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Stocks

PMS players turn smart, now go for only the really wealthy

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MUMBAI: Competition among providers of portfolio management service, or PMS, appears to be intensifying, as they are now focussing on the narrow base of the really wealthy.

Even though the rebound in stocks since March presents them with an opportunity to garner a wider client base, PMS providers have become choosy about their client profiles. Many of these money managers to wealthier investors are no longer accepting investments of less than Rs 1 crore in their schemes against a minimum of Rs 10 lakh earlier.

Efforts to get and service a Rs 10 lakh, or a Rs 1-crore account, is almost the same. So, why not go for the big-ticket one?, said Akhilesh Singh, head-wealth management, Emkay Global Financial Services.

Providers said the Sebi ban on pooling of PMS accounts and inability to provide similar services to a vareity of clients are among the main reasons for this shift in their business strategy.

After the regulator disallowed pooling of PMS accounts, it became a herculean task for PMS providers to execute trades into numerous smaller accounts,said Maneesh Kumar, director, Burgeon Wealth Advisors.

Last year, Sebi told PMS providers that each of their clients should have a separate demat account to improve transparency in the use of clients money. The move pushed up the cost of these providers, making it unviable for them to service clients with lower investments.

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Another cause for their reluctance to accept money from less -wealthier clients is their demand to treat them on par with the ones with higher investments, mainly with regards to interaction with fund managers.
In fact, small-ticket clients are more demanding than the bigger clients and fund managers have to agree grudgingly, says Mr Singh.

Of late, there have been instances where some PMS providers have asked clients to upgrade their investments to Rs 1 crore or withdraw their money, though they deny this. They said the higher threshold limit has been restricted to fresh investments.

It became a nightmare for fund managers to service portolios that merely had Rs 10-15 lakh investments, Mr Kumar said. Also, PMS providers (especially wealth managers) wanted to move up the food chain; many of them aspired to begin family office operations by including richer clients, he added.

Some PMS providers, in private, said the hike in minimum investment limit is also to prevent small investments by some wealthy investors, who put money just to gain insight to the stock picks of funds managers.

In the last bull run, these investors usually put a small portion of their total investible corpus in PMS schemes of 3-4 brokerages. Some of them invested just the minimum sum needed in these PMS schemes, to gain access to the stock portfolio of the providers.

They used these inputs to create a larger portfolio by themselves. In this process, they did not have to pay additional fixed and performance fees. Though portfolio providers were aware of this, they did not bother to plug it then because of their fixation for a larger asset base and more fees.