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Narrowly / Widely spread funds

Number of stocks in the portfolio impacts the performance of a fund- a new source of Alpha Analysis

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Equity Mutual Funds returns over the last 2 years have been dismal

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Schemes Returns	FY19	FY20	2 year CAGR
Diversified Equity Schemes*	3.6%	-24.9%	-12%

*Schemes with corpus above 200 cr excl. sectoral funds

- Did You Know?**

How many stocks a mutual fund scheme owns and the cumulative weight of stocks with less than 2% individual weight in the scheme has played a significant role in deciding the performance of funds.

Some Definition

- Narrowly Spread funds** are those where 30% or less weight is assigned to stocks with individual weight of less than 2%
- Widely Spread funds** are those where 30% or more weight is assigned to stocks with individual weight of less than 2%

Scheme	L&T Midcap Fund	Axis Multicap Fund
Total No of Stocks	83	44
No of Stocks with individual weight less than 2% (small wt companies)	74	29
Cumulative Wt. of Small wt. companies	72.5%	17.8%
Condition for definition	72.5% > 30%	17.8% < 30%
Type of Scheme	Widely Spread Scheme	Narrowly Spread Scheme

Most MFs disappointed Investors in last 2 years

- Most mutual funds have disappointed during last years but Narrowly Spread funds have done better
 - **Narrowly Spread funds have outperformed**
 - Narrowly spread mutual funds schemes with lesser numbers of stocks have out-performed schemes with larger number of stocks in their portfolio in the last 2 years.
 - **Narrowly Spread funds are lesser in Numbers in India**
 - Out of 105 diversified schemes, 67% (i.e 70 funds) are Widely spread funds while only 30 schemes are Narrowly spread funds

Mutual Funds	FY19 returns	FY20 returns	2 year CAGR
Diversified Equity Schemes	3.6%	-24.9%	-12.0%
Narrowly Spread Scheme	5.5%	-26.5%	-13.3%
Widely Spread Scheme	2.3%	-22.2%	-9.4%
Outperformance of Narrowly Spread Funds	3.2%	4.3%	3.9%

Why Narrowly Spread Funds Outperformed?

- The market in the last two year itself had been very narrow. Even before the Covid-19 triggered fall of March, while Nifty was making new all time high, majority of stocks were trading below their highs made in Jan, 2018
- 83% shares was giving “-”ve returns over last 2years even pre covid**
- 44% fell by over 50%.**
- 503 out of 1150 shares fell by over 50%**
- Only 17% gave “+”ve returns**
- Mutual funds that were narrowly spreaded , hence did better than those holding larger number of shares

Companies Return	1 Jan 18 to 31 Jan 20	1 Jan 18 to 31 Mar 20
	Pre Covid	Post Covid
-ve Returns	959	1074
+ve Returns	191	76
<-50%	503	831
-50% to -20%	340	179
-20% to 0%	116	64
0%-20%	65	22
20% to 50%	61	30
>50%	65	24
Total No of shares	1150	1150

FY 21 has started with Wide spread movement

- Q1FY21 has seen a different kind of rally in the broader market. There is a wide spread rally in shares

- Only 4% shares have given “-”ve returns,
- 96% of shares have given “+”ve returns

- So, will this cause the widely spread mutual funds to perform better this year in FY21

Companies Return	31 Mar 20 to 30 June 20	31 Mar 20 to 30 June 20
	No. of Stocks	% of stocks
less than 0%	58	4%
more than 0%	1237	96%
<-50%	0	0%
-50% to -20%	2	0%
-20% to 0%	56	4%
0% to 20%	221	17%
20% to 50%	484	37%
>50%	532	41%
Total No of shares	1295	100%

Dead cat bounce?

- Narrowly Spread Funds have underperformed the general market since April 2020. Will this be the story for the whole fiscal year or is it just a dead cat bounce?
- In FY21, since April , there is a mean reversion kind of scenario wherein, Wide Spread funds are outperforming their Narrowly spread peers. **During 1QFY21, Narrow Spread Funds have given 9-16% while Widely Spread Funds have given 18-24% return**
- Widely spread funds are outperforming in all categories

Large Cap Funds	Average 1QFY 21 returns
Widely Spread Scheme	18.46%
Narrowly Spread Scheme	15.61%
Outperformance %	2.85%
Other Diversified Equity Funds	Average 1QFY 21 returns
Widely Spread Scheme	19.13%
Narrowly Spread Scheme	18.07%
Outperformance %	1.06%

Widely Spread Funds have given 18-24% return- 1QFY21

Fund Name	Category	No of stock	No of stocks with <2%	Corpus of stocks with<2%	Q1 FY 21 Returns%
Franklin India Equity Fund	Multi cap	58	41	36.13%	22%
DSP Small Cap Fund - Reg	Small Cap	73	60	53.59%	24%
UTI Core Equity Fund	Large & Midcap	63	46	51.46%	23%
Canara Robeco Small Cap Fund	Small Cap	57	34	38.36%	23%
HDFC Small Cap Fund	Small Cap	75	62	61.12%	22%
Mirae Asset Emerging Bluechip Fund	Large & Midcap	62	48	52.23%	22%
Sundaram Small Cap Fund	Small Cap	63	47	45.80%	22%
L&T Equity Fund - Reg	Multi cap	64	42	31.25%	22%
DSP Equity Opportunities Fund	Large & Midcap	66	54	51.46%	21%
UTI Mid Cap Fund	Mid cap	75	62	60.33%	21%
ICICI Prudential Large & Mid Cap Fund	Large & Midcap	70	54	39.40%	19%
ICICI Prudential Bluechip Fund	Large Cap	76	61	35.54%	19%
Edelweiss Mid Cap Fund	Mid cap	59	37	33.81%	19%
Aditya Birla Sun Life Frontline Equity Fund	Large Cap	69	54	37.78%	19%

Narrowly Spread Funds have given 9-16% -1QFY21

Fund Name	Category	No of stock	No of stocks with <2%	Corpus of stocks with<2%	Q1 FY 21 Returns%
JM Large Cap Fund	Large Cap	79	65	5.5%	9%
Axis Multicap Fund	Multi cap	44	29	17.8%	10%
Axis Bluechip Fund	Large Cap	38	21	10.2%	10%
LIC MF Large Cap Fund	Large Cap	26	10	9.9%	11%
LIC MF Multicap Fund	Multi cap	47	32	27.9%	13%
Motilal Oswal Midcap 30 Fund	Mid cap	23	5	7.7%	13%
LIC MF Large & Mid Cap Fund	Large & Midcap	43	21	19.2%	14%
Axis Small Cap Fund	Small Cap	51	29	24.8%	14%
BNP Paribas Large Cap Fund	Large Cap	35	18	17.8%	15%
Nippon India Large Cap Fund -	Large Cap	54	34	28.6%	15%
Tata Multicap Fund - Reg	Multi cap	44	25	28.4%	15%
Tata Large Cap Fund - Reg	Large Cap	30	9	8.0%	16%
BNP Paribas Multi Cap Fund	Multi cap	42	23	22.6%	16%

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