SENSEX	NIFTY	GOLD	USD	CRUDE OIL
61872.62	18321.15	60680.00	82.74	6111.00

50% mutual funds get redeemed within a year. Is long-term investing dead?

World's richest investor Warren Buffett's favourite holding period is forever, but for India's mutual fund investors it all boils down to a few months. A recent report by markets regulator Securities and Exchange Board of India (Sebi) has revealed some startling facts. In the last financial year, over 50% of mutual fund units of regular plans were sold or redeemed in just one year.

"During FY 2022-23, 73% of mutual fund units were redeemed within 2 years of investment. Only investments in 3% of the units continued for more than 5 years," Sebi said in a consultation paper on review of total expense ratio (TER) charged by asset management companies (AMCs).

In FY22, around 71% of the total mutual fund units were redeemed within two years of investment.

Half of mutual funds are sold in first year

(Regular plans)

Holding Period	Units redeemed in FY22	Units redeemed in FY23
0 - 1 years	56.83%	50.11%
1 – 2 years	15.14%	23.04%
2 – 3 years	5.03%	9.81%
3 – 5 years	20.41%	13.96%
More than 5 years	2.59%	3.09%

Table: ETMarkets (Nikhil Agarwal) • Source: SEBI •

Why do MF investors give up so early?

Industry insiders blame the lure of quick money among retail investors as the top reason behind the redemption pressure. “Markets are now in the palm of an investor’s hands which enables them to make easy comparisons of returns between different mutual funds every minute of the day. And this short-term news and information plays on their minds which in the end adds to biases and makes them fearful of losing money in the short term. In the last nine years, MF industry’s AUM has grown over fourfold, from about Rs 10 lakh crore in May 2014 to about Rs 41.5 lakh crore in April 2023.

Typically, the ideal holding period for an equity mutual fund is considered anywhere between a minimum of 3-5 years. But data shows that only investments in 3% of the units continued for more than 5 years.

Studies done by ET Money shows that since June 1999, if you had invested in Nifty50 for any seven-year period, your chances of getting a negative return were zero. On 82% of the occasions, you would have made returns of over 10% per annum. And if you stayed invested for 20 years, there was almost a 100% chance of getting a more than 10% return per annum.

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24% of SIP AUM depicts high longevity, remains invested for over 5 years

Of the total SIP AUM of Rs. 6.83 lakh crore, 24% or Rs. 1.65 lakh crore has stayed invested for more than five years, shows AMFI data.

The data also reveals that in terms of SIP accounts, 11% or 73.14 lakh accounts of the total 6.36 crore accounts are active for more than five years. These figures show stability and that investors are continuing to stay long, said AMFI in a press meet.

The data also shows that 23% or Rs. 1.54 lakh crore of the total SIP AUM is less than a year old. Notably, 38% or 2.39 crore SIP accounts were opened in the last one year. Commenting on these figures AMFI said that the investor awareness campaign of AMFI is bearing fruit and more and more investors are investing in SIPs

Age-wise analysis as on March 31, 2023				
SIP Accounts continuing for	No of SIP Accounts	%	AUM (Rs. in crore)	%
> 5 years	73,13,501	11%	1,65,117	24%
> 4 years up to 5 years	49,44,249	8%	72,470	11%
> 3 years up to 4 years	49,13,277	8%	84,444	12%
> 2 years up to 3 years	71,23,579	11%	94,180	14%
> 1 year up to 2 years	1,53,81,051	24%	1,12,778	17%
< 1 year	2,39,23,459	38%	1,54,306	23%
Total	**6,35,99,116**	**100%**	**6,83,296**	**100%**

SIP longevity in T-30 Vs B-30 cities

T-30 and B-30 cities individually manage Rs. 4.52 lakh crore and Rs. 2.31 lakh crore of SIP AUM. This forms 66% and 34% of the total SIP AUM, respectively.

While 24% of T-30 and B-30 SIP AUM has stayed active for over five years, 22% of T-30 SIP AUM and 23% of B-30 SIP AUM is in new accounts opened in the last one year.

Overall, the longevity trend in SIP AUM and SIP accounts in these cities is more or less in line with the industry trend.

Age-wise analysis as on March 31, 2023								
SIP Accounts continuing for	T-30 cities				B-30 cities			
	No of SIP Accounts	%	AUM (Rs. in crore)	%	No of SIP Accounts	%	AUM (Rs. in crore)	%
> 5 years	36,62,794	11%	1,09,553	24%	36,50,707	12%	55,565	24%
> 4 years up to 5 years	24,09,809	7%	48,262	11%	25,34,440	8%	24,209	10%
> 3 years up to 4 years	24,41,056	8%	56,476	12%	24,72,221	8%	27,968	12%
> 2 years up to 3 years	35,03,514	11%	62,101	14%	36,20,065	12%	32,080	14%
> 1 year up to 2 years	76,27,273	24%	74,186	16%	77,53,778	25%	38,591	17%
< 1 year	1,26,12,850	39%	1,01,717	22%	1,13,10,609	36%	52,589	23%
Total	**3,22,57,296**	**100%**	**4,52,295**	**100%**	**3,13,41,820**	**100%**	**2,31,002**	**100%**

AMCs CEOs and senior officials will be held responsible for any misconduct and mis selling: SEBI

SEBI has issued a consultation paper in which it has proposed that AMCs CEOs and senior management personnel will be held responsible if their AMC is found doing any misconduct and mis selling.

In this context, the market regulator has asked AMCs to put in place a surveillance system to check instances of front running, insider trading, mis selling of products and misuse of information by the AMC, its employees or distributors.

Sharing the rationale, SEBI said, "In the past, orders on two instances of front-running have been passed wherein broker- dealers, certain employees and connected entities were found to have front-run the trades of the AMCs. In another instance, an employee of a listed insurance company was observed to be front-running the trades of the company. In yet another instance, an employee of a Foreign Portfolio Investor ('FPI') was found to be front-running the trades of the FPI. In view of the above, it is considered important to have an institutional mechanism in AMCs for deterrence of possible market abuse or fraudulent transactions in securities related to AMCs' transactions."

The surveillance system is expected to:

- Deter possibility of misconduct by employees, distributors, brokers or other entities
- Detect misconduct by putting in place internal control procedures like alerts
- Give soft alerts that indicates likelihood of misconduct like lifestyle checks of employees, recording of all communication including emails and chats and CCTV footage

Here are some other key highlights of the consultation paper:

- If AMC detects any alert, it should immediately investigate the matter
- Stock exchanges will have to facilitate all relevant data required for investigation
- AMCs have to develop a standard operation procedure (SOP) for processing alerts
- AMCs should develop a documented policy on types of action to be taken against wrongdoers. These policies have to be part of contract
- AMCs will have to submit a report to their board of directors, trustees and SEBI regularly
- These systems and processes have to be reviewed twice a year
- AMCs are allowed to share resources, systems and infrastructure to reduce costs
- All AMCs will have to adopt whistle blower policy

SEBI wants mutual funds to catch front running, insider trading frauds

The capital market regulator, Securities and Exchange Board of India (SEBI) has proposed setting up surveillance and internal control systems to catch frauds like front running and insider trading. At the minimum, SEBI has said that such a system should be able to catch front-running, insider trading, misselling of products, misuse of information by the asset management company (AMC), its employees, distributors, brokers dealers and so on and delay in execution of orders by their brokers and dealers. In recent times, SEBI has caught instances of front – running in some fund houses in the Rs 40 trillion India mutual funds (MF) industry. In February 2023, it barred its former chief dealer and 19 others in a front – running case that was caught at Axis MF.

27% of the money raised during NFOs comes from switch transaction: SEBI

SEBI data reveals that 27% of the money raised during NFOs came from switch transaction.
Of the total assets of Rs.85000 crore raised during NFOs of 86 schemes launched between April 2021 and September 2022, Rs.23,000 crore came from switch in transaction. Such an amount was Rs.1500 crore in the case of direct plans. SEBI said, “Switch transactions in regular plans amounted to INR 22,823 crores i.e. 93% of total switch transactions. No such pattern of switch was seen in case of investments through direct plans.”
In fact, in one of the schemes, n inflow through switch transaction was 55% of the total amount raised by the NFO, said SEBI. However, the data does not reveal if such a switch transaction happened from liquid/overnight funds or other schemes.
SEBI attribute this to higher incentive to distributors in NFOs. “Owing to scheme level slab-based TER structure, a new scheme with small size of AUM is able to charge higher TER as compared to an existing scheme with higher AUM. Thus, AMCs can be motivated to give high distribution commission for new NFO schemes wherein it can charge high TER and nudge the switch transactions from existing schemes with large size AUM to the new schemes with smaller AUM size. Having higher distribution commission structures for NFOs as compared to existing schemes may induce some distributors to churn their investors’ portfolios or mis-sell investment products for higher commissions, which is not desirable.”
Another reason was higher trail commission in the initial years compared to subsequent years. SEBI said, “It is understood that the trail commissions paid by AMCs is often higher in the first /initial year(s) of inflows/investments and reduces in subsequent years. This practice of paying lower trail commissions after initial years of investments also encourages churning and/or mis-selling of products by distributors after the first year of investments.”
SEBI has proposed that that there will be no incentive on churning. If an MFD moves his client’s asset from scheme A to scheme B, he will either get the same commission structure or such a commission cannot exceed 25% of the committed structure for the first three years.

HDFC Defence Fund advances NFO closing date from June 2 to May 30

HDFC Mutual Fund, on May 23, said that the closing date of the New Fund Offering (NFO) of its first defence sector fund in India, the HDFC Defence Fund (HDF) has been shifted to an earlier date from June 2 to May 30. The NFO was launched on May 19. Market sources told Moneycontrol that the number of stocks and investment options are limited. And hence, a reasonable inflow in its NFO period will suffice for the fund.
Via the NFO, HDF aims to invest a minimum of 80 percent of the corpus in shares of defence and allied sector companies. Defence and allied sector stocks include (i) stocks forming part of certain eligible ‘basic industries’ based on AMFI industry classification including aerospace and defence, explosives, shipbuilding and allied services, as amended from time to time; or (ii) Stocks from any other defence and allied sectors as per the benchmark’s criteria; or (iii) stocks present on SIDM (Society of Indian Defence Manufacturers) list; and which obtain at least 10 percent of revenue from the defence segment.

Maharashtra manages the largest chunk of equity assets

A state-wise analysis of average AUM as on April 2023 shows that Maharashtra tops in terms of equity assets. Of the total average AUM of Rs. 17.33 lakh crore, the state has Rs. 6.24 lakh crore in equity assets. Following Maharashtra, with an equity asset base of Rs. 1.79 lakh crore, Gujarat has the next highest proportion of these assets.

Here are the state-wise details of average AUM. Figures mentioned are in crore.

States/ Union Territories	Total AAUM	% Equity AAUM	Equity AAUM
Maharashtra	17,33,300	36%	6,23,988
Gujarat	2,83,700	63%	1,78,731
New Delhi	3,86,000	42%	1,62,120
Karnataka	2,83,400	57%	1,61,538
Uttar Pradesh	1,82,800	75%	1,37,100
West Bengal	2,13,400	64%	1,36,576
Tamil Nadu	1,92,200	53%	1,01,866
Haryana	1,34,300	50%	67,150
Rajasthan	71,400	76%	54,264
Madhya Pradesh	59,400	78%	46,332
Andhra Pradesh	53,500	71%	37,985
Kerala	46,800	79%	36,972
Telangana	59,100	62%	36,642
Punjab	48,200	76%	36,632
Jharkhand	41,600	82%	34,112
Bihar	37,400	82%	30,668
Orissa	37,100	73%	27,083
Chhattisgarh	24,000	79%	18,960
Goa	23,900	71%	16,969
Assam	21,500	77%	16,555
Uttarakhand	17,600	79%	13,904
Himachal Pradesh	9,700	74%	7,178
Jammu and Kashmir	5,200	84%	4,368
Meghalaya	2,900	66%	1,914
Tripura	1,500	83%	1,245
Sikkim	1,500	68%	1,020
Nagaland	1,500	53%	795
Arunachal Pradesh	1,000	78%	780
Manipur	800	84%	672
Andaman and Nicobar Islands	600	83%	498
Mizoram	800	45%	360
Total	39,76,100	50%	19,94,977
* Total industry AAUM as on April 2023 is Rs. 41.53 lakh crore			

NEWS IN BRIEF

Expect rate cut in next 1 year; 10-year bond yields to start rallying: Devang Shah, Axis MF

10-year bond yields will start rallying in expectation of inflation, macroeconomic data weakening, as well as expectation of rate cuts getting built in. A part of the rate cut cycle has already started getting priced in, over the next six months or so, we will start pricing in more rate cuts. Once the Fed starts to pivot and cut rates significantly, even from RBI's perspective, we anticipate around 50 odd bps of rate cut in next 12 months. With that anticipation, with 6% operative rate, the 10-year bond yields can hover in 6.5-6.75% range.

'Financials, consumer discretionary and healthcare likely to outperform' - Experts

Generally, sectors which grow faster than nominal GDP will outperform in the longer term so financials, consumer discretionary and healthcare are likely to outperform in the long term, We believe that currently given the macroeconomic and market scenario funds with healthy mix of large, mid and smallcap are appropriate so flexi/multi/large-mid/focused are the categories to consider.

Additional liquidity can be positive for near-term banking liquidity, favourable for rates: Axis MF

'Demonetisation 2.0' that focuses on RBI's decision to withdraw from the circulation of Rs 2,000 notes. "For the markets we believe, the additional liquidity can be positive for near term banking liquidity and overall in turn favourable for rates (more for short end) with negligible impact on growth."

Get paid only if you perform: SEBI's plan throws MF industry into a tizzy

The Securities and Exchange Board of India (SEBI) has proposed tentatively that fund houses' management fees be linked to them outperforming benchmark indices, throwing the Mutual Fund (MF) industry into a tizzy. In an internal analysis, SEBI observed that just 26.67 percent of actively managed equity schemes had outperformed the benchmark index or gave similar returns over the five years ended February 28, 2023. That has worried SEBI, which put forth the proposal that perhaps fund houses should earn a management fee only if they outperform the benchmark.

Mutual funds buy the dip in IT stocks; invest ₹9,500 crore in 2023: Report

Mutual funds are loading up on information technology (IT) stocks on improved valuations and low downside risk after a double-digit correction in top companies like Infosys and Wipro, stated a report by Business Standard. As per the market daily, IT stocks were MFs' top sectoral buys in April when they invested a net of ₹2,100 crore. In the first four months of 2023, the net investments in IT amounted to ₹9,500 crore.

Insurers selling mutual funds positive for both; can increase compliance burden

The sale of Mutual Funds (MFs) by insurers will result in exposure to more investment options for investors, and potentially improve portfolio growth, but at the same time increase the compliance burden on intermediaries like distributors. The regulator's views were in line with a finance ministry proposal to consider allowing insurance companies to sell multiple financial products, including MFs.

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

NEW FUND OFFER (NFO)