

## DEBT INVESTMENT

## Dynamic funds for uncertain times

But investors can face losses in bond funds, if the fund manager gets his interest-rate calls wrong

JIMMY A PATEL

When interest rates are expected to move up, the debt fund investor should ideally move into shorter-duration funds to curb his capital losses. On the other hand, when interest rates are on the downswing, he should move (at least a part of his portfolio) into longer-duration funds to make higher capital gains. But what about times when the outlook on interest rates is uncertain and rates could move in either direction? That's when investors should opt for dynamic bond funds.

To combat the ongoing phase of economic slowdown and revitalise the economy, the Reserve Bank of India (RBI) has cut rates in the past five successive monetary policy review meetings. These cuts have brought the repo rate down by a cumulative 135 basis points (bps) to 5.15 per cent. Further, the central bank has said that the stance of monetary policy will be kept "accommodative (for) as long as it is necessary to revive growth while ensuring that inflation remains within the target".

The bond market reacted positively to the successive rate cuts. Bond yields have dropped. The yield on the 10-year G-Sec, which was hovering at around 7.8 per cent in October 2018, eased to about 6.4 per cent around the August bi-monthly monetary policy review meeting.

**Yields hardening now:** In the past two months—August and September—the benchmark yield has hardened by nearly 30 bps on concerns that the government may miss its fiscal deficit target. Several measures announced by the government in August-September to revive economic growth, particularly the slashing of corporate tax rates, are expected to weigh on the fiscal deficit target.

The minutes of the last monetary policy meeting (held in October 2019) showed that certain members of the Monetary Policy Committee (MPC) were of the view that the impact on the fiscal deficit target, which is 3.3 per cent of the GDP for the current fiscal year, would be limited. They felt that assuming tax collections are in



## RBI HAS CUT POLICY RATE FIVE TIMES IN 2019

Month	Repo policy rate (%)	Policy rate cut (basis points)	Monetary policy stance
February 2019	6.25	25	Neutral
April 2019	6.00	25	Neutral
June 2019	5.75	25	Accommodative
August 2019	5.40	35	Accommodative
October 2019	5.15	25	Accommodative
<b>Total</b>		<b>135</b>	

Data as on October 4, 2019. Source: RBI

line with the budgeted target, the fiscal deficit would rise by 20 bps at the most beyond the targeted level.

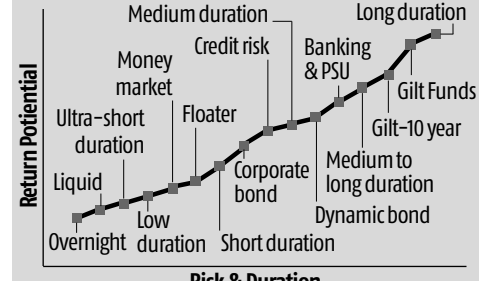
But the fact of the matter is that tax collections are way off the mark. Disinvestments are also behind the target of ₹1.05 lakh crore. Therefore, in the current scenario of an economic slowdown, it is likely that the fiscal deficit may be breached by much more, even after accounting for the ₹1.76,051 crore surplus from the RBI. The fixed-income fund manager at our fund house expects the fiscal deficit to swell by 30-40 bps above the target. If that happens, yields could harden.

**Uncertain outlook:** The minutes of the RBI's monetary policy signal we could see more rate cuts as there is still some policy space to address growth concerns. At the same time, the RBI will also keep a close eye on inflation. Another 25-bps policy repo rate cut appears likely in the next monetary policy statement scheduled for December 2019. But beyond that, the RBI may also be compelled to look at the interests of depositors. So, although we seem to be in the last leg of a rate-cut cycle, policy repo rates could move either way after a period of time. Dynamic bond funds are a category that is well suited for this

kind of an uncertain environment.

**Flexible mandate:** A dynamic bond fund holds the mandate to invest across durations: short-term, medium-term, and long-term. It has the flexibility to adjust the duration of the portfolio to benefit from any possible changes in the interest-rate scenario. A dynamic bond fund could move into short-term instruments, such as commercial paper (CP) and certificates of deposit (CDs), or long-term instruments, such as corporate bonds and gilt securities, depending on the fund manager's interest-rate outlook.

## RISK-RETURN TRADE-OFF



Source: PersonalFN Research

The main purpose of a dynamic fund is to optimise returns, in both falling and rising markets. The price of bonds moves in an inverse direction vis-à-vis interest rates. When rates fall, bond prices rise, and vice-versa. Since dynamic bond funds invest across durations, their risk profile, as well as the returns they generate, can be quite different from that of other debt mutual funds.

A dynamic bond fund carries moderate-to-high risk. Therefore, only investors who are willing to take high risk and have an investment time horizon of three to five years should opt for these funds.

**Fund selection matters:** Only a handful of dynamic bond funds have performed well across time frames. The category average trailing returns over the past three years and five years stand at around 6 per cent and 8.50 per cent, respectively.

Your financial advisor or you need to assess the characteristics of the fund portfolio. The quality and type of debt that the fund manager has taken exposure to matters, as also the maturity profile of the papers.

**Right for these times:** As mentioned, a dynamic bond fund should be recommended only if the investor has a longer time horizon and is willing to take moderate-to-high risk. If interest rates move either way in this span of three to five years, and the fund management team is astute enough to change the duration of the debt papers held at the right juncture, then these funds can offer attractive returns to investors.

However, do not assume that dynamic bonds are entirely safe products. Both interest-rate risk and investment risk are relatively high in these funds. In addition, they can also be quite volatile. If interest rates move in a direction opposite to the fund manager's expectations, the investor can face serious losses in these funds.

Independent financial advisors (IFAs) should recommend dynamic bond funds only after an in-depth study of portfolio characteristics and performance track record across interest-rate cycles.

The writer is MD & CEO, Quantum AMC

## BS TUTORIAL

Jayant Pai

## Financial literacy

- The Elizabethan Poor Law is regarded as the precursor of \_\_\_\_\_.  
A. Universal basic income  
B. Unemployment benefit  
C. Universal healthcare  
D. Progressive taxation
- The economist Paul Samuelson is credited with propounding \_\_\_\_\_ as a money management tool.  
A. Stop-loss  
B. Diversification  
C. Indexing  
D. Systematic investment plan
- GDP deflator is a type of \_\_\_\_\_.  
A. Volume index  
B. Monetary policy tool  
C. Price index  
D. Fiscal policy tool
- The brokerage house Ambit Capital launched the Indian equivalent of the \_\_\_\_\_ in 2015.  
A. Producer price index  
B. Federal Reserve 'Beige Book'  
C. Tankan survey  
D. Keqiang index
- A wet-lease is usually opted for in the case of \_\_\_\_\_.  
A. Plant and machinery  
B. Aircraft  
C. Land  
D. Home rental

**Solutions**

- A. The law, enacted in 1601, broadly envisaged (among other things) helping the poor by topping up their incomes with a fixed amount.
- C. In 1974, he issued a challenge that someone should set up a low-cost, low-turnover fund that tracked the S&P 500 index of stocks and commodities. The returns therein would beat those generated by most active managers. Soon after, Vanguard launched the world's first index fund.
- C. It is a measure of price inflation/deflation with respect to a specific base year. The GDP deflator of the base year is equal to 100.
- D. The index was popularised by, and named after, Chinese Premier Li Keqiang. It is seen as an alternative measure to the official version of GDP.
- B. In a wet lease that in the former the equipment is leased along with the crew.

The quiz master is head-marketing, PPFAS Mutual Fund. Send your queries and feedback at yourmoney@bsmail.in

## ECONOMY

## Paswan: Govt to import 100,000 tonnes onion to check price rise



PRESS TRUST OF INDIA  
New Delhi, 9 November

The government on Saturday said it will import 100,000 tonnes of onion to control prices that have risen sharply to around ₹100/kg at some places, including the national capital.

While state-owned trading firm MMTC will import onions, cooperative Nafed will supply the key kitchen staple in the domestic market. This decision was taken at a meeting of a committee of secretaries held on Saturday.

"The government has taken a decision to import one lakh tonnes of onion to control prices," Food and Consumer Affairs Minister Ram Vilas Paswan said in a tweet.

The MMTC has been asked to import onions and make it available for distribution in the domestic market, between November 15 and December 15 period, he added.

Nafed has been directed to supply imported onions across the country, the minister said. Last week, the government had said it will import "substantial" quantity of the key kitchen staple from UAE and other countries to augment the domestic availability.

According to MMTC, one tender will close on November 14 and the second on November 18. The first shipment of 2,000 tonnes should arrive at Indian ports immedi-

ately, while the second one can be delivered by December-end.

Bidders should quote for a minimum quantity of 500 tonnes. In case of inland container depot, the minimum bid quantity would be 250 tonnes. The exact supply order will be regulated in units of 250 tonnes, depending upon the requirement.

Fresh onion can be imported from any country but the shipment should adhere to the phytosanitary and fumigation conditions, it added.

It may be noted that MMTC did not get positive response for its earlier onion import tender for 2,000 tonnes.

The government is also trying to facilitate import of onion through private traders from Egypt, Iran, Turkey and Afghanistan, for which phytosanitary and fumigation norms have been liberalised till November 30.

Onion prices have risen sharply for more than a month due to tight supply. The retail prices have increased up to ₹100 per kg in the national capital and ruling in the range of ₹60-80 per kg in other parts of the country, as per the trade data. The prices are under pressure due to 30-40 per cent fall in the domestic production of kharif (summer) onion, owing to heavy rains in the main growing states of Maharashtra and Karnataka.

## Kashmir issue figures in UK General Election campaign

PRESS TRUST OF INDIA  
London, 9 November

The Kashmir issue, against the backdrop of the Indian government's revocation of Jammu and Kashmir's special status, has found its way into the General Election campaign in the UK, with candidates warning against bringing the divisions of the subcontinent into play ahead of the December 12 poll.

Social media messages and chat groups are being used by some Indian diaspora outfits to try and influence voters, with the Opposition Labour Party facing the brunt of the attacks for its perceived "anti-India" stance since it passed a resolution favouring international intervention in Kashmir.

"I don't think we are made better off as a country by continuing the divisions of our homelands, instead we should focus on Britain today. Kashmir is a matter for the people of Kashmir and all conflicts must be resolved within the law and Constitution of India," said Virendra Sharma, a veteran Indian-origin Labour MP who hopes to win again from his Ealing Southall constituency from west London — a seat he has held for the party since 2007.

"This election is about making a decision about the kind of Britain we want to live in," he said.

On August 5, India revoked the special status to Jammu and Kashmir and bifurcated the state into two Union territories, evoking strong reactions from Pakistan.

India has categorically told the international community that the scrapping of Article 370 was an internal matter and also advised Pakistan to accept the reality,

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## Ayodhya site goes to Ram

"The Board has no plans to challenge it," he said. "If any lawyer or any other person says the decision will be challenged by the Board, it should not be taken as correct," Farooqui said.

In his initial reaction soon after the judgment, the Board's counsel Zafaryab Jilani had said in Delhi: "The Ayodhya verdict has a lot of contradictions. We will seek a review."

Jilani later clarified the press conference was organised by the All India Muslim Personal Law Board (AIMPLB) and he had reacted as its secretary and not as counsel for the Sunni Waqf Board.

"Even the inner courtyard has been given to the other party. It is not just," Jilani said, but added the AIMPLB respected the verdict and said certain aspects of the judgment could help improve the secular structure of the country.

Asked about apprehensions that there could be similar claims in Mathura and Varanasi after the verdict, Jilani said: "It is expected that such apprehensions (Mathura-Kashi baki hai) will not be there (after this judgment), and if anything occurs, the Supreme Court will be there."

He said the Supreme Court invoked its special powers under Article 142 of the Constitution in pronouncing the verdict. The lawyers' team hoped that after this verdict no other mosque in India would be touched.

Prime Minister Narendra Modi, who inaugurated the Kartarpur corridor in the morning, tweeted after the judgment: "Whether it is devotion to Ram or Rahim, now is time for everybody to strengthen devotion to India."

Later, in an 11-minute address to the nation in the evening, Modi said peace, unity, and amity were essential for the development of India and described November 9 as a day to forget any bitterness one might have. He said there was no place for fear, bitterness, and



negativity in a new India.

Addressing the nation, Modi likened the verdict to bringing down the Berlin Wall, which took place on this day in 1989 and united the two Germanys a year later. He drew a parallel between that event, the opening of the Kartarpur corridor, for which he was in Gurdaspur earlier in the day, and the Ayodhya verdict.

Nearly all parties have welcomed the decision, with Bharatiya Janata Party (BJP) leader L K Advani, who had spearheaded the political movement on the issue from 1990 onwards, stating that he had been vindicated.

Vishva Hindu Parishad hoped the trust would build the temple before 2024, and base its design prepared by the Ram Janmabhoomi Nyas.

Rashtriya Swayamsevak Sangh (RSS) chief Mohan Bhagwat, who addressed a press conference in the national capital, said: "We wanted the issue to end, (and) this has happened. All sides (of the case) were evaluated and truth and justice have been highlighted."

While neither the VHP leadership, nor Bhagwat gave any categorical assurance on the issue, the RSS chief indicated that the organisation might not take up similar disputes involving the temple sites in Mathura and Varanasi. "There was a historic background to the RSS being involved with Ayodhya, as an organisation we don't otherwise involve ourselves in agitations and we will revert to our

manushya nirman (man making) mission," Bhagwat said.

All India Majlis-e-Ittehad-ul-Muslimeen President Asaduddin Owaisi said the judgment was a "victory of faith over facts" and suggested a rejection of the five-acre plot given for constructing a mosque.

Owaisi quoted former Chief Justice of India J S Verma that the "Supreme Court is supreme ... and final but not infallible".

"Modi 2.0 is to make India a Hindu Rashtra and the road of that vision begins from Ayodhya. The BJP and RSS will use this verdict, the National Register of Citizens, and the Citizenship Amendment Bill to achieve its poisonous agenda," Owaisi said.

He claimed the disputed structure was "sacrificed" because of the Sangh Parivar and the conspiracy of the Congress.

Congress President Sonia Gandhi chaired a meeting of the Congress Working Committee, which passed a resolution that said the party respected the verdict. Congress Spokesperson Randeep Singh Surjewala said the party supported Lord Ram's temple construction.

All political parties appealed for peace and communal harmony. There were no untoward incidents till the time of filing this report, but the police in several states arrested people for posting content that was deemed provocative or warned them, and stopped bursting firecrackers.

## Coke plans regional push in bottled water



Himalayan is now part of Tata Global's joint venture with PepsiCo called NourishCo.

Coca-Cola has been ramping up distribution of 'smartwater' in the last few months and proposes to take reach of the brand to 90,000 outlets by the end of this calendar year.

The brand is available across all major metros and key tier-2 markets including Goa, Pune, Chandigarh, Ludhiana, Amritsar, Agra and Lucknow. Coca-Cola has also appointed actors Rana Daggubati and Radhika Apte as brand ambassadors of 'smartwater'.

"On the back of strong demand for packaged water,

smartwater continues to grow in India. The brand's consumers are digitally-savvy and we have been talking to them through this medium," the company spokesperson said.

Coca Cola is also positioning 'smartwater' as a lifestyle product, tying up with properties such as the Lakme Fashion Week and pushing presence at high-profile events.

"We have a disciplined approach towards growing our portfolio of premium brands. It is important to understand consumer behaviour in the (premium) segment and what they expect from a particular brand," the spokesperson said.

## As WeWork tries to repair its business, there's a lot of space to fill

Teams of workers who staff their buildings will not be affected.

In anticipation of further reductions, hundreds of WeWork employees signed a letter presented to management this week asking for fair severance for workers, an end to forced arbitration agreements and a "seat at the table" in discussions with management. "We want the employees who remain at WeWork, and those who join



in the future, to inherit something positive we left behind," the letter said.