detailed requirements of the ICDR Regulations.

Upfront payment

At least 25% of the warrant consideration is payable upfront at the time of allotment. If the warrant is not exercised within the permitted period, this upfront amount is forfeited by the company.

Exercise period

The warrant holder has up to 18 months to exercise the warrant and subscribe for equity shares.

Lock-in after conversion

Shares issued to promoter or promoter group allottees pursuant to warrant conversion are generally subject to lock-in after conversion. For purposes of this paper, an 18-month post-conversion lock-in period has been modelled.

While warrants can be issued to eligible investors, empirical market practice indicates that promoter and Persons Acting in Concert (PAC) issuances are common; non-promoter preferential allotments are generally structured as direct equity subscriptions.

VALUING WARRANTS AS A CALL OPTION

Intuitively, a warrant may look like a staggered purchase of the company's share at the current price, with 25% paid upfront and the balance payable later. In economic terms, however, it is closer to a call option on the company's shares. Assuming the share price is ₹100 and the upfront payment is ₹25, the warrant holder retains the right to acquire the share later by paying the balance ₹75. The holder is not required to buy the share immediately. Instead, the holder purchases the right to complete the acquisition later at a fixed residual payment. The value of this optionality can be estimated using the Black-Scholes option-pricing framework, based on the following illustrative assumptions:

Input	Value	Basis
Spot price (S)	₹100	Reference value of equity share
Exercise price (K)	₹75	75% of current share price
Time to expiry (T)	1.5 Years	18 months of exercise period
Risk-free rate (r)	5.5%	Current short term bond rate
Dividend yield (q)	1.25%	Approximate average dividend yield of Nifty 50; holder of warrant will not receive dividends till conversion
Volatility (₹)	30%	Volatility will vary for every stock; later on, we also carry out a sensitivity on this parameter.

The above inputs lead to a value of ₹31.79 for this call option. There are two components to this value:

Intrinsic value

The intrinsic value is the immediate in-the-money value of the warrant. In the illustrative example, the intrinsic value is ₹100 less ₹75, or ₹25 per warrant. If the full exercise price had been payable upfront at ₹100, intrinsic value would have been nil. In this example, the upfront payment numerically matches the intrinsic value. Therefore, the upfront payment should be viewed as compensation for receiving an in-the-money warrant rather than merely as the first instalment of a future purchase price.

Time value

The time value arises because the warrant holder has time to wait. The share price may rise, new information may emerge, and the warrant holder can decide later whether to exercise. This asymmetry is valuable: upside participation is preserved, while the maximum loss is limited to the upfront amount already paid. Volatility, time to expiry, risk-free rate and dividend yield are the principal drivers of time value. Volatility and time to expiry generally increase option value, while dividend yield reduces it. The effect of the risk-free rate depends on the option structure, but in this illustration it is reflected through the Black-Scholes calculation.

In this case, the time value of the option is ₹6.79 (₹31.79 – ₹25).

USING DLOM MODELS TO PRICE THE LOCK-IN RESTRICTIONS?

The post-conversion lock-in of shares reduces value because a warrant holder who converts the warrant cannot immediately sell the resultant shares during the lock-in period. This lack of marketability should be reflected in valuation. The key economic question is whether the lock-in fully offsets the time value of the warrant. This can also be modelled through option pricing. The principle is that the owner of a non-marketable share can protect their price by buying a put option on the share; the cost of that put is a proxy for the economic cost of illiquidity during the lock-in period. There are various option-pricing models for calculating the Discount for Lack of Marketability (DLOM), and they can lead to somewhat different results.

DLOM Models

Option-pricing models estimate the discount for lack of marketability by calculating the cost of a put option that could be purchased to lock in a price during the period of illiquidity. The difference between the models lies in how they estimate what the investor has lost, i.e., what the investor would have done if there had been no lock-in period. In the current example, on the date the warrant is converted into a share, the warrant holder could theoretically buy a put at the same price for the next eighteen months, so that there is no price erosion at the end of that period. This is the basis of Chaffe's model. Finnerty's model argues that an investor rarely waits until the final day to sell the entire holding; instead, they would typically sell over a period of time. Finnerty's model therefore calculates the value lost by being prevented from selling portions of the holding over time. Ghaidarov's model further refines the liquidation path and the distribution of future prices, although the results are often not very different from Finnerty's. For this note, the Finnerty model has been used. The model uses volatility and restriction period as key inputs, with dividend yield and risk-free rate also relevant to the calculation.

Table 5: Illustrative Finnerty-style marketability adjustment

Input / output	Assumption / calculation	Result
Restriction period	Post-conversion lock-in	18 months
Volatility	Annualized volatility assumption	30%
Dividend yield	Annual dividend yield	1.25%
Risk-free rate	Annual risk-free rate	5.5%
Finnerty-style DLOM	Average-strike put estimate	6.7% of underlying share value

Residual value after lock-in

After applying the DLOM, the adjusted warrant value is almost compensated for by the DLOM adjustment.

Sensitivity to Volatility

The option value and the marketability discount both depend on volatility. Higher volatility increases the Black-Scholes value of the call option, but it also increases the Finnerty-style marketability discount. Overall, the value increases with volatility.

Table 6: Volatility sensitivity

Volatility	Call value	Intrinsic valueW	DLOM offset on ₹100 underlying share value
15%	₹29.24	₹25.00	-₹2.7
30%	₹31.79	₹25.00	-₹6.7

In the illustrative case, the estimated time value of ₹6.79 is broadly offset by the DLOM adjustment of approximately ₹6.7, assuming the full 18-month lock-in is treated as economically relevant to the holder.

At lower volatilities, there may be some residual time value, but the difference is not material.

Promoter shares are already illiquid: Should there be a separate DLOM?

Promoters are generally less concerned with liquidity, at least in the short term. Promoter shareholding is often illiquid, and meaningful exits are usually effected through a formal sale process rather than routine stock market sales. In addition, promoters typically have long holding periods that extend significantly beyond the regulatory lock-in period. Therefore, there is an argument that the illiquidity discount may be largely theoretical when warrants are issued to promoters.

However, from a valuation perspective, instruments are valued based on their underlying contractual and regulatory terms, not solely on the identity or intended behaviour of the holder. Further, if DLOM is considered inapplicable for valuation purposes, a promoter could argue that the lock-in should be disregarded entirely, which would not be consistent with the instrument's actual terms.

While DLOM should not be ignored for promoter warrants, it is reasonable to calibrate it to the specific holder circumstances, i.e., the lower likelihood of near-term liquidation. To continue with the example, suppose the promoter expects to hold the shares for five years. In such a case, the 18-month lock-in may not directly affect the promoter's planned exit. However, even a buy-and-hold investor derives some value from flexibility.

As a pragmatic approximation, the value of lost flexibility can be modelled as 1.5 years divided by 5 years, i.e., 30%. The DLOM for such an investor may therefore be considered at 30% of 6.7%, or approximately 2%, assuming 30% volatility.

On this basis, the practical DLOM for warrants issued on a preferential basis to promoters may be closer to 0% to 2%, rather than the full marketability discount. This would still leave residual economic value with the warrant subscriber.



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CONCLUSION

Warrants issued on a preferential basis, usually to promoters or promoter group entities, are economically similar to call options on the company's shares. In the illustrative example, the upfront payment of 25% offsets the intrinsic value of the option, but the time value of the option is not separately priced. The 18-month post-conversion lock-in mitigates this benefit, but the degree of mitigation depends on how much value the holder places on liquidity. If the full lock-in is treated as economically relevant, the Finnerty-style DLOM may substantially offset the time value. If the holder is a long-term promoter investor, the effective DLOM may be materially lower, leaving residual economic value with the warrant subscriber.

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APPENDIX: VALUATION FRAMEWORK USED

The Black-Scholes call option formula with continuous dividend yield was used as follows:

$$C = S e^{-qT} N(d_1) - K e^{-rT} N(d_2)$$

$$d_1 = [\ln(S/K) + (r - q + ₹^2/2)T] / [₹\sqrt{T}] ; \ d_2 = d_1 - ₹\sqrt{T}$$

The Finnerty-style marketability adjustment used here is an illustrative average-strike put framework. It estimates the economic cost of being unable to sell the converted share during the restriction period. The quantified DLOM is applied to the underlying share value, not to the Black-Scholes warrant value, to estimate the lock-in-related economic offset.

SOURCES AND NOTES

- SEBI ICDR Regulations, 2018, Chapter V, as amended, for preferential issue framework and warrant-related conditions.
- Ind AS 32 / Ind AS 109 principles for equity versus liability classification of instruments linked to an entity's own shares.
- Ind AS 102 principles for share-based payment accounting for employee options.
- Finnerty average-strike put approach and related DLOM literature for marketability discount estimation.
- Calculations in this paper are illustrative and intended for thought leadership; transaction-specific conclusions should be based on actual issue terms, company volatility, expected dividends, liquidity and applicable regulations at the transaction date.

The Most Quoted, Most Misquoted Number in Investing

There is a number every wealth manager in India has used at least once in a client pitch: asset allocation explains more than 90% of portfolio performance. It shows up in decks, in newspaper columns, and on the opening slide of almost every "why financial planning matters" presentation. In the form most people use it, it is also wrong, or at least it answers a different question from the one they think it answers.

That was the starting point for the Research & Advocacy Committee's discussion, which was built around two papers fourteen years apart: Brinson, Hood and Beebower's 1986 study, "Determinants of Portfolio Performance," and Roger Ibbotson and Paul Kaplan's 2000 follow-up. Ibbotson and Kaplan asked whether asset allocation explains 40%, 90%, or 100% of performance, and concluded that the honest answer is all three, depending on which question you are asking.



WHAT BRINSON ACTUALLY MEASURED

Brinson and his co-authors looked at ten years of quarterly returns from 91 large U.S. pension plans and split every portfolio's return into four boxes: the policy return (what you'd get from simply holding your long-term asset class weights against passive indices), policy plus timing, policy plus security selection, and the actual portfolio return. Regress a fund's actual return against its policy return over time and you get an R^2 of 93.6% on average. That's the number. What it measures is how closely a fund's quarter-to-quarter ups and downs track its own long-term asset allocation. It says nothing about why one fund beat another, and nothing about how much of the money in your account came from the allocation decision versus the manager. The paper never claimed either of those things. The market heard them anyway.

THREE QUESTIONS, THREE ANSWERS

Ibbotson and Kaplan's contribution was to notice that three different questions had been collapsed into one number. The first is Brinson's original question: how much of a fund's variation in returns over time does its policy explain? The answer is around 90%. The second asks how much of the difference in returns between two funds comes from their difference in policy. That answer is closer to 40%, which means most of why one fund beats a peer has nothing to do with strategic asset allocation. The third asks what share of a fund's return level, on average and over long periods, comes from the policy return alone. That answer is close to 100%, because active bets across the market are roughly zero-sum before costs and slightly negative after them. The underlying idea is the same in all three, splitting return into a policy piece and an active piece, but each lens gives a different number. Much of the decades-long argument has been people talking across those lenses without realising it.

WHAT THE ROOM DEBATED

One of the more useful moments in the discussion was an analogy: equities, bonds and cash in their normal long-run weights are like the milk, ice cream and basil seeds in a glass of falooda. Get the proportions right and you have already decided most of what the drink will taste like, however skilled the person adding the garnish.

Manager selection matters more at the margins: when an individual allocation is small (say under 20-25% of the book), or when you are judging performance over a short window rather than a full cycle. Over three decades the garnish barely moves the average, but over eighteen months it can be the whole story as far as the client is concerned. That gap, between the horizon the framework was built on and the horizon over which most Indian investors judge their managers, came up more than once. Fund manager tenures in India are short compared with the thirty-year horizons of a pension fund or insurer, so the comfort of the Ibbotson-Kaplan result, that active bets wash out over time, doesn't carry over well to how a typical Indian portfolio is reviewed and switched.

A related gap for anyone doing India-specific work: both papers assume static policy weights, set at the start and held for the whole measurement period. Neither models a policy that changes over time, such as glide paths, life-cycle rebalancing, or tactical bands that widen and narrow with the cycle. The discussion raised this without resolving it. There's a paper waiting to be written on what the Brinson decomposition looks like once the "policy" itself is allowed to move

The conversation also tested where the 40/60 split breaks down. Add alternatives such as private equity, private credit and commodities to a traditional 60/40 book, and manager dispersion within those sleeves is wide enough to shift the cross-sectional split toward active selection, perhaps to something like 70/30 rather than 40/60. The framework's math doesn't change. What changes is how much return variation individual managers can generate within an asset class, and alternatives leave far more room for that than large-cap Indian equity does.

One clarification is useful for anyone extending this to retail or family-office portfolios: the whole attribution assumes strict adherence to an Investment Policy Statement. When a retail client or family office drifts from their IPS, as they routinely do, that is a behavioural and implementation failure, not evidence that the Brinson math is wrong for that client. Keep the two separate when a client asks why their actual outcome doesn't match "what the textbook says asset allocation should deliver."

FOR PRACTITIONERS

Three points are worth taking away for practitioners.

First, before citing the 90% figure or any version of it, ask which of the three questions you mean. The number that answers one cannot be swapped in for the others.

Second, strategic asset allocation still drives most of a portfolio's risk and the shape of its return path over time; that part of the old story holds up. But across funds, whether fund versus fund or PMS versus PMS, most of what separates winners from laggards is active decisions and fees, not policy. That matters for how PMS and mutual fund products are pitched. Say plainly whether you are selling SAA design, selection alpha, or cost-efficient beta. They are different products answering different questions, and borrowing the wrong paper's statistic does the client a disservice.

Third, if active management nets out close to zero before costs across the industry, every basis point of fee works directly against the investor. In the large, efficient segments of the Indian equity market, that point deserves more weight in the active-versus-passive debate than it gets today

OPEN QUESTIONS FOR MEMBERS

This is not where the debate ends, and that is the invitation to committee members. The original Brinson sample covers 1974 to 1983. Would the same decomposition, run on Indian mutual fund or pension data over a similar multi-decade window, give a similar split, or would India's shorter track record and higher manager dispersion change the picture? What does the framework look like when policy weights move instead of staying fixed for the full measurement period, and is there a clean way to decompose return when the "policy" is itself a moving target? And on the institutional side, EPFO, NPS and India's insurance funds all work with allocation mandates that don't map neatly onto the U.S. pension structure Brinson studied. What would an India-specific version of the four-quadrant framework need to account for: sovereign guarantee structures, regulatory allocation floors, and the fact that many of these funds can't rebalance as freely as a private pension plan? Each of these is closer to a primary research question than a discussion point, and each is the kind of empirical work on Indian markets this series wants to encourage.

The voice of CFA Society India

What did we mean when we decided to call this publication "India Insights"?

CFA Society India was registered in 2005 as the Indian Association of Investment Professionals (IAIP). We are the only association in India that cuts across all types of service providers constituting the complex ecosystem of the investment industry. Our members work as analysts, investment managers, wealth advisors, bankers, consultants, and academics, and range from those who are just starting their career to those who are in leadership positions in their firms.

By referring to ourselves as professionals, we are committing ourselves to high standards and a responsibility towards the community we serve. Our mission is "to lead the investment profession globally, by setting the highest standards of ethics, education and professional excellence for the ultimate benefit of society". There is a lot that is packed into this statement, and this publication plays a small but important role in how we fulfil our mission.

An important part of the mission is to shape the discourse on issues important to the investment community. Many of these issues have an industry focus and are core aspects of investment practice. These include topics like securities analysis and valuation, asset allocation performance management and governance. In all these areas, the industry is constantly evolving, and we hope to improve the way firms carry out these functions.

Beyond the bread-and-butter issues, we also have a need to focus on issues that are relevant to the broader community. Some examples are - how is AI is reshaping industry and society, how do we respond to climate change, biodiversity loss and other environmental issues, what are the implications of geopolitics and consequent energy crisis on investment practice, and so on. In answering these questions, our responsibility is not limited to reacting to our clients and regulators. We need to play a proactive role in shaping the discourse.

CFA Institute does all this at a global level. CFA Society India leverages the Institute's global efforts and focuses on the issues that are most relevant for India. The Institute has several publications, including the Financial Analyst Journal, Research Foundation monographs, market integrity blogs and occasional publications. CFA Society India has made a modest beginning with the India Insights publication, and also publishes occasional industry reports. Our most recent publications include the "State of AI in India" report as well as a series exploring aspects of sustainable investing in India.

Not everyone has the expertise and interest in participating in every conversation. But all of us need to have the basic awareness of the main issues and how they are affecting us and the broader community. This publication aims to provide that basline, and act as the starting point for the salient issues.

India is one of the largest economies in the world, but our per capita income makes us a lower middle income country. The long term performance of the economy will depend on the existence of well-functioning financial markets. Without markets that investors can trust, we will not be able to attract long-term patient capital, whether domestic or foreign, depend upon our ability to attract long term capital, both domestic and foreign. As investment professionals, we have a responsibility for promoting professional competence, ethical conduct and market integrity. It is not enough to focus on our narrow career objectives or firm performance. We have to take responsibility for how our industry serves the firms and households that use our services.

This publication is not a journal that will publish original articles, nor is it a newsletter that records the activities of the Societies. Rather, we hope to focus on issues that are relevant to practitioners in the Indian financial markets. While current readership and circulation is limited to members of CFA Society India, we expect to attract contributors as well as readers from the wider network of investment professionals in India as well as professionals from the global investment community who have an interest in India.

All this may sound a tall order for a publication that is run by a few part-time volunteers, but we are hopeful that this small beginning will grow into something that has a lasting impact on how the investment industry functions in India.

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