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Should you Invest in a PMS or Stick to MFs?

Some portfolio management schemes have given high returns. But small investors are better off with mutual funds

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If you had invested ₹25 lakh in Porinju Veliyath's Equity Intelligence PMS five years back, your investment would be worth ₹1.2 crore today. The PMS scheme managed by Veliyath has churned out a 36.8% annualised returns over the past five years beating the benchmark Nifty by 25 percentage points.

Despite high returns, experts say small investors should stay away from PMS. First, the large ticket size -- minimum investment ₹25 lakh -- is a deterrent. Second, not all PMS schemes have done so well. **Most have matched the returns of the best performing equity diversified funds (see table)**.

Plus, the PMS structure and investing philosophy may not suit the risk appetite of the average investor. "PMS is mainly for seasoned HNIs who understand direct equity and its risks well," says Tarun Birani, Founder & CEO, TBNG Capital Advisors. Small investors, with a ticket size of `5,000-25,000 a month, will find SIP investments through mutual funds more rewarding.

PMS managers say that investors should not enter this space unless they are ready for the risks. Borrowing money to invest is extremely unwise. "We have seen investors trying to borrow funds to meet the minimum ₹25-lakh threshold for PMS. This is foolish, investing borrowed funds in equities can be suicidal and needs to be strictly avoided," says Veliyath.

Unlike mutual funds, PMS can levy higher charges though competition forces the charges to be within a reasonable band. "In today's competitive market, you cannot charge high," says Manish Sonthalia, head -equities, PMS, Motilal Oswal Asset Management Company.

PMS charges can be a fixed fee or performance-based with a profit-sharing arrangement. ASK Investment Managers, for one, charges a fixed fee of 2.5% a year. Or the client can pay 1.5% a year and opt for a performance-sharing model where ASK will pocket 20% of the gains over 10%. Porinju Veliyath's Equity Intelligence charges a fixed fee of 2% a year and additional performance fees of 10% for returns above 10% annual returns.

Since the PMS manager has his skin in the game in the profit-sharing model, it helps generate alpha, experts say. There is also an exit load if you withdraw early. "We charge exit load to make investors stay invested for a longer time. This also allows them to have tax-free capital gains," says Prateek Agrawal, CIO, ASK Investment Managers.

Portfolio managers say higher charges are incurred only if the portfolio is churned too often. A buy-and-hold approach actually works out well in the long run. "We hold stocks for four to five years and our churn rate is only 15% compared to 100% in the case of mutual funds," says Sonthalia. At another extreme, some experts say that PMS should not be compared with mutual funds at all because the two are very different.

PMS gave high returns. So did MFs

		5-year returns (%)
PMS schemes	Porinju Veliyath's Equity Intelligence	36.8
	Motilal Oswal Next Trillion Dollar Opportunity	31.5
	ASK India Select	26.4
	ASK Indian Entrepreneur Portfolio	25.6
	Motilal Oswal India Opportunities Portfolio	21.8

Data as on 31 Mar 2017; Source: PMS houses

		5-year returns (%)
Mutual funds	DSPBR Micro-Cap	31.1
	Reliance Small Cap	30.5
	Franklin India Smaller Cos	30.4
	SBI Small & Midcap	30.2
	Mirae Asset Emerging Bluechip	29.7

Data as on 31 Mar 2017; Source: Accord Fintech and compiled by ETIG