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ETMarkets Smart Talk: Why are arbitrage funds popular among HNIs, Anuj Kapoor decodes By Kshitij Anand, ETMarkets.com • Last Updated: Apr 24, 2024, 09:00:00 AM IST

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Synopsis Anuj Kapoor of JM Financial discusses the tax efficiency of arbitrage funds for HNIs and

the growth of new millionaires in Tier 2 and Tier 3 cities. He highlights the interest in unlisted opportunities, strategic advisory for family businesses, and the impact of market volatility on investments. Kapoor says: "Funds focussed on the manufacturing, defence, PSUs, which have been underperformers over the last decade, have shown

ETMarkets.com "Tier 1 cities are witnessing healthy competition amongst Wealth Managers, which is now turning their focus towards smaller cities given their positioning - high

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Markets Data

s > Expert Views > ETMarkets Smart Talk: Why are arbitrage funds popular among HNIs, Anuj Kapoor decodes

Politics

Wealth

Investment Ideas

strong performance and have delivered stellar returns."

In an interview with ETMarkets, Kapoor said: "Arbitrage has been a preferred category for potential and hitherto low

penetration." recent years.

shorter term funds, as arbitrage funds have done well with buoyant equity markets and high F&O volumes, better participation from Retail HNIs in F&Os adding stability in arbitrage yields." Edited excerpts: How is the growth of new millionaires in Tier 2 and Tier 3 cities in India?

"Tax efficiency of **arbitrage funds** for **HNIs** is a big

pull factor in these funds," says **Anuj Kapoor**, MD

& CEO, Private Wealth and Alternatives Asset

Management, JM Financial.

**Anuj Kapoor:** India is arguably the fastest growing amongst major economies in the world and enormous wealth is being created in the Tier 2 &3 cities in Tier 1 cities are witnessing healthy competition amongst Wealth Managers, which is now turning their focus towards smaller cities given their positioning

- high potential and hitherto low penetration. As per AMFI reports, AUM share of smaller cities has grown from a mere 2.55 percent in 2014 to 17.44 percent in 2023. With access to more information, Gen next in smaller cities are better travelled and many are educated in tier 1 cities

or overseas.

They are, therefore, keen on shifting beyond traditional assets like real estate, gold and fixed deposits. Wealth Management firms are therefore focusing on

building out a robust presence in these cities to offer sophisticated financial investments across asset classes including unlisted opportunities. Another growing opportunity is in offering estate planning, wills and trust services coupled with tax advisory.

As the marketplace broadens, wealth firms with corporate advisory practices are also helping family run businesses based in Tier2 and 3 cities in business restructuring, M&A, and preparing them for capital markets.

Anuj Kapoor: As seen from the mutual fund trends, sectoral/thematic funds have been the top selling category, with wide divergence in performance within sectors.

There has been a high interest for sectoral/thematic funds amongst HNIs to

capitalize on sector specific plays, as the winners in the markets are rotating.

underperformers over the last decade, have shown strong performance and

Arbitrage has been a preferred category for shorter term funds, as arbitrage

funds have done well with buoyant equity markets and high F&O volumes,

better participation from Retail HNIs in F&Os adding stability in arbitrage

Funds focussed on the manufacturing, defence, PSUs, which have been

MF houses also released their data for March month - any key mutual

fund trends that you have spotted among the HNIs?

have delivered stellar returns.

disruptions in global markets.

maximise gains in the long run.

and currency exposure.

yield & structured credit products.

ever FX reserves.

structuring, etc.

family office clients.

the long run.

and pragmatism.

investors and India Inc.

tensions.

yields.

Also, tax efficiency of arbitrage funds for HNIs is a big pull factor in these funds. We are seeing a renewed interest from clients in the precious metal, especially gold, with the EM central banks adding gold to diversify their FX holdings (a trend towards de-Dollarization). Momentum in metals performance and softening interest rates globally favour gold from hereon.

We are in an era where equity markets touched record highs, Gold touched

record highs, crude oil prices are also heading northwards, the rupee hit a

record low against the US Dollar - what does the data point tell you? Is

there any anecdotal data to support what could be the likely outcome?

Anuj Kapoor: The generally accepted correlations between variables are no

longer being adhered to and many market variables are displaying extremities. The few examples quoted such as decadal high interest rates, gold touching new highs, buoyant equity markets, etc. are symptomatic of the volatile times for the markets and world at large with challenges on growth and geopolitics. The story of globalisation, at the forefront a decade ago, has now been tapered by enhanced inward looking policies by major Governments.

Many of the extreme variables point towards the possibility of volatility and

While rising domestic liquidity points towards tailwinds for India, rising gold

prices indicate flight to safety in global markets faced with rising geopolitical

Wealth managers typically focus on preparing for the likely outcomes and express it through diversification across asset classes, styles of investments, and geography.

All this is underlying on how to best tackle the short-term volatility to

How are investors and asset managers leveraging strategic portfolio

and achieve sustainable wealth growth in the Indian market?

Hence, the need for diversification and rebalancing is even higher.

rebalancing and diversification strategies to navigate market volatility

Anuj Kapoor: Increasingly, market cycles are getting shorter and volatile.

Geographical diversification has evolved as a theme wherein many investors

are looking at overseas markets for varied products, diversified geographical

These are also times which create opportunities for the long-term investor.

Their focus is also on participation in innovation and technology, not yet available in India. In the recent times, we have witnessed a stellar run in Mid & Small caps, where valuations now look a bit rich. Therefore, within equities, portfolios are being rebalanced by increasing large cap exposure, as they look relatively attractive in the current environment.

In fixed income, with the emergence of AIFs, and supportive economic

Also, with the peaking interest rate environment, duration is actively

considered in the portfolios to benefit from likely softness in yields and to

Anuj Kapoor: INR has been a fairly stable currency among the peer group over

last one year, depreciating nearly 1.5% against USD. This annual depreciation

has been lower than the long-term average of 3-4% depreciation and therefore

USD/INR pair has been relatively resilient when compared to DM currencies.

The recent weakness in the INR against USD has been mainly led by strength

in Dollar index with hawkish Fed and resilient high yields in the US.

tame reinvestment risk by locking in yields at relatively elevated levels.

Rupee hit a record low against the US Dollar - what is causing the

weakness in the currency? Should India Inc. be worried?

environment for high yield credits, investors are increasingly looking at high

Rate cut projections have been tapered for 2024 and concerns on war have led to a strengthening of the world's most popular currency, the US dollar. INR has by and large been resilient on the back of robust FPI flows both in equity and fixed income markets, likelihood of sustained FPI flows in G-secs

following the index inclusion of Indian G-Sec's starting June this year, a stable

RBI has also intervened in the markets with any unusual currency fluctuation

external account positioning thanks to robust services exports and highest

coming in. With all these factors at play, we expect the INR to follow an

orderly trajectory and therefore don't see any concern on the outlook for

How is the wealth management sector preparing to leverage India's potential as the third largest economy by 2027, considering emerging trends such as diversification, digitization, client-centricity, and personalization? Anuj Kapoor: The rapid growth in Indian economy is creating significant wealth through the emergence of new generation of entrepreneurs.

Early movers in the wealth management industry are already engaging with

Wealth offerings have broadened to include wealth preservations strategies

Wealth Management firms are also going digital in their client offerings with

such as trust and estate planning services, single and multi-family office

them through diversified product offerings, increasing geographical

penetration and focusing on talent retention.

more robust analysis and customised offerings.

In fact most of the new age Wealth Management firms are building on strong technology platforms as differentiators of their client offerings. Leading Wealth players are customizing products and engagement across

various segments of clients and are originating bespoke transactions for larger

Given this is a people-centric business, the ability of Wealth Management

firms to attract and retain talent is going to be key to managing this growth in

What are the key characteristics of small-city wealthy families in India

family office foundations, and maintain a less noisy lifestyle conducive to

that enable them to excel in long-term investing, establish informal

clearer decision-making? Anuj Kapoor: In most cases, old money in smaller cities continues to follow the patriarchal family system. As joint families are large, various responsibilities across managing business and finances are distributed amongst family members.

Key decision-making is also joint and taken within the family itself. The

convention of asset protection is passed on from generation to generation.

Typically, there are long-serving accountants or lawyers who are family confidants and consulted on various matters. Whilst the younger generation, with more diverse exposure, brings in fresher ideas and newer thoughts, the older generation of wealthy families tend to be conservative in views and lifestyle.

local societies. They are also more conservative in their approach toward ideas they are not familiar with. As the hierarchy of decision-making is clearly defined in these families and

taken jointly, they are able to evaluate opportunities with greater prudence

They tend to stay away from opulence and prefer being low profile in extended

Having said that, their style of investing remains narrow and conservative, focused on wealth preservation over wealth maximisation.

(Disclaimer: Recommendations, suggestions, views, and opinions given by experts are their own. These do not represent the views of the Economic Times)