CHAPTER-4: PROFILE OF SELECTED MUTUAL FUND SCHEMES

4.1 RELIANCE GROWTH FUND

Fund Manager: Sunil Singhania

Primarily a midcap fund with some exposure to large cap stocks, the fund was a favourite of investors during the bull run of 2003-2007, where its assets under management surged rapidly. Though the fund manager was quick to move to cash during the stock market crash in 2008-2009, he was late in deploying it back as the markets recovered. This led to an under-performance in that period. Investors with a higher risk appetite willing to bet on midcaps can take exposure to this fund, said wealth managers. Reliance Growth Fund is among the few schemes with a track record of over two decades. Launched in 1995, by Reliance Mutual Fund, it is one of the flagship schemes of the fund house. Last year, ace fund manager Mr Sunil Singhania and then CIO moved out of the AMC and gave way to Mr Manish Gunwani, another well-known fund manager, and erstwhile Deputy CIO of ICICI Prudential Mutual Fund.

As Mr Gunwani took over as CIO-Equity, Reliance Mutual Fund and the fund manager of Reliance Growth Fund in September 2017, there has been a drastic shift in the portfolio holdings and market-cap allocation. There has been a significant reallocation of assets from large-caps into mid-cap stocks. This comes especially at a time when most fund managers have been doing the opposite.

In March 2018, Reliance Mutual Fund reclassified the scheme from an Equity Growth scheme to a Mid-cap Fund. Though in the past the fund has not hesitated to introduce mid-caps in the portfolio, it maintained a multi-cap style of investing. Now, the fund has adopted a more aggressive mid-cap approach.

In view of the new strategy, the Reliance Growth Fund has rightly adopted the S&P BSE Midcap as the new benchmark, from S&P BSE 100 earlier.

In terms of performance, Reliance Growth Fund has delivered decent returns. Being a multi-cap styled fund in the past, it is not fair to compare the performance with the
aggressive S&P BSE Mid-cap Index. On comparing the performance of the scheme with the S&P BSE 100, we find it has generated an acceptable alpha.

Even on comparing the performance to the more aggressive Mid-cap Index, it is seen that the returns of the growth scheme has closely tracked the S&P BSE Mid-cap. Thus with the new aggressive strategy of the fund and with a highly experienced fund manager, it needs to be seen whether the Reliance Growth Fund is able to generate an alpha as it has done in the past.

The AUM of the fund is not extremely high at around Rs 7,000 crore. This gives the fund manager a reasonable amount of flexibility and liquidity to manage a portfolio of mid-cap stocks.

4.2. FRANKLIN INDIA BLUE CHIP FUND

Fund Managers: Anand Radhakrishnan & Anand Vasudevan

A good scheme for first-time investors in equity mutual funds, analysts recommend it for its consistency and quality of stock picks. Over the last two decades the fund has managed to stick to its philosophy of sticking to bluechips with healthy balance sheets, and has managed to stay away from momentum sectors or stocks. As a result, the scheme tends to underperform in rallies driven by momentum over the short term, but eventually catches up over the long term.

This fund is suitable for investors looking for high capital appreciation over a long term, with limited downside potential in volatile markets. As such the fund is suitable for investors planning for retirement, children’s education or other long term financial objectives. Launched in 1993, this is one of the oldest schemes in its category. With a huge AUM base of over Rs 4600 crores, the expense ratio of the fund is amongst the lowest at only 1.82%. As an asset management company Franklin Templeton is recognized as amongst the best performers across several mutual fund categories. The fund managers of this scheme are Anand Radhakrishnan (since 2007), Anand Vasudevan and Neeraj Gaurh. Anand is known as one of the fund managers in the industry with keen eye for selecting high quality stocks at attractive valuations for his portfolio. The scheme is open both for growth and dividend plans. The current NAV (as on Feb 21 2014) is 238.2 for the growth plan and 30.28 for the dividend plan.
The management team is headed by Anand Radhakrishnan, who is a skilled manager and a proficient stock-picker. He has built an impressive track record over the years across a number of funds he runs for the fund house. He has been managing this fund since April 2007 and is supported by a strong and experienced investment team that ranks among the best in the industry.

Focused on growth and quality companies, the fund embodies Franklin Templeton’s brand of management. The investment approach is team-driven, where the focus is on identifying businesses with clean balance sheets, strong business models, sustainable competitive strengths, and high corporate governance standards. Though Radhakrishnan looks for companies with sustainable growth prospects, he is fairly valuation-conscious and is willing to stay away from issues he believes are overvalued. Clearly, he is unlikely to be at his best in sharply rising or momentum-driven markets, but he has proved himself as a smart stock-picker. He frequently invests in beaten-down stocks or out-of-favour growth companies, especially due to external factors rather than deteriorating fundamentals. However, this could expose the fund to near-term headwinds if the investment thesis doesn’t pan out as expected.

Investors must bear in mind that Radhakrishnan’s investment approach can result in significant deviations in the fund’s performance from that of the benchmark index and Morningstar Category peers. It is also noteworthy that Radhakrishnan has chosen to stand by his investment style even when it is out of favour, suggesting a disciplined approach. Although the fund’s significant underperformance in 2017 and this year so far has dented its long-term track record, we continue to believe that Radhakrishnan’s investment style will hold the fund in good stead over a market cycle. Hence, we reiterate the fund’s Morningstar Analyst Rating of Gold.

4.3 HDFC EQUITY FUND

**Fund Manager: Prashant Jain**

With about Rs 18,000 crore in assets, it is the largest mutual fund equity scheme in the country. The product is one of the rare ones to have the same fund manager for the last 20 years. That is also perhaps one of the biggest selling points of this fund. Jain is trusted by wealth managers for his strong conviction, which is known to play out over a longer
period of time. But, its short-term under-performances have frustrated many new investors. Some have raised concern that the fund has lost its nimbleness because of its size. Financial planners recommend this fund only to investors with investment horizon of 5 years and above and those with a higher risk appetite.

HDFC Equity Fund needs no introduction— it's popular with a performance track record spanning more than two decades. However, despite being one of the largest equity funds in India, HDFC Equity Fund is fast losing its charm after a substantial slowdown in performance over the last few years.

Traditionally a flexi-style fund, it has always had the privilege to switch market cap exposure depending on available opportunities. However, the fund preferred to be inclined more towards large caps along with significant exposure to mid-caps. Keeping in mind the fund's historical strategy, the fund house has classified HDFC Equity Fund under Multi-cap Funds category, which allows it to diversify across market caps without limitations to any specific segment. This is very much in line with its historical investment style.

An offering from India's largest fund house, HDFC Mutual Fund, known for its investment systems and processes and with a well seasoned fund manager like Prashant Jain at the helm, HDFC Equity Fund can be easily entrusted with investors' money. However, the fund has clearly disappointed its investors over the last few years with sub-standard returns compared to its peers. Over a 3-year rolling return basis, HDFC Equity Fund has not only lagged behind on the category average but also its benchmark, the Nifty 500 - TRI Index. Moreover, the excess volatility seen in the fund's performance raises concern about its consistency and stability.

Having an objective to generate capital appreciation / income from a portfolio, predominantly invested in equity & equity related instruments, HDFC Equity Fund carries a weightage of at least 70% into large caps, with about a quarter of its portfolio in mid-cap stocks. Driven by the conviction of its fund manager, the fund has in the past managed to reward investors with a higher risk appetite and a longer time horizon.
4.4 BIRLA SUN LIFE ADVANTAGE FUND

Fund Manager: Satyabrata Mohanty

A multicap fund, it has had its share of ups and downs. The fund went through volatile phases due to high exposure to a few stocks and sectors in its initial phase. It performed well in 1999, led by gains in IT, pharma and FMCG. However, a high 65% exposure to technology led to its gains being erased subsequently. Mohanty claims it has reoriented its focus to now position itself from changing business cycles and believes in identifying growth stocks. The scheme is recommended for high risk takers, looking to ride the economic recovery cycle.

Aditya Birla Sun Life Equity Fund has a long history that spans nearly two decades. The fund was launched by Alliance Capital Mutual Fund in August 1998 as Alliance Equity Fund. It was the flagship diversified equity fund of the AMC at the time. The fund gained popularity as it was managed by ace fund manager Mr Samir Arora, then CIO of Alliance Capital MF. He generated supernormal returns for the fund and other schemes of the fund house during the tech rally in 1999-2000. However, the overaggressive nature, also led to huge losses for investors when the tech bubble popped. Mr Arora had to quit the fund house in 2003, as the regulator had charged him of professional misconduct, fraudulent and unfair trade practices and insider trading.

A year later, Birla Sun Life Mutual Fund took over the assets of Alliance Capital Mutual Fund. Alliance Equity Fund was renamed to Birla Sun Life Equity Fund. And more recently, to Aditya Birla Sun Life Equity Fund, after ‘Aditya’ was prefixed to all legal entities of the Aditya Birla Group.

Through the long history of the fund, the fund management changed hands several times. Mr Mahesh Patil, presently co-CIO at ABSL Mutual Fund, was at the helm the longest – between November 2005 and September 2012. The fund is currently managed by Mr Anil Shah, who took over the reins in October 2012.

Though being free to invest in stocks across market-caps, ABSL Equity Fund maintains a large-cap bias. About 70%-75% of the assets are invested in large-cap stocks. Mid-and small-caps account for up to 20% of the portfolio. Thus the fund invests more like a large-cap fund, but maintains the flexibility to invest in mid caps if needed.
This flexibility enables the fund to provide stability in volatile market periods and turn aggressive when the market valuations come to be attractive.

In terms of performance, Aditya Birla SL Equity Fund has delivered a respectable performance over the long term, making it among the top performing funds for the period. However, its returns over the past year or so have trailed the benchmark. This can be attributed to the cautiousness developed due to the high market valuations. Hence, it needs to be seen how the fund is able to recover from here.

In this brief analysis, we take a close look at the features and performance of Aditya Birla Sun Life Equity Fund.

4.5 FRANKLIN INDIA PRIMA FUND

**Fund Manager: R Janakiraman**

The fund is one of the most consistent performers in the mid and smallcap space. Mid- and small-cap investing is usually considered risky but this scheme has managed to avoid sharp fluctuations in its performance, by and large. The fund manager at times does add some largecap stocks, which could be about 10-15% of its portfolio size to tone down the risk profile. Though it is not the best performing fund, it consistently beats the category average and stays in the top-to-mid rankings of midcap funds. The fund is known to have identified stock winners like Torrent Pharma, Finolex Cables and Amara Raja Batteries NSE 1.12% in the last three years.

Franklin India Prima Plus is one of the flagship schemes of Franklin Templeton Mutual Fund. Launched over two decades ago, this large-cap biased fund has attained a corpus of over Rs 10,000 crore. Now that SEBI has issued norms for mutual fund scheme categorization, the fund house had to make changes in the scheme to comply with the regulations.

Since, Franklin India Prima Plus predominantly invests in large-cap stocks with an opportunistic allocation to mid-caps (15%-20%), the fund house had an option to categorise the fund under one of the following categories – Large Cap Fund, Multi Cap Fund or a Large & Mid Cap Fund.

Franklin India Bluechip Fund already held the Large Cap category, therefore, this option was ruled out. The Large & Mid Cap Fund category requires a minimum investment of
35% to mid-cap stocks, hence, the Franklin India Prima Plus fund's investment strategy would be altered.

Thus, the nature of Franklin India Prima Plus was best suited as a Multi Cap Fund. Under this category, the mutual fund scheme can invest across large cap, mid cap and multi cap stocks. There is no minimum investment required towards any market cap. The scheme name and category changes will come into effect from June 4, 2018.

Given this mandate, Franklin India Prima Plus can remain predominantly invested in large-cap stocks and continue to take tactical allocations to mid-caps, as and when required. While the scheme has not spelled this out in its Investment Strategy published in the Addendum, it is likely to stick to its existing investment approach. Hence, investors should not be worried with the change in scheme name.

In terms of performance, Franklin India Prima Plus has not disappointed. It is among the top ranking schemes in the category based on its past returns. No wonder, the scheme is among the few equity funds that have garnered a corpus above Rs 10,000 crore. However, over the recent few years, the large-cap oriented fund has found it difficult to outperform its broader benchmark – the Nifty 500 index.