CIO FORECITE

We have noted that India is seeing a dramatic exodus of foreign asset management companies (AMCs). Most recently, Goldman Sachs announced the sale of its unit to Reliance MF for about $37.5m following Deutsche Bank's unit sale to Pramerica. In contrast,KKR announced the acquisition of a 70% stake in Avendus, valuing the firm at $175m.

We are asking ourselves, two contrasting questions: is it the right time for AMCs to be exiting or entering India?

What is driving the exodus of foreign AMCs and does it present an opportunity for foreign investors to buy into the Indian equity market in general or indeed look at acquiring a smaller asset manager? Or, more dramatically, should one shun away completely? What is the opportunity cost of omitting such a large market and economy?

In the case of KKR, **why are we seeing such divergence of approach to India?**

Investment Thesis In Brief

We suggest that India does present an interesting opportunity for asset managers, both on the mutual fund and alternative investment side. Despite the regulatory and fiscal challenges, the "I" in BRIC is still moving, although at a slower pace, for now. Exposing one's portfolio allocation to the vast opportunity India offers, provides investors with a great excess return opportunity with some degree of volatility in the medium term. Those wanting to stand tall in the crowd may want to take a look.

Sector inCITE: What does the future hold for India's AMCs?

The recent announcement by Goldman Sachs to sell its Mutual Fund business to Reliance Mutual Fund India comes on the back of other prominent foreign asset management houses exiting India.

Other AMCs who have already left or in the midst of closing transactions in the Indian mutual funds market are Deutsche Bank, Morgan Stanley, Daiwa and Fidelity Worldwide.

No doubt, the announcement by India's regulator to potentially enforce India's Minimum Alternative Tax (short MAT) will have caused a stir among CEOs (see FTs article here). Back in 2013, the market was already faced with some challenges as the Securities and Exchange Board of India (SEBI) was seen to be increasing its influence in the actual product/ fund design and portfolio management mandate of new funds considering launching in India. Some say the MAT is a step too far.

We did some more digging and we list a few reports (without being exhaustive here) that shaped our thinking with respect to the Indian Asset Management market below:

- Riding the wave of opportunity and optimism – McKinsey, June 2015
- Indian Mutual Fund Industry – KPMG, 2014
- Indian Mutual Fund Industry: Unearthing the growth potential in untapped markets – PwC, June 2013
- Guide to the Markets, Asia – JPMorgan Asset Management, September 2015 (pg 11ff)
- Indian Mutual Fund Industry: Challenging the status quo, setting the growth path – PwC, June 2014

Looking across the publicly available research, there is no clear cut conclusion. On the one hand, asset flows into equity products have been poor and mainly negative. By the same token, a case could be made that many domestic companies are not *fairly* priced given the broader negative sentiment of the domestic equity market, in particular towards smaller and mid-cap size companies. These are also often disregarded by global investors not least due to the potential liquidity constraints.

On the flip-side, this provides an opportunity in the medium term, if investors decide to return to the markets.

Overview of Data Analysis

The Indian mutual funds industry is facing a key battle. That **battle is around distribution across the vast country,** where access to advisors may not be easily achievable. Conversely, the increasing educational levels and rising average wealth levels outside major cities may provide future growth opportunities to sell mutual funds going forward.

For now, risk aversion post the Global Financial Crisis sees many investors investing in bond-type investments, leaving equities on the side-lines. As is well known, Indian investors also do like gold as an investment. Lastly, ETFs are making inroads and may well compete with mutual fund providers now and going forward.

With that, the **top 10 players own about 80% of the mutual fund industry's Assets under Management** (AuM). In contrast, **the bottom 25 players** list (which until now also included Goldman Sachs) consists of global names such as HSBC Mutual Funds, BNP Paribas Mutual Fund and Edelweiss Mutual Fund, and **manages only a combined 6.1% of the mutual fund market AuM** (if you want a copy of the charts below, contact us here). Our data excludes the recent Reliance acquisition as this has not yet passed regulatory approval.

Market Overview

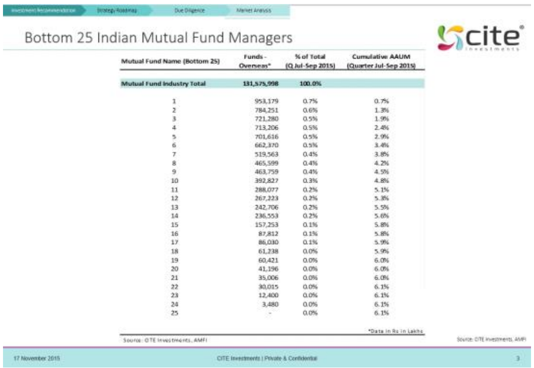
Mutual Fund Name (Top 10)	Funds - Overseas*	% of Total (Q Jul-Sep 2015)	Cumulative AAUM (Quarter Jul-Sep 2015)
Mutual Fund Industry Total	**131,575,998**	**100.0%**	
HDFC Mutual Fund	17,083,765	13.0%	13.0%
ICICI Prudential Mutual Fund	16,462,850	12.5%	25.5%
Reliance Mutual Fund	15,291,942	11.6%	37.1%
Birla Sun Life Mutual Fund	13,340,382	10.1%	47.3%
UTI Mutual Fund	10,407,740	7.9%	55.2%
SBI Mutual Fund	8,862,799	6.7%	61.9%
Franklin Templeton Mutual Fund	7,732,824	5.9%	67.8%
IDFC Mutual Fund	5,677,369	4.3%	72.1%
Kotak Mahindra Mutual Fund	5,651,078	4.3%	76.4%
DSP BlackRock Mutual Fund	3,733,894	2.8%	79.2%

*Data in Rs in Lakhs

Source: CITE Investments, AMFI

Source: CITE Investments, AMFI

17 November 2015 CITE Investments | Private & Confidential 2



Bottom 25 Indian Mutual Fund Managers

Mutual Fund Name (Bottom 25)	Funds - Overseas*	% of Total (Q Jul-Sep 2015)	Cumulative AAUM (Quarter Jul-Sep 2015)
Mutual Fund Industry Total	**131,575,998**	**100.0%**	
1	953,179	0.7%	0.7%
2	784,251	0.6%	1.3%
3	721,280	0.5%	1.9%
4	713,206	0.5%	2.4%
5	701,616	0.5%	2.9%
6	662,370	0.5%	3.4%
7	519,563	0.4%	3.8%
8	465,599	0.4%	4.2%
9	463,759	0.4%	4.5%
10	392,827	0.3%	4.8%
11	288,077	0.2%	5.1%
12	267,223	0.2%	5.3%
13	242,706	0.2%	5.5%
14	236,553	0.2%	5.6%
15	157,253	0.1%	5.8%
16	87,812	0.1%	5.8%
17	86,030	0.1%	5.9%
18	61,238	0.0%	5.9%
19	60,421	0.0%	6.0%
20	41,196	0.0%	6.0%
21	35,006	0.0%	6.0%
22	30,015	0.0%	6.1%
23	12,400	0.0%	6.1%
24	3,480	0.0%	6.1%
25	-	0.0%	6.1%

*Data in Rs in Lakhs

Source: CITE Investments, AMFI

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17 November 2015 CITE Investments | Private & Confidential 3

Conclusions

Our conclusion is that India’s mutual fund industry has been challenged by a host of changes announced by SEBI and general market forces, mainly a distrust of equity fund offerings.

For an investor who wants to build a platform in India this time may provide

an interesting entry point. However, the entry may be perceived as cheap for a reason, as the cost comes in the form of distribution challenges and a general lack of market experience by domestic investors.

If one can take a medium- to long-term view, however, we see India's mutual fund industry as a **significant opportunity for global AMCs**. We are aware that this may be a contrarian view, but in light of the fact that the largest names on the street are exiting could give those in the second row an opportunity to build out their own franchises.

We are happy to entertain discussions with investors who wish to take a look at India with a view to secure an investment in a domestic mutual fund business.

Sascha Klamp
Founder, CIO
CITE Investments

Sascha has significant asset allocation experience across a range of asset classes. He formulated the ILS Asia thesis which was we recently updated following many network discussions. Find the pdf here.

Anjelika Klamp
MD, Global Head of Portfolio Management

Anjelika has significant quantitative portfolio management experience, enabling her to engage with clients on prod uct specifications and portfolio construction. She acts as CITE's CFO.

Lars Kristoffersen
Head of Distributor and Investor Relations

Lars brings significant relationships to CITE. His previous role at Goldman Sachs enables him to engage in technical conversations with investors and distributors.