SENSEX	NIFTY	USD	GOLD	CRUDEOIL
56463.15	16958.65	77.38	53499.00	7915.00

A Year for Bulls or Bears? Here's what our fund managers have to say

The Indian financial markets have defied all odds and stayed resilient despite macroeconomic uncertainty and the surge in US Treasury yields after the US Fed rate hikes.

What are the challenges in the global investing landscape and in India's financial markets? Arvind Chari, CIO of Quantum Advisors Pvt Ltd, and fund managers of Quantum Mutual Fund – Sorbh Gupta, Pankaj Pathak and Chirag Mehta share insights about the impact on asset classes.

Despite macroeconomic uncertainty, financial markets have stayed resilient, will they sustain or will it be similar to the impact of 2012?

Arvind Chari, CIO, Quantum Advisors says, "India is not as 'fragile' as it was in 2012. Despite sustained selling by foreign investors in the equity markets and wider monthly trade deficits, prolonged Russia-Ukraine war, and surging US Treasury yields, the Indian bond, currency, and equity markets have remained reasonably resilient. The corporate, household and bank balance sheets are much better than before.

Assuming that the war is not prolonged, we think the medium-term economic outlook for India remains robust given the recovery in business activity and the strong macroeconomic tailwinds. We believe that the Indian economy is at the cusp of a multiyear upcycle with real GDP getting back to its long-term growth trend of 6 to 6.5% GDP growth."

What happens next with the Fed's $9 trillion balance sheet and how can investors be prepared for subsequent monetary policy changes?

Arvind noted, "The real worry would be in the middle of this year when the FED announces its plan for the Quantitative Tightening (QT). If the FED plans to sell treasury bonds to reduce its balance sheet, it will lead to higher US bond yields and can cause uncertainty in financial markets. Regarding fixed income allocation, we have maintained that the best way to play the rate hiking cycle is by allocating to short-term funds such as liquid funds to benefit from the rise in interest rates. Moreover, these funds help qualify as an emergency fund reserves due to the low interest and credit risk."

Agrees Pankaj Pathak, Fund Manager, Fixed Income, "From the bond market's perspective, this is a perfect storm. It was already grappling with rising inflationary pressures, large demand-supply imbalance, and less supportive global monetary policy. Now the geopolitical tensions have added another layer of uncertainty in the market. A combination of liquid to money market funds and short-term debt funds or dynamic bond funds with low credit risks should remain as the core fixed income allocation for the investors.

(Cont.)

Investors can park 12 months of their monthly expenses in a liquid fund scheme such as the Quantum Liquid Fund with underlying portfolio in government securities, T-bills, PSU/PFI bonds and given their short duration, these funds take low interest rate risk."

Should investors look at the macro-economic uncertainty as an opportunity to add to their gold holdings?

Chirag Mehta, CIO, Quantum Mutual Fund said, "Tightening of monetary policy by the Fed is fundamentally negative for gold. But the Fed is behind the curve and further firming of inflation as a result of economic sanctions against major food and energy producer Russia will lead to a more catching up on their part rather than real tightening. In addition, slowing growth will test the Fed's aggressiveness to tighten liquidity and hike rates. Investors doubt whether the Fed will be able to strike a balance between controlling inflation and soft landing the economy as it aggressively tightens in the face of decades-high inflation and vulnerable global growth. With key parts of the US Treasury yield curve flattening and even inverting, bond markets are increasingly pointing to a recession. Given these realities, gold will remain a relevant asset class."

Mehta also adds, "Irrespective of the macroeconomic developments, it will serve investors well to know that gold is not a tactical asset but has a strategic role to play in an investor's portfolio. It remains a return-enhancing, risk-reducing portfolio diversifier due to its several properties.

- Ability to keep pace with inflation
- Long term Store of value
- Upholds value during macro-economic and geopolitical uncertainty

Investors who have already invested can stay put as gold helps in balancing out the risk in your equity investments. If not, ETFs could offer a strategic way to enter the gold market, diversify one's portfolio and help offset downside risks."

One-stop solutions like Multi Asset Fund of Funds can be a good choice for simplifying an investor's asset allocation needs. Quantum Multi Asset Fund of Funds offers a diversified portfolio and endeavours to generate better returns than bank fixed deposits with measured equity allocations. So, when you are looking at a solution for your asset allocation needs, you need to ensure you are going to a fund that is unbiased and not lopsided to a particular asset class," said Mehta.

"Investors who prefer a hands-on approach can use the DIY Approach (Do it Yourself) where investors can implement the asset allocation themselves using Quantum's tried and tested 12-20-80 approach with the underlying building blocks of equity, debt and gold. As per this strategy, 12 months' worth of one's monthly expenses should be parked in a safe place such as a liquid fund scheme. After setting aside 12 months of safe money, whatever money is left could be split between 80% to equities and 20% to Gold. Investors should ideally choose efficient forms like the gold fund of funds or gold ETFs. The 80% of equities must be diversified across styles of equity management. We have seen cycles for certain styles and therefore, Investors must be very diversified with that allocation," concluded Mehta

Mutual funds add over 3 cr folios in FY22 on sharp rally in equity market, digitisation

Increasing awareness about mutual funds, ease of transactions through digitisation and sharp surge in equity markets have aided asset management companies to add a staggering 3.17 crore investor accounts in 2021-22, with experts saying the trend is likely to continue this fiscal as well.

This was a significant rise from 2020-21 when 81 lakh accounts (or folios in mutual fund parlance) were opened, data with the Association of Mutual Funds in India (AMFI) showed. The ongoing financial year too appears to be promising in terms of folios as increase in investor accounts will enable people to move beyond fixed deposits and savings accounts. Market conditions, geopolitical situations, inflation rates, financialisation of investments and increasing awareness among the people are some of the elements that may have an impact on this industry

According to the data, the number of folios with 43 fund houses rose to 12.95 crore in March 2022 from 9.78 crore in March 2021, registering a gain of 3.17 crore during the one-year period. The industry crossed a milestone of 10 crore folios in May 2021.

SEBI comes with new guidelines to evaluate risk value of gold, gold-related instruments

Sebi on Monday came out with a new framework for evaluating risk level of commodities -- gold and gold- related instruments -- in which mutual funds are permitted to invest on risk-o-meter.

In a circular, the markets regulator said it has been decided that investment in such commodities by the mutual fund schemes will be assigned a risk score corresponding to the annualized volatility of the price of such commodities.

The annualized volatility will be computed quarterly based on past 15 years' prices of benchmark index of a commodity and risk score for such commodity will be categorized in four levels ranging from "moderate" to "very high", SEBI said in a circular.

Annualized volatility of less than 10 per cent, 10-15 per cent, 15-20 per cent and more than 20 per cent, will have risk score of 3 (moderate), 4 (moderately high), 5 (high) and 6 (very high), respectively.

Explaining with an example, Sebi said if the price of gold has annualized volatility of 18 per cent based on the price of gold of the past 15 years, then gold and gold related instruments will have a risk value of 5 (high) on risk-o-meter.

In October 2020, the regulator had said investment in gold and gold-related instruments by schemes will be valued at 4 from risk perspective.

This new framework will come into force with immediate effect, the Securities and Exchange Board of India (Sebi) said.

BSE's StAR MF platform sees record 29.9 lakh single-day transactions

BSE's mutual fund distribution platform StAR MF processed a record 29.9 lakh transactions in a single day on Monday. The platform has surpassed its previous best single-day record of 26.65 lakh transactions registered on January 10, the exchange said in a statement.

Snehal Dixit, Business Head-Mutual Funds BSE StAR MF, said that reaching new heights by adding many more transactions is possible since mutual fund has become a product of the masses.

"Distribution is spreading due to digitisation, area and the scope for distributors, which is increasing with new investors entering the MF market," he added. In March, BSE StAR MF processed a record number of 1.97 crore transactions against its previous best of 1.87 crore transactions in January.

In the entire FY22, the mutual fund distribution platform processed 18.47 crore transactions as against 9.38 crore achieved in the preceding financial year. Besides, the platform registered 10.89 lakh new systematic investment plans amounting to Rs 250 crore last month.

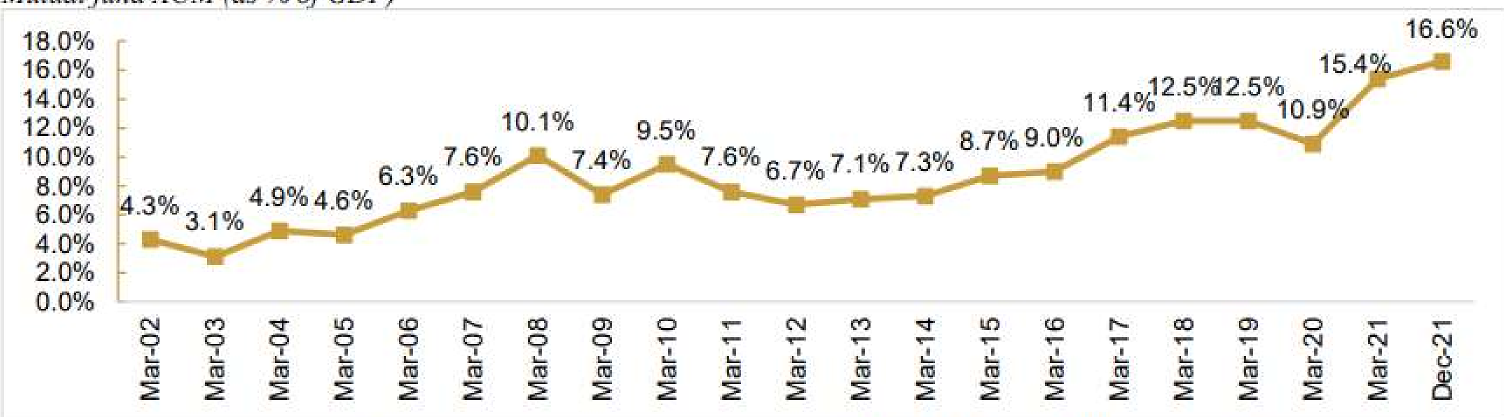
Penetration of mutual funds in India goes up to 17% of the GDP

Penetration of Indian mutual fund industry has reached an all-time high in December 2021.

The mutual fund AUM to GDP ratio, which indicates its penetration has touched a new high of 16.6% in December 2021 due to record high inflows, post covid rally in equity markets and a hit on India's GDP due to the pandemic, reveals KFin Technology's draft IPO prospectus.

The AUM to GDP ratio has risen significantly in the last couple of years. In March 2020, the ratio stood at 10.9% and it rose to 15.4% by March 2021 and finally to 16.6% in December 2021.

Mutual fund AUM (as % of GDP)



Note: Based on end of Fiscal AUM and GDP at current prices; Source: AMFI, IMF, RBI, CRISIL Research

(Cont.)

"Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base. This is due to increasing penetration across geographies, strong growth in capital markets, technological progress and regulatory efforts aimed at making mutual fund products more transparent and investor friendly," the document stated.

However, the penetration of mutual funds in India is still very low compared to other nations. In the US, the mutual fund AUM to GDP ratio stands at 140% and the world average is 75%.

KFin Technology said that the under penetration in India provides huge growth opportunity for mutual fund players. "Under penetration of mutual funds in India and an opportunity to earn annuity income once the fund builds up a good book of assets are the main attractions for many players to foray into the mutual fund business. This has caused 10 houses to apply for mutual fund license," the RTA said in the prospectus.

Debt has a bigger share in the overall mutual fund AUM in India. The report shows that the debt AUM is 7% of the India's GDP and the equity AUM is 6% (based on AUM data of the fourth quarter of calendar year 2020).

AMFI revises code of conduct for mutual fund distributor

AMFI has revised the code of conduct for mutual fund distributors to demonstrate the core values of transparency, competency, fairness and integrity among other things.

AMFI has divided the code into six parts. Let's take a look at the new code of conduct for MFDs:

Fiduciary duty

- MFDs should keep interest of their clients before anything else and always act in their best interests
- MFDs should avoid conflict of interest. When it cannot be avoided, they should intimate clients about such conflicts through disclosures
- MFDs should not recommend schemes based on financial incentive
- MFDs should promote a culture of ethics and integrity within their organization and discourage unfair practices, aggressive sales targets and inappropriate business conduct
- MFDs cannot give rebate or pass-back of commission to investor
- MFDs cannot attract clients through gifts, gift vouchers etc.
- MFDs cannot do churning to earn commission, splitting application to earn transaction charges, participating in diverting funds, concealing material facts and making false claims

Compliance obligation

- MFDs should adhere to SEBI MF regulations, comply with KYD norms all the times
- MFDs should do in person verification (IPV) of investors to comply with KYC norms
- MFDs should tell their clients about risk associated with recommended schemes

(Cont.)

- MFDs should understand financial status, investment experience, investment objective of clients before recommending any scheme
- Business representative of MFDs should have to comply with AMFI norms
- MFDs should maintain confidentiality of client's data and enter into contractual agreement with AMCs for data protection
- MFDs having sub broking model will have to work with sub distributors having valid ARN

Infrastructure requirement

- Physical: MFDs must maintain necessary infrastructure to support AMCs in maintaining high standards
- Digital: MFDs should facilitate IT related infrastructure and maintain cyber security to maintain confidentiality of data
- Internal control: MFDs should put in place internal checks and balances to prevent mis-selling and misconduct
- Insurance: MFDs are encouraged to take up appropriate insurance coverage (professional indemnity) for their activities
- Record keeping: MFDs will have to maintain record physically or digitally including KYC records

Client related obligations

- MFDs should urge investors to go through SAI, SID or KIM before making investment
- MFDs should disclose all material facts including commission received or receivable in lieu of recommended schemes. They should also tell clients about commission structure of competitive schemes across fund houses
- MFDs should disclose list of mutual funds they can offer and give them an option to consider alternate products, which are not offered by them
- MFDs facilitating digital transaction should tell their clients that they are investing in regular plans which involve payment of commission to MFDs. Such MFDs should also disclose their commission structure across fund houses through hyperlink
- MFDs should not indicate returns from any scheme
- MFDs offering other financial products should ensure that they do not mis-sell mutual funds by comparing with other products in terms of return expectation
- MFDs should explain to clients that MF investments are not guaranteed or assured return products and tell them that principal amount may be exposed to risk of loss
- MFDs should resolve investor grievances and complaints and provide assistance to deal with AMCs with respect to their grievances and complaints
- MFDs can only use promotion material provided by AMCs
- If they wish to promote any scheme on their own, they can do so by taking prior permission of AMCs

(Cont.)

Other obligation

- MFDs should train their employees to comply with all the norms
- MFDs should use social media responsibly with respect to content standards and authenticity
- MFDs should co-operate with AMCs, AMFI, SEBI and other authorities in relation to their services
- MFDs should intimate AMCs and AMFI about any change in their status, constitution, address, contact details
- MFDs should immediately inform AMC or AMFI in writing about any act amounting to moral or financial irregularities by them or their employees
- MFDs should always use a tagline – AMFI registered Mutual Fund Distribution in all communication

Obligation towards MF industry

- MFDs should not make any false or defamatory statement about AMC, AMFI, other MFDs and MF schemes
- MFDs should maintain professional decorum and should not participate in transmitting untrue statement or rumours

SEBI constitutes working groups to review MF's sponsor eligibility, role of trustees

SEBI on Friday formed two working groups to review the role and eligibility of a sponsor of a mutual fund to facilitate growth and innovation in the industry and to streamline the role and obligations of trustees of such financial instruments.

The working group for reviewing the role and eligibility of an MF's sponsor will be chaired by A Balasubramanian, MD and CEO of Aditya Birla Sun Life AMC and chairman of industry body AMFI, while the other group constituted to streamline the role and obligations of trustees of MFs will be headed by Manoj Vaish, Independent Trustee of Mirae Mutual Fund.

Considering the changing dynamics of the mutual fund industry, a need has been felt that in addition to the existing eligibility requirements to sponsor a mutual fund, an alternative set of eligibility requirements may be introduced to enable new players, who otherwise may not have been eligible, to act as sponsor," SEBI said in a statement.

This is expected to not only foster competition in the mutual fund industry but also facilitate consolidation in the industry through mergers and acquisitions so as to reap economies of scale and scope.

Also, it is expected to facilitate fresh flow of capital into the industry and to foster innovation, it added.

Sakthi Financial Services

Weekly Update

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Systematic Transfer Plan (STP)

STP means transferring money from one mutual fund plan to another. STP is a smart strategy to stagger your investment over a specific term to reduce risks and balance returns.

For instance, if you invest 'systematically' in equities, you can earn risk-free returns even when the markets are volatile. Here, an AMC permits you to invest a lump sum in one fund, and transfer a fixed amount to another scheme regularly. The former fund is called source scheme or transferor scheme, and the latter is referred to as the target scheme or destination scheme.

Sharing an example illustration of Rs 10,000 STP from ABSL Low Duration Fund into the eligible schemes. The illustration showcases the scenario over 3,5-,7- & 10-year period.

For example, investment of Rs 10 Lakh in Low Duration fund with a monthly STP of Rs 10000 in Digital India fund over 10 years would have yielded an accumulated corpus of 45.7 Lakhs in Digital India fund along with residual 3.5 Lakhs remaining in Low Duration fund.

Here's how you can make the most of **Systematic Transfer Plan (STP)**

Assumed initial investment was done in **Aditya Birla Sun Life Low Duration Fund** & an amount of Rs **10,000** transferred to **Equity Schemes** with the help of **STP.**

Initial Investment 10,00,000 | STP Amount 10,000

Source Scheme	Years	Remaining Corpus	Years	Remaining Corpus	Years	Remaining Corpus	Years	Remaining Corpus
Aditya Birla Sun Life Low Duration Fund	3	8,02,016	5	6,68,385	7	5,41,470	10	3,54,034

Target Scheme	Years	Accumulated Corpus	Years	Accumulated Corpus	Years	Accumulated Corpus	Years	Accumulated Corpus
Aditya Birla Sun Life Equity Advantage Fund	3	5,03,756	5	8,84,829	7	13,89,159	10	27,30,464
Aditya Birla Sun Life Digital India Fund	3	6,93,928	5	14,49,457	7	24,01,398	10	45,70,978
Aditya Birla Sun Life Banking & Financial Services Fund	3	4,52,998	5	7,82,204	7	12,77,374	10	NA

Data as on 31st March 2022 | * The inception date of Aditya Birla Sun Life Banking & Financial Services Fund is Dec 14, 2013, hence the NAV is not available for the 10 yr period | Assumed STP date: 6th of every month | 3 year period: from 01-04-2019 till 31-03-2022 | 5 Year period: from 01-04-2017 till 31-03-2022 | 7 year period: from 01-04-2015 till 31-03-2022 | 10 year period: from 01-04-2012 till 31-03-2022