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Investment on Scheme's Performance

Vikaas M Sachdeva
CEO, Edelweiss Asset Management

A1 I think the mutual fund industry is at a point of inflection. On the one hand, the industry is grappling with a growth slowdown; on the other, there are promising opportunities in terms of products and distribution that are starting to emerge. You have the problem of diminishing margins for key stakeholders, but there is the emergence of a new strata of financial planners. The sentiment towards the asset management business has been affected, partly because of macro-economic conditions. But the fact remains that mutual funds are one of the most effective mediums to channelise individual savings into growth. The long-term future of this business still remains robust

A2 How do you grow the coffee industry? In the most elementary terms, there are two ways to do it. Have new customers drink coffee or have existing customers drink more coffee. The same is true for mutual funds. If you look at the annuity book (customers who have stayed for a certain period of time), that portion continues to grow steadily. I think the industry is on track with those numbers. However, getting in new customers has been difficult, particularly over the last few years. In fact, there has been a net attrition of investors across various schemes in the industry. The good news, however, is that we have seen growth in retail investors in the fixed income and gold ETF space.

A3 There is bound to be consolidation, as there are strategic partnerships in any industry. However, one should be cognizant about the fact that the entire MF industry currently holds only about 3% of the investors' wallet. Over the longer term, players will adapt, evolve and survive. For an investor, there are two important points to consider – one, who is your financial advisor and, two, what is the track record/suitability of the scheme being recommended. I would seriously doubt whether any investor is even interested in knowing more than that.

A4 A consistent track record of risk-adjusted returns should be the first benchmark for evaluating funds. A brand with a vintage definitely adds comfort to the investment decision, but increasingly customers are becoming more aware, and more demanding of the scheme's performance. Clearly, scheme performance takes precedence over any other factor.

A5 It is up to the smaller fund houses to create a strategy, establish a clear positioning and build on mind share with distributors and customers. In every crisis there is an opportunity which begs to be noticed and built upon. Usually, smaller fund houses are nimble footed enough to introduce new perspectives that work as catalysts to the growth of the category. Smaller fund houses need to not just be consistent, but also be persistent in their strategic endeavors. The rest will automatically take care of itself.

A6 In the last two decades, the industry has been through phases of consolidation and has emerged stronger. Like any other industry, the asset management industry has its own imperatives. We are still a very young industry with a serious amount of growth beckoning us over the horizon. In the meantime, there will be opportunities for serious players to look at growth, both organically and inorganically.

A7 Primarily being an equity fund house, we have very strong capabilities in quantitative strategies and risk management. We also believe we possess a range of cutting-edge products which are very relevant to customers in these volatile times. Needless to say, some of these in the "Absolute Return" category are niche products. We have been in the process of building a consistent track record for some of these products over the past 2-3 years. We're in discussion with various distributors to showcase the prowess of our products. Creating an organization is a process, not an event. We are quite optimistic about the long-term play this industry offers and are building the blocks currently.

A8 It is already happening. Speaking for ourselves, we are already looking at ideas in the Portfolio Management and Alternate Investment Fund space. The recent Sebi guidelines on AIF, as well as the tightening of PMS regulations enthuse us. We believe that given these guidelines, the growth trajectory of this industry in the coming years could be completely different.

A9 Retail investors should not be reactive in terms of dealing with their current investments. They should consult their financial advisors before any decision to buy or sell an asset. The biggest mistake investors make is to get carried away by the noise around them. Very rarely will you find fixed income, equity and gold together in a state of fluidity as they are currently. One needs to allocate resources in consultation with financial advisors.

Jimmy A Patel
CEO, Quantum Mutual Fund

A1 The Indian mutual fund industry has immense growth potential, and if aided well by technological advancements and increased awareness, MFs can be a major contributor to the overall Indian economy. However, it appears, the industry has not learnt from its past mistakes. The industry still seems to be operating on an asset gathering mandate, and not an asset managing one; the focus of the industry still seems to be driven by business agendas and not on building a community that is truly concerned about its investors; market share and "piece-of-the-wallet" concerns still precede issues like investor safety and delivery of risk-adjusted returns. The fund industry is still in a learning stage, though unfortunately, it seems to forget its earlier lessons all too soon

A2 Targets are necessary. It's not just about achieving them, but more about moving in that direction. Rather than meeting a number, the industry should focus on becoming absolutely investor-friendly – right from the time an investor starts understanding about mutual funds through to the entire experience of helping him create wealth. Better regulations, advanced technology and conscientious managements will help in moving towards this aim.

A3 When you choose to invest with a fund house, you should ascertain its background well so that you can be sure of the future of your investments. In times such as now, retail investors should choose to get convinced about the investment philosophy of a fund house before investing in it, rather than get convinced by brilliant marketing gimmicks or aggressive distribution strategies. Investors must take care to choose their fund well.

A4 If a fund is like a prospective life partner, a fund house is like its family. If you have solid family background backing your chosen partner, it reduces the scope of unwanted future uncertainties. However, the size of fund or a fund house has little to do with its performance. When you look at performance, consider consistent track records rather than spikes in returns, especially in the short term. A consistent fund will probably provide you with greater comfort in times of volatility as compared to a one-year star performer.

A5 The skepticism about the future of smaller fund houses is sheer speculation. Smaller fund houses will continue to do well in the coming years just like their larger peers. The Indian mutual fund industry has a bright future for transparent and ethical fund houses that are truly concerned about investors and focus on investor security and on delivering risk-adjusted returns, irrespective of their size or their years of existence.

A6 While the law of economics suggests consolidation, which would reduce costs greatly, different fund houses have different needs and objectives which might not sync favorably with such an approach. For all you know, several fund houses may not even go for consolidation; the moment they see their business becoming unviable they may just exit the business. This may be the case for foreign fund houses operating in India. Domestic fund houses again will not consolidate their business; they will try to survive the bad times... They will wait for a gain in their valuations before finding a partnership deal with some other player wanting to start an AMC business in the country.

A7 We are a different fund house. Being the only direct-to-investor fund house, we are constantly exploring new avenues to reach out to our investors and spread what we call "the Quantum way of investing". Here again, the online medium would be our strength as we look to reach out to the base of over 100 million online Indians and bring them a better way of creating wealth over the long term. Some of our best ideas are a simple implementation of our investors' feedback.

A8 Investors today are saturated with schemes. Investors are also paranoid about opaque markets, the disappointing corruption reports and repetitive scams. It thus, is the responsibility of the industry to collaborate to re-instill faith in investors, not by increasing the number of investor awareness programmes, or by launching new ad campaigns to promote this message, but by simply stepping away from the wallet-share game and retrospect on how they could best be asset managers working for the benefit of the end investor.

A9 The purpose of investing in MFs is to have a professionally managed portfolio of products that suit your requirement. An investor has a few basic requirements: one, create wealth over the long term for which you need an equity scheme; two, save tax for which you would need an Equity-Linked Savings Scheme; three, need to have some cash in reserve in case of an emergency for which you will need to look at a debt/liquid scheme; and four, need to counter equity exposure for which you could opt for a Gold ETF. These are the basic products that an investor needs to have, and not the hordes of schemes that clutter his portfolio.