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Old schemes, but going strong

Make sure that the vintage fund you are thinking of investing in retains its consistency of style and performance

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Two funds of Franklin Templeton, Franklin India Bluechip and Franklin India Prima Fund, completed 25 years this month. Both these funds have stellar track records: They have given returns of 20.30 per cent and 19.57 per cent compounded annually respectively since inception. Interestingly, 22 other equity funds have a track record of more than 20 years. Of them, 14 have given investors returns of more than 12 per cent (see table). In the mutual fund industry, funds that don't perform tend to be merged or shut down. Going purely by the Darwinian law of survival of the fittest, investors should consider these vintage funds for investment.

Top 10 vintage funds

Fund	Return since inception (%)
Aditya Birla SL Equity	23.06
Reliance Growth	21.85
Franklin India Bluechip	20.30
Tata Large Cap	20.10
HDFC Top 100	19.63
Franklin India Prima	19.57
HDFC Equity	18.61
Reliance Vision	18.24
ICICI Pru Large & Mid Cap	18.08
Franklin India Equity	17.95

Table includes funds that have been in existence for more than 20 years. Source: Ace MF

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Consistency and stability: Sticking to a well-defined process played a key role in the success of Franklin's funds. "We learnt from our early mistakes. Over a period of time, the philosophy and process of managing these funds became settled. Adherence to a process enabled these funds to ride out the ups and downs of the markets," says KN Sivasubramanian, who was portfolio manager and chief investment officer at Franklin Templeton Asset Management, and managed both these funds.

Experts also attribute their stellar performance to the stability of the fund management team. "Sivasubramanian led the team for a very long time and then handed over the baton to Anand Radhakrishnan and R Janakiraman. The fund house has also focused hard on selecting people willing to stick to their investment approach," says Kaustubh Belapurkar, director-manager research, Morningstar Investment Adviser India. The fact that the Indian market was less well researched then also helped.

Experience of multiple market cycles: Investing in funds that have been around for a long time offers several advantages. A sound track record reflects the capabilities of the fund management team. Also, these funds (and their fund managers, if they have not changed) have gone through multiple bull and bear cycles. "Experienced fund managers tend not to get swayed by the extreme behaviour seen in bull and bear markets. They have witnessed such circumstances and hence tend not to overreact to them," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Investors can also assess older funds on a variety of parameters. "They can check if the fund management approach has been consistent or if there been style drift," says Sivasubramanian. Older funds (usually) tend to accumulate considerable asset under management (AUM). Since expense ratios are based on AUM slabs, they tend to have lower costs.

Stay the course: The long and successful journey of these vintage funds holds a few important lessons for investors. "Investors must have exposure to equities as this asset class tends to do well in the long run. The longer your investment horizon, the less risky equities become," says Sivasubramanian. Adds Nikhil Banerjee, co-founder, Mintwalk: "Only by being invested for the long term can you benefit from the compounding power of equities. Over a long span, they tend to outperform other asset classes like fixed deposits and gold."

Investors' returns tend to be different from investment returns. "While many old funds have given high returns, not many investors would have earned them. This happens because investors hop in and out of funds trying to time the markets. They must stay invested for the long term," says Dhawan. He adds that if you shift from one fund to another in the same category (because your current fund is underperforming), you may not harm yourself much. The real damage, he says, happens when investors jump from one category to another. Many did so in 2017, moving from large-cap to mid- and small-cap funds because past returns of those categories were looking better then.

Investors also need to recalibrate their expectations. "With competition growing and information becoming more commoditised, the quantum of outperformance is likely to come down," says Siva. Only a few skilled fund managers will be able to outperform their benchmarks. Passive funds, which offer consistent market-equivalent returns are expected to gain in importance, especially in the large-cap category.

Run essential checks: Before you invest in a vintage fund, run a few essential checks. Ensure that the fund's mandate remains the same. Many funds were forced to change their mandates in the recent recategorisation exercise. Many also witness style drift. A fund may, over the years, move from being a midcap to a multi-cap and back to being a mid-cap fund again. "Different market cycles favour different investing styles. If a fund manager sticks to a particular style, he will do well over an entire market cycle. But if he tweaks his process to suit the market cycle, he risks being caught on the wrong foot," says Belapurkar. Franklin India Bluechip is known to consistently maintain its large-cap focus.

Too many fund manager changes should also raise a red flag. A stable team, as we saw above, brings consistency to the fund management process. "The fund manager should have been with the fund for at least three years and should have seen both a bull and bear market," says Banerjee.

Check recent performance over the past five years. That will tell you whether the fund continues to be good or is living on past glory. "Look for consistency in performance. The ability to beat the benchmark in a rising market and fall less than it in a falling market is a very prized attribute in a fund manager," says Banerjee. Avoid chasing funds that have outperformed in the recent past.

Look for funds with AUM of at least ₹5 billion. Very small funds run the risk of being closed down. They also lack the resources to hire a large enough team that can provide a steady stream of investment ideas to the fund manager. While large-sized funds may find it difficult to outperform in the small-cap category, size is not a big concern in the large-cap category.