



Overview of the Asset Management Industry

Gauri Pande, CFA

Types of Asset Managers

Private Equity

- Direct Investment into unlisted companies
- Very long horizon-5- 10 years.
- Exits are negotiated, since investments unlisted. Very illiquid and meant for sophisticated investors.
- PE funds typically take chunky stakes, are represented on Boards and have overall say in the strategic direction of the Company.
- Carry Model
- Focus on absolute returns.
- Typically close ended

Long Only

- Direct Investment into listed companies
- Medium term horizon-12-18 months.
- Defined asset classes-e.g. index, equities or debt acquired to ' Buy and Hold'.
- Derivatives may be used for hedging and portfolio balancing in India.
- Typically open ended
- Retail/ Institutional. Domestic/ Global. Active/ Passive
- AMC Fees is the primary source of revenue.
- Performance measured vs benchmark.

Long Short Funds

- Very wide mandates- Direct Investment into unlisted or listed companies
- Tend to take very large leveraged bets.
- Intended for sophisticated investors with large risk appetites.
- Invest across asset classes.
- Carry Model-2/20 being rule of thumb.
- Focus on absolute return
- Typically close ended , with defined liquidity events.

Departments within a Fund House



Portfolio
manager and
Analysts



Trading Desks



Sales/ Marketing



Portfolio
Specialists



Operations



Risk ,
Compliance,
Board of Directors

Roles and Skill Sets on the Buy side



Portfolio Managers

- Depth and breadth on a variety of sectors, extensive reading and assimilation.
- Ability to present conviction on stocks and portfolio.
- Ability to make and change decisions quickly.
- Rationality and dispassion, filtering out noise.
- Career growth happens via expansion of role Analyst- PM- CIO
- Portfolio Management is the core of the CFA degree. Day to day application- Portfolio structuring, sizing of bets, managing risk and liquidity of portfolios.

Product Specialist/ Sales

- Salespersons manage the end client relationship, specialists the product and the client.
- Sales 101- Deliver the product that fits the clients needs.
- Product knowledge
- Superior presentation, thinking on one's feet
- Ability to balance client/ portfolio manager equations.
- Career growth via expansion of AUM raised/ funds covered.
- All client engagement requires knowledge of key concepts covered by the CFA charter- activeness of portfolio, risk ratios etc.

Trading Desk

- Are you prepared for an assault on your senses? The job never sleeps
- Quick and informed decisioning making with an information overload
- Integrity
- Nerves of Steel
- Career growth – Trader- Head of Desk- expansion in geographical coverage.
- CFA Charter very relevant - Trading Desk is the first line of defence on ethics and integrity, particularly MNPI.

Roles and Skill Sets on the Buy side



Compliance

- Adherence to fund and client guidelines
- Regulatory filings and enquiries.
- Most Compliance professionals are lawyers or Company Secretaries, but an interesting new destination for CFAs as regulation has become the driver of business.

Risk/ Control Groups

- Monitor risk ratios , active share and performance of funds.
- Engage with key stakeholders when funds underperform or are considered too risky.
- Key change agent.
- Detail orientation, meticulousness
- A CFA charterholder is a natural fit.

Operations

- Settlement of Trades.
- Managing cash flows – subscriptions, redemptions, settlements, deal subscriptions.
- Detail oriented, quick response time, product knowledge.

Structure of Fund Houses

- ▶ Global Funds
 - ▶ Global or Emerging Market Funds vs Country Funds
 - ▶ Two possible structures-
 - ▶ Individual country Analysts/Portfolio Managers, reporting to Global CIO
 - ▶ Individual country portfolio managers running a 100% portfolio.
- ▶ Domestic Funds
 - ▶ Typically large analyst teams covering individual sectors, small and midcaps etc.
 - ▶ Portfolio Managers responsible for one or many schemes
 - ▶ CIO at the apex of the structure.

What does a day in the life of a fund house look like?



Subscriptions and redemptions, cash invested



Portfolio Changes run by Compliance, executed by trading desk through brokers



Trades monitored via Bloomberg, Reuters. Extremely regulated environment



End of day confirmations, instructions sent to custody and banks via SWIFT



Net Asset Value Declared after daily mark to market



Exceptional circumstances- Swing pricing/ exit load, fair valuation

The Buy Side 101

- ▶ Flatter Structures as compared to the Sell Side
- ▶ Fresher hiring limited- tend to hire from KPOs or laterally
- ▶ Post GFC, hiring at global firms has flatlined, the best opportunities are local.
- ▶ Integrity is paramount. Fiduciary responsibility for clients money.
- ▶ You are as good as your last NAV.
- ▶ The advent of technology is a challenge but not a deal breaker.
- ▶ Challenges posted by MIFID.
- ▶ The glamour is purely external. The real world is highly regulated.