Asset Management Industry analysis

The Asset Management industry is a significant part of the financial services industry as well as the overall economy in India. The industry is made up of a large number of diverse firms that offer a wide array of investment strategies, which are available to investors in a variety of forms, including mutual funds, Alternate Investment Funds (AIFs), Exchange Traded Funds (ETFs) etc. In India, mutual funds are the largest component of the asset management industry.

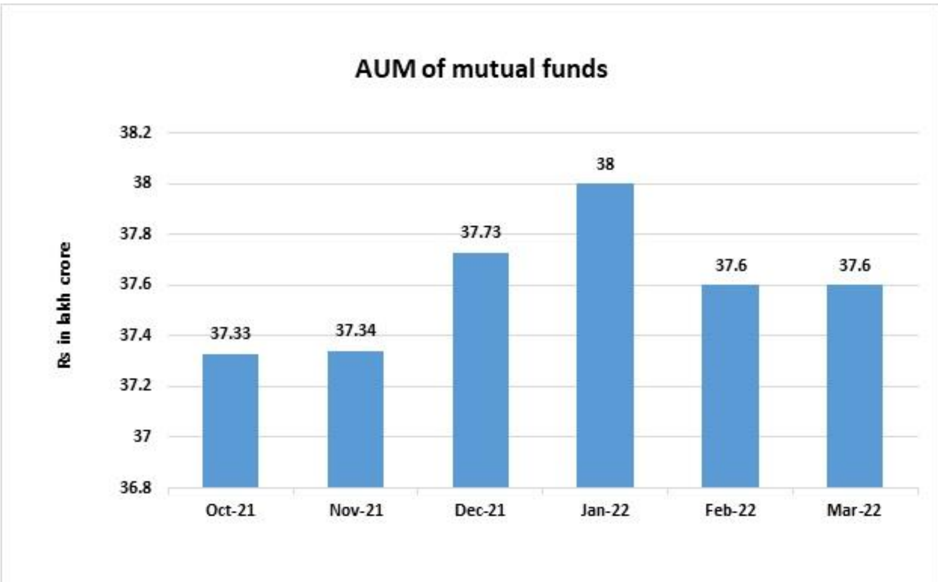
The Asset Management industry keeps launching various innovative solutions and products for the clients in order to cater to evolving investing needs and also focuses on enhancing digitalisation with an aim to build better engagement with investors. Besides, the increasing digitalisation is driving financialisation of savings and offering easy access to the world of investing. In a result, participation of investors is increasing.

Products offered by the industry

Mutual Funds

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments. The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's Net Asset Value (NAV).

After recording a highest figure in January month of FY22, the cumulative net assets under management (AUM) of mutual funds declined by 1.2 per cent to Rs 37.6 lakh crore at the end of February 2022 and remained flat at Rs 37.6 lakh crore as at the end of March 2022.



Types of Mutual Funds Schemes:

Classification based on investment objective:

• **Equity or growth funds:** These schemes normally invest a major part of their portfolio in equities and have comparatively high risks.

• **Debt or income funds:** These schemes generally invest in fixed-income securities such as bonds, corporate debentures, Government Securities and money-market instruments and are less risky compared to equity schemes.

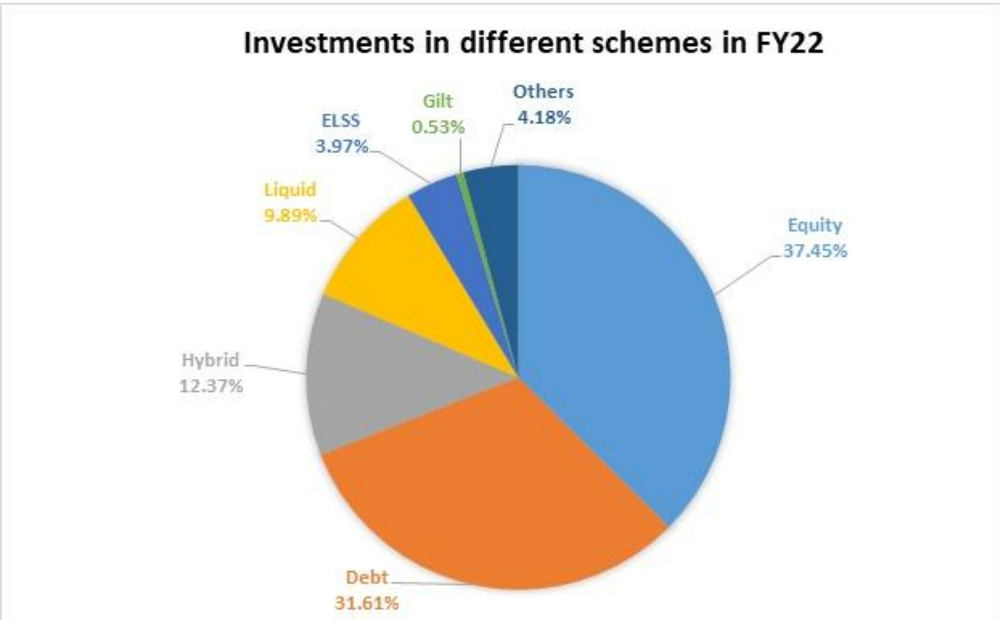
• **Balanced or hybrid funds:** These schemes invest both in equities and fixed income instruments in the proportion indicated in their offer documents.

• **Liquid or money market funds:** These schemes invest exclusively in safer short-term instruments such as Treasury Bills, Certificates of Deposits, Commercial Paper and inter-bank call money, Government Securities, etc.

• **Gilt Funds:** These funds invest exclusively in Government Securities.

• **Tax-Saving Funds:** Investments made in these funds qualify for deductions under the Income Tax Act. Equity Linked Savings Schemes (ELSS) is a type of diversified equity mutual fund, which is qualified for tax exemption under Section 80C of the Income Tax Act.

The mutual funds providers offers various schemes based on investment objective such as equity funds, debt funds and balanced schemes. Apart from this, they also offers tax saving and liquid schemes to the investors. In the FY22, the majority schemes based on investment objective were equity funds (37.45%) and debt funds (31.61%), followed by Hybrid funds (12.37%) and Liquid funds (9.89%), whereas equity linked savings schemes (tax-saving funds) share was 3.97%.



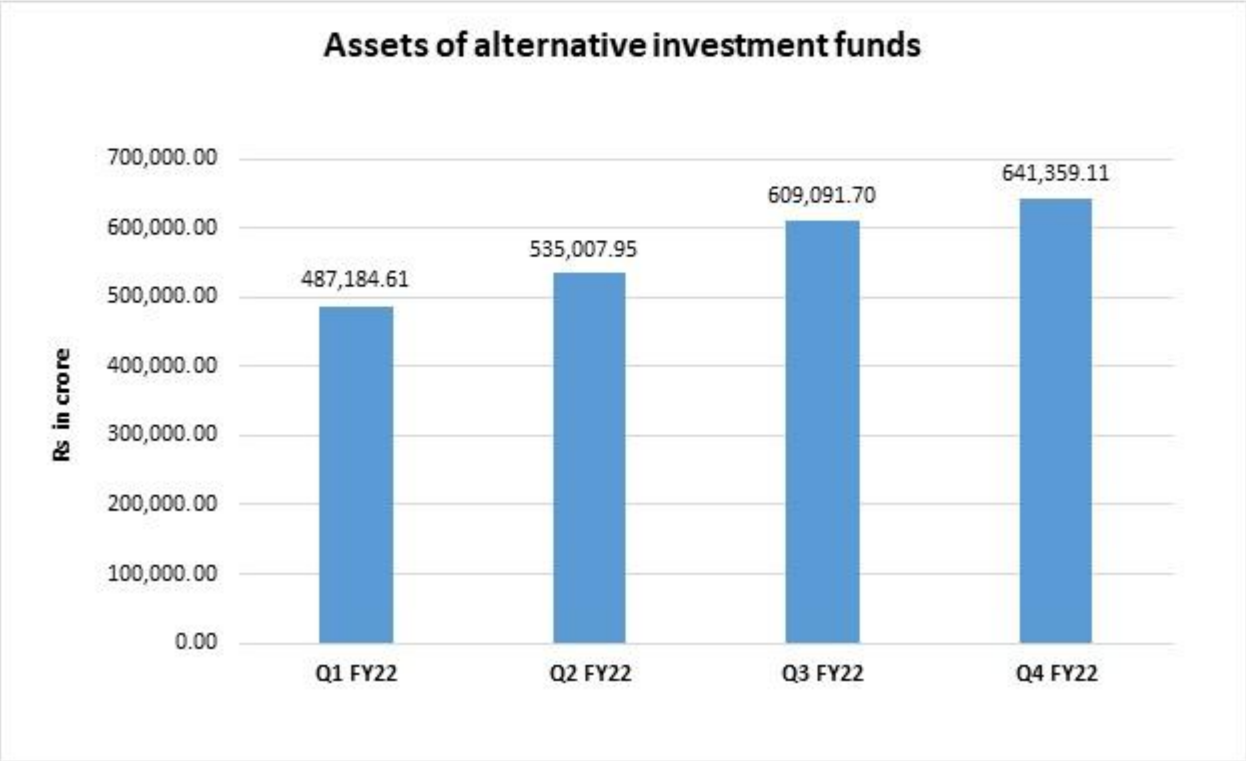
Exchange-traded funds

Exchange Traded Funds (ETFs) are essentially Index Funds that are listed and traded on exchanges like stocks. An ETF is a basket of stocks that reflects the composition of an Index, like Nifty 50. The ETFs trading value is based on the net asset value of the underlying stocks that it represents. ETFs typically have higher daily liquidity and lower fees than mutual fund schemes, making them an attractive alternative for individual investors.

Alternative investment funds

Alternative investment funds (AIFs) are privately pooled investment vehicles for channelizing funds of niche and institutional investors to various assets. The role of alternative capital is of immense importance in supporting India's economic growth aspirations and also reducing the strain on government finances. Private equity and venture capital funds channeled under the domain of AIFs are an important source of capital for Indian entrepreneurs to meet their need for growth, restructuring, turn around or start-up plans. The pace of growth of AIFs has been significant over the years and SEBI is continuously in the forefront in developing an investor friendly and enabling AIF ecosystem in India. AIFs are similar to mutual funds; they pool money from private investors from India and overseas and invest them as per a defined investment policy.

The assets of alternative investment funds showed increasing trend in FY22, assets touched Rs 6,41,359.11 crore at the end of the January-March quarter (Q4 FY22), a growth of 5.29 per cent as against Rs 6,09,091.70 crore in the previous quarter (Q3 FY22). In Q2 FY22, the assets of alternative investment funds stood at Rs 535,007.95 crore.



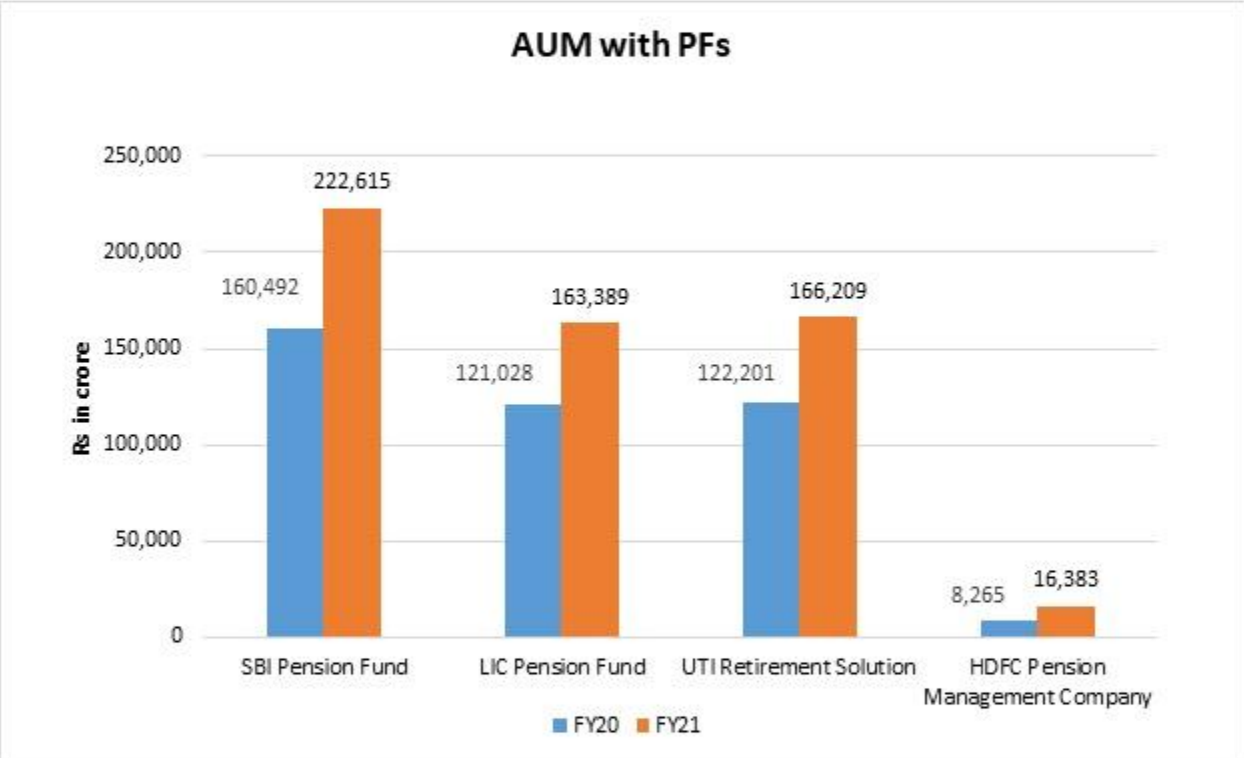
Pension funds

Pension funds are financial tools that help in accumulating funds for post-retirement years. The government of India introduced the National Pension Scheme (NPS) as a financial cushion for retired persons. There are currently 7 Pension Fund Managers who manage investments by NPS subscribers: HDFC Pension Management Co., ICICI Prudential Pension Funds Management Company, Kotak Mahindra Pension Fund, LIC Pension Fund, SBI Pension Funds, UTI Retirement Solution and Aditya Birla Sun Life Pension Management.

AUM with PFs

As on March 31, 2021, total pension assets under management stood at Rs 5,78,025 crore showing a Y-o-Y growth of 38.46% as against Rs 4,17,479 crore as on March 31, 2020. Total pension assets under management stood at Rs 3,18,214 crore as on March 31, 2019.

Out of total Rs 5,78,025 crore, AUM with SBI Pension Fund stood at Rs 2,22,615 crore in FY21, while AUM with LIC Pension Fund stood at Rs 1,63,389 crore in FY21, followed by UTI Retirement Solution at Rs 1,66,209 crore, HDFC Pension Management Company at Rs 16,383 crore, ICICI Prudential Pension Funds Management Company at Rs 7,559 crore, Kotak Mahindra Pension Fund at Rs 1,572 crore and Aditya Birla Sunlife Pension Management at Rs 297 crore.



Recent developments

Timelines for rebalancing of portfolios of mutual fund schemes

In order to bring uniformity across Mutual Funds with respect to timelines for rebalancing of portfolio, the following steps have been decided by the SEBI:

• In the event of deviation from mandated asset allocation mentioned in the Scheme Information Document (SID) due to passive breaches (occurrence of instances not arising out of omission and commission of AMCs), rebalancing period across schemes shall be 30 business days for all schemes other than index funds and ETFs.

• If the portfolio scheme is not rebalanced, AMCs shall not be permitted to launch any new scheme and also not to levy exit load, if any, on the investors.

Change in control of the asset management company involving scheme of arrangement under Companies Act, 2013

To streamline the process of providing approval to the proposed change in control of an AMC involving scheme of arrangement which needs sanction of National Company Law Tribunal (NCLT) in terms of the provisions of the Companies Act, 2013, it has been decided that the application seeking approval shall be filled with SEBI prior to filling application with the NCLT. After getting an in-principle approval by SEBI, within three months the relevant application shall be made to NCLT. Documents shall be submitted to SEBI for final approval after NCLAT's order.

ESG Investments in India

Asset Management Companies (AMCs) have been launching equity schemes in the ESG space under thematic category. The AMCs are also launching Exchange Traded Funds (ETFs) and ETF Fund of Funds in ESG space. As on October 31, 2021, there were 11 mutual fund schemes in India having ESG as their theme with assets under management of over Rs 13,000 crore.

These schemes have disclosures in their Scheme Information Documents in line with the other scheme categories, such as investment objective, asset allocation, investment strategy, investment restrictions, etc. and subsequent disclosures. However, these disclosures often do not bring out clearly all aspects related to ESG investing including investment strategy, usage of proprietary / third-party scoring in investment decision-making, monitoring of ESG investments, etc. SEBI is in the process of stipulating disclosures specific to ESG Schemes.

Investment/ trading in securities by employees and board members of AMCs and trustees of mutual funds

Provisions relating to investment/trading in securities by employees and board members of AMCs and trustees of mutual funds has been modified, which includes definition of access person and the objective of guidelines. All employees shall refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 30 calendar days from the date of their personal transaction. However, in cases where it is done, the employee shall provide a suitable explanation to the compliance officer, which shall be reported to the board of the AMC and the trustees at the time of review. Access persons shall not purchase or sell or repurchase or redeem units of any scheme, including overnight scheme of their mutual fund, where any information available is not yet communicated to the unitholders and which could materially impact the NAV or interest of unitholders, including scenarios where there is a likelihood of scheme related changes.

Outlook

India’s asset management industry is likely to grow on the back of growth of alternative investment funds, pension products, and the simplification of fee structures. Mobile based platforms along with seamless client on-boarding process through online KYC will help boost investments in various financial products. The comprehensive suite of products along with improving distribution network of industry players may provide support to the growth of the industry. The industry will continue to closely monitor material changes in markets and future economic conditions.

The growing importance of financial savings, increasing awareness and education may increase investors and increasing clients’ participation is likely to be key driver for the growth of the asset management industry. There is a visible trend of increase in use of technology in different spheres of life in the last few years, especially post the onset of Covid19. Therefore, the firms in the industry may adopt technological advancements in order to align with the changing investment trends and needs.