

The Rise of Money Managers

Are you planning to outsource your portfolio to professional managers? Here's what you should know. NITYA VARADARAJAN

LATELY, A LARGE NUMBER OF brokers are getting into portfolio management—essentially tailoring your portfolio to your requirements and managing the same for a fee. The business is huge and growing as the number of high net-worth individuals rises as well. But there's a reason why you could consider portfolio managers: This business has come of age.

Many portfolio managers have been around for a couple of years. Says Shashank Khade, Senior VP, Kotak Securities: "We have been through the learning curve and have seen it all." From your perspective, that essentially means a better handle on managing your stocks.

The Service

Portfolio managers are usually from companies that deal with equities. Stockbrokers find portfolio management services (PMS) a way of augmenting revenues, so do fund houses and boutique investment bankers. The services on offer are both discretionary and non-discretionary, depending on your requirement. A discretionary service is where the broker or fund house takes all the decisions of investing, i.e., buying and selling shares on your behalf, leaving you hassle-free.

There are concept schemes or products that target specific ideas or themes in the market. Like in the case of mutual funds, you can opt for a product depending on your taste and risk appetite. However, instead of a bunch of units, your holding is in stocks of companies against your name. You can start by



Nitin Jain/ Head (PMS)/ Religare Securities

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Shashank Khade/ Senior VP/ Kotak Securities

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The Management Mantra

What you should know about portfolio services.

- Unless it is a high risk fund (with market triggers on volatility), the longer you stay, the better
- Check out on the services provided, and the fee. Transparency and retail interfacing are important. So is the SEBI registration in case you have a grievance
- Portfolios can be tailored according to your preference or choice
- The more experienced your PMS provider, the better. He will understand the ups and downs of the market. Nevertheless, monitor your portfolio regularly and keep up with related news and prospects
- If you realise that direct investments in stock markets or mutual funds could deliver the same or more, you can go it alone. There are good online brokers, if you want to buy stocks, where you can get suggestions and buy calls

A Choice of Styles

There's a lot to choose from the different schemes on offer.

Kotak Securities

■ Origin

DESCRIPTION: Small- and mid-cap portfolio with focus on future stars
ANNUAL RATES: The fixed and variable components do not exceed 4 per cent of portfolio totally and levied
MINIMUM INVESTMENT: Not specified, though average collections range Rs 25 lakh per person

Religare Securities

■ Panther

DESCRIPTION: Aims to achieve higher returns by taking aggressive positions across sectors and market caps
ANNUAL RATES: 2 per cent fixed and performance-based variable from 10-20 per cent with a hurdle rate of 12 per cent return levied
MINIMUM INVESTMENT: Rs 25 lakh

Motilal Oswal

■ Value PMS

DESCRIPTION: A low churn portfolio that aims to buy undervalued stocks and sell overvalued ones with a capital preservation consciousness but not guarantee
ANNUAL RATES: Not given
MINIMUM INVESTMENT: Rs 50 lakh

Parag Parikh Financial Advisory Services

■ Cognito

DESCRIPTION: Equity stocks; conservative outlook with steady returns and no cyclical
ANNUAL RATES: 2 per cent flat or 1 per cent and 10 per cent of profits
MINIMUM INVESTMENT: Rs 5 lakh

Franklin Templeton Mutual Funds

■ FT Select

DESCRIPTION: Large-cap stocks benchmarked against BSE Sensex with good liquidity and with hedged strategy
ANNUAL RATES: Fixed is 2.5 per cent of the daily average of net assets excluding brokerage. Variable is 1.5 per cent of daily average of net assets of the account excluding brokerage plus profit sharing of 20 per cent with a hurdle rate of 12 per cent per annum
MINIMUM INVESTMENT: Rs 50 lakh (cash) or Rs 1 crore (for portfolio)

HSBC Mutual Funds

■ Signature

DESCRIPTION: Stocks with a long-term growth potential available at a discount to intrinsic value; maximum stock exposure is 10 per cent and maximum sector exposure is 25 per cent
ANNUAL RATES: Three options, i.e., Upront (1.75 per cent with 0.5 per cent per annum of daily average of net assets); 2.5 per cent per annum charged monthly of daily average of net assets, or fixed 1.25 per cent per annum charged monthly of daily average of net assets and 15 per cent of profits with a hurdle rate of 10 per cent
MINIMUM INVESTMENT: Rs 50 lakh

Product samples available with brokers and fund houses

a minimum of Rs 10 lakh, but this varies between schemes and brokers.

The Costs

Usually, the fees are fixed or variable or a combination of both, depending on the scheme or your manager. A fixed fee is charged on the corpus, much like a mutual fund. A variable fee, on the other hand, is charged on the profits that the portfolio has generated. For example, Religare Securities charges a fixed fee of 2 per cent per annum and the performance-based variable fee ranges from 10-20 per cent on profits with a hurdle rate of 12 per cent return on portfolio (up to this nothing is charged). In another scheme, it charges only on "out performance," which is scheme returns minus benchmark returns.

But there's a flipside to the charges. The losses have to be entirely borne by you. "Remember that it is only the profits that get

shared, not the losses," says Gaurav Mashruwala, CEO, ACE Group, and a certified financial planner.

The Advantage

The nature of a PMS product is different from, say, a mutual fund. Says Nitin Jain, Head (PMS), Religare Securities: "Cash management is better here, which translates to better returns than a mutual fund, which operates under a restricted framework." For example, a PMS can sell out all stocks against your name if you so desire, which a mutual fund can't do. Likewise, unlike a mutual fund, a PMS operates on a narrower portfolio of stocks due to its smaller corpus. "A PMS manager can invest a smaller corpus either on a high-risk theme or a low-risk theme," avers Jain.

Usually, there's no load. But Khade believes in trying to encourage investors to stay in for the long term to get good results. "We sometimes charge an exit load to discourage investors from selling out,"

he says. Besides, keeping the corpus at a manageable level can give better results to investors. "Many companies talk of big asset bases," says Khade. "PMS should be of a manageable size to benefit all."

There are tailored products and also those that tap a particular segment of the market, including derivatives. "We do invest in derivatives for hedging and in money market funds for cash management," says Jain.

But if you invest, check the costs and the product you select. Mashruwala feels that since portfolio managers charge a hefty fee, opting for a differentiator is important, which usually is in the non-discretionary portfolio—you must have a tidy Rs 1 crore for investing here.

Remember to compare the performance with the market's benchmark Sensex. If your portfolio has outperformed, then your outsourced fund manager has been worth it.