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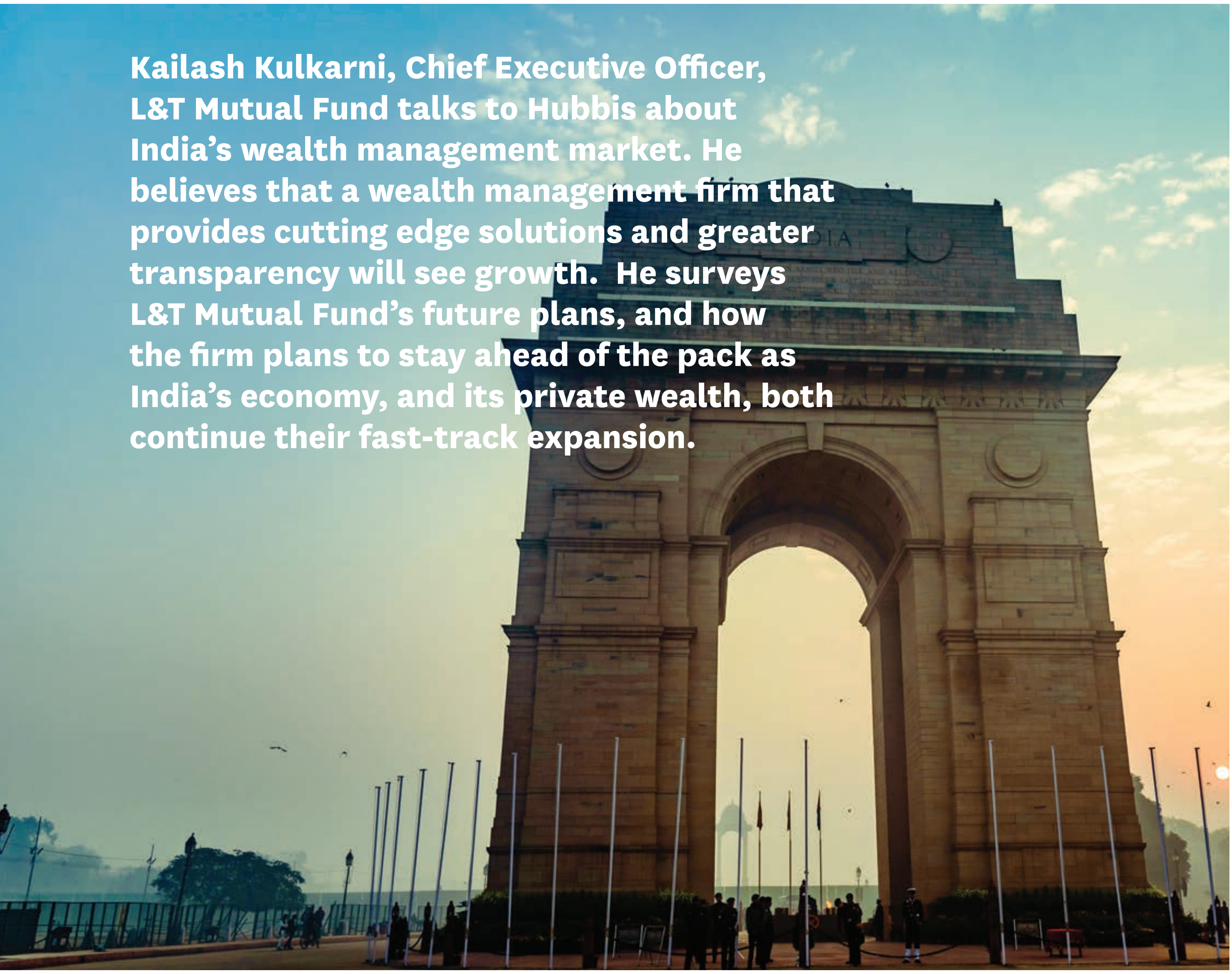
L&T Mutual Fund's CEO on the Need for Knowledge-Based Wealth Management



Kailash Kulkarni, Chief Executive Officer, L&T Mutual Fund talks to Hubbis about India's wealth management market. He believes that a wealth management firm that provides cutting edge solutions and greater transparency will see growth. He surveys L&T Mutual Fund's future plans, and how the firm plans to stay ahead of the pack as India's economy, and its private wealth, both continue their fast-track expansion.

IT WAS APPROACHING EIGHT YEARS AGO THAT L&T MUTUAL FUND took over the Indian Fidelity business and made a quantum leap forward in size. Today, the firm boasts around USD 10.5 billion in average assets under management (AAUM), with the business enjoying powerful traction with the retail market.

Kulkarni explains that the firm today has about 3 million investors, with systematic investment plans (SIPs) enjoying wide dispersion amongst those clients.

L&T Mutual Fund operates 38 Schemes which comprises of 10 open ended equity schemes, 12 open ended debt/fixed income schemes, 5 hybrid schemes and 11 close ended schemes including various fixed maturity plans. In terms of AUM, the firm also enjoys a good mix of equity and fixed income, and is roughly the inverse of the wider mutual fund industry, as the Company has about 40% of its AUM in fixed income funds and about 60% in equity, whereas generally, it is the other way around. The higher equity mix also helps the company make higher margins.

Digital report – Will do better

While the core business is performing well, Kulkarni concedes that technology implementation and digitalisation are gaining ground at a rapid pace. “This is a key focus area for the next couple of years as we build a more robust, comprehensive and customer-friendly technology platform. We will launch our mobile app and believe online marketing will significantly ramp up sales and distribution. He expands his thoughts on digital marketing, where he notes that the key advantage is the measurement available. “With a digital marketing campaign, I can actually quantify the response rate so that every dollar that I spend on a campaign like that can be assessed for its efficacy, and we can tailor things much more accurately to the target market, thereby further enhancing the effectiveness of every dollar we spend. Additionally, India is spending more and more online, or on apps, that is the way forward, so, for example, we ran a series of three video ads of upto 45 seconds targeting women, which was very effective.”

Key Priorities

He reiterates his mission to enhance his digital footprint and technology as the first key mission. Secondly, he wants to significantly boost the SIP (systematic investment plan) book from the current levels. He believes it is vital to keep educating investors about SIPs as a larger part of their goals, such as helping to fund their child’s education. "We need to keep investors investing and invested for their futures," he adds.

Kulkarni is also Vice Chairman of the Association of Mutual Funds of India (AMFI) and has previously headed its Financial Literacy Committee, so investor and general market education are central to his thesis regarding the development of India’s financial markets and the democratisation of finance.

And he also plans to make a major drive to broaden and enhance the firm’s engagement with the distribution fraternity. "On this last point," he remarks, "we need to be out more in the market talking to distributors, talking to bankers, talking to corporate clients and telling them how we assess the markets and trends, so that they can more easily see the positive and the negative news and implications. L&T Mutual Fund also wants to make sure it does not over-expose itself to any single distributor so that it keeps diversification its asset generation through multiple distributors across multiple channels."

On the digital front, the firm has what it calls the Digital Dost, which literally translates to "digital friend" in English. "This is an application for the distributors where they could directly feed in their customers’ orders digitally, so the customer has to just click a button and make the payment, and the orders are completed. We want to improve this and broaden its range."

L&T Mutual Fund’s rigorous approach to risk

Kulkarni believes the firm has weathered the Indian fixed income market storms rather well. "There was no impact on the grade A style portfolios we run of government, quasi-government and top corporate names," he reports. "The other portfolios are more credit driven, so clearly there are more risks in those, but out of all our holdings only one company we held got downgraded to 'D', and that was only about 2.5% of the overall assets in that second category of fixed income funds."

Kulkarni maintains that strong internal processes on risk and credit have helped L&T Mutual Fund avoid any of the fallout. "We benchmark our own ratings for every debenture or every fixed income issuance," he explains. "About one-third of our ratings are similar to the external ratings, whereas about two-thirds are actually a notch or two below the agencies and some 7% of cases three notches lower. We work on our internal ratings, so you will appreciate that we are considerably more cautious."

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Kulkarni believes that the mutual fund industry has learned to be wary of chasing yield and therefore taking a disproportionate risk compared with a more cautious approach. "I think however the industry, in general, is now working to improve its risk and credit assessment as a result of some of the problems we have seen here in India in the past year or two."

Honing the distribution model

As to distribution, he reports that this is split, roughly one-third each amongst the IFAs, the banks and the distributors. "The market is more balanced than it was," he reports, "since SEBI restricted the number of funds per house to one in each category. And there is greater rationality in commissions with the new regulations, as there is now no additional incentive to sell sector fund as compared to a diversified fund, as commissions are the same, so there is no driver for pushing certain types of funds over other types, to earn more."

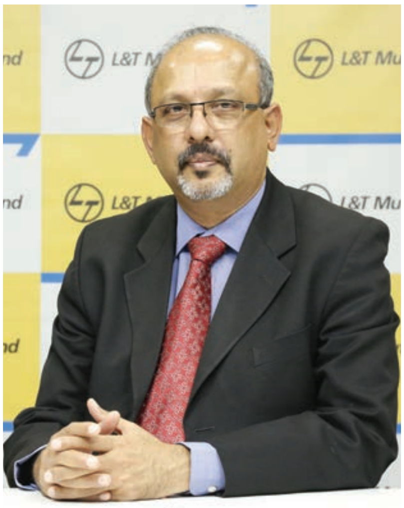
Products lead, advisory lags

Kulkarni still sees a product-driven market in India today, with most of the activity in funds rather than in holistic financial planning and fee-based advisory.

"Fee-based advisory still rests almost entirely with the UHNWIs," he notes, "whereas even for high net worth clients they do not really want to pay fees and get involved in a more holistic style of wealth and estate planning. That might come later, percolating down from the ultra-wealthy segment, but it is not happening yet to any notable degree."

A knowledge-driven industry

As to the outlook, Kulkarni believes that there is an evolution taking place as product selling becomes more of a level playing field in terms of commissions on products. "I think today each



KAILASH KULKARNI
L&T Mutual Fund

wealth management firm will have to up its knowledge quotient substantially when they go to clients, as fees are no longer a competitive edge, so what can differentiate you is a very high level of service and product knowledge and market understanding."

"For example," he added, "it is a very good time right now to be in credit, as there are credit funds today realising more than 10% yield to maturity, and we would maintain that investors should have 7% to 10% of their assets in these types of higher YTM products. Knowledge, expertise, insights, these all bring the differentiation that will increasingly shine through in this market."

A long road ahead

There is greater discernment amongst the wealthier clients today, as well, Kulkarni observes, with clients assessing in some detail which firm and which individuals in those firms might best understand their needs and provide a comprehensive suite of solutions. "They don't really want to go to multiple sources for different solutions," he comments, "but this is only the start of the road towards value-added advisory, and it will take some years to truly show through."

As to what Kulkarni would like to see in the future for his industry, he believes customer acquisition is more important currently than AUM.

"Typically, what happens if you are single-mindedly chasing AUM growth means you might just target the wealthiest, but in mutual funds, we need numbers of clients to boost the proposition for the years ahead. We need to make ourselves and the products better known and improve the understanding of the risk and the appreciation that these are medium- to longer-term investments. A lot of education is required.

Professionalising the industry

Kulkarni closes the conversation by remarking that the growth impetus driving India's economy and private wealth generation forward provide the right platform for future growth. "What we all need now is to help develop this wealth management industry into a more knowledge-based, professional business that will truly help individuals from the retail market to the UHNWs preserve and enhance their wealth." ■

Getting Personal

"My background is simple and complex," he reports. "Born in Mumbai, that part is easy. But when I was less than four, we started moving all over the country, and I then spent two years to four years in six different cities in India. My father worked for a corporation that moved us around a lot, so I am well versed in the length and breadth of the country, and have enjoyed plenty of interaction with different people, different cultures within India, and of course enjoyed many of the different types of foods."

He is a graduate and postgraduate student of Pune, emerging with both his BA Honours and his MBA from the IMDR, which is the Institute of Management Development and Research.

Prior to taking the role as CEO of L&T Mutual Fund, he was head of sales and operations in Kotak Mutual Fund for about five years, and prior to that spent 13 years in mutual fund distribution and then insurance.

"And unusually for someone who is the CEO of a funds business," he adds, "my first six years after the MBA were spent selling trucks!" Clearly, that is a good business to have been involved in for such a vast and rapidly growing country like India.

Married to a career lady who works in HR, they have one daughter aged 22 who is currently studying in Sydney for her postgraduation.

Travel is for discovery and culture more than leisure. "The Northern Lights were wonderful," he recalls, "and that was our first experience of temperatures of minus 20 and below, that was in northern Finland, above the Arctic Circle. It was amazing out there, for example, driving a snowmobile for the first time in my life. We have also visited many wildlife national parks in Africa and India. "We do shoot the animals, but only with the camera!", he quips.