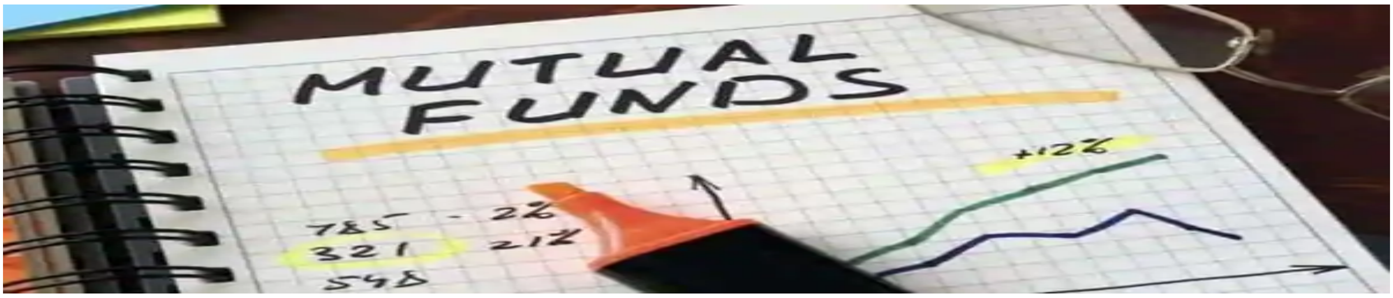
Mutual funds attract new investors, add to their wealth in pandemic-ravaged 2020



The main objective of a mutual fund NFO is to raise capital from markets to further invest in various asset classes **(Photo: iStock)**

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The AUM of the mutual fund industry grew by 13% to an all-time high of ₹30 lakh crore in 2020 by November-end itself, from ₹26.54 lakh crore at the end of December 2019.

For long mutual funds have been trying to attract investors as tools for contingency savings the year 2020 saw one of the most unexpected events unfold when the COVID-19 pandemic engulfed the entire world.

After wild swings in a pandemic-ravaged year, the stock market finally appears to end with unusually high gains, which coupled with robust inflows in fixed income schemes helped mutual funds add a staggering ₹3.5 lakh crore to their asset base in 2020.

Experts believe the new year is expected to be even brighter for the industry.

The investor count is estimated to have grown by over 65 lakh during the year. This was, however, way below than 99 lakh folios added in the entire 2019.

However, Amfi CEO N S Venkatesh believes that the final mutual fund AUM figure at December-end might be slightly lower than that of November as there could be an outflow from liquid and overnight funds from corporates due to a quarter-end phenomenon. These flows, typically, return in the subsequent month.

Going into 2021, Venkatesh said that the asset base is expected to grow by 16-17% on recovery in the economy and positive development on the vaccine front.

"Developing a vaccine, the way governments deal with it, the macroeconomic outlook for India will all guide the markets and the AUMs in the coming year. It will not be a surprise if we reach much higher AUM milestones for the industry as a whole in 2021," Rajnish Narula, MD CEO of Canara Robeco Mutual Fund said.

Moreover, with salaries and businesses getting normalised, people will be more inclined to save and invest, as COVID-19 has taught an important lesson that contingency savings and investments are critical, said Nishant Kohli, founder, director and business head-wealth at Mudra Portfolio Managers.

The 44-member mutual fund industry's AUM surged by 13% in 2020, while the growth was higher at 16%last year. The year 2020 would mark the eighth consecutive yearly rise in the industry AUM after a drop for two preceding years.

Kaustubh Belapurkar, Director – Manager Research, Morningstar India believes the AUM growth has been reasonable, especially given how unprecedented the year 2020 has been.

The AUM growth has been driven by rise in equity asset base, but more importantly by increased flows into liquid, overnight, ultra-short duration, low duration funds and other fixed-income funds with limited credit exposure at the shorter end of the curve -- corporate bond, banking & PSU and short duration fund, he added.

Vidya Bala, co-founder of Primeinvestor.in, is of the view that the AUM grew despite tepid flows only because of the stock market rally.

In addition, ease of investing through digitisation also helped in boosting the industry's assets, Kohli said.

Further, the "Mutual Fund Sahi Hai" campaign also helped the industry in channelizing individual savings into mutual funds, Venkatesh said.

Equity-oriented mutual fund schemes have seen a net inflow of over ₹19,500 crore in the year. However, such schemes have witnessed outflows in the last five months. Since July, redemptions to the tune of ₹22,850 crore across all categories of equity mutual funds have been seen.

The outflow could be attributed mainly to profit-booking by investors and realignment of equity exposure in the overall asset allocation of investors' portfolios given the market movement in equities.

numbers in 2020 as the market appears overvalued. The monthly contribution from the systematic investment plan (SIPs) fell to ₹7,303 crore in November after witnessing record high flows at ₹8,641 crore in March.

On average, ₹8,055 crore was collected on a monthly basis through this route in 2020, which was lower than ₹8,218 crore garnered in the preceding year.

Fixed income funds, often considered as a safe bet, have seen inflows to the tune of ₹1.87 lakh crore in the year passing-by on robust contributions from liquid, overnight, ultra-short duration and low duration funds.

According to Mudra Portfolio Managers' Kohli, investors are getting inclined towards debt mutual funds due to low-interest rates in fixed deposits.

Within debt funds, credit risk funds faced outflows in the April-June period as a fallout of risk aversion from the pandemic and the Franklin Templeton episode.

Franklin Templeton Mutual Fund in April announced the closure of six of its debt-oriented schemes that had cumulative assets of ₹25,000 crore. The asset management firm blamed redemption pressure and lack of liquidity in the bond market for the action.

"Prompt action from RBI and Sebi helped avert a contagion. Yields have since declined sharply on credit issuers (AA, A-rated securities) as risk appetite has returned on the back of improving economic conditions, easy liquidity, stimulus announcements, fall in risk-free rates and falling term and risk premium," Kumaresh Ramakrishnan, CIO - Fixed Income, PGIM India Mutual Fund, said.

Gold, with its safe-haven appeal, emerged as one of the best performing asset classes and a preferred investment destination among investors in this year. Gold Exchange Traded Funds (ETFs) have seen inflow to the tune of ₹6,200 crore in 2020.

Investors got attracted towards the instrument due to multiple factors such as economic downturn caused due to the coronavirus pandemic, weakness in the US dollar and tension between the US and China, said Himanshu Srivastava, Associate Director – Manager Research, Morningstar India.

Considering the threat posed by the pandemic to the global economy and the markets, this segment may continue gaining traction from investors, he added.

The year saw Sebi taking a slew of steps for mutual funds, including relaxing profitability criteria for the sponsor, introducing a fresh category of 'very high' risk on riskometer, changed net asset value (NAV) calculation and introduced labelling norms for the dividend option to improve the regulatory framework in the industry to protect investor interest.

These measures will not only help to bring in innovation and expansion in the industry but also help investors assess funds better, Srivastava said.

Going ahead, he said there are expectations that Sebi may come out with a swing pricing mechanism next year. Also, some measures can be expected around the enhancement of risk disclosure norms on debt funds.