SageOne

SEBI Guidelines for Portfolio Managers

Based on the recommendations of a Working Group and inputs from public consultation, Securities and Exchange Board of India (SEBI) reviewed the framework for regulation of Portfolio Managers and has notified the SEBI (Portfolio Managers) Regulations, 2020 ("PMS Regulations").

SageOne is not only compliant, but ahead

At SageOne Investment Advisors (SOIA), we believe these guidelines are the need of the hour and better serve the investor interests in terms of

i) More transparency

ii) More informed decision making (by enabling meaningful comparisons across portfolio managers)

iii) Reduced costs

At SOIA, investors' interests have always been our top priority. Our fees and other miscellaneous charges (brokerage, operating expenses) charged to the investors is amongst the lowest in the industry, if not the lowest. The impact of lower costs has a significant positive compounding impact on investors' returns. Since inception,

- Our minimum investor investment has been much higher than SEBI mandated
- We have never charged any set up or upfront fees (both in PMS and AIF)
- We have absorbed most operating expenses in our P&L rather than pass on to the investors
- We have done only limited fund raise (<20%) through distributors and where fee sharing is only on trail basis
- Have shared portfolio performance using time weighted rate return (TWRR), on complete portfolio (not only equity portion) and on actual aggregated investor portfolios (not model portfolio), which is in line with international guidelines and SEBI recommendation.

Thus, while the new notifications have caused disruption in the industry, with many players having to rethink and realign their business models, SOIA has always been way ahead in incorporating these guidelines in its business practices right from inception.

We welcome these guidelines as they are investor friendly and provide level playing field to managers such as ourselves.

SageOne Investment Advisors LLP
706, Tower 2, World Trade Center, EON Free Zone, Kharadi, Pune – 411014
Tel: + 91 20 6627 9638 E: ir@sageoneinvestments.com
Web: www.sageoneinvestments.com

Table 1: SEBI notifications: SageOne status

SEBI notification	Industry	SageOne
Minimum investment		
The portfolio manager shall not accept from the client, funds or securities worth less than Rs 50 lakh	More than 90% of the managers in the industry were taking investors with minimum investment of Rs 25 lakh	**At SOIA, our minimum criteria has always been well above SEBI norms.** Our endeavor is to have the right investors, who are serious, have a long term investment horizon, understand risk associated with the equities and have alignment with our investment philosophy. We have been rewarded by our investors for this. Sophisticated and mature investors understand our fund raising and investment philosophy and have stayed with us even during volatile markets. Many, in fact, have added to their investments during market corrections. Also, we have always met our fund raise targets even during market turmoil / downturn in shorter than expected time periods.
Fee and Charges		
No upfront fees shall be charged by the Portfolio Managers, either directly or indirectly, to the clients.	Some PMS / Investment Advisory providers charged set up fees and upfront fees. This meant that at the beginning only 97-98% of investor's capital got allocated to his/her portfolio. This is disadvantageous to the investor as compared with when he/she is charged fees at the end of the period.	**At SOIA, we have never charged any set up fees to our investors.** Also, we don't charge fees on upfront basis, only on trail basis. At the onset, the entire investor capital gets allocated to his/her portfolio. (In AIF, we have mentioned charge of upto 2% set up fees in our PPM. However, we have absorbed the entire set up costs related to legal, SEBI approvals, setting up of trust, etc in our P&L rather than pass on to investors).
Brokerage at actuals shall be charged to clients as expense.	i)High churn ratio - means higher brokerage expense to the investors ii) Possible conflict of interest in some cases with in-house broking arm as well, where expense to investors becomes	We have lower than industry brokerage charges on the back of i) Low churn ratio. Our annual churn is 20-25% which is lower than industry

	income to another arm of the portfolio manager	average which itself lowers the brokerage cost. ii) We pay ~10-11 bps brokerage (including GST, excluding STT) to our brokers, which is at the lower end of the market spectrum. (We don't negotiate below that as it it will impact the quality of the service.) **iii)Brokerage charges billed to investors are on actuals and given the low churn work out to be in the range of 2-3 bps on investor AUM.**
Operating expenses (opex) excluding brokerage, over and above the fees charged for Portfolio Management Service, shall not exceed 0.50% per annum of the client's average daily Assets under Management (AUM).		At SOIA, we want the investors to benefit the most in terms of the returns on their portfolio. And therefore, we charge most of the opex such as fund accounting charges and other such opex to our P&L. The only line items that we charge to the investors are: i) Custodian charge which is 2.5-3 bps of AUM ii) Rs 3500/- audit fees per portfolio (we are trying to negotiate this lower with our auditor) **So against the SEBI guideline of max 0.5% opex that can be charged to investors, we charge less than a tenth of 0.5% as opex to our investors,** preferring to absorb most opex in our P&L rather than pass on to investors.
Reporting of Performance by Portfolio Managers		
Consider all cash holdings and investments in liquid funds, for calculation of performance	A client's total portfolio would normally consist of equity, liquid funds and cash. Many PMS managers just report the equity performance of the portfolio, which is misleading.	We have always **reported the portfolio performance on an aggregate basis including liquid funds/cash component**. If we are sitting on cash obviously the performance will affected either up or down depending on whether market is up or down.

		We do not report on a model portfolio basis; but aggregated portfolios of actual investors.
Ensure that performance reported in all marketing material and website of the Portfolio Manager is the same as that reported to SEBI. Ensure that the aggregate performance of the Portfolio Manager (firm-level performance) reported in any document shall be same as the combined performance of all the portfolios managed by the Portfolio Manager.	Different performance reporting formats by different portfolio managers are not only confusing but may also seriously mislead the investors. Some of these are practices like reporting performance of model portfolio, reporting performance of only equity part of the portfolio, not taking weighted average of the portfolio etc. SEBI is now trying to get everyone on the same reporting standard to enable investors to make meaningful comparisons and take informed decisions.	At SOIA, we have always followed the global standard of **portfolio performance reporting, which is TWRR** (this is also recommended by SEBI). TWR eliminates the distorting effects on returns created by inflows and outflows of money. Its breaks up the return on an investment portfolio into separate intervals based on whether money was added or withdrawn from the fund.
Supervision of Distributors		
	Most of the fund raise in the industry is through distributors which entails highly incentivized commission structures for the distributors. This has led to several distortions and malpractices such as mis-selling.	At SOIA, we do limited fund raise through distributors. Less than 20% of our overall assets have been raised through distributors. We propose to bring this down further. At SOIA, building AUM has never been the focus, for us generating returns on the same is important.
Pay fees or commission to distributors only on trail-basis. Further, any fees or commission paid shall be only from the fees received by Portfolio Managers.	Sharing of upto 80% commission or upfront payment of ~4% AUM for investor acquisition has not been uncommon. This often results in misselling where the investor interest ends up being at the back burner.	For the distributors that we work with : i)**We do not share fees upfront** ii)We do not pay any excess fees other than we get from the clients and only once we have received the same for the clients. Thus the **fee sharing is on trial basis.** So it is good that SEBI is coming out with these norms for fund raise through distributors, which would mean sharing any upfront fees now is not allowed. While this will definitely impact fund raise of certain portfolio managers who

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		work aggressively with distributors, it provides level playing field to PMS providers such as SOIA which prefer direct fund raise. At SOIA, raising funds directly from investors has helped us in connecting with the right set of investors. It has also helped us in keeping our costs low, the benefits of which we have always passed on to our investors in terms of lower fees and opex charges.

Source : SageOne Investment Advisors, SEBI

**as per the new SEBI guidelines we do have to add some disclosures to our presentations and website; we will compliant on the same by end Mar'2020*

About us – Eight years ago, SOIA started its journey with an objective of producing serious wealth for investors by achieving attractive returns without commensurate risk. During this period, SageOne Core Portfolio has delivered returns (net of fees) of 27% CAGR (NSE Mid Cap 100: 10.3% CAGR, NSE Small Cap 100: 6.7% CAGR). Our investment approach has been to look for businesses with long-term competitive advantage in attractive companies from the point of view of long term value creation. With a passionate and highly motivated team with diverse background and experience, we are currently managing/advising more than Rs 1000 cr of assets between domestic PMS/IA and Offshore IA under different offerings. We had also launched an Alternative Investment Fund (AIF) as SageOne Flagship Growth 1 Fund in July, 2019, which is the first scheme of the SageOne India Opportunity Trust, a close ended category III AIF, registered with SEBI with the registration number IN/AIF3/19-20/0711.

Best regards,
Shilpa

Shilpa Gupta
Director – Strategy and Business Development
SageOne Investment Advisors LLP
sg@sageoneinvestments.com
w: www.sageoneinvestments.com