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Building Investment Capability, Refining the Wealth Management Proposition

How are India's wealth management providers refining their offerings to remain competitive as private wealth creation continues to mushroom and as competition intensifies from all quarters? Four experts put their heads together to shine a light on the road forward in a panel discussion at the Hubbis India Wealth Management Forum.

These were the topics discussed:

- *What's your investment process and philosophy?*
- *What does the word 'advice' mean to you?*
- *How are you relevant to your clients today?*
- *Do you deal with your clients in a transparent and consistent way?*
- *Recent trends in the wealth management industry in India - how have they affected you?*
- *Investments through traditional products or AIF? Is growth in AIF driven by real client need or opaque commission structure?*
- *How are you thinking about fund selection and portfolio construction?*
- *Where do you now turn to drive long-term returns for a portfolio?*
- *Open architecture - myth or reality?*
- *Do you really deal with the risk in clients' portfolios?*
- *What investment themes make most sense today?*
- *How are Indian clients broadening their investment horizons?*
- *The sales process and suitability - any issues that need to be addressed?*

PANEL SPEAKERS

- **Prateek Pant, Co-Founder and Head of Products and Solutions, Sanctum Wealth Management**
- **Gaurav Arora, Chief Investment Officer, ASK Wealth Advisors**
- **Pranab Uniyal, Head of Products and Advisory Desk, Ambit Private Wealth**
- **Vinay Bajpai, Managing Director, Coverage & Advice, Deutsche Bank Wealth Management**

EXECUTIVE SUMMARY

The Indian capital markets are relatively thin compared with some of India's regional Asian peers, and dramatically so when the country is set alongside the leading global markets. India's wealthy have historically put most of their savings and free cash flow into real estate and a portion into tangible assets such as gold. With a change of policy since 2013 at the Reserve Bank of India promoting interest rates above core inflation, the 'financialisation' of wealth is now taking place in the country.

This trend is reflected in the gradual shifting of more wealth to publicly-traded investments, mainly equities but also fixed income and associated marketable investment opportunities. Despite some periods of under-performance the main equity indices have performed remarkably well for many years - the BSE Index is up around 16% compound per annum over almost 4 decades - but the size of the market is insufficient to provide sufficient diversity for the massive funds available from India's rapidly growing high-net-worth pockets.

This, combined with the natural proclivity of wealthy Indians to travel and educate their offspring overseas, and generally become more global, is encouraging a marked diversification of portfolios to international assets. Moreover, the multi-decade weakness of the Indian Rupee against the US dollar has further encouraged this trend towards global diversification.

India's wealth management community are making strident efforts to understand their clients, to professionalise their offerings, to offer both diversity and a long-term perspective to wealth preservation, building and succession. For the moment, they are winning through, aided by the positive global and domestic economic and market conditions. However, there are risks aplenty at home and abroad that they are all cognizant of and communicating with their clientele.

GAURAV ARORA
ASK Wealth Advisors

ONE PANELIST REMARKED "THE FIRST comment I would make is that the market remains positive for investors, but a challenge is to encourage a longer-term perspective, rather than chasing short-term gains,". In my lifetime, this is the first time I have seen fixed income instruments delivering returns at double the rate of inflation. As to equities, over the past 38-1/2 years, the BSE Index has risen 38.5 times returns, which translates to a 16% compound annual growth. A conservative outlook to assume the broader indices will mimic the nominal GDP of about 7.5% plus 4.5% inflation, and we are expecting around 12% returns from equity."

Another participant said that directing the clients in the best directions and achieving the right outcomes does not need to be antithetical to simultaneously improving profitability for the advisory firm. Being client-centric and fully transparent can help revenues rather than hinder them, was his message. "We have always believed in our fiduciary responsibility towards the client and a long-term relationship, and we think that most advisory firms operate in the same manner," noted one wealth manager.

"We advise based on our convictions and what best suits the client," added another panellist. "That DNA flows through every conversation we have, and through our product due diligence, product choices, our portfolio advisory, everything we do. Understanding the client is paramount."

Understanding client motivations

Another expert agreed that an almost forensic discussion on the client's position and objectives is essential as a first step. "We have a series of discussions with the client to understand his risk profile, what stage in the lifecycle he has reached, his earnings potential, his liquidity requirements, his full financial needs," he explained. "We then create an investment objective and the portfolio plan. And then we regularly review the performance, the portfolio and adjust along the way, thereby achieving the level of client satisfaction we strive towards."

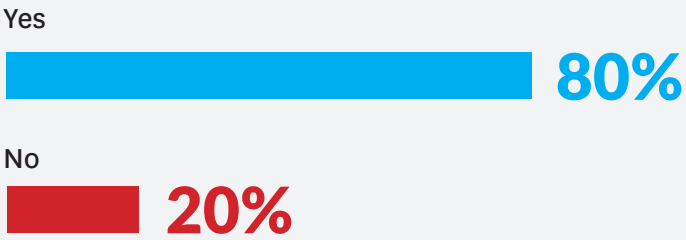
Indian investors are increasingly gravitating towards global diversification. "When investing in equity globally it is not just about the currency," noted one panellist, "it is really more about diversification. It is worth noting that for example over the past five years the local Nifty index here has only a minimal correlation to the Chinese or US markets."

He added that there was limited understanding of the global markets and how all the metrics interact, such as the interest rate cycle, central bank policies, debt levels and so forth, but information

PRANAB UNIYAL
Ambit Private Wealth

"WE ADVISE BASED ON OUR CONVICTIONS AND WHAT BEST SUITS THE CLIENT,"

DO YOU THINK THERE WILL BE MORE DEMAND FOR CLIENTS TO GET MORE INTERNATIONAL INVESTMENTS?



Source: Indian Wealth Management Forum

flows are now far better and more accessible, allowing for a more reasoned approach and logic to diversification overseas.

A panel member questioned whether leverage on fixed income or other funds is popular in India. "The cost of capital is simply too high here," replied another expert. "At close to 10% currently, the numbers and risks do not add up. Real estate has been one of the largest leverage trades in India and there has been some leveraged IPO financing, but the latter are few and far between." Moreover, the regulators keep a tight lid on leverage and multiples the lenders are permitted to offer.

Passive to the fore? Not in India, not yet

Are passive investment strategies on the rise in India, as elsewhere? "We are far behind the US, at least 10 years or so, but when momentum begins it accelerates fast here," remained one attendee. "We all know that there is great concern about the disappearance of alpha from mutual funds, and as we all now focus more on the effect of fees and compounding and how those can destroy returns over years or decades."

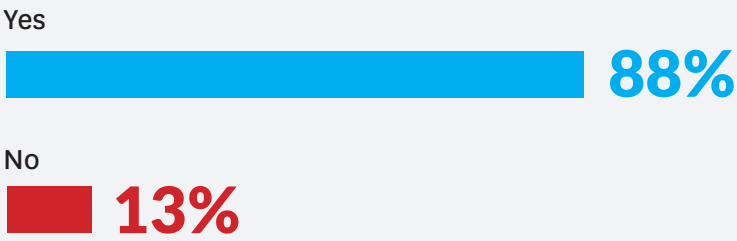
Nevertheless, another expert said that so far in India there is a minimal migration towards passive funds. "If you look at any investor portfolio here today, you will not see the presence of ETFs or passive funds representing more than just a few percentage basis points."

Some, however, believe that will change. "There have been several key regulatory changes from the

PRATEEK PANT
Sanctum Wealth Management

"WE ARE FAR BEHIND THE US, AT LEAST 10 YEARS OR SO, BUT WHEN MOMENTUM BEGINS IT ACCELERATES FAST HERE,"

WILL ETFS AND PASSIVE FUNDS BECOME MORE IMPORTANT IN THE NEXT FEW YEARS?



Source: Indian Wealth Management Forum

Securities and Exchange Board of India (SEBI) that have reduced the freedom of the active managers, both on the debt and equity side," remarked one attendee. "Moreover, there has been underperformance in the active space versus the benchmark because, for example, only nine stocks in the Nifty 50 have produced the returns, while most have underperformed." The result, he commented, might be that ETFs come to dominate the large-cap space, with active more focused on mid to small cap where stock selection is so vital.

"Some of the underperformers are now catching up and producing much better results," added another expert. "Indian investors have very short-term memories so if this continues the active funds will again beat the indices as they have more often than not done in the past. For example, we have an in-house managed portfolio that for the past decade has outperformed the benchmark by 9%, which is a dramatic enhancement to wealth for the investors. I believe that India will remain actively focused for the foreseeable future."

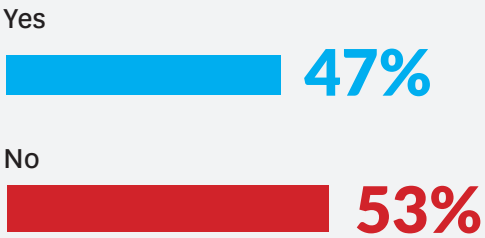
VINAY BAJPAI
Deutsche Bank Wealth Management

India's capital markets: on track but a long way to go

The Indian capital markets remain relatively immature compared to others in the region. "The entire market cap of the largest company in India, Reliance Industries, is equivalent to maybe one and half years profits of ExxonMobil," remarked one guest. "Meanwhile, the globe is shrinking, and investors are becoming smarter, hence

"WE ALL NEED TO PROMOTE A LONGER-TERM PERSPECTIVE AND BEHAVE ACCORDINGLY,"

IS THE CAPITAL MARKET IN INDIA FIT FOR PURPOSE?



Source: Indian Wealth Management Forum

diversification offshore, especially as so many wealthy people here want to spend time overseas and educate their children abroad. The regulator is aiming to boost the domestic capital markets, for example, the thin corporate bond sector, but this will take time."

"WE HAVE ALWAYS BELIEVED IN OUR FIDUCIARY RESPONSIBILITY TOWARDS THE CLIENT AND A LONG-TERM RELATIONSHIP, AND WE THINK THAT MOST ADVISORY FIRMS OPERATE IN THE SAME MANNER,"

The discussion turned to the improvement of the offerings and the platforms. "The user experience and the understanding of the client are paramount and we all tend to underestimate the barriers a normal investor feel when receiving reports, so we are making great efforts to simplify communications so that people understand how their risk profile, return expectations. their liquidity requirements and their portfolios behave and interact. It is all about being comprehensible and transparent."

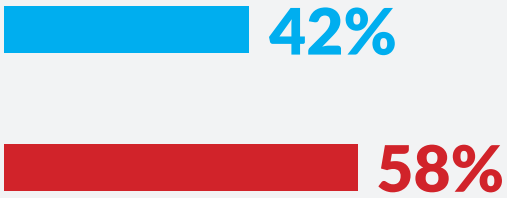
"We all need to promote a longer-term perspective and behave accordingly," said another panel member. "Due diligence of what we promote is essential before any products get onto our platform, so miss-selling is avoided. We do not make any tactical or short-term push in terms of the products. In terms of technology, we draw upon the best practices from our global platform. We might review portfolios regularly and at short intervals, but the view is long-term. In my view, there are no shortcuts to investing professionally."

The shift from hard assets to financial investments

Another expert highlighted the continuing flow out of hard assets towards financial investments. "Indian investors have been stashing their money into physical assets, for example perhaps two-thirds or more in real estate, maybe 10% or more in gold and that gave returns and comfort, as those assets neatly tracked inflation. But since 2013 Raghuram Rajan took the helm at the Central Bank [he left in 2016] and vowed to keep the interest rates higher than the inflation things have changed, as what I can call the 'financialisation' of savings began and is now the trend and gathering momentum. People are therefore moving more towards financial assets rather than tangible assets."

The discussion closed with general agreement on the continuing positive environment for the economy and with the view that equity indices would most likely hold or rise. However, there are noteworthy risks, including interest rates, political headwinds, elections and global concerns such as trade tensions, quantitative unwinding, and oil prices. "This last one is the joker in the pack", said one panellist, "because an oil price above USD100 will be very hard on India. However, overall, I believe that short-term downturns in the markets are buying opportunities for the longer-term investor." ■

DO YOU FIND IT CHALLENGING TO DEAL WITH THE NEXT GENERATION?



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