

Common Voice of the Distribution Industry

'Get complete news & updates on the financial products distribution industry and the latest happenings at FIAI in our monthly newsletter - FIAI Diary





WELCOME

The month of April was an encouraging start to the new financial year with large inflows coming in the equity mutual funds and an overall increase in the total Industry AuM was a positive sign inspite of stock markets operating in a non-decisive territory.

FIAI has been working very actively to work out solutions for resolving the issue of levy of Service tax of Mutual Fund Distributor commissions which has dampened the sentiments of the entire Distribution Industry. Various meetings, suggestions papers and discussion forums were conducted last month to work towards a solution to the issue. Another important change which the MF Industry was the changes in MF distributor commissions structures. FIAI held various constructive forums where ways to optimise and work towards an acceptable solution to the proposed changes were discussed.

As we move forward the next few days, FIAI remains committed to resolve the issues being faced by the Distribution Industry and work towards an incremental growth of the financial products Industry to the next level.

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.



Mr. Anup Maheshwari
Exec. Vice President, Head
Equities & Corporate Strategy,
DSP BlackRock Investment
Managers Pvt. Ltd.

It is said that earnings are finally the anchor for market performance. We have been waiting for a long time for a pickup in earnings momentum, which is not yet in evidence. The near term also doesn't suggest any imminent spurt in earnings growth either. There are many reasons for this – investment cycle not picking up, rural consumption slowdown, currency issues, inventory losses due to fall in commodity prices - and so on.

However, it's important to put a context to all of this. What is happening in India is not unique - we are witnessing a global phenomenon of earnings downgrades accompanied by upticks in equity markets. Asset inflation led by easy liquidity is taking valuations above long term averages not just in India, but globally as well. If one looks at Europe - earnings have been downgraded, but markets are moving up due to ECB's liquidity support. The same is the case with Japan. Earnings outlook in the US is also muted, even as the market there continues to be well supported.

If one looks at extreme valuation scenarios, maybe we are not there yet there with Europe or in Japan, though both markets are above long term averages. The same is the case with India. You can argue that the US has indeed got quite a bit expensive, and is now well above its long term average. That said, globally there is a contradiction between earnings growth and equity market behaviour - and India is mirroring the same trend.

One would be concerned when markets are at extreme valuations and you have low visibility of earnings growth picking up. In the case of India, the expectation is that we are now at the fag end of a downcycle that has lasted over 7 years and that a cyclical recovery is due, sooner rather than later. What we saw in the Indian market last year was unique to India - and was led by the election results. What we are seeing this year is more like back to the normal of being guided by global trends.

If you look at what global strategists are saying and doing, it appears that markets that have monetary easing programs in place are the ones more in focus. This is a very tough call because we do have liquidity

driven momentum that is supporting the markets even as earnings are not offering much comfort in the near term. We are not really at extreme valuations to start worrying too much, but clearly, there are expectations that a cyclical upturn will commence sometime this year, allowing for earnings momentum to start showing up visibly from next year. Markets can remain well supported so long as incremental evidence or comfort develops on this as the base case. You would start worrying only if markets continue moving up too far without any incremental evidence of a broad based cyclical upturn taking shape.

The complexion of the market has changed dramatically since 2007. In 2007, cyclical and economy sensitive sectors made up 65% of the market cap of the index. Today, defensives make up around 70% and cyclicals have been compressed to 30%. The last five years has been a big bull market for defensives. Now, when we talk about muted earnings growth, the fact is that the 70% which is defensives, is continuing to grow at 10%-15%. It is the 30% represented by cyclicals which is de-growing and dragging overall earnings growth into single digits. And within the cyclicals space, 4-5 key companies – led by oil and metals related businesses – are contributing to the bulk of the earnings slowdown.

When you look at the Sensex at 27,000 levels today and compare with 21,000 levels of 2007, defensives are actually at twice or thrice their 2007 levels while cyclicals are much lower. Defensives are looking expensive; money chasing quality has meant that any business with a good RoE is now no longer cheap on valuations.

When you get a cyclical upturn, this 30% of market cap will expand, because economy sensitive stocks' earnings won't typically grow at 10-12%, they would rebound at much higher levels of earnings growth in the first leg of the upturn. It's tough to ascertain the timing about when this trend change from defensives to cyclicals will actually happen – but one does know that a trend change is due. This won't be so visible in the index – just as the last change was not that visible in the index. But, there is going to be a sizeable trend change in the years ahead, and as portfolio managers, we need to calibrate our portfolios in a manner that captures this trend change. The challenge is that this process takes a while – and portfolios need to be dynamically managed during this transition. There is a time when expensive stocks get more expensive and cheap valuations remain cheap on the other hand. You need to navigate through these periods until the trend change is firmly in place.

As portfolio managers, we look for signals of a trend change. One such signal is heightened volatility in stocks that are going through a trend change. So, when you start seeing defensive stocks exhibiting higher than normal levels of volatility, that could be a signal of a change in trend.

Staying put through this phase makes sense to me. For one, we don't have the kind of growth challenges that many other parts of the world are facing. We are probably at the fag end of a long cyclical downturn and the expectations are of an upturn happening sooner rather than later. Sure, there are risks – monsoons this year can be one of them.

But the bigger question for advisors to consider is if you

take money off the table, where are you going to invest it? Physical assets are significantly over-owned and financial assets are significantly under-owned in Indian households. We are at a 20 year low of financial assets as a percentage of household savings. The numbers are stark and extreme. Extremes always bring about mean reversion – and so will be the case with Indian household investments into financial assets and away from physical assets.

So, the big domestic story is really about large amounts of incremental savings coming into financial markets, a portion of which will come into equity markets. You would want to participate in this movement, rather than be out of it.

ACTION AT FIAI

Brainstorming session with AMCs



FIAI conducted a meeting with various Asset Management Companies (AMCs) to brainstorm the proposed circular on changes in MF Distributor commissions and arrived on a common minimum ground for good of all stakeholders i.e. the investors,



Asset managers and the Distributors. The active and constructive participation of all the players in the forum led to many constructive ideas and resolutions of many key issues.

Suggestions papers submitted

Besides various meetings and discussions, FIAI submitted various formal papers & letters to resolve the Distribution Industry issues: Letter to AMFI on the Service Tax issue, Letter to AMFI on capping of Distributor commissions & service tax issue jointly with few AMCs, Suggestion paper to SEBI on the Service tax

issue and a suggestion paper to the Finance Ministry on the Service tax issue.

These representations suggest ways and means in which the current issues can be addressed in a constructive manner.

INDUSTRY UPDATES

KEY DEBT MARKET INDICATORS

DATA FOR MONTH: MAY 2015

Benchmarks	As on 30-Apr-15	As on 31-Mar-15	As on 31-Jan-15	Change (Month)	Change (Quarter)
364 Day Tbill (Primary)	7.90%	7.90%	7.90%	0.00%	0.00%
5-year Benchmark	7.88%	7.81%	7.71%	0.07%	0.17%
10-year Benchmark	7.86%	7.74%	7.70%	0.12%	0.16%
30-year Benchmark	7.96%	7.87%	7.77%	0.09%	0.19%
91 day Bank CD	8.25%	8.35%	8.55%	-0.10%	-0.30%
Annualised 1-yr AAA spreads	0.36%	0.64%	0.16%	-0.28%	0.20%
Annualised 5-yr AAA spreads	0.38%	0.40%	0.44%	-0.02%	-0.06%
5-yr OIS	7.19%	7.05%	6.78%	0.14%	0.41%
Bank Rate	8.50%	8.50%	8.75%	0.00%	-0.25%
RBI LAF-Repo rate	7.50%	7.50%	7.75%	0.00%	-0.25%
RBI LAF-Reverse Repo rate	6.50%	6.50%	6.75%	0.00%	-0.25%
Foreign Exchange Reserve(\$ bn)	351.87	343.00	327.88	8.87	23.99
Brent Crude Oil (\$/bbl)	63.77	54.81	46.91	8.96	16.86
Gold (\$/oz)	1180.25	1187.00	1260.25	-6.75	-80.00
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	2.03%	1.92%	1.64%	0.11%	0.39%
CRR	4.00%	4.00%	4.00%	0.00%	0.00%

Source: Various (BSE, NSE, SEBI)

DOMESTIC MARKETS - KEY INDICES

Returns % as on 30th April 2015.

Indices	Close	1 month	3 month	1 years	3 years	5 years	7 years
S&P BSE Sensex	27011.31	-3.38	-7.44	20.49	15.97	8.99	6.58
CNX Nifty	8181.50	-3.65	-7.12	22.18	15.95	9.16	6.79
S&P BSE 100	8321.56	-3.31	-6.53	23.92	16.46	8.87	6.55
S&P BSE 200	3425.03	-3.18	-5.94	27.42	17.03	8.95	6.82
CNX 500	6749.65	-3.27	-5.82	28.43	17.33	9.09	6.93
CNX Mid Cap	12689.60	-2.40	-3.31	44.47	19.31	9.49	8.86
S&P BSE Small Cap	10944.03	-2.80	-4.56	43.89	16.99	6.35	4.70
S&P BSE Midcap	10416.29	-1.88	-2.07	43.13	22.01	10.45	8.58
CNX Nifty Junior	19188.95	-1.30	-1.83	41.23	23.34	11.60	11.12

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

DOMESTIC MARKETS - KEY SECTORAL INDICES

Returns % as on 30th April 2015.

Indices	Close	1 month	3 months	1 year	3 Years	5 years	7 years
S&P BSE Auto	18334.50	-4.80	-4.80	37.11	19.87	18.63	21.36
S&P BSE Bankex	21030.88	0.79	0.79	43.00	21.15	13.51	13.21
S&P BSE FMCG	7607.39	-2.15	-2.15	15.03	17.05	19.74	15.91
S&P BSE Healthcare	16186.51	-6.07	-6.07	51.15	33.02	23.62	20.65
S&P BSE Metal	9800.97	3.54	3.54	-1.80	-3.97	-11.11	-6.85
S&P BSE Oil & Gas	9203.45	-1.17	-1.17	-3.61	4.94	-1.49	-3.14
S&P BSE Realty	1573.06	-5.49	-5.49	12.62	-2.41	-14.73	-21.42
S&P BSE TECK	5795.91	-7.37	-7.37	18.77	20.34	11.82	7.59
CNX Consumption	3289.50	-3.54	-3.54	25.95	19.24	15.50	10.53
CNX Infra	3154.65	-2.92	-2.92	20.89	10.11	-1.79	-4.92
CNX Media	2053.10	-6.20	-6.20	17.96	19.62	4.11	1.41
CNX Dividend Oppt	1971.15	-2.16	-2.16	15.74	8.73	9.21	9.32

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.

GLOBAL MARKETS – KEY INDICES

Returns % as on 30th April 2015.

Indices	As On 30 Apr 15	1 month	3 months	1 year	3 Years	5 years	7 years
Shanghai Composite (China)	4441.66	18.51	38.35	119.19	22.77	9.12	2.67
Nikkei 225 (Japan)	19520.01	1.63	10.44	36.46	26.96	12.03	5.02
Hang Seng (Hong Kong)	28133.00	12.98	14.80	27.10	10.07	5.91	1.27
S&P BSE 100 (India)	8321.56	-3.31	-6.53	23.92	16.46	8.87	6.55
Nasdaq (USA)	4941.43	0.83	6.61	20.10	17.50	14.95	10.78
Bovespa (Brazil)	56229.38	9.93	19.87	8.92	-3.11	-3.59	-2.65
Dow Jones Ind Avg (USA)	17840.52	0.36	3.94	7.60	10.53	10.13	4.83
All Ordinaries (Australia)	5773.67	-1.51	4.00	5.54	8.93	3.61	0.29
FTSE 100 (UK)	6960.63	2.77	3.13	2.66	6.65	4.62	1.93
RTS Index (Russia)	1031.31	17.41	40.34	-10.76	-13.44	-8.09	-9.78

INSTITUTIONAL ACTIVITY

Source: SEBI

	April-2015			01-Jan-15 To 31-Apr-15		
	Debt	Equity	Total	Debt	Equity	Total
FII	3,611.98	11,720.93	15,332.91	46,114.20	48,193.70	94,307.90
Mutual Funds	28,649.50	7,618.40	36,267.90	203,064.70	16,112.10	219,176.80

FOREX

Currency movements against INR

Source: bloomberg.com

	30-Apr-15	31-Mar-15	31-Jan-15	30-Apr-14	% Change (Month)	% Change (Quarter)	% Change (Year)
1 US\$	63.42	62.50	61.87	60.32	-1.46%	-2.44%	-4.89%
1 Euro	70.53	67.51	70.03	83.31	-4.28%	-0.71%	18.12%
100 Yen	53.53	52.11	52.40	58.93	-2.65%	-2.11%	10.09%
1 Pound	97.98	92.45	93.13	101.45	-5.64%	-4.95%	3.54%

MUTUAL FUND MONTHLY DATA

Amount in Rs. Crore (Source: SEBI)

TYPE		AS ON 31ST MARCH 2015			FOR MARCH MONTH (RS.CR.)		
		No. of Schemes	No. of Folios	AUM \$ (Rs. Cr.)	Sale (Rs. Cr.)	Purchase (Rs. Cr.)	Net Sales (Rs. Cr.)
A	Income/ Debt Oriented Schemes (i+ii+iii+iv)	1,346	72,12,187	6,94,128	12,06,172	10,85,875	120,297
i	Liquid/ Money Market	52	3,11,644	1,62,562	11,36,982	10,24,172	112,810
ii	Gilt	45	65,225	14,614	946	2,385	1,439
iii	Debt (other than assured return)	1,245	68,35,289	5,15,772	68,243	59,317	8,926
iv	Debt (assured return)	0	0	0	0	0	0
v	Infrastructure Development	4	29	1,179	0	0	0
B	Growth/ Equity Oriented Schemes (i+ii)	434	3,16,91,619	3,45,139	8,805	17,286	8,481
i	ELSS	55	64,92,280	39,470	516	1,965	1,449
ii	Others	379	2,51,99,339	3,05,669	8,289	15,321	7,032
C	Balanced Schemes	25	19,90,516	26,368	1,673	3,163	1,491
D	Exchange Traded Fund (i+ii)	48	6,99,729	14,715	782	1,293	512
i	GOLD ETF	14	4,65,765	6,655	114	2	111
ii	Other ETFs	34	2,33,964	8,060	668	1,291	623
E	Fund of Funds Investing Overseas	31	1,46,155	2,408	102	19	84
Total (A+B+C+D+E)		1,884	4,17,40,206	10,82,757	12,17,533	11,07,635	109,898

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...



CONTACT FIAI

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FIAI

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