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Diversification did the trick for fund managers in 2017

Tax-planning, multi-cap funds fare better than peers

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It was a problem of plenty for mutual fund managers in 2017. Even as the broader market raced higher with the Nifty gaining 28 per cent and the CNX 500 gaining 35 per cent this year, outdoing the benchmark returns was not an easy task. However, fund managers in the multi-cap category managed to show a far better performance compared to managers in other equity categories.

ANALYSIS

A *BusinessLine* analysis of the hit ratio (number of funds that gave better positive returns when compared to the benchmark) in equity diversified funds shows that fund managers of multi-cap funds have fared far better. The hit ratio of multi-cap funds was 73 per cent in 2017, against 52 per cent in 2016. Tax planning funds that adopt a multi-cap investing strategy have also put up good performances, with a hit ratio of 86 per cent in 2017.

Among multi-cap funds IDFC Focussed Equity Fund, Tata Retirement Savings Fund — Progressive Fund and Principal Dividend Yield Fund managed to outperform their benchmarks by a margin of 21-24 per cent. These funds are allowed by their mandates to invest in large-, mid- and small-cap companies. The diversification appears to have helped.

It is worth noting that many fund houses follow a different in-house benchmark for the same fund for the ease of operation and stock selection.

Steady performance

Among large-cap funds, the hit ratio in 2017 was 60 per cent, little unchanged from last year's 61 per cent. The average returns delivered by these funds in 2017 was 32 per cent. Some large-cap funds such as JM Core 11 Fund, Edelweiss Economic Resurgence Fund and Reliance Vision Fund emerged as the category toppers outperforming their benchmarks by wide margins of 16, 14 and 10 per cent, respectively. They delivered absolute returns of 44, 47 and 41 per cent in 2017, respectively.

Outperforming the benchmark in the large-cap category is relatively easier since these stocks are widely tracked. Abundance of information also makes it easier for fund managers to pick the winners and avoid losers. Identifying cyclical upturns and downturns is also easier in this segment.

Manic mid-caps

In 2017, mid-cap stocks raced ahead, with mid-cap funds delivering average return of 45 per cent. But the hit ratio of fund managers in this category was the lowest at 49 per cent.

The underperformance could be due to fund managers growing wary of spiking valuations in this segment and putting some money into large-caps to contain the risk. The introduction of new indices, such as the S&P BSE Mid Small Cap Index to track the performance of this category could also account for this dull show.

Small is beautiful?

In the equity small-cap category, it is a chicken-and-egg situation. Due to low floating stock, fund-buying tends to push the stock prices higher. This, in turn, helps improve the fund performance. The hit ratio in the small-cap fund category was a decent 57 per cent in both 2017 and 2016.

Some small-cap funds, such as SBI Small & Midcap Fund, HDFC Small Cap Fund and Sahara Star Value Fund, managed to beat their benchmarks by wide margins. However, the music could soon stop in this category with valuations of most of these stocks touching sky-high levels.

Top performing funds (Equity diversified categories)

Scheme Name	Returns % (absolute) in 2017
Large-cap	
Edelweiss Economic Resurgence Fund (G)	46.9
JM Core 11 Fund (G)	43.5
HDFC Capital Builder (G)	41.6
Mid-cap	
L&T Emerging Businesses Fund (G)	65.0
IDFC Sterling Equity Fund (G)	61.3
HSBC Midcap Equity Fund (G)	58.0
Multi-cap	
IDFC Focussed Equity Fund (G)	55.2
Tata Retirement Savings Fund — Progressive (G)	48.6
Principal Growth Fund (G)	48.2
Small-cap	
SBI Small & Midcap Fund (G)	78.8
Reliance Small Cap Fund (G)	62.1
HDFC Small Cap Fund (G)	59.9
Tax Planning	
BOI AXA Tax Advantage Fund (G)	55.7
IDFC Tax Advantage (ELSS) Fund (G)	52.6
Principal Tax Savings Fund	48.3

Hit ratio higher in multi-cap oriented funds

Category	Total number of funds	Number of funds outperforming their benchmark		Hit ratio	
		2016	2017	2016	2017
Large-cap	62	38	37	61	60
Mid-cap	39	17	19	44	49
Multi-cap	62	32	45	52	73
Small-cap	7	4	4	57	57
Tax-planning	42	22	36	52	86
Grand total	**212**	**113**	**141**