"Rally has shown the benefit of long-term investing"

BHARAT CHANDA

Sundeep Sikka
President and CEO, Reliance Mutual Fund and Chairman, AMFI

*The sharp rally in the market, and the good long-term results of investors who stayed invested through the turbulent phase of the past few years, demonstrate the importance of investing in the equity markets for the long term, says, says Sundeep Sikka in an interview with **Sanjay Kumar Singh**.*

Have retail investors by and large missed this rally, or are they participating in it?
Retail investors have started coming into the equity markets. Over the last 3-4 years, most investors came into the debt segment due to the prevalent market conditions. Those who invested in equities did not create much wealth. This sharp rally has taught us a lesson—the importance of staying invested for the long term in equities. Investors who have invested via SIPs (systematic investment plans) and for the long term have made good returns. Among our funds, Reliance Growth Fund has given a return of 65 times over 19 years. The key point is to remain invested for long. Many of the long-term retail investors will become brand ambassadors of the mutual fund industry. Given the kind of returns they have made, they will come back to the industry with more investments. And seeing their performance, those investors who have been sitting on the sidelines for the last 3-4 years will also start investing in mutual funds.

The mutual fund industry wants to manage the corpus of insurance companies and pension funds. What would be the benefit of this to these entities and to investors?
The world over the asset management business is divided among mutual funds, pension funds and insurance companies. Investment is the core function of the mutual fund industry. When an insurance company manages its own corpus, it has to set up a separate research and investment team. Thus, there is unnecessary duplication of the same function. By outsourcing it, insurance companies and pension funds can achieve considerable cost savings. And if mutual funds do the job well, of which I am confident, it will result in wealth creation for insurance policyholders and pension fund investors.

Sebi is miffed with the mutual fund industry over the 20-25 norm. What is the issue here? And what are your views in this regard?
Sebi had come out with the 20-25 rule a long time back. The rule says that every scheme must have at least 20 investors and no single investor should account for more than 25% of the corpus. The idea is that every scheme should be broad-based. I believe that since this is part of a Sebi circular, the mutual fund industry is following it. If a scheme is broad-based, that is good for all investors, including retail investors.

Sebi wants that debt schemes should have a minimum corpus of ₹20 crore. What are your views on this ruling since it could result in the closure of many debt funds?
Sebi wants that a scheme should have a certain minimum size. In the debt markets, securities are available in minimum marketable lot sizes. You can't buy many lots unless you have a certain corpus size. Also, a scheme should be of a certain size to be meaningful to both the asset management company and the investor. Sebi has allowed fund houses some time. Many of the schemes that currently have an AUM of below ₹20 crore will, in my view, manage to cross that level and won't close down.

Are you ready to retire?
Page 16

Sebi had earlier allowed mutual funds to charge a higher expense ratio if a certain portion of their AUM came from B-15 (beyond 15) towns. Has this initiative yielded positive results?
Sebi wanted that the mutual fund industry should focus more on smaller cities and towns. The level of activity in these smaller centres has increased substantially. The industry has held a large number of investor awareness camps. It has also opened a large number of branches. All this is resulting in deeper penetration in smaller towns and cities. More distributors have become active in these areas. Last year the industry grew by 16%. Retail AUM grew by 20.60%. In March 2014, 13.65% of AUM came from B-15 locations.

Do you see the poor monsoon acting as a break on the market rally?
In the last decade or so, we had the Iraq War, sanctions were imposed on India after the nuclear tests, and we have had several droughts. Investors should not allow themselves to be excessively worried about these events. They should just keep on investing with fund houses and fund managers who have good long-term track records, and who have demonstrated their ability to perform in different markets cycles. The failure of the monsoon and the events in Iraq are short-term issues. India's structural growth story remains intact and there is a lot of wealth to be made by staying invested in equities for the long term.

With the markets having run up a lot, retail investors are getting wary about valuations. What would your advice to them be?
Retail investors should not bother too much about market levels. They should have long-term goals and invest based on those goals. A lot of times investors make the mistake of tracking the markets, and events therein, too closely. They should leave this to the fund manager. Our banking fund has grown 15 times in the last 11 years. This demonstrates that there can be ups and downs in the markets and the economy. But so long as you invest regularly and stay invested for the long term, you can create a lot of wealth. Today, with the markets touching new highs, a lot of investors are asking: should I invest further or should I redeem? But this could also be the start of the next bull run. What view you take depends on your perspective.

Which sectors are you overweight on now?
We remain bullish on infrastructure, power and the financial sector. If the long-term India growth story happens, then infrastructure, power and even consumption will do well. We are also optimistic on the automobile industry. If the Indian economy grows, then the banking sector will grow much more. Both banking and the financial sector will capture the upside of the Indian economy's growth.

Please send your feedback to
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ARE YOU READY TO RETIRE?

A recent survey by global financial services giant, Aegon, says that Indians are the most well-prepared for retirement. The study had 16,000 respondents from 15 countries, including 1,000 Indians. Here are some of the findings of the survey in India.

INDIA SCORES HIGH ON RETIREMENT READINESS

India's high score on the Aegon Retirement Readiness Index is also linked to the strong savings culture in the society. Many are optimistic about future prosperity.

India	Brazil	China	USA	UK	Japan
7	6.8	6.2	6.2	6	4.6

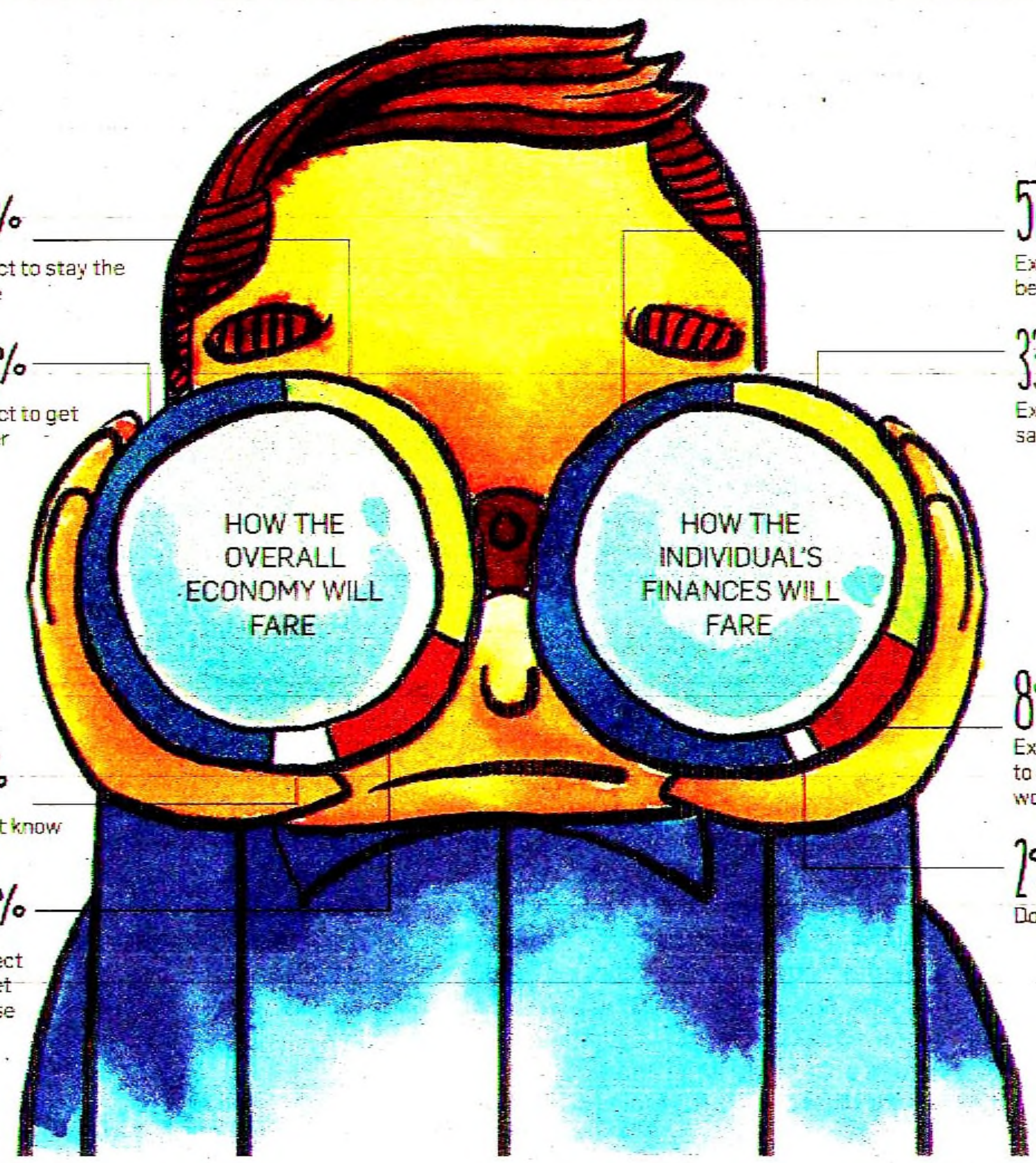
HIGH: A score of 8 and above means the individual is well-prepared for retirement. One in six global employees (18%) had a high readiness score.

MEDIUM: A score between 6 and 8 means the individual is planning his retirement, but needs to do more. In India, 39% respondents were in this category.

LOW: A score below 6 means the individual needs to do much more to be ready for retirement. 55% of the global employees had a low score in 2014.

HOW WILL THINGS FARE OVER THE NEXT 12 MONTHS?

Expectations for both the economy and one's own financial situation for the next 12 months are far more positive than negative.



HOW THE OVERALL ECONOMY WILL FARE

34% Expect to stay the same

48% Expect to get better

3% Don't know

15% Expect to get worse

HOW THE INDIVIDUAL'S FINANCES WILL FARE

57% Expect to get better

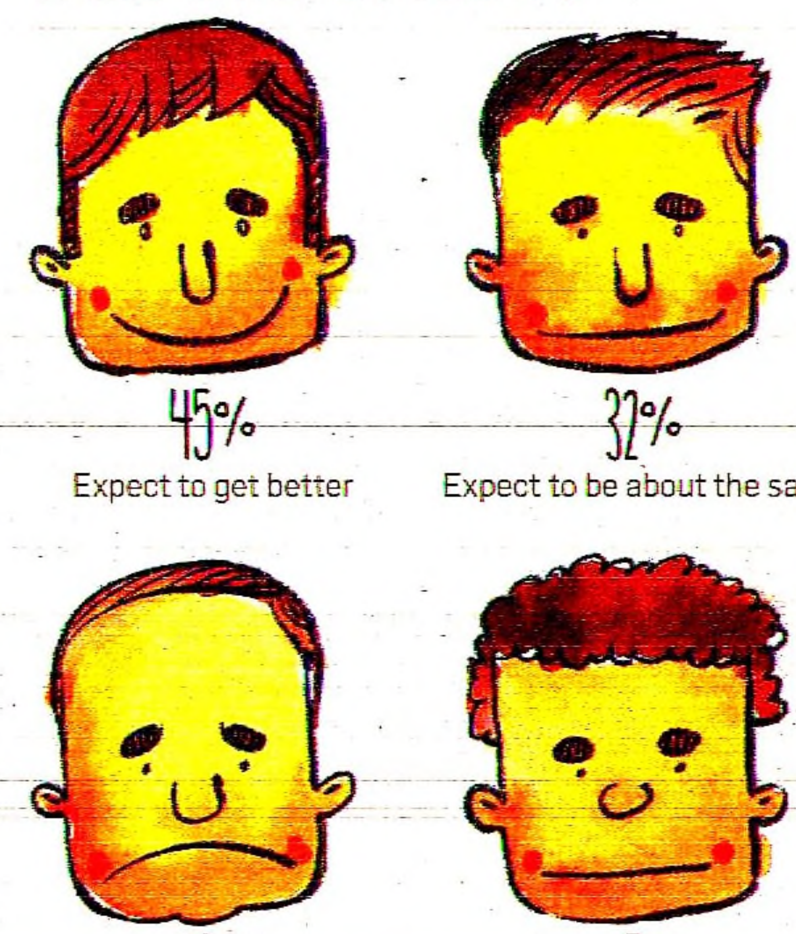
33% Expect to stay the same

8% Expect to get worse

2% Don't know

WILL YOU BE BETTER OFF THAN TODAY'S RETIREES?

Almost half of the future retirees expect to be better off than the present crop.



45% Expect to get better

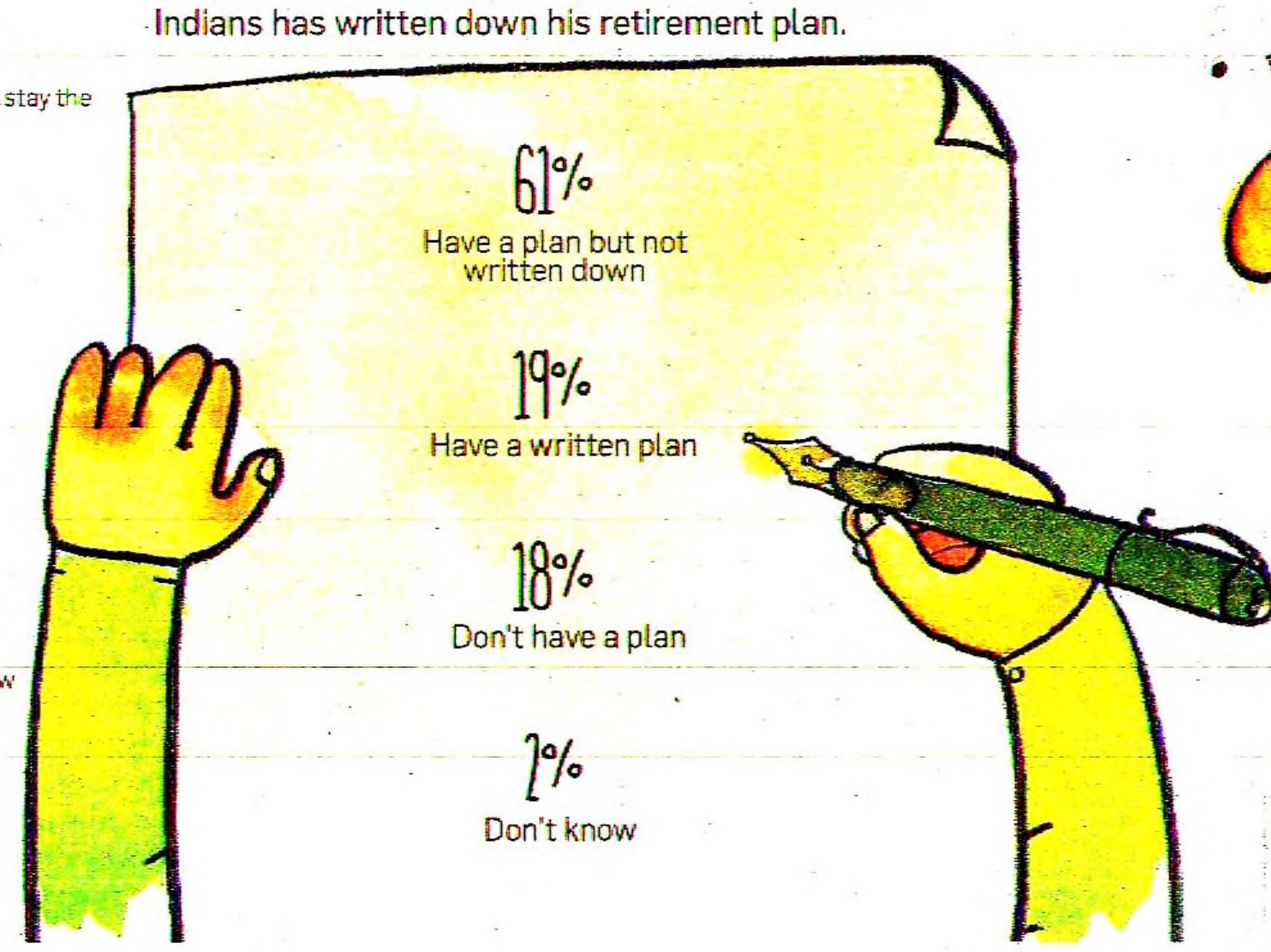
32% Expect to be about the same

18% Expect to be worse

5% Don't know

HAVE YOU WRITTEN DOWN YOUR PLAN?

Despite the relatively positive picture, only 1 in five Indians has written down his retirement plan.



61% Have a plan but not written down

19% Have a written plan

18% Don't have a plan

2% Don't know

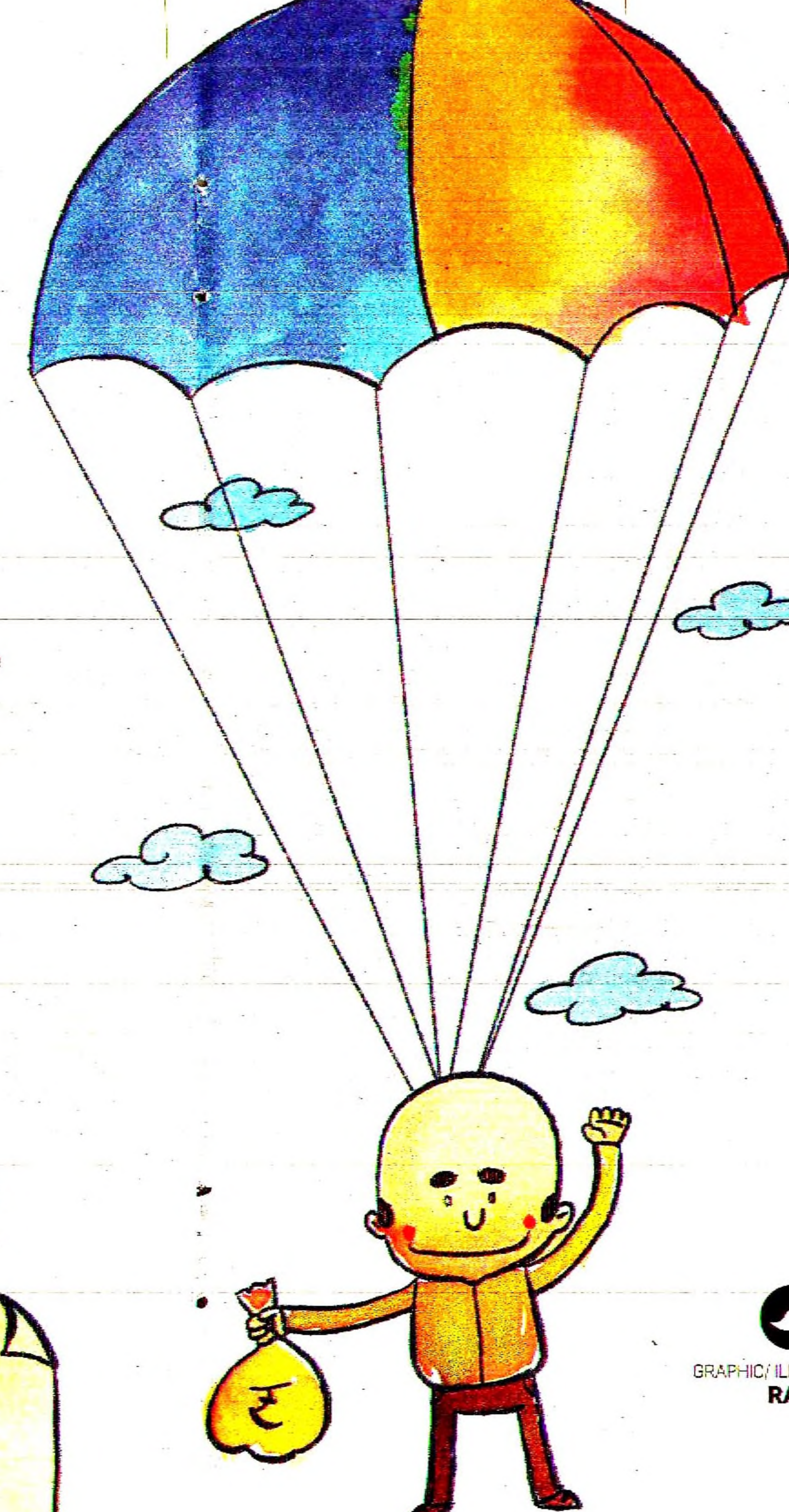
DO YOU HAVE A BACK-UP PLAN?

One in two Indians doesn't have a back-up plan in case he has to stop working before the planned age for retirement.

53% Have a back-up plan

42% Don't have a back-up plan

5% Aren't sure



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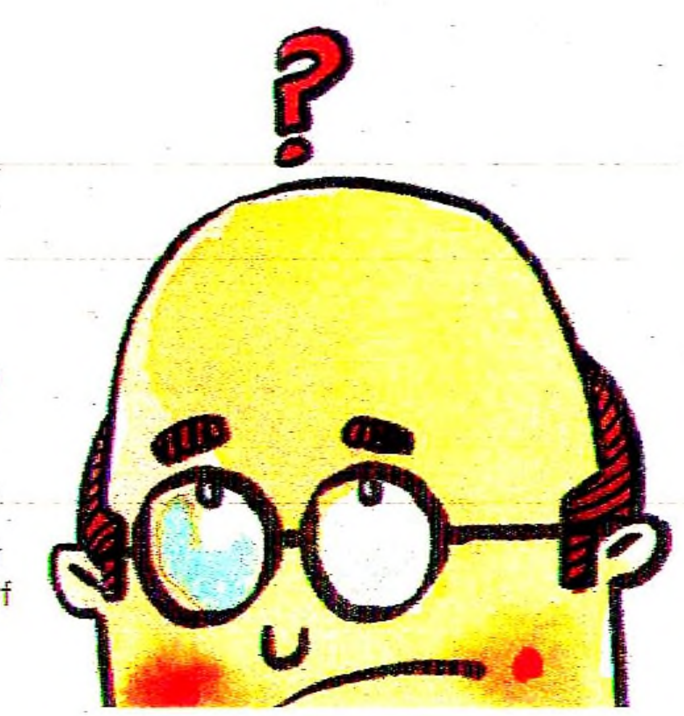
WOULD YOU PREFER GUARANTEED PENSION?

62% Want lower but guaranteed returns.

31% Prefer higher returns even if uncertain.



WHAT DRIVES SAVINGS FOR RETIREMENT?

Though lack of money is a hurdle, transparency of retirement savings, better advice and simpler products also help.

41% Pay rise

39% Ease of tracking and managing retirement savings

37% Better retirement plan match from employer

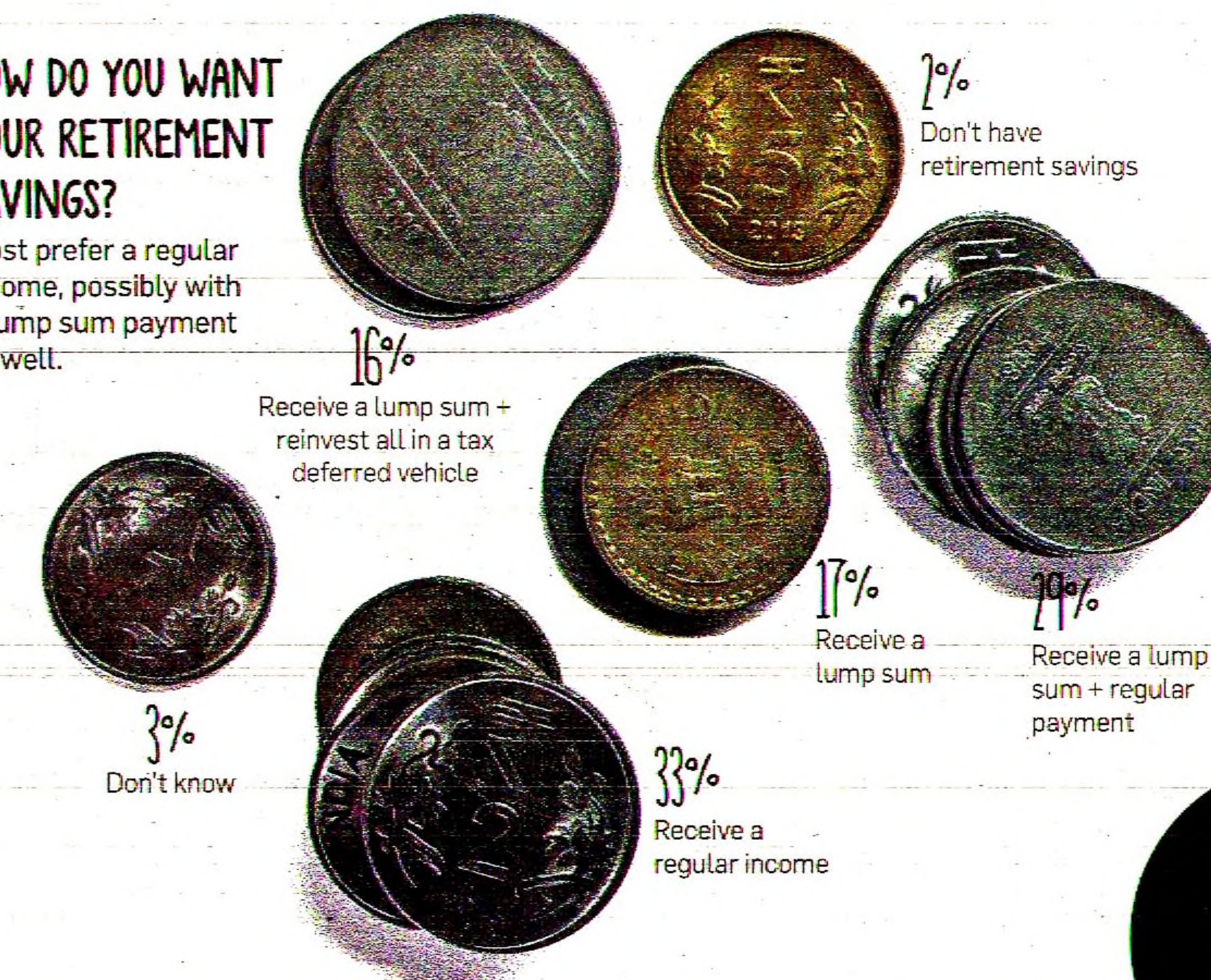
36% Simpler investment products

35% Better information on retirement savings

32% More certain economic environment

HOW DO YOU WANT YOUR RETIREMENT SAVINGS?

Most prefer a regular income, possibly with a lump sum payment as well.



2% Don't have retirement savings

16% Receive a lump sum + reinvest all in a tax deferred vehicle

3% Don't know

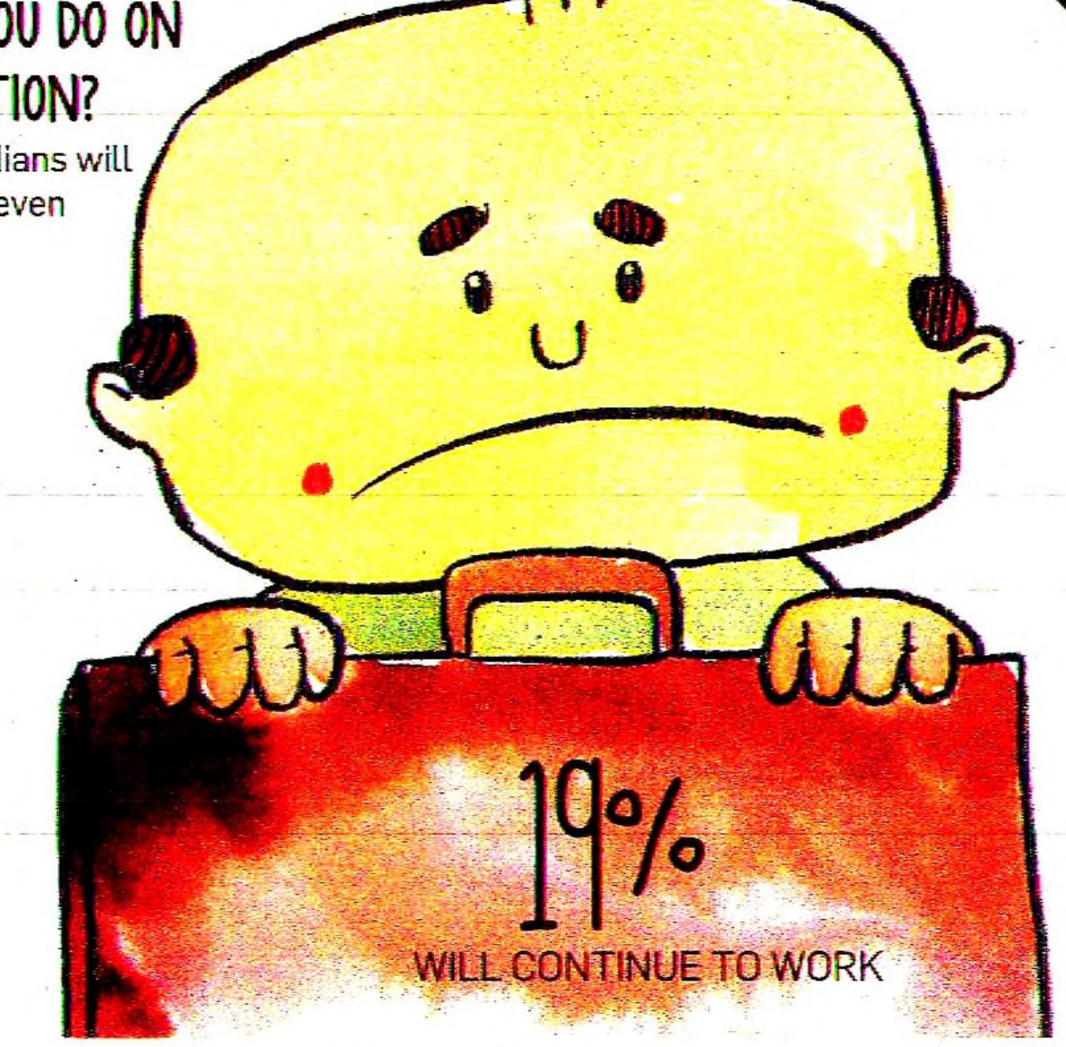
17% Receive a lump sum

29% Receive a lump sum + regular payment

33% Receive a regular income

WHAT WILL YOU DO ON SUPERANNUATION?

One out of five Indians will continue to work even after retirement.



19% WILL CONTINUE TO WORK