

# CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 130 February 2022

## Investment thoughts

### Beat the bias to obviate the blues

For mutual fund investors, the biggest risk is within — their behavioural biases

The popularity of mutual funds has soared in the past decade or so in India, with over Rs 38 lakh crore in assets under management (AUM), more than 11 crore folios — including nearly 5 crore systematic investment plan or SIP accounts — and over 7% share of household financial assets<sup>1</sup> at the latest count.

That being said, investors need to keep in mind that mutual funds are capital market-driven and therefore behave differently from traditional instruments such as fixed deposits. They also involve different risks — including unknown ones, which manifest due to our own behavioural biases — that need to be considered before getting into these instruments.

#### The many behavioural biases...

Investors think and act based on their personality traits and emotional state, also termed as behavioural biases. These factors complicate the investment decision-making process and defy logical reasoning.

We have seen how investors have succumbed to behavioural biases during the 2008 global financial crisis, and then in 2018 as the domestic credit crisis played out.

Many investors, who had entered the equity markets in droves before 2008, rushed for the exit following a sharp, swift spiral in stock prices. Herd mentality, loss aversion, and recency bias all played their part. In fact, the experience held back investors even when stabilisation of the financial system translated into a recovery in equity markets because of anchoring bias.

A similar saga played out in 2018, but this time in the credit risk fund category within debt mutual funds, post default by Infrastructure Leasing & Financial Services (IL&FS). Investors who had entered the category to benefit from higher yields had not factored in risks associated with investments in lower rated papers thus getting impacted by the downgrades, defaults and the subsequent impact on capital invested.

The event saw investors paint all debt funds, or for that all fund categories, with the same brush. This single lens approach can be disastrous to financial planning.

#### ...and ways to overcome these

As history has shown, decisions on account of behavioural biases get accentuated during volatile periods.

Systematic transactions and asset allocation are simple tools available to investors to address this. SIPs, for instance, can ensure discipline, which is the cornerstone of successful financial planning. SIPs add stability to an investor's investment pattern, thus ensuring investors do not get swayed by market volatility and sentiment, thereby staying true to the investment plan originally chalked out.

This has been seen in recent years, when, despite market volatility, investments in SIPs in India have risen over an extended time horizon. Further, continuing a SIP over the long term gets you added benefits of rupee cost averaging (investing across market phases) and the power of compounding.

Asset allocation is another prudent financial planning rule. Diversification of investments helps map the right products with the investor's risk-return profile and investment horizon. It also lends stability to the portfolio, especially for risk-averse investors.

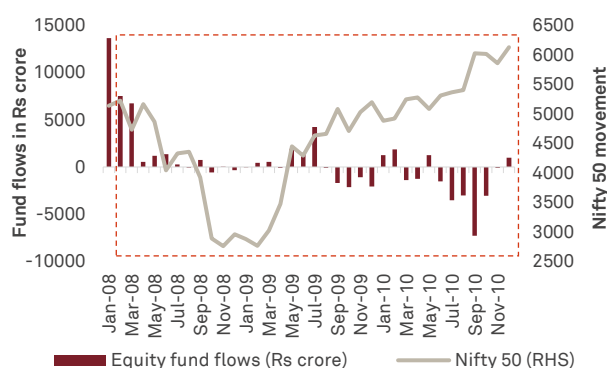
In fact, during periods of high volatility, such as the global financial crisis of 2008 and following the outbreak of Covid-19 in 2020, when investors are typically inclined to make irrational decisions, a well-balanced portfolio across asset classes helps overcome behavioural biases.

It is, therefore, important to acknowledge behavioural biases, to make the investment journey smooth.

For more about investor biases, you can view our recorded webinars with the wealth management industry on these aspects at:

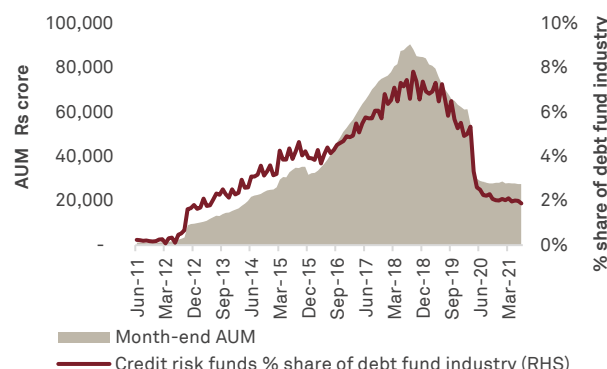
<https://www.crisil.com/en/home/events/crisil-webinar/research/preparing-investors-for-known-and-unknown-investment-risks-mumbai-and-pune.html>

Investment sentiment vs. equity market – 2008 to 2010



Source: AMFI, CRISIL Research

Fallout of credit and liquidity events on credit risk funds



Source: Association of Mutual Funds in India, CRISIL Research

<sup>1</sup> Reserve Bank of India, Association of Mutual Funds in India

## Market – Overview

Indices	% Change in Jan 2022	% Change in Dec 2021
Nifty 50	-0.08	2.08
S&P BSE Sensex	-0.41	2.18

Indicators	Jan 31, 2022	Dec 31, 2021
10-year Gsec	6.68%	6.45%
Monthly CPI Inflation	6.01%	5.59%

## Mutual fund - Overview

### Top Stock Exposures – Jan 2022

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

### Top Sector Exposures – Jan 2022

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

### New Stocks Entries and Exits in Mutual Fund Portfolios – Jan 2022

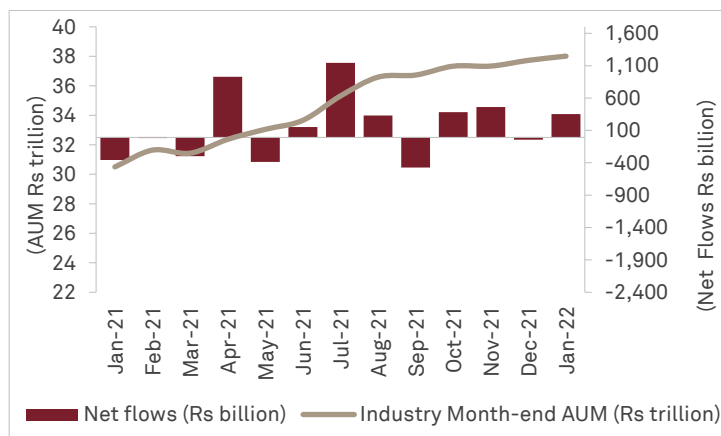
Entries	Exits
Motherson Sumi Wiring India Ltd.	CMI FPE Ltd.
Gateway Rail Freight Ltd.	Cosmo Films Ltd.
AGS Transact Technologies Ltd.	Explo Solutions Ltd.
Pricol Ltd.	Gateway Distriparks Ltd.
Adani Wilmar Ltd.	HT Media Ltd.
Gujarat Mineral Development Corp Ltd.	MPS Ltd.
Maithon Alloys Ltd.	Srikalahasthi Pipes Ltd.
MSTC Ltd.	Tvs Srichakra Ltd.
Everest Industries Ltd.	
Globus Spirits Ltd.	
Electrosteel Castings Ltd.	
Meghmani Finechem Ltd.	
Sahajanand Medical Technologies Ltd.	
Brightcom Group Ltd.	

Category returns	Absolute monthly returns %	
	Jan	Dec
Large cap funds	-0.52	2.24
Large cap and mid-cap funds	-0.31	2.55
Multi cap equity funds	-0.20	2.65
Flexi cap funds	-1.06	2.66
Focused funds	-0.61	1.72
Value – Contra funds	1.12	2.85
Mid-cap funds	-0.84	2.66
Small cap funds	-1.11	4.01
Arbitrage funds	0.36	0.12
ELSS	-0.40	2.51
Index funds	-0.20	2.14
Aggressive hybrid funds	-0.59	1.92
Conservative hybrid funds	0.19	0.50
Gilt funds	-0.19	-0.26
Dynamic funds	-0.13	-0.10
Medium-to-long term funds	-0.24	-0.23
Medium term funds	0.09	0.06
Short-duration funds	0.21	0.12
Corporate funds	0.16	0.12
Banking and PSU debt fund	0.09	0.14
Credit risk funds	0.33	0.22
Low duration funds	0.30	0.23
Money market funds	0.30	0.29
Ultra-short duration funds	0.30	0.27
Liquid funds	0.28	0.29

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

- Indian equity indices witnessed sells-off in January 2022 after recording an impressive performance in December. Benchmarks S&P BSE Sensex and Nifty 50 fell 0.4% and 0.1% on-month, respectively. Persistent foreign institutional investor (FII) selling owing to weak global cues arising from the Fed's proposed rate hikes and rapid spread of Omicron kept markets under pressure.
- Domestic markets began the month on a positive note on upbeat macroeconomic data that showed manufacturing activity easing but staying in the expansion zone.
- Positive third-quarter earnings reports from a few companies and easing domestic wholesale inflation data also boosted sentiment
- Nifty sectoral indices mostly ended mixed, with Nifty IT (~10%), Nifty Pharma (~7%) and Nifty FMCG (~3%) falling the most.

### Mutual fund AUM and net flows trend



- Assets under management (AUM) of the domestic mutual fund industry increased for the tenth straight month in January, to close just above Rs 38 lakh crore (excluding domestic fund of funds). The gain in assets came in mainly due to net inflows in equity-oriented funds which includes passive and hybrid funds, despite market (MTM) losses in underlying equities.
- Aggregate net inflows for the open-ended equity category stood at ~Rs 14,888 crore in January. Within the category, flexi-cap schemes recorded the highest net inflows, followed by sectoral/thematic funds and Equity-linked savings schemes (ELSSs).
- SIP January's figure was a new record high of Rs 11,517 crore. The number of SIP accounts rose to 5.05 crore in January from 4.91 crore in December.
- Hybrid schemes recorded net inflows at ~Rs 6,230 crore in January compared with ~Rs 551 crore in December. Within the category Balanced advantage funds (BAFs) continued to hog the limelight followed by equity savings funds.
- ETFs (equity and gold) and index schemes cumulatively saw the net inflows of ~Rs 8,472 crore in January compared with highest-ever inflows of ~Rs 18,368 crore in December.
- Furthermore, FoFs that invest overseas saw net inflows at Rs 389 crore in January compared with Rs 334 crore net inflows in December.
- Open-ended debt scheme witnessed net inflows of ~Rs 5,088 crore in January. Within the category, overnight funds saw the highest net inflows followed by money market funds and floater funds. While, liquid funds and low-duration funds witness net outflows.
- In the closed-ended debt category, there were net inflows worth ~Rs 227 crore in fixed-term plans compared with net inflows of ~Rs 180 crore in December due to fresh fund mobilisation of Rs 227 crore.
- SEBI said mutual fund trustees should wind up a scheme or prematurely redeem the units of a close-ended scheme only after obtaining consent from the majority of the trustees.
- The Association of Mutual Funds in India (AMFI) asked AMCs to stop lump sum and fresh systematic investments into mutual fund schemes from February 2.

# 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				
<b>Large Cap</b>										
IDBI India Top 100 Equity Fund	-0.33	-1.70	9.53	33.89	20.58	15.12	15-May-12	559.16	25.34	1.08
UTI Mastershare Unit Scheme	-1.37	-1.67	9.95	30.93	19.10	13.91	30-Jul-05	9660.42	25.14	1.01
Union Largecap Fund	-2.20	-3.98	9.39	28.58	17.45	11.06	11-May-17	218.02	26.34	0.90
<b>Large &amp; Mid Cap</b>										
Canara Robeco Emerging Equities	-1.71	-0.95	8.13	37.07	22.70	17.92	11-Mar-05	11998.44	25.21	1.19
Quant Large and Mid Cap Fund	0.48	3.64	10.59	40.37	23.85	13.18	9-Jan-07	37.23	25.89	1.22
<b>Flexi Cap</b>										
PGIM India Flexi Cap Fund	-2.32	-0.34	6.43	41.58	28.76	15.12	4-Mar-15	2866.76	25.61	1.46
UTI Flexi Cap Fund	-5.56	-4.81	5.10	29.83	23.63	16.07	1-Aug-05	24702.17	23.94	1.29
<b>Multi Cap</b>										
Quant Active Fund	0.24	2.63	8.02	57.38	33.52	19.59	18-Apr-01	1417.98	26.73	1.61
<b>Focused</b>										
SBI Focused Equity Fund	-6.24	-4.44	9.09	37.77	22.60	20.01	8-Oct-04	22466.54	21.89	1.33
IIFL Focused Equity Fund	-1.21	-0.23	9.15	34.53	28.50	16.49	24-Oct-14	2519.72	25.05	1.47
<b>Value / Contra</b>										
SBI Contra Fund	-0.09	2.80	11.36	46.11	25.33	16.21	6-May-05	3281.24	24.66	1.34
IDFC Sterling Value Fund	0.26	5.14	12.05	62.39	23.71	17.15	7-Mar-08	4262.79	26.30	1.20
<b>Mid Cap</b>										
PGIM India Midcap Opportunities Fund	-1.66	1.63	11.08	58.08	36.77	19.79	2-Dec-13	3568.61	25.59	1.82
Baroda Mid-cap Fund - Plan A	-3.62	1.68	13.26	54.16	26.81	5.11	4-Oct-10	86.75	24.08	1.44
<b>Small Cap</b>										
BOI AXA Small Cap Fund	-1.91	6.08	10.97	67.46	39.17	37.00	19-Dec-18	201.51	23.84	2.04
Quant Small Cap	2.74	4.76	7.01	89.70	39.67	11.39	30-Oct-96	1296.41	27.89	1.80
<b>ELSS</b>										
Quant Tax Plan	0.93	3.90	7.03	60.34	35.53	15.26	31-Mar-00	546.34	27.08	1.68
BOI AXA Tax Advantage Fund	-4.52	-2.18	3.88	38.95	28.36	19.33	25-Feb-09	531.62	23.27	1.56
IDFC Tax Advantage (ELSS) Fund	1.04	1.37	11.43	49.12	23.71	19.06	26-Dec-08	3517.75	25.91	1.21
<b>Index</b>										
SBI - ETF SENSEX	-0.39	-2.16	10.54	26.48	18.15	14.51	15-Mar-13	61178.05	27.91	0.89
UTI SENSEX Exchange Traded Fund	-0.39	-2.16	10.56	26.50	18.17	14.78	1-Sep-15	19052.60	27.92	0.89
Kotak Sensex ETF Fund	-0.40	-2.19	10.44	26.24	17.89	11.17	6-Jun-08	20.80	27.91	0.88
HDFC Sensex ETF	-0.38	-2.13	10.54	26.50	18.13	16.00	9-Dec-15	119.91	27.87	0.89

CRISIL Mutual Fund Ranks are as of December 2021

Point to Point Returns are as on January 31, 2022

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 4.21% - 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 2021

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

Mutual Fund (MF) Name	Oct-Dec 2021 (Rs. Cr)	Jul-Sep 2021 (Rs. Cr)	Change (Rs.Cr)	% Change	Mutual Fund (MF) Name	Oct-Dec 2021 (Rs. Cr)	Jul-Sep 2021 (Rs. Cr)	Change (Rs.Cr)	% Change
SBI Mutual Fund	628766	579318	49448	8.54%	Baroda Mutual Fund	12769	11953	816	6.83%
ICICI Pru Mutual Fund	483519	461289	22230	4.82%	HSBC Mutual Fund	12606	11476	1131	9.85%
HDFC Mutual Fund	450385	441852	8533	1.93%	Principal Mutual Fund	9547	8930	617	6.91%
ABSL Mutual Fund	299282	300773	-1491	-0.50%	BNP Paribas MF	9117	8745	372	4.25%
Kotak Mahindra MF	286883	270615	16268	6.01%	Union Mutual Fund	8100	7300	800	10.96%
Nippon India MF	282416	267213	15203	5.69%	Mahindra Manulife MF	7911	6687	1224	18.31%
Axis Mutual Fund	253906	238575	15331	6.43%	Quant Mutual Fund	4664	3301	1363	41.29%
UTI Mutual Fund	224671	208971	15700	7.51%	IDBI Mutual Fund	4472	4384	89	2.02%
IDFC Mutual Fund	125352	126560	-1209	-0.95%	IIFL Mutual Fund	3750	3128	622	19.87%
DSP Mutual Fund	110614	107290	3324	3.10%	NJ Mutual Fund	3697	0	3697	NA
Mirae Asset MF	101218	91802	9416	10.26%	BOI AXA Mutual Fund	2727	2494	234	9.37%
Tata Mutual Fund	83554	77010	6545	8.50%	ITI Mutual Fund	2407	1983	424	21.37%
L&T Mutual Fund	79550	78274	1277	1.63%	Quantum Mutual Fund	2052	2012	39	1.96%
Edelweiss Mutual Fund	79285	69188	10097	14.59%	JM Financial MF	2020	2089	-69	-3.30%
Franklin Templeton MF	66988	64587	2402	3.72%	IL&FS MF (IDF)	1280	1385	-105	-7.56%
Invesco Mutual Fund	45155	42930	2224	5.18%	Trust Mutual Fund	1137	1033	103	10.01%
Canara Robeco MF	45049	39344	5705	14.50%	Navi Mutual Fund	930	867	62	7.20%
Motilal Oswal MF	35645	33544	2101	6.26%	Indiabulls Mutual Fund	653	655	-2	-0.28%
Sundaram Mutual Fund	34362	33377	985	2.95%	IIFCL MF (IDF)	618	612	6	1.04%
PPFAS Mutual Fund	21684	15943	5741	36.01%	Taurus Mutual Fund	538	539	-1	-0.21%
LIC Mutual Fund	19354	18040	1314	7.28%	Shriram Mutual Fund	227	217	10	4.42%
PGIM India MF	14702	11185	3517	31.45%	WhiteOak Capial MF	139	46	93	203.15%
<b>Grand Total</b>	<b>3656125</b>	<b>3348915</b>	<b>307210</b>	<b>9.17%</b>					

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

## Fund Focus

### SBI Focused Equity Fund

SBI Focused Equity Fund, launched in October 2004, ranked in the top 10 percentile for the quarter-ended December 2021. The fund's assets under management averaged Rs 22,467 crore during the quarter.

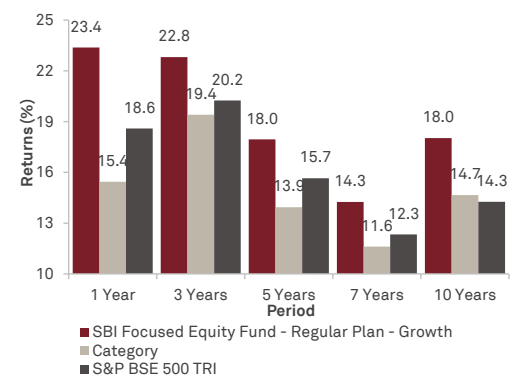
#### Investment approach

The fund invests in a concentrated portfolio of a maximum of 30 stocks across market caps.

#### Performance

The fund has outperformed its benchmark (S&P BSE 500 TRI) and peers (represented by the focused funds category, as per CRISIL Mutual Fund Ranking - December 2021) for all periods analysed.

Chart 1: Performance as of February 17, 2022



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 three years ended February 17, 2022. The fund's Sharpe ratio was 1.34 against 1.03 for the category and 1.05 for the benchmark over the period.

#### SIP returns performance

An investment of Rs 1,000 every month through a systematic investment plan (SIP) for seven years till February 17, 2022, would have grown to ~Rs 1.6 lakh, which is a 17.7% CAGR. A similar investment in the benchmark would have grown to ~Rs 1.5 lakh, a 16.4% CAGR.

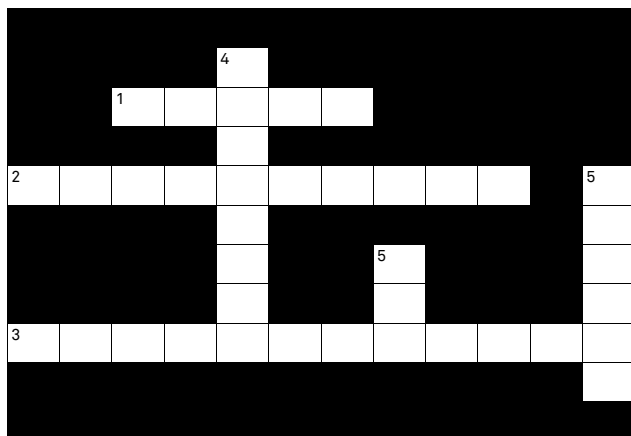
#### Portfolio analysis

The fund has consistently held nine stocks over the past three years, with the highest exposure to HDFC Bank (7.7%), followed by P&G Health Care (6.0%), Divis Laboratories (5.4%), Alphabet Inc (5.2%), and Bharti Airtel Ltd (4.9%).

#### Fund manager

The fund is managed by R Srinivasan, Head - Equities. He has a Master of Commerce degree and Master of Financial Management, with more than 28 years of experience in financial services

## Crossword Corner – boost your financial knowledge



### Horizontal

- 1) Anticipated return on an investment, expressed as an annual percentage (5)
- 2) Term used to describe fluctuations in asset returns and causes panic among investors (10)
- 3) Traditional investment instruments (5,7)

### Vertical

- 4) Funds which generate returns by investing in bonds and other fixed income securities (5,6)
- 5) Investors contribute a fixed sum of money at regular intervals (1,1,1)
- 6) An asset class that is volatile over the short term and is therefore intended for risk takers (6)

### Answers

- Vertical:** 4) Debt Fund 5) SIP 6) Equity
- Horizontal:** 1) Yield 2) Volatility 3) Fixed Deposit

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