Chapter 1

Assets Management in Mutual Funds in India

- Introduction
- Concept Of AMC’s
- Functions Of An AMC
- Regulatory Aspects Of AMC’s
- Asset Management Industry
- Asset Management Company
- Institutional Investors
- Finding In AMC
- Conclusions
- References.
Chapter-1

1.1. Introduction-

Asset Management-:

The definition of asset management is to select and invest in the best available assets. It is also important that the assets are monitored continuously so that any kind of risk may be avoided. The procedures of asset management may be categorized. A few of these categories are the selection process of the asset, investing in the asset, making proper assessment of risks and developing proper strategies to save the assets from exposure to risks.

Continuous monitoring of assets is also a necessary part of asset management. There are a number of investment instruments that are regarded as assets. Among these investments are stocks, bonds, gold, silver, real estate and various commodities. It is important to analyze the market situation and development prospects of each one of these assets.

Investment then takes place according to the developmental prospects of the assets. Another important part of asset management is to set goals and time limits. Financial goals are important. Any strategy followed by the investor depends on investment objectives. It should be noted that identifying the proper asset and ensuring good performance of the asset in the long-term is a significant component of the asset management procedure. Determining the tolerable amount of risk is also done by asset management. Another important factor is diversification of the investment portfolio. This diversification is necessary to ensure proper growth of the portfolio, as well as to protect from risks.

In other words, asset management is the systematic process of long term maintenance of assets, with the objective of bringing out the best results from the assets. Asset management is an important part of the financial sector throughout the world. It manages huge amounts of investments and helps clients reach a financial goal within a specific period of time. Asset management offers a wide range of investment options. However, with the growing complexity in financial markets,
investors are demanding more options. The asset management is constantly looking to develop new options.

1.2. **CONCEPT OF AMCS**

Asset management in India refers to the professional management of investments such as stocks and bonds, along with real estate. Typically, asset management is only practiced by the very wealthy, as the services of a professional firm can demand considerable sums of money, and successful asset management usually requires a large and diverse portfolio. Numerous professional firms and investment banks offer asset management services, which are often handled by a team of financial professionals for the best results. The firms handling the largest accounts are based in the United States, although several venerable European firms also work with high volume accounts.

Typically, the investor meets with an asset management team before surrendering control of the assets to discuss goals and investment styles in general, the team works with the investor to set realistic goals to grow the investor's wealth and measure the performance of the team.

The investor also usually expresses directions as to what type of investment style he would prefer the team to engage in. For example, single young investors sometimes choose less conservative investment schemes than older individuals or couples. Meetings with the asset management team are held on a regular basis so that the investor can be apprised of progress and kept up to date.

Typically, once funds are surrendered to an asset management team, the team has a great deal of leeway with them. This flexibility allows team members to make rapid investing decisions without constantly consulting the holder of the funds, who remains confident that the overall return on the investments will remain high.

By putting funds under management, the investor has access to hundreds of years of combined investing experience, along with special

1. Mutual Funds In India Emerging Issues By Nalini Prava Tripathy P.54
2. The Financial Express, 2009-2010, New Delhi
Special services that only an investment bank can offer. This results in a higher return on the assets than could be achieved conventionally.

The best way to get a large return on assets is to diversify them. For this reason, assets are rarely pooled in one location alone, such as stocks, bonds, real estate, or mutual funds. The asset management team decides how to distribute assets, and may move money from one location to another to take advantage of a strong market. The team also provides long term investing advice based on market projections, and may assist the investor with purchasing real estate and general wealth management. Income from the assets is typically deposited into an account at the same bank, so that the investor's financial business is concentrated in one financial institution, rather than scattered, making it easy to see the whole picture.

1.3. **FUNCTION OF AN ASSET MANAGEMENT COMPANY**

An asset management company invests its clients pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves. Mutual function funds, hedge funds and pension plans are all run by asset management companies. These companies earn income by charging service fees to their clients.

- Enrolling new investors in mutual funds or other investment products.
- Advising potential clients in the range of investments and choices available.
- Distribute mutual fund information to a client and recommend the best investments for a client’s objectives.
- Provide statements of accounts, annual reports, and performance information activities.
- May manage investment accounts on behalf of customers.
- May participate in funding various investments on behalf of it’s investors.
- Sets up and administrators various types of retirement accounts, unit investment trusts and other investment products.

May operate a hedge fund for a private partnership of investors.

May operate a private equity fund to invest in companies, arrange mergers, buy-outs and other investments in corporations, including start-up funding.

Asset management activities permeate to many levels of an organization, and are not confined to a central group. For this reason we shall use the term asset management function as a flexible descriptor for the activities involved, and apply the term asset manager to those involved significantly, but not necessarily exclusively, in asset management activities.

The purpose of the asset management function is to provide resources and expertise to support the acquisition, in-service support and disposal of the physical assets required by the organization. A central asset management function will be needed at company level, providing inputs to asset planning, taking a role in major acquisitions and developments and providing the systems and facilities needed to support assets throughout their life. Asset management is distinct from operations, and does not usually involve the direct design or building of the assets themselves. It is also normally distinct from maintenance, but the technical services functions which support maintenance are part of asset management. The exact terminology and reporting structures may vary from organization to organization.

1.4. THE REGULATORY ASPECTS OF AMC’S -:

1.4.1. AMFI (ASSOCIATION OF MUTUAL FUND IN INDIA) –

AMFI not a self regulatory organization (SRO). It’s made to promote mutual fund in the masses and give recommendation in order to uphold the interest of the investor.

1.4.1.1 Objective of AMFI - :

➢ To define and maintain high professional and ethical standards in all areas of operation of asset management mutual fund company.
➢ Recommend and promote best business practices and code of

4. Broadbent D. Asset Management 1980,17(Sept),

20
Conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.

- Interact with the securities and exchange board of India (SEBI) and to represent to SEBI on all matters concerning the asset management mutual fund industry.
- Represent to the government, reserve bank of India and other bodies on all matters relating to the asset management mutual fund companies.
- Develop a cadre of well trained agent distributors and certification for all intermediaries and other engaged in the industry.
- Undertaken nation wide investor awareness programmer so as to promote proper understanding of the concept and working of asset management mutual fund company.

1.4.2. **SEBI (SECURITY AND EXCHANGE BOARD OF INDIA)** –

Security and exchange board of India “SEBI” the capital market regulator has clearly defined rules, which govern asset management mutual funds companies. These rules relate to the formation, administration and management of asset management mutual funds companies and also prescribe disclosure and accounting requirements. Such a high level of regulation seeks to protect the interest of investors.

All asset management mutual funds companies are registered with SEBI and they function within the provision of strict regulations designed to protect the interests of investors. The operations of mutual funds are regularly monitored by SEBI.

1.4.3. **RBI (RESERVE BANK OF INDIA)** –

Reserve bank of India was the regulator of asset management mutual funds companies before SEBI. It regulated asset management mutual funds companies initially and there were only few schemes in the market. But now with coming with SEBI, it has now become the main

6. The Association of Mutual Funds in India (Amfi).
Regulator of the asset management mutual funds companies. Rbi now only governs bank sponsored asset management mutual funds companies.

1.4.4. MINISTRY OF FINANCE –

The ministry of finance, which is charged with implementing the government policies, ultimately supervises both the RBI and the SEBI. Besides being the ultimate policy making and supervising entity, the ministry of finance has also been playing the role of an appellate authority for any major disputes over SEBI guidelines on certain specific capital market related guidelines – in particular any cases of insider trading or mergers and acquisition.

1.4.5. COMPANY LAW BOARD –

Mutual fund asset management companies and corporate trustees are companies registered under the companies act, 1956, and are therefore answerable to regulatory authorities empowered by the companies act.

The primary legal interface for all companies in the register of companies. The department of company affairs in turn supervise register of companies. The department of company affairs forms part of company law, board which is part of ministry of law and justice of the government of India.

The register of company ensures that the asset management company or the trustee company as the case may be is in compliance with all companies act provisions.

All asset management company with all companies act provisions. All asset management company accounts and records are filed with the register of company, who may demand additional information and documents from the company. The register of companies plays the role of a watchdog with respect to regulatory compliance by companies.

---

7 [Www.Amfi.Com](#)
8 SEBI Investment Advisers Regulations 2013.
9 Reserve Bank of India: Functions and Working.
The company law board in the apex regulatory authority under the companies act. While the company law board guides the department of company affairs, another arm of the company law board called the company law bench is the appellate authority for corporate offences.

The company law board is a body specially constituted by the central government for carrying out judicial proceedings with respect to company affairs. Since mutual fund assets management company are companies. The company law board’s role assumes importance.

As the member of asset management companies or trustee companies will usually be the sponsors and their joint venture partners or associates it is unlikely that mutual fund investors will have anything to do with any of these regulators. The authorities would generally regulate the asset management companies whose shareholders may have recourse to them in specific cases.

1.4.6. **INVESTORS RIGHTS –**

- Proportionate right to beneficial ownership of schemes assets.
- Right to obtain information from trustees.
- Entitled to receive dividend warrants within 30 days of declaration of dividend.
- Inspect major documents of the fund.
- Appointment of the assets management company can be terminated by 75% of the unit holders of the scheme present and voting.
- Right to approve of changes in fundamental attributes of a close ended scheme (75% of unit holders should approve) – right to be informed so in open ended schemes so that they can redeem.
- Right to receive a copy of annual financial statements of fund and periodic transaction statements.
- 75% of the unit holders can resolve to wind up the scheme.

---


1.4.7. **LEGAL LIMITATIONS TO INVESTORS –**

- Unit holders cannot sue the trust.
- Can initiate legal proceedings against trustees.
- Sponsor of mutual funds have no obligation to meet any shortfall in the assured return unless explicitly guaranteed in the offer document.
- No rights to a prospective investor.

1.4.8. **INVESTORS OBLIGATIONS –**

- Carefully study the offer document before investing.
- Monitor his investment in a scheme by referring financial statements, performance updates and research reports sent by the asset management company.

1.5. **ASSET MANAGEMENT INDUSTRY –**

The asset management industry, also known as the investment management industry, is one of the largest global industries. This industry handles transactions worth trillions of dollars annually. Because of this, participants are constantly developing the market. The asset management industry is an important part of the financial sector throughout the world. This industry manages huge amounts of investments and helps clients reach a financial goal within a specific period of time. Asset management industry offers a wide range of investment options. However, with the growing complexity in financial markets, investors are demanding more options.

The asset management industry is constantly looking to develop new options. According to present trends, the asset management industry is trying to develop profitability by reducing expenditures. Because of trends, a reformation activity is taking place in the global asset management industry.

The asset management industry of every country has problems, but there are several factors that are global. Worldwide factors are related to the development of the industry in various ways.

---

13. www.finance-glossary.com
Important factors are fund governance, regulation of the industry, developing alternative investment options, product rationalization, and introduction of new technology, identifying talented professionals, and making efficient investment decisions. For development of the asset management industry throughout the world, it is necessary to have a proper corporate governing structure. The regulators of the industry are constantly working to make developments in this field. As a result, the standard of corporate governance is rising rapidly. At the same time, the regulations are becoming stricter because of incidents of misconduct throughout the industry. Real estate, hedge funds, and other options are emerging as an alternative investment option. These investments can yield substantial returns, so the investors are turning towards these products.

The asset management industry professionals understand the changing trends and so they are also offering these products. Regulatory bodies are trying to make these products secure for the investors. In addition, the asset management companies realize the product rationalization factor.

They know that the funds need to be shaped, because large funds are problematic and small funds generate small amounts of profit. Another important factor is the technology that is used by the asset management industry. With the growing investor base and demands, the industry is trying to introduce new technologies to make the transactions easy. The asset management industry is also bringing talented professionals to the industry so that the industry can develop rapidly.

The institutional asset managers are professionals who construct and maintain investment portfolios on behalf of clients, individual investors, companies, banks or pension funds. Assets under management include fixed income securities, equities and commercial real estate. The worldwide growth of the institutional asset management industry has been accompanied by a fundamental restructuring of the industry. This section examines sources of overall growth in the industry as well as structural changes.

1.5.1. Asset Management Firms As Sources Of Risk -:

The failure of a large asset management firm could be a source of risk, depending on its size, complexity, and the interaction among its various investment management strategies and activities. Distress at a large asset manager could amplify or transmit risks to other parts of the financial system. An asset manager’s financial strength and reputation underpin its ability to attract clients, retain key employees, and deliver asset management services. Sponsors sometimes act in dual roles, as agents who provide portfolio management and other services, and as principals who may invest in their own funds or may provide implicit or explicit support to investors.

Concentration of risks among funds or activities within a firm may pose a threat to financial stability. Instability at a single asset manager could increase risks across the funds that it manages or across markets through its combination of activities. In a variety of ways, firms’ risk managers could fail to understand or anticipate risk with financial stability implication.

For example, a firm could manage a number of large, highly leveraged unregistered funds which have strategies that turn out to be correlated in ways firm risk managers did not anticipate, either because correlations shifted in times of stress or because the manager failed to consider certain factors that led to correlations among portfolio assets. Similar concerns could arise if a firm with extensive repo and securities lending businesses, and that managed strategies with an array of interconnections through derivatives and other exposures, had difficulty unwinding or transferring clients’ investments to another asset manager during a period of market weakness. Under stress, counterparties also might not distinguish among exposures to the firm and its funds, and therefore could take risk-mitigating actions that could aggravate risks across the firm’s funds. And Accounts interconnectedness and complexity can transmit or amplify threats to financial stability; large financial companies tend to have multiple business lines that are interconnected in complex ways.

The asset management division of a bank or insurance company may be linked to other financial market segments directly or indirectly through business connections within the firm. For example, some large, dedicated asset management companies offer comprehensive services through in-house broker-dealers, commodity pool operators, trust companies, or captive insurance divisions. Some offer broker-dealer, consulting, or pricing services to other asset managers, creating interconnections and dependencies that increase their importance in financial markets. Some large asset managers also have subsidiaries in many countries, complicating risk management and increasing the difficulty of supervision.

Moreover, material distress at the firm level, or firm failure, could increase the likelihood and magnitude of redemptions from a firm’s managed assets, possibly aggravating market contagion or contributing to a broader loss of confidence in markets. The largest asset managers continue to win a significant share of the market, primarily by offering comprehensive solutions that benefit from established franchises and economies of scale.

Although separate accounts are typically easy to move from manager to manager due to separation of custody and management, if an investment adviser managed a large amount of separate account assets with complex, highly-customized strategies, a new manager may not be willing or able to quickly replace an existing manager during a period of market turbulence, or clients may require managers to liquidate assets prior to a transfer contributing to market risk.

Investment advisers act, rule 206(4)-7. Banks typically use different titles for employees performing these functions. Several large, complex financial institutions with asset management divisions suffered material distress during the recent crisis. Recent policy measures that seek to reduce these risks include heightened prudential standards for banks and designated nonbank financial companies and enhanced resolution authorities. During the crisis, stress spread between these companies’ other businesses and their asset management subsidiaries.

As agency businesses, asset management companies tend to have small balance sheets, and nonbank, non-insurance asset managers are not required by U.S. regulation to set aside liquidity or capital reserves for their asset management businesses. The federal reserve’s annual stress test requires the asset management divisions of large bank holding companies with money-like funds to set aside capital to cover the risk that they would have to support some of their funds during stress conditions.

1.6. **ASSET MANAGEMENT COMPANIES**

Asset management industry an asset management company invests its clients pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves. Mutual function funds, hedge funds and pension plans are all run by asset management companies. These companies earn income by charging service fees to their clients.

Asset management companies are in the business of providing asset management strategy and asset management tools for their clients. These are offered with a definite objective of providing the clients with the necessary devices to increase the value of their assets in the long term. The asset management companies follow a definite process to increase the asset value for their clients. There are a number of important features of the asset management services offered by these companies. One of the most important features of asset management companies is the planning and procurement activity.

At the same time, managing the everyday operations and activities of a company is also a part of the services provided by the asset management companies. The asset management companies provide their services with a particular aim. According to this aim, These companies make use of the available resources to the fullest extent and these activities ensure sharp rise in the profitability of the client’s investment. In addition, reducing different types of cost related to the business is also an aim of the asset management companies.
On the other hand, the asset management companies are also involved in the risk identification process and develop a certain strategy for that too. There are a number of asset management companies. Some of these companies are related to the investment sector; some are with the corporate sector and real estate sector and many more.

The investment management companies help the investors identify the investment tools that can deliver highest yields. After that, the asset management companies help in creating a portfolio and preparing a proper strategy for the investment portfolio. A definite aim and tolerable amount of risk is set for the portfolio and the portfolio develops according to this plan. The companies also review their strategy at regular intervals and modifications are done according to the needs.

There are real estate asset management companies also that are in the business of managing the properties, as well as the investments that are done in the real estate market. The asset management companies dealing in the real estate sector try to enhance the value of the non-performing properties also and help the owner get substantial income from the property.

1.6.1. **ASSET MANAGEMENT SERVICES**

Asset management services are offered by a number of firms throughout the whole world. These firms allocate funds for the assets, prepare the strategy for asset development and monitor the development of the assets. The basic aim behind these activities is to achieve a definite financial target.

Asset management companies offer various asset management services for different sectors. These sectors have their own assets and set of expectations from those assets. The risk factor and growth rate of these assets are also different. So it is hard to make a single plan to manage assets for all these sectors. Depending upon the demands of the client and the market conditions, the asset management companies have developed their services.

---

18. Investment Advisers Act, Rule 206(4)-7. Banks Typically Use Different Titles For Employees Performing These Functions
1.6.1.1. Features Of Asset Management Services

The asset management services for any sector consist of several common features. Some of these features are as follows:

1. **Setting Goals**: There are different kinds of assets like investment instruments, real state property, machineries, computers, different types of technologies and many more. The asset owners expect some specific results from their assets. These expectations are termed as the goals for the future. At times, the asset management companies help their clients to set their goals.

2. **Allocation of Funds**: This is another important factor for the asset management services. If the goals are set, the management company can allocate adequate funds for the assets or can suggest the client to do so. The companies allocate funds according to the growth potentials of the asset.

3. **Strategy**: After analyzing the market condition of particular asset and its development prospects, the strategies are developed. Another important factor that is considered for strategy making is the risk factor.

   **The Amount Of Risk**: Is different for various assets and so proper understanding of the present and potential risk factors is highly necessary. The strategy should have the flexibility to be modified according to the changing scenario.

4. **Strategy Monitoring**: To ensure smooth growth of the assets and to increase the yielding capacity of the asset, it is necessary that the development process and strategy are reviewed at regular intervals and according to the need, alterations are done in the process.

1.6.2. **ASSET MANAGEMENT PLAN**

Asset management plans are prepared for the systematic development of the asset in the long term. These are formulated so that the investment portfolio of the institution or the individual is going to perform well even in the worst market situations. The asset management plans are designed to ensure better performance of an investment portfolio. The investment portfolios are created and nurtured according to this plan.

There are certain components of an asset management plan. They are as follows:

- Deciding the long-term financial goals
- Deciding the strategies
- Performance assumption
- Risk assumption
- Risk tolerance level
- Monitoring growth of the investment portfolio.
- Regular review of the investment portfolio

Deciding the financial goals of the investment is the most important factor for an asset management plan. The goals are decided by the investors or sometimes by the asset management firms. All other aspects of the asset management plan are associated with the financial goal of the investment portfolio.

Once the goals are in place, it becomes easier to set a particular strategy for the portfolio. This is important because these strategies play a decisive role in fulfilling the financial goals in the future.

Performance of the investment portfolio is also dependent on these strategies. If the strategies are flexible enough, then the portfolio would perform well even in the worst market conditions. Again, to perform well in the falling markets, the portfolio should contain various assets. This diversification of the portfolio is also decided by the strategy.

Calculating the future risks is also an important part of the asset management plan. There are a number of theories and formulas that can help the plan to assess the risks related to the investment portfolio. Analyzing the market data of earlier years can assist in getting a clear picture of risk factors. Once these are decided, the hedging strategies can be designed.

The risk tolerance capacity of the portfolio is also important because there are investors with different levels of risk tolerance capacity. Regular monitoring of the performance of an asset management plan helps in determining the effectiveness of the plan. If the plan is not performing well, then some modifications are made in the existing plan to achieve the financial goals.

1.6.3. **How Asset Management Companies Work**

1. Asset management in the business of using money to make more of it.
2. Asset management companies manage the money of their clients to achieve specific financial objectives within guidelines under which an investment pool is organized.
3. The pool might take the form of a mutual fund, hedge fund, retirement or pension fund, or other institutional fund and, depending on how the fund is organized.
4. Asset managers could invest in any range of investment vehicles including equities, fixed-income securities, and derivative products such as options and futures.
5. Economic crisis of 2008

1.6.4. **Roles Within The Asset Management Business** –

- Asset management of mutual funds requires an infrastructure that includes:
  1. Fund manager to manage the assets of a mutual fund
  2. Analysts to research equities and fixed-income investments.
  3. Economists to evaluate the direction of the market and economy.
  4. Salespeople and marketers to persuade people to buy the fund.
  5. Traders to execute orders.
  6. Accountants to track assets.
  7. Tech specialists and back-office staff.

  Or

- A retail stockbroker, financial adviser or asset manager working on behalf of their clients picks stocks, bonds, and other investments, determines the right portfolio mix, and executes trades.

1.6.5. **Primary Broker/Adviser Roles**

1. A **Financial Adviser’s**- Primary role is to acquire new clients, sell them a variety of products-from stock recommendations and mutual funds, to annuity-based life insurance.
2. **Institutional Relationship Manager** - Ensure that institutional clients of mutual funds or other institutional products are happy; they resolve issues, educate clients on products, and implement new processes. Relationship managers also advise and sell clients new products.

3. **Institutional Sales Manager** - Call on pension funds, union plans, banks, and other institutional clients and sell them funds, back-office products, or other products.

4. **Private Bankers** Offer financial services and advice to wealthy individuals. These bankers are often highly specialized and carry multiple degrees.

   Private banking units usually charge their clients a fee for their services based on a percentage of assets under management. Private bankers typically have at least five years of professional experience as well as professional degrees.

1.6.6. **Primary Roles In Asset Management** –

A fund manager is the person(s) responsible for implementing funds investing strategy and managing its portfolio trading activities. A fund can be managed by one person, by two people as co-managers and by a team of three or more people. Fund managers are paid a fee for their work, which is a percentage of the funds average assets under management.

**A Financial Analyst** - Researches companies to determine its financial condition and will make recommendations to buy or sell a company’s stock based on economic conditions and the predicted earnings/financial strength of a company.

**An Economist** - Provide an opinion on the future of the market and general economy based on financial and economic models that you develop and maintain, third-party models and analysis, and analysis of global and domestic news and economic indicators.

19. Saunders Learning Group, LLC, Andover, KS
20. Wwww.fp.edu/tools/glossary.asp
1.7. **Institutional Investors**

Institutional investors have been categorized as collective investment vehicles, pension funds or insurance companies. Increasingly, however, the distinctions underlying these categories no longer fully capture the most significant differences among industry players. Many insurance companies, for example, have launched their own investment funds and have become involved in pensions provision. Defined benefit pension funds have a life insurance component to them, while banks are acquiring and launching money management and insurance companies. Thus, our use in this report of traditional breakdowns of institutional asset management is meant to capture the functional characteristics, as opposed to the institutional definitions, of industry players.

1.7.1. **Collective Investment Vehicles**

The fact that the overall costs of diversification tend to be large generates an incentive for individual investors and firms to place their money in pooled investment vehicles, which include mutual funds, hedge funds and private investment partnerships. These vehicles aim at achieving an attractive risk/return profile by pooling the assets of many investors. This lowers average costs through better diversification (due to indivisibilities of share size), more efficient information collection and processing, the spreading of fixed operational costs over a larger asset base (particularly true for “generic” fund management, such as index funds), and the use of size as a tool in the market environment to obtain better trading terms (lower bid-ask spreads and commissions).

Investors in collective investment vehicles are individuals (in the retail part of the business) or firms and charitable foundations (in the wholesale business). These investors are entitled to the net returns on the investment portfolio and bear all associated risks. In a number of countries, mutual funds have become the primary tool for individual investors’ investment in marketable securities.

The term mutual fund comprises both open-end and closed-end funds, the majority of which are actively managed. Open-end mutual

19. [Www.fp.edu/tools/glossary.asp](http://Www.fp.edu/tools/glossary.asp)
Funds include index funds, with portfolios constructed to replicate the performance of a particular market index, while closed-end funds may include hedge funds and similar vehicles whose shares are not publicly offered at all.

1.7.2. Investment Management:

A generic term that most commonly refers to the buying and selling of investments within a portfolio. Investment management can also include banking and budgeting duties, as well as taxes. But the term most often refers to portfolio management and the trading of securities to achieve a specific investment objective.

Investment management, also known as asset management, is pretty much what it sounds like: a client gives money to an asset manager, who then invests it to meet the client’s objectives. In other words, investment management seeks to grow capital and generate income for individuals and institutional investors alike. The potential clients of an asset manager can vary widely. Asset managers who work for mutual funds, for example, manage money for retail clients, while asset managers at investment banks often invest money for institutional investors like companies or municipalities (often for pools of money like pension funds). Asset managers can also work for hedge funds, which combine outside capital with capital contributed by the partners of the fund, and invest the money using complex and sometimes risky techniques, attempting to receive extraordinary gains.

Asset managers buy their stocks, bonds and other financial products from salespeople at investment banks, who are on what is called the “sell-side.” (asset managers are on the “buy-side.”) Because they make commissions on every trade they facilitate, salespeople provide information (research, ideas) to asset managers, in an effort to get the asset managers to trade through them. For this reason,

Salespeople often shower asset managers with perks like sports tickets and expensive dinners at fancy restaurants. Asset management basically boils down to this: researching and analyzing potential.

---

Investments, and deciding where exactly to allocate funds. In recent years global financial services companies and investment banks made efforts to grow their asset management businesses. That’s because investment managers’ fees are based on the amount of money they’re given to invest—so as long as they have clients, they’ll make money for the bank. This fee-based arrangement stands in contrast to businesses like mergers and acquisitions advisory, which can be highly variable depending on market conditions.

That there is a lot of uncertainty in the world’s financial markets and among its top financial services firms. However, it also means that it is sure to be an exciting and interesting time to work in finance—and, in particular, in the investment management industry so investment management can take many forms. It can be done either by the consumer or a professional and can be passive, active, aggressive or conservative. It can refer to sophisticated trading techniques involving derivatives and alternative investments or merely the rolling over of cds.

1.7.2.1 **Investment Management vs. Asset Management**

The terms investment management and asset management are interchangeable. They refer to the same practice, the professional management of assets through investment. Investment management is used more when referring to the activity or career, “I’m an investment manager” or “that firm is gaining a lot of business in investment management”), whereas asset management is used more with reference to the industry itself, (“the asset management industry”).

1.7.3. **Insurance Companies**

Life insurance companies, which represent the largest segment of the insurance industry, offer products such as annuities and guaranteed investment contracts tailored to the needs of individual and collective pension plans. The payoff of a life insurance product is determined by the return on the insurer’s asset portfolio and insurance elements. Life insurance companies tend to differ from other institutional investors in
Terms of their liability structure. Insurance products are, therefore, an indirect channel for providing ultimate beneficiaries with asset management services. However, Life insurers’ liabilities are primarily actuarial in character, with fixed income-like payout structures.

This may explain the large portion of fixed income products in insurance portfolios observed in many countries, though equity allocations tended to increase in the course of the 1990s. Insurance company assets are often managed in-house, rather than being handed over to outside asset managers.

This organizational preference has led insurers to purchase external asset management firms as a means of bringing investment expertise in-house. As a result, in some cases, insurance companies may offer portfolio management and administrative services to pension funds. In addition, there has been a recent trend among insurers to invest in or acquire specialized investment vehicles and to purchase specific asset management service providers.

1.7.4. **Asset Allocation** -
1.7.5. Hedging And Monetization Strategies -:

![Hedging and Monetization Strategies Diagram]

1.7.6. Pension Funds -:

A pension plan is an asset pool that accumulates over an individual’s working years and is paid out during the nonworking years. Developed as Americans began relying less on children for care during their later years. Also became popular as life expectancy increased. Pension and retirement plans are available in a number of types that are known as either defined contribution or defined benefit plans.

Funded Occupational or Individual Pension Schemes Are the Private Sector Counterparts of Funded and Non-Funded, So-Called Pay-As-You-Go, Public Social Security Schemes. Occupational Pension Funds, Typically Sponsored By Large Employers or Trade Unions, Collect

---

And invest contributions from the beneficiaries and sponsors for the purpose of providing for the beneficiaries’ retirement entitlements. The management of the investments may either be performed by the fund itself (“in-house”), or may be delegated to independent external asset managers.

The working group’s interviews with pension fund managers suggest that the use of outside managers is becoming standard in most countries. The two main types of pension funds, defined benefit (db) and defined contribution (DC) schemes differ significantly in the distribution of investment risk between the sponsor and the beneficiary. In db schemes, entitlements are typically calculated on the basis of the employee’s salary profile and formally represent liabilities of the sponsor, who is responsible for making contractual pension payments - notwithstanding the investment performance. Hence, the beneficiary’s risk tends to be limited to default by the sponsor.

In contrast, under defined contribution schemes, the beneficiary is typically provided with a menu of alternative investment choices (including mutual funds) among which to allocate regular contributions. The investment risk is borne entirely by the beneficiaries, with payouts determined by the cumulative performance of the investments.

Due to these differences, db pension liabilities tend to most closely resemble those of life insurers, abstracting from asset return-based components, in that they are guaranteed by the sponsor. Due to the long-term nature of defined benefit liabilities, which are effectively like inflation-indexed long-term bonds, there is a potential for large volatility in fund surpluses and deficits. This, in turn, leads to a lot of attention being placed on asset-liability management by defined benefits pension funds, with db liabilities being difficult to match on the asset side.

As temporary swings in surpluses are unavoidable, investment horizons will have to be relatively long.

The management of defined contribution schemes, on the other hand, resembles more closely that of a mutual fund. Given the wider product mix offered and as defined contribution funds do not have fixed liabilities, investment horizons can be in the short-, medium- or long-term range and will tend to differ across firms and products.

1.7.6.1. **Types Of Pensions**-

1. **Defined-benefit pension plans**: a plan where the sponsor promises the employee a specific benefit when they retire.
2. For example, annual retirement payment = 2% average of final 3 years’ income years of service
3. Defined-benefit pension plans place a burden on the employer to properly fund the expected retirement benefit payouts.
   a. **Fully funded**: sufficient funds are available to meet payouts
   b. **Overfunded**: funds exceed the expected payout.
   c. **Underfunded**: funds are not expected to meet the required benefit payouts
4. **Defined-contribution pension plan**: a plan where a set amount is invested for retirement, but the benefit payout is uncertain.
5. With this plan the employee’s benefits during retirement depend on the contributions made to and the investment performance of the assets in his or her account, rather than on the employee’s years of service or earnings history.
6. Private pension plans: any pension plan set up by employers, groups, or individuals
7. Examples of defined-contribution plans include 401(k) plans, 403(b) plans, and 457 plans
8. Public pension plan: any pension plan set up by a government body for the general public (e.g., social security)

---

1.7.7. **Alternative Investment Strategies**

**Figure -1.3 Alternative Investment Strategies**

1.7.8. **OTHER INDUSTRY PLAYERS IN AMC’S**

1.7.8.1. **Investment Consultants**

   The importance of investment consultants, who primarily advise institutional asset holders on the choice of outside investment managers, has tended to rise over recent years. Traditionally, investment consultants have been of greatest value to smaller pension funds, since large pension funds have been less inclined to hire outside asset managers. But recently, as asset management has increasingly been outsourced, pension fund trustees have lost some of their in-house support and tended to increasingly rely on investment consultants as a result.

---

35. Off-Balance Sheet Separate Accounts Offered By Asset Managers Differ From On-Balance Sheet Separate Accounts Offered By Insurance Companies In That They Generally Do Not Have Contracted Manager Liabilities. Insurance Companies With Asset Management Divisions Often Offer Both Asset Management Separate Accounts
Their influence also varies markedly across countries, and appears to be most central in those countries with larger funded pension schemes, such as the United Kingdom and the United States, as well as those in which tendering processes are required in the selection of external fund managers, such as France. In the United Kingdom, consultants tend to advise their clients, pension fund trustees, not only on the specific risk managers to be selected, but also on issues like strategic portfolio allocation and ongoing performance monitoring. The working group’s interviewees partially attributed the reliance on consultants to the fact that UK trustees tend to be non-professionals without specific expertise, an issue that was also highlighted in the myners report. In addition, that report also commented on the fact that the UK investment consulting industry is highly concentrated.

This might have contributed to a lack of diversity in investment advice, a phenomenon that seems to apply also to other countries. Consultants tend to advise trustees on all aspects of the investment process and, in doing so, implicitly certify prudent behavior on the part of trustees.

1.7.8.2. **Rating Agencies, Investment Advisers and Sales agents**

Fund rating agencies specialize in providing market participants with information for investment decision-making in the form of formal scores of the rated company’s “quality”. In terms of generating these scores, fund raters tend to distinguish themselves through the use of either the quantitative ranking- or the qualitative ratings-based approach.

While fund rankings try to help investors to evaluate pooled investment vehicles based purely on measures of historical performance, fund ratings seek to evaluate investment funds against the background of the investment fund’s investment philosophy, its policies and procedures, as well as the track record of its fund managers. With their services targeted mostly at the retail market, both types of fund raters distinguish themselves from the investment consultants

---

36. Some Dedicated Asset Management Companies Are Autonomous Subsidiaries Of Large Financial Firms, Such As PIMCO With Respect To Allianz, And Blackrock With Respect To PNC. The Assets Of These Subsidiaries Are Generally Not Included On The Parent Firm’s Balance Sheet And General
Management is delegated to the subsidiary. Which, in turn, concentrate on the wholesale side of the business.

Recently, investment fund classifications have become a focal topic among fund rating agencies and fund managers. One of the main concerns of fund managers is that the span of many existing fund categories may be too large; framing a possibly ill-defined competitive universe between what might essentially be very different products.

In addition, the existing scoring systems have been criticized for being dominated by recent historical performance and for skewing investors’ decisions towards the best-performing funds, with up to 80% of new cash being invested in the most highly rated funds.

Similarly, sales networks and investment advisers, given that their own incentive structures might be subject to conflicts of interest, have been criticized for potentially skewing their clients’ investment choices, for example, towards products generating the biggest sales fees.

1.7.8.3. Index Providers

Index providers create and maintain market indices, which measure the price performance of a hypothetical investment. Over time, the role of these index providers has become increasingly visible in the asset management industry.

As market indices have become the benchmarks to which the performance of asset managers is compared, they have come to strongly influence the structure of asset managers’ incentives.

Conceptually, financial market indices are easy to understand and interpret. The practical calculation and publication of financial market indices, however, is a resource-intensive task. The incentive structures of index providers are influenced not only by competition among existing suppliers of index products, but also by potential new entrants into the business.

For exchange-traded securities, competition could arise from financial intermediaries or firms that are not financial intermediaries, while for OTC securities, potential competitors are limited to other dealers active in the OTC market.

37. Some Dedicated Asset Management Companies Are Autonomous Subsidiaries Of Large Financial Firms, Such As PIMCO With Respect To Allianz, And Blackrock With Respect To PNC. The Assets Of These Subsidiaries Are Generally Not Included On The Parent Firm’s Balance Sheet And General Management Is Delegated To The
Subsidiary

Competition for benchmark indices cannot arise overnight, however, as there are sizeable fixed costs involved and as credibility concerning accuracy and integrity of index numbers and of the indexation process takes time to develop. As a result, certain network externalities might arise, favouring early entrants into the market.

The revenues from creating and maintaining benchmark indices are derived from a variety of direct and indirect sources.

**Direct Revenue Sources Include**

(i) Fees for providing the actual benchmark index levels;
(ii) Fees for providing the constituents and precise weights in the benchmark indexes;
(iii) Fees (royalties) for the use of the name of the benchmark index in some form of investment or derivatives product; and
(iv) Fees for ancillary services (such as customized benchmark creation).

Some providers also sell index-related information and services to their clients. This type of business model appears prevalent in indices involving the OTC markets, where financial intermediaries have certain information advantages. In such cases, the index provider employs its proprietary knowledge of its own market index to offer services designed to provide competitive advantages to investors.

The structure of the index provision industry is also influenced by differences in index maintenance costs, particularly between indices for exchange-traded and OTC securities. While price information for exchange-traded securities is publicly available, prices of securities that trade strictly OTC are often not published.

Furthermore, the tracking of additional information (such as amounts outstanding) may also become more burdensome. Therefore, OTC indices tend to be provided by financial intermediaries who, in the course of their business, maintain proprietary databases for the data required for index construction and maintenance.

The financial intermediaries who maintain benchmark indexes recognize the potential for conflicts of interest between those in their

---

Organization who maintain the benchmark index and those who trade the securities in that index. As a result, firms stress their sensitivity to the need for implementing objective criteria for the construction and maintenance of their indices.

1.8. **Findings In Assets Management Company:**

Within the industry, established trends offer a number of potential implications for financial markets. Among these, some can be expected to influence market efficiency, volatility and liquidity. The net effect of these trends, however, is not clear cut. While some aspects of the industry structure in institutional asset management suggest scope for influencing market outcomes, robust evidence on these effects is not available.

Incentives to seek to profit from making informed judgments about long-term asset price relationships might be reduced by, for example, the growing reliance on a limited number of core market benchmarks to measure performance and the narrowing of permissible tracking errors. Potentially offsetting these trends is an increase in the control of individual investors over their portfolio allocations and the rising proportion of assets managed by alternative investment vehicles, which are not as strictly constrained by benchmarks or limits on tracking errors.

Given these at least partially offsetting effects and the lack of empirical evidence, there is, on balance, no clear-cut support for the hypothesis that aggregate market efficiency and volatility are unduly affected by recent developments in the incentive structure of Institutional asset managers. While, at times, asset managers might find their performance horizons shortened, profit opportunities and relatively free entry suggest that pricing inconsistencies, when they occur, will tend to be corrected over the medium term, once misalignments grow too big.

Hence, there seems to be no clear-cut evidence that institutional investors systematically contribute to or consistently fail to correct large-

---

Scale misalignments. However, short-term effects along the lines of what was argued above are well conceivable, particularly when assets under institutional asset management are relatively large in comparison to the size of a particular market or market segment.

In Addition, Constraints on the Behavior of Institutional Investors Do Apparently Have Their Effects “In the Small”, As Suggested By Recent Empirical Research on Misalignments at the Level of Individual Securities, “Special Situations”. Further Academic Research Along The Lines Of These Recent Empirical Papers, Therefore, Seems To Be A Particularly Fruitful Way To More Fully Understand How Various Aspects Of The Industry Structure In Institutional Asset Management Interact And How This Interaction Can Possibly Affect Market Dynamics More Globally.

This, of course, applies also to other econometric approaches, as only such empirical efforts can help to approximate the net effect of the different, potentially offsetting trends in institutional asset management. Deep insights could, in particular, be gained by extending the datasets used in existing research papers to include the period of the recent tech bubble and the subsequent, prolonged correction in equity valuations.

In addition, as some of the ongoing industry trends are likely to further enhance the involvement of individual investors in investment decision-taking and investment risk-bearing, further research on ultimate investor decision-making seems warranted.

In particular, researchers should try to reconcile the various effects, such the known tendencies to hold on to assets in times of falling prices or to buy “past winners” that an increased individual investor involvement could have on overall investment behavior and market dynamics. Specifically, as some recent empirical evidence suggests that the decisions of retirement savings plan participants might be biased towards making choices inconsistent with their risk/return profiles, such research should aim to shed some more light on the specific role of financial advisers, research analysts, retail sales networks and other parties that might influence, and potentially skew, investor decisions towards specific products and strategies.

42. Fund Management Firms Often Make Proprietary Investments, For Example, In The Form Of Seed Capital.
43. To New Funds, Although These Investments Tend To Be Small Relative To Client Assets Under Management.
1.9. CONCLUSIONS-

The developments in the institutional asset management industry and to identify possible implications for financial markets of the main developments that have affected the size of and the way business is conducted by that industry. This industry has grown substantially since the mid-1990s, matching the rise in stock market valuations up to early 2000. Since its growth is driven by underlying demographic shifts and pension reform, this trend is likely to continue beyond the present cyclical downturn. Overall, an increasing share of financial wealth is now placed with professionally managed funds, complemented by raising interest in non-core markets and, recently, some growth in funds placed with unregulated asset managers.

In addition, increasing emphasis is placed on strategic decision-making and risk-taking by ultimate investors, with potential implications for, among other things, the way risk management is implemented.

As a result, the industry is characterized by increasing complexity, which also affects the agency relationships involved in delegating asset management decisions. The instruments used to deal with the need to align the interests of fund owners and managers, including public regulation, can, in turn, affect the behavior of market participants and, thus, market outcomes.

Therefore, ongoing industry trends have an obvious potential to change institutional investor behavior in ways that can be important for global financial markets, given the size of institutionally managed portfolios and their central role in managing private and public savings. Based on available research and two rounds of interviews with market participants, this report documents many of those industry trends and highlights possible implications.
Reference -:
6. Fund Management Firms Often Make Proprietary Investments, For Example, In The Form Of Seed Capita
7. To New Funds, Although These Investments Tend To Be Small Relative To Client Assets Under Management
12. Fund Management Firms Often Make Proprietary Investments, For Example, In The Form Of Seed Capital To New Funds, Although These Investments Tend To Be Small Relative To Client Assets Under Management.
13. Mutual Funds In India Emerging Issues By Nalini Prava Tripathy P.54
15. Broadbent D. Asset Management 1980,17(Sept), P.3-7-9
16. Business India
18. Www.Indianpost.Com