

# WMA

CERTIFICATE IN  
WEALTH MANAGEMENT

## Session 2- Asset classes- Products



# Presentation Order

**Alternative Investments**

**AIFs**

**Real Estate Asset Class**

**Private Equity**

**Commodities**

**Structure Products**

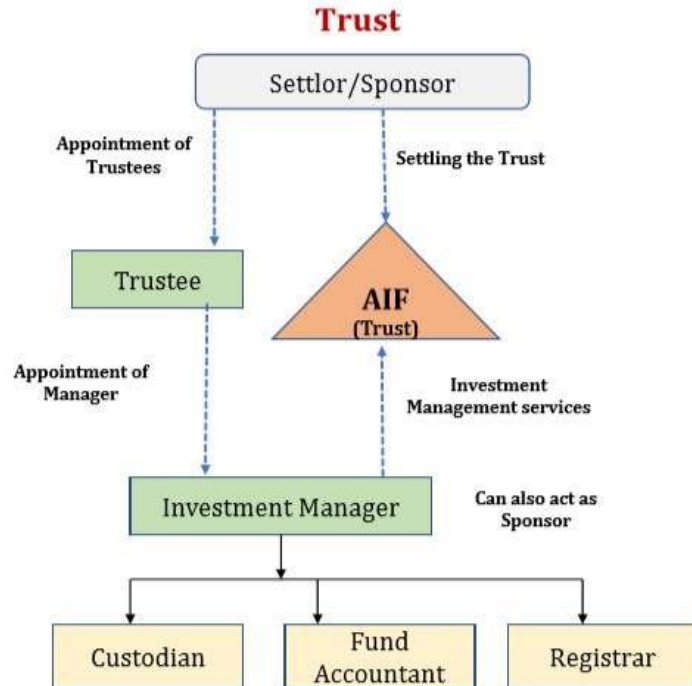
**PMS**

# Alternative Investments

- Alternative Investment are the investment tools other than the traditional ones like stocks, bonds etc.
- Real Estate
- Private Equity
- Commodities
- Structure Products



# AIF Construct



# AIF categories

Type	Category I	Category II	Category III
Criteria	<ul style="list-style-type: none"> <li>• Infra, Social, Non-banked Credit for SME</li> <li>• Special incentives provided by the government</li> <li>• Invest in start ups or early stage ventures or social ventures</li> <li>• Socially or economically desirable areas</li> </ul>	<ul style="list-style-type: none"> <li>• Residual category of funds, invested primarily in unlisted securities</li> </ul>	<ul style="list-style-type: none"> <li>• Funds which are liquid / listed equities</li> <li>• Funds which may invest in derivatives</li> <li>• Funds which employ leverage for investments</li> </ul>
Type of Funds	<ul style="list-style-type: none"> <li>• Venture Capital Funds</li> <li>• SME Funds</li> <li>• Social Venture Funds</li> <li>• Infrastructure Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Private Equity Funds</li> <li>• Debt Funds</li> <li>• Fund of Funds</li> <li>• Other Funds (like Real Estate funds) not classified under the other two categories</li> </ul>	<ul style="list-style-type: none"> <li>• Long Only Equity Funds</li> <li>• Long Short Equity Funds</li> </ul>
Cons	<ul style="list-style-type: none"> <li>• Close ended</li> <li>• Not allowed to leverage</li> <li>• Specific Investment restrictions for each sub type</li> </ul>	<ul style="list-style-type: none"> <li>• Close ended</li> <li>• Not allowed to leverage</li> <li>• No restrictions on asset allocation</li> </ul>	<ul style="list-style-type: none"> <li>• Open or close ended</li> <li>• Leveraging is allowed</li> <li>• No restrictions on asset allocation</li> </ul>
Taxation	<ul style="list-style-type: none"> <li>• Pass through</li> </ul>	<ul style="list-style-type: none"> <li>• Pass through</li> </ul>	<ul style="list-style-type: none"> <li>• Fund level</li> </ul>

# Category I : Prominent Players

Venture Capital (23,793 Cr.)



Infrastructure (12,679 Cr.)



Piramal



LARSEN & TOUBRO





# Category II : Prominent Players



# Category III : Prominent Players



Source: SEBI as of Dec 31, 2019

# **Introduction to Real Estate as an Asset Class**

## Key Characteristics

Held for long term

Lack of :

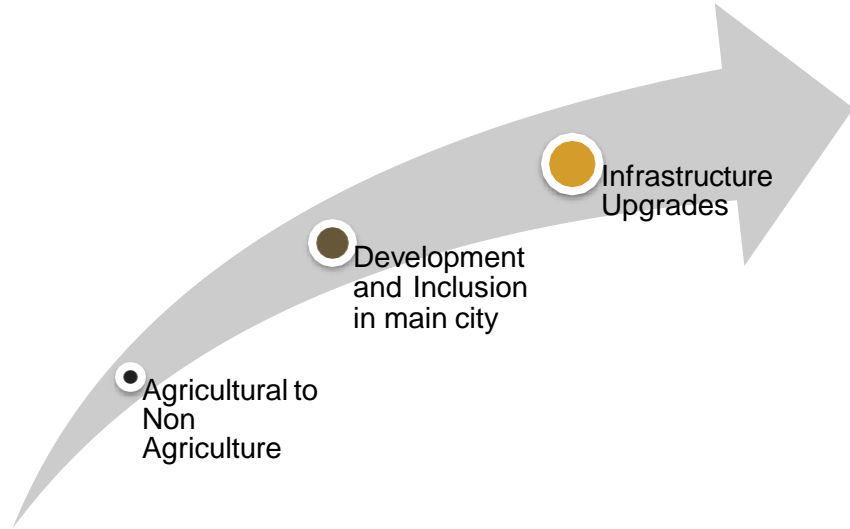
transparency

Liquidity

divisibility

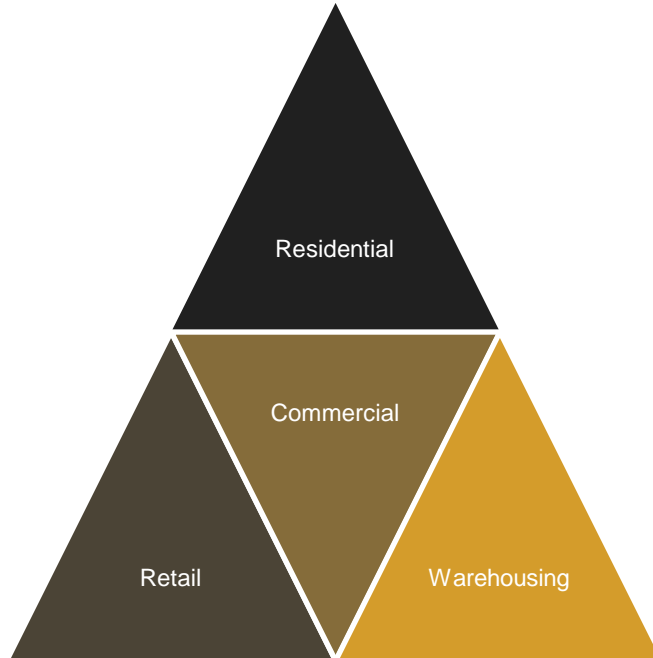
Regular Expenses

Cash involved





# Real Estate Classification



# **Introduction to Private Equity as an Asset Class**

# Private Equity

- Private Equity is one of the alternative investment that is used to describe various investments placed ‘privately’, as opposed to publicly traded investments.
- Consist of capital that is not listed on a public exchange.
- Private equity and venture capital investments recorded an all- time high of \$48 billion in 2019 in India, according to EY report released in Feb 20

# Private Equity Classification

## Venture Capital

Pre-seed  
Funding

Seed Funding

The rounds –  
‘A’, ‘B’ and  
‘C’

## Leveraged Buyout

purchase of  
the portfolio  
company  
being funded  
primarily by  
debt

## Distressed Investments

involves  
purchasing  
debt of  
mature  
companies  
experiencing  
financial  
trouble



# Characteristics

- Valuations
  - Discounted Cashflow
  - Market comparable
  - Asset based
- Exit Strategies
  - Trade Sale
  - IPO
  - Recapitalization
  - Secondary Sale
  - Write-off/liquidation

# **Introduction to Commodity as an Asset Class**

# Classification

## Metals

- Gold
- Silver
- Aluminium
- Copper
- Nickel

## Energy

- Crude Oil
- Natural gas
- Gasoline

## Agriculture

- Cotton
- Beans
- Grains
- Spices

## Livestock

- Eggs
- Pork
- Cattle



## And some exotic ones



# The Exchanges

- You can trade in commodities – comprising livestock and meat, agro products, metals and energy – across six commodity exchanges in the country:
- Multi Commodity Exchange of India Limited (MCX)
- National Commodity & Derivatives Exchange Limited (NCDEX)
- National Multi-Commodity Exchange (NMCE)
- Indian Commodity Exchange (ICEX)
- Ace Derivatives and Commodity Exchange Limited (ACEX)
- Universal Commodity Exchange (UCX)
- Out of these commodity exchanges, the NCDEX and NCME focus primarily on agricultural commodities trading.

# Introduction to Structure Products

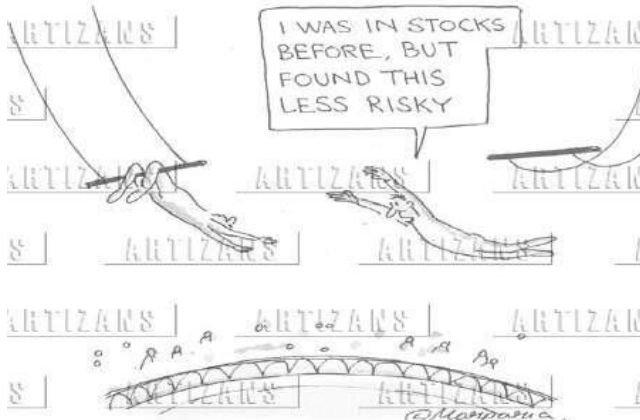


# What are Structure Products?

- These are debt instruments in the form of NCD mostly issued by NBFC's
- Unlike Plain vanilla NCD which offers fixed Coupon every year, these NCD offers conditional coupon paid lump sum on maturity.
- Conditional Coupon is based on the underlying asset performance which is linked to these NCD
- Most of the NCD are linked to NIFTY Index
- These are also called as Nifty Linked Debentures, Market Linked Debentures or Structured Products
- The strength of a structured product lies in its flexibility and tailored approach to investing
- Risk and Reward matrix of traditional form of investment in Debt as well as Equity can be changed with the help of Structured Product
- It carries credit risk as in case of all debt investments

# The odds of investing

Investing can be risky ...



... and market timing can be difficult !



"My story? I bought stocks. I sold stocks and I held stocks - but not necessarily in the right order."



# Classification of Structure Products

## Debt Oriented Structure:

Focus is more on the safety of principal and yield improvement

A calculated risk with a small expectation on underlying asset movement, per annum yield can be stretched to 12% to 14%  
Diversifying the Debt Portfolio and investing in to Debt Oriented Structure can improve the overall yield on Debt Assets by approx. 2% p.a.

## Equity Oriented Structure

Focus is more to achieve the objective of putting money into Equity market i.e. 15% to 18% return p.a. (63% to 78% over 3 ½ years).

When markets perform well, mostly all investments related to Markets do well, However when markets don't live up to our expectation in the long run (3 ½ years) do we have Plan B.

The products offered have a potential to deliver the expected return from equity market even if market performs marginally upside.

Equity oriented products offer higher probability to meet the objective compared to other forms of equity investment keeping the risk more or less similar.

Diversification of your Equity Portfolio by investing into Equity Oriented structures helps like a hedge when market don't perform to your expectations.



# Benefits & Risks

## Benefits to Investors

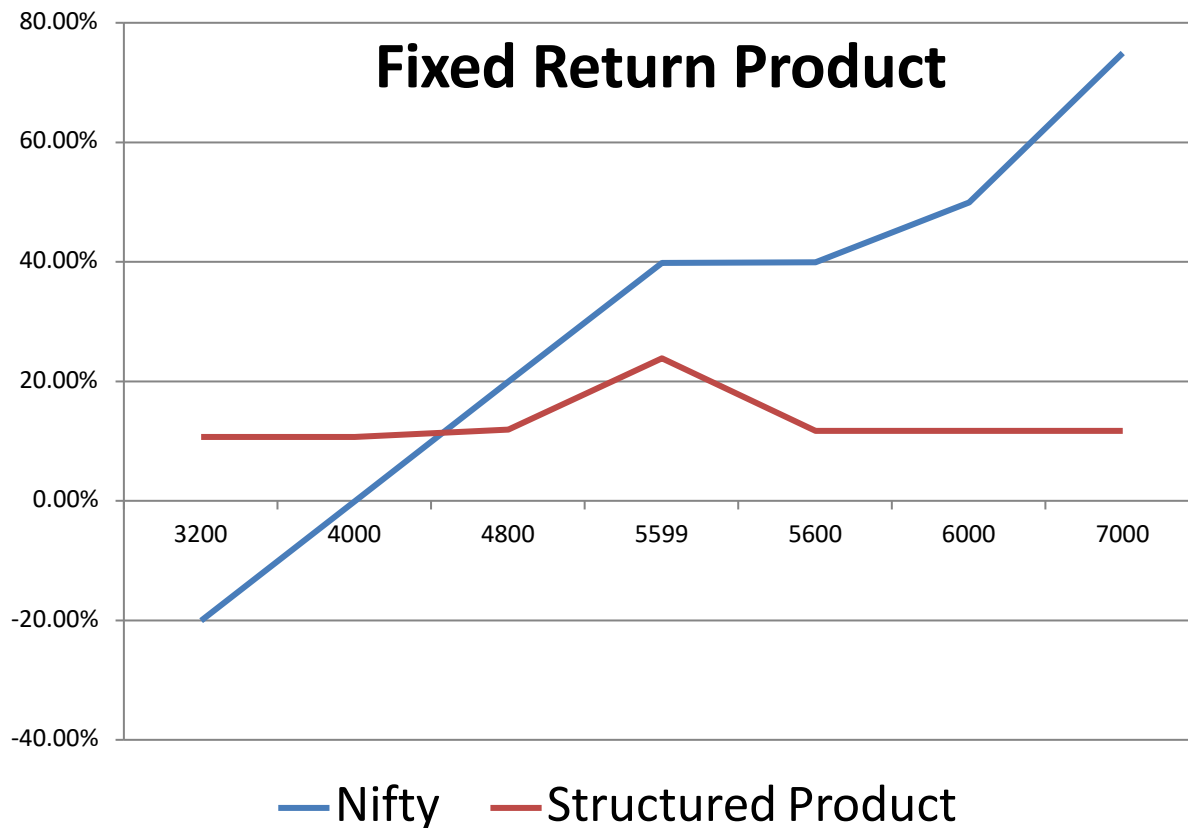
- ✓ **Predefined Pay Offs**
- ✓ **Probability Maximizer**
- ✓ **Plan B to your Portfolio**
- ✓ **Mechanical Strategy less human intervention**
- ✓ **Diversification**

## Risks to Investors

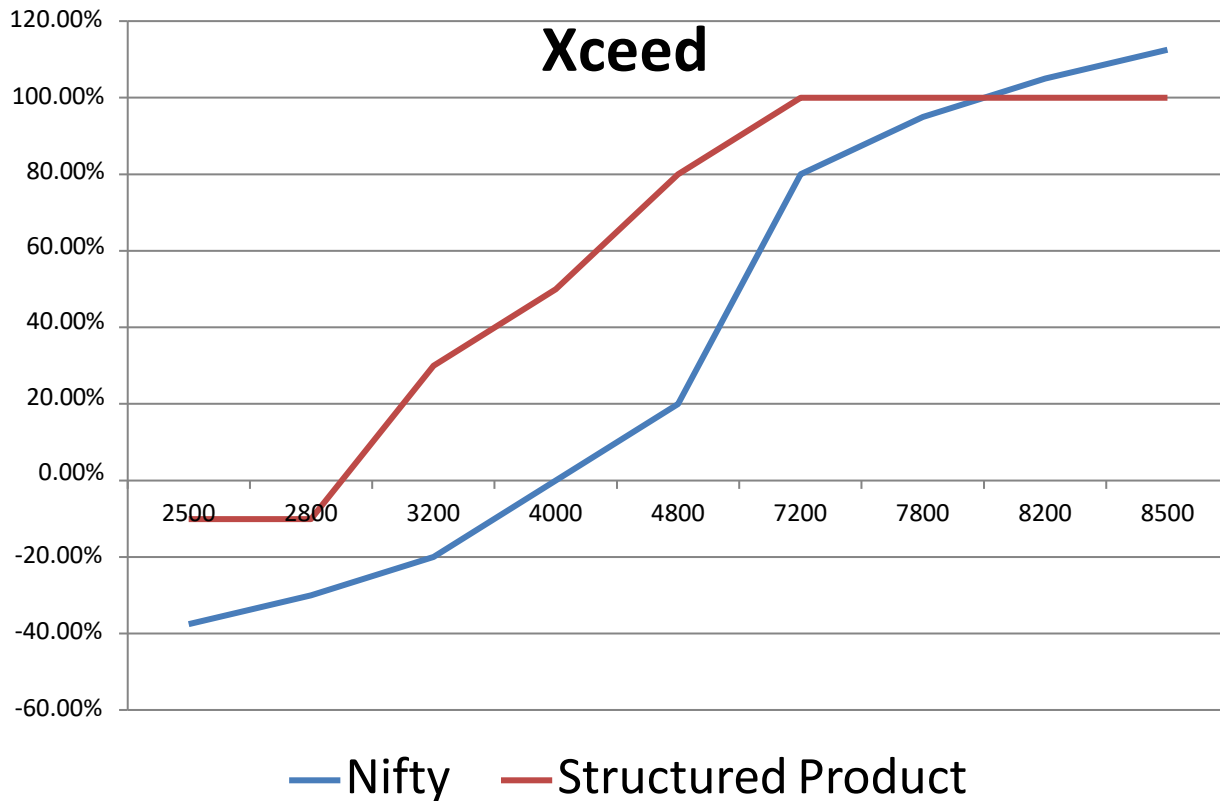
- ✓ **Systematic Risk/Market Risk:** The value of the investment changes with movement in interest rates and volatilities.
- ✓ **Credit Risk / Default Risk:** Probability of issuer/ Guarantor defaulting.
- ✓ **Liquidity Risk:** These instruments are not frequently traded on exchange. Investor may not be able to sell or redeem them before maturity.
- ✓ **Contingent Return:** Returns are subject to underlying value which makes it uncertain to determine beforehand unlike Bonds.
- ✓ **Risk of Early Termination:** In the event of Force Majeure, Illegality or any other extra-ordinary reason – Investor may not receive expected return.
- ✓ **Pricing Transparency and Instrument Valuation** risk to investor in case of early redemption as there is no straight formula to calculate



# Example I



# Example II





# Sample Debt Structured Product

## Protected Call – 39.5%

- Asset: Debt SP
  - Target Nifty Growth: ~2.15% p.a.
  - Principal Protection: -16.25%
  - Tenor:- ~38 Months
- 

### **Product Specifications:**

**Contingent Coupon: 39.5%**

**Product IRR: 11.04%**

**Decay: 1.7x**

### **\*Back Testing:**

**Maximum Returns: 90.18%**

**Positive Returns: 99.17%**

# Protected Call – Product Specifications

<i>Product Name</i>		<i>Protected Call – 39.5%</i>	
<b>Issuer</b>		AAA Finance Ltd	
<b>Underlying</b>		Nifty 50 Index	
<b>Capital Guarantee</b>		Principal is not protected	
<b>Tenor(days)</b>		1160 Days	
<b>Initial Fixing Level</b>		Trade date Nifty level, rounded up to next 100 points	
<b>Final Fixing Level</b>		Average of last 3 month Closing NIFTY on last Thursday of 34 <sup>th</sup> , 35 <sup>th</sup> & 36 <sup>th</sup> Month	
<b>Nifty Performance (NP)</b>		$(\text{Final Fixing Level} / \text{Initial Fixing Level}) - 1$	
<b>Contingent Coupon (CC)</b>		39.5% (IRR – 11.04%)	
<b>Decay Multiple (DM)</b>		1.7x	
<b>Payoff</b>		If Final Fixing Level is at or above 107% of Initial Fixing Level If Final Fixing Level is at or below 107% of Initial Fixing Level	Contingent Coupon $\text{MAX}(-100\%, \text{CC} + (\text{NP} - 7\%) * \text{DM})$

# Protected Call – Product Payoff

Nifty Values	Nifty performance	Product return (39.5%)
18400	100.00%	39.50%
13800	50.00%	39.50%
11040	20.00%	39.50%
10120	10.00%	39.50%
<b>9844</b>	<b>7.00%</b>	<b>39.50%</b>
9752	6.00%	37.80%
9476	3.00%	32.70%
9292	1.00%	29.30%
<b>^9200</b>	<b>0.00%</b>	<b>27.60%</b>
8740	-5.00%	19.10%
8280	-10.00%	10.60%
<b>7705</b>	<b>-16.25%</b>	<b>-0.02%</b>
7360	-20.00%	-6.40%
6900	-25.00%	-14.90%
6440	-30.00%	-23.40%

**Product IRR\***

**11.04%**

**Tenor – 1160 Days**  
**Expiry – Avg. of 34-36<sup>th</sup> Months**

**\*\*Standard Deviation 1.70%**

**Target Nifty Perf. 2.15% p.a.**

NP >= 7% 39.5% (Contingent Coupon)

NP < 7% Decay of 1.7x

NP = -16.25% Principal Protection

\* Product IRR assume to be Pre-Tax IRR

^ Initial Fixing Level is assumed as 9199.05 rounded off to 9200.

\*\*Historical Standard Deviation is calculated for 1098 days daily rolling NIFTY return (working days only) from 1st Jan'2001 – 31st December'2019

*Notes: Terms and specifications of the product are subject to change. Debentures are not principal protected, not listed and not rated in nature  
Fee Structure: Up to 3.0% plus service taxes*



**Thank You**