



Equity Mutual Funds - Challenges in selecting the right scheme and building the equity schemes portfolio

Summary of the presentation

- ❖ There is a wide variation in performance of schemes. Wealth generation lies in identifying the right scheme to invest
- ❖ Clear dominance in performance from few fund houses leaving behind the large fund houses
- ❖ Stock selection skill of the fund manager is more relevant than the macro understanding
- ❖ Large weight of Indian Banking and Financials sector may be a drag on equity performance
- ❖ No clear correlation between economic growth and individual company performance, so need for investing in US and Global equity funds

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Wide variation in performance of schemes

Investors and advisors who spend maximum time in understanding the equity market and economy are better to focus more on the asset allocation and then, select the right fund manager. This is the message one get, if we look at the huge variation in performance of various fund houses and schemes. Right from multi cap funds to small cap funds, the difference in performance is huge. Fund managers who have invested and stayed with private sector growth companies have generated superior performance than those who have invested in PSU Companies and old economy stocks. Banking & Finance, which was accounting for almost 1/3rd of the portfolios need a serious relook due to its major dependency on economy and government policies. Various directions from central government on lending and state government's announcements on loan waivers are seriously impacting the balance sheet of the banks which erodes the shareholders wealth. Prudent strategy to reduce industry concentration risk irrespective of benchmark index weightage can reduce the risk of the portfolio and improve performance.

Equity Schemes- Return lies in identifying the right scheme

Sno	CAGR in % age Category of the schemes	For 5 years period				For 3 years period				For 1 year period			
		No of Schemes	Lowest CAGR	Highest GAGR	Average	No of counts	Lowest CAGR	Highest GAGR	Average	No of counts	Lowest CAGR	Highest GAGR	Average
1	Multi cap fund	26	-0.23	7.75	4.42	27	-5.92	3.73	-1.37	32	-29.75	-7.15	-14.19
2	large cap funds	28	0.79	8.46	4.61	29	-3.76	7.01	-0.28	30	-24.17	-4.82	-14.24
3	Large & Midcap Funds	21	0.34	11.69	5.12	22	-6.72	2.14	-1.86	24	-23.34	0.68	-13.94
4	Midcap Funds	21	-0.32	8.94	4.46	22	-9.12	7.78	-2.89	23	-23.33	-0.76	-12.20
5	Small Cap Funds	14	-2.14	10.29	3.15	14	-14.09	2.98	-7.32	21	-30.54	-4.14	-17.69
6	Focused Funds	14	1.71	9.19	5.49	14	-7.24	5.54	-0.05	18	-23.56	-6.78	-13.02
7	ELSS	33	-2.01	8.36	4.54	37	-11.55	4.40	-1.70	39	-28.94	-3.42	-15.22
8	Value Fund	11	0.82	6.66	3.47	12	-11.16	0.47	-5.09	14	-30.02	-10.63	-19.30
9	Index Fund	19	2.21	5.95	4.80	20	-3.64	3.03	0.68	25	-20.44	-9.77	-15.48
10	Equity - Infrastructure	19	-7.66	4.21	0.48	19	-19.47	0.17	-7.53	19	-40.89	-7.68	-23.98
11	Equity - consumption	7	5.83	8.59	7.43	8	-3.20	3.51	0.37	9	-18.22	0.10	-8.85
12	Sector - Financial Service	10	-2.06	9.34	3.67	11	-10.74	0.42	-5.55	12	-40.45	-22.12	-29.46
13	Sector - Technology	4	6.59	9.57	8.20	5	9.94	13.53	12.64	5	-9.86	4.76	-4.16
14	Sector - FMCG	1	8.85	8.85	8.85	1	4.20	4.20	4.20	1	-4.99	-4.99	-4.99
15	Sector - Healthcare	3	1.96	8.28	4.58	4	4.85	14.42	8.95	8	29.48	39.36	33.25
16	Global - Other	32	-2.90	14.96	5.33	33	-4.60	23.11	8.29	34	-20.35	51.05	13.28
17	Gold Funds	10	10.00	11.09	10.68	10	15.88	17.06	16.33	10	44.03	47.30	45.41

*Past performance may or may not be sustained in the future

Huge Variation		Under Performance		Out performance	
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Few fund houses dominate in performance

There is a clear dominance by few fund houses in performance. Schemes from Fund houses like Axis MF, Mirae MF, Kotak MF, Canara Robeco MF, DSP MF and Invesco MF have consistently stayed in the top quartile with large corpus in different schemes. Large fund houses could not retain their superiority in performance due to their bonding with PSUs and Old economy stocks.

Scheme Name	Alpha	Category		Scheme Name	Alpha	Category
UTI Equity Fund	3.40	Multi cap		Axis Blue-chip Fund	5.09	Large Cap
Canara Robeco Equity Diversified Fund	3.32	Multi cap		Canara Robeco Blue-chip Equity Fund	3.13	Large Cap
DSP Equity Fund	1.70	Multi cap				
Kotak Standard Multi cap Fund	-0.12	Multi cap		Axis Midcap Fund	10.57	Midcap
ICICI Prudential Multi cap Fund	-2.27	Multi cap		Invesco India Midcap Fund	5.60	Midcap
HDFC Equity Fund	-3.37	Multi cap		DSP Midcap Fund	3.92	Midcap
Franklin India Equity Fund	-3.49	Multi cap		Kotak Emerging Equity Fund	2.21	Midcap
Nippon India Multi cap Fund	-5.53	Multi cap		HDFC Midcap Opportunities Fund	-0.08	Midcap
				SBI Magnum Midcap Fund	-2.65	Midcap
Mirae Asset Emerging Blue-chip Fund	1.29	Large & Midcap		Sundaram Midcap Fund	-3.39	Midcap
Invesco India Growth Opportunities Fund	1.15	Large & Midcap		Aditya Birla Sun Life Mid Cap Fund	-5.42	Midcap
Kotak Equity Opportunities Fund	-0.91	Large & Midcap				
Aditya Birla Sun Life Equity Advantage Fund	-4.77	Large & Midcap		SBI SmallCap Fund	9.15	Small cap
HDFC Growth Opportunities Fund	-5.48	Large & Midcap		Axis SmallCap Fund	9.00	Small cap
Franklin India Equity Advantage Fund	-6.84	Large & Midcap		Nippon India SmallCap Fund	3.43	Small cap
Nippon India Vision Fund	-8.08	Large & Midcap		Kotak SmallCap Fund	0.32	Small cap
				HDFC SmallCap Fund	-0.18	Small cap
Axis Long Term Equity Fund	3.69	ELSS		ICICI Prudential SmallCap Fund	-1.78	Small cap
Canara Robeco Equity Tax-saver Fund	2.64	ELSS		DSP SmallCap Fund	-2.49	Small cap
Mirae Asset Tax Saver Fund	1.55	ELSS		Franklin India Smaller Companies Fund	-6.16	Small cap
Franklin India Tax-shield Fund	-5.42	ELSS		Aditya Birla Sun Life Small Cap Fund	-7.33	Small cap
Sundaram Diversified Equity Fund	-6.75	ELSS				
HDFC Tax saver Fund	-7.13	ELSS				
Nippon India Tax Saver Fund	12.51	ELSS				

Alpha is for 3 years period. This indicates the stock picking ability of the fund manager with respect to benchmark index. Higher the alpha means better performance.

Stock selection and sector shift, Index agnostic approach

The sheer under performance of equity indices to the nominal GDP has shattered the myth that equity markets reward more in a fast-growing economy. It is the individual companies which generate wealth for investors and not the macro factors. Bottom up approach is here to stay, and fund managers stock picking skill matters more than understanding of the macros. Our analysis of sector allocation shows that the performing funds have quickly reduced sector weight for banks and financials and increased the weight for health sector, telecom and FMCG. Major sectors which have dragged the performance are Banking,

Concentration risk of Banking and Financial sector dragging Indian Equity Index performance

Various Indices as of May 2020	S&P Total Market Index - USA	S&P Euro Index	S&P Global Index	S&P Emerging Markets Index	S&P 500 India
No of companies	3695	350	1200	4105	500
Industries	Weightage in % age				
Information Technology	25.4	7.2	20.5	12.3	11.54
Health care	15.3	17	14.2	3.9	6.72
Financials	11.1	14.7	13.2	22	29.12
Consumer Discretionary	10.9	9.6	10.5	16.4	9.99
Communication Services	10	3.9	9.7	11.9	2.78
Industrials	8.6	13.6	9.8	5.9	4.01
Consumer Staples	6.5	15.1	8.4	7	10.86
Real Estate	3.6	1.4	2.6	3.6	3.11
Utilities	3.1	4.9	3.3	2.9	1.98
Materials	2.7	7.4	4.4	7.7	7.76
*Energy	2.7	5	3.6	6.4	11.99
Total	99.9	99.8	100.2	100	99.86

*Higher weight due to Reliance Industries which is in Oil, Telecommunication and Retail industries

Large weight of banking and financial sector in Indian equity index is the highest globally. No other country has such large weight in one sector. Lack of strict regulations and bankruptcy act in the past has made this industry vulnerable. The loan waiver culture is further eroding the credibility of this sector.

Individual company growth does not get constrained by domestic economy, if it has global competency

Indian Companies in Information Technology, Pharma, Auto and Auto ancillary have proved that with their global scale and competency, they can cater to both domestic and global consumers. Similarly, global companies in USA, Europe and other part of the world are catering to global clients. This makes it prudent to include global equity funds, particularly US equity funds in the portfolio with substantial allocation. Many of the US companies, particularly in technology segment have generated far higher return than the growth of US economy, which is around 2% range. Top US Companies major portion of the sales comes from Non-US markets. Similarly, Indian IT and Pharma industries major sales comes from outside India.

*Corpus movement and Performance of Various Global Funds (Report Date: 16 Jun 2019) CAGR in %age										
Global - Other	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	Benchmark	Fund Size (In Crores)	Expense Ratio
Franklin Ind Feeder-Frank US Opp Gr	5.98	34.17	20.48	28.60	17.50	21.77	14.11	Russell 3000 Growth PR USD	1693.49	1.48
PGIM India Global Eq Opp Reg Gr	7.34	27.10	26.71	34.26	23.65	21.23	8.55	MSCI ACWI NR USD	100.67	1.11
Nippon India US Eq Opportunities Reg Gr	2.88	14.28	5.10	17.17	13.99	16.95		S&P 500 TR	136.13	2.74
ICICI Pru US Bluechip Equity Gr	7.97	26.39	5.22	23.64	15.56	16.69	13.01	S&P 500 TR	646.93	
DSP US Flexible Equity Reg Gr	8.96	25.73	5.33	17.53	9.67	13.56	10.69	Russell 1000 TR USD	171.38	2.44
Edelweiss US Value Equity Offshore Rg Gr	5.78	18.27	-6.32	5.24	4.24	6.66	5.71	Russell 1000 TR USD	37.52	2.37
ICICI Pru Global Stable Eq(FOF) Gr	3.44	14.61	-2.29	7.69	6.23	6.51	6.40	MSCI World NR	87.15	
Edelweiss Europe Dyn Eq Offshore Reg Gr	10.00	22.08	-3.51	3.63	-2.48	1.78	1.31	MSCI Europe NR LCL	16.86	2.34
Franklin Ind Feeder Frank Eur Gr Gr	10.08	13.65	17.22	12.32	11.70	-5.44	-3.34	MSCI Europe NR USD	15.92	1.43
Edelweiss US Technology Equity FoF RegGr	8.28	40.25						Russel 1000 Equal Weighted Technology	225.57	2.32
ICICI Pru Global Advantage(FOF) Reg Gr	6.88	11.97	4.32					S&P Global 1200 TR	22.85	
Motilal Oswal Nasdaq 100 Fd of Fd Reg Gr	4.63	27.56	21.49	38.53				NASDAQ 100 TR USD	526.14	0.5
Motilal Oswal S&P 500 Index Reg Gr	6.62							S&P 500 Index	199.11	1.19
Nippon India Japan Equity Reg Gr	7.16	19.50						TOPIX NR JPY	39.85	2.38

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