

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 71 March 2017

Investment thoughts

Complex equity investing simplified via MFs

Equity is known to be the best wealth creator in the long term. Equity benchmark S&P BSE Sensex has returned, on average, 15% p.a. in the 15-year rolling period from 1979 to February 28, 2017. However, volatility is an intrinsic part of this asset class in the short term, which necessitates regular tracking of stock movement and expertise in direct investing to reap maximum rewards.

Direct investing is not everybody's cup of tea

The pre-requisites for direct investing are research skills and time. Investors should have a sound knowledge about equity research and valuation in order to select stocks. They should also have access to variety of information, which may not be easily accessible and usually comes at a cost. Selecting the best stock from a huge universe is also a herculean task. A performance analysis of about 3,600 listed stocks shows only 50% of them have outperformed the market benchmark Nifty 50 in the one year ended February 2017. Hence, selecting a winner consistently is time consuming.

Stock selection is just the beginning. In order to maintain a healthy portfolio, investors need to constantly monitor and track developments, failing which the portfolio may weaken with underperformers. May be experts should handle investor money.

Use the service of equity mutual funds

Retail investors can invest in equity mutual funds to benefit from the underlying market. Mutual funds are managed by professional fund managers with a focused research team that monitor stocks minutely and help take informed investment decisions. This gives them a better view of market movement, sector and stock picks. As seen in the following Table, equity funds (represented by the CRISIL-AMFI equity oriented MF performance indices) have outdone the market benchmarks by a comfortable margin in the longer time frames.

Table - Performance

Equity MF categories / Benchmarks	Returns (%)					
	1 year	2 years	3 years	5 years	7 years	10 years
CRISIL – AMFI Large Cap Fund Performance Index	32.70	3.83	17.01	13.37	11.37	11.46
CRISIL – AMFI Diversified Equity Fund Performance Index	34.86	4.55	19.77	14.84	12.04	12.12
CRISIL – AMFI Small & Midcap Fund Performance Index	37.91	9.58	28.30	21.50	17.12	14.22
Nifty 50	27.09	0.20	12.25	10.51	8.78	9.01
Nifty 500	32.23	3.39	16.69	12.51	9.32	9.50
Nifty Free Float Midcap 100	42.58	12.07	28.26	16.41	12.61	12.94

Note - Returns above one year are annualized
Returns as of February 28, 2017

Other advantages of mutual funds

- **Low ticket size:** One can buy units of a scheme for as little as Rs 500 a month, which is invested in stocks at no additional cost as against higher cost in direct equity investing.
- **Liquidity:** Mutual fund units can be redeemed for cash at any point, based on the prevailing net asset value of the units.
- **Variety:** The mutual fund universe comprises a variety of schemes for different life stages.
- **Diversification:** Risks can be mitigated to a great extent as mutual funds typically invest in a range of assets.

Summing up

To reiterate, equity has proven to be a far superior wealth creator in the long term than other asset classes. If you want to bypass research and constant market monitoring, go for equity mutual funds. Within this space, systematic investment plans (SIPs) are an apt tool. The bottom line, however, remains - choose schemes prudently in line with your risk-return profile and patiently invest over the long term.

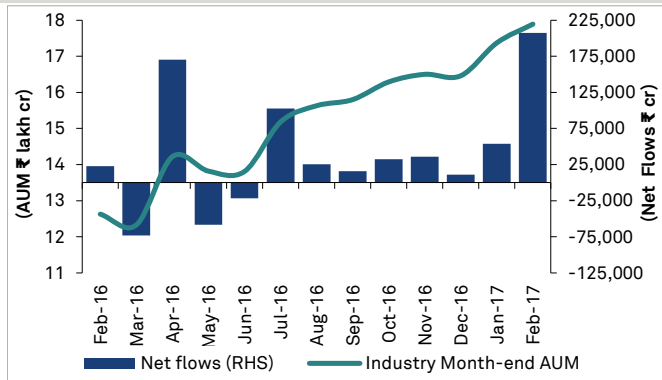
Market - Overview

Indices	% Change in Feb 2017	% Change in Jan 2017
Nifty 50	3.72	4.59
S&P BSE Sensex	3.93	3.87

Indicators	Feb 28, 2017	Jan 31, 2017
10 year Gsec	6.87%	6.41%
Monthly CPI Inflation	3.65%	3.17%

- Domestic equity indices were in positive territory for the second consecutive month. Benchmarks S&P BSE Sensex and Nifty 50 gained around 4% each in February 2017.
- The Union Budget's focus on fiscal prudence and status quo on long-term capital gains tax on equities along with positive global cues brought in gains.
- Some of the other factors that bolstered the market were stock-specific uptrend and buying by foreign institutional investors (FIIs) for the first time since September 2016. The market gained further on tracking upbeat global markets amid reports on US President Donald Trump's plans to announce corporate tax cuts and robust Chinese trade data.
- Gains were capped after the Reserve Bank of India (RBI) kept its policy rates unchanged in its policy review on February 8, 2017 and said it would shift its stance from "accommodative" to "neutral," signaling an end to further rate cuts.
- The market was also hit intermittently by surge in WPI-based inflation for January 2017, worries over the impact of US President Donald Trump's immigration ban on some countries and after the US Federal Reserve (Fed) Chief Janet Yellen, in her testimony to the US Congress, said the US central bank would need to raise rates to avoid falling behind the curve on tackling inflation.
- All the Nifty indices ended in green in February 2017 except for the Nifty Auto index. Nifty Realty index was the top gainer – surging nearly 10% as shares of real estate firms rallied owing to higher allocation of funds to affordable housing schemes in the budget. Nifty IT Index rose 8.45% helped by sharp rebound in IT stocks on bargain buying. Sentiments remained weak for auto stocks as volume growth plunged after demonetisation. Nifty Auto index fell nearly 2%.

Mutual Fund – Overview



Category returns	Absolute Monthly Returns%	
	Feb-17	Jan-17
CRISIL – AMFI Large Cap Fund Performance Index	4.00	5.14
CRISIL – AMFI Diversified Equity Fund Performance Index	4.28	5.27
CRISIL – AMFI Small & Midcap Fund Performance Index	4.34	5.99
CRISIL – AMFI ELSS Fund Performance Index	3.84	5.35
CRISIL – AMFI Balance Fund Performance Index	2.48	4.38
CRISIL – AMFI MIP Fund Performance Index	-0.40	2.36
CRISIL – AMFI Gilt Fund Performance Index	-2.54	1.10
CRISIL – AMFI Debt Fund Performance Index	-0.50	1.01
CRISIL – AMFI Short Term Debt Fund Performance Index	-0.13	0.94
CRISIL – AMFI Ultra Short Fund Performance Index	0.43	0.77
CRISIL – AMFI Liquid Fund Performance Index	0.47	0.57
Gold Funds (ETFs and FoFs)	2.72	3.00

- The Indian mutual fund industry's month-end assets under management (AUM) rose to a fresh high of Rs 17.89 lakh crore, up 3.0% or by Rs 51,960 crore in February 2017, according to the Association of Mutual Funds in India (AMFI) data. AUM growth was led by rise in assets of equity, balanced, debt and liquid funds.
- Equity funds' AUM crossed the key Rs 5 lakh mark in the month on the back of consistent inflows, signaling increase in investor confidence. The category attracted inflows of Rs 6,462 crore, higher than 4,880 crore in the preceding month. Robust inflows plus mark-to-market (MTM) gains helped the category's assets reach a new high of Rs 5.20 lakh crore, up 4.7% or by Rs 23,324 crore, in February.
- Balanced funds' AUM rose 8.6%, or by Rs 6,105 crore, to a record Rs 77,126 crore in the month on the back of MTM gains and robust inflows of Rs 4,562 crore. The category has been witnessing inflows for 33 straight months, riding on the equity wave.
- Gilts funds' AUM decreased 6.6%, or by Rs 1,108 crore, to Rs 15,799 crore as MTM losses and outflows weighed on the category. Yield on the 10-year benchmark bond jumped to 6.87% on February 28, 2017 compared with 6.41% on January 31, 2017. Bond prices, which are inversely related to yields, retreated after the RBI's interest rate setting committee decided to maintain status quo.
- Debt funds' AUM grew 1.4%, or by Rs 109.01 billion, to Rs 7.95 trillion thanks to inflows of Rs 108.64 billion.
- Gold exchange traded funds' (ETFs) assets rose 1.7%, or by Rs 96 crore, to Rs 5,766 crore in the month, marking growth in AUM for the second consecutive month.
- Among regulatory developments, Sebi said mutual funds investing in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) will have to give 15-day time to unitholders to exercise exit option.
- Sebi allowed mutual funds to increase exposure limits provided for housing finance companies from 10% to 15%.

Top Stock Exposures – Feb 2017

- HDFC Bank Ltd.
- ICICI Bank Ltd.
- Infosys Ltd.
- State Bank of India
- Larsen & Toubro Ltd.
- Maruti Suzuki India Ltd.
- ITC Ltd.
- Reliance Industries Ltd.
- Indusind Bank Ltd.
- Axis Bank Ltd.

Top Sector Exposures – Feb 2017

- Banks
- Pharmaceuticals
- Computers - software
- Engineering, designing, construction
- Refineries/marketing
- Passenger/Utility Vehicles
- Cement
- NBFC
- Housing finance
- Cigarettes

New Stocks Entries and Exits in Mutual Fund Portfolios – Feb 2017

Entries

- Tata Metaliks Ltd.
- Caplin Point Laboratories Ltd.
- Onmobile Global Ltd.
- Hindustan Copper Ltd.
- PC Jeweller Ltd.
- Ion Exchange (India) Ltd.

Exits

- Camson Seeds Ltd.
- Garware Wall Ropes Ltd.
- Lloyd Electric & Engineering Ltd.

Fund News

- IDFC bought 25% stake held by Natixis Global Asset Management in IDFC Asset Management Co. Ltd and IDFC AMC Trustee Co. Ltd for Rs 244 crore.
- The second offering of CPSE ETF was subscribed 3.7 times.

CRISIL Fund Rank 1 Schemes - Hybrid

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs.Crore)	Style Box	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception					
Balanced											
ICICI Prudential Balanced Fund	2.19	7.06	8.03	34.71	21.34	14.95	3-Nov-99	4394.8698		11.20	1.19
MIP Aggressive											
Birla Sun Life MIP II - Wealth 25 Plan	0.00	1.90	4.07	25.22	16.46	10.36	22-May-04	1376.6852		6.06	1.42
Kotak Monthly Income Plan	-1.26	0.33	3.39	19.29	12.80	7.92	2-Dec-03	146.98		4.45	1.16

CRISIL Mutual Fund Ranks as of December 2016

Point to Point Returns are as on February 28, 2017

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 7.55% - 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 2016

Style Box Legend		
Value	Blend	Growth
Large		
Small & Midcap		
Diversified		

CREDIT QUALITY		
High	Medium	Low

(FOR MIP AGGRESSIVE SCHEMES)

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Oct-Dec 2016 (Rs.Crore)	Jul-Sep 2016 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Oct-Dec 2016 (Rs.Crore)	Jul-Sep 2016 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	227989	215986	12003	5.56	HSBC Mutual Fund	8670	8503	167	1.97
HDFC Mutual Fund	221825	213086	8738	4.10	IDBI Mutual Fund	7761	8128	-367	-4.52
Reliance Mutual Fund	195845	183129	12717	6.94	Motilal Oswal Mutual Fund	7131	6393	738	11.55
Birla Sun Life Mutual Fund	180808	168881	11928	7.06	Edelweiss Mutual Fund	6826	2256	4571	202.63
SBI Mutual Fund	140997	131554	9443	7.18	Mirae Asset Mutual Fund	6343	5235	1108	21.16
UTI Mutual Fund	129389	127333	2056	1.61	BNP Paribas Mutual Fund	6032	6069	-36	-0.60
Kotak Mahindra Mutual Fund	82135	70387	11748	16.69	PRINCIPAL Mutual Fund	4868	5136	-269	-5.23
Franklin Templeton Mutual Fund	75783	73666	2117	2.87	Union Mutual Fund	3056	3387	-331	-9.77
DSP BlackRock Mutual Fund	58357	49852	8506	17.06	BOI AXA Mutual Fund	2896	3636	-740	-20.35
IDFC Mutual Fund	57998	56656	1341	2.37	Taurus Mutual Fund	2339	2663	-324	-12.16
Axis Mutual Fund	49281	47179	2101	4.45	Mahindra Mutual Fund	1457	950	507	53.35
Tata Mutual Fund	38271	39691	-1420	-3.58	IL&FS Mutual Fund (IDF)	995	970	24	2.52
L&T Mutual Fund	35191	32667	2524	7.73	Peerless Mutual Fund	946	971	-25	-2.59
Sundaram Mutual Fund	27013	26700	313	1.17	Quantum Mutual Fund	858	806	52	6.48
DHFL Pramerica Mutual Fund	24807	24473	334	1.37	PPFAS Mutual Fund	676	668	8	1.19
Invesco Mutual Fund	23617	22560	1056	4.68	IIFL Mutual Fund	424	370	53	14.36
LIC Mutual Fund	18022	16453	1569	9.54	IIFCL Mutual Fund (IDF)	399	388	11	2.72
JM Financial Mutual Fund	13522	13612	-90	-0.66	Escorts Mutual Fund	286	295	-8	-2.85
Baroda Pioneer Mutual Fund	10785	11703	-917	-7.84	Sahara Mutual Fund	67	80	-13	-15.80
Indiabulls Mutual Fund	10227	6731	3495	51.93	Shriram Mutual Fund	38	43	-5	-12.72
Canara Robeco Mutual Fund	9411	9320	91	0.98	Grand Total	1693339	1610729	82610	5.13

AUM is the quarterly average number and excludes Fund of Funds

Fund Focus

Birla Sun Life Balanced '95 Fund (CRISIL Fund Rank 2)

Launched in February 1995, Birla Sun Life Balanced '95 Fund ranked in the top 30 percentile (Rank 1 or 2) in the past four consecutive quarters ended December 2016 under the balanced category of CRISIL Mutual Fund Ranking. The fund's average assets under management totalled Rs 4,807 crore in the quarter ended December 2016.

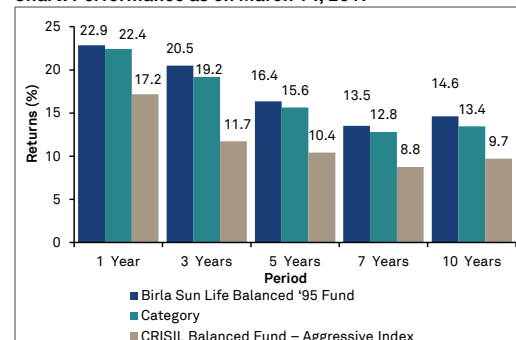
Investment Approach

The fund's objective is to achieve long-term growth of investment at moderate levels of risk by striking a balance between potential growth of equity and relative safety of debt.

Performance

The fund has outperformed its benchmark (the CRISIL Balanced Fund - Aggressive Index) and the balanced funds category (as per CRISIL Mutual Fund Ranking - December 2016) in all the periods analysed (Chart). The fund returned about 21% since its inception until the period ended March 14, 2017. However, its volatility, as measured by standard deviation (13.9%) exceeded that of its peers (13.8%) and the benchmark (11.8%) in the three-year period ended March 14, 2017.

Chart: Performance as on March 14, 2017



Note: Returns above one year are annualised

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for 10 years ended March 14, 2017, his investment of Rs 1.2 lakh would have grown to Rs 2.62 lakh at an annualised growth rate of 15.1%. A similar investment in the benchmark would have grown to Rs 1.96 lakh at 9.6%.

Portfolio Analysis

In the past three years ended February 2017, the fund has maintained average 71% exposure to equity, 23% to debt and remaining to cash and cash equivalents.

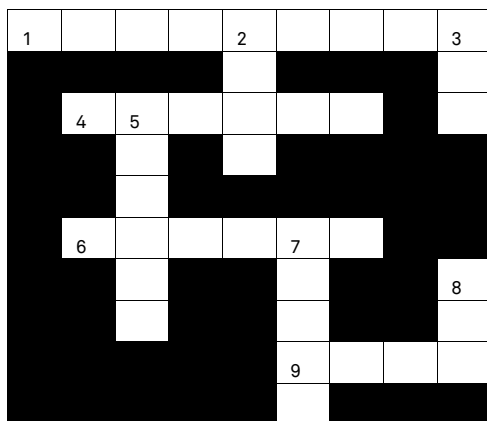
The debt portion is well guarded in terms of asset quality. In the past three years, about 78% of the debt portfolio, on average, was held in sovereign and highest-rated (AAA / A1+) securities.

Fund Managers' Profile

Mahesh Patil and Pranay Sinha manage the equity and debt portions, respectively. Mahesh is a CFA and is designated Co-Chief Investment Officer - Equity. He has over 25 years of experience in fund management, equity research and corporate finance. Pranay is a B. Tech and MBA, with experience of around 10 years in the financial markets.

Every month, Fund Focus will feature one of the CRISIL Mutual Fund Rank 1 or 2 Schemes

Crossword Corner – boost your financial knowledge



Horizontal:

- 1) The fund manager does this to reduce the risk of investing in a single asset class (9)
- 4) A large cap stock index comprising 30 constituents (6)
- 6) A category of mutual fund which invests primarily in money market instruments (6)
- 9) A mutual fund industry body in India (1,1,1,1)

Vertical:

- 2) The probability of incurring capital loss when investing (4)
- 3) The return realised by an investor if the bond is held till its maturity date (1,1,1)
- 5) An asset class that is volatile in the short term and is, therefore, intended for risk takers (6)
- 7) India's insurance regulator (1,1,1,1,1)
- 8) India's central bank (1,1,1)

Answers

Horizontal: 1) Diversify 4) SENSEX 5) Liquid 6) AMFI (Association of Mutual Funds of India)

Vertical: 2) Risk 3) YTM (Yield to Maturity) 5) Equity 7) IRDA (Insurance Regulatory and Development Authority) 8) RBI (Reserve Bank of India)

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