Impact of digital transformation on asset management

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Abstract

This paper outlines a range of research topics within asset management, focusing on the effectiveness of diverse strategies, the integration of technology, and adherence to ethical principles. The research areas include:

1. *Analyzing the effectiveness of various asset allocation strategies across different economic environments.*
2. *Assessing methodologies and effectiveness in performance attribution within asset management firms.*
3. *Evaluating the impact of environmental, social, and governance (ESG) criteria on fund performance.*
4. *Exploring the evolving role of robo-advisors in modern asset management practices.*
5. *Investigating how technological advancements are reshaping portfolio management strategies within asset management firms.*
6. *Assessing the persistence of performance in mutual funds and hedge funds.*
7. *Studying the long-term performance of portfolios managed under ethical or socially responsible investing principles.*
8. *Investigating behavioral biases affecting investment decisions among individuals and institutions.*
9. *Examining asset allocation strategies employed by pension funds and their long-term impact on fund performance.*
10. *Evaluating the operational efficiency of asset management firms and its correlation with fund performance.*

****Keywords:*** *portfolio management, asset management, mutual fund*

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Introduction

Asset management involves the acquisition, disposition, and oversight of investments tailored to specific risk thresholds with the aim of enhancing wealth over extended periods.Professionals in asset management, also known as portfolio managers or financial advisors, offer these services to clients. While some operate autonomously, others are employed by asset management firms, investment banks, or similar financial entities.

Key Points to Note

Asset management aims to optimize the growth of investment portfolios while prudently managing risk.

Specialized firms typically deliver asset management services to individuals, government bodies, corporations, and institutional investors.

Asset managers are entrusted with a fiduciary duty to act in the best interests of their clients, making decisions on their behalf in a principled manner.

Understanding Asset Management

Asset management pursues a dual objective: enhancing value while minimizing risk. Assessing risk tolerance is typically one of the initial discussions between an asset manager and a client.For instance, retirees reliant on portfolio income or pension fund administrators overseeing retirement funds tend to prioritize risk aversion. Conversely, younger individuals or more aggressive investors may lean towards high-risk investments.Most clients fall within these spectrums, prompting asset managers to pinpoint their specific risk tolerance. Consequently, asset managers play a crucial role in identifying suitable investments that align with clients' financial objectives within their risk tolerance thresholds. These investments can encompass stocks, bonds, real estate, commodities, alternative investments, and mutual funds, among other well-known options.

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Asset management often involves rigorous research employing both macro and micro analytical tools. This includes statistical assessments of current market trends, scrutiny of corporate financial reports, and other methods aimed at achieving clients' objectives of asset appreciation.

Types of Asset Managers

Asset managers vary in specialization and the level of service they offer, each catering to different client needs and responsibilities that should be understood before making investment decisions.

Registered Investment Advisers (RIAs)

RIAs are firms that provide advice on securities trades and manage portfolios for clients. They are heavily regulated and must register with the SEC if managing assets exceeding $100 million.

Broker

Brokers act as intermediaries, facilitating the purchase of stocks and other securities and safeguarding client assets. They typically do not have fiduciary duties, necessitating thorough research before engaging their services.

Financial Advisor

Financial advisors are professionals who recommend investments and execute trades on behalf of clients. They may or may not operate as fiduciaries and often specialize in areas like tax planning or estate management.

Robo-Advisor

Robo-advisors are automated algorithms that construct, monitor, and adjust investment portfolios based on programmed goals and risk tolerances. Their services are cost-effective compared to traditional asset management due to their automated nature.

The robo-advisor market is projected to grow significantly, from $9.5 billion in 2024 to $72 billion by 2032.

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Cost Structure of Asset Management

Asset managers employ various fee models, typically charging a percentage of assets under management. For portfolios up to $1 million, the industry average is around 1%. Larger portfolios generally benefit from reduced fees due to their scale. Alternatively, some asset managers may charge per trade or earn commissions by promoting securities to clients.Understanding these fee structures is crucial as they can impact client interests. It's essential to determine if your asset management firm operates as a fiduciary. Without this designation, there may be a risk of receiving recommendations or executing trades that do not align with a client's investment experience or financial objectives.

Operations of Asset Management Companies

Asset management companies engage in competitive practices to cater to the investment requirements of both individuals and institutions. Clients at financial institutions, such as banks, often enjoy a range of services including check-writing privileges, credit cards, debit cards, and brokerage facilities.When individuals deposit funds into their accounts, these are typically allocated to money market funds offering superior returns compared to standard savings accounts. Depositors benefit from Federal Deposit Insurance Corporation (FDIC) protection, safeguarding deposits up to at least $250,000 per account holder.It's important to note that FDIC insurance doesn't cover non-deposit investment products like mutual funds, annuities, and stocks and bonds. These integrated banking and investment services became possible following the passage of the Gramm-Leach-Bliley Act in 1999, which replaced the Glass-Steagall Act of 1933. The latter mandated a strict separation between banking and investment activities, whereas the former requires institutions to maintain a clear delineation between these functions.Clients managing their assets through banks benefit from the convenience of having all their financial needs met under one roof, combining banking services with investment management capabilities.

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Distinguishing Between Asset Management Companies and Brokerages

Asset management companies operate as fiduciary entities, typically catering to clients with substantial assets. They often possess discretionary trading privileges, allowing them to make investment decisions on behalf of clients, with a legal obligation to act in the best interests of those clients. In contrast, brokerages primarily facilitate and execute trades but generally do not manage portfolios, although some may offer such services. Brokerages are typically not fiduciaries, meaning they are not legally obligated to prioritize the client's best interests in the same way asset management firms are.

AMC	**AUM (Rs Crore)**	**1-Year Returns (%)**	**3-Year Returns (%)**	**5-Year Returns (%)**	**Equity Funds (Count)**	**Hybrid Funds (Count)**	**Debt Funds (Count)**
HDFC AMC	4,60,000	12.8%	15.6%	13.9%	35	28	28
ICICI Prudential AMC	4,20,000	11.5%	14.2%	12.7%	30	10	25
SBI Funds Management	3,80,000	10.9%	13.8%	11.9%	28	8	22
Aditya Birla Sun Life AMC	3,50,000	12.2%	14.9%	13.3%	32	9	20
Nippon India AMC	3,10,000	11.7%	15.1%	12.6%	27	11	24
Kotak Mahindra AMC	2,90,000	13.1%	16.3%	14.5%	25	7	18
Axis AMC	2,70,000	11.3%	13.5%	11.8%	22	6	19
UTI AMC	2,50,000	12.4%	15.8%	13.2%	29	9	23
IDFC AMC	2,20,000	10.7%	12.9%	11.1%	20	5	16

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DSP Investment Managers	2,10,000	13.6%	16.9%	14.8%	24	8	15

Regulatory Bodies of Asset Management Company

Asset Management Companies (AMCs) in India are overseen by regulatory bodies that ensure their proper functioning and adherence to guidelines. The Securities and Exchange Board of India (SEBI) holds primary responsibility for regulating all AMCs across the nation. SEBI oversees the management, supervision, and evaluation of investment managers, ensuring compliance with regulatory standards. Additionally, SEBI manages a robust grievance redressal system for complaints related to asset managers.In parallel, the Association of Mutual Funds of India (AMFI) plays a role in the passive regulation of AMCs. AMFI supports the industry by providing guidelines and promoting best practices, contributing to the overall regulatory framework that governs asset management in India.

Criteria for registering an Asset Management Company (AMC) involve several key requirements set by SEBI:

1. An application fee of Rs. 1,00,000/- is required upon submission to the board. Upon approval, a registration fee of Rs. 10,00,000/- must be paid for the issuance of the registration certificate.
2. SEBI considers additional factors such as the adequacy of office infrastructure and other operational capabilities of the applicant entity.
3. Fund managers must possess qualifications in fields such as accountancy, law, or management, including chartered accountants.
4. At least two individuals within the management team should have a minimum of five years' experience in investment or portfolio management.
5. The manager must demonstrate a minimum net worth of Rs. 50,00,000/-.

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6. Initial registration certificates are valid for three years, after which renewal applications must be submitted.

Documents Required For Investment Through Asset Management Company

These criteria ensure that registered AMCs meet stringent standards for competence, financial stability, and operational capability under SEBI's regulatory framework.

To invest through an Asset Management Company (AMC), companies need to follow specific documentation procedures and requirements. Here are the necessary documents:

- A board resolution or committee meeting minutes indicating the corporation's decision to invest assets through an AMC.
- For a Private Limited Company (Pvt. Ltd.), the following documents are required:
    - Memorandum of Association
    - Scheme of Investment
    - Articles of Association
    - Director Identification Numbers (DINs) of the Company Directors
    - Proof of Identity (e.g., Passport)
    - KYC (Know Your Client) Documents
    - Proof of Address (e.g., Aadhar Card)
    - PAN Card and Aadhar Card

These documents are essential to initiate and facilitate investments through an Asset Management Company, ensuring compliance with regulatory and procedural requirements.

Top Asset Management Companies in India

Currently, there are 44 asset management companies operating in India. All of the AMCs are registered under AMFI. Here are the top asset management companies in India:

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AMC Name	Total no. of schemes	AUM (₹ Cr.)
HDFC Mutual Fund	119	362762.79
ICICI Prudential Mutual Fund	230	338768.2
SBI Mutual Fund	134	307841.17
Birla Sun Life Mutual Fund	159	254181.98
Reliance Mutual Fund	183	223271.93
Kotak Mahindra Mutual Fund	85	161381.68
UTI Mutual Fund	183	157865.86
Franklin Templeton Mutual Fund	65	126034.46
Axis Mutual Fund	53	102267.4
IDFC Mutual Fund	56	82493.29
DSP Mutual Fund	69	77619.03
L&T Mutual Fund	37	73496.7
Tata Mutual Fund	55	53640.7
Sundaram	79	31220.13

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Mutual Fund		
Mirae Asset Mutual Fund	16	29260.92
Invesco Mutual Fund	45	24647.9
Motilal Oswal Mutual Fund	16	19694.49
LIC Mutual Fund	23	16293.94
Canara Robeco Mutual Fund	26	15886.68
Edelweiss Mutual Fund	35	12128.22
HSBC Mutual Fund	36	12039.7
Baroda Mutual Fund	21	11180.52
JM Financial Mutual Fund	17	7710.09
Principal Mutual Fund	22	7279.79
BNP Paribas Mutual Fund	23	7243.52
IDBI Mutual Fund	22	6486.44
Mahindra Mutual Fund	11	4971.83
Indiabulls Mutual Fund	15	4529.96

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Union Mutual Fund	16	4307.03
BOI AXA Mutual Fund	17	3127.89
PPFAS Mutual Fund	3	2116.02
IIFL Mutual Fund	4	1522.58
Quantum Mutual Fund	9	1513.64
YES Mutual Fund	3	1421.44
Essel Mutual Fund	10	1040.54

What Does an Asset Manager Do?

An asset manager's role encompasses the creation and ongoing management of a client's investment portfolio. This includes making necessary adjustments, monitoring performance, and maintaining regular communication with clients to track progress toward their investment objectives. As of February 2024, the leading global asset management firms by assets under management (AUM) were BlackRock ($9.46 trillion), Vanguard Group ($7.25 trillion), Fidelity Management and Research ($3.88 trillion), The Capital Group ($2.5 trillion), and Amundi ($2.1 trillion).

The role of asset management

The primary mission of asset managers is to allocate the funds of both European citizens and institutional clients into productive economic ventures. The returns generated from these investments are then distributed to savers and pensioners, facilitating their financial objectives

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such as funding education or retirement.By deploying their clients' savings, asset managers also play a crucial role in supporting the economy. They provide vital financing to companies and governments, thereby contributing to economic growth and sustainability initiatives. Over recent decades, asset management has experienced consistent expansion, establishing itself as a cornerstone of the financial sector alongside banks and insurance companies. This growth has not only benefited individuals and societies but has also created numerous high-skilled job opportunities across Europe.

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