

INVESTMENT AVENUES IN CURRENT MARKET SCENARIO

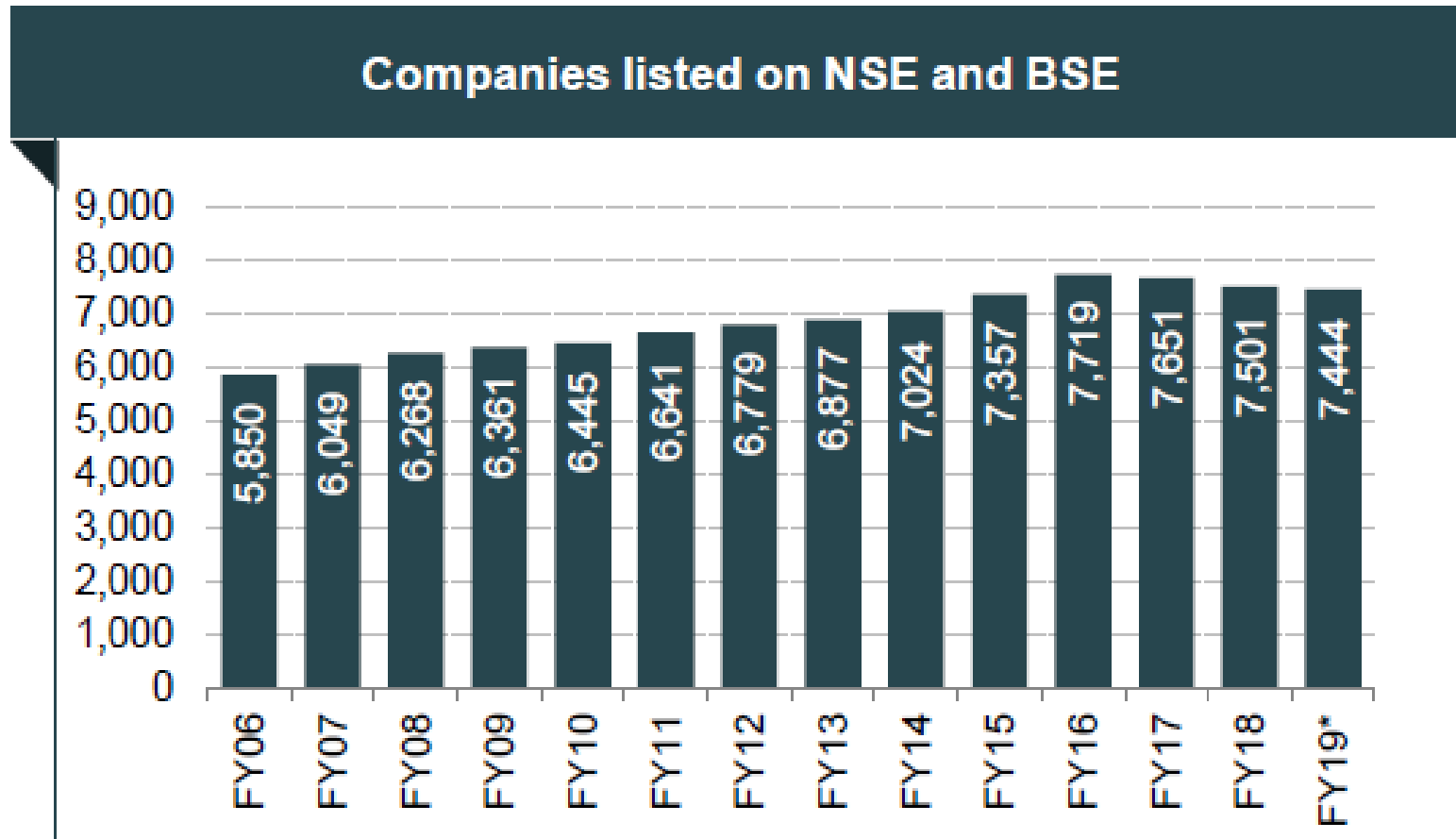
Insights: PMS and Alternative Investment Funds in India

Speaker : AMIT SAXENA
Date : 18th Dec 2019

India – Poised for growth

- India is the 5th largest economy in the world at around \$2.6tn and is poised to double in next 8-10 years – first trillion in 58 yrs, second trillion in 7 years and third trillion expected to be in 6 years
- Indian Asset Management industry (MF) is around \$350bn (CAGR 15.5% ~ FY07-18) expected to go around \$1.47tn in next 5-7yrs (AMFI)
- Concentrated market i.e. Top 5 AMC ~60% AUM and Top10 ~ 82% AUM, Just ~11% to GDP vs. World average of >60% and USA ~114% (Bloomberg)

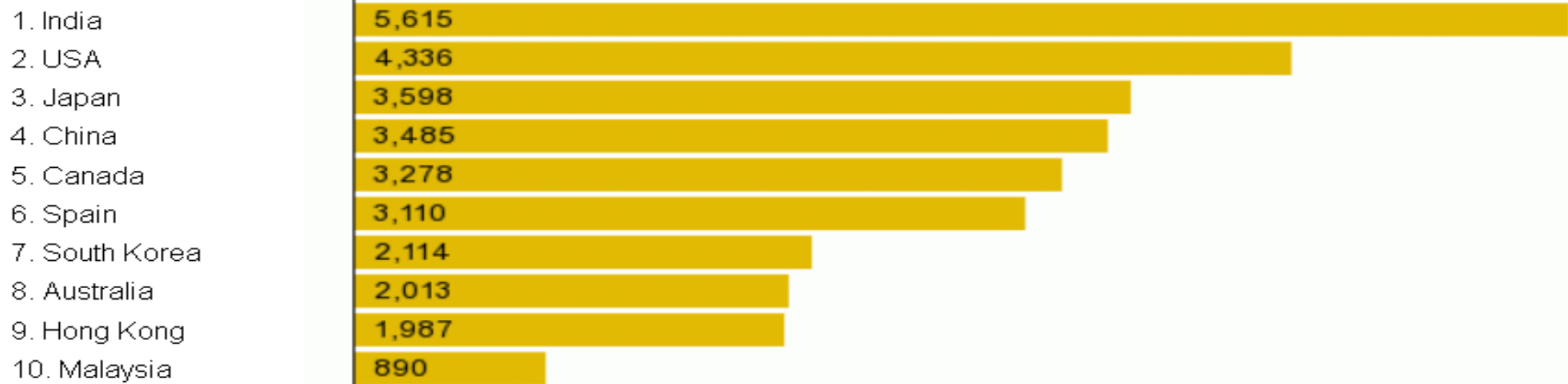
Growing number of public companies in India



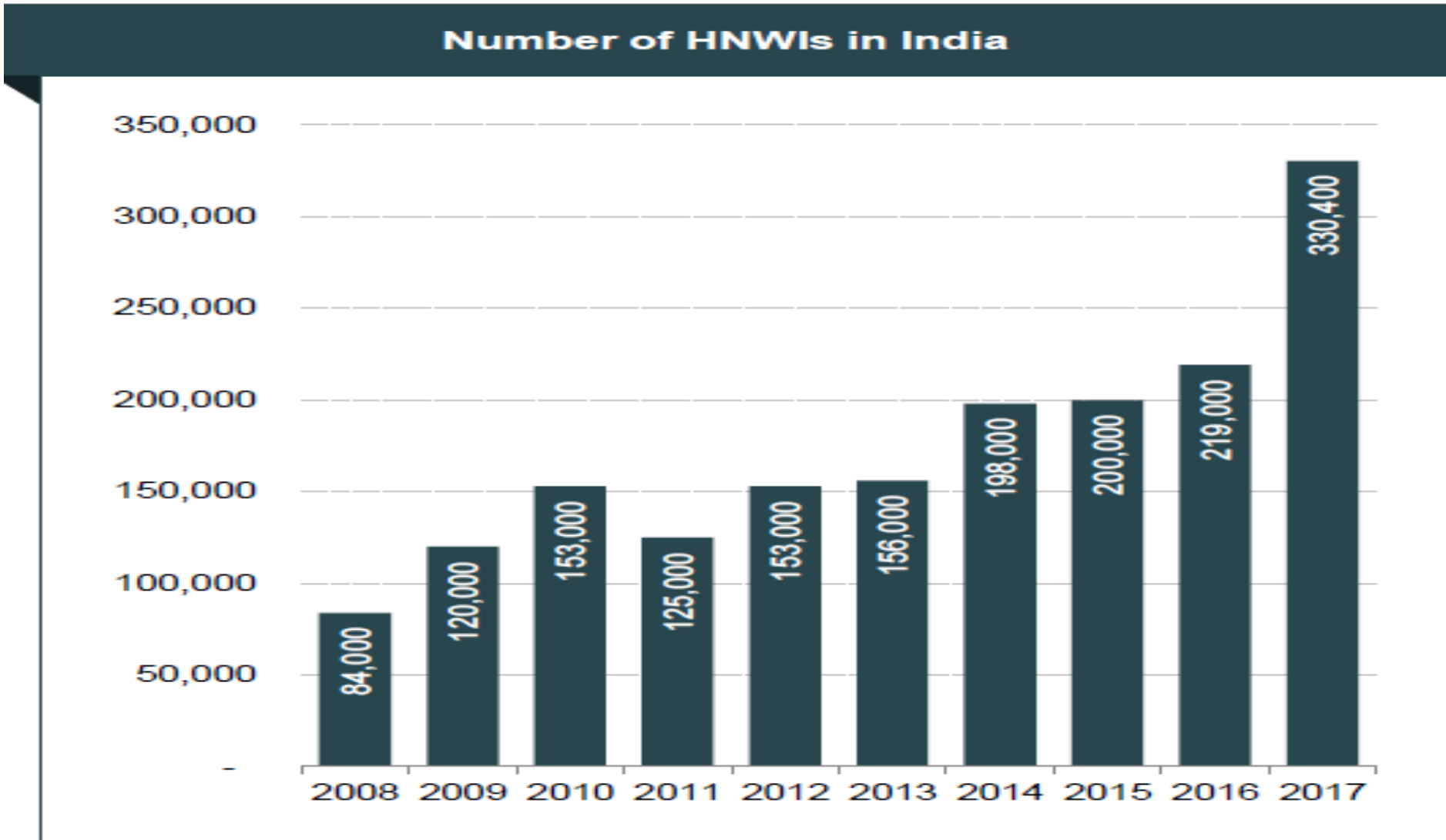
Highest number of listed companies - India

Number of companies listed on the stock exchange, 2017

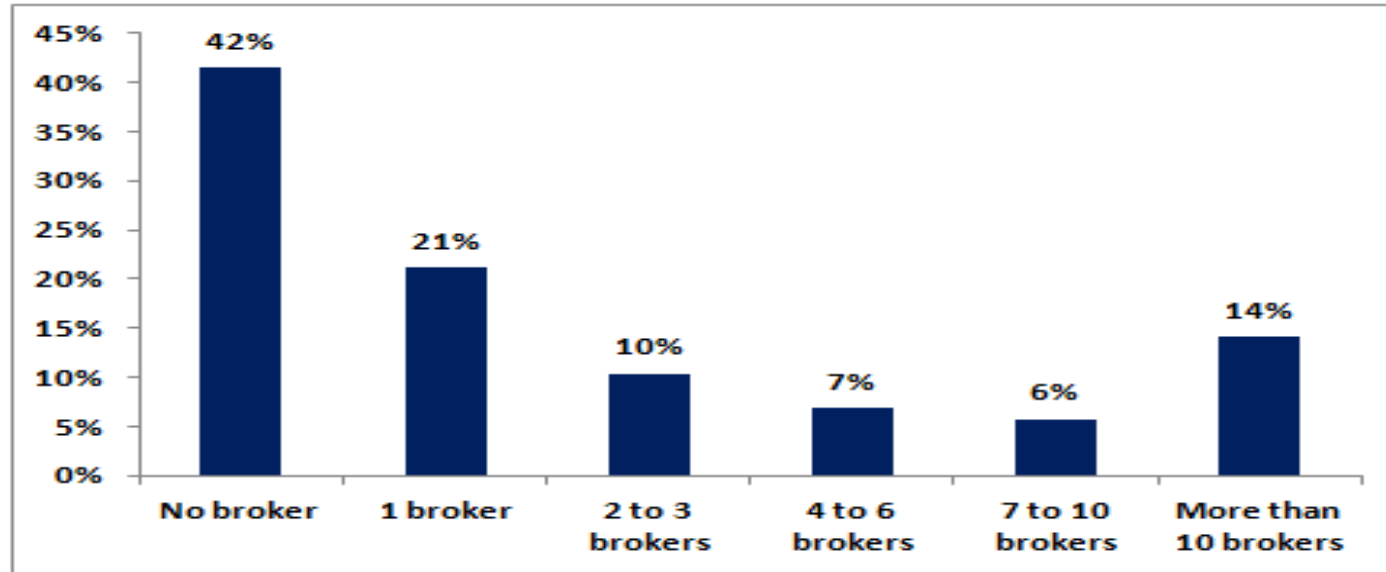
(companies, Source: The World Bank);



Fastest growing HNI population – India - \$8.3tn



Yet India's market remains under researched and under penetrated



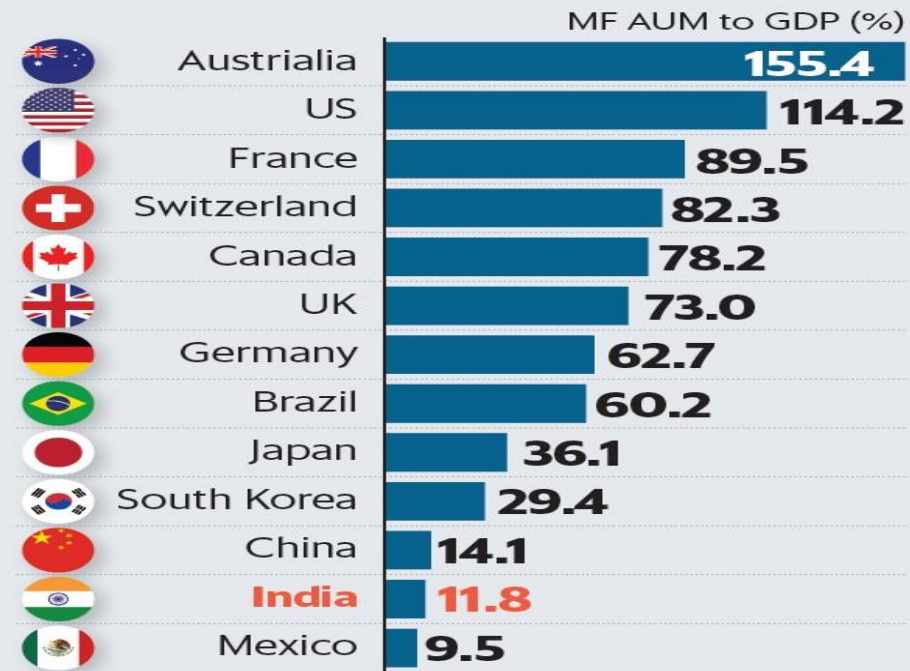
- ❑ 42% of companies with market cap between Rs. 100 to 20,000 crores have no broker covering the company
- ❑ 21% of companies have only 1 broker covering the company
- ❑ Mid & small cap space is largely undiscovered by the institutional investors
- ❑ Early movers are likely to have an advantage

Due to the diversity of listed companies along with the large number of listed stocks and the opportunity in mid market investing, it is important to participate in India opportunity via a onshore asset manager as they would be better equipped to capitalize due to their local expertise and on the ground experience.

Mutual Funds in India

UNDER-PENETRATED MUTUAL FUNDS MARKET IN INDIA

Mutual funds' assets under management as a percentage of GDP growth is a typical indicator used to show low penetration of mutual funds of a country



Source: Bloomberg, 2018 Investment Company Fact Book; Assets under management pertain to open-ended funds

New normal for AMC's - India

- AMC industry would grow multi-fold (financial saving, Demon, GST, Literacy etc.)
- Increasing regulations in MF space i.e. stock categorization, size of scheme will make it difficult for managers to beat index in traditional fund vehicles
- Owner/Manager model (akin to USA/developed markets) would emerge in India and Successful fund managers would set-up niche boutique shops (become entrepreneurs in search of alpha)
- Increasing HNI population would look for customized alternative products to generate alpha



Introduction to
Managed Accounts

i.e.

Portfolio Management Schemes (PMS)



Managed Accounts

- Meant for personalised and professional management of finances of HNIs / Institutions
- Investment portfolio in Stocks, fixed income, structured products managed by a professional money manager
- Minimum investment of Rs 25 lakhs
- **Discretionary PMS:**
 - where the fund manager takes decisions on investors' behalf
- **Non – discretionary PMS (Advisory based)**
 - fund manager needs to take approvals from the investors on suggested investments

Advantage PMS

- Professional management
- Transparency
 - Securities in demat account of the investor
 - Details of each trade triggered by the exchanges and depositories
 - Fee can be customised for each investor
- Custom solutions
 - Based on risk / reward appetite
 - Personal Restrictive list (ESG, Sharia, etc)

How to select PMS strategy for your client

- Identify
 - Right asset allocation suitable for your client
 - Appropriate Fund Manager based on
 - Investment philosophy and the appropriate investment strategy
 - Flexibility and ability of strategy to deliver alpha
 - Model portfolio and how comfortable you are with stocks in the portfolio
 - Past Track record (Looking beyond performance – volatility, consistency, drawdown, turnover, shift in strategy)
 - Servicing capability (ability to customize and maintain restrictive list, etc)

How it works

- AMCs to disclose investment strategies filed with SEBI under disclosure document
- Investors sign PMS agreement along with opening of a Demat A/c and a Bank A/c (Optional)
- Investors can signup using cash or stock transfer
- On folio creation – Portfolio is aligned to a Model portfolio
- Fees (can be customized for each investor)
 - Fixed / Performance fees
 - charged typically monthly / quarterly on daily accrual
- Investors shared with monthly portfolio, performance and fund strategy updates by the AMC

How it works - taxation

- Taxation
 - At investor level
 - AMCs share tax statement for ease of filing returns
 - However, Investors need to consolidate their holdings and transactions across demat accounts in order to file returns correctly

Key players - PMS





Introduction to Alternative Investment Funds (AIF)



AIFs in India

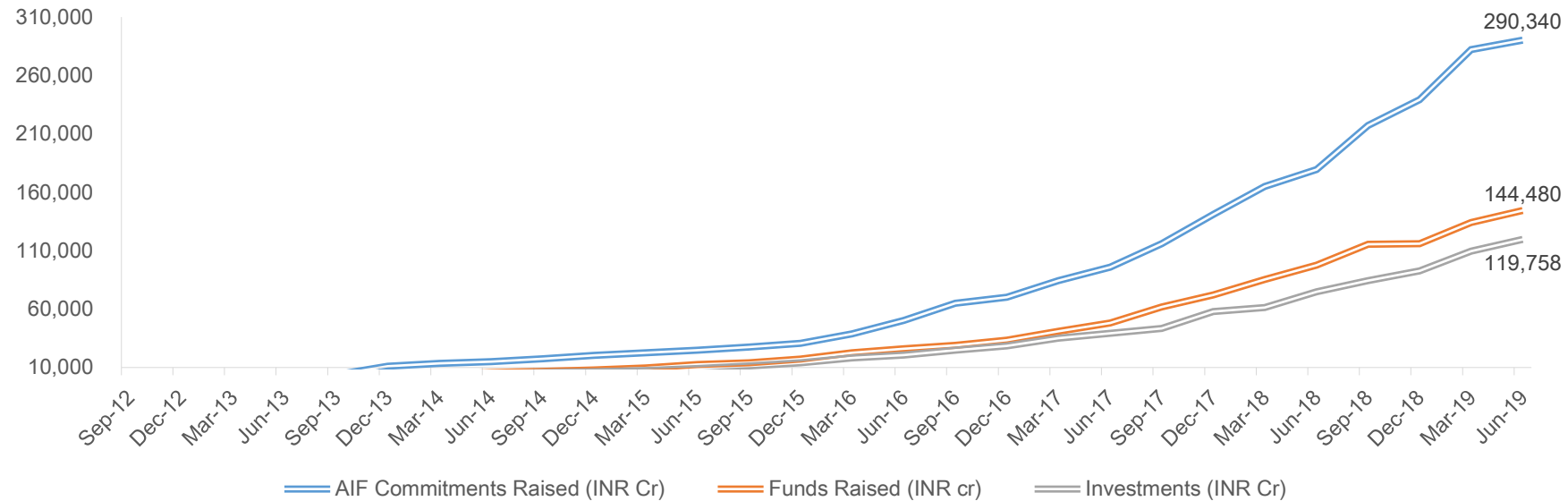
- An alternative investment fund is any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which
 - is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors
 - is not covered under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities

And does not include:

- Family Trusts
- Holding companies
- Employee welfare trusts or gratuity trusts
- ESOP Trusts
- SPV not established by fund managers
- Funds managed by reconstruction company

- Minimum Capital Commitment of Rs 1 cr

Growth story of AIF Industry



Key Facts:

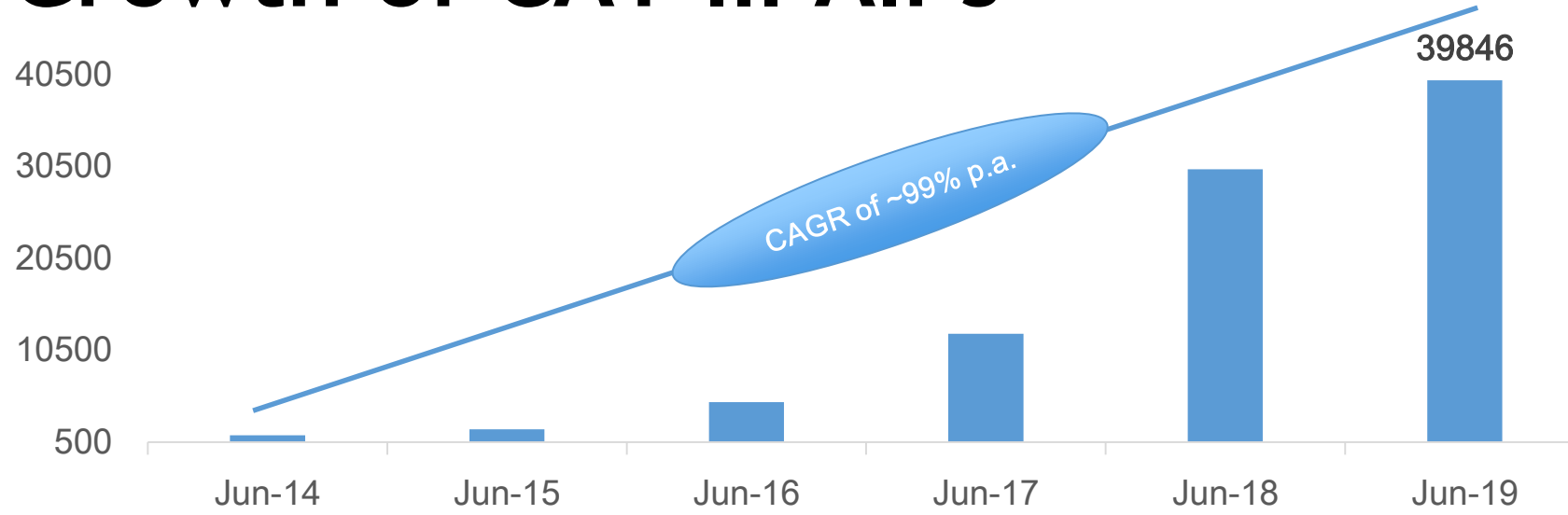
- SEBI has permitted approx. 600 AIFs* to be set up; Participants include AMCs, Private Equity, Venture Capital firms, Hedge Funds, Corporates, Boutique Investment Funds, Individuals etc.
- Funds Raised: Category II largest segment (60%) ; Category III growing strongly (28%)
- In the last 1 year, in terms of Funds Raised Cat II has grown by approx. 60% and Cat III has grown over 48%

*Number of registered AIF trusts, actual number of Schemes is much higher. Source: SEBI

Industry Composition

Types	Description	Funds Raised
Category I	Startup or early stage ventures, Social ventures, SME, Infrastructure Other sectors considered as socially desirable	10% Rs 14,636 Crs
Category II	AIFs which do not fall in either category I or category III Pre IPO, Distress Debt, Real Estate (Debt / Mezz/ Equity), Credit (Sector Agnostic), Private Equity / Start Up Equity	62% Rs 89,998 Crs
Category III	Employs diverse or complex trading strategies Absolute Return / Long Short Funds, Long Only / Thematic Equity, Commodity	28% Rs 39,846 Crs
Total		Rs 1,44,480 Crs

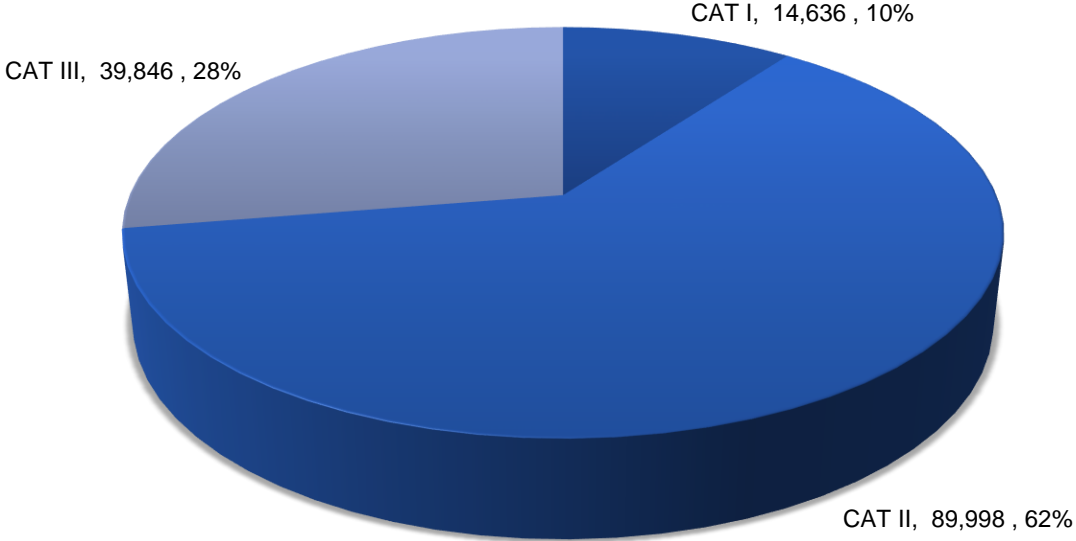
The Growth of CAT III AIFs



- **Primarily Includes**
 - Long only buy & hold oriented funds without leverage
 - Hedge Funds/ Long Short / Absolute Return Strategies

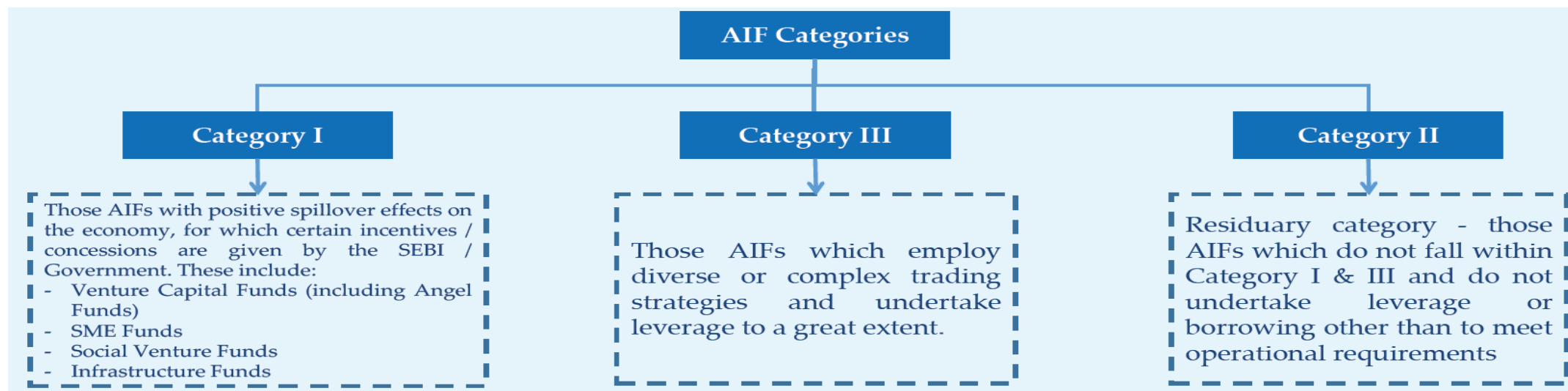
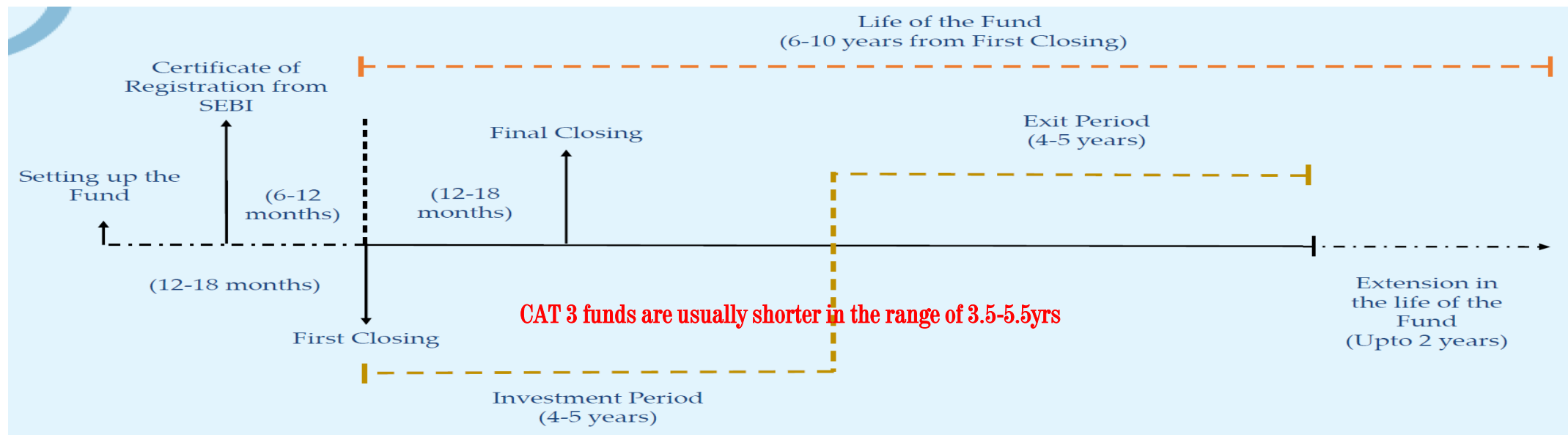
Composition

Jun-19



■ CAT I ■ CAT II ■ CAT III

The life cycle of an AIF



Advantage AIF

- Professional management in a pooled investment vehicle (with limited corpus)
- Ability to have complex products, leverage, derivatives, etc
- Fund Manager skin in the game
- Scale benefits (QIB / Anchor investment in IPOs, Large deals in PE/ VC/structured debt space)
- Transparency
 - SEBI mandates full disclosure on regular / quarterly basis (MFs also disclose monthly)
 - AMC updates through factsheets and fund updates
 - Fee transparently defined in the fund PPMs (same for every investor in the same class)
- Drawdown structure (reduces cash drag)
- Combines the best of MF and PMS (no bank / demat accounts)

How to select AIF strategy for your client

- Identify
 - Right asset allocation suitable for your client
 - Appropriate Fund / Fund Manager based on
 - Investment philosophy and the appropriate investment strategy
 - Flexibility and ability of strategy to deliver alpha
 - Past Track record (Looking beyond performance – volatility, consistency, drawdown)
 - Tenure, Liquidity options and cash flows provided by the fund
 - Suitable fee structure (performance based structure can become expensive if fund delivers!)

How it works

- AMCs to disclose investment strategies filed with SEBI under Private Placement Memorandum
- Investors sign Contribution agreement
- Investors can make Capital Commitment and initial drawdown (drawdown or full upfront mode)
- Fund undertakes multiple closures during the fund raising period (allots on Par / prevailing NAV based on strategy)
- Fees standard as per class the investor chooses
 - charged typically monthly / quarterly on daily accrual
- Investors shared with monthly / quarterly portfolio, performance and fund strategy updates by the AMC

How it works - taxation

- Taxation
 - Cat I and Cat II accorded with Passthrough status – TDS applicable
 - Cat III – No passthrough status
 - Tax paid at the fund level in PAN of the scheme
 - Investors receive post tax proceeds (no TDS in investors PAN)
- So AIF advantage is
 - Invest, at the end of tenure receive post fees and post tax proceeds (No hassles)

Fund Management Vehicles

Parameters	Mutual Fund	PMS	AIF
Investor Type	Retail and High Networth Individuals (HNIs)	HNIs	HNIs and Ultra HNIs
Access type	Online and Offline	Offline	Offline (Private placement only)
Liquidity	Open and Close ended funds	Open ended with exit charges on early redemption	Close ended for CAT 1 and 2 and Open ended/Close ended depending on strategy
Minimum Investment (INR)	INR 500/5000	INR 2.5 million (INR 25 lacs)	INR 100 million (INR 1 crore)
Draw down option	Not Available	Not Available	Available
Nature of investment	SIP or One time	One time/Top-up	One time or Draw down sub to min 1 crore commitment except Employees of the fund
Annual Expense	One time setup fees- Nil Mgmt Fees - 2.0%-2.5% Fixed fees Profit Sharing - NA	One time setup fees- Nil Mgmt Fees - 2%-2.5% Fixed or ~1.5% Fixed fees with profit sharing (Carry)	One time setup fees- 1-2% Mgmt Fees - 1.5%-2.5% Fixed or 1-2% Fixed fees with profit sharing (Carry)
Customization	Not Available	Option available to each investor	Not Available

Fund Management Vehicles

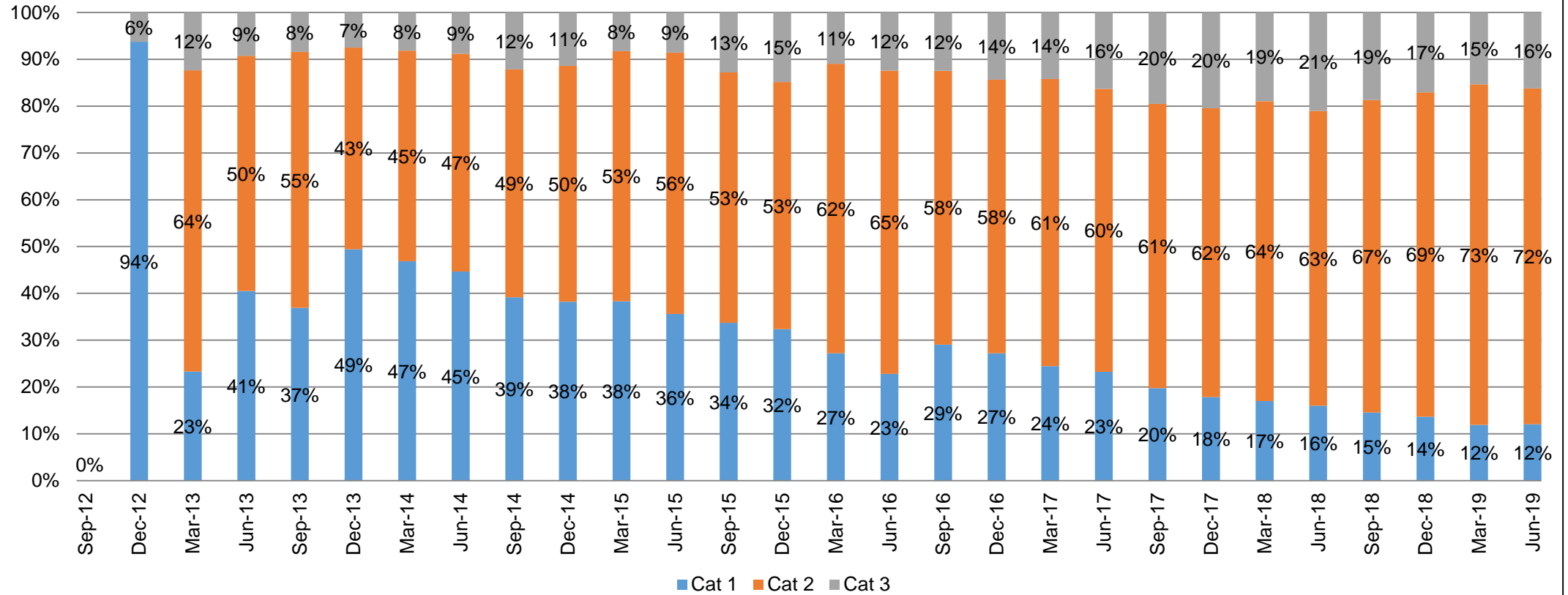
Parameters	Mutual Fund	PMS	AIF
Transparency	High	Low	Medium to High
Maximum No of fund investors	No Limit	No Limit	Each scheme limit of 1000 investors (except VC funds)
Managers Contribution/Skin in the Game	1% of corpus or INR 5 million whichever is lower	No	Managers continuing interest in the Category I & II AIF- not less than 2.5% or INR 50 million whichever is lower, Category III- 5% or INR 100 million whichever is lower.
Minimum Networth requirement	INR 500 million (INR 50 crore)	INR 20 million (INR 2 crore)	No requirement except manager's contribution
Pooling or Segregation of funds/securities	Pooling of Funds/Assets	Segregation of each client's holdings	Pooling of Funds/Assets
Taxation	Pass through Taxation i.e. Tax in the hand of investor depending on holding period	Pass through Taxation i.e. Tax in the hand of investor depending on holding period	Pass through Taxation for CAT 1 and 2 and No Pass-through for CAT 3 Funds i.e. Tax in the hand of fund on behalf of investors



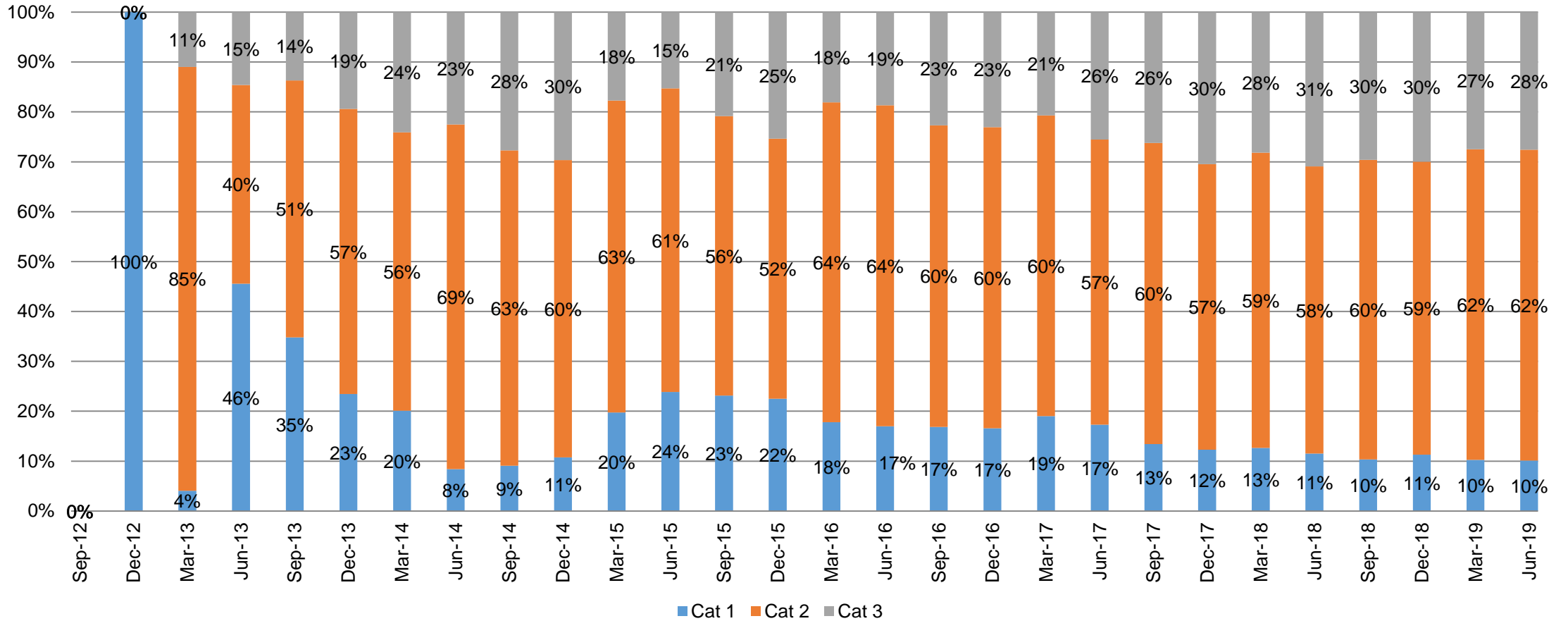
THANK YOU

Annexure

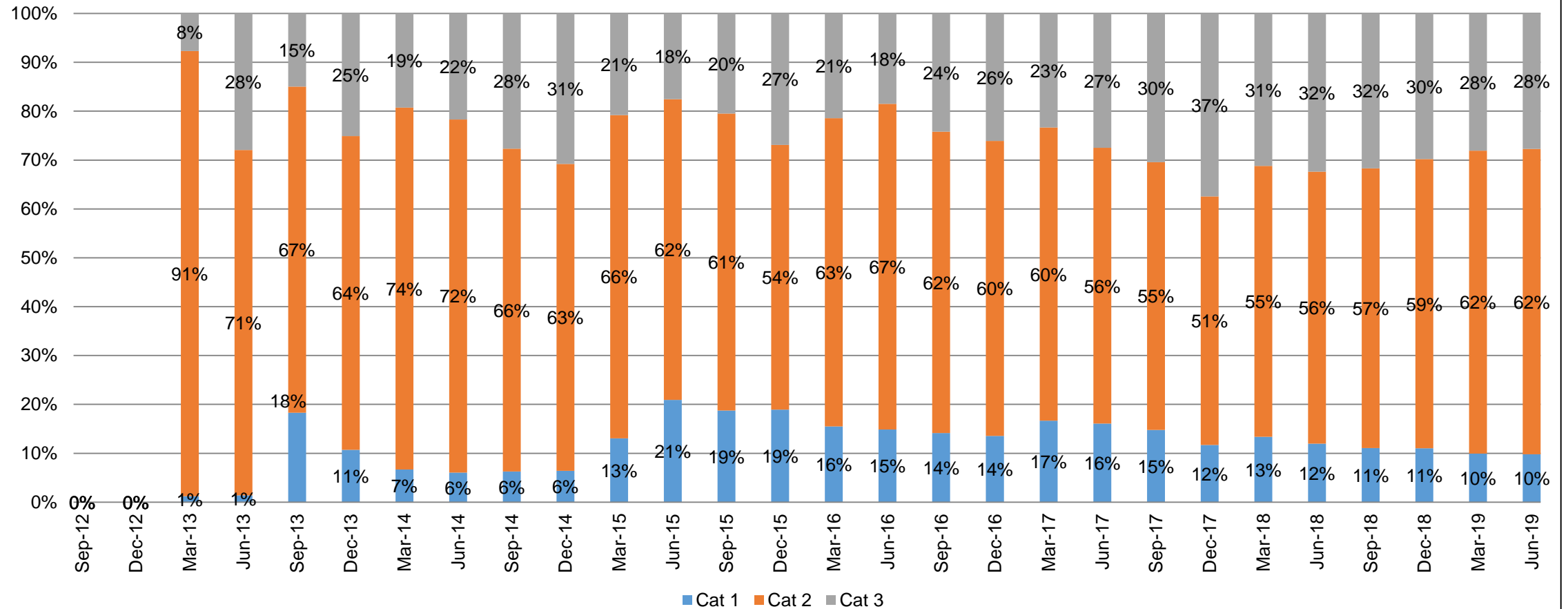
Share of Comittment Raised by AIF's



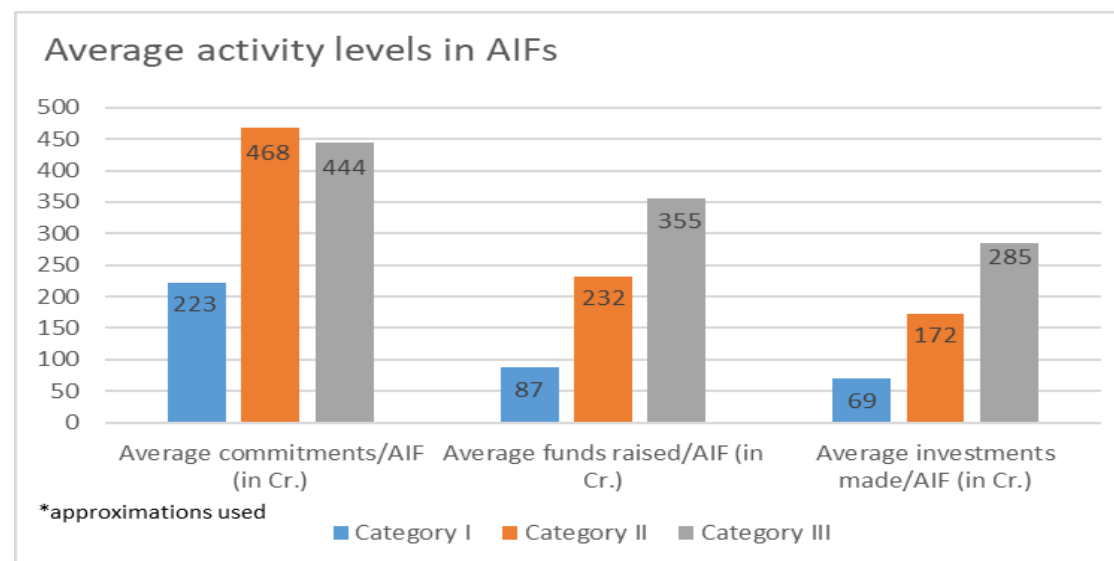
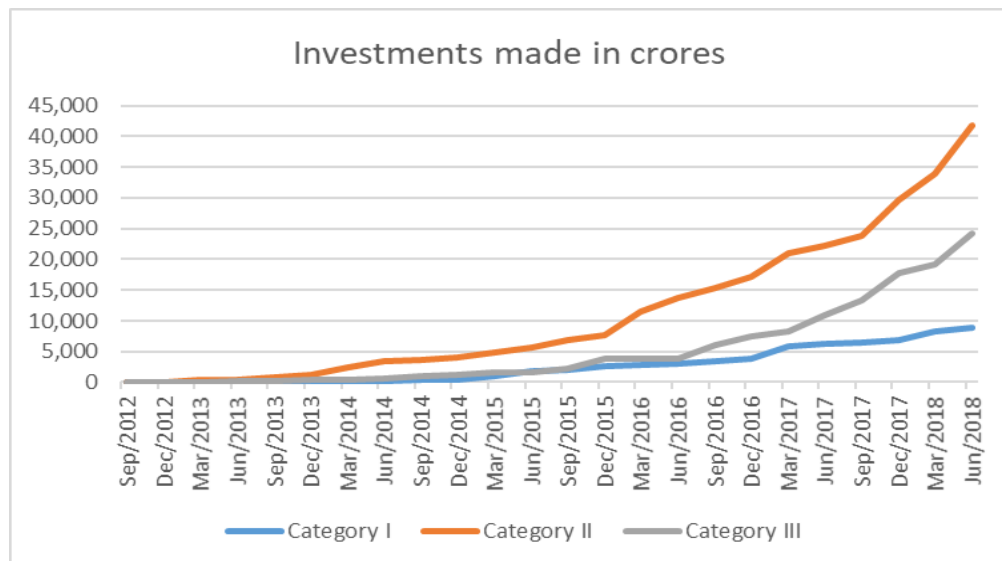
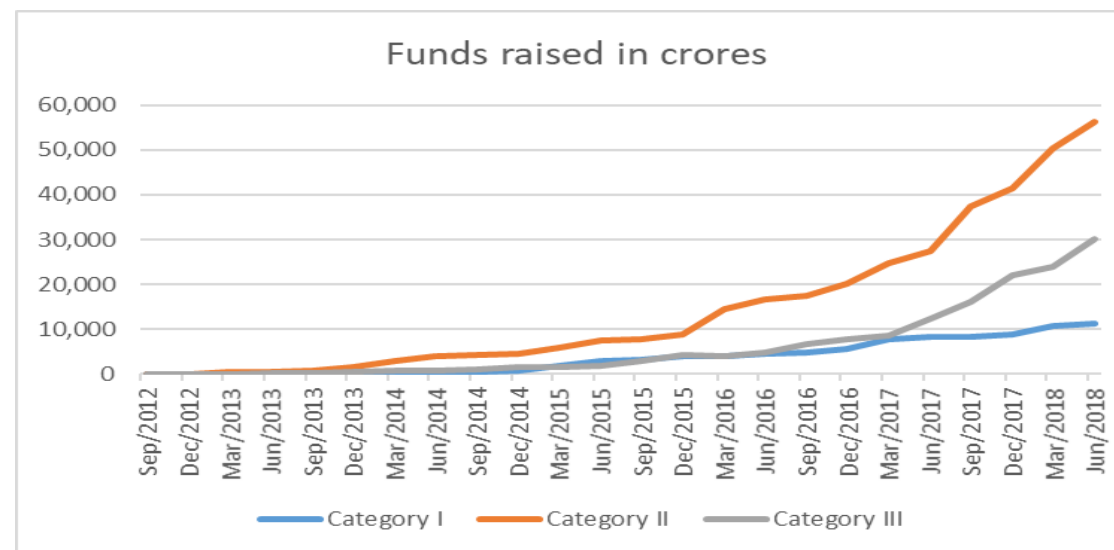
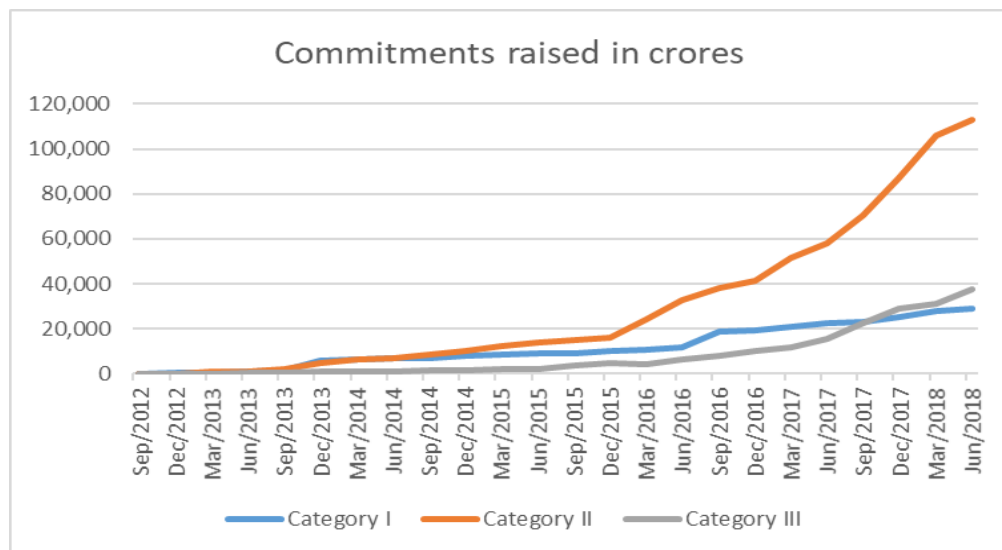
Share of Funds Raised by AIF's



Share of Investments done by AIF's



Growth of Alternate Investments - India



Key players - AIF

Cat I

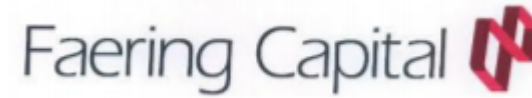
VC



Infra



Cat II



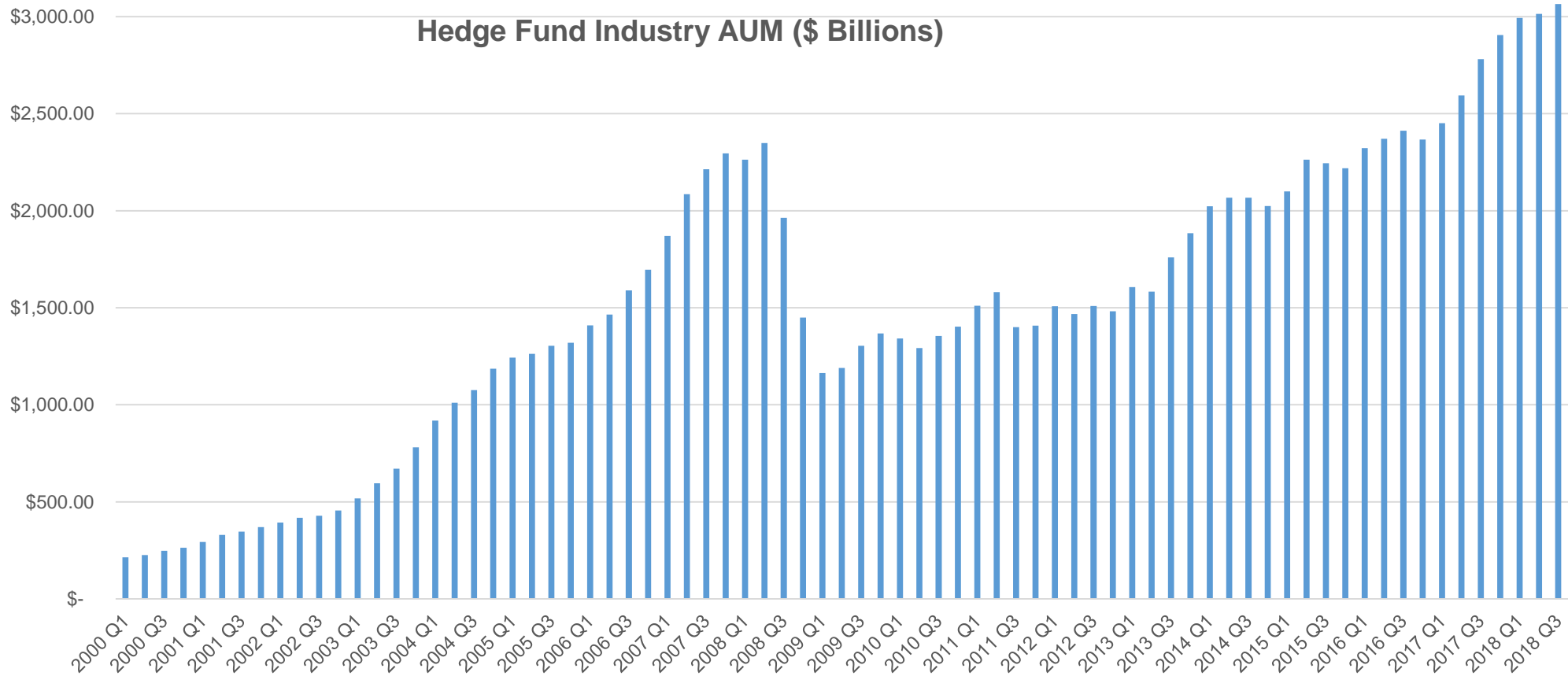
Cat III



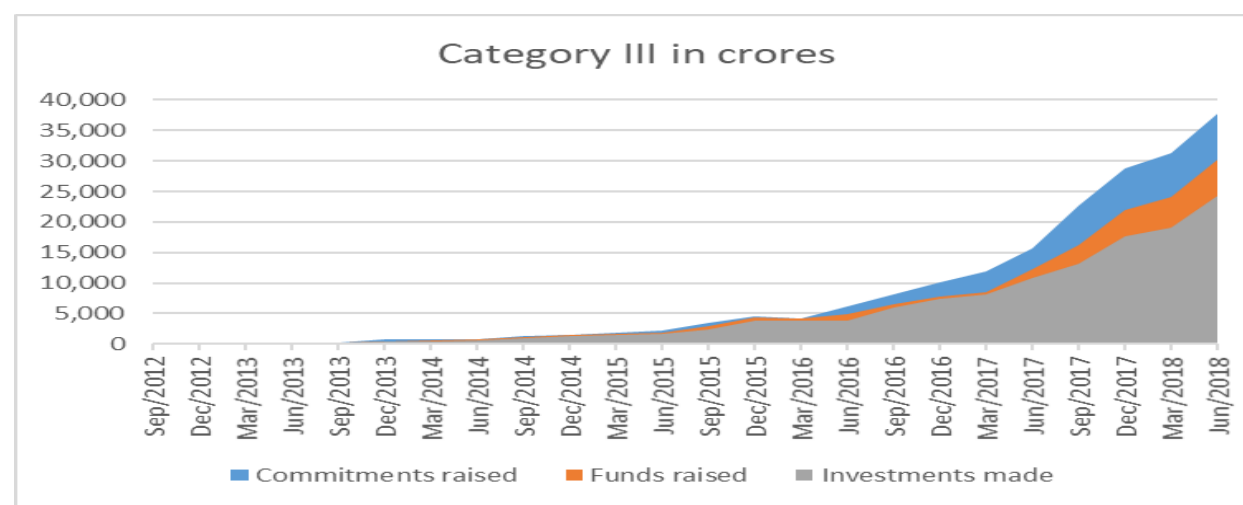
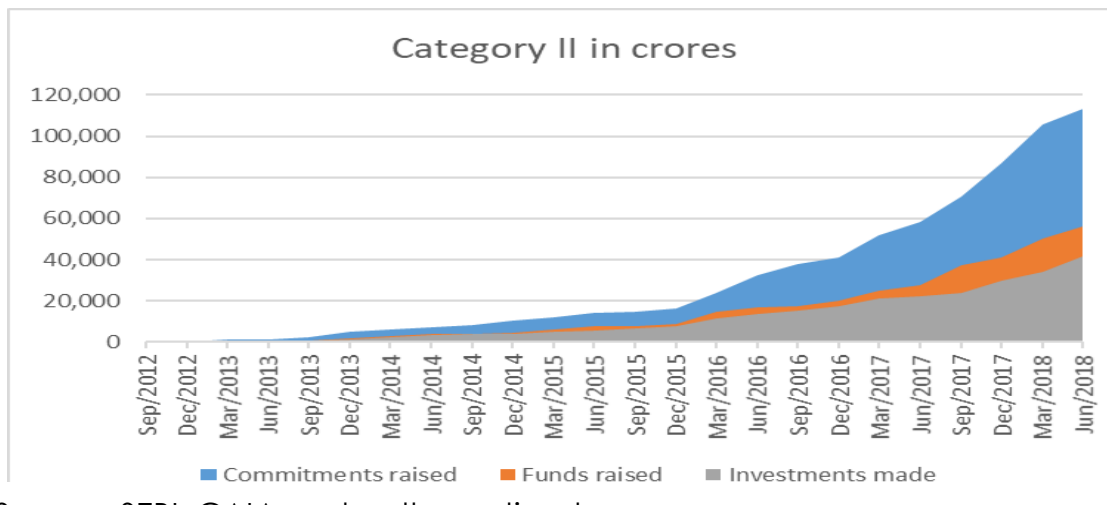
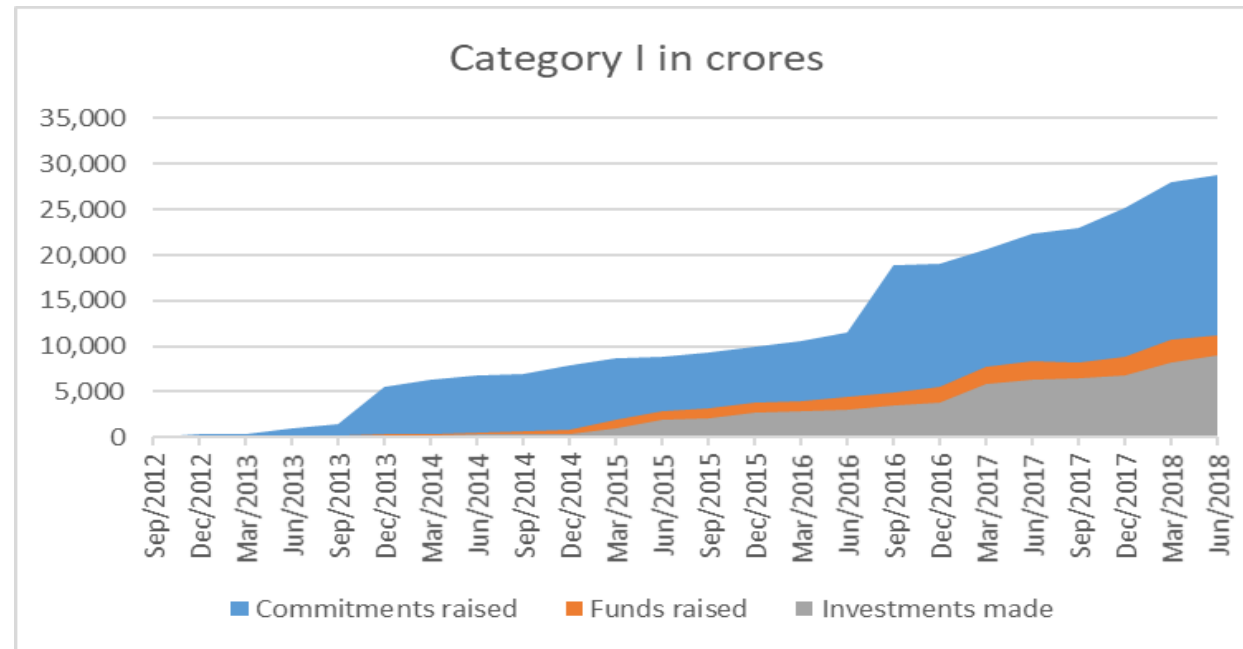
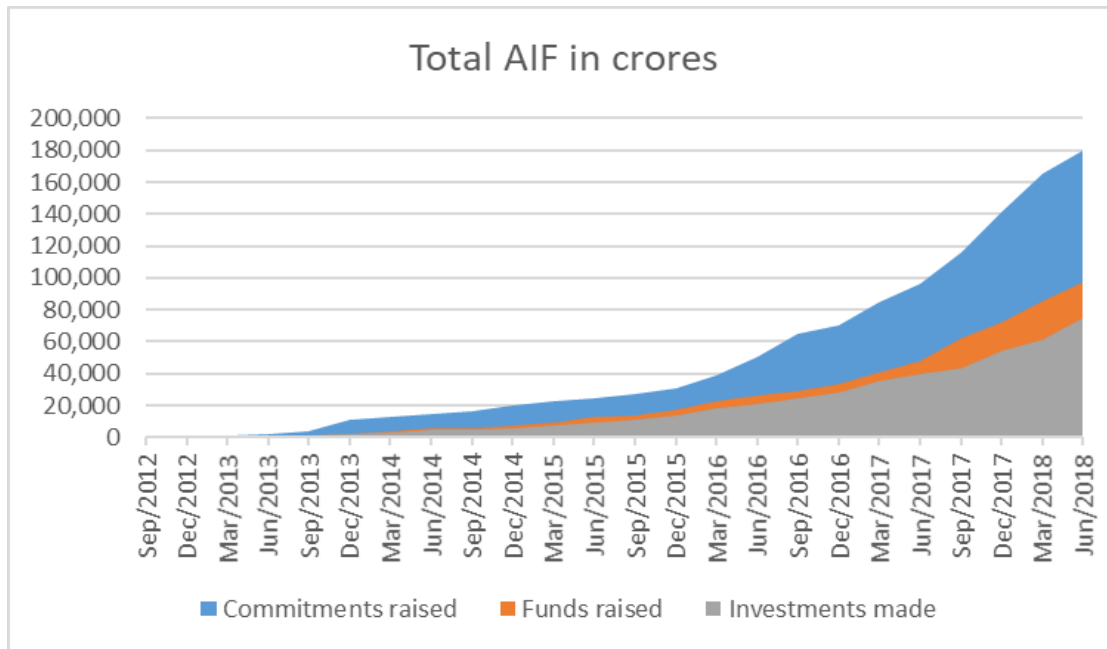
DSP BLACKROCK

BarclayHedge Hedge Fund Industry AUM (\$ Billions)- \$4.7tn expected by 2023

- Preqin Global # Hedge funds ~ 10,000,
- Preqin Global # Alternative Managers ~ 28000

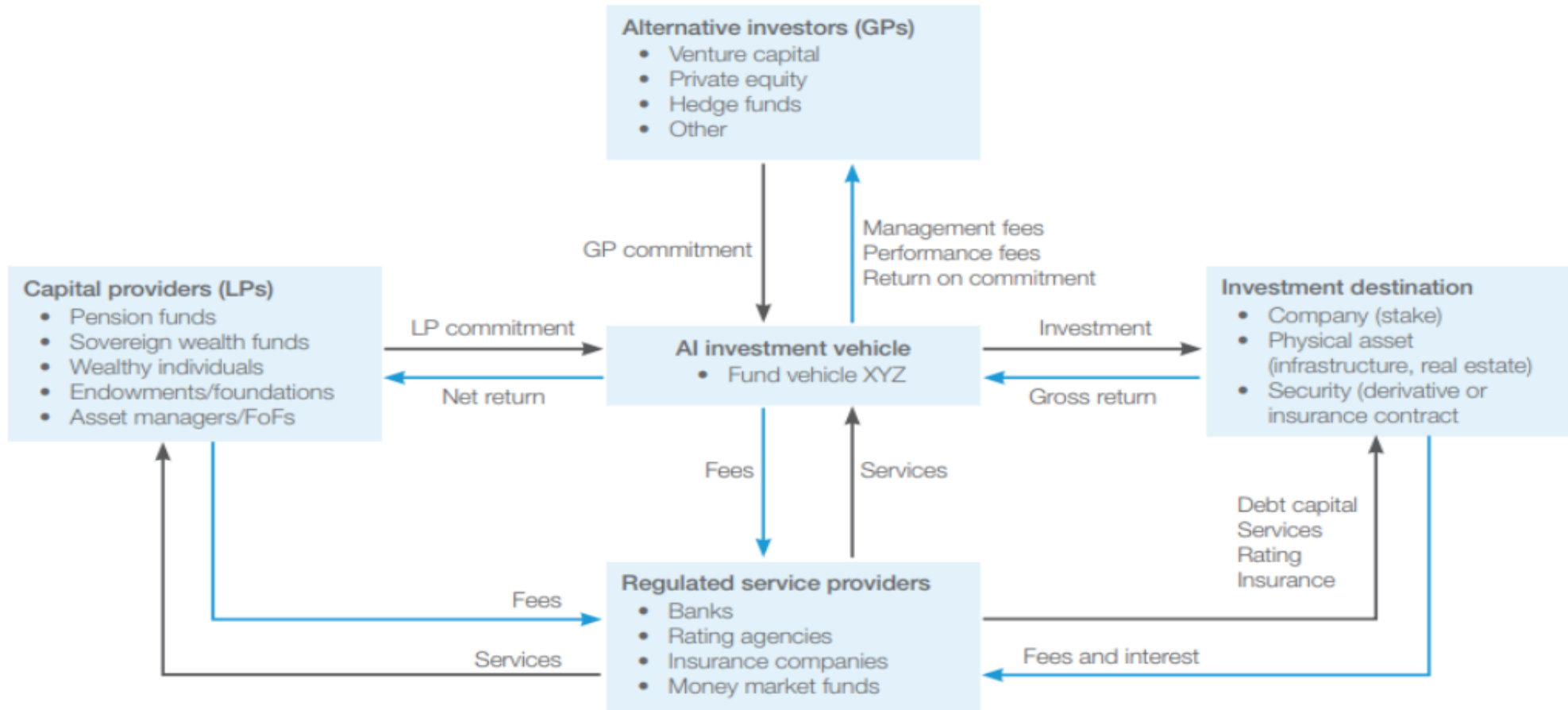


Gun shots, gun powder & capacity



Source: SEBI, CAIA and author estimates

Opportunities on all sides - Parties Involved in an AIF



Talent pool estimates – AIF industry

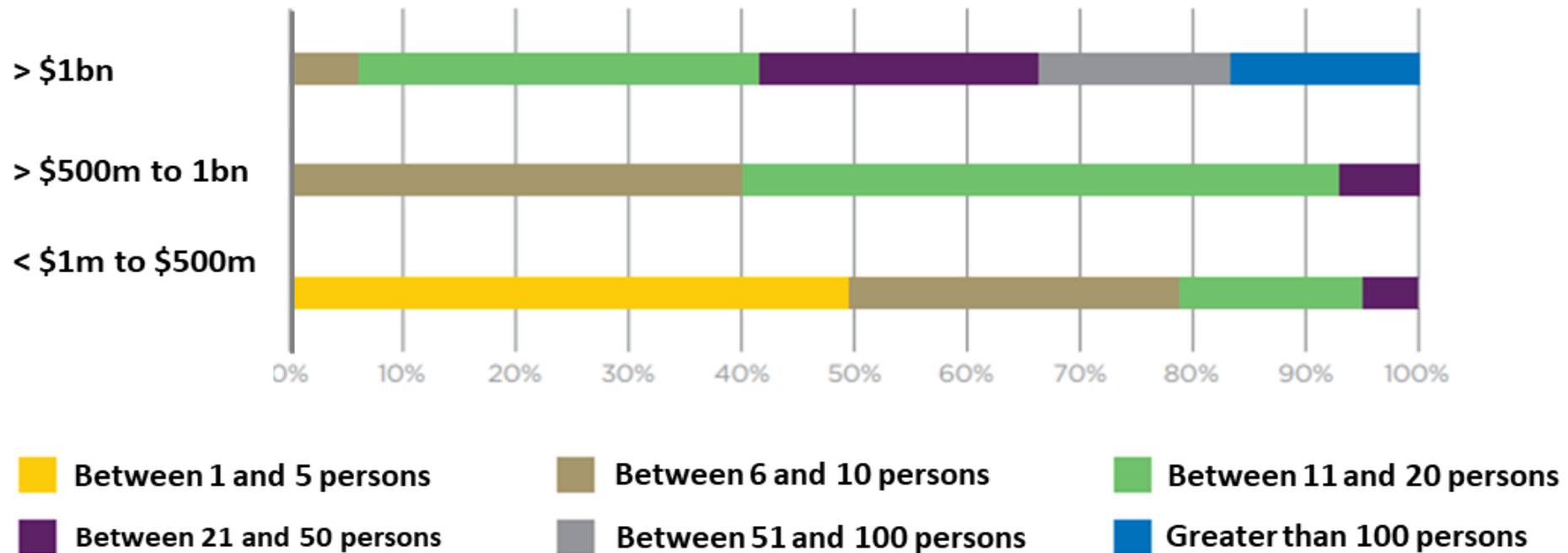
	No of Funds	Invested Amount		Average per fund	
		INR Crores	USD Bn	INR Crores	USD mn
No of AIF Fund Licenses - India (June 2018)*	435	74,893	10.4	172	23.9
No of AIF Fund Licenses - India (Feb 2019)*	519				
No of Estimated Schemes of Above funds***	1038				
Average Total Employee Count per fund***	7				
Approx Total AIF Job Market - India	3633				
Top 20 Distributors - RM/PBG - Leage Table**	2400				
Fund Accounting (Per fund 2 people)***	1038				
Registrar and Transfer Agent (Top3 R&T)***	250				
Lawyers/Custodian/Trustee***	280				
Total Estimated Industry Size - Domestic Funds	7601				
No of FPI Registered India (Feb 2019)*	9399	30,90,508	429.2	329	45.7
Foreign Venture Capital Investment (Feb 2019)*	247	36740	5.1	149	20.7
Average Total Employee Count per fund***	2				
Average People Estimated - Offshore funds	19292				
Total AIF Employee Pool - Estimate***	26893	32,02,141	445	650	90
*Source - NSDL/SEBI Data as on Feb 18, 2019					
**Asia Private Banker League Table 2017 Estimated					
***Abakkus/Author Estimates					

Lesson #6

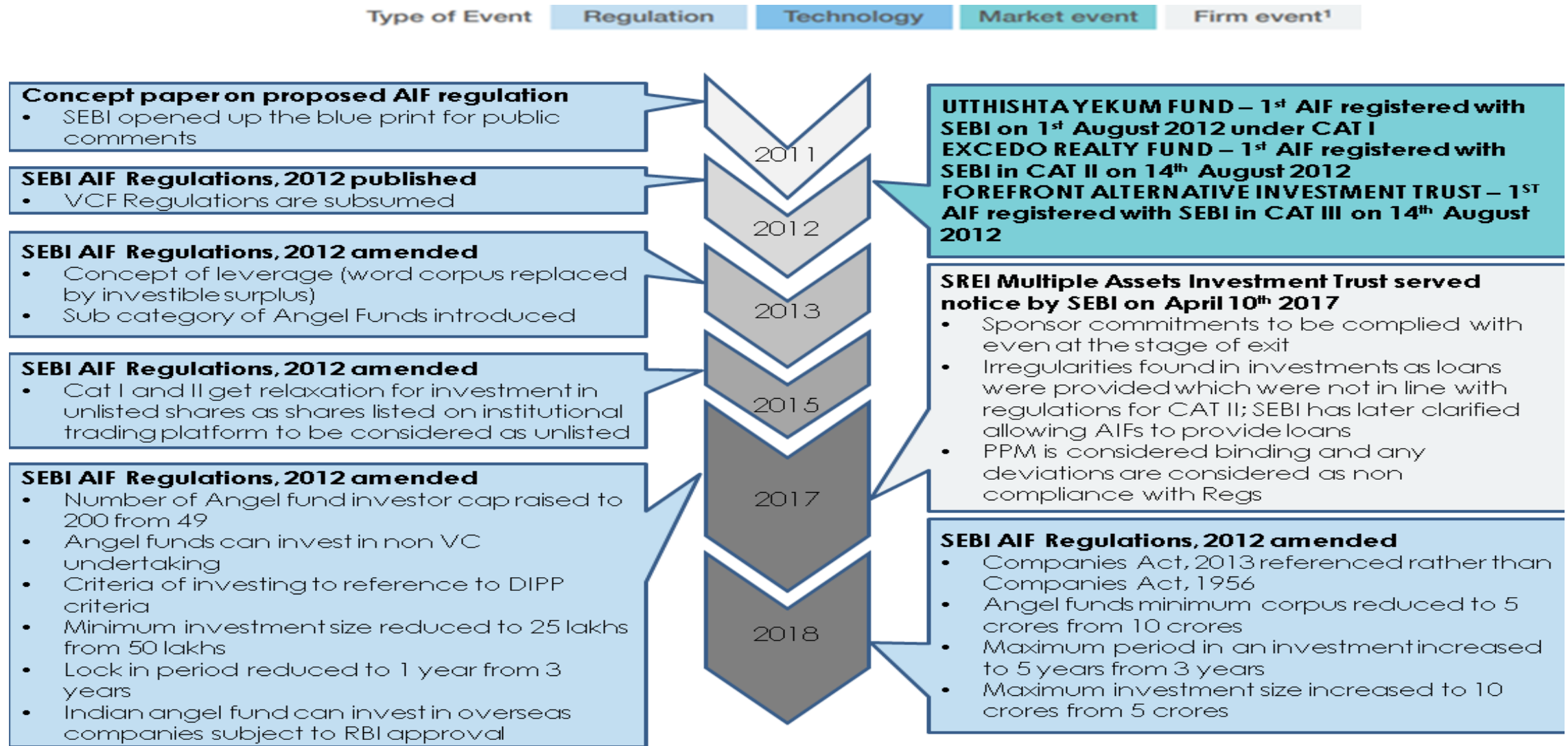


Build it and they will come

Headcount by AUM

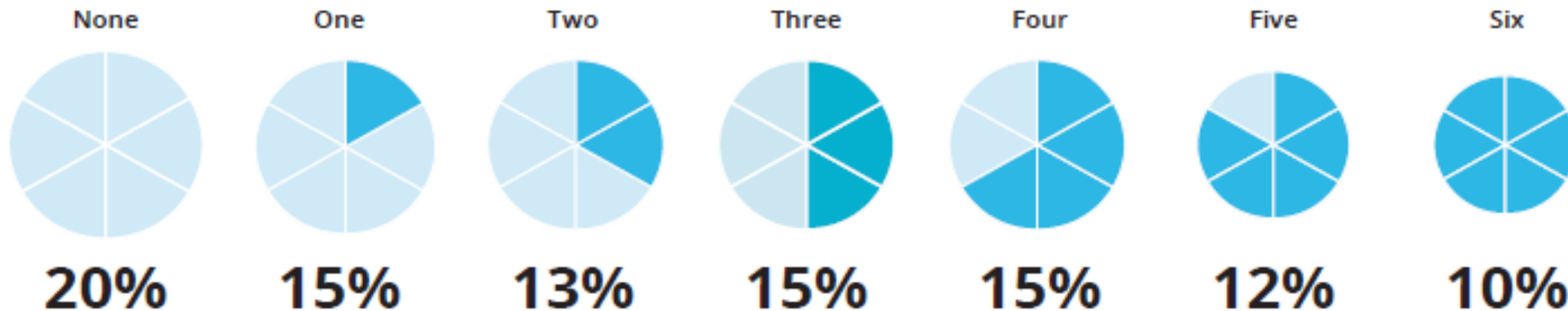


History of Alternate Investments in India



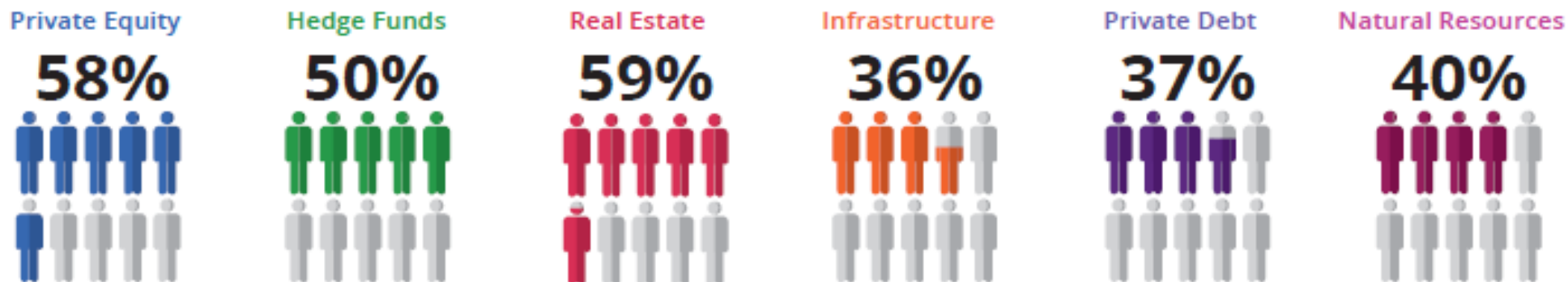
Global Buzz - Alternatives

INSTITUTIONAL INVESTORS BY NUMBER OF ALTERNATIVE ASSET CLASSES INVESTED IN

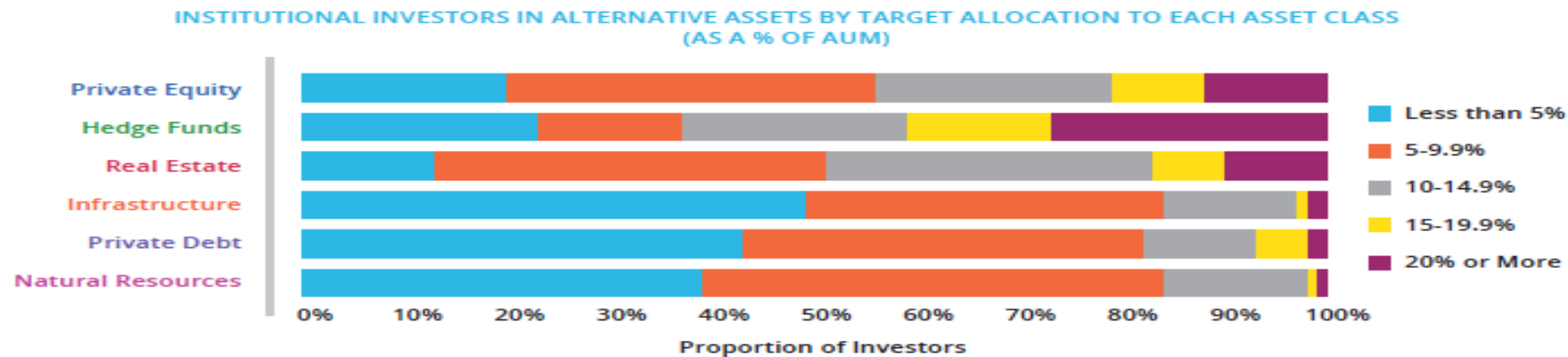


Source: Preqin Online Products

PROPORTION OF INSTITUTIONAL INVESTORS ALLOCATING TO EACH ALTERNATIVE ASSET CLASS



Global Buzz – Investor Allocations



Disclaimer

- **Terms & Conditions with respect to this Presentation:**
- **This presentation is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or funds or to enter into any contribution agreements. Before anyone considers an investment, it is important to readthrough and understand the contents of the Private Placement Memorandum (PPM). Abakkus Asset Manager LLP (“AAM”) is the Investment Manager of the Abakkus Growth Fund. AAM is duly authorized to launch and manage schemes of Abakkus AIF under the SEBI (Alternate Investment Funds) Regulations, 2012, and any amendments thereto from time to time and rules, guidelines, circulars issued under the Securities Exchange Board of India Act, 1992.**
- **This presentation has been prepared and issued on the basis of internal data, publicly available information and other sources believed to be reliable. The information contained in this document is for general purposes only and not a complete disclosure of every material fact and terms and conditions. The information / data herein alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions, figures, charts/graphs, estimates and data included in this presentation are as on date and are subject to change without notice. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Readers shall be fully responsible / liable for any decision taken on the basis of this presentation. Investments in Securities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Schemes will be achieved. The scheme may not be suited to all categories of investors. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Opinions, if any, expressed are our opinions as of the date of appearing on this material only. While we endeavour to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Recipient shall understand that the aforementioned statements cannot disclose all the risks and characteristics. The recipient is requested to take into consideration all the risk factors including their financial condition, suitability to risk return, etc. and take professional advice before investing. As with any investment in securities, the Value of the portfolio under management may go up or down depending on the various factors and forces affecting the capital market. This document is not for public distribution and has been furnished solely for information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions**
- **No client or prospective client should assume that any information presented in this presentation as the receipt of, or a substitute for, personalized individual advice from the adviser or any other investment professional. In making an Investment decision, Investor must rely on their own examination of the terms of the offering, including the merits and risk involved**

THANK YOU

