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Market News

EQUITY SCHEMES

Poised to take off

Equity schemes are set to see great inflows in the months to come

Investors love performance. After all, proof of the pudding is in its eating. In the last couple of years, the stock market has not been performing well, thereby driving many MF equity investors to other asset classes as they were not happy with returns the equity schemes were generating. While many fund managers were claiming that their performances have been beating the benchmark index, not many investors were enthused, as absolute returns were still in the negative zone. After all, what ultimately mattered for retail investors was the extent to which their capital had grown, to measure which they always compared equity MF returns with other competing asset class returns.

But the recent equity rally is now percolating down to many companies and sectors. Its benefit is visible in schemes that are not only outperforming their benchmark index but also giving absolute positive returns.

In the last one year (as on 20 May), 99.7 per cent (100 per cent for the six month period) of the assets under management of Reliance AMC had outperformed the benchmark. Reliance AMC manages equity of about ₹27,000 crore. The largest AMC – HDFC – is not too far behind. Of its AUM of ₹45,145 crore, 98.9 per cent of equity assets have outperformed the benchmark (for other AMC performances please see table).

The outperformance this time comes with absolute positive returns these schemes have generated. What is commendable is that almost all equity schemes of leading AMCs in the last one year have generated positive returns – something we had not seen in the last 5-6 years. The Sensex too has gone up by 24 per cent during the last one year. What is heartening is that some of the schemes have seen returns in excess of 40 per cent. For example, Reliance Small



Cap Fund, with AUM of ₹467 crore, has seen its NAV surging by 62 per cent in the last one year, while HDFC Midcap Opportunities Scheme (AUM: ₹3,845 crore) has seen its NAV moving up by 40.89 per cent. Such spectacular performances are not missed by investors for long.

Considering that cyclical stocks are likely to do well in the coming months and years, retail investors can also explore some of the sector-specific funds to ride the new bull rally. At the same time, the FMCG sector, after outperforming for many years, is likely to underperform now and, hence,

investors may move out of them.

Today, equity mutual funds account for 18 per cent of the total industry AUM, against 45 per cent in the US (33 per cent domestic equity and 12 per cent global equity). This gives a good scope for the industry to expand its reach. Today, the top five cities account for 74 per cent of the total MF AUM, while for the top 15 cities the share is 87 per cent. It is necessary to extend the range to more cities, where people are willing to invest for the long term provided that they have been apprised about the risks and returns properly by the equity mutual fund scheme. Rajiv Gandhi Equity Savings Scheme was one of the good means to encourage retailers to invest in equity schemes but its packaging was poorly done.

On the other hand, the recent PSU ETFs' packaging was done brilliantly and so they met with success. "The industry has been trying to look at the means to increase its penetration in non-urban areas," says Gautam Mehra, executive director, PwC. "And the regulatory regime has also developed to drive players in this direction. The efforts haven't yet seen the desired levels of success and so the industry would need to continue to explore innovative ideas in this regard."

Also, the industry has to somehow reach out to the investors and explain their performance in a transparent manner that retail investors can relate to and understand. "The MF industry is a useful intermediary in channelising retail savings into equities, amongst others. With confidence levels of investors in equities generally expected to rise, the MF industry is poised to play an increased role in this process. Other collateral efforts in investor education, technological developments, etc, would help in aiding this further," suggests Mehra. Maybe the industry can take a leaf out of Modi's election campaign to reach out to the investors. Still, there is no doubt that equity that has seen a great redemption in the last few years and is all set to turn the corner and see great inflows in the months to come.

• SUNIL DAMANIA

OUTPERFORMED SCHEMES

Fund house	% AUM outperformed vs benchmark 6 months	% schemes outperformed 6 months
Reliance	100.0	100.0
HDFC	99.8	94.1
ICICI Pru	95.8	80.0
UTI	81.3	75.9
Sundaram	75.9	50.0
DSP Blackrock	74.9	75.0
Birla Sunlife	71.9	61.5
SBI	66.7	56.5
IDFC	61.0	11.1
Templeton	58.1	70.6

Performance is for 6 months ended 20 May 2014. Schemes less than 1 year and dual/close ended/RGESS schemes are excluded. Source: Bloomberg