Need to take an unconventional route when it comes to managing products

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Rajesh Iyer, CEO of DHFL Pramerica Mutual Fund

Rajesh Iyer has been part of the financial services industry for two decades. Of this, he has spent slightly over a decade managing the investment advisory function at Kotak Wealth Management. Now Iyer has switched to the other side as CEO of DHFL Pramerica Mutual Fund. He spoke to Mint about his decision to switch and the need for the AMC business to bring in unconventional methods to scale up to the next level. Edited excerpts:

OFF TRACK

Favourite book
"Purana Purusha" by Mahamahopadhyaya Yogacharya Dr Ashoke Kumar Chatterjee

Gadget you can't do without
Phone

Your money mantra
Money can only be the means not the end goal of life

Your fitness mantra
Eat, think right and sleep tight

Do you bring work home?
No

What compelled you to switch from wealth management to asset management?

The most important thing was that I knew what the client wanted, but lacked a platform. In wealth management, you advise and allocate rather than manufacture. In a sense, I have been running asset management in an open architecture format and at the same time managing clients. There are a lot of nuanced expectations from different clients, right from the most sophisticated and astute investor to the one who operates only on trust.

This repertoire of knowledge is not efficiently used when you don't have the capability to manufacture products. While we are not among the top 10, we have size, and that is the opportunity. This repertoire also tells me there is something lacking—a platform to respond to a host of requirements. I understand both client management and investments. We are looking at a world class platform that focuses on what clients wants.

Isn't that the real challenge, coming from an open architecture set-up to a one brand manufacturer where there is only one set of products to choose?

The categorisation of funds is now very clear. It is a big step from the regulator. For us as an institution, we need to take an unconventional route when it comes to managing products. India still lacks a lot of things that can be done in the industry. I have spoken to many stakeholders and everyone has some issues to deal with; it could be scale or size. As a first step, from a human resource perspective, I am planning something unconventional, which none of the other asset management companies (AMCs) have even thought through. I believe a community atmosphere will work much better in terms of how people interact (at work), rather than people just coming into conventional offices. I plan to do something different. I don't mean to shake up the entire industry, but I believe there are a lot of things that clients want and which can be taken care of in a much better way and the results can be sustainable, irrespective of size. Client experience has to be seamless at any size.

DHFL Pramerica's assets are tilted towards fixed income whereas the average individual investor wants equity funds.

Isn't that an opportunity? I don't have any baggage or any size issues. My communication to all investors is that we will be relevant as we represent ethics and trust; we target to be the best in everything, be it service, technology, or investments; and (we believe in) giving back to the society. These three tenets are close to each investor and are the basis on which our asset management practise will be built.

One of the advantages is the ability to utilise the existing distribution network. How much will that be a part of your strategy?

Every channel is important. DHFL has a mammoth Rs1,00,000 crore asset book. We will try to engage and see how we can work with that. Ultimately, we have to keep compliance in mind. We will respect all the boundaries but if there is an opportunity to work, we will consider it. But this is only one of the things in the large scheme. The three things we will focus on are breadth, depth and relevance. We want to be relevant for each investor—retail or HNI. We may not go with the traditional way of doing business. Technology and digital access will be important as well.

At the moment we are an institutional, debt-oriented entity. You will see a 180-degree change from here. All this will happen simultaneously.

In the past few years, we have seen a wave of closed-end equity funds. Is this a relevant solution for investors, especially new equity investors?

In my decade long experience in this, I don't see closed-end equity funds having delivered. Their advantage is the concentration in portfolio and the ability of the fund manager to deliver returns without the pressure of flows. But anecdotally if you test out the returns, alpha (excess return) has not happened. So, I'm not a huge fan. We will see relevance in terms of demand. If I am able to achieve better returns in the open-ended format with liquidity, I don't really have a reason for doing closed-end ideas. But there may be themes that warrant this structure. Investors haven't made money in closed-end formats. Having said that, certain strategies and clients may want to look at these selectively.

Client experience has to be seamless at any size

While categorisation guidelines of the Securities and Exchange Board of India (Sebi) are well intentioned, have they killed product innovation?

I don't think so. As I mentioned earlier, there now needs to be more unconventional methodology of investment management which has to drive innovation within categories. The categories today are enough, keeping in mind the current evolution of the market. Again, this is not the end in terms of the number of categories and Sebi has not said anything on those lines. As an investor, now for me, it is very simple. We clearly believe that Sebi has done a tremendous job for the end investor. Earlier, an investor wanted to compare say four funds, each would have its own philosophies and so it can never be apple to apple. They are also moving towards a total return performance measure. These two (measures) together will make gold standard.

You have retail, high net-worth clients and institutional clients. The penetration of retail investor AUM across all the present categories is still yet to happen. As it is still in its nascent stage and as the understanding improves, this will happen. Thus, the retail segment, at present, may actually not need more categories.

For the HNI segment, there is PMS (portfolio management service) and the AIF (alternate investment funds) platforms that today are effectively used to differentiate. We are very cognizant of Sebi's vision for Bharat. We also plan to be present in the PMS and AIF space to complete our basket of solutions for investors.

Is this one of the reasons (retail versus HNI) that we see most of the regulatory guidelines coming in the mutual funds space rather than in PMS and AIF?

It will happen there too. We are also grappling with the taxation aspect of AIF. In Kotak Wealth, we had taken a call not to do too many AIFs because of the taxation ambiguity. Now there is more comfort on a particular format. Sebi understands what is happening. We would like to play an active role through the regulators to help shape these aspects in future.

You have joined when there is uncertainty in markets, in the industry itself with regulatory changes, and of course there are people in the equation. What is your biggest challenge in this scenario?

The challenge is that India has seen traditional asset management. What we want to bring forth is a more evolved framework in asset management. It will be difficult for many within our own structure to get used to the unconventional aspects. This is needed by the industry but it is going to be a challenge for people to understand. Once that framework comes into place, the obvious challenge is talent. Traditional asset management has a typical way of using people, which we plan to change. This is also an opportunity for us. There are various reasons why the industry hasn't done something different yet, which I understand and am aware of. The way we plan to address this is through entrepreneurship.

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