

Growing maturity for mutual benefit

The industry has shown decisive growth post the dip in December 2011 – doubling its assets under management in four years

MUTUAL FUND



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THE mutual fund industry has posted all-round growth this year and reached new highs across several aspects. Investors, distributors, and asset management companies (AMCs) alike are enthusiastic about the future, mindful of the key positives in favour of the industry and India's growth story as a whole.

There are several signs that clearly show the growing maturity of the mutual fund industry such as growing investor base, higher focus on investor education, and continuous improvements in the regulatory environment. Though it has a way to go compared to more developed economies, the industry is going in the right direction.

The mutual fund industry has shown decisive growth post the dip in December 2011 – effectively doubling its assets from ₹6 lakh crore in close to four years. Assets under management

crossed ₹13 lakh crore in October which is an all-time high for the industry, which continues to witness inflows in the equity category. Equity-oriented schemes are now around 33% of the industry's assets, up from 30% in December 2014. One of the positive trends has been the increased participation in systematic investment plans (SIPs) which points towards more stable inflows and a long-term view of the investors. In fact, SIPs have registered month-on-month growth since March, and currently stand at 88.75 lakh.

Retail participation continues to be a highlight of the industry. In 2015 so far, close to 41 lakh retail folios have been added, taking the overall folio count of the industry to around 4.5 crore in October. We are witnessing a trend where more and more investors are coming back into financial assets – this is 17th successive month witnessing steady rise in number of folios. Within the industry, we have seen investors participating

in a big way this year, and it is heartening to see that folios have risen significantly.

Domestic retail investors have started recognising the potential for a strong recovery and we are beginning to witness clear shift in investment preferences from physical assets to financial assets. The same can be substantiated by the record high retail inflows in mutual funds over the year, defined by inflows in equity, equity-linked savings scheme and balanced categories. The industry has witnessed retail inflows of close to ₹1.7 lakh crore in the first nine months of 2015. This is a major upswing compared to ₹1.3 lakh crore of retail inflows in the entire 2014. Retail flows, net of redemptions, have also been consistently positive in the last 18 months in a row.

There are a few key tenets that investors need to follow, such as seeking professional financial advice, avoiding timing the markets, asset allocation, investing as per risk profile, etc. However, not all investors follow investment discipline. For instance,

GROWTH AREAS

► **First step:** Retail participation continues to be a highlight of the industry. In 2015 so far, close to 41 lakh retail folios have been added

► **Balancing space:** Over the year, balanced space has emerged as one of the fastest growing equity categories, as it offers an ideal option for first-time equity investors

► **Growth potential:** Equities are likely to emerge as one of the best performing asset classes in the long run

investors who terminated their SIPs during times of slower market performance have missed out on the bull run. It is, therefore, advisable to avoid timing the markets. Another basic tenet of investment that mutual investors should adhere to is asset allocation. Mutual fund investors also need to focus on long-term investment. Long-term investment and sound asset allocation are the key to sustainable wealth creation. Rather than missing out on the opportunities completely, market exposure could be sought primarily through equity funds with more than 10-year track record.

From a fundamental perspective things have never been better with all the key macroeconomic variables like lower inflation, lower oil prices,

falling interest rates, falling subsidy burden and control in fiscal deficit, supporting a strong recovery. On the policy front, both the government and the Reserve Bank of India are emphasizing on growth revival. The central bank has front-loaded the key policy rate cut to encourage investment and boost economy. The government is also front-ending capex revival through public spending with focus on roads, railways and rural development.

Within the equity space, investment trends point towards a preference for relatively conservative offerings like balanced funds (debt exposure 25% – 35%) and equity savings funds (equity exposure 30% – 40%) which provide potentially higher returns as compared to fixed income offerings with lower volatility than pure equity fund and tax efficiency. Over the year, balanced space has emerged as one of the fastest growing equity categories and offers an ideal investment option for first-time equity investors. Going forward, we expect the domestic economic to continue its recovery path and India offers an attractive investment opportunity. Equities are likely to emerge as one of the best performing asset classes in the long run and investors are expected to prefer the asset class on higher growth potential coupled with relatively lower attractiveness of alternative investment options.

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