June 26'2018

Hello Friends,

Once in a blue moon does one get to see a good product launch at right times. Mostly NFOs of schemes either in debt or in equity happens when interest rates have softened hence point to point returns at that time looks good and there is momentum in terms of sales. Something similar gets observed in Equity markets; most NFOs are launched when markets are at their peak.

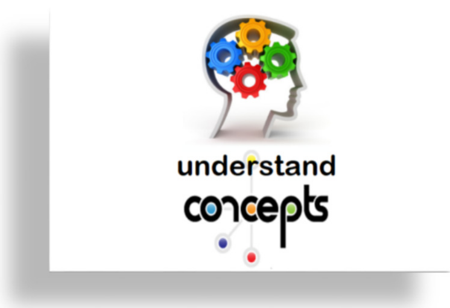
Rarely does one see NFO of debt schemes when interest rates are at elevated levels and collections of NFO funds get deployed at higher Yields; thereby helping Investors earn better returns.

I am sure by now you have guessed as to which NFO I am speaking about. Reliance Nivesh Lakshya is not only a right NFO at right time; but also a scheme with a great Concept of Constantly Rolling Down that can help Investors going forward.

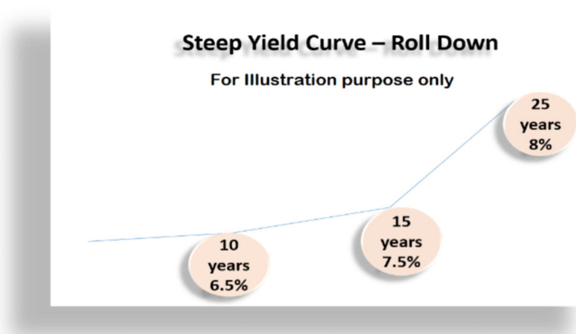
Before I get to analyzing the NFO and its merits and demerits, let me first update you on the Concept behind the said scheme launch. Unless you understand the Concept, you will not be able to comprehend the full implications of how to position the said scheme for your Investors and whether the said scheme is suitable for your client requirements or not. I have been saying this in almost all my sessions that IFAs should not sell anything blindly. Unless you have conviction in the scheme/asset class/strategy, you will not have consistency in your advice. You should not sell NFOs; you should sell Solutions for different needs of your Investors and that way you will be able to position the said scheme more effectively.

G 12/9, DLF CITY PHASE 1, GURGAON, 122002, HARYANA
MOBILE : 9810039016
TEL : 0124-4051585/86 TELEFAX: 0124-4051586 E MAIL: sunil@msjcapital.com
VISIT ME AT: www.misterbond.in FOLLOW ME ON TWITTER: @IamMisterBond

Concept: Constantly Rolling Down strategy:



I am sure many of you have heard of March CD/NCD schemes following constantly rolling down strategy. In the month of March, Fund Manager buys next year March CD/NCD. In the month of April, he buys the same CD/NCD with residual maturity of 11 months. In the month of May, he buys CD/NCD with residual maturity of 10 months and so on and so forth. In a steep yield curve scenario, borrower tends to pay higher interest for longer dated securities (in this case 1 year) and lower yields for shorter dated securities i.e. lower yields for 11 month/10 month CD/NCD, etc. Hence, the Fund Manager locks in higher yields in the month of Feb/March and constantly rolls down the same. For example if the Fund Manager say locks in 10% yield for 1 year March CD/NCD, in the month of May he may buy 10 month residual maturity CD/NCD at maybe 9.50%. So, those who invested in the month of March will not only get the benefit of higher coupon of 10%; but also MTM capital gains in the month of May as 10 months CD has come off in yields to (in this example) 9.50%. Hence, the Investor has two options at this stage: 1) Hold till next March and earn 10% captured YTM or 2) exit in May and earn 10% captured YTM for two months and capital gains of 0.50% from March to May.



Let us take another extreme example which occurred in 2013. Those who had invested in March 2013 in the said scheme had captured YTM of almost 9%. In the month of August interest rates went up and the same March CD with residual maturity of 8 months jumped upto 12%. Naturally, investor in March would be sitting on some losses (9% interest rates jumping upto 12%). He had as mentioned above two choices 1) Hold onto investment till next March and he would have earned

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the captured YTM of 9% at the time of investment or 2) and, do more investments at 12% levels and his returns from August 2013 to March 2014 would have been locked in at higher yields. Redeeming out of the said scheme at that juncture simply did not make any sense as the Investors would be sitting on some losses at this juncture.

Unfortunately, since many were not aware of this Constantly Rolling Down concept and its repercussions on their Investor portfolios, there was a redemption pressure in August 2013 from these schemes. That is the reason I am saying that one should not sell anything blindly, understand Concepts before recommending any schemes and have conviction to have consistency in your advice.

Now coming back to the NFO of Reliance Nivesh Lakshya: above concept of March CD of 12 month maturity is being stretched to almost 25-30 year maturity Government securities. Concept remains exactly the same i.e. at the time of NFO, Fund Manager will buy say 25 year G Secs and capture very high yields which are available currently. One year later, they will buy the same security with 24 year in residual maturity and so on and so forth. Since the maturity period is 25 years long; the said scheme will have volatility as interest rates can fluctuate between soft to hard during this period. Those who invest in the NFO and hold it till maturity; their returns are more or less locked in. Also, since interest rates are high currently, probability of them softening over 3-5 years will be good and hence an Investor can expect good returns over next 3-5 years in this scheme with higher captured Yields + some capital gains.

If for any reason interest rates go up further from hereon; naturally NFO investors will see some retraction in their returns (maybe loss for some time) but will also get an opportunity to invest further funds at those higher levels.

Now, can recommend this NFO with proper understanding and your eyes open. Please share the above with your Investors so that they do not come back to you in a panic during volatile periods of this scheme. You will be better equipped if you have explained the above concept and its repercussions on their investments when markets turn against your Investors at some points in time. Otherwise, as Advisors we tend to become part of the Investors' emotions of Greed and Fear and lose our objectivity to guide them on the right path.

I am sure all of you have seen and read the presentations, PDF notes, attended sessions on launch of this scheme's NFO. So for the sake of not repeating, I will not touch upon scheme attributes, why we think interest rates in developed countries decline and where is India poised in this matter, etc.

Let me touch upon how this can be positioned for different needs of your Investors and convert the entire sales process from selling-pushing NFO in your client portfolios to Need-Solution approach to get better Mind Share and Wallet Share from your Investors:

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Need: Investment in Debt for long term (Core Portfolio):
Current Solution: PPF (15 years)/ Fixed Deposits (5-10 years)/ Mutual Fund schemes (3-5 years)
Alternate Solution: Reliance Nivesh Lakshya (20-25 years)

This can be the core portfolio in debt space for any investor with no credit risk, better tax efficient returns and high liquidity. Of course, as explained, it will have volatility as part and parcel of the portfolio. Tell your investors to wear blinkers (like race horses) and continue to hold the investment through ups and downs of the interest rate cycles

Need: Lock in returns and have visibility
Current Solutions: Fixed Deposits (5-10 years)/ Fixed Maturity Plans (3 years)
Alternate Solution: Treat Reliance Nivesh Lakshya like open ended FMPs. Whenever (currently during NFO or even post NFO), if interest rates rise, invest at that time, hold till maturity (or earlier if interest rates soften from the date of your investments) and earn higher tax efficient returns with visibility as well

Need: Create Multi Generation Assets
Current Solutions: Real Estate, Gold, Jewellery
Alternate Solution: this is the only scheme with 25 years visibility. Why can't we make this a multi generation asset like real estate and gold and let other generations of investors also enjoy the fruits of this product and leave a legacy behind?

Need: Meet Long Term Goals like Education, Marriage, Retirement corpuses
Current Solutions: PPF, Endowment Policies, SIP in Equity MFs
Alternate Solution: Both the debt options above are not able to beat inflation with limited liquidity. As we are aware, Equity SIPs have not been for long term. Statistics have revealed that due to volatility attached to this asset class, many SIPs get discontinued during severe market corrections. Otherwise a great source for meeting long term goals if Investors control their emotions. Invest in Reliance Nivesh Lakshya and generate higher, tax efficient, inflation beating returns

Need: Regular cash flows
Current Solutions: Interest on Fixed Deposits
Alternate Solution: Differed Systematic Withdrawal from Reliance Nivesh Lakshya

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Withdrawals done after a few years after Investment				
Differed Annuity through Systematic Withdrawal				
After	Monthly Withdrawal	Total Withdrawal till 25th year	Corpus at the end of 25 years	IRR
5 Years	86,906	2.08 crores	1.6 crores	7.39%
10 years	1,27,769	2.31 crores	2.11 crores	7.38%
15 years	1,89,116	2.26 crores	2.90 crores	7.36%
Assuming 7% yield on Rs.1 crore investment and SWP at 7%				

Finally, let me leave behind some likely scenarios based on interest rate movements:

Likely Scenarios

Entry YTM	Yield movement trend	1 - 5 years	5 - 10 years	10 - 15 years	15- 20 years	After 20 years	Value of Investment at the end of 25 years	XIRR
8.10%	Almost Flat yields	8.00%	8.00%	8.00%	8.00%	8.00%	7.7	8.32%
8.10%	Flat earlier & reduce later marginally	8.00%	8.00%	7.50%	7.00%	6.50%	7.3	8.11%
8.10%	Increase & then reduce marginally	8.50%	8.25%	8.00%	7.50%	7.00%	7.8	8.35%
8.10%	Increase & then reduce substantially	8.50%	8.00%	7.50%	7.00%	6.25%	7.4	8.17%
8.10%	Reduce immediately & trending down	7.75%	7.25%	7.00%	6.75%	6.50%	6.9	7.87%

So to conclude:

As no one medicine works for all ailments, a Doctor needs to understand symptoms, do correct diagnosis and then recommend right medicines to their patients. Similarly as Advisors we need to get into a habit of listening to our clients, identify their needs and requirements and then identify the right strategy, asset class and then finally the scheme to our Investors. Unfortunately a great disconnect happens when we as Advisors try to sell, push or plug schemes/NFOs etc. into our client portfolios without understanding whether a) it is a suitable solution b) whether it is required by the Investors as part of their portfolios. Adopt NEED and SOLUTION approach as above, and then pitch the same as a solution to get a much more effective Mind Share and Wallet Share from your Investors.

I wish Reliance AMC all the very best for a successful NFO launch and wish to thank them for launching a great product at right time.

With warm regards

Sunil Jhaveri
M: +91-98100-39016