

01:13 PM 14 DEC LIVE	ಸೆನ್ಸೆಕ್ಸ್ 33,024 ▼ -28.73	ನಿಫ್ಟಿ 50 10,183 ▼ -9.10	ಚಿನ್ನ (ಎಂಸಿಎಕ್ಸ್) (₹/10 ಗ್ರಾ... 28,367.00 ▲ 172.00	ಯುಸ್ ಡಿ/ಭಾರತೀ... 64.29 ▼ -0.15	CREATE PORTFOLIO	ಈ-ಟಿ ಮಾರುಕಟ್ಟೆಗಳ ಆಪ್ ಅನ್ನು ಡೌನ್‌ಲೋಡ್ ಮಾಡಿ 	CHOOSE LANGUAGE KAN ▼	LIVE
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Swelling midcap and smallcap funds may lose some zing

BY PRASHANT MAHESH, ET BUREAU | UPDATED: DEC 14, 2017, 10.30 AM IST

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Mumbai: The uninterrupted flow of money into mid-and small-cap **mutual funds** is forcing various fund managers to add more **stocks** to their portfolios, an investment model that could put a lid on the extent of their outperformance over a longer period.

Investment advisors said schemes that bet on smaller **shares** have been able to give outsized returns in the last couple of years partly because of a tighter share portfolio in a raging bull **market**. The concern is that a wider section of stocks could weigh on the performance of these schemes.

An **ET** study of mid- and smallcap funds shows the portfolios of some equity schemes have expanded 40-50 per cent in the past three years. Schemes that held 30-50 stocks earlier now hold 70-90.

“When funds increase the number of stocks in a portfolio, it’s a sign that they are going defensive. With 75-80 stocks in a portfolio, the fund manager cannot take decent position in any stock, which will eventually lead to lower returns,” said Gajendra Kothari, managing director, Etica **Wealth** Management.

A bigger portfolio size has not affected returns of most schemes so far.

The number of stocks in Reliance Small Cap Fund, which returned 54 per cent in the last one year, has increased to 87 in November

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from 60 in January 2015 as its assets rose to Rs 5,664 crore from Rs 1,578 crore. L&T Emerging Businesses Fund, which returned 56 per cent in the past year, now has 75 stocks compared with 53, even as its assets under management surged to Rs 2,283 crore from Rs 340 crore. These two are among the topperforming funds of the past year. The holdings of several other funds such as HDFC Midcap Opportunities, DSP BlackRock Microcap, IDFC Premier Equity and Franklin India Smaller Companies funds, too, have increased.



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“It will be a bandwidth problem for the fund manager as he has to track more number of stocks closely, which may not always be possible,” said Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. “In a scenario where the fund manager is not stopping inflows, investors will have to ensure they make the right allocation to this segment.”

Investors have been pouring money into mid- and small-cap funds due to higher returns from the segment compared with large-cap funds. This has forced many fund managers to hunt for new ideas as most schemes have a cap on the exposure to a stock.

“We usually do not invest more than 5 per cent of the portfolio in a single stock,” said Sameer Rachh, fund manager, Reliance Mutual Fund. Even though a few funds have put restrictions on inflows into their schemes, most continue to accept money through systematic investment plans and systematic transfer plans.

A constant supply of shares sold by companies through initial public offerings has given the funds more choices to invest in. According to Motilal Oswal Securities, IPOs worth Rs70,000 crore have hit the market so far in the financial year 2017-18.

“The good part is fund managers are still finding good opportunities in this space. Mid- and small-cap fund managers hardly follow benchmark-hugging strategy, as the success of these funds lies in their ability to identify the right stocks in this space, which can ride the earnings cycle,” said Renu Pothen, head of research, fundsupermart.com.

AUM Up; Stock Count, too

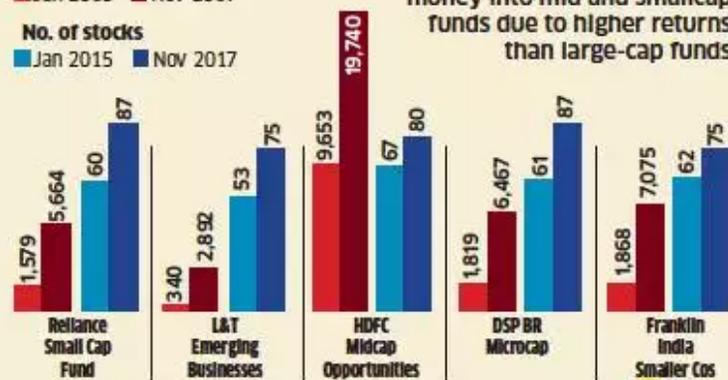
AUM (₹ crore)

■ Jan 2015 ■ Nov 2017

No. of stocks

■ Jan 2015 ■ Nov 2017

Investors have been pouring money into mid and smallcap funds due to higher returns than large-cap funds



Source: Accord Fintech, Compiled by ETIG Database

INCREASE IN HOLDINGS

Portfolios of some mid- and smallcap equity schemes have expanded 40-50% in the past three years. Schemes that held 30-50 stocks earlier now hold 70-90



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