

WEEKLY UPDATE

10th August 2024**Version:- 24.25.13****SENSEX**
79,705.91  **1.19%****NIFTY**
24367.50  **1.28%**

Key Highlights

- Good returns, no-theft risk among reasons driving digital gold investments: NAVI
- MF industry has added 18 lakh new folios every month since 2019: FM Nirmala Sitharaman
- Mutual fund SIP inflows surge 10% to surpass Rs 23,000 crore for the first time
- SEBI asks mutual fund industry to proactively conduct stress test
- HDFC Defence Mutual Fund doubles money in just 9 months
- SEBI's new measures on front running: Mechanism to ensure transparency and investor protection, says AMFI
- Mutual fund body Amfi calls for roll back of equity tax, STT hike

RBI rate pause: What does it mean for mutual fund investors?

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Thursday in its bi-monthly monetary policy review meeting has decided to keep the policy rate unchanged at 6.50%. This decision has been kept same since April 2023.

Here is what rate pause by RBI means for the mutual fund investors.

For mutual fund investors, an unchanged repo rate amid high food inflation and global market volatility offers a mixed opportunity. Debt fund investors can expect stable yields and potential gains from anticipated rate cuts. Equity investors should focus on sectors that are resilient to inflation and market fluctuations. Hybrid funds provide a balanced strategy, reducing risks from both debt and equity markets.

The policy statement was decisive in terms of communicating RBI's mandate to align headline inflation closer to the target of 4%. Notwithstanding comforting signals from the easing core inflation, the importance of headline in shaping expectations and avoiding spillover to general prices was emphasized. This clearly pushes back expectations on RBI reacting to short term market volatility and US FED actions in changing the stance of policy in the near term. RBI remains focused on bringing down Headline Inflation within target range on a sustainable basis. Current Short-term rates offer attractive avenue to investor with near-term investment horizon.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

Good returns, no-theft risk among reasons driving digital gold investments: NAVI

Digital gold is a unique offering that allows customers to invest in a traditional asset class in a modern and innovative format. Good returns and no-theft risk were among reasons for buying digital gold whereas uncertainties about investment processes deterred people from going for the option, a recent study conducted by Navi shows.

Around 50% respondents of the study have invested because gold has delivered good returns in the recent past. Respondents think that as there is no risk of theft in case of digital gold, they consider it for making investments. Around 39% feel, digital gold is less risky than keeping physical gold at home as there is no worry of theft.

According to the survey, the satisfaction of buying the purest form of gold is the third important factor for making investment. Around 36% respondents have invested in 'Digital Gold' due to its purity aspect i.e. ability to buy 24-carat pure gold.

The fourth factor for investment is convenience. Around 25% respondents like the convenience of buying, selling, and tracking digital gold investment anytime via apps offering digital gold.

The survey also mentioned the top barriers which are holding back digital gold investment.

The topmost barrier is uncertainty about the investment process & benefits. According to 67% of non-users were uncertain about the process of investing in digital gold or the benefits it offers.

The next barrier is 'touch & feel' of physical gold. Around 44% respondents preferred physical gold due to the ability to 'touch and feel' gold bought from a jeweler. The survey mentioned other factors as well. Other factors for not investing in digital gold included lower returns compared to stocks, fear of online fraud, GST being charged while buying Digital or Physical gold (37% for each reason).

The findings from the study done by Navi highlight the need to drive more financial literacy and address common consumer concerns and questions about the benefits of digital gold. This can drive wider adoption, allowing consumers to enjoy gold's timeless appeal in a modern, innovative form, said the press release.

MF industry has added 18 lakh new folios every month since 2019: FM Nirmala Sitharaman

The Union Finance Minister Nirmala Sitharaman today while talking about the growth of the MF industry said that, "On an average, 17.88 lakh new folios have been added every month in the last 5 years since 2019." Sitharaman acknowledged the growth of number of unique investors in the mutual fund industry from 1 crore in 2014 to 4 crore in 2024. The FM also commented on the evolution of Indian retail investors who have now moved away from traditional investment options like FD and post office and are now diversifying their portfolios for maximum returns by investing in mutual funds and real estate.

Mutual fund SIP inflows surge 10% to surpass Rs 23,000 crore for the first time

Even as equity mutual fund (MF) inflows decreased by 9% in July, SIP inflows surged by 10%, surpassing the Rs 23,000 crore mark for the first time.

According to the monthly data released by Association of Mutual Funds in India (AMFI), the monthly SIP contribution in July stood at Rs 23,332 crore against Rs 21,262 crore in June. The number of new SIPs registered in July stood at 72,61,928. The SIP AUM was highest ever at Rs 13.09 lakh crore for July 2024 compared to Rs 12.43 lakh crore for June 2024.

The number of SIP accounts stood at the highest ever at 9,33,96,174 in July 2024 as compared to 8,98,66,962 in June.

The average assets under management (AAUM) for July 2024 was recorded at Rs 64.70 lakh crore and for June 2024 was Rs 61.33 lakh crore.

The MF folios were at an all-time high at 19,84,06,294 in July 2024. Retail MF Folios which includes equity, hybrid, and solution-oriented schemes were also at an all-time high at 15,89,35,085 in July compared to 15,32,56,488 in June.

The retail AUM which includes equity, hybrid, and solution-oriented schemes stood at Rs 38.35 lakh crore for July 2024 with an average AUM of Rs 37.77 lakh crore.

Equity MFs saw positive inflows for a straight 41-month starting from March 2021. The growth/equity-oriented schemes inflows for July were at Rs 37,113.39 crore.

SEBI asks mutual fund industry to proactively conduct stress test

Markets regulator Sebi has asked the mutual fund industry to proactively conduct stress tests, a key component of risk management for the financial sector, which will help strengthen the ecosystem, its whole-time member Ananth Narayan Gopalakrishnan said on Friday. The regulator's stress testing emphasizes the need to assess and manage liquidity risks, especially in small and midcap equity schemes.

Speaking at a mutual fund event, Gopalakrishnan highlighted the importance of modelling stress scenarios not just for individual schemes or fund houses but for the entire mutual fund ecosystem.

"It is also important to model stress scenarios for the entire composite mutual fund ecosystem. I would strongly encourage the industry and AMFI to take the lead and proactively conduct objective and credible industry wide stress tests. themselves," Gopalakrishnan said.

He also emphasized the need to find better ways to communicate the risks associated with different mutual fund schemes.

Several fund houses have proactively stopped lump sum investments in some small-cap schemes and also capped the amount that can be invested through Systematic Investment Plan (SIP) into small-cap schemes.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

Are you making these 10 costly mistakes while investing?

Investing in mutual funds offers a path to building wealth and achieving financial goals, but it's not without its challenges. To succeed in the dynamic world of mutual fund investments, it's essential to navigate potential pitfalls that can derail your financial journey.

Here we'll explore ten common mistakes that investors often make when investing in mutual funds. By understanding these pitfalls and learning from examples, you can make informed decisions and enhance your chances of long-term investment success.

Neglecting to define clear goals

One of the most critical mistakes investors make is jumping into mutual funds without defining clear financial goals. Without a specific target, it's challenging to select the right mutual funds that align with your objectives.

For example, consider an investor who wants to retire comfortably in 25 years. They should define how much they need to save, their risk tolerance, and their expected returns to choose appropriate funds. Without these goals, they might invest in high-risk equity funds when a balanced approach or retirement-specific funds would be more suitable.

Ignoring risk tolerance

Every investor has a unique risk tolerance, which dictates how much volatility they can handle in their investments. Ignoring your risk tolerance can lead to investing in funds that are too risky or too conservative for your comfort level.

For instance, a young investor with a high risk tolerance might invest heavily in small-cap equity funds, aiming for higher returns. However, an investor close to retirement might prefer more stable options like balanced or debt-oriented funds to protect their savings.

Chasing past performance

Many investors fall into the trap of chasing past performance, assuming that funds that have performed well in the past will continue to do so in the future. However, historical performance alone is not a reliable indicator of future returns.

For example, a fund that had exceptional returns last year might underperform this year due to changes in market conditions or management strategy.

Overlooking fees and expenses

Fees and expenses associated with mutual funds can significantly impact your overall returns over time. Investors often overlook these costs, focusing solely on potential returns without considering the impact of fees.

For example, consider two funds with similar performance but different expense ratios - one higher than the other. Over a long investment horizon, the fund with lower expenses can significantly outperform the one with higher fees due to compounding effects.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

Failing to monitor and rebalance

Investing in mutual funds isn't a one-time activity but requires periodic monitoring and rebalancing. Failing to review your portfolio regularly can lead to a drift from your original asset allocation and risk profile.

For instance, a portfolio that was initially diversified between equity and debt funds may become overly weighted in equities during a bull market, exposing it to higher risk levels than intended.

Market timing

Attempting to time the market by buying and selling mutual funds based on short-term market trends or news can be detrimental to long-term investment outcomes.

For example, an investor may decide to sell their equity mutual funds during a market downturn, fearing further losses, only to miss out on the subsequent recovery and potential gains.

Lack of diversification

Failing to diversify across different asset classes, sectors, or geographies can expose investors to unnecessary risks. Concentrating investments in a single sector or asset class increases vulnerability to market fluctuations.

For instance, an investor heavily invested in technology sector funds may face significant losses if the sector experiences a downturn, whereas a diversified portfolio would be more resilient.

Emotional investing

Making investment decisions based on emotions such as fear, greed, or excitement can lead to irrational choices and poor outcomes.

For example, during a bull market, investors may be tempted to chase high returns without considering the underlying fundamentals or risk factors. Conversely, in a bear market, fear may drive investors to sell low, missing out on potential recovery.

Not considering tax implications

Ignoring the tax implications of mutual fund investments can lead to missed opportunities for tax efficiency. Different types of mutual funds (e.g., equity funds, debt funds) have varying tax treatment, such as capital gains taxes on redemption.

For example, selling mutual fund units before the completion of one year attracts short-term capital gains tax, which is higher than long-term capital gains tax applicable after one year.

Lack of patience and long-term perspective

Mutual fund investments are typically meant for the long term, and expecting quick returns can lead to impulsive decisions and disappointment.

For instance, an investor may switch between different funds frequently in pursuit of short-term gains, missing out on the compounding benefits of staying invested over a longer period.

In conclusion, avoiding these additional pitfalls, along with the previously mentioned blunders, is crucial for achieving long-term investment success with mutual funds.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

Nippon Life India AMC fined for violating rules on total expense ratio

The Securities and Exchange Board of India (Sebi) has imposed a penalty of ₹3 lakh on Nippon Life India Asset Management Company (AMC) and its trustee for violating rules on total expense ratio.

The regulator, while conducting an examination, found that the asset manager was charging total expense ratio (TER) of various schemes to the asset management company's books. Following which, the regulator issued a show-cause notice to the fund house on March 22.

Sebi observed that in five exchange traded funds (ETFs), the fund house charged less expense to the schemes as against actual expense incurred by the schemes.

It said Nippon Life AMC by bearing excess expenses of the scheme had violated its rules.

The fund house argued that there was no express and absolute bar on the AMC bearing scheme-related expenses.

HDFC Defence Mutual Fund doubles money in just 9 months

HDFC Defence Fund, the only active mutual fund focused on the defense sector, has doubled investors' money in just nine months, delivering a return of 102.26% during this period.

The scheme yielded approximately a 38.87% return in the last three months and about 55.16% in the last six months. Over the past year, the scheme has delivered a return of 130.44%.

If an investor had started a monthly SIP of Rs 10,000 since the inception of the fund, the investment would now be valued at Rs 2.28 lakh, achieving an XIRR (Extended Internal Rate of Return) of 147.90%. The total amount invested would have been Rs 1.30 lakh. (Source: ACE MF)

An initial lumpsum investment of Rs 1 lakh made by the investor in the fund since its inception would now be valued at Rs 2.45 lakh, reflecting a CAGR (Compound Annual Growth Rate) of 122.95%. (Source: ACE MF)

The investment objective of the scheme is to provide long-term capital appreciation by investing predominantly in equity and equity-related securities of defence and allied sector companies.

The portfolio of the scheme is diversified across 20 stocks with the highest allocation in Hindustan Aeronautics at around 21.22%, followed by Bharat Electronics with a 19.80% allocation. The fund manages assets of Rs 3,665 crore as of June 2024. (Source: ACE MF)

The scheme is benchmarked against Nifty India Defence - TRI, which provided a return of 146.17% in the last nine months. Over the past three and six months, it delivered returns of 60.66% and 87.04%, respectively. In the last year, the scheme has achieved a return of 187.42%.

Launched in June 2023, the scheme is managed by Abhishek Poddar and the minimum investment amount for lumpsum and SIP investment is Rs 100.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

Don't chase past performers, go for hybrid, flexi-cap funds

Fund managers believe equity mutual fund investors should not invest in schemes that have given high returns in the past. Instead, they should look for pockets where valuations are reasonable and invest in hybrid funds that combine multiple asset classes.

"Investors should avoid thematic investments based on latest trends like defence, manufacturing, and infrastructure, as the underlying stocks have already seen significant re-rating in the past two years," said Neelesh Surana, chief investment officer at Mirae Asset Investment Managers.

Hybrid products may be more suitable for new investors, especially considering current market level while core SIP investments can be done across large- and mid-cap, flexi-cap and multi-cap categories to ensure representation across all sectors, Surana said.

In the recent past, investors have been pouring money into schemes that gave high returns.

Data from Franklin Templeton shows that over the past one year, investors have put in ₹1.52 lakh crore, or 59% of the total money that went into equity, in a mix of thematic, small- and mid-cap funds. Data from Value Research shows that the small-cap fund category returned an average of 51.86% in last one year, while mid-cap funds returned 53.29%. Thematic funds like CPSE ETF, Bharat 22 ETF, and defence funds have returned 100-124% during the same period.

Wealth managers believe investors are likely to be hurt if they chase past winners. A study by Whiteoak Capital MF for the last 19 years showed that an investor who started a SIP in a mid- or small-cap index fund in April 2005 and stuck to the category for 19 years, earned higher return than an investor who changed the SIP annually based on the best return category in the previous year.

The study showed that an investor who started with a SIP in a mid-cap fund and subsequently at the start of each financial year switched her scheme to the best performing fund of the previous year would have earned an average annual return of 15.5%. However, if she remained invested through SIPs only in the midcap index fund, she would have earned 18.1% a year.

SEBI's new measures on front running: Mechanism to ensure transparency and investor protection, says AMFI

Mutual fund industry body, the Association of Mutual Funds in India (AMFI), has said that the new 'institutional mechanism' aimed at preventing potential market abuse introduced by the capital markets regulator will ensure transparency, operational excellence and investor protection.

In an effort to identify and deter instances of front-running and fraudulent transactions in securities at asset management companies, capital markets regulator, the Securities and Exchange Board of India (SEBI) put in place an 'institutional mechanism', a circular by Sebi said on August 5.

As per AMFI, the institutional mechanism to prevent any potential market abuse is a new operational initiative, initiated by the industry and guided by the SEBI.

(Cont.) 7

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13

“This initiative is designed to reinforce our commitment to the highest standards of transparency, operational excellence and investor protection. We believe that these standards, developed by AMFI after consultation with industry, will not only enhance the integrity of our processes but also ensure that our investors can make informed and confident investment decisions,” the industry body said. “We look forward to working collaboratively with SEBI to implement these essential standards,” the AMFI added.

The new measures by SEBI are aimed at curbing misconducts such as front running, insider trading, or misuse of sensitive information, putting the onus of responsible conduct on the CEO or managing director, and the Chief Compliance Officer of the AMC to implement the deterrence. AMCs will also have to lay down written policies and take action in case of potential market abuse by employees and connected entities, and these policies will have to be approved by the board of the asset management company. Any potential market abuse will have to be dealt with sternly by the AMC, including suspension or termination of such persons/entities. The fund houses will have to implement a mechanism by way of alerts get automatically generated in the system, if there is any suspicious activity detected. SEBI has said that AMCs will need to record a list of such alerts, their observations and what action they take. This report will be part of the mandatory half-yearly reports that AMCs give to SEBI.

Mutual fund body Amfi calls for roll back of equity tax, STT hike

The mutual fund (MF) industry on Tuesday called upon the government to roll back the hike in equity MF taxation. In the latest Budget, the Centre has raised the short term capital gains (STCG) tax on equities from 15 per cent to 20 per cent. The long term capital gains (LTCG) tax was hiked to 12.5 per cent from 10 per cent. The Association of Mutual Funds in India (Amfi) on Tuesday said the 30 per cent hike in STCG and 25 per cent increase in LTCG could come in the way of financialisation of savings.

"Increasing tax rates on both short term and long-term gains will deter common investors from choosing mutual funds. Less than 5 crore investors invest in mutual funds and the industry has been making consistent efforts to increase this number. Any change in taxation will hamper the efforts to move people from traditional savings to investments," Amfi said.

The association said the changes in tax rates will also affect MF schemes, which use equity derivatives to generate returns.

"Arbitrage funds and equity savings funds mainly use futures and options for hedging as the underlying assets. The available arbitrage has now reduced due to increase in short term capital gain tax. Further, the increased securities transaction tax (STT) on futures will add to the cost of these funds," it added.

For the futures, the STT has been increased from 0.0125 per cent to 0.02 per cent. STT on options has been raised from 0.0625 per cent to 0.1 per cent.

WEEKLY UPDATE

10th August 2024

Version:- 24.25.13



**ADITYA BIRLA
CAPITAL**
MUTUAL FUNDS

Arm your portfolio with **India's Defence sector**

Introducing

Aditya Birla Sun Life

Nifty India Defence Index Fund

(An open ended Index Fund replicating the Nifty India Defence Total Return Index)

NFO Period: 9th - 23rd August, 2024

MOTILAL OSWAL
MUTUAL FUND

Poised for **Upside**

Introducing

Motilal Oswal Business Cycle Fund

NFO PERIOD

07th to 21st Aug 2024



Sources:- [Economic times](#), [Moneycontrol](#), [SEBI](#), [AMFI](#), [Cafemutual](#), [Livemint](#), etc.

Disclaimer: Property of SakthiFinance Financial Services Limited. For internal circulation only. Strictly Private & Confidential. Mutual Fund investments are subject to market risks, read all scheme related documents carefully, the past performance of the mutual funds is not necessarily indicative of future performance of the schemes.