Equity MF laggards turn leaders

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There is a clear change in the pecking order among equity mutual funds (MFs). Laggards in the market slump, which lasted for more than two years, have emerged as the best performers in the current rally. Equity funds that invest in small- and mid-cap stocks, infrastructure firms and banks have topped the performance charts in 2014 as well as the one-year period.

While equity MFs that invest in the stocks of infrastructure companies have surged 49.1% so far in 2014 to top the charts, small- and mid-cap equity funds, which jumped 46.1% on an average for the period, came second. Equity funds, which have exposure only to banking stocks, gained 39.1% in 2014 —the third best performance among MFs.

Small- and mid-cap funds took all the top 10 slots for the one-year period, registering a whopping 82-118% increase. Equity funds that invest exclusively in infrastructure stocks stole the show in 2014 with top performers surging between 53% and 62%. Several funds in the pack hit their 52-week highs on July 4.

"Investors who had made a tactical shift to other asset classes due to the temporary non-performance of markets can come back to equities," says Suresh Sadagopan, founder, Ladder7 Financial Advisories. "They should not sell their holdings in debt and gold but can make further investments in equities through SIPs (systematic investment plans)," he adds.

Sumeet Vaid, CEO, Ffreedom Financial Planners, says, "Investors should stay invested in equities till they get returns matching the nominal GDP (gross domestic product) growth." Nominal GDP is not adjusted for inflation.

Despite their strong performance in recent months, advisers believe that investors should stay away from theme-based funds. "Investors should be cautious about thematic funds, especially the infrastructure ones, as the downside risks are quite high," Sadagopan says.

Vaid adds, "Don't try to be a fund manager in a market like India. It is better to go for diversified funds as they have exposure to most sectors." Moreover, the probability of going wrong increases when investors try to switch from one best performing theme to another, he says.

Interestingly, banking and infrastructure-focused equity MFs were among the worst performers during the three-year timeframe. They advanced by 9.5% and 9.1% per annum respectively during the period.

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Direct Plan Schemes	Category	Returns in 2014 (%)
Birla Sun Life Pure Value	Mid- and small-cap	77.9
Sundaram SMILE	Mid- and small-cap	63.4
HSBC Progressive Themes	Mid- and small-cap	62
HDFC Infrastructure	Infrastructure	61.7
Reliance Small Cap	Mid- and small-cap	61.7
Religare Invesco Infra	Infrastructure	59.5
Canara Robeco Emerging Equities	Mid- and small-cap	58.1
L&T Infrastucture	Infrastructure	56.5
PineBridge Infra & Economic Reform	Infrastructure	55.2
Canara Robeco Infrastructure	Infrastructure	54

Source: Value Research