

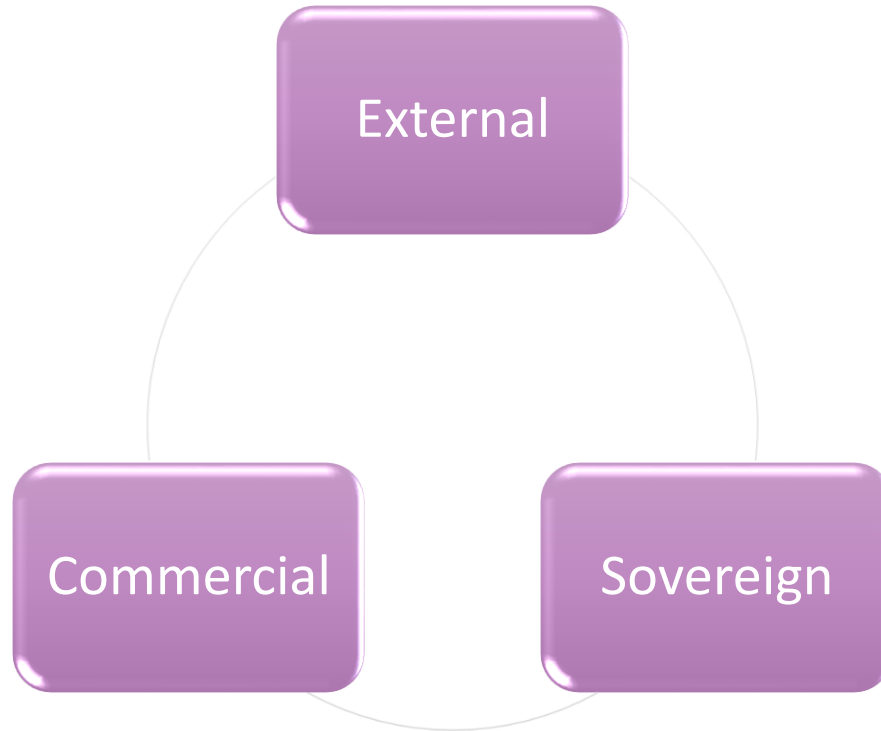
PRESENTATION TO CFA SOCIETY INDIA : MAY 2020



The Worst Growth Shock In Decades

- The biggest deflationary shock in decades, developed market policy response a possible silver lining.
- India has been slowing for last few years: lender balance sheets and diminishing fiscal space are obvious vulnerabilities.
- Recent developments probably increase pessimism about the duration and intensity of growth shock.

The 3 Markets for Financing



Operating in a Data Vacuum

Framework

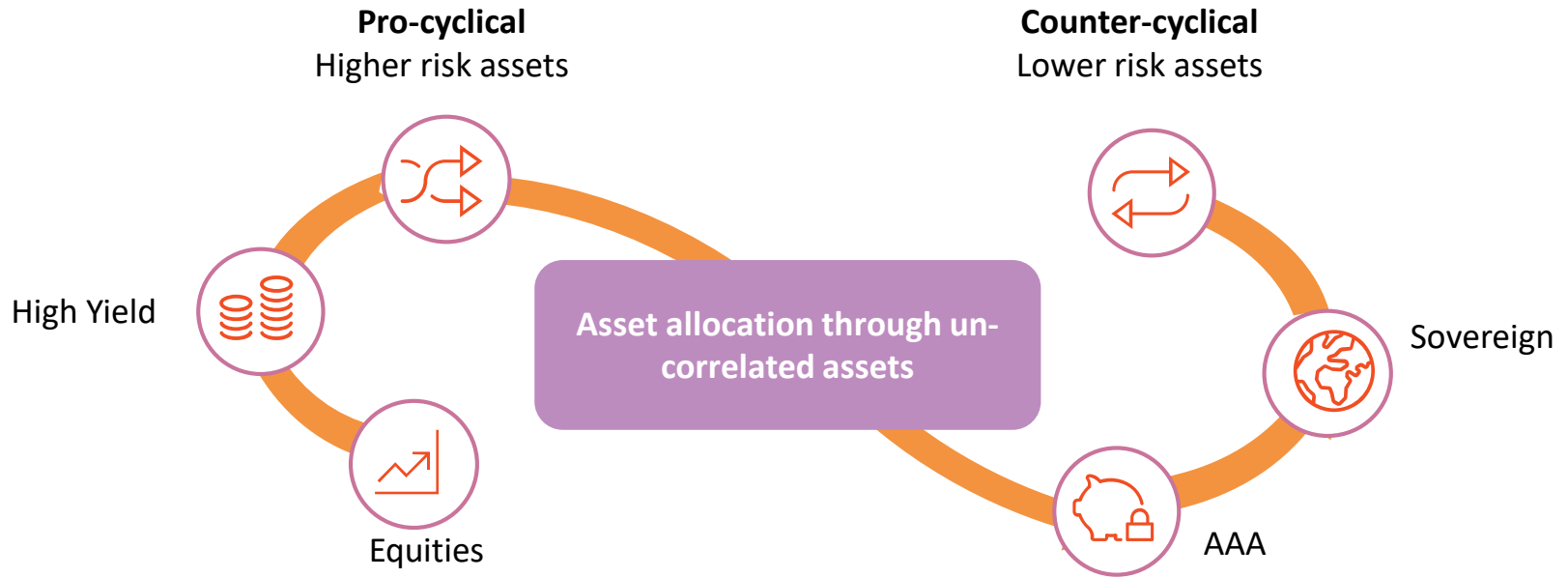
Objective

Leaning

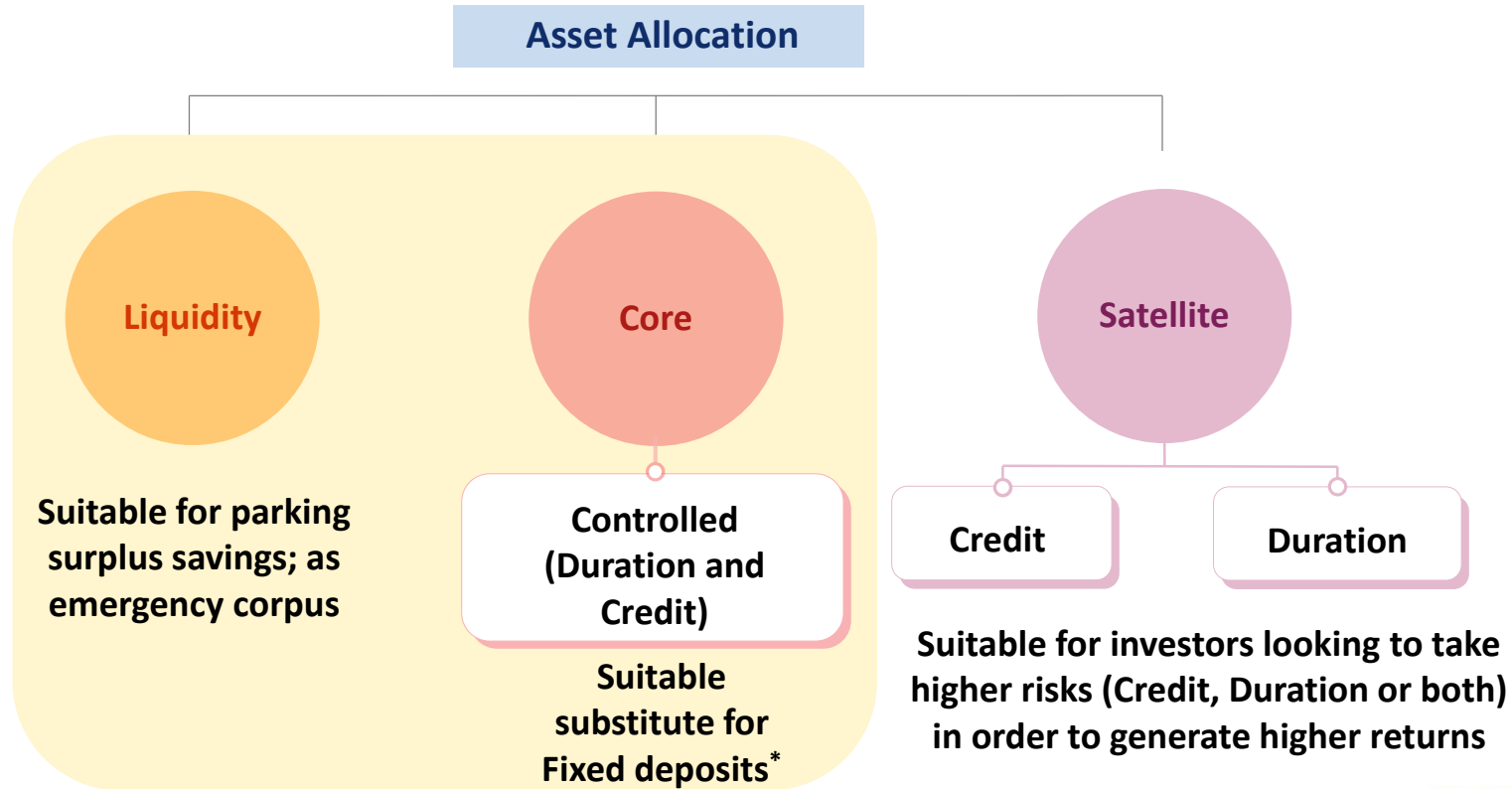
Mutual Fund : First Principles

- What is the macro rationale for a debt MF in India?
- What is the structure of a MF?
- Where have we gone wrong?
 - **Outcome based assessment models**
 - **Considering only volatility (interest rate risk) as a measure of risk**
 - **The pitfall of optical or false diversification**
 - **The heavy reliance on customer profile and / or load structures for liquidity**
 - **The absence of a robust asset allocation model**

Counter cyclical allocation

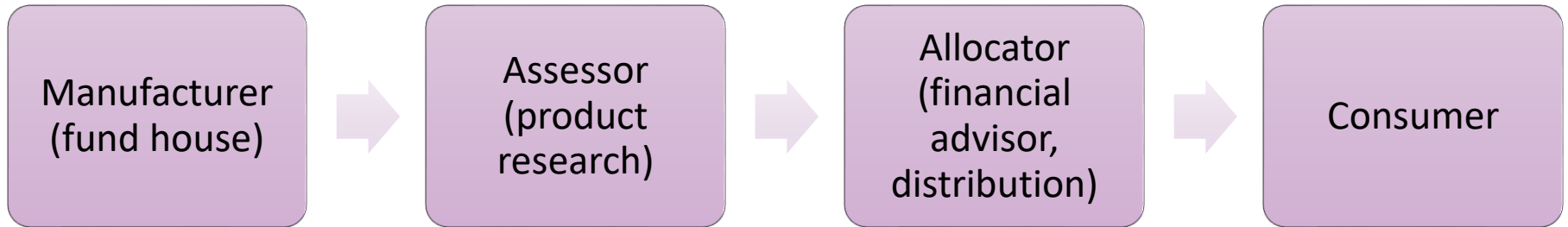


Asset Allocation Framework for Fixed Income



* Fixed Deposits offer Fixed Rate of Return, while mutual funds are market linked. Bank Fixed Deposits are relatively safer as they are covered under DICGC to the extent of INR 5 lakh per account

The Value Chain of a Mutual Fund



Disclaimer

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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Thank you

Aggregate Demand and Potential Rate of Growth

- **What is aggregate demand?**
 - **$C + I + G + X - M$**
- **How does fiscal and / or monetary policy influence aggregate demand?**
- **What is potential rate of growth?**
- **What happens when an economy grows above or below potential?**
 - **Wider CAD and higher inflation (2013)**
- **What is the situation now?**

RBI Balance Sheet and Liquidity

Assets

- **Forex and gold reserves**
- **Government bonds**
- **Loans to government**
- **Loans to banks**

Liabilities

- **Notes in circulation**
- **Deposits of government**
- **Deposits of banks**
- **Equity**

This helps understand important concepts like the process of liquidity creation and the effect of monetization.