CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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Investment thoughts

Large and mid-cap funds: A judicious combination

Equity as an asset class provides myriad of opportunities to invest across sectors and market capitalisation (cap). Within market cap, we are focusing on industry behemoths with large market cap, which are fundamentally safer (especially during volatile phases) but may not provide sharp returns during bull runs, and mid-cap stocks. Investors who want the best of both worlds can look at large and mid-cap funds. Read on to know more about this newly classified equity funds category.

Allows diversification between large and mid-cap stocks

According to the Securities and Exchange Board of India's recategorisation, a large and mid-cap fund invests minimum 35% each in large and mid-cap stocks. The large cap stock universe consists of the first 100 companies in terms of market capitalisation, mid-caps of 101st – 250th and small caps 251st company onwards. The category allows investors to diversify between two market caps.

Large cap exposure restricts downside

The large cap component of these funds helps restrict the downside risk. Large cap companies are well established and have better visibility on earnings growth. Resultantly, they are well tracked and considered stable compounders. They have the ability to manage market volatility better than mid-cap stocks. The Nifty 100 TRI (large cap index) and Nifty largeMidcap 250 TRI (made up of 100 large cap and 150 mid-cap stocks) has fallen less than the Nifty Midcap 150 TRI in all the market downtrends.

Mid-cap component provides kicker to returns

The mid-cap component provides a kicker to portfolio returns and generates alpha in the long run. Some mid-cap companies have the ability to grow at above-average growth and the potential to transform into large cap counterparts. Catching these companies young provides an opportunity to generate wealth in the long term. Mid-cap stocks have the potential to generate better returns than large caps over a long period. The Nifty largeMidcap 250 index has returned 13% CAGR over a 10-year holding period on a rolling basis compared with 12% CAGR generated by Nifty 100 TRI since April 2005[1], generating an alpha of 1% on average.

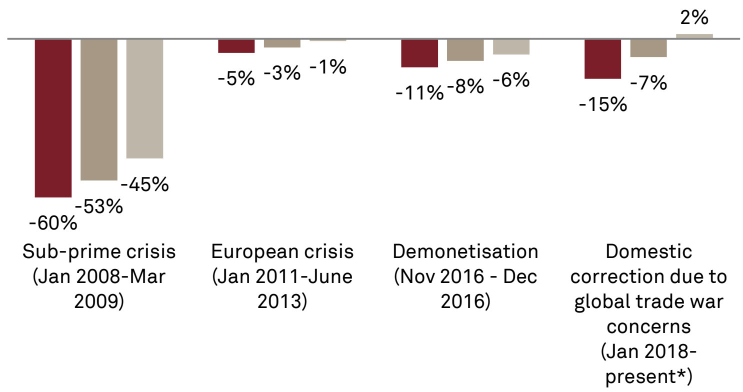
Tactical allocation and discipline

The fund manager of these funds can tactically change the allocation between large and mid-cap companies to get the best from prevailing market conditions. Additionally, minimum allocation of 35% to both segments helps instill discipline and reduces bias to either segment. This structure helps fund managers be true to the category label.

Conclusion

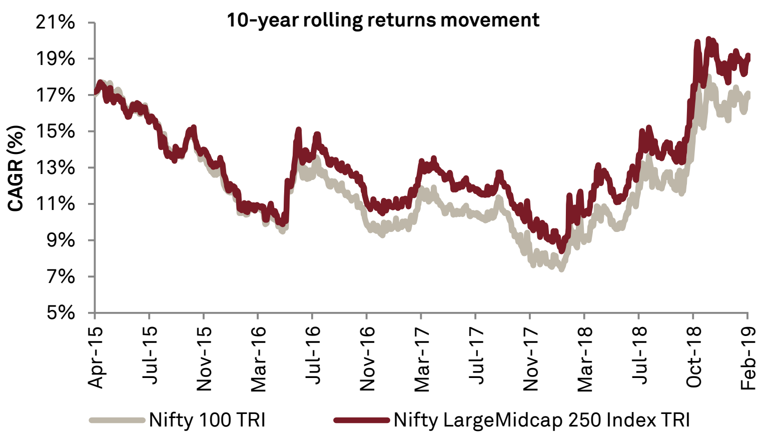
Investors looking to diversify into large and mid-cap stocks can consider investing in a large and mid-cap fund. They should do so based on their risk profile because these funds are not sans risks - they are exposed to limitations/risks pertaining to both sub-asset classes and the risk of a wrong call by the fund manager.

Restricts downside risk



* till February 28, 2019

Ability to generate alpha



[1] Inception of Nifty largeMidcap 250 index

Market - Overview

Indices	% Change in February 2019	% Change in January 2019
Nifty 50	-0.36	-0.29
S&P BSE Sensex	-1.07	0.52

Indicators	February 28, 2019	January 31, 2019
10-year Gsec	7.59%	7.48%
Monthly CPI Inflation	2.57%	1.97%

- Indian equity indices ended February 2019 on a discouraging note due to rising geopolitical tensions in the sub-continent and uncertainties surrounding US-China trade relations. Subdued domestic corporate earnings, rise in global crude oil prices and weak economic cues from the US and China further dampened investors' mood.
- More losses were, however, capped due to a slew of measures announced in the interim budget, the Reserve Bank of India's unexpected decision to slash the repo rate by 0.25% to 6.25%, and easing of domestic inflation.
- Nifty sectoral indices posted mixed returns in February 2019. Nifty Media index was the top gainer – surging 13% due to sharp uptick in the index majors. Nifty PSU Bank index and Nifty Financial services index were the top laggards – down 8.76% and 2%, respectively.

Mutual fund - Overview

Top Stock Exposures – February 2019	Top Sector Exposures – February 2019
1. HDFC Bank Ltd.	1. Banks
2. ICICI Bank Ltd.	2. Computers - Software
3. Infosys Ltd.	3. Pharmaceuticals
4. Reliance Industries Ltd.	4. Refineries/marketing
5. State Bank of India	5. Engineering, Designing, Construction
6. ITC Ltd.	6. NBFC
7. Larsen & Toubro Ltd.	7. Housing finance
8. Axis Bank Ltd.	8. Cigarettes
9. Housing Development Finance Corporation Ltd.	9. Power
10. Kotak Mahindra Bank Ltd.	10. Cement

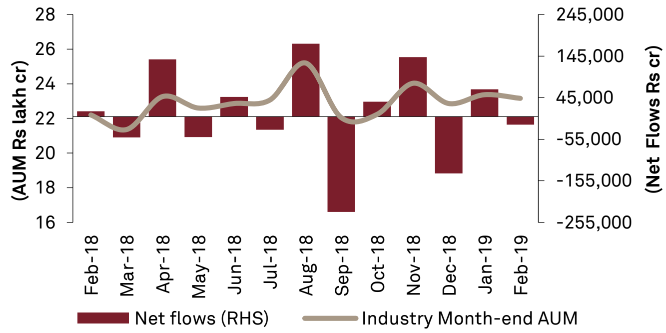
New Stocks Entries and Exits in Mutual Fund Portfolios – February 2019

Entries	Exits
Bannari Amman Sugars Ltd.	Hathway Cable & Datacom Pvt. Ltd.
Harita Seating Systems Ltd.	Munjal Showa Ltd.
	RattanIndia Power Ltd.
	Sintex Plastics Technology Ltd.

Category returns	Absolute Monthly Returns %	
	Feb-19	Jan-19
Large Cap Funds	-0.72	-0.96
Large Cap and midcap Funds	-0.86	-2.64
Multicap Equity	-0.84	-1.74
Focused	-0.10	-2.14
Value-Contra	-0.47	-3.13
Mid Cap	-0.33	-4.11
Small Cap	-1.70	-4.45
Arbitrage funds	0.34	0.52
Infrastructure	-0.58	-5.09
ELSS	-0.73	-2.18
Index	-0.50	-0.02
Aggressive Hybrid	-0.58	-1.09
Conservative Hybrid	0.07	-0.19
Gilt	0.26	0.00
Dynamic	0.18	0.00
Medium to Long	0.16	-0.06
Medium	0.01	0.37
Short duration	0.44	0.60
Corporate	0.22	0.63
BPSU	0.53	0.44
Credit Risk	0.26	0.20
Low Duration	0.51	0.68
Money Market	0.57	0.69
Ultra short duration funds	0.54	0.71
Liquid	0.53	0.61

Category returns represented by average of CRISIL ranked funds – December 2018

Mutual fund AUM and net flows trend



- The domestic mutual fund industry's assets under management (AUM) declined 0.89% to Rs 23.16 trillion in February 2019 led by outflows from income and liquid funds, even as equity funds saw intermittent inflows.
- Marking the 35th consecutive month of inflows into the category, equity funds witnessed inflows of Rs 4,640 crore in February. Inflows into equity funds have, however, been sporadic in recent months due to volatility in the underlying market. The previous two months reported inflows of Rs 5,082 crore and Rs 4,442 crore, respectively. Weak inflows coupled with mark-to-market (MTM) losses led to the category's AUM declining by Rs 965 crore, or 0.12%, to Rs 8.29 lakh crore.
- Waning interest in equity funds can be seen in the other equity-oriented category in the industry - balanced funds. The category witnessed outflows for the second straight month, to the tune of Rs 1,077 crore in February against January's outflows of Rs 952 crore. Net outflows and MTM losses led to erosion of the category's asset base by Rs 2,825 crore, or 1.61%, to Rs 1.73 lakh crore.
- Investors in debt funds seem to be unnerved by the debt downgrade and credit liquidity crisis that ailed the mutual fund industry in the latter half of 2018, as seen by outflows in February. Debt funds (excluding liquid and gilt funds) witnessed outflows worth Rs 4,214 crore, the sharpest monthly outflows seen since November 2018 which had recorded outflows amounting to Rs 6,518 crore. Despite the outflows, debt funds recorded a lower AUM decline of Rs 1,714 crore, or 0.25%, to Rs 6.96 lakh crore, helped by MTM gains.
- Gilt funds witnessed outflows of Rs 149 crore in February, higher than outflows of Rs 89 crore in January, marking the sharpest outflows recorded since October 2018 (Rs 291 crore). As a result, the category's assets declined by Rs 125 crore, or 1.55%, to Rs 7,934 crore in February.
- Liquid funds saw outflows totaling Rs 24,509 crore as against inflows of Rs 58,637 crore in January. Resultantly, the category's assets declined by Rs 21,176 crore, or 4.16%, to Rs 4.88 lakh crore in February.
- Among regulatory developments, SEBI said mutual funds can now submit their advertisements electronically to the regulator.
- SEBI reduced the residual maturity limit for amortisation-based valuation by mutual funds from 60 days to 30 days with effect from May 22, 2019.
- SEBI to allow mutual funds and portfolio managers to trade in commodity derivatives to boost trade and deepen the market.

![CRISIL An S&P Global Company]

CRISIL Fund Rank 1 Schemes - Hybrid

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns % 1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception	Inception Date	Average AUM (Rs.Crore)	Style Box	Std. Deviation (%)	Sharpe Ratio
Aggressive Hybrid											
Principal Hybrid Equity Fund	0.12	-0.43	-6.71	-1.88	18.10	11.01	14-Jan-00	1618.71		9.74	1.15
Mirae Asset Hybrid – Equity	1.50	0.41	-3.93	2.64	15.65	9.63	29-Jul-15	1361.67		9.51	0.95
Conservative Hybrid											
LIC MF Debt Hybrid Fund	0.61	1.57	0.43	2.74	7.07	7.61	2-Jun-03	81.61		3.05	0.18
ICICI Prudential Regular Savings Fund	0.63	1.88	2.03	6.20	11.53	10.02	30-Mar-04	1578.31		3.72	1.25

CRISIL Mutual Fund Ranks as of December 2018
Point to Point Returns are as on February 28, 2019
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 6.44% - 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 October-December 2018

Style Box Legend

	Value	Blend	Growth
Large Cap			
Small & Midcap			
Diversified			

Credit quality

High	Medium	Low		
			High	Interest rate sensitivity
			Medium	
			Low	

(FOR CONS. HYBRID SCHEMES)

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Oct-Dec 2018 (Rs.Crore)	Jul-Sep 2018 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Oct-Dec 2018 (Rs.Crore)	Jul-Sep 2018 (Rs.Crore)	Change (Rs.Crore)	% Change
HDFC Mutual Fund	335196	306588	28608	9.33	HSBC Mutual Fund	11257	12622	-1365	-10.82
ICICI Prudential Mutual Fund	308166	310681	-2514	-0.81	JM Financial Mutual Fund	10965	12672	-1707	-13.47
SBI Mutual Fund	264668	254146	10523	4.14	DHFL Pramerica Mutual Fund	10756	22700	-11944	-52.62
Aditya Birla Sun Life Mutual Fund	242561	254451	-11890	-4.67	IDBI Mutual Fund	8631	9992	-1362	-13.63
Reliance Mutual Fund	236885	245450	-8565	-3.49	BNP Paribas Mutual Fund	7398	8523	-1125	-13.20
UTI Mutual Fund	157586	165946	-8361	-5.04	Principal Mutual Fund	6940	7793	-853	-10.95
Kotak Mahindra Mutual Fund	139562	134583	4980	3.70	Union Mutual Fund	4208	4910	-702	-14.30
Franklin Templeton Mutual Fund	110521	111403	-882	-0.79	BOI AXA Mutual Fund	4173	5872	-1699	-28.93
Axis Mutual Fund	81670	87678	-6008	-6.85	Mahindra Mutual Fund	3756	4336	-580	-13.38
DSP Mutual Fund	79245	95457	-16212	-16.98	Indiabulls Mutual Fund	3728	8008	-4280	-53.45
L&T Mutual Fund	69080	73753	-4673	-6.34	Essel Mutual Fund	1759	2256	-497	-22.02
IDFC Mutual Fund	64811	69723	-4913	-7.05	PPFAS Mutual Fund	1576	1376	199	14.47
Tata Mutual Fund	49293	54824	-5531	-10.09	IL&FS Mutual Fund (IDF)	1554	1514	40	2.63
Sundaram Mutual Fund	30800	33103	-2303	-6.96	IIFL Mutual Fund	1400	1506	-106	-7.03
Invesco Mutual Fund	23883	27568	-3685	-13.37	Quantum Mutual Fund	1344	1295	49	3.80
Mirae Asset Mutual Fund	21035	20569	466	2.26	IIFCL Mutual Fund (IDF)	595	639	-43	-6.79
Motilal Oswal Mutual Fund	18606	20305	-1699	-8.37	Taurus Mutual Fund	421	454	-32	-7.16
Canara Robeco Mutual Fund	13693	14082	-389	-2.76	Quant Mutual Fund	195	184	11	5.76
LIC Mutual Fund	13378	20426	-7047	-34.50	Shriram Mutual Fund	101	54	47	86.73
Baroda Mutual Fund	12257	13564	-1307	-9.63	Sahara Mutual Fund	54	58	-4	-6.32
Edelweiss Mutual Fund	11862	14161	-2299	-16.24	**Grand Total**	**2365568**	**2435225**	**-69656**	**-2.86**

Fund Focus

Mirae Asset Hybrid - Equity Fund (CRISIL Fund Rank 1)

Mirae Asset Hybrid – Equity Fund was launched in July 2015. Since inception, the fund has been a consistent performer. Its quarterly average assets under management (AUM) jumped from Rs 103 crore in September 2015 to Rs 1,362 crore in December 2018. The fund's ranking improved from rank 2 in the September 2018 quarter as per CRISIL Mutual Fund Ranking (CMFR) to rank 1 in the December 2018 quarter, which indicates performance in the top 10 percentile of its peer group.

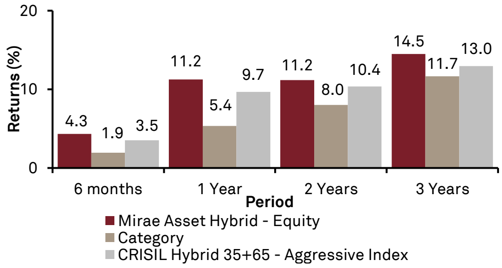
Investment objective

The fund's investment objective is to generate capital appreciation along with current income. To achieve this, it predominantly invests in equity and equity-related instruments, and allocates the remaining assets to debt and money market instruments.

Outperformance over benchmark and peers

The fund has outdone its benchmark (CRISIL Hybrid 35+65 - Aggressive Index) and its peer group (the Aggressive Hybrid funds category as per CMFR – December 2018) across the time periods analysed. Since inception, it has returned 11%, on average, to unitholders compared with the benchmark's 10%.

Chart 1: Performance as on March 22, 2019



Note: Returns above one year are annualised

SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for one year ended March 22, 2019, his investment of Rs 12,000 would have grown to Rs 12,704 at an annualised growth rate of 11.68%. A similar investment in the benchmark would have grown to Rs 12,560 at 9.27%.

Portfolio analysis

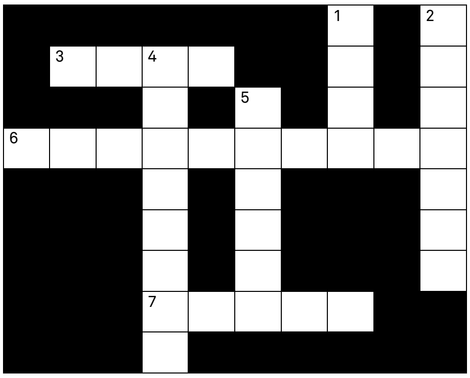
During the three years ended February 2019, the fund's exposure to equities ranged from 69% to 76%, averaging 73% of total assets. The debt portfolio comprises mainly NCDs, bonds and government securities. Exposure to NCDs and bonds averaged 6% over the past three years, and gilt holdings averaged 10% of total assets for the same period. Exposure to gilts, NCDs and bonds has, on average, decreased marginally in the most recent 12 months compared with the previous three years.

On the asset quality front, most of the securities in the debt portfolio comprise high-rated instruments (AAA, A1+, gilts). Higher-rated debt instruments, as a percentage of total debt, averaged 95% over three years of analysis. Banks, finance, software, consumer non-durables, and petroleum products are the five most preferred sectors, with exposure to each ranging from 6% to 21% in three years.

Fund managers

The fund is co-managed by Neelesh Surana (since inception), Sudhir Kedia (since April 2017), and Mahendra Jajoo (since September 2016).

Crossword Corner – boost your financial knowledge



Horizontal

3) Companies in this sector include banks and firms offering financial services (1,1,1,1)
6) The term denoting the risk inherent in investments and measured by deviation in its returns (10)
7) Excess returns achieved by actively managed funds relative to their benchmarks (5)

Vertical

1) The securities market regulator in India (1,1,1,1)
2) A metric to measure excess portfolio returns relative to the systematic or undiversifiable risk exposure of the portfolio (7)
4) Companies ranking 251st onwards in terms of full market cap (5,3)
5) Companies that rank 101-250 in terms of full market cap (3,3)

Answers

Vertical: *1) SEBI (Securities and Exchange Board of India) 2) Treynor 4) Small cap 5) Mid cap*

Horizontal: *3) BFSI (Banking, financial services and insurance) 6) Volatility 7) Alpha*

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