IN INVESTING, WHAT IS COMFORTABLE IS RARELY PROFITABLE

Robert Arnott
Index

From the IAIP Board ........................................................................................................ 5

Cover Story
Your Pursuit of Alpha in Indian Equities ................................................................. 7
Impact of Demonetization on Asset Classes and the Economy .............................. 11

In Conversation with
Abhishek Loonker, CFA ....................................................................................... 14
Vivek Pai, CFA ......................................................................................................... 16

Advocacy
#PIF event in Chennai – “Investment Advice in Changing Times” ..................... 18

Insights from IAIP Events
The Unusual Billionaires ....................................................................................... 19
Entrepreneurship & The Intangibles of Success ..................................................... 21
Half a billion rising: The Emergence of the Indian Woman .................................... 23
Financial Repression, Global Macro, India’s Options ............................................. 24
Improving Investment odds by application of ‘Rational Analysis’ framework ....... 26
Changing Global Demographics and its Investment Implications ......................... 28
Wealth Management Practitioner’s Workshop – Bengaluru ................................. 29
VCs are from Venus, Entrepreneurs are from Mars ................................................. 31
Disciplined selling rules—a William O’Neil India Investing event in Bengaluru ... 32

ExPress on WordPress
Early stage Venture investments in Indian Healthcare ecosystem ....................... 34
Person of the year 2016 ......................................................................................... 38
Commodities Speculation ..................................................................................... 40
Treasury Management for Different Organizations ................................................. 41
High Frequency Trading-The Road Ahead ............................................................. 42

Charter Felicitation Ceremonies .............................................................................. 43

IAIP Achievers ......................................................................................................... 46

Career Insights ........................................................................................................ 47

On a lighter note ...................................................................................................... 47

Announcements and Credits .................................................................................. 48
Dear Member Friends,

Wish you all a happy and prosperous 2017.

The year 2016 would really stand out for its unexpected outcome which could potentially have far reaching disruptive impacts globally. The quantum of surprises that the year 2016 brought has been huge, from expectations of China collapse at the beginning of the year to Brexit in summer, then Trump’s unexpected win in the USA and finally mother-of-all-events Demonetization or cancellation of 86% of currency, Rs 500 and Rs 1000 rupee notes in India. Each of the significant events in the last year is a testimony to the fact that we must accept that change is the new normal in the world which is far more unpredictable than ever before. As investment professionals, we all need to look at 2017 with greater preparedness, dedication, and determination and we need to be nimble and agile so we can look for opportunities amidst the volatility.

At IAIP, the CFA Society India, we ended 2016 with a sense of satisfaction, particularly on the regulatory front. Our much-awaited registration application under the new FCRA regulations was accepted by the government, MHA after over two years of follow-up. This regulatory approval is an important milestone crossed for IAIP. The FCRA registration does allow IAIP to function as a full-fledged CFA society in India, accepting contributions from its members as well as the Institute, for furthering its mission and goals. However, the regulatory oversight under the FCRA also requires us to strictly adhere to not only the legal & reporting requirements but also to ensure that funds are utilised solely for our mission, which is providing training and continuing education for our members and for promoting ethical and professional standards for the betterment of investment management profession in India. Thanks to some of the changes implemented by the Institute for large societies like India, our funding and support have been enhanced meaningfully. It means we now have a much larger pool of funds and resources to create the impact for the benefit of our members and profession.

Considering the depreciation of the India currency in recent years and the rising cost of CFA designation thereon, the membership renewal fee for the CFA Institute & the CFA Society India (IAIP) has been revised downwards by over 50% to USD 150. The year 2016 was the first year where we implemented the changed fee structure in India with resounding success. Our membership numbers have crossed the figure of 1500 currently, and the renewal rate is as high as 85%, with close to 350 new activations. With this growth in membership and the strong candidate base, it would not be surprising to see our membership crossing 2500 number in a couple of years making CFA Society India amongst the top CFA societies globally. With our collective strength in numbers as

From the IAIP Board

“\mI renew my CFA Institute and IAIP membership because it provides opportunities for continuing education as well as interaction with the best people in the investment community. I also have a hugely satisfying experience from the volunteering opportunities provided by IAIP.”

Jayesh Gandhi, CFA
President, IAIP

* Views expressed in personal capacity as a member of CFA Institute and IAIP.
Thank You.

Our events and activities continue to grow in terms of scale and size. We are committed to providing quality continuing education opportunities to members with a variety of high profile and relevant international and domestic experts. IAIP volunteers have been successfully conducting over 100 CE speaker events across eight cities in India, over the past few years. With increased funding, the objective would be to make it better, larger and relevant for members.

As some of you may be aware, the India Investment Conference, held every year in January for the last 6 years, in 2016, emerged as the second largest conference within CFA Institute, attracting over 500 participants, a huge success for the CFA Society India and its volunteers.

Another important activity, the IRC Challenge in India, is also one of the largest campaigns amongst the society, globally. Here IAIP volunteers mentor, coach and grade equity research reports and presentations made by students in over 40 top B-School (MBA) for the last eight years.

Each year and in 2016 as well, under the scholarship award program, IAIP along with the CFA Institute granted close to 450 scholarships to the deserving CFA program candidates, again the largest within the CFA community.

The Career Guide India 2016, I believe, is the first society level publication by any country to address the growing career related advice requirements of the members and candidates.

And we have many more such achievements for the year 2016...

The key factors that make CFA Society India such an impactful, vibrant and dynamic group is the large volunteers group, now in eight major cities. IAIP has been fortunate to have a dedicated group of volunteers who actively work, year after year, to further the interest of the Society and the CFA designation. Friends, regarding volunteering I have one simple message. One of the best ways to volunteer is by participating. We understand that it is always not possible for all of us to take time for volunteering. However, you could still contribute to IAIP and the CFA Society India’s mission by participating in events and programs and also by talking about our society within your own firms and employers. It is the collective strength of our participating and active membership that makes our Society great and impactful in India. Collectively, we aim to make a BIGGER, BOLDER and BETTER IMPACT in India. Looking forward to engaging and networking with all of you in 2017.

Thank You.

---

Your Pursuit of Alpha in Indian Equities

Contributed by Vikas Agrawal, CFA

Discussions around active versus passive investments, alpha generation, and smart beta surround the investment world today. You read about it in financial dailies, blogs, research papers and occasionally encounter a question from a potential or existing investor too. Globally, active fund managers are finding it tough to justify their alpha generation abilities and losing assets to the passive management. There are many reasons cited for this such as market efficiencies, skills or the costs associated with active management.

While investing, we all aspire for that little excess return which can make a difference over the period. Everybody likes it, a few earn it and even fewer realize it. You can call it a pursuit of Alpha. Moreover, the quest for alpha is not about setting up a zero-sum game in your portfolio. In other words, it is not about making excess returns in good times just to lose it back at others.

Although the capital markets across the world operate on common underlying principles, the dynamics of each country can be quite different from others. It happens because of several structural reasons such as the state of an economy, capital availability, maturity of financial markets, the pattern of shareholdings, liquidity, regulation etc. Hence, even with the similar profitability in term of earnings and potential, two underlying stocks can have quite different valuations and return prospects in two separate countries. Moreover, the economic arena in the post-2008 world has become more dispersed. Several developed economies are awash with liquidity, short-term yields are exploring new contours of negative yield territory, and at the same time, equity capital seeks rewards not only concerning the cost of capital but alpha too.

Considering India, you find that the macro environment here is very different compared to other large economies in the world whether it is in term of inflation, growth rates or the cost of capital. Price discovery and market depth are still a work in progress. As the dynamics surrounding active returns are different, so are the possibilities and discussions around. But in a country that is known for leapfrogging, no discussions are early in time, what about active manager's ability to generate risk-adjusted excess returns?

Then why the performance of a fund manager may be very different from others even if they compete in the same equity market with an identical investment objective? Let us look at the environment, opportunities and challenges that have a say if a portfolio manager is seeking an alpha from Indian equities.
Alpha in the tall, tail & tragedy

Investors may seek alpha opportunities from many different sources. One may prefer growth over value or blended strategy and vice versa. Some may try to penetrate the potential of large & mid-cap stocks, at the same time, some may explore the possibilities of small-caps or a long tail of micro-cap companies. Further, there can be many micro strategies inside a broader investment theme. You may be an investor who mainly prefers to harvest the sustainable moats of a company, while some may even invest in a company that can run only a short-term opportunity, even if it is not a business for the long-term allocation.

Interestingly, many local and global developments can trigger attractive valuation levels for building up the exposure. An investor can pick the quality in times of negative momentum caused by factors that may not be directly related the prospects of target buy. Buying Indian defensive companies during market corrections due to unrelated global reasons can be a good example.

In an interview at Wizards of Dalal Street, Sunil Singhania, CFA, Chief Investment Officer - Equity at Reliance Nippon Life Asset Management Ltd, explains how in year 2012-13 he could buy many good quality Multinational Company (MNC) stocks at attractive multiples after the Offer for Sale (OFS) was mandated by the SEBI. He remembers that it was a time when near-term fundamentals were not looking very rosy, and stocks of many MNCs with good technology, business models and established multi-year track record overseas were a great buying opportunity.

The performance data suggest that leading fund houses in India have beaten the benchmark across the category and for a longer period. It is not very difficult to find a fund house claiming that more than 75% of their schemes have beaten the benchmark in last quarter, a year or a longer period. Though the possibilities of excess return are available in a wide range of macro-micro themes, one that is in line with portfolio manager’s expertise and execution capabilities is the one best aiming and chasing for.

Market participants and the shareholding pattern:

In his research paper “Does Institutional Shareholding Affect Firm Value? An Empirical Analysis in Indian Market”, Amiya K Sahu captures the role of institutional investors in influencing firm performance. He concludes that foreign institutional investors influence the performance of a company positively where the influence of mutual fund holdings was found to be positive, but a weak relationship was observed.

While it a subject of debate as to which investor adds, or reduces the value of a company by monitoring and representations, one cannot rule out its impact. The investment objective and constraints of a significant shareholder certainly play a role in the return profile of stock.

Like other emerging markets, Indian equity markets also have lower free float patterns. Even within the Nifty 50 you will find stocks that have less than 50% free floats to the paid-up capital. Lower free float of a company, which possess a sustainable competitive advantage, can turn out to be an untapped treasure if you get an attractive entry point. However, it is easier said than done. An investor’s ability to see through a tightly held family management or governance of a corporate with 100% free float can make all the difference. Interestingly, the more different situations are, there is a bigger playground for active return seeker.

The power of investment mandate:

The arena of an investment mandate goes far beyond the investment objective written for regulatory purposes. It can be a key to addition or dent in manager’s abilities and execution of a winning strategy. In fact, high investment returns and low investor returns often hold true here as well.

Think of a portfolio manager with crowded priorities that do not sync with the very attributes of underlying portfolio assets. For example, a mid-cap fund manager who is expected to generate regular short periodic dividends. Or a manager who manages a sector agnostic, benchmark agnostic, and capitalization agnostic portfolio and gets compared to a peer group with a diversified portfolio over the shorter intervals. The benchmark agnostic nature makes the scheme return profile consistent in the short term, and one can access the manager’s alpha generation abilities artificially high or low.

On the other hand, a weaker mandate also checks the fund manager’s ability to hold down the investment within the cycles, a major source of long term alpha. Often managers recall selling a stock early in time as a regret point. While there can be many reasons for this, one cannot completely rule out some ever-greening pressures.

Also, think of a situation where a manager runs a portfolio where hot money is collected assuring short term performance. In addition to returns, such a manager will be under significant pressure to manage the portfolio from cash flows point of view too.

Indeed, managers with large assets under management also have their own set of challenges in an emerging market. In the absence of many target stocks, such managers tend to over diversify their portfolio. Such actions take them toward the benchmark returns, and the portfolio ends up reflecting benchmark performance. In fact, there comes a second effect in play. A manager with fewer active calls can turn more cautious and prefer to avoid a situation where he underperforms the benchmark and finds it tough to regain the lost ground. It is a situation when a manager may go for even a tighter hug to the benchmark and under perform on the scale of alpha. Ironically, you better call it quits when a manager loses on his active call discretion even while managing a non-discretionary portfolio.

Valuations without volume:

Let us relate to a portfolio manager who holds shares of thinly traded companies and requires to mark his portfolio to the market. Price discovery will be a concern for such stocks and can check one’s patience for surviving short-term periods of under-performance. It is also a time when an investor knowingly or unknowingly trades more and starts playing as a market maker of securities held by him. Such actions can create a long hole in the portfolio performance. A manager, who can sail through such temptations, may be best positioned to earn returns out of thinly traded stocks.

In the era of smart beta and plethora of indices, finding a benchmark with taller neck yet shorter height is quite common. You can easily find an index, serving a portfolio benchmark, where only 20% stocks account for almost 50% weightings and even more concentrated trading pattern. Performance comparison of a diversified portfolio with such skewed benchmarks is a challenge. It is more a case within a capital market cycle and further adds to the adds for an active manager. In such situations, a rightly selected benchmark and well-explained performance attribution can indeed empower the
A portfolio manager should also be a smart player who should not play all the innings. What if you are managing a concentrated portfolio on the theme of quality stocks in terms of Return on Capital, Growth and Management Quality and don’t find the attractive valuation to adding new flows to the portfolio? Protecting the returns rather than going down the pyramid and exploring the mismatch can do greater good.

Conclusion
While globally one may argue a diverse set of points for or against the active management, discussions back home are different even if I keep cost and luck out of the picture. Moreover, it is not fair on my part to bundle many moving parts of challenges and paint with a name called short-termism of portfolio managers. One needs to understand many other pressure points related to performance that may not be visible otherwise. While, beating the benchmark may seem to be a discussion of tomorrow for many, even today a fund manager experiences no less burn from the category or peer comparison on a daily course.

It is not a surprise to find an investor who conveniently tries to understand alpha as a mere measure of access return and play ignorant to the risk mitigation efforts and outcomes of a manager. Additionally, in emerging economies with higher risk-free rates, investors seek higher equity risk premium too. Availability of high debt returns works as an untold, unheard and unrecorded yet a crucial second benchmark for the portfolio managers.

Looking forward, regime changes may surprise both active and passive fund managers positively. Passive index investor with access to domestic defined contribution pension corpus has just started to enter the Indian equity market. It should set the floor for the next round of possibilities. Till then, the run between immediate potential and long-term penetration is on.

Impact of Demonetization on Asset Classes and the Economy

Contributed by
Ishwar Chidambaram, CFA

Introduction
On 8th November 2016, India embarked upon a massive demonetization exercise, unprecedented in scale and scope in world economic and political history. Collectively, in terms of volume, more than 23 Billion bank notes of ₹500 and ₹1000 denominations were rendered worthless literally overnight by the Prime Minister's announcement. As per estimates, India’s currency to GDP ratio (12.2%) is higher than other developing nations (Russia-11.9%, Brazil-4.1%, Mexico-5.7%)

Direct Taxes in India
Data released by the Central Board of Direct Taxes reveals that only 48 million individuals (or 3.81 percent of India’s population) filed tax returns in the assessment year 2014-15. The government earned ₹7.42 Trillion ($114 billion) as direct taxes in 2015-16, a 66 percent increase from ₹4.45 Trillion in 2010-11. However, the share of direct taxes as a percentage of all taxes has fallen from 60.78% in 2009-10 to 51% in 2015-16. This is abysmally low for a country with 1250 Million people!

The ₹500 / ₹1000 Note Economy
As per a leading publication, stacked one atop the other, the pile of demonetized notes would be 300 times the height of Mount Everest. Laid down to form a pathway, it would be long enough to reach the moon and back five times! In terms of value, the demonetized notes represented nearly 86% of Currency in Circulation (CIC), and were valued at almost ₹14.2 Trillion. Replacing all that discontinued currency will take time. Given that there were collectively 22 Billion notes of ₹500 and ₹1000, and that the RBI’s printing capacity is 3 Billion notes/month, the math seems conclusive. All this in an economy the size of India, which was valued at ₹150 Trillion ($2.2 Trillion) leads to the inescapable fact that there will be a deep impact on the economy going forward.

Rationale for Demonetization
The motives behind the government’s move are as follows:
- bringing unaccounted (“black”) money into the mainstream and rendering it liable for taxation;
- addressing the issue of currencies used for terror operations, which is transacted in cash (thereby choking their sources of funds);
- tackling the issue of counterfeit currency and fake notes
Short Term Impact
There is near unanimous consensus among economists and the intelligentsia that the short-term impact of the demonetization exercise is likely to be negative. According to one broking house, the impact is likely to be especially heavy on industries that are heavily cash dependent, construction, real estate, hotel businesses, self-owned businesses, bullion and jewelry, mining and trade. Industries such as mining, trade, real estate etc. that are expected to be strongly hit account for ~55% of the Gross Value Add (GVA) basket. Given their significant share in GVA, the broking house anticipates that growth is likely to see a sharp fall in the near term. Consumer spending (which comprises 56% of the economy) will also be impacted. FPI may also take a hit, as “hot money” flows get reversed.

Medium to Long-term Impact
The consensus appears to indicate that the move will be broadly supportive of growth in the medium term. This will reflect in the elimination of the cash economy, shift towards the banking system, broad-based financialization of assets (increased inflows into Mutual Funds, FDs, CASA, etc.) and estimated fresh inflows to rival FDI. More inclusive growth, increased crackdown on black money and corruption, increased efficiency (by increased tax compliance and checking counterfeit money) and boost to formal economy will be a positive. Additionally, increased transparency in business transactions is supportive of better corporate governance practices and will help to instill confidence in India Inc.

Guessing Game: The Business of Predictions
The macroeconomics of such a wide-ranging move are hard to predict in a highly dynamic and humongous economy like India. However, that has not prevented various brokerages and financial institutions from publishing their forecasts. For instance, one broking house predicts that the GDP growth rate for India will dip precipitously (0.5%) for the second half of FY2016-17 and states that a contraction is within the realm of possibility. They are forecasting a sharper dip than the Great Recession of 2008-09, with a weaker subsequent recovery. Another brokerage forecasts GDP growth to fall to 6.8%. In the author’s view, any such prediction must consider the long-term impact of demonetization on Money Supply.

Money Supply 101
As per calculations, in the formal economy, velocity of money equals nearly 8 times the CIC. The difficulty lies in estimating what is the velocity of money in the parallel/black economy. This may be higher or lower than that in the formal case. In the former case, there will be a contractionary impact, as broad money supply takes a hit; while in the latter case, there will be an expansionary impact, as money supply expands. It is still too early to predict which case will predominate. There are simply too many imponderables, especially with an economy as complex as India’s.

Blast from the Past: Lessons from 1978
In 1978, the government demonetized ₹1000, ₹5000 and ₹10,000 denominations of currency notes. These notes however, constituted only 0.6% of CIC back then. While the rich used to hoard black money in these denominations, the poor hardly used them. In this respect, it’s probably worth remembering that most financial crises are caused by lack of liquidity and not by lack of solvency.

Response to Demonetization
Lower and middle classes are happy with the move despite problems in withdrawing & depositing cash. Politicians are instigating discontent, but there are still no riots as expected by opposition. It has been well handled compared to similar moves in other countries.

Demonetization Around the World
After India, other countries like Australia, Pakistan and Venezuela have pressed ahead with plans to demonetize their high denomination banknotes. Protests and looting broke out in parts of Venezuela due to a lack of cash after the socialist government suddenly pulled that nation’s largest banknote from circulation during a brutal economic crisis. In the past, Myanmar and Zimbabwe experimented with demonetization, with mixed results.

"The CFA Institute charter and membership entails broad-based and constant learning. Over a period of time, seeking to upgrade knowledge and networking with like-minded individuals just becomes a part of your DNA.”

* Views expressed in personal capacity as a member of CFA Institute and IAIP.
Abhishek Loonker
Vice President at Ascent Capital, has over 13 years of experience and a strong investment track record in private equity, corporate strategy, fund raising, portfolio monitoring, M&A, corporate restructuring and managing several exits from listed and unlisted companies. A CFA charter holder and a Gold Medalist MBA from MATS School of Business, Abhishek has completed an executive education program in Corporate restructuring, M&A from Harvard Business School.

How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?

VCPE (Venture Capital & Private Equity) industry has seen significant growth over past few years. Unlike the western world, though India does not have advantages of major institutional funds and the availability of cheap debt, it certainly has many other competencies. It has a rich entrepreneurial culture. The increasing number of start-ups, requirement of financial capital and professional expertise have led to a significant boom in the number of funds raised to be invested in India. With favorable demographics and high economic growth rate, this industry will require lot more investment professionals to nurture business and create value for investors. CFA program is most useful for portfolio managers, in particular for those managing large investment funds and deciding where to invest money. It helps you in building a foundation for becoming a successful investment manager and CFA charter holders are well suited to capitalize opportunities in the fast growing VCPE industry.

How did CFA help in enhancing your career objectives?

I was already in the Private Equity business when I started pursuing the CFA program. This program has been designed in a unique manner. Its application-oriented approach has helped me in improving my research capabilities. Moreover, networking with fellow charter holders has also been a matter of immense benefits.

How would you rate the CFA course with respect to content and structure including the pros and cons? Also, include aspects which give CFA course an edge over other courses.

I am also an MBA by qualification yet proud to say that there are thousands of MBA program across the globe but there is only one CFA course. If someone wants to build a career in the investments world, there is no better choice than the CFA program. As mentioned earlier, it has a very practical application-oriented approach which differentiates it from all other professional courses. While it requires a rigorous schedule for completion, that at times can be torturous for working professionals, it helps you in building discipline and is the best fit for self-motivated.

What guidance would you give to CFA aspirants?

Attitude and Discipline are two crucial keys to success. The innate ‘gift’ of talent is a myth. We all have seeds of excellence within us, and it is merely a question that how do we make it grow. One should have a focused approach to achieve their goals. Travel often, it helps in developing a perspective. Always pursue your interest and hobbies. Life is short so enjoy each moment.

* Views expressed in personal capacity as a member of CFA Institute and IAPI.

"I renew my CFA Institute and Society membership as it enables me to network with right-minded people, get upgraded with regular continuing education events, and helps me promote ethics and integrity in the profession."
In Conversation With ...

Vivek Pai
founded Aroha Capital Investment Advisers – a SEBI Registered Investment Adviser in 2013 and pioneering efforts in providing unbiased, risk-based, skin in the game investment advice for Indian investors. Vivek graduated in Chemical Engineering from BITS Pilani and completed a Research Scholarship for a Masters in Chemical Engineering from the National University of Singapore. A trained and qualified Six Sigma Black Belt, he is a CFA charter holder and has been investing in the capital markets since 1999.

How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?

The industry of fee-based investment advice in India has immense scope and potential. There is a large and unmet need in India for high-quality financial intermediation through which the savings of the Indian public can be put to productive use. To fuel this huge and unmet need, high-quality investment professionals acting with fiduciary standards for their clients is the need of the hour. The scope is large, and the growth can be rapid.

Notwithstanding the immense opportunities, businesses in this industry are not large employers and hence job prospects are not as impressive as the business opportunities itself. In other words, I am saying as it stands today, there are significantly more opportunities for entrepreneurship rather than for employment in this industry. Perhaps as this industry matures, employment opportunities would significantly improve – however at the moment entrepreneurship trumps employment. Entrepreneurship can be in the form of setting up your investment advisory practice (as I have done) or creating interesting business models that achieve scale by leveraging technology or providing technology, platforms, and solutions that investment advisors in India are seeking today. The community of investment advisers in India is small today but growing. There is tremendous scope to be an influencer and provide thought leadership to the industry of fee-based investment advice, which is currently in its infancy in India.

The CFA charter with its established brand of being the gold standard in investment professional education, provides a relatively low cost (compared to a full-time MBA) and high-quality solution to bringing highly skilled investment professionals ready for the market. The CFA brand and its emphasis on ethics in the investment profession provides CFA charter holders an immediate stamp of market approval to meet the high fiduciary standards demanded of investment advisers.

How did CFA help in enhancing your career objectives?

Being an engineer by qualification and having worked for over 14 years in a variety of engineering roles, I was in a senior management position when I decided to be in the business of investment advice. The CFA charter was uniquely placed to help me make this switch – as I will explain in detail in my answer to the next question.

How would you rate the CFA course with respect to content and structure including the pros and cons? Also, include aspects which give CFA course an edge over other courses.

First, the CFA charter is practitioner-centric and hence provides hard skills that are extremely useful on the job. Second, the CFA charter is the internationally known gold standard in the investment profession giving immediate recognition to the charter holder. Third, in a cost-benefit analysis, the CFA charter is head and shoulders above all other full-time options for skilling oneself up in the investment profession. Full-time options would have required me to give up my job and would have been prohibitively expensive both from the perspective of the tuition fees of a full-time MBA and the opportunity cost of two years of employment. I also think that while passing the three levels of the CFA is by itself an achievement and a marker of someone who is ready to put in the effort to skill up, the CFA charter and the use of the designation throws a punch well beyond its weight.

What guidance would you give to CFA aspirants?

My only advice to CFA aspirants is to approach the CFA qualification from the perspective of skilling oneself up and striving to belong to a community of investment professionals who take their profession seriously rather than to look at the CFA designation as merely a means to a job.
Advocacy

#PIF event in Chennai – “Investment Advice in Changing Times”

On 25th November 2016 NSDL, in association with CFA Society India and CFA Institute, organized a seminar in Chennai on PUTTING INVESTORS FIRST.

Putting Investors First is a global initiative driven by investors and CFA charter holders with a purpose to build a culture of trust and to reaffirm the commitment of financial intermediaries for putting investor interests above all others. In India, CFA Society India and CFA Institute have partnered with NSDL to spread awareness about the Putting Investors First culture.

Shri N Hariharan, CGM SEBI was the chief guest. The keynote address was delivered by Shri Prashant Vagal, SVP NSDL. Robert W. Dannhauser, CFA, global head of the private wealth management practice of CFA Institute updated the audience on modern tools in managing wealth. His master class was followed by a practitioner panel to analyze the latest trends in investment advice.

Panellists included
- N. K. Prasad (Chief Executive Officer, CAMS India)
- Manoj Sathe (Vice President, NSDL)
- Sreekanth Meenakshi (Founder-Director, Funds India)
- Satish Ramanathan (Director, Tattva Capital)

Results and reflections from a specially commissioned pan India investor survey were also shared.

Submissions to Regulators
- Consultation paper on amendments/clarifications to the SEBI (Investment Advisors) Regulations, 2013

Induction of New Volunteers
- Shivani Choudhary, Chicago – IAIP GIPS Committee

Insights from IAIP Events

The Unusual Billionaires

Contributed by
Kapil Pahwa CFA, Neelabh Mishra and Vikas Agrawal CFA

Saurabh Mukherjea, CFA, and CEO, Institutional Equities, Ambit Capital Private Limited has been traveling extensively in the month of September and visited six chapters of IAIP-India CFA Society; Delhi, Mumbai, Bangalore, Chennai, Kolkata and Ahmedabad. The purpose of these visits was to talk about his second book, “The Unusual Billionaires”, and directly discuss its unique aspects with CFA charter and candidates throughout the country.

‘The Unusual Billionaires’ is a quest to define what greatness really means in the Indian Market. Starting with the great Roman Empire’s longevity and sheer size, unmatched by any other empire in the history of the human race, Saurabh delves into what defines legends such as Dravid or Schumacher in their respective field. The aim was to develop a structure to do the same for Indian companies, identify great businesses and therefore great equity investments that have been resilient over time and have generated the elusive Alpha.

‘Coffee Can Portfolio’ (CCP) was a concept formalized in a note by a Capital Group fund manager called Robert Kirby back in 1984. The CCP construct relies on a simple understanding that in order to get truly rich, an investor must let a sensibly constructed
portfolio stay untouched for a long period. A combination of high-performing stars, a few duds, low transaction costs and compounding then work their magic to earn healthy returns for the investor. The Unusual Billionaires builds upon this concept of CCPs to quantify greatness for Indian companies. Using the two guardrails of Revenue Growth and ROCE (ROE for financial services companies), for reasons well explained in the book, Saurabh and his team constructed and studied the performance of sixteen, decade-long CCPs from 2000 to 2015 as a part of their research. The companies which occur most frequently in these sixteen portfolios gave the seven companies that form the flesh of this book.

Read more: https://iaip.wordpress.com/2016/10/04/the-unusual-billionaires/

Entrepreneurship & The Intangibles of Success

Contributed by
Sameer Somal, CFA

On 20th August of 2016, the Pune chapter of the Indian Association of Investment Professionals (IAIP) organized a session on “Entrepreneurship & The Intangibles of Success.” This session was conducted by Sameer Somal, Chief Financial Officer of Blue Ocean Global Technology. He is not just a CFA charter holder but also a CFA Program Volunteer. He is a speaker and an educator who is busy throughout the year conducting sessions on topics ranging from financial planning to entrepreneurship across the globe. He is an ardent believer in life-long learning and also strongly believes in giving it back to the society.

Sameer effectively used his experience, reading skills and presentation skills to put his points across. His presentation was replete with various facts, figures, snapshots and quotations.
What is Entrepreneurship?
Sameer quoted French economist J.B. Say to describe an entrepreneur as someone who shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield. He also emphasized that to be become an entrepreneur, one needs to take decisive action.

Key concepts that make up entrepreneurship:
- Opportunity
- Resource use
- Creation of something new
- The presence of risk
- The desire to create value

Although on an average about 800,000 businesses are started each year in the US, the total number of businesses that close each year usually numbers well above 700,000. This clearly shows that becoming entrepreneur is easier said than done. However, one can pursue entrepreneurship within her organization by taking initiative to mobilize resources and contribute to the innovation of the firm. This form of entrepreneurship is called intrapreneurship.

Read more:

Insights from IAIP Events

Half a billion rising: The Emergence of the Indian Woman

Contributed by
Rajni Dhameja, CFA

IAIP and CFA Institute organized a discussion by Anirudha Dutta on his book “Half a billion a rising: The Emergence of the Indian Woman” on September 30, 2016. This event was organised as a part of “Women in Finance” initiative of CFA Institute. The event was well attended by the participants.

Anirudha started by narrating his journey in writing: from writing articles to writing the book. He travelled extensively within India and abroad for doing research for his book, interviewing many women from various parts of India, who have broken the barriers to move forward in their lives. He has narrated the stories of their willpower and determination in his book. He discussed about the insights drawn from his research, which are explained in the book. Key takeaways are as follows:

Indian women face struggle in majority of the aspects of their lives because of the patriarchal society. In many parts of India, education for girl child is not given so much importance. The decisions about higher education are influenced by the people around. Specially, in case of joint family system, the decisions are taken by not only parents but the people in extended family, which adds an extra layer of struggle.

Though the numbers are encouraging in terms of growth in number of educated women over the period of time but still lot needs to be done. NGOs will have to work at grass root level to convince the parents for discouraging the early marriage.

Read more:
https://iaip.wordpress.com/2016/10/10/half-a-billion-rising
Financial Repression, Global Macro, India’s Options

Contributed by
Rajni Dhameja, CFA and Shreenivas Kunte, CFA

IAIP and Reliance Mutual Fund organized a session on “Financial Repression, Global Macro, India’s Options and much more” by Russell Napier in Mumbai on October 24th 2016. The event was well attended by the participants.

Following are the key takeaways from the presentation:

• ‘Financial repression’ is a term used to describe measures sometimes used by governments to boost their coffers and/or reduce debt. These measures include the deliberate attempt to hold down interest rates to below inflation, representing a tax on savers and a transfer of benefits from lenders to borrowers. It is generally characterised by government resorting to ownership or control through financial regulation (forcing banks to hold govt. debt), credit controls, politicisation of credit, government mandated interest rates, capital controls, restricted investment list, transaction tax, capital levy, dividend controls etc..

• Debt levels in developed economies has gone up significantly comparing to emerging economies leaving limited options for developed nations

• Return of financial repression is evident due to following:
  - Total debt to GDP ratios in the developed economies is at all time high up to 268%
  - Public debt to GDP ratio in US 101%, Eurozone 104% and in Japan is 221%
  - Historically, real GDP growth rates fall above a particular level of Debt-GDP ratio.

• Solutions to reduce the high debt level
  - Austerity, default of public debt, increase in real growth, hyperinflation and financial repression are few possible solutions to reduce debt
  - History of austerity is history of politicians – politicians may not want choose it. Default would not be a sought after solution for its obvious reasons.
  - Hyperinflation has helped France and financial repression has helped UK to bring down the debt to GDP ratio during certain economic conditions
  - Real growth can be the answer but this may not happen except for Germany

Read more
https://iaip.wordpress.com/2016/10/30/financial-repression/

"I renew my CFA Institute and Society membership as it enables me to upgrade my skills by participating in the continuing education, training, and networking opportunities provided throughout the year."

Jayesh Gandhi, CFA
Senior Portfolio Manager
Birla Sunlife AMC

* Views expressed in personal capacity as a member of CFA Institute and IAIP.
Improving Investment odds by application of ‘Rational Analysis’ framework

Contributed by
Mandar Chapekar, CFA

Indian Association of Investment Professionals (IAIP) Pune hosted a session on “Improving Investment odds by application of ‘Rational Analysis’ framework” by Vikas Biyani on 15th October 2016. Vikas heads Client Advisory team at Multi-Act. He has 13+ years of experience in the field of equity research, capital markets and portfolio advisory to high net-worth and institutional clients. He has been associated with Multi-Act since 2003. He has earned his Chartered Accountancy qualification from ICAI in 2003. He is also pursuing his CFA (L-3 Candidate).

The Crux of the Topic was how to use Global Rational Analysis Framework (GRAF) which combines Fundamental, Technical, Quantitative and Behavior analysis and leads to a process driven approach to Investment Decisions by making it simple and easy. It is aimed to improve the investment expectancy by adding conviction from various streams of analysis rather than relying on only one.

Vikas initially started off with discussion on why investment managers find it difficult to consistently outperform their peers and behavioral biases they face viz.

- Use same Research, same Earnings Models. Indirectly subscribing to ‘group think’.
- Focus on upside (reward), ignoring downside (risk).
- Biased view on stocks that have consistently performed

Read more
Changing Global Demographics and its Investment Implications

Contributed by
Meera Siva, CFA

If you thought death and taxes are the only sure things in life, think again, says Richard F. Hokenson. In his talk to the Chennai Chapter of IAIP on October 3, he makes a case for how demographic patterns are affecting investments and the world is on a race to zero interest rates. Richard should know, as he is an economist with many decades of experience in demographics. He is the Senior Managing Director of Global Demographics at Evercore ISI where he is responsible for analysis and forecasting of international demographic trends and their associated economic and investment implications.

Era of deflation

Between 1930 and 2015, the world population has grown from 2 billion to 7 billion. Typically, there are dire predictions on shortages when there is a growth in population. However, in this period there has been a decline in the Dow Jones-AIG Commodity Index, adjusted for inflation. This is thanks largely to output improving over time globally. This and other data point to the fact that we are in a dis-inflationary world. Commodity prices will mostly move lower. Inflation has been on the lower side, and central banks are missing their inflation target. Interest rates are racing to zero.

Over the long term, interest rates converge towards GDP – yields on US long-term treasuries and nominal GDP have always moved together. Nominal GDP is actual growth and actual inflation and interest rates reflect expected growth and inflation.

Read more

Wealth Management Practitioner’s Workshop – Bengaluru

Contributed by
Neelabh Mishra

The Old and The New came close to clashing at the CFA Society’s Wealth Management Practitioner’s Workshop on the 19th of November 2016 in Bengaluru. Bringing up the Old Guard, as some would argue, was Robert Dannhauser, CFA, who directs the global private wealth management practice of CFA Institute. He spoke about the need and the best practices around Risk Profiling of clients and Investment Policy Statements. The second speaker was Ravinath Dasika, CEO of Tavaga, a robo-advisory platform based on exchange traded funds. Ravinath shared some interesting insights into Gamification and how the same could be used to transform Personal Finance.

Considering purely, the content of their session, one would assume that Bob and Ravi represent two world-views which are completely inimical to each other. But after looking at how the afternoon unfolded, our audience had reason to believe that these two forces could after-all be complimentary.

Risk Profiling And The IPS

In Robert’s opinion risk profiling is driven by two imperatives, regulatory and business. SEBI details the rules and regulations around risk profiling of clients, designed specifically to protect consumers from miss-selling. Since preventing miss-selling is central to the idea of all regulation, this condition is a handy test for any dilemma that arises due to lack of clarity in the rules. The second imperative is the business itself. Studies have shown that
risk profiling using either commercially available surveys or proprietary products have been found to be more accurate than an individual’s assessment based on conversations with the client. It is simply because these surveys do not suffer from the biases that a human being is bound to have while performing an assessment. A better understanding of the client’s risk preferences increases the likelihood of them sticking to the portfolio designed for them. The two imperatives more than justify the time and effort that is required to be spent on a Risk Profiling exercise. It forms the foundation that eventually determines the sustainability of the professional relationships.

The risk profile is a function of various factors, which Robert refers to as the dimensions of risk for example; Risk capacity, Risk need, Risk tolerance. Risk Need is the risk the client needs to take in order to earn a return that would satisfy their goals. A quantitative dimension that professionals love because it involves numbers. Risk Composure, on the other hand, is a subjective assessment of a client's ability stay calm in times of turmoil.

Read more
https://iaip.wordpress.com/2016/12/07/wealth-management-practitioners/

"Since the birth of IAIP, I have enjoyed being a part of this 'movement'. I cherish networking with IAIPians and enlightening sessions with numerous experts. Professionally, I feel that IAIP is my second home."

Jayen Shah, CFA
Head, Debt Capital Markets
IDFC Ltd.

VCs are from Venus, Entrepreneurs are from Mars

Contributed by
Neelabh Mishra and Kailash Nath

The Bangalore Chapter at Indian Association of Investment Professionals (IAIP) hosted a thought-provoking session on “VCs are from Venus, Entrepreneurs are from Mars” by Shubhankar Bhattacharya on October 8th 2016. Taking a cue from the International Best-seller ‘Men are from Mars and Women are from Venus’, Shubhankar Bhattacharya, Venture Partner at Kae Capital, an early stage Venture capital investor, has provided a great perspective towards the complicated relationship.

Financial transactions are timeless – buyers and sellers have always shared a bittersweet equation for millennia. The conversations take a different twist when we consider a longstanding relationship – what better example than that of a financial investor in a venture.

Since the beginning of this decade, the Indian economy has entered a steeper trajectory of its growth curve – flow of capital towards investment into the startup space is one proxy to confirm this trend. With technological advances seeping into every industry and their sectors, investors are vying to get a share of the upside of this growth story. Capital flow into the venture ecosystem has grown multifold, in particular through the Institutional investment space. It has led to Venture Capital investment into startups turning into a much-discussed topic, even over coffee tables. Read more
https://iaip.wordpress.com/2017/01/02/vcs-are-from-venus-entrepreneurs-are-from-mars/
Disciplined selling rules-a William O’Neil India Investing event in Bengaluru

Contributed by Neelabh Mishra

Mr. Steven L Birch, the president of William O’Neil + Company, was at the CFA India Society’s Bangalore chapter on 18th October 2016, to talk about ‘Disciplined Selling Rules’ as devised by the great William O’Neil himself. Well known for his CANSLIM approach to stock selection, Willaim O’Neil has written numerous books on Investing and Business. Through his extensive study of stocks, charts and patterns over the years, William O’Neil discerned simple signals one could look for in order to guess the fate of a position. The approach used is purely technical. Steven argued that through their research they discovered that fundamentals typically lag the technical by almost two to four quarters. Depending on the strength of these warning signs one could either reduce or completely liquidate their position in a timely manner, thus protecting the returns of the portfolio.

While the art of buying is well-established, it is the art of selling that puzzles even the best of us. And it is the latter that determines the effectiveness of the former. And this is where Steven discussed the need to trade in harmony with the general direction of the market. Buying during the Bull markets and selling when the Bears get too loud. Building up positions during the Bull markets helps one ride the wave of optimism fuelling the market. It can be done by using a mix of fundamental and technical factors. However, the trick is to know when to exit. This is where the proponents of fundamental analysis and the contrarian approach to investing would beg to differ from our speakers at William O’ Neil. The former would argue that it is impossible to know, with reasonable certainty and consistency, the time around which one should exit a certain position.

Steven, on the other hand, says that maintaining healthy Sell discipline by recognizing signals can go a long way in optimizing the performance of a portfolio. It can help achieve three objectives of selling: 1) Protect Capital; 2) Lock In Profits; 3) Reduce exposure due to market distribution. These signals are not binary, Some are weak while the others are strong and one must use professional judgment depending on what the daily and weekly charts look like.

Read more
Early stage Venture investments in Indian Healthcare ecosystem

Contributed by Kailash Nath

The world of investment management has changed multi-fold in the last couple of decades; from manual transfer of securities to algorithmic trading – the last two generations have seen it all! It all goes to prove that change is the only constant – and like Charles Darwin pointed out, the most successful of the species are the ones that are adapt to the never-ending process of evolution. There are few indicators around that remind us of this notion, much like the investment pattern across asset classes around the globe. With information technology seeping into various aspects of investment process across developed markets, asset managers are looking to increase their exposure towards non-conventional asset classes in emerging markets to realize additional risk adjusted return compared to their respective benchmarks. Catering to the quest, in the recent times, Venture/Private Equity in growing economies like India has emerged as a popular pick. Coming with a philosophy of backing strong entrepreneurs solving large-scale problems by leveraging a differentiating factor (intellectual property, state of the art technology, massive data sets etc), investment managers in the space have taken early bets in sectors like Education, Healthcare, Financial services, E-commerce, Sustainability and Digital consumer technology; let’s put our minds together to understand Healthcare, one of the sectors most debated yet invested into.

As per the data released by Venture intelligence, in the 50 months, between May 2012 and June 2016, Healthcare PE/VC space in India has attracted upwards of $5.4 Billion across more than 270 deals. The following is a rough snapshot of investment across sectors:

As is evident, the Service delivery and Pharmaceutical sectors have commanded the greatest attention by contributing to 87% of the investment amount and 71% of the deal count.

The need for affordable, inclusive and scalable healthcare solutions for our country is more imminent now than ever before:

- India has a doctor: the patient ratio of 0.7:1000 compared with WHO’s average of 2.5:1000. As we move towards the rural India, the ratio falls to 1:3000.
- The Indian government spends less than 1.3% of the GDP on healthcare, in comparison with 8.1% by the USA and 9% in France.
- India has more than 1,00,000 labs with 90% of the market held by the unorganized players. About 30% of these labs deploy manual methods of diagnosis and lack resources to obtain a credible and timely opinion.
- More than 39% of the Indian Primary health centres lack functional diagnostic capabilities.
- For a country burdened with ~166 deaths per 10,000 (compared to 80.50 in US and 79.70 in China) due to cardio-vascular diseases, we have less than 8,000 practicing cardiologists; as a result, 1,20,000 surgeries are performed every year whereas the need is 20,00,000 surgeries.
- India is a global leader in maternal deaths with 55,000 deaths happening in the country, 60% of which are preventable.

With an increasing population base where more than 50% of India’s population is under the age of 29 years, there exists a wide demand-supply gap in the service delivery. If remained unsolved, we are staring at a future riddled with challenges. Moreover, with the drastically falling ratio of medical experts to the population base, it is imperative that we find means to reduce the distance as well the time lag between various stakeholders in the community. Technological innovation aided by novel business models is one clear way to ensure that healthcare reaches the grassroots level.

On the positive side, the widening demand-supply gap across the specialties and sub-sectors of the healthcare and life-sciences landscape in India is paving the way to adoption of tech-based, non-conventional solutions for diagnosis, prognosis as well as delivery of therapeutic services. The inspiration for several of these innovations springs from the need to build low-cost, faster and accurate versions of conventional approaches to delivering healthcare services. However, over a period of their development, adaptation and acceptance, these have not only opened novel approaches of detection, curing or management of these ailments but have also broadened our understanding of the medical science.

These innovators working on these disruptive solutions have found support in the following trends:

- India has a doctor: the patient ratio of 0.7:1000 compared with WHO’s average of 2.5:1000. As we move towards the rural India, the ratio falls to 1:3000.
- The Indian government spends less than 1.3% of the GDP on healthcare, in comparison with 8.1% by the USA and 9% in France.
- India has more than 1,00,000 labs with 90% of the market held by the unorganized players. About 30% of these labs deploy manual methods of diagnosis and lack resources to obtain a credible and timely opinion.
- More than 39% of the Indian Primary health centres lack functional diagnostic capabilities.
- For a country burdened with ~166 deaths per 10,000 (compared to 80.50 in US and 79.70 in China) due to cardio-vascular diseases, we have less than 8,000 practicing cardiologists; as a result, 1,20,000 surgeries are performed every year whereas the need is 20,00,000 surgeries.
- India is a global leader in maternal deaths with 55,000 deaths happening in the country, 60% of which are preventable.

With an increasing population base where more than 50% of India’s population is under the age of 29 years, there exists a wide demand-supply gap in the service delivery. If remained unsolved, we are staring at a future riddled with challenges. Moreover, with the drastically falling ratio of medical experts to the population base, it is imperative that we find means to reduce the distance as well the time lag between various stakeholders in the community. Technological innovation aided by novel business models is one clear way to ensure that healthcare reaches the grassroots level.

On the positive side, the widening demand-supply gap across the specialties and sub-sectors of the healthcare and life-sciences landscape in India is paving the way to adoption of tech-based, non-conventional solutions for diagnosis, prognosis as well as delivery of therapeutic services. The inspiration for several of these innovations springs from the need to build low-cost, faster and accurate versions of conventional approaches to delivering healthcare services. However, over a period of their development, adaptation and acceptance, these have not only opened novel approaches of detection, curing or management of these ailments but have also broadened our understanding of the medical science.

These innovators working on these disruptive solutions have found support in the following trends:

- India has a doctor: the patient ratio of 0.7:1000 compared with WHO’s average of 2.5:1000. As we move towards the rural India, the ratio falls to 1:3000.
- The Indian government spends less than 1.3% of the GDP on healthcare, in comparison with 8.1% by the USA and 9% in France.
- India has more than 1,00,000 labs with 90% of the market held by the unorganized players. About 30% of these labs deploy manual methods of diagnosis and lack resources to obtain a credible and timely opinion.
- More than 39% of the Indian Primary health centres lack functional diagnostic capabilities.
- For a country burdened with ~166 deaths per 10,000 (compared to 80.50 in US and 79.70 in China) due to cardio-vascular diseases, we have less than 8,000 practicing cardiologists; as a result, 1,20,000 surgeries are performed every year whereas the need is 20,00,000 surgeries.
- India is a global leader in maternal deaths with 55,000 deaths happening in the country, 60% of which are preventable.

With an increasing population base where more than 50% of India’s population is under the age of 29 years, there exists a wide demand-supply gap in the service delivery. If remained unsolved, we are staring at a future riddled with challenges. Moreover, with the drastically falling ratio of medical experts to the population base, it is imperative that we find means to reduce the distance as well the time lag between various stakeholders in the community. Technological innovation aided by novel business models is one clear way to ensure that healthcare reaches the grassroots level.

On the positive side, the widening demand-supply gap across the specialties and sub-sectors of the healthcare and life-sciences landscape in India is paving the way to adoption of tech-based, non-conventional solutions for diagnosis, prognosis as well as delivery of therapeutic services. The inspiration for several of these innovations springs from the need to build low-cost, faster and accurate versions of conventional approaches to delivering healthcare services. However, over a period of their development, adaptation and acceptance, these have not only opened novel approaches of detection, curing or management of these ailments but have also broadened our understanding of the medical science.

These innovators working on these disruptive solutions have found support in the following trends:
Increasing awareness among healthcare consumers due to easy availability of information coupled with rising demand for preventive health and diagnostic services

Service providers are building leaner and more capital efficient models to reach geographies that weren’t served earlier – this has opened up market for diagnostics led outreach program that can identify patients requiring therapeutic services

Chronic ailments (diabetes and hypertension) are outnumbering the infectious ones as the leading cause of health issues and death – the long-term implications of these are prompting service providers to build long term relationships (and hence revenue streams) with the patient base

With technology seeping into various aspects of healthcare service delivery, there are low cost innovative reliable solutions to hitherto cumbersome delivery mechanisms

Returns from investing in disruptive innovations come at a cost; though the healthcare sector promises immense opportunity to change the way healthcare services are perceived and delivered, there is a high amount of system as well as non-systemic risk which not many investors understand and acknowledge. This phenomenon is apparent in the investment activity:

1) More than 85% of the investment amount flowing into healthcare and life-sciences sector are in traditional and “familiar” sub-sectors like service delivery and pharmaceuticals.

2) Less than 18% of the capital flow were invested at early stages as is depicted by the following split:

For any innovation that promises to disrupt the status-quo, the devil is in the implementation. The success of any tech-enabled solution lies in smooth integration into the service delivery process – and this depends on three critical factors:

- Compliance with regulatory framework ascertaining the efficacy and effectiveness of the solution
- Adoption by the medical fraternity and allied stakeholders in their process-flow
- An optimum business model to reach the grassroots in the country to make the service delivery truly inclusive

Building an investable business model leveraging the disruption requires strong understanding of the ground realities in the context of these three factors. Given how subjective the process-flow in the healthcare service delivery space is, most of the innovators coming from a technology background lack the skills necessary to take their innovation from the labs to the customers’ doorstep. Unlike less domain-heavy sectors like e-commerce and consumer-technology, the gestation period between prototype of an innovation is not only long but is also ridden with repeated focused pilots, need for multiple pivoting and refinement of the technical aspects of the offering; incidentally, these requirements need more than just capital infusion!

These changing times demand change in the role that an investor needs to play in the early stage of the life-cycle of a healthcare venture. Consequently, the expectations of a savvy entrepreneur of what an early stage venture investor needs to bring to the table is beyond capital:

- Access to technical expertise during the prototyping and clinical validation phases
- Advice and support with the commercial validation and pivoting to an optimum business model
- Access to experts for designing and implementation of the regulatory compliance process
- Connect to a network of initial adopters and customer base – entrepreneurs prefer investors with potential customers in their existing portfolio
- Access to expert resources who can be on boarded at the CXO level or advisors
- Introduction to potential acquirers for a profitable exit

One can observe that the Healthcare venture ecosystem is a dynamic and ever-changing space – the only way to succeed and make greater returns for our stakeholders is to strengthen our conviction through rigorous due-diligence and research processes and implement those learnings through the investments we look to make.
What a year. The U.S. voted for change, and Indians were looking for ‘change’. Superman, Batman, Ironman can wait, Donald Trump is “Captain America”. Clintons should have read the e(thical)-mail, those who serve public can’t have private servers.

Going by the rhetoric, this is Trumpnomics - climate change is a hoax by China, Janet Yellen is a puppet, companies offshoring production are anti-American and all trade treaties are unfair. Don’t forget, he is an astute businessman, not an idealist. President chosen by the poor has a power centre open only to hard-liners and soft-billionaires. Trump towers are not for ordinary mortals. He knows, billionaires in his cabinet have thrived upon globalization and immigration. Hopefully, real Trumpnomics would be about Tax reforms, deregulation and infrastructure spending.

Barack Obama was a strong contender. He took the reins in 2008 after the worst economic crisis and is leaving when U.S. is near full employment, household and corporate balance sheets are in good shape, Fed is unwinding accommodation and dollar and equity markets are at a record high. Nobel peace prize was thrust upon Obama in 2009. He obliged them by visiting places like Hiroshima, Vietnam, Cuba and by signing a deal with Iran. He moved out of Iraq and Afghanistan and binned Bin Laden.

I thought of US Dollar. It’s not only Mexican Peso that got Trumped on the wall but Dollar rose against almost all major currencies. Weaker currencies and cheaper money haven’t helped Europe, UK and Japan so far. It may change. Weaker yen can revive growth and inflation in Japan, bringing Cherry blossom early for Abe-San. Despite the heightened geopolitical risks, European equities can witness sunny weather next year.

London’s bridge with the rest of Europe is creaking, May Theresa keep the Kingdom United.

Oil producers hit melting point in January. The existential crisis has re-united them for a production cut. Traders, watch the politics in Saudi Arabia and Iran and the response from US Shale. Industrial metals, coal and iron-ore turned precious while Gold lost its glitter.

Commodity boom sent Russian equities to top of the charts and turned on Russia’s economy. The size of Putin’s might is disproportionately larger than the size of the economy. A confused West is wondering how to deal with him. The collateral damage was Syria, which witnessed the worst mass slaughter after Darfur. Christ, the redeemer, is at Rio was kind to Russian athletes suspected for doping. Will Trump, the newcomer, renew relations with Russia, the hacker, despite West’s distrust?

Who says the world is in a secular stagnation, China’s GDP has quadrupled in a decade. Yes, the debt levels are ballooning faster. Renminbi Bears will test the Dragon’s might again as China has lost almost a trillion dollar of forex reserves.

Taiwan’s first woman President broke the tradition and spoke to President-elect Trump. Unsurprisingly, China retaliated by capturing a US drone. Geopolitical experts have spent a career eyeing the Persian Gulf, the new entrants should shift their perch to South China Sea.

I thought of Cuba. An invisibly small country produced a leader with such global influence. You either loved him or criticized him but could never ignore Fidel Castro. Narendra Modi deserves it. This popular leader of an aspirational middle-class is transforming into a messiah of the poor. He is ambitious, courageous and an incomparable risk-taker. However, India is such a complex country. Real change and last mile delivery will take longer and much larger bandwidth.

I wish peace has a chance and Kashmir again becomes the “paradise on earth”. A crazy cyclone and loss of its dear Amma derailed the Chennai express. Post demonetization, ‘Dangal’ in UP will be interesting.

It was the 25th anniversary of economic reforms unleashed by Narsimha Rao. A country that had to pledge its gold has now the distinction of owning one of the largest foreign exchange chests. 25 years later, 2016 may be remembered for reforms like Bankruptcy code, GST, Monetary Policy Committee, Aadhar bill and demonetization.

The (Raghu)Ram Rajya at RBI got over but this Chicago cub left a deep footprint. Rajan conquered the minds of intellectuals and stole the hearts of ordinary citizens. He was well ahead of time in reminding fellow central bankers that they are not the “only game in town” to prop up animal spirits.

Read more
https://iaip.wordpress.com/2017/01/03/person-of-the-year-2016/
Commodities Speculation

Contributed by:
Ishwar Chidambaram, CFA

Wall Street banks are back to doing what they do best—hitting Main Street right where it hurts—in the pocketbook. Right from Aluminium and Copper to Oil, Wheat and Gold, rampant price speculation by the big banks has fueled shortages of essential commodities across the globe, affecting millions of people who are reduced to subsistence living below the poverty line. A US Senate report released in 2014 accused major banks like Goldman Sachs, JP Morgan and Morgan Stanley of “being so powerful they were able to influence prices, gain trading advantages and put the broader financial system at risk by entering volatile businesses such as uranium trading and coal production”.

According to the Wall Street Journal, the big banks “built up voluminous inventories of aluminum, copper and other commodities,” which the Senate report found “often exceeded regulatory limits on the size of commodity holdings”. The Senate report cited the example of Morgan Stanley which held 55 million barrels of oil storage capacity, equivalent to nearly 3 days worth of US energy consumption. The report red flagged Goldman Sachs for hoarding 1.5 million metric tonnes of Aluminium, creating shortages in the supply by stockpiling the metal in its Detroit warehouses. The same report pulled up Morgan Stanley for its speculation in jet fuel and JP Morgan for its buying spree of power plants and gaming the electricity markets in California.

The root cause of the problem can be directly traced to the 1999 deregulation of futures markets by the Commodity Futures Trading Commission, as well as the 2003 decision by the Greenspan-led Federal Reserve to allow investment banks to own physical commodities. This enabled bankers to take sizable positions in commodities indexes like the Goldman Sachs Commodities Index (GSCI). This trend actually caught fire post the financial crisis of 2008, when commodities suddenly acquired global recognition as the last safe haven for investments. More than $300 MM entered the commodity markets chasing long only investments like the GSCI, triggering runaway food price inflation.

Read more
https://iaip.wordpress.com/2016/11/03/commodities-speculation/

Treasury Management for Different Organizations

Contributed by:
Jayna Gandhi, CFA

When we think about Treasurer, what comes to our mind? Is the treasury profession an extension of the accounting profession or are treasury professionals just liquidity managers and cash flow planners? Well, the answer is both Yes and No. Treasury management is different for different organisations. It is largely a fallout of main business activities of the organisation and also depends upon philosophy and thinking of the Board of Directors.

Since treasury management involves handling organisations’ cash kitty, the Board is expected to be naturally conservative and risk averse. So every Treasurer has to respect this connotation and act accordingly in fiduciary capacity as a custodian of shareholders’ wealth.

So how does a treasurer add value to the business? In different type of businesses, a treasurer can add value differently. In case of a Corporate conglomerate with significant debt, a treasurer’s significant KRA is minimizing the after tax cost of debt and if there is a cash surplus at all, improve the float efficiency through most suitable deployment.

In contrast, take the case of an FMCG company where cash realization on sale of product is instantaneous and no significant capital expenditure is required in foreseeable future. Here the stockholders equity minus fixed assets of the firm and current liabilities is almost equal to cash surplus of the Company. In such cases, treasury professionals have to assume the role of investment professionals or like fund managers managing the private corpus of a single organisation instead of many investors money. Here, investment management is a subset of treasury management.

Read more
https://iaip.wordpress.com/2016/11/03/treasury-management-for-different-organisations/
High Frequency Trading- The Road Ahead

Contributed by:
Ishwar Chidambaram, CFA

The advent and spectacular rise of High Frequency Trading (HFT) has been the watershed event, transforming both developed and emerging financial markets beyond all recognition. The jury is still out on whether this represents meaningful progress or is ultimately regressive. But one thing is clear - global financial markets will never be the same again.

Gone are the days when traders would pick up a fixed line telephone and whisper in hushed tones “Blue Horseshoe loves Anacott Steel”! Now an algorithm would trade a million shares of Anacott faster than the Gordon Gekko can blink, capturing slivers of profit on thousands of such buy/sell transactions. The HFTs’ need for speed has resulted in flash trades and concomitant flash crashes triggered by rogue algos.

In one instance a rogue algorithm (“algo” for short) consumed fully 10% of entire available communications bandwidth, simply to place humongous numbers of buy and sell orders which were all cancelled, and subsequently vanished without a trace. More destructive are examples of Knight Capital, which lost up to $10 MM per minute due to a rogue algo that was to have been deactivated. We have been extremely fortunate that such incidents haven't occurred in a Systemically Important Financial Institution (SIFI) until now. Regulators have thus far adopted an ostrich-like mentality, preferring to us “bicycles to catch Ferraris”. However, that needs to change. While not all algos are rogue, it only needs one rotten apple to spoil the entire bunch.

Read more

Charter Felicitation Ceremonies

IAIP and CFA Institute India (CFAI) hosted CFA Charter Award and Felicitation Ceremony across various cities in India. On this occasion, Mini Charters were presented to the New Regular Members of IAIP and Candidates who have passed Level III in June 2016 were felicitated with a Memento. This event was an excellent opportunity to meet the IAIP & CFAI. It also provided a platform to network with fellow members in the city. You could read about the events and run through the photographs on the links provided below. The complete city-wise albums of the ceremony are also available on facebook page.

November 4th - Mumbai

November 5th - Delhi
https://iaip.wordpress.com/2017/01/10/cfa-charter-awards-ceremony-delhi/

November 11th - Chennai
https://iaip.wordpress.com/2016/12/29/chennai/

November 12th - Pune
https://iaip.wordpress.com/2016/12/30/pune/

November 18th - Hyderabad
https://iaip.wordpress.com/2016/12/29/hyderabad/

November 26th - Bengaluru
https://iaip.wordpress.com/2016/12/30/bengaluru/

December 2nd - Ahmedabad
https://iaip.wordpress.com/2016/12/29/ahmedabad/

December 3rd - Kolkata
https://iaip.wordpress.com/2016/12/29/kolkata/
Charter Felicitation Ceremonies

Charter Felicitation Ceremonies
IAIP Achievers

IAIP Members, who have achieved minimum CE (Continuing Education) credits for 10 consecutive years as on 31 Dec 16. Congratulations to you all.

Abraham Mathew Kandathil, CFA
Ajit Gaikwad, CFA
Anand Surelia, CFA
Anilkumar Vallabhdas Ghelani, CFA
Ashwin Mehta, CFA
Chetan G. Shah, CFA
Dhiraj Dave, CFA
Elizabeth Lucy Chapman, CFA
Gauri S. Pande, CFA
Imranali Sayed Shabbirali Sayed, CFA
Jasmit Singh Chandhok, CFA
Jigar Pravin Shah, CFA
Kapil Gajanan Ranade, CFA
Karthik Srinivasan, CFA
Krunal Chitranjan Vyas, CFA
Mythili Balakrishnan, CFA
Naveen Bhushan Sharma, CFA
Rakesh Arora, CFA
Santosh Subramanian Iyer, CFA
Seshadri Nathan Krishnan, CFA
Unmesh Yagya Sharma, CFA
Vinay Bagri, CFA
Vineet Lakhotia, CFA

Career Insights

6 Traits that Predict Ethical Behavior at work

Trust and openness are crucial elements of an ethical organizational culture. Only when employees are able to voice the problems they see can ethical lapses be discussed and resolved. A first step in building this kind of culture involves a hiring approach in which companies actively seek those individuals inclined to speak up when ethical challenges surface. Based on findings from the behavioral sciences, some individual dispositions deserve every screening committee’s attention. To read further http://bit.ly/2hgNGNu

Thinking Strategically About Your Career Development

In a world where the average employee sends and receives 122 emails per day and attends an average of 62 meetings per month, your boss or HR leadership simply doesn’t have the time or bandwidth to properly think through how best to deploy your talents moving forward. Instead, we have to take control of our career planning to ensure we’re putting ourselves in position for long-term growth. Here are four ways to become more strategic about the process. To read further http://bit.ly/2ghX8hu

On a Lighter Note

Q: How to make a million in the stock market?
A: Start with two!

Q: When does a person decide to become a stockbroker?
A: When he realizes he doesn’t have the charisma to succeed as an undertaker.

If you owe the bank £100, that’s your problem. If you owe the bank £100m, that’s the bank’s problem.

Why has astrology been invented? So that stock market technical analysis could be an accurate science.

How many stockbrokers does it take to change a light bulb?
Two. One to take out the bulb and drop it, and the other to try and sell it before it crashes (knowing that it’s already burned out).


Feedback/Request for Articles

Please send feedback or interesting articles like book reviews, humor, lighter reading, personal experiences etc. to be covered in the Newsletter to: communication@iaipirc.org

Join fellow Charter holders on social media

Join IAIP member group on LinkedIn and Facebook by searching for Indian Association of Investment Professionals.

Updates at WordPress (iaip.wordpress.com)


Programs and Events

Now you could register for the forthcoming event on the www.cfasociety.org/India page by clicking on the Events tab and Event Registration (www.cfasociety.org/India/Pages/EventRegistration.aspx)

Kindly send in suggestions on topics around which you would like us to organize events. Members, having access to insightful speakers are requested to come forward and help in facilitating events around them. This will enhance value to the member community. Please email to the Programming, Events & Networking committee members: sonaji.x.gandhi@gmail.com or secretary@india.cfasociety.org.

Want to Volunteer?

IAIP is always looking to increase member participation and provide networking opportunities. You are most welcome to volunteer for our society to make it more vibrant. It will offer you with an opportunity to interact with members and the investment community, CFA charter holder community and keep in touch with the latest developments in the financial industry. It also provides a good platform for developing leadership skills. It is also an excellent forum for giving back to our profession.

To understand more and join one of the committees reach out to any of us or Volunteer Committee or Manisha and Manali at secretary@india.cfasociety.org.

You could also fill in the form on the website www.cfasociety.org/India under Membership tab and Volunteer option. Complete list of committees and its active volunteers kindly visit page www.cfasociety.org/India under “About Us” tab click on the “Committees” button.