



## CAREER INSIGHTS: PORTFOLIO MANAGEMENT

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**Date:** Thursday, 8 April 2021

**Time:** 5:30 – 6:30 p.m. IST



**CFA Institute**



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# Alternates As a Career

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# Portfolio Management Services (PMS)



# What is a Portfolio Management Service (PMS)?

- Portfolio Management Service (PMS) is an investment portfolio in stocks and also fixed income, debt, structured products and other individual securities, managed by professional managers.
- An investor in PMS will own individual securities unlike mutual fund investor, who owns units of the scheme or a fund.
- Investment solutions provided by a PMS cater to niche segment of clients with investments of INR 50 Lakhs or more.
- There are 3 types of PMS: Discretionary, Non-Discretionary and Advisory; however, majority of the Asset Management Companies offer only Discretionary PMS

Type of PMS	Particulars
<b>Discretionary PMS</b>	Choice as well as timing of investment rests solely with the Portfolio Manager
<b>Non-Discretionary PMS</b>	Portfolio Manager will only suggest the investment ideas. The decision on timings as well as the choice of investment rests solely with the investor. However execution of the trade is done by the Portfolio Manager
<b>Advisory PMS</b>	Portfolio Manager will advise on the portfolio. The decision on timings as well as choice of investment rests solely on the Advisor. However trade execution is done by the Investment Manager

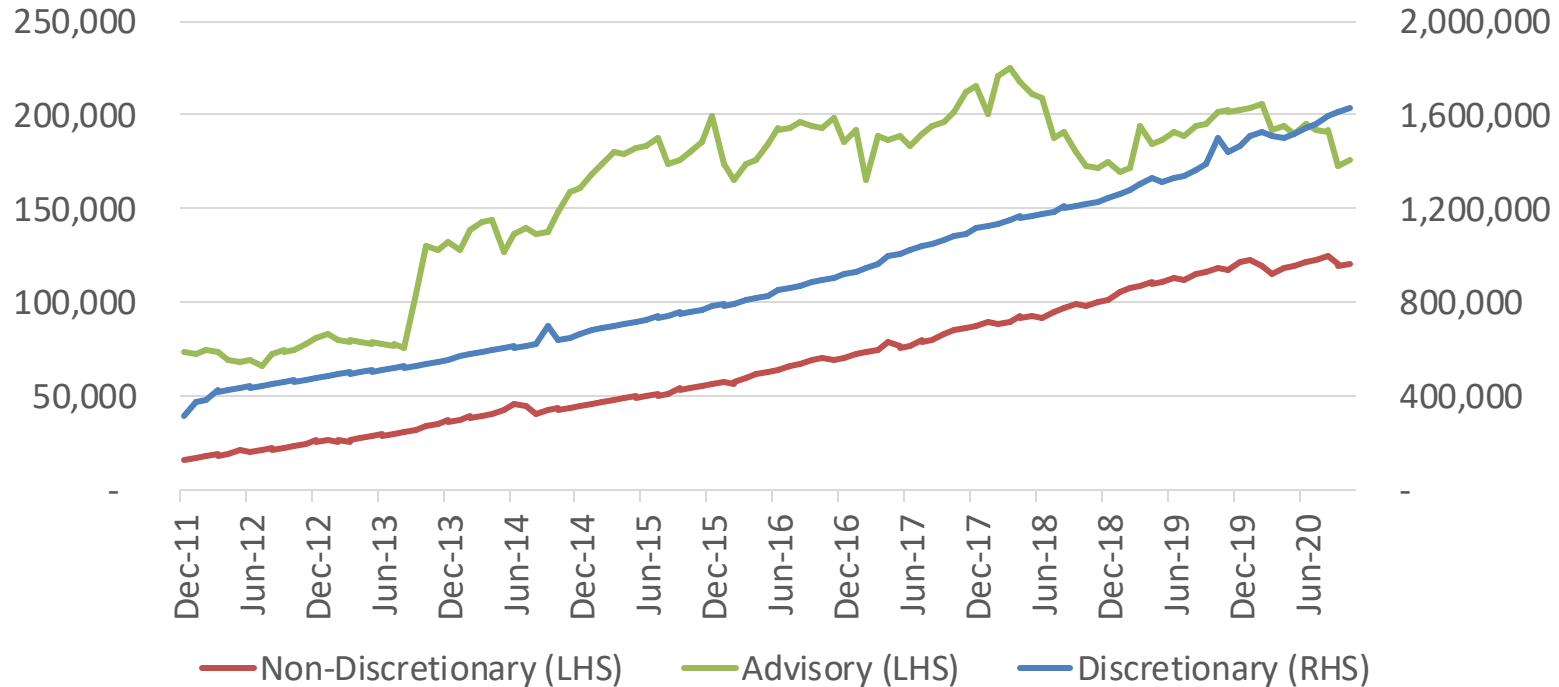
## Benefits of Investing in PMS:

- **Professional and active management**
  - PMS has qualified and experienced Portfolio Managers backed by strong research team managing portfolios on behalf of the clients instead of clients managing it themselves
- **Customized / Tailor made investment advise**
  - PMS provide tailor-made professional services to meet the investment objectives of various investors.
  - Portfolio Manager builds and manages each portfolio keeping in mind the strategy selected and timing of the investment.
- **Transparency**
  - PMS investors will directly own the portfolio stocks in their DP.
  - Every transaction is intimated to the investor.
  - PMS is transparent with Expense Ratios with investors having 24/7 online access.
- **Superior Returns**
  - PMS can be more aggressive and has the potential to generate superior returns.
  - Portfolio Managers may choose to have meaningful exposure to such companies as well as hold on as long as they are delivering growth by adding value and superior returns.

## Growing Size of Opportunity:

- Total PMS industry AuM has grown ~ 18% CAGR over the last 10 years from Rs 3.63 Lakh crs to Rs 19.22 Lakh crs.
  - Discretionary PMS AuM: Rs 16.25 Lakh crs (Rs 1.63 Lakh crs excluding contributions by EPFO)
  - Non Discretionary PMS AuM: Rs 1.21 Lakh crs
  - Advisory PMS AuM: Rs 1.75 Lakh crs
- In the last 5 years ending Mar 2020, the number of clients increased by ~ 29% CAGR with currently more than 1.55 Lakh clients using the facilities of PMS.
- Currently 331 different AMCs offer the PMS Services
- High net worth Indians are increasingly looking beyond plain vanilla investment options such as mutual funds and direct equity in their quest for generating higher returns from invested capital.
- This uptrend is likely to continue with more wealthy investors opting for PMS as Indian economic performance firms up in coming years.

## PMS AuM in Rs Crs



- Discretionary PMS AuM accounts for 85% of the total PMS AuM and 93% of the total PMS clients
- Since Mar '15 Discretionary PMS AuM grew by 17% CAGR, Equity MFs have grown 18% while Nifty grew by 5.8% in the same period

# AuM of Top Industry PMS Companies



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PMS AMC Name	AuM Rs Crs	# of Clients	Avg Tkt Size Rs Crs)
ASK IM	19,061	26,683	0.71
MOSL	13,126	37,687	0.35
ENAM	5,186	709	7.31
Alchemy	4,469	5,388	0.83
Unifi	4,032	3,132	1.29
IIFL AMC	3,382	5,858	0.58
Marcellus	2,658	3,126	0.85
ICICI Pru	2,646	4,416	0.60
Kotak AMC	1,694	5,144	0.33
Birla AMC	1,558	3,733	0.42
Quest	1,502	1,078	1.39
Axis AMC	1,322	3,218	0.41
Invesco AMC	1,128	2,960	0.38
Ambit AMC	1,002	1,099	0.91
Old Bridge	863	342	2.52
White Oak	768	201	3.82
HDFC AMC	419	216	1.94
Avendus	324	230	1.41
Sageone	782	311	2.51
2Point2 Capital	464	576	0.80
Nine Rivers	131	202	0.65
<b>Total</b>	<b>66,517</b>	<b>1,06,309</b>	<b>0.63</b>
<b>Industry Total</b>	<b>1,63,707</b>	<b>1,45,404</b>	<b>1.13</b>

Source: SEBI website. Information as on Oct 2020. Above AuM is computed excluding the AuM for Foreign FPI and Foreign Others investor<sup>8</sup> category

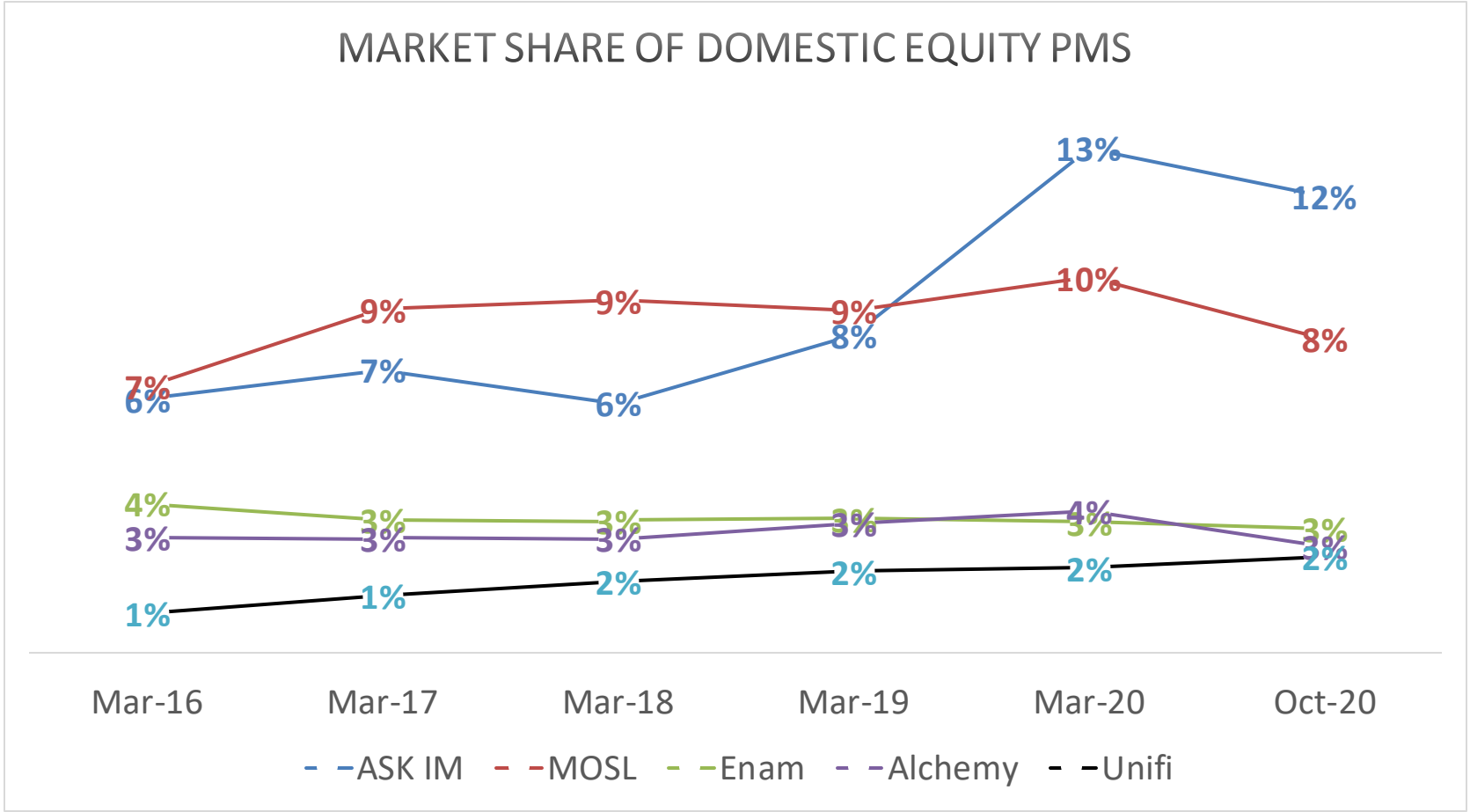


# PMS Companies – grouped by Ownership

PMS Company Names	AuM Rs Crs
<b>Stand-alone Alternates Company</b>	<b>38863</b>
ASK IM	19061
ENAM	5186
Alchemy	4469
Unifi	4032
Marcellus	2658
Quest	1502
Old Bridge	863
White Oak	768
Avendus	324
<b>All-round</b>	<b>13126</b>
MOSL	13126

PMS Company Names	AuM Rs Crs
<b>Mutual Fund-owned</b>	<b>13151</b>
IIFL AMC	3382
ICICI Pru	2646
Kotak AMC	1694
Birla AMC	1558
Axis AMC	1322
Invesco AMC	1128
Ambit AMC	1002
HDFC AMC	419
<b>MNCs</b>	<b>1290</b>
Credit Suisse	650
Barclays	590
BNP Paribas	51

# Improving Market Share of ASK Investment Managers



**ASK Investment Managers has been increasing Market Share from 6% to 13% in the last 5 Financial Years in the Indian Equity PMS industry**

*Note: Equity PMS AuM is considered for each AMC, excluding Foreign FPI and Foreign Others category. Only top 5 AMCs are captured in the above chart for Market share basis Equity PMS AuM as mentioned earlier. EPFO money is excluded for computing the Total Industry AuM.*

# How PMS scores vis-à-vis Mutual Funds?

Parameter	PMS	Mutual Funds
<b>Objective</b>	Provide tailor-made professional service to meet the investment objective of various investors	Structured to meet the funds' stated investment objective
<b>Ownership</b>	Investors directly own the individual securities in their portfolio	The trustee own shares of the fund and investors are allotted units of the fund
<b>Customization</b>	Possible to meet special or specific requirements of investors	Not possible
<b>Minimum Investment</b>	INR 50 Lakhs by way of stock or cash or combination of both	INR 500
<b>Portfolio Construction</b>	Majority of PMS portfolios are focused portfolios with ~ 20-25 stocks	Majority of MF portfolios are diversified ones with more than 50 stocks
<b>Portfolio Stock Weightage</b>	Portfolio Manager has flexibility to allocate any weightage to single stocks	Maximum allocation to a single stock of not more than 10%
<b>Business Model</b>	Relationship model, asset allocation, Family Office	Transactional model
<b>Fee Structure</b>	Flexible to choose Profit Sharing	Fixed Fees for all investors

## ***PMS Transparency***

- Regular statements on portfolio details and transactions
- Details on fees
- Statement on capital gains on a periodic basis
- Online access to portfolio details
- Periodic interaction with Portfolio managers
- Disclosure Document available online

## ***Focus on Alpha***

- Fixed fees charged by PMS are comparable to the management fees charged by Equity Mutual Funds.
- In PMS, the investor can opt for a much lower fixed fee with profit sharing on a high watermark basis.
- Profit sharing would mean the interests of both the PMS provider and the investor are aligned.
- **An Illustration:** The fixed fee of 1.50% in ASK PMS and a performance fee of 20% of performance over 8% compounded hurdle over 3 years is an attractive fee structure

# Key Regulatory Changes in PMS

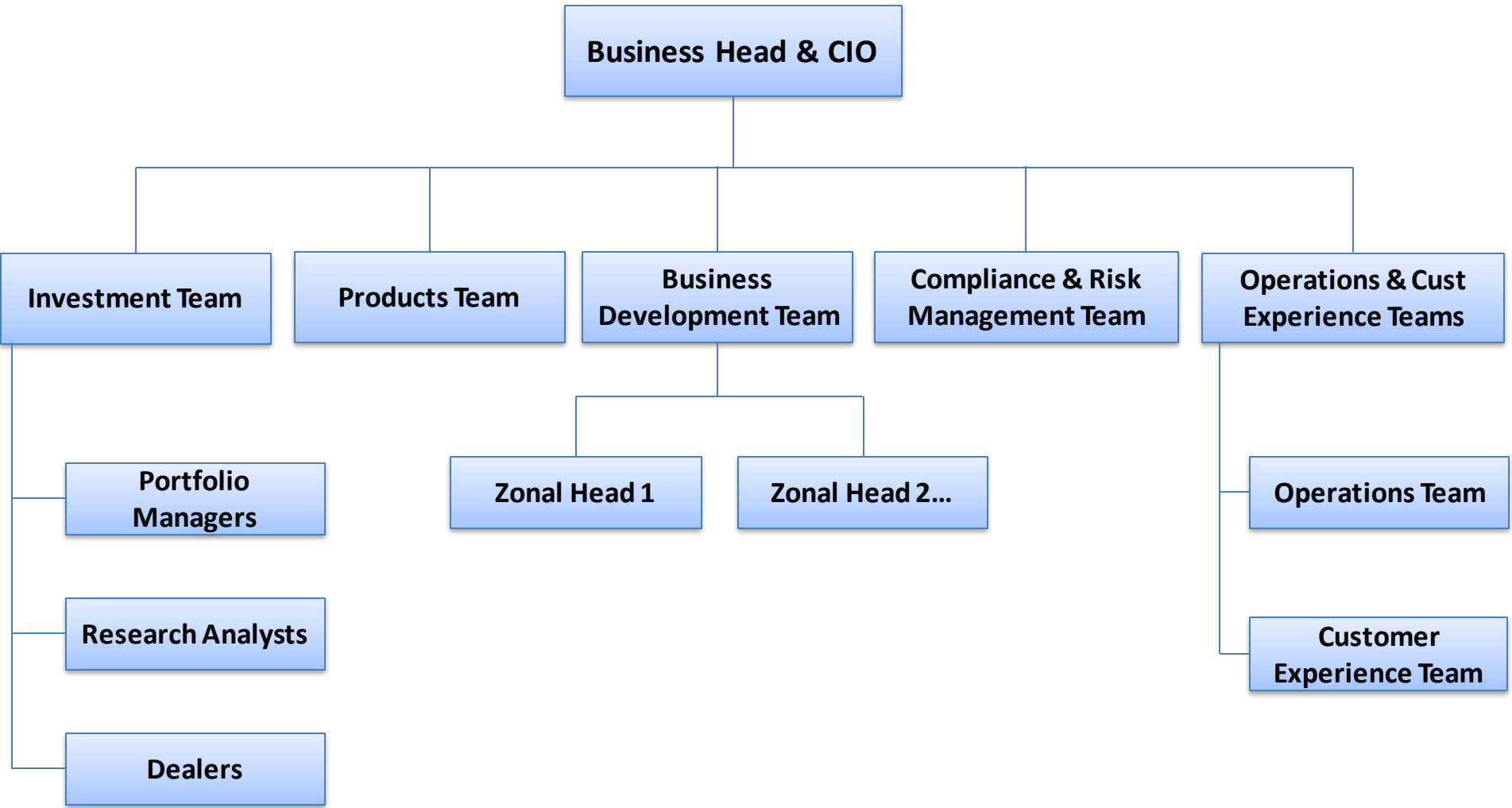


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No.	Key Aspects	Details
1	Minimum Investment Amount	Revised to Rs 50 Lakhs as against Rs 25 Lakhs earlier (w.e.f. 20 Jan 2020)
2	Distribution Commissions	PMS house can give commissions only in trail format
3	Operating Expenses	Capped @ 0.50 % p.a (ex- Management fees / Performance fees and brokerage)
4	Exit Load	Capped at 3/2/1 for each Investment
5	Cap on transactions which can be done via Associate or Self ( Broking / Demat /Custody)	Not more than 20% per service per associate / self
6	Introduction of Direct Plan	Direct Plan to be offered on website / marketing material / Disclosure Document
7	Audit of Performance Reporting	To be audited on annual basis and report of the same to be submitted with SEBI within 60 days from end of FY
8	Supervision of Distributors	SEBI has defined a Code of Conduct for Distributors which they need to abide to with few compliances

The above steps taken by SEBI were with the intent to further protect the interest of the clients and bring in further standardization and transparency in the PMS industry

# Organizational Structure of a PMS Company



Apart from the above, the other supporting Departments include Legal, Finance, IT, HR, etc.



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# Alternative Investment Fund (AIF)



# What is a Alternative Investment Fund (AIF)?

- Alternative Investment Funds are an investment avenue to pool in funds for investing in private equity, real estate or to hedge funds. AIFs may be established or incorporated as a company, trust or other bodies corporate (including limited liability partnerships).
- Minimum Investment Amount: Rs 1 Cr
- There are 3 types of AIFs:

Type of AIF	Particulars
<b>Category I</b>	AIF that invest in start-ups or social venture funds, infrastructure funds, SME funds, and so on. They are often considered socially viable or economically desirable for the government or regulators
<b>Category II</b>	Funds that do not leverage or undertake to borrow other than to meet the operational requirement which does not fall under Categories I and III. Typically Private Equity Funds fall in this category
<b>Category III</b>	Funds that undertake diverse or complex trading strategies including investment in listed or unlisted derivatives. Typically Hedge Funds fall in this category. Only close-ended funds are in Category I and II AIFs while open-ended funds are in Category III



# AIF and PMS

## Key Points of Difference



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Framework	Particulars	AIF	PMS
Structure	Types	<b>Category III:</b> AIFs which include long-only equities, or diverse and complex trading strategies, along with use of derivatives.	<b>Discretionary:</b> Investment Manager takes all the decision on client's behalf.
	Regulation	They are regulated by SEBI (Alternative Investment Funds) Regulations 2012.	They are regulated by SEBI (Portfolio Managers) Regulations 1993
	Number of Investors	No of investors for every scheme or fund shall not exceed 1,000.	No threshold limit is prescribed.
	Corpus Requirement	Each scheme is required to have a corpus of Rs. 20 crores.	No corpus requirement in case of PMS.
	Sponsor/Manager Contribution	Sponsor/Manager are required to have some continuing interest in AIF. <b>Category III:</b> 5% of corpus or 10 Crore rupees whichever is less.	No such provision under PMS.
	Min Investment Amount by Investors	Rs 1 Cr (Commitment Amount)	Rs 50 Lakhs
Investment	Holding	Pool (Units)	Client level (Shares)
	NAV Declaration	Open ended scheme - Monthly NAV; Close ended scheme - Quarterly NAV	Daily Valuation (available online)
	Taxation on underlying securities	Capital Gains tax are applicable at the Fund level	Capital Gains tax are applicable at individual investor level
Documentation & Reporting	Documentation	Application Form + Contribution Agreement	Application Form + PMS Agreement + Demat Account Opening Form

Category Rs Crs	Commitments Raised	Funds raised	Investments made
<b>Category I</b>			
Infrastructure Fund	11,803	8,731	7,711
Social Venture Fund	3,216	2,013	1,163
Venture Capital Fund	26,792	11,713	8,990
SME Fund	542	75	65
<b>Category I Total</b>	<b>42,353</b>	<b>22,532</b>	<b>17,929</b>
<b>Category II (Real estate, PE, Debt Funds, etc)</b>	<b>3,52,817</b>	<b>1,48,099</b>	<b>1,28,369</b>
<b>Category III (Long-only, Hedge Funds, etc)</b>	<b>46,825</b>	<b>42,348</b>	<b>38,228</b>
<b>Grand Total</b>	<b>4,41,995</b>	<b>2,12,979</b>	<b>1,84,525</b>

AIFs have grown from a mere Rs 360 Crs of Commitments in Dec 2012 to Rs 4.41 Lakh Crs as on Dec 2020

## Risk arising from the investment objective, investment approach and asset allocation.

Equities as an asset class carry a higher risk in comparison to debt. While risk cannot be totally eliminated, it can be mitigated through a well-designed investment approach. ASK Investment Managers Portfolios seek to mitigate risk and deliver superior returns through research-based investing. However, this objective may not be fully achieved due to various reasons such as unfavorable market movements, misjudgment by portfolio manager, adverse political or economic developments etc. The PMS is run with an objective to achieve reasonable returns consistently. Given this background the investor investing in the PMS faces the following risks

### *(i) Political, economic and / or related risks*

The Asset Value of the portfolio and the liquidity of the shares may be affected by changes in government policy, taxation, interest rates, social and religious instability and political, economic or other developments in or affecting India.

### *(ii) Industry risk*

The value of shares of companies in a particular industry may be affected due to factors affecting the industry like changes in government policy on duties, FDI or a foreign country, which is a big market for the industry, may impose restrictions on import etc.

### *(iii) The Indian Securities Market*

The Indian stock markets in the past experienced substantial price volatility and no assurance can be given that such volatility will not occur in future. Actual market trend may be in variance with anticipated trends hence, the decisions of the Portfolio Manager may not be always profitable.

### *(iv) Liquidity Risk*

Some stocks that the investor might be invested in might not be highly liquid. Though it will be the PMS service providers endeavor to restrict investments in less liquid stocks to a lower limit, there is an exposure of liquidity risk to the investor.

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**Thank You**

