The Diversification of HNW and UHNW Portfolios in India - Views from a Leading Local Asset Management Expert

Akhil Chaturvedi is a Director & Chief Business Officer at Motilal Oswal Asset Management Company, based in Mumbai. With over 24 years in the financial services industry in India, he has been in this role for nearly two and a half years, after more than eight years as the firm's head of sales & business development. He has extensive experience in curating and delivering a wide range of investment products and services, such as Mutual Funds, Portfolio Management Services and also Alternate Investment Funds. Hubbis met with him recently to learn more about the asset management company he helps guide, which is part of the Motilal Oswal Group, a multi-faceted listed financial services company that in mid-January was trading close to its 52-week high and boasting a market valuation of over USD2.8 billion. The group was formed some 36 years ago and today has more than 10,500 employees across 550 cities in India. Akhil offered a snapshot of some key trends helping to propel the market, as well as highlighting some key challenges. Overall, he is energised by the growth trajectory of Motilal Oswal AMC, which he describes as an entrepreneurial and empowering wealth firm and one that has enjoyed stellar AUM growth, rocketing from around USD150 million when he joined in 2013 to the equivalent of over USD8 billion today. The firm will continue to roll out timely and relevant strategies, primarily focused on equities. And an exciting area for future growth is in helping attract more foreign institutional money to India, to which extent the rollout of GITF City, India's onshore IFC, should, Akhil reported, help significantly in that endeavour.

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Akhil launches straight into the evolving appetite around investments for family offices, reporting that there is a significant shift taking place in the curation of portfolios. He explains that a few years back, portfolios were really rather generic, full of relatively simple, standard products, traditional asset mutual funds, and Alternative Investment Funds (AIFs), and often delivered through dedicated and tailored Portfolio Management Services (PMS) by leading wealth managers.

Demand for innovation and diversification

"But we have seen in the HNW and UHNW segments, including family offices, that there has been increasing demand for more innovative products and different asset classes, such as commercial real estate, private credit and private fixed income, private equity, venture capital and so forth," Akhil reports. "Accordingly, for most of the private wealth entities and multifamily offices, you will find that there is a shift of asset allocation from plain vanilla products into differentiated products."

Additionally, he notes that there has also been an increasing tendency to allocate towards 'passive' structures such as ETFs and indexed funds, with an increasing emphasis on thematics.

Rising risk appetite amongst HNW and UHW investors

"As the typical size of the family offices here in India increases, the risk appetite needle also tends to move," Akhil observes. "They still have core allocations to more standardised products, but they are more prepared to take on incremental risk in newer or differentiated asset classes, provided those are delivered by high-quality fund managers. This means we have seen more specialisation amongst the fund houses, as there is rising demand for an institutional offering of these types of products with appropriate regulatory rigour that offers comfort to these investors as they ratchet up their risk exposures."

The gravitational pull of passives

The shift towards passive strategies and approaches has been multi-year in its progress, especially in last few years, when active funds found it very challenging to outperform. "These investors started their transition towards passives around 2021, and that has continued," Akhil reports. "Now that alpha is back on the table, there is a swing back somewhat towards active funds and strategies, but the underlying move towards passives will continue, we believe."

He says Motilal Oswal AMC and several other leading asset management firms are also creating more innovative products, such as factor strategies, multi-factor strategies, quant models, and so forth. "We are delivering to the trend line of this diversification from plain vanilla products into more niche and sophisticated investments," he reports.

The quest for profitability via differentiation

The advantage of this evolution for asset management companies and the wealth industry generally is that these newer and differentiated companies buck the trend of fee compression in the more simplistic products. "Diversification and innovation translate to greater scope for higher fees, which clients are more prepared to absorb in exchange for differentiation," he states.

A good moment for India

Akhil says that the cards have been stacked in favour of these investors, as the momentum of the broader market in India has been so encouraging.

"There has been widespread performance in India, with many family offices also increasing exposures more broadly into the mid-cap 150 index, or the small-cap 250 indexes as well as part of their more 'plain-vanilla' holdings," he reports. "And the diversification towards exposures with higher returns than the broader index in order to add alpha should be seen in the context of this more sophisticated approach to the overall portfolio. Conditions have been highly favourable all around."

Bring on the international money

Akhil also highlights the continuing drive to bring more foreign money into India as well. He points to the firm's Mauritius platform that they opened in 2016 as the conduit for increasing foreign institutional activity and interest, but says more can be achieved. "Honestly, it has been slow progress for various reasons, but we do believe in the opportunity, and we will also leverage our presence in GIFT City, which will offer more direct capabilities and the ability to design more interesting products for those foreign investors we know are out there," he states.

A GIFT that will begin giving

He adds that the rise of GIFT City will eclipse the role of Mauritius for the firm, as foreign investors have increasing regulatory and compliance concerns over that particular jurisdiction.

"GIFT City is still very new, and much work needs to be done to explain and promote it, but it will grow in prominence, and it offers more transparency and quality in terms of the regulatory aspects as well as the costs, which are more reasonable than offshore operations," he says. "Moreover, there are some tax advantages for both ourselves as the asset management company and for the investors and those incentives will be there for at least the next 10 years."

Jostling for position

In his role at Motilal Oswal AMC, Akhil clearly has his finger on the beating pulse of the wealth management industry in India. Looking more broadly at the higher echelons of the private investor wealth market, he then drills down into key emerging trends in India, explaining that the wealth market in general is experiencing a lot of jostling for position and some consolidation, as competitors fight to protect and hopefully enhance their market positions.

"And everyone is on the hunt for talent, which is increasingly challenging," he reports. "Without the right people and more of them, the wealth model struggles to keep up with the potential on offer. This business is a people business, and the growth path ahead is remarkable, so we need not only to hire, but also to nurture and develop new talent."

He adds that this particular challenge is one reason for some consolidation taking place amongst the top wealth management firms in India, as everyone attempts to grasp the huge growth momentum in the market.

Akhil's path to success and contentment

Akhil was born in Mathura, which he reports is the birth city of his Lord Krishna. He spent his formative years in Mumbai, including at the University of Mumbai before attending Leeds University in the UK to complete his Master's in Accounting & Finance, and then his Master's in Business Administration & Marketing. In addition, he is also a 'Certified Financial Planner'

He returned home to India in 1999 and since then has been consistently involved in equities and funds. He is currently studying part-time 'Emerging CXO' program at Cornell University that has been specially designed for the top 25 Motilal Oswal Group management. He will graduate in May this year.

Akhil and his wife married some 23 years ago and have two children, a son aged 20 and a daughter aged 16. He loves all family activities, and his spare time might be spent enjoying

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running or functional training, as well as chilling out at home with YouTube, Netflix and other pastimes to help recharge mentally. The family loves travel, but prefer shorter trips rather than long vacations, with their next trip slated to take them into the wilds of Ranthambore in Northern India to watch tigers in their natural habitat.

Stability, transparency and growth

Akhil draws the discussion towards a close by noting how much he has enjoyed his career to date and has been so impressed by watching India emerge from a relatively modest and fragile economy of USD500 billion at the turn of this century, to the economic juggernaut it is today.

"I have been fortunate to see India transition remarkably in the past two decades to a dramatically larger economy, to a position of far greater stability and to now being far more able to realise the country's truly massive potential," he says.

Emerging and maturing

He says that India, in the past 20-plus years, has emerged from the shadows of regulatory inconsistencies and financial market shenanigans in the past to a market with better regulations, greater transparency, and better overall governance," he reports. "Helping all this has been our political stability in the past decade, all of which has helped democratise the world of investments, and stimulate rapidly rising participation of Indian private clients in our markets."

This has all helped propel the wealth management industry. In the mutual fund space, for example, the market has in the

Key Priorities

Regarding priorities for the year ahead, Akhil says they remain highly focused on the equity space, with forthcoming new product launches set to flow on top of recent successes. "These are our core active products that are enjoying very strong demand amidst the very positive market environment," he says.

Another key area is passives, where they have already built a strong market share, delivering a series of passive equity strategies and thematics, with robust demand flowing from family offices, large institutional investors and distributors. "We have our eyes set firmly on a leadership position on the passive investments," he states.

Also within the passive umbrella, the firm is expanding its quant strategies. "We have been building our quant capabilities, supported by unique and complex quant models, factors and derivatives," he explains. "This quant-driven rule-based investing is firmly within the equity umbrella."

The third key mission is to boost digitisation, both to enhance the experience for existing clients and to appeal to younger and newer clients, making it easier for them to onboard and access the firms funds and strategies.

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past ten years expanded more than five-fold to the equivalent of roughly USD60 billion today, and, Akhil says, with more dramatic growth ahead.

Scratching the surface

"Despite this headlong growth, I still describe wealth management in general as a sunrise industry," he comments. "The potential is dramatically greater than we are realising yet, and realistically, we are still scratching the surface."

He reports that leading analysts are anticipating 12% to 13% nominal GDP growth for India for many years to come, and hopefully many decades. "We are becoming a developed nation, and as we do so, there will be truly immense," he observes. "We might look like an elephant which moves slowly, but actually, elephants can move very fast, and when they do, it is remarkably exciting and very impressive."

Leading by example

His final word is to extol the virtues of the corporate culture of the firm. "We have an entrepreneurial culture of innovation, trial and error, all of which helps us achieve growth," he reports. "Decision-making is encouraged, and people are able to test their abilities and to assume a true sense of ownership and accountability, which is very empowering. I believe our group demonstrates some key qualities such as integrity, ethics, and a genuine passion for quality. And that has helped the firm grow in the past decade from just USD150 million of AUM when I joined in 2013 to boast AUM of over USD8 billion today, putting us part of top 15 club in the Indian AMC market." ■