Management Discussion & Analysis

India anchoring the global growth story

MACROECONOMIC OVERVIEW

Year in Review

In 2023, India's economy was on an upward trajectory, closing the year with a GDP of USD 3.73 Trn and a GDP per capita of USD 2,610, outpacing the global average growth rate of 3.2%[1]. The key factors driving this growth include inflation management, investment, and sectoral performance.

Inflation in India started settling with CPI inflation in March 2024 at 4.85%, well within the Reserve Bank of India's comfort zone. Core inflation remained stable, suggesting food price shocks were the main contributors to inflation deviations. The RBI's neutral monetary policy aimed to stabilise prices amidst supply chain disruptions.

Exports showed promise, particularly in telecom instruments, electric machinery, and drug formulations, buoyed by increased FDI and FPI inflows projected at USD 44.4 Bn and USD 33.9 Bn, respectively, in 2024. The manufacturing sector saw robust growth, aided by initiatives like the Production-Linked Incentive (PLI) scheme.

Global Inflation

In December 2023, the euro area annual inflation rate rose to 2.9% from 2.4% in November, marking a significant decrease from the 9.2% rate observed a year earlier[2]. Similarly, the European Union's annual inflation rate climbed to 3.4% from 3.1% in November, compared to 10.4% a year prior. According to Eurostat, Denmark, Italy, and Belgium reported the lowest annual rates at 0.4% and 0.5% respectively, while Czechia, Romania, and Slovakia recorded the highest rates at 7.6%, 7.0%, and 6.6%, respectively. In December, services made the highest contribution to the annual euro area inflation rate followed by food, alcohol and tobacco, non-energy industrial goods, and energy.

Meanwhile, US consumer prices surged 3.4% annually in 2023[3], a marked improvement from December 2022's rate of 6.5%. The monthly Consumer Price Index (CPI) rose by 0.3% in December compared to the previous month, with shelter costs driving over half of the monthly increase. Although higher than in November, gas prices remained relatively stable. Despite the annual acceleration, the underlying inflation measure slowed further.

India witnessed a moderation in CPI inflation pressures in 2023[4], with high energy prices being a significant contributor in 2022 but easing during 2023. The moderation continued in the early months of 2024, with March 2024 inflation coming in at a 10-month low of 4.85% on moderating food prices.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Evolution of the Global Wealth and Asset Management Industry

In 2022, asset managers faced formidable challenges as assets under management (AUM) dwindled to USD 115.1 Trn[5], marking a significant decline of nearly 10% from the 2021 peak of USD 127.5 Trn. This downturn represented the most significant contraction witnessed in the industry over the past decade.

1 https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

2 https://ec.europa.eu/eurostat/documents/2995521/18343103/2-17012024-AP-EN.pdf/9d885442-f323-cdde-e149-17ed99a63a6f

3 https://edition.cnn.com/2024/01/11/economy/cpi-inflation-december/index.html

4 https://www.spglobal.com/marketintelligence/en/mi/research-analysis/indias-rapid-growth-continues-as-inflation-pressures-ease-further-nov23.html

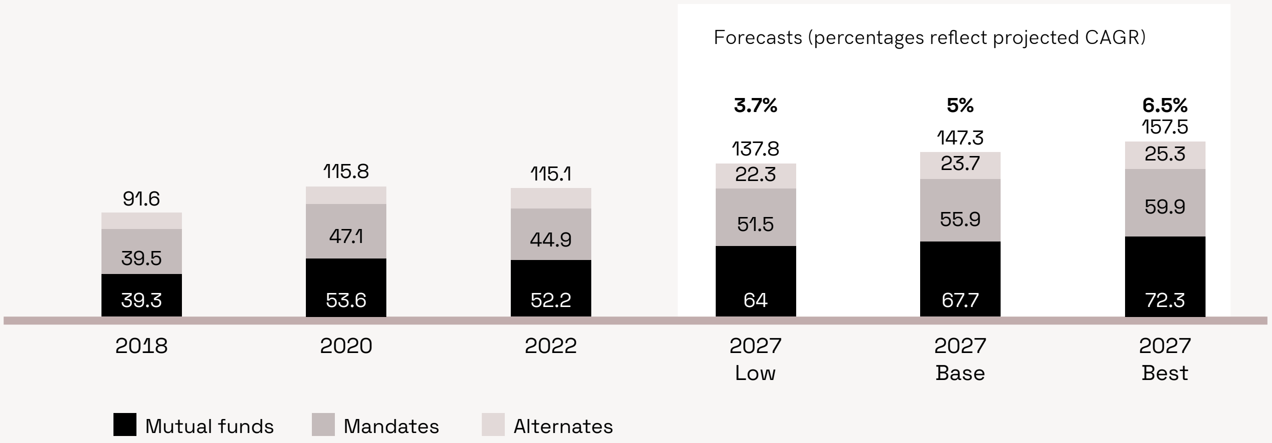
5 https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2023.html

However, in 2023, the global asset management industry exhibited tentative signs of recuperation, as total AUM surged by 12% YoY, reaching nearly USD 120 Trn, according to a recent report.[6]

Looking ahead, the spectres of inflation, market volatility, and fluctuations in interest rates loom on the horizon, casting a shadow of uncertainty for investors and asset managers. Nevertheless, projections indicate a prospective rebound by 2027, with AUM anticipated to climb to a base case of USD 147.3 Trn, reflecting a compound annual growth rate (CAGR) of 5%.

Exhibit 1 – Global AUM Expected to Witness Rebound by 2027

US$ Trillion



Note: Totals may not equal sums shown due to rounding.

Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin

Geopolitical Instability and Labour Shortages Create Dilemma

The current economic milieu, characterised by labour shortages and geopolitical instability, presents a challenging landscape for those operating within the asset management sector, particularly given the dearth of experience in navigating such uncertain terrains. In the middle of weathering the immediate storm, attention must also be directed towards strategic decisions and investments necessary to fortify businesses for sustained viability and growth in the long term.

The pursuit of alpha becomes increasingly challenging, compounded by the encroaching spectre of rising market beta being contested by money market funds and even traditional bank deposits. Evidently, a shift has been observed, with some investors diverting from equities towards the perceived safety and yields offered by bonds and money market funds. Further, significant reallocations have been witnessed, with a decided influx towards passive investments driven by the quest for transparency, liquidity, and cost efficiency. Simultaneously, a surge in allocations towards private markets has ensued as investors seek to optimise returns and hedge against market volatility.

Exhibit 2 – Global AUM in terms of Asset Class

Products	2018	2020	2022	2027f Low	2027f Base	2027f Best	CAGR (2018-2022)	CAGR Low	CAGR Base	CAGR Best
Global AuM	91.60	115.80	115.10	137.90	147.30	157.40	5.90%	3.70%	5.00%	6.50%
Mutual Funds	39.30	53.60	52.20	64.00	67.70	72.30	7.40%	4.20%	5.30%	6.70%
of which active investments	30.30	39.40	35.90	41.00	43.60	47.00	4.40%	2.70%	3.90%	5.50%
of which passive investments	9.00	14.20	16.30	23.10	24.20	25.30	15.90%	7.20%	8.20%	9.10%
of which ETFs only	4.80	7.90	9.10	13.40	14.10	14.80	17.30%	7.90%	9.00%	10.10%
Mandates	39.50	47.10	44.90	51.50	55.90	59.90	3.20%	2.80%	4.50%	6.00%
of which active investments	30.40	34.60	30.90	32.50	35.80	38.60	0.40%	1.00%	3.00%	4.60%
of which passive investments	9.10	12.50	14.00	19.10	20.10	21.30	11.40%	6.30%	7.50%	8.70%
Alternates	12.80	15.10	18.00	22.30	23.70	25.30	8.90%	4.40%	5.60%	7.00%

Note: AUM in USD$ Trillion. Percentages shown may not total 100 due to rounding. Totals may not equal sums shown due to rounding.

Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin

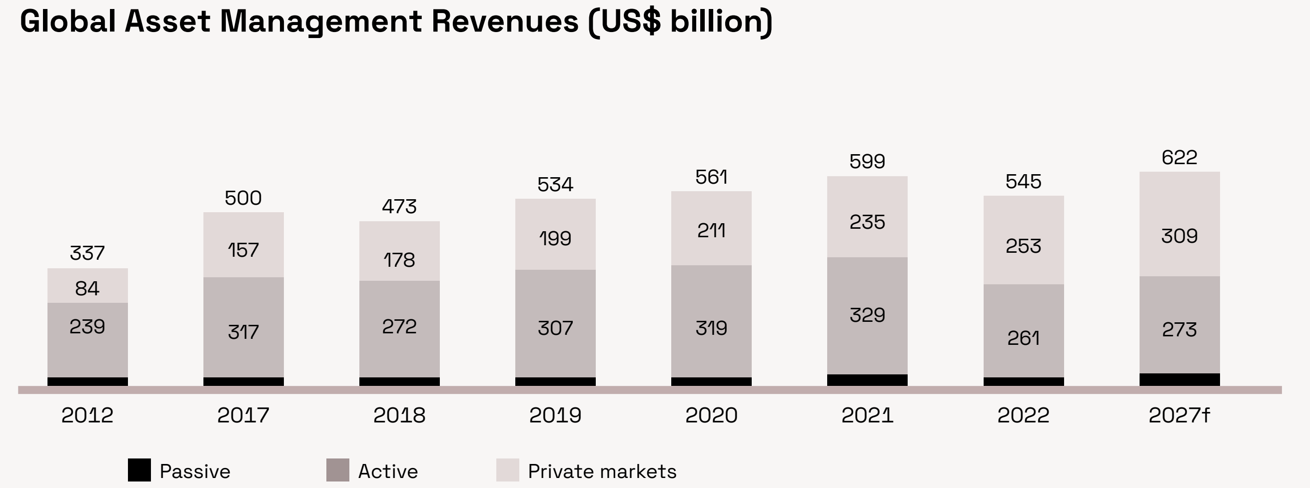
[6] https://www.pionline.com/money-management/global-aum-rises-2023-even-profits-fall-bcg

This paradigm shift poses inherent risks for active managers predominantly operating within public markets, potentially leading to an erosion of market share. Additionally, in the event that interest rates persist around the 4% mark through 2024 and beyond, managers in private markets will face the imperative of substantially elevating their target internal rates of return (IRR) to remain competitive. This challenge is compounded by prevailing economic rigours and the culmination of inexpensive funding sources, rendering this endeavour increasingly arduous. Consequently, data analytics and predictive insights will assume heightened significance in identifying distinctive investment opportunities amid an increasingly crowded market landscape.

Trajectory of Growth Visible on the Horizon

As the global economy embarks on a trajectory of growth and the spectres of inflation and interest rate pressures subside, revenues within the global asset management sphere are poised for resurgence, projected to scale to USD 622.1 Bn by 2027. This revival is expected to be spearheaded by a sustained surge in revenues from private markets, which are slated to account for approximately half of global asset management revenues by 2027, a notable surge from the 37.6% recorded in 2020.

Exhibit 3 – Global Asset Management Revenue Forecast for 2027



Note: Private markets revenue includes management, fees and carried interest, Private markets excludes fends.

Sources: PwC Global AWM & ESG Research Centre, Lipper, Preqin, Pitchbook

The quest for growth and yield is propelling asset and wealth management (AWM) organisations towards uncharted territories, encompassing new segments, geographies, and asset classes. However, this expansion entails heightened complexity, operational exigencies, and the peril of dispersing resources thinly across sub-scale offerings.

In terms of geographical expansion, the Asia-Pacific region, alongside frontier and emerging markets in Africa and the Middle East, is poised to emerge as the epicentre of AUM growth. According to projections, growth rates in Asia-Pacific are anticipated to outpace those in North America by roughly 50% by 2027[7]. Moreover, the hitherto sluggish industry expansion in the Middle East, attributed to intricate regulatory frameworks, is anticipated to witness a resurgence as Asset and Wealth Management organisations, driven by a renewed impetus to seek new avenues for revenue growth, endeavour to penetrate these lucrative albeit challenging markets.

Asset Management Landscape

The total AUM of the global asset management industry reached nearly USD 120 Trn in 2023[8]. However, despite this notable uptick in AUM, the industry's revenues experienced a mere 0.2% increase in 2023, juxtaposed against a 4.3% rise in costs for the same period. Consequently, overall profits witnessed a decline of 8.1%.

The trajectory of AUM growth varied geographically, with North America witnessing a robust 16% surge, while Asia-Pacific markets, excluding Japan and Australia, recorded a more modest 5% uptick. In the United Kingdom, AUM grew by 2% in 2023, underscoring its status as the largest market in Europe.

[7] https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2023.html

[8] https://www.pionline.com/money-management/global-aum-rises-2023-even-profits-fall-bcg

Noteworthy shifts were observed in investment preferences, with passive strategies attracting a significant share of total global mutual fund and exchange-traded fund net flows in 2023. Passive strategies accounted for approximately 70% of net inflows, amounting to around USD 920 Bn. This marks a notable departure from the trends observed between 2019 and 2022, during which only 57% of net inflows were directed towards passive strategies.

Amidst this evolving landscape, the downward trajectory of fees collected by asset managers continued unabated in 2023. The average fee dwindled to 22 bps points, down from 25 bps points in 2015 and 26 bps points in 2010, reflecting the persistent pressure on fee margins.

Separately, a survey conducted around the same period indicated the widespread acknowledgement among asset managers regarding the significant or transformative impact of artificial intelligence (AI) on their organisations within the next three to five years, cited by 72% of respondents. However, only a mere 16% had fully defined a strategy and were actively working towards its implementation across their business operations. The report underscored the mounting structural challenges facing the industry, emphasising the imperative for asset managers to capitalise on the opportunities presented by AI. The report further advocated intensified investments in bolstering productivity, personalised product offerings, and harnessing the potential of private markets to maintain competitiveness amidst an evolving landscape.

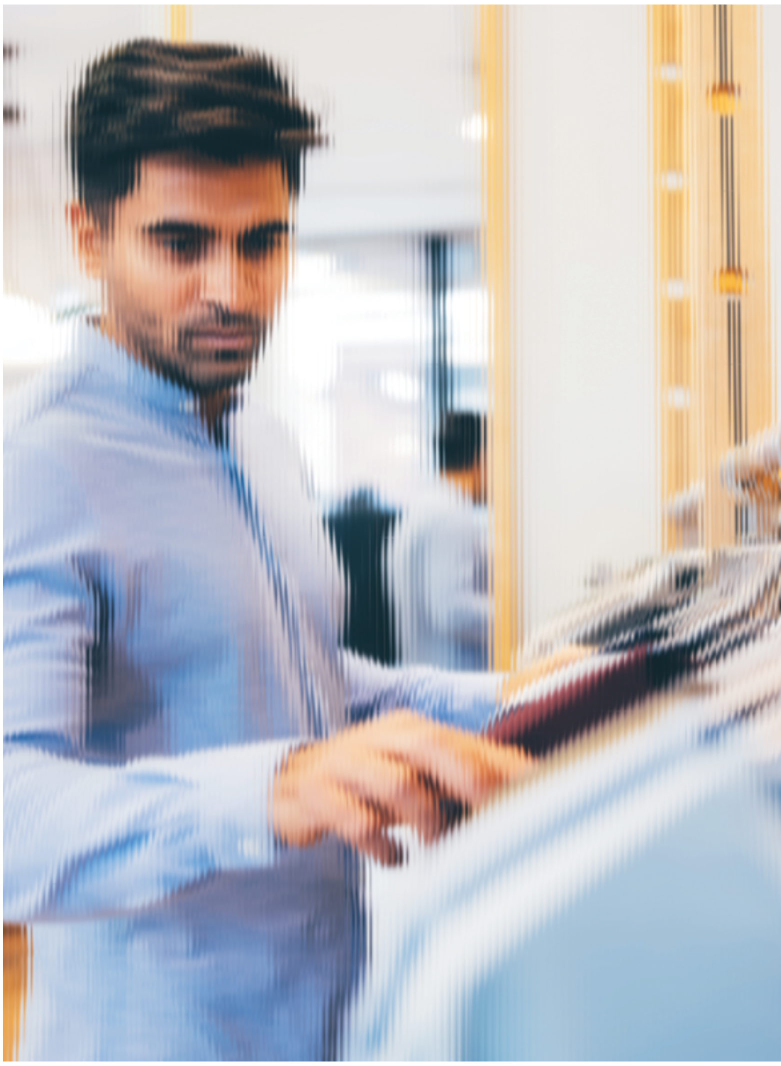
INDUSTRY GROWTH AND PERFORMANCE

Focus on Environmental Issues

The surge in sustainable investing, driven by a growing emphasis on Environmental, Social, and Governance (ESG) factors, represents a significant shift in investment paradigms within the asset management sector. This trend has firmly embedded sustainable investing into the mainstream and is projected to persist well into 2024 and beyond. However, this evolution has also triggered heightened regulatory scrutiny, leading to the introduction of various regulations like the EU Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, and MiFID II, alongside regulatory adjustments by the US Securities and Exchange Commission (SEC). These regulations aim to standardise reporting, enhance transparency, and safeguard investor rights. Consequently, asset managers face increased reporting obligations, necessitating the establishment of dedicated internal departments and collaboration with data service providers. This regulatory landscape is anticipated to endure beyond 2023, with ongoing adjustments and new mandates.

Strengths and Weaknesses

The global asset management industry showcases notable strengths in resiliency and scalability, with a growing emphasis on leveraging service partners and outsourcing to achieve these goals. Digital transformation stands as an imperative, promising benefits such as streamlined trading, unified data management, and enhanced client experiences. However, implementing these digital advancements requires significant time and investment. Consequently, asset managers are increasingly turning to fintech disruptors for innovation and expertise, as well as outsourcing data activities and reporting to manage costs effectively. Separately, despite strategic variations, there is widespread recognition of the potential of direct-to-consumer (D2C) distribution. While asset managers aspire to optimise digital engagement with clients, traditional intermediaries remain crucial for short-term growth. Startups and fintechs are viewed as major disruptors, prompting alliances between service providers and these innovative entities to stay competitive.



Winsome Business Strategies

Successful firms in the global wealth management industry are excelling at identifying and capitalising on growth opportunities by closely monitoring structural changes in the investment landscape and anticipating shifts in buyer demand. Recognising the burgeoning growth potential in individual-driven markets such as retail, wealth, and retirement, winning firms are adeptly pivoting their businesses to cater to these segments. Additionally, these firms are embracing innovation and modernisation, revamping their operating models to enhance investment processes, client experiences, and operational efficiencies. Amidst the industry's enticing financial prospects, successful firms are implementing strong financial management practices to improve profitability and effectively allocate resources, mitigating the risks associated with rising fixed costs and enabling a culture of fiscal responsibility and strategic decision-making.

OPPORTUNITIES AND THREATS

Emerging Key Trends in the Indian Wealth and Asset Management Industry

Wealth and Asset Management on Firm Ground

As the global wealth management industry progressed into 2023, it was in a state of transition, with factors such as net zero targets, alternates, customisation, and digitisation driving its progress. As wealth and asset management firms adapted to these evolving imperatives, they were required to strike a balance between delivering exceptional client experiences and maintaining competitiveness in a dynamic landscape.

These trends have solidified and are expected to continue in 2024, thereby placing the wealth and asset management industry on steady ground.

Assessing the Wealth Dynamic - A Tale of Growth

As the industry strides into a confident 2024, a key trend in focus is the wealth dynamic powering India, as the world's fifth-largest economy progresses on its journey towards attaining the coveted third position before the end of the ongoing decade.

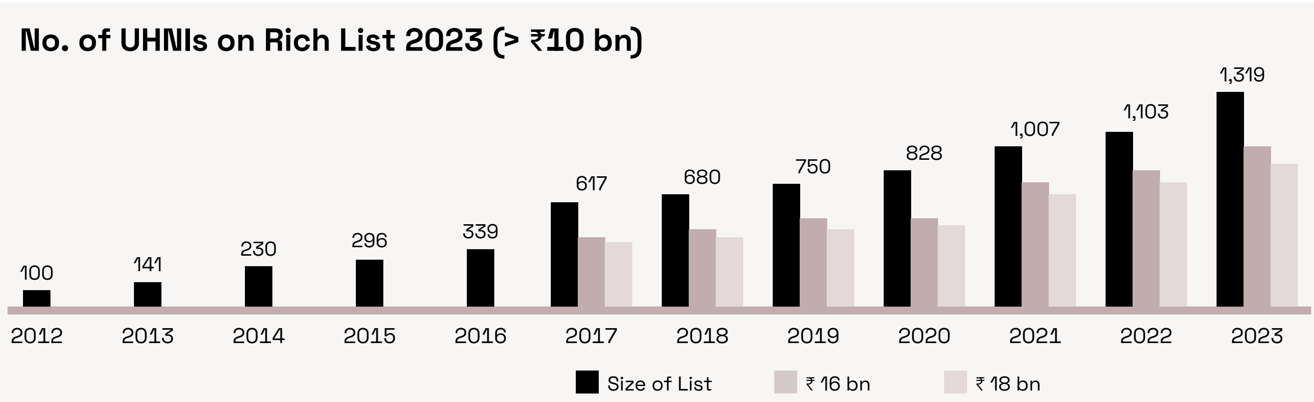
The Ascent of India...

According to the 2024 Hurun Global Rich List[9], India's financial epicentre, Mumbai, has evolved as the billionaire capital of Asia, surpassing previous contender Beijing, to ascend to the top position. Mumbai has attained this significant milestone for the first time in modern history while also adding a total of 94 new billionaires in the year gone by, a number that is decisively greater than China's 55 new entrants. Further, on a global scale, India has ranked second in terms of the highest number of billionaire additions in 2023, being placed only behind the US in the race to the top. In terms of a downturn in wealth, India witnessed a resilient year, with only 24 domestic billionaires facing a downtrend, as against 573 billionaires in China.

Alternatively, 247 billionaires from India experienced a rise in their wealth, surpassing China's figure of 241, highlighting the former's steady footing in the wealth ecosystem. Overall, India's cumulative wealth surged 51%, on a yearly basis, to reach USD 1 Trn, in clear defiance of the economic challenges buffeting the globe at large. The rapid ascent of India, and specifically Mumbai, in the global wealth creation domain marks the beginning of a new era in economic history, highlighting unprecedented growth and prosperity.

Separately, the 360 ONE Wealth Hurun India Rich List of 2023 identified 1,319 individuals with assets exceeding ₹1,000 Cr, marking a significant increase of 216 individuals and welcoming 278 new entrants in the year gone by. In a historic first for the lists, the cumulative wealth of the individuals on the 360 ONE Wealth Hurun India Rich List 2023 reached ₹1.09 Trn, surpassing the combined GDP of Singapore, UAE, and Saudi Arabia[10].

Exhibit 4 – Rich List (>₹10 bn) has Nearly Doubled Over CY18-23



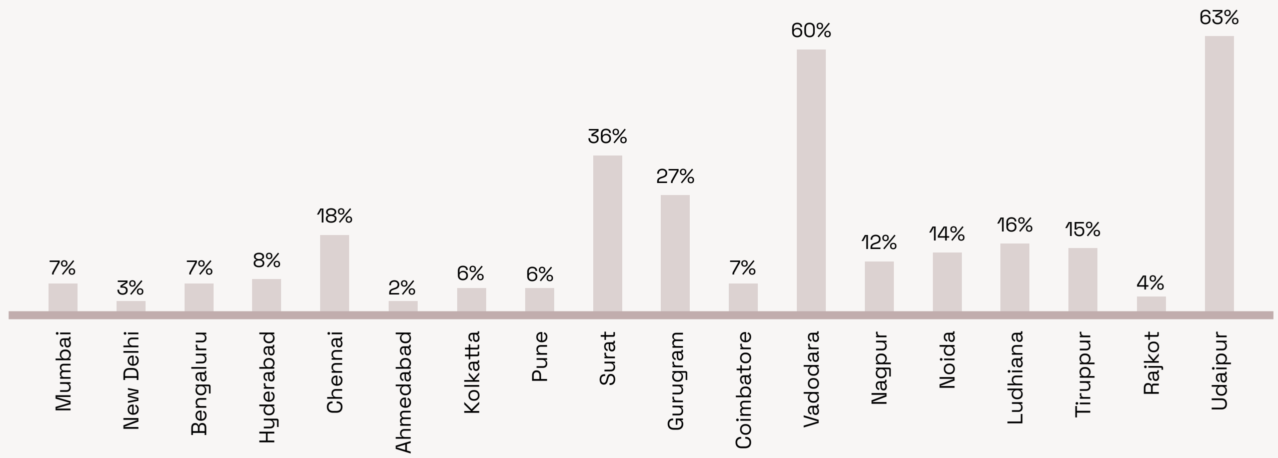
Source: 360 ONE Wealth Hurun India Rich List 2023, Jefferies

[9] https://hurunindia.com/blog/2024-hurun-global-rich-list/

[10] https://hurunindia.com/blog/360-one-wealth-hurun-india-rich-list-2023/

The list also indicated an interesting turn - the landscape of wealth creation in India has undergone a significant shift towards decentralisation a wider distribution. Over the past decade, the representation of Indian cities on the rich list has surged from 10 to 95. Given this trajectory and the growing wealth in the country's Tier 2 cities, it is expected that each of the government's planned 100 smart cities will boast at least one affluent individual within the coming year.

Exhibit 5 – Growth in the number of UHNIs across the top 20 cities in India



Source: 360 ONE Wealth Hurun India Rich List 2023

……With Larger Swathes of the Population Joining the Ranks of the Affluent

India is currently in a consumption sweet spot - an environment that is expected to strongly drive the India growth story. Adam Smith, in a 1759 paper titled 'The Theory of Moral Sentiments', observed that people were stuffing their pockets with 'little conveniences', and then buying coats with more pockets to carry even more 'stuff'. By themselves, many of these things might not have much use. But, Smith pointed out, what mattered was that people looked at them as "means of happiness". This made him come to the conclusion that **"Consumption is the sole end purpose of all production"**. As consumption rises, economic production increases, resulting in higher wages and greater disposable income, creating a cyclical pattern. This is now clearly playing out in India, with the income pyramid shifting and household income gravitating above the belly of the pyramid. As a result, both the disposable income as well as the savings and investments of households are increasing.

Exhibit 6 – The Upcoming Shift in India's Income Pyramid[11]

Fig 1:1 Anticipated Shift in India's Income Pyramid

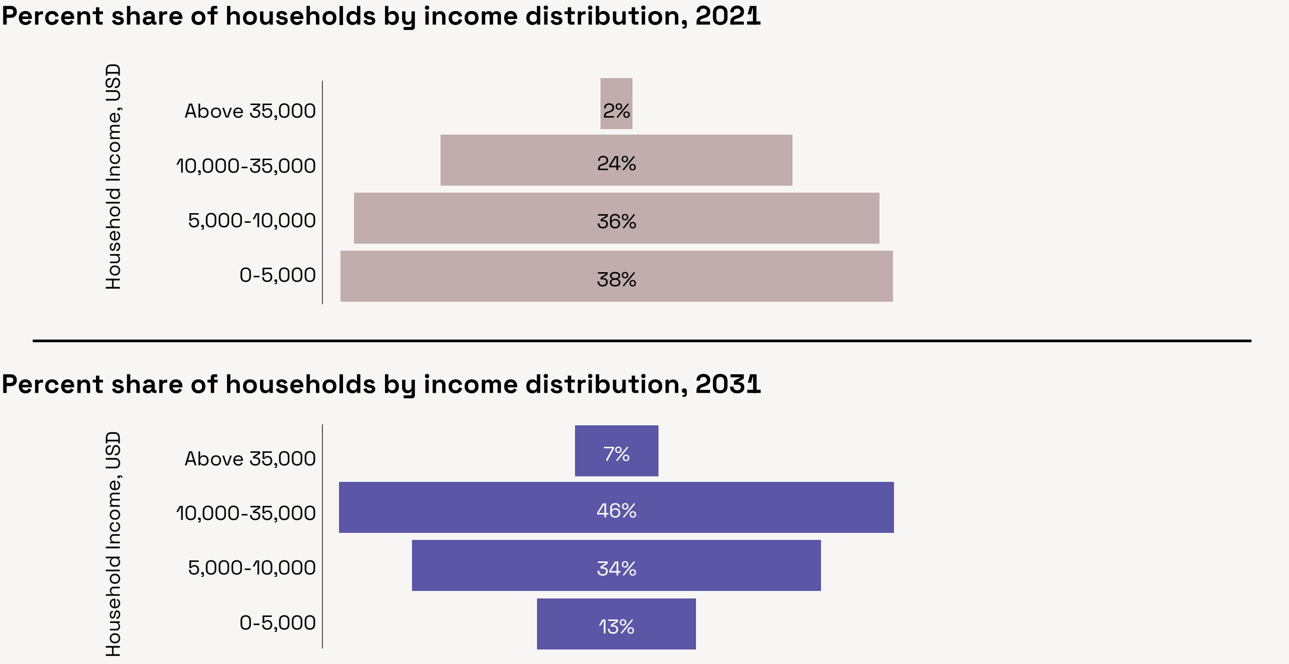
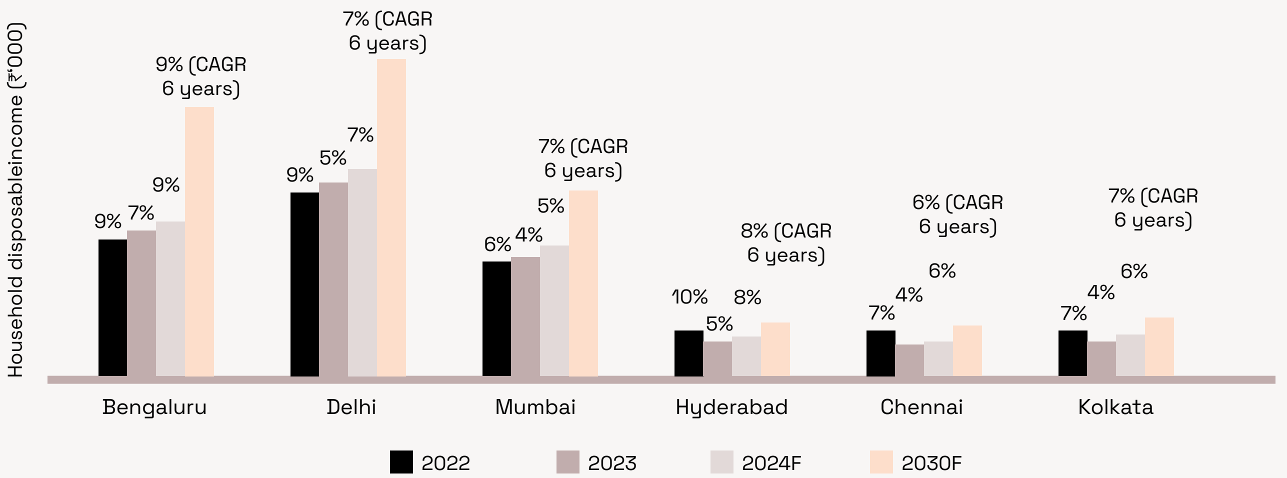


Exhibit 7 – Rise in Household Disposable Income[12]



Note: The Percent change above the bar represents YoY change, except the year 2030

Source: Oxfort Economics, December 2023

[11] https://www.cbre.co.in/insights/reports/india-s-luxury-real-estate-where-opulence-meets-opportunity

[12] https://www.cbre.co.in/insights/reports/india-s-luxury-real-estate-where-opulence-meets-opportunity

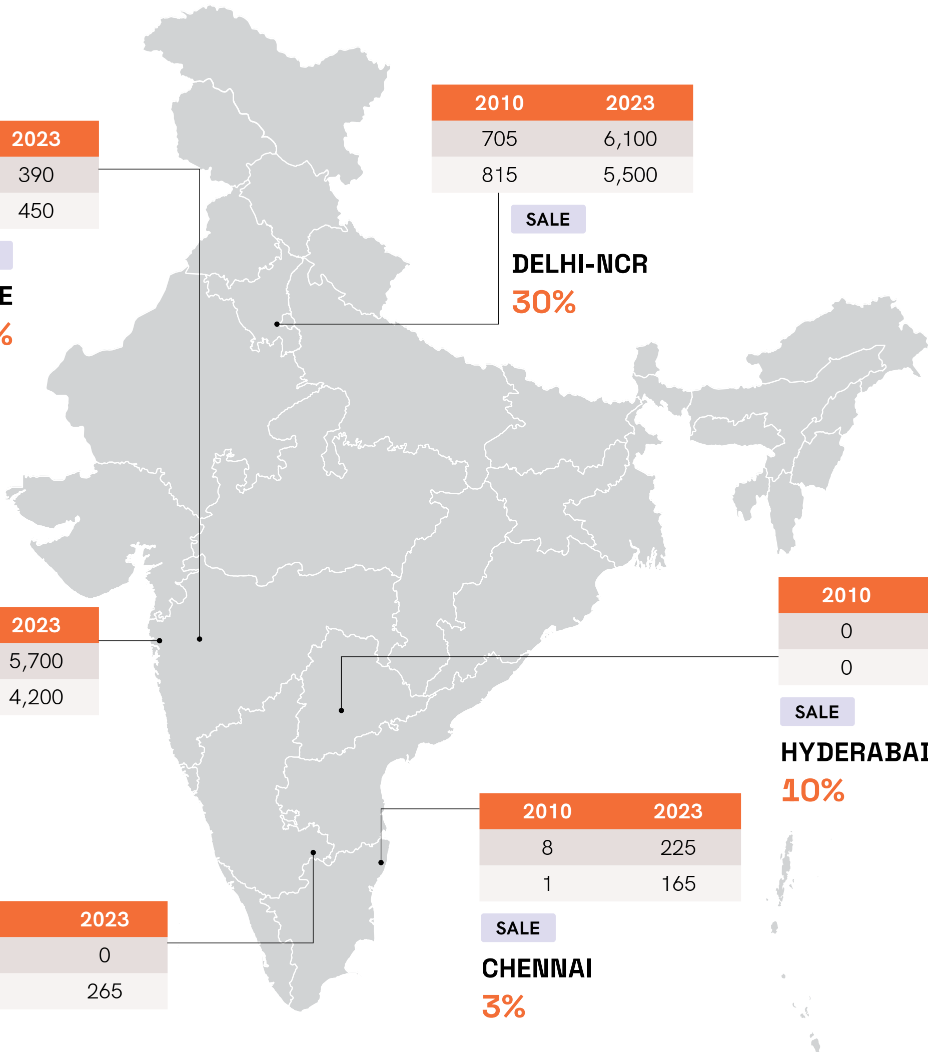
High-end Real Estate – A Flourishing Narrative

India is currently experiencing a notable rise in demand for luxury residences. This surge is powered by a growing affluent population seeking refined living experiences. The Indian luxury residential market is now offering a broader array of premium options beyond traditional bungalows.

In 2023, the luxury housing segment witnessed significant growth, with sales quadrupling and experiencing a 75% YoY increase[13]. Additionally, there was a rise in new launches within the luxury segment, leading to a reduction in unsold inventory levels.

The pandemic's impact on security and community living has spurred the popularity of branded residences, penthouses, sky villas, and independent floors within well-equipped townships. This segment experienced a notable resurgence in 2023, driven by high-net-worth individuals (HNIs) seeking spacious homes with enhanced security features. Currently, Mumbai leads the luxury housing market, followed by Delhi-NCR and Hyderabad.

Exhibit 8 – City-wise Luxury Hotspots in India



2010	2023
285	390
90	450

SALE
PUNE
5%

2010	2023
705	6,100
815	5,500

SALE
DELHI-NCR
30%

2010	2023
860	5,700
605	4,200

SALE
MUMBAI
49%

2010	2023
0	3,200
0	2,030

SALE
HYDERABAD
10%

2010	2023
8	225
1	165

SALE
CHENNAI
3%

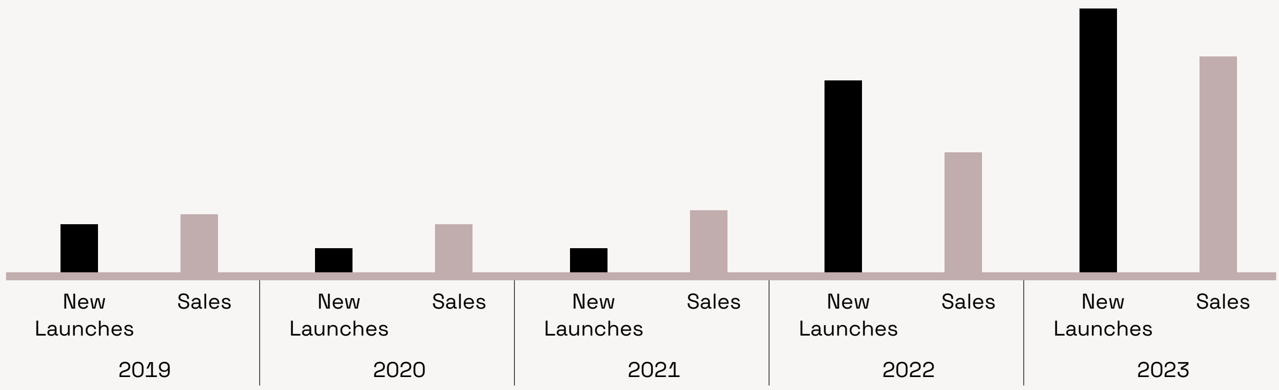
2010	2023
150	0
15	265

SALE
BENGALURU
2%

Source: CBRE Research, Q1 2024

[13] https://www.cbre.co.in/insights/reports/india-s-luxury-real-estate-where-opulence-meets-opportunity

Exhibit 9 – New Launches and Sales in Luxury Housing

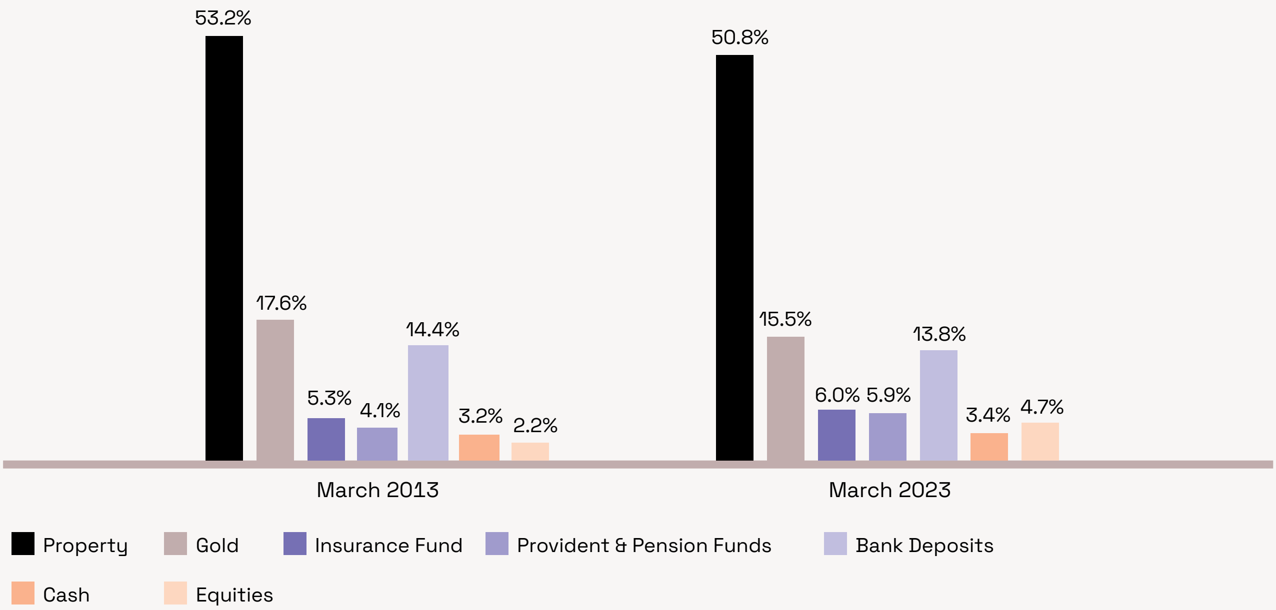


Sources: CBRE Research, Q1 2024

The Asset Allocation Landscape - Where is the Wealth Flowing?

While there is no contesting the fact that the number of Indians and the globe's wealthy, are growing at a rapid clip, there is a question around asset allocation. On that front, while India lags behind global economies in terms of allocation towards equities, it has nonetheless made significant progress. Between 2013 and 2023, household allocation towards real assets has reduced from 53.2% to 50.8%, while allocation towards equities has increased from 2.2% to 4.7%.

Exhibit 10 – Shift in Household Asset Allocation in India



Source: Jefferies, Morgan Stanley

Further, according to the Knight Frank Wealth Report for 2024, close to 20% of ultra-high-net-worth individuals (UHNI) intend to invest in commercial real estate this year, while over 20% are considering purchasing residential properties[14].

Additionally, the UHNI and HNI cohorts are also investing across arenas such as equities, bonds, private equity/ venture capital, indirect commercial property through REITs, gold, cryptocurrency and investments of passion including art, cars, wine, etc.

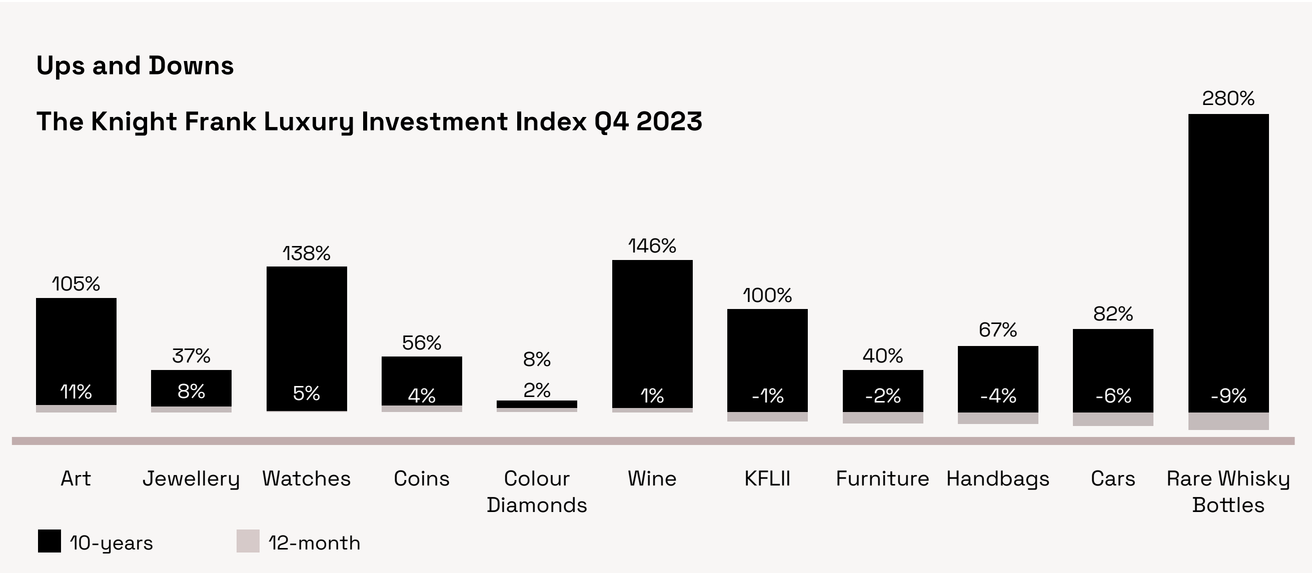
As per the Knight Frank report, nearly 17% of India's UHNIs utilised their investable wealth to acquire coveted collectibles in 2023. Despite this, real estate remains a preferred investment avenue for Indians, with 32% of super-rich individuals investing in property last year. The report highlighted that expensive watches topped the list of luxury investments among India's super-rich in 2023, followed by art, with jewellery also making an appearance.

In contrast, global preferences leaned towards art as the primary luxury investment, followed by watches and classic cars. While India's super-rich also ventured into wine and rare whisky, their investments in these areas were relatively lower compared to their global counterparts. Notably, the report excluded real estate from the category of luxury investments.

The report emphasised that Indians have a longstanding penchant for various types of collectibles, contributing to the sector's growth. It also identified promising returns in these categories in both domestic and international markets, anticipating further investments as wealth continues to expand.

However, despite record-breaking sales at auction houses in 2023, the luxury investment index experienced a slight decline towards the end of the year, attributed to some assets' decreased value or minimal gains. Experts suggest that this dip may signify a market correction rather than a significant concern, with some losses reflecting the stabilisation of previously inflated assets.

Exhibit 11 – The Luxury Investment Index



Wealth and Asset Management – The Path Ahead

As wealth management firms navigate the evolving wealth landscape alongside increasingly interconnected clients, digital readiness emerges as a crucial focal point. With the sweeping influence of generative AI reshaping industries worldwide, wealth management firms are integrating this technology throughout their operations, from client-facing chatbots to empowering relationship managers with insights and streamlined workflows in middle and back-office functions.

The Capgemini World Wealth Report 2023[15] revealed that a robust 44% of wealth management executives stated their firm already leverages AI and machine learning (ML) technologies across the value chain. However, the report also highlighted that only 41% of relationship managers feel adequately equipped with tools and training to hyper-personalise client services.

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14 https://www.agenceboan.com/app/uploads/2024/03/the-wealth-report-2024-knightfrank-boanimmobilier-megeve.pdf

15 https://www.capgemini.com/wp-content/uploads/2024/01/Wealth-Management-Top-Trends-2024_web.pdf

Client preferences and aspirations are rapidly evolving with over 55% of HNIs deeming digital channel capabilities crucial when selecting a wealth management firm. Nonetheless, more than 47% expressed dissatisfaction with their firm's digital interface. Wealth managers are diversifying their customer base, including a growing young clientele, and exploring new business methodologies. The affluent wealth segment, with investable assets ranging from USD 250k to USD 1 Mn, represents the next frontier for wealth management firms seeking sustainable revenue streams.

Among customers in the affluent segment surveyed in the Capgemini Report, 43% relied on independent wealth advisors, 17% turned to retail banks, and 5% to traditional wealth management firms, while 20% managed their investments through self-service apps and 15% utilised WealthTech services.

Moreover, wealth management firms will confront the challenge of intergenerational wealth transfer, requiring effective strategies for intergenerational advisor transition.

Further, sustainability and environmental considerations are gaining prominence for wealth management firms as HNIs become increasingly attuned to the ESG impacts of their investments. According to the Capgemini Report, 63% of HNIs seek reliable and traceable ESG scores for their assets. Firms must bridge the gap between client demands and organisational capabilities to seize opportunities in ESG investments; yet over 30% of relationship managers acknowledged that their firms lack a standardised framework to measure and score ESG impact.

Playbook for the Future

Given the array of investor expectations and forthcoming challenges, strategic wealth management firms will need to harness emerging technologies, expand their client bases, and elevate their focus on ESG assets to maintain competitiveness in 2024.

Following are the top trends which are expected to dominate the wealth and asset management landscape in 2024

1. **Developing a Robust Brand Identity**

   Wealth managers will commit to differentiating their unique value proposition, distinctive brands, and strong organisational purposes in their chosen markets. Clients are drawn to wealth and asset managers that deliver better financial performance and are aligned with their vision and values. Firms need to clearly define their core purpose and use a strong brand strategy to defend their competitive advantages. Developing clear, distinct strategies based on an assessment of long-term trends and competitive advantages and evaluating distribution strategies and channels, including direct, intermediated, digital, and ecosystems, will be at the forefront of firms' initiatives. Simultaneously, firms need to optimise their communication channels and align their internal and external messaging with their organisations' values for more authentic and transparent brand building.

2. **Constructing Scalable Platforms for Profit and Growth**

   In 2024, wealth managers will resolve to develop strategies for sustainable, profitable growth for the benefit of all stakeholders — using a scalable platform for future expansion, adaptability, and partnering. Industry revenues and operating margins are under pressure from global volatility, increasing competition, changing product interest, slowing growth in AUM, net outflows, and rising cost-to-income ratios. Wealth and asset managers are seeking avenues of sustainable growth and profitability to drive long-term value creation. Formulating an organisational model based on a differentiated, targeted strategy that will be sustainable in the long term, and taking a strategic approach to outsourcing, nearshoring, and offshoring based on an assessment of core competencies, mission-critical activities, and areas of competitive advantage will remain key.

3. **Leveraging New-age Data**

   Future-ready firms will focus on continually modernising their data infrastructure to maximise the availability, usability, adaptability, and security of public and private data. Wealth and asset managers are increasingly reliant on extracting value from a range of internal and external data — the sources, volume, and velocity of which are constantly increasing. Firms are working to develop modern data infrastructures that provide a single, reliable source of truth. Integrating a data management strategy across the enterprise and lines of business, with an eye on future applications and emerging threats and enhancing the cyber security of the firm's own data infrastructure and its broader operating ecosystem will be major points of focus.

4. **Aligning Internal Technology with External Ecosystems**

   Wealth managers will strive to harness the power of internal and external ecosystems — using partnering and integrated technology platforms to enhance performance, scalability, transparency, and profitability. Wealth and asset managers face growing pressure from cost expansion and margin contraction, as well as rapidly increasing investor expectations for speed, efficiency, and seamless experiences. Firms are working to develop technology platforms that can unify the brand experience and quickly meet changing client needs.

5. **Harnessing AI Effectively**

   Asset managers will focus on being proactive, transparent, and targeted in their use of AI. That includes effective governance, a focus on efficiency, unified data, and robust model testing. As AI and GenAI become more capable and pervasive, wealth and asset managers will need to understand and embrace the technology to improve efficiency and meet investor expectations. To become AI-enabled organisations, firms are accelerating investments in their data resources, technology platforms, and training their staff. Ensuring a transparent and ethical approach to AI, with controls and testing over output, alongside strong cyber controls over the security and privacy of data, will remain key targets.

6. **Optimising the Talent Available**

   Firms will work towards maximising the value of new and existing talent through strategic programmes of reskilling and upskilling — readying people for changes in client demand, technology, products, and industry practices. Widespread talent shortages, coupled with rising expenses and competition from technology-enabled new entrants, are increasing the need for upskilled wealth and asset management executives. Firms are trying to recruit people with specialist skills in AI and other advanced technologies.

7. **Depicting Clear Focus on Sustainability**

   Wealth managers will aim to develop a consistent, comprehensive, and transparent approach to sustainability, optimising investor alignment and taking an enterprise-wide view of implementation. Wealth and asset managers face expectations to commit to more active participation in re-orientating global financial flows towards a more sustainable economy. Firms are expanding their focus on climate to include the wider green and blue (marine) economies, as well as renewing their commitments on themes like food security and economically inclusive cities. Key focus areas will include developing a greater choice of thematic funds and increasing allocations to themes such as diversity, transition investing, biodiversity, and the blue economy.

8. **Eye on Investors**

   Competitive wealth management firms will resolve to enhance investor access to a full range of products, advice, and education — increasing investor engagement and providing better outcomes to a larger pool of clients. Changing investor demographics are creating more complex patterns of demand. A growing pool of prospective clients offers tremendous growth potential but brings far more differentiated needs. Wealth and asset managers are widening their prospective client pool and broadening investor choice while also trying to educate clients on the products and services becoming available to them by offering products traditionally limited to wealthy clients, to mass affluent and retail investors.

Wealth Management – Structural Insights

Opportunities in the UHNI/HNI Sector

A rapid growth in the UHNI/HNI sector presents considerable opportunities for wealth managers. Various data points indicate that the wealth management sector holds significant potential for outpacing the overall savings market:

01
Individual tax filers with a gross income exceeding ₹10 Mn have shown an 18% CAGR over the last decade, compared to a total tax filer CAGR of 10%[16]

02
The number of HNIs (individuals with over USD 1 Mn in liquid financial assets) has grown at a 21% CAGR in the past 5 years and is projected to grow at a 13-14% CAGR over the next 5 years

03
Investments by HNIs in assets such as AIFs, PMS, and HNI MFs have outpaced the overall savings pool, contributing approximately 45% of total AUM in FY24 compared to 34% in FY16

04
Significant transactions in high-ticket unlisted equity have been observed over the last decade

05
Substantial growth in wealth financial assets in Tier 2/3 markets compared to top ten cities

06
Promoters in the top NSE 500 companies have divested approximately ₹3 Trn since FY20, providing opportunities for wealth managers

07
Reports indicate that wealth under professional advice/management in India is less than 15% compared to 68% in China

08
Financial wealth represents less than 25% of total wealth, as opposed to the global average of 54%

Source: A Spark Institutional Equities report, 02 April 2024 and internal estimates

This suggests ample whitespace and growth potential for the wealth management industry overall.

Adaptation of Business Models

In response to these dynamics, numerous players, including banks and standalone wealth managers, are adapting their business models to cater to the wealth management sector. They are diversifying their approaches across customer segments, manufacturing strategies, fee structures, focus areas such as lending, and product priorities to capture opportunities in this space. Achieving a balanced blend across these aspects is deemed crucial for success in the wealth management industry.

Cyclical Nature of Wealth Management

While the sector offers a structural growth opportunity, it remains subject to cyclical fluctuations in the near term. Market sentiments and MTM gains influence net flows, leading to revenue mix variations between transaction-based and recurring-based income streams. This volatility affects top-line growth, even impacting recurring income realisation, contrary to the relatively stable income streams of pure manufacturers who earn income on an AUM basis.

Asset Management Corridors – The Rise and Rise of Alternates

The Alternates landscape is experiencing significant growth globally, as indicated by a recent analysis by industry experts at Preqin.

Projections suggest that the market for alternates will expand by more than USD 8 Trn over the next five years, reaching a total of USD 24.5 Trn by 2028[17]. This growth is being driven by an annualised growth rate of 8%, highlighting the growing interest in non-traditional investment opportunities on a global scale.

Alternates encompass a wide array of assets, including private equity, hedge funds, real estate, commodities, and infrastructure. One of the primary reasons behind their appeal lies in their ability to enhance the risk-adjusted returns of investment portfolios.

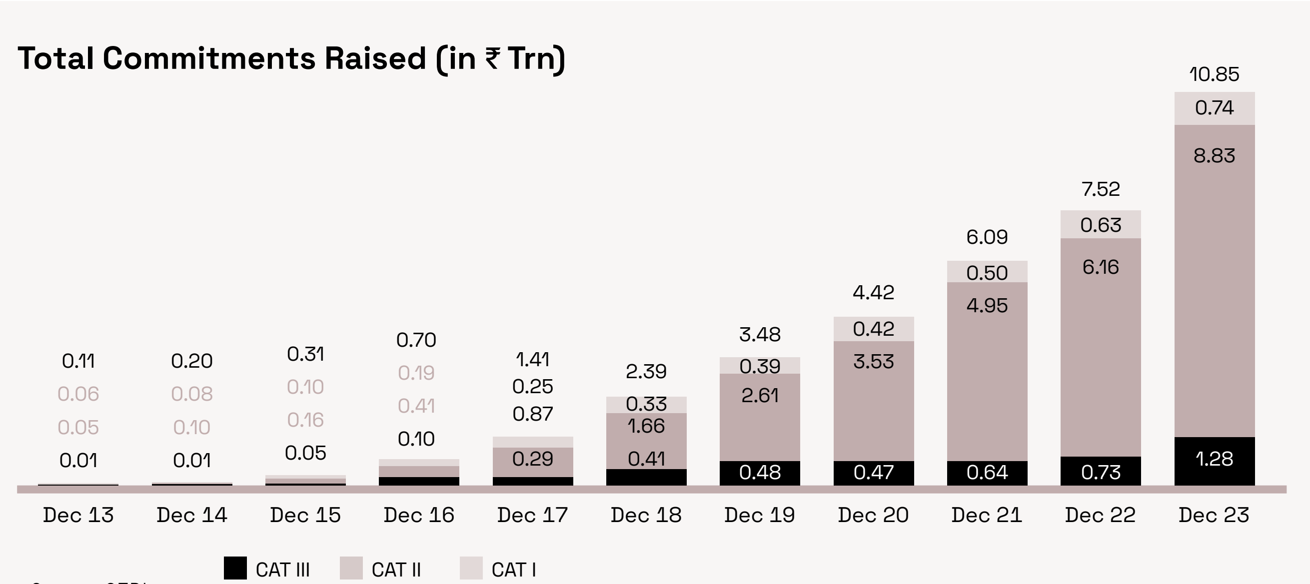
In the Indian context, the attractiveness of alternates is particularly evident, given the country's ambitious economic growth objectives.

[16] As per report by Spark Institutional Equities, 02 April 2024 and internal estimates
[17] https://www.investmentnews.com/alternative/news/global-alternative-market-set-to-reach-24-5t-private-credit-aum-to-double-244679

Over the past five years, the Indian alternates industry, comprising Portfolio Management Services (PMS) and Alternative Investment Funds (AIFs), has experienced a remarkable compound annual growth rate (CAGR) of 26%[18]. This growth trajectory underscores the growing acceptance and adoption of alternates among Indian investors.

Further, the total commitments raised by AIFs, across its three categories, has risen to ₹10.85 Trn as of the end of 2023[19], which is sharply higher than ₹110 Bn in December 2013. A large portion of this figure is cornered by Category II AIFs, which consists of private equity funds, debt funds and fund of funds.

Exhibit 12 – Total Commitments Raised by AIFs



Source: SEBI

Private Equity

In 2023, there was an overall decline in private equity (PE) and venture capital (VC) investments, with a notable 11% decrease YoY due to a drop in overall deal activity, including a 33% decrease in the number of deals[20]. Particularly, the startups segment experienced a significant 42% decline in the number of deals, leading to an even steeper drop of approximately 53% in the dollar value of investments.

However, there was a shift in investment strategy, with pure play PE/VC investments witnessing a notable 25% decrease, while there was a resurgence observed in real assets-backed infrastructure and real estate asset classes, with a robust 23% YoY increase.

Despite the decline in certain sectors, infrastructure emerged as the leading sector, attracting USD 11.6 Bn in PE/VC investments, while traditional favourites such as financial services, e-commerce, and technology recorded declines. Despite the decline in investments, India-focused fundraising recorded the second-highest dollar value of funds raised totalling USD 15.9 Bn, with the number of funds successfully raised reaching an all-time high of 102.

In 2024, PE/VC investments started positively, with January 2024 investments being higher than the previous month by 176% in terms of value and 43% higher than January 2023. Looking ahead, the outlook for India's startup ecosystem remains positive, driven by the underlying strengths of the Indian economy and a robust founder-investor ecosystem.

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[18] https://resources.pmsbazaar.com/special-edition/2023/PMSBazaar-6.0-Special-Edition-Nov-2023.pdf

[19] https://www.sebi.gov.in/statistics/1392982252002.html

[20] https://www.ey.com/en_in/news/2024/01/2023-records-us-dollor-49-point-8-billion-pe-vc-investments-across-853-deals-ey-ivca-report

Exhibit 13 – Deal Types in India

Investment	Value US$ Million			Number of Deals		
Deal Type	**2024 (Jan)**	**2023 (Dec)**	**2023 (Jan)**	**2024 (Jan)**	**2023 (Dec)**	**2023 (Jan)**
Growth Capital	1,786	642	2,465	14	13	13
Startup	455	837	907	41	37	50
Buyout	3,435	71	791	3	3	6
PIPE	237	260	115	8	15	3
Private credit/Venture debt	269	426	37	11	8	3
Grand Total	**6,181**	**2,236**	**4,314**	**77**	**76**	**75**

Source: EY analysis, VCCEdge data

While challenges such as high valuations and regulatory uncertainties persist, they also present opportunities for innovation and adaptation, with startups backed by strategic investments and prudent growth strategies poised to navigate through these challenges and emerge stronger.

Private Credit

According to SEBI data from the second half of 2023, there has been a notable increase in the registration of new AIFs, particularly those focused on credit/special situations. Additionally, nine funds have announced new fund raises totalling over USD 2 Bn during the same period[21].

In 2023, private credit deal flow in India surpassed the previous year, both in terms of deal count and value, driven by factors such as stabilised interest rates, increased activity in the real estate sector, and larger deals.

Real estate remained a dominant sector, attracting significant investments totalling USD 1.7 Bn in CY23. Global funds contributed the majority of the total deal value, while domestic funds led in terms of deal count, focusing on the mid-market segment.

The EY Private Credit Pulse survey for the second half of 2023 reveals insights from fund managers, indicating that capital expenditure-related financing is expected to be the primary driver of private credit deals over the next 12 to 24 months, followed by stress-related financing.

Real estate is anticipated to be the sector with the most deal activity, although it is also perceived as the riskiest sector in the current private credit portfolio. Despite optimism regarding fund availability for private credit deals, industry competitiveness has intensified.

Respondents foresee an overall private credit investment of US$5 to US$10 Bn in CY24, with a slightly more bullish outlook for the two to five-year horizon compared to the next one to two years.

Real Estate

In 2023, India's real estate market defied global economic challenges to achieve record-breaking performance. Office leasing activity surged to 63 million sq ft, with Bengaluru and Delhi NCR leading the way[22]. Green footprint in India's Grade A office market exceeded by 50%, reflecting a commitment to sustainability.

Retail leasing hit a decade high, driven by aspirational consumer spending. The logistics sector remained stable, with increased demand for warehouses. Apartment sales reached ~272,000 units, with Mumbai, Bengaluru, and Pune as top markets, despite slight affordability challenges.

India's economic resilience, supported by strong GDP growth and a thriving tech ecosystem, underpins the real estate sector's growth. This performance underscores India's position as a global economic powerhouse and a promising investment destination while highlighting the strong path ahead for real estate in 2024.

Global Landscape – US Remains at the Top

With a staggering USD 67 Trn in liquid investable wealth, the US maintains its global dominance, securing the top rank worldwide[23]. Despite ranking sixth globally in wealth per capita at USD 201,500, following Monaco, Luxembourg, Switzerland, Australia, and Singapore, the US boasts an impressive 62% growth in millionaires from 2013 to 2023, positioning it 11th globally.

With over 5.5 Mn millionaires and 9,850 centi-millionaires, the US leads the world in both categories. Moreover, boasting a remarkable 788 billionaires, the US secures its top position globally in billionaire wealth accumulation.

The change in interest rate expectations, coupled with the steady performance of the US economy and a significant rise in equity markets, contributed to a global surge in wealth creation. By the close of 2023, there was a 4.2% increase in the number of UHNIs compared to the previous year, with nearly 70 affluent individuals joining their ranks daily, pushing the global total to slightly over 626,600[24].

[21] https://www.ey.com/en_in/strategy-transactions/onwards-and-upwards-a-positive-outlook-for-private-credit-in-india

[22] https://www.jll.co.in/en/trends-and-insights/research/indias-real-estate-on-a-stronger-growth-path-in-2024

[23] https://www.henleyglobal.com/publications/usa-wealth-report-2024

[24] https://www.agenceboan.com/app/uploads/2024/03/the-wealth-report-2024-knightfrank-boanimmobilier-megeve.pdf

Leading this growth were North America, experiencing a 7.2% uptick, and the Middle East, with a 6.2% increase, while Latin America witnessed a decline in its wealthy populace. Despite Europe's slower pace in generating new wealth, it remains the residence of the wealthiest 1% of individuals.

According to Knight Frank, although global growth has slowed down this year, the resurgence of wealth creation appears to be a persistent trend. The report affirmed the forecast indicating a 28.1% increase in the number of affluent individuals worldwide over the next five years, reaching 2028. The analysis highlights Asia as a significant contributor to this growth, with India and the Chinese mainland projected to experience substantial expansions of 50% and 47%, respectively.

India Equity Overview – Strong Positivity Ahead

In 2023, the global economic landscape defied initial expectations of a recession amid concerns over rising interest rates, inflation, and a shift from quantitative easing to tightening measures by the central banks worldwide.

Notably, despite a contraction in money supply globally, the world GDP surpassed projections, driven by strong growth in Japan and the US, which recorded GDP growth rates of 4.8-4.9% in certain quarters, outpacing emerging markets[25].

Despite the fear of recession, the US and Japan ended the year with GDP growth rates of 2.6% and 2%, respectively, albeit at the expense of increased fiscal spending. While global equity markets thrived, with NASDAQ rising by 39%, Nikkei by 24%, and India by 18%, emerging markets, particularly China, remained subdued, experiencing a decline of approximately 13%.

Exhibit 14 – Global GDP Growth – India in the Lead

GDP Growth Y/Y (%)	2023 Q1	2023 Q2	2023 Q3	2023E	2024E	2025E
India	6.10	7.80	6.50	6.60	6.40	6.50
US	2.20	2.10	4.90	2.60	1.40	1.80
China	4.50	6.30	4.90	5.10	4.20	4.00
Japan	3.20	4.80	0.40	2.00	1.00	1.10
Euro Area	1.20	0.50	0.10	0.40	0.50	1.00
EM	4.00	4.80	3.90	4.20	4.00	4.00

The first quarter of 2023 validated expert predictions, with China's Caixin PMI showing expansion, the US interest rates rising by 25 basis points (one of four hikes before a pause in September 2023), and global markets responding positively, with China up by 5% and the rest of the world by 7%.

Subsequently, the Federal Reserve implemented three more rate hikes until September 2023, when it paused to address fiscal concerns, slowing growth, and decreasing inflation to long-term average levels.

Looking ahead to 2024, the anticipation revolves around a two-part narrative. The first stage in Q1 may witness a global slowdown, moderated profit growth, increased global debt, and reduced consumption due to high-interest rates, potentially leading to lower GDP growth compared to 2023.

Additionally, being an election year for many countries, delayed capex-related fiscal spending may occur. However, the second stage in Q2 or the latter half of 2024 may see falling interest rates globally and a potential revival of consumption.

The outlook for equity markets in 2024 appears more promising than in 2023, primarily due to the anticipated decrease in interest rates, which lowers the cost of capital and enhances earnings potential. India is expected to outperform its peers due to stable economic growth and earnings.

Despite contributing incrementally to global GDP, India accounts for only a small portion of world profits and MSCI world indices. India's partnership with Russia helps mitigate risks related to crude oil prices, but key risks include the outcome of the 2024 elections and geopolitical tensions abounding in the Middle East. Post-elections, there is potential for increased foreign institutional investment (FII) ownership and inclusion in JP EM bond indices, leading to record inflows for the country.

India Fixed Income Overview – A Favourable Year Ahead

The bond market outlook appears favourable, with a benign rate environment expected. Monetary policy will likely continue to focus on disinflation, closely monitoring global cues and events. Despite the steady easing of core inflation, volatile food inflation remains a concern.

[25] https://economictimes.indiatimes.com/markets/stocks/news/equity-market-outlook-for-2024-looks-more-promising-than-2023-heres-why/articleshow/106228647.cms?from=mdr

There is a visible path towards achieving a ~4% inflation target, with potential policy rate cuts anticipated, particularly in Q2 FY24, with an estimated total of 50bps rate cuts in the next financial year[26].

In the global landscape, the US economy faces concerns as its yield curve has inverted since July 2022, signalling a potential recession by May 2024. The Federal Reserve's dovish stance and rate cut guidance may influence market dynamics, with expectations of cumulative rate cuts of 75 bps in 2024 and another 100 bps in 2025. However, the recent strength in jobs data, and sticky inflation, may prompt the US Fed to hold on to its unprecedentedly high rates for longer.

Meanwhile, the European Central Bank (ECB) faces pressure for rate cuts amid deteriorating economic momentum, with 125 bps of cuts priced in for 2024. China's growth challenges support loose monetary policies, while the Bank of Japan (BOJ) maintains a tight stance amidst uncertainties.

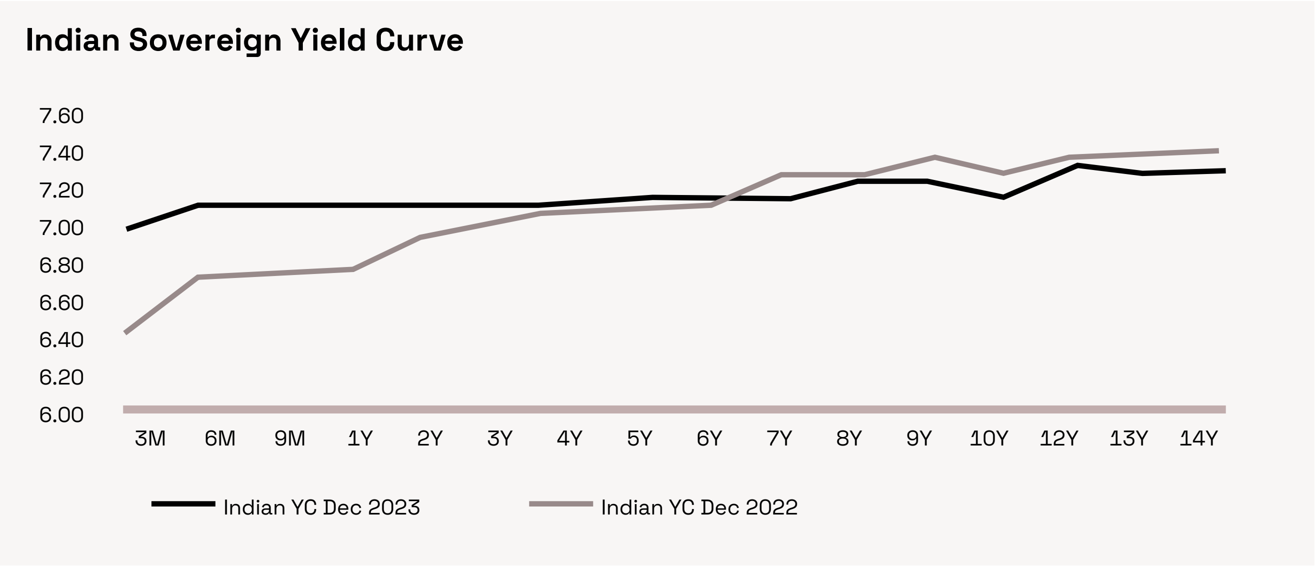
On the domestic front, India's economy enjoys stability, with robust growth and controlled core inflation. The RBI is anticipated to initiate liquidity easing, with further policy adjustments contingent on global developments.

Inflation forecasts remain conservative, with CPI expected to ease to 4.0-4.5% in H2 2024. Further, the International Monetary Fund (IMF) has revised India's growth forecast for FY25 upward to 6.8% from the previous estimate of 6.5%[27]. This adjustment is attributed to robust domestic demand and the increasing size of the working-age population. Concurrently, the RBI has projected a growth rate of 7% for the ongoing financial year[28].

MPC members favour a real rate of around 1.50%, suggesting room for rate cuts. Fiscal indicators remain favourable, with strong tax collections and front-loaded capital expenditure. The government's commitment to fiscal targets instils confidence, with supply of government securities likely to remain stable despite growing demand. Inclusion in global bond indices is anticipated to attract significant inflows, reducing long-term funding costs.

Preference for spread instruments, particularly in the corporate and state bond segments, is expected to increase, with spreads likely to peak and become attractive. Short-medium term yield curves are projected to outperform longer maturities, with the 10-year benchmark paper trading between 7.10% and 7.20% in the near term.

Exhibit 15 – Indian Government Bond Yield Curve



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[26] https://economictimes.indiatimes.com/markets/stocks/news/debt-market-outlook-2024-why-has-the-environment-turned-favourable/articleshow/107186039.cms?from=mdr

[27] https://www.imf.org/en/Countries/IND

[28] https://www.reuters.com/world/india/imf-raises-indias-gdp-forecast-68-2024-25-2024-04-16/

Additionally, the corporate bond credit space appears attractive, with widened spreads presenting opportunities for investors. Overall, the bond market outlook remains dynamic, with evolving macroeconomic factors and market repricing contributing to potential volatility.

Review of Business and Operations

Segment-wise and Product-wise Performance

360 ONE WAM reported its highest-ever profit after tax on full year basis, with the full year PAT at ₹802 Cr. Considering the business and financial numbers; in line with our focus on ARR assets, total ARR AUM increased to ₹2,27,879 Cr, which was up 36.3% YoY. This growth was driven by strong net flows at ₹26,915 Cr during the year.

Further, the overall active ARR AUM stood at ₹1,99,606 Cr, while our Wealth ARR AUM stood at ₹1,55,631 Cr, up 43% YoY, even as the AMC ARR AUM stood at ₹72,248 Cr, up 24% on-year.

The ARR Revenues for the full year grew by 13.6% YoY at ₹1,331 Cr, led by growth in assets across business segments and healthy retentions on Active ARR AUM. Our ARR Revenues, as a percentage of total revenues from operations, stood at 72%.

Further, the total Revenue from Operations is up 17.9% YoY, at ₹1,846 Cr, for FY24. The year also witnessed higher transactional/brokerage income, mainly driven by opportunities in the private markets. Our large UHNI client base has allowed us to capitalise on such opportunities, creating value for the clients and the firm.

In FY24, our Total Revenues are up 25.3% YoY at ₹1,965 Cr, supported by higher other income. Separately, our Total Costs are up 33.1% YoY, at ₹956 Cr, due to the addition of multiple large teams in the wealth segment and investment in the HNI and Global business segments.

Our employee costs rose by 36.3% YoY, on account of additional headcount, including certain senior level hires and accordingly, our Cost-to-Income ratio stood at 48.7%. During FY24, at the Partner and above levels, over 35 new hires are being onboarded in the Wealth Sales teams, allowing us to significantly expand our market coverage and penetration.

We expect the employee costs ratio to gradually settle down over the next few quarters as the new business initiatives and new teams start generating revenues. The overall C/I ratio, without the expense attributable to the new initiatives, was 44.4%.

Our Tangible RoE is at 30.1% in FY24, vis-à-vis 26.7% in FY23. Importantly, our tangible RoE (i.e. RoE excluding goodwill & intangibles) was robust at 35.2% for the last quarter, as a result of prudent capital management and regular dividend payout.

Segment-wise, our wealth management division witnessed a rise in Revenue from Operations to ₹1,362 Cr, from ₹1,110 Cr in FY23, with the ARR revenue rising to ₹847 Cr from ₹716 Cr in the in the year ago period. Further, the TBR Revenue for this sector stood at ₹515 Cr in FY24, from ₹394 Cr in FY23 mainly driven by opportunities in the private markets. Other income too saw an increase to ₹107 Cr in FY24 from ₹3 Cr in FY23, while the cost increased from ₹527 Cr to ₹719 Cr in the same period mainly due to additional headcount, including certain senior level hires Accordingly, our Profit Before Tax stood at ₹750 Cr, for FY24, as against ₹586 Cr in FY23, for the wealth management business.

The growth in our wealth management client base has been very healthy for FY24, given that we have onboarded over 400 new clients with ₹10 Cr+ ARR AUM. Clients with a total AUM of ₹10 Cr+ stood at over 2,750 and account for 93% of our Wealth AUM (excl. custody).

Moving to the Asset management vertical, our Revenue from Operations rose to ₹483 Cr in FY24, as against ₹455 Cr in the previous year, and other income rose to ₹13 Cr, from ₹1 Cr in the year-ago period. Our cost increased to ₹238 Cr in FY24, from ₹191 Cr in the previous fiscal. Finally, the Profit Before Tax, for the Asset Management segment, stood at ₹259 Cr in FY24 vis-à-vis ₹264 Cr in FY23.

Similar to our wealth management business, our asset management segment also witnessed healthy growth in number of client folios which rose from 167K in FY23 to 189K in FY24.

Additionally, we continue to take pride in the external recognitions received by our Wealth and Asset Management businesses. We are very proud to be awarded the Best Private Banker at both Euromoney and Asian Private Bank for last year.

Lastly, we are very excited by the path-breaking work being done by the 360 ONE Foundation. Over the last few years, we have transformed the traditional grant-giving to a catalytic approach towards CSR, leveraging outcome-based and blended financing to unlock additional pools of capital and driving exponential impact for the end beneficiaries. We look forward to sharing more on the Foundation's work over the course of the year.

360 ONE WAM – USPs

360 ONE's unique proposition has been created with deep, competitive moats that we have built since our inception. These include our sharp focus on wealth and asset management, deep, long-standing client relationships that have grown on the basis of trust, investment rigour and delivered performance, and an intensive culture of innovation in product development, wherein we pride ourselves on anticipating and responding to our clients' needs.

Additionally, we have been pioneering the move to Advisory with transparent interests aligned with the clients, while also depicting the robust ability to hire and retain the best talent across sales, investments, and operating teams. Through optimal and resilient investment and risk management processes across our business domains, we fulfil our 360 ONE Proposition, which revolves around performance plus long-term focus and an 'always on' approach towards our clients and stakeholders.

Today, we offer the most comprehensive advisory proposition, covering discretionary and non-discretionary mandates while including areas of family office, tax and estate planning. On the AMC front, apart from listed equities, we have the largest scale of offering in terms of alternates which cover seed to pre-IPO, Credit, Real Estate, and Infrastructure.

We continue to take pride in the external recognitions received by our Wealth and Asset Management businesses and are very proud to have been awarded the Best Private Banker at both Euromoney and Asian Private Bank events in 2023.

Future Business Outlook

While the global economic landscape is peppered with challenges, including sticky inflation, geopolitical turmoil, and the possibility of a slowdown, we are confident about the significant opportunity for Indian wealth and asset managers.

India witnessed more than 150 OFS/IPOs and over 600 stake sales in FY24, unlocking approximately USD 27 Bn in value while the data from top 50 cities suggest there are about 150k folios with ticket sizes ranging above ₹1 Cr. The robust growth of 12-15%+ CAGR, depicted by high-ticket financial asset classes such as AIF, PMS and unlisted equity, further strengthens our belief even as the annual growth projections of 13-15%, over the next 3-5 years for UHNI and HNI clients, indicate a higher level of wealth creation in these segments as compared to the average economic growth estimates.

360 ONE WAM has always believed in defining sharp strategic focus areas, creating deep competitive moats, and giving disproportionate attention to execution. This has allowed us to take the right capital allocation decisions, significantly invest in talent, platform and technology, and drive innovation on products and propositions. We are even better positioned today to sustain our offerings while scaling up to meet the requirements of larger client segments and new business engines.

Going forward, we see our strategic thrust on four key areas

- Geographic deepening for our core UHNI Wealth clients
- Extending our core to be the Wealth Manager of choice for the HNI segment
- Building a robust proposition for the Global Indian
- Driving growth in our asset management business through an expansion in institutional relationships and new fund strategies

With the new business areas starting to accrue revenues, we would expect our overall cost-to-income ratio to reduce to the 44% level over the next 2-3 years. On the Capital Efficiency front, our tangible ROE has moved from 7.7% to 30% over the last 4 years, owing to a prudent release of additional capital as well continued dividend distribution approach. We expect this ROE to sustain while we continue to invest in future growth areas.

We have also sustained our pole position as being the employer of choice for our business areas, as is specifically evidenced by the addition of a significant number of senior private bankers as well as the deep, experienced investment professionals we have added over the last 12-24 months. Our employee retention figures continue to be industry-leading, with voluntary attrition at only 5.4% for FY24. We will continue to selectively add talent in specific business growth areas as well as maintain our strategic focus on Technology and Data as we go ahead into FY25 and beyond.

RISKS AND GOVERNANCE

We believe that the following factors have significantly affected our results of operations and financial condition during the period under review, and may continue to do so in the future.

Our Assets Under Management

Our results of operations are materially affected by our AUM. Accordingly, our growth and success depend on the appropriateness of the investment options provided and the performance of our client portfolios and funds. Good investment performance increases the attractiveness of our products among clients, resulting in higher inflows and a consequent increase in our revenues. Hence, events that impact investment performance (relating to stocks, bonds, commodities or real estate-related investments) may adversely affect our business.

To mitigate these risks, we have a product team that shortlists products offered to clients on our platform. We also have a Product Approval Committee for complex/ structured products. That apart, a detailed Risk Appetite assessment of the client is conducted, based on which an Investment Policy Statement (IPS) is prepared for the client. Hence, actual asset allocation can be checked against this and corrective action can taken. That apart, our Internal Auditors check that investment rationales are maintained and regularly updated.

While we have a Risk Management function and a Risk Management Committee at the 360 ONE WAM Limited level that monitors risks at a Group-level for 360 ONE WAM and its subsidiaries, for assets managed by us internally within the Group (whether in the form of Mutual Funds, Portfolio Management Services or Alternative Investment Funds), we have a focused Risk Management team and Investment and Valuation Committees that ensure that investments are undertaken as per approved mandates and within permissible risk parameters, monitored regularly and valued fairly.

General Economic and Financial Services Industry Conditions in India

Our Company is in the business of providing wealth management services, and with a majority of our operations in India, our results of operations are highly dependent on the overall economic conditions of the domestic market, including the GDP growth rate, inflation rate, change in demographic profile, wealth levels, the economic cycle, prevalent interest rate regime, securities markets performance, and the increased usage of technology based channels.

The Indian economy has grown rapidly over the past decade and is expected to continue to grow at a healthy rate, which, together with the increasing financialisation of savings, could drive the underlying demand for investment products and services.

However, if the general economic conditions in India deteriorate or are not in line with our expectations, or if unforeseen events negatively impact our clients' investment portfolios, it could impact the demand for investment services. Consequently, our financial condition and operational results may be significantly and unfavorably affected.

Competition and Market

We face significant competition from other established Indian and multi-national companies. Some of these firms have greater resources and/or a more widely recognised brand than us, which may give them an advantage.

Mergers and acquisitions involving our competitors may create entities with even greater competitive advantages. We also face competition from several players who offer financial advisory services purely on technology platforms, in a highly cost-competitive manner ('Robo-advisors'), especially in the High Net Worth Individual (HNI)/mid-market segment.

To address this, we at 360 ONE are also in the process of launching our own HNI App, which will be a technology-driven distribution platform.

There is also a fundamental change happening in the distribution of financial products, with the industry gradually transitioning from a commission-based model to a fee-based model. This has an effect on the revenues of asset allocators like our Company. The 360 ONE Plus product platform together with our Advisory platform seek to address this change as they will attract clients who prefer the fee-based model.

We believe our wide product offerings, our relationships with clients, industry and product knowledge, and brand image will allow us to face such competition. We have a dedicated technology team, which has both domain and technology experts, and we are leveraging technology to deliver insights and interact with clients through different platforms.

Regulatory Supervision

We operate in sectors that are regulated in India, and our activities are subject to supervision and regulation by multiple statutory and regulatory authorities including SEBI, RBI, IRDAI, the various stock/currency/commodity exchanges and depositories.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented. The intention has been to provide tighter control and more transparency in the various regulations and policies. Such changes in government and regulatory policies may demand changes to our business operations, products and pricing, and technological processes, resulting in additional costs and management time.

While it may be possible that certain regulatory changes would be positive for some of our business operations, the possibility of these changes adversely affect our financial condition and results of operations exists.

We have a dedicated Compliance team to interpret regulations, submit regulatory returns and interface with regulators. We also have Anti-Money Laundering (AML) Policies and AML Committees for our various businesses to deliberate on client onboarding.

Personnel and Operating Costs

We are part of a highly competitive industry, and accordingly, our ability to manage our expenses directly affects our business and results of operations. These expenses may be impacted by macroeconomic conditions including increases in inflation, changes in laws and regulations, increased competition, personnel expenses and other factors.

Personnel-related expenses form a significant proportion of our total expenses. However, it can be difficult and expensive to attract and retain talented and experienced employees.

In addition, we also strive to ensure effective utilisation of our human resources and may need to adjust to the dynamic business environment as we increase our scope of operations, and expand into new business products.

As we grow our business, we will require additional human resources including relationship managers, investment professionals, dealers and operational, management and technology staff. Changes affecting our expenses may impact our financial condition and results of operations.

Operations and Technology

Any complex set of operations opens up the possibility of frauds and errors. To mitigate these risks, we have written procedures, maker-checker controls and approval of all exception requests by Risk Management team. The efficacy of these are checked by Internal Audit.

Our business operations heavily rely on Information Technology (IT) systems, which play a vital role in enhancing our productivity. However, these systems also present significant risks, including potential system failures, information security breaches, and the vulnerability to cyber attacks.

Our Technology team has deployed multiple defences to mitigate the risk of cyber attacks and prevent unauthorised access to, and leakage of, sensitive information. We have network security in the form of a firewall, and Intrusion Prevention Systems. There is a strict perimeter device security policy, where we have blocked access to personal email, social networking and data sharing websites, USB and local drives and encourages users to save working files on a Company-administered OneDrive. While emails are accessible on mobile phones, no files/attachments can be saved on these devices. A Chief Information Security Officer (CISO) is responsible for information security.

Additionally, we have a comprehensive Business Continuity and Disaster Recovery plan that includes storing data on a cloud server. This has been thoroughly tested to ensure its effectiveness. During the COVID-19-induced nationwide lockdown in 2020 and the second wave in 2021, we tested our ability to support operations in a Work-from-Home (WFH) environment and we managed to execute this in a stable manner, with users logging in through a virtual private network (VPN) to access their office-based applications, thereby ensuring that no information security controls were compromised.

Inflation Risk

Inflation affects interest rates, and hence, higher inflationary expectations lead to rise in borrowing costs and slowdown in credit offtake, which may affect our profitability. Adverse changes in credit offtake and savings caused by inflation also impacts the overall economy and business environment, as also sectors that depend on leveraged purchases like real estate and automobiles, and may affect us.

Development and Implementation of Risk Management System

The Board-level Risk Management Committee (RMC) of 360 ONE WAM Limited is responsible for laying down the overall framework for identification, monitoring and reporting of internal and external risks faced by 360 ONE WAM Ltd and its subsidiaries. It meets on a quarterly basis and monitors risks through certain Group-wide key risk parameters. This enables the RMC to monitor that risks are being managed at an acceptable level and prompt the Management to take action whenever things start going out of line.

We have a central Risk Management department that reports to the Chief Operating Officer and the Board Audit Committee of 360 ONE WAM Limited. There are also separate Risk Management heads for 360 ONE Prime (NBFC) and 360 ONE Asset Management to focus on the risks pertaining specifically to those businesses. Risk Management relies on the framework defined in the Board approved Risk Management Policy, internal controls built into Standard Operating Procedures, and the Product and Investment Policies relating to the various businesses: e.g. the Broking Risk Management Policy, the Mutual Fund (MF) Risk Management Policy, 360 ONE Prime Policies pertaining to Loan Against Shares, Loan Against Property and Unsecured Lending and Investment Manuals and Policies that exist for our NBFC and Asset Management Company. We also have Valuation and Provisioning Policies for our MF and Alternative Investment Fund (AIF) portfolios. There is representation from the Risk Management team on Investment, Valuation and Risk Management Committees (RMCs) of the various businesses.

The internal processes have been designed to ensure adequate checks and balances and regulatory compliances at every stage. Authority matrices have been defined going down from the Board of Directors, to provide authority to approve various transactions. All trading limits have been put on the respective trading systems in Stock and Commodities broking, and asset management businesses.

That apart, Risk Management conducts internal reviews (using external Chartered Accountants, where required) of various aspects of the business, which include documentation in relation to the lending business; compliance with various regulations in AIF and checking of certain regulatory returns.

Our Company has ensured our internal audit and control systems are adequate and commensurate with the nature of business, regulatory prescriptions and the size of our operations.

The Internal Audit of our Company and subsidiaries is conducted by KPMG Assurance and Consulting Services LLP (KPMG), as per the scope suggested by Audit Committee(s) of the Company and its subsidiaries and approved by the respective Boards. From FY25, this would be conducted by BBSR & Associates, an affiliate firm of KPMG. In the case of 360 ONE Prime Limited, from FY23, this is being conducted by the Head - Internal Audit, as per RBI guidelines, and they is being assisted in this by KPMG.

The scope of internal audit covers all aspects of business including regular front-end and back-end operations, HR, Finance, customer service, IT and checking for both regulatory and internal compliances. Our internal audit team conducts risk-based audits across various processes. They also assess the state of internal financial controls and provide their opinions. The internal audit reports are directly presented to the respective Boards' Audit Committees by our Internal Auditors. In addition, we comply with the several specific audits mandated by regulatory authorities such as SEBI / Exchanges/ Depositories, and the reports are periodically submitted to the regulators. The Board/Audit Committee reviews the overall risk management framework and the adequacy of internal controls instituted by the management team, through the monitoring of the Internal Audit and Statutory Audit reports and through the Risk Management Committee, to which a detailed presentation is made by the Head-Risk Management. The Audit Committee identifies major instances of fraud, if any, on a quarterly basis and actions are taken on the same. It also focuses on the implementation of the necessary systems and controls to strengthen the system of internal controls and prevent any recurrence.

We have also strengthened our whistle blower mechanism (backed by a policy that promises that no action will be taken against the whistleblower), and providing multiple channels (email/website/phone) managed by an external service provider (for complete independence). Employees (and other stakeholders) can record complaints and grievances, anonymously, if they choose to remain so, and all whistleblowing complaints are tracked and investigated by a Vigilance Committee, with representation from Human Resources, Risk Management, Compliance and Business.

This mechanism is meant to facilitate reporting of unethical behaviour, actual or suspected fraud, or violation of our Company's Code of Conduct and ethics.

Another key aspect of governance is managing and resolving conflicts of interest, if they arise. We have a Conflict of Interest Policy under which a Conflict Resolution Advisory Board (CRAB), comprising of senior executives, has been formed. Guidance has been provided in the policy on the types of transactions that are covered (e.g. transactions between an employee and a group entity, or an employee and a client, or between a group entity and a firm in which the employee or his close relatives are interested) above certain thresholds. A summary of cases brought before the CRAB, beyond certain thresholds, is also submitted to the Risk Management Committee of the Board.

Internal Financial Controls and their Adequacy

Our Company has adequate internal controls with reference to financial statements and operations and the same are operating effectively. These are encapsulated in the Risks & Controls Matrix (RCM) which is reviewed and updated annually. The design and effectiveness of the key controls were tested by Internal Auditors and no material weaknesses were observed. Further, Statutory Auditors have verified the systems and processes and confirmed that the Internal Financial Controls system over financial reporting are adequate and operating effectively.

REVIEW OF FINANCIAL PERFORMANCE

360 ONE WAM Limited, earlier known as IIFL Wealth & Asset Management (360 ONE) is one of the largest wealth and asset management firms in India. Founded in 2008, 360 ONE has grown steadily and now manages assets of ₹4,66,909 Cr, as at March 31st, 2024. We operate out of 28 offices spread across the world and have an employee strength of more than 1,200 members.

Assets Under Management and Profitability

The table below provides a break-up of our Assets Under Management for the periods indicated:

(All figures in ₹ Cr)

Particulars	2023-24	2022-23	YoY Growth (%)
Annual Recurring Revenue Assets	2,27,879	1,67,174	36
360 ONE Plus* Assets	72,240	42,307	71
Funds Managed by 360 ONE Asset**	72,248	58,298	24
Distribution Assets Earnings Trail Fees	76,960	61,203	26
Lending Book (Net Interest Margin on Loans previously)	6,430	5,367	20
Transactional Assets incl. Custody	**2,39,030**	**1,73,660**	**38**
Total AUM including Custody	**4,66,909**	**3,40,834**	**37**

The table below is a Reclassified Consolidated Statement of Profit and Loss for the periods indicated:

(All figures in ₹ Cr)

Particulars	2023-24	**2022-23**	**% I / (D)**
Gross Revenues from Operations	2,925	2,062	42
Less: Direct Costs	960	493	95
Net Revenue	1,965	1,569	25
Less: Other Income	119	4	-
Net Operating Income	1,846	1,565	18
Annual Recurring Revenues	1,331	1,171	14
360 ONE Plus Assets	117	94	24
Funds Managed by 360 ONE Asset	483	455	6
Distribution Assets Earnings Trail Fees	426	365	17
Lending Book	305	257	18
Transactional and Brokerage Income	515	394	31
Costs	956	718	33
Employee Costs	709	520	36
Admin and Other Expenses	247	198	25
Profit Metrics			
Operating Profit Before Tax (OPBT)	889	847	5
Profit Before Tax (PBT)	1,009	850	19
Profit After Tax (PAT) including OCI and FCTR	802	668	20
Cost to Income	49%	46%	
ROE	24%	22%	
ROE Ex Goodwill & Intangible	30%	27%	

*Earlier known as IIFL-ONE

**Earlier known as IIFL Asset Management

Reclassified Segment-wise Performance is as under:

(All figures in ₹ Cr)

	For the year ended 31st March 2024			**For the year ended 31st March 2023**		
	Wealth Management	Asset Management	Total	**Wealth agement**	**Asset Management**	**Total**
Gross Revenue from Operations	2,342	580	2,922	1,498	563	2,062
Net Operating Revenue	1,362	483	1,846	1,110	455	1,565
Operating Profit Before Tax (OPBT)	643	246	889	583	263	847

Key factors to consider are as follows:

1. Total AUM including custody assets are ₹4,66,909 Cr as at 31st March 2024.

2. The wealth management business has client assets of ₹3,94,661 Cr, including custody assets. While the Asset Management business has ₹72,248 Cr of assets under management as at 31st March 2024 of which ₹38,313 Cr are AIF Assets, ₹24,355 Cr are PMS (Portfolio Management Services) and SMA (Separately Managed Accounts) Assets and ₹9,580 Cr are Mutual Fund assets.

3. Continuing focus on increasing Recurring Revenues has resulted in an increase in ARR generating assets by 36.3% YoY to ₹2,27,879 Cr and an increase in Recurring revenues of 13.6% YoY to ₹1,331 Cr.

4. 360-ONE Plus has been well received by clients with Assets Under Management increasing by 70.8% YoY to ₹72,240 Cr and Revenues increasing 24% YoY to ₹117 Cr.

5. Total Net flows during the year were ₹26,915 Cr. Net Flows in Wealth Management were ₹26,493 Cr and ₹ 421 Cr in Asset Management.

6. Total Consolidated Revenue for the year was up 25.3% YoY at ₹1,965 Cr, as compared to ₹1,569 Cr for FY23, while Revenue from Operations, was up 17.9% YoY at ₹1,846 Cr.

7. Overall ARR Retention stood at 66 bps. ARR Retention on Wealth Management Assets was 62 bps and ARR Retention on Asset Management Assets was 74 bps.
8. Overall Costs for the year were up 33.1% to ₹956 Cr. Employee Costs were up 36.3% YoY at ₹709 Cr, of which, Fixed Employee costs were at ₹484 Cr and Variable Employee costs were at ₹175 Cr.
9. Admin and Other expenses increased 24.9% YoY to ₹247 Cr. Operating PBT (OPBT) was up 5% YoY to ₹889 Cr. Profit before tax (PBT) for the year was up 18.6% YoY to ₹1,009 Cr.
10. Profit After Tax (PAT) for FY24 was up 20.0% at ₹802 Cr from ₹668 Cr in FY23. Average Net Worth stood at ₹3,286 Cr in FY24 vs ₹3,043 Cr in FY23.
11. Return on Equity (RoE) for the year was at 24.4% and RoE Ex-Goodwill & Intangibles was 30.1%.
12. Net profit margin in FY24 has stood at 41%.
13. Interest coverage ratio moved from 3.14 in FY23 to 2.58 in FY24, due to increase in finance cost during the year
14. The Company prepares the financial statements as per Division III of Schedule III of Companies Act, 2013 which does not require the assets and liabilities to be bifurcated into Current/Non-current assets and liabilities. Hence Current ratio is not applicable.

Balance Sheet and Capital Development

1. Statement of Consolidated Assets and Liabilities as at 31st March 2024

(₹ in Cr)

Sr. No	Particulars	As at March 31, 2024	As at March 31, 2023
ASSETS			
1	**Financial Assets**		
(a)	Cash and cash equivalents	442.74	509.49
(b)	Bank balance other than (a) above	195.43	216.07
(c)	Derivative financial instruments	-	0.82
(d)	Receivables		
	(I) Trade receivables	328.17	302.84
	(II) Other receivables	94.99	152.52
(e)	Loans	6,368.67	4,910.08
(f)	Investments	5,947.67	3,609.17
(g)	Other financial assets	371.71	285.51
2	**Non-Financial Assets**		
(a)	Current tax assets (net)	216.79	155.75
(b)	Deferred tax assets (net)	4.49	1.35
(c)	Property, plant and equipment	300.15	285.01
(d)	Capital work-in-progress	-	0.04
(e)	Intangible assets under development	63.86	39.12
(f)	Goodwill	417.55	417.55
(g)	Other intangible assets	165.56	144.17
(h)	Right of use assets	56.47	33.02
(i)	Other non-financial assets	144.60	129.55
	Total Assets	**15,118.85**	**11,192.06**

(₹ in Cr)

Sr. No	Particulars	As at March 31, 2024	As at March 31, 2023
	LIABILITIES AND EQUITY		
	LIABILITIES		
1	**Financial Liabilities**		
(a)	Derivative financial instruments	185.26	95.67
(b)	Payables		
	(I) Trade payables		
	(i) total outstanding dues of micro enterprises and small enterprises	-	-
	(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	160.63	135.57
	(II) Other payables		
	(i) total outstanding dues of micro enterprises and small enterprises	-	-
	(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	408.80	389.29
(c)	Lease liabilities	60.87	36.38
(d)	Debt securities	6,833.95	6,543.46
(e)	Borrowings (other than debt securities)	2,456.34	201.40
(f)	Subordinated liabilities	120.77	2.43
(g)	Other financial liabilities	1,283.14	549.00
2	**Non-Financial Liabilities**		
(a)	Current tax liabilities (net)	6.28	51.38
(b)	Provisions	17.26	10.25
(c)	Deferred tax liabilities (net)	73.28	24.60
(d)	Other non-financial liabilities	62.54	26.19
3	**EQUITY**		
(a)	Equity share capital	35.89	35.61
(b)	Other equity	3,413.84	3,086.34
(c)	Non-controlling Interest	-	4.49
	Total Liabilities and Equity	**15,118.85**	**11,192.06**

Key Considerations as of March 2024:

1. Consolidated Average Net Worth stood at ₹3,286 Cr in FY24 vs ₹3,043 Cr in FY23. Average Net Worth Ex-Goodwill and Intangibles stood at ₹2,662 Cr in FY24 vs ₹2,503 Cr in FY23.
2. ROE Ex-Goodwill & Intangibles has increased to 30.1% in FY24 from 26.7% in FY23 primarily driven by the increase in PAT YoY.
3. Debt/Equity ratio increased from 2.16 on March 31, 2023, to 2.73 on March 31, 2024; due to an increase in overall outstanding debt of Group by more than ₹2,600 Cr.