CFA Society India

IAIP

NEWSLETTER

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Quotable Quotes

Failing to plan is
planning to fail.

Benjamin Franklin

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Message from the Board

Jayesh Gandhi, CFA

President - IAIP, CFA Society India

Dear Members,

Let me start by wishing our members a very happy and prosperous 2018!

The year 2017 an eventful year, clearly one of the best years that we have seen in recent history for the financial markets, not only in India but globally. We believe that the second half of last year saw the beginning to a synchronous global economic recovery which could continue in the current year as well and beyond. Both the Developed world as well as the Emerging economise of the world are likely to report good economic growth and stability in economic and financial parameters

For India, many of the key macro-economic variables are suggesting that the economy is recovering strongly for a faster growth ahead. Some of the structural changes and reforms initiated by the Government have begun to bear fruit, in the sense that positive impact is beginning to reflect in the economy. Importantly, from Investment professionals' point of view, the tide seems to have turned substantially for financial saving. “Financialisation of savings in India” a important policy initiative by the Modi government, has succeeded in channelizing domestic savings for economic growth. Domestic investors are coming back to financial assets, equity and debt and reallocating from physical assets such as gold and real estate. With the globalization of financial markets, cross boarder investing, reforms, opening up of capital markets to global investors, large number of innovative financial instruments and products are expected to find market place here. There is a need to address the requirements of business as well as investors both domestic as well as foreigners. Innovative investment products such as smart beta, REITs, structured products; hedge funds, long short funds, etc as well as large number of newer asset classes is likely to hit the Indian. India is emerging to become the super power of services in the world, with financial services forming a big component of the services industry. Thus, the Indian financial sector, consisting of banking, investment and insurance industry has seen significant growth pick up; in fact I can take the liberty of making the comment that with the record breaking performance in Capital markets, the investment industry, CFA Core Area, is booming, growing at a rapid pace probably 2-3 times that of the economy.

This stupendous growth in the investment industry is likely to open up a large number of employment opportunities for education professionals, particularly with the CFA designation. This is evident from every area of the industry; for instance the mutual funds, private wealth management, investment banking and IPO markets, private equity, insurance investment products, NBFC, brokerage houses, KPOs etc.

Message from the Board

We, at CFA Society India, are committed to providing quality continuing education and training opportunities to members with a variety of high profile and relevant international and domestic experts. IAIP volunteers have been successfully conducting over 100 CE speaker events across 8 cities in India, over the past few years. With increased funding, the objective would be to make it better, larger and relevant for members. We hope that our members use the CFA Society platform to enhance their skills and knowledge to take the benefit of the growth in financial sector, For the year ending Aug., 2017 our society membership had crossed 1700 nos, with substantial improvement in the retention ratio of 87%. However, with over 5000 Chartered pending candidates and over 25,000 CFA Exam candidates, the task at hand continues to remain large and challenging

The key factors that makes CFA Society India such an impactful, vibrant and dynamic group is the large volunteers group, now in 8 major cities. IAIP, has been fortunate to have a dedicated group of volunteers who actively work, year after year, to further the interest of the society and the CFA designation. We understand that it is always not possible for all of us to take time for volunteering. However, you could still contribute to IAIP and the CFA Society India's mission by participating in events and programs and also by talking about our society within your own firms and employers. It is the collective strength of our participating and active membership that makes our society great and impactful in India.

The CFA India Society, which is volunteer lead association of CFA Charter Holders in India, is in a true democratic sense a society: Of the CFA Charter Holders, By the CFA Charter Holders, For the CFA Charter Holders

Our Focus is on Member Value, more specifically to help charter holders in gain knowledge Continuing Education and Networking Opportunities. This is the real resource for the benefit of CFA Charter holders, hope all can make the best use of it

All the very best !!

Contrarian Value Investing (CVI)

Rajni Dhameja, CFA

Shivani Chopra, CFA

Varsha Dhamasia, CFA

In early 2012, there was a great desire amongst the global investor community to increase their portfolio holdings in emerging market stocks. Following the trend seems the most logical thing to do as these markets looked to be on the fastest growth track. But one US-based fund house decided to march to a different tune and instead invested in a submerging market of Japan at the time most investors considered it ex-growth. The power of contrarian thinking by not following the crowd behaviour delivered a huge pay off of 15x return differential between Nikkei (USD) and MSCI EM (USD) during the period from January 2012 to March 2016. The strategy was successfully implemented by Rupal J. Bhansali, chief investment officer and portfolio manager of international and global equity strategies at Ariel Investments. She is also a key speaker at the 8th India Investment Conference organized in January 2018. Her distinguished career of more than 15 years in managing Contrarian Value Investing (CVI) focused funds demonstrates that “Thinking Different AND Being Right” can result in “Higher Returns AND Lower Risk”! She explains that the idea is to buy high-quality businesses but only when they go on sale i.e. at a discount to their own intrinsic worth. That's how you can make a great investment out of a great business when there is a value spread to be arbitraged.

Some people consider CVI to have fine differences with value investing while others see these terms as synonymous. Value investing is more commonly associated with its conventional approach of selecting companies with low PE, low PB, high dividend yield, etc. Essentially, value investors are bargain hunters and so this definition looks too narrow. Contrarian value investing is a sub-style of value investing whose recipe includes the ingredients of taking into consideration the prevailing market sentiment, quality of underlying business, etc. Since markets are moody, an otherwise stable and well-managed stock can go out of favor due to a variety of reasons. Investors may increasingly turn away and this overreaction leads to further price declines. Contrarian investors will take advantage of this situation if they consider this volatility to be a temporary one. They believe that bad news is priced in but the good news is not and the stock is now trading at a discount to its intrinsic value. So, while the vast majority of the market participants are either selling or ignoring this stock, contrarian investors will buy or increase their exposure to the same. The world's most successful and legendary investor Warren Buffet is also considered a notable contrarian investor. His words of wisdom- “Be fearful when others are greedy, be greedy when others are fearful.” beautifully captures the essence of CVI.

CVI Process

The contrarian value investment process varies for different funds based on the fund's investment objective and on the proprietary screening process of different fund managers. Certain investors follow a top-down approach to investing whereas others follow bottom-up approaches for stock selection. Top-down investors perform macroeconomic and different sector analysis before zeroing in on the specific stocks to invest in whereas bottom-up investors focus on analyzing the companies' fundamentals to find investment opportunities. Moreover, different funds use different qualitative and quantitative criteria in their screening process.

Contrarian managers ascertain return on the portfolios as the long-term compounding of capital and risk as the permanent impairment of capital.

CVI Strategies

Aswath Damodaran, Professor of Finance at the Stern School of Business, New York University, bases the contrarian value investing to the investors over/under reaction to new information presents exploitable mispricing/arbitrage opportunities in the securities markets. Professor Damodaran categorizes contrarian value investing strategies into the Biggest Losers, Collateral Damage, Comeback Bet and "Long odds" option.

1. The Biggest Losers – Based on the evidence that investors exhibit behavioral biases and prices tend to reverse themselves in the long term for entire markets, and on a study performed by DeBondt and Thaler in 1985 which suggests that loser portfolios (portfolio of 35 stocks which had gone down the most over the prior year, each year from 1933 to 1978) clearly outperform winner portfolios (the 35 stocks which had gone up the most over the prior year, each year from 1933 to 1978) in the sixty months following creation. He suggests that investors should also be wary of transaction costs, investment timing (tax loss selling every December/January effects) and investment duration. It can thus be confirmed that the stocks that have gone down the most over a period are likely to be undervalued and can be added to the portfolio and the stocks that have gone up the most over a period are likely to be overvalued and can be sold/short sell from the portfolio.
2. Collateral Damage – When investors overreact to an event/news affecting a specific company and penalize the entire sector or when investors overreact to an event/news affecting an entire sector/economy without considering that the companies within that sector may have different exposures to the sector/macroeconomic risk, it creates mispricing opportunities for contrarian investors. For example, when Shares of Nestle India Ltd plummeted during mid-2015 amidst the controversy over presence of excess quantity of lead in Maggi noodles, the CNX FMCG index emerged as the biggest loser among the sectoral indices especially the food product manufacturers. Another example - iShares MSCI Brazil Index ("EWZ") had gained over 21% in 2017 till May but when President of Brazil, Michel Temer,faced obstruction of justice and racketeering charges, within a matter of few days EWZ Index crashed around 15%. During early 2017 Brazil was going through economic recovery and political tensions overshadowed the country's economic rebound and thereby laying the opportunity for contrarian investors to acquire exposure to Brazilian stocks at discounted rates.
3. Comeback Bet – When there is a steep fall in a company's stock prices, relative to its intrinsic

value, due to investors' overreaction to a resolvable temporary problem, contrarian investors should assess the reason for such collapse and if it reflects a value spread with the expectation of price reversal in the future then that presents an investing opportunity for the contrarian investor. The probable reason for collapse could be investors over adjusting the stock prices due to unmet unrealistic investor expectations (an instance of this was when share prices of Netflix tumbled during July 2011 from $304.79 to nearly $100.0 when the company decided to scrap Qwikster brand and increase pricing across services); lost investors' faith due to some corporate governance issues (one such instance was when in 2013 the CEO of Chesapeake Energy, Aubrey McClendon, stepped down after evidence came into light that McClendon borrowed $1.1 billion by pledging his share of company-operated oil and natural gas wells and the company's board of directors was aware of the situation) that the company is working to resolve; accounting fraud (In the year 2000, Xerox overstated income by $6.4 billion for five years 1997-2001 and later had to restate earnings for the five years); operating, structural and financial problems (As for example: Dena Bank net NPAs had crossed the threshold limit and posted negative return on assets of 0.75 in FY16 and 0.67 in FY17 mainly on account of NPA provisioning).

4. "Long odds" option – Taking a bet on the company whose stock prices have plummeted to significantly low levels, and at present there are no expectations of a turnaround, on the basis that the losses are capped at purchase price and gain could be multifold in case of a turnaround similar to investing in a deep out of the money option.

Conclusion

Contra Investing is a part of value investing. Value investing as all of us are aware is as old as the equity markets itself. The value investing strategies are quite prevalent in the Indian markets as well. Various fund managers apply value investing techniques to generate Alpha. Looking at the mutual fund industry, there are quite a few schemes dedicated to value investing. However, when it comes to contra value investing, there are only few schemes available in this category. Invesco India Contra Fund (G) and SBI Contra Fund (G) are two illustrations out of few schemes available. Data available on Moneycontrol.com as on December 15, 2017 suggests that these two schemes have generated an annualised return of 22% and 15.20% respectively over last 5 years. Whereas returns generated by Nifty over the same horizon was 12%.

By design Contra investing can provide an opportunity to generate higher returns over the long term if story in the analysis conducted by the fund manager/ investor unfolds in the expected manner. As someone rightly said that "to outperform in sports you must go where the ball will be - not where it already is. The same is true of CVI".

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Disclaimer

Points noted above are personal views and not made on behalf of employer organization or on behalf of CFA Society India. The names of the funds mentioned in the article are merely for illustrative purpose to conduct the analysis for this write up. These should not be considered as any recommendations from the author(s) of CFA Society India

Emerging Markets - Fortune's Favorites?

Ishwar Chidambaram, CFA, CIPM

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Introduction

As Niels Bohr once presciently observed, "Prediction is very difficult, especially about the future"! In this spirit, we will attempt to decipher the tea leaves and forecast the evolution of the contemporaneous bull run in the global emerging markets (EMs for short). In the world of finance and investments, EMs have become a raging phenomenon. In fact, the key differentiator between a top performing fund and an also-ran has been the extent of exposure to EMs, or lack thereof.

So, what exactly is meant by the term "Emerging Market"? Wikipedia defines the term as "a country that has some characteristics of a developed market (DM for short), but does not meet standards to be a developed market". Nowadays, even this term is gradually losing its luster, but it persists for want of a better catchphrase. At any rate, the term "Emerging Market" is a radical improvement on the archaic term "Less Developed Countries", which was in vogue half a century ago.

The phrase Emerging Market itself was coined in 1981 by the then World Bank economist Antoine Van Agtmael, although it has really gained widespread currency only after the turn of the century. The term caught fire and captured the imagination of the thinking public, after a prominent Wall Street investment bank published a whitepaper on the BRIC economies in 2003, which made startling predictions, prophesying the BRICs nations' emergence from the shadows of the traditional developed markets. After that, there has been no looking back and the term has justifiably entered the popular lexicon, not to mention the portfolios of every serious global investor.

Emerging Markets are an inherently myriad and diverse- albeit frequently cacophonic- asset class in their own right. Indeed, no two emerging markets are exactly alike, and each can justifiably claim to be peerless on multiple counts. We will dissect this entire colorful spectrum on the basis of 4 parameters, taking a look at Emerging Equities, Fixed Income and Currencies, and Commodities in the process. We believe such a segmented approach will help identify the key existing and prospective drivers of Return on Investment, as well as factors that will facilitate or terminate the ongoing bull run in emerging markets.

EM Equities

As per a leading financial index data provider, emerging equities now comprise over 11% of the global stock market as of the end of the most recent quarter of 2017. Just three decades ago, these securities represented a negligible proportion of the world's equity market capitalization. It is obvious therefore that this asset class has progressed by quantum leaps and bounds during this time horizon. Indeed, the pace of transformation has only gained momentum in recent years and looks all set to scale up to exponential dimensions.

A leading index which tracks emerging economies has beaten its developed markets counterpart by almost 100% since its inception in 2001. It has not been all smooth sailing, however, for emerging market investors, who have had to endure humongous levels of volatility during this interim period. The path to superior returns has been akin to a rollercoaster ride for these investors. Emerging equities last peaked relative to developed markets in the final quarter of the calendar year 2010, which also marked the end of the first significant bull run in emerging equities. From then on, the next half a decade or so was decidedly bearish for emerging markets investors, who consistently experienced negative returns on investment. Developed markets outperformed emerging markets during this phase, which lasted until 2016.

But in 2017, emerging markets have witnessed a dramatic reversal of fortunes, and have rollickingly outperformed their developed peers. As per a leading financial data provider, an attribution analysis indicates that the key driver of recent emerging market outperformance has been the increased weight of Chinese equities and technology stocks in investors' portfolios. This is perhaps only fitting as it can be interpreted as the emerging market riposte to the technology-driven rally seen in the US and witnessed in the bull run in FANG equities.

On a more fundamental level, the major concern for international investors appears to be the rising level of interlinkages between emerging and developed economies. This is but a logical outcome of the EMs increasing levels of assimilation into the global economy and humongous capital flows from developed markets into this asset class. However, perversely, it also implies that the emerging markets asset class- long sought after for its diversification benefits- may no longer be the safe harbor in the next financial storm. As correlations and interlinkages continue to increase, emerging markets will be increasingly impacted by the vicissitudes afflicting the developed peers, making them less ideal from a portfolio diversification standpoint.

EM Fixed Income and Currencies

The Asian financial crisis of the late nineties is the first thing one can think about when emerging market currencies and fixed income is contemplated for investment. This crisis led to asignificant devaluation of the important Asian currencies, which shook the investor confidence. But, over the last two decades there have been significant strides made by many emerging economies, transforming most of them to a more buoyant state. Still inherent risks remain (like “roach motel” or convertibility risk), and investing in certain kinds of EM debt is simply akin to “picking up pennies in front of the train”.

Though the fed taper tantrum in 2013 led to significant currency depreciation across emerging economies, the improving fundamentals post-2013 have revived investor interest in these markets. The improved position is reflected by increasing reserves, stable monetary and fiscal policies, manageable current account deficit, etc. These important changes have turned the tide in their favor, and investors are now actively considering these economies as an important part of their portfolio.

Few of the key strengths of emerging markets are the higher returns (yield differentials are significantly high when compared to developed world), potential for higher growth and at the same time, the diversification benefits they offer. For example, the yields offered by India and Mexico's long-dated government securities ranges around 7-7.5%. Likewise, the yields of similar bonds offered by the Chinese government, range around 4%, which are considerably higher than the yields offered by developed economies like USA, Japan, UK, etc. which may be as low as 0.1%. Also, the potential for price increase and currency appreciation augur well for emerging market currency and debt.

The yield reflects the ability to service debt and the inflation expectation of an economy, higher the yield higher the likelihood of default. The same can be observed through the ratings given by different credit rating agencies like S&P, Moody's, etc. These ratings are of even more significance for emerging markets, as many large institutions like Pension funds, Insurance companies etc. have the mandate to invest only in countries having at least an investment grade rating.

The above analysis is further supported by the improving macroeconomic outlook of emerging economies. The stable monetary policy coupled with good fiscal situation makes these markets an attractive investment destination. For example, Indonesia and Philippines have a brighter fiscal situation and if we consider India, over last year the country went through a fundamental transformation but it has resiliently absorbed disruptive reforms like Demonetization and GST. Similarly, till date, China has effectively managed its huge debt.

In addition to the aforementioned advantages, the debt of emerging economies as a percentage of GDP is far less than their developed counterparts, which gives more confidence to prospective investors. As popularly believed, investors prefer stability. Thus, a stable government with balanced and predictable policies augurs well for emerging economies. As these countries' improving fundamentals and progressive reforms are acknowledged by global investment community, they would offer an excellent opportunity for price increase and currency appreciation as well.

One other fact supporting investment in emerging markets is their response to recent financial crises of 2008. Although the crisis was precipitated by fixed income instruments, it was mostly driven by the developed world, and the emerging economies had hardly any role in exacerbating it. In fact, most of these markets came out of the crises unscathed.

Commodities and EMs

No discourse on EMs would be complete without a section on commodities, as many EMs tend to be either well-endowed with or heavily reliant on natural resources. Consequently, the currencies and other asset classes of these EMs tend to fluctuate in sync with the prices of those commodities. Take Saudi Arabia for instance- being a major oil exporter, the nation's currency and per capita income are heavily dependent on the price of oil. Similarly, EMs in Africa and Latin America have witnessed their per capita incomes rise and ebb with the prices of their main commodity exports.

However, in recent times an interesting contrarian thesis has developed, which asserts that it is no longer relevant to view EMs through the narrow prism of the commodity markets. This contrarian view states that there has been a metamorphosis in the interrelationship between EMs and commodities. The correlation between EM equities and commodity prices, which had hit an all-time high of 82% in 2011 now averages just over half that level during the past 2 years. This view posits that major EMs like China are now transitioning from an investment-driven economy to a consumption-driven one powered by domestic demand. Consequently, the correlation between EM equity valuations and commodity prices has weakened, which indicates significant decoupling of EMs from the "feast-or-famine" commodities cycles. This is a major positive for emerging markets and increases the attractiveness of this asset class.

Another major reason for such significant decoupling is the rise and rapid expansion of technology-driven companies across EMs, especially in Asia. Companies like Samsung, Tencent, Alibaba and others have become the icons of this technological revolution sweeping across major EMs. They have replaced traditional commodity-driven giants like Gazprom, Petrobras and Vale, among others.

China and India

These are the two behemoths among EMs which can justifiably claim to be the growth engines for this asset class. In China, the corporate sector is under immense regulatory and political pressure to shed its mountain of excess debt. This has yielded the benefit of channeling much of the existing shadow financing back into traditional avenues. This will thereby raise the banks' asset quality in the process. Forward outlook is for dovish monetary policy, on the back of the higher interest rates and benign inflation. A more pragmatic exchange rate policy will also help address internal imbalances.

India presents a more mixed picture. The country appears to have weathered the combined effects of the largest demonetization and tax reform in history with hardly a scratch. These initiatives combined with other big-ticket reforms like recapitalization of banks, real estate reforms, etc. should boost economic growth beyond its current trajectory. However, some concerns remain, namely- flagging private investment, inadequate infrastructure, anemic manufacturing, lack of access to healthcare, social security, sanitation in rural areas etc.

Key Risks

The rally in emerging markets will undoubtedly face a stern test at some point in future, arising out of the myriad geopolitical flashpoints that span the emerging world, right from the volatile Korean peninsula to the Middle East. The key risks facing emerging economies are political instability, currency depreciation, rising populism, monetary mismanagement, fiscal slippage, geopolitical tensions and tightening global liquidity, specifically the proposed Fed rate hikes and the potential blow-up of China's colossal debt.

The tightening of US Fed rates and the potential unwinding of QE is the significant challenge facing EMs in 2018. Either of the events would squeeze liquidity globally, with consequent negative impact on emerging markets, especially currencies. Rising populism and political turmoil pose serious challenges as well, which may hit the countries' macro fundamentals and lead to significant devaluation of currencies. Also, the sustainability of high Chinese debt and its policy of controlling exchange rate is concerning, despite enjoying a satisfying debt servicing record till date.

Outlook

As per a survey conducted by a major global provider of financial news and information, emerging equities and bonds are expected to continue to rally going forward, albeit emerging currencies will struggle to keep pace. Still, much will depend on the US Federal Reserve's willingness to extend its hitherto dovish stance and continue providing fodder for the rally in EMs. The Goldilocks scenario of above-trend GDP growth and below-trend inflation witnessed in the DMs during 2017 looks set to persist into the foreseeable future, adding further legs to the rally in EMs.

Conclusion

Although EMs were hitherto surprisingly resilient in the face of impediments like protectionist bluster and geopolitical turmoil, it remains to be seen if they will be able to surmount formidable headwinds like a faster than expected pace of tightening and balance sheet normalization by the US Fed. Other factors like China, oil prices, actions by the European Central Bank and Bank of Japan, as well as the Emerging Market Central Banks' policies, will also determine the performance trajectory of this asset class. However, overall the stars do appear to be aligning propitiously for the EMs, and they look all set to vindicate themselves going forward as Fortune's Favorites.

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In Conversation with ...

Dr Abhishek Sachan

CFA

Profile

Dr Abhishek Sachan is currently a faculty in charge of Finance at Christ University Bangalore, for its PG programs in management. He had been part of Jain University and Gujarat University as Head of Department of Finance and Business Analytics related domains. He started his career as Merger Acquisition and Integration analyst at Reliance Globalcom (now Global Cloud Xchange) and then switched to academics in the year 2009.

He is a Ph.D. from Nirma University in the area of Behavioral Finance, holds CFA charter and Certificate in Quantitative Finance from Fitch Learning Institute. He is an MBA in Finance and Mechanical Engineer from DAVV university Indore.

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

The education sector has tremendous growth opportunities in a young nation such as ours. We have a substantial gap to cover for literacy and at the same time education sector has to achieve skill development of India's labor force for maintaining the necessary supply. Employability of its customers and research are the prime targets of the education sector, hence it calls for human resources with advanced learning and substantial exposure to their areas of specialization.

Education sector has tremendous scope for individuals with strong research aptitude and learnability quotient. The quest to obtain CFA charter proves the mettle of learnability in an individual, and believe me, the world of research is quite simpler in comparison. CFA charter also makes a strong difference in the quality of content a faculty delivers and kind of exposure she brings into the class, and the good thing is that the leading institutes recognize this and reward this with available mechanisms.

Individuals with a bent for academics should strengthen their profile with CFA charter, of course they need to take a calculated step as academics in India is not a well-paid sector, however, with 7th pay commission coming in, a hike of 30% is expected in salaries. This hike shall make the salaries at par with most of other jobs in the finance function.

2) How did CFA help in enhancing your career objectives?

CFA curriculum made me understand my strengths in the area of finance and later I worked on some specifics to refine my career objectives within those areas of strength. I thank CFA Institute for presenting the latest and stable industry practices through its curriculum, due to which I could come up with actionable research objective and outputs in the area of behavioral finance.

3) 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.

There is always a lot of confusion with young students for choosing their career stream, even when they decide upon their majors in post-graduation, they want to refine their subject selection to narrow their profiles for specific job roles. CFA curriculum is a one power pack which lets one visualize the industry in a very simple way, hence causes a self-realization for a financial analyst regarding her strengths.

One necessary challenge for theInstitute is to update its study material and set of skills in a timely manner. The challenge is, can a subject/theory be taught before it is tested and accepted by industry, if not so, does the content become stale if a lot of time is given to it in testing and development. The Institute has done an excellent job till now, we would be soon coming across topics like algorithmic trading and machine learning. A suggestion at this point would be that the Institute should float programs for its current members who can stay updated and be connected with latest practices at an aggressive pace.

Another edge of the course is that it does not end with the charter, it has programs for continuing education, numerous events for peer interaction and practical learning. The learning continues with the pace matching with the industry's and this is what gives edge to the program.

4) What motivated you to pursue a PhD in the area of Behavioral Finance?

I started with research on quantitative finance and was pursuing CFA in parallel. During that time, somehow, I felt that the alphas which quant models generate would get lost once the information processing abilities get enhanced, and the world of making money from money would have to look for something else. While going through level 3 study material, I came across behavioral finance, and it was eureka like moment, I finally got an answer to the question, namely why two investors invested in same markets get different returns, i.e. why everyone is not equally smart?

The level 3 study material provided me the required base and application areas of behavioral finance. I then studied behavioral biases of individual investors and how they relate to their demographics and personality traits.

5) What guidance you would give to CFA aspirants?

Perseverance is the key to CFA exam. It is a serious task and requires tremendous dedication, it is to be noted that this course is way beyond university level exams. It is an ultimate kind of journey to your goal of becoming financial analyst. Pursue it with determination.

In Conversation with ...

Ishwar Chidambaram

CFA,CIPM

Profile

Ishwar Chidambaram, CFA, CIPM has nearly a decade of experience in the fields of Corporate Finance, Wealth Management and Investment Advisory. He has worked in organizations like L&T, ICICI Bank, Credit Suisse etc. He is presently a Manager with an insurance broker in Mumbai.

He holds a BE in Mechanical Engineering from VJTI (University of Mumbai), an MS in Industrial Engineering from SUNY Buffalo (USA) and flagship MBA in Finance from the Indian Institute of Management (IIM) Calcutta. He also holds the CFA Charter and the CIPM Certificate awarded by the CFA Institute.

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

The financial services industry in India is poised for explosive growth in the coming decades. This is only natural, as India is one of the most vibrant economies in the world. The vigorous and robust Indian banking and financial services sector is the jewel in India's economic crown, which will enable it to seize pole position in the world economy in future. Therefore, it is quite logical to expect that countless myriad job opportunities will be likely to be created in this sector, throwing the field open for India's dynamic youth to wrest the initiative. CFA Charter holders will be the prime beneficiaries of this phenomenon, as India moves inexorably towards financialization of assets via the enactment of big-ticket reforms and systemic deregulation. CFA Charter holders- with their solid grounding and knowledge of financial theory and practice, as well as their unwavering focus on Ethical Conduct- are likely to be in great demand going forward. They must rise to the occasion by continuously updating their skills and keeping informed with best practices.

2. How did CFA help in enhancing your career objectives?

The CFA Charter is undoubtedly the Gold Standard in the industry, especially with respect to Finance and Investments. It has helped me immensely, especially to win the recognition and approval of my peers and transforming me into a complete financial professional. Deciding to undertake the CFA Program was one of the most momentous decisions of my life, prompted in part by the US Financial Crisis of 2008-09. It was the US financial crisis that highlighted the dire necessity for ethical behavior among financial professionals, especially those engaged in an advisory capacity with clients. Completing the Program successfully has proven to be a highlight of my career thus far. I have gained a wealth of knowledge of financial theory and practice, as well as the understood the imperative for ethical conduct and fair dealing with all. I must emphasize that completing the

In Conversation with ...

Program and earning the Charter are only the beginning of this fantastic journey. The real value addition is in the myriad volunteering opportunities as well as the superb Continuing Education program, which I found extremely rewarding from the standpoint of professional and personal development.

3) 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.

Having undertaken and completed several programs at the post-graduate level, I strongly believe that the CFA Program remains one of the best I have ever been privileged to undertake. The course content and design are simply fabulous. The emphasis on ethics is both timely and relevant. The CFA Curriculum itself is marvelously structured and makes for thoroughly illuminating reading. The emphasis on placing clients' interests first and enhancing the trustworthiness of the financial advisory industry is what distinguishes the CFA Program from the rest of the field.

It's hard to point out any deficiencies in the Program, but one possible area for improvement could be to increase awareness about the Program, especially in emerging markets like India and China. I can see no reason why the CFA Program should not gain increased traction among regulators and industry alike, with a view to making it mandatory for all market participants. This will greatly help promulgate ethical awareness and ensure a level playing field for all.

4) What guidance would you give to CFA aspirants?

Earning the Charter is similar to running a marathon. It is, therefore, logical to prepare accordingly. It is important for candidates to enjoy the journey towards earning the Charter. However, failing to plan is planning to fail. So, Candidates must plan meticulously and execute the plan uncompromisingly. To start with, they must spend quality time on reading the Curriculum. The Curriculum is the heart and soul of the CFA Program and it is fabulously designed to aid optimal learning. Serious candidates in the CFA Program would be well advised to master the Curriculum thoroughly. Also, the solved examples and the exercise questions will need to be at the fingertips of every serious candidate. Above all, the CFA Program tests one's understanding. Hence It is important to understand the concepts and their application, rather than relying too much on rote learning. While Candidates track the quantity of time spent per subject area, it is also important to track the quality of time spent. It is important to get the basics right, and the rest will fall in place. Finally, one must be determined to complete the Program in spite of all exigencies. The Charter is akin to the Holy Grail and must be pursued as such.

"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 Singhania, CFA
CIO – Equity Investments
Reliance Mutual Fund

Impact of demonetization on NBFCs

Contributed by: Meera Siva, CFA

October 5, Chennai

There are opinions galore about the impact of demonetization. As we near the one-year mark of this historic event, P Avinash, Head Risk, IFMR Capital, shared data and analyzed the effects seen by NBFC-MFIs, from his vantage point. IFMR Capital is a Chennai headquartered NBFC which has facilitated debt funding of over INR 45,000 crores using advanced structured finance products.

Avinash started out at the IFMR Group in January 2014 to head the investment function at IFMR Investments where he set up IFMR's first Alternative Investment Fund (AIF), focused on long term debt financing to retail financial institutions. Earlier, he worked in ICRA for 7 years in their credit rating practice specializing in financial sector entities and prior to that, he was with Deloitte in its Audit and Assurance practice. He is a Chartered Accountant, who ranked 5th in the CA exam.

Reduced Recovery

Demonetization seems to have adversely affected the Rs 1 lakh crore MFI segment. From 99% collection efficiency on average, collections have slipped and collection efficiency stands at about 80%. The encouraging news is that this is improving from the steep fall seen immediately after the note ban. The big hit was due to loss of income for individuals and businesses as cash was removed from the system last November. This took a few months to stabilize and by January/February of 2017, the situation eased.

However, collections never went back to pre-demonetization levels as other issues began to surface. One, some MFIs had relaxed credit norms to grow their business. While this would have been manageable in the past, the new stress in the system pushed some loans to default. One example was the high exposure many MFIs had in Bengaluru city. After demonetization, defaults increased in this region, possibly due to risky lending practices. Two, in geographies where there were issues such as ring leaders and pipelining, repayment was affected – due to financial distress from business issues or just greed.

Three, some borrowers had lost their discipline of regular payments – in some cases due to MFIs that did not follow-up. As success depends on process and discipline, loss of process by MFIs led to a loss of discipline and hence defaults.

Four, when there were defaults, MFIs in general tend not to take any legal action, considering the background of the borrowers and as the cost of such action may outweigh likely benefits. As a result, those with regular credit also opt to default, as there are no consequences to bad credit.

Data Points

Data from IFMR Capital shows that there was essentially no difference between recovery rates of MFIs, at a district level, but rates varied across geographies. For example, the bulk of the losses in Maharashtra were clustered around the Vidarbha region. Weekly collections and smaller loan sizes had better recovery than monthly repayment and larger loans – intuitively enough.

In some cases, poor operational structure of MFIs aggravated collection issues and lowered recovery. Typically, a field staff handles about 900 borrowers. Some MFIs had pushed the limit to 1,500 borrowers in areas that witnessed high growth. While this was manageable and yielded efficiencies when collectionswere smooth, when multiple follow-ups were needed for collection the staff could not handle it.

MFI Response

The MFIs, by luck or by design, had raised funds in September 2016 and had good liquidity. New loan disbursals, which were growing at a fast clip of 80% year-on-year in the past, fell in the December and March quarters. Growth has since recovered and in the September 2017 quarter it increased 20% y-o-y.

MFIs have been able to raise equity and are looking to grow. Investors continue to be interested in the segment, as seen by the success in fund raising. MFIs are looking at newer geographies for their expansion. For instance, Bihar and Rajasthan have shown good repayment resilience and there is interest to start operations in these States.

The segment has good scope for growth as there are still many districts that are under-penetrated. It takes over six credit cycles before an MFI borrower, who is lent on the joint liability group model, is eligible to be given an individual loan. Better credit data availability, technology adoption by MFIs and eKYC through Aadhar should help the industry's growth in the long run. Consolidation – where there is little or no geographic reach – is an option to achieve better economies of scale, but has not happened due to culture issues in the MFIs. MFIN – the network of MFIs – has been doing a great job of communicating issues and working out solutions with stakeholders such as borrowers, local authorities, MFIs and the community.

Read more

https://iaip.wordpress.com/2017/11/06/impact-of-demonetization-on-nbfcs/

A Primer on Insurance in India

Contributed by: Manoj Khokale, CFA

The year 2017 has been the year of IPO's in India and it is more so true for insurance sector with the listing of companies like ICICI Lombard, SBI Life, upcoming ones like GIC Re and Reliance General. Insurance is a complex topic, and Prof. K Sriram, a Consulting Actuary, in his session organized by the Bengaluru Chapter of CFA Society India, helped gain a better understanding of basics of actuarial science and also elements of balance sheet accounting specific to Insurance firms.

The session began with the type of Balance Sheets for Insurance firms viz. Statutory Balance Sheet and Economic Balance Sheet. The Statutory Balance sheet is the one that the Regulator will look at, and the Economic Balance sheet is the one that the companies would prefer to look at. The Balance sheet as per account standards falls somewhere in between the two.

Liabilities & Ratios

Prof. Sriram emphasized on few major components of liabilities. The most important being 'Prudent estimate of liability'. The 'Net Liability' of an insurance company would be the difference of Present Value (PV) expected payout (from claims) and PV of expected premiums. The role of an Actuary is to help determine prudent (conservative) estimate of liability. Factors like mortality rates in life insurance products, longevity in annuity products etc. are used to make estimates more prudent. The other important component being 'Regulatory Capital' also called as 'Required Solvency Margin (RSM)'. It is the additional capital required to meet unforeseen exigencies. The RSM is laid down by a regulatory body like IRDA.

The Tier 1 and Tier 2 capital of the firm should exceed 'Required Capital'. The excess capital (above 'Required Capital') represents free assets of the company. The financial statements of an insurance firm has analytical ratio called free asset/total assets % (usually between 10%-15%). The excess capital determines the degrees of freedom of an insurance company. For example, when a new product is introduced, the 'new business drain' is funded by excess capital. The Share Capital and Reserves & Surplus represents the Available Solvency Margin (ASM). The regulator decides the Solvency Ratio (ASM/RSM) which could be a minimum of 150%.

Then Prof. Sriram explained the role of Re-Insurer. This is when an Insurance company transfers some of its risk which is above its pre-defined risk to a Re-Insurer. For example Life Insurance Company re-insuring death risk above a certain threshold level. Another critical component of Balance sheet he brought up was 'Expense Gap'. An 'Expense Margin' is the expense loadings built into the premium income less actual operating expenses. When the 'Expense Margin' is negative it becomes 'Expense Gap'. It is usual for a 'Startup' operation to have an expense gap in the first few years. Then he discussed the importance of 'Persistency ratio' that reflects the total business the insurance firm is able to retain in a financial year without policies being lapsed.

The various types of products available under Life Insurance, Health Insurance and General Insurance were covered to explain the different kind of risks that the Insurance firm is exposed to when such products are offered.

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Assets

In the Assets section, Prof. Sriram started with an example of a Statutory Balance sheet and explained the biggest asset class that an insurance firm holds is debt and this component is invariably taken at book value and not mark-to-market. Then few other components were discussed like 'Premium Received', 'Interest Accrued', 'Deferred Acquisition Cost' (smoothened cost due to uneven nature). In a Statutory Balance sheet there is no place of 'Deferred Acquisition Cost' as all expenses have to be reflected in the same year. Another component is 'Segregated Assets' which actually belongs to the customers (example ULIPs).

Prof. Sriram then pointed out that in the annual report of an insurance firm one can find 'Appointed Actuaries Report' which will have details on assumptions, discount rates used etc. He also pointed out that an Actuary helps in building the cash-flow model and specifically while constructing a new product, an Actuary's role is critical in determining the pricing of the product as well as assessing financial viability of the product. He also went through calculation of solvency requirement as an exercise.

Valuation Framework

From the valuation perspective, Prof. Sriram discussed the calculation of key component viz. 'Embedded Value (EV)'. EV is a measure of how much a life insurance company is worth (one of the determinants of market value for life insurance company). The calculation for EV was explained based on an example. The main components of EV are Value of Business, Free Surplus, Mark to Market adjustment and Expense Gap Adjustment. The other determinant of market value is the 'Appraisal Value (AV)' which is EV added to 'Value of New Business (VONB)'.

Dwelling on to some key ratios he advised Free assets/Total assets > 10% is a good indicator of growth. For a stable company, the change in policyholder liability/premium income should be between 70%-75%. The Embedded value/Premium income is a function of risk that the company is taking. Few other ratios to note while valuing are Expense Gap ratio and Solvency ratio.

It was a very interactive session with the interest of all participants. In the vote of thanks, Abhishek concluded by expressing that this topic would be complete with another session by Prof. Sriram focusing on detailed exercises.

Read more

https://iaip.wordpress.com/2017/10/29/a-primer-on-insurance-in-india/

Meditation – How it helps Investment Professionals

Contributor: Shivani Chopra, CFA

The moment we hear the word meditation, the next closest word that comes to our mind is probably 'Yoga'! Yogis have been practicing meditation for over a millennium and while we do understand that meditation is an important facet of yoga, how does it help investment professionals? Is the discussion branching out of behavioral finance or is it a new phenomenon altogether? To answer these and many other questions, four chapters of CFA Society India- Mumbai, Delhi, Bengaluru and Chennai organized a speaker event with Jason A Voss, CFA during 6-8 Oct, 2017. Jason is the content director at CFA Institute and author of the book - The Intuitive Investor.

Jason began the discussion by taking a few famous names who regularly meditates/meditated. The list includes people – Steve Jobs (Apple) and Marc Benioff (Saleforce.com), organizations – AOL Time Warner and Google, business schools – Georgetown University and New York University. In the investing world, there are people such as Ray Dalio (Bridgewater Associates) and organizations like Blackrock, Deutsche Bank, Goldman Sachs, etc who practice meditation. Unlike in India, in developed countries of US and UK, meditation is still a controversial topic. The product got developed due to its advantage as 59% of members in a 2014 Annual Member survey wanted the institute to develop a program and listed better thinking and stress relief as the top reasons.

After an initial background, a few fictions were mentioned-

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- *Fiction #1 – "It is for shaven-headed cave dwellers" but the reality is that meditation states are innate to human consciousness and help us to understand functioning of our minds*
- *Fiction #2 – "There is only one way to meditate" but the reality is that there are thousands of ways to meditate and 4-5 have evolved as major practices*
- *Fiction #3 – "It is hard to do" but the reality is it all depends on You!*

Above all the reality is that while there are thousands of pieces of content offered by CFA Institute, only meditation can improve the quality of our mind and hence improve our understanding of all the readings and articles. Jason then initiated the first activity of the session. He asked the attendees to either color a sheet or walk around the hall. After the activity was over, he shared how these unifying experiences in everyday life connect to meditation.

Investment professionals face daily obstacles relating to stress, better thinking, overcoming behavioural bias and ethical dilemmas. According to a survey, 80% of the workers feel stress on the job and nearly 50% say they need help to manage stress. There is also intense competition in the industry that requires professionals to out-think their competitors. Another challenging stress is overcoming behavioural biases like loss aversion, overconfidence, confirmation, mental accounting, etc. These biases are hardwired and hence difficult to overcome. Ethical dilemmas can stem from three sides- client, firm and personal. They may not always coincide. The participants then delved deeper into understanding how meditation can relieve these daily challenges. There is an overwhelming scientific evidence that supports the case of meditation as it provides physical benefits, improves memory, overcomes decision making biases and develops emotional intelligence. Studies started 100 years ago when hippies came to countries like India and Bhutan and conducted research once back to their home countries. Today there are over 30,000 scientific studies and Jason talked about the most popular ones in detail. Evidence suggests that meditators can also live longer/younger and become more creative.

The event wrapped up with the most awaited activity- learning how to meditate. Jason helped everyone practice the major styles of meditation-

1. *Focused Awareness*: Focuses on breath- inhalation, exhalation
2. *Open monitoring*: Focuses on areas other than breath like sound
3. *Compassion*: Involves thinking about of relationship with oneself, a loved one or colleague etc.
4. *Visualization*: Involves imagining to be stronger, more active, getting less tired, etc.

Insights from IAIP Events

Key Lessons from Financial History for Today's Investors: Talk by Russell Napier

Contributed by: Rajni Dhameja, CFA

CFA Society India along with SBI Mutual Fund hosted Mr. Russell Napier, Co-Founder at ERIC on October 29, 2017 for an insightful session in Mumbai. Mr. Russell Napier spoke about the Key Lessons from Financial History for Today's Investors. Keeping those lessons in mind while making investment decisions will help in making more informed decisions.

Key Take-aways from the session are as follows

- Try to forecast the supply side. It is mistaken to invest the majority of time in forecasting demand and too little time in forecasting supply. History suggests that great returns have been earned when supply side has been forecasted correctly.
- There is no direct relationship between the growth of an economy and returns on equity. There are times in the history wherein equity markets have given substantial returns for economies which have not grown substantially
- Whenever possible deal with principal directly and not with the agent.
- When evaluating the companies, look for the incentive structure for management. A very good business model can fail if the incentive structure for management is not in alignment with the growth of the company in the long run.
- Whenever you come across any development in the market which you consider as unsustainable, it can actually last longer than what your rational assessment suggests.

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- Governments are not referees of the game; they are players of the game. They can change the stance as per the situation. Hence, the assumption that government will always act/ intervene to protect the markets will not hold true.
- Monetary policy: The easiness or otherwise of the monetary policy is not judged by the levels of interest rate. It is judged by the quantity of growth in money supply. An extremely low interest rate but minimal growth in actual money supply would construe a tight monetary policy.

- Monetary systems fail approximately every 30 years. This is the time frame in which certain drastic changes occur which causes the failure of existing systems.
- Tourism of any country acts as an indicator to guide the over/under-valuation of the country. The country which has tourists coming in will have a currency which is in appreciation due to high demand.

Corporate Bond Market

Contributed by: Sitaraman Iyer

Three seasoned professionals in the fixed income arena viz. Rahul Goswami, Head, Fixed Income, ICICI Prudential AMC, Jayen Shah, Head, Debt Capital Markets, IDFC Bank, and Bhushan Kedar, Associate Director, CRISIL, got together to uniquely share their corporate bond market experiences with an inquisitive audience of CFA Charter-holders in Mumbai.

Wide ranging aspects of the Indian corporate bond markets were presented and discussed. These included evolution of bond market, statistics, recent trends, market ecosystem, role of key institutions, market infrastructure, pivotal role of credit rating agencies, various investor classes and their respective investment patterns, regulatory framework and the areas which need immediate attention, issuer needs & choices both onshore & offshore, innovative structures, deal or credit failures, valuation methodologies deployed by different investor groups and so on.

The market was closely watching the fate of the cases taken up under the insolvency and bankruptcy code. Successful resolution of cases will send out a positive signal to bond market participants that issues can be resolved if corporates don't behave properly. The depth of the market will improve with further encouragement from regulators and stricter norms on bank lending to big corporates. Steps like limiting ISIN numbers issued to a company was also expected to improve liquidity. Around 90% of the corporate bonds bought by Mutual Funds or Financial Institutions were in the AA or AAA category indicating low depth of the market. Over time the panel also expected dedicated credit funds to set up shop in India which would further increase penetration in the bond market.

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Understanding Block Chain and Demystifying Crypto Currencies

Contributed by : Rajni Dhameja, CFA

CFA Society India organised a session on "Understanding Block Chain and Demystifying Crypto Currencies" on Nov 25, 2017. The session was divided into two parts viz: Blockchain which was presented by Hrishikesh Dewan, Director, Zero Labs Private Limited and Crypto currencies, which was presented by Ramani Ramachandran, Co-Founder and CEO, ZPX and Gautam Seshadri, CFA, Co- Founder and Chief Business officer, ZPX.

Key Take-aways from the presentation

Block chain is a bunch of records ordered in time and stored at central network. It is a distributed system wherein all people in the network (called as nodes) will have access to the same records.

Once validated, it is difficult to alter the records stored in any of the blocks of the chain, which is what differentiates the Block chain.

Any new record once entered is validated by one of the nodes which are miners and then that record in the block becomes part of the chain and is difficult to alter.

There are various applications of Block chain technology: Store KYC, property records, land records, health records etc..

Bitcoin is one of the largest application of Block chain technology. Bitcoin is a type of crypto currency which aims at disintermediation of the fiat currency. Today, in case of fiat currency, the currency notes are validated by the central Bank which helps in avoiding the double spending of same money. Bitcoin being the virtual currency, it is challenging to track the double spending of the same coin. To tackle this problem, Satoshi Nakamoto invented Block chain that can be used wherein all the transactions done in Bitcoin are validated by the miners and published to the entire network.

Considering this, Block chain can disintermediate almost anything and everything. That sounds simple enough, but there are still lot of questions which are unanswered like privacy of data, searching the data, whether it is encrypted to name a few. A lot of research is going on to answer these questions.

Global banks, some regulators etc. are experimenting with the Block chain. Some countries are researching on virtual version of their own fiat currencies.

Considering the current situation, crypto currencies have become a new asset class altogether. Bitcoin futures are listed on stock Exchange and the way market capitalizations of crypto currencies have gone up has taken everyone by surprise. Believers in this asset class are viewing it as just the beginning.

Initial coin offerings (ICOs) have begin to replace the traditional financing models. There are other crypto currencies as well in the market like Ethereum, Ripple, Litecoinetc.. ICOs have raised $1.5 + Billion, surpassing the early stage VCs. Investing in this asset class comes with its own idiosyncratic risk as one needs to understand lot of things about crypto currencies which are too technical to begin with. There are extreme views on whether or not virtual currencies would become a reality to

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replace the fiat currency or it would become a sustainable asset class. That is something yet to be seen over coming decade.

"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

"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)

Small and medium enterprises (SME) IPO Pitch

Contributed by: Manish Chandak

CFA Society India, Pune hosted a session on "Small and medium enterprises (SME) IPO Pitch" by Mr. Sachin Shirol on 9th September 2017. Mr Sachin is Director at SkyBridge Financial Services. He is a qualified Chartered Accountant and CFA charter holder. Prior to launching SkyBridge in May 2017, he worked with Deutsche Bank in the Global Markets division for about 10 years. His session on SME IPO Pitch was an attempt to raise awareness about how SMEs can and are raising capital through SME Platform of BSE and NSE. Also, he made a strong case for retail investors to invest money in SMEs which are available at the attractive valuation and reap benefits in the long run.

Mr. Sachin started the session by explaining the significant role played by Small and medium enterprises (SMEs) in Indian economy. He said that SMEs are finding it difficult to raise institutional credit. However, SME IPO is an opportunity for both the Small and medium enterprises as well as domestic investors.

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He spelled out the eligibility norms of SME IPO as below.

ELIGIBILITY NORMS

SkyBridge Financial Services

	SME Platform (NSE/BSE)	Main Board
Pre-Issue		
Track Record	3 years of operation	3 years of operation
Profitability	2 years of positive cash accruals (EBDT) or positive net worth	3 years of profitability
Post Issue Paid-Up Capital (Face Value)	< INR 25 crores	> INR 10 crores
Minimum Allottees	50	1,000
Observations on DRHP	Exchange	SEBI
IPO Underwriting	100% Underwritten	Mandatory
IPO Application Size	> INR 1 lakh	INR 5,000 - 7,000
IPO Grading	Not mandatory	Mandatory
Post-Issue		
Audited Accounts	Half-Yearly	Quarterly
Market Making	Mandatory (3 years)	Not mandatory
Minimum Trade Lot	INR 1 lakh	1 share
Corporate Governance	Same as Main Board	Clause 49 of Listing Agreement

Source: NSE, BSE, SEBI

He enumerated various benefits of the listing on SME Platform. Few of them are as below:

Net Worth: Substantial growth in the net worth of promoters with increase in the price of listed securities

Liquidity: Exit route for VC/PE/angel investors and unlocking of shareholder wealth Tax Benefits on Transfer of Shares: NIL tax on LTCG (vs. 20% tax on unlisted securities) and 15% tax on STCG (vs. 30% tax on unlisted securities)

Monetization of Shares: Listed securities can be pledged as collateral to raise funds from financial institutions

Access to Capital: Unconventional ways of raising funds via Preferential Issue, Rights Issue, QIB Placements, etc.

Credit Rating: Equity infusion lowers Debt/Equity ratio, thereby improving credit ratings and lowering financing costs

Employee Stock Options (ESOP): Way to attract, retain and promote human capital

Read More

https://iaip.wordpress.com/2018/01/04/small-and-medium-enterprises-sme-ipo-pitch/

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Cricket and Investment Selection Process: Emotions and Committee Structure Commonality

Contributed by: Sitaraman Iyer, CFA

Mohamed A El-Erian
Ex-CIO PIMCO

MSK Prasad
Chairman of Selectors, BCCI

Another similarity I find between investment and cricketing is the way decision-making committees are structured.

A research analyst would be the equivalent of a scout in the cricketing world; a fund manager would be akin to a selector; and a chief investment officer would be like the chairman of selectors. In the investment field, a team is headed by the chief investment officer with research analysts presenting their findings to fund managers. In the cricketing world, the selection committee is administered by the chairman of selectors with scouts presenting their reports to selectors.

Scouts/analysts keep tracking players/companies throughout the year in the hope that they would be able to identify talent/companies well before they are ripe to succeed.

One may wonder:

- Why is this process so important
- Why can't fund managers/selectors do the scouting themselves

The answer to the first question is simple: identifying the right talent/company is the only way to be ahead of competition.

To the second query, my answer is that fund managers/selectors simply don't have the time. There are way too many players/companies to keep a track of, which is why analysts/scouts doing the preliminary screening makes sense.

The analyst/scout's job is mundane and non-glamorous, and involves a lot of observing, number-crunching, and talking to relevant stakeholders. Ability to communicate well and present findings

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in a succinct manner to superiors work well in an analyst/scout's favour.

On the other hand, a selector/fund manager must have the skill to process all the data that is provided and arrive at an objective decision. He must select the team/portfolio by keeping in mind both medium- and long-term goals. Excess focus on near-term benefits may result in one not building the teams / portfolio for the long term. For instance, building a test team only that is only good for home conditions/ building a portfolio with too many momentum stocks that can get severely impacted during turn of a cycle.

Fund managers/selectors have to be nimble enough to question old assumptions and validate their beliefs every now and then. While building team/portfolio for the long term is always recommended, sticking to poor performers during adverse times can invite criticism. A good selector/fund manager must have the patience and ability to ignore such censure for the good of the long term. An example of this is backing a talented novice/company even before the player/company has started to deliver results. Think of Virat Kohli just before the third test in the 2012 series in Australia, or Bharti Airtel just after listing in 2002.

Having said this, one also has to have the ability to take unemotional ruthless decisions when things don't go as planned. Quite often, sticking to winners who have delivered in the past can be disastrous for the team/portfolio. A company, like a player, can have a 'best before' date: think of the Fab Four of Indian cricket during their twilight years; or of Nokia. It requires guts to drop a player/company that has delivered in the past but is now performing poorly.

The chief of selectors/ investment officer's job is to drive the overall strategy of the team/portfolio, keeping emotions at bay. He/she often bears the brunt of a decision gone wrong, but also takes credit for success. Though a fund manager/selector's job looks glamorous, it is unlikely one gets that job without having spent enough time doing scout/analyst's job.

Blockchain: A Bitter Pill for Banks

Sivananda Subudhi, CFA,

AVP, Structured Finance Group, Axis Bank Ltd

During Indian Banks' Association Banking Technology Conference held in 2017, Dr. Viral V Acharya, Deputy Governor Reserve Bank of India (RBI) highlighted that ever since Asset Quality Review of Banks during 2015 was initiated, the asset quality of most of the Banks in India has deteriorated because of recognition of stressed assets. While there is a lot of debate related to the reasons for the creation of such stressed assets, assigning any specific reason for the deterioration in asset quality is quite contentious. However, there seems to be a consensus in the lending community that stringent/ apt monitoring of "end use of funds" could have ameliorated pileup of such high level of stressed assets across sectors. In last several years, there has been a significant increase in the pace of technological innovation across industries leading to structural changes which have affected the business models of incumbent players. Ever since Satoshi Nakamoto (identity still not known) came up with a concept paper on Peer-to-Peer Electronic Cash System in October 2008 followed by the introduction of Bitcoin crypto-currency in January 2009, there has been tremendous interest from industry participants over identifying use cases of the underlying technology, i.e. "Blockchain".

What makes the Blockchain protocol unique is that it is an entirely peer-to-peer system that is not based on any centralized entity. The entire record of transactions in the Blockchain is accessible to all parties which is in direct contrast to the current Banking system. It is important to note the distinction between Bitcoin and Blockchain. Bitcoin is an electronic cryptocurrency that can be used to purchase goods or services. Bitcoins are awarded to specialized network participant nodes, called "miners," for validating transactions. This serves to incentivize and strengthen the network. The blockchain is the underlying technology that enables the Bitcoin network to operate in an open, autonomous, decentralized model, where trust is enforced through cryptography and not its participants. In essence, there would be no Bitcoin without Blockchain, but there can certainly be Blockchain without Bitcoin. The distinction is important because Blockchain technology can be applied to other uses beyond the processing of electronic currencies.

Given the unique features of Blockchain technology, tracking and recording flow of money across various transactions is possible by way of collaboration amongst all the stakeholders i.e. Consortium of Banks, Suppliers, contractors etc. Once a transaction is recorded in the ledger and is validated by multiple parties/ nodes, the transaction can safely be assumed to be legitimate and shall be available for scrutiny to all the participants of the Blockchain (Private Blockchain). Due to its immutability feature, the entire ledger can be shared with requisite overseeing agencies including

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Auditors either in a concurrent manner or at any later stage. It will increase the transparency levels significantly while reducing all associated incidental costs being incurred for justifying any specific transaction.

Broader Applications of Blockchain in Financial Services Sector

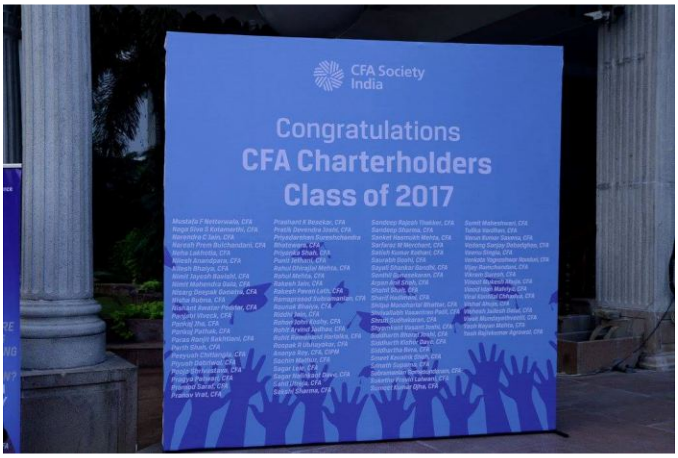
The attractiveness of Blockchain technology and underlying potential of redefining trade settlement, reduction in settlement time, cross-border payments or enabling new business opportunities i.e. Smart Contracts for insurance claim settlements etc. have led to significant investments in the development of technology by Venture Capital funds and by existing Financial Institutions. Many top US and European Banks are exploring Blockchain application by either partnering with start-ups or creating innovation labs to their proof of concept. A consortium of more than 70 Banks/ FIs has partnered in a distributed database technology company named R3 contributing towards R&D of Blockchain database usage in the financial system. Similarly, a team of researchers at Institute for Development and Research in Banking Technology (IDRBT) in India have been brainstorming on the technology and possible use cases in the Indian scenario.

In my view, Banks have to increase the pace of adoption and enable the Blockchain technology to become mature and robust. The key is not to replace Banks with simply a technology platform (in turn moving the Trust factor into oblivion), rather to collaborate with the technology providers to feed off each others' idea and experiments which in turn can overcome a lot of challenges being faced by the Banking sector.

"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.

Charter Felicitation Ceremonies 2017



Charter Felicitation Ceremonies 2017

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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?

Read more

https://hbr.org/2017/05/how-to-improve-at-work-when-youre-not-getting-feedback

On a Lighter Note ...

- A young banker decided to get a tailor-made suit. So he went to the finest tailor in town and got measured for a suit. A week later he went in for his first fitting. He put on the suit and he looked stunning, he felt that in this suit he can do business. As he was preening himself in front of the mirror he reached down to put his hands in the pockets and to his surprise he noticed that there were no pockets. He mentioned this to the tailor who asked him “Didn't you tell me you were a banker?”The young man answered “Yes, I did.” To this the tailor said “Who ever heard of a banker with his hands in his own pockets?”
- In the beginning, an investor starts with money and analyst with experience. In the end, investor gets experience and analyst money!!!!!
- The stock market is weird. Every time one guy buys and other sells and they both think they are smart.
- Eight years old kid jumped in and said, "Daddy is a fisherman!" To which mother replied, "why do you say that. Your daddy is a stockbroker, not a fisherman."No mom. Every time we visit dad at work and he hangs up the phone he laughs, rubs his hands together and says 'I just caught another fish'."

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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: sonia.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. secretary@india.cfasociety.org

To understand more and join one of the committees reach out to any of us or Volunteer Committee or Shefali 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, IIJ, 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	*Priceless*	*Priceless*
Member only Events with Senior Leaders/Marquee Investors	*Priceless*	*Priceless*
Access to Member dedicated portal at www.iaip.in including directory	*Priceless*	*Priceless*
Free Access To Moody's Publication and IAIP Blog	*Priceless*	*Priceless*
Access to CFA App, Get Abstract and Seeking Alpha Contributor	*Priceless*	*Priceless*
Career Management Tools including Resume Design	*Priceless*	*Priceless*
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**

Disclaimer: These are approximate values of benefits. It is subject to exchange rates.

"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.

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