Risk and Return Analysis of Portfolio Management Services of Reliance Nippon Asset Management Limited (RNAM)

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Portfolio Management of equities has a great potential owing to robust growth of capital market and the shift in investor behaviour from dumping savings as bank deposits to investment in capital market. A research in the field of Portfolio Management Services (PMS) prepares one to understand the equity market behaviour, conduct technical evaluation of the market, and predict fluctuations to invest wisely and the logic behind construction and optimization of equity portfolios. The dissertation was undertaken from 23 April 2018 to 04 June 2018 with the objective of understanding the basic concepts of Portfolio Management Services and its benefits as an investment avenue and evaluate risk and risk adjusted return of various PMS and direct investment of similar value in equity. The risk and return analysis of equity portfolios was conducted through an evaluation of returns achieved in the past and its comparison through measurement of central tendency ie mean, variation through Standard Deviation and risk analysis done using Standard Deviation of returns, Beta and Sharpe's Ratio. The article has given a valuable insight into this highly specialized profession requiring proficient handling and expertise and will always support in making prudent investment decisions.

Key Words: Mutual Fund, Portfolio Management Services, Investment, Investment Style, Risk and Return Analysis, Beta, Sharpe Ratio.

Portfolio Management Services-The case of Reliance Nippon Asset Management Limited (RNAM)

INTRODUCTION

Evaluating the performance of portfolios of risky investment is the central problem of finance and especially portfolio management. The two dimensions of portfolio performance are:

1) The portfolio manager's ability to successfully predict future security prices and thus increase the returns of the portfolio by careful selection of stocks.
2) The portfolio manager's ability reduces the insurable risk of the portfolio by efficient diversification.

It is the lack of in-depth understanding about the nature and measurement of risk which has been a major hurdle in evaluating the performance of a portfolio in these two dimensions. It is evident that there is a predominant risk aversion in the capital market and if the investors perceive the riskiness of various assets the portfolios must yield an averagely higher return than less risky assets, See: Blume M (1968).

Therefore, the effects of differential degrees of risk on the returns of those portfolios should be considered while evaluating the performance portfolios. Developments in the Theory of the pricing of capital assets in the recent times by Sharpe, Linter and Treynor will lead us in formulating the explicit measures of a portfolios performance in each of the above mentioned dimensions, See: Jensen (1967).

In Finance Literature Mutual fund performance is well documented but not well explained. Hendricks, Patel, and Zeckhauser (1993), Goetzmann and Ibbotson (1994), Brown and Goetzmann (1995), and Wermers (1996) has established the basis for persistent performance of mutual fund in short-term period of one to three years, and link the persistent performance to "hot hands" or common investment strategies. Grinblatt and Titman (1992), Elton, Gruber, Das, and Hlavka (1993), and Elton, Gruber, Das,
and Blake (1996) find evidence for mutual fund return predictability in long period range of five to ten years, and establish that it is manager differential information or stock-picking talent that influence the performance of mutual fund in long period.

Several authors have explained a deep and stable relationship between the profitability of new investment in a mutual fund and the fund’s past performance (see, e.g., Patel, Zeckhauser, and Hendricks 1990; Ippolito 1992; Sirri and Tufano 1993; Goetzmann and Peles, in press). This is due to a fact that mutual fund companies normally gain a fixed percentage of assets under management as compensation, so they will take any actions to increase the total asset of the fund so as to gain incentives for their achievement. So in reality, the flow-performance relationship then serves as an implicit incentive contract. The existence of the flow-performance relationship is a good thing in the very basic level: it provides funds with an incentive to perform well (see, Chevalier and Ellison 1997).

The modern approach was proposed by Harry Markowitz (1952, 1959 Portfolio Selection) which gave more attention to the process of portfolio selection which is based on the risk and return analysis. Markowitz model is more applicable to equity i.e. common stocks rather than bonds.

Punithavathy Pandian (2010), the traditional approach appropriate securities are selected according to an individual’s needs of in terms of income capital appreciation etc. This approach deals with two major decisions i.e. determination of the objectives of the portfolio and selection of the securities to be included in the portfolio. The steps involved in the traditional approach are “Analysis of Constraints”, “Determination of Objectives”, “Selection of Portfolios”, “Assessment of Risk and Returns” Diversification”.

Modern approach of portfolio construction also known as Markowitz Approach developed by Markowitz (1952) involves assessing the financial plans of an individual in terms of risk and returns and efforts are made to maximize returns for a given level of risks. In other words, in this approach, the individual's needs are taken into consideration based on market returns and his tolerance for risks. A few of the assumption in Markowitz model is that, the investor estimates risk on the basis of variability of returns and is indifferent to the form of return ie market return or dividend. It means for a given level of risk, the investor prefers a higher return to lower return and it also implies that for a given level of return investor prefers lower risk than higher risk.

The first proper effort to quantify the risk was done by Harry Markowitz (1952, 1959 Portfolio Selection). He introduced model for portfolio and a methodology for determining a model portfolio. Markowitz’s model works on the mechanism of expected rate of return and expected risk of the portfolio. Prior to development of portfolio theory by Markowitz, smart investors usually worked with intuitions. Work done by noble laureate William F. Sharpe (1966) to establish relationship between risk and return of portfolios of mutual funds became popular. The relationship established was named after him ie Sharpe Ratio, which is the average return earned over the risk free rate per total risk (or unit of volatility). He stated the subtracting the risk-free rate from the mean return, the performance associated with risk-taking activities can be secluded.

This study also follows modern approach i.e. focuses on the risk and returns as a measure of comparison of performance of portfolio management services. In this approach stocks with good prospects and funds are allocated according to the portfolio requirements of risk return combination.

**Portfolio Management Service (PMS)** is a professional service of managing portfolios of stocks, debt, cash, structured products and securities, provided to High Networth Individuals (HNI) investors and institutional investors, by registered asset management companies through their qualified and experienced asset managers.

PMS is different from investment in mutual fund in the sense that mutual fund investors own units of the particular mutual fund whereas the PMS investor owns shares/securities of the public listed companies in the portfolio of the particular PMS. In India, most of the asset management companies, brokerage firms and independent experts offer PMS in addition to their offer of products like Mutual Funds and Alternate Investment Funds etc.

**Reliance Portfolio Management Service**

Reliance Portfolio Management Service is managed by Reliance Nippon Asset Management Limited (RNAM) which is a wholly owned subsidiary of Reliance Capital Ltd which in turn is a constituent of Reliance Group controlled by Anil Ambani. Reliance Securities Ltd is the broking arm of RNAM Reliance Capital Ltd. Earlier RNAM was known as Reliance Capital Asset Management Limited. It is one of the largest Asset Management Company in India with a pan India network with 171 branches and 58000 distributors. It is classified as a “Large Cap” company and the market cap of the company is Rs 14706.36 Crore. RNAM is a leading RBI registered Non-Banking Financial Company(NBFC) and is registered in both NSE i.e. National Stock Exchange Ltd as well as BSE i.e Bombay Stock Exchange Ltd. It has the distinction of being third largest asset management company with a market share of 11.4% as of 30 June 2017. RNAM is the asset manager. Profile of Portfolio Management Services Offered by the Company are:
Reliance Portfolio Management Service (PMS)

Portfolio Management Service (PMS) of Reliance AMC provides one of the largest Portfolio Managers in India. Reliance PMS provides discretionary portfolio management and advisory services to Indian investors as well as clients in foreign countries where they have branches. As per data available on the website of Reliance PMS they are handling Rs. 1,55,195 crores as on 31 October 2017 which includes discretionary and advisory services, EPFO and CMPFO portfolio of the company. Reliance PMS is permitted to manage portfolios of its clients in terms of SEBI (Portfolio Managers) Regulations, 1993 as it Reliance PMS has been registered as a Portfolio Manager vide SEBI Registration Number PM/INP000000423.

The company offers three Portfolio Management Service by the names Absolute Freedom PMS, High Conviction PMS and Emerging India PMS. The broad classification of the PMS is based on investment in companies as per the market capitalization ie. Large Cap, Mid Cap and small cap or a combination of these. The particulars of these PMS are as under:

**Reliance PMS - Absolute Freedom**

It’s the nomenclature of one of the Portfolio Management Service offered by Reliance Nippon Asset Management Ltd (RNAM), an Asset Management Company (AMC) through Reliance Securities and Reliance Mutual Funds. The portfolio mainly consists of large cap stocks and certain good quality larger midcap stocks too. The inception date of the PMS Absolute Freedom is 24 September 2004

**Reliance PMS - High Conviction**

It is another PMS which is offered by RNAM AMC. The portfolio largely consists of diversified midcap biased multi-cap portfolio of internal research driven top 20 – 25 most promising companies. The inception date of the PMS High Conviction is 13 March 2014.

**Reliance PMS - Emerging India**

Emerging India is the latest of the three PMS which is offered by RNAM Asset Management Company. As the name suggests it has been founded on the strategy of long term capital gain through participation in the growth story of India by means of a focused portfolio of high growth emerging businesses that are either existing leaders or have the potential to become leaders in their field of operations. The inception date of the PMS is 07 March 2017.

**STATEMENT OF THE PROBLEM**

The dilemma, any investor usually face is related to decisions on risk and returns involved in choosing a set of securities from a large number of securities, amount to be allotted for each, the period for which it is to be held and when to buy or sell/ dispose it etc. Moreover, the risk and return of the portfolio he/she holds differs from those of the individual securities which form the portfolio. It is pertinent to note that, the returns of even best performing funds of various asset management companies have varied over a large range from as low as 1% to 42% depending on the period of review, time horizon ie. duration of investment, type of funds etc. The periods investors usually consider, differ from person to person but are mostly limited to returns since inception, returns in last five/ three/ two/one years and in last six months etc.

In contrast to mutual funds, PMS have on many spells given a weighted average return well above mutual funds and beating BSE and NSE stocks by a wide margin. The reason for higher return could be because of the freedom available to an asset manager investment due to three years locking period to reap the benefit of full growth of stocks, high value of investment and separation of impact of behaviour of one investor on other etc. However, the investors generally do not understand the risk associated with returns they see in the data. Therefore, an optimal portfolio creation and sustenance of high returns requires clear understanding of risks involved in aiming to achieve higher returns.

No asset management company or asset manager of Mutual Fund and especially of Portfolio Management Service articulates the comprehensive essentials of the portfolios. Unlike in case of mutual funds were the data is available even online in case of PMS, much of the information on returns is not published, even though, there are many asset management companies and institutions who offer PMS in India.

An efficient and effective research on the evaluation of risk and returns of portfolios would help to assimilate the knowledge of factors influencing the selection of equity, evaluation and revision of portfolios and other tradeoffs encountered in the effort to maximize returns at a given risk appetite. The technical analysis in addition to the risk and return analysis may contribute towards understanding the factors considered in creation of an optimal portfolio which are offered by Portfolio Management Services (PMS).

**OBJECTIVES OF THE STUDY**

1. To understand the basic concepts of Portfolio Management Services and its benefits as an investment avenue.
2. To evaluate risk and returns of various PMS.
3. To compare and evaluate risk and risk adjusted return of various PMS and direct investment of similar value in equity.
4. To provide necessary suggestions based on the learnings gained.
SOURCES OF DATA

Data collection is being done from secondary sources. The collection of data through internal sources and external sources was undertaken and the sources are as enumerated below:

a) Materials like research reports, monthly fact sheets etc provided by Reliance securities and other asset management companies,
b) Business magazines like Money Today, Business India, outlook Money, Mutual Fund Insight etc.
c) Internet sites of SEBI, BSE, NSE and websites of the asset management companies offering PMS etc.
d) Data on website of national and international journals.

DATA ANALYSIS

Data analysis has been planned through a comparative study of returns and its comparison through measurement of central tendency through mean, variation through SD (Standard Deviation). The investment philosophy, sector-wise allocation and weightage, companies top 10 stock holdings etc. also give clue on the reasons for performance/non-performance in comparison to the peer groups. An analysis of the portfolio performance in comparison with that of BSE and Nifty in last six months, one year, two-year, three-year, five-year and since inception, is also planned to be undertaken.

The risk analysis has been planned with the use of Beta (which is the measure of a portfolio’s sensitivity to market movements) and performance indices like Sharpe’s Index. This is a measure of risk-adjusted return calculated by using standard deviation and excess return to determine reward per unit of risk) and Jensen’s Alpha (It is the amount by which a portfolio has performed better than its benchmark, taking into account the portfolio’s exposure to market risk, as measured by Beta) etc. would be employed to analyse the data and to deduce inferences.

DATA ANALYSIS AND INTERPRETATION

Snapshot of the portfolio

The three PMS offered by Reliance Nippon Asset Management are Absolute Freedom PMS, High Conviction PMS and Emerging India PMS. The broad classification of the PMS is based on the investment in companies as per the market capitalization i.e. Large Cap, Mid Cap and small cap or a combination of these. The details of these PMS are summarized below:

TABLE 1: SUMMARY OF THE PMS OF RELIANCE NIPPON AMC

<table>
<thead>
<tr>
<th>PMS</th>
<th>Absolute Freedom Portfolio (AFP)</th>
<th>High Conviction Portfolio (HCP)</th>
<th>Emerging India Portfolio (EIP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMC</td>
<td>RNAM Ltd</td>
<td>RNAM Ltd</td>
<td>RNAM Ltd</td>
</tr>
<tr>
<td>Benchmark</td>
<td>BSE 200</td>
<td>Nifty 500</td>
<td>CNX Mid Cap</td>
</tr>
<tr>
<td>Inception</td>
<td>24-Sep-04</td>
<td>13-Mar-14</td>
<td>7-Mar-17</td>
</tr>
<tr>
<td>Investment Mandate</td>
<td>Predominantly large Cap with two third scrips of top 100 companies by market capitalization. (ii) Mid Cap: 20-40% Careful chosen good quality larger Mid Cap stocks ie BSE 200 stocks)</td>
<td>(i) Large Cap: 30 – 60% (ii) Mid Cap: 30-50% Careful chosen good quality larger Mid Cap stocks ie BSE 200 stocks)</td>
<td>(i) Mid Cap and Small Cap: 100% (ii) Not More than ten percent of the allocation in any single stock</td>
</tr>
<tr>
<td>Minimum Investment</td>
<td>25 Lakhs</td>
<td>25 Lakhs</td>
<td>25 Lakhs</td>
</tr>
<tr>
<td>Time Horizon</td>
<td>3 years plus</td>
<td>3 - 5 years</td>
<td>3 years plus</td>
</tr>
</tbody>
</table>

Source: Secondary Data - Factsheets of Reliance PMS

Analysis of Returns

The comparison of returns is undertaken for the last month of the Financial Year 2017-18 and by comparing it with a benchmark eg Index and also by comparing it with peers for the same duration. The period under considerations are varied ie from 3 or 6 months, one year, two years, three years, five years and since inception etc. The figures on the returns and performance have been taken from the factsheets published by the company.

The data specific to a client, is informed only to the client and not available in public domain. Hence, the data on returns published by the AMCs are of a model client who has remained invested in the scheme since inception. Returns of individual clients may vary according to the specific portfolio construction characteristics, depending on the individual client mandates, time of entry in the portfolio offered for PMS and the additional amount deposited above Rs 25 lakhs and redemptions if any. It is
pertinent to mention here that the returns below one year are absolute and above one year are annualized i.e Compound Annual Growth Rate (CAGR). The data on returns shown by the AMCs are usually post expenses and fees charged by the AMC, unless specifically mentioned.

The data analysis and interpretation on returns for the last month of the financial year 2017-18 of the three PMS of Reliance i.e. Absolute Freedom Portfolio (AFP), High Conviction PMS (HCP) and Emerging India Portfolio (EIP)

are tabulated and compared with respective BSE and Nifty Index. The above data of March 2018 also has been compared with the data of the portfolios for preceding months i.e January and February 2018 to understand the changes in portfolio holdings. The returns have also been compared with returns of PMS offered by other companies and also with that of direct investment of three investors to analyze the benefit of using the services of a portfolio manager.

**TABLE 2: RETURNS, INVESTMENT STYLE AND SECTOR ALLOCATION OF ABSOLUTE FREEDOM PORTFOLIO (AFP) IN THE LAST MONTH OF F Y 2017-18**

<table>
<thead>
<tr>
<th>Returns</th>
<th>Portfolio</th>
<th>BSE200</th>
<th>Nifty 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Months</td>
<td>-10.5%</td>
<td>-5.3%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>6 Months</td>
<td>-2.0%</td>
<td>3.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>1 Year</td>
<td>4.6%</td>
<td>11.0%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2 Years</td>
<td>15.3%</td>
<td>16.6%</td>
<td>14.3%</td>
</tr>
<tr>
<td>3 Years</td>
<td>7.8%</td>
<td>7.8%</td>
<td>6.0%</td>
</tr>
<tr>
<td>5 Years</td>
<td>17.0%</td>
<td>14.1%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Since Inception Date</td>
<td>15.3%</td>
<td>14.3%</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

**Investment Style**

<table>
<thead>
<tr>
<th>Investment Style</th>
<th>Large Cap</th>
<th>Mid Cap</th>
<th>Small cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>69%</td>
<td>23%</td>
<td>0%</td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sector Allocation**

<table>
<thead>
<tr>
<th>Sector Allocation</th>
<th>Fin. Services</th>
<th>Automobile</th>
<th>Consumer Goods</th>
<th>IT</th>
<th>Cement</th>
<th>Construction</th>
<th>Pharma</th>
<th>Energy</th>
<th>Industrial Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td>29.6%</td>
<td>16.3%</td>
<td>14.7%</td>
<td>9.2%</td>
<td>7.8%</td>
<td>5.8%</td>
<td>4.5%</td>
<td>3.5%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: Secondary Data - Factsheets of Reliance PMS

**Analysis**

The tabulated data of financial year ending March 2018 displays the returns of the Absolute Freedom Portfolio as negative in the initial period i.e. three months, six months and it is also less than the benchmark index.

The returns are also less compared to direct investment by investors in BSE 200 and Nifty Index shares up to a period of one year. Returns in the two years period has improved and overtakes the returns of Nifty Index Shares. The returns for a three years period and beyond surpasses the benchmark of BSE 200 index and the Nifty index. The portfolio consists of approximately two third amount in large cap and one third in Mid cap scrips and that too in diversified sectors with more weightage in financial sector. The Portfolio (AFP) has given better returns compared to direct investment in scrips of the both BSE 200 and Nifty index since its inception in September 2004.

**Interpretation**

As the time horizon of investment increases the returns have increased from negative to positive and by third year it has surpassed the returns of direct investment in Nifty Index Shares though it is still lagging behind the benchmark BSE 200 shares.
The returns of Absolute Freedom Portfolio (AFP) for the five years’ period and also for the period considered since inception indicates that the PMS has good potential and investors can earn more returns than investing directly in the benchmark shares if time horizon of investment is more than three years.

The investment of about two third amount in large cap gives stability to the portfolio. Adequate diversification across various sectors gives protection against negative impacts of slow-down in an industry or sector. Thus, it can be inferred that help of a qualified expert portfolio manager can help increase the returns in equity market.

**TABLE 3: RETURNS, INVESTMENT STYLE AND SECTOR ALLOCATION OF HIGH CONVICTION PORTFOLIO (HCP) IN THE LAST MONTH OF F Y 2017-18**

<table>
<thead>
<tr>
<th>Returns</th>
<th>Portfolio</th>
<th>Nifty 500</th>
<th>Nifty 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Months</td>
<td>-10.2%</td>
<td>-6.1%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>6 Months</td>
<td>-0.9%</td>
<td>3.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>1 Year</td>
<td>5.0%</td>
<td>11.5%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2 Years</td>
<td>18.4%</td>
<td>17.5%</td>
<td>14.3%</td>
</tr>
<tr>
<td>3 Years</td>
<td>10.3%</td>
<td>8.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Since Inception Date</td>
<td>20.6%</td>
<td>15.2%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

**Investment Style**

<table>
<thead>
<tr>
<th>Investment Style</th>
<th>Large Cap</th>
<th>Mid Cap</th>
<th>Small cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage investment</td>
<td>48%</td>
<td>41%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Sector Allocation**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Fin. Services</th>
<th>Consumer Goods</th>
<th>Automobile</th>
<th>IT</th>
<th>Energy</th>
<th>Pharma</th>
<th>Construction</th>
<th>Telecom</th>
<th>Cement</th>
<th>Industrial Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td>33.1%</td>
<td>11.2%</td>
<td>10.9%</td>
<td>8.4%</td>
<td>8.4%</td>
<td>5.4%</td>
<td>5.1%</td>
<td>3.0%</td>
<td>2.8%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

**Source:** Secondary Data - Factsheets of Reliance PMS

**Analysis**

The financial year 2017-18 of High Conviction Portfolio displays negative returns and it is less compared to the benchmark index in the initial period i.e. three months, six months and one year as seen from the tabulated data.

Returns in the two years period has improved and overtakes the returns of the Nifty 500 and Nifty Index Shares. The returns for the third year and beyond have crossed the benchmark of Nifty 500 index and the Nifty index. The High Conviction Portfolio has given good returns in the four years of its existence compared to the both Nifty 500 and Nifty index. The investment style shows almost 50 % venture in large cap and 41% in mid cap. The investment is seen spread across diverse sectors with major investment in financial services.

**Interpretation**

It has generally seen that as the time horizon of investment increases the returns also increases as can be inferred from the chart since similar to other PMS, returns of the portfolio for a period of three years and beyond has crossed the benchmark of Nifty 500 Index and Nifty 100 Index.
The sum of percentage of investment as per investment style and sector wise allocation indicates balance amount is cash component which portfolio managers keep aside probably for investment to suit better time of entry to the market.

It can be inferred from the investment style that the Portfolio is less aggressive as the venture in mid cap(41%) for better growth is balanced out by larger investment(48%) in Large cap and almost nil(only 2%) in small cap companies. The judicious diversification across various sectors also reduces the risks and allotment of larger percentage to well performing financial sectors will improve growth potential.

**TABLE 4: RETURNS, INVESTMENT STYLE AND SECTOR ALLOCATION OF EMERGING INDIA PORTFOLIO (EIP) IN THE LAST MONTH OF F Y 2017-18**

<table>
<thead>
<tr>
<th>Returns</th>
<th>Portfolio Returns</th>
<th>CNX Mid Cap Returns</th>
<th>Nifty Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Months</td>
<td>-11.1%</td>
<td>-11.3%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>6 Months</td>
<td>1.0%</td>
<td>3.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>1 Year</td>
<td>11.2%</td>
<td>9.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Since Inception Date</td>
<td>17.1%</td>
<td>13.0%</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

**Investment Style**

<table>
<thead>
<tr>
<th>Percentage investment</th>
<th>Large Cap</th>
<th>Mid Cap</th>
<th>Small cap</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5%</td>
<td>85%</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Sector Allocation**

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Fin. Services</th>
<th>Consumer Goods</th>
<th>Automobile</th>
<th>IT</th>
<th>Energy</th>
<th>Pharma</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22.2%</td>
<td>13.3%</td>
<td>5.3%</td>
<td>10.1%</td>
<td>8.4%</td>
<td>4.9%</td>
<td>8.9%</td>
</tr>
<tr>
<td></td>
<td>Health Care Services</td>
<td>Chemicals</td>
<td>Cement</td>
<td>Industrial Manufacturing</td>
<td>Fertilizers and pesticides</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocation</td>
<td>3.9%</td>
<td>3.5%</td>
<td>7.4%</td>
<td>7.1%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Secondary Data - Factsheets of Reliance PMS

**Analysis**

The data cannot be available for periods beyond one year and 24 days in the month of March 2018 in the case of Emerging India Portfolio since its relatively a new PMS, as can be seen from the date of inception which is 07 March 2017.

The negative returns of the portfolio has recovered faster and given a positive return in six months of its inception, compared to other two PMS of the company. The returns have crossed the CNX Mid Cap and Nifty indices within one year itself. Returns since inception shows the return has crossed 17% which is annualized i.e. Compound Annual Growth Rate(CAGR). The Emerging India Portfolio(EIP) has produced an excellent result in terms of returns compared to the CNX Mid Cap and Nifty shares up to financial year ending March 2018.

**Interpretation**

Investment in high growth however slightly riskier mid cap businesses could be the probable reason for its fast recovery and a positive return in first six months of its inception itself.

It can be inferred from the investment style that the Portfolio is more aggressive as seen from the venture with 87% investment in mid cap for high growth with lesser investment in Large Cap scrips.
The balanced diversification across various sectors also reduces the risks and allotment of larger percentage to well performing financial sector, consumer good, IT and construction business will improve growth potential.

**Analysis of Risks of the Portfolios**

Analysis of returns of a portfolio of a PMS would give an idea of the growth of capital invested in equity through PMS route, however it must be substantiated through analysis of risks involved. This can be achieved through evaluation of the capital market, risk free returns and risk premium of the market etc. The main tools of risk adjusted return analysis used are Standard Deviation for volatility of returns, Beta for systematic risk of market, and Sharpe Ratio for evaluation of risk adjusted return.

The Sharpe ratio was used in the analysis as it has tangible benefits over analysis through use of Alpha. It is because Sharpe Ratios are more useful as the standard deviation evaluates and measures the volatility of a fund's return in absolute terms, not relative to an index, whereas a fund's R-squared must be high for Jenson's Alpha to be meaningful. In addition to the above, comparative analysis of the portfolios using the standard-deviation-based Sharpe ratio is easier than with Beta-based Alpha.

**Table V: Comparison of risks of various reliance pms portfolios**

<table>
<thead>
<tr>
<th>Risk Parameters</th>
<th>Reliance Absolute Freedom Portfolio (AFP)</th>
<th>Reliance High Conviction Portfolio (HCP)</th>
<th>Reliance Emerging India Portfolio (EIP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>7.8%</td>
<td>10.3%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Standard Deviation (SD)</td>
<td>12.01%</td>
<td>14.6%</td>
<td>16.26%</td>
</tr>
<tr>
<td>Beta</td>
<td>1.10</td>
<td>0.96</td>
<td>0.97</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.28</td>
<td>0.37</td>
<td>0.33</td>
</tr>
</tbody>
</table>

**Source:** Secondary Data

**Analysis**

The risk analysis shows lower standard deviation of the value of returns (7.8%) in Absolute Freedom Portfolio compared to that of other two PMS portfolios of Reliance namely High Conviction Portfolio (HCP) and Emerging India Portfolio (EIP).

Beta of the Absolute Freedom Portfolio is more than the two portfolios. Beta of the Absolute Freedom Portfolio is 1.1. Whereas it is lower than 1 in the case of other two PMS portfolios of Reliance namely High Conviction Portfolio (HCP)-0.96 and Emerging India Portfolio (EIP)-0.97.

Sharpe Ratio is less in Absolute Freedom Portfolio (0.28) when compared to the other two PMS portfolios of Reliance namely High Conviction Portfolio (HCP)-0.37 and Emerging India Portfolio (EIP)-0.33.

**Interpretation**

The lower standard deviation of the value of returns in Absolute Freedom Portfolio compared to that of other two portfolios indicates that the returns are less volatile than the returns of other two portfolios. This means that AFP is less risky than the other two portfolios.

Beta of the Absolute Freedom Portfolio is more than the two portfolios which shows higher volatility than that of the other two portfolios. Beta of the Absolute Freedom Portfolio above 1.1 in case of Absolute Freedom Portfolio indicates that it is more volatile than the benchmarks scrips of the market. Ideally it should be lower than 1 to be more stable than market. The Beta of High Conviction Portfolio (HCP) and Emerging India Portfolio (EIP) is lesser than 1 which means that they are more stable than market.

Sharpe Ratio of the High Conviction Portfolio (0.28) is less compared to that of other two PMS portfolios of Reliance namely High Conviction Portfolio (HCP)-0.37 and Emerging India Portfolio (EIP)-0.33 which means that the funds return above risk-free return relative to the standard deviation of the returns is less ie not performing better in proportion to the risk taken.

**FINDINGS**

1. Portfolio Management Service (PMS) offered by Asset Management Companies (AMC) require a minimum investment of 25 lakhs as per SEBI regulations.
2. Investment in large cap gives stability to the portfolio. Investment in mid cap and small cap scrips has given higher returns though with the caveat that it was more volatile. So, in Absolute Freedom Portfolio and High Conviction Portfolio large caps are used to leverage the risks in mid cap and small caps.
3. The Portfolio Management Services of different categories offered by various Asset Management Companies (AMC), invest in equity according to the risk-taking interest of the investor. In Reliance, less risk-taking investors are advised to invest in Absolute Freedom Portfolio, investors who are willing to take average risk are advised to invest in High Conviction Portfolio and high risk-taking investors are advised to invest in Emerging India Portfolio.
4. Adequate diversification across various sectors gives protection against negative impacts of slow-down in an industry or sector.
5. The returns of all PMS are negative up to six months period and less till one period. An investment period of three years and beyond give better returns which are higher than of direct investment in benchmarks scrips.
6. As the time horizon of investment in the Portfolio Management Services (PMS) increases, the returns...
have recovered from negative to positive. Portfolios started performing better after first year and from the third year it has surpassed the returns of direct investment in benchmark indices of BSE or NSE in all the cases studied.

7. The returns of in Emerging India Portfolio (11.2%) were better than Absolute Freedom Portfolio (4.6%) and High Conviction Portfolio (5.2%) when compared for a period of one year whereas the returns of High Conviction Portfolio (20.6%) was the best among all three when compared to the period since inception.

8. The period from inception for all the PMS are different, varying from 13 and half years to one year approximately hence in many cases the PMS of different AMC or for that matter the PMS offered by the AMC cannot be compared in all spheres technically, except for scale of returns for the investor, investment style and sector wise allotment etc.

9. The risk parameters i.e. standard deviation of the returns, beta of the portfolio and Sharpe Ratio of the portfolios conveyed that High Conviction Portfolio is a better portfolio compared to other two portfolios of the Reliance Company.

10. Performance of portfolios based only on returns were different when analysed along with risk adjusted returns i.e. risk analysis of volatility of return through the standard Deviation and its performance vis-à-vis market through Beta and risk adjusted return through Sharpe Ratio.

SUGGESTIONS

1. A High Net-worth Investor (HNI) with capital of 25 lakhs and above has better chances of earning higher returns through investing in equity market through PMS than investing directly in the equity market without help of expert portfolio managers (refer Finding No 1 and No 6).

2. As an investor in equity market through PMS one should remain invested at least till a period of three years to have better returns which are higher than of direct investment in benchmarks scrips (refer Finding No 1 and No 6).

3. The returns for an investor who plans to withdraw before a period of one year may receive negative returns (refer Finding No 5).

4. A risk averse HNI equity investor should invest in PMS with theme for large cap which gives less volatile returns i. stability to the portfolio whereas a higher risk taker may go for investment PMS with mandate for investment in mid cap and small cap scrips give higher returns though with more risk (refer Finding No 3).

5. Returns alone doesn’t give correct potential of capital gain unless it is backed by risk analysis volatility of return through the standard Deviation and its performance vis-à-vis market through Beta and risk adjusted return through Sharpe Ratio (refer Finding No 9 and No 10).

6. The AMC offering PMS should endeavour to disclose more details on data on risk and information on benchmarking of market indices.

7. The AMC offering PMS should endeavour to disclose more details on data on risk and information on benchmarking of market indices.

8. The AMCs should also educate eligible and potential investors of PMS for attracting them to this professional and specialized field of investment and conduct programs to attract talented young graduates to opt financial analysis as a career option and later portfolio management.

9. There should be more research on the portfolio management services as it has a great potential for graduates, investors, financial market and economy of the country.

CONCLUSION

Availing Portfolio Management Service (PMS) by High Net-worth individuals is worthwhile option than investing directly in equity markets. It’s an excellent career option for graduates who wants to pursue a career in financial services. From an investors point of view, there should be more information in public domain about the risk involved. The facts and figures of the same should be updated regularly and made accessible to investors since it is as important as data on return. Risk should be quantified as meticulously as returns and investors should receive more quantitative risk information rather than as footnote to documents. Investors should have access to formal risk disclosures prior to investing so that they are knowledgeable and have relevant data to make more informed investment decisions.

The dissertation on return and risk analysis of Portfolio Management Service has given a valuable insight into this highly specialized career requiring professional handling and expertise. There should be more research on the portfolio management services as it has a great potential for graduates, investors, financial market and economy of the country.

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