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July - August, 2018

INVEST IN INVESTING

Running
The Investment Marathon

iProbono

Enabling Justice

WHAT WE DO

iProbono is a non-profit working to provide access to quality pro bono legal assistance to civil society and disadvantaged individuals, while building a culture of pro bono in the legal profession.

iProbono's global reach enables the legal professionals registered on its network to get involved in projects for organisations working on a wide range of development and rights-based issues.

HOW IT WORKS

- Civil Society Organisation (CSO) in need of legal assistance reaches out to us.
- Our Programs Team, comprising of lawyers analyses the CSO's legal requirement.
- Our Team identifies a suitable professional from our network of lawyers, policy-experts and law students.
- We match the requirement & manage the project, ensuring the CSO gets the best pro bono assistance.

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Reach out to us if you are an NGO or social enterprise in need of pro bono legal assistance.

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From the
Editor's Desk

Running a marathon is no easy feat. Even after the rigorous preparation, runners often find themselves facing a host of challenges, prime among them winning itself. But with a vision, focus, strength, and persistence, it is an achievable goal. Investing is much like running a marathon; both have an objective that seems considerably far away (in terms of time or distance) and require similar qualities of a person. Investors must cultivate the qualities of marathon runners to achieve their financial goals.

Vision: The ability to keep moving towards your objective even when there are no immediate signs of getting closer to the finish line.

Focus: The mentally tough runner doesn't avoid situations but addresses them right away. The same is true for an investor. Whether the markets move up or down, an intelligent investor knows how to manouvuer his investment through to achieve his long-term objective.

Strength: The ability to handle an unforeseen turn of events and remain balanced and calm throughout. The mentally tough investor must remain both strong and flexible, able to respond to any situation that arises.

Persistence: Mentally tough runners and investors keep at it even when the going gets tough. Persistence is key to enhancing the probability of a favourable outcome and getting better at the game. After all, investors must keep sight of the vision even when things don't go as per plan.

This issue, you will find editorials on topics such as investing in large cap funds, key person insurance, family succession planning and more. I hope you find this issue as refreshing and informative as the last.

Best,

Tushar Goyal
Editor-in-Chief

Punji (*noun / Hindi*) - **Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

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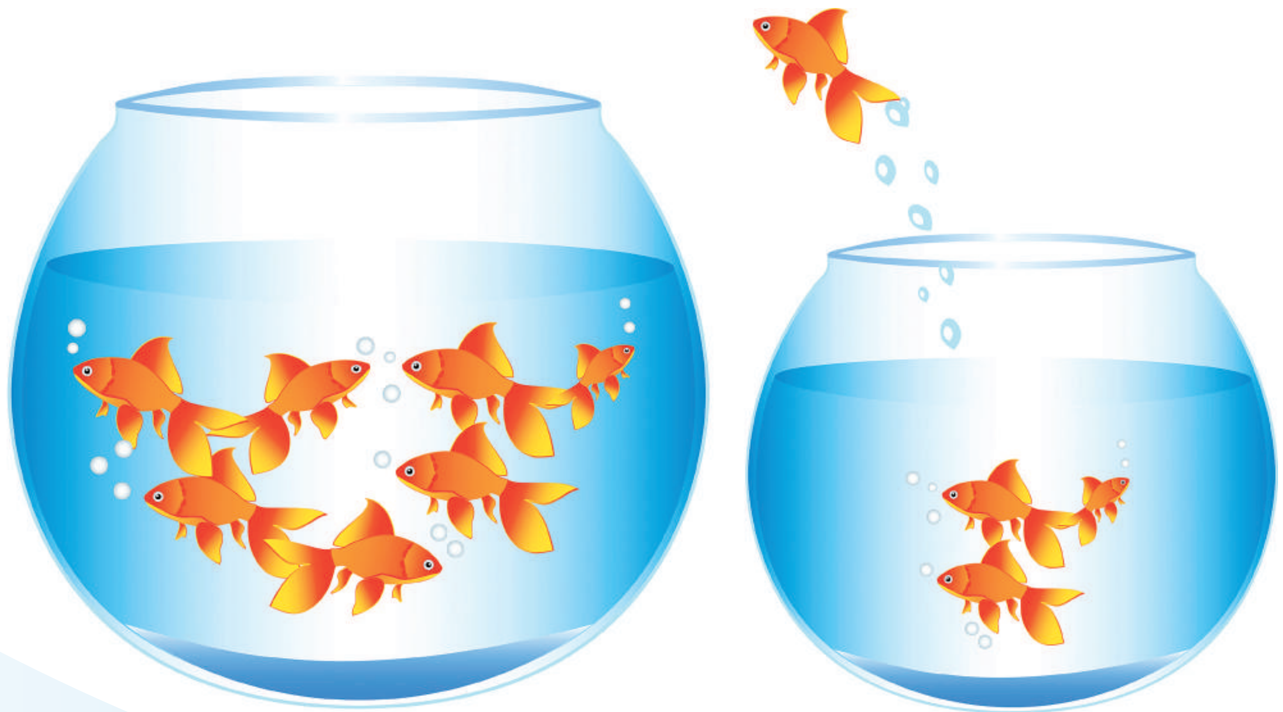


Large-Cap Funds

A Flavour for Every Investing Season

Investing in mutual funds requires a careful and thorough analysis. After all, there is a wealth of schemes to choose from, with different asset allocations and investment strategies. One of the key parameters for investors to choose a fund is its asset allocation - large-cap, mid-cap or small-cap?

The best way to make an informed decision is to analyse your investment objective, horizon, risk appetite, and required returns. Most investors, however, skip this crucial step and directly jump to returns, focusing on only those schemes that are likely to generate maximum profits. This often proves to be counterintuitive.

Something like this happened when many investors, expecting higher returns, invested in mid-cap and small-cap funds over the past few years. The bull markets increased the valuation of their portfolios. However, a fall in Sensex in 2018 saw such stocks crumbling down.

One of the best ways to avoid this trap is to invest in large cap funds. Why? The devil lies in the details.

WHAT ARE LARGE-CAP FUNDS?

The top 100 listed companies in terms of their market capitalization are defined as large-cap companies. As the name suggests, the market capitalization of such companies is large, exceeding Rs. 10,000 crores. According to SEBI guidelines of October 2017, any fund that invests at least 80% of its assets in stocks of large-cap companies is classified as a large-cap fund.

WHAT MAKES LARGE-CAP STOCKS ATTRACTIVE?

Some of the advantages of investing in large-cap companies are:

- **Large and well-established:** Because these companies have been around for a long time, they have strengthened their foothold in the industry. If they are not already market leaders, they will have captured significant market share in their particular segment. For instance, TCS, Infosys, Wipro are known as market leaders in IT and ITeS industries
- **Stable businesses:** The fact that these companies have been in existence for long points to their ability to withstand sudden macro-economic changes and economic downturns. For instance, many of these companies witnessed disruption in their supply chains, deteriorating profit margins in the course of GST and demonetization shocks. Mid-cap and small-cap companies, on the other hand, are usually the first to fall in such scenarios
- **Availability of data:** Large-cap companies, by virtue of their age, have a great amount of data that investors and analysts can use to extract insights. Information about their past performance and ongoing changes is readily available, helping analysts arrive at correct valuations
- **Steady returns:** Since large-cap companies can withstand market volatility and offer correct valuations due to a huge amount of data factored into their stock prices, they give steady returns. On the contrary, mid-cap and small-cap companies are highly volatile. Their stock prices do not usually feed in complete information. Such stocks tend to be over-valued in bull markets, generating excess returns for their investors. But every stock tends to revert back to its mean value and hence, when corrections take place, they can cause immense misery to their investors
- **High liquidity:** Stocks of large-cap companies are held by a large percentage of the public (one of the reasons dictating their high market cap) and trade in huge volumes. In case of mid-cap and small-cap companies, promoters own a greater proportion of the stocks and thus, they trade in thin volumes. One of the important reasons to hold on to stocks is to be able to redeem it for cash when required. Redemption at the desired price becomes difficult in case of mid and small-cap stocks, especially in times of panic

Large-cap funds lend stability to your investment portfolio and should thus form its core. While both mid/small and large-cap stocks have their place in a portfolio, large-caps are a flavour for every season owing to the stable returns and appreciation in NAV they offer. Investors are advised to discuss the market cap mix of their mutual fund portfolios with their financial advisors ■

Large-cap funds score over small and mid-cap

Parameter	Large-Cap	Small and Mid-cap
1. Market share and recognition	Dominant and well-known	Relatively less known
2. Stability of business and stock price	Stable	Volatile
3. Liquidity	High	Low

GROWTH Vs DIVIDEND

Choose A MUTUAL FUND That Works for You

The most important factor for deciding between growth and dividend options is an investor's financial objectives

When picking a mutual fund, investors may often find themselves in a quandary, faced with making a choice between dividend and growth options. While different people hold differing opinions on the suitability of the two schemes, no one option is better than the other. Ultimately, it is an investor's financial objectives that must dictate choice.

Conventional wisdom suggests that those looking for a regular income can opt for dividend schemes while those looking to create long-term wealth are best advised to invest in growth schemes. Growth options are then suitable for younger investors and professionals who draw a regular income. For retirees or senior citizens who need regular cash-flows, dividend schemes could prove to be more beneficial. Let's take a look at how different schemes compare.

DIVIDEND SCHEMES

Dividend schemes are best suited for investors looking for regular income – the profit earned by the fund is periodically paid out as dividend, in addition to a final pay-out at the time of redemption. The Net Asset Value (NAV) of the scheme thus moves in tandem with the dividend declared. Such a scheme could give investors multiple dividend options to choose from - e.g. annual, quarterly, monthly - based on their financial needs.

While the dividends paid by equity schemes are tax-free, those apportioned by debt schemes require the fund house to pay a dividend distribution tax (DDT) at 20% (even as they remain tax-free in the hands of investors). To this extent, the dividends received by investors are lower. Hence, if the investor falls in the 10-20% tax bracket, they have to indirectly bear a higher tax rate on the dividend received. In such cases, investors would be better advised to go for growth schemes, provided they aren't looking for regular income.

A common misconception is that fund dividends are paid from stock dividends. However, dividends are only paid from the profits of the scheme and stock dividends are only one of the sources of profit. Thus, the assumption that funds paying high dividends invest more in high yield stocks is incorrect. Fund managers can generate high dividends by simply buying and selling securities.

Additionally, dividend schemes aren't suited for investing small amounts since the dividend thus received would be negligible. The investible amount should be large enough to generate a reasonable income. Investors must also understand that dividends are paid entirely at the discretion of the fund managers and there is no guarantee with respect to the amount or the timing of dividends.

GROWTH SCHEMES

In a growth scheme, profits are not paid out in-between, rather they accumulate over its duration. This is reflected in the NAV which appreciates in tandem with profits. The pay-out is only made at the time of redemption and is based on the NAV of the scheme and the number of units held by the investor. This option is recommended for investors looking to accrue a corpus for a long-term goal. For instance, if you want to create a retirement corpus, a growth mutual fund is ideal. You could withdraw either the entire or part of your investment whenever you needed the money.

The profits generated by the scheme from trading in securities (in equity funds) or bonds (in debt funds) are re-invested. The subsequent profit made by the scheme on re-invested profits is known in financial parlance as compounding. Over a long investment horizon, growth schemes provide higher returns due to the power of compounding.

Growth schemes are best suited for long-term wealth creation since the NAV rises over time. However, gains are taxable in the form of capital gains when the investor redeems the units. Intermediate increases in NAV do not attract a tax.

DIVIDEND RE-INVESTMENT SCHEMES

Dividend re-investment schemes work similar to growth schemes with the only difference being that when dividend is declared, fresh units of the same scheme are purchased at the current NAV and added to an investor's portfolio. This results in an investor getting more units for the same cost price. These schemes, similar to growth schemes, are ideal for wealth creation.

A popular misconception is that growth schemes perform better than dividend funds. The reality, however, is that growth and dividend options schemes invest in the same underlying portfolio. Thus, performance on a cum-dividend basis cannot be different in the two cases. Eventually, the most important factor for deciding between the two is an investor's financial objectives. It is also important you consult a financial advisor to choose a mutual fund option that will prove to be the most effective in helping you achieve your financial goals ■

Do Balanced Funds & SWP Make for the Perfect Fit?

In previous issues, we have looked at how a Systematic Withdrawal Plan (SWP) can be effective for investors seeking a fixed income. It allows investors to withdraw a requisite amount from their corpus at regular intervals. Much like a Systematic Investment Plan (SIP), an SWP offers the benefits of eliminating the need to time the market and rupee-cost averaging. In the case of an SIP, rupee-cost averaging ensures that an individual is buying more shares of an investment at times when the market is low and vice versa. With an SWP, it means that more units will be withdrawn from the fund to maintain the same cash flow.

But which underlying fund proves to be the best option for an SWP? Let's look at SWPs in greater detail to understand this.

DEBT VS. EQUITY

An SWP can be invested in either debt or equity. Let's look at this from the perspective of an investor seeking moderate risk and above average returns. Although equity funds are lucrative due to the potential superior returns, there is high risk due to the volatility quotient. Debt funds are a good option since the range of returns is predictable. However, there is a third category of funds that investors may consider-balanced funds.

A BALANCED OPTION

Balanced funds are a type of scheme wherein funds are invested in both equities and debt. The generally accepted ratio is 65% in equities and 35% in debt, although it may vary for different funds. Balanced funds are an ideal option for investors looking for fixed returns (moderate risk profile) assured from debt funds but also for capital appreciation (ensured by equities) without putting their investment at too much risk. Hence, balanced funds provide the best of both worlds. Moreover, if you compare the balanced funds returns with Nifty returns over the past couple of years, it is clear that they've performed better than the index.

HOW ARE BALANCED FUNDS SUITABLE FOR SWPs?

Let's revisit the concept of rupee-cost averaging. Any correction in the market leads to a decline in the value of mutual fund investments due to a fall in the net asset value (NAV). Unlike SIPs, this may not be a desirable situation in the case of SWPs. The fall in NAV is a double whammy since it means that a higher number of units would need to be redeemed in order to meet the SWP cash flows (fixed by the investor). If the fund is volatile, a long period or heavy market correction can cause significant depletion of the investor's corpus. This downside risk gets minimised when the underlying is a balanced fund, thanks to the asset allocation. Although a bear market may see a balanced mutual fund's NAV decline, it will not be as sharp as in the case of an equity mutual fund. Hence, the fund will suffer lower depletion. The recovery of the fund from this point will also be faster when the market corrects itself or gets bullish.

TAKING A BALANCED APPROACH TO SWPs

We saw how a Systematic Withdrawal Plan from a balanced fund can be useful in not only generating a regular fixed income but also for a capital appreciation of the still invested amount. A balanced fund saves the investor from excess depletion in case of equity and also leads to faster recovery when market turns north. While we haven't considered the impact of exit load and STCG on SWP, investors should be mindful of these when setting up their SWPs; SWP withdrawals should begin after the exit load and the STCG period.

Investors looking for regular income from their mutual fund investments are advised to consult their financial advisor to understand the suitability of an SWP from a balanced mutual fund ■

Family Succession Planning

Better Late Than Never

It has been rightly said that failing to plan is planning to fail. This adage holds even truer when it comes to family succession planning. If an individual fails to plan for their succession, it can wreak havoc on the grieving family and the family business.

Family succession planning involves passing wealth and the reigns of business to the next generation systematically and smoothly. It can be achieved by various means, including by writing a will or creating a private family trust.

A WILL IS NOT FOOL-PROOF

Traditionally, the will has been used to pass on wealth. However, a will offers the opportunity to pass on wealth only after one's lifetime. This creates disputes, as the authenticity of the will can be questioned. Sometimes, a will is written under pressure, which makes things even more complicated. Therefore, some states have made it mandatory to get the will probated to execute the transfer of property from the name of the deceased to their successor. Probating is a time-consuming process and has financial implications. The probate fee is 3% of the fair market value of the property passing through the will. As many of the properties passed through will may be illiquid, it can pose cash flow issues in the hands of the successor.

The transfer of the assets by way of will is neither taxable in the hands of the testator nor taxable in the hands of the persons receiving the assets. However, a will is always vulnerable to challenge by kith and kin. Lately, we have seen eminent and well-respected Indian families with big businesses fighting over the authenticity of the wills of their patriarchs.

CREATING A PRIVATE FAMILY TRUST

Acknowledging the challenges related to succession through a will, many Indian entrepreneurs are leaning towards a more systematic and planned method of succession - private family trusts. A private family trust is created by a settlor who hands over certain properties to trustees for the benefit of the beneficiaries. Generally, the trustees and the beneficiaries are the family members of the settlor. A trust runs like an institution governed by a trust deed, usually signed by both the settlor and the trustees. A trust deed defines who will run the trust, in what manner, the beneficial interest of the beneficiaries, and when, how and in what manner the trust income will be distributed amongst the beneficiaries.

The settlor has the flexibility to create a discretionary private trust or a determinate private trust. In a discretionary private trust, the trustees have the discretion to distribute the trust income amongst the beneficiaries, whereas in a determinate private family trust, the ratio of the beneficial interest of the beneficiaries is pre-defined by the settlor.

LOSE NO TIME IN PLANNING FOR SUCCESSION

When an individual fails to make provisions for his succession, their heirs have to navigate through the labyrinth of laws and regulations to obtain property ownership. Many legal formalities have to be complied with, including obtaining a letter of administration and succession certificates from the court, which involves much time and money.

Thus, it is imperative that one plans for their succession. While we give substantial time and thought to earning wealth, it is equally important to plan, protect, and pass it on in a systematic manner ■

BENEFITS OF A PRIVATE FAMILY TRUST

As a private family trust is usually institutionalised during the lifetime of the settlor, with predefined ways of decision-making, it provides the following benefits:

1. **Greater transparency and certainty to family members**
2. **Eliminating the need to pass on wealth on death of a family member**
3. **Lays down family governance rules**
4. **Ring fencing of personal/ family wealth from business risks**
5. **Control of assets during one's lifetime while passing its economic benefits to family members**

A fundamental difference between a private family trust and a will is that the former kick starts the succession during the lifetime of the settlor. The transfer of assets to a private family trust for the benefit of the family members of the settlor is neither taxable in the hands of the settlor nor in the hands of the private family trust.

If an individual fails to plan for his succession, the government-enacted laws provide how succession will occur in such situations. In case of a Hindu, Buddhist, Jain and Sikh, the Hindu Succession Act, 1956, details how much of the assets will be passed on to which relatives. The provisions of the Act lay down different rules of succession for males and females.

Contributed by
Annu Gupta, Partner - Mergers and Acquisition, PricewaterHouseCoopers

SECURE YOUR FAMILY'S FINANCIAL FUTURE WITH TERM INSURANCE

Modern lifestyles have made us more susceptible to diseases and accidents than ever before. The immense stress that comes with them exposes us to several health risks. It is thus imperative to secure your family's financial future in the event of your death. If you happen to be the sole breadwinner, ensuring cash flow in the family doesn't stop post your death becomes even more important. A term insurance ensures your family's sustenance post death at the same standard of living.

WHAT IS TERM INSURANCE?

Term insurance is a type of insurance that is availed for a fixed term (number of years). During that term, if the assured dies, the nominee gets the sum assured, which is a lump sum. If not, the premium paid is not recoverable. Now, there's a new variant in the market where the family is paid the assured's last-drawn salary till the remaining age of the assured out of 58 years. This is to ensure continuity of cash flows for the family.

Term insurance policies are offered for various terms like 10 years, 20 years, 30 years. Most of these policies have a built-in feature to convert to permanent life insurance policies, irrespective of the health conditions of the policyholder. Unlike other types of life insurance policies, a term insurance policy is less expensive since it does not have any cash value.

WHY DO YOU NEED TERM INSURANCE?

Term insurance is generally overlooked compared to other insurance products due to the mistaken belief that such plans do not offer any additional benefits besides the sum assured on the policyholder's demise. However, there are several advantages of buying a term insurance policy:

- **Financial security for loved ones:** Term insurance plans help build a financial safety net for the policyholder's dependents in the event of their demise. It is a way to ensure your family continues leading a comfortable life in the case of the assured's untimely death. Moreover, outstanding debts can put your family under financial crisis. Term insurance provides a safety shield against such outstanding debts
- **High life cover:** Term insurance provides the highest life cover at a low cost. Since there is investment element involved, you get the highest coverage (death benefit) at an affordable rate of premium
- **Riders:** Term plans can be enhanced through the use of riders that offer extra protection, which are available at a nominal cost. Some riders available under term plans are - accidental death benefit, critical illness, partial or permanent disability, waiver of premium, etc.
- **Flexible payment options:** Term insurance policies offer flexible premium payment options - limited pay, single pay or regular pay. In the case of limited or regular pay - premiums can be paid either monthly, quarterly, half-yearly, or annually
- **Tax benefits:** The premiums paid towards a term plan are eligible for tax benefits under Section 80(C) of the Income Tax Act. The death benefit received by the nominee is also eligible for tax deductions under Section 10(D)

WHAT IS TERM RETURN OF PREMIUM?

Term insurance also comes with an option to have the premium returned if the life insured survives. This is called a Term Return of Premium (TROP) plan, a standard term life insurance plans with a slight variation. On survival, policyholders are returned the total amount of premiums paid by them during the policy tenure, excluding tax. This is especially important during the golden years of earning and is also sometimes used to equalise the inheritance between the legal heirs. Say, a person has one house worth Rs. 4 crores and two children. In his will, he can leave the house to one child and take a term insurance for Rs. 4 crores with the other as a nominee. This way, settling the inheritance becomes easy without the need to dispose of the asset.

PURCHASING A TERM INSURANCE

There are several benefits of a term insurance offers, foremost among them being the financial security of your family. According to experts, a sufficient cover is 10 times your annual income. Please note, an inadequate cover defeats the purpose of being insured. Additionally, it is also important you review your insurance cover and identify areas that can be eliminated, so that you are not over-insured ■

HOW POLITICS AFFECTS FINANCIAL MARKETS

Indians love discussions surrounding politics and its impact on their lives and financial markets. This has been especially true since the general elections of 2014, when Narendra Modi won with a stupendous mandate and BJP subsequently continued to sweep state after state. With the recent electoral debacles in by-elections, doubts are being cast upon BJP's and NaMo's ability to pull through victories in the upcoming three state elections (Rajasthan, Madhya Pradesh, Chhatisgarh) and of course the big general election in April-May 2019. Market participants correlate the weak market sentiment and recent sell-off to a weakening BJP and perhaps a hung parliament in 2019 with a period of political instability. Here, we look at the role politics has to play in market movements and returns.

Ideally, politics should have absolutely no role to play in investing decisions. Even though we are inclined to believing otherwise, the impact of politics in the long term is minimal to the point that it can be safely ignored.

There is a good number stocks that delivered stupendous returns even during periods of political instability and negative market sentiment. Similarly, there are sectors that delivered negative returns in a conducive political scenario. We will illustrate this through some examples.

It is commonly believed that the current bull run started in 2014 after the NaMo government came to power; the 2009-14 period was seen as a bear phase. This is when the UPA-2 (led by Congress) was in power and the period was marked by a series of scams, political hara-kiri, social turmoil, executive indecision etc. To put it simply, the political environment wasn't favorable for generating sustainable returns from investments. However, even during this slow period, four large sectors - automobiles, private banks, pharma, and consumer goods delivered fairly handsome returns. The accompanying chart shows that while Nifty was at about the same level till late 2013, the four sectoral indices had moved much higher. The companies in these four sectors consistently delivered earnings growth and their stock prices moved up. This establishes the fact that irrespective of the movements of the indices (Sensex/Nifty), individual stocks and sectors will have their own momentum driven by earnings growth.

2017 was certainly the year of a roaring bull market when not just the indices but most stocks frequently traded new highs. This was also the period of great political stability, the BJP sweeping important state elections like Uttar Pradesh and Gujarat. However, even during this period, two large sectors - technology and pharmaceuticals - were rank under-performers. Both were mired in negative news flow and sagging growth rates, much to the disappointment of the market.

Ideally, politics should have absolutely no role to play in investing decisions. Even though we are inclined to believing otherwise, the impact of politics in the long term is minimal to the point that it can be safely ignored.

In the USA, since Donald Trump came to power in November 2016, the Dow Jones Industrial Average (DJIA) - the benchmark equity index of USA - moved from ~18,000 in late 2016 to ~26,000 in January 2018, a stupendous ~45% rise. Although this period was bullish for the equity markets in the country, this was actually a period when the political environment was toxic with frequent deadlocks between the senate members. The government was on the verge of shutting down on several occasions, owing to sharp disagreements between President Trump and senators. President Trump has also been one of the most disliked presidents in the history of USA, with his opponents to be found not only amongst Democrats but even his own party – a truly rare feat achieved by any president. And yet the markets delivered strong returns.

These instances show that political environment actually has little to do with delivering investor returns. Indians tend to correlate the two, owing to our love for political discussions when in reality, the two are independent of each other.

The news flow in mainstream media in the next twelve months is going to be hugely political and even toxic enough to mar investor sentiment with negativity. But one should remember what Benjamin Graham said several decades ago, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." What he meant is that in the short term, sentiments and popularity may be the driving force but in the long term, it is only the weight of earnings that counts. An extension of earnings would be cash flows and return on capital/equity.

No doubt that sentiments are currently weak on account of various domestic and international factors, driving sharp corrections in stocks. But it will also be a good time to accumulate quality stocks. Even if there is political instability post-2019 general elections, those companies that consistently deliver earnings growth will prove to be rewarding investments in the long run ■

Vivek Mavani
Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai

Key Person Insurance

A key person insurance is a life insurance policy for a key executive's life, purchased by the company. The company is the beneficiary of the plan and pays the policy premiums. This type of life insurance is also known as 'key man insurance'.

BREAKING DOWN KEY PERSON INSURANCE

Key person insurance is required in the event of the sudden loss of a key employee having an adverse effect on the company's operations. The payout from the policy essentially buys the company time for a new hire or to implement other strategies to keep the business afloat.

In a small business, the key person is usually the owner, the founder or a key employee. The qualifying criterion being that the person's absence would sink the company.

HOW KEY PERSON INSURANCE WORKS

For key person insurance, the company purchases a life insurance policy on its key employee(s), pays the premium, and is the beneficiary of the policy. In the event of the employee's death, the company receives the insurance payoff. These funds can then be used for expenses until it can find a replacement, pay off debts, distribute money to investors, pay severance to employees or close the business down. In a bad situation, key person insurance gives the company some options other than immediate bankruptcy.

To determine if a business needs this kind of cover, company management must consider employees that are irreplaceable in the short term. In many small businesses, it's the owner who takes care of most tasks – keeping books, managing employees, handling key customers, etc. Without this person, the business would come to a stop.

How much insurance is needed depends on the business but in general, a business should buy whatever it can afford.

CATEGORIES OF LOSS COVERED

1. Losses related to an extended period when a key person is unable to work, but has not died
2. To protect profits, for example, offsetting lost income against lost sales, losses resulting from the delay or cancellation of a project in which a key person was involved
3. Insurance designed to protect shareholders or partnership interests
4. Insurance for anyone involved in guaranteeing business loans or banking facilities. The value of insurance coverage is arranged to equal the value of the guarantee

WHAT HAPPENS WHEN A KEY PERSON QUITS?

The employer that has bought the key man policy can choose amongst the following:

1. The employer can stop paying the premiums and allow the policy to lapse
2. It may continue paying the premiums and collect the proceeds on a claim arising
3. The policy could be transferred to the new employer of the on terms mutually agreed upon by both the companies
4. It can be assigned in favor of the key man

BENEFITS OF KEY MAN INSURANCE

1. It protects against business risk in the event of death of the key person
2. The premium paid is treated as a business expense and the company would save 30% plus surcharge on every rupee of premium paid for such a policy
3. Disruption of lines of business credit due to the death of the key man can seriously affect the business. Here, the insurance money acts as a guarantee of loan repayment in case of death of the key person
4. The morale of the key employee is boosted. The sense of belonging increases productivity and helps in retention of the key employee
5. It helps in keeping the market price of the company's shares stable in case of death of the key man. If the key man dies, the price of the company's shares is likely to fall but if the investors know that any financial loss can be made up through the insurance proceeds, they may not start offloading the shares immediately
6. It protects the company's valuation. For example, in the event of the company being put up for sale, prospective buyers are likely to assign a higher value to the company if they know that it has a monetary backup (insurance) to meet the cost of replacement of its key person ■

Contributed by
Aviva Life Insurance

Infrastructure and power are for a country, what veins, arteries, and nerves are for the body. A smooth flow of energy to all parts creates a healthy functioning whole. The same may be happening with taxation through GST.

Market Outlook

Markets may be in Trishanku mode again. They seem to neither want to rise to the heavens nor fall down into the pits. Much like the original Trishanku, bull forces and bear forces may be still at work to thrash out a dominant view.

From a pessimist's standpoint, macros may be weakening. CPI inflation is on the rise. Oil prices are pinching again. Fiscal deficit could be under pressure. Current account deficit may possibly slip with the rupee registering a downward fall.

But there may be another side to it. Infrastructure and power are for a country, what veins, arteries, and nerves are for the body. A smooth flow of energy to all parts creates a healthy functioning whole. The same may be happening with taxation through GST. Similarly, the Jandhan-Aadhar-Mobile system is seeking to provide a relatively uniform delivery of government assistance and usher in financial inclusion. Likewise, the universal health insurance scheme is an attempt to initiate a minimum necessary social security net across the country.

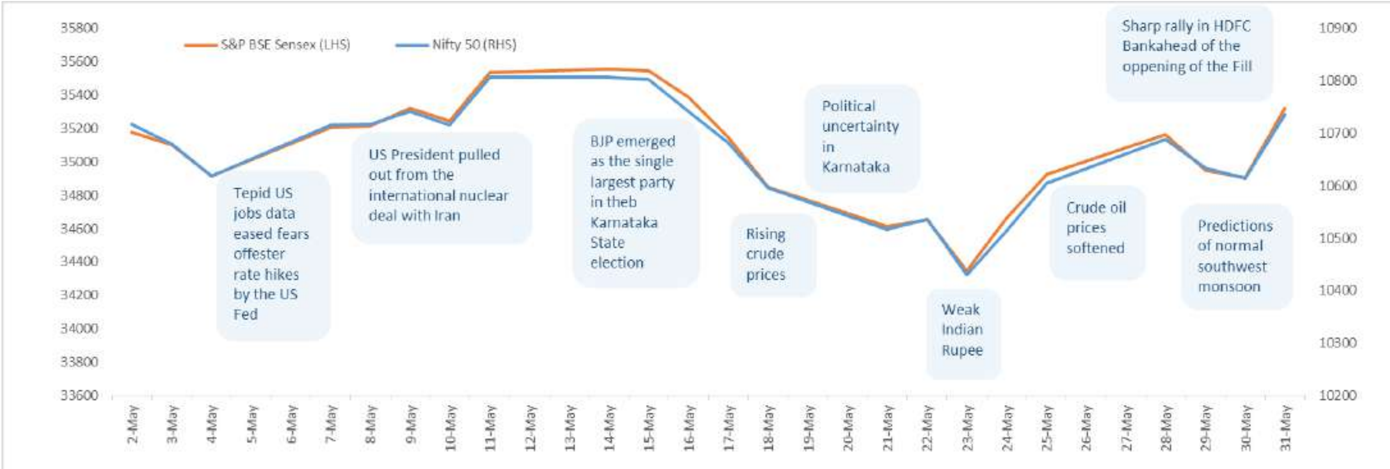
The country is seeing some institutional response to the NPA problem. The incentive-disincentive structure may be slowly favouring responsible enterprise. Earlier we considered a 6% WPI as moderate inflation; now we call 4.6% CPI high. Credit growth is now at around 12% y-o-y and capital formation, too, has begun to marginally move up.

Having said that, the risks that growth faces from high oil prices is real. High international oil price is a fact

Strategy for Investments in the Current Scenario for Equity Investor

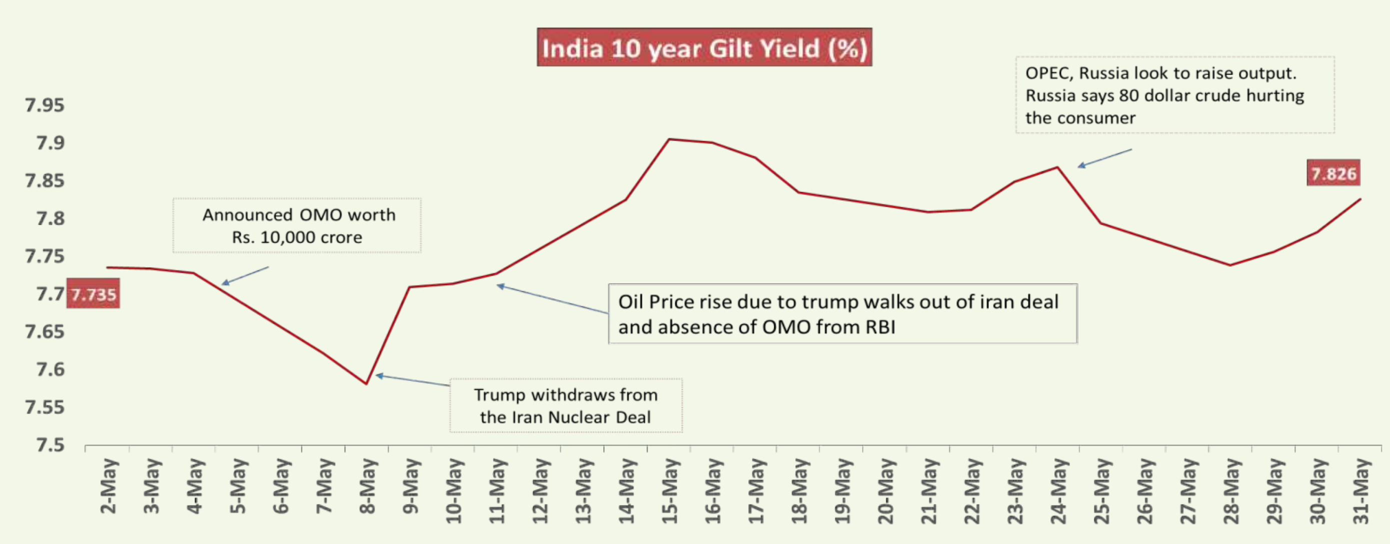
Market Valuation	Investor Stance: Underweight	Investor Stance: Neutral	Investor Stance: Overweight
Below Fair Value	Lumpsum	Lumpsum	Leverage
Fair Value	STP/ Lumpsum	SIP	Partial Profit Booking
Above Fair Value	STP	Partial Profit Booking	Take Profit Home

Markets in Trishanku Mode



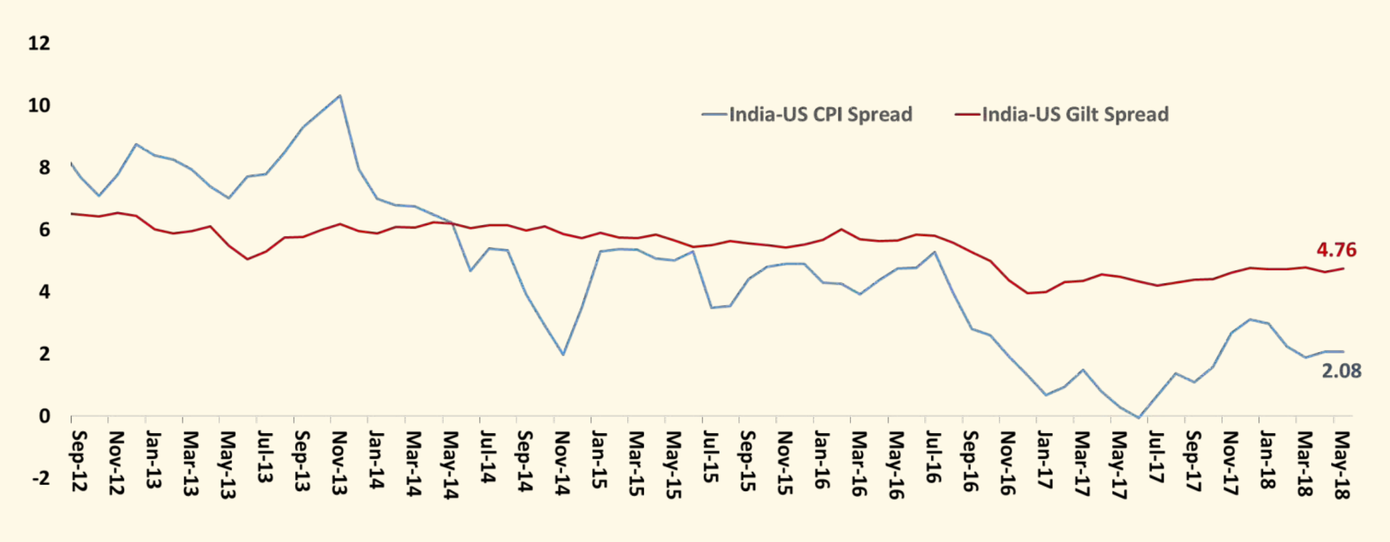
Source: Bloomberg, Kotek Institutional Equites

10 year Gilt Yield for the Month of May



Source: Bloomberg, Data as of 31st May, 2018

Inflation Adjusted Yields in India is attractive



Note: 10 year Gilt Yield taken as average of their respective month. Data as of May 2018 (May 2018 CPI is assumed to be same as April 2018)

Source: Bloomberg

today. How the policy is structured to respond to it may decide India's outlook. Somebody would have to pay for the oil cost. The question is, who?

An option for India is to subsidise oil price. Here, the government might need to take a hit and transfer costs to people by borrowing from banks (interest rates go up) through taxes and high inflation. Here, the poorest possibly pay more since credit, subsidy, and inflation divert resources from them to fund the gas bill.

An alternative is for fuel users to shoulder its cost. Again, capital and operational efficiencies would need to be considered, price rationalisation would be required, and oil dependency would need to be reduced. The former method is perhaps relatively easy and populist. The latter may be difficult.

Having said that, India needs to bring its gears and levers together. The debate on policies, causes, and factors which lead to growth and prosperity are more or less known globally. Energy needs to be channeled into creating productive capacities, a predictable legal framework, and an honest work ethic.

On the industry front, the Indian mutual funds market is seeing a flurry of activity as scheme rationalisation and categorisation comes to close. During this period, the performance momentum may get disrupted as

Key Variables & their Impact on Interest Rates in 2018

Key Variables	Short term (3-6 month)	Medium – term (6month – 2 years)
Inflation	↑	↓
Rupee	↑	↔
Credit Demand	↔	↑
Government Borrowing	↓	↑
RBI Policy	↑	↔
Global Event Risk	↔	↔
Corporate bond Spread	↑	↑
Debt FII flow	↑	↔
Liquidity	↓	↔

↓ Denotes fall in interest rates

KEY EVENTS:

- **GDP Growth:** India's GDP grows at robust 7.7% in Q4 of FY18, full-year growth at 6.7%
- **Karnataka Elections:** BJP emerged as the single largest party (104 of 222 seats). Post-election, we saw a major upheaval with BJP forming the government before the Cong-JD(S) coalition coming to power with H D Kumaraswamy sworn in as CM
- **Monsoon:** The south-west monsoon hit Kerala on 29 May, three days ahead of schedule. India is likely to witness the third successive normal monsoon with IMD forecasting a normal monsoon at 97% of long period average
- **Trade Deficit:** Apr trade deficit remained unchanged at $13.7bn while exports expanded 5.2% YoY led by growth in engineering goods, drugs, and pharma. Imports growth slowed further to 4.6% (lower than previous 7.1%)
- **Inflation:** CPI inflation spiked for the first time in 3 months, rising to 4.58% from 4.28% in Mar, higher than expectations. Core inflation (CPI ex-food ex-fuel) surprised with a 5.9% rise YoY from 5.4% in Mar. Wholesale prices also breached a four-month high of 3.18% in the month, on the back of rising crude oil and food prices
- **Indian equities moved sideways** in May on the back of mixed political news, Q4 results and outflows from FIIs and FPIs

recalibration of investments gets underway. It will be, therefore, be important that partners appreciate the long-term value-creating skill of the fund house rather than a 1-2 month imbalance.

To put it differently, the ball and pitch have been changed and it's a new ground. There is a swing in the air and it's your fund manager who has to bat for you. In such a time, the fund manager may rather play a defensive game and take shots opportunistically, rather than take a wild swing. Avoiding mistakes is important at this stage. Because when the ball and pitch get old, the time to score will come.

But it is the captain-investor who has to decide how long the fund manager must be allowed on the pitch. The longer he is on the pitch, the greater the probability of a high score ■

Nilesh Shah,
Managing Director,
Kotak Mutual Fund

FAQs FOLIO NUMBER

WHAT IS A FOLIO NUMBER?

A folio number is an important concept in the lexicon of mutual funds. Much like a bank account number, it is a unique number to identify your holdings with the respective mutual fund, differing across fund houses.

DOES EACH FUND HOUSE ONLY ALOT ONE FOLIO NUMBER?

No, an investor can have many folio numbers with the same fund house, just like a person can have many bank accounts with a bank, each with a unique account number.

DOES EACH MUTUAL FUND SCHEME HAVE A UNIQUE FOLIO NUMBER?

Not necessarily. It can be that each mutual fund scheme is linked to a separate folio number but there can also be several schemes under the same folio number. However, it is important to note that there can only be one bank account attached to each folio number.

WHAT IS THE USE OF HAVING DIFFERENT FOLIO NUMBER WITH THE SAME FUND HOUSE?

As mentioned above, each folio number can only have one bank account linked to it. This means that if an investor wants to start two SIPs and wants the investment to be debited from different bank accounts, they should have two separate folio numbers. Accordingly, the redemption from a mutual fund scheme will also be credited to the bank account linked with the respective scheme's folio number.

WHAT OTHER THINGS SHOULD BE KEPT IN MIND WHEN CONSIDERING A FRESH FOLIO NUMBER FOR A SCHEME?

STPs only operate between mutual funds schemes that are linked to the same folio number. This means that if an investor intends to switch between schemes, say between debt and equity, or intends to use STP as a mechanism for balancing his portfolio and maintaining the correct asset allocation, the respective schemes should be linked to the same folio number ■