NATIONAL PENSION SYSTEM

# Select and switch fund managers based on long-term performance

## If underperformance persists for two years, change fund manager

**SANJAY KUMAR SINGH**

Subscribers to the National Pension System (NPS) could earlier have only one pension fund manager (PFM) across all four asset classes.

By a circular dated November 22, the Pension Fund Regulatory and Development Authority (PFRDA) has permitted existing subscribers to NPS All Citizens Model and NPS Corporate Model (Tier-I funds) and all subscribers to Tier-II funds to have separate PFMs in three asset classes — equity (E), corporate bonds (C), and government bonds (G). New subscribers will be able to avail of this facility three months after registering with NPS.

### More choice

This step has been taken as part of PFRDA's goal to offer more choice and flexibility to investors.

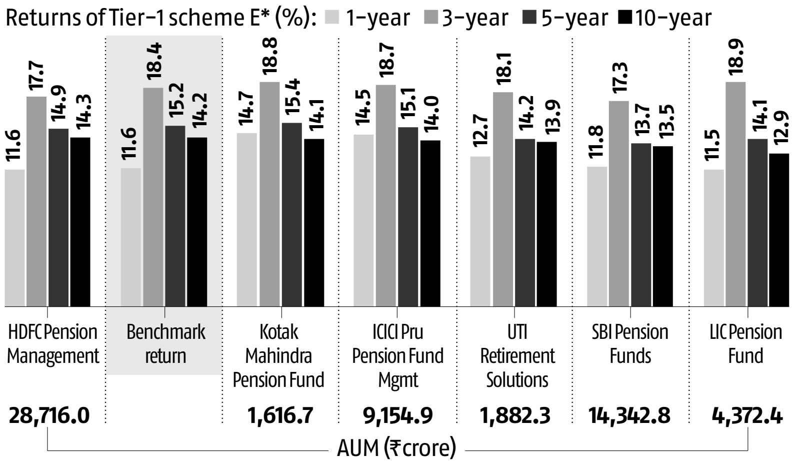
"The astute subscriber can now select separate PFMs for different asset classes based on performance track record, investment style, and the outlook of each PFM," says Kurian Jose, chief executive officer (CEO), Tata Pension Management.

At a given point, different PFMs can outperform in different asset classes. "Earlier, investors chose their PFM based on the brand they were comfortable with, or based on the performance of a single asset class. Now, they can benefit from outperformance by different PFMs in different asset classes," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

According to Rajesh Khandagale, senior vice-president-NPS, KFin Technologies, "This move will empower investors by allowing them to diversify across fund managers."

This step is likely to promote competition. Deepesh Raghaw, a Securities and Exchange Board of India (Sebi) registered investment advisor (RIA) says: "PFMs will no longer think of the funds they get as captive money. If they don't perform, the money could flow out."

## CONSIDERABLE DIVERGENCE IN RETURNS OVER A DECADE

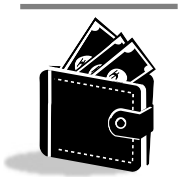



*E is for equity. Data as on December 1, 2023. Only funds having 10-year data included

Source: *npstrust.org.in*

### Burden of choice

While more choice is liberating, it also puts the onus of selecting the right options on the investors. Not all may be equipped to handle it. Besides, past performance is no guarantee of future returns. "These are actively-managed funds. You may pick a fund by one PFM based on past performance but another may outperform over the next, say, five years," says Raghaw.



YOUR MONEY

### Facility for active-choice investors only

This facility is available only to subscribers who opt for the active-choice model. Those opting for auto choice will have to make do with one PFM only.

According to experts, investors should not go for active-choice mode just to have access to three PFMs. They should choose the mode that is suited to them. Auto choice is suitable for people who cannot manage their own money — those who cannot decide the right asset allocation and rebalance periodically. "If you are this type of investor, stick to the auto-choice option," says Dhawan.

### Focus on long-term performance

Dhawan suggests using long-term performance as the primary criterion for selecting PFMs. Use this data to weed out the laggards, then either go with the best performer or select a PFM from the shortlist that belongs to a trusted brand in the fund management space.

Review performance every six months. "Again, monitor long-term data. If underperformance continues for two years, switch to another PFM," says Dhawan.

### Focus on asset allocation

If you go for the active-choice option, then focus on your overall portfolio's asset allocation. "Ensure that your allocation to various asset classes within NPS is in sync with the asset allocation of your overall portfolio (including mutual funds and other instruments)," says Dhawan. Remember, asset allocation has a greater bearing on portfolio performance than the choice of fund managers. Finally, as Jose suggests, do not become trigger-happy about changing PFMs just because choosing separate PFMs across asset classes has been permitted.