

Fund Call BNP Paribas Large Cap

Long-term growth with stable returns

Over five and 10 years, the fund has outperformed its benchmark, the Nifty 50 TRI

YOGANAND D

Investors with a long-term horizon of more than five years, looking for a pure large-cap fund, can buy units of BNP Paribas Large Cap (formerly BNP Paribas Equity).

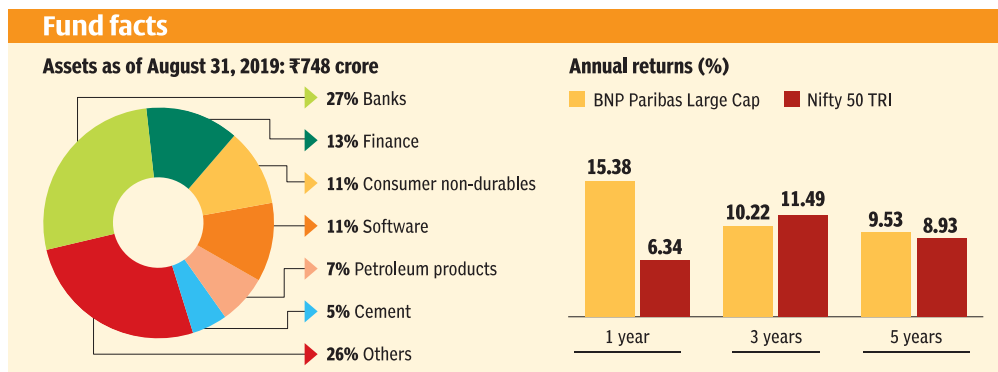
It has managed to deliver stable benchmark-beating returns over the long term, despite minor phases of underperformance like any other large-cap fund. BNP Paribas Large Cap is benchmarked against the Nifty 50 TRI and has outperformed it over five- and 10-year time frames. In the short term, over the past one year, the fund has clocked 14.4 per cent returns and has outpaced almost all its large-cap peers apart from Axis Bluechip Fund. Interestingly, in this period, BNP Paribas

Large Cap has beaten its benchmark, as well as the large-cap category average, by a wide margin of 10 percentage points.

Performance and strategy

Given that the fund has delivered stable returns over the long term, our *Star Track* Rating is four-star. It limited the downside well in 2011 and the fund's performance was excellent until 2015. After a blip in 2016, it managed to bounce back in the subsequent year.

Similarly, following a lacklustre show in 2018, BNP Paribas Large Cap has delivered a year-to-date return of 12.8 per cent. It is among the top quartile of large-cap funds. With the ongoing market volatility in the equity market, investors can opt



★★★★★

Fundas

- Banking is the top sector choice
- Delivers consistent long-term returns
- Has a large-cap portfolio

to invest through options such as SIPs and STPs, besides making lump-sum investments.

Apart from predominantly investing in large market capitalisation companies, the fund invests a small portion in debt, and also takes cash calls. In the recent portfolio, the fund allocated about 90 per cent for assets in equity holdings and the balance into fixed income. Of that, about 6.7 per cent was invested in the liquid fund — BNP Paribas Liquid and the rest in money market instruments.

Depending on the market scenario, the fund rebalances equity and debt portions. For instance, in March this year, the fund increased its equity allocation to 97 per cent before the rally, to new highs, and reduced it drastically to 88 per cent in July, as the corrective phase began.

BNP Paribas Large Cap holds a compact portfolio with approximately 29 stocks, which are mostly large-cap growth-oriented. Banks are the most preferred sector choices with an al-

location of 27 per cent and private-sector banks namely HDFC Bank, ICICI Bank and Kotak Mahindra Bank have delivered good returns.

Consumer non-durables and software are the other preferred sectors. A good rally in the stocks of Asian Paints, HUL, Marico, Infosys and TCS has pushed the fund's NAV higher. On the other hand, the fund avoided pharma and media stocks in January and invested in other sectors. Quality blue-chip stocks continue to boost returns.

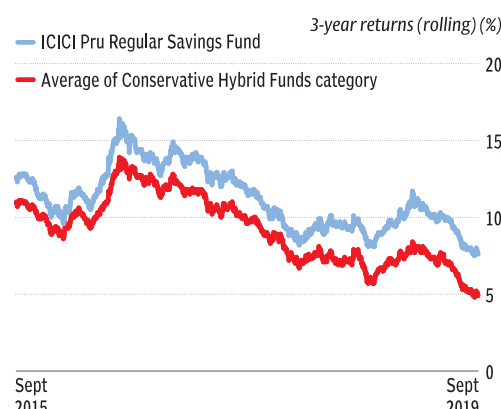
Fund Call ICICI Pru Regular Savings Fund

For investors with a penchant for risk

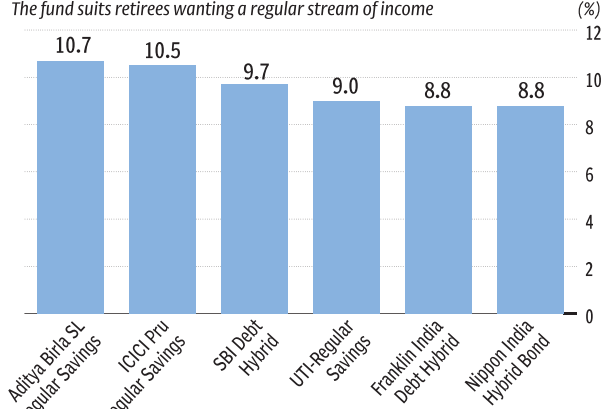
ICICI Pru Regular Savings is one of the top performing funds from the conservative hybrid funds category, delivering category-beating returns across time-frames. It invests 10-25 per cent of its assets in equities and the rest in debt instruments. Post re-categorisation, the fund maintained the equity allocation at 11-17 per cent. One-third of the equity portfolio is in small- and mid-cap stocks that spices up the scheme's returns. On the debt side, the fund bets on a higher accrual income while taking moderate duration calls. Larger allocation to relatively lower-rated bonds pegs up credit risk. Hence, the fund is suitable for investors with a medium-to-high risk profile who are aware of the credit risks associated with mutual funds.



Fund generated category-beating returns

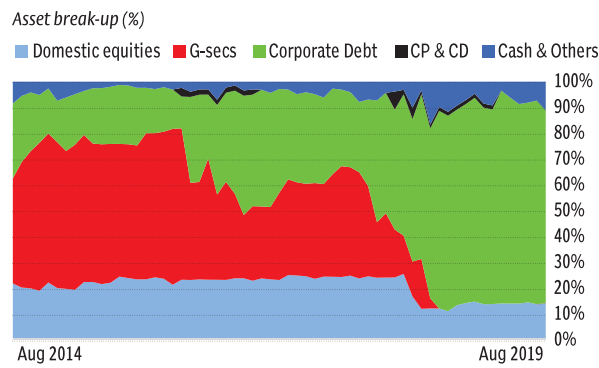


SWP performance (5 years)*

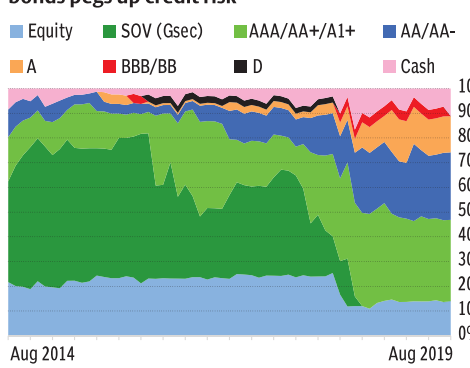


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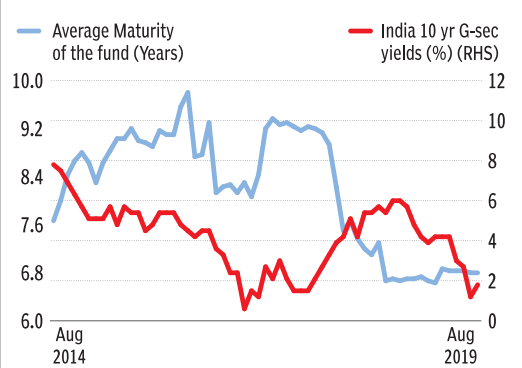
Bets on higher accrual income while maintaining moderate duration in the debt portfolio



Larger allocation to relatively lower-rated bonds pegs up credit risk**



Actively manages the duration based on interest rate view



Compiled by: Dhuraval Gunasekaran
Source: NAVIndia, ACE MF and factsheets

* Systematic Withdrawal Plan (SWP) returns are calculated with an initial investment amount of ₹60,000 and a monthly payout-of ₹1,000. All are growth options
** NCD of Jindal Steel & Power (of which the fund held around 3% exposure) was downgraded to 'D' in March 2016 and then upgraded to investment grade of 'BBB-' in April 2018

Save Smart

Continue with SIPs in a volatile market

SUNDEEP SIKKA

A majority of retail investors who started investing over the last few years, have been experiencing negative returns in their portfolios. Markets have been going through a volatile phase, amid fears of an economic slowdown, global trade wars, geopolitical tensions, NBFC liquidity crisis, etc. and investors' confidence in the Indian market is being tested.

While growth in the monthly SIP inflows has been phenomenal over the past few years, it has moderated significantly during the last few months. However, even sustaining such inflows can be seen as an excellent achievement for retail investors, who reflect a sense of maturity in their investing approach.

Amid this volatility, while you might question yourself whether to stop or go ahead with your SIPs, you can continue to trust the market for long-term wealth creation.

Investors need to appreciate that the volatility is not an exceptional phenomenon in the market and should instead be seen as an integral ingredient to make it healthy.

Tide over market volatility

As such, investors must try to make the most of such opportunities by continuing to invest in a volatile market. SIP, in fact, can be a great tool to tide over such volatility.

When the market is down, it fetches you more mutual fund units. And when it is up, you benefit from a higher portfolio valuation, even if there are fewer units for regular investments.

For example, you invest

The plan mitigates timing risk, as investments are made automatically at fixed intervals



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₹10,000 on a monthly basis. During the first month, when the NAV is ₹20, you get 500 units. However, during the next month, the market falls, with NAV reaching ₹16. So, you would receive 625 units. This helps you ride the market volatility wave by averaging your cost of investments in the long run.

Similarly, what you are currently experiencing is the market-timing dilemma — whether to invest now at reasonable valuations or to wait further for lower prices and then invest. However, waiting for the right time may result in the postponement of your investments, and you might miss the upside, when the market recovers and rallies further.

SIP helps you mitigate the timing risk, as investments are made at fixed intervals automatically, without considering the market direction. On the con-

trary, if you plan to stop your SIPs now, during the falling market especially, you may miss out on an opportunity to average your cost of investments by making investments at lower valuations.

A healthy corpus

SIP can also help you save consistently towards your financial goals. For example, small investments of ₹3,000 per month can help you accumulate ₹1.06 crore over 30 years (assuming the investments generate 12 per cent returns every year).

It is often said that your worst enemy in the stock market is not the market volatility but your own emotions such as fear and greed. When the market is falling, the fear of losing more capital tends to grip us, pushing us to redeem existing investments and stops us from making new investments. This not only results in booking a loss on existing

investments, but also deprives us of potential gains from investments made at lower valuations. Similarly, during market rallies, the 'Fear of Missing Out' (FOMO) syndrome makes us invest more in the market.

As such, emotional bias often results in buying at high valuations and selling low. With SIPs, the investments are made automatically at fixed intervals. They help you accumulate savings over time and in the process, eliminate emotional biases while making investment decisions.

It is not the time to doubt the long-term wealth creation potential of equity market, but to stay patient with your investing strategy and continue making regular investments through SIP.

The writer is ED & CEO, Reliance Nippon Life Asset Management Limited

Global View

How to track trade sentiment while China's closed for golden week

One can, during the period, look up to other emerging markets

SYDNEY MAKI

Investors haven't stopped playing the vagaries of the US-China trade war just because the world's No 2 economy shut down to celebrate its 70th birthday. For a glimpse of sentiment on the mainland, they can turn to other emerging markets instead.

Currency correlation

It's all about correlation. China tends to drive assets in the developing world, especially now that the trade battle has magnified swings in sentiment. Beijing's decision earlier this year to let the yuan slip to the lowest in at least a decade, triggered a slump in MSCI's benchmark currency and equity gauges. The 50-day correlation between MSCI's currencies index and the offshore yuan is above 60 per cent, historically considered high.

"Although China is away, the crucial issue of the trade war hasn't vanished and remains on the minds of investors," said Piotr Matys, a London-based emerging-markets strategist at Rabobank.

"If we have some remarks from the US officials that would suggest progress is unlikely, then investors are going to use the most liquid EM currencies."

Nearby currencies with the highest contagion — such as the Taiwanese dollar and the Malaysian ringgit — are the most correlated with China's currency, based on weekly moves during the past 10 years. Yet, the South

African rand, which is often used as a proxy for broader sentiment, may be another gauge to monitor, according to Matys. Should the yuan weaken, "then other EM currencies will follow," he said.

Even with China shut, there's nothing stopping officials there or in the US from offering a new trade rhetoric. Developing-nation currencies fell this week even after President Donald Trump's administration played down a Bloomberg report on Friday, that the White House was weighing limits on the US portfolio flows into China.



China reopens on Tuesday, and trade developments will almost certainly dominate the headlines, given that its chief negotiator Liu He is set to visit the US the same week for further talks.

Exchange-traded funds

Exchange-traded funds traded in the US can also show investor sentiment while Chinese markets are closed.

Regulatory Radar

SEBI places additional checks on MF debt investments

On October 1, market regulator Securities and Exchange Board of India (SEBI) came out with a circular on review of investment norms for mutual funds for investment in debt and money market instruments. The regulator reviewed and announced some modifications in the norms pertaining to the debt investment for MFs. Some key changes are given below.

Listed and unrated debt instruments

Mutual funds are restricted to invest in unlisted commercial papers (CPs). However, they may invest in unlisted government securities, certificates of deposit (CDs), T-Bill and derivative products such as interest rate swaps (IRS) and interest rate futures (IRF).

MFs may also invest in unlisted non-convertible debentures (NCDs), not exceeding 10 per cent of the debt portfolio of the scheme, subject to the condition that such unlisted NCDs have a simple structure (with fixed and uniform coupon, fixed maturity period, without any options, fully paid up upfront, without any credit enhancements or structured obligations) and are rated and secured with coupon payment frequency on monthly basis.

SEBI has fixed the timeline of June 30, 2020 to comply with the norm. Further, investment in unrated debt and money market instruments, other than government securities, treasury bills and derivative products shall not exceed 5 per cent of the schemes' net assets.

Restrictions on debt papers

Investment in debt instruments having structured obligations and credit enhancements backed by equity shares directly or indirectly, shall have a minimum cover of four times, considering the market value of such shares.

MF scheme investments in such instruments shall not exceed 10 per cent of the debt portfolio of the schemes. The group exposure shall not exceed 5 per cent of the scheme's debt portfolio.

This shall be effective for all fresh investments with effect from January 1, 2020.

Sector level exposure limits

SEBI has revised the sector exposure limit. It has been capped at 20 per cent as against 25 per cent. The additional exposure limits provided for HFCs in the financial services sector has been brought down to 10 per cent, as against 15 per cent.

Further, an additional exposure of 5 per cent of the net assets of the scheme has been allowed for investments in securitised debt instruments based on retail housing loan portfolio and/or affordable housing loan portfolio.

However, the overall exposure in HFCs shall not exceed the sector exposure limit of 20 per cent of the net assets of the scheme.

Existing open-ended mutual fund schemes shall comply with the revised limits for sector exposure by April 01, 2020.

Group level exposure limits

The investments in debt instruments of group companies of both the sponsor and the asset management company (AMC) shall not exceed 10 per cent of the net assets of the scheme.

The iShares MSCI China ETF — known by its ticker MCHI — fell as much as 1 per cent Tuesday, the 10th decline in 12 days. Chinese equities seem to drive emerging-market ETFs more broadly too; the performance of MSCI's developing-nation gauge is almost identical to one that excludes China.

Money managers could look to Hong Kong or position with Chinese American depository receipts, said Michael Hirson, New York-based practice head for China and northeast Asia at Eurasia Group. Hong Kong's H-share index, which tracks mostly state companies listed in the former British colony, could provide some insights. Markets in nations closest to China's economic cycle, such as Australia and Brazil could also be good proxies, Hirson said.

Emerging-market hard currency debt may be worth watching with China away, according to Damian Sassower, chief emerging-markets credit strategist at Bloomberg Intelligence in New York.

He expects the Asian nation to maintain its outsized impact on emerging markets, with trade especially important. Sovereign and corporate issuer revenues are often linked to global growth, which is essentially global trade with China, he said. The spreads of a Bloomberg Barclays index tracking developing-nation hard currency bonds tend to follow China's five-year CDS, a proxy for the sovereign credit risk, he said.

"It's much more correlated when you're talking about the impact of China on EM hard currency debt simply because of the way it trades," he said. "It's much more liquid." BLOOMBERG