



WELCOME

The Mutual Fund Industry continued to receive good news as both inflows and Assets under management across the Industry continued to swell up based on prevailing optimism. The Union Budget presented by the Government was welcomed by the Industry as it sets the clarity on long term direction & intent of the new Government. It was judged as a balanced budget both for the common people as well as the Corporate sector. The stock markets have reacted positively to the Budget. The Mutual Fund Industry did not get good news in the budget as the exemption on income of Mutual Fund Distributors was removed and the much expected taxation break for retirement based mutual fund products was not announced. The Industry is currently seeking clarifications on the service tax subject and it is believed that the Distributors may not get the impact of Service tax. As per the views of the experts, the Distributors are not the end customers who take the impact of a tax like Service tax. More clarity is likely to emerge soon and FIAI is working actively in that direction.

FIAI has been very actively representing various issues with the Finance Ministry, SEBI and AMFI on common issues pertaining to the Industry. Last month FIAI sent suggestion papers on the Union Budget, the Service tax issue and also the proposed changes in Distributor commissions to respective stakeholders and decision makers. FIAI also conducted its Members meeting and a strategic session of the Board last month. We are very hopeful by the various representations, the participative & constructive approach, we will be able to take forward some important issues which grows and positively impact the Distribution and the overall Mutual Fund Industry. The voice of the Distribution Industry is being heard much louder than ever before.

Gurpreet Singh

Principal Consultant - FIAI

ABOUT FIAI

Financial Intermediaries Association of India (FIAI) was formed as a financial distributors' body to strengthen the cause, development, education and progress of the industry. FIAI's endeavour is to bring all the national & regional players like National Distributors, Banks and IFA Associations on one platform to pursue the industry development and education agenda.

Some of the key objectives of FIAI are to promote and develop the Indian financial intermediary industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas of operations and to work towards protecting and promoting the interests of financial intermediary and their members

THE KEY OBJECTIVES OF FIAI ARE:

INDUSTRY DEVELOPMENT:

Promotion & development of the Financial Distribution Industry on professional, healthy and ethical lines.

INDUSTRY STANDARDS:

To ensure, promote and maintain a high professional and ethical standards in all areas of operation of financial intermediaries and their members and to enhance and maintain standards with a view to protecting and promoting their interests.

SUGGESTIONS:

Engaging with and proposing suggestions & initiatives to the industry players, associations and regulators for the growth of the industry.

TRAINING & EDUCATION:

Sharing of knowledge and giving a forum for enlightenment & exchange of ideas within the industry.

ENGAGING OTHER STAKEHOLDERS:

Actively engaging with certification bodies including NISM and FPSB for distribution to agree professional standards and accreditations for financial advisors in India and to drive its implementation across the intermediary fraternity.

Real Estate Investment Trust (REIT) - Current Scenario in India

By ICRON Research Desk



Real Estate Investment Trust (REIT) is a popular investment avenue in developed financial markets. A REIT is a type of a real estate company modelled after mutual funds. REIT is a corporation or trust that pools capital of many investors to purchase and manage income property and or mortgage loans. To qualify as a

REIT, a company must have the bulk of its assets and income connected to real estate investment. REITs are traded on major exchanges just like stocks.

Hitherto, in India REITs have had an uncertain progress. One of the reasons for the slow progress on this front is the nascence in the ancillary activities, without which an REIT cannot operate smoothly. The fragmented nature of the real estate sector, absence of ratings and research on real estate firms, the delays in the judicial system etc have been responsible for the slow emergence of REITs in India. Furthermore, the taxation policies of REIT are such that net returns are reduced significantly.

After issuing guidelines in 2013, the Securities Exchange Board of India (SEBI) firmed up the regulations with respect to REITs in September 2014. Some of the key regulations governing these financial instruments are:

- ▶ In India, REIT will be set up as a trust and will have parties such as trustee (registered with SEBI), sponsor, manager and principal valuer with specific responsibilities.
- ▶ REITs will be close-ended in nature and will provide liquidity to unit holders by listing units on a

stock-exchange.

- ▶ Investments will be made in commercial real estate, either directly or through a Special Purpose Vehicle. However, investment through SPV is allowed only if the latter owns 80% of the properties directly.
- ▶ Mode of investment in SPV will be possible through: subscription to equity or equity linked instruments, by providing debt, or through partnership interest.
- ▶ The returns are to target rental income and capital appreciation.
- ▶ The minimum public holding required for a REITs establishment is 25%.
- ▶ The minimum asset value for setting up a REIT is Rs 500 crore. At the same time the minimum application amount for investment is Rs 2 lakh. Minimum number of subscribers is to be 200.
- ▶ An REIT is required to invest a minimum 80% of its funds in completed and rent earning property, while a 10% investment is allowed in other specified assets.
- ▶ Diversification: Investments need to be made in a minimum 2 projects, with a maximum 60% invested in any one project.
- ▶ If sale proceeds from any property are reinvested in another property then there is no requirement of distributing 90% of the proceeds to the Unit Holders. However, if the proceeds are not invested then upto 90% of the proceeds have to be distributed.
- ▶ Purchase of property for a value greater than 110% of the value as assessed by valuer or sale of property which is less than 90% of the value as assessed by the valuer is allowed if approved by Unit Holders.

For retail investors, REITs provide a convenient means to invest in the real estate sector, as the ticket size required for investment is small. For developers, REITs open up diverse sources of funds. For both stakeholders, one of the biggest benefits of an REITs is the liquidity option that such an investment provides in a sector which is amongst the most illiquid.

The union budget for FY15-16, has proposed some tax sops to REITs which would make the net returns of such instruments more tax efficient.

- ▶ The Government proposes to rationalize the capital

gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs, subject to payment of securities transaction tax (STT).

- ▶ The rental income of REITs from their own assets will have pass-through facility and will be taxed in the hands of the unit holders.
- ▶ The sponsor will be given the same treatment on

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Small AMC perspective

Mr. Vikaas M Sachdeva

Chief Executive Officer,

Edelweiss Asset Management Limited

When I was asked to write an article on "Small AMC perspective", I almost started off by trying to justify what small AMCs do for a living – and then stopped to ask myself.....

"do we really feel like a SMALL organization?"

"Is our thinking process restricted to the size we're currently at?"

"Do my colleagues in the distribution fraternity – FIAI being a case in point – discriminate in their attitude towards my organization?"

I realized the answer to all of the above was a resounding "NO" which is what prompted me to stop reacting defensively to the title...

In reality, I believe there are three types of AMCs :

A] Ones with vintage, who happen to have a sizeable AUM under their belt (Let's call them "Large")

B] Ones which are progeny of the crisis during the global crisis of 2008 – 2011 (Let's call them "Young")

C] Ones with vintage, who do not have an AUM equalling their vintage (For lack of a better word, they could be termed as "small/ mid sized AMCs")

So what makes the breed of young AMCs go forth in a world dominated by size? Few things which we noticed are :

1] **Sharp positioning:** Each of the young AMCs has

offloading of units at the time of listing as would have been available to him if he had offloaded his shareholding of special purpose vehicle (SPV) at the stage of direct listing.

Following the new regulations as well as the follow up taxation policies, the interest in REITs is expected to increase.

had a baptism by fire. Knowing fully well that they cannot compete on the existing set of rules laid down by the industry, they have striven to pick a niche and establish themselves in that. So whether it is low volatility equity investing, buy and hold strategies, value driven investment prowess or a strong fixed income base, most young AMCs have picked their battles

2] Keeping costs low: One of the striking features of young AMCs is the way they have managed to keep their costs low and their heads down till the time the crisis was over. Now, with the benefit of hindsight and strong tailwinds, these AMCs are scaling up operations at a far lower cost than what you would have expected them to do

3] Pick and choose your distribution partners: The younger AMCs have focussed on a clear set of distributors across geographies, who they think can support their cause. This breed of distributors itself is smart, hungry and ambitious and they have been more than willing to support a good AMC when they see one

4] Smart products and initiatives: What is common between an absolute return fund, investment through Whatsapp, creating a product to cater to behavioural finance, benefits of very long term investing and an aggressive FoF portfolio? They all are smart products and ideas coming in from young AMCs

As a small / mid-sized AMC, the perennial question is "Should I invest more to grow, or should I rationalize my resources to be profitable.....which is where you find

the most amount of consolidation happening.

While one does not want to romanticize the travails of a young AMC – and there are quite a few – I think the level of ambition and audacious thinking is what needs to be

watched out for. After all, it is not the size of the dog in the fight which matters, it is the size of the fight in the dog which counts...

Disclaimer: Mr. Vikaas M. Sachdeva is the Chief Executive Officer of Edelweiss Asset Management Limited and the views expressed above are his own.

ACTION AT FIAI

FIAI Members meeting and Board's Strategic session



FIAI conducted a meeting for its Members last month where it discussed various critical issues being

pursued by it in the recent past. The progress of various development items like the upcoming CRISIL report and the planned Distribution Conclave were also discussed. The members gave their views and suggestions on how we can pursue the current agenda and suggested some new initiatives which we should pursue. The meeting also formally welcome new members Citibank, Religare Wealth and Anand Rathi Financial Services in their first meeting at FIAI.

FIAI Board also met last month for brainstorming through a strategic session on the current issues we are undertaking. It was resolved to continue the vigour with which developmental items are being undertaken by us and approach on issue resolution.

Meeting with AMFI



AMFI invited FIAI for discussion on the proposed changes in Distributor commissions. FIAI team gave its views on the subject and suggested status quo

given the need for growing the Industry and achieving Financial inclusion with the active role of Distributors. We later sent the required paper to them through our perspective paper on the subject.

Suggestions papers submitted

Besides various meetings and discussions, FIAI submitted various formal papers including papers to Finance Ministry on suggestions pertaining to Union Budget and the growth of the Financial products &

Distribution Industry, suggestions on pricing across financial products to the Finance Products pricing committee set up by the Government of India and Distributor commissions perspective to AMFI.

INDUSTRY UPDATES

KEY DEBT MARKET INDICATORS

DATA FOR MONTH: MARCH 2015

Benchmarks	As on 28-Feb-15	As On 31-Jan-15	As on 30-Nov-14	Change (Month)	Change (Quarter)
364 Day Tbill (Primary)	8.02%	7.90%	8.32%	0.12%	-0.30%
5-year Benchmark	7.81%	7.71%	8.22%	0.10%	-0.41%
10-year Benchmark	7.73%	7.70%	8.09%	0.03%	-0.36%
30-year Benchmark	7.76%	7.77%	8.20%	-0.01%	-0.44%
91 day Bank CD	8.70%	8.55%	8.33%	0.15%	0.37%
Annualised 1-yr AAA spreads	0.41%	0.16%	0.15%	0.25%	0.26%
Annualised 5-yr AAA spreads	0.40%	0.44%	0.27%	-0.04%	0.13%
5-yr OIS	6.98%	6.78%	7.15%	0.20%	-0.17%
Bank Rate	8.50%	8.75%	9.00%	-0.25%	-0.50%
RBI LAF-Repo rate	7.50%	7.75%	8.00%	-0.25%	-0.50%
RBI LAF-Reverse Repo rate	6.50%	6.75%	7.00%	-0.25%	-0.50%
Foreign Exchange Reserve(\$ bn)	338.07	327.88	316.31	10.19	21.76
Brent Crude Oil (\$/bbl)	59.73	46.91	71.26	12.82	-11.53
Gold (\$/oz)	1214.00	1260.25	1182.75	-46.25	31.25
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	1.99%	1.64%	2.16%	0.35%	-0.17%
CRR	4.00%	4.00%	4.00%	0.00%	0.00%

Source: Various (BSE, NSE, SEBI)

DOMESTIC MARKET INDICES

Returns % as on 28th February 2015

Indices	Close	1 month	3 months	1 year %	3 years %	5 years %	7 years %
S&P BSE Sensex	29361.50	0.61	2.33	39.02	18.26	12.29	7.60
CNX Nifty	8901.85	1.06	3.65	41.82	18.24	12.56	7.91
S&P BSE 100	8994.46	1.03	4.05	44.23	18.49	12.08	7.40
S&P BSE 200	3674.53	0.92	4.68	47.29	18.81	12.12	7.48
CNX 500	7252.65	1.20	4.84	49.55	19.26	11.91	7.54
CNX Mid Cap	13121.70	-0.02	5.91	68.11	19.42	12.83	8.85
S&P BSE Small Cap	11266.44	-0.55	-0.04	74.81	17.98	6.90	2.27
S&P BSE Midcap	10810.85	0.67	5.26	66.31	19.18	11.04	5.00
CNX Nifty Junior	19705.60	0.81	6.13	61.79	23.59	14.28	10.76

Source: BSE & NSE. Returns are calculated on absolute basis for less than one year and on CAGR basis for one year or more.

GLOBAL MARKET INDICES

Returns % as on 28th February, 2015

Indices	Close	1 Months	3 Months	1 Year %	3 Years %	5 years %	10 years %
Shanghai Composite (China)	3310.30	3.11	23.39	60.98	10.89	1.40	-3.82
S&P BSE Sensex (India)	29361.50	0.61	2.33	39.02	18.26	12.29	7.60
Nikkei 225 (Japan)	18797.94	6.36	7.66	26.66	24.60	13.08	4.73
Nasdaq (USA)	4963.53	7.08	3.59	15.21	18.73	16.91	11.81
Dow Jones Ind Avg (USA)	18132.70	5.64	1.71	11.10	11.88	11.76	5.74
Bovespa (Brazil)	51583.09	9.97	-5.64	9.53	-7.81	-5.16	-2.92
Hang Seng (Hong Kong)	24823.29	1.29	3.48	8.70	4.62	3.35	0.29
FTSE 100 (UK)	6946.66	2.92	3.33	2.01	5.77	5.15	2.40
KLSE Composite (Malaysia)	1821.21	2.24	0.02	-0.79	5.08	7.25	4.29
RTS Index (Russia)	896.63	22.02	-8.06	-29.25	-19.71	-8.88	-11.18

Source: bloomberg.com. Returns are calculated on absolute basis for less than one year and on CAGR basis for one year or more. Sorted on basis of 1 Year basis.

INSTITUTIONAL ACTIVITY

Source: SEBI

	February-2015			01-Jan-15 To 28-Feb-15		
	Debt	Equity	Total	Debt	Equity	Total
FII	13,088.10	11,475.53	24,563.63	33,857.40	24,394.70	58,252.10
Mutual Funds	63,578.30	4,309.20	67,887.50	96,702.70	5,188.70	101,891.40

FOREX

Currency movements against INR

Source: bloomberg.com

	27-Feb-15	30-Jan-15	30-Nov-14	28-Feb-14	% Change (Month)	% Change (Quarter)	% Change (Year)
1 US\$	61.83	61.87	62.03	61.76	0.06%	0.32%	-0.11%
1 Euro	69.28	70.03	77.16	85.02	1.08%	11.37%	22.72%
100 Yen	51.85	52.40	52.45	60.99	1.06%	1.16%	17.63%
1 Pound	95.42	93.13	97.36	103.61	-2.40%	2.03%	8.58%

MUTUAL FUND MONTHLY DATA

Amount in Rs. Crore (Source: SEBI)

TYPE		AS ON 31 ST DECEMBER 2014			FOR DECEMBER 2014 MONTH		
		No. of Schemes	No. of Folios	Assets	Sales	Purchases	Net Sales
A	Income/ Debt Oriented Schemes (i+ii+iii+iv)	1,345	71,63,658	6,90,817	8,62,708	9,62,533	99,825
i	Liquid/ Money Market	52	3,15,814	1,78,491	8,28,960	9,14,808	85,848
ii	Gilt	45	61,848	9,025	348	2,162	1,813
iii	Debt (other than assured return)	1,244	67,85,967	5,02,154	33,399	45,563	12,164
iv	Debt (assured return)	0	0	0	0	0	0
v	Infrastructure Development	4	29	1,147	0	0	0
B	Growth/ Equity Oriented Schemes (i+ii)	415	3,07,99,002	3,19,477	6,792	13,115	6,323
i	ELSS	52	62,16,886	36,257	471	944	473
	Others	363	2,45,82,116	2,83,220	6,321	12,171	5,850
C	Balanced Schemes	25	19,20,675	24,490	505	1,339	834
D	Exchange Traded Fund (i+ii)	45	7,02,354	13,890	987	984	3
i	GOLD ETF	14	4,76,961	7,188	132	1	131
ii	Other ETFs	31	2,25,393	6,702	855	983	128
E	Fund of Funds Investing Overseas	30	1,51,820	2,668	125	23	101
	Total (A+B+C+D+E)	1,860	4,07,37,509	10,51,343	8,71,116	9,77,994	1,06,878

BECOME A FIAI MEMBER

FIAI invites all National Distributors, Banks and IFA Associations to become its members to be able to successfully pursue the objectives of the body in interest of the entire industry & distributors at national level.

Membership Benefits

- ▶ FIAI provides an excellent opportunity to participate in the process of building a think tank that puts forth well-researched and independent points of view on topic relevant to the financial products distribution / advisory practice.
- ▶ Members will be able to suggest and participate in building of the research subjects and the underlying reports.
- ▶ Members will get access to the updates of regulatory and business changes.

- ▶ The FIAI members will be privy to our reports immediately prior to submission with regulatory bodies.
- ▶ Members will have the opportunity to engage with eminent people and organisations through a range of events.
- ▶ Members will be able to reach remote areas by the use of the planned FIAI regional/ zonal offices.
- ▶ FIAI will undertake services for promotion of financial business of its members and the development of the securities market.
- ▶ FIAI will undertake studies /surveys on important matters and access to such report will be helpful for the business practices of its members.

Registration Process

To become a member, kindly contact us...



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FAI

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