

## Wealth managers say index funds could be good for first-time investors given their simplicity and low cost

# Index Funds' Outperformance Over Large-cap Peers Boosts Their Appeal

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Mumbai: Wealth managers are increasingly asking investors to allocate some portion of their portfolio to passively-managed index funds instead of large-cap funds with several actively-managed large-cap equity mutual fund schemes underperforming their benchmarks in last one year.

An actively-managed equity scheme is one in which the fund manager takes decisions about how to invest the fund's money. A passively-managed fund, by contrast, simply follows a market index, like the Sensex or Nifty.

Its fund manager does not take any active investment decision.

Over the last one year, index funds have outperformed actively-managed fund categories. Actively-managed large-cap funds have lost 0.37%, while the index funds mimicking the Nifty have gained 3.87%, as per data from Morningstar India.

Financial planners point out that after Sebi norm on categorisation and rationalisation of mutual fund schemes, large-cap stocks are mandated to hold 80% of their portfolio in top 100 stocks by market capitalisation, making it difficult for them to generate alpha, prompting investors to look at passive funds.

### Not So Active on Returns Chart

Morningstar Category	Category Average	Performer	
		Top	Bottom
Contra	-3.57	3.93	-12.44
Dividend Yield	-6.74	0.16	-13.09
ELSS (Tax Savings)	-4.89	3.39	-17.83
Focused Fund	-3.33	3.79	-11.73
Index Funds	2.52	6.83	-8.44
Large & Mid-Cap	-6.14	0.15	-15.65
Large-Cap	-0.37	8.04	-8.29
Mid-Cap	-9.84	5.04	-15.24
Multi-Cap	-3.43	8.02	-11.55

Note: Returns in %



Earlier many such large-cap funds took exposure to mid- and small-cap stocks and generated alpha.

"We recommend index funds as an alternative to large-cap funds. Post categorisation, it is becoming difficult for large-cap funds to generate alpha. Added to that index funds score due to their lower expense ratio," says Jitendra Solanki, founder of JS Financial Advisors.

Typically most actively-managed equity mutual funds charge expense ratio in the range of 1.5-2.5%, while passively-managed equity funds could charge anywhere between 0.05% and 1%.

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## US Stocks Sink as Trade Optimism Fades

Reuters

New York: US stocks fell on Monday after data showed construction spending dipped in December, offsetting hopes that a US-China trade deal was imminent and pushing the S&P 500 back after its first close above 2,800 points in four months.

A report over the weekend said US President Donald Trump and his Chinese counterpart Xi Jinping could sign a formal trade pact at a summit around March 27, given progress in talks between the two countries.

The trade-sensitive S&P 500 industrials index was flat, while the other 10 major S&P sectors notched declines.

"The theme the markets are dealing with is what level of slowdown makes sense," said Michael Antonelli, market strategist at Robert W. Baird in Milwaukee.

"The construction numbers reinforce just how the brakes were being slammed on the economy last year."

The Commerce Department reported construction spending fell 0.6% in December, further evidence the economy lost momentum at the tail end of 2018.

The technology index dropped 0.49%. The biggest hit came as health stocks tumbled 0.94%, led by health insurers UnitedHealth and Cigna. The S&P 500 breached 2,800 twice last week, before finally closing above that mark on Friday for the first time since November 8.

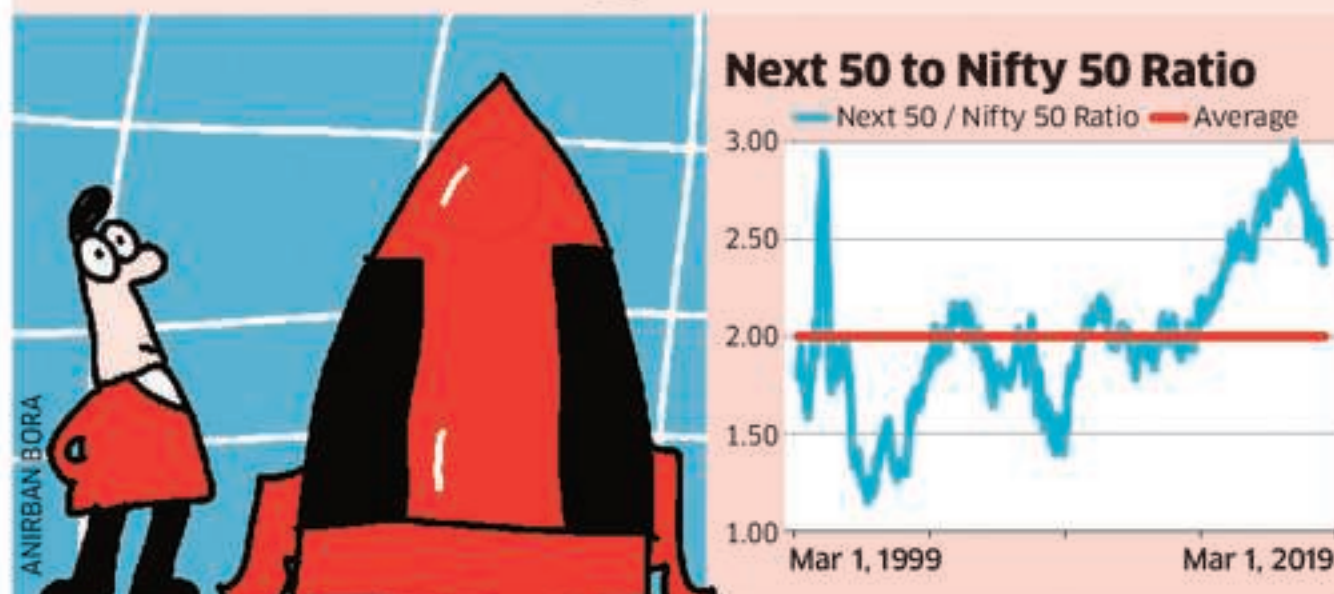
"Right above the 2,800 level is a significant amount of resistance. Above this level is free air; above it is a return to the highs," said Antonelli.

At 2210 IST, the Dow Jones Industrial Average was down 159.37 points, or 0.61%, at 25,866.95, the S&P 500 was down 12.13 points, or 0.43%, at 2,791.56 and the Nasdaq Composite was down 35.73 points, or 0.47%, at 7,559.63.

The trade optimism and a dovish Federal Reserve has spurred a strong run in stocks. The S&P 500 has surged about 11% this year and is now about 5% away from its September 20 record closing high.

### UNDERPERFORMANCE MAY CONTINUE FOR A WHILE

## Should You Jump Onto Index Next 50s Bandwagon Now?



Recent launches of Next 50 related MF schemes

Scheme	Benchmark Index	Inception Date
UTI S&P BSE Sensex Next 50 ETF	SENSEX Next 50 TRI	01-Mar-2019
Reliance Junior BeES FoF	NIFTY Next 50 TRI	28-Feb-2019
DSP Nifty Next 50 Index Fund	NIFTY Next 50 TRI	15-Feb-2019
Aditya Birla SL Nifty Next 50 ETF	NIFTY NEXT 50	18-Dec-2018
SBI ETF Sensex Next 50	SENSEX Next 50 TRI	17-Sep-2018
ICICI Pru Nifty Next 50 ETF	NIFTY NEXT 50	23-Aug-2018
UTI Nifty Next 50 Index Fund	NIFTY NEXT 50 - TRI	28-Jun-2018

Despite the Sebi imposed disclaimer that past performance of a scheme is not indicative of future performance; mutual funds continue to launch schemes based on historical returns. For instance, Nifty Next 50 (earlier known as Nifty Junior) has generated better returns than Nifty in last 5 and 10 years. While Nifty has generated a CAGR of 12% and 15% during the last 5 and 10 year time periods, the same was 17% and 22% for Nifty Next 50. And naturally, mutual funds continue to launch Next 50 schemes highlighting the fact that it has outperformed Nifty in the long term. Some mutual funds have launched schemes based on Sensex Next 50. (See Next 50 Schemes Table for recent launches.)

Though new schemes are being launched against Next 50 indices, the performances have started deteriorating. For instance, Nifty Next 50 has generated a negative return of 8% during the last one year compared to 4% return by Nifty. Mutual funds also try to spin this to

their advantage by saying that the "recent underperformance gives a good entry option".

Just because Nifty Next 50 has outperformed Nifty over the last 10 years, investors should not assume that the same will get repeated in future. And as visible from the Next 50 / Nifty 50 Ratio Chart, Next 50 underperformed Nifty during the previous 10 year period. While Nifty generated a CAGR of 10% between 1st March 1999 and 1st March 2009, Next 50's CAGR was only 8%.

Rising ratio means Next 50 is outperforming Nifty during that period and falling ratio means Next 50 is under performing Nifty during that period. That means, the possible outperformance of Next 50 depends on where this ratio is placed now. Despite the recent under performance, the Next 50 / Nifty 50 ratio is still placed above the long-term average and therefore, this underperformance may continue in medium term.

- Narendra Nathan

### IMPACT OF MSCI INCREASING WEIGHT OF CHINA A-SHARES IN ITS GLOBAL BENCHMARKS

## MSCI EM-Tracking Funds in India may See \$3.8-b Outflow: Goldman

Our Bureau

Mumbai: MSCI India's weight in the MSCI Emerging Market index is likely to fall 20 basis points by end of November this year to 8.2%, assuming a 50% inclusion factor for China A-Shares, said Goldman Sachs.

"This could lead to potential outflows of \$3.8 billion (active + passive) from MSCI EM tracking funds," said Goldman Sachs in a note, retaining 'market weight' stance on Indian equities.

Reliance Industries, HDFC, Infosys, Tata Consultancy Services, Axis Bank, Hindustan Unilever, ITC, ICICI Bank, Maruti Suzuki India and Larsen & Toubro are the top MSCI India stocks that are likely to see the largest outflows due to weight changes in the MSCI EM index.

If the inclusion factor is 20%, the weightage of these stocks could come down by 0.4% to 2.3% and there could be potential outflows of \$74 million to over \$400 million. Oil-to-telecom major Reliance Industries could

**MSCI is Favouring China at the Cost of Other EMs**  
- Nilesh Shah

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see outflow of \$425 million, the highest among these 10 stocks.

Global index provider MSCI had announced on Thursday that it would quadruple the weightage of Chinese mainland shares in the MSCI benchmark in three steps.

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START YOUR MUTUAL FUND JOURNEY WITH HDFC TOP 100 FUND.

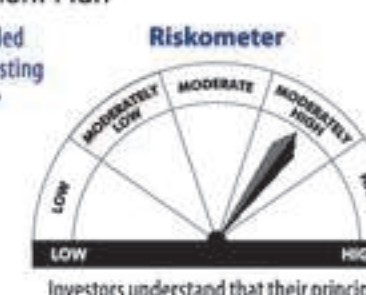


To know more, contact your financial adviser or give a missed call on 92218 12345.

SIP - Systematic Investment Plan

HDFC Top 100 Fund (An open-ended equity scheme predominantly investing in large-cap stocks) is suitable for investors who are seeking:

- To generate long-term capital appreciation/income
- Investment predominantly in Large-Cap companies



\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS. READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

### Largest Likely Outflows

Company	Weight in MSCI EM			
	Current weight	Proforma weight (China A-shares inclusion factor = 20%)	Change in weight (basis points)	Potential outflows (US \$ million)
Reliance Industries	0.92%	0.90%	-2.3	-425
HDFC	0.79%	0.77%	-2	-363
Infosys	0.69%	0.67%	-1.7	-317
TCS	0.49%	0.48%	-1.2	-224
Axis Bank	0.34%	0.33%	-0.8	-156
Hindustan Unilever	0.31%	0.30%	-0.8	-140
ITC	0.25%	0.24%	-0.6	-115
ICICI Bank	0.22%	0.21%	-0.6	-101
Maruti Suzuki India	0.19%	0.19%	-0.5	-89
Larsen & Toubro	0.16%	0.16%	-0.4	-74

Source: Factset, Goldman Sachs Global Investment Research

### ET Q&A PIYUSH GUPTA Chief Executive Officer, DBS

## GST Has Had a Positive Impact, SMEs Nationally Competitive Now

DBS Bank became the first major international bank to locally incorporate its operations from being a branch. Technology has changed banking in the four years it took DBS to get the licence. In an interview with Joel Rebello and MC Govardhana Rangan, DBS' CEO Piyush Gupta says India could well be the laboratory where a combination of digital and physical would be experimented. Edited excerpts:

of foreign banks don't want to go deep and hence don't need the distribution. If you want to stick to a large corporate banking and cross border business, then a subsidiary is not helpful. Our agenda for most of the Asian countries is to build a deep and embedded franchise.

#### What is your reading of the SME business right now?

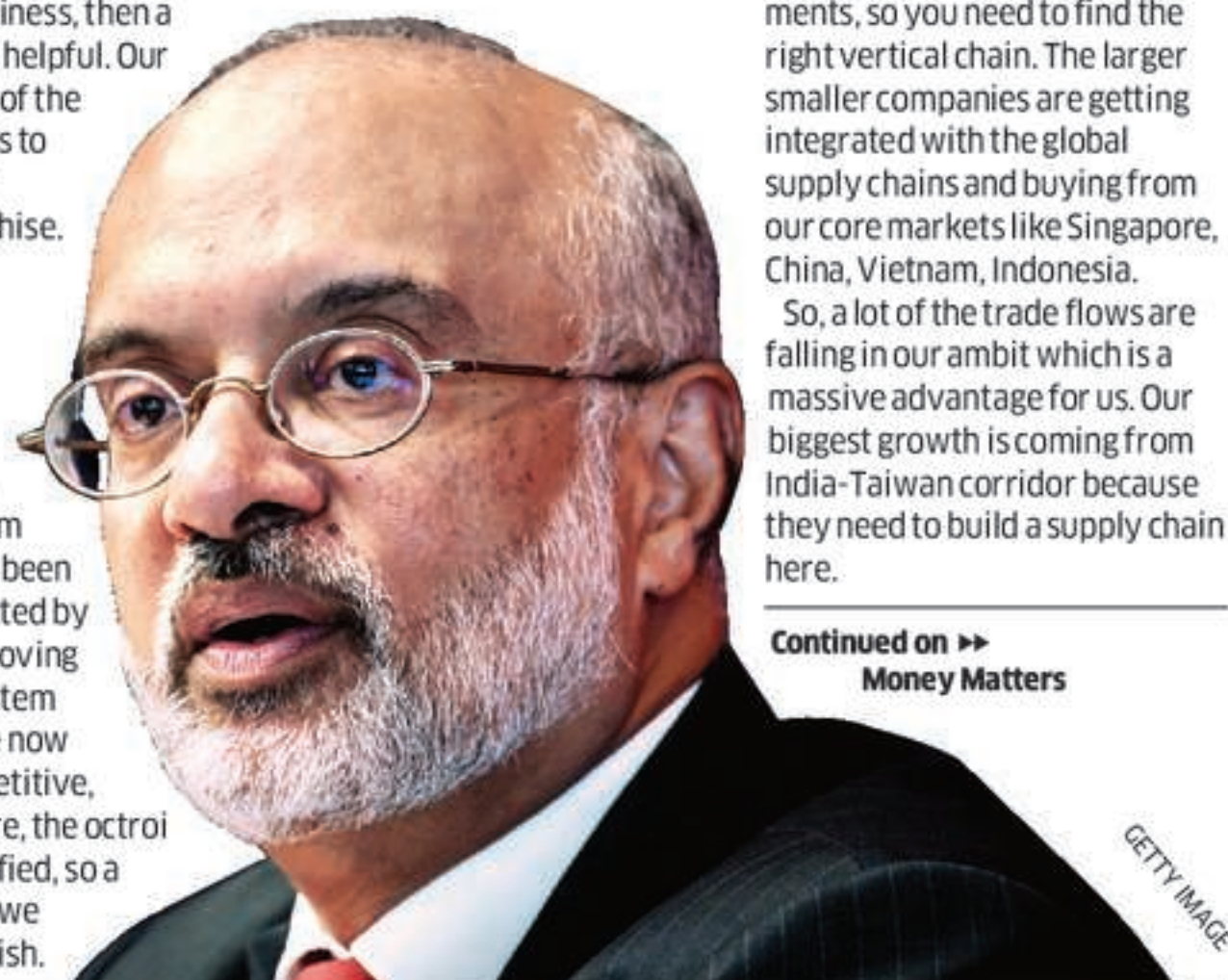
I think the large, small and medium companies have been positively impacted by GST. They find moving to the formal system helpful. They are now nationally competitive, can sell anywhere, the octroi process is simplified, so a lot of customers we spoke to are bullish.

Everybody I spoke to said the last few months have been fantastic. But I think we need to find the right supply chains. In

the last cycle, anybody anchored in the government supply chain suffered a lot more because the government squeezed payments, so you need to find the right vertical chain. The larger smaller companies are getting integrated with the global supply chains and buying from our core markets like Singapore, China, Vietnam, Indonesia.

So, a lot of the trade flows are falling in our ambit which is a massive advantage for us. Our biggest growth is coming from India-Taiwan corridor because they need to build a supply chain here.

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\*NIFTY ETF units are available at approx. 1/100<sup>th</sup> and 1/10<sup>th</sup> of NIFTY50 index value.

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