PORTFOLIO MANAGEMENT SERVICES IN INDIA

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WHAT ARE PMS

- Portfolio Management Services account is a sophisticated investment vehicle where the portfolio manager invests in Stocks, Debt and fixed income products and other securities that can potentially be tailored to meet specific investment objectives.
- According to SEBI "A portfolio manager is a body corporate who, pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise), the management or administration of a portfolio of securities or the funds of the client."
- In India major brokerage firms, asset management companies and independent experts provide portfolio management services to clients.

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ORIGIN OF PMS IN INDIA

- On 7th January 1993, SEBI issued Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993 which marked the beginning of PMS as a formal investment vehicle in India
- Before this PMS operated as unregulated activity
- The issuance of the guidelines within a year of the establishment of SEBI highlights the importance of this service in the capital markets

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ORIGIN OF PMS IN INDIA

- Parag Parikh Financial Advisory Services Ltd. (PPFAS) launched the the PMS named Cognito in October 1996
- In 2000, ICICI Prudential was the first institutional participant to provide PMS services

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HOW PMS ASSETS HAVE GROWN

- Born in the late 1990s-early 2000s, portfolio management services, or PMS, became a favourite with investors in the bull market of 2005-2008.
  - Between Mar'04 to Mar'06 the number of PMS providers increased from 60 to 132
- But soon after, it lost steam in the 2008-2009 market turmoil. According to data from SEBI, the assets under management (AUM) of discretionary PMS products declined 40%, but the AUM for non-discretionary PMS products increased 26% from December 2010 till December 2011.

HOW PMS ASSETS HAVE GROWN

- Total AUM of Portfolio Management Services industry, excluding the AUM under advisory services, has increased by 14.5 percent from Rs 3,89,061 crore in March 2012 to Rs 4,45,428 crore in April 2012. Within Asset Under Management of Portfolio Management Services, AUM under discretionary services constitutes the highest share in the AUM with Rs 4,26,570 crore in April 2012 compared to Rs 3,70,302 crore in March 2012.
- In terms of number of clients, discretionary services category ranks first with total of 64,688 clients, out of 81,472 clients in PMS industry, followed by advisory services with 10,830 clients and non-discretionary category with 5,954 clients

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HOW PMS ASSETS HAVE GROWN

AUM & COMPOSITION OF PMS IN INDIA

Particulars	Discretionary	Non-Discretionary	Advisory	Discretionary	Non-Discretionary	Advisory	Discretionary	Non-Discretionary	Advisory	Discretionary	Non-Discretionary	Advisory
No. of Clients	69,691	3,748	8,770	65,600	5,712	9,296	65,600	5,712	9,296	64,688	5,954	10,830
AUM (in Rs. Crore)												
Listed Equity	17,241	2,234		15,171	3,602		15,171	3,602		15,004	3,272	
Unlisted Equity	1,286	47		1,725	51		1,725	51		1,861	47	
Plain Debt	255,502	5,207		339,094	11,112		339,094	11,112		396,363	11,616	
Structured Debt	1,171	888		1,692	756		1,692	756		1,457	624	
Equity Derivative	49	-	86,016*	152	0	73,914*	152	0	73,914*	152	0	69,249*
Mutual Fund	5,388	1,831		3,770	2,857		3,770	2,857		3,707	2,933	
Others	4,343	249		8,699	381		8,699	381		8,025	377	
Total	284,980	10,456		370,302	18,759		370,302	18,759		426,570	18,859	

*Value of Assets for which Advisory Services are being given

PRODUCT TRENDS

- In 2007, JM Financial offered capital protection oriented PMS. In the same year providers like Kotak launched small cap equity PMS portfolios
- Forefront Capital Management introduced India Opportunities – a quantitative PMS based on fundamentals for HNIs and institutions. The strategy was launched in September 2009 and invests in large cap equities using a quantitative model based on company and macroeconomic fundamentals.
- In 2011, Bonanza Portfolio Ltd launched Shariah Portfolio Management Services-as per Shariah guidelines mandate by Shariah Board, Islamic Investment & Finance Board (IIFB). It was targeted towards the Indian Muslims.

PMS TRENDS – FEE STRUCTURES

- Before 2008, many PMS products charged fixed fees.

- However, PMS products with performance-driven fees were popular in 2008 and early 2009 when interest for these schemes waned after stock markets plunged in the wake of the global credit crisis.

IS SEBI REGISTRATION MANDATORY?

- According to SEBI guidelines PMS can be offered only by entities having specific SEBI registration.
- However, there are unregistered PMS providers who provide these services to their clients.
- While SEBI-registered PMS managers need to be body corporates, having a minimum net worth of Rs. 2 crore and collect a minimum amount of Rs. 25 lakh from a single client to be managed, entities running such services without the regulator's recognition may be doing so without meeting any of these parameters.

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IS SEBI REGISTRATION MANDATORY?

- Further, before giving a PMS license, the market regulator insists on previous experience of the applicant in related activities and managing funds.
- Some unregistered firms are practising PMS because their parent firm or subsidiary firm has a certificate. However, even these could come under SEBI's scanner.
- SEBI, on earlier occasions has warned of wide ranging consequences for such unregistered PMS providers
- Hence it is in the interest of investors to choose only SEBI registered PMS providers

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TYPICAL PROFILE OF PMS CLIENT

- The Investment solutions provided by PMS cater to a niche segment of clients.
- The clients can be Institutions or Individuals with high net worth. A high net worth individual (HNI) with a minimum net worth of Rs. 2 crore is a suitable profile
- Someone looking for a focused portfolio management and personalized investment solutions and high level of service
- The offerings are usually ideal for investors: who are looking to invest in asset classes like equity, fixed income, structured products etc

ELIGIBLE INVESTORS IN PMS

- The following are eligible investors:
  - Resident Individuals (>18 years)
  - Hindu Undivided Families (HUF)
  - Body corporate (Private /Public)
  - Trust (registered)
  - Sole Proprietorship Firm
  - Co-Operative Society
  - NRIs – subject to RBI approvals
  - Partnership firms and other eligible investors

HOW CAN PMS BE CLASSIFIED?

- Discretionary portfolio management
  - The portfolio manager individually and independently manages the funds of each client in accordance with the needs of the client.
- Non-discretionary portfolio management
  - The portfolio manager manages the funds in accordance with the directions of the client. The portfolio manager cannot make buy-sell decisions at his own discretion; he has to refer to the client for every transaction. The choice as well as the timings of the investment decisions rest solely with the Investor. However the execution of trade is done by the portfolio manager
- Advisory
  - Under these services, the portfolio manager only suggests the investment ideas. The choice as well as the execution of the investment decisions rest solely with the Investor.

SOME OTHER CLASSIFICATIONS

Based on Provider:

1. AMCs
2. Brokerage Houses
3. Independent experts

Based on Product Class:

1. Equity
2. Fixed Income
3. Multi Asset

Based on Cut-Off (Minimum ticket size):

1. Rs. 25 lakhs
2. Rs. 50 lakhs
3. Rs. 1 crore

Client Type:

1. Individual
2. Institutions

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DOCUMENTATION REQUIRED

- The following documents are required:
  - PMS Client Registration Form
  - Discretionary Portfolio Management Service Agreement (read disclosure document prior to signing the agreement)
  - Power of Attorney by client to PMS. This document needs to be notarized locally.
  - Bank Account Opening Form
  - Photographs
  - Depository Account Opening Form
  - Proof of Identity
  - Proof of Address
  - PAN Card

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ADVANTAGES OF PMS

- PMS offers the advantage of customization and concentrated portfolios. This works well in uncertain and volatile markets, where opportunities may be more concentrated. In other words, if you want to invest in or avoid specific stocks or sectors you can't do that with an equity MF.
- There is scope of one-on-one interaction with the portfolio manager which increases level of engagement
- The client has a greater control over his/her portfolio
- Personalized and professional services
- Transparency with respect to the portfolio is very high. Usually clients are given online access to view their portfolios any time

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DISADVANTAGES OF PMS

- Most PMS don't have a system of NAV like mutual funds. Every PMS scheme has a model portfolio and all the investments for a particular investor are done in the Portfolio Management Services on the basis of model portfolio of the scheme. However the portfolio may differ from investor to investor.
- Also limited information is available in public domain. So the comparison of performance becomes challenging making it difficult to choose the right PMS provider.
- A disadvantage PMS has over a mutual fund is that investment in PMS does not carry tax benefits unlike MFs
- The threshold size of PMS is Rs 25 lakhs upwards which makes the service inaccessible to middle class households

PMS INFORMATION IN PUBLIC

- Portfolio Managers shall disclose the performance of portfolios grouped by investment category for the past three years as per the enclosed prescribed tabular format.

	Current Year (April 01 – as on date)	**Year 1** (Financial year)	**Year 2** (Financial year)	**Year 3** (Financial year)
Portfolio Performance (%), Net of all fees and charges levied by the portfolio manager.				
Benchmark Performance %				

PMS INFORMATION IN PUBLIC

- Portfolio Managers shall also ensure that the disclosure document is given to all clients along with the account opening form at least two days in advance of signing of the agreement.
- In order to ensure that the clients have access to updated information about the portfolio manager, portfolio managers shall place the latest disclosure document on their website, wherever possible.

PMS INFORMATION IN PUBLIC

- The Disclosure Document contains the following:
  - Disclaimer & Definitions
  - History, Present Business and Background of the Portfolio Manager
  - Penalties, Pending Litigations or Proceedings
  - Services Offered
  - Declaration regarding broking services
  - Risk Factors
  - Financial Performance of the Portfolio Manager
  - Nature of Costs and Expenses for Clients
  - Agreement
  - Tax Implications
  - Accounting Policies and Valuations
  - Investor Services

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Are PMS Alternative Investment Funds?

- In 2012 SEBI notified the Alternative Investment Funds(AIF) regulations
- PMS is governed by the Portfolio Managers Regulations, 1993 and any investment vehicle which is currently under the guidelines of SEBI to regulate fund management activities is not covered under the AIF Regulations

AIFs AND PMS

- AIFs are private investment funds that pool assets from a group of investors and have a defined target for that pool
- There are three distinct categories under AIF.
  - Category I includes those AIFs with positive spillover effects on the economy, for which incentives or concessions might be considered by SEBI or Government of India or other regulators in India; and which shall include Venture Capital Funds, SME Funds, Social Venture Funds, Infrastructure Funds. This implies certain specific sector investments and focuses on the unlisted category of enterprises, where there is need for private funding.
  - Category II focuses on unlisted enterprises but doesn't limit the fund to a defined sector. This is akin to many sector-agnostic PE funds that are likely to fall in this category.
  - Category III caters to any other kind of fund—hence, a fund that invests primarily in listed equity will qualify for this category. The last category also includes hedge funds that take leverage as part of their strategy and use a mix of assets and derivatives to achieve returns.

AIFs AND PMS

- Category I and II AIFs shall be close-ended and shall have a minimum tenure of 3 years while Category III AIFs may either be close or open-ended.
- Difference between AIF and PMS:
  - AIFs pool money to invest in unlisted equity unlike PMS managers who make investments into listed equity.
  - The minimum investment in PMs is Rs. 25 lakhs while that for AIFs is Rs. 1 crore.
  - PMS products cannot be close-ended while Category I and II AIFs are close-ended

OPPORTUNITY FOR PMS

- Income levels in India on a rise making Rs. 25 lakhs not beyond the reach of many.
  - HNI liquid assets as a percentage of GDP rose from 8% to 12% between 2005 to 2010 and is likely to increase
  - Indian HNIs account for 1.7% of the total MF folios but 24% of the MF industry AUM
- Scope for product innovation - existing offerings largely plain vanilla
- Many Fund Managers with established track records are now offering PMS products
- SEBI guidelines have improved investor safety and confidence

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QFIS AS POTENTIAL CLIENTS FOR PMS

- The government has announced in 2012 that QFIs will be allowed to directly invest in Indian equity markets. The RBI would grant general permission to QFIs for investment under the Portfolio Investment Scheme (PIS) route
- A QFI is an individual, group or association resident in a foreign country that is compliant with Financial Action Task Force (FATF) standards. QFIs do not include FIIs/sub accounts.
- As a result, a large number of QFIs, especially a large set of diversified individual foreign nationals who are desirous of investing are likely to start investing
- They will like to have access to local managers who have a strong understanding of the domestic capital markets
- This is likely to positively impact the AUMs of PMS providers

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