

FOCUS

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WHO SAYS GROWTH rates are just about GDPs? India, registered an impressive 50.9% growth in its High Network Individuals (HNIs)—individuals with net assets of at least \$1 million, excluding their primary residence and consumables. With 126,700 HNIs in 2009 against 84,000 in 2008, India is not just leading the BRIC block, but is also registering one of the fastest growth rate in the elitist Richie Rich club. Those trailing India in HNI growth include Australia (34.4%), UK (23.8%), Canada (17.9%) and the US (16.5%), according to the Capgemini/Merrill Lynch World Wealth Report 2010. And it's not just that HNI numbers are growing, interestingly amidst a global 'wait and watch' scenario, the Indian HNI is also experimenting with a gamut of investments across the spectrum, from fixed income instruments, commodities, art and private equity firms.

So how is the Indian story different from others? Observers point that India has a swelling young HNI population. Sanjeev Bhalla, head, equities & alternatives, Bank of Bahrain & Kuwait says, "Most HNIs of India and China are first-generation HNIs, who are willing to take on more risk." But what drives the investment motive varies. "One cannot paint all HNIs with one brush," says Maneesh Kumar, managing director, Burgeon Wealth Advisors. Kumar adds that HNIs look for a mix of risk and return. "Since HNIs have already accumulated wealth, safety of principal is, more or less, a common theme among them. Not surprisingly, they are interested in superior returns as well but safety takes precedence over return. In other words, they want to bake their cake and eat it too."

Kumar explains that HNIs do not generally follow a 'hit & run' approach. "While a majority of HNIs implement asset allocation, portfolio diversification and re-balancing strategies suggested by wealth managers, a segment of HNIs likes to take a concentrated bet. Once they develop conviction in certain ideas, they channelise their resources whole hog into them. They discard their risk-return paradigm."

Equity shy?

Globally, Fixed income was the flavour of the year for HNIs. "Allocation to fixed income went up to 31% in 2009, from 29% in 2008 globally. Investors got more cautious and demanded predictable cash-flows," confirms, Atul Singh, head, wealth management, Merrill Lynch Wealth Management. However, Indian HNIs had different plans. 2009 saw them returning to the equity market after a catastrophic year. "In 2009, investors witnessed a 100% appreciation on their equity investment, and the interest picked up after the election results in May. There was a definite desire to get invested," adds Singh.

Asia Pacific Wealth Report 2009 states that HNIs in India had the highest equities allocation in 2008 (33%), down from 2007 (37%), as market capitalisation sank (-64.1%). The report states that despite reduced market capitalisation, allocation remained relatively large, as India's HNIs are very comfortable with equities and prefer direct investments in the equity market—given the local market's stellar performance in recent years.

With global equity-market capitalisation rising nearly 47.1% in 2009 to reach \$47.9 trillion, Indian stock-market capitalisation more than doubled in 2009. Vishal Kapoor, head, wealth management, Standard Chartered Bank, India says, "Indian HNIs got the equity story right and made most of the opportunity, were early to react, got into the risky market, stuck to the basics and booked profit at the right time." Parizad Sirwalla, partner, BSR and Co, corroborates that equity was a volatile investment option in the financial year. "With recession in the US and most parts of Europe impacting stock markets globally, majority of HNIs saw an opportunity to invest in the equity market, as stocks were being offered at mouth-watering prices. Domestic equity was a definite consideration over a medium term. Health/pharma, consumer goods, retail and energy, and natural resources emerged as the most preferred sectors for equity investment."

Rohit Sarin, founder partner, Client Associates, Private Wealth Management & Banking Firm says, "HNIs stayed put in equity markets and benefited from the market upside in 2009. They booked profits during the October-December quarter. While they haven't increased exposure towards equities they haven't even reduced it." Going ahead, Kapoor predicts that Hong Kong and China too will be back to equity.

Realty show?

Global Wealth Report 2010 states that real estate has a significant allocation within HNI portfolios in Asia. Singh confirms, "In Asia (excluding Japan), 28% of HNI wealth was allocated in real estate, which is the highest in the world.



Netting Their WORTH

It's not just that the High Network Individuals are growing in India, amidst a global 'wait and watch' scenario, the Indian HNI is experimenting with a gamut of investments across the spectrum

In an inflationary environment hard assets like real estate provide a good hedge." Given that real estate has provided decent returns in the past, Bhalla says, "HNIs have always looked at real estate as real investment." He adds, "They are investing in second or third homes like holiday homes and some of these properties are bought for letting out during peak tourist seasons." Also there is a marked shift in the way realty investment is approached. Sirwalla says, "HNIs are now setting their sight on commercial properties, which command higher prices than residential, giving them security of a property as well as regular rental income." She adds, "With the retail sector boom, the emergence of semi-commercial prop-

erty in residential locations has made the investment financially viable."

However, Ajay Bagga, head, private wealth management, Deutsche Bank, India, cautions that real estate is grappling after its peak of 2007. "HNI portfolios are heavy on real estate already. During 2006-07, a lot of money was invested in real estate and real estate funds. With the sharp decline in prices and the liquidity squeeze in 2008, this asset class lost its sheen. Now it's more of wait-and-watch. Also, retail and commercial projects are being converted into residential projects. Hospitality sector has seen a partial revival but investment interest is still low. Overall, we haven't seen a return to the demand or euphoria of mid-2007."

Experts opine that investment in realty is becoming more focused. Kumar points that earlier, HNIs used to buy things in their backyard, now, with the advent of real estate funds, many are leaving investments in the hands of fund managers. He adds, "Real estate investments have also changed with the proliferation of International Property Consultants (IPCs). These companies have a national and international footprint and suggest projects for pan-India investments."

Echoes Sirwalla, "Considering the regulatory compliance for investment in overseas real estate and also the regulatory compliance in the investment jurisdiction, India still remains an attractive investment destination as

Leading the HNI BRIC block Growth 2008-2009

BRAZIL	11.9%
131,000(08)-146,700(09)	
RUSSIA	21.3%
97,000(08)-117.700(09)	
INDIA	50.9%
84,000(08)-126,700(09)	
CHINA	31.0%
364,500(08)-477,400(09)	

Source: Capgemini/Merrill Lynch World Wealth Report, 2010

compared to China and Hong Kong. However, Dubai is also popular."

Interestingly, Rajev B Sharma, country head, wealth management, Unicorn Financial Intermediaries, points at the trend of HNI's venturing to debt ridden markets. "HNIs are tapping opportunities in the realty space of countries like US and UK. Some are even scouting for houses in Spain and Greece. This is because houses abroad have become cheap post-meltdown."

Right mix?

HNI's investment kitty has undergone considerable change in the last two years. Sharma says that HNIs are exploring all options to maximise returns and apart from gold and real estate, they

have also entered the private equity space. "Y-O-Y gold is up 24% in dollar terms and 23.1% in rupee terms. If global markets continue to be tumultuous, investment in gold may rise." Gold has a no-to-low correlation with equity markets, thus serving as a hedge against equities and inflation. Kumar adds, "We recommend silver along with gold. While gold has hit its peak compared to 1980 on a non-inflation adjusted basis, silver, still has a long way to go. Silver can be bought as physical commodity in India or in Futures or as ETFs in international markets, available to an Indian investor under the \$200,000 remittance route allowed by RBI."

Investment through PE is gaining ground as well. Sharma says this is mainly because PE funds have reduced the ticket size of investments to about Rs 25 Lakhs, which used to be in Crores. Singh adds that alternative investments read a mixed story for India as it still does not have hedge funds and has to be content with PE and real estate offerings. "However, we did see considerable interest in this market, with big business houses like Tata, Reliance, Birla and IDFC launching their own PE or RE funds."

Sharma explains that HNIs are also using defensive strategies like investing in short term debt instruments and structured products with capital protection. "In recent times most of the investment has found its way into liquid debt based funds and gold. With gold prices zooming, gold ETFs are looking a safe bet. They have generated returns in excess of 10% over the past month, the best among all fund categories. Real estate based funds are popular and that is why areas like Mumbai and Gurgaon have seen considerable appreciation in luxury properties."

Experts believe that in the last year risk appetite of HNIs has improved and confidence is back. Bagga says that as HNI population in India grows in breadth and depth, it will result in increased investable surplus. "The demand for passion investments is expected to increase as financial markets stabilise. Categories like luxury automobiles, jewelry, art are likely to attract majority of investors, even as gems and jewellery will still be preferred, followed by luxury watches."

HNI's are also making their cash work hard for them too. Kumar says, "They are investing in short term corporate FDs which are delivering 400-500 basis points higher than bank rates. Daily observation and application of interest on savings accounts has helped as HNIs hold dynamic savings accounts with big banks. In bond funds, they prefer short term bond NAVs."

Elbow rule?

Wealth managers point that HNIs are becoming more aware about their investments. Vinay Agrawal, executive director, equities broking, Angel Broking confirms, "HNIs are no more just deciding on their investments. They prefer some ground work before getting into an unknown asset class, building a personal investment strategy and hedging investments with various instruments."

Managers are also swearing by the potential of non-resident Indians (NRIs) in the HNI investment segment. As per the Asia Pacific Wealth Report 2009, NRI deposits grew from \$36.1 billion in December 2008 to \$39.2 billion in May 2009, while remittances, estimated at \$49 billion in 2008 are projected to reach \$56 billion in 2010. This is particularly significant as 15%-25% of NRI portfolios are invested in India. Outside Asia-Pacific, the Middle East and North America are the regions with the highest NRI populations. Together, they submit close to 70% of NRI remittances coming from outside of Asia-Pacific. Anshu Kapoor, vice-president, wealth advisory and investment, Edelweiss Securities says, "More than returns, the game is about risk management now. NRI allocation in equity related products is substantial. India is a known risk for them and they know growth is happening here."

Going ahead, wealth managers are confident that India's HNI investment story will only get better. Singh says that the risk appetite of HNIs is expected to go up, as they would get comfortable with India's improving macro-economic condition. "The market is fairly valued, with expected gains coming from Earnings Per Share (EPS) expansion. It is poised for growth over the medium/long term, but in short term, it will be influenced by global uncertainty and volatility. This will create opportunities for building a high-quality portfolio for long term growth."

As Bhalla rounds up "HNIs may again start allocating to illiquid private equity and risky alternative assets. Ultra HNIs have started taking direct exposure to unlisted companies rather than giving investments to private equity funds. They are now seriously looking at investing outside India. HNIs are closely watching the new Direct Taxes Code which would significantly impact their wealth. New DTC discourages long-term investments as capital gains tax and rental income tax rules are changing." What it spells for HNI investments remains to be seen.

Money Wise: Asia Pacific HNI Allocation of Financial Assets

