

# Steering a portfolio approach in India

*With a wider variety of products available to wealthy Indians, yet the importance of managing the client's overall portfolio as well as longer term needs, advice must be multi-dimensional.*

India has seen a gradual expansion in the range of products available for wealthy individuals, with growth of alternative investment funds and pension products, for example.

In line with this, advisers need to have more strategic conversations with their clients if they want to be able to bring investment know-how and innovation to them.

At the same time, advisers need to ensure the right balance between tactical revenue generation, wealth generation and wealth preservation.

## FINDING THE BALANCE

Given that most wealthy clients have been successful in making their money through their own businesses, an important focus for them is often the safety of their investments.

This is especially the case in markets full of risk, with Greece and China two

**“[When advising a client's overall portfolio], it is more about trying to be realistic about the types of risk being taken and returns generated.”**

**HRISHIKESH PARANDEKAR**  
Ambit Private Wealth



obvious examples in recent months, say industry practitioners.

But the objective of mitigating risk mustn't mean that the returns aspirations get sacrificing.

This is because investors still want to beat inflation and also meet their life-style goals.

With no one-size-fits-all approach for clients, Prateek Pant, head of products and services at Sanctum Wealth Management, formerly RBS Private Banking in India, says that some mandates might involve a lot of asset allocation with various portfolio optimisation elements.

Or, he adds, there might be a client who actively trades.



ask them what performance they are striving for, and at what level of risk.

Practitioners say that the commonly-stated goal of 15% returns is a thing of fantasy unless clients are willing to contemplate a potential downside of 20% in the next few months.

Until this reality starts to set in, the investment process in India will therefore remain less rational than it might be in other markets.

Yet conversations with clients certainly shouldn't be just about investment management, explains Hrishikesh Parandekar, chief executive officer of Ambit Private Wealth.

When it comes to a discussion post a liquidity event, for example, this should be focused on the client's objectives.

"These are likely to be around issues such as wealth protection and legacy planning," he adds.

However, because so much wealth in the domestic market originates from business earnings, Indian clients often act and behave as if they know a lot about money.

This creates a bigger challenge for advisers trying to give them guidance.

As a result, fewer clients value advice, and an even smaller number are willing to pay for it.

**ALL ABOUT ALPHA?**

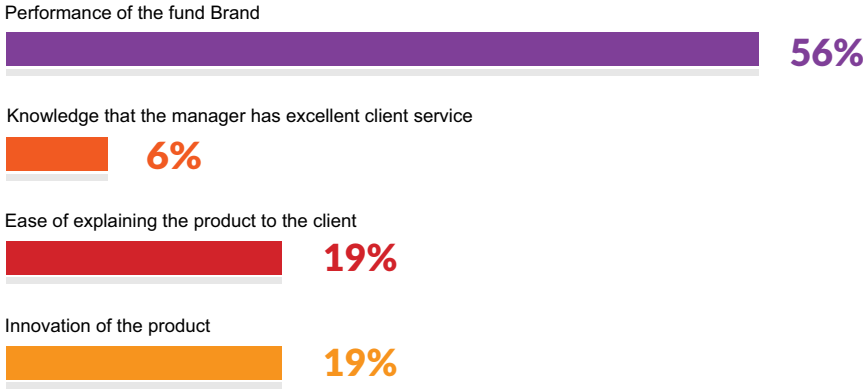
The focus on alpha in India creates an interesting dynamic for the advisory process, say industry practitioners

**"The commonly-stated goal of 15% returns is a thing of fantasy unless clients are willing to contemplate a potential downside of 20% in the next few months."**

The starting point for an adviser to add value in a conversation with clients about their investments, should be to

"I would stay as far away as I can from alpha when advising a client's overall portfolio," says Parandekar. "It is more

**WHEN TALKING TO AN INVESTOR ABOUT AN ASSET CLASS OR FUND, WHAT DO ADVISERS FOCUS ON AS THE KEY SELLING POINT?**



Source: Hubbis Indian Wealth Management Forum 2015

## FEATURE ARTICLE

about trying to be realistic about the types of risk being taken and returns generated.”

It is a mis-match which he predicts is set to continue due to the nature of the Indian market.

Alpha should, he adds, come into conversations about specific opportunities on a case by case basis.

### STAYING MORE ACTIVE

When advisers and investors alike do strive for outperformance, those wealth managers which can get their tactical asset allocation calls right will inevitably create alpha for their clients.

And in these cases, there is greater justification for charging fees.

To date, products specialists say that the investor experience in buying mutual funds has been fairly positive, with the outperformance to the benchmarks being quite impressive.

As a result, the potential replacement of actively-managed strategies by more

passive instruments is less likely in any volume for the foreseeable future.

The higher demand for alpha is also tied to what Gaurav Pant, vice president and fund manager at DSP BlackRock Investment Managers, says he observes: an increasing consideration and demand for liquidity and risk assessment on behalf of clients, post 2008 and 2009.

He says that the reason why more global clients speak about the development of alternatives is with the objectives of diversification and enhancing risk-adjusted returns in mind.

According to Parandekar, there is a great potential for alternatives more generally in India. “How an alternative fits into a portfolio and is able to meet an individual client’s objective will determine applicability,” he adds.

**“What would be helpful for asset managers in developing deeper relationships with product gatekeepers is improving the consistency of returns.”**

**VINAY BAJPAI**  
Deutsche Bank



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### WHAT WILL BE THE BIGGEST GAME-CHANGER FOR INDIAN ASSET MANAGEMENT IN THE NEXT 12 MONTHS?

Robo-investing



Fee pressure / regulation



Passive investing



More offshore investment access



Source: Hubbis Indian Wealth Management Forum 2015



sistency of returns, according to Vinay Bajpai, head of product at Deutsche Bank in India.

According to the audience sentiment, however, improved client service and communication is key.

**GAME-CHANGERS**

In looking at the potential for disruption in the distribution mechanism, digital seems to be on the minds of many practitioners as the most likely source.

“The industry will look to use this channel in a way to both create innovation in the product cycle as well as increase penetration,” says Pant. He adds that he expects this to lead to a different look-and-feel on both the manufacturing side as well as distribution going forward.

The audience sentiment, however, was that the biggest game-changer for Indian asset management in the next 12 months will be fee pressure stemming from regulation. ■

**“The industry will use [the digital] channel to both create innovation in the product cycle and increase penetration.”**

Essentially, this is an evolution of strategies which have been around for many years. But they are now increasingly being formalised as part of a more mainstream wealth management offering, explains Parandekar.

Although, he adds, he is sceptical of investments on the fringes sold as part of a bubble or fad, such as art funds.

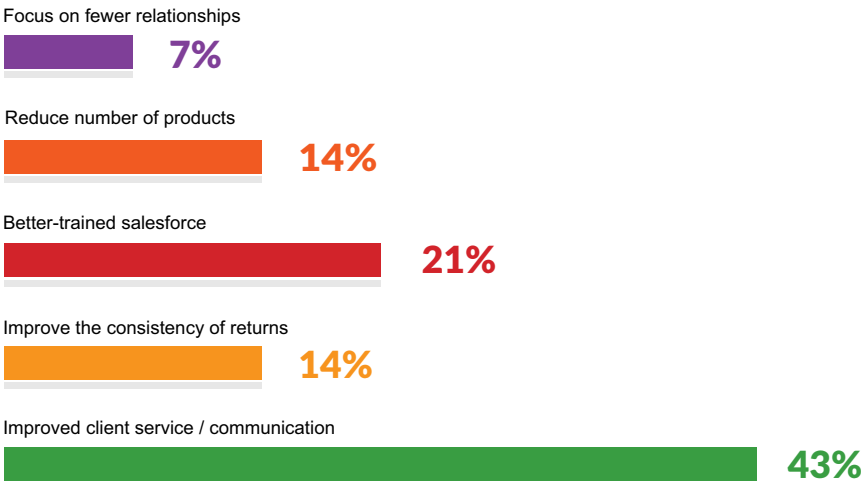
**SELLING POINTS**

According to an audience sentiment poll, what most advisers focus on is the performance of a particular fund when talking to an investor about an asset class or investment. While this isn't what they should do necessarily, this reflects what clients are looking at.

What would be helpful for asset managers in developing deeper relationships

with product gatekeepers, therefore, is if the managers can improve the con-

**HOW SHOULD ASSET MANAGERS DEVELOP DEEPER RELATIONSHIPS WITH PRODUCT GATEKEEPERS?**



Source: Hubbis Indian Wealth Management Forum 2015