Sakthi Financial Services

Weekly Newsletter

VERSION 24.25.21 / NOVEMBER 30 / 2024

BSE SENSEX 79,802.79 ↓ 0.38%

Nifty50 24,131.10 ↓ 0.37%

Headlines

- Equity, hybrid and index funds: Most preferred investment option for SIP investors
- All equity mutual fund categories log negative returns in last 1 month. Should you allocate more or exit?
- 19 equity mutual funds multiplied investors' SIP investments by over 3x in 7 years
- Your bets on multi-asset allocation funds must factor in equity play
- 55% of equity assets stays invested for over 2 years
- SEBI introduces mark-to-market basis valuation for repo transactions by mutual funds
- 32 equity mutual funds completed 25 years in 2024. How much returns did they offer?
- Only one ELSS mutual fund has never delivered negative returns in last 10 years

MF Industry adds over 9 lakh investors in October 2024

The MF industry has added more than 9 lakh investors in October 2024. The total number of unique investors based on PAN and PAN exempted investors has increased to 5.10 crore in October 2024 from 5.01 crore in September 2024. Further, with the total net inflows of Rs. 2.40 lakh crore, the AUM of the industry has reached Rs.68 lakh crore in October from Rs.67.09 lakh crore in September. In the last one year, the AUM of the MF Industry has gone up sharply by 44% from Rs.46.71 lakh crore.

Here are some key highlights of the month gone by.

Folio count

The industry added 59.87 lakh new folios last month raising the aggregate folio count to 21.65 crore.

Avg AUM per folio

While the average AUM per folio of retail investors is Rs.1.93 lakh, the average AUM per folio of the MF industry is Rs.3.11 lakh crore in October.

AUM in T-30 and B-30 cities

The total AUM from T-30 cities is at Rs. 54.68 lakh crore (81%) while the B-30 cities contribute Rs. 12.58 lakh crore (19%). Interestingly, Rs. 41.61 lakh crore of this AUM (62%) comes from individual plans while Rs. 25.65 lakh crore (38%) of the AUM comes from non-individual plans in both T-30 and B-30 cities.

SIP accounts

The total number of outstanding SIP accounts is 10.12 crore with 63.70 lakh new SIP account registrations in the month. SIP AUM, in October, is at Rs. 13.81 lakh crore

Equity, hybrid and index funds: Most preferred investment option for SIP investors

An analysis of gross SIP inflows done by Cafemutual reveals that equity funds, hybrid funds and index funds are the top three preferred choices for SIP investors.

Majority of gross SIP inflows i.e. 82% goes to equity funds. Of the total gross SIP inflows of Rs.24,500 crore, equity funds received gross SIP inflows of Rs.20,000 crore in September 2024.

Hybrid funds and index funds occupy the next two spots with gross monthly inflows of Rs.1600 crore and Rs.1200, respectively. They account for 7% and 5% of the total SIP inflows.

Here is a table with the monthly SIP contribution for September 2024:

Category (2024)	SIP Contribution (Rs. crore)	Market Share (%)
Equity funds	19,999.39	81.60
Hybrid funds	1,610.26	6.57
Index funds	1,157.85	4.72
Debt funds other than liquid and overnight funds	636.01	2.60
Liquid/Overnight funds	528.72	2.16
Other funds (other than Index funds & including FoF-domestic)	353.80	1.44
Solution oriented schemes	222.69	0.91

In terms of no. of live SIP accounts, equity funds are the front runners with 8 crore live SIP accounts. Hybrid and index funds again follow equity funds with 60 lakh and 46 lakh live SIP accounts, respectively.

Currently, the MF industry has 10 crore live SIP accounts in September 2024.

Let us look at this table to know more:

Category (2024)	No. of live SIP Accounts	Market Share (%)
Equity funds	8,05,39,560.00	81.56
Hybrid funds	59,78,187.00	6.05
Index funds	46,42,644.00	4.70
Debt funds other than liquid/overnight funds	27,74,223.00	2.81
Liquid/Overnight funds	23,33,040.00	2.36
Other funds (other than Index Funds & including FoF-Domestic)	17,28,146.00	1.75
Solution oriented funds	7,48,371.00	0.76

In terms of SIP AUM, the total SIP AUM in September 2024 is Rs. 14 lakh crore.

Equity funds make up 87% of total SIP AUM, contributing Rs.12 lakh crore. Hybrid schemes and index funds contribute Rs. 91500 crore and Rs. 33500 crore respectively, to the SIP AUM kitty.

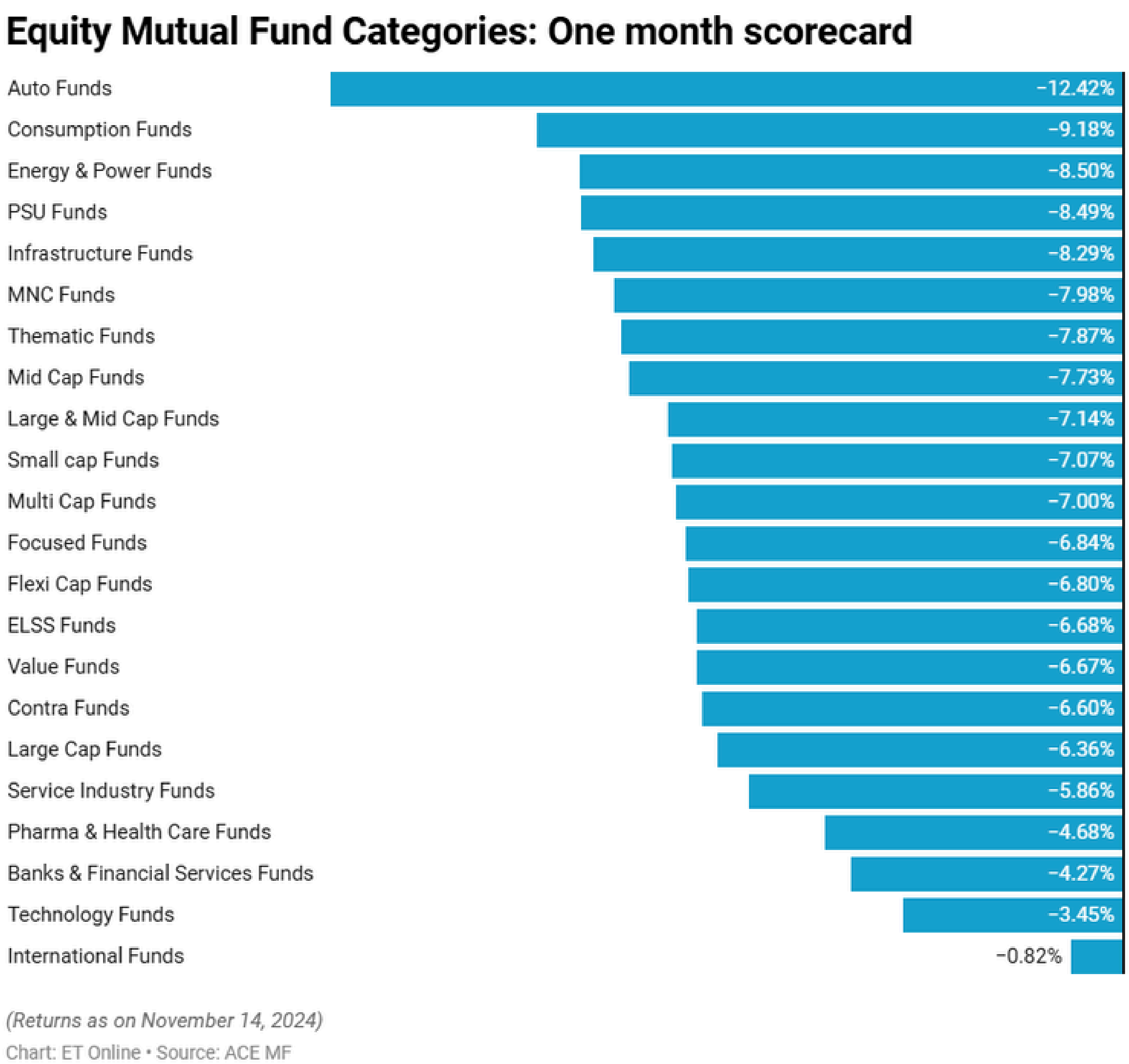
Here is a table with SIP AUM for September 2024:

Category (2024)	SIP AUM (Rs. in crore)	Market Share (%)
Equity funds	12,07,057.73	87.36
Hybrid funds	91,510.79	6.62
Index funds	33,451.18	2.42
Solution oriented funds	22,151.94	1.60
Other funds (other than Index Funds & including FoF-Domestic)	17,299.37	1.25
Debt funds other than liquid/overnight funds	9,377.59	0.68
Liquid/Overnight funds	855.35	0.06

All equity mutual fund categories log negative returns in last 1 month. Should you allocate more or exit?

All equity mutual fund categories have offered negative average returns in the last one month. These categories lost between 0.82% to 12.42% in the mentioned period. There were 22 equity mutual fund categories including sectoral and thematic funds in the said period.

SBI Automotive Opportunities Fund, the only auto sector based fund, lost the most at around 12.42% in the last one month. Consumption theme based funds lost 9.18% in the same period.



According to the expert, the recent negative returns have been driven by a convergence of key factors. Some specific sectors such as the automotive sector has experienced a more pronounced decline further impacting the fund performance. While some of these factors may be partially priced into current valuations, the full impact may not yet be fully absorbed due to ongoing uncertainties.

“The recent negative returns in equity mutual funds, spanning sectoral and thematic categories, have been driven by a convergence of key factors. Heightened market volatility, fueled by global economic uncertainties and escalating geopolitical tensions, has been a major contributor. Additionally, substantial foreign outflows from domestic markets have exerted pressure on stock prices, exacerbating market downturns. Specific sectors, including the automotive industry, have experienced more pronounced declines, further impacting fund performance,” - Experts view

Out of 22 equity mutual fund categories, 17 gave negative returns in the last three months. Auto sector based funds lost the most of around 9% in the last three months followed by PSU funds which lost 8.68% in the same period.

Large cap and large & mid cap funds posted a negative average return of around 2.39% and 2.02% in the same period.

International funds offered the highest return of around 6.12% in the last three months.

The expert recommends that the recent market corrections can indeed be used as an opportunity for long-term investors to acquire quality assets at lower prices. One should also temper the expectations for short-term gains and avoid taking excessive risk. **(Cont.)**

“Market corrections, such as the recent downturn in equity mutual funds, can indeed present an opportunity for long-term investors to acquire quality assets at lower prices. However, it's essential to temper expectations for short-term gains and avoid taking on excessive risk. Investors with a long-term outlook may benefit from staying invested or gradually increasing their exposure during market lows, provided they have sufficient risk tolerance and the ability to withstand potential short-term volatility,”

“Maintaining a diversified portfolio remains critical in mitigating sector-specific risks and offering a buffer against further market swings. While the current correction appears to be an opportunity, it's advisable not to treat it as a dip for immediate overallocation. Instead, investors should adopt a gradual approach to increasing their exposure, aligning with market trends and their overall financial goals,” - recommended by experts.

According to the expert, the large cap funds and flexi cap funds remain particularly attractive due to their favourable valuations. For conservative investors wanting exposure to equities, dynamic asset allocation funds and multi-asset funds provide risk mitigation while maintaining market exposure.

One should always consider risk appetite, investment horizon, and goals before making any investment horizons.

19 equity mutual funds multiplied investors’ SIP investments by over 3x in 7 years

Equity Mutual Funds: Wealth multipliers in seven years

	Current value of Rs 10,000 monthly SIP made 7 years ago	XIRR(%)	Multiplied SIP investments by
Quant Small Cap Fund	5,025,527.85	27.04	4.19
Nippon India Small Cap Fund	4,661,704.09	25.65	3.88
Motilal Oswal Midcap Fund	4,382,372.55	24.51	3.65
Quant ELSS Tax Saver Fund	4,086,593.75	23.22	3.41
HSBC Small Cap Fund	4,056,050.37	23.08	3.38
Edelweiss Mid Cap Fund	3,944,315.61	22.56	3.29
Quant Mid Cap Fund	3,936,184.39	22.52	3.28
Nippon India Growth Fund	3,901,310	22.35	3.25
Quant Flexi Cap Fund	3,887,267.14	22.29	3.24
Axis Small Cap Fund	3,881,928.29	22.26	3.23
Kotak Small Cap Fund	3,839,655.3	22.06	3.2
SBI Small Cap Fund	3,811,458.02	21.92	3.18
HDFC Small Cap Fund	3,778,151.21	21.76	3.15
HDFC Mid-Cap Opportunities Fund	3,749,712.87	21.62	3.12
Quant Active Fund	3,713,861.54	21.44	3.09
Invesco India Midcap Fund	3,712,439.78	21.44	3.09
Kotak Emerging Equity Fund	3,707,050.5	21.41	3.09
JM Flexicap Fund	3,630,777.79	21.02	3.03
SBI Contra Fund	3,622,021.37	20.98	3.02

(Data as on November 25,2024)

Chart: ET Online • Source: ACE MF

Mutual fund investors always look for those schemes which either double or triple their investments during their investment period.

ETMutualFunds did some data analysis and found that around 19 equity mutual funds have multiplied investors’ SIP investments by over three times in the last seven years.

Seven small cap and mid cap funds, two flexi cap funds, a multi cap, contra, and an ELSS fund multiplied investors’ SIP investment by more than three times in the last seven years.

No large cap, large & mid cap, focused fund, and value fund multiplied the investments by more than three times in the said period.

Your bets on multi-asset allocation funds must factor in equity play

Investors looking to put money in multi-asset allocation funds - a popular category with a mix of stocks, debt and gold - must parse these portfolios before investing in them. This is because various schemes in this category have varying equity exposure that may not be suitable for all.

Assets under management (AUM) of 25 multi asset allocation schemes have more than doubled from ₹45,092 crore in October 2023 to ₹1.05 lakh crore in October 2024.

The allocation strategies that exist across 25 multi-asset allocation funds show a huge variation, making it important for investors to choose the right fund.

A study by Ventura Securities for the period ending September 30, shows that one scheme had no equity exposure and one had less than 35% equity exposure. While 18 schemes had between 35% and 65%, five have an equity exposure higher than 65%.

Investment advisors said investors are generally unaware of the wide disparities in the equity allocations in this category "Many investors into these schemes are moving money from FDs or gold," said Harshvardhan Roongta, CFP, Roongta Securities. "They should opt for a scheme with low equity allocation as that would lower risk and volatility in their portfolio."

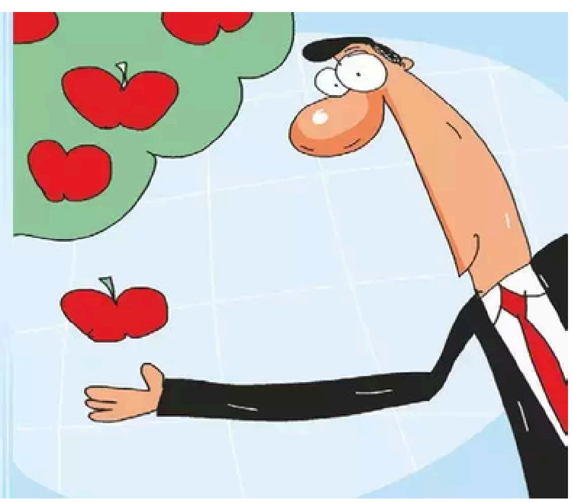
Fund Show

(Fig in ₹ Cr)

Fund	1 Yr Return (%)	Net Assets
ICICI Prudential Multi Asset	24.5	50,648
Kotak Multi Asset Allocation	26.6	7,485
SBI Multi Asset Allocation	22.5	6,591
Nippon India Multi Asset Allocation	28.1	4,500
UTI Multi Asset Allocation	30.2	4,415

NOTE: Top 5 funds by AUM considered

SOURCE: **Value Research**



Multi asset schemes with a lower equity allocation could work well for conservative investors who are first-time investors in mutual funds or do not like high volatility.

For example, in the period from September 26 to October 31, 2024, when the Nifty 50 lost 7.67%, schemes like SBI Multi Asset Allocation, BOI Multi-Asset, Mahindra Manulife Multi-Asset, Edelweiss and White Oak Multi-Asset with a less than 40% allocation to equity, saw their net asset value (NAV) dip less than 2%.

The tax angle also comes into play. Those schemes with 65% allocation or more to equity, are eligible for long-term capital gains tax of 12.5%. In comparison, others where equity holding is between 35% and 65% are eligible for long-term capital gains tax after holding for two years.

Allocate money to a fund manager with a demonstrated track record, who can understand cycles and increase or reduce allocation to an asset class - Experts

55% of equity assets stays invested for over 2 years

In a sign that indicates maturity of investors in mutual funds, AMFI data shows that the majority of equity assets or 54.7% of the total equity assets has stayed invested for over 24 months.

Since the majority of individual investors like retail investors and HNIs invest in equity funds, this trend indicates that many investors have understood the long term benefits of equity investing.

In fact, the data shows that retail investors hold 59.1 % of equity assets for periods greater than 24 months.

Experts attribute this to mark to market gains and handholding by distributors. 78% of retail equity AUM has been invested through distributors in September 2024.

The data further shows that maturity of investors in non-equity funds like debt funds, conservative hybrid funds and Gold ETFs has also increased with 40% of the total debt AUM remaining invested for over 2 years.

The data further shows that 14% of retail debt assets is redeemed within a month’s time. Such a figure was just 4% in equity funds.

SEBI introduces mark-to-market basis valuation for repo transactions by mutual funds

Markets regulator Sebi on Tuesday decided to introduce new valuation metrics for repurchase or repo transactions by mutual funds, whereby securities used in such transactions will be valued on a mark-to-market basis. The new valuation metrics are aimed at having uniformity in valuation methodology of all money market and debt instruments as well as at addressing the concerns of unintended regulatory arbitrage that may arise due to different valuation methodology adopted

he new framework will come into effect from January 1, 2025, the Securities and Exchange Board of India (Sebi) said in its circular.

In its circular, Sebi said it has decided that the "valuation of repurchase (repo) transactions including TREPS with tenor of up to 30 days shall also be valued at mark to market basis".

At present, repo transactions including tri-party repo (TREPS) with tenor of up to 30 days are valued on cost-plus accrual basis.

Further, the valuation of all repo transactions, except for overnight repos, in addition to the valuation of money market and debt securities, will be obtained from valuation agencies.

In repo transactions, also known as a repo or sale repurchase agreement, securities are sold with the seller agreeing to buy them back at a later date. The instrument is used for raising short-term capital.

Sebi said that all money market and debt securities, including floating rate securities, will be valued at average of security level prices obtained from valuation agencies.

In case security level prices given by valuation agencies are not available for new security (which is currently not held by any mutual fund), then such security can be valued at purchase yield/price on the date of allotment/ purchase.

In June, Sebi allowed mutual funds to invest in repo transactions in securities such as Commercial Papers and Certificate of Deposits in a bid to boost growth of the corporate bond market. Mutual funds can participate in repo transactions only in "AA" and above rated corporate debt securities.

32 equity mutual funds completed 25 years in 2024. How much returns did they offer?

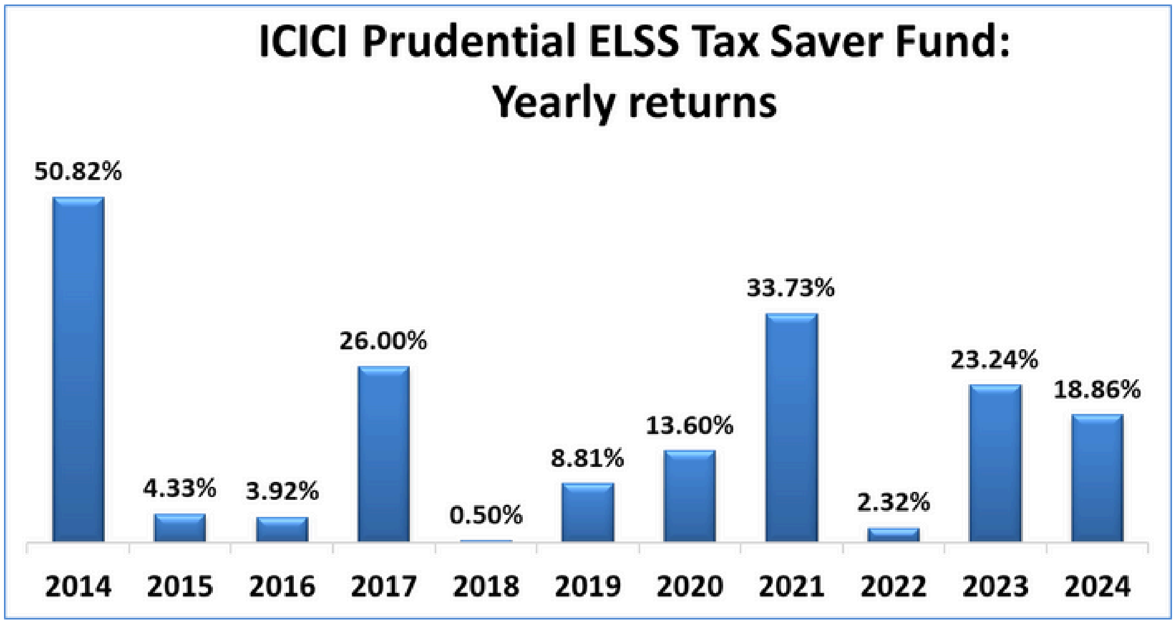
This year, 32 equity mutual funds in India have completed 25 years in the industry, with a diverse mix of schemes. Among them, seven are ELSS funds, six are large-cap funds, five are flexi and large-cap, four are mid-cap, two are value funds, and one each is a contra, multi, and small-cap fund.

Scheme Name	Scheme Category	Return %
HDFC ELSS Tax saver	ELSS	23.59
Nippon India Growth Fund	Mid Cap Fund	22.84
Aditya Birla SL Flexi Cap Fund	Flexi Cap	21.61
Franklin India ELSS Tax Saver Fund	ELSS	21.43
Franklin India Prima Fund	Mid Cap Fund	19.80
ICICI Prudential ELSS Tax Saver Fund	ELSS	19.40
Franklin India Bluechip Fund	Large Cap	19.30
SBI Contra Fund	Contra Fund	19.24
Tata Large Cap Fund	Large Cap	19.22
HDFC Flexi Cap Fund	Flexi Cap	19.09
HDFC Top 100 Fund	Large Cap	18.98
ICICI Prudential Large & Mid Cap Fund	Large & Mid Cap	18.75
Nippon India Vision Fund	Large & Mid Cap	18.52
Franklin India Flexi Cap Fund	Flexi Cap	18.32
JM Value Fund	Value Fund	17.34
SBI Long Term Equity Fund	ELSS	16.68
Sundaram ELSS Tax Saver Fund	ELSS	16.18
ICICI Pru Multicap Fund	Mid Cap Fund	15.50
SBI Large & Midcap Fund	Large & Mid Cap	15.12
HDFC Capital Builder Value Fund	Value Fund	14.84
Tata Large & Mid Cap Fund	Large & Mid Cap	13.24
Tata Mid Cap Growth Fund	Mid Cap Fund	13.12
HDFC Large and Mid Cap Fund	Large & Mid Cap	13.10
Quant Small Cap Fund	Small Cap Fund	12.86
Taurus ELSS Tax Saver Fund	ELSS	12.29
Taurus Large Cap Fund	Large Cap	11.02
Taurus Flexi Cap Fund	Flexi Cap	10.68
LIC MF ELSS Tax Saver	ELSS	10.60
LIC MF Large Cap Fund	Large Cap	10.55
LIC MF Flexi Cap Fund	Flexi Cap	9.88
JM Large Cap Fund	Large Cap	9.70
Taurus Mid Cap Fund	Mid Cap Fund	8.61

Only one ELSS mutual fund has never delivered negative returns in last 10 years

Only one ELSS mutual fund has never offered negative returns in the past 10 years, based on yearly returns. The scheme has performed similarly in 2024 so far. Around 27 ELSS mutual funds have been active in the market for the last 10 years.

ICICI Prudential ELSS Tax Saver Fund has never posted negative returns in the last 10 years, based on yearly returns from 2014 to 2023. So far in 2024, the scheme has offered a return of 18.86%.



This ELSS fund offered the highest yearly return in 2014, at around 50.82%, followed by 4.33% in 2015.

In 2018, when most tax-saving mutual funds lost up to 20.68%, only four funds in the category posted positive returns, with ICICI Prudential ELSS Tax Saver Fund offering a 0.50% return during the same period.

In 2022, ELSS mutual funds declined by up to 11.97%, while ICICI Prudential ELSS Tax Saver Fund offered a return of 2.32%.

Launched in August 1999, ICICI Prudential ELSS Tax Saver Fund had an AUM of Rs 14,346 crore as of October 2024 and holds around 78 stocks in its portfolio. As of October 2024, the scheme's largest holdings were in ICICI Bank and HDFC Bank, at approximately 8.93% and 7.25%, respectively.

Axis ELSS Tax Saver Fund, the largest ELSS or tax-saving fund, has not made it to the list of schemes that have never offered negative returns in the last 10 years. The scheme lost around 0.69% in 2016 and 11.97% in 2022.

The oldest ELSS fund, SBI Long Term Equity Fund, offered negative returns of around 8.34% only in 2018.

Please note, the above exercise is not a recommendation. It was conducted to identify which ELSS or tax-saving mutual funds have never offered negative returns in the last 10 years. Investment or redemption decisions should not be based solely on this exercise.

One should always consider their risk appetite, investment horizon, and goals before making any investment decisions.

ELSS (Equity Linked Savings Schemes) or tax-saving schemes help investors save income tax under Section 80C of the Income Tax Act. An individual can invest a maximum of Rs 1.5 lakh in a financial year and claim deductions on these investments. ELSS funds invest in stocks and carry high risk. These schemes have a mandatory lock-in period of three years, whereas other investment options under Section 80C have longer holding periods.

NFO (New Fund Offer)

Sources:- Economictimes, Moneycontrol, SEBI, AMFI, Cafemutual, Livemint, Business Standard etc.