Sakthi Financial Services

Weekly Update

10th May 2023 Vol :- 23.24.04

SENSEX	NIFTY	GOLD	USD	CRUDE OIL
61761.33	18265.95	61169.00	82.04	6009.00

What the rising share of small cities in mutual funds assets under management means

The 100 per cent jump in Sensex over the past three years, between March 31, 2020 and March 31, 2023, witnessed some big changes across the country, especially in terms of investor behaviour and investor outlook towards equities. In this three-year period, while the aggregate number of demat accounts with CDSL and NSDL jumped 2.8 times to over 11.44 crore, the number of outstanding SIP accounts doubled from 3.11 crore to 6.28 crore and the monthly SIP contribution across the mutual fund industry rose from around Rs 8,500 crore to over Rs 14,000 crore.

However, one of the biggest changes as far as the economy and the way Idia saves is concerned has been the rise and rise in the share of small cities in the mutual funds assets under management (AUM).

Categorised as 'Other cities' by the Association of Mutual Funds in India, these are a group that fall beyond the top 110 cities across the country (in terms of contribution of the industry AUM). These cities account for 17.44 per cent of the industry AUM, i.e Rs 6.87 lakh crore out of the aggregate industry AUM of Rs 39.42 lakh crore, as of March 2023. Their share has risen sharply from 10.99 per cent in March 2020 and from a low of 2.55 per cent in June 2014.

How has the equation changed?

As these smallest cities increased their weight in mutual fund investment over the past three years, not only have they eaten into the share of the large metros (share of top 5 cities came down from 62.4 per cent to 54.5 per cent), they have also stabilised the flow of funds for the fund houses when the market movement is adverse.

In fact, while the share of top 35 cities came down from 80 per cent in March 2020 to 72.3 per cent in March 2023; the share of the next 75 cities rose from 5.37 per cent to 6.23 per cent in the same period. Their share in June 2014 stood at 5.23 per cent.

However, the biggest change came at the bottom of the pyramid in the 'Other cities' – semi-urban and rural areas. Individually, they are contributing 0.01-0.03 per cent of the industry AUM or even lower, but together have created a big change.

What does it mean?

Many within the industry feel this is an indication of the deepening of Indian equity markets, and also a reflection of the democratisation of equity culture in the country. While it tells the story of an aspirational India looking for higher returns on their investments and a better future, it also shows the faith and confidence that the small investor in the smaller towns has on the steps taken by the regulator to protect investor interest. Besides, this is a result of the paradigm shift in the ease of investment over the past few years.

India regulator to tell brokers, funds to limit use of financial influencers - sources

India's market regulator will direct brokers and mutual funds to limit the use of financial influencers in advertising and marketing campaigns, according to two people with direct knowledge of the matter.

A surge in retail investors in equity markets during the COVID-19 pandemic led to a proliferation of influencers pushing financial advice on social media platforms.st

The Securities and Exchange Board of India (SEBI) fears they could mislead investors, according to the people, who spoke on condition of anonymity about a decision that has not been reported previously.

SEBI did not respond immediately to a request for comment.

The regulator will ask brokers, traders registered with it and mutual funds to stop associating with financial influencers who are seen to be giving misleading advise and inducing investors, said the first person, a senior regulatory official.

SEBI will define what kind of advice is seen as misleading after issuing a consultation paper and seeking industry comments before finalising regulations, with rule violations attracting fines and directions including a ban from capital markets.

The regulator see promises of assured or excessively high returns, misleading or biased information and testimonials with inadequate disclosure of risks as misleading.

Curbing the spread of financial advice via social media influencers has been a challenge across a number of advanced and developing global markets.

In March 2022, the Australia Securities and Investment Commission said social media influencers required a license to give financial advice, with violators facing a jail term and stiff fines.

SEBI, however, believes that regulating financial influencers is beyond its jurisdiction and the focus should be on reducing the legitimacy they get from being backed by registered market intermediaries through advertisements, events and other associations.

There is heavy regulatory and compliance burden on registered entities, whereas the unregistered individuals are continuing to give out financial advise with impunity.

SEBI's approach may not solve the problem entirely, said Sandeep Parekh, managing partner at FinSec Law Advisors, a law firm in India.

Regulating financial influencers is not the correct approach...but we want regulated entities to stay away from them.

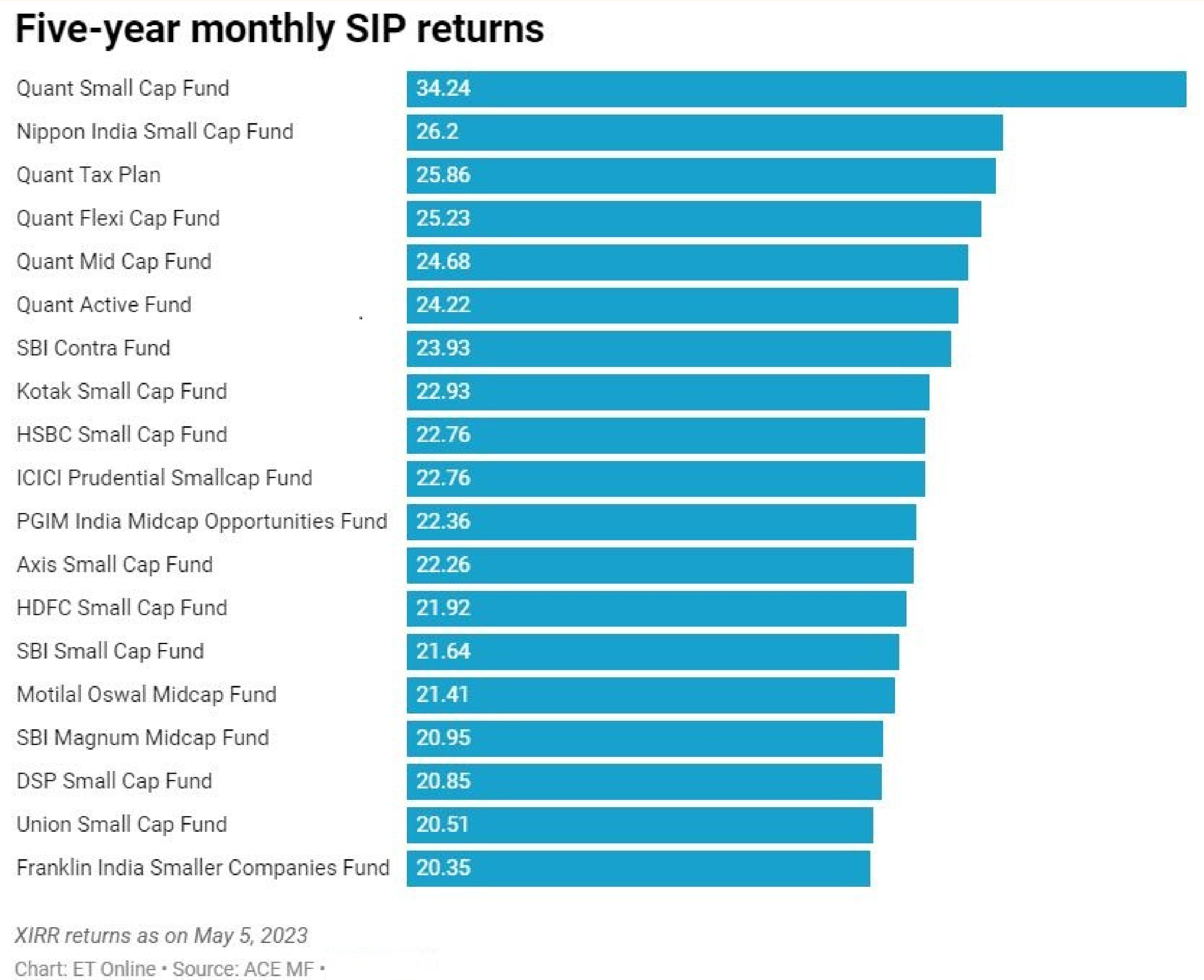
AMFI should act like an SRO: SEBI

SEBI has asked AMFI that they should act like a self-regulatory organization (SRO) where they should be able to take action against their members if they find any wrongful practice, said Manoj Kumar, Executive Director, SEBI. He was speaking at the CII Mutual Fund Summit held recently in Mumbai. Currently, AMFI is a trade body of the mutual fund companies. The ED that the market regulator wants AMFI and AMCs to monitor the entire activity of the MF industry on their own rather than SEBI coming into picture and taking some action.

19 equity mutual funds offered over 20% SIP returns in five years

Around 19 equity schemes have offered more than 20% returns on investments made through the SIP mode in the five-year horizon, a study by ETMutualFunds showed. Quant Small Cap Fund delivered the highest return of around 34.24% in the five years, followed by Nippon India Small Cap Fund which offered 26.20% returns in the same period.

Small cap schemes topped the list. Around 11 small cap schemes offered 20-34% returns. The other schemes that offered more than 20% SIP returns in the five-year horizon include four mid cap schemes, a multi cap, ELSS, flexi cap, and contra fund.



Note, these schemes are from different equity mutual fund categories. They have different risk-reward ratios. So, don't focus on the returns and make investment decisions. For example, small cap schemes have a very high risk, but they also offer very high returns over a long period. Flexi cap schemes, on the other, are recommended to moderate investors because these schemes invest in diversified portfolios and they are relatively less risky. That's why you should always choose a scheme based on your investment objectives and risk tolerance.

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SIPs through distributors have higher longevity than direct plans

26% of regular SIP AUM has been active for over 5 years, as against only 14% of direct AUM, as per AMFI data.

"The figures establish the role of distributors in guiding investors to be patient and disciplined", stated MFD Ritesh Sheth of Tejas Consultancy.

He added, "Through periodic reminders and educational sessions, we nudge investors to have a long-term horizon. In fact, we also evaluate every redemption request to ensure it is genuine and free of emotional bias."

Notably, of the total SIP AUM of Rs. 6.83 lakh crore, regular plans/distributors have a lion's share of 83% or Rs. 5.66 lakh crore and direct plans account for the balance of 17% or Rs. 1.17 lakh crore. These numbers further endorse investors' confidence in distributors.

The data also reveals that the AUM per folio in the case of regular plans is higher than in direct plans. The gap here highlights the absence of direction and handholding in direct investments.

However, investors are now exploring direct investments, as 29% of direct SIP AUM is in new accounts opened in the last one year, compared to 21% of regular SIP AUM.

Commenting on the overall trend, RIA Lovaii Navlakhi, International Money Matters said, "While mutual fund distribution has been around for more than two decades now, direct platforms became popular recently. Hence, if you look at the figures, the gap narrows and the trend shifts towards direct plans as the time horizon reduces."

He also said, "A bifurcation of the direct figures into investments through RIAs and through platforms would give a clearer picture."

SIP Accounts continuing for	Total Regular					Total Direct				
	No of SIP Accounts	%	AUM (Rs. in crore)	% of total AUM	AUM Per Folio	No of SIP Accounts	%	AUM (Rs. in crore)	% of total AUM	AUM Per Folio
> 5 years	65,00,671	15%	1,48,916	26%	2,29,078	8,12,830	4%	16,201	14%	1,99,318
> 4 years up to 5 years	39,60,428	9%	61,465	11%	1,55,198	9,83,821	5%	11,005	9%	1,11,862
> 3 years up to 4 years	33,84,275	8%	69,963	12%	2,06,730	15,29,002	7%	14,481	12%	94,708
> 2 years up to 3 years	45,46,147	11%	76,947	14%	1,69,257	25,77,432	13%	17,234	15%	66,864
> 1 year up to 2 years	93,53,684	22%	88,858	16%	94,998	60,27,367	29%	23,919	20%	39,685
< 1 year	1,53,66,834	36%	1,20,025	21%	78,107	85,56,625	42%	34,281	29%	40,064
Total	**4,31,12,039**	**100%**	**5,66,175**	**100%**	**1,31,326**	**2,04,87,077**	**100%**	**1,17,122**	**100%**	**57,169**

* Details as on March 31, 2023

Transaction received from non-empanelled MFDs will go to direct plans: AMFI

In a clarification issued today, AMFI said that investment received from non-empanelled MFDs will go to direct plans.

This has come after SEBI saw instances where an AMC received business from a few non-empanelled MFDs. These MFDs got empanelled with the AMC on a later date, which is against the SEBI guidelines.

AMFI said, "Members are advised to ensure that before accepting any business from any MFD, such a MFD is duly empanelled with the AMC. Transactions received, if any, from / under the ARN of a non-empanelled MFD may be processed under direct plan, with prompt intimation to the non-empanelled MFD, and the investor."

Further, AMFI said that SEBI has advised AMCs must ensure accepting business under regular plans only from empanelled MFDs. "Before accepting any business from any MFD, the AMC must ensure that the MFD is empanelled with the AMC, accepting any application/transaction (under Regular Plan) received under the ARN of an un-empanelled MFD and allowing some leeway / grace period to the MFD to complete the empanelment process would be in breach of the above SEBI directive. At the same time, rejecting the investor's transaction would be incorrect and against the interest of the investor."

The trade body further clarified that AMCs can accept business only from their empanelled distributors. It said, "Getting registered with AMFI and obtaining ARN does not automatically confer any right to the MFD to start selling mutual fund schemes of any mutual fund, unless and until the MFD is duly empanelled with the concerned AMC."

Mutual funds see 85 lakh new millennial investors in FY19-FY23 on awareness campaign, digital access

Mutual fund industry witnessed an influx of 84.8 lakh new millennial investors in the last five financial years (FY19- FY23), cornering 54 per cent share of the new investor base, on the back of massive awareness campaigns, conducive market conditions and digital access, according to a report by CAMS.

Apart from these factors, simplified KYC and concerted intermediation and advisory too encouraged new millennials to invest in mutual funds.

Overall, 1.57 crore new investors joined the industry between 2018-19 and 2022-23, as per the report released by mutual fund transfer agency Computer Age Management Services (CAMS) on Thursday pointed out.

According to the report, millennials have been the dominant segment among the new investors who entered mutual funds in the last five years with their share percentage peaking to 57 per cent in FY20.

"Despite the market volatility and uncertainty through FY23, investors' confidence to enter mutual funds remained sound and millennials continued to make mutual funds their choice of investment for wealth creation," the report noted.

NEWS IN BRIEF

Retail Investors Contribute Over Half Of MF Industry's Rs 40 Trillion Assets Under Management: AMFI

Individual investors, including high-net individuals (HNIs), held mutual funds worth Rs 23.27 lakh crore as of March 2023, up 11.80 per cent from a year ago. The MF industry's asset under management (AUM) grew more than five times over the past 10 years as of March 2023. The AUM grew from Rs 7.01 trillion in March 2013 to Rs 39.42 trillion on March 31, 2023, the AMFI data shows.

SBI, HDFC and ICICI Prudential secure top spots in B30 rankings

SBI MF, HDFC MF and ICICI Prudential MF are the top three fund houses in terms of B30 assets, as per AMFI data. SBI MF leads by a wide margin to occupy the first spot. The fund house manages Rs. 1.46 lakh crore of B30 assets as on March 2023. HDFC MF and ICICI Prudential occupy the next two spots with a B30 asset base of Rs. 79,173 crore and Rs. 77,058 crore each.

Nippon India MF and UTI MF manage Rs. 55,680 crore and Rs. 52,583 crore and rank fourth and fifth, respectively.

MF industry collects Rs.63,000 crore through NFOs in FY 2023

The MF industry has collected close to Rs.63,000 crore from 253 NFOs launched during FY 2023, shows an analysis of AMFI data done by Cafemutual. In FY 2022, the industry collected Rs.1.08 lakh crore through NFOs indicating a decline of 40% in NFO collection.

Experts attribute this decline to discontinuation of NFOs for three months. Another reason could be not so good performance of mutual funds over the last one year.

Sebi explores two options for mutual fund performance fee plan

The Securities and Exchange Board of India (Sebi) is considering at least two structures for mutual funds to charge a product outperformance fee from investors. The options that the capital markets regulator is looking at involve introducing fixed and variable fee components but they may be subject to regulatory caps, unlike the freedom that other asset managers like Alternative Investment Funds (AIFs) and Portfolio Management Services (PMS) enjoy to collect this incentive from clients.

Silver ETFs getting investors' traction; asset bases reach Rs 1,800 crore

Silver exchange-traded funds (ETFs) are becoming popular among investors as the newly-created investment class has attained an asset base of nearly Rs 1,800 crore till March 2023 within one and half years of the introduction of the product by markets regulator Sebi. Silver ETFs are following the trajectory of Gold ETFs as the ETF route offers the assurance of metal purity, no storage hassles of the physical metal, and ease of buying.

Groww completes Rs 175cr Indiabulls Mutual Fund biz acquisition

Nextbillion Technology, which runs investment platform Groww, has completed the acquisition of the mutual fund business of Indiabulls Housing Finance (IBHFL) for Rs 175.6 crore after receiving the necessary approvals, IBHFL said in a filing with stock exchanges.

Source:- Economictimes, Moneycontrol, Livemint, Cafemutual, Ibjarates, AMFIIndia Etc.