

India Wealth Management: Trends in Investment Strategies and Asset Allocation For the HNW+ Community

A top-tier panel convened at the Hubbis Wealth Management Forum in Mumbai on 28th August 2024 to examine the evolving landscape of portfolio management for HNW and UHNW clients in India. The discussion centred on how professionals had identified and capitalised on growth opportunities for private banking clients in the current market, recommended strategies for constructing resilient, diversified portfolios, and balanced risk management with the pursuit of high returns. The panel also explored how India's substantial wealth growth had influenced investment approaches and addressed the rising integration of global investment assets and structures into client portfolios. Additionally, the conversation highlighted the key challenges faced in managing portfolios, the evolving role of technology in portfolio management, and emerging trends in asset allocation preferences.



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Diversification and Strategic Asset Allocation

The panellists explored the critical role of diversification in constructing resilient portfolios, especially in the current Indian market, where equities have shown sustained upward momentum. They cautioned against the risks of overexposure to equities, which can lead to significant vulnerabilities, particularly in a market correction. The notion of “fear of missing out” (FOMO) has been driving many investors to concentrate their portfolios heavily in equities, a strategy that can be risky without proper diversification.

To counterbalance this, the experts advised a more sophisticated approach to asset allocation, suggesting that diversification should be multi-dimensional—spanning various asset classes such as equities, fixed income, real estate, and alternative investments like private equity. They argued that a diversified portfolio allows investors to capture the growth opportunities that equities present while mitigating risks through exposure to more stable assets.

Moreover, they noted that asset allocation models are evolving. Clients, particularly in the HNW and UHNW segments, are increasingly flexible and interested in investing in sectors that reflect the growth of “new India.” These include companies with solid cash flows and robust business models rather than speculative ventures. The panellists suggested that wealth managers adopt a disciplined approach to asset allocation, balancing the pursuit of growth with the need for strong risk management to ensure portfolios remain robust in varying market conditions.

Panel Members:

» **Andrew Hendry**

CEO Asia
Janus Henderson Investors

» **Devang Mehta**

Director – Equity Advisory
Spark PWM Private

» **Chanchal Agarwal**

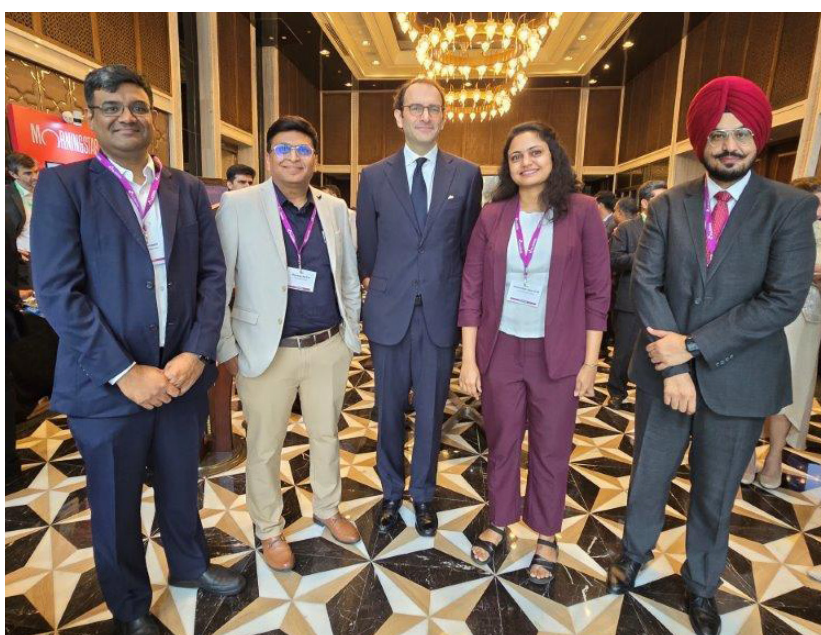
CIO
Credence Family Office

» **Vinay Joseph**

Head Investment Products & Strategy, Managed Investments,
Wealth India
Standard Chartered Bank

» **Onkarpreet Singh Jutla, CFA**

Chief Investment Officer
Nuvama Private





Alternative Investments: Real Estate, Credit, and Private Equity

The discussion highlighted the potential of alternative investments as crucial components of a diversified investment strategy. Real estate was identified as an asset class that has traditionally been undervalued in India. The panellists suggested that real estate should be considered a significant investment opportunity, especially given the rise of SME REITs and the ongoing urbanisation in the country. They noted that real estate offers long-term capital appreciation and, with India's demographic shifts, represents a viable option for investors seeking stable returns.

In the realm of credit markets, the panellists pointed out that structured and performing credit are underutilised yet highly promising avenues for investment. As India's economy continues to expand, the demand for credit will increase, presenting substantial opportunities for investors who

are willing to explore this sector. The panellists recommended that investors consider credit as a key component of their portfolios, particularly given the current low penetration of global debt markets in India.

Private equity was also discussed in detail, with the panellists noting the growing interest in early to mid-stage investments, particularly in sectors like technology and consumer services. They pointed out that despite the traditionally low allocation to alternative investments by Indian pension funds, private equity offers

significant growth potential. The panellists advised that private equity should be approached with a long-term, institutional mindset, recognising its potential to deliver substantial returns as India's economy continues to grow.

Risk Management and Client Behavioural Challenges

The panellists addressed the complexities of managing client behaviour, particularly in a bullish market environment where clients are often driven by the allure of high returns without fully understanding the associated risks.

Views from the Panel Experts

VINAY JOSEPH (Head Investment Products & Strategy, Managed Investments, Wealth India, Standard Chartered Bank)

- » "India's growth story and market appreciation are driven by long-term structural factors. Despite the high valuations we're seeing, staying invested in domestic equities remains crucial because the overall trend continues upward."
- » "While alternative investments are gaining ground, the challenge is educating clients about the risks, particularly around illiquidity. It's important that they understand these risks alongside market and interest rate risks."
- » "Many of our clients have portfolios heavily weighted towards Indian assets. Incorporating global diversification, even for these clients, is essential for mitigating risks and accessing international growth opportunities."
- » "Timing the market is notoriously difficult. Our research shows that missing just a few of the best trading days can drastically impact overall returns, reinforcing the need for a long-term, consistent investment strategy." lessons that we can better serve our clients and guide them through the complexities of succession planning."





They highlighted the importance of educating clients about the benefits of maintaining a balanced portfolio, even when market conditions seem favourable. Wealth managers face the challenge of convincing clients to hold cash or invest in safer asset classes during periods of market exuberance, a task that becomes even more difficult with the added complications of regulatory changes and tax uncertainties.

The panellists recommended that wealth managers maintain a disciplined approach to risk management, sticking to their investment strategies despite client pressure to take on more risk. They stressed that a well-diversified portfolio aligned with the client's risk tolerance and long-term goals is crucial for protecting against potential losses during market downturns. The discussion also touched on the necessity of setting realistic expectations with clients, ensuring they understand that not every investment will yield immediate high returns, and that patience and consistency are key to long-term success.

Views from the Panel Experts

Chanchal Agarwal (CIO, Credence Family Office) -

- »» "Beyond simply allocating assets, one of our greatest challenges is managing client behaviour—ensuring they don't overreact to short-term market movements and instead focus on their long-term financial goals."
- »» "Real estate in India is often seen just as a consumption asset, but with the urbanisation trend, it should be front and centre as a key investment opportunity for those looking for long-term returns."
- »» "Credit has been largely ignored recently, yet it remains crucial to a diversified portfolio, especially as India's economy grows and the demand for credit increases."
- »» "Helping clients understand the rationale behind asset allocation is a significant challenge. Each asset class has its phase, and it's vital to educate clients on why their portfolios are structured the way they are."
- »» "Clients often anchor their expectations to past performance, which can lead to unrealistic goals. It's our job to guide them through current market realities and align their expectations with the market's future direction."



Technology's Role in Portfolio Management

The panel discussed the transformative role of technology in the delivery of wealth management services. Digital tools are revolutionising portfolio management, enabling greater transparency and consistency in executing investment strategies. Technology allows wealth managers to scale their services, offering personalised advice to a broader client base, including those in tier-two and tier-three cities where face-to-face engagement is less feasible.

The panellists suggested that while technology enhances efficiency and allows for more sophisticated portfolio management, it is vital to maintain a personal connection in the advisory process. They recommended that wealth managers use technology to support their decision-making processes and client interactions, rather than replace the human element. This balance ensures that clients remain engaged and confident in the technology being used to manage their investments. The discussion also highlighted the importance of integrating digital



tools that can help clients adhere to their investment strategies, particularly during volatile market periods, by providing them with data-driven insights and reinforcing the long-term benefits of their chosen strategies.

Global Diversification and the Opportunities in GIFT City

The panellists identified global diversification as an increasingly important strategy for Indian investors, especially with the opportunities presented by GIFT City, which offers tax-efficient vehicles for outbound investments. They noted that while Indian investors have traditionally preferred domestic assets, there is a growing awareness of the benefits of diversifying into global markets. GIFT City facilitates easier access to international investments, offering tax advantages that can enhance overall portfolio performance.

The panellists advised that global diversification should be approached strategically, with careful selection of international assets that complement domestic

Views from the Panel Experts

Onkarpreet Singh Jutla, CFA (Chief Investment Officer, Nuvama Private) -

- » "In today's market, we see substantial opportunities in private investments within equities, especially the mid-market buyout segment. These opportunities offer value that public equities lack due to their higher valuations."
- » "With recent tax changes impacting fixed income, it's essential for investors to reassess their portfolios. Alternatives like performing credit funds and absolute return funds are now competitive against traditional debt mutual funds subject to risk profile of investors."
- » "Commercial real estate, particularly through pre-REIT funds, should be considered for portfolios seeking steady cash flows with capital appreciation. These operational assets provide non correlated returns in a diversified investment strategy."
- » "Our approach to portfolio construction involves balancing equity, fixed income, and alternatives in a way that diversifies risk effectively. By strategically placing assets with different risk profiles, we enhance portfolio resilience."



holdings. This strategy helps to mitigate risks associated with local market volatility while providing exposure to high-growth sectors and regions outside India. The experts also discussed the challenges of educating clients on the complexities of global diversification, particularly in managing currency risks and understanding the growth potential in foreign markets. They recommended that wealth managers take an active role in guiding clients through the process, ensuring that global investments align with their broader financial goals.

Market Outlook and Tactical Opportunities

The panel offered insights into navigating the current high valuations in the Indian equity market, advising a cautious yet strategic approach. They recommended maintaining a core allocation to equities while being selective, focusing on quality investments that demonstrate strong fundamentals. The panellists cautioned against attempting to time the market, instead advocating for a disciplined investment strategy that remains consistent over the long term.



They also suggested that flexibility in asset allocation is crucial, with wealth managers needing to adjust their strategies in response to changing market conditions. This includes staying open to new investment opportunities in emerging sectors or alternative assets, while ensuring that the overall portfolio remains aligned with the client's long-term financial goals. The panellists discussed the importance of balancing the pursuit of returns with effective risk management, noting that this is key to building portfolios that can withstand market volatility and deliver sustainable growth. They also highlighted the potential pitfalls of overly aggressive strategies, recommending a balanced approach that considers both the opportunities and risks present in the current market environment.

Educating Clients on Illiquidity Risks and Alternative Investments

Finally, the panellists stressed the importance of client education regarding the risks associated with alternative investments, particularly the illiquidity of assets

Views from the Panel Experts

Devang Mehta (Director – Equity Advisory, Spark PWM Private) -

- »» "India offers immense growth opportunities, but it's crucial to distinguish between the hype and genuine value. Our focus should be on companies with solid cash flows rather than those simply riding the wave of market speculation."
- »» "Asset allocation is evolving, and clients are now increasingly drawn to 'new India' sectors. These include companies with real, sustainable cash flow, moving away from speculative investments."
- »» "In a bullish market, the fear of missing out can quickly turn into what I call 'JOGI'—the joy of getting in. However, it's essential to avoid getting swept up in market euphoria and to remain disciplined in our investment approach."
- »» "Wealth is being created rapidly in India, necessitating more sophisticated investment strategies. It's about continuously adapting, learning, and refining our approach to meet the evolving market dynamics."
- »» "Market corrections are inevitable, but trying to time them often leads to more losses than gains. It's far more effective to stay invested and maintain a disciplined approach rather than reacting to short-term market fluctuations."



such as private equity and real estate. They pointed out that while these investments can offer substantial growth potential, they also carry risks that clients may not fully understand. The panellists recommended that wealth managers provide clear, comprehensive explanations of the trade-offs involved in investing in illiquid assets, including the challenges of accessing capital quickly in times of financial need.

They suggested that a more institutional approach to alternative investments is necessary, where clients are thoroughly guided

through the complexities of these assets and their role within a broader financial strategy. This approach ensures that alternative investments are aligned with the client's overall financial objectives, contributing to a well-rounded, resilient portfolio. The panellists also discussed the need to manage client expectations, particularly in ensuring that they understand the long-term nature of these investments and the importance of maintaining a diversified portfolio that balances the potential for high returns with the need for liquidity and security. ■