'People Won't Talk About Losses In Cryptos, They Will Quietly Shift To MFs'

Though Aditya Birla Sun Life Asset Management Company Limited is perceived as a debt-oriented fund house, it has delivered decent performance in the equity and hybrid spaces, too. ***A. Balasubramanian,*** *chairman of Association of Mutual Funds in India (Amfi), and managing director and chief executive officer of Aditya Birla Sun Life AMC spoke to* ***Outlook Money*** *about where the industry is headed, whether cryptocurrencies can dent the popularity of mutual funds or not, and discussed the fixed-income return scenario at present*

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The mutual fund industry has come a long way. What's next?

The industry has done quite well to reach where we are today—the industry size crossed ₹37 lakh crore in May 2022, and the unique customer base reached around 35 million.

The industry will only add more customers going forward. Millennials who have started coming to the equity market in the last few years will also start investing in mutual funds. We believe the potential size of the industry could reach ₹100 lakh crore in the next five-to-seven years.

Investments from deeper parts of the country have also been rising and the systematic investment plan (SIP) book has been growing consistently.

Penetration has increased ever since the Securities and Exchange Board of India (Sebi) first introduced the B15 (cities beyond the top-15 in the country), and then B30 (Sebi incentivizes fund houses to increase penetration in smaller cities). To that extent, expansion is taking place.

The interesting part is that the money coming from the deeper parts of the country is mostly going towards equity investing through SIPs. This is probably happening since the time Amfi started the *Mutual Funds Sahi Hai* campaign, which is the brand and promotion tag for the entire industry. It has reached every nook and corner of the country as it is available in almost 14 regional languages.

Does Amfi have a next-level plan in terms of spreading awareness? For example, there is a lot of action happening on the cryptocurrency front. Does that pose a challenge to the mutual fund industry?

As an industry body, we have started advising that cryptocurrencies are not equivalent to equity or any other financial instrument.

Also, cryptocurrencies are not regulated by either Sebi, the Reserve Bank of India (RBI) or the Insurance Regulatory and Development Authority of India (Irdai). Therefore, investors need to be extremely careful, given that it is more of a speculative investment. Amfi has recently come out with an advertisement to educate investors on why one needs to invest only in regulated instruments.

While they may be getting into cryptocurrencies, time will make them realise that it is not the same as financial instruments, such as mutual funds. That realisation will come soon.

In the last six months, there has been a significant crash and the number of people who have lost money is quite high. But, in general, when people lose money, they never say, 'I have lost money'. Most people only take pride in telling others when they make money. This also means that eventually most people will quietly move to the financial markets and mutual funds.

The cryptocurrency industry made a lot of noise, but a record number of demat accounts were also opened in the past few years. Maybe millennials are also investing in a combination of investment products, and there may be some who are only investing in equity.

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Last year, a lot of passive funds were launched. Do you think the industry is moving to a low-cost regime? Low expenses are the unique selling point (USP) of index-based funds. Or is this just because of the underperformance of schemes vis-à-vis the benchmarks after it became mandatory for them to compare returns with the Total Returns Index (TRI)?

From the investors' point of view, index-based investing would no doubt make sense. But at the same time, there are money managers who have a track record of generating alpha over the index by way of identifying winners in the portfolio. Over the long term, money managers may give 1-2 per cent above the index. As the market gets deeper, both will co-exist. Even globally, active funds are as big as index-based funds, maybe with a 60:40 ratio. In India, it's just the beginning.

Even in active funds, expenses are increasingly becoming attractive, given the fact that the regulatory framework in India has been undergoing a change for quite some time. From an upfront regime, when the cost was up to 6 per cent between 2002 and 2004, it has now come down to about 1.5 per cent. In debt funds, the expenses are way below the limits prescribed by Sebi. When interest rates are low, you can't charge high expenses.

Another point is alpha generation. If a single stock becomes too big, the outcome could become skewed. For instance, if you take the example of Korea, Samsung forms about 40 per cent of the index weight. In India, two-three stocks make more than 10 per cent of the index. In such a scenario, the money manager may struggle to beat the index.

However, imagine the risk you are taking by owning 12-13 per cent of a single stock; your fortune is linked to a few stocks. That is not the way investments should be—your fortune needs to be linked to a diversified set of stocks. Therefore, actively-managed funds will remain one of the key components of portfolios, though index funds would also find their place as we move ahead.

Sebi recently came up with passive equity-linked savings schemes (ELSS). How will it play out, especially as fund houses with active ELSS will not be able to launch passive ELSS?

It will be like other categories. The market will have active ELSS and ELSS ETFs (exchange-traded funds). Existing fund houses, of course, cannot launch ETFs if they already have active ELSS (but newer fund houses could consider launching them).

We have been demanding ELSS in the fixed-income category, too, for debt instrument investors. However, acceptance for this hasn't come yet.

ELSS was introduced in the 1990s (the first ELSS was introduced in 1993), and at that point of time, the participation of investors in equity was very low. The Government of India came up with the Section 80C deduction (under the Income-tax Act, 1961) for ELSS to lure investors and create an equity culture in the country.

ELSS fixed-income will not become a reality anytime soon, as we still need participation from the equity market, and given the fact that for the benefit of saving taxes, individuals also create wealth by investing in ELSS.

The market is now becoming favourable to fixed-income investments. Your views.

Fixed income goes through cycles—the interest rate cycle and the credit cycle. Today, the credit cycle has become a lot better. Credit risk has reduced quite significantly, too. Now, the risk is macro due to inflation, because of which interest rates have been raised and are likely to be raised further again.

Now the yields, especially for Government of India Securities (G-secs), have gone above 7-8 per cent after hovering around 6-6.2 per cent for a long time. If you see equity versus bond yields, today the bond yields are higher. Therefore, the risk reward is higher for fixed-income investors, going by the fundamental way of investing. This opportunity has come back for investors after two-three years because of RBI's recent interest rate hike cycle.

But you need to understand two aspects to bond market returns. The first is accrual, which is the coupon that is part of the net asset value (NAV). Second, is the marked-to-market part. A significant part of fixed income return comes from the accrual part. Marked-to-market, at this point of time, has incurred a loss in the last two to two-and-a-half years.

The rising interest rate cycle will see target maturity funds, and three-to-five-year duration funds making a comeback.

One fundamental difference between last time (when interest rates rose), and this time is that, this time, the sovereign credits are available at very good yields, and so are state government bonds. Some people think that state government bonds are risky, but if you start doubting, you will never be able to make investments in the Indian bond market.

Do you think Amfi should also have a specific campaign for debt funds because they are more complicated for the lay investors?

We wanted to do this about three years ago. We held back because the credit market cycles went for a toss, and we thought it was not the right time to do so. It will come at the appropriate time, as part of the overall debt category strategy. But even today, we promote fixed-income products, such as liquid funds on the basis of (low) risk.

Recently, front-running allegations rocked the mutual fund industry. What are your views on this, and what safeguards can the industry put in place to avoid such incidents?

As a fund house, we have been in the industry for 25 years. I used to be a trader in the early part of my career. Recording of transactions, bringing in risk management practices as part of anti-money laundering (AML) review, continuous monitoring of trades, as well as keeping an oversight on every function, operation, methodology and people behaviour, form part of the system. Fund houses like ours have been practising these for many years. There is an independent risk management team that reviews every segment of investments made by money managers. Older fund houses have risk mechanisms in place. But the industry is becoming bigger, and it might be possible to find something of this kind coming in between. It happens in every market cycle, but that should not shake the confidence of the investors, because despite such perceptions, mutual funds have delivered a good experience.

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Investor Prospects

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In A Limbo

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