

Mid, small-cap equity MFs regain top slot on mkt rally

But Indices Still Lower Than 2008 Peaks

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The sharp rally in the markets in the past few months has helped equity mutual funds (MFs) investing in mid and small-cap stocks to regain the top slot in the performance chart. After a lull, mid and small-cap funds have emerged as the best performers among MFs in the one-year and two-year timeframe as they posted strong gains during the market rally.

Mid and small-cap equity MFs have surged 27.9% and 42.9% in the one-year and two-year period respectively beating peers in the equities segment by a huge margin. Their performance so far in 2014 has been bettered only by funds investing in infrastructure and banking stocks, which have seen a huge surge in prices.

"The valuations were quite low and everyone was ignoring these stocks for last few years," says Sunil Singhania, head, equities, Reliance Capital Asset Management. But with the economy in recovery mode, the

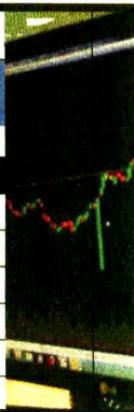
COURSE CORRECTION

The tide has turned for mid and small-cap funds, and experts say that it is only going to get better

FUNDS' GAINS

Equity MF category	1-year	2-year	3-year	YTD*
Mid & small-cap	42.9	27.9	16	28.3
Multi-cap	29.7	22.7	11.6	21.5
Large cap	21.4	20.7	10.4	16
Large & mid-cap	26.4	22.6	11.4	18.7
Tax planning	28.9	23.5	12.2	19.6

*YTD is Year-To-Date, All figures in %, Source: Value Research



segment is gaining traction.

"Smaller companies tend to move faster when recovery happens," Sunil says. For instance, mid and small-cap companies did well when the economy grew at a good pace between 2003 and 2008, he says.

"Mid and small-cap firms have started to see expansion in profit margins. The stabilization in currency and economic revival will lead to higher earnings," says Gopal Agrawal, chief investment officer, Mirae Asset Global Investments.

Interestingly, the mid and small-cap indices are still ruling lower than the peaks seen in 2008, say officials. While the large-cap index is almost 15% higher than 2008 levels, the mid-cap index is still lower by about 15% and the small-cap index is down by nearly 30%, Sunil says. "The outlook for the segment is positive. They are likely to outperform others in the near to medium-term," Gopal says.

"There is a lot of upside still left (in the segment)," say officials.