Valuation and Portfolio Management

Mutual Fund Analysis

Group Info.

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Fund Data

Name of the Mutual Fund Scheme:	Aditya Birla Sun Life Mid Cap Fund [Growth]
Assets under Management of the scheme:	**INR** 4981.57 Crores[1]
Year of Inception of the scheme:[1]	2002
Fund Managers' Names:	Mr. Harish Krishnan & Mr. Dhaval Joshi

[1] AUM as on 'last day', published by Aditya Birla Capital in their fund fact sheet for March, 2024.

The Mutual Fund Industry

A Brief History [Worldwide*]

Historians don't have a unanimous agreement on the exact origin of Investment Companies or Funds. We know for a fact that by the Late 18th century, Investment Funds had been established in the Netherlands. But Jointly-owned Financial Products existed well before 'Investment Funds'. Project-based Tontines and Plantation Loans, for example, were being sold to retail customers as far back as the 1600s.[2]

However, For the purposes of this report, We'll restrict ourselves to the British credit crisis of 1792, which led Dutch businessman A. van Ketwich to establish *Eendragt Maakt Magt*, which served as an instrument for small-scale investors to diversify their portfolio. Later, The *Société générale de Belgique* created similar funds based on foreign government loans. These structures are similar to what we today call close ended funds. These funds, in the form of "Investment Trusts," rose in popularity in the United Kingdom in the latter part of the 19th century since they offered professional management to the masses while running passively, thereby reducing financial and managerial costs that would have otherwise been levied on their consumer base. However, By the 1890s, they were plagued by institutional abuses, which led to the speculative bubble associated with their security offerings to burst. This consequently led them to "adopt more conservative policies." One of these trusts, the Scottish American Investment Trust, was referred to as an antecedent to mutual funds by NYT Finance Journalist Diana Henriques.[3]

Though investment companies had been established in the U.S. by the 1890s, Closed-ended investment funds really picked up speed during the "bull market" of the 1920s. It was at this time, according to writer Mattew P. Fink that Massachusetts Investors Trust, the first Mutual Fund, was created in Boston. Unlike their closed-ended predecessors, which issued shares at premiums, Mutual Funds offered redeemable shares. Nonetheless, The Closed-ended funds remained more popular, until the Wall Street Crash of 1929.

John Kenneth Galbraith, the former United States Ambassador to India, is cited as having inferred two primary issues with Closed-ended funds (which ostensibly led to their decline following the great depression):-

(i) Trading at premiums: The Closed-ended funds' shares were traded above the "actual price." Had the investment company's assets, including debentures, shares, and cash, been sold, their proceeds would have been "less than the value of their outstanding shares." He further noted that by 1929, the average investment fund was trading at "47% above the liquidating value of its portfolio."

(ii) Leveraging and Pyramiding: Closed-ended funds often borrowed money to boost investments and reinvested gains to buy more shares (pyramiding), but since the original inequity was minuscule

[2] Rouwenhorst, K. Geert (2004). "The Origins of Mutual Funds".

[3] Henriques, Diana B. (1995). "Fidelity's World: The Secret Life and Public Power of the Mutual Fund Giant".

compared to the piles of margins atop it, even slight changes in the stock price "would be magnified" manifold.[4]

Unlike Closed-ended funds, Open-ended funds were "prepared to buy back their shares at a shareholder's request" based on the Net Asset Value of the fund's portfolio and "continuously offered shares at that price." As mentioned earlier, Open-ended funds really started gaining traction after 1929 (they faced far fewer price drops compared to closed-ended funds and eventually grew on to occupy a 36% share of total managed investment company assets in the U.S. by 1940), Matthew Fink has suggested that their rise is largely attributable to the following characteristics:-

(i) Open-ended funds only issued redeemable shares, allowing investors to "cash out" at the NAV. However, this was bound to shrink the fund's holdings. This led funds to expand their clientele, increasing their NAV proportionally continuously.

(ii) Open-ended funds typically issued common stock to investors and were not required to use leverage when issuing senior securities.

(iii) Unlike fixed trusts, their portfolios were managed by another company, typically by an Asset Management Company.

By the first Roosevelt presidency, many members of the intelligentsia in the Northeastern U.S. advocated for increased regulation of investment companies. This largely stemmed from concerns about large-scale securities traders like Citi, which artificially inflated stock prices and knowingly sold supposedly nugatory stocks to customers, which greatly contributed to the crash of 1929. This, in part, led to the legislature passing two laws:- The Securities Acts of 1933 and 1934. The first required funds to "continuously provide disclosures to investors" by regularly issuing prospectuses (this was further expanded by the Investment Company Act of 1940, which in turn was effectively "updated" by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010). The second led to the creation of the U.S. Securities and Exchange Commission, which helped to ensure that the market and its constituents behaved in a fair and orderly fashion.

Despite some governmental interventions, the mutual funds market continued to soar as hundreds of new schemes were introduced in the U.S. in the 50s and 60s, despite the inflation boom in the late 60s, brought on by the U.S. entanglement in Vietnam. The 70s and 80s saw Wells Fargo introducing the first Index Funds "when they invested in every NYSE stock for the Samsonite pension fund.[5]" Furthermore, Reagan's rise brought along trickle-down economics, resulting in a bullish market throughout the late 80s. However, Multiple malpractices were discovered in the Mutual Funds industry in Germany and the U.S. in the 2000s, when multiple funds were found trading in restricted time periods so as to profit from arbitrage, In the U.S., many of these were prosecuted by the New York Attorney General's office, and reached an out of court settlement, prior to the 2008 crisis. Nonetheless, the 21st century saw the introduction of Exchange-Traded funds and saw the U.S. mutual funds' assets balloon upwards of 20 trillion U.S. dollars by the 2020s.[6]

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[4] Fink, Matthew P. (2011). "The rise of mutual funds: an insider's view."
[5] Antonacci, Gary.(2014). "Dual Momentum Investing:An Innovative Strategy for Higher Returns with Lower Risk"
[6] Logan, Michael. (2024). "A Brief History of the Mutual Fund."

The Mutual Fund Industry

A Brief History [India]

Unlike Europe and North America, India doesn't have a history of issuing tontines, investment trusts, or other financial products that could be seen as predecessors to the modern mutual fund before 1947 (We went through roughly 20 research papers on the history of mutual funds in India on Google Scholar before coming to this conclusion). However, South Asia has a long history of Chit Funds, which according to Padmanabha Menon's 'History of Kerala', has 'prevailed in the Malabar since the 8th Century.[7]' Much like Investment and Mutual Funds, these funds rely on a collective investment from multiple people, which is managed by a bank or an informal financial institution. But the difference is that, unlike Investment Funds, the whole sum is sold to a member at a premium, which is collected by other members on a monthly basis.

Nonetheless, the First Indian Mutual Fund, UTI (Unit Trust of India), was established by the Unit Trust of India Act of 1963 at 'the initiative of the Government of India and the Reserve Bank of India' so as to encourage citizens to allocate a greater portion of their assets to savings, and investing them in stock markets through mutual funds, so as to gain from the fund's trades, while benefiting from risk-mitigant professional management, without the need for large capital. At the time it launched its first scheme (United Scheme '64) in 1964, UTI had an AUM of INR 25 Crores. According to Rajeev Thakkar of the PPFAS mutual fund, UTI didn't declare its schemes' net asset values in 'those days' and instead paid a quasi-fixed dividend to the unit holder, akin to the payment structure used for distributing fixed equity returns. By the late 80s, UTI's AUM had increased roughly 268x, to about INR 6800 Crores. However, the 80s also saw new players enter the mutual fund market, denting UTI's monopoly.[8]

According to the AMFI, The second phase of Indian Mutual Funds began in 1987 when Public Sector Undertakings started launching their own mutual funds. Though UTI had already been managed by the IDBI bank for nine years at this point, 1987 saw LIC, GIC, SBI, and Canara bank launch their own mutual funds, with the SBI Mutual fund being the first truly "Non-UTI" mutual fund. Others followed suit, including the Punjab National Bank, Indian Bank, Bank of India, and Bank of Baroda. In 1987-88, UTI's AUM was INR 6800 Crores, Together with other Public Sector Institutions, It ballooned up to INR

[7] Job, Sallyamma (2003). "A Study of Chit Finance in Kerala with Special Emphasis on Kerala State Financial Enterprises Ltd."
[8] Kale, Supriya. (2023). "IMPACT OF COVID 19 ON PERFORMANCE OF MUTUAL FUNDS AND ANALYSIS OF AUM."

47,004 crores in 1993, when the next phase began.

The Securities and Exchange Board of India came up with a set of regulations to govern all mutual funds except UTI in 1993, a year after becoming an autonomous body. This just about coincided with the launch of Kothari Pioneer, the first private-sector mutual fund in India, thanks in part to the market reforms associated with the liberalization of the economy. The arrival of private mutual funds on the scene led to SEBI revising its regulatory framework in 1996 and further increased the AUM of the Indian mutual fund market to INR 1,21,805 crores by 2003, more than twice its AUM ten years earlier.

The penultimate phase began with the abrogation of the Unit Trust of India Act 1963. In its wake, UTI, which at the time had an AUM of INR 44,541 crores, was split into two:- The UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India (SUUTI). While the former functions as a normal mutual fund, the latter manages the unprocessed units of the pre-2003 UTI schemes as an agent of the state. The fourth phase also included the fallout from the 2008–09 financial crisis, which led many who had invested during the peak to lose money, and faith in the mutual fund industry, which only got worse with the abolition of the one-time Load-entry charge for new subscribers, which further led to sub-standard industry growth till 2013.

The fifth and current phase began after SEBI introduced new measures to revitalize the Mutual Fund Industry and explore previously uncharted territory in the form of Tier-II and Tier-III cities[9]. By 2014, the industry's AUM had crossed well over INR 10 Trillion, doubling by 2017 and tripling by 2020, and as of March 31, 2024, the industry AUM stood at INR 53.40 trillion while catering to 17.79 investor portfolios, with the addition of roughly 15.90 lakh new folios each month since March 2019. Though the industry's held firm in recent times, Franklin Templeton was the face of a liquidity crisis in 2021, when SEBI found that the firm's closure of 6 investment funds during the first wave of COVID-19 violated SEBI MF Regulations, 1996 and charged them upwards of INR 50 Billion as a fine, to be refunded to the wronged parties. The fund was further banned from raising new schemes until 2023. Some say that this crisis could have contributed to the underwhelming performance of AMC IPOs slated for the latter half of 2021, but arguably, they have since recovered. At the time of writing this report, It's been more than 11 years since direct schemes have been mandated by the SEBI, which has drastically reduced the total expense ratio, allowing individual investors to buy into schemes without relying on middlemen. Moreover, As of 31 March 2024, there exist about 44 Asset Management Companies and 8.4 crore SIP accounts, thanks to the efforts of mutual funds distributors in popularising the concept through ad spaces, most notably through the *Mutual Funds Sahi Hai* jingles funded by AMFI.

[9] Association of Mutual Funds in India. (2024). "HISTORY OF MUTUAL FUNDS IN INDIA"

Top 10 Mutual Fund houses in India based on AUM

As of April 7, 2024, 07:29 PM

The top 10 mutual fund houses in India based on Assets Under Management (AUM) are:-

Ranking (as of 07/04/24)	AMC Name	AUM (in 10k Cr ₹)
1	SBI Mutual Fund	8.52
2	ICICI Prudential Mutual Fund	6.41
3	HDFC Mutual Fund	5.56
4	Nippon India Mutual Fund	3.80
5	Kotak Mahindra Mutual Fund	3.54
6	Aditya Birla Sun Life Mutual Fund	3.12
7	UTI Mutual Fund	2.73
8	Axis Mutual Fund	2.63
9	Mirae Asset Mutual Fund	1.495
10	Edelweiss Mutual Fund	1.39

https://economictimes.indiatimes.com/marketstats/pageno-1,pid-134,sortby-aum.cms

Top 10 Mutual Fund houses in the World based on AUM

Ranking (as on 29 March 2023)	AMC Name	AUM (in trillion US $)
1	BlackRock, Inc	9.43
2	Charles Schwab	7.32
3	The Vanguard Group	7.25
4	State Street Corporation	4.13
5	Fidelity Management & Research	3.88
6	Willis Towers Watson	3
7	Callan LLC	2.9
8	JPMorgan Chase & Co	2.74
9	Goldman Sachs	2.71
10	The Capital Group Cos. Inc.	2.5

https://www.statista.com/statistics/255864/top-global-fund-groups-worldwide-by-assets/
Release date: March 2024
Region: Worldwide
Survey time period: March 29, 2023

SEBI Mutual Fund Regulations

The Security & Exchange Board of India, SEBI regulations & guidelines for mutual funds 1996 with several amendments, outlines a comprehensive framework for the registration & management of mutual funds in India.

Below are the salient features of those regulations with a brief description.

1. Registration of Mutual Fund

(i). Application Submission: Each mutual fund should be registered with the SEBI. For registration, an application form provided by SEBI needs to be submitted along with all the required documents to the Board. It must be complete, following the regulations and guidelines, & signed by the competent authority.

(ii). Eligibility Criteria: SEBI has set some guidelines which needs to be met for setting up a mutual fund. Applicants must have a sound financial record, exhibits ability to manage the fund effectively. Only qualified applicants get the permissions for operating a mutual fund.

(iii). Competent Authority Approval: The registration application must be approved and validated by the competent authority.

(iv). Review and Approval Process: After exhaustive review & evaluation of the application by SEBI board, it grants the registration certificate to the concerned mutual fund. It may request some extra information if required.

(v). Registration Code: A unique code is provided to the mutual fund which acts as an identifier responsible for the recognition of the mutual fund. This code is used for operational & regulatory purposes of the mutual fund.

(vi). Terms & Conditions of Registration: This includes the compliance standards, investment guidelines, regulations & responsibilities aiming towards the efficient and effective functioning of the mutual fund.

2. Conduct of Asset Management Companies and Trustees

(i). Organizing & Operating Mutual Fund Schemes: As per the regulations, mutual funds should work in the interest of all the unitholders rather than directors, sponsors or other special unitholders.

(ii). Dissemination of Information: There should be proper, adequate & timely flow of information to the unitholders about the investment decisions, fund growth & other general information so as to enable investors make informed investment decisions.

(iii). High Standards of Service & Due Diligence: High service standard is maintained to ensure proper care and judgment throughout the scheme to safeguard the investors interests.

3. Investment Management Agreement

(i). Responsibilities of the Asset Management Company (AMC): This includes the key responsibilities of the asset management company like floating schemes, fund management as per the regulations. This also includes the fund & schemes management approval by Trustees as per the Trust Deed and regulations.

(ii). Scope of Business Activities: The agreements prevents the AMC from undertaking any other business activities apart from whatever has been mentioned. This avoids the conflict of interests & ensures focus of the underlying AMC on the fund management.

(iii). Compliance and Reporting: AMC is bound to give the necessary information to the Trustees which ensure transparency & accountability in their operations.

(iv). Pre-Launch Requirements: Certain requirements by AMC such as dealing room operations, accounting procedures, appointment of key personnel including registrars, marketing agents, fund managers, auditors, brokers, internal control mechanisms etc. must be met by the Trustees before the launch of the mutual fund for its efficient and smooth functioning.

(v). Compliance with Regulatory Requirements: AMC should follow rules and regulations issued by the Board. It includes the appointment of a compliance officer to monitor and address investors concerns.

4. Code of Conduct for Fund Managers

(i). Investment Objectives: Fund managers should act in the best interest of all the unitholders instead of sponsors, directors or special class of unitholders and must abide by the Fifth schedule of regulations. Their investment decision should be aligned with the scheme's objectives and in the financial interests of its unitholders.

(ii). Compliance with Code of Conduct: It specifies manager’s adherence to ethical standards and their professional code of conduct.

(iii). Quarterly Self-Certifications: Fund managers must submit quarterly self-certifications to the Trustees depicting their compliance with the code of conduct.

(iv). Ethical Practices: Fund managers should be honest, respectful, diligent towards their work, and their actions should contribute to the overall integrity of the organization.

5. <u>Definitions and Preliminary Provisions</u>

Regulations provide definitions for key terms such as "Mutual Fund", "Scheme", "Trustees", "Asset Management Company", "Unit Holder" etc. Preliminary provisions outline the application process, setting of fund regulations & operations. This helps in laying a foundation for smooth & effective functioning of the mutual fund.

Overview of SEBI's Mutual Fund Schemes Categorization

https://www.sebi.gov.in/legal/circulars/oct-2017/categorization-and-rationalization-of-mutual-fund-schemes_36199.html

Association of Mutual Funds in India (amfiindia.com)

As per SEBI guidelines issued in October 2017, the following is an overview of the SEBI categorization of Mutual Fund Schemes:-

SEBI categorizes Mutual Fund schemes into five distinct primary categories, where each primary category has several sub-categories as well.

The five primary categories are: -

1. Equity Schemes
2. Debt Schemes
3. Hybrid Schemes
4. Solution Oriented Schemes (For Retirement and Children)
5. Other Schemes (Index Funds & ETFs and Fund of Funds)

1. **<u>Equity Schemes</u>**

The Equity Schemes primarily invest in Equity-oriented instruments and are suitable for those investors who seek to gain higher returns over long periods of time.
Equity Schemes are further classified into the following sub-categories as listed in the table below:-

SNo	Sub-Category Title	Equity Investment Category	Percentage investment in

			the Investment Category of the total asset investment
1	Multi Cap Fund	Large, Mid and Small cap stocks	65%
2	Large Cap Fund	Large cap stocks	80%
3	Large & Mid Cap Fund	Large and Mid cap stocks	35% - Large cap 35% - Mid cap
4	Mid Cap Fund	Mid cap stocks	65%
5	Small Cap Fund	Small Cap Stocks	65%
6	Dividend Yield Fund	Dividend-yielding stocks	65%
7	Value Fund	Stocks which are believed to be undervalued and are believed to give higher returns in the future as the market realizes their actual value	65%
8	Contra Fund	Underperforming stocks are picked at a low price with a view that they will perform well in the long run	65%
9	Focussed Fund	Some particular focussed stocks (Max 30)	65%
10	Sectoral Fund	Stocks of a specific sector/ theme like healthcare, finance, etc	80%
11	ELSS (Equity Linked Saving Scheme)	Stocks in accordance with Equity Linked Saving Scheme, 2005 Note: Has a lock-in period of 3 years and is eligible for tax saving under Sec 80C	80%

2. **Debt Schemes**

These schemes invest primarily in debt-oriented instruments. These can be further classified as follows:-

SNo.	**Sub-Category Title**	**Investment Security Type**	**Investment Security Characteristics**
1	Overnight Fund	overnight securities	one-day maturity period
2	Liquid Fund	debt and money market securities	maturity of up to 91 days

3	Ultra Short Duration Fund	debt and money market securities	Macaulay Duration of Portfolio between 3-6 months
4	Low Duration Fund	debt and money market securities	Macaulay Duration of Portfolio between 6-12 months
5	Money Market Fund	money market securities	maturity of up to 1 year
6	Short Duration Fund	debt and money market securities	Macaulay Duration of Portfolio between 1-3 years
7	Medium Duration Fund	debt and money market securities	Macaulay Duration of Portfolio between 3-4 years
8	Medium to Long Duration Fund	debt and money market securities	Macaulay Duration of Portfolio between 4-7 years
9	Long Duration Fund	debt and money market securities	Macaulay Duration of Portfolio greater than 7 years
10	Dynamic Bond	Not specified	Investment across duration. Alter the tenor of the securities in accordance with the market interest rates
11	Corporate Bond Fund	Highest rated Corporate bonds (AA+ and above)	Minimum investment - 80% of total asset investment
12	Credit Risk Fund	Below highest rated Corporate bonds (AA and below)	Minimum investment - 65% of total asset investment
13	Banking and PSU Fund	Debt securities of Banks, Public sector undertakings, Public Financial Institutions	Minimum investment - 80% of total asset investment
14	Gilt Fund	Government securities	Minimum investment - 80% of total asset investment
15	Gilt Fund with 10-year constant duration	Government securities	Minimum investment - 80% of total asset investment; Macaulay Duration of Portfolio equal to 10 years
16	Floater Fund	Floating Rate instruments	Minimum investment - 65% of total asset investment

3. <u>Hybrid Schemes</u>

These schemes invest in a mix of both equity and debt-related instruments. These schemes might be suitable for investors who seek to maintain a balance of both growth and income. These can be further classified as follows:-

SNo.	Sub-Category Title	Percentage investment in Equity instruments of total assets	Percentage investment in Debt instruments of total assets	Other Scheme characteristics
1	Conservative Hybrid Fund	Between 10% and 25%	Between 75% and 90%	More investment in debt instruments
2	Balanced Hybrid Fund	Between 40% and 60%	Between 40% and 60%	No Arbitrage permitted
3	Aggressive Hybrid Fund	Between 65% and 80%	Between 20% and 30%	More investment in equity-related instruments
4	Dynamic Asset Allocation or Balanced Advantage	Dynamically managed (Between 0% and 100%)	Dynamically managed (Between 0% and 100%)	Investment across debt and equity is managed dynamically
5	Multi-Asset Allocation	Not specified	Not specified	Investment in at least 3 asset classes with a minimum investment of at least 10% in each asset class
6	Arbitrage Fund	Minimum 65%	Not specified	This fund purchases a fund from the stock market and sells it in the futures market at a higher price to get the difference as the return
7	Equity Savings	Minimum 65%	Minimum 10%	Invests in equity, debt and arbitrage. Minimum hedges and unhedged stated in SID.

4. **Solution Oriented Schemes**

SNo.	Sub-Category Title	Scheme Characteristics
1	Retirement Fund	Has a lock-in period of at least 5 years or till retirement, whichever happens earlier
2	Children’s Fund	Has a lock-in period of at least 5 years or till the child attains the age of majority, whichever happens earlier

5. **Other Schemes**

SNo.	Sub-Category Title	Scheme Characteristics
1	Index Funds / ETFs	Minimum investment of 95% of total assets in securities of a particular index
2	Fund of Funds (FoFs)	Minimum investment of 95% of total assets in a particular fund

An overview of the Taxation of gains in Mutual Fund Investments (Indian guidelines)

As per AMFI (Association of Mutual Funds in India), the following is an overview of the taxation of gains in Mutual Fund Investments:-

1. **Equity-Oriented Mutual Funds:**
   Taxation Scheme for Individual investors, domestic companies, HUF, AOP, BOI:-

   Short-Term Capital Gains Tax (STCG) - 15% (held for less than 1 year)
   Long-Term Capital Gains Tax (LTCG) - 10% (held for 1 year or more)

   [Note that if stocks are held for more than 1 year, then capital gains are tax free up to 1 Lakh, and thereafter 10% LTCG is charged]

   TDS for Capital Gains - NIL

   Tax on Distributed Income under Dividend Option - As per tax slab rate
   TDS on Distributed Income under Dividend Option - 10%

   Taxation Scheme for NRIs:-

   Same as above, except that the TDS varies,
   TDS for Capital Gains: STCG - 15%

LTCG - 10%

TDS for Distributed Income under Dividend Option:20%

2. **Other than Equity Oriented Funds:**

   These funds comprise the following categories of mutual funds:-

   Liquid Funds/Debt Funds, Hybrid Funds, ETFs, Fund of Funds (incl. Both Overseas and Domestic), etc

   The Taxation Scheme for different categories of investors is described as follows:-

   Taxation Scheme for Individual investors, HUF, AOP, BOI:-

   STCG: As per tax slab rate
   LTCG: 20%
   TDS for Capital Gains - NIL

   Tax on Distributed Income under Dividend Option - As per tax slab rate
   TDS on Distributed Income under Dividend Option - 10%

   Taxation Scheme for Domestic Companies / Firms:-

   Same as that of Individual investors except that the STCG varies as follows:-

   In case the firm opts for the new taxation regime - 22%
   If the gross turnover of the firm does not exceed 400 Cr - 25% else 30%

   Taxation Scheme for NRIs:-

   STCG: As per tax slab rate
   LTCG: 20% (for Listed Units), 10% (for Unlisted Units)
   TDS for Capital Gains: STCG - 30%
   LTCG - 20% (for Listed Units), 10% (for Unlisted Units)

   Tax on Distributed Income under Dividend Option - As per tax slab rate
   TDS on Distributed Income under Dividend Option - 20%

https://www.amfiindia.com/investor-corner/knowledge-center/tax-corner.html

Additional Notes on Taxation of Mutual Fund Schemes:

1. Indexation Benefit: Indexation basically refers to adjusting the purchase price of an investment with regard to inflation. This reduces the capital "gain" and, thereby, the tax to pay. As of the

present guidelines, Indexation benefits are only available for Muti-asset funds, balanced hybrid funds and dynamic asset allocation funds.
Mutual funds that still enjoy indexation benefit | Value Research (valueresearchonline.com)

2. Dividend Distribution Tax (DDT): Post-April 2020, the dividend income is also added to the investor's income and taxed according to their respective tax slabs.
Dividend Distribution Tax (cleartax.in)

3. Capital Loss Set-off: If an investor incurs a loss on an investment, then the loss can be set-off against the capital gains in the same year. If still, the loss is not fully set-off then the same can be carried forward to 8 consequent years following the year in which the loss was incurred in the first place.
How to Set off and Carry Forward Capital Losses (cleartax.in)

4. Securities Transaction Tax (STT): It is a direct tax applied on all the transactions of securities in India. The rates vary depending on the mutual fund being considered:-

   There is no STT on the purchase of an equity-oriented mutual fund. However, if a mutual fund is sold after holding it for a period of time, then an STT of 0.001% is incurred, whereas when it is sold without being held, typically in intraday trading, then an STT of 0.025% is incurred. However, if it is sold back to the mutual funds, redeeming their units of the mutual fund in the process, then an STT of 0.001% is incurred. In every case where STT needs to be paid, it is borne by the seller of the mutual fund.

Aditya Birla Sun Life Mid Cap Fund: Regular Plan [Growth]

Analyzing the fund fact sheet

The latest fact sheet for Aditya Birla Sun Life Mutual Fund can be found in the March edition of 'Empower,' a monthly publication by Aditya Birla Capital, that we downloaded from this link. The 'Aditya Birla Sun Life Mid Cap Fund' scheme's fact sheet can be found on Pages 23-24 in the aforementioned periodical.

This two-page fact sheet for the scheme can be broken down into six key sections:-

The first section, which could be called 'The Title,' introduces the scheme's name and provides a brief description. In this case, the scheme's name is 'Aditya Birla Sun Life Mid Cap Fun.' The name would suggest that this fund solely invests in Mid-Cap stocks, but the brief description in the next line goes on to mention that it "predominantly" invests in Mid-Cap stocks, which indicates that it deals in securities other than Mid-Cap stocks.

The following section has been termed 'Fund Details,' which, as the name indicates, contains conventional quantitative information that could be used to compare different schemes.

The scheme's stated objective is "long-term growth of capital at a controlled level of risk by investing primarily in 'Mid-Cap' Stocks". The objective appears to be reasonable since Mid-Cap stocks' risk is intermediate between the risks for Large-Cap and Small-Cap stocks.

Mr. Harish Krishnan and Mr. Dhaval Joshi serve as the managers for this fund and have been overseeing it for 0.3 years and 1.3 years, respectively, at the time of publication. Mr Joshi manages 51 schemes in total, while Mr Krishnan manages schemes. Though it is reasonable to assume that Mr Joshi isn't able to dedicate sufficient time to each of his schemes because of the sheer number that he manages, it could also be the case that he's managing multiple similar schemes that require similar actions. Nonetheless, without context, One can't make a reasonable conclusion about his performance from this data alone.

Some other details to consider here are the Date of Allotment, October 03, 2002, which tells us that it's been around for roughly 21 years at this point. The SIP, Application Amount for fresh subscription, and Min. Addl. Investments are all equal to INR 1000, with the latter two having options to put in more money in the multiples of INR 1. The Total Expense Ratio for Direct Plans is 1.07%, while for Regular Plans, it's equal to 1.92%, which is attributable to the commissions charged on the regular plans. Since the government banned levying load entry charges in the early 2010s, the entry load has been marked as Nil, while the exit load is 1% of the "applicable NAV." The beta ratio calculated against NIFTY Midcap 150

TRI is less than 1 (0.87), which suggests the scheme is less volatile than the index. The standard deviation on an annualized basis is 13.56%, while the Sharpe ratio is 1.17; this indicates that the expected risk premium is roughly equal to 15.8% (using the regular slope formula). Finally AUM on the last day of data collection is 4981.57 Crores, while the monthly average is 5020.03 Crores.

The third section is the Portfolio, which details how the mutual fund's assets are divided across 36 categories, including Finance, Banks, Industrial Products, Consumer Durables, and IT Software. No single sector accounts for more than 9% of the Net Asset Value (NAV), indicating the managers' focus on diversifying sector-based risks. It was also mentioned earlier that the fund includes some Small-Cap stocks in its portfolio, which makes this fund riskier than the average Mid-Cap fund.

Furthermore, within each category, assets are allocated so as to represent different market capitalizations within that category, further diversifying risk within each sector. As an example, The scheme is invested into both ICICI Bank Ltd. and AU Small Finance Bank Ltd., where the former is a multinational banking/financial services enterprise, while the latter is a small finance bank that primarily provides lending and deposit facilities. This way, Funds can insulate themselves from significant fluctuations caused by bracket-specific incidents. (Though I could list all the categories and stocks that together make up the portfolio, It wouldn't be particularly conducive to this analysis. A prospective investor should look to ensure that the fund has a diverse selection of stocks and that the portfolio's composition aligns with the fund's objective and the investor's objective.)

The fourth section showcases numerical figures related to the performance of an investment based on the time when the investment was made and whose gains were reinvested. If someone invested INR 10,000 in the scheme at inception, that sum would equal INR 637630 on the day this periodical was published. Though the table doesn't present data on how the benchmark would perform, had it been invested in at the time of the scheme's inception, considering investments in both funds in the last 5, 2, or 1 year, the NIFTY Midcap 150 TRI benchmark beats the fund continuously. However, the NIFTY 50 TRI wasn't able to beat the scheme, at any point since its inception. If we were to speculate, the inclusion of this "alternate" benchmark is a brazenly fallacious attempt at depicting the fund as being acceptable because something worse exists.

The fifth section contains the NAV of the Growth and IDCW schemes, for both Regular and Direct Plans, with the Regular plan naturally costing more than the direct variant, owing to the entailing commission fee. The NAV for the IDCW scheme is expectedly far lesser than the NAV for the Growth scheme, since there is no reinvestment of the earnings in the former.

The sixth and final section tracks the SIP Performance for the growth variant with a regular plan, assuming a monthly SIP of INR 10,000. The Compounded Annual Growth Rate for the scheme and benchmarks seem to have the same numerical relationship as the investment returns for these categories, as seen in the fourth section, with CAGR(NIFTY Midcap 150 TRI Returns) > CAGR(Mid-Cap Scheme Returns) > CAGR(Nifty 50 TRI returns).[10]

[10]Aditya Birla Capital. (2024). "Empower Monthly Factsheet"

In the second part, we're supposed to evaluate who might find this particular mutual fund scheme suitable for their portfolio and why.

Since we've thoroughly examined the fund fact sheet for the scheme, we can now look to alternate sources and credit rating agencies to gauge the market's perception towards the Aditya Birla Sun Life Mid-Cap Fund: Regular Plan (Growth):-

CRISIL ranks mutual funds on a scale of 1-5, where 1 represents very good performance, while 5 represents relatively weak performance in the fund’s category. Aditya Birla Sun Life Mid-Cap Fund: Regular Plan (Growth) was rated 3, which indicates that CRISIL considers this fund to be an average performer among Mid-Cap funds.

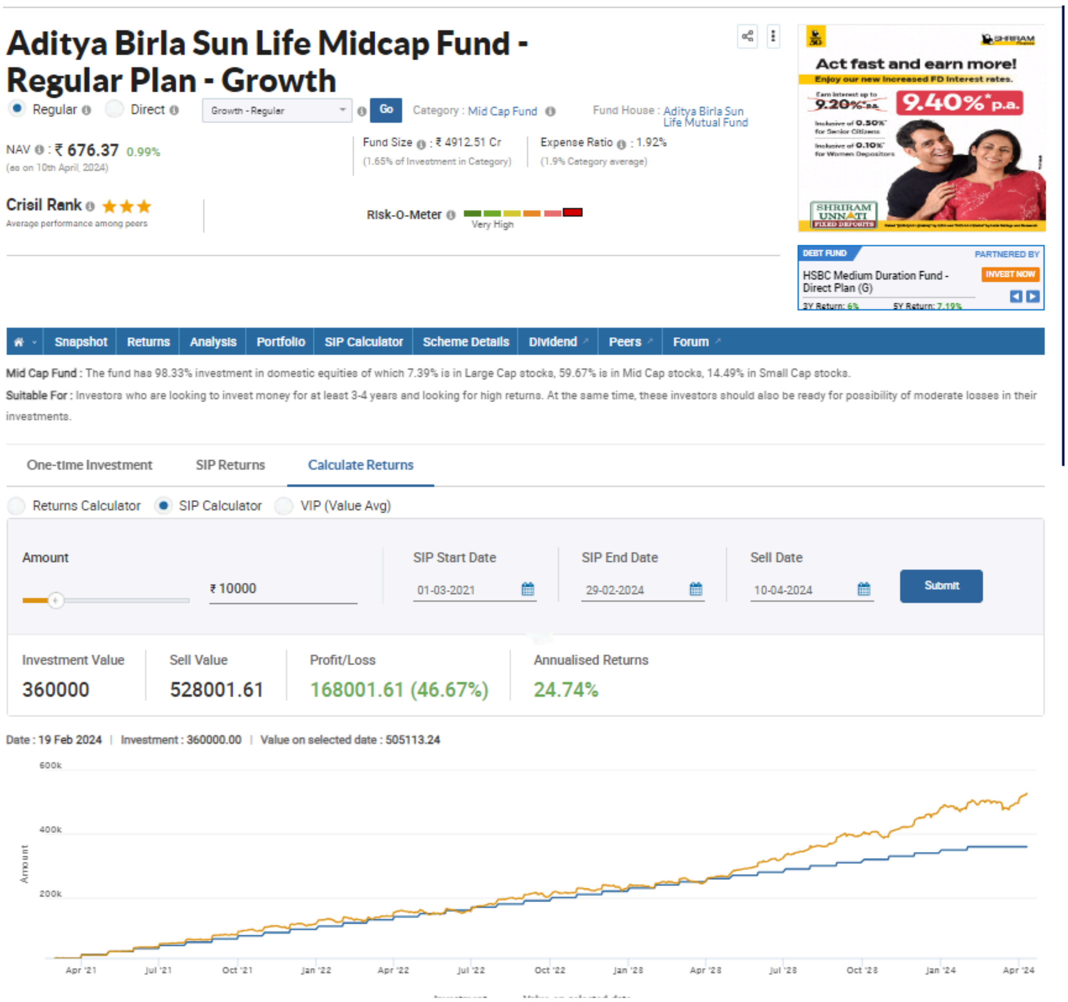
moneycontrol.com provides users with a tool called risk-o-meter, which, as its name suggests, assigns a risk rating to schemes on a scale of 1-6, where the leftmost green scale (1) indicates less risk of negative returns on investments while the rightmost red scale (6) indicates a very high risk of negative returns on investments. Also, ValueResearch and the Economic Times have both given this scheme two stars out of five.

Now, **who might want to purchase a unit in this scheme**? moneycontrol.com claims that this scheme is ideal for investors who are “looking to invest money for at least 3-4 years and looking for high returns. At the same time, these investors should also be ready for the possibility of moderate losses in their investments.”

We’d like to add that most financial publications tout regular plans to be worse than direct plans since regular plans charge customers extra since they’re obtained through third-party vendors. In today’s world, where internet access is just about ubiquitous, it doesn’t make financial sense for investors to purchase regular plans. Hence, these schemes are liable to target individuals who aren’t financially literate or are unable to devote time to studying the pros and cons of different schemes. (We initially selected this scheme at random since it was an equity-based growth scheme that had been in existence for around 20 years, but since this question requires us to do what’s best for the “lay investor” " we would rather advise the investor to take a direct plan instead, to maximise their profits)

Aside from that, We found that the Aditya Birla Sun Life Mid-Cap Fund loses out to the NIFTY Midcap 150 TRI benchmark on most parameters, except one-time investments every once in a while. So, though the scheme hasn’t been able to outperform throughout, there are pockets of opportunity where the fund manager's stock selection skills could lead to great returns over extended periods of time. These conditions would require the investor to be somewhat patient and be willing to wait around before cashing in, just like what moneycontrol.com does. Nonetheless, If an investor is interested in protecting their assets from inflation, It is a decent fund to invest one’s money in.

SIP Returns for the last 3 years



You can find the spreadsheet for the SIP calculator here:- calc

moneycontrol.com Calculator

Annexure

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* It's worth noting that the history of mutual funds presented here has a bit of a European/American bias since that’s where mutual funds initially flourished.

Thanks for your patience!