Business Line

Mon, 01 Apr-19; Business Line - Chennai; Size : 426 sq.cm.; Circulation:121518; Page : 6

Fund Call Reliance Small Cap

A good bet on small-cap recovery

The fund has contained downsides much better than its benchmark and many peers

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With the mid- and small-cap segments getting pummelled in the markets over the past year, certain pockets have turned attractive from a long-term perspective. Taking the mutual fund route to cherry-pick from the small-cap universe may work best for retail investors.

In this regard, Reliance Small Cap manages to participate during rallies and also protect erosion in its NAV during heavy corrections, across cycles.

When the small-cap indices witnessed a carnage over the past year, the fund contained downsides much better than its benchmark and many peers.

Investors with a horizon of five-plus years can buy units of the fund through the SIP route — lump-sum investments have been suspended since March last year.

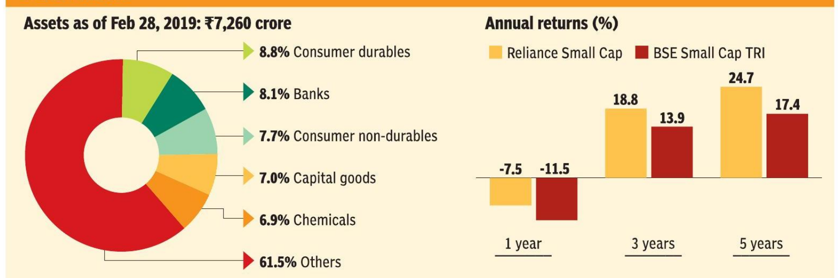
In any case, it would be better if units of a mid- or a small-cap fund are bought on a periodic basis, rather than as a lump sum, given the inherent volatility of the stocks in the space.

Over one-, three- and five-year time-frames, Reliance Small Cap has outperformed its benchmark — BSE SmallCap TRI index. The extent of outperformance vis-à-vis its benchmark has been to the tune of 5-10 percentage points.

The fund has delivered compounded annual returns of 24.8 per cent over the past five years, higher than peers such as DSP BlackRock Small Cap, Franklin India Smaller Companies and Aditya Birla Sun Life Small Cap. Over the past seven years, the scheme has consistently been among the top few funds in its category.

By maintaining a well-diversified, non-concentrated portfolio, and by taking cash calls during volatile periods, Reliance Small Cap has been able to deliver significant outperformance over the years.

Fund facts



Low-risk holdings

Reliance Small Cap takes a fairly diffused approach to individual holdings in the portfolio. Individual stocks account for less than 3 per cent of its portfolio. The fund holds as many as 100 stocks across market cycles, thus making the portfolio quite diversified and non-concentrated. Exposure to individual sectors, too, is mild, usually less than 10 per cent. The scheme takes cash and debt positions to the extent of 11 per cent of the portfolio, which prevents erosion in the fund's NAV during corrections.

Reliance Small Cap does not load up on banks and financial services companies like a typical mutual fund does. Last year, it had significant exposure to consumer non-durables, which has subsequently been pared in light of the elevated valuations in the segment.

It earlier took exposure to capital goods and chemicals stocks and benefited from the rally in those spaces. In the last one year, it has upped its stakes in consumer durables — many stocks in these segments have had a steady rally.

The stock picks are a mix of momentum and value strategies. But most companies in the list are quality names. VIP Industries, Zydus Wellness, RBL Bank, Cyient, Deepak Nitrite and IDFC First Bank are some picks that feature prominently in the fund's portfolio.

Staying invested in the fund through the systematic route over the long term is quite likely to generate superior returns.

Fundas

- Diffused portfolio
- Takes cash and debt positions
- Less exposure to banks and financial services companies