

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 121 May 2021

Investment thoughts

ESG funds – An additional investment option for investors

The mutual fund industry has seen a new category of funds emerge and take hold in recent years as investors worldwide actively seek out companies that meet environmental, social and governance (ESG) norms and not merely score well on financial metrics.

Globally, assets of sustainability-themed investing stood at over \$55 trillion at the end of 2018 as per latest data available with the Global Sustainable Investment Alliance. Meanwhile, in India, these funds have seen traction only in the past couple of years with majority (seven out of 10 funds) seeing their inception in fiscal 2021.

Regulatory and stock exchange focus on ESG

In India, the Securities and Exchange Board of India (SEBI) has mandated the inclusion of a Business Responsibility Report (BRR) as a part of the annual report for the top 1,000 listed companies. Further, the National Stock Exchange and Bombay Stock Exchange have become partners of the United Nations-backed Sustainable Stock Exchanges Initiative, committing to promote sustainable investing through improved ESG disclosure requirements of listed firms.

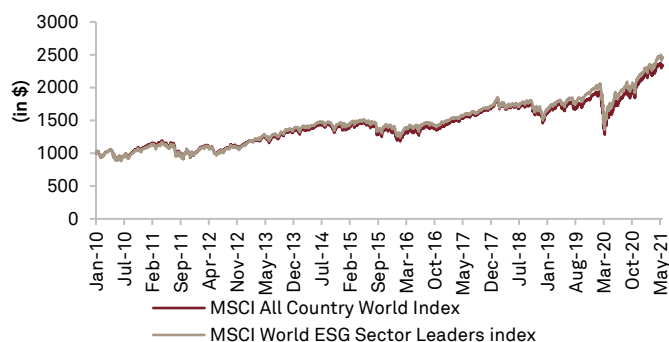
ESG funds perform well on both returns and volatility

ESG investing, as represented by ESG indices both globally and domestically, has beaten broad market benchmarks over the long term.

Let us consider a global ESG investment. An investor putting in \$1,000 in the MSCI World ESG Sector Leaders Index in January 1, 2010, would have garnered \$2,467 as on May 21, 2021. A similar amount invested in the general equity index would have grown to \$2,343.

Investing in an Indian ESG index would also have fetched good returns. An investment of Rs 1 lakh in the Nifty 100 ESG Sector Leaders Index at its inception (January 1, 2014), would have nearly tripled to Rs 2.59 lakh as on May 21, 2021, at 13.7% compound annual growth rate (CAGR). A similar amount invested in the general equity index would have grown to ~Rs 2.47 lakh, at 13% CAGR.

Growth of \$1,000: MSCI World ESG Sector Leaders Index vs MSCI All Country World Index



Source: Bloomberg, CRISIL Research

The ESG theme is not only outperforming general equity, but also doing so with lower volatility. This showcases the stability of the underlying stock movement compared with broad equity benchmarks.

Volatility (standard deviation) lower versus broad equity benchmarks

	World		India	
	MSCI All Country World Index	MSCI World ESG Sector Leaders Index	Nifty 100	Nifty India ESG Sector Leaders Index
One year	17.3 %	16.0 %	16.35%	15.68%
Three years	14.9 %	13.7 %	4.06%	3.44%
Five years	12.8 %	11.5 %	3.82%	3.78%

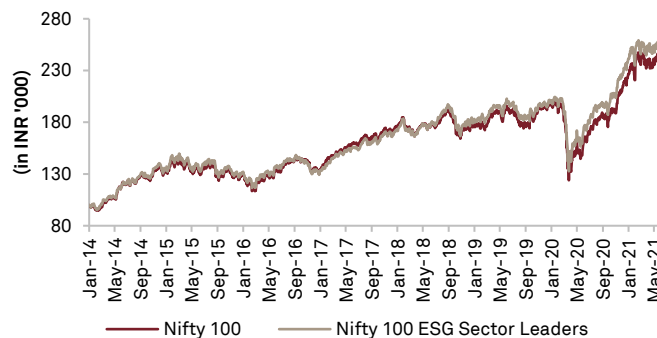
Note: Data based on average daily rolling returns for the period ended May 21, 2021
Source: Bloomberg, NSE

A viable alternative for investors

Though a nascent asset class in India, ESG funds provide a viable additional investment option, given their strong financial and moral connect. To reiterate, their exponential growth globally and increasing acceptance and awareness could propel the growth of ESG funds domestically.

Investors can thus look at investing in this category of funds to get exposure to companies on a long-term sustainable growth path. But a caveat: investors should gauge their individual risk profiles and financial goals before investing.

Growth of Rs 100,000: Nifty 100 ESG Sector Leaders Index vs Nifty 100 Index



Market – Overview

Indices	% Change in April 2021	% Change in March 2021
Nifty 50	-0.41	1.11
S&P BSE Sensex	-1.47	0.83

Indicators	April 30, 2021	March 31, 2021
10-year Gsec	6.03%	6.18%
Monthly CPI Inflation	4.29%	5.52%

Mutual fund - Overview

Top Stock Exposures – Apr 2021

- ICICI Bank Ltd.
- HDFC Bank Ltd.
- Infosys Ltd.
- Reliance Industries Ltd.
- Axis Bank Ltd.
- State Bank Of India
- HDFC Ltd.
- Bharti Airtel Ltd.
- Tata Consultancy Services Ltd.
- Larsen & Toubro Ltd.

Top Sector Exposures – Apr 2021

- Banks
- Computers - Software
- Pharmaceuticals
- Refineries/Marketing
- NBFC
- Cement
- Engineering, Designing, Construction
- Housing Finance
- Telecom - Services
- Passenger/Utility Vehicles

New Stocks Entries and Exits in Mutual Fund Portfolios – Apr 2021

Entries

- Macrotech Developers Ltd.
- Federal-Mogul Goetze (India) Ltd.
- Eveready Industries India Ltd.
- Infibeam Avenues Ltd.

Exits

- Apollo Micro Systems Ltd.
- Harita Seating Systems Ltd.
- Panacea Biotech Ltd.
- Prabhat Dairy Ltd.
- Sharda Motor Industries Ltd.
- Take Solutions Ltd.

Category returns

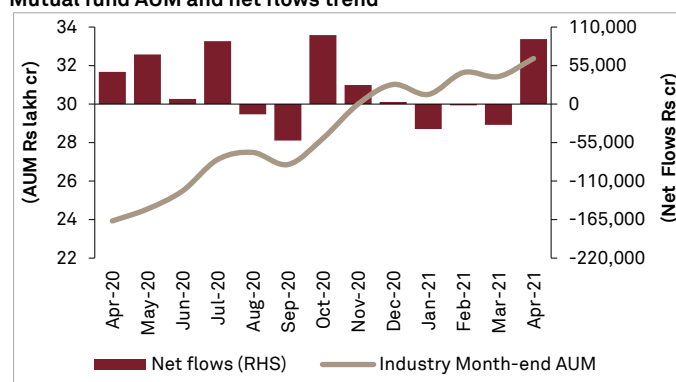
Absolute monthly returns %

	April	March
Large cap funds	-0.12	0.46
Large cap and mid-cap funds	0.81	0.85
Multi cap equity funds	2.10	1.12
Flexi cap funds	0.17	1.16
Focused funds	0.25	0.11
Value – Contra funds	0.78	0.82
Mid-cap funds	1.09	1.45
Small cap funds	3.93	2.87
Arbitrage funds	0.40	0.38
ELSS	0.56	0.90
Index funds	-0.79	0.92
Aggressive hybrid funds	0.91	0.80
Conservative hybrid funds	0.60	0.82
Gilt funds	0.89	0.82
Dynamic funds	0.76	0.93
Medium-to-long term funds	0.75	0.93
Medium term funds	0.77	0.80
Short-duration funds	0.67	0.65
Corporate funds	0.72	0.84
Banking and PSU debt fund	0.68	0.81
Credit risk funds	0.76	1.05
Low duration funds	0.41	0.42
Money market funds	0.34	0.41
Ultra-short duration funds	0.31	0.38
Liquid funds	0.26	0.28

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

- Indian equity indices ended April on a negative note owing to concerns over the second wave of the Covid-19 pandemic across the country. Benchmarks S&P BSE Sensex and Nifty 50 fell 1.5% and 0.4%, respectively
- Gloomy domestic economic data, including a 3.6% contraction in the Index of Industrial Production (IIP) in February and a rise in retail and wholesale inflation in March, impacted the market. Selling by foreign institutional investors (FIIs) for the first time since September 2020 amid economic uncertainties also dragged the benchmarks down
- Further fall was restrained after the Reserve Bank of India (RBI) kept the repo rate unchanged at 4% and maintained an accommodative stance and better-than-expected corporate earnings. Short covering ahead of the April future and options contracts expiry boosted positive sentiment.
- Positive global cues, including the United States (US) Federal Reserve's decision to keep interest rates unchanged and upbeat economic data from China and the US, was another factor aiding the local equities.
- Nifty sectoral indices ended mixed, with Nifty Realty, Nifty PSU Bank and Nifty FMCG falling ~7%, 5% and 4%, respectively. Nifty Metal and Nifty Pharma gained ~22% and ~10, respectively.

Mutual fund AUM and net flows trend



- The Indian mutual fund industry's assets under management (AUM) rose ~3% on-month in April, or a net ~Rs 95,000 crore, to a record Rs 32.38 lakh crore. More than Rs 1 lakh crore (gross) flowed to open-ended debt funds; there was good interest in equity and hybrids as well.
- The open-ended debt fund category saw net-inflows of Rs 1.01 lakh crore in April, the highest monthly net inflow since October 2020. Liquid funds led the way with a net inflow of Rs 41,507 crore, the highest since April 2020.
- Money market funds reeled in Rs 20,287 crore, the highest since April 2019. On the other hand, overnight funds saw a net inflow of Rs 18,492 crore, the highest since March 2020. Dynamic bond funds, saw the most net outflows of Rs 2,103 crore, the highest monthly net outflow since April 2019.
- There was a flurry of redemptions in fixed-term plans from the closed-end debt category of ~Rs 22,403 crore, the highest since April 2019. Typically, April is when investors exit from the category after holding units for three years to get indexation benefit. The AUM of open-ended debt funds ended 6.80% higher on-month at a record Rs 14.19 lakh crore. However, positive trend continued in the open-ended equity category in April, with an inflow of Rs 3,437 crore versus Rs 9,115 crore in March.
- Sectoral/ thematic funds Sectoral / thematic schemes and mid-cap funds recorded the highest net inflows within the category, at Rs 1,705 crore and Rs 958 crore, respectively. Large and mid-cap schemes witnessed a net inflow of Rs 708 crore. In contrast, value / contra funds posted the highest net outflow in the category, at Rs 674 crore, while the net outflow in multi-cap funds was at ~Rs 158 crore
- Inflows in hybrid schemes accelerated to Rs 8,641 crore in April compared with Rs 6,210 crore in March. Volatility in the underlying equity market saw arbitrage funds in the category record monthly net inflow of Rs 7,245 crore, the highest since May 2020. Dynamic asset allocation funds recorded net inflow for the fourth-straight month, at Rs 1,700 crore.
- Equity exchange-traded funds (ETFs) saw net inflows for the sixth straight month, at ~Rs 2,537 crore. Net inflow for gold ETFs was ~Rs 680 crore, the fifth-straight month of inflows for the category.
- Among regulatory developments, the Association of Mutual Funds in India (AMFI) slashed the ARN (AMFI Registration Number) registration and renewal fees for most distributor types by 50%. The new rates came into effect from May 1, 2021.

CRISIL Fund Rank 1 Schemes - Equity

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				
Large Cap Equity										
Canara Robeco Bluechip Equity Fund	-0.93	7.15	24.64	44.52	14.69	12.44	20-Aug-10	1763.92	24.43	0.77
Kotak Bluechip Fund	-1.24	7.88	25.60	50.54	11.49	16.65	29-Dec-98	2215.47	26.00	0.58
UTI Mastershare Unit Scheme	-1.02	8.11	27.03	48.40	10.78	13.24	30-Jul-05	7657.74	25.06	0.56
Large & Mid Cap										
Mirae Asset Emerging Bluechip Fund	1.02	12.04	33.72	63.24	16.15	21.14	9-Jul-10	15623.90	26.26	0.82
Edelweiss Large and Mid Cap Fund	-0.81	11.58	29.84	52.94	10.32	11.02	14-Jun-07	664.61	23.97	0.54
Flexi Cap										
UTI Flexi Cap Fund	-1.00	8.61	30.24	62.10	14.93	15.59	1-Aug-05	15892.97	23.84	0.81
PGIM India Flexi Cap Fund	4.08	13.25	34.97	73.40	15.94	12.96	4-Mar-15	643.44	25.59	0.81
Multi Cap										
Quant Active Fund	8.90	23.69	45.56	102.99	21.52	18.93	18-Apr-01	194.83	25.87	1.09
Focused										
IIFL Focused Equity Fund	-0.09	6.21	27.88	54.58	16.87	14.35	24-Oct-14	1531.29	25.84	0.86
Nippon India Focused Equity Fund	-0.19	13.81	43.96	68.36	9.96	13.78	26-Dec-06	4838.34	26.77	0.50
Value / Contra										
SBI Contra Fund	1.23	11.32	44.42	80.96	9.09	15.07	6-May-05	1792.35	24.75	0.48
IDFC Sterling Value Fund	4.94	21.23	48.72	95.91	5.10	15.62	7-Mar-08	3112.43	26.34	0.25
Mid Cap										
PGIM India Midcap Opportunities Fund	4.61	18.16	44.88	95.86	16.34	17.31	2-Dec-13	858.18	25.72	0.85
BNP Paribas Mid Cap Fund	2.06	17.22	38.81	67.29	11.08	10.93	2-May-06	832.19	22.65	0.62
Small Cap										
Kotak Small Cap Fund	3.34	21.61	51.85	109.17	14.14	16.67	24-Feb-05	2893.54	22.55	0.80
ELSS										
Quant Tax Plan	8.96	23.07	47.78	112.77	22.70	14.40	31-Mar-00	63.49	26.20	1.13
BOI AXA Tax Advantage Fund	3.90	15.57	31.73	60.84	11.70	18.84	25-Feb-09	399.17	23.67	0.63
Canara Robeco Equity Tax Saver	-0.08	9.30	28.45	54.86	15.69	19.75	2-Feb-09	1710.03	24.62	0.82
Mirae Asset Tax Saver Fund	0.09	11.17	31.23	61.77	15.32	19.21	28-Dec-15	6255.02	26.67	0.77
Index										
SBI - ETF SENSEX	-2.69	5.55	23.33	46.07	12.76	13.41	15-Mar-13	42360.99	27.91	0.61
UTI SENSEX Exchange Traded Fund	-2.69	5.54	23.33	46.08	12.78	13.23	1-Sep-15	12824.00	27.92	0.61
Kotak Sensex ETF Fund	-2.70	5.49	23.21	45.74	12.54	10.31	6-Jun-08	17.24	27.91	0.60
HDFC Sensex ETF	-2.68	5.57	23.33	46.00	12.75	14.53	9-Dec-15	93.18	27.88	0.61

CRISIL Mutual Fund Ranks are as of March 2021
Point to Point Returns are as on April 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 5.01% - 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 January-March 2021

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change	Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change
	(Rs.Cr)	(Rs.Cr)				(Rs.Cr)	(Rs.Cr)		
SBI Mutual Fund	505373	457355	48018	10.50%	PPFAS Mutual Fund	8720	6632	2089	31.49%
HDFC Mutual Fund	416670	390489	26181	6.70%	BNP Paribas Mutual Fund	7837	7331	507	6.91%
ICICI Prudential Mutual Fund	416198	389321	26878	6.90%	Principal Mutual Fund	7768	6855	913	13.32%
Aditya Birla Sun Life Mutual Fund	269700	255851	13849	5.41%	PGIM India Mutual Fund	6527	4847	1680	34.66%
Kotak Mahindra Mutual Fund	234743	217077	17665	8.14%	Mahindra Manulife Mutual Fund	5271	5058	213	4.21%
Nippon India Mutual Fund	230222	214416	15806	7.37%	Union Mutual Fund	5240	4613	628	13.61%
Axis Mutual Fund	196862	177752	19110	10.75%	IDBI Mutual Fund	4162	4370	-208	-4.77%
UTI Mutual Fund	182853	165359	17494	10.58%	JM Financial Mutual Fund	2389	3700	-1311	-35.43%
IDFC Mutual Fund	122328	121293	1034	0.85%	IIFL Mutual Fund	2370	1885	485	25.72%
DSP Mutual Fund	97386	89487	7899	8.83%	BOI AXA Mutual Fund	2289	2351	-62	-2.63%
Franklin Templeton Mutual Fund	83525	82109	1415	1.72%	Quantum Mutual Fund	1942	1735	207	11.91%
L&T Mutual Fund	72728	68976	3752	5.44%	IL&FS Mutual Fund (IDF)	1679	1730	-51	-2.92%
Mirae Asset Mutual Fund	69773	58154	11619	19.98%	ITI Mutual Fund	1179	845	334	39.50%
Tata Mutual Fund	62078	59263	2815	4.75%	Quant Mutual Fund	722	454	268	59.09%
Edelweiss Mutual Fund	52415	45909	6505	14.17%	Essel Mutual Fund	698	670	27	4.10%
Invesco Mutual Fund	36841	32790	4051	12.36%	Indiabulls Mutual Fund	664	921	-258	-27.96%
Sundaram Mutual Fund	32052	30467	1585	5.20%	Trust Mutual Fund	625	0	625	NA
Canara Robeco Mutual Fund	28273	23209	5064	21.82%	IIFCL Mutual Fund (IDF)	588	603	-16	-2.58%
Motilal Oswal Mutual Fund	27993	24185	3808	15.75%	Taurus Mutual Fund	475	435	40	9.15%
LIC Mutual Fund	16927	15744	1184	7.52%	Shriram Mutual Fund	203	189	13	7.02%
HSBC Mutual Fund	10552	10131	421	4.16%	YES Mutual Fund	110	129	-19	-14.97%
Baroda Mutual Fund	9641	8286	1355	16.36%	Grand Total	3236590	2992976	243614	8.14%

Fund Focus

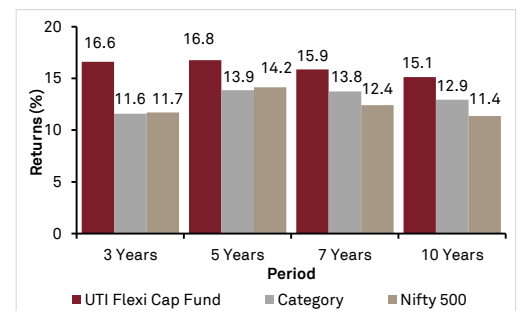
UTI Flexicap Fund (CRISIL Fund Rank 1)

UTI Flexicap Fund (erstwhile UTI Equity Fund), which was launched in August 2005, has been ranked in the top-10 percentile (Rank 1) of flexicap funds of CRISIL Mutual Fund Ranking (CMFR) for the quarter-ended March 2021. The fund's average assets under management was Rs 15,893 crore for the quarter-ended March 31.

Performance

The fund outperformed its benchmark (Nifty 500) and peers (represented by the flexicap fund category, as per CMFR - March 2021) across all periods analysed. Since inception, the fund has given unitholders an annualised return of ~16%.

Performance as on May 18, 2021



Note: Returns for all periods are annualised

Better risk-adjusted returns

The fund outperformed its category and the benchmark on a risk-adjusted basis, as measured by the Sharpe ratio, over three years ended May 18, 2021. The fund's Sharpe ratio was 0.9, compared with 0.6 each for its category and the benchmark.

SIP performance

If an investor had set aside Rs 1,000 every month under the fund's systematic investment plan (SIP) for five years ended May 18, 2021, the investment of Rs 60,000 would have risen to Rs 97,358, i.e. a CAGR of ~20%. A similar investment in the benchmark would have grown to Rs 86,636, or a CAGR of ~15%.

Portfolio analysis

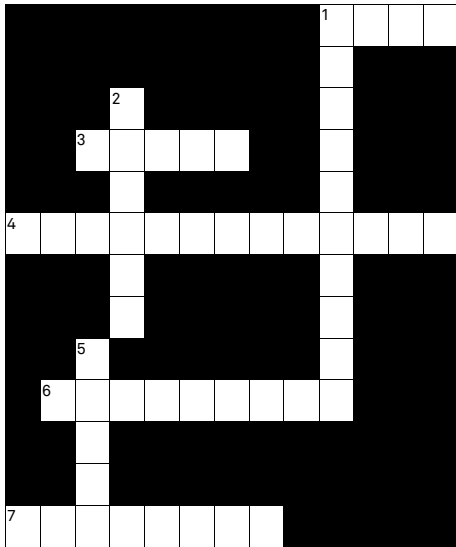
The fund held 39 stocks in the past three years ended April 2021, of which 28 consistently outperformed the benchmark. Bajaj Finance, Info Edge (India), L&T Infotech, Infosys, and Astral Poly Technik were the top-five contributors to the fund's total return.

The top-three sectors accounted for 45.6% of the portfolio, on average, for the past three years. The fund had the highest exposure to banking (17.7%), followed by software (16.3%), and finance (11.6%).

Fund manager

The fund is managed by Ajay Tyagi since January 2016. He has ~21 years of experience in equity research and portfolio management.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) A fund that invests in an underlying portfolio of government securities (4)
- 3) A unique account number given to investors by fund houses using which they can check on their holdings (5)
- 4) These factors help investors determine how much a company does in limiting pollution and whether the company follows energy efficient processes (13)
- 6) A scheme that attempts to profit from pricing inefficiencies that may exist between the cash and futures market (9)
- 7) A charge levied by fund houses to discourage premature withdrawal from a scheme by investors (4,4)

Vertical

- 1) These factors consider criteria like the board composition and audit committee structure of a company (10)
- 2) These factors consider criteria such as the company's community relations, labor standards and employee / client data protection (6)
- 5) The insurance regulator of India (1,1,1,1,1)

Answers

Vertical: 1) Governance 2) Social 5) IRDAI (Insurance Regulatory and Development Authority of India)
Horizontal: 1) Gilt 3) Follo 4) Environmental 6) Arbitrage 7) Exit Load

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