CHAPTER III

AN OVERVIEW OF MUTUAL FUNDS AND THE PROFILE OF SELECTED COMPANIES

3.1 HISTORY OF MUTUAL FUNDS

The Evolution

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following phases:

Phase 1. Establishment and Growth of Unit Trust of India - 1964-87

Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI until the two were de-linked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years. UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes between 1981-84, Children's Gift Growth Fund and India Fund (India’s first offshore fund) in 1986, Master share (India’s first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 cores.
Phase II. Entry of Public Sector Funds - 1987-1993

The Indian mutual fund industry witnessed a number of public sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By 1993, the assets under management of the industry increased seven times to Rs. 47,004 crores. However, UTI remained to be the leader with about 80 percent market share.

<table>
<thead>
<tr>
<th>1992-93</th>
<th>Amount Mobilised</th>
<th>Assets Under Management</th>
<th>Mobilisation as % of gross Domestic Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>11,057</td>
<td>38,247</td>
<td>5.2%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>1,964</td>
<td>8,757</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>13,021</td>
<td>47,004</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Phase III. Emergence of Private Sector Funds - 1993-96

The permission given to private sector funds including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor-servicing technology. By 1994-95, about 11 private sector funds had launched their schemes.

Phase IV. Growth and SEBI Regulation - 1996-2004

The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds. Investors' interests were safeguarded by SEBI and
the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds) Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmed were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry.

In February 2003, the UTI Act was repealed and UTI was stripped of its Special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. UTI was re-organized into two parts: 1. The Specified Undertaking, 2. The UTI Mutual Fund. Presently Unit Trust of India operates under the name of UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, UTI Mutual Fund is still the largest player in the industry.

Phase V. Growth and Consolidation — 2004 – 2006

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

Phase – VI Mutual funds during Recession Period

During the last decade, mutual funds in India have experienced tremendous growth. While the first two equity mutual funds were introduced in 1972, the third one appeared only in 1989 while investment in mutual funds became a mainstream investment option for the general public in the midnineties. There are lot of reasons
that decides the healthy going mutual funds had issues to the investment failure in returns, which allows the possibility to focus on the variations in the performance of fund managers during up and down market conditions, as well as to compare various performance models in different market conditions. They lead the financial recession or in financial imbalance conditions. The Indian financial system in general and the mutual fund industry in particular continue to take turns from around early 1990s. Growth of various mutual fund products has proved to be one of the catalytic instruments in generating momentous investment growth in the capital market. Therefore the fund managers have not been successful in reaping returns in excess of the market; rather they are timing the market in the wrong direction. So the recession is the period which decides the raise and fall in the healthy going industry.

3.2 ACTIONS AGAINST RECESSION PERIOD IN INDIA

With monetary instruments we may handle liquidity pressure for shorter period, but cannot avoid consequences of recession without policy initiative to allow interest free or equity based banking and finance which is meant to counter problems like higher input costs, default in lease finances and gap in transacted and transferred traded values. The focus of SEBI to promote stock market trading should now be shifted to arrange FDI on project basis instead of encouraging share trading. The investments should be canalized into genuine project finances on medium and long term basis instated of short term investments on equities. For short term investors arrangements could be made for investments in short term trade finances. And the derivatives have to be purified from business of speculation and shifted to real term business.

This way we might resolve the problem of financial imbalances among sectors and economies. This would allow the unorganized sector to grow faster and help India attain desired growth even in case of unfolding global recession. Probably such regulations may help us get escape from loss of equity values worth
over Rs. 56,00,000 cores in a period of just nine months. Rather it may help India double its national income through participation of unorganized sector enterprises who have been suffering in absence of equity finance and never find it easy to compete the formal sector that always enjoyed equity finances.

I hope Indian regulators especially RBI and SEBI would find solutions for some concurrent financial problems associated with global economic recession. But if we have to allow our financial sector and real economy grow despite global recession, the interest based banking has more challenges compared to equity based banking which might help us find new emerging Indian economy under new financial sector regulations.

3.3 RECESSION

A period of general economic decline; typically defined as a decline in GDP for two or more consecutive quarters. A recession is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. A recession is generally considered less severe than a depression, and if a recession continues long enough it is often then classified as a depression. There is no one obvious cause of a recession, although overall blame generally falls on the federal leadership, often either the President himself, the head of the Federal Reserve, or the entire administration. Recessions or slowdowns are not all bad. Through a recession, companies which are poorly managed get restructured and forced to be more efficient else they will go out of business. Financial sectors become more transparent one silver lining during recessions is that when it is over, the overall quality of the balance sheets of companies and affected industries improve, paving the path for greater resiliency during future hits to the economy.

3.4 WORLDWIDE RECESSION

As at December 2008, most of the world is in a recession right now! Table 3.1 shows some countries that have fallen into negative quarter-on-quarter growth for two consecutive quarters - a technical recession! A technical recession is
when the annualized quarterly Gross Domestic Product (GDP) growth is negative for two successive quarters. GDP is the total value of goods and services produced by a nation. This definition only looks at GDP and does not include other economic indicators such as employee payrolls, personal income, industrial production, manufacturing and trades sales etc. In contrast, a full-fledged recession, as defined by the National Bureau of Economic Research (NBER), is a significant decline in economic activity, spread across the economy, lasting more than a few months. This is normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches a through

<table>
<thead>
<tr>
<th>Country</th>
<th>First Quarterly</th>
<th>Second Quarterly</th>
<th>Third Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>8.2</td>
<td>-5.5</td>
<td>-2.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-1.2</td>
<td>-0.6</td>
<td>NA</td>
</tr>
<tr>
<td>Singapore</td>
<td>15.7</td>
<td>-5.3</td>
<td>-6.8</td>
</tr>
<tr>
<td>Germany</td>
<td>5.7</td>
<td>-1.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>Italy</td>
<td>2.1</td>
<td>-1.8</td>
<td>-2.0</td>
</tr>
<tr>
<td>India(FY08)</td>
<td>7.9</td>
<td>7.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Japan</td>
<td>2.5</td>
<td>-3.7</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

Source: www.chinability.com

3.5 PERFORMANCE OF MUTUAL FUNDS IN INDIA

The performance of mutual funds in India from the day the concept of mutual fund took birth in India. The year was 1963. Unit Trust of India invited investors or rather to those who believed in savings, to park their money in UTI Mutual Fund. The performance of mutual funds in India in the initial phase was not even closer to satisfactory level. People rarely understood, and of course investing was out of question. But yes, some 24 million shareholders were accustomed with guaranteed
high returns by the beginning of liberalization of the industry in 1992. This good record of UTI became marketing tool for new entrants.

The Assets under Management of UTI was Rs. 67bn. by the end of 1987. Let me concentrate about the performance of mutual funds in India through figures. From Rs. 67bn. the Assets under Management rose to Rs. 470 bn. in March 1993 and the figure had a three times higher performance by April 2004. It rose as high as Rs. 1,540bn. The net asset value (NAV) of mutual funds in India declined when stock prices started falling in the year 1992. Those days, the market regulations did not allow portfolio shifts into alternative investments. There was rather no choice apart from holding the cash or to further continue investing in shares.

3.6 THE CONCEPT OF MUTUAL FUND

Mutual Fund is a financial intermediary that pools the savings of investors for collective investments diversified portfolio of securities. A fund is “mutual” as all of its returns, minus its expenses, are shared by the fund’s investors. A mutual Fund serves as a link between the investors and the securities market by mobilizing savings from the investors and investing them in the securities market to generate returns.

The changing dimensions of economic reforms such as liberalization of financial markets, free entrée of foreign players into Indian capital markets, such as in insurance, Mutual Funds direct portfolio investments and Foreign Institutional Investors (FII) has resulted in a rapid restructuring of the economy in tune with global trends.

The reform process has sent signals to a wave of changes in savings and investment behavior adding a new dimension to the growth of financial sector. Thus the involvement of Mutual Funds in the transformation of the Indian economy has made it urgent to view their services not only as a financial intermediary but also as a pace setter as they can play a significant role in spreading and encompassing the equity culture.
3.7 ORIGIN OF MUTUAL FUNDS

Mutual Funds can be traced back to the times of the Egyptians and Phoenicians’, when they sold shares in caravans and vessels to spread the risk of these ventures, and early pioneering investments of Scottish and English investors in the American West in the 1800s. On the similar lines the idea of Mutual Fund has its formal origin in Belgium with the starting of Societe Generale de Belgium, 1822 an investment company to finance investments in national industries with high associated risks.

In 1822, royalty (in the form of King III aim I of the Netherlands) came up with an option for the rest of us with the closed-end fund. The ‘investment trust’ concept spread rapidly through Europe. In 1931, the British Trust known as Municipal and General Securities Co. Ltd., (now known as M&G Group) was launched. In the USA, the idea took root in the beginning of the 20th Century and there was little activity until 1924, when three investment companies were organized: Massachusetts Investors Trust, State Street Investment Corporation and US and Foreign Securities Corporations.

3.8 CLASSIFICATION OF MUTUAL FUNDS IN INDIA

1. BY STRUCTURE

Open ended funds

Investors can buy and sell units of open-ended funds at NAV-related price every day. Open-end funds do not have a fixed maturity and it is available for subscription every day of the year. Open-end funds also offer liquidity to investments, as one can sell units whenever there is a need for money.

Close-ended funds

These funds have a stipulated maturity period, which may vary from three to 15 years. They are open for subscription only during a specified period. Investors
have the option of investing in the scheme during initial public offer period or buy or sell units of the scheme on the stock exchanges. Some close-ended funds repurchase the units at NAV-related prices periodically to provide an exit route to the investors.

**Interval Funds**

These funds combine the features of both open and close-ended funds. They are open for sale and repurchase at a predetermined period.

**Load Funds**

In India, Securities and Exchange Board of India has defined a ‘load’ as the onetime fee payable by the investor to allow the fund to meet initial issue expenses including brokers'/agents'/ distributors’ commissions, advertising and marketing expenses. Expenses such as Securities and Exchange Board of India filing fees, or printing of offer documents and other forms, or even bank charges related to new issue of a scheme would be considered initial issue expenses.

**No-Load Funds**

Securities and Exchange Board of India would consider a fund to be ‘a no-load’, if an Asset Management Company (AMC) absorbs these initial marketing expenses and does not charge the fund – a situation that is somewhat special to India and not widely prevalent elsewhere. Internationally, a fund, even when it does not make a front-end load, would still be considered a load fund, if it charges an exit load or a deferred sales load.

**Tax Exempt Funds**

Generally, when a fund invests in tax-exempt securities, it is called a tax-exempt fund. In the U.S.A., for example, municipal bonds pay interest that is tax-free, while interest on corporate and other bonds is taxable. In India, any income
received by the mutual fund is tax-free. After the 1999 Union Government Budget, all of the dividend income received from any of the mutual funds is tax-free in the hands of the investor. However, funds other than open-ended equity oriented funds have to pay a distribution tax, before distributing income to investors. In other words, open-ended equity oriented mutual fund schemes are tax-exempt investment avenues, while other funds are taxable for distributable income.

Non- Tax Exempt Funds

Any short term capital gains arising out of repurchase of funds units (held for a period of less than 12 months) are taxable. Further, after the 2005 Union Budget, repurchase transactions under equity oriented funds/ schemes have been subjected to Securities Transaction Tax (STT).

Money Market/Liquid Funds

Often considered to be at the lowest rung in the order of risk level, Liquid Funds invest in debt securities of a short- term nature, which generally means securities of less than one-year maturity. The typical, short-term, interest-bearing instruments these funds invest in include Treasury Bills issued by governments, Certificates of Deposit issued by banks and Commercial Paper issued by companies.

The major strengths of money market or liquid funds are liquidity and safety of the principal that the investors can normally expect from short-term investments. Though interest rate risk is present, the impact is low as the investment instruments’ maturities are short.

Gilt Funds

Gilts are government securities with medium to long-term maturities, typically of over year (under one-year instruments being money market securities). In India, we have Government Securities or Gilt Funds that invest in Government paper called dated securities (unlike Treasury Bills that mature in less than one year).
Since the issuer is the Government of India/States, these funds have little risk of default and hence offer better protection of principal. However, Gilt securities, like all debt securities, face interest rate risk. Debt securities prices fall when interest rate levels increase (and vice versa). Investors have to understand the potential changes in NAV of gilt funds on account of changes in interest rates in the economy.

**Debt Funds (or Income Funds)**

Debt funds invest in debt instruments issued not only by government, but also by private companies, banks and financial institutions and other entities such as infrastructure companies/utilities. By investing in debt these funds target low risk and stable income for the investor as their key objective. However, as compared to the money market/liquid funds, they do have a higher price fluctuation risk, since they invest in longer-term securities. Similarly, as compared to Gilt Funds, general debt funds do have a higher risk of default by their borrowers.

Debt funds are largely considered as Income Funds as they invest primarily in fixed income generating debt instruments. They do not target capital appreciation but look for current income, and therefore distribute a substantial part of their surplus to investors. Income funds that target high returns can face more risks. Even within the broad category of debt investment, different investment objectives can be set. Each would result in a different risk profile.

**Diversified Debt Funds**

A debt funds that invests in all available types of debt securities, issued by entities across all industries and sectors is a properly diversified debt fund. While debt funds offer high income and less risk than equity funds, investors need to recognize that debt securities are subject to risk of default by the issuer on payment of interest or principal. A diversified debt fund has the benefit of risk reduction through diversification. Hence a diversified debt fund is less risky than a narrow-
focus fund that invests in debt securities of a particular sector or industry. In addition, all debt mutual funds lead to risk reduction for the individual investor as any losses by a debt issuer are shared by a large number of investors in the fund.

**Focused Debt Funds**

Some debt funds have a narrower focus, with less diversification in its investments. Examples include sector, specialized and offshore debt funds. They have a substantial part of their portfolio invested in debt instruments and are therefore more income oriented and inherently less risky than equity funds. However, the Indian financial markets have demonstrated that debt funds should not be automatically considered to be less risky than equity funds, as there have been relatively large defaults by issuers of debt and many funds have non-performing assets in their debt portfolios. It should also be recognized that market values of debt securities will also fluctuate more as Indian debt markets witness more trading and interest rate volatility in the future. The central point to note is that all these narrow-focus funds have greater risk than diversified debt funds.

**High Yield Debt Funds**

Usually, Debt Funds control the default risk by investing in securities issued by credit rating agencies and are considered to be of ‘investment grade’. There are, however, High Yield Debt Funds that seek to obtain higher interest returns by investing in debt instruments that are considered below investment grade (popularly known as junk bonds) are called Junk Bond Funds. These funds tend to be more volatile than other debt funds, although they may earn at times higher returns as a result of the higher risks taken.

**Equity Funds**

Equity funds invest a major portion of their corpus in equity shares issued by companies, acquired directly in initial public offerings or through the secondary market. Equity funds would be exposed to the equity price fluctuation risk at the
market level, at the industry or sector level and at the company-specific level. Equity Fund’s Net Asset Values fluctuate with all these price movements. These movements are caused by several external factors political, social as well as economic. The issuers of equity shares offer no guaranteed repayment as in case of debt instruments. Hence, Equity Funds are generally considered at the higher end of the risk spectrum among all funds available in the market.

**Aggressive Growth Fund**

There are many types of stocks/shares available in the market; Blue Chips that are recognized marker leaders, less researched stocks that are considered to have future growth potential, and even some speculative stocks of somewhat unknown or unproven issuers. Fund managers seek out and invest in different types of stocks in line with their own perception of returns and appetite for risk.

As the name suggests, aggressive growth funds target maximum capital appreciation, invest in less researched or speculative shares and may adopt speculative investment strategies to attain their objective of high returns for the investor. Consequently, they tend to be more volatile and riskier than other funds.

**Growth Funds**

Growth funds invest in companies whose earnings are excepted to rise at an above average rate. These companies may be operating in sectors like technology considered having a growth potential, but not entirely unproven and speculative. The primary objective of Growth Funds is capital appreciation over a three to five year span. Growth funds are therefore less volatile than funds that target aggressive growth.

**Specialty Funds**

These funds have a narrow portfolio orientation and invest in only companies that meet pre-defined criteria. For example, at the height of the South African apartheid regime, many funds in the U.S. offered plans that promised not to invest
in South African companies. Some funds may build portfolios that will exclude tobacco companies. Funds that invest in particular regions such as the Middle East or the ASEAN countries are also an example of specialty funds. Within the Specialty Funds category, some funds may be broad-based in terms of the types of investments in the portfolio. However, most specialty funds tend to be concentrated funds, since diversification is limited to one type of investment. Clearly, concentrated specialty funds tend to be more volatile than diversified funds.

**Diversified Equity Funds**

A fund that seeks in equities, except for a very small portion in liquid money market securities, but not focused on anyone or few sectors or shares, may be termed a diversified equity fund. While exposed to all equity price risks, diversified equity funds seek to reduce the sector or stock specific risks through diversification. They have exposure to the equity market risk. Such general purpose diversified funds are clearly at a lower risk level than growth funds.

**Equity Income or Dividend Yield Funds**

Usually income funds are in the Debt Funds category, as they target fixed income investment. However, there are equity funds that can be designed to give the investor a high level of current income along with some steady capital appreciation, investing mainly in shares of companies with high dividend yields. As an Example, an Equity Income Fund would invest largely in Power/Utility company’s shares of established companies that pay higher dividends and whose prices do not fluctuate as other shares. These equity funds therefore be less volatile and less risky than nearly all other equity funds. Recently many fund houses launched such schemes.

**Hybrid Funds – Quasi Equity/Quasi Debt**

In terms of the nature of financial securities held, there are three major mutual fund types: money market, debt and equity or debt, always have some money market securities in their portfolios as these securities offer the much-needed
liquidity. However, money market holdings will constitute a lower proportion in the overall portfolios of debt or equity funds. There are funds, however, seek to have a relatively balanced holding of debt and equity securities in their portfolios. Such funds are termed “hybrid funds” as they have a dual equity-bond focus. Some of the funds in this category are described below.

**Balance Funds**

A balanced fund is one that has a portfolio comprising debt instruments, convertible securities, preference and equity shares. Their assets are generally held in more or less equal proportions between debt/money market securities and equities. By investing in a mix of this nature, balanced funds seek to attain the objectives of income, moderate capital appreciation and preservation of capital, and are ideal for investors with a conservative and long-term orientation.

**Income funds**

The aim of these funds is to provide regular and steady income to investors. They generally invest their corpus in fixed income securities like bound, corporate debentures, and government securities. Income fund are ideal for those looking for capital stability and regular income.

### 3.9 OTHER SCHEMES

Tax saving schemes: Tax saving schemes or equity – linked saving schemes offer tax rebates to investors under section eighty eight of the Income Tax Act. They generally have a lock – period of there years. They are ideal for investors looking to exploit tax rebates as well as growth in investment.

**Special schemes**

These schemes invest only in the industries specified in the offer document. Examples are Info Tech funds, FMCG funds, pharma funds, etc. these schemes are meant for aggressive and well – informed investors.
Index Funds

Index Funds invest their corpus on the specified index such as BSE Sensex, NSE index, etc. as mentioned in the offer document. They try to mimic the composition of the index in their portfolio. Not only the shares, even their weight age is replicated.

Index funds are a passive investment strategy and the fund manager has a limited role to play here. The NAVs of these funds move along with the index they are trying to mimic save for a few points here and there. This difference is called tracking error.

Sector specific schemes

These funds invest only specified sectors like an industry or a group of industries or various segments like A Group shares or initial public offerings.

3.10 PROFILE OF SELECTED SCHEMES

Measuring the whole ocean is not feasible instead the selective samples of depth on random basis may give a fruitful result to find out the depth of it. Hence, the researcher opted the random sampling method and selected ten financial industries for her research which offer mutual fund as the financial revenue to the public as well as to the banks. In the industry of mutual fund 35 industries and more than 500 schemes are the most preferable investment schemes in India. However, the retail investor face a problem of selecting fund scheme. An investor invests in a fund based on investment tragedy, risk factor and the qualitative analysis of management style. The funds recorded is also an important indicator too. Though the past performance alone cannot be an indicative of future performance, it
is frankly the only quantitative way to judge how good a fund is at present. Therefore, there is a need to correctly access the past performance of different mutual funds.

**SELECT MUTUAL FUND SCHEMES**

1. HDFC equity fund
2. Reliance growth fund
3. Franklin Templeton prima fund
4. Franklin Templeton blue chip fund
5. HDFC top 200 fund
6. DSP black Rock top 100 fund
7. Canara Robeco Income fund
8. Franklin Templeton India life stage 50’s plus fund
9. ICICI Prudential MIP fund.
10. TATA infrastructure fund

**1. HDFC Equity Fund**

**Fund objective & strategy**

The scheme seeks to provide long-term capital appreciation by predominantly investing in high growth companies.

**Portfolio manager**

Prashant Jain & Miten Lathia

**About HDFC**

The portfolio managers of HDFC equity fund are Prashant Jain since June 2003 and Miten Lathia since August 2010.
Value research analysis of HDFC equity fund

After putting on an impressive show in 2005, it delivered a pretty muted performance in 2006 and 2007. But it also brought to the fore the inherent strength of the fund manager, who sticks by his convictions, irrespective of whoever else is playing the momentum game. HDFC Equity Fund focuses on investing in quality companies that are reasonably valued and have a growth bias, says Jain. So even if it means being temporarily punished, he will stick to good quality businesses, remain diversified and be wary of richly valued investments. In 2007, his high exposure to Financials did not impact as much as Metals or Construction where the fund's exposure was low. Neither did he go overboard on Energy. The portfolio moves were, in my opinion, consistent with our investment approach, says fund manager Jain.

The criteria that go into selecting stocks/sectors are quality, our understanding, growth prospects and valuation of businesses. But if investors fretted and critics scorned, Jain turned the tables on them eventually. Known to always provide decent downside protection capabilities in the past, it was the same in 2008. Though its fall of 50 percent was only marginally lower than that of the category average (53%), Jain accomplished this without plunging into large caps or resorting to aggressive cash calls. The focus on value and not on direction of price movement resulted in the fund being fully invested in the down markets of 2008-09, he Jain. Being fully invested certainly helped when the market picked up in March 2009. Last year it was way ahead of the category average (multi cap) and its benchmark (S&P CNX 500). Over last few years, the fund has preferred bank stocks over cyclicals like Metals as ROE/Growth are better on one hand and valuations cheaper on the other for the former. This hurt performance in 2008 as banks under-performed due to global banks being in stress and the same has helped in 2009 as banks have done well, says Jain. The mid- and small-cap exposure also helped, though Jain has
booked profits and is now titling towards large caps. The fund's size has not dampened performance though it has led to a much more diversified offering of around 60 stocks.

2. RELIANCE GROWTH FUND

Fund objective & strategy

The scheme aims at long term growth of capital through research based investment approach. The funds will be invested in Equity and equity related instruments and there will be an exposure to debt and money market instruments also.

About reliance

The portfolio manager of reliance growth fund is Mr. Sunil B. Singhania since January 2004.

Portfolio manager

Sunil B. Singhania

3. FRANKLIN TEMPLETON PRIMA FUND

Fund objective & strategy:

The primary objective of the fund is capital appreciation and secondary objective is income generation by focusing on mid and small cap industry

Portfolio manager

K N Sivasubramanian & R Janakiraman
4. FRANKLIN TEMPLETON BLUE CHIP FUND

Fund objective & strategy

The scheme seeks aggressive growth and aims to provide medium to long term capital appreciation through investment in shares of quality companies and by focusing on well established large sized companies.

Portfolio manager

The fund manager of this fund are Anand Radhakrishnan Since Apr 2007, Anand Vasudevan since Feb 2011

Value research analysis

Its consistent performance track record has ensured that it boasts of the largest assets in its category. Barring two years (1996, 2007), the fund has delivered ahead of its category every single year and over the past three years has been a top quartile performer. The fund showed great resilience during the market meltdown of 2008 and in 2009 was ahead of the category average and even beat the Sensex (the only other large-cap fund to do that was ICICI Prudential Focused Bluechip Equity). By ensuring that cash exposure never went above 10 per cent in 2008, the equity allocated averaged 94 per cent (category average: 84%). Yet the fund was able to curtail its fall to 3 per cent below the category and 4 per cent below the Sensex. During that time, the fund picked up some Financial Services stocks at great bargains; a move that reaped benefits the next year. And when the market began its upward journey in March 2009, the fund was fully invested (96%) while the average category equity holding was 81 per cent.

Radhakrishnan follows his conviction and is often seen taking contrarian bets in sectors as well as stocks. Currently, this is the only large-cap fund with Kotak Mahindra Bank in its top five holdings. BhartiAirtel too features there (8.36%). The latter, along with Idea Cellular, has the allocation to Communications close to
Exposure to Engineering has come down to close to 5 per cent but the fund was overweight on the sector in 2009 and 2010. Some contrarian moves failed to deliver the desired results. Being underweight on Oil and Gas and Power in 2007, compared to its peers, is one such case. BSE Oil & Gas and BSE Power were the top performing indices leading to an underperformance of this fund. One can clearly see the buy and hold strategy of the fund. Although stocks held for short period (that is five or less months) do feature, they are rare. Some of the favorite long-term picks are Infosys Technologies, Larsen & Toubro, BPCL, Grasim Industries and Reliance Industries. Historically the fund has gone up to 40 per cent in a single sector during the Technology boom but never after that. Allocation to top 10 stocks has averaged around 47 per cent over the past one year and with 42 stocks in its portfolio, the fund looks fairly diversified when compared to its peers. An excellent pick for investors who want to beat Sensex; the 15-year annualized return (July 31, 2011) is 27 per cent (Sensex: 12%).

5. HDFC TOP 200 FUND

Fund objective and strategy

The scheme seeks capital appreciation and would invest up to 90 per cent in equity and the remaining in debt instruments. Also, the stocks would be drawn from the companies in the BSE 200 Index as well as 200 largest capitalized companies in India.

Value research analysis

This fund invests in stocks drawn from the companies in the BSE 200 Index as well as 200 largest capitalised companies in India. With equity exposure up to 90 per cent, the fund manages to achieve capital appreciation over time. We like this fund for its solid long-term record and skilled management that makes it the best performer over the past 5-years with an over 23 per cent return. In the 14-year
history of this fund; it has consistently proven itself barring 1999 when the high exposure to FMCG and Healthcare backfired in the Tech-dominated rally. Again, between June 2007 and January 2008, the fund underperformed the markets. In 2006, it was the high exposure to defensive sectors that pulled it down, the fall in 2007 was due to offloading Energy when the sector was going great. Jain also missed the Real Estate and Utilities boom in this period. Jain admits he stayed away from Real Estate because he did not understand the business.

While he does like growth and quality, he wouldn’t overpay for growth has been his argument. In 2008, the funds success in standing upright in a bear market, without resorting to debt or high cash levels, was a testimony to the managers skill. The large-cap bias and exposure to FMCG and Healthcare restricted the fall to just 45 per cent, around 11 per cent less than BSE 200 and 8 per cent lower than the category average. But it was in 2009 that Jain silenced his critics by outperforming the category by 14 per cent. This was achieved by being overweight in Auto, Banking, where his bet on SBI paid handsomely. He also reduced exposure to Power Utilities and Energy and reduced significant exposure to RIL, which helped boost performance.

**Our View**

A quality portfolio and a manager who sticks to his conviction, irrespective of whoever else is playing the momentum game, is a mark of this fund. Investors may fret occasionally but Jain has a knack of rewarding investors who stick with the fund. The portfolio of 60 stocks is logical given its size.

**6. DSP BLACK ROCK EQUITY FUND**

**Fund objective & strategy**

The scheme seeks to generate long-term capital appreciation, from a portfolio which is substantially constituted of equity and equity related securities and may
also invest a certain portion of its corpus in debt and money market securities, in order to meet liquidity requirements from time to time.

Portfolio manager


7. CANARA ROBECO INCOME FUND

Fund objective & strategy

The scheme aims to generate income through investment in debt and money market securities of different maturity and issuers of different risk profiles.

Portfolio manager

The fund manager of this fund is Ritesh Jain Since June 2008

8. FRANKLIN TEMPLETON INDIA LIFE STAGE FOF 50’S PLUS FUND

Fund objective & strategy

The scheme seeks to generate superior risk adjusted returns to investors in line with their chosen asset allocation.

Fund manager

Sachin Padwal-Desai, Pallab Roy & Anand Radhakrishnan

9. ICICI PRUDENTIAL MIP FUND

Fund objective & strategy

The scheme seeks to provide reasonable regular returns and long-term capital appreciation with a predominant exposure to debt instruments. Under normal
circumstances, 85 per cent of the corpus will be invested in debt instruments while exposure to equities will be at 15 per cent. About ICICI Prudential MIP fund:

**Portfolio manager**

Rajat Chandak, Mrinal Singh & Avnish Jain since Aug 2009, Mrinal Singh Since Jan 2010, Avnish Jain Since Jan 2011

**10. TATA INFRASTRUCTURE FUND**

**Fund objective & strategy**

The scheme aims to provide income distribution and medium to long term capital gains by investing predominantly in equity or equity related instruments of the companies in the infrastructure sector.

**Portfolio manager**

M Venugopal since Feb 2005