



# “Research capability of a fund house is critical”



## Sundeep Sikka ED & CEO, Reliance Mutual Fund

Retail investors should always seek the expertise of good mutual fund houses when entering the market, Sundeep Sikka tells Sanket Dhanorkar

### How should investors read the current market situation?

The markets have run up a lot. However, investors should not focus on market levels. Neither should they start, nor stop investing. It has to be a more disciplined approach, based on a goal rather than market levels or valuations. It is important to be cautious, and retail investors should not invest directly but take the advice of experts through mutual funds. Markets will remain volatile. It is critical to identify asset managers who have a track record of investing through market cycles. Reliance Growth fund NAV recently crossed ₹1,000. It has not been a linear journey. But the fact that it has grown 100 times shows that it is important to stay invested for a longer period, and to identify fund managers who have experience to sit through multiple ups and downs. A track record of 10-15 years is enough to experience both a bull and bear phase in the market.

### When do you expect corporate earnings recovery to come through?

Things are looking better but it is not across the board. There are pockets of faster recovery. The demand for many of these products cannot be suppressed for a very long period of time. I expect in a couple of quarters the earnings should improve a lot. I would say that the demonetisation issue was assumed to be a bigger problem than it actually was. The money coming into the formal banking system is a big positive from this exercise. We have seen from the recent mandate in UP elections that demonetisation was perceived in a positive light. A lot of people who were initially critical about demonetisation are not talking about it anymore. The outside world has also appreciated that it is a very bold move that was required. The postponement in demand cannot persist for long. My sense is that it will be good for the economy in the long run.

### Has the market built up too many expectations from the GST?

Whenever any big event happens, either people expect too much or too little. People expected too little from demonetisation, but the results are positive. While there are a lot of people who are positive on the GST, there are still some who are concerned about the operational aspect of it. The rollout of GST is going to benefit the country a lot. Even if there are some teething problems, we have to live with it. It will eventually rationalise so many issues around taxation in the economy. We are not the first country which will be rolling it out. It has been done very seamlessly in other countries.

### Will alpha generation from large-cap funds soften going forward?

The nature of the game is such that the small and mid-caps will always be able to create more alpha compared to large-caps. As the markets mature and price discovery happens, the chances of alpha generation will reduce. Mid and small-caps will continue creating alpha as India is still a growing economy and companies are still evolving. I do see large-cap active funds being challenged by ETFs, not only because of the former's reduced alpha generation capability but also owing to the high cost structure. If a scheme is charging

300 bps every year over a 5-year period, I feel it will be very difficult for it create alpha over the benchmark index.

### Is the exuberance around mid- and small-cap funds justified?

The fact is that these have delivered stellar returns. The Reliance Growth Fund, a mid-cap fund, has delivered a CAGR of 25% over the past 20 years, growing 100 times. This is 10% more than the return by the benchmark index. This can only be generated in mid and small-caps. But I do agree that one has to be more watchful especially after the markets have run up. Investors should strictly stay away from investing directly in mid-cap stocks. The company may be good, but you must get it at the right valuation.

Investors are not always equipped to gauge the valuation. Mid-cap mutual funds can do this much better. However, investors should have the right risk appetite and a longer time horizon. Do not come into mid- and small- cap funds for 2-3 years. A 5-10 year horizon is a minimum one should look at. Also critical for this category is the research capability of the fund house. Many times investors purely focus on the return.

Often, the return comes from a handful of stocks or a particular sector doing well. At the back-end, the research capability of the AMC also plays an important role.

### How critical is fund house research capability in bond funds?

Often investors underestimate the possibility of bond funds suffering losses. These are often bought or sold in the belief that it is a risk-free type of product. But there is both a credit and interest rate risk associated with these funds. Again, research capability of the fund house is critical here. We were among the first fund houses in the country to set up a separate credit research team for debt funds. We have seen the industry go through some unpleasant experiences in recent times. Debt can be risky if not handled well. We do not take any disproportionate risk to generate extra return. We understand that investors come into equities with a different approach while debt is fixed deposit-plus type of product. I would advise investors not to be adventurous with multiple debt fund managers as the capability lies with a limited number of fund houses with strong research teams.

**“Investors should not be adventurous with multiple debt fund managers as the capability lies with a few.”**