

# CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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## Investment thoughts

### Active and Passive investing - looking at symphony

With the Indian mutual fund industry dynamics steadily transforming, the active vs passive investing debate has seen a renewed vigour. If you study the numbers, you will find a recent reduction in alpha for active mutual funds and, almost parallelly, a sharp surge in the AUM of passive mutual funds, making the debate intriguing. Globally, it has been often seen that in the lesser mature mutual fund investing markets like India, the active fund management style

plays out more than passive. But as the market develops, inevitably, the passive style of investing becomes increasingly prominent. The numbers support this theory as well. While in 2010, only 14% of the assets of open-ended mutual funds worldwide were constituted by passive funds, in 2020, it grew to 31%. In India too, the share of passive funds has seen an exponential rise in the last 5 years, although over a much lower base. So, does that mean passive funds have become the more preferred option now? Let us find out.

#### The impressive upward trajectory of passive mutual funds

I think it is not really fair to position active funds over passive or vice versa purely because they represent entirely different fund management strategies. If anything, the emergence of passive funds is a sign of a maturing investment market in India. Take the case of large-cap stocks, for example. With a rise in structural/regulatory changes like tighter investment mandates and scrutiny around benchmarks, we have increasingly seen the alpha of large-cap funds dipping (although not for all). So, for this category, passive becomes a relevant choice since your aim then is to save cost and ride on the beta, in case the alpha generated isn't justifying the expenses you are paying. Bear in mind though, that not all large-cap funds are suffering from an alpha-lag. For example, in FY20, almost 20% of the large-cap funds did outperform the index. Hence, this decision will require some discretion and can't be a universal rule for all actively managed large-cap funds. Having said that, small and mid-cap segments, in contrast, are relatively less mature and still have a lot of scope for active strategies.

Similarly, for fixed income funds, India has seen a growth of passive funds for various reasons. Cost definitely being one, as fixed-income funds are not inexpensive when it comes to active duration and credit strategies. Apart from the cost, the transparency and diversity in portfolio construct also adds to the need for fixed income ETF product innovations. The other prominent factor is the choice of options. India has a lot of fixed income indices across different segments, and it shall be fair to say that we have not really seen a lot of actively managed funds getting their duration or credit calls consistently right, making the index a very significant option.

All these factors and many more have contributed to the rise of passive mutual fund investments. Will passive investments see more inclusion in the coming years? Sure. Will they take the place of active mutual funds? No, let me explain why.

#### The synchronous play of active along with passive

India is no longer a market where, whatever you touch will turn into gold. Research holds the key to both active and passive strategies. This puts a spotlight on both the strategies and the relevance of them coexisting with each other. I'd say, structurally speaking, a lot of rebalancing that happens for passive funds is only because of a fairly strong active funds market presence. To this effect, I also see a growing role of advisory platforms and asset allocation strategies both in terms of the product construct and intermediary selling aspects. It has been quite a dominant strategy globally and reinforces the need for an ideal mix of active and passive strategies in an investor's portfolio.

Indexing here can play a very prominent role as well, owing to its cost-effectiveness; cost being one of the primary focuses of the various Robo-advisory platforms. Although contrary to popular belief, it is not a 'safe' strategy, as it does carry the risks associated with equity investing. Moreover, due to the dominance of market-cap based indices, we see a lot of money being infused in a few select indices, which can lead to concentration risk as well. To mitigate this risk, globally, we have also seen the emergence of factor-based indices and smart beta strategies, which may come with their own set of risks. You shall see that the research required makes active investing an integral part of any passive strategy as well. There are also index plus strategies being launched in India. Hence, many limited-active strategies are likely to come into play in future. Bottom line - there is not going to be an only-active or an only-passive funds market in the future. The mantra is to maintain a balance.

#### In conclusion

Each investment strategy has its own place in an investor's portfolio, and must be chosen for reasons of relevance rather than over another strategy for reasons of popularity. While we will see a continuing growth of passive funds on large-cap equity and fixed income sides, active and passive funds shall continue to exist in harmony. This fact will be accentuated by the need of effective asset allocation strategies and their growing investments in indexing products. All this while, the aim shall be to look at diversification in a portfolio but at the same time, benefit from the cost structure, which shall remain a key driver. This way or that, the foundation of a well-rounded investment is always research. This is true both at the time of investing and periodic monitoring thereafter with respect to the nature of your investment basket.

## Market – Overview

Indices	% Change in Aug 2021	% Change in July 2021
Nifty 50	9.44	0.26
S&P BSE Sensex	8.69	0.20

Indicators	Aug 31, 2021	July 30, 2021
10-year Gsec	6.22%	6.20%
Monthly CPI Inflation	5.30%	5.59%

- The S&P BSE Sensex breached 57,000 mark and the Nifty 50 topped 17,000 in this month. The sentiment got a boost from strong global cues and hopes of quicker domestic economic recovery after encouraging macro-economic indicators.
- The global cues which aided the domestic markets included: 1) Chairman Jerome Powell's comment at the Jackson Hole symposium that the central bank could begin scaling back its monthly bond purchases this year, though it will not be in a hurry to begin raising interest rates thereafter; 2) the US Senate's approval of a \$1.2 trillion infrastructure investment and a \$3.5 trillion budget blueprint that would expand social spending with major investments; 3) the US FDA's full approval for Pfizer-BioNTech's Covid-19 vaccine; and 4) the Chinese central bank's 120 billion yuan liquidity injection to support economic growth
- On the domestic front, easing inflation, better industrial production data, strong manufacturing and services data, and robust July auto sales numbers boosted the market sentiments. Markets also gained after foreign institution investors (FIIs), domestic institutional investors (DIIs) and mutual funds were net buyers in August.
- Nifty sectoral indices ended on a mixed note, with Nifty IT (~13%), Nifty Service (~10%) and Nifty Financials (~9%) gaining the most.

## Mutual fund - Overview

Top Stock Exposures – Aug 2021	Top Sector Exposures – Aug 2021
1. ICICI Bank Ltd.	1. Banks
2. HDFC Bank Ltd.	2. Computers - Software
3. Infosys Ltd.	3. Pharmaceuticals
4. Reliance Industries Ltd.	4. Refineries/Marketing
5. State Bank Of India	5. NBFC
6. HDFC Ltd.	6. Cement
7. Bharti Airtel Ltd.	7. Housing Finance
8. Axis Bank Ltd.	8. Engineering, Designing, Construction
9. Tata Consultancy Services Ltd.	9. Telecom – Services
10. Larsen & Toubro Ltd.	10. Passenger/Utility Vehicles

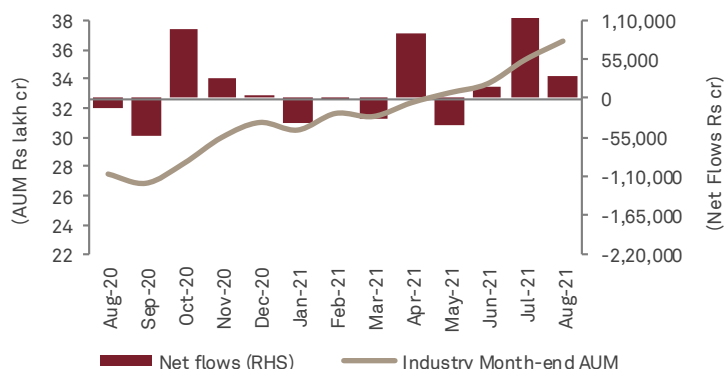
### New Stocks Entries and Exits in Mutual Fund Portfolios – Aug 2021

Entries	Exits
Cartrade Tech Ltd.	Den Networks Ltd.
Devyani International Ltd.	Hester Biosciences Ltd.
Chemplast Sanmar Ltd.	Jai Balaji Industries Ltd.
Aptus Value Housing Finance India Ltd.	Kalyani Investment Company Ltd.
Krsnaa Diagnostics Ltd.	KCP Ltd.
Nuvoco Vistas Corporation Ltd.	KSE Ltd.
Windlas Biotech Private Ltd.	Novartis India Ltd.
Manorama Industries Ltd.	Shanthi Gears Ltd.
Vardhman Special Steels Ltd.	
Kolte-Patil Developers Ltd.	
Glenmark Life Sciences Ltd.	
Exxaro Tiles Ltd.	
Lyka Labs Ltd.	
Manali Petrochemical Ltd.	

Category returns	Absolute monthly returns %	
	Aug	July
Large cap funds	6.79	1.82
Large cap and mid-cap funds	4.43	3.58
Multi cap equity funds	3.42	5.37
Flexi cap funds	5.40	2.93
Focused funds	6.17	2.29
Value – Contra funds	3.56	3.56
Mid-cap funds	2.61	5.25
Small cap funds	0.33	7.23
Arbitrage funds	0.30	0.35
ELSS	5.09	3.01
Index funds	8.56	0.38
Aggressive hybrid funds	4.16	2.41
Conservative hybrid funds	1.96	1.12
Gilt funds	1.09	0.29
Dynamic funds	0.87	0.29
Medium-to-longterm funds	0.89	0.32
Medium term funds	0.83	1.63
Short-duration funds	0.66	0.58
Corporate funds	0.72	0.61
Banking and PSU debt fund	0.66	0.54
Credit risk funds	0.74	1.24
Low duration funds	0.45	0.42
Money market funds	0.36	0.34
Ultra-short duration funds	0.34	0.45
Liquid funds	0.30	0.28

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

### Mutual fund AUM and net flows trend



- The domestic mutual fund industry's asset base hit a record high in August, led by equity market gains and inflows across categories. Industry assets under management (AUM) settled at Rs 36.59 lakh crore at August-end (excluding domestic fund of funds or FoFs), up 3.6% on-month.
- Equity-oriented mutual fund assets rose by ~5.3% or Rs 62,342 crore to hit a new high of Rs 12.33 lakh crore at August-end, primarily led by MTM gains in the underlying asset class. SIPs remained in favour as an investment mode, with the monthly contribution via this route rising to Rs 9,923 crore in August from Rs 9,609 crore in July.
- Within the category, flexi cap funds and focused funds continued to register net inflows while ELSS registered a fifth consecutive month of outflows in August.
- Hybrid schemes recorded net inflows for the eighth consecutive month, clocking Rs 18,706 crore while the fund flow trend for aggressive hybrid funds turned negative again in August.
- Consistent inflows into schemes that espouse passive investing, namely equity exchange-traded funds (ETFs), index funds, and gold ETFs, contributed to a sharp rise in the asset bases of these categories. The aggregate AUM of these categories stood at ~Rs 3.91 lakh crore in August, up from Rs 3.57 lakh crore in July.
- Open-ended debt schemes garnered an aggregate net inflow of ~Rs 1,074 crore in August, sharply lower than ~Rs 73,694 crore in July.
- SEBI asked asset management companies (AMCs) to disclose details of risk and performance of mutual fund schemes in all disclosures, including promotional material.

# 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 - Growth	1.18	16.89	35.10	69.93	16.01	16.87	20-Jul-16	314.77	19.55	1.01
Kotak Equity Hybrid - Growth	3.42	6.76	14.72	48.30	15.30	11.94	03-Nov-14	1588.75	20.03	0.95
PGIM India Hybrid Equity Fund - Growth	2.58	8.38	16.22	42.15	11.20	13.71	05-Feb-04	105.36	19.86	0.68
<b>Arbitrage</b>										
L&T Arbitrage Opportunities Fund - Growth	0.33	1.11	2.31	4.03	5.24	6.07	30-Jun-14	4273.90	1.33	2.33
Tata Arbitrage Fund - Growth	0.36	1.12	2.41	4.20	NA	5.30	18-Dec-18	5959.22	1.37	2.29
<b>Conservative Hybrid</b>										
Canara Robeco Conservative Hybrid Fund - Regular Plan - Growth	1.93	4.18	7.56	15.69	11.12	10.16	03-Apr-01	554.44	6.24	1.85
LIC MF Debt Hybrid Fund - Growth	2.45	4.34	6.67	12.13	8.15	7.89	02-Jun-03	80.53	5.46	1.35

CRISIL Mutual Fund Ranks as of June 2021

Point to Point Returns are as on August 31, 2021

Returns are annualised for periods above 1-year, otherwise actualised

Risk Ratios are annualised

Period for Risk Ratios is three years

For Sharpe Ratio the risk free rate is 4.66% - 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 April-June 2021

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

Mutual Fund Name	Apr-Jun 2021 (Rs. Cr)	Jan-Mar 2021 (Rs. Cr)	Change (Rs. Cr)	% Change	Mutual Fund Name	Apr-Jun 2021 (Rs. Cr)	Jan-Mar 2021 (Rs. Cr)	Change (Rs. Cr)	% Change
SBI Mutual Fund	524316	505373	18943	3.75%	Baroda Mutual Fund	10645	9641	1004	10.41%
ICICI Prudential Mutual Fund	429229	416198	13030	3.13%	BNP Paribas Mutual Fund	8122	7837	285	3.63%
HDFC Mutual Fund	418947	416670	2277	0.55%	PGIM India Mutual Fund	8110	6527	1583	24.26%
Aditya Birla Sun Life Mutual Fund	275904	269700	6204	2.30%	Principal Mutual Fund	8038	7768	269	3.47%
Kotak Mahindra Mutual Fund	247750	234743	13007	5.54%	Union Mutual Fund	5916	5240	676	12.90%
Nippon India Mutual Fund	242102	230222	11880	5.16%	Mahindra Manulife Mutual Fund	5664	5271	393	7.45%
Axis Mutual Fund	208505	196862	11643	5.91%	IDBI Mutual Fund	4295	4162	133	3.21%
UTI Mutual Fund	187210	182853	4358	2.38%	IIFL Mutual Fund	2591	2370	221	9.33%
IDFC Mutual Fund	126268	122328	3940	3.22%	BOI AXA Mutual Fund	2211	2289	-78	-3.43%
DSP Mutual Fund	104026	97386	6640	6.82%	JM Financial Mutual Fund	2135	2389	-254	-10.65%
Mirae Asset Mutual Fund	78139	69773	8366	11.99%	Quantum Mutual Fund	1945	1942	3	0.16%
L&T Mutual Fund	75531	72728	2803	3.85%	IL&FS Mutual Fund (IDF)	1686	1679	7	0.40%
Tata Mutual Fund	66999	62078	4921	7.93%	Quant Mutual Fund	1642	722	920	127.42%
Franklin Templeton Mutual Fund	61636	83525	-21888	-26.21%	ITI Mutual Fund	1562	1179	384	32.56%
Edelweiss Mutual Fund	61256	52415	8842	16.87%	Trust Mutual Fund	858	625	233	37.29%
Invesco Mutual Fund	39016	36841	2175	5.90%	Navi Mutual Fund	728	698	31	4.39%
Canara Robeco Mutual Fund	32541	28273	4268	15.10%	Indiabulls Mutual Fund	632	664	-32	-4.78%
Sundaram Mutual Fund	32151	32052	99	0.31%	IIFCL Mutual Fund (IDF)	596	588	8	1.44%
Motilal Oswal Mutual Fund	29428	27993	1435	5.13%	Taurus Mutual Fund	496	475	21	4.35%
LIC Mutual Fund	17642	16927	715	4.22%	Shriram Mutual Fund	208	203	5	2.47%
PPFAS Mutual Fund	11343	8720	2622	30.07%	YES Mutual Fund	81	110	-28	-25.73%
HSBC Mutual Fund	10815	10552	263	2.49%	<b>Grand Total</b>	<b>3348915</b>	<b>3236590</b>	<b>112325</b>	<b>3.47%</b>

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

## Fund Focus

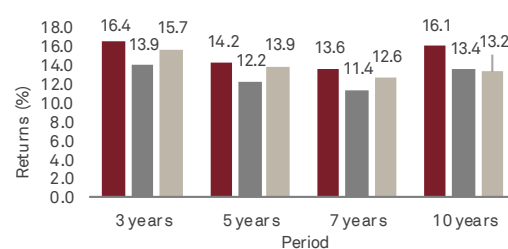
### ICICI Prudential Equity & Debt Fund - Growth

ICICI Prudential Equity & Debt Fund, launched in November 1999, was ranked in the top 30 percentile (CRISIL Fund Rank 2) of the aggressive hybrid fund category of CRISIL Mutual Fund Ranking (CMFR) in the quarter ended June 2021.

#### Performance

The fund has outdone the category benchmark (CRISIL Hybrid 35+65 - Aggressive Index) and the category (represented by funds ranked under the aggressive hybrid category in CMFR - June 2021) in all the periods analysed. It has returned 15% since its inception.

#### Performance as on September 20, 2021



■ ICICI Prudential Equity & Debt Fund - Growth  
■ Category  
■ CRISIL Hybrid 35+65 - Aggressive Index

Note: Returns are annualized

#### Better risk-adjusted returns

The fund outperformed its category on a risk-adjusted basis as measured by the Sharpe ratio (higher the better) over the three years ended September 20, 2021. The fund's Sharpe ratio was 1.07 against 0.98 for its category during this period.

#### SIP returns performance

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for the five years ended September 20, 2021, the investment of Rs 60,000 would have grown to Rs 95,203 at a compound annual growth rate (CAGR) of 18.70%. Similar investments in the benchmark for the same period would have grown to Rs 91,236 at 16.95%.

#### Portfolio analysis

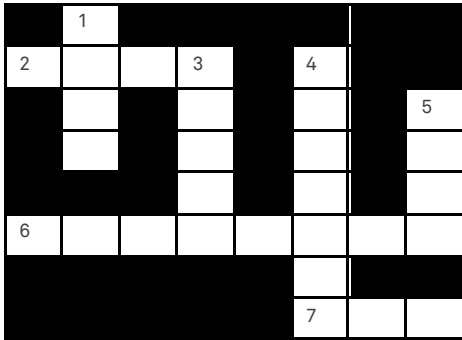
During the three years ended August 2021, the fund's exposure to equities averaged 71% of total assets.

The debt portfolio mainly comprised non-convertible debentures and bonds with an average three-year exposure of ~18%.

#### Fund manager

Sankaran Narenis is the Chief Investment Officer at the fund house, with over 30 years of experience and Manish Banthiais is the Senior Fund Manager, with over 16 years of experience.

## Crossword Corner – boost your financial knowledge



### Horizontal

2. This indicates how volatile a stock is when compared to the market as a whole (4)
6. The sensitivity of a bond's price to changes in yield (8)
7. The units of such schemes are traded on stock exchanges (1,1,1)

### Vertical

1. A type of market phase during which stock prices decline (4)
3. A measure which captures the extent to which a scheme has outperformed a market benchmark (5)
4. A type of investment strategy that attempts to mirror an index or broad market benchmark (7)
5. It is a code used to uniquely identify a security (1,1,1,1)

### Answers

Vertical: (1) Bear (3) Alpha (4) Passive (5) ISIN (International Securities Identification Number)  
Horizontal: (2) Beta (6) Duration (7) ETF (Exchange Traded Fund)

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