



CAREER INSIGHTS: PASSIVE INVESTING IN INDIA

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Read last slide for important notes and disclaimers.

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Learning Outcomes

- **Passive Investments Landscape – Global Trends and Growth in India**
- **Hiring Trends**
- **Career Opportunities**
- **Competencies & Skillsets**

Active Investing – Secret Ingredient?

Classic form of active investing:

Top-Down view taken on some broad theme and sectors

Then a Bottom-Up stock by stock selection is made within that sector

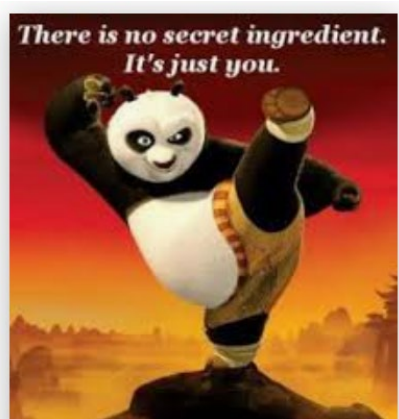
Key Ingredient: Research inputs and judgement of the analyst / fund manager



What is Passive Investing?

Active v/s Passive – What is the Difference?

- Active investing aims to **outperform the market**, Passive investing aims to perform **in line with the market** and it tracks a specified index.
- Active investing involves **conscious stock picking** while passive investing follows either a **replication or a sampling** approach.



Secret Sauce?

- **No human intervention**
- **Lower cost** as compared to active mutual funds
- **Invests in survivors & lets go of losers** at every rebalance
- **Core investment** in the investor's portfolio
- **Complimentary strategy** to investor's active portfolio

Growth of Passive Funds globally

Assets Under Management – Expected Growth

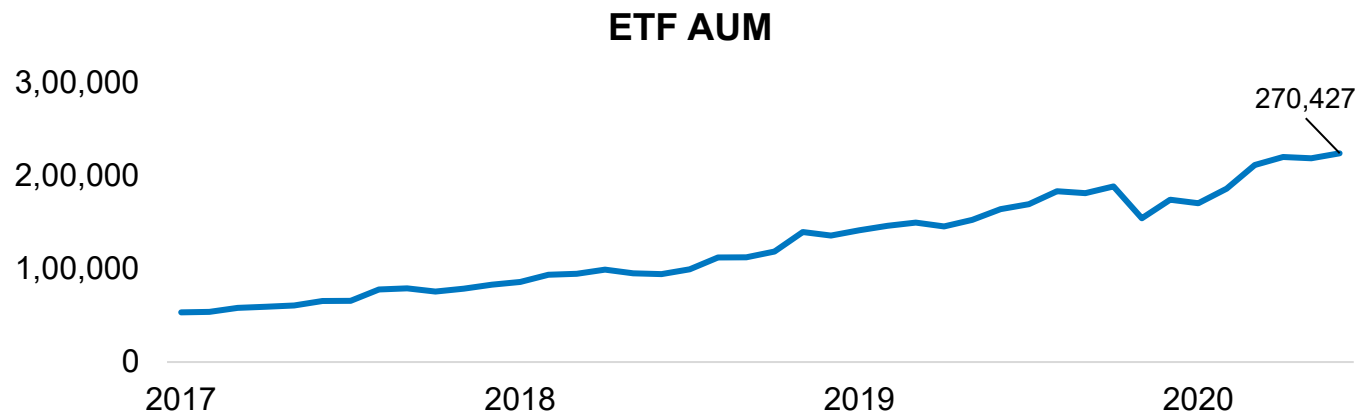
- Globally, total AUM \$100 trillion - from this ETFs are about 8%
- India MF Industry of Rs. 30 lakh Cr (\$ 425 bn)
 - Passive funds i.e. ETFs & Index Funds ~ 2,70,000 Cr. (\$ 39 bn) or about 9%
- Global consultant firms have predicted passive funds ~ 25% of total AUM by 2025.

Changing trends in net new inflows into Funds

- In the US, for first time in 2013 passive funds saw inflows of \$ 115 bn and active funds saw \$ 38 bn (higher inflow to passive)
- Fast forward to today - most recently during the whole of CY-2020 in US:
 - ✓ \$502 bn **inflow** for passive funds; led by taxable bond ETFs, and
 - ✓ \$289 bn **outflow** from active mutual funds

Source – BlackRock Global ETP Landscape; Thinking Ahead Institute; AMFI; Morningstar

Growth of Passive Funds in India



ETF Category	Dec-20	Dec-19	Dec-18	Dec-17
Nifty & Sensex	171,802	119,065	74,078	49,003
Banking	21,363	21,716	11,008	7,481
Government Equity ETF	18,661	18,596	18,572	13,733
Government Debt ETF	31,228	12,386	-	-
Gold	14,171	5,766	4,710	5,005
Others	9,613	1,242	1,619	889
Fixed Income	3,589	2,503	2,389	1,783
Total ETFs	270,427	181,274	112,376	77,894
Index Funds	15,269	7,848	4,712	3,034

ETFs and Index Funds have grown > 3 times over last 3 years

Data in Rupees Crores – Update as on 31 Dec 2020; Source – MFIE, NSE

Key Drivers for Passive Investments in India?

1. **Innovation in more commodity based ETFs other than Gold ETFs**
2. **Launch of new set of Bond ETFs**
3. **Government Bond / Equity ETFs**
4. **Smart Beta ETFs based on factors like Value/Growth/Core etc.**

Hiring Potential in India

Potential for Team Build Out

- **Industry has 40+ Asset Management Companies**
 - About 15 have presence in passive investments
- **Growth of Industry**
 - Existing players - need for dedicated teams
 - New players
- **Over the next few years, we could potentially see the size growing**
 - Fund Manager and Dealer
 - Product Development
 - Capital Markets
 - Sales
 - Support

Fund Manager – Roles and Responsibilities

Focus Area of the Fund Manager

- Total Performance Management: Risk, Return, Cost
- Minimize Impact: Transaction costs, Illiquidity, Cash Drag
- Maximize Impact: Flows Management, Securities Lending
- **No Human Bias: A pre-defined formula or rule**
 - *While setting up those rules, a lot of fundamental research and analysis is done*
 - *Once that process is completed, there is no ongoing research or human bias*

Gradual Changes in Passive Fund Management

- In India, currently passive Equity funds are full replication – gradual move to optimisation
 - *Indices with large number of stocks, reduce transaction costs, tax efficiency*
- For optimisation, there is a need to use factors, analyse each of the security's sensitivity to each of the factor
 - *So there will be need for more quant knowledge and trading efficiencies*
- Stewardship responsibility
 - *Need active tracking of financial fundamentals, ESG factors, Proxy Voting*

Fund Manager – Competencies

Industry Knowledge

- Functioning of capital markets, trading
- Strong technical knowledge
- Good grip on factors, know about Barra risk models

Soft Skills

- Should be very meticulous
- Must have an eye for the detail
- Artist v/s Scientist

Education

- Professional: CFA
- Masters: MBA Finance, CA
- Bachelors: Engineering, Technology, Commerce

Fund Manager – Sources of Hiring

Entry Level

- Fresh Campus Placements
- Index Companies – Quant/Factor Analysts, Product Developers
- Internal moves Fund Admin, Product Development, Risk
(prefer additional qualifications such as CFA Charter)

Senior Roles

- Lateral hiring - competitor AMCs
- Dealers or Sales Traders from Sell Side Broking Firms
- Internal elevation

Career Path – Overlap of Active and Passive?



Other Functions

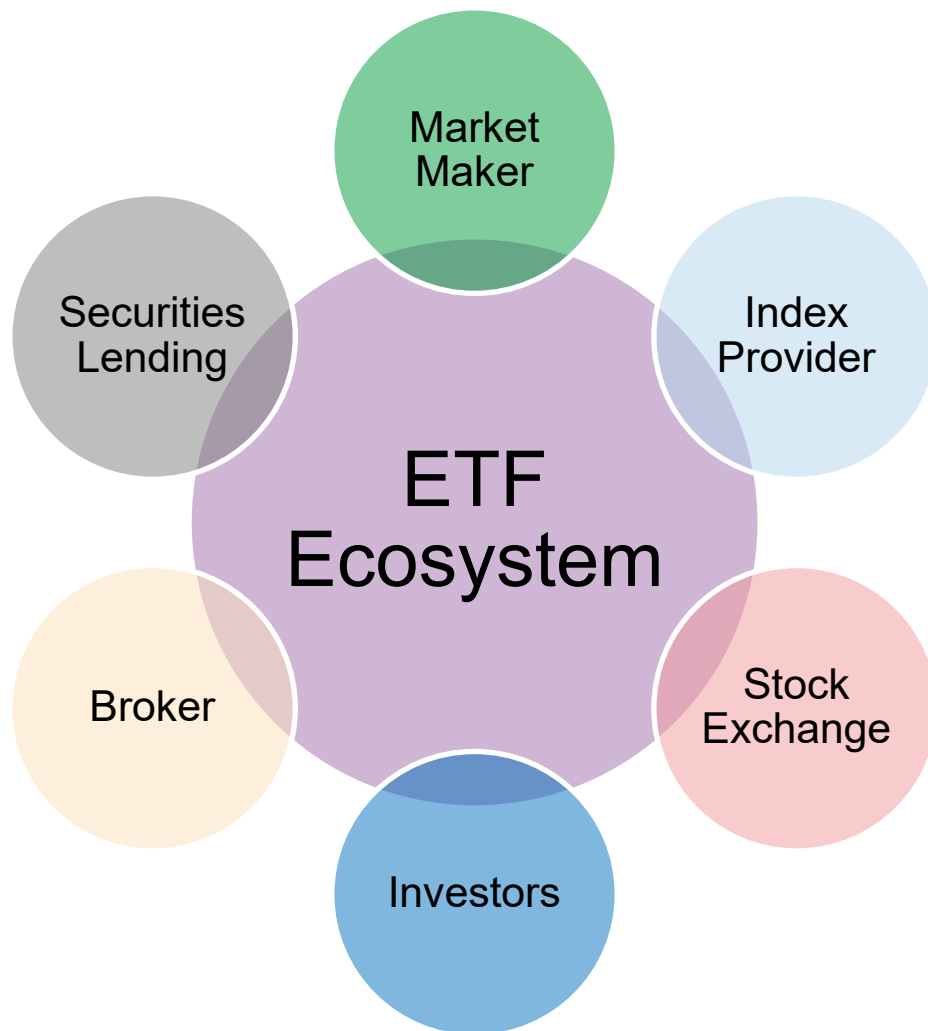
Product Development

- Market scoping and gap analysis
- Product designing and incubation, paper trading/back testing
- Product analytics on ETFs vs MFs, benchmarks – Thought Leadership Research

Capital Markets

- Manage broker relationships, facilitate fluid secondary market trading
- Support clients with sourcing liquidity and trade execution strategies
- Provide relevant “market perspective” to clients and internal teams

Not Just AMCs – Larger ETF Ecosystem



Questions??

For more information and market updates:



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