YOUniTE
CAMPUS TO CORPORATE

Asset Servicing Overview

Module 2_Lesson 1A

What are different types of Investors?

- **Retail Investors** - Retail investors are individuals investing in the capital markets. Their goal is to invest their savings to get better returns.
    a. High Networth Individuals (HNI) - Investors with over two crores of investable assets are generally considered as HNIs. Net worth is the amount by which your assets exceed liabilities. Individuals with investable assets of more than Rs.25 lakhs to Rs.2 crores are considered as emerging HNIs'. Currently, the HNI's in India have crossed 330,000 as per 2020
    b. Domestic institutional investors (DII) - These institutional investors generally make investments in the country they are based. There are four main types of DIIs in the Indian Stock markets :
    - Indian asset management companies - These are Indian mutual funds that pool huge sums of money from individual investors and make investments. These investments are headed by fund managers. Mutual fund buying and selling create an impact on the stock prices and overall markets. Example: HDFC AMC, ICICI Prudential AMC, Nippon Asset Management and UTI AMC, Aditya Birla Sun Life AMC.
    - Indian insurance companies - Insurance companies like LIC, New India Assurance, Star Health, HDFC Life, ICICI Pru life, and SBI Life too make some percentage of investments in stock markets.
    - Pension funds - Pension funds are funds that provide financial support, that is much needed during retirement years. HDFC, SBI, and Kotak have some well-known pension funds in India.
    - Banks - Scheduled commercial banks also invest a small portion of the deposits they receive in the stock market.
- **Foreign Portfolio Investors (FPI)** - These institutions are established outside India and make investments in India.
    1. Pension funds and mutual funds -
        - A pension fund specifically addresses retirement needs.
        - Foreign investors seeking greater returns adjusted risk invest in overseas funds.
        - These investments are fluxed into our economy through the stock market. Ex Vanguard is one of the largest mutual funds which invests in India.
    2. Sovereign wealth funds -
        - These are government owned investment funds. Surplus reserves are one of their popular sources of funding.

- The benefits of the fund's investment are used for the citizens of that sovereign nation. Ex: The Government of Singapore has large investments in the Indian equity market.

3. Hedge funds -
    - Hedge funds invest and trade in offshore markets. These are established using borrowed capital. Hedge funds use complex trading and portfolio construction techniques.
    - They aim to maximize investor returns. These are the kind of mutual funds for aggressive investors. Ex Bridgewater Associates is one of the world's largest hedge funds.

What are Assets?

- An asset is anything of value or a resource of value that can be converted into cash.
- For a company, an asset might generate revenue, or a company might benefit in some way from owning or using the asset.
- Assets can include machines, property, raw materials, and inventory—as well as intangibles such as patents, royalties, and other intellectual property.
- Assets are reported on a company's balance sheet and are bought or created to increase a firm's value or benefit the firm's operations.

What are Asset classes ?

- Asset classes refer to a group of securities with comparable features and responses to market variations. It aids the investors in deciding the proper investment strategies and receiving maximum profits with minimal risk prospects.
- Each asset class is unique regarding the related risk, taxation, ownership, exchangeability, revenue, rules, and market instability. Moreover, the asset classes list is organized according to each asset's nature, response to market volatility, returns, and target.

What are the Different Asset classes ?

Equity :

- Equity denotes the amount belonging to the shareholders or owner after the discharge of dues and assets, in case of liquidation.
- Equity (also known as a stock or share) means you have part ownership of a company.
- Equity = Assets – Liabilities
- Pros :
  - Easy to buy and sell;
  - Above average asset returns
- Cons :
  - Market risks affect the return directly in the short term
  - The dividend yield is not fixed

Cash and Cash Equivalents :

- When a company is not using its cash balance, it may invest its cash in low-risk liquid (easily sold) securities to generate interest income. Therefore very liquid securities are sometimes called cash equivalents.
- Cash and cash equivalents are short-term investments for operational expenses and have high credit quality.
- It includes cash and paper money, money market funds, treasury bills, etc
- Pros :
  - Cash is the most liquid of all the asset classes you can hold
  - Cash can reduce the volatility of your portfolio.
- Cons :
  - Might be a misuse of excess balance
  - Cannot keep up with the inflation rate

Fixed income:

- Fixed-income securities, such as bonds, pay a coupon to the owner on a fixed schedule.
- Bonds are similar to a loan except the borrower is a government or corporation. In return, you receive your initial investment back plus interest. Bonds generally do not provide an ownership stake in a company
- Pros:
  - Lower risks
  - Steady returns
- Cons:
  - Bond prices decline when interest rates rise;

Real estate:

- Real estate involves tangible assets commonly purchased for either residential/commercial usage or future investment. it includes physical spaces like land (plots), buildings, shops, residential houses, residential flats, and industrial spaces as well.
- Pros:
  - It gives you control
  - Tax benefits.
  - Provides market liquidity
- Cons:
  - Requires money
  - It is a long-term investment
  - Transaction costs are High

Derivatives:

- The derivatives are financial contracts between at least two parties whose value relies upon the underlying asset or a group of assets. There is a buyer and seller for each contract.
- Derivative assets are mostly useful to mutual funds, pension funds, corporate treasurers, endowments, and financial institutions.
- Pros :
  - Hedging risk exposure
  - Market efficiency
- Cons:
  - High risk
  - Counterparty risk

What are Equities ?

- Equity represents the value of an investor’s stake in a company and the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation.
- Equity is one of the three principal asset classes in the market.
- Equity shares are long-term financing sources for any company.
- These shares are issued to the general public.
- Investors in such shares hold the right to vote, share profits and claim assets of a company.
- It also represents the amount of capital invested in a company.

Features of Equities

- Permanent
- Transferrable
- Represents ownership of the company
- Dividend paid to shareholders is a part of the company’s profit; however the rate is not fixed
- Shareholders carry the most risk, of all the participants, and also stand to gain the most potential gains.

What are the different types of equities?

Ordinary shares :

- Issued by a company to procure capital and meet long-term plans
- It gives the bearer ownership and voting rights
- It entitles them to dividends if and when the company pays them out

Preference shares :

- Gives the investor a guarantee of the payment of cumulative dividend before returns are distributed among ordinary shareholders
- Usually do not carry voting rights
- Can be further classified into participating & non-participating preference shares. If an investor invests in participating preference shares, it entitles them to an amount in profit and bonus returns.

Bonus shares :

- Issued out of retained earnings
- The profits of the company are distributed in the form of additional shares to investors/shareholders
- They do not increase the amount of capital of the company - they only represent the profits made.

What is Fixed Income ?

- It refers to securities or investments that pay a fixed amount in interest.
- On the maturity date, investors are repaid the principal amount they had invested.
- They are like a loan to the company or institution.
- Fixed income payments are determined in advance as per a schedule.

Features of Fixed Income

- Debt instruments: They are loans given to corporations/companies and appear as such in the Balance Sheet
- Fixed interests : They pay a fixed amount of interest or dividend, for a set period of time; the interest payment is called coupon payment
- Fixed term : The coupon payments are made on a semi-annual basis (usually). The principal amount is repaid on maturity only.
- Raising capital : Companies and governments issue fixed income securities primarily to raise capital

Types of Fixed Income

- Certificate deposit
- Preferred stock
- Treasury notes
- Treasury bond
- Treasury bill
- Municipal bond

What is Asset setup/coding?

- The activity of adding an asset to the books or records of a bank or custodian is called ‘Asset Coding’.
- It is usually a one-time activity which requires maintenance.

When is Asset setup needed ?

- When the equity shares of a company are bought by an existing client, which is not in the books
- When an existing client purchases the equity shares of a new company (IPO)
- When a new client is onboarded and the companies in their portfolio are not in the bank/custodians existing records
- When a company changes its name

Why is Asset setup done?

- It is required by several regulations and/or laws that a bank or custodian show records of the assets it or its clients hold
- Helps in record keeping and documentation. Asset is usually given a code which aids standardization
- Allows the organization to keep track of assets, their location, use and modifications

Where is Asset setup done?

- Asset registers are management solution tools for keeping track of the number of assets a business has.
- An asset register is a detailed list compiled of all business assets. It includes details on assets such as location, condition, and owner

Most common components of an Asset Register are:

No.	Attribute		Data Type	Description
1	Asset serial number		String	Record the serial number of asset
2	Asset title		String	Title of the asset
3	Remaining asset		Numerical	The remaining asset amount that can be allocated
4	Release date		Date	The date on which asset can be bought
5	Due date		Date	The termination date of the asset
6	Adjusted return rate		Numerical	The adjusted return rate of the asset
7	Macaulay duration		Numerical	Macaulay duration of the asset
8	Type		Classification	Classification type of the asset
9	Whether non-standard		Classification	0-1 variable, 1 meaning asset is non-standard
10	Whether bond		Classification	0-1 variable, 1 meaning asset has bond properties
11	Whether public		Classification	0-1 variable, 1 meaning asset is public
12	Whether preservation		Classification	0-1 variable, 1 meaning asset is preservation

Purpose of Asset register is to enable business to know:

- Status and Current value
- Procurement date
- Location
- Price
- Depreciation

What is Asset Pricing ?

- Once the asset has been coded, the next step is asset pricing.
- The activity of updating the price of an asset, based on pricing market vendors & as agreed with the client, in accordance with the regulators.
- When is it required?
- A regular process to reflect the true prices of assets in the market.

Why is Asset Pricing done?

- To ensure that the client's periodic reporting portfolio reflects the correct market price.
- Not updating the correct and accurate prices, leads to misrepresentation of client's assets.