Sakthi Financial Services

Weekly Update

27th December 2021 Vol: - 21.22.34

SENSEX	NIFTY	USD	GOLD (10 grams)	CRUDE
57124.31	17003.75	75.02	48264.00	5476.00

Market likely to remain volatile in the final week of 2021 amid expiry: Experts

The Indian market started the week gone by on a negative note amid rising concern over Omicron variant of coronavirus. Later in the week, in-line with the global markets, the Indian benchmark indices also saw recovery, but remained rangebound and ended the week on flat note amid continuous FII selling. During the week, BSE Sensex was up 112.57 points (0.19 percent) to finish at 57,124.31, while the Nifty50 was up 18.55 points (0.10 percent) to close at 17,003.75 levels.

Markets will continue to see volatility and whipsaw-like movements as they respond to Omicron-related development and the monthly expiry. The week may see sectoral rotation, with beaten-down industries gaining traction. Because the underlying tone in Realty and Auto is optimistic, a purchase on dips approach can be used. IT is gaining momentum and trading at all-time highs, aided by Accenture's stellar performance. Banks on the other hand, remain weak and are unlikely to see significant buying until the end of the year. Investors can further examine the monthly expiry rollover data to capitalise on sectoral rotation and identify if the Santa Claus Rally will occur.

The final week of the calendar year is expected to remain volatile, thanks to the scheduled expiry of December month derivatives contracts. Besides, the updates on COVID cases will further add to the choppiness. The recent volatility indicates caution that the new COVID variant might result in restriction of economic activities as its transmission rate is high despite being less severe. After the initial choppiness, global markets, especially the US, are settling now however it’s not the case in our markets yet. We advise maintaining a cautious approach and waiting for further clarity. On the index front, a decisive close above 17,150 in Nifty would help the index to inch further higher else profit taking would resume. Traders should keep a close eye on the banking index for cues.

Structurally, the recent bounce looks matured at 17155 & the Nifty can slide down towards its daily lower Bollinger Band, which is near 16700. Overall, short term consolidation is expected in the range of 17155-16700

FII selling has reduced sharply over the last few days due to the festive holidays. After around 10% correction, Nifty is now trading at 19x FY23 P/E and is no longer in the expensive zone. While the relief rally might continue for some more time, volatility cannot be ruled out on account of potential risk from Omicron variant and fragile global cues. We suggest long term investors to take benefit of such volatility in the market and add on to their portfolios gradually at lower levels.

HSBC to acquire L&T Mutual Fund for $425 million

HSBC will acquire the mutual fund business of L&T Finance Holdings for $425 million (Rs 3,250 crore). The deal values L&T Mutual Fund at 4.2% of its assets under management of Rs 78,273 crore at the end of September. Earlier this year, Sundaram Finance paid Rs 338.53 crore, amounting to 4.5% of assets under management, to acquire Principal AMC.

After completion of the deal, HSBC will merge the operations of L&T Mutual Fund with its existing asset management business in India.

"With an acquisition of this size, the asset management business will be a meaningful entity for HSBC in India," said Value Research founder Dhirendra Kumar.

L&T Mutual Fund is ranked 12 out of 44 in the Indian mutual fund industry. Equity assets account for Rs 41,000 crore of the total cited above. HSBC is at 23 with assets of Rs 11,314 crore, of which equity accounts for Rs 4,264 crore. L&T Mutual Fund has 2.4 million active folios, is empanelled with leading banks and has a presence in 65 locations.

"L&T has a strong investor base with many of them in their equity schemes and presence in many geographical locations, giving HSBC access to a new set of investors," said Kaustubh Belapurkar, director, fund research, Morningstar India.

A fund house can have only scheme in each mutual fund category. L&T MF has 29 open-end schemes, of which 17 are in common with HSBC and will need to be merged in line with guidelines. HSBC has a suite of international funds, including unique ones on climate change.

SEBI observation letter validity period for NFOs back at 6 months

Sebi on Wednesday restored the validity period of "observation letter" issued by the markets regulator for launching new fund offerings (NFOs) by mutual funds to six months. This will come into force with immediate effect, the Securities and Exchange Board of India (Sebi) said in a circular.

The regulator, in March 2020, had extended the validity period of observation letter issued by it for the launch of NFOs from six months to one year from the date of Sebi letter.

In Sebi parlance, issuance of observations letter implies its go-ahead for the NFO.

"Based on consultation with stakeholders, it has been decided to restore the validity period of observation letter issued by Sebi to six months to launch NFOs," the regulator said.

However, for all schemes where Sebi has already issued observation letter and NFOs are yet to be launched, the schemes will be launched within one year from the date of regulator's observation letter, it added.

Now, SEBI MF Advisory Committee has a representation from MFD community

SEBI has reconstituted its Mutual Fund Advisory Committee (MFAC), which will continue to be headed by former RBI Deputy Governor Usha Thorat. Among the key additions is Chairman of NJ India Invest Neeraj Choksi. He is the sole representative of the MFD community in the 24-member panel.

Choksi has previously been a part of committee from 2011 to 2017.

Speaking to Cafemutual, Choksi said he looks forward to working with the committee again. "We will work in the best interest of the investors, which is the primary objective of the committee. We will also look into issues of the MFD community," he said.

The strength of the panel has gone up to 24 from 20 and as many as 17 new faces have joined the committee. Other new additions to the team include Prathit D Bhobe of Tata MF, Saurabh Jain of Navi MF, Saurabh Nanavati of Invesco MF, Sunil Subramaniam of Sundaram MF, Swarup Mohanty of Mirae Asset MF, Vinay Tonse of SBI MF among others.

They will replace Kailash Kulkarni of L&T MF, Nilesh Shah of Kotak MF, Monika Halan of Mint Money, Nitin Vyakaranam of ArthaYantra, Rajnish Narula of Canara Robeco MF among others.

Mutual funds add ₹7 lakh crore to kitty in 2021; Omicron, rate hikes possible red flags for 2022

Mutual Funds as an investment avenue won the confidence of investors in 2021 with the industry adding a staggering ₹7 lakh crore to their asset base during the year on the back of buoyant equity markets and a bunch of large new fund offerings (NFOs), but the new year could be tricky depending on the Omicron situation and possible interest rate hikes. While it may not be an easy money environment in 2022, some experts are hopeful that the impact of the Omicron variant of the novel coronavirus may not be as severe as those witnessed in the first two waves of the pandemic.

"To a large extent, the world has learnt to live with COVID and as such with the rapid vaccination coverage in India, the impact of Omicron on the economy should not be as devastating as the previous waves have been," said Suresh Soni, CEO of Baroda Mutual Fund.

Low interest rates, increasing awareness about mutual funds and good investment performance will be the contributing factors for rise in assets under management (AUM) going forward, he added.

The AUM of the mutual fund industry grew by 24 per cent to an all-time high of ₹38.45 lakh crore in 2021 by November-end itself, from ₹31 lakh crore at the end of December 2020, data available with the Association of Mutual Funds in India (Amfi) showed.

Vidya Bala, co-founder of Primeinvestor.in, believes that the final mutual fund AUM figure at December-end may settle a bit lower or flat with a consolidation round currently being underway.

There could be some outflows from debt funds on account of advance tax payments in December, said Himanshu Srivastava, Associate Director – Manager Research, Morningstar India.

HDFC MF gradually drops its equity allocation in BAF to 57%

Mutual fund house, HDFC Asset Management Company, which has historically run its balanced advantage fund aggressively with unhedged equity in the 65-80% range has cut its equity steadily in 2021. After keeping it above 80% in calendar year 2021, the fund house has cut it to a multi-year low of 57%.

The fund house has been using derivatives to hedge exposure, and therefore, for tax purposes, the scheme will continue to be equity.

According to the fund house, as of 30 November 2021, unhedged equity exposure of the HDFC Balanced Advantage Fund was 57.1% of the total assets against 82.8% in April 2020. The fund's equity exposure started falling from a high of 83% from August 2020 just as the market rally started gaining momentum.

The BSE Sensex was trading in the range of 35,000-40,000 in August 2020. The equity exposure saw gradual decrease to below 60% in October just as the market approached the 65,000 level.

The reduction in the equity exposure in the fund assumes significance as it the biggest scheme in the dynamic asset allocation category, which includes balanced advantage funds. HDFC Balanced Advantage Fund had assets under management of ₹41,319 crore as of 30 November.

The whole objective of BAFs is to manage their equity exposure dynamically but HDFC BAF had kept allocation static (65-80% equity) for many years and above 80% throughout calendar year 2021, unlike other BAFs," said Amol Joshi, founder of Plan Rupee Investment Services.

In terms of performance, the scheme has delivered a return of 34.9% on a one-year basis, 13.9% on three-year basis and 11.6% on a five-year basis.

Budget 2022: MF industry shares list of demands from government

As the countdown for the Union Budget 2022 has begun, the Wishlist from the industries has started to come for the government. The Mutual Fund industry is also having its own bucket list. This is what Mutual Funds expect from the government.

List of demands:

- Parity in taxes between listed debt securities and debt mutual funds
- Exemption in Long Term Capital Gains (LTCG) after 3 years while after 1 year in listed debt
- Tax parity in the sale of MFs and ULIPS
- 10 per cent LTCG above Rs 1 lakh while no tax on ULIPS
- Parity in tax payment with respect to intra scheme switching between MF and ULIPs
- No tax on switching in the same ULIP scheme
- Dividend option from growth option, mandatory tax payment from regular to direct
- TDS limit on income distribution dividend at Rs 50,000
- Currently it is limited to Rs 5000 while it has been increased to Rs 40000 or FD
- The requirement of investment in multiples of Rs 500 must be done away with
- Surcharge on MFs or non-corporate investors must be reduced
- Surcharge on share dividend income at 15 per cent while 25 per cent or 37 per cent on MFs.
- Surcharge on TDS must be identical for NRIs

(Cont.)

- TDS rate must be reduced from the current 30 per cent to 15 per cent on debt schemes for NRIs.
- NRIs must also get benefits of indexation on investment in Mutual Funds
- MFs must also be allowed to launch pension products like the NPS
- The tax exemption on Gold and Silver ETFs should be reduced from 3 years to 1 year
- Demand for reducing tax exemption period on debt ETF to 1 year
- Stamp duty on equity MF must be just once and not be recurring
- STT on squaring off ETFs should be lower than delivery deals
- Demand for allowing MFs to manage funds of insurance companies
- CPSEs should be allowed to invest their surplus funds in MFs
- Currently, CPSEs are allowed to invest their surplus funds in MFs of PSUs.

NEW FUND OFFER (NFO)

ICICI Prudential Passive Multi-Asset Fund of Funds

New Fund Launch Date	27-Dec-2021
New Fund Offer Closure Date	10-Jan-2022
Objective of Scheme	ICICI Prudential Passive Multi-Asset Fund of Funds is a Fund of Funds scheme with the primary objective to generate returns by predominantly investing in passively managed funds launched in India and/or overseas
Scheme Type	Open Ended
Scheme Category	Other Scheme - FoF Domestic

(Source:- Economictimes, Moneycontrol, Livemint, Cafemutual, IBJArates, AMFI,etc.)