



MEASI Institute of Management

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT-534E7B

CASE STUDY

CASE STUDY-I

EXPLORING INVESTMENT OPPORTUNITIES IN INDIA: A COMPREHENSIVE CASE STUDY

BACKGROUND

In India, there are multiple investment avenues available to meet the differing needs of investors. These investment options differ from each other based on their returns, maturity period, and the risk-taking capacity of the investors, among other things. In terms of their returns, they can be classified into high-return and low-return classes. However, risk and returns go hand-in-hand, the higher the risk involved, the higher the returns to be expected. Investors who aspire for higher returns have to bear a high-level of risk as well. An example is an investment made in the highly volatile stock market. As far as the time aspect of the investment is concerned, there are financial instruments which are short-term in nature and these include savings bank accounts, money market or liquid funds, and fixed deposits with banks. On the other hand, there are some financial instruments which offer a long-term horizon for investment. These include post office savings, Public Provident Fund (PPF), company fixed deposits, bonds and mutual funds. Small savings schemes in India are framed and enacted by the central government under the Government Savings Bank Act, 1873 and Government Savings Certificate Act, 1959. Small savings schemes came into existence after independence with the objective of providing safe and simple investment opportunities to the lower- and middle-income groups. These schemes were channelized and administered by government institutions, such as post offices and nationalized banks. With the same objective, the PPF was established in 1968 for



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individuals to save for their investments. There are various schemes offered by the Government of India (GoI) through post offices across the country. These schemes include the post-office Savings Account, the post-office Recurring Deposit Account, the post-office Time Deposit Account, the post-office Monthly Income Account, the post-office Public Provident Fund Account, the Kisan Vikas Patra, the National Savings Certificate, and the Senior Citizens Savings Scheme. The maturity period of these schemes varies from very short as in the case of a savings deposit to over 15 years as in the case of PPF. However, all these investment options come under the same risk class as all of them have fixed returns and are guaranteed by the GoI. The returns vary between schemes based on their features and maturity period. The responsibility of promoting and mobilizing small savings schemes rests with the National Savings Institute (NSI), a division of the ministry of finance. The NSI markets the small savings schemes on a nationwide basis and provides the government with feedback from customers. The small savings scheme program aims at promoting the savings habit and providing safe investment avenues to people with limited income and savings potential. These schemes are operated through about 160,000 post offices across the country. The PPF scheme is also operated through more than 8000 branches of public sector banks. Monthly Income Scheme (MIS) The post office Monthly Income Scheme (MIS) provides for monthly payment of interest income to investors. Recurring Deposit (RD) A Post Office Recurring Deposit Account (RDA) is a banking service offered by India Post at all post office counters in the country. Kisan Vikas Patra The Kisan Vikas Patra (KVP) is another safe and secure avenue for investment floated by the GoI under the post office schemes, according to analysts. Public Provident Fund (PPF) PPF is one of the investment plans that suit salaried as



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well as self-employed people, according to experts. National Savings Certificate (NSC) The National Savings Certificate scheme is another option in the government savings schemes, which offers a tax advantage to investors This case study aims at providing insights into the prevailing small savings schemes in India. At the same time, it also takes a look at the financial aspect of the schemes based on their tax rebate, post-tax returns, tenure of the schemes, etc. The decision, which scheme to invest in depends totally upon the liquidity needs of the investor. The decision to invest is also determined by the return offered by the scheme and its tax implications. Every scheme has its benefits for the investor

Questions

1. What are the issues of small saving schemes?
2. What are the various schemes offered by the Government of India (GoI) through post offices across the country?

CASE STUDY -II

CASE STUDY :INVESTMENT MANAGEMENT AT HARVARD MANAGEMENT COMPANY

BACKGROUND

On February 17, 2009, 1,600 non-faculty employees of Harvard University (Harvard) received a crimson folder containing details of the early retirement benefits offered to them. Earlier, on February 11, 2009, Harvard had announced the eligibility⁴ criteria for those employees who would be offered early retirement. The objective of the move was to save on operating expenses. The University also announced other cost-cutting measures that included budget cuts varying between 10% and 15% in all



MEASI Institute of Management

Harvard departments. Besides, it announced a 3.5% increase in tuition fees for the academic year 2009-10. The University attributed these cost-cutting measures to the losses incurred by Harvard Management Company (HMC). HMC managed Harvard's endowment funds, the largest in the industry. As of June 30, 2008, it managed assets worth US\$ 36.9 billion. Harvard reported that the value of the assets had fallen by 22% in the four months of fiscal 2008-09 that ended on October 31, 2008. The losses reported in this case did not include HMC's investments in real assets and private equity. Harvard depended on its endowment to fund more than one-third of its operational budget every year. It withdrew US\$ 1.6 billion from its endowment fund in the fiscal year 2008 that ended on June 30, 2008. This marked HMC's largest ever endowment payout to the university. Harvard estimated a loss of 30% on the assets of HMC for the current fiscal year that would end on June 30, 2009. This would be the worst loss reported by HMC, since 1974, when it had posted a loss of 12.2%. HMC announced that it would lay off 25% of its 200 employees as a part of its reorganization and rebalancing strategy. HMC was regarded as one of the most profitable managers of endowment funds (Refer to Table I for returns generated by top four endowments in the US for the financial years 2005 to 2008). It consistently outperformed the average returns posted by the industry, which invested in similar asset classes in which HMC invested. For instance, HMC posted a positive return of 8.6% on its funds for the year ended June 2008 as compared to a 13% negative return posted by the S&P 500 index⁵ during the same period. HMC was renowned for its asset-allocation strategy. It followed a hybrid model in managing its funds. HMC was incorporated in 1974 to manage the endowments, pension assets, working capital, and non-cash gifts of Harvard. Its objective was to provide financial support to the



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operations of Harvard. To conform to that objective, HMC's Board and the management laid down the investment philosophy to allocate assets across various markets and asset classes in their efforts to generate the optimum rate of return in line with Harvard's risk tolerance level. HMC also worked on the premise that in addition to earning income to support the activities of the University, it had to generate capital appreciation on the assets it held over a long-term. Asset allocation HMC had managed the largest university endowment fund in the world, since its inception. (Refer to Exhibit IV for Top Ten University Endowments in the US by the End of June 2008). It followed a well-diversified asset-allocation strategy. For instance, for the fiscal ended June 2008, HMC had investments in 12 non-cash asset classes. Fund management at HMC Walter Cabot (Cabot) was nominated as the first President and CEO for HMC in 1974. HMC's assets grew from US\$ 1.3 billion in 1974 to US\$ 4.7 billion in 1990 under his leadership. Cabot resigned from HMC after his 16-year tenure in 1990, when Meyer was nominated as his successor. Meyer led HMC between 1990 and 2005 and grew HMC's asset value from US\$ 4.7 billion to US\$ 22.6 billion. HMC nominated Mohammed El-Erian (El-Erian) as successor to Meyer.

Questions

1. What does the case examine?
2. What are the various issues of HMC?