

CPBM[®]

CERTIFIED PRIVATE BANKING MANAGER[®]

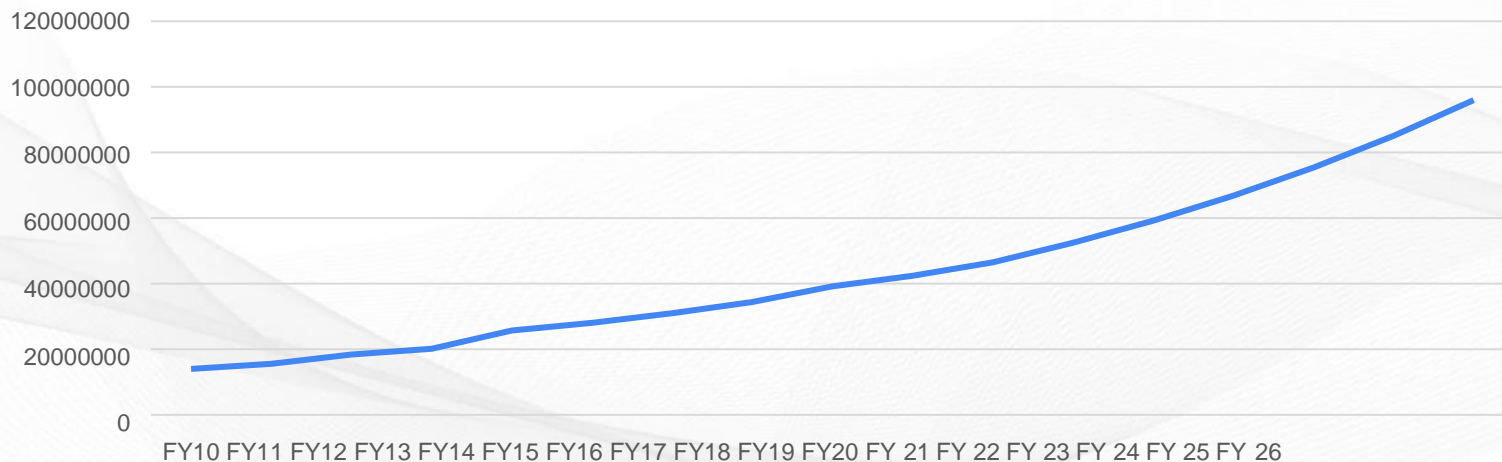
Session 1- An Introduction on Wealth Management

The Concept

Accumulated savings..... invested well..... result in Wealth.

Definition of who is wealthy and who should get wealth management advice is a bit relative...short answer : Everyone

Core belief in the Indian opportunity – At the beginning of the J/S curve Graph

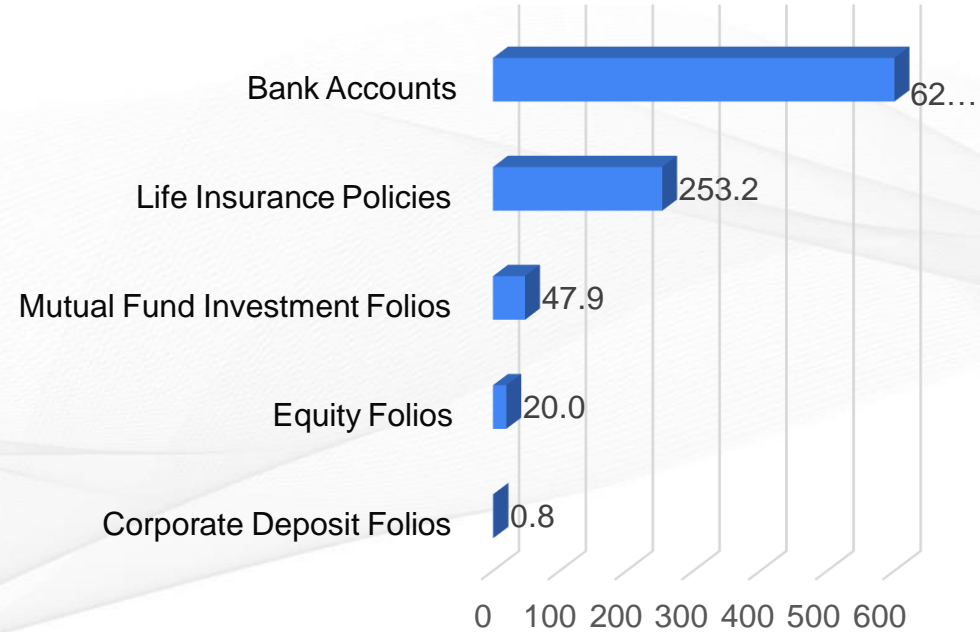


- With the start of liberalization in early 90s the wealth held by individuals in India started to grow exponentially.
- We are now at the inflection point and wealth held by individuals is expected to grow manifold over the next decade.
- Wealth with individuals estimated to be \$12,833 Billion at end 2020; estimated to double in next 4 years

Investment products have a lot of potential to increase penetration

- Out of total household financial wealth of Rs. 110 Tn, only Rs. 3.5 Tn is in mutual funds, Rs. 24 Tn in stocks and Rs. 19 Tn in Insurance; only 8% of Households have invested in equities or mutual funds

- As experienced in other developed and mature emerging markets, the growing household wealth will find its way into more sophisticated investment products



Cumulative accounts/folios (figures in millions)

Source : RBI, ICRA, Ministry of Statistics and Programme Implementation



NRI form a large wealth pool with a strong interest in investing in Indian assets Graph needs to be updated

Country/Region	NRI Population	%age of NRI Population
Middle East	58,76,032	21.1%
South Asia	56,01,600	20.1%
Singapore	6,70,000	2.4%
Other South East Asian Countries	52,50,051	18.8%
Australia	4,48,430	1.6%
US/Canada	41,83,063	15.0%
Carribean	10,12,000	3.6%
United Kingdom	15,00,000	5.4%
Other European Countries	7,69,127	2.8%
South Africa	12,18,000	4.4%
Others	13,81,018	4.9%
Total	279,09,321	100%

- Highly qualified Indian diaspora – either businesspeople or professionals
- High degree of affluence and sophistication
- Cumulative wealth pool roughly same size as current Indian HNI wealth pool
- High interest in investing in Indian assets

Wealth Management Is A Sunrise Business

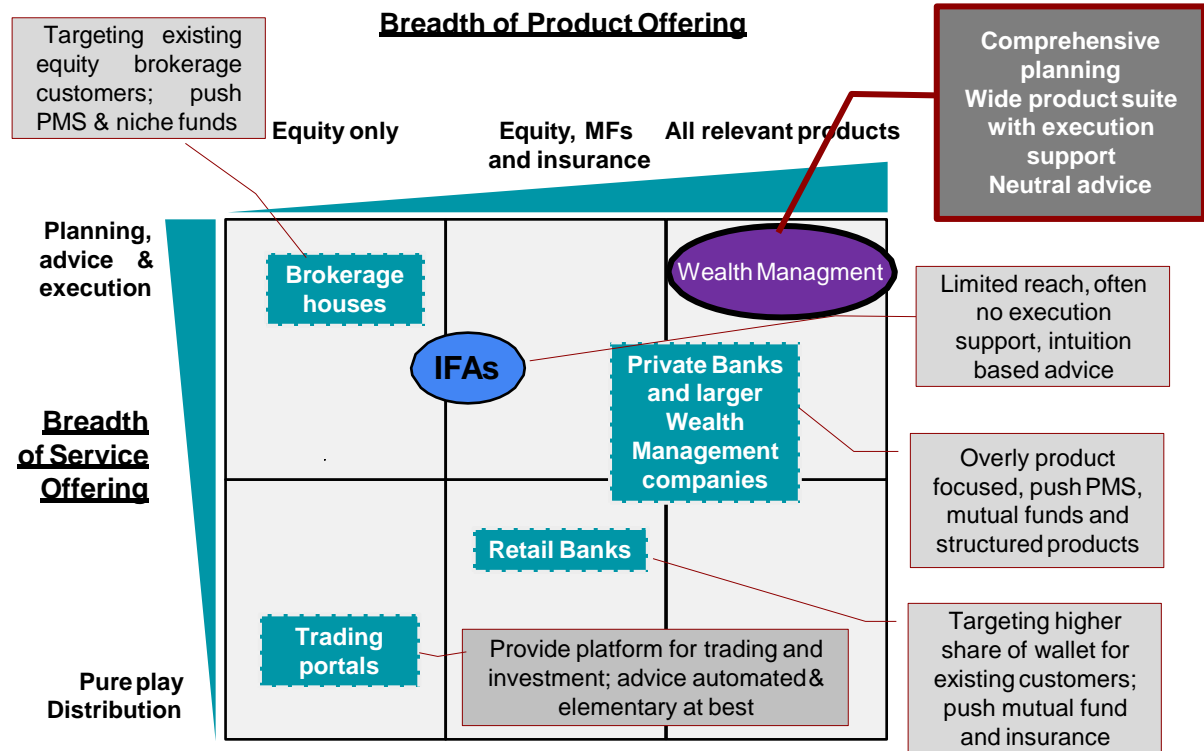
- The number of families with wealth above Rs. 10 Cr is estimated to be 200,000
- The number of families with investible surplus above Rs. 50 lakh is estimated to be greater than 3mn
- India accounts for 1% of world millionaires. It is expected to reach 1.3million by 2025.
- Most of this wealth is held in bank FDs
- Equity penetration in India significantly below that in developed economies
- Even amongst relatively well informed investors, alternative investments continues to be a novelty
- Most clients continued to be served by unorganized players or themselves
- Significant scope for organized players to offer high quality and comprehensive solutions

The Indian Financial Services space...and You !

- **Retail (including HNIs) and Institutional**
 - Institutional : Insti broking, equities, I-banking, Corp Fin
 - Retail : Consumer banks, stock-broking companies
- **Banking and Non-banking**
 - Non-banking : Everyone except banks (PSU, Indian private sector, Foreign banks)
- **Manufacturing and Distribution**
 - Manufacturing : Insurance companies, AMCs – MFs/ PMS, Structured Products
 - Distribution : Banks, Stock-broking led distribution/wealth, pure-play distributors
- **Sales or Finance**
 - Finance : Equity research, quant analysis, products research
 - Sales : All other jobs in the world !!

The Indian Wealth Management Scenario

Wealth management in India has taken different forms depending on the convenience of the service provider!





Business Structure Of A Wealth Management Firm

HNI Business Solutions (Rs 1Cr - 5 Cr)	Ultra HNI Business Solutions (Rs. 5 Cr – 100 Cr)	PCG Equity Broking (Rs. 5 Cr – 100 Cr)	Family Office UHNI Families (Rs. 100 Cr & above)	International Business UHNI Families (Rs. 5 Cr & above)
Products And Solutions (Client centric solutions, Financial Products, Research, Advisory Engine)				
Marketing (Brand Management/ Brand Development/ Customer Profiling/ Lead Generation/ Marketing & Promotions)				
HR & Training (Recruitment, training, organizational development, performance management)				
Technology & Operations (Account opening/ Banking/ Databases/ Technology Support/ Trade execution/ Back office)				

Agenda

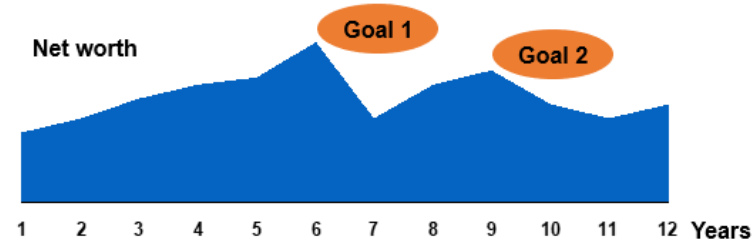
Why Wealth Management ?

- Broad classes of Wealth
- Asset allocation for wealth building capital

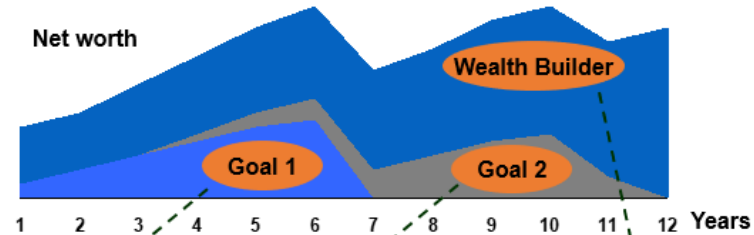
Compartmentalization Of Assets Has Its Benefits

- Clubbing different uses of money together reduces your willingness to take risks
- Allocating resources to various goals helps you prioritize and take decisions in unforeseen matters
- But above all, it induces the much needed discipline in investing

Single Kitty Approach



Goal-based Investments



Low Risk



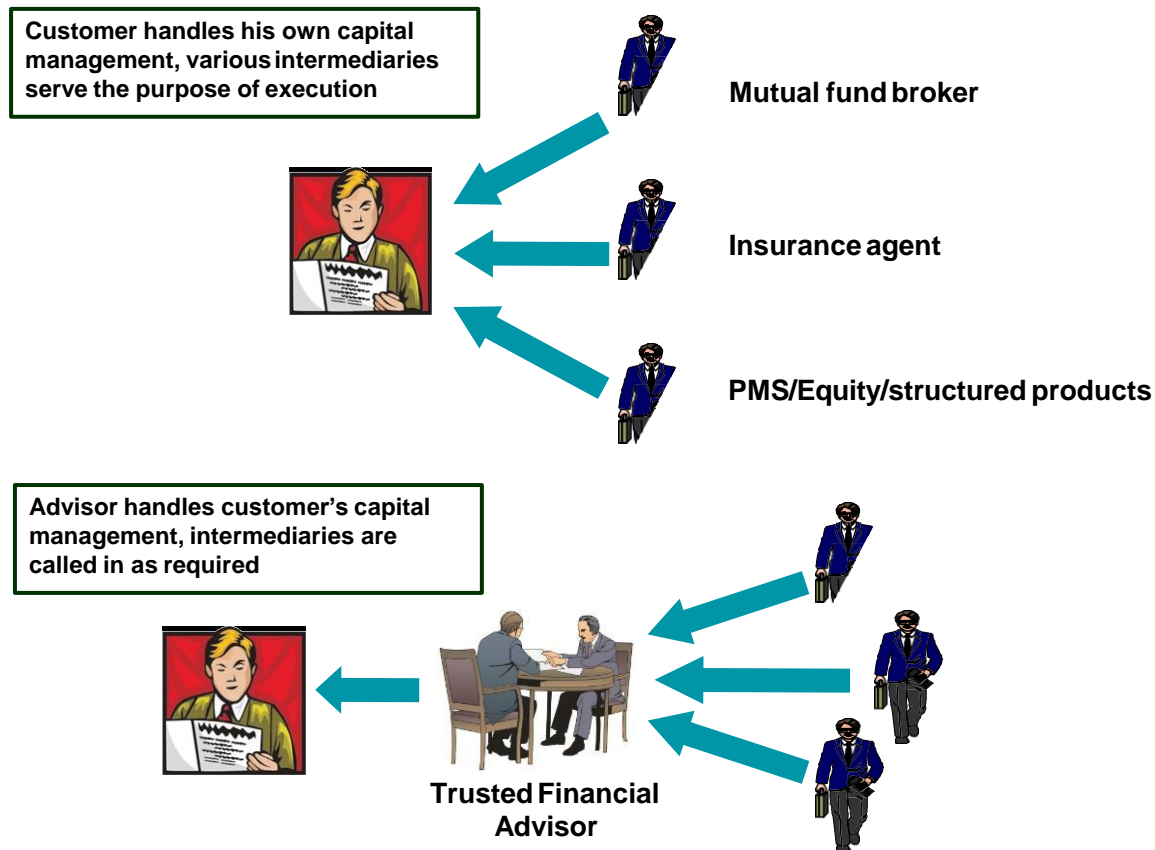
Moderate Risk



Aggressive

Trusted Advisor Role Requires Holistic Approach

- The role of trusted advisor is to segregate the various demands on the capital of the customer and tailor make his/her investment approach in line with that



Agenda

- **Why Wealth management?**

Broad classes of Wealth

- **Asset allocation for wealth building capital**

Four Major Types Of Wealth Suffice For Classification

● Customers tend to have well defined attitude towards each type of capital

● However they typically do not use this understanding to treat each type of capital differently

Consumption Assets

- Dual purpose of providing some use & being a part of net worth
- Are last to be touched through asset rebalancing
- The baseload of wealth
- e.g. owned residence, gold jewellery



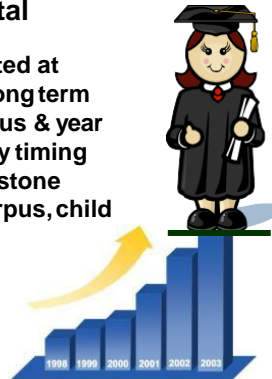
Liquidity & Contingency reserves

- Liquidity required to manage regular transactions
- Contingency reserve is highly liquid, low transaction-cost, safe capital
- E.g. bank account, liquid funds



Milestone capital

- Investments targeted at specific goals in long term
- Have a target corpus & year
- Risk level varies by timing and nature of milestone
- E.g. retirement corpus, child education fund



Wealth builder capital

- Investments targeted at building wealth
- No target corpus – rough mental benchmarks
- Risk level determined by willingness & ability of individuals
- E.g. PMS equity investments, real estate (rented out)



Distinguishing Between Types Of Wealth And Asset Classes

- Classification by type of capital is not same as asset allocation
- In a way, asset classes are market's offerings while types of capital are customer's needs

Types of Capital	Asset classes
<ul style="list-style-type: none"> • Driven by use of capital • Determined by customer context • A given type can choose from different assets classes; often more than one • Classification differs by mental categorization by customers • Level 1 classification in capital management 	<ul style="list-style-type: none"> • Driven by holding pattern of capital • Determined by market conditions • A given asset class can be suitable to different types of capital • Classification differs by risk return profile of assets • Level 2 classification in capital management



Many to many relationship

Type Of Capital Drives Asset Classes Suitable For It











● Not each asset class is suitable for each type of capital

● There are most commonly used asset classes for each type of capital while there are some others potentially useful in some cases

	Most commonly used	Potentially useful
Consumption assets	<ul style="list-style-type: none"> • Self occupied home • Jewellery • Car 	<ul style="list-style-type: none"> • N/A
Liquidity & contingency reserve	<ul style="list-style-type: none"> • Bank account for liquidity • Short term debt fund for contingency 	<ul style="list-style-type: none"> • If contingency requirement is too small, bank account is preferable to short term debt
Milestone capital	<ul style="list-style-type: none"> • Debt funds for nearer milestones • Diversified Equity/index funds for farther goals • PPF/EPF 	<ul style="list-style-type: none"> • Realty investments for specific real estate driven milestones • Gold investments for marriage related milestones • International investments
Wealth builder capital	<ul style="list-style-type: none"> • Debt funds • Government bonds • Diversified equity mutual funds • Focused mutual funds • Direct Equity • Real estate (not self occupied) • Realty funds • Gold bars or gold ETF • Commodity investments • Private equity/venture capital 	<ul style="list-style-type: none"> • Can include PPF/EPF if context requires and allows

Wealth Management Matrix

- What we get in turn is the capital type – asset class matrix
- This is a framework you can use to structure the advice given to a customer

	Liquidity & contingency reserves	Milestone capital	Wealth builder capital	Consumption assets
Bank account		?		
Short term debt				
Long term debt				
Diversified Equity				
Focused Equity		?		
Real estate		?		
Gold and commodities		?		

Case Exercise – Evaluation of Customer Context

Classification of assets into one category or another has direct impact on the portfolio recommendations

	Rs. lakh
• Own home - Mulund	80
• Plot of land in Bangalore	25
Equity holdings	
• Infosys	5
• L&T	3
• Suzlon Energy	2
• Zee Tele	2
Mutual fund holdings	
• ICICI Pru Power	2
• SBI Magnum Contra	3
• HDFC Top 200	5
• Fidelity Special Situations	2
• StanC Enterprise Equity	1
• HDFC Prudence	4
• Birla Tax Saver	1
• FDs	3
• PPF	7
• RBI – 2017 bonds	4
• EPF	4
• Jewellery	1
• Cash in Bank	2
• LIC Endowment plan	4
• MNYL ULIP	3
• Lending to friends	1

	Liquidity & contingency reserves	Milestone capital	Wealth builder capital	Consumption assets
Bank account	2	?		
Short term debt	30	0	03	
Long term debt		114	411	
Diversified Equity		3	12	
Focused Equity		?	18	
Real estate		?	25	80
Gold and commodities		?	0	1



Agenda

- Why Wealth management?
- Broad classes of Wealth

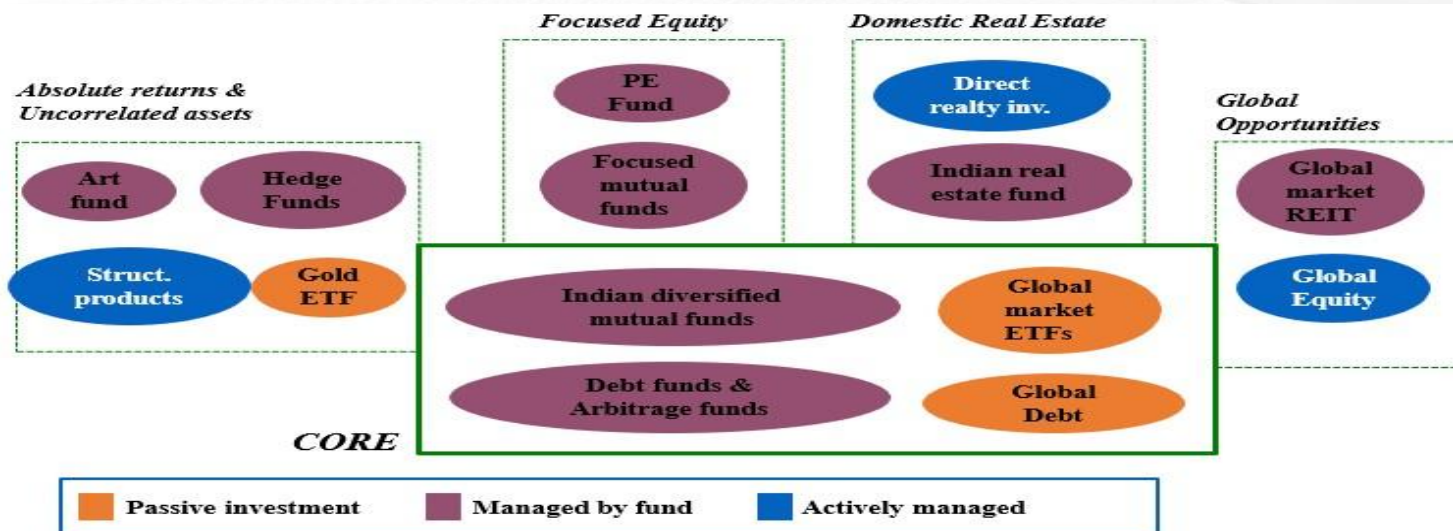
Asset allocation for wealth building capital

Your Portfolio Should Have A Core and Several Satellites

A low correlation driven portfolio of assets is the most sustainable way of maintaining and building wealth

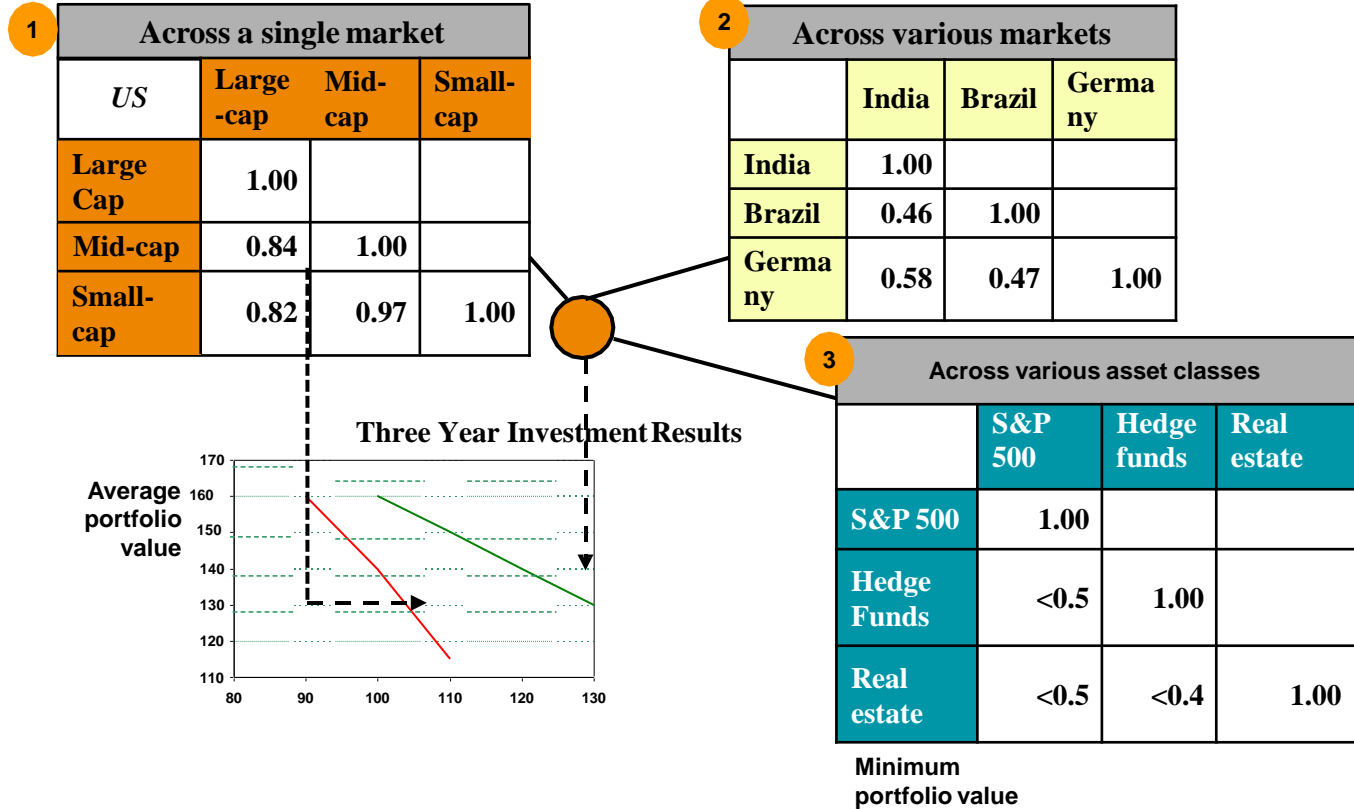
Effective management of your wealth over a long period of time is possible with a well diversified portfolio which includes multiple avenues of growth. It is crucial that these growth avenues be not driven by very similar factors

This is described as the core and satellite approach to managing investments. The core is the steady growth low risk part of the portfolio providing regular returns while satellites are actively managed growth opportunities which provide most of the upside



Why Explore Satellites?

- Low correlation assets go a long way in reducing portfolio risk



For Satellite Investments, You Can Also Explore New Asset Classes

- Choices available to Indian investors are increasing
- It would be prudent to initiate investments in these asset classes to get to know their nuances better



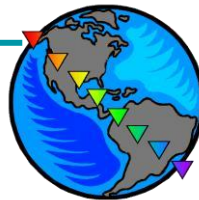
Real estate

- Has become a true investment asset only recently
- Greater transparency in sector, national players, FDI interest and strong fundamental drivers
- Vehicles: Direct property, realty funds, RE Mutual Funds



International Investments

- Diversify internationally
- Participation in other “growth stories”
- Limits enhanced by RBI to \$200,000
- Vehicles: Specific schemes of MFs, foreign MFs, direct investment



Art

- Emerging asset class with great diversification value
- Indian artists are finding favor with buyers and investors alike – RoI on Indian art has exceeded equity by 10%
- Vehicles: Art Funds, direct purchase



Gold



- Negatively correlated with equity
- “Safe haven” asset class – performs well during crises
- Vehicles: Gold ETFs, direct purchase

Illustration 1: How Mutual Funds Stack Up

- Low churn stable growth funds make up good core options
- Mid-cap, actively managed or sector funds are obvious satellites

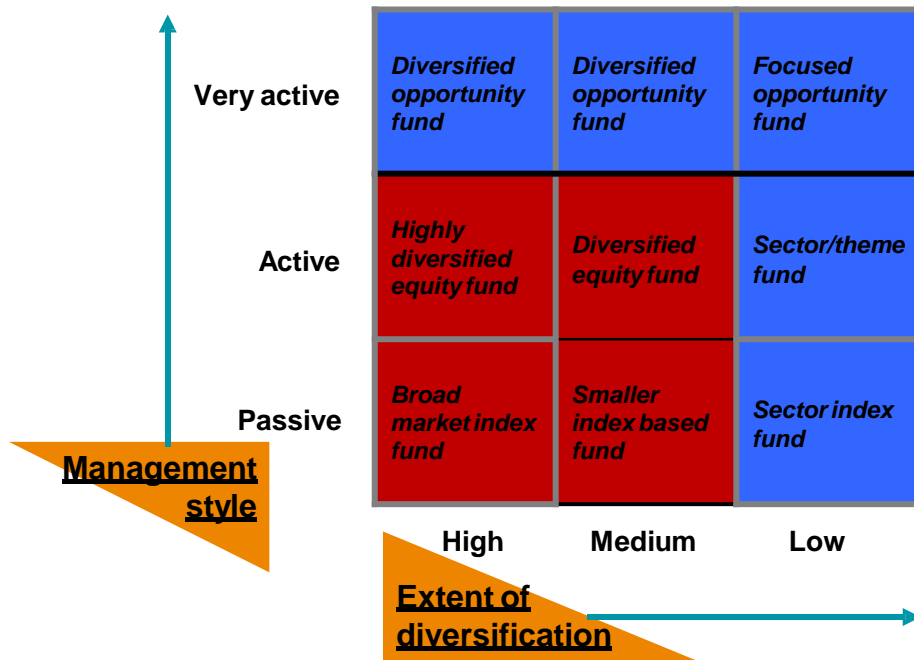


Illustration 2: Core-Satellite Investments Split

For A Customer

- We would follow a core and satellite approach to investing
- The core is invested with a longer horizon and provides stability to the portfolio
- The satellites are opportunities which provide upside kicker
- The satellite portion is open to more regular and active restructuring while core is restructured only as needed

Lumpsum
investments

Rs 50 lakh

Core investments	30
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Structured product – capital protection	20
HDFC Growth Fund	10

Satellite investments	20
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Reliance Pharma Fund	10
Realty fund – first tranche	10

Core investments	3
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Franklin Index Fund	2
Reliance Growth Fund	1

Satellite investments	2
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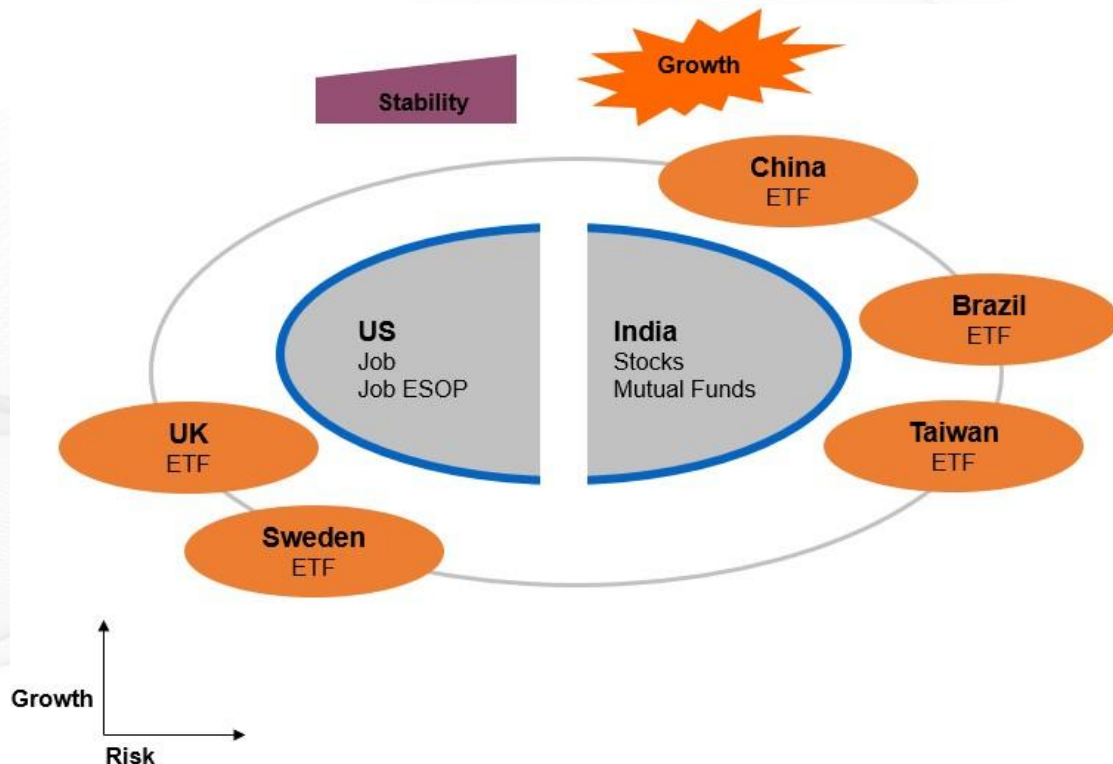
Equity investments	1
Standard Chartered Premier Equity Fund	1

Systematic
investment

Rs 5 lakh per
month

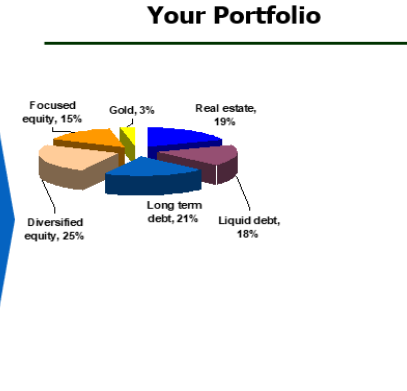
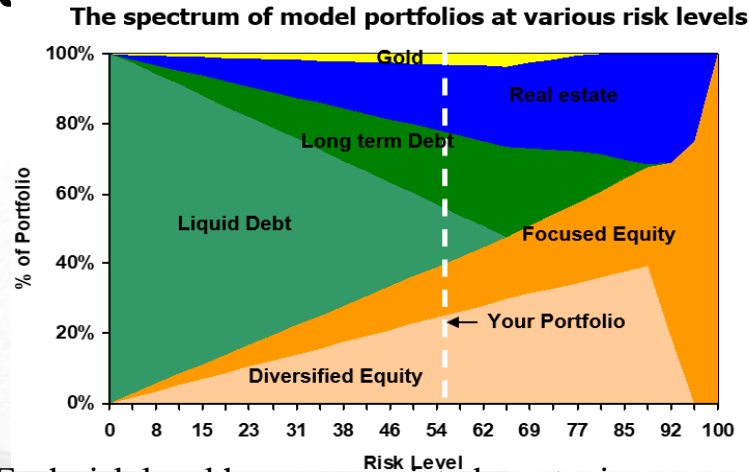
Illustration 3: Core and Satellite Approach to Global Equity Investing

- The “Core” of your global equity portfolio should be US and India – while selective European stocks, Taiwan, Brazil and China make up good satellites



Caution: Integrated Solutions Win, Piecemeal Investments Don't

- Optimal portfolio design requires thorough research in each asset class and its performance over the years
- A key ingredient is the correlation amongst returns of different asset classes
- Each risk level has an associated asset mix
- Relative proportions of various asset classes are determined by the returns and correlation of returns amongst the asset classes
- Optimal portfolios are designed to minimize risk through refined diversification
- The asset classes chosen can be increased/alterd as required



Thank You