Fintrust

bulletin...

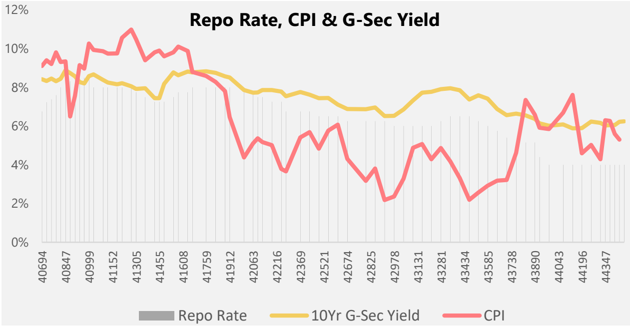
October' 2021

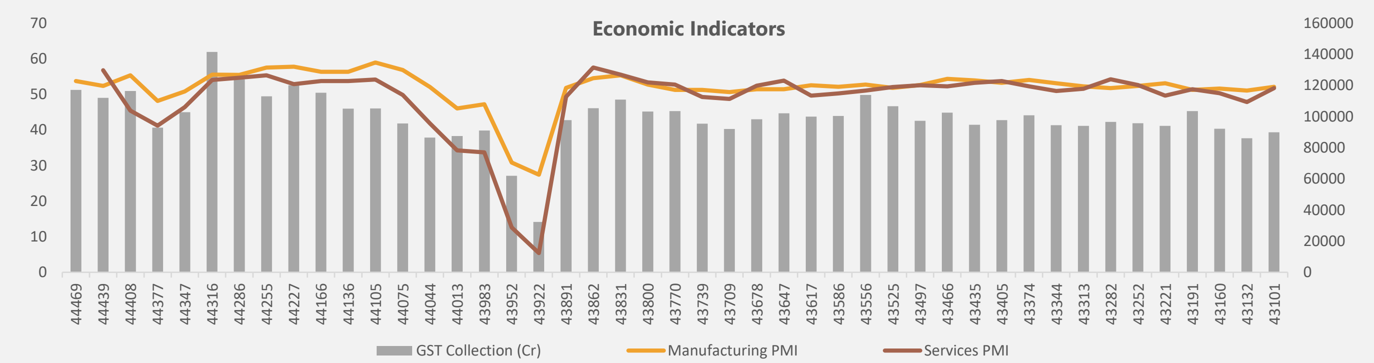
Economic Indicators

- India's manufacturing activity expanded for the third straight month in September 2021. Rising from 52.3 in August to 53.7 in September, IHS Markit India Manufacturing Purchasing Managers' Index (PMI) highlighted a stronger expansion in overall business conditions across the sector.
- Price pressures, which receded in each of the prior two months, intensified in September due to lingering shortages of raw materials as well as higher fuel and transportation costs. Consumer goods were the brightest spot in September, posting the highest PMI reading among market groups amid substantial accelerations in the growth of new orders and output.
- The average monthly gross GST collection for the second quarter has been Rs. 1.15 lakh crores, which is 5% higher than the average monthly collection of Rs.1.10 lakh crore during the first quarter of the current fiscal.
- The improvement in tax collection helped the government in narrowing its budget deficit gap which came in at 31% of the yearly target for the period April to August. A pickup in economic activity over the coming months when consumer spending is set to increase due to festival season might further improve the GST collection.
- India posted a current account surplus of $6.5 billion, or 0.9% of gross domestic product (GDP), in the April-June quarter, compared with a deficit of $8.1 billion in the preceding quarter, and a surplus of $19.1 billion in the year-ago quarter. India's core sector output expanded 11.6% in August, compared with a 9.9% expansion in July.
- According to data released by the Ministry of Commerce and Industry, foreign direct investment (FDI) inflows rose 62% to $27.37 billion during the first four months of the current fiscal over the same period last year.
- The Organisation for Economic Co-operation and Development cut its growth forecast for India by 20 basis points to 9.7% for fiscal 2022, and by 30 bps to 7.9% for the next fiscal, citing the continued risk from the pandemic.

Head's Up from the Central Bank

- A Reserve Bank of India (RBI) survey showed that exports of software services, including services delivered by foreign affiliates of Indian companies, recorded 2.1% growth during 2020-21 and stood at $148.3 billion.
- According to RBI data, bank deposits grew 11.9% year-on-year during 2020-21, compared with 8.8% in 2019-20, due to growth in the current account and savings account deposits.
- Disinvestment target of Rs. 1.75 Lakh Crores seems unattainable and a higher-than-budgeted dividend from the RBI might be needed to plug the fiscal hole.
- The RBI revamped loan transfer and securitisation rules that are expected to further boost liquidity in the system and improve transparency and corporate governance. They have allowed banks to sell loans tagged as fraud to asset reconstruction companies.





Debt Market & Other Indicators

- The interbank call money rate settled at 3%, compared with 3.25% on 27th August.
- The yield on the 10-year benchmark 6.10% 2031 paper settled at 6.24% on 30th September compared with 6.22% on 31st August. An uptick in global crude oil prices, which sparked fears about a rise in domestic inflation, pulled local bond prices down.
- A rise in US benchmark Treasury yields added to the pressure on domestic gilts. The US 10-year benchmark's yield remained elevated after the US Federal Reserve Chairman Jerome Powell warned that inflation might remain sticky for a prolonged period.
- The rupee weakened against the US dollar weighed by higher crude oil prices. Tighter supplies and prospects of improving global crude oil demand have fuelled a rally in prices.
- An uptick in global investor risk aversion due to the threat of inflation flagged by various central banks contributed to a risk-off sentiment, reducing demand for the rupee.
- WTI crude oil futures rose to a 3-year high crossing $75 per barrel, owing to the tightening of global supplies amid a fast recovery in global fuel demand.

Indicator	Sep 21	Aug 21	Trend
Call rate	3.00%	3.25%	▼
3Month CP	3.80%	3.57%	▲
1Year CP	4.50%	4.50%	▬
3Year AAA	5.30%	5.20%	▲
5Year AAA	5.79%	6.10%	▼
10Year G-Sec	6.24%	6.22%	▲

Currency (USD)	Sep 21	Aug 21	Trend
US Dollar	74.17	72.95	▲
GBP	99.81	100.33	▼
EURO	85.79	86.13	▼
YEN	0.67	0.66	▲

Commodity (USD)	Sep 21	Aug 21	Trend
WTI Crude	74.89	68.50	▲
Gold	1756.86	1818.10	▼
Silver	22.07	24.01	▼

Debt Market Outlook

- Partial stress has arisen in a segment where it was not expected viz. retail and MSME loans, which typically have the lowest default rate, thereby reflecting economic difficulties.
- With crude at a 3-year high, depreciating rupee, and consistently higher inflation, the Reserve bank of India might not have the room to be accommodative for too long.

Domestic Equity Market

- India is now the world’s 6th largest stock bourse in market capitalization terms surpassing France. Even though Indian equities snapped their five-week positive trend during the last week of September, the Indian benchmark index Nifty 50 managed to close 2.8% higher. Nifty Midcap 100 and BSE Small-cap gained 6.9% and 4.3% respectively.
- Weak global cues, including rising US treasury yields amid tapering concerns by the Federal Reserve, and China’s growth concerns due to the power crisis and Evergrande Group’s debt default issue, pressurised the domestic markets during the last week of September.
- A rally in realty, consumer durables, oil and gas, and auto stocks fueled the market. S&P BSE Realty and S&P BSE Consumer Durables gained double digits, while metals and healthcare were the only two major sectors to witness losses.
- Realty stocks lately have performed exceedingly well driven by home loan rates that have dropped to 6.5% and increased disposable income in the hands of potential buyers. Lower mortgage rates are acting as a catalyst for banks and NBFCs that are experiencing huge demand for loans particularly in the housing segment supporting bullish sentiment.
- SEBI came up with a revised risk management framework for fund houses to ensure mutual funds maintain high standards, exercise due diligence, ensure proper care in their operations and protect the interest of the investors.
- SEBI said that a proposed skin-in-the-game rule for junior mutual fund employees would be implemented in a phased manner.

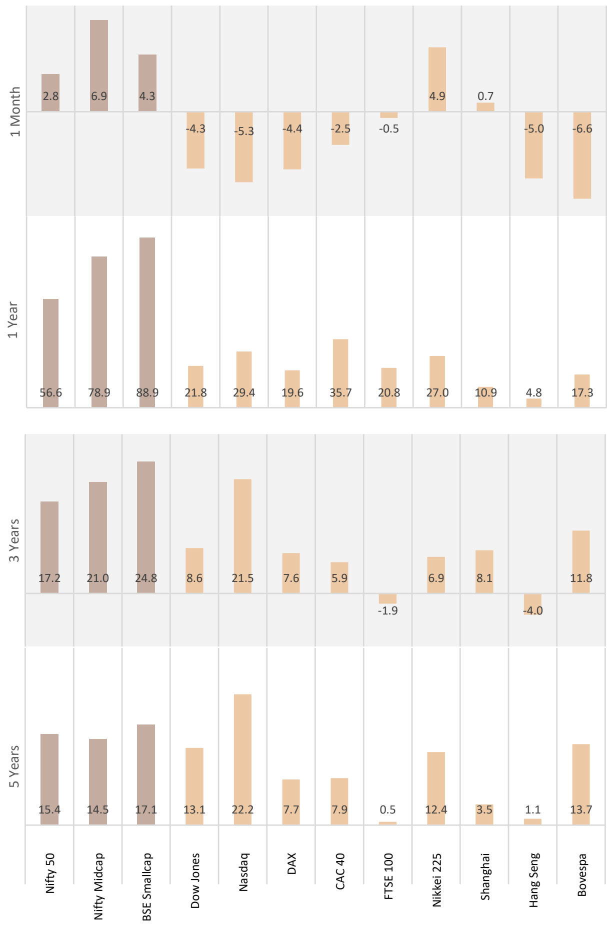
Broad Indices	Sep 21	Aug 21	Change
Nifty 50	17618	17132	2.8%
BSE Sensex	59126	57552	2.7%
Nifty Midcap	30384	28417	6.9%
BSE Smallcap	28082	26920	4.3%
S&P BSE 500	23938	23174	3.3%

Sectoral Indices	Sep 21	Aug 21	Change
S&P BSE Bankex	42728	41470	3.0%
S&P BSE Metal	20182	20580	-1.9%
S&P BSE Healthcare	26093	26570	-1.8%
S&P BSE IT	34419	34180	0.7%
S&P BSE FMCG	14862	14581	1.9%
S&P BSE CD	41340	37361	10.7%
S&P BSE Auto	23866	22571	5.7%
S&P BSE Oil & Gas	18302	17084	7.1%
S&P BSE Realty	4104	3085	33.0%
S&P BSE CG	25967	24974	4.0%
S&P BSE Power	3199	2921	9.5%

Global Equity Markets

- Global equities ended mostly in red on the back of rising bond yields amid rising prices, and China’s power and realty sector crisis.
- US benchmark indices ended lower in the range of 4% to 5% due to a sharp rise in the US benchmark treasury yields after the US Federal Reserve policymakers signalled that they might start scaling back the asset purchases from November.
- US treasury prices declined on the prospect of tighter monetary policy by global central banks going forward.
- US GDP grew 6.7% in the second quarter, compared with a 6.3% expansion seen in the first quarter. The consumer confidence index tumbled to 109.3 in September from 115.2 in August.
- Britain’s FTSE ended flat with a 0.5% loss on buying interest in the energy, banking, financials and healthcare stocks. Other European equities ended lower with Germany’s DAX and France’s CAC 40 falling by 4.4% and 2.5% respectively.
- Eurozone economic confidence index rose to 117.8 in September from 117.6 in August. The consumer confidence index remained negative but rose to -4 in September from -5.3 in August.
- UK GDP grew 5.5% sequentially in the second quarter of 2021, reversing the first quarter's 1.4% contraction.
- Asian equities ended mixed with Japan’s Nikkei surging 5% and Hangsang plunging 5%. During the last week, sell-off in shares of chipmakers, shippers and the Evergrande crisis pressured the market.
- Japan industrial production fell 3.2% month-on-month in August, compared with a 1.5% drop in July.
- Japan Jibun Bank manufacturing purchasing managers' index (PMI) fell to 51.5 in September from 52.7 in August.
- China official manufacturing PMI fell to 49.6 in September, compared with 50.1 in August, while non-manufacturing PMI rose to 53.2 in September from 47.5 in August.

Performance of Indian & Global Indices



Note: *For Periods till 1 year the returns are absolute and for beyond 1 year, its CAGR returns*

Equity Market Outlook

- Market valuations have risen as central banks have flooded the market with money due to their quantitative easing policies and the persistence of this trend will give a fillip to valuations. Given the plurality of IPOs in recent times, it is best to go by fundamentals as there could be a precipitous fall in value once a correction occurs.
- We see both compelling opportunities in the stock market and the potential for a solid year of returns, as would be consistent with the second year of a bull market in equities, but we do expect significantly high volatility along the way.
- Potential market headwinds include the possibility of the end of an ultra-accommodative monetary policy by central banks around the globe to bring inflation under check.

Investment Perspectives: Compounding & Performance Paradox

Over decades investors have understood the power of compounding; however, in the equity market, Performance Paradox often acts as a deterrent and clouds one perception of the long term. **Performance Paradox** happens when one gets caught in the short-term investment product returns rather than the long-term. Therefore, we want to discuss the compounding that can happen in one's portfolio by holding a few exceptional, consistent, great compounding investment managers by avoiding performance paradox to create extraordinary wealth. We have chosen managers A, B & C (managers & investment schemes - names changed) in the mid-cap and small-cap space, which we believe is highly fertile for alpha generation, to explain the same.

These three managers have delivered exceptional returns in the last 17 months **(shown in Table I)** since the markets hit bottom in March 2020, which might let you think, what's more? Therefore may result in a Performance Paradox. Hence, knowing the facts to understand the Bigger Picture is a must. All are highly experienced and have been running their strategy since the beginning of the decade 2010-2019. They have witnessed the vagaries of the stock market, as shown in **Graph I**.

They have navigated the market and economic cycles very well and have individually delivered impressive returns that helped create serious wealth for the investors. All the managers have been the leader amongst the Top Quartile since inception compared to benchmarks and peers, as shown in **Table II**.

Compound Interest is the eighth wonder of the world. He who understands it earns it. He who does not pays it.

– Albert Einstein

Table I - Performance of the fund managers during recovery

Fund	Apr-2020 to Aug-2021
Fund Manager A	189.6%
Fund Manager B	199.1%
Fund Manager C	188.5%

Graph I - Market Cycles

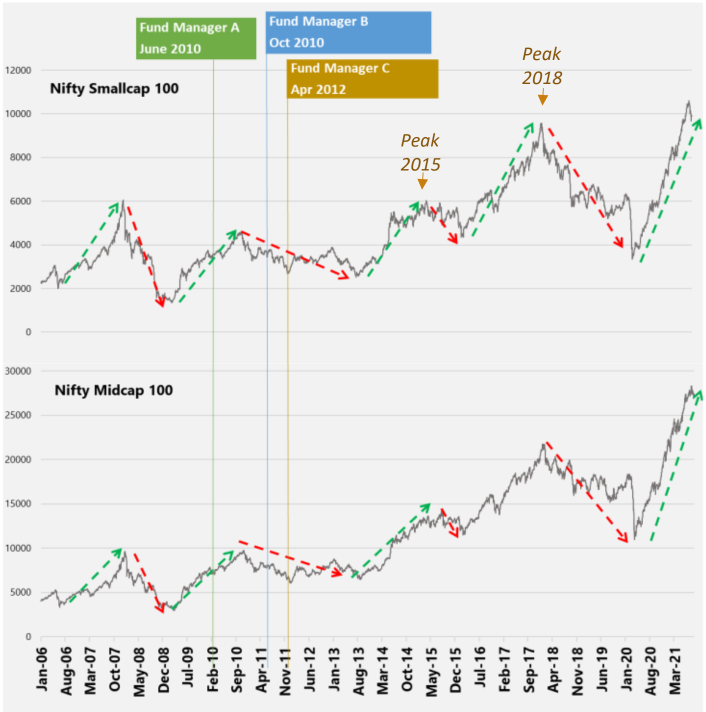
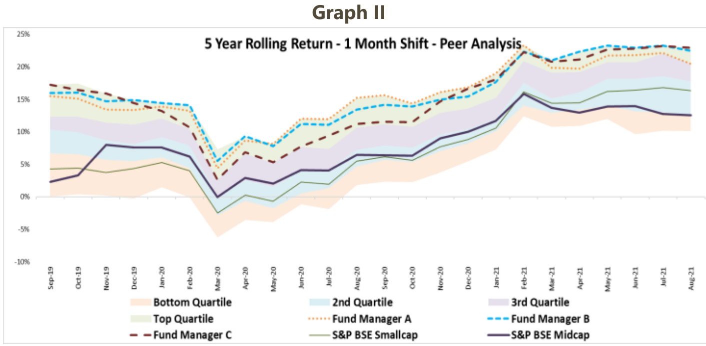


Table II - Performance since Inception

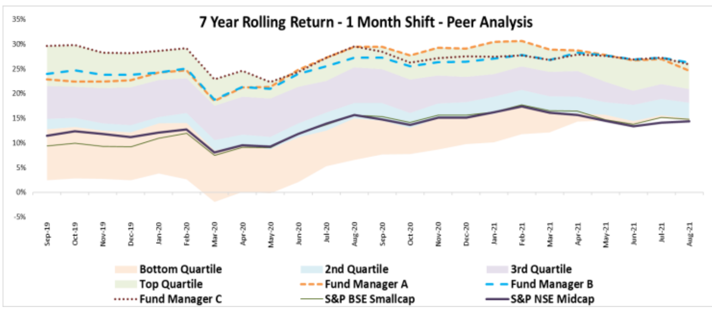
Parameters	Category	Annual Returns (CAGR)		
		June'10 to Aug'21	Oct'11 to Aug'21	Apr-12 to Aug-21
Fund Manager A	Mid & Smallcap	**19.9%**	24.3%	26.4%
Fund Manager B			**26.9%**	28.4%
Fund Manager C				**34.0%**
NIFTY Smallcap 100	Small Cap	10.0%	12.1%	12.5%
Top Quartile		19.7%	23.7%	24.6%
Bottom Quartile		13.3%	15.6%	15.7%
NIFTY Midcap 100	Mid Cap	12.2%	15.0%	14.8%
Top Quartile		18.5%	21.1%	21.6%
Bottom Quartile		14.2%	14.3%	14.6%

In addition, these managers have delivered returns on a buy & hold basis and have been consistently in the top quartile if the money was given to them for 5 years or higher. As a result, **they have been defying the fact** that a manager can't be in the top quartile consistently and across various long time frames, making them unique and preferred investment choice for family offices in India, as shown in **Graph II** & **Graph III**. However, as stated above, their recent performance may cast doubts in some investors' minds regarding future returns. *Hence long term picture is essential to steer away from the Performance Paradox.*

Graph II



Graph III



Good investing isn't about generating supernormal returns once in a while; instead, it is about generating handsome returns consistently across all market cycles and over long periods.

No particular investing style works over all periods, so combining managers with different styles can help investors reduce risk and smooth their investing journey. Therefore, managers with a different investment style in a portfolio have their merits. While operating in the same space, all three have different investment styles & philosophies.

- "A" follows an event-driven investing style across the breadth of the markets,
- "B" follows turnaround/mean reversion and growth investment style,
- "C" follows growth style investing with the last man-survival bias.

which makes all three very unique.

Exposure to such differentiated style managers is more meaningful and enough to benefit and take advantage of the opportunities offered by Indian Mid-Cap & Small-Cap universe.

The question in today's market is whether one should invest at this point in time, given the recent rally? If one has a horizon of 5 years plus, additional allocation in today's market should be considered, as timing the markets consistently is not possible.

Also, **look-back analysis** *reveals the fact that if one had invested with them at the peak of the markets in 2015 and 2018 (refer **Graph I**),* they would have still delivered good returns, despite seeing corrections, as shown in **Table III**. In the short term, like 3 years, as seen since 2018, they are in top quartile or upper second quartile; however, they have demonstrated repeatedly that over five years, they are in the top quartile.

Table I and **Table III** also shows that **an investor can be entirely correct in their asset allocation decision, only to lose money by not choosing the right investment manager** as represented by the bottom quartile. Therefore, picking an investment manager is a significant decision. Often, it can be the difference between successful financial wealth creation and one of high-stress & below-average returns.

The bedrock of successful manager selection is a rigorous research process. We believe that there is no one simple way of verifying the presence of such a skill. Hence, the manager selection process draws on a multitude of qualitative and quantitative techniques that give an informed view when combined. At all stages of the selection process, our manager research is looking for evidential support for the presence of key manager skills and verification of the manager's stated investment style and process.

But finding the right manager is just the start; managers need to be monitored on an ongoing basis, with changes made in a timely and efficient manner when required. *The changes should basis factors like change in investment style, departures of key investment professionals, unsustainable growth in assets, the unexpected change in investment process etc, and not because of Performance Paradox.*

"Put all your eggs in one basket... the handle's going to break. Then all you've got is scrambled eggs".

*- **Nora Roberts***

Table III - Performance from Peak (2015 & 2018) Till Date

Parameters	Category	Annual Returns (CAGR)	
		Aug'15 to Aug'21	Jan'18 to Aug'21
Fund Manager A	Mid & Smallcap	**21.1%**	**13.3%**
Fund Manager B		**22.7%**	**14.7%**
Fund Manager C		**21.2%**	**18.9%**
NIFTY Smallcap 100	Small Cap	10.1%	3.4%
Top Quartile		18.9%	21.5%
Bottom Quartile		11.5%	4.3%
NIFTY Midcap 100	Mid Cap	12.7%	8.4%
Top Quartile		16.2%	19.0%
Bottom Quartile		11.5%	8.6%

"Compounding has a snowball effect. It is just a tiny ball of snow at the very start, but it can turn into an avalanche over time."

— Naved Abdali

To summarize, the majority of investors want performance more than any other value driver. They define long-term performance consciously or subconsciously. However, it shouldn't stop with short-term returns or enhanced product choices and act as constraints.

If your investment manager has a stable strategy designed to endure changing economic and market cycles then staying invested for long term and avoiding performance paradox will inevitably lead to compounding and give your portfolio the performance edge.

Wealth planning tips for HNIs

Whether one is a self-made High Net Worth Individual (HNI) or has inherited wealth from a family, suitable wealth planning is extremely critical to protect and expand the wealth.

Quotes By Anurag Jhanwar
Published in
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Whether one is a self-made High Net Worth Individual (HNI) or has inherited wealth from a family, suitable wealth planning is extremely critical to protect and expand the wealth. The planning, which can be quite complex in nature and goes far beyond just the regular income projections. While each family have their own unique background and requirements and may entail specific wealth creation plan, few attributes like Investment Mandate (IM) and Investment Policy Statement (IPS) remain homogeneous and imperative.

These two form the bedrock of wealth creation plan and captures all the pertinent factors like how the assets are currently held and how it is invested, should they be consolidated or requires transferability from one asset class to multiple, strategic and tactical asset allocation bands, acceptable tolerance bands for deviations, raising red flags and actionable on deviations, monitoring portfolio drag, portfolio optimization and efficiency, frequency of review and rebalancing to name a few. Both serve as a critical tool in keeping the focus on the stated objectives and incorporates the accountability standards used for the investment process, policies, reporting requirements, monitoring, and evaluation of investment managers as agreed by the family.

When IM and IPS are followed judicially and consistently, it helps investors build traits similar to the families who have been successful in compounding their wealth for years now.

Things to keep in mind

While it takes years of hard work to accumulate substantial wealth, all of it can be lost in a proverbial moment. There have been instances where wealth erosion happened by inappropriate wealth holding structure or financial irresponsibility of next-generation rather than market fluctuations.

In India, today one can hold assets in an individual name or through a holding company route (Pvt ltd, LLP) or private family trust. Each has its own merits and demerits along with tax and legal implications. It is important to evaluate all options keeping in mind one’s requirements and implications on inter-generational wealth transfer. For example, for a business family, it is important to segregate personal assets from business assets as claims on the business front can do damage especially where personal guarantees are involved.

However, an HNI who accumulated wealth through ESOP’s might not have business risk, and the children settled abroad may require a different holding structure. Please note that in a good wealth creation plan; tax and legal implications should never be an afterthought.

As the younger generation takes over the reins of business it’s crucial to teach the importance of financial responsibility. The focus should be on institutionalizing the process of managing family wealth. The investment process built by the family should not be static rather it evolves over time and is passed over to the next generation. Various strategies can be deployed depending on family structure and situation.

For instance, there is a family who has amassed substantial wealth from the sale of land 10 years ago. The beneficiary was an IT employee with two children who completed their higher studies in the USA. The father set up his own IT company and invested the balance across assets classes like FD, mutual funds, and real estate. Both have grown at a good rate. In today’s time, one of the children is helping his father to expand and manage the business. The second one has become an angel investor who is looking after the family’s private equity investments which are 25% of the investible surplus. The balance is still in bank FD, mutual funds, gold. Holding structure is carefully crafted for equal wealth distribution.

‘There is no one size fits all’ however, to sum up, a good wealth creation plan involves all possible family resources and skillset. A wealth creation plan is a journey with a disciplined process rather than an ad-hoc basis, where the process is evaluated rather than the outcome, to achieve the right balance between wealth preservation, income, and growth. It keeps everyone on the same page and achieves desired monetary objective in the most tax-efficient manner without any legal ramifications.

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