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Mutual Fund Insight

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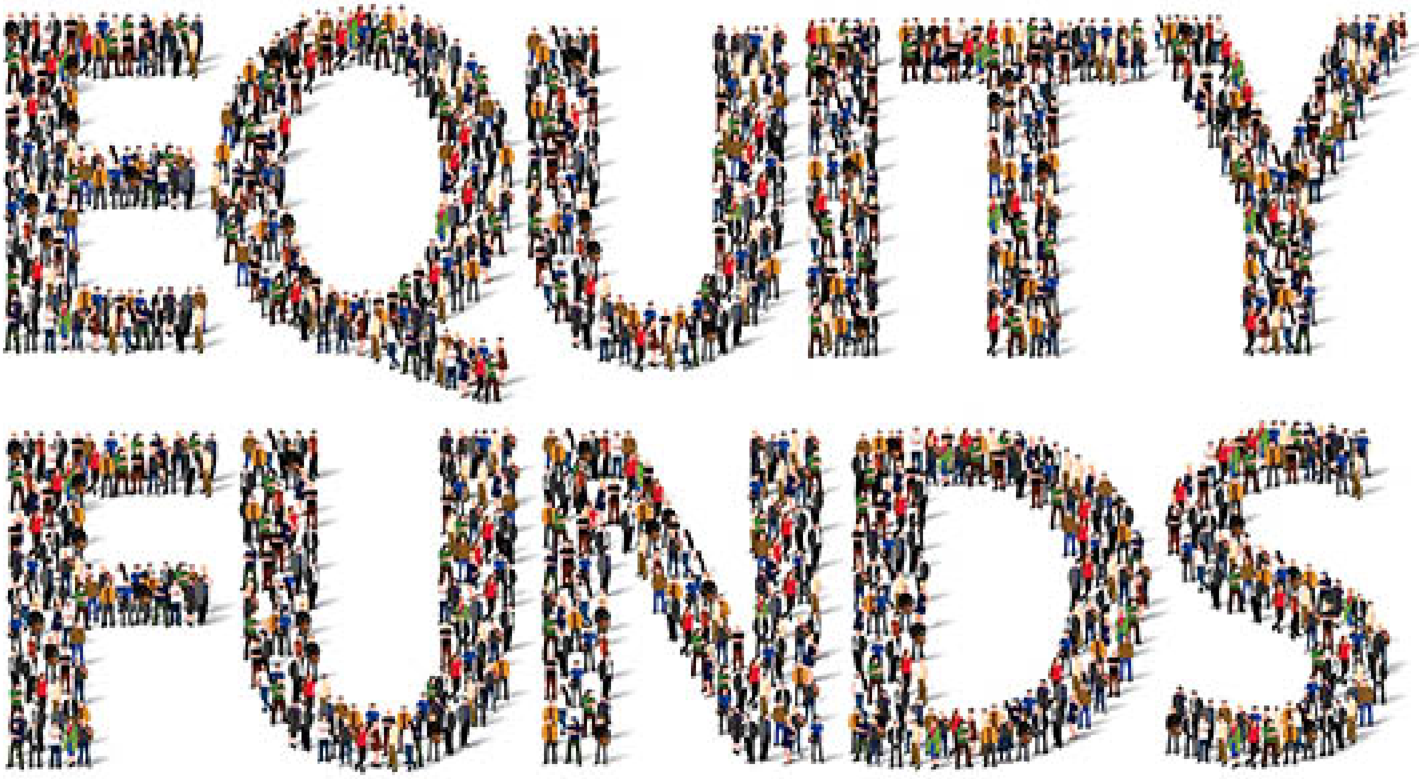
The Great Shift to



Smart Indian investors are pouring money into equity funds in the largest-ever quantities. This should prove to be rewarding.

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GETTING PERSONAL

SUNDEEP SIKKA
President and CEO, Reliance Capital Asset Management

Mutual-fund dynamo

Aarati Krishnan

To be a successful equity investor, they say, you have to be an optimist. But to be the CEO of one of India's top mutual funds, you need to have gigawatts of energy too. Whenever I've met Sundeep Sikka, the President and CEO of Reliance Mutual Fund, I am struck not just by his upbeat personality but also by the buzz of energy he brings with him.

He acceded to my request for a phone conversation in double-quick time. And when I called, I found him ready with his answers, even before I could reel off many of my questions.

How did he become the youngest CEO in the Indian mutual-fund industry, I ask, starting out with a full toss-ish question. Sundeep explains that he isn't really the type that sets ambitious goals for their careers way back in school. "I have always believed that you should just enjoy what you are doing and keep doing your best, and your career takes care of itself," he says. However, he was very passionate about the stock market even while he was in college and started a mock stock-trading system that was quite a hit with his classmates.

Reliance Mutual Fund is now in the news for acquiring the Indian operations of Goldman Sachs AMC. But are exchange-traded funds (ETFs) really such a hot property in India? Many people believe there's not much of a future for them, I argue.

Better to be early

Sundeep is pat with his answer. "What differentiates leaders from others in an industry is their ability to see trends well in advance," he counters. "Maybe, when we first set up our mutual-fund business 20 years ago, many would have thought that the business cannot succeed. But the fact of the matter is that 20 years ago, we managed ₹50 crore and today we manage ₹1.5 lakh crore," he says.

He elaborates why he thinks ETFs will become a force to reckon with in India. "Typically when markets and economies mature, that's when passive strategies grow – institutional investments come in and HNIs take market calls. In India, we are at a nascent stage in both. But I see a hockey-stick kind of situation. We now have the EPFO investing in equities; IRDA has just come up with regulations for ETF investments; and SEBI's investment advisory regulations, if they gain momentum, will also prompt advisors to sell more index funds," he explains. Globally, he points out, growth in ETFs has been far higher than growth in active funds. On the NYSE there are 1,031 listed ETFs and on the Deutsche Boerse there are 800.

"Globally, growth in ETFs has been far higher than growth in active funds. On the NYSE there are 1,031 listed ETFs and on the Deutsche Boerse there are 800."

"I hope you're recording all this, otherwise how will you capture it?" he suddenly worries, as he races ahead at express speed.

I assure him that I have got it and ask why Reliance Capital AMC, which is already managing R*Share ETFs, should acquire Goldman to have more ETFs. "Goldman Sachs was the market leader in ETFs. When they decided to quit India, we saw opportunity there. We think with the expertise of the Goldman/Benchmark team and the Reliance platform, we can reinvent the passive business in India." It was not the AUM which attracted Reliance. "Before Goldman, there were five to six AMCs which wanted to sell out their businesses. Their merchant bankers also sent us proposals. But we gave them a miss. We clearly saw Goldman and their ETF business as a strategic fit," he adds.

Strongly disagree

Noting that Sundeep isn't one to duck tough questions, I pop the controversial one. What does he think of the recent Sumit Bose committee report, which says that mutual funds need to move to a full-trail model and even phase out their trail fees over time?

The world over, there is pressure on mutual-fund costs and

Sundeep Sikka

CURRENT POSITION
PRESIDENT AND CEO,
RELIANCE CAPITAL ASSET MANAGEMENT

CAREER
Since 2009: President and CEO, Reliance Capital AMC
2003-2008: Deputy CEO, Reliance Capital AMC
1999-2003: Regional Sales Head, ICICI Bank

ACADEMICS
MBA, University of Pune

INVESTMENT PREFERENCE
100% equity, Reliance funds, owning a home

CREDO
Do what you like with passion and your career will take care of itself

INVESTING MISTAKE
Putting 20-year money for his daughter in a bond fund

LIKES
Eating street food, travelling

DISLIKES
Information overdose

FITNESS REGIME
Running 25 km a week

it is clear that this will be the direction in India too, Sundeep admits. But he dives right in with: "I strongly disagree with the recommendation that trail commissions should be fully stopped. Mutual funds are not a one-time sale product. They require ongoing servicing. You can invest in one fund today, but after three–five years if the performance is not good you need an advisor who asks you to switch to a better fund. Investors also need advice on how to shift between asset classes. If you stop trail fees, the advisor will stop servicing the investor, which is not in the investor's interest. I think the trail commission should continue for the life of assets."

He also thinks that the idea of having a free-look period in mutual funds is a mistake. "That seems to be an overhang from insurance. If a customer buys a product and the market falls by 10 per cent, can he give it back saying 'it's a wrong product. Take it back'?"

However, one idea that he strongly supports in the report is its recommendation that disclosure of AUMs from mutual funds should be for retail assets alone. "I strongly support this. Whether it is equity, debt or other assets, I wish we come to a point where the AUM disclosure is only about non-institutional investors – retail, HNIs, HUFs."

Will good times last?

Equity funds have raked in record money in one year. But how much of that is due to the bull market? Sundeep says good times will last because he sees a sea change in investor behaviour in this rally. "The markets have been flat for the last two quarters, but the flows are still continuing. This shows two things. Investors are becoming more mature. And we are getting more money through SIPs. We have 86 lakh SIPs today, contributing ₹3,000 crore per month to industry inflows. That's ₹36,000 crore per annum. This is going to ensure that investors walk away with a good experience," he says confidently.

"On his own fund house, why are Reliance Vision Fund and Growth Fund managed in a flexi-cap style rather than as large-cap and mid-cap funds? Sundeep refutes this and says, "On the contrary, in Reliance Vision Fund 75 per cent of the exposure is to the top 100 companies by market cap. We stick to mandates irrespective of what is doing well. In Reliance Growth Fund, more than 50 per cent of the stocks are mid and small-cap stocks. Some mid caps become large caps over a period of time, but we are happy to live with that problem!"

Reliance Mutual Fund was one of the first to launch a long-term retirement fund after such products won tax breaks. Is it getting a good response? "This product is not an AUM gatherer. We have about 1 lakh people invested already and are receiving about ₹500 crore a month. I think this product requires a lot of education. I am very happy with the progress so far," he says.

Given his rapid-fire style of talking and working, is he a demanding boss? He laughs at this and says he isn't a micro-manager. "I trust people and back people. As a boss, once I am convinced someone will take things forward, I don't like to keep following up with them."

"But the laid-back one, I make a note to myself, need to fear him!"

Sundeep keeps a punishing schedule, getting up at 5.20 am every day (for the last twenty years), going for a run in the morning, reading a minimum of six newspapers (physical papers, not on the phone, he clarifies) and getting to work by 8.30 am. That 8.30 to 10 slot is his "most productive time" when work gets done without calls or interruptions.

So is he hooked to gadgets, because he seems to love to get ten things done at once? No, he says. "I'll be very honest. I like gadgets, but I am really feeling the pressure of trying to be updated on so many things. Continuously checking news, Twitter, social media, etc., leads to an overdose of information. I think this makes you disorganised at work. Earlier, you could work for hours without disturbance. Now every two minutes you have something coming in on WhatsApp," he says, a little irritation creeping into his voice for the first time.

Good life

So what does he really enjoy? Travelling eight-ten days a month is the answer. And when he travels, Sundeep loves to indulge in street food. Any cuisine he likes especially? "If your question is 'tell me one cuisine you don't like', I will find it very difficult to answer," he quips. "I am a foodie and love to try new things. I am yet to find a cuisine that I don't like. When I'm in Chennai, I'm going to have *dosas* and in Sri Lanka I have to have the *aapams*."

"I have never bought a single stock directly. I never invest lump sums. I believe I am one of the happiest investors of the mutual fund industry."

Personal finances

So what's his broad asset allocation? I can almost guess the answer in advance. He's a "100 per cent equity guy." He explains, "Age is on my side. I only invest in (Reliance) equity funds. I have never bought a single stock directly. I never invest lump sums. I believe I am one of the happiest investors of the mutual fund industry."

Which Reliance funds does he invest in? His favourites are Reliance Growth Fund, Reliance Opportunities and Reliance Banking, which are the more aggressive ones in the Reliance kitty. "Though it's a high-beta fund, I do SIPs in Reliance Banking because banks are reflection of the economy," he says, when I ask him about holding a sector fund.

His debt investments are taken care of by the provident fund. "As I grow older I plan to shift my asset allocation in favour of debt. I am of the conventional type who feels that when you pay rent, it is a waste of money. It is not very rational, I know, but that's why I own my home," he explains.

Has he made any investment mistakes when he was younger? He's candid about it. "One of the most stupid mistakes I made was that when my daughter was born, I invested twenty-year money in a debt fund. I was not in the fund industry then. At that time, equity was a bad word. I realise now how financially illiterate I was at that time."

Another learning is not to get emotional about investing. "For emotional reasons I also never took out that money. It was invested in my daughter's name for when she would turn 18. But even five years or ten years ago, I could have taken this out and invested in equities." "₹1 lakh invested then has become ₹3 lakh in the bond fund, but it would have become ₹80 lakh in Reliance Growth Fund," he says, driving home the point. As I write up the recorded interview, there's very little editing to do. Sundeep seems to have packed three hours' worth of conversation into short 40 minutes!