

Overview

IIFL Wealth and Asset Management is one of the largest and fastest growing private wealth management firms in India. Founded in 2008, IIFL Wealth has grown steadily and now manages assets of INR 1,67,746 crores, as on March 31, 2019. We have a wide network comprising of over 900 employees operating out of 33 offices, spread across the world.

Our business can be divided into two verticals

- **Wealth Management:** We serve the highly specialized and sophisticated needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions.
- **Asset Management:** We have a diversified suite of alternative investment funds, Portfolio Management schemes and mutual funds that span public and private equities, fixed income securities and real estate. Our clients include global and domestic institutions, channel partners including private banks, family offices, pension funds, and retail investors.

Wealth Management Business

1) Our Business Proposition

The fundamental role of a wealth manager is to help clients preserve and grow their wealth. IIFL Wealth provides HNI and UHNI clients investment management services with the aim to generate steady returns from a diversified portfolio with the lowest possible volatility, along with allied additional services such as trust and estate planning, credit solutions and corporate advisory.

Modes of Engagement with Clients

- Discretionary & Non Discretionary multi-asset class Portfolio management service
- Distribution of financial products across asset classes
- Broking Solutions for debt, equity, real estate, commodities and currency
- Advisory: Investment advisory services primarily catering to corporate treasuries

Along with the above, we also provide clients the following services

- Credit Solutions: Providing credit to fill short term liquidity gaps or enable leveraged investing
- Estate & Succession planning: providing full suite of wealth structuring and inter-generational transfer solutions

- Corporate Finance Advisory: M&A, Divestments, raising funds from Private Equity, Strategic Investments, Structured Equity / Debt, IPOs and QIP (through third party tie-ups)

2) Our Client Segment:

With a booming economy, India's wealth creation journey has accelerated over the past few years. Total Individual Wealth in India is currently estimated to be approx. USD 5.6 trillion and is expected to double to USD 10.9 trillion by 2023 at a CAGR of 14% (Source: Karvy Wealth Report 2018)

India's wealthy are expected to increase their assets sharply through growth of existing assets or sale of business (unlocking potential through secondary sale). Of the total Individual wealth Ultra HNI's & HNI's account for approximately USD 2.2 trillion which is projected to grow to USD 5.06 trillion by 2023. It is estimated that as of FY 17 there are 160,600 UHNI / HNI households and this is projected to grow to 330,400 households by FY 2021 (Source: Kotak Wealth Report 2017).

3) Unit Economics of the business:

Particulars	Basis Average AUM (Steady state)
Net Revenues on Average AUM(A)	0.76%
Wealth Employee Expenses on Average AUM (B)	0.22%
Admin and Other Expenses on Average AUM (C)	0.13%
PBT (A-B-C)	0.41%

4) Pillars of our wealth management business

- People:** Wealth management is a people-centric business with high engagement levels. A quality team comprised of experienced professionals across verticals such as relationship management, products, operations etc is essential to ensure high levels of service to clients.
- Proposition:** Our ability to engage with clients through multiple modes of engagement basis their requirements and suitability. Across engagement models, we strive for transparency, alignment of interest and robust process and risk management controls to provide our clients the best possible experience.
- Platform:** A comprehensive platform with a wide product & research capability enables us to provide cost-efficient access to best in class fund managers and jointly create innovative and often exclusive product ideas in partnership with leading AMCs.
- Process:** A strong emphasis on building processes, helps us to create standardized solutions and streamlined working mechanisms

5) Capital Markets – Business Stability/ Cyclicalty

Capital markets are a major sentiment indicator and can influence client behavior. However, the impact of cyclical markets on a wealth management business can be mitigated by diversifying revenue and AUM mix across asset classes and increasing fee and annuity incomes.

Our trailing 5-year revenue shows the wealth business is relatively buffered from the volatility of capital markets, and closer in correlation to the underlying economic output of the nation. The share of annuity income has been growing YOY as the business becomes less impacted by capital market volatility.

6) Business Case for having an in-house NBFC:

While clients generally invest for the long-term, often they also need short term liquidity for meeting requirements such as business acquisition, business needs, taking positions in equity trading, investing in public offerings, and for exercising stock options. Clients utilize this facility as a temporary bridge for their immediate liquidity requirements.

IIFLW has a unique credit solutions model:

- ✓ Almost the entire Loan book is collateralized against client investments with IIFL Wealth
- ✓ Loan Book is usually 3% - 4% of the Wealth AUM
- ✓ No Sales / Distribution Cost as all loans are sourced by the Wealth management RMs
- ✓ Unique liability model where almost the entire liabilities are long term in nature and raised in the form of structured notes from Wealth clients
- ✓ The book has had zero credit losses from inception
- ✓ Enables high degree of customization, quick turn-around and cost flexibility which improves client stickiness

7) Requirement of Capital

While the wealth management business is fee driven, the enablers that are needed to provide a full platform for clients require capital as mentioned below:

- ✓ Credit Solutions: provides short term liquidity to our clients.
- ✓ Investment as sponsor in AIFs manufactured by our AMC
- ✓ Inorganic Expansion

Currently barring any major inorganic expansion, the business will not need to raise capital via equity dilution. Current rate of growth in the wealth and investment management business is sufficient to support the growth of the credit solutions platform and future sponsor commitments.

8) Implications of the Strategic focus on IIFL-ONE

IIFL-ONE is a pure advice for fee engagement model and focuses on 3 core principles of IIFL Wealth our

- ✓ Complete alignment of interest and transparency with our clients
- ✓ Focus robust process and risk management controls to manage our clients wealth
- ✓ Open architecture and multiple manager selection and asset class diversification.

IIFL-ONE benefits all stakeholders as follows:

- ✓ **For our Clients:** Addresses evolving requirements, process driven approach, alignment of Interest
- ✓ **For our Employees:** Deeper engagement with Clients, Advisory Relationship vs Product Driven.
- ✓ **For the Firm:** Increased revenues in the form of fees, higher wallet share, Better Risk Management and portfolio oversight and retaining top talent.

9) Changes in the Revenue Recognition Process

Upfront to Trail Commissions – Mutual Funds: IIFL Wealth had already moved to a trail model for all distribution commissions from Mutual funds in 2017. The only exception to this was commissions on closed ended funds such as FMP's on which upfront commissions were still being received till Sept 18. Pursuant to a SEBI mandate on upfront commissions earned by advisors on MF's in October 2017 all payouts have now moved to a trail model.

Upfront to Trail Commissions – Managed Accounts: IIFL Wealth has decided to also move income recognition for commissions earned on Managed Accounts to a trail model with effect from 01st April 2019. While there is no regulatory requirement to do this, and there is no impact on the total income that will be earned over the life of the product distributed, we believe this change will be beneficial to the business in the longer term. The key mitigating factor for any reduction in revenue recognition in the short term is to move assets onto the IIFL-ONE proposition and therefore increasing the fee incomes in FY 20 and beyond.

10) Retaining Top Talent, leads to low Client and AUM attrition

Strong pillars are already in place for attracting and retaining best-in-class talent in the country:

- ✓ **Equity Ownership:** Wealth Management for HNIs and Ultra HNIs is a people's business and to build a superior business we partnered with the best people by offering significant portion of the ownership (>20%) in the company. This willingness to share the wealth creation upside has created an entrepreneurial culture and an ownership mindset across

the firm and teams such as client relations, products, investment advisory, operations, technology and others.

- ✓ **Strong Platform:** RMs gravitate towards platforms that can help them acquire and engage clients across multiple products and services, and improve wallet share.
- ✓ **Alignment of Interest:** Transparent and attractive incentive & compensation structure for RMs
- ✓ **Self-Development:** Continuous focus on learning and development and knowledge expansion through training sessions conducted by global b-school faculty and external trainers

At IIFL Wealth, we have managed to retain and attract top talent in the industry. We can look at our FY '19 data and draw inferences

- ✓ Our team leader attrition rate was 3.2% in FY 19 and has averaged at less than 2.5% over the last 4 years
- ✓ Our client attrition rate is less than 2.5 % p.a
- ✓ AUM lost because of those families was 0.99% in FY 19

The above figures underline the fact that clients may initially come to the firm because of a relationship, however they stay with the firm – because of the platform, its proposition, multiple engagement points and our strong process driven approach to wealth management.

11) Maintaining Open Architecture in spite of having our own AMC

The firm is striving to ensure each client has a documented investment policy setting guard-rails on portfolio allocation including maximum % portfolio exposure towards a single Issuer/AMC. This ensures client's exposure to IIFL AMC products is capped and be seen from the fact share of IIFL AMC assets in IIFLW total assets is less than 10%.

12) Differentiating ourselves in the Indian Wealth Management space

Over the last few years, Indian Firms have significantly gained market share (62% in FY 13 to 78% in FY 18 – basis data as shown in Asian Private banker league tables) as global Wealth Management firms have scaled back. Most existing players in India offer wealth management as an extension to their core business (banking/ broking/ investment banking etc.). In turn, IIFL Wealth is a pure play wealth management firm with a deep focus on managing only HNI wealth.

This focus has enabled us to offer full-fledged services including an evolving advisory platform, building allied services like estate planning, broking and corporate advisory. Having an in-house Asset Management Company and our own NBFC also allows us to offer customised solutions to our clients.

13) Impact of technology on the business in the medium and long term

The Wealth management business, especially for UHNI / HNI segment remains a highly customized and high touch business requiring significant investment in relationship building and garnering client's trust before actual AUM inflow.

In the present context we see technology as being a core enabler to our business in medium to long term and will help in automation of operational processes, transaction execution, generating on-demand investment analytics, better risk management and reporting

To this end, the firm has:

- ✓ Acquired 'Altioire', a wealth tech start-up that helps clients track their entire portfolio of holdings held across multiple advisors/wealth managers
- ✓ Initiated Internal Process Automation through Salesforce
- ✓ Automated client portfolio analysis and reporting with our platform "Insights"
- ✓ Built our own in House Core transaction processing system "Caliber"

We are also evaluating pure Robo-advisory models that will allow u to evaluate a foray into the mass-affluent segment which will have simpler requirements, lower portfolio complexity and automated execution.

14) Significant risk factors which may potentially impact our financial performance

- ✓ **Assets Under Management:** Our results are materially affected by the Assets Under Management; accordingly, our growth and success depend upon the investment performance of our clients portfolio and funds
- ✓ **General Economic and Financial conditions:** The business is dependent on overall economic conditions in India in case of any deterioration in the same there could be an impact on financial performance.
- ✓ **Competition:** The business is highly competitive. Mergers and acquisition involving our competitors may create disruption in the market. We also face competition from number of players acting as intermediaries, many of which operate in a highly cost competitive environment.
- ✓ **Regulatory Oversight:** Our activities are subject to supervision and regulation by multiple statutory and regulatory authorities. While it may be possible that certain regulatory

changes would be positive for some of our business operations, it may also so happen that such changes may adversely affect our financial condition and results of operations.

Asset Management Business

1) Business proposition

Asset management in India too has witnessed strong growth over the last few years. Within the domestic Asset Management Industry, Alternative Investments (growth of 85% on AIF commitments from FY14 to FY19) have grown much faster than traditional products like Mutual Funds (growth of 24% from FY14 to FY19).

(Source: SEBI and AMFI statistics)

IIFL AMC, with its differentiated position as the leading alternates player, complements the wealth business by manufacturing innovative products; some examples of which are as below:

- ✓ First to develop late-stage/pre-IPO as an attractive investment asset-class
- ✓ Thematic equity strategies offered via PMS route
- ✓ Pioneer in offering structured collateralized senior secured debt issued by Real Estate developers to HNIs in India when rest of market was focusing on project equity
- ✓ First to launch venture fund-of-fund in India with attractive co-investment options
- ✓ Early trend spotter in movement of structured whole-sale corporate credit from NBFCs to AIFs

2) Unit economics of the Business

Particulars	Basis Average AUM (Steady state)
Recurring management fees % (Net of Direct distribution costs) on average AUM during the year [A]	0.69%
Other income/carry income (% of average AUM) [B]	0.17%
Employee costs (% of Average AUM) [C]	0.40%
Other allocated costs (% of Average AUM) [D]	0.19%
PBT [A+B-C-D] (% of Average AUM)	0.27%

3) Pillars of the Asset Management business

- ✓ **Attracting and retaining the right talent for each alternate strategy:** Since core of the asset-management business is alternates – Private Equity, Venture capital, Structured corporate credit, Real Estate - each requiring highly specialized deal due-diligence and deal execution skills, attracting and retaining the right talent for each alternate strategy

is the key. Entrepreneurial culture promoting and rewarding innovation and ownership, financial incentives and opportunity for growth are key drivers in this space.

- ✓ **Constant Product innovation** – tapping niches and developing newer sub-asset-classes – biggest example of same being the Pre-IPO fund, which garnered over a billion dollars in commitment. The fund filled a large gap in the market as large segment of HNI investors wanted to invest in unlisted equity but wary of risks in early stage PE/VC investing as there was no institutional fund product offering late stage/Pre-IPO investments.
- ✓ **Building a wide diversified investor base-** HNIs, Endowments, Family offices, Pension Funds and a distributor base encompassing leading Banks, brokers and IFAs

4) Capital Markets – Business Stability/ Cyclicity

- ✓ IIFL AMC business model is built around Alternates, which has been the fastest growing asset-class (14% share of HNI investment allocation in 2018 vs 4% in 2013. Source: Kotak Wealth report: 2017) and has seen strong inflows even in years with weak capital market performance like 2015 and 2016
- ✓ Diversified offerings with different strategies targeted at different market segments hedges the business for individual sectoral shocks. We have assets in various strategies such as Structured credit, Real Estate lending, Unlisted Equity which are relatively a-cyclical to listed equity capital market cycle. Also, the tenure of these funds/strategies are long (around 4 to 6 years) which helps ride out cycles.
- ✓ Ultra HNI/ HNI segment are generally better buffered with pools of long term capital in different asset classes and therefore have greater understanding of capital market cycles and willing to ride out cycles and put in money at bottom of cycle

5) Capital Requirements

Capital is needed from time to time in the Asset Management business as follows

- ✓ To Invest in AIFs manufactured as a sponsor
- ✓ Maintain minimum net worth requirements as per SEBI
- ✓ Inorganic Expansion

6) Dependence on the wealth business for distribution

The IIFL Wealth business has provided and continues to provide the impetus for many new product launch and ongoing subscriptions. This has helped the AMC business achieve critical mass in the differentiated product offerings launched. There is a natural synergy given increasing share of Alternates in HNI Portfolios (increased from 4% in FY 13 to 14% in 1H2018. Kotak Wealth report: 2017).

Over the last 2 years, the AMC has consciously started to reduce its dependence on the wealth business and has empaneled itself across most leading banks and distributors. We have also expanded our reach to target large global institutions, family offices and pension funds for advisory services.

7) Differentiate our Business in the Indian Asset Management space

IIFL AMC has built a strong franchise over the last 3 years as a leader in the alternate space

Our offerings are as follows:

- ✓ Listed Equity: Focus on thematic managed account strategies (Discretionary PMS) and focused equity funds
- ✓ Private Equity: multiple funds straddling early stage investing right up to late stage/ Pre-IPO
- ✓ Structured collateralized Real Estate Debt: have raised and returned several funds with a strong track-record
- ✓ Structured corporate credit: looking to gain market-share from NBFCs and credit mutual funds