What were your motivations for working in the investment management industry, and how would you describe your experience?

The challenging world of investment management provides a unique opportunity to study and apply economic data points, the macro environment, quantitative tools, behavioral science and the political and social environment. As a portfolio manager, it also provides exciting occasions to interact with policymakers, industry leaders, distributors and investors. That concoction appealed to me. As someone who has always been associated with capital markets from day one, it has been a very fulfilling journey. Starting from the early stage of economic reforms in early 1990s, Indian markets have come a long way to now rank amongst the most exciting destinations for global capital, and I’m proud to have been a part of it.

How would you describe the Indian fixed income market now compared to its history?

Only 25 years ago practically all of India’s interest rates were regulated with the state being a major factor in the financial system. Today virtually all the interest rates are market determined. That’s a huge transformation. Domestic mutual funds now measure at nearly 20% of total assets in the financial system from virtually being non-existent at that time. Private banks now match up strongly to public sector banks in size and outdo them by a wide margin in terms of technology, product innovation and investor servicing. Foreign portfolio investors (FPIs) are becoming a very important and sizable segment of the fixed income market. Retail financing including personal loans, housing finance and consumer durable financing bring structural changes in investor behavior, including saving habits and methods. With deregulated interest rates, mutual funds are fast becoming the first choice for investors. It’s a dramatic transformation. I have been lucky to be a part of this development but feel that next few decades will be even more exciting.
A dynamic and active strategy provides space for minimizing damage due to rising rates by reducing duration during such phases. That gives the fund a better ability to participate when interest rates start coming down again, once the macro environment improves. The key is to focus on the evolving interest rate environment with analysis of economic variables like liquidity, inflation, credit growth, external trade, capital flows and fiscal deficit. Taking the volatility and uncertainty head-on rather than simply worrying about it is the best approach to optimize returns in the fixed income space.

What are the most important criteria for investors to consider when composing a fixed income portfolio?

The core value system and the operating matrix of the fund house, track record of the fund manager and the risk and compliance framework are some of the fundamental parameters. The other side is the alignment of the fund objective and investment horizon with the investor needs and risk preference. This evaluation process should be conducted with a clear-eyed view of one’s financial goals so as to construct a pragmatic, rules-based framework toward investing.
What is your outlook on fixed income markets in India?

A few headwinds seem to be gaining momentum following a long period of falling interest rates. Even though economic growth has slowed down in the last couple of quarters, it is expected to pick up again soon, which should trigger a revival in credit growth. The fiscal deficit target seems challenging for the moment given slowing revenue growth. Oil prices have hit a fresh two-year high, and taxes thereon have been reduced, putting further pressure on the fiscal deficit. Inflation has also turned higher in recent months following a steep decline earlier in the year. Indian interest rates may head slightly higher in the near term as well, following the global trend. However, Indian macros remain on a firm footing. Revenue is likely to pick up as the recently implemented transformational Goods and Services Tax (GST) takes effect and the economy revives. We are now seeing the tangible outcomes of the Modi administration as evidenced in India having moved up 30 places in the World Bank’s Doing Business 2018 report. The Indian Rupee remains resilient to external shocks given the highest ever forex reserves, topping USD 400 bn. As such, after the ongoing short-term hiccups are over, we expect rates to start easing again.

What investment schemes are you currently managing?

We have three fixed income schemes in operation. Our liquid fund invests in securities with maturities up to 91 days, our Savings Fund generally maintains a maturity bucket of nine months to two years, and we have a dynamic bond fund. We will be adding more funds in the fixed income space in the coming calendar year as we seek to continuously improve offerings for our investors.

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Debt Mutual Funds' Assets Under Management in India

Source: Association of Mutual Funds in India (2017)

Note: 1 Crore is equivalent to 10 million Indian Rupees (INR), approximately USD 150,000 (as of November 2017)

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1 Reserve Bank of India (October 2017)
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