



Edelweiss
Ideas create, values protect

PRIME
BROKERAGE SERVICES

PRIME TIME

NEWS & VIEWS

MONTHLY BULLETIN - APR 2018



INDEX

| | |
|--|----|
|  From the Desk of Rakesh Rathod - Head Domestic Institutions Clients Group | 01 |
|--|----|

Market Update

| | |
|----------------|-----------|
| • Fixed Income | 02 |
| • Forex | 02a - 02b |
| • Equity | 02c |

Regulatory Updates

| | |
|------------------|----|
| • SEBI Circulars | 03 |
| • RBI Circulars | 03 |

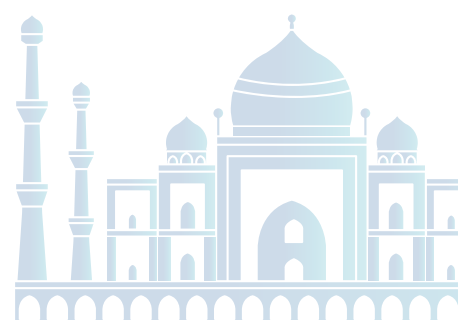
Guest Columns

| | |
|--------------------------------|----------|
| • The Law of Financial Gravity | 04 - 04a |
|--------------------------------|----------|

Meet the Team

| | |
|---|----|
| • At Edelweiss Prime Brokerage & Custody Services | 05 |
|---|----|

| | |
|--|----|
|  Disclaimer | 06 |
|--|----|





FROM THE DESK OF -

Rakesh Rathod, Head Domestic Institutions Clients Group

Dear Patrons,

2017 was a year of reckoning for Indian Equity Markets in general and fund Management industry in particular. A sustainable flow of large Domestic money from both Retail and HNIs has attracted the best minds in the industry to come up with some innovative solutions, when it comes to Investing. Several Fund Managers from mutual funds, brokerages and research analysts from brokerages, have been keen to seize this opportunity and set out their journey of setting up Alternative Investment Funds (AIF). Edelweiss Prime Brokerage Services has been at the forefront by offering the one stop solution to setup AIFs.



Rakesh Rathod

The Growth in all categories has been explosive. Scalability of strategy & desire to build a client business are the primary considerations to get into asset management.

Regulatory and policy changes has left a positive impact on the foreign investors and provided more reasons to both Domestic & Foreign investors to consider India as one of the most favoured investment destination.

Edelweiss Custodial Services Limited (ECSL) was rated as a Leading India Custodian - both in the Global Custodian (GC) Indian Domestic Survey 2017 and also in the Global Custodian (GC) Agent Banks Emerging Market survey 2017 with clients rating us highly in relationship management, knowledge of market intricacies, process and legal structures, value delivered and asset servicing. While we celebrate this success and thank all our stakeholders for their faith and trust in us, we also acknowledge that this recognition is a big responsibility and drives us further to constantly work towards enhancing customer experience through our products, platforms and services.

We also see a lot of new trends which are emerging in the space.

- Increasingly Mutual Funds are launching more AIFs considering micro regulations in Mutual funds and more flexibility on product innovation
- Family offices and Ultra HNIs looking to setup funds or invest in alternatives.
- SME Focused Funds & Distressed assets Fund are on the rise

With the rise in investment capital in India, the on-going bullish equity market and increasing FPI and FDI investments, the outlook for the AIF sector is very positive.

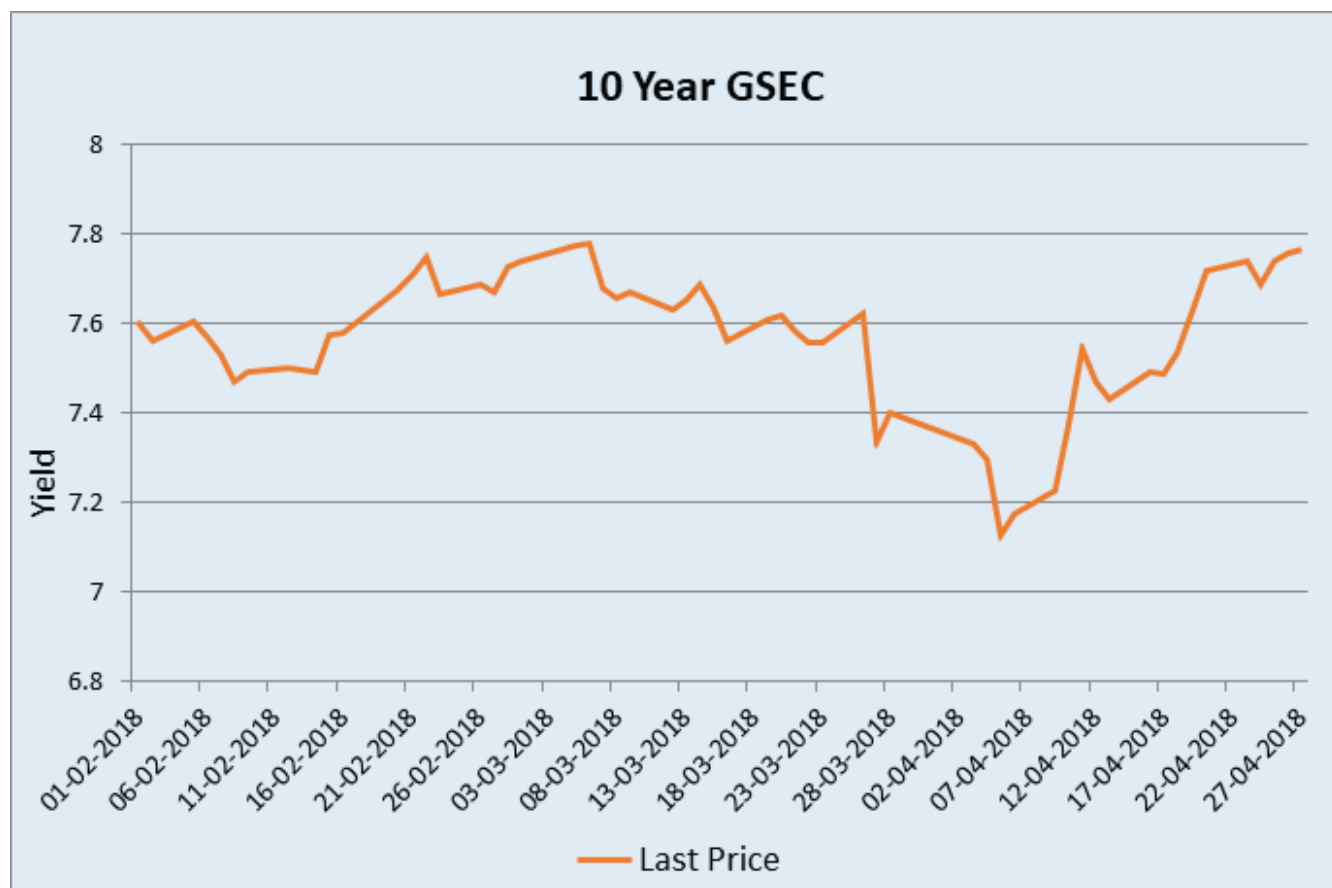
Warm Regards
Rakesh Rathod



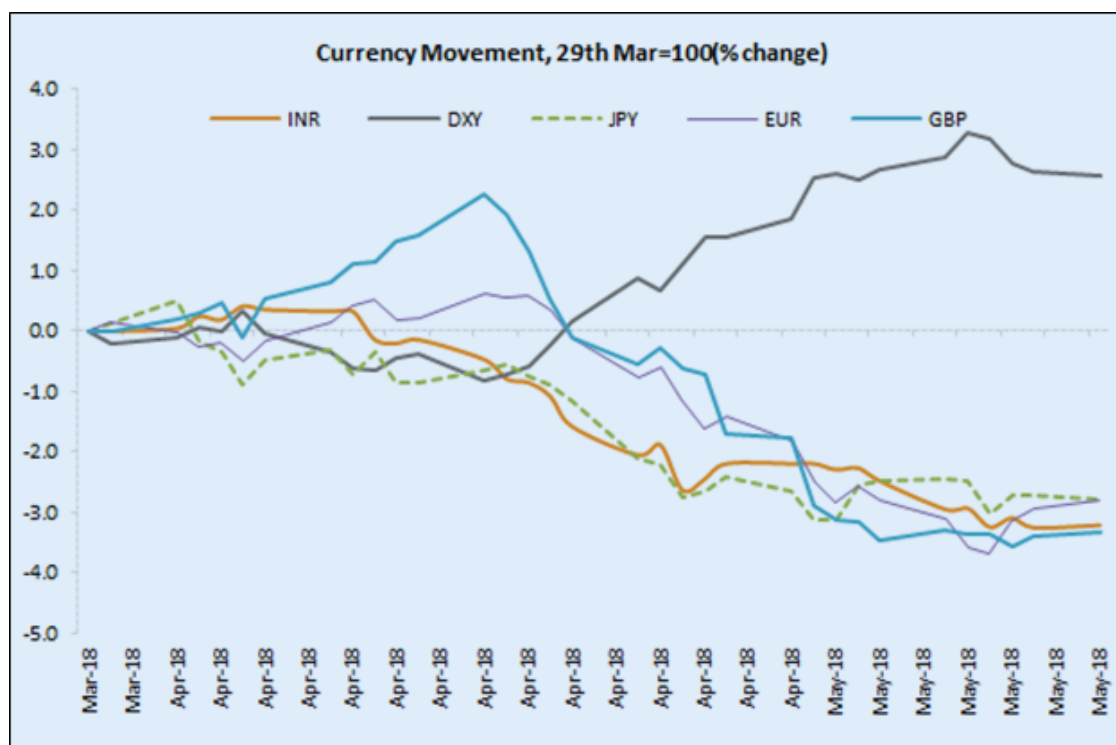
MARKET UPDATE

FIXED INCOME

The bond markets witnessed significant volatility in April as the euphoria at the beginning of the month gave way in a short period of time. The reduction of FY19 borrowing at the end of March and increase in FPI debt limits in early April raised hopes of a sentiment revival and the benchmark yield dropped to almost 7.10%. However, the markets were back in a bearish grip as both crude prices and US treasury yields resumed a sharp upward trajectory. The possibility of a hawkish monetary policy resurfaced with inflationary concerns and gilts too felt the pressure with the 10Y benchmark yield approaching 7.80% towards the end of April. The sentiment revival proved to be short-lived and we are back to a state of weak demand and appetite from both domestic and global investors.



FOREX



DXY

Dollar index surged to its highest level since December 2017 at around 93.5 amidst breakout in oil prices and the U.S. Treasury yields breaching important psychological level of 3%. The U.S. president Donald Trump's decision to leave international nuclear agreement with Iran and impose pre-agreement sanctions pushed oil prices above \$75 per barrel levels. Further, economic data coming from US, indicated that economy is well on track to recovery which lent support to the currency.

EURUSD

EURUSD erased its gains as ECB chief Mr. Mario Draghi kept his tone dovish in his monetary policy speech. Further, the recent data from Eurozone shows that Europe's spectacular growth in last couple of years is losing its steam. On inflation front, core CPI data slipped to 0.7% from 1% previously and 0.9% expected. Following soft growth and inflation readings, EURUSD breached important support level of 1.20 and made low of 1.1821 before bouncing off to 1.1980 levels.

GBPUSD

GBPUSD corrected from 1.43 levels following disappointing growth data which led to pull back in rate hike expectations. Further sharp drop in inflation number to 2.5% also added to the pressure on currency. Subsequently, Bank of England kept interest rate unchanged at 0.5%. However it surprised markets on its growth forecast, which was trimmed down to 1.4% vs 1.8% forecast in February.

USDJPY

In April, JPY witnessed some appreciating pressure due to risk-off sentiments, as speculators turned net long for first time since November 2016. However, the currency failed to hold on to its gains as dollar rallied sharply against basket of currencies. USDJPY surged from low of 106.85 and rallied one way towards 110 levels on account of rising yield differentials between Japan and the US.

USDINR

Since the beginning of April, Rupee came under deprecating pressure against dollar as oil prices rose to \$75 per barrel and US yields touched 3% levels. Firming up of crude prices added to concerns over India's macro-economic fundamentals (Current account, Inflation and Fiscal Deficit) which led to consistent selling off by FPIs. Over last one month, FPIs offloaded \$2.6bn of debt papers and \$1bn of equities. USDINR was trading at 64.80 levels which were breached in mid-April and the pair gathered sharp upward momentum towards current levels of 67.50.



EQUITY

After sluggish performance of equity markets in March'18 equities have regained their momentum. Nifty was up 7%, while the midcap index was up 8%. However, strong market performance was not sufficient to attract foreign flows back to India and FII's were net seller in the market and reduced their exposure by around USD 1Bn.

On sectoral performance side, Consumer staples, Information technology and Industrials were the best performers with ~10% return for April'18. However telecom continued to remain weak and was down 1% mainly due to ongoing pricing war in telecom industry.

On valuation side MSCI India is trading at 17.6x 12 months forward earnings, 47% premium to MSCI EM. This is slightly above the long term average of 40%.

With this going ahead, political events, global liquidity and earnings performance will be the key for market direction.

MSCI India 12months forward PE premium above its long term average



Nifty has corrected from its all-time high



Source: Bloomberg



REGULATORY UPDATES

SEBI CIRCULARS

APR
05
2018

Monitoring of foreign Investment limits in Listed Indian Companies

[READ MORE »](#)

APR
09
2018

Measures to strengthen Algorithmic Trading and Co Location Proximity Hosting Framework

[READ MORE »](#)

APR
10
2018

Clarification on Clubbing of Investment Limits of Foreign Government Related Entities

[READ MORE »](#)

APR
12
2018

Investment by FPIs in Government and Corporate Debt Securities

[READ MORE »](#)

APR
27
2018

Amendment to SEBI Circular No. IMD/FPIC/CIR/P/2018/61 dated April 5, 2018 on Monitoring of Foreign Investment limits in listed Indian companies

[READ MORE »](#)

RBI CIRCULARS

APR
27
2018

Investment by Foreign Portfolio Investors in Debt - Review

[READ MORE »](#)

MAY
01
2018

Investment by Foreign Portfolio Investors in Debt - Review

[READ MORE »](#)





GUEST COLUMN



The Law of Financial Gravity

Nalin Moniz

Chief Investment Officer, Alternative Equity
Edelweiss Global Asset Management

INTRODUCTION

Alternative investments have started to play a more prominent role in Indian investor portfolios in the last few years. For example, commitments to AIFs among domestic investors has grown at a 92.84% CAGR over the past 3 years and stands at Rs 1,41,120 cr (21.21 Bn USD) at the end of December 2017. This meteoric rise has also created a need for a simple framework to evaluate alternative investments that goes beyond wealth manager recommendations or face-to-face meetings with fund managers.

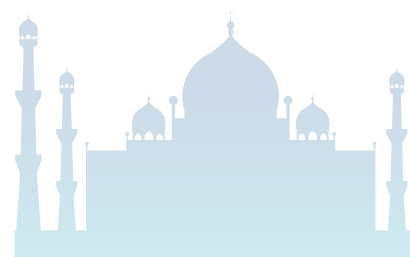
The law of financial gravity is a simple but powerful idea when used to evaluate any category of alternative investment. Stated simple, it is:

“No fund manager can deliver outperformance:

(a) consistently (b) at size (c) without tail risk (d) and do so legally”

Let's look at each of the components of the law in the context of different alternative investments, to understand it better. Venture Capital & Private Equity can be done at size and can have large positive outcomes, but their returns can be lumpy and back-ended – they are not consistent on a monthly basis. High yield credit whether infrastructure, real estate credit or structured credit has monthly / quarterly consistency in terms of coupon income and can be done at size but involves tail risk if any of the borrowers default. Arbitrage strategies such as those in high frequency trading or commodity markets offer monthly consistency without tail risk but are capacity constrained because the opportunity is limited by the size of markets and regulatory limits. Long short trading often trades off consistency and size and can involve some tail risk if the manager is selling out of the money options.

History has taught us that ideas that offered consistency, size and the lack of tail risk were later found to be either frauds (National Spot Exchange scam) or violating regulatory norms (bit coin trading) or in the case of unregulated investments – outright Ponzi schemes.



The law of financial gravity is useful for investors and advisors because it prods them to ask managers four basic questions:

01 How consistent will your strategy be?

The most successful strategies possess two distinct qualities; they are both consistent and agile. These two traits working in tandem push the Fund, to remain dedicated to their original philosophy which is strategic with the flexibility to adapt to ever-changing markets

02 What is the capacity of your strategy and how much of that is already absorbed?

It's only when an investment management process or the strategy be applied to a wide variety of market segments, then an increase in the fund size will improve its performance, else the size itself becomes the reason for under performance

03 Is everything that you are doing regulated and within the letter and spirit of the law?

Ensure the fund has a well planned investment management and not a person centric and is highly transparent and at times also ahead of regulations.

Alternative investments can be a powerful force in investor portfolios but every style has its own limitations. The law of financial gravity teaches us to embrace those limitations and diversify across styles and managers to deliver superior risk adjusted returns rather than looking for the Holy Grail.

MEET THE TEAM AT EDELWEISS PRIME BROKERAGE & CUSTODY SERVICES



Introducing the team from left to right: Rakesh Rathod (Head – Domestic Institutions Clients Group), Dipesh Shah (Head - PB & Custody), Vishal Ved (Deputy COO), Satish Jathan (Head - Custody & Clearing), Shweta Dasgupta (Head – Technology), Jyoti Rai (Head - Channel Partners and Alliances), Pradeep Khandelwal (Head - Domestic Brokerage Group), Pralhad Shinde (Financial Controller - Prime Broking), Udit Sureka (Head – Products), Atul Badkar (Head - International Institutional Clients Group).





DISCLAIMER

Prime Time is a monthly newsletter introduced by Edelweiss Prime Brokerage Services. Edelweiss Prime Brokerage Services offers innovative solutions and services across multiple asset classes to a diverse set of clients ranging from Institutions, brokers, corporates and High Net-worth Individuals (HNIs). These services offered by Edelweiss Custodial Services Limited, is being published for general information purpose only to our esteemed subscribers to it.

Edelweiss Custodial Services Limited and its group companies and associates (hereinafter singly and jointly referred to as " ") have taken due care and caution in compilation of the data and the contents for this newsletter. This newsletter does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The newsletter is a compilation of data and substance from multiple sources which includes government and/or regulatory websites and other public sources and have only reproduced the information validated by the respective sources. It may contains key indices, rates, recommendations on various internal products for the purpose of investment or trading, hence Edelweiss advises its users to verify the veracity / appropriateness of the information before taking any decisions. We do not represent that it is accurate or complete and it should not be relied on as such.

The information given in this newsletter pertains to data collected for preparing this newsletter and is current and/or past as on date and there can be no assurance that future results or events will be consistent with this information.

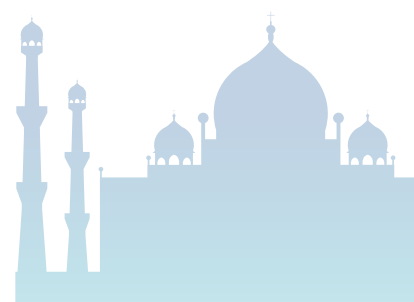
Similarly information provided in this newsletter is obtained from sources believed to be reliable but cannot be guaranteed as to the completeness, timeliness, adequacy or accuracy of any information and Edelweiss is not responsible for any errors or omissions or for the results obtained from the use of such information. Edelweiss reserves the right to make modifications and alterations to this information as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries.

This newsletter is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. Additionally any guest article published in this newsletter does not receive compensation in any form or type.

Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

The art and design style rendered in this newsletter is a creative interpretation based on the content of the various articles and information generally available in the public domain. The art and design style is for representation purposes only. All trademarks and rights acknowledged. Edelweiss or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this newsletter.

This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This newsletter is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/group companies to any registration or licensing requirements within such jurisdiction. The distribution of this newsletter in certain jurisdictions may be restricted by law, and persons in whose possession this book comes, should inform themselves about and observe, any such restrictions. All copyrights of the publication are reserved by Edelweiss and any copying and/or electronic transmission of the content of the newsletter is a violation of copyright law.





Edelweiss Financial Services,
Edelweiss House, Off CST Road,
Kalina, Mumbai, 400098



prime.brokerage@edelweissfin.com



www.edelweissfin.com

