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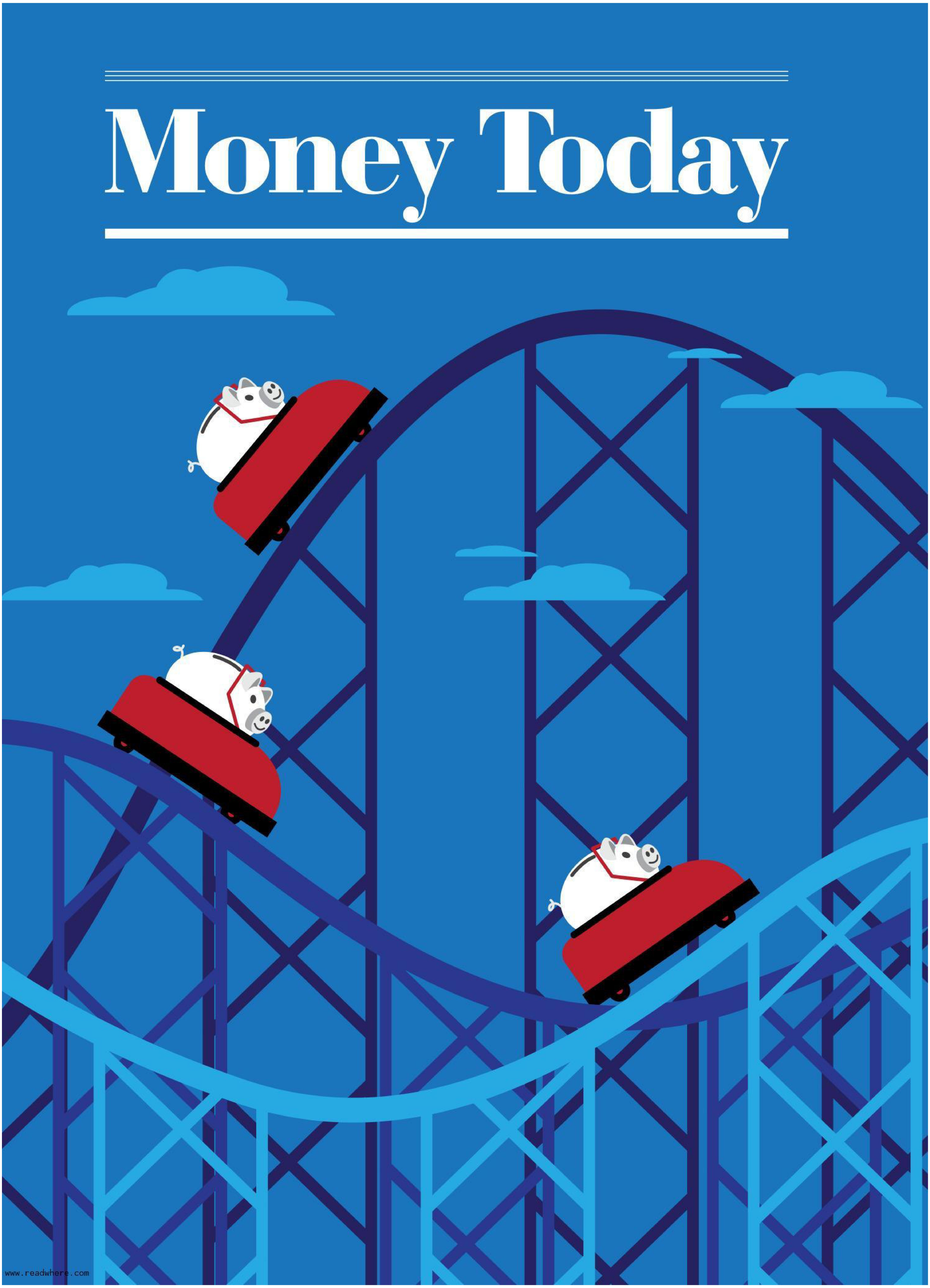

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MARKET DYNAMICS ARE CHANGING CONSTANTLY. IDENTIFY THE CHANGES TO REVIEW AND REALIGN YOUR MUTUAL FUND PORTFOLIO

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he idea of *'mutual fund sahi hai'* seems to have caught on with investors. From 3.11 crore at the end of March to 3.31 crore at the end of August, the number of outstanding SIPs has been consistently on the rise.

But MF investors are still a worried lot. While markets have bounced back swiftly post-Covid, just like the quick recovery after the 2008-09 crash, mutual fund long-term averages are still below expectations, largely in single-digits. The Sensex closed at 38,357.18 on September 4, only 8 per cent away from the record closing of 41,952 on January 14, 2020. However, MF categories — large mid-cap, mid-cap, multicap, large-cap and small-cap — have yielded 7-8 per cent returns in the last five years, and up to 11 per cent in the last 10 years, although the returns have been in double-digits since their March lows. "Apart from stocks bought by ETFs and FIIs, the overall market hasn't performed well. But it does not mean that you ditch your MF investments," says Sunil Subramaniam, Managing Director, Sundaram Asset Management Company.

The Correction

Most of the top performers across categories have registered double-digit returns in the trailing 10-year period. Even the five-year trailing return for top performers has been above 8 per cent. Mirae Asset Emerging Bluechip Gr from the large and mid-cap segment performed best across categories with 14.56 per cent return, followed by Parag Parikh Long Term Equity Reg Gr (14 per cent) in the multicap category and SBI Small Cap Fund Reg Gr (13.65 per cent) in the small-cap category.

The one-year returns of four popular categories — large-cap, large & mid-cap, multicap and ELSS funds — have not only turned positive, but have given high single-digit returns as well. The large & mid-cap category has been the top performer among four with one-year category return of 7.84 per cent. Canara Robeco Emerging Equities Reg Gr (16.96 per cent) and Axis Growth Opportunities Reg Gr (16.20) are the two best-performing funds in this category.

The surprise element has been the mid-cap and small-cap categories, which were trailing their larger peers before the virus outbreak, but

Investment Checklist

Use long-term risk-adjusted rolling returns to shortlist mutual funds

Consult a fee-based financial adviser for first-time investment

Begin with large-cap biased index funds if you are investing on your own

Savvy investors should go for direct MFs to reduce commission costs

Avoid investing in NFOs unless an innovative product is on offer

Link each of your financial goals with one or more funds

Review performance regularly

have since then registered a sound recovery. This has not only turned short-term returns very attractive, but has also pushed the long-term 10-year return into double-digits. Small-cap returns are around 17 per cent and mid-cap around 14 per cent in one-year timeframe. Quant Small Cap Gr returned 50.46 per cent in the last one year, followed by BOI AXA Small Cap Reg Gr (40 per cent). In the mid-cap category, PGIM India Midcap Opps Fund Reg Gr (35.32 per cent) and Taurus Discovery (Midcap) Gr (22.28 per cent) are the two best-performing funds.

Thematic funds, meant for investors with high risk appetite, witnessed a polarised performance. While healthcare and technology funds gave stupendous return in the last one year, the long-term 10-year return of technology, healthcare and FMCG sectors has been above 14 per cent. Infrastructure funds remained subdued with 3.66 return in 10 years, while financial services sector saw negative return (10.78 per cent) in the last one year and 7.90 per cent in last 10 years.

However, there are a good number of funds in all categories that are yet to recover from the coronavirus-led correction. What is the reason for the underpeformance? Equity fund managers diversify MF portfolios across the market. According to Subramaniam, this is what hurt their performance in the recent past. Mid and small-cap companies did not earn profits due to the slowdown, which reflected in their stock prices. "Large-cap has done well due to FII inflows" he says.

"However, the V-shape recovery is imminent," he adds. "Markets have already bounced back. Wait a little longer and by next year the MF picture will have changed."

Taking Stock

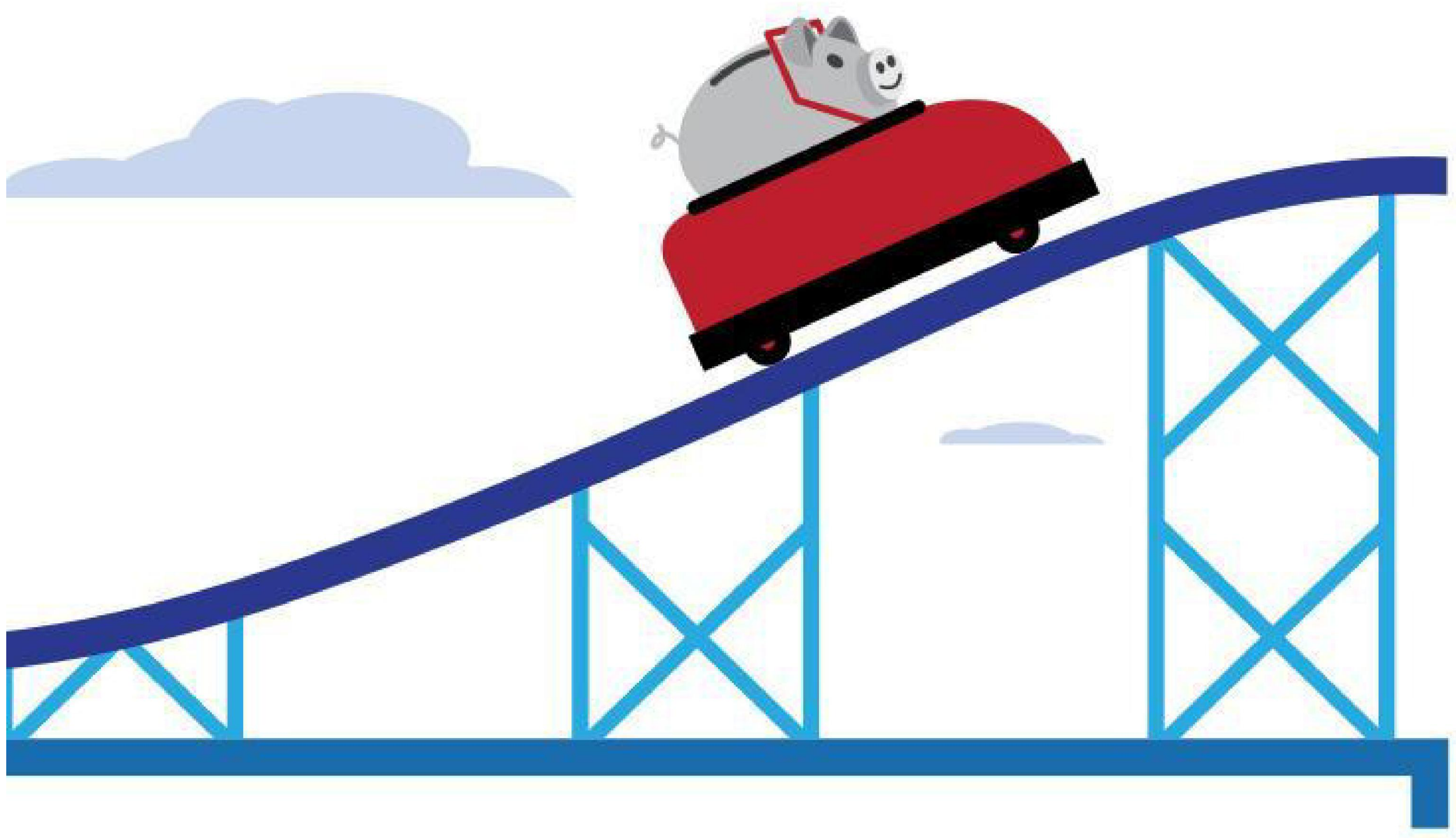
One needs to continuously review investments and take corrective action. "SIP investors are generally 'lazy' and don't take action despite red flags. When month after month the NAV keeps turning negative, and the underperformance widens, one should review, stop SIPs and redeem the units," says independent market analyst Ambareesh Baliga.

The best way to judge the performance of your fund is to compare its return with the benchmark. If the performance of your MF scheme is in line with the category benchmark, one should not be worried. As long as returns are beating inflation and meeting financial goals, it should be fine. Sell the units

FUND RETURNS

Scheme	1 Year	3 Years	5 Years	10 Years
Multi-Cap Funds				
Parag Parikh Long Term Equity Reg Gr	25.83	12.90	14.00	NA
Quant Active Gr	29.08	10.35	12.55	10.18
Canara Robeco Equity Diversified Reg Gr	14.40	7.24	9.99	9.93
UTI Equity Reg Gr	16.20	8.34	9.81	11.34
DSP Equity Reg Gr	9.32	4.60	9.75	9.13
Large-Cap Funds				
Axis Bluechip Fund Gr	7.82	9.17	11.34	10.74
Mirae Asset Large Cap Reg Gr	6.64	4.95	10.91	12.43
Canara Robeco Bluechip Equity Reg Gr	14.98	8.13	10.74	10.55
IDFC Large Cap Gr	10.63	3.90	8.80	7.98
ICICI Pru Bluechip Gr	4.67	3.45	8.76	10.32
Large and Mid-Cap funds				
Mirae Asset Emerging Bluechip Gr	13.99	7.07	14.56	18.03
Canara Robeco Emerging Equities Reg Gr	16.96	4.28	11.63	15.48
Quant Large and Mid Cap Gr	14.71	2.96	10.82	10.69
Principal Emerging Bluechip Gr	14.91	2.40	10.56	12.62
LIC MF Large & Mid Cap Reg Gr	6.62	3.26	9.52	NA
Mid-Cap Funds				
DSP Midcap Reg Gr	19.79	5.09	11.46	12.29
Axis Midcap Gr	17.96	10.63	10.52	NA
Kotak Emerging Equity Reg Gr	13.67	2.77	9.74	12.07
Taurus Discovery (Midcap) Gr	22.28	4.41	9.71	10.46
Invesco India Mid Cap Gr	17.56	5.67	9.67	13.10
Small-cap Funds				
SBI Small Cap Fund Reg Gr	19.45	7.04	13.65	17.52
Nippon India Small Cap Gr	18.74	1.66	11.47	NA
Axis Small Cap Fund Reg Gr	12.70	8.29	11.43	NA
L&T Emerging Businesses Reg Gr	1.15	-4.42	8.69	NA
HDFC Small Cap Gr	1.70	0.10	8.61	9.30

Numbers are returns in %; Data as on August 21; Source: MorningStar India



MF Returns				
Fund Category	1 Year	3 Years	5 Years	10 Years
Large & Mid-Cap Funds	7.84	1.84	8.20	9.63
Multi-cap Funds	6.83	2.57	7.66	9.06
ELSS Funds	6.85	1.92	7.60	9.25
Mid-Cap Funds	14.42	1.78	7.59	11.31
Large-Cap Funds	4.77	2.90	7.44	8.52
Small-cap Funds	16.73	-0.97	7.31	10.24

Sectoral/Thematic Fund Returns				
Fund Category	1 Year	3 Years	5 Years	10 Years
Technology	17.04	21.62	12.34	14.52
Consumption	13.01	4.11	10.43	9.60
FMCG	3.90	5.50	9.54	14.00
Focused Funds	8.04	2.86	8.55	8.80
Contra Funds	8.51	3.10	8.43	8.67
Financial Service	-10.78	-2.80	7.37	7.90
Dividend Yield Funds	7.51	0.46	7.11	7.71
Value Fnds	4.15	-1.51	6.67	8.91
Equity - Other Funds	10.37	0.77	6.46	8.19
Healthcare	53.45	15.54	5.20	14.55
Infrastructure	-1.14	-4.80	3.41	3.66

In %; Data as on September 4; Source: MorningStar India

when the scheme consistently underperforms the benchmark. Also, book profits as soon you are closer to meeting your financial goals. "Just like one uses SIP — the exit, too, should be via SWP (Systematic Withdrawal Plan) or in various tranches," says Baliga.

Fund Selection

If you are a new investor or an old investor looking to invest in a new fund, do your due-diligence before investing. Ask a financial adviser.

If indeed you have to take the DIY approach, creating an MF portfolio of low-cost index funds is the way. Index funds invest in constituents of the index they track. For example, the Nifty index fund invests in 50 Nifty companies. Since no active selection of stocks is required in index funds, the expense ratio on the same is much lower than that on active funds. For example, the UTI Nifty index fund's direct growth option has an expense ratio of 0.1 per cent, compared to 1-2.5 per cent on active funds.

If you are new to MF investments and want to learn the process to identify a right active fund for the future, give yourself time to do thorough research. According to Arun Kumar, Head of Research at FundsIndia.com, "First understand the various investment styles and pick the one that suits you. Then look for consistency in performance across long periods. After this, evaluate the risk by understanding maximum drawdown, downside capture ratio, extent of declines during bear markets etc. Also, look for concentration risk and portfolio turnover. One of the important factors is the track record of the fund manager. Last but not the least is the pedigree of the AMC about which you should feel absolutely confident while trusting your hard-earned money."

Kaustubh Belapurkar, Director, MF Research, Morningstar India, advises investors to look at overall asset allocation and sub-asset class allocation before selecting a fund. "Do not pick funds purely on recent past performance. Use long-term risk-adjusted rolling returns instead as a short-listing tool for further evaluation of these funds."

Sectoral Funds and NFOs

Sectoral funds are exposed to much higher risk. Unless you track the sectors very closely and have expertise, you should not invest in such funds. In case you still want to take some tactical exposure in sectoral funds, Baliga has identified future winning sectors. "Rural and consumption theme is expected to lead from the front. Pharma & healthcare is back in flavour from the pandemic point of view, but regulatory easing would be the real driver for the sector. Infrastructure could play out well due to government focus on kick-starting the economy. Beyond thematic mutual funds, sector-wise, speciality chemicals, light engineering and home textiles would be excellent export-oriented play. Automobiles and affordable real estate could be the dark horses."

Do you feel FOMO (fear of missing out) when an NFO is launched with much frenzy? Most of the times buying an NFO does not make any difference. "Selling a new fund by an NFO at ₹10 is much easier, but investors mostly don't know that the risk is the same in investing in ₹10 NAV and ₹200-NAV fund if the objective is the same. Unless the fund has completed three years, one should not invest," says Pankaaj Maalde, a certified financial planner.

Mutual fund investments are one of the most tried and tested tools for long-term wealth creation. The point-to-point returns may not always be encouraging, but it doesn't mean you should shift to risky direct stock investments. "Despite the recent correction, equities remain a good long-term asset class and a study of longer-term rolling returns corroborates this view," says Belapurkar of Morningstar. **BT**

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