

# CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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## Investment thoughts

### Active and passive funds can coexist

Investors should make the most of both categories based on their risk-return profiles

The outperformance of equity markets since March 2020 has swung the spotlight on the relative underperformance of active funds even as the buzz around passive funds grows louder.

It would, however, be myopic to countenance a long-term view in favour of either category based on this alone.

Indeed, there are multiple layers to the underperformance of active funds, a CRISIL analysis shows.

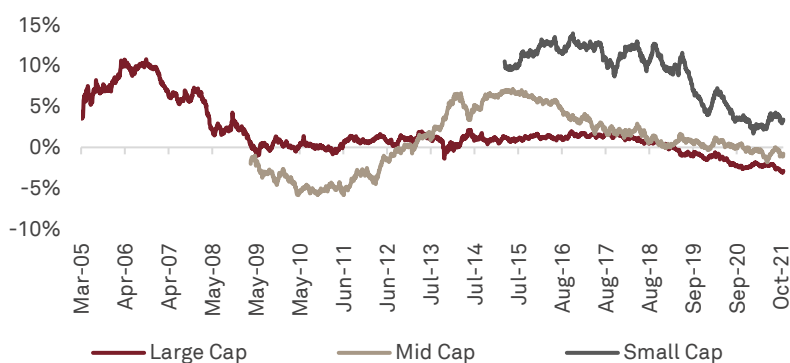
Underperformance of active funds a reality, but there is more to it

Among actively managed equity funds, it is the large-cap funds category that has fallen behind the most, especially since 2018 when recategorisation of schemes was effected.

The recategorisation has limited the investments of large-cap funds in lower-capitalisation stocks to less than 20% of the portfolio. Skewed positive performance of some major companies and the inability of the large-cap funds to replicate the index weights of such companies due to exposure limits could also be impacting their performance.

Mid-cap funds, too, have seen a dip in alpha in recent times.

#### Five-year rolling average alpha of major equity-oriented mutual fund categories



Source: CRISIL Research

might still be able to beat the market in their respective fund category if they hold onto their mutual funds over the long term.

Similarly, prudent scheme selection can impact portfolio performance. Dispersion of alpha shows that there is stark divergence between the best and worst funds in all categories. Thus, an investor who does not choose the right fund, or monitor the funds invested in regularly, might end up with deficient alpha.

#### A combination of active and passive funds can work

Individual participation in equity-oriented mutual funds continues to be focussed on actively managed funds. This is evident from the folio count of over 7.5 crore in the category compared with just about 16 lakh in passive funds<sup>1</sup>.

Given the right investment horizon and prudent scheme selection, active funds can certainly deliver the desired returns.

Lately, however, passive funds have grown exponentially in India. The spurt has been led by adoption of passive investing by large institutional investors such as provident fund trusts.

The potential for passive funds is also huge, considering the underpenetrated market and associated low costs. Asset manufacturers limited by regulation to launch products in the active space are expected to launch products in the passive space to shore up assets.

However, for mutual fund penetration to increase, hand-holding will have to play a major role. Yet, the low cost structure of passives might not incentivise intermediaries to take the product inland.

From an industry point of view, therefore, both these categories are equally important.

As for investors, a well-rounded portfolio with a mix of active and passive funds, based on the investor's goal orientation, risk profile and preference, is the path to take.

Small-cap funds, however, continue to generate alpha versus their benchmarks. The large number of securities available in the small-cap space also provide a wide array of investment options, thus benefitting fund management in the space.

Analysis based on weighted average composite performance indices of the respective funds as ranked under the quarterly CRISIL Mutual Fund Ranking of large-cap, mid-cap and small-cap funds versus Nifty 50 TRI, Nifty Mid-cap 100 TRI and Nifty Small-cap 100 TRI respectively.

To be sure, the performance of active funds is also impacted by a number of other factors — holding period and scheme selection, among others.

As the investment horizon increases, the level of underperformance decreases, which indicates that equity investments are optimised only in the long term. Thus, investors

## Market – Overview

Indices	% Change in Nov 2021	% Change in Oct 2021
Nifty 50	-3.78	0.30
S&P BSE Sensex	-3.90	0.31

Indicators	Nov 30, 2021	Oct 29, 2021
10-year Gsec	6.33%	6.39%
Monthly CPI Inflation	4.91%	4.48%

## Mutual fund - Overview

### Top Stock Exposures – Nov 2021

1. ICICI Bank Ltd.
2. HDFC Bank Ltd.
3. Infosys Ltd.
4. Reliance Industries Ltd.
5. State Bank Of India
6. HDFC Ltd.
7. Bharti Airtel Ltd.
8. Axis Bank Ltd.
9. Tata Consultancy Services Ltd.
10. Larsen & Toubro Ltd.

### Top Sector Exposures – Nov 2021

1. Banks
2. Computers - Software
3. Pharmaceuticals
4. Refineries/Marketing
5. NBFC
6. Engineering, Designing, Construction
7. Cement
8. Housing Finance
9. Telecom - Services
10. Passenger/Utility Vehicles

### New Stocks Entries and Exits in Mutual Fund Portfolios – Nov 2021

#### Entries

- PB Fintech Ltd.
- One 97 Communications Ltd.
- Latent View Analytics Ltd.
- Tarsons Products Ltd.
- Go Fashion (India) Ltd.
- Sapphire Foods India Ltd.
- S.J.S. Enterprises Ltd.
- Data Patterns India Ltd.
- Arihant Superstructures Ltd.

#### Exits

- Minerva Holdings Ltd.
- Rajinder Steels Ltd.
- Tata Steel BSL Ltd.
- Lyka Labs Ltd.
- Ugro Capital Ltd.
- Hindustan Foods Ltd.

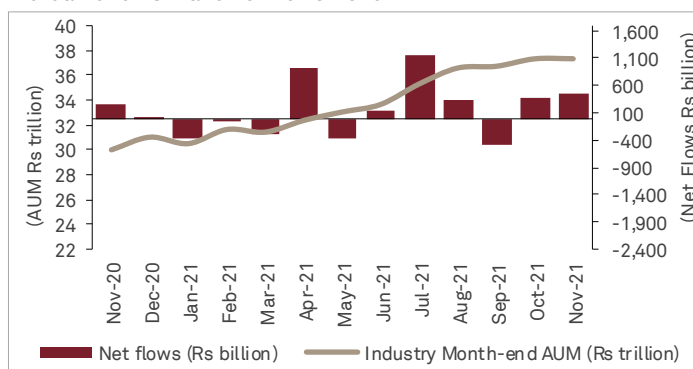
### Category returns

	Absolute monthly returns %	
	Nov	Oct
Large cap funds	-3.75	0.96
Large cap and mid-cap funds	-2.48	1.18
Multi cap equity funds	-2.03	1.59
Flexi cap funds	-2.90	1.03
Focused funds	-2.82	1.76
Value – Contra funds	-3.57	1.54
Mid-cap funds	-1.78	1.19
Small cap funds	0.73	0.58
Arbitrage funds	0.37	0.31
ELSS	-2.83	1.17
Index funds	-3.83	0.41
Aggressive hybrid funds	-2.05	0.75
Conservative hybrid funds	-0.16	0.32
Gilt funds	0.65	-0.17
Dynamic funds	0.60	-0.07
Medium-to-long term funds	0.61	-0.15
Medium term funds	0.50	0.04
Short-duration funds	0.38	0.09
Corporate funds	0.43	0.06
Banking and PSU debt fund	0.45	0.04
Credit risk funds	0.50	0.27
Low duration funds	0.30	0.21
Money market funds	0.35	0.21
Ultra-short duration funds	0.31	0.21
Liquid funds	0.30	0.26

Category returns represented by average of CRISIL ranked funds – September 2021

- The S&P BSE Sensex and Nifty 50 lost nearly 4% in November tracking weak global cues including global inflationary pressure and rising Covid-19 cases in Europe and South Africa.
- Also, back home, too, inflation accelerated, raising concerns among investors it may prompt the central bank to hike rates sooner than expected. India's retail inflation rose marginally to 4.48% on-year in October from 4.35% in September.
- Selling by foreign institutional investors (FIIs) also weighed on the markets.
- However, some losses were trimmed on optimism over strong quarterly earnings and encouraging domestic economic data. Investors continued to be buoyed by the strong GST collection and services activity numbers.
- Optimism about higher foreign inflows after inclusion of a few Indian stocks in the MSCI India Index also lifted market sentiment
- Persistent buying by domestic institutional investors (DIIs) and mutual funds also buoyed the market.
- Nifty sectoral indices mostly ended mixed, with Nifty Bank (~8.7%), Nifty financial service (~6.7%) and Nifty Metal (~6.5%) falling the most.

### Mutual fund AUM and net flows trend



- Assets under management (AUM) of the domestic mutual fund industry increased in November, closing at a record Rs 37.34 lakh crore (excluding domestic fund of funds), higher than previous Rs 37.33 lakh crore in October owing to inflows spread across open-ended equity, debt and hybrid categories.
- Aggregate net inflows for the open-ended equity category stood at ~Rs 11,615 crore in November, more than twice of that in October's ~Rs 5,215 crore. Within the category, flexi-cap schemes and large-cap schemes continued to witness inflows. Equity linked savings schemes (ELSSs) inflows reduced to ~Rs 174 crore, owing to investor interest in the tax-saving instrument as the financial year nears its close.
- Value/ contra schemes also recorded inflows of ~Rs 439 crore in November after witnessing outflows in the previous five months.
- Furthermore, Investor enthusiasm for systematic investment plans (SIP) continued unabated with November's figure was a new record high of Rs 11,005 crore.
- Hybrid schemes recorded net inflows for the eleventh straight month at ~Rs 9,422 crore in November compared with ~Rs 10,437 crore in October.
- ETFs (both equity and gold) and index schemes cumulatively saw net inflows of ~Rs 10,686 crore in November compared with ~Rs 9,245 crore in October.
- Furthermore, FoFs that invest overseas saw net inflows at Rs 338 crore in November, lower than ~Rs 1,514 crore of net inflows seen in October.
- Open-ended debt schemes witnessed net inflows of ~Rs 14,893 crore in November, as against ~Rs 12,984 crore net inflows in October
- Within the category, liquid schemes recorded the highest net inflows of ~Rs 53,251 crore, while medium to long duration schemes saw net inflows of ~Rs 901 crore.
- In the closed-ended debt category, marginal net inflows worth ~Rs 7 crore compared with net outflows of ~Rs 1,080 crore in October due to redemptions.
- SEBI came out with fresh operating norms for the introduction of silver exchange traded funds (ETFs) in India.

# CRISIL Fund Rank 1 Schemes - Hybrid

## Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs.Crore)	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception				
<b>Aggressive Hybrid</b>										
BOI AXA Mid & Small Cap Equity & Debt Fund	1.90	4.72	22.18	53.36	22.72	16.86	20-Jul-16	345.68	19.45	1.46
PGIM India Hybrid Equity Fund	-1.82	1.34	9.95	28.18	13.99	13.58	5-Feb-04	136.33	19.81	0.88
Kotak Equity Hybrid	-1.22	3.01	9.83	33.38	19.09	11.86	3-Nov-14	1922.95	19.81	1.21
<b>Arbitrage</b>										
Tata Arbitrage Fund	0.36	0.78	1.93	3.98	NA	5.09	18-Dec-18	11239.92	1.35	2.29
Kotak Equity Arbitrage Fund	0.40	0.93	2.11	4.20	4.83	7.00	29-Sep-05	24790.27	1.28	2.12
<b>Conservative Hybrid</b>										
Kotak Debt Hybrid	-0.21	3.17	6.78	15.82	12.99	8.39	2-Dec-03	876.05	7.20	1.99
Canara Robeco Conservative Hybrid Fund	0.10	1.06	5.06	11.26	11.44	10.07	3-Apr-01	781.05	6.14	1.98

CRISIL Mutual Fund Ranks as of September 2021  
Point to Point Returns are as on November 30, 2021  
Returns are annualised for periods above 1-year, other wise actualised  
Risk Ratios are annualised  
Period for Risk Ratios is three years  
For Sharpe Ratio the risk free rate is 4.43% - the average 91-day T-Bill auction cut-off rate for three years  
Average AUM is 3-months average number as disclosed by AMFI for the period July-September 2021

## Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Jul-Sep 2021 (Rs. Cr)	Apr-Jun 2021 (Rs. Cr)	Change (Rs. Cr)	% Change	Mutual Fund (MF) Name	Jul-Sep 2021 (Rs. Cr)	Apr-Jun 2021 (Rs. Cr)	Change (Rs. Cr)	% Change
SBI Mutual Fund	579318	524316	55002	10.49%	HSBC Mutual Fund	11476	10815	660	6.11%
ICICI Prudential MF	461289	429229	32060	7.47%	PGIM India Mutual Fund	11185	8110	3075	37.91%
HDFC Mutual Fund	441852	418947	22904	5.47%	Principal Mutual Fund	8930	8038	892	11.10%
Aditya Birla Sun Life MF	299382	275904	23478	8.51%	BNP Paribas Mutual Fund	8745	8122	623	7.67%
Kotak Mahindra MF	270615	247750	22866	9.23%	Union Mutual Fund	7300	5916	1384	23.39%
Nippon India Mutual Fund	267213	242102	25111	10.37%	Mahindra Manulife MF	6687	5664	1023	18.06%
Axis Mutual Fund	238575	208505	30070	14.42%	IDBI Mutual Fund	4384	4295	89	2.07%
UTI Mutual Fund	208971	187210	21761	11.62%	Quant Mutual Fund	3301	1642	1659	101.02%
IDFC Mutual Fund	126560	126268	293	0.23%	IIFL Mutual Fund	3128	2591	537	20.73%
DSP Mutual Fund	107290	104026	3264	3.14%	BOI AXA Mutual Fund	2494	2211	283	12.79%
Mirae Asset Mutual Fund	91802	78139	13663	17.49%	JM Financial Mutual Fund	2089	2135	-45	-2.13%
L&T Mutual Fund	78274	75531	2743	3.63%	Quantum Mutual Fund	2012	1945	67	3.44%
Tata Mutual Fund	77010	66999	10010	14.94%	ITI Mutual Fund	1983	1562	421	26.94%
Edelweiss Mutual Fund	69188	61256	7932	12.95%	IL&FS Mutual Fund (IDF)	1385	1686	-301	-17.83%
Franklin Templeton MF	64587	61636	2950	4.79%	Trust Mutual Fund	1033	858	175	20.39%
Invesco Mutual Fund	42930	39016	3914	10.03%	Navi Mutual Fund	867	728	139	19.06%
Canara Robeco MF	39344	32541	6804	20.91%	Indiabulls Mutual Fund	655	632	23	3.58%
Motilal Oswal Mutual Fund	33544	29428	4116	13.99%	IIFCL Mutual Fund (IDF)	612	596	16	2.63%
Sundaram Mutual Fund	33377	32151	1225	3.81%	Taurus Mutual Fund	539	496	43	8.74%
LIC Mutual Fund	18040	17642	398	2.26%	Shriram Mutual Fund	217	208	10	4.68%
PPFAS Mutual Fund	15943	11343	4600	40.56%	YES Mutual Fund	46	81	-36	-43.71%
Baroda Mutual Fund	11953	10645	1309	12.29%	Grand Total	3656125	3348915	307210	9.17%

AAUM is the quarterly average number and includes domestic fund of funds

## Fund Focus

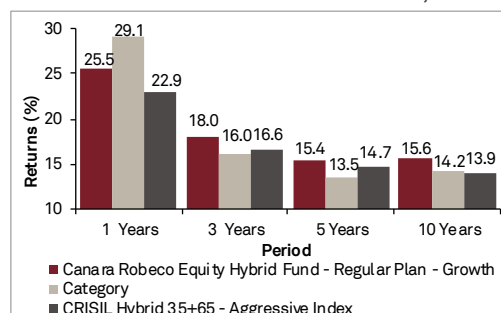
### Canara Robeco Equity Hybrid Fund

Launched in March 1998, Canara Robeco Equity Hybrid Fund featured in the top 30 percentile of the aggressive fund category of CRISIL Mutual Fund Ranking (CMFR) in the 12 quarters ended September 2021. The fund's average assets under management stood at Rs 6,247 crore in the quarter ended September 2021.

#### Performance

The fund has outperformed its benchmark (CRISIL Hybrid 35+65 - Aggressive Index) and category (represented by funds ranked under the aggressive hybrid category in CMFR - September 2021) in most of the periods analysed. It has returned ~17% since its inception.

Chart 1: Performance as on December 13, 2021



Note: Returns above one year are annualised

#### Better risk-adjusted returns

The fund outperformed its category and benchmark on a risk-adjusted basis, as measured by the Sharpe ratio (higher the better), over the three years ended December 13, 2021. The fund's Sharpe ratio was 1.25, against 1.05 and 1.20 for its category and benchmark, respectively, during the period.

#### SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for five years ended December 13, 2021, the investment of Rs 60,000 would have grown to Rs 91,311 at a compounded annualised growth rate of 17.09%. Similar investments in the benchmark for the same period would have grown to Rs 89,364 at 16.20%

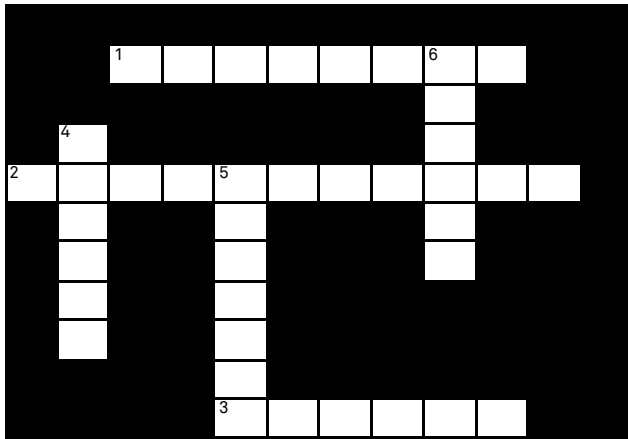
#### Portfolio analysis

Over the three years ended November 2021, the fund's exposure to equities averaged 71% of total assets. On the debt front, the fund's three-year average exposure was 1.2% to certificates of deposit and commercial papers, 6.9% to government securities and treasury bills, and 15% to non-convertible debentures and bonds

#### Fund manager

The fund's equity portion is managed by Shridatta Bhandwaladar, BE (Mechanical) and MMS (Finance), with 14 years of experience in fund management. The debt portion is managed by Avnish Jain (PGDM - IIM and BTech), with 23 years of experience.

## Crossword Corner – boost your financial knowledge



### Horizontal

- 1) Funds with at least 80% investment in large cap stocks (5,3)
- 2) This is used by financial advisors to assess the investor's capability to bear loss, and suggest suitable investments (4, 7)
- 3) An asset class that is volatile over the short term and is therefore intended for risktakers (6)

### Vertical

- 4) Funds with at least 65% investment in mid cap stocks (3,3)
- 5) Funds which seek to mirror particular benchmark performance (7)
- 6) Fund involving assessment of market conditions and in depth research (6)

### Answers

**Vertical:** 4) Mid Cap 5) Passive 6) Active  
**Horizontal:** 1) Large cap 2) Risk profile 3) Equity

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