A New Era of Indian Fixed Income

Q&A with Mahendra Kumar Jajoo (Head – Fixed Income)

2017 Q4

Mahendra Kumar Jajoo
Head – Fixed Income
Mirae Asset Global Investments (India)

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

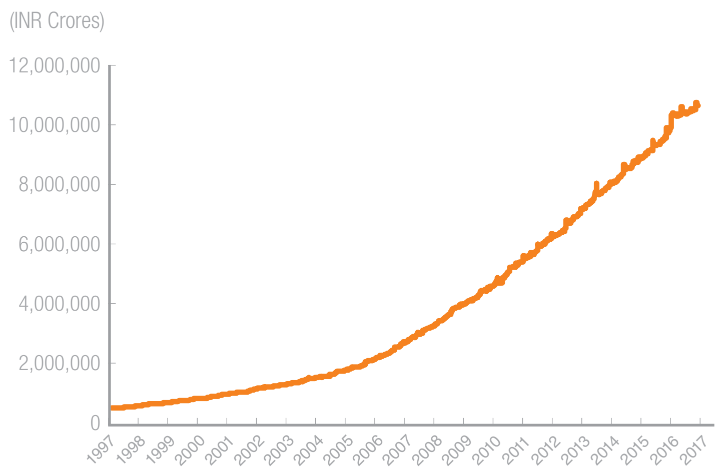
The challenging world of investment management provides a unique opportunity to study and apply economic data points, the macro environment, quantitative tools, behavioral science and the political and social environment. As a portfolio manager, it also provides exciting occasions to interact with policymakers, 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.

India Commercial Banks' Aggregate Deposits

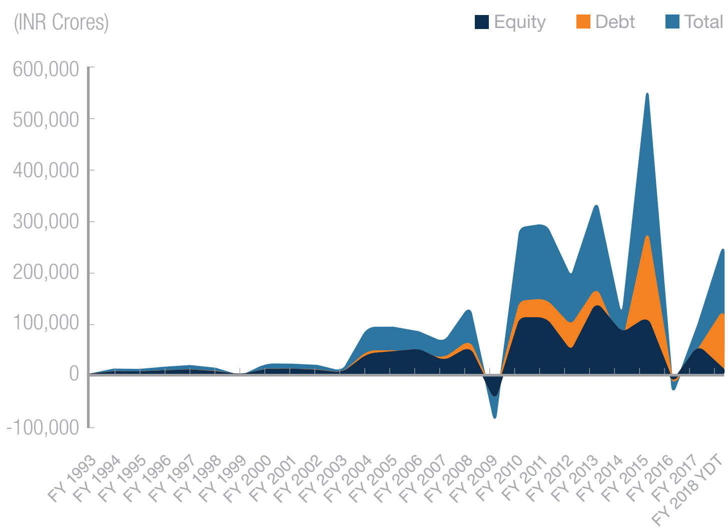
Source: Bloomberg, Mirae Asset Global Investments (2017)



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

FPI Inflows by Asset Class Over Time

Source: National Securities Depository Limited (as of November 16, 2017)



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

What is the difference between dynamic bond funds and long-term debt funds?

The key difference is that while a long-term debt fund is expected to always remain fully invested in long duration securities, a dynamic bond fund is expected to have its duration and composition of securities change in line with interest rate expectations. So if interest rates are expected to go up, it would be fair to expect dynamic bond funds to gradually lower their duration as rates rise. A long debt fund would typically remain fully invested irrespective of market expectations.

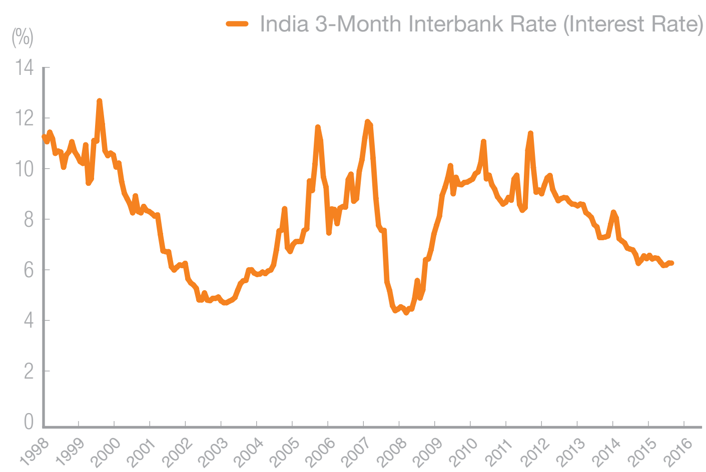
How should investors position themselves in an uncertain interest rate environment?

We are of firm belief that Dynamic Bond Funds remain amongst the best strategies to deal with, and benefit from, an uncertain rate environment. There is rarely a day when the interest rate direction is certain, and the longer your outlook, whether a month, quarter or year, the more the uncertainty grows.

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.

Decades-Long Indian Interest Rate

Source: Bloomberg, Mirae Asset Global Investments (2017)



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

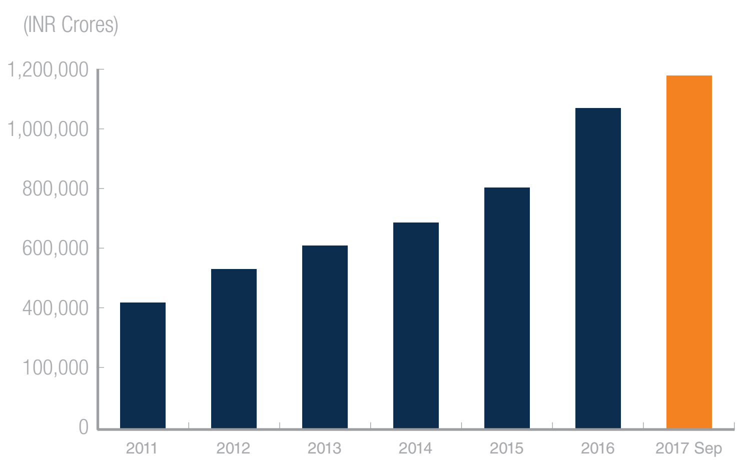
The core value system and the operating matrix of the fund house, track record of the fund manager and the risk and compliance framework are some of the fundamental parameters. The other side is the alignment of the fund objective and investment horizon with the investor needs and risk preference. This 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.[1] As such, after the ongoing short-term hiccups are over, we expect rates to start easing again.

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)

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.

[1] Reserve Bank of India (October 2017)

Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst complied from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

Australia: Mirae Asset Global Investments (HK) Limited is exempt from the requirement to hold an Australian financial services license in respect of the financial services it provides in Australia. Mirae Asset Global Investments (HK) Limited is authorised and regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws, which differ from Australian laws. For Wholesale Clients only.

Hong Kong: Before making any investment decision to invest in the Fund, investors should read the Fund's Prospectus and the Information for Hong Kong Investors of the Fund for details and the risk factors. Investors should ensure they fully understand the risks associated with the Fund and should also consider their own investment objective and risk tolerance level. Investors are also advised to seek independent professional advice before making any investment. This document is issued by Mirae Asset Global Investments and has not been reviewed by the Hong Kong Securities and Futures Commission.

United Kingdom: This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from http://investments.miraeasset.eu, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.
This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

United States: An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

India: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.