Quantum leap beckons

India's mutual funds industry is at another inflection point

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Research

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Chairman
Association of Mutual funds in India (AMFI)

Message from AMFI

Association of Mutual Funds in India (AMFI) is a non-profit, trade association of the asset management companies (AMCs) of all Mutual Funds registered with the regulator, Securities and Exchange Board of India (SEBI). There are currently 42 mutual funds (including 2 infrastructure debt funds) in the country.

AMFI functions under the broad guidance of the Board of Directors which comprises of 15 directors from various categories of mutual funds and operates on a co-operative model.

AMFI is dedicated to developing the Indian Mutual Fund industry on professional, healthy and ethical lines, and to enhance and maintain standards in all areas in the best interest of investors and other stake holders.

Over the past 21 years since it was established, AMFI has evolved as a respectable trade body, owing to active involvement of its members and has strived towards adopting uniform best practices across various areas, such as disclosures, operations & risk management, valuation of securities, customer service and investor protection and communication, in the best interest of the investors.

While the industry has been growing steadily in terms of funds under management, there's a need to increase a better awareness about mutual funds as a distinct and preferred asset class, so that the customer base could expand significantly for a sustainable growth as the MF industry is poised to leapfrog to the next level. This would require active participation of all stakeholders, including intermediaries.

The 'Mutual Funds Sahi Hai' campaign, an investor awareness outreach media campaign in different languages initiated by AMFI recently under SEBI's guidance, is one such effort to spread awareness about mutual funds as a distinct asset class and dispel the myths associated with mutual funds.

This Fact Book has been compiled by AMFI & CRISIL jointly, and offers a bird's eye view of the Indian mutual fund industry.

We are grateful to CRISIL team for their help and support in preparing this Fact Book.

We hope the reader's will find the Fact Book insightful and useful, and welcome any comments or suggestions to improve the same in the coming years.

Ashu Suyash
MD & CEO
CRISIL Ltd.

Message from CRISIL

The Indian mutual funds industry has been instrumental in deepening financial inclusion by providing a platform for retail investors to participate in India's growth story. Investors today can pick and choose mutual funds easily at lower costs no matter where they are.

The industry has grown more than three times in the past five years in terms of depth and breadth of coverage. Two standout aspects of this surge, captured well in this Fact Book, are

1. How retail investor folios, which have been declining since the Global Financial Crisis, have rebounded to reach a record 52.31 million; and,
2. How mutual funds have emerged as the new stabilising force in the equity market, as reflected in the increasing share of equity mutual funds in the total equity market cap from 2.9% to 5.5% in past three years ended March 31, 2017.

Improving investor awareness and product choice, consistent long-term returns, tax benefits, open architecture distribution, strong execution, good customer service and better turnaround times over the years have contributed to this growth.

The stage is now set for another quantum leap, with favourable structural factors such as far greater participation of individual investors through systematic investment plans (nearly 50% of net equity flows last fiscal), influx of pension money and growing realisation among the investing public that mutual funds are an ideal wealth creation opportunity.

We see growing penetration in Tier II and Tier III, or the B15 cities, and retirement-oriented funds and solutions as the next catalysts of sustained growth. B15 cities have already witnessed an impressive 30% compound annual growth in assets under management (AUM) over the past 3 years, while retirement money has catapulted the AUMs of exchange traded funds 7 times since August 2015.

Continued focus on investors by AMCs and distributors, and the adoption of technology will be the key to conquer hinterland. In addition to traditional models of distribution through banks, independent financial advisors, and broker dealers, emergence of platforms and online channels will be making a difference to the industry's reach.

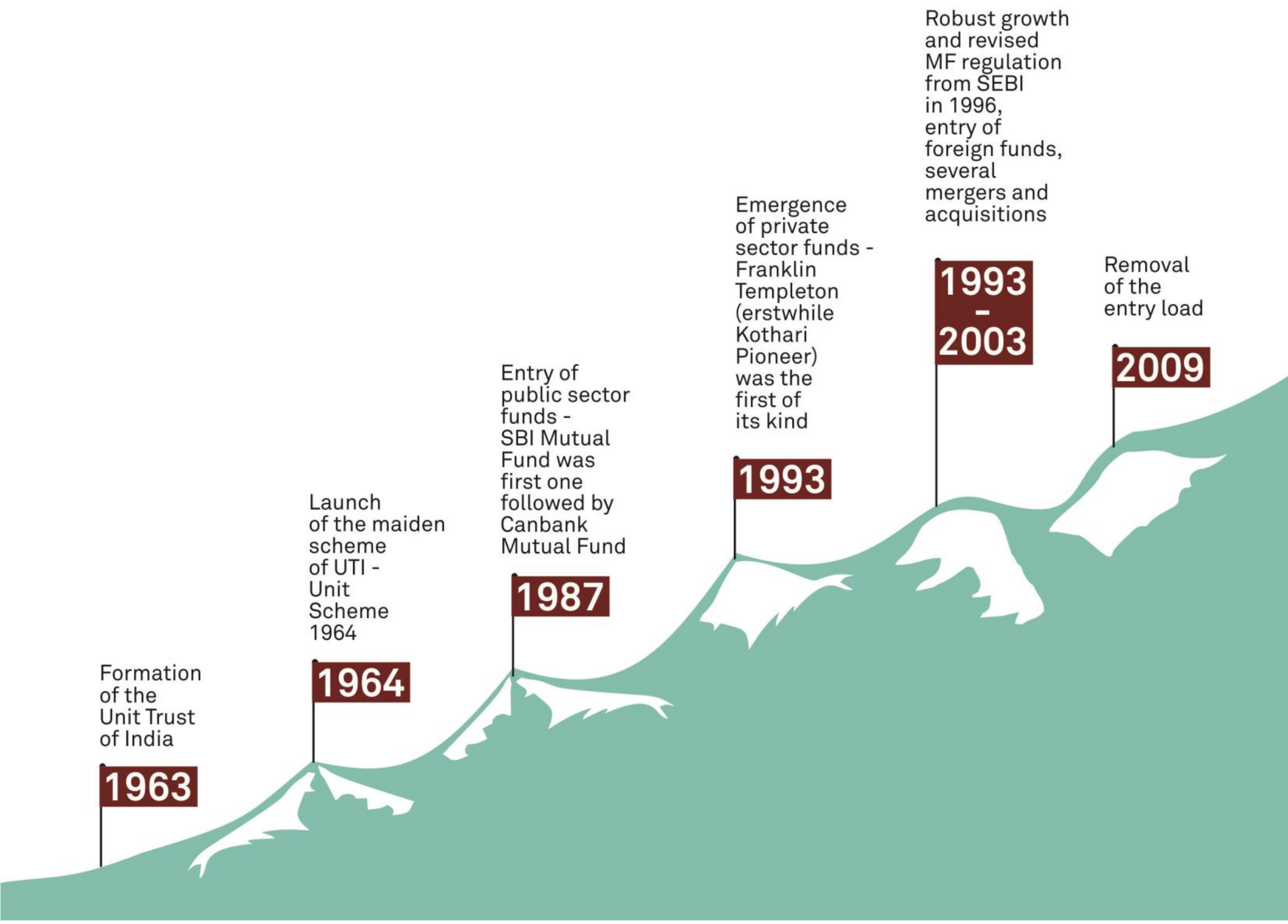
True to its mandate of making markets function better, CRISIL has facilitated growth of the mutual fund industry through a number of investor education initiatives, and innovative analytics and solutions. For instance, the CRISIL Mutual Fund Ranking is a well-accepted performance evaluation standard for investment decisions. CRISIL has also contributed copious amount of research, benchmarks and indices.

Going forward, the industry has to find more innovative ways to spread financial literacy and improve investor services at ever-lower costs to encourage retail participation. On their part, investors could choose funds across equity and debt to derive maximum value.

I hope this report by CRISIL and AMFI will be useful to all stakeholders – AMCs, intermediaries and investors alike, and will give them unique insights into an ever-evolving landscape.

An evolving story

An evolving story



2012

- Single plan structure for mutual fund schemes
- Cash investment allowed in mutual funds
- Fungibility of total expense ratio (TER) allowed
- Portion of TER to be used for investor education
- Entire exit load to be credited to the scheme
- Launch of Rajiv Gandhi Equity Savings Scheme (RGESS)

2013

- Reduction in Securities Transaction Tax (STT) for equity funds
- Uniform Dividend Distribution Tax (DDT) of 25% on all debt mutual funds
- Product labelling
- Introduction of direct plans

2014

- Changed the definition of 'long term' for debt mutual funds to 36 months from 12 months for indexation benefit
- Tax exemption limit for investment in financial instruments under Section 80C raised to Rs 1.5 lakh from Rs 1 lakh

2015

- Launch of MF Utility (MFU) - an online platform by AMFI
- SEBI asked fund houses to shift from colour coding to Riskometer which classified schemes based on the risk profile
- EPFO started investing in the equity market via Exchange Traded fund (ETF)
- SEBI allowed gold ETFs to invest up to 20% of their assets in the government's Gold Monetisation Scheme.

2016

- SEBI tightened norms for mutual fund investment in corporate bonds
- Allowed investment advisors to use the infrastructure of the stock exchanges for sale and purchase of mutual fund units
- Provide easy entry to the foreign fund managers keen to enter India

2017

- SEBI allowed celebrities to endorse mutual funds products
- Allowed mutual funds to invest in REITs and InvITs
- Allowed investment up to Rs 50,000 per mutual fund per financial year through digital wallets
- Instant access facility to the liquid funds investors (via online mode) of up to Rs 50,000 or 90% of the folio value whichever is lower
- Government discontinued the tax benefits of RGESS

Source : SEBI, AMFI

At historic highs

At historic highs

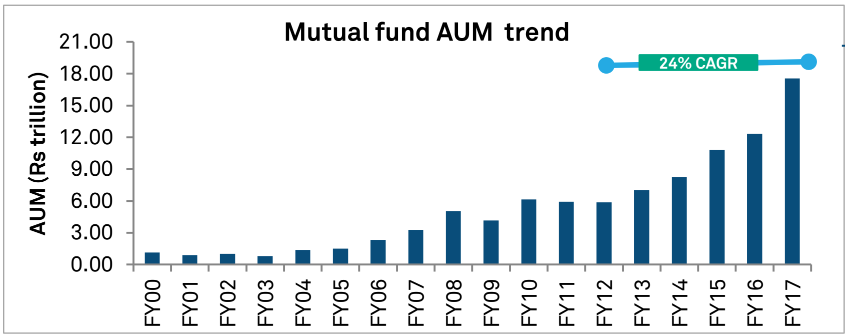
The mutual fund industry has come a long way from its humble beginnings in 1963, when the Unit Trust of India was formed. The past couple of decades have seen it gather pace, with assets under management (AUM) soaring past the Rs 19 trillion mark, marking an impressive 18% compound annual growth since the turn of the century.

The surge in assets has been backed by robust inflows and mark-to-market (MTM) gains on securities held.

The past five fiscals have been especially positive for the industry. The industry has witnessed net inflows in all these years, with fiscal 2017 attracting the maximum at Rs 3.43 trillion.

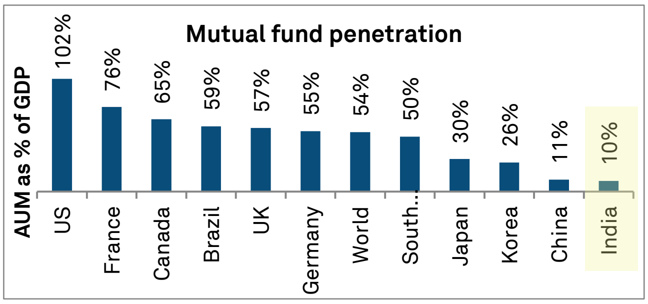
The industry has also evolved to adopt global best practices with the end investor in mind. Some of the key developments here include removal of entry load, allocating a portion of TER for investor education and penetration to the hinterland, introduction of direct plans and adaptation of technology to ease the overall investment process.

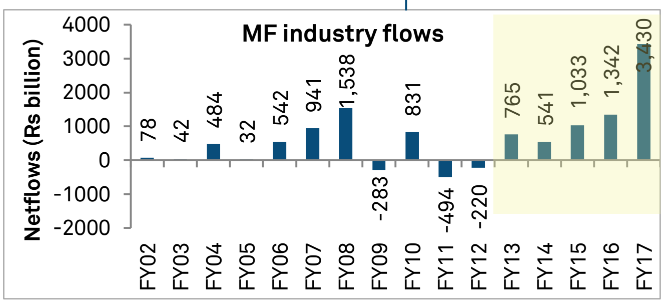
Variables in place for the industry to take a quantum leap



Industry AUM up 24% CAGR in last five years led by inflows of Rs 7 trillion

Industry penetration low at 10% compared with global average of 54%.





Mutual fund penetration data as of December 2016 (data pertains to open-ended mutual funds)
Data pertains to month-end AUM as of March; AUM growth pertains to period ended March 2017
Source: AMFI, ICI, IMF, CRISIL Research

Long way to go, but the course is set

Despite the growth in assets, India accounts for less than 1% of the global mutual fund industry. Also, mutual fund penetration, as measured by AUM to GDP ratio, is an unimpressive 10% compared with the global average of 54%.

But the stage seems set for a quantum leap. Factors working this time around are structural, which include growing participation of retail investors through systematic investment plans or SIPs, influx of pension money, adoption of technology by the players and a growing realisation among the investing public that mutual funds are an ideal wealth creation opportunity. If anything, the industry needs to focus more on financial awareness, investor servicing and a stronger impetus on intermediaries for sustainable growth.

Inflection-point-triggers

Inflection-point-triggers

- Enrolling the masses
- Pension money heralds a new dawn
- Pivotal use of technology
- Wealth creation opportunity for all
- Awareness, investor servicing and intermediation

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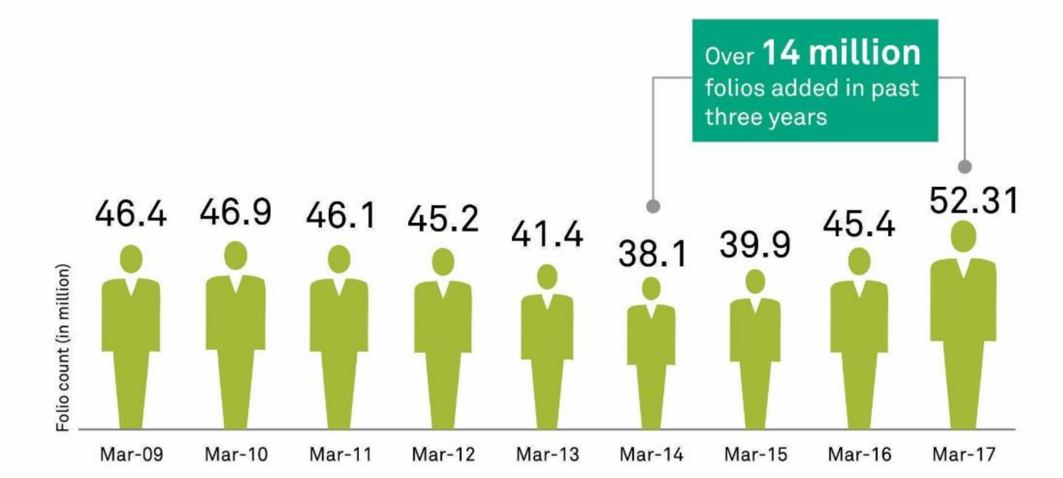
Getting the masses to SIP it

The surge in industry assets has been backed by a resurgence in mutual fund penetration. Retail investor folios, on a decline in the aftermath of the financial crisis, have reversed course in the past three fiscals and today stand at a whopping 52.31 million.

Retail investors back with a bang



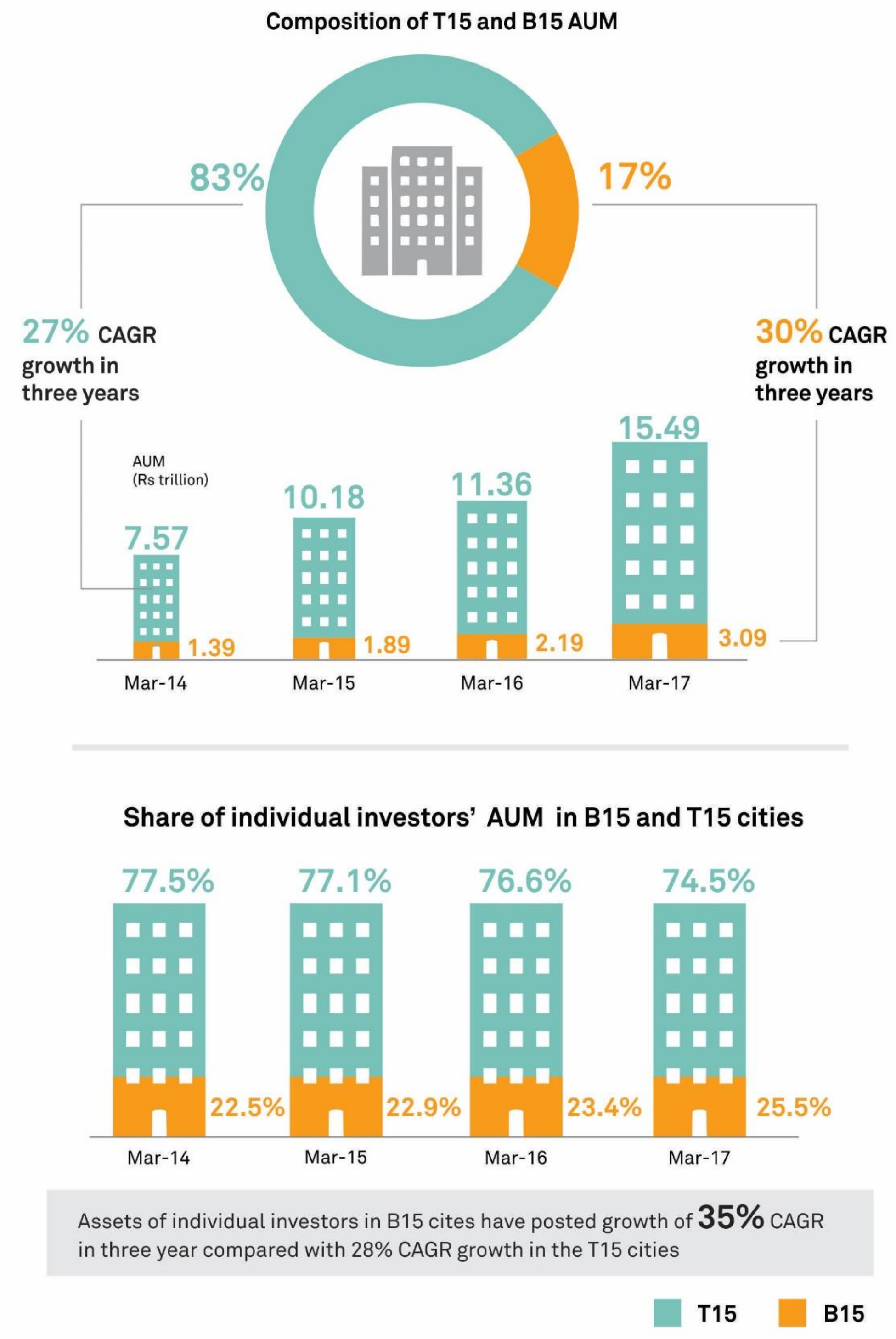
Source : AMFI

Hearteningly, the asset growth is coming from both top 15 (T15) and beyond top 15 (B15) cities. In fact, B15 cities are witnessing higher growth rates.

What's more, a large proportion of the inflows is in the form of sticky long-term money, coming through the SIP route that entails regular investment in the scheme chosen.

1. The B15 cities have seen faster growth in assets, at 30% compound annual growth rate (CAGR) in the past three years ended March 2017, compared with T15 cities (27%). Further, individual investors' (retail + HNIs[1]) assets have witnessed higher growth in B15 cities at 35% compared with 28% for T15 cities. The increase in B15 investor base and assets could be an outcome of SEBI's move to incentivise fund houses for garnering assets from the hinterland, by allowing them to charge additional expense ratio up to 30 basis points (bps) on daily net assets for inflows beyond T15 cities.

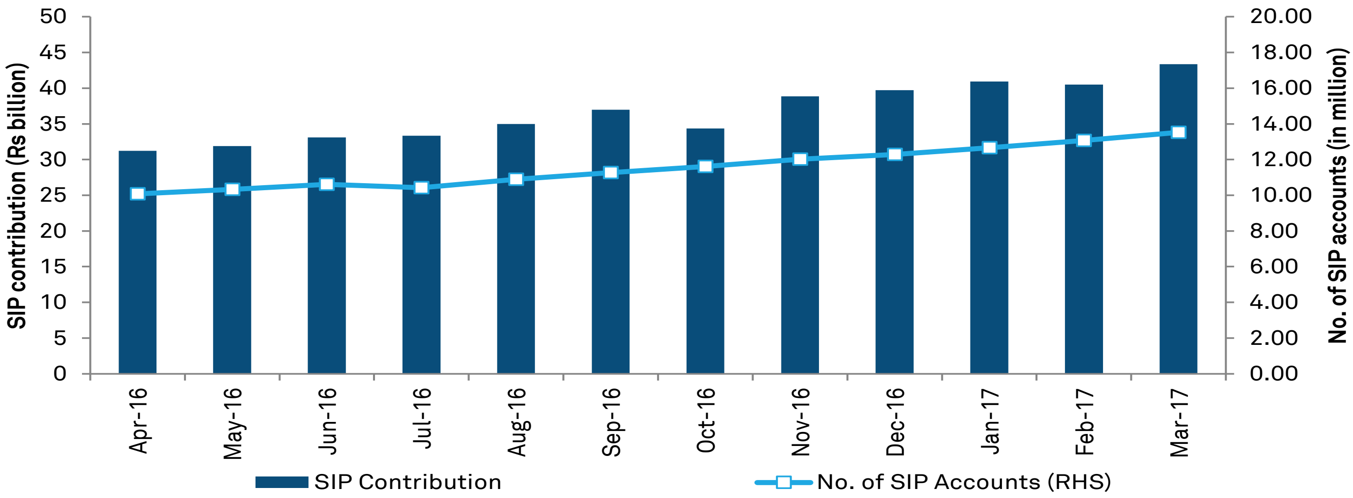
[1] HNIs (high net worth individuals), defined as individuals investing Rs 5 lakh or more



Data pertains to monthly average AUM; composition of T15 and B15 AUM as of March 2017
Source: AMFI

Mutual funds currently have about 14 million SIP accounts. For the record, the industry collected Rs 439.21 billion through SIPs in fiscal 2017, equivalent to almost 50% of the net flows in equity funds for the year.

SIP folios and contributions trending north



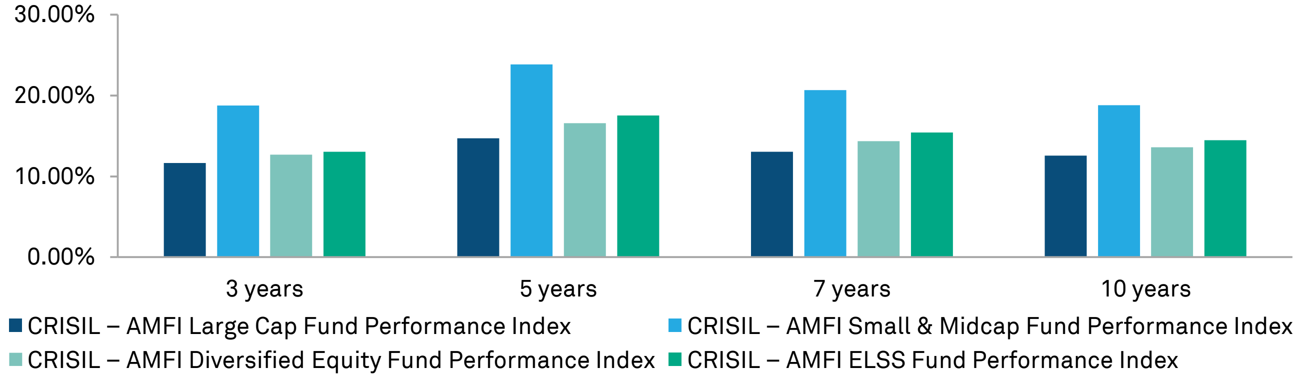
Source: AMFI

SIP brings in discipline to investments, reduces associated market volatility

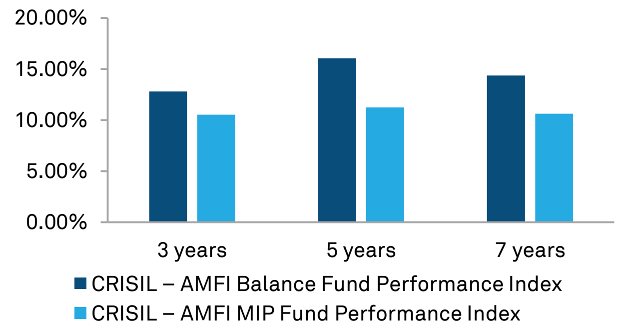
The rise in the SIP investment recently has been backed by the fundamental advantage of SIPs, i.e. adding discipline to investments. Going through the SIP route helps even out the volatility, too. This is because of a phenomenon called rupee-cost averaging, or the fact that one gets to buy more units in a falling market, to compensate for the fewer units bought on highs. This holds for both equity and debt schemes.

SIP performance of various categories

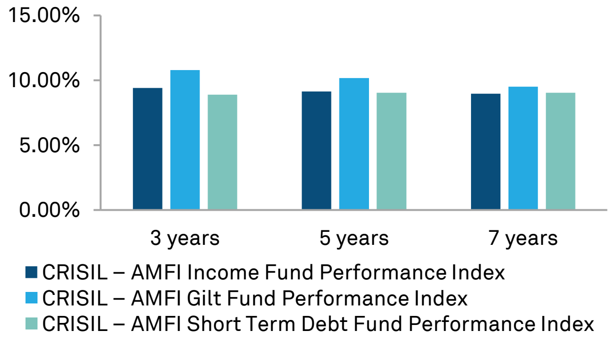
Equity



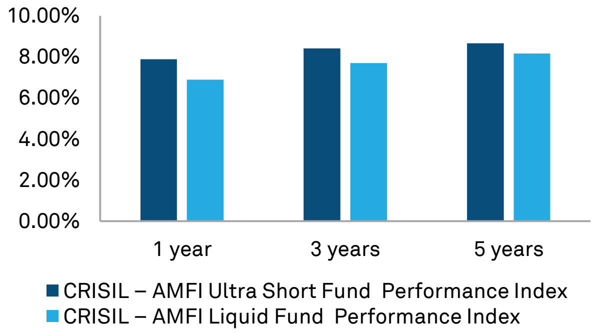
Hybrid



Debt



Money market



CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective category in CRISIL Mutual Fund Ranking

Please refer to annexure for the detailed definitions of CRISIL-AMFI indices

Data as on March 31, 2017

Source: CRISIL Research

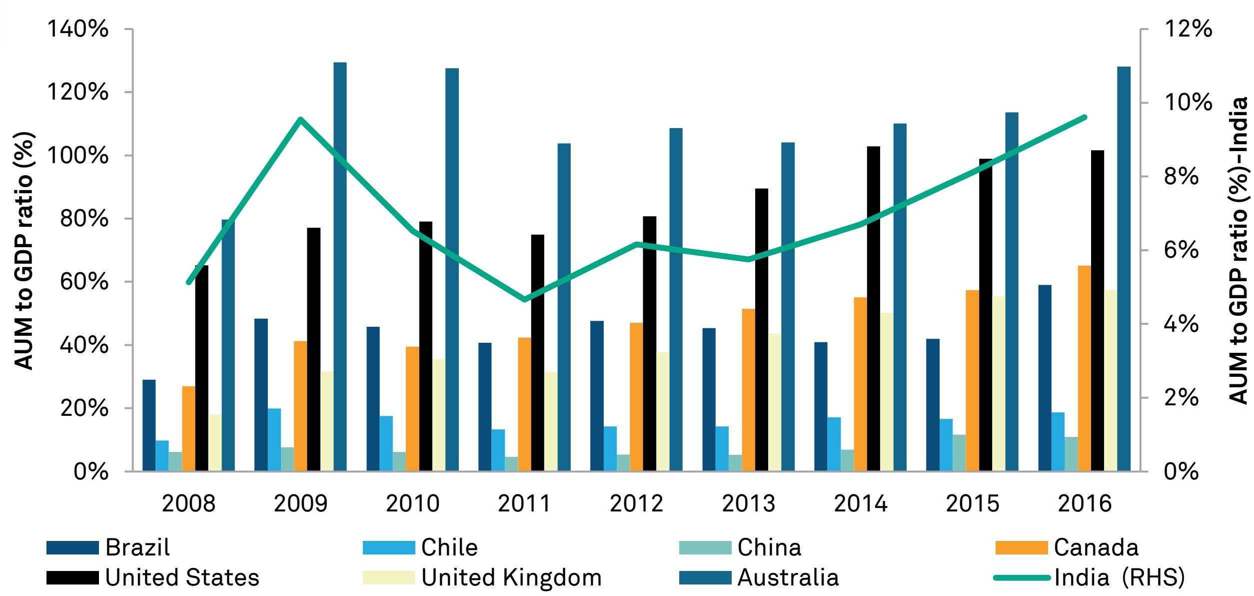
Pension money heralds a new dawn

Globally, mutual funds are a preferred investment product for retirement planning. In the US, for instance, defined contribution plans and individual retirement accounts added up to $7.6 trillion, or 46% of total mutual fund assets, as of December 2016.

Retirement planning has a huge potential for getting tapped in India, too, and can drastically improve mutual fund penetration if channelled through the industry.

The US and Australia – where retirement funds invest through mutual funds – have an mutual fund AUM to GDP ratio of about 102% and 128%, respectively. Among the emerging economies, Chile is a stellar example of pension funds leading to financial market growth. The country has privately managed pension funds (similar to the 401k of the US) called administradoras de fondos de pensiones.

Mutual fund AUM to GDP ratio (%): India versus others



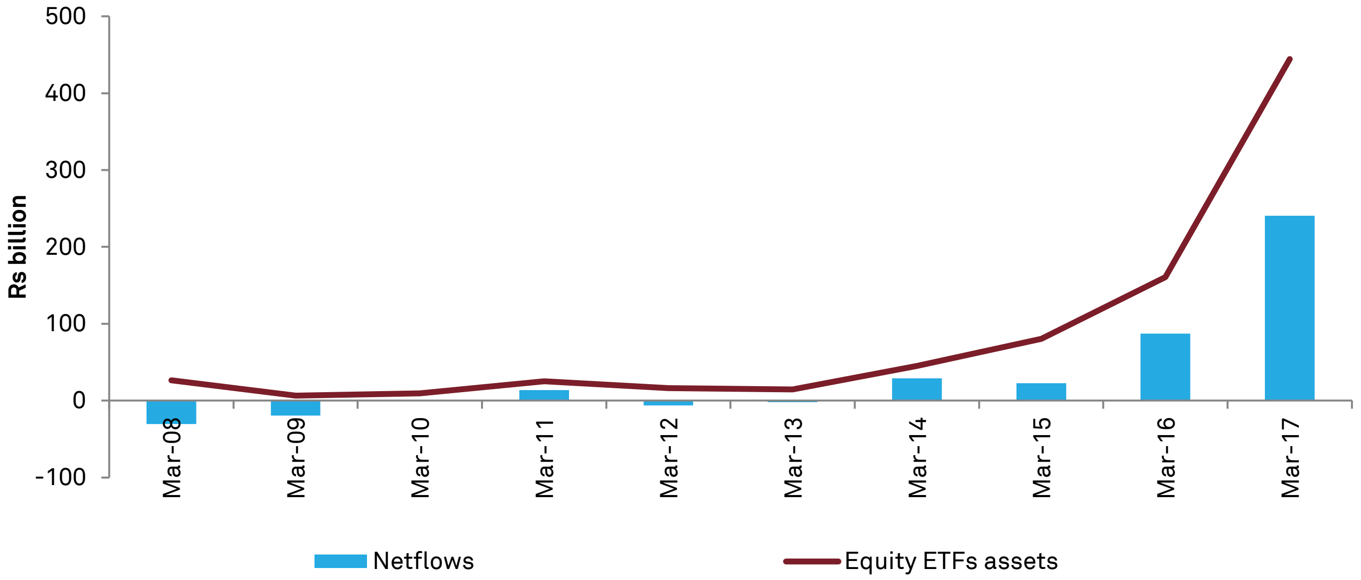
Source: ICI, IMF, CRISIL Research

Till recently, the Indian mutual fund industry was largely deprived of retirement money, which is long-term in nature. But things have started changing with the Employees' Provident Fund Organisation (EPFO), the biggest retirement manager in the country allocating a portion of its incremental inflows into equity ETFs.

Investing in equity aligns with the long-term investment horizons associated with retirement planning, and helps boost the vesting corpus. EPFO started with allocating 5% of its incremental inflow of around Rs 1 lakh crore in FY16 to equities, before increasing this to 10% in FY17, and now plans to use up its full quota allowed, which is 15%.

This has boosted the assets of equity ETFs by almost seven times since August 2015 (when EPFO started its investment) to Rs 429 billion as of March 2017.

Equity ETF assets have rocketed



Data pertains to month-end AUM

Equity ETFs represented by Other ETFs

Source: AMFI

Though these numbers are a small part of the industry assets today, it is an encouraging start and should aid growth by bringing in long-term money. Further, information that the biggest retirement manager in the country is investing in mutual funds would also increase awareness about the benefits of investing through mutual funds for retirement planning.

Technology critical to growth

Technology is expected to play a pivotal role in taking the industry to the next level, by helping surmount the challenges stemming from India's vast geography and the fact that physical footprints in smaller locations are commercially unviable. With user-end facilitations, technology can allow investors in far-flung reaches to pick and invest in mutual funds more easily, leading to a reduction in intermediation costs, which could be passed on to them.

Technology also gels well with India's demographic structure, where the median age is less than 30 years. Also termed as millennials, this youth segment can be the biggest opportunity for the mutual fund industry as they are tech savvy and are at ease with using technology to conduct the entire gamut of financial transactions.

To be sure, technology has made inroads into almost all spheres of our lives today, with most necessities available at the touch of a button on a smart phone or a computer. India has about 1.17 billion[2] mobile users, of which 389 million[3] use the mobile to access the internet. The total number of internet users in the country stands at 432 million[4] .The recent push by the government towards a digitally empowered economy adds to the allure.

The industry has realised the virtues of using technology to make a strong case for a share of the household financial savings pie. The proliferation of online platforms, rise of robo advisory firms, access to e-wallets and prospects of investing from e-commerce platforms all point to this. Meanwhile, the growing popularity of social media/ messaging services such as Facebook and Whatsapp has led some mutual fund companies to use these for reaching out to investors and keeping them updated on their investments.

[2] Data as of April 2017, Source: TRAI
[3] Data as of December 2016, Source: IAMAI and IMRB
[4] Data as of December 2016, Source: IAMAI and IMRB

Online platforms

Following are routes / modes currently available to investors for online investment in mutual funds, both as web and mobile-enabled (app) platforms:

1. **Mutual Fund websites:** Mutual Funds have enabled online investment on their respective websites, which allow investors to seamlessly invest in/redeem/switch their mutual fund units in the schemes of the respective fund house.

2. **RTA platforms:** The Registrars & Transfer Agents (RTAs) of mutual funds (such as CAMS and KARVY) have also enabled online investment in mutual fund units and tracking facility thereof on their respective websites in respect of the mutual funds serviced by them.

3. **MF Utility (MFU):** MFU is a technological platform promoted by the Indian Mutual Fund Industry under the aegis of AMFI, as a non-profit, shared infrastructure for investor & distributor convenience, operational efficiency and reduction in transaction processing cost of the MF industry. The prime objective of MFU is to consolidate all transactions received from multiple sources and transmit the same to the Registrars, bringing in operational efficiency by reducing multiplicity and duplication of activities. MFU portal operates as a "Transaction Aggregating System" for the Mutual Fund Industry as a whole. MFU is established on a co-operative model, with all participating AMCs being equal shareholders of MFU. Being browser based utility, MFU promotes industry level self-service for investors/distributors/RIAs and provides multiple modes of access and transaction submission options. Investors and distributors/RIAs can submit transactions either online or physical and make physical and e-payments.

   MFU provides broad and neutral "Points of Service" (POS) for enhanced coverage and geographical reach, investors and distributors/RIAs enjoy the convenience of submitting transactions in a single place irrespective of the Mutual Fund in which they transact. This saves a lot of time, effort and cost to the distributors/RIAs.

   MFU is modelled on the lines of "Fundserv" (http://www.fundserv.com), the Canadian online eco-system, established in 1993 by and for the Canadian investment industry, that facilitates seamless fund transactions.

   Similar collaborative efforts also found in other overseas markets, such as "Fund Online Korea (http://fundonlinekorea.com/eng/index.do) and "FundRich" of Taiwan (https://www.fundrich.com.tw/)

4. **Stock Exchange platforms:** One can also buy mutual funds units through BSE - StAR MF and NSE Mutual Fund Service System (NSE-MFSS). These are primarily online order collection systems provided by BSE and NSE to eligible members for placing subscription or redemption orders.

5. **Online aggregators/ third-party platforms:** Portals of aggregators or distributors also allow one to invest in schemes of multiple mutual fund houses.

Robo advisory

Robo advisor is an automated programme that dispenses financial planning advice to investors. Instead of receiving recommendations from a human financial advisor across a table, the investor receives suggestions from a computer or a smart phone. The companies that develop such programs are called robo advisory firms.

While robo advisory firms have been in existence since the start of the 21st century, with the world's largest financial market, the US, incubating the first ones. In India, they have been around since 2009, and have seen steady growth in demand and recognition. In addition to the advancement of technology, the regulator's move to lower commission expenses is also pushing distributors towards the category in a bid to reduce costs.

However, since the process is automated, the solutions are readymade and may not quite address all financial planning problems. Investors may also want the human element in the final product buying, especially since mutual funds are a push product more than a pull product.

Access to e-wallets and instant redemption facility

Last year's demonetisation move by the government was a watershed moment for the financial system in the country, and a bumper for the e-wallet industry as adoption of the medium jumped manifold. To convert the money available with e-wallets, of around Rs 20,600 crore[5] into productive investments and ease access to the mutual fund industry, SEBI has allowed investment in mutual funds up to Rs 50,000 per financial year via e-wallets.

However, fund houses need to ensure that an e-wallet issuer is not offering any incentives as cash back, directly or indirectly, for investing in mutual fund schemes through it. The e-wallet's balance, loaded through cash or debit card, or net banking, can only be used for subscription to mutual fund schemes.

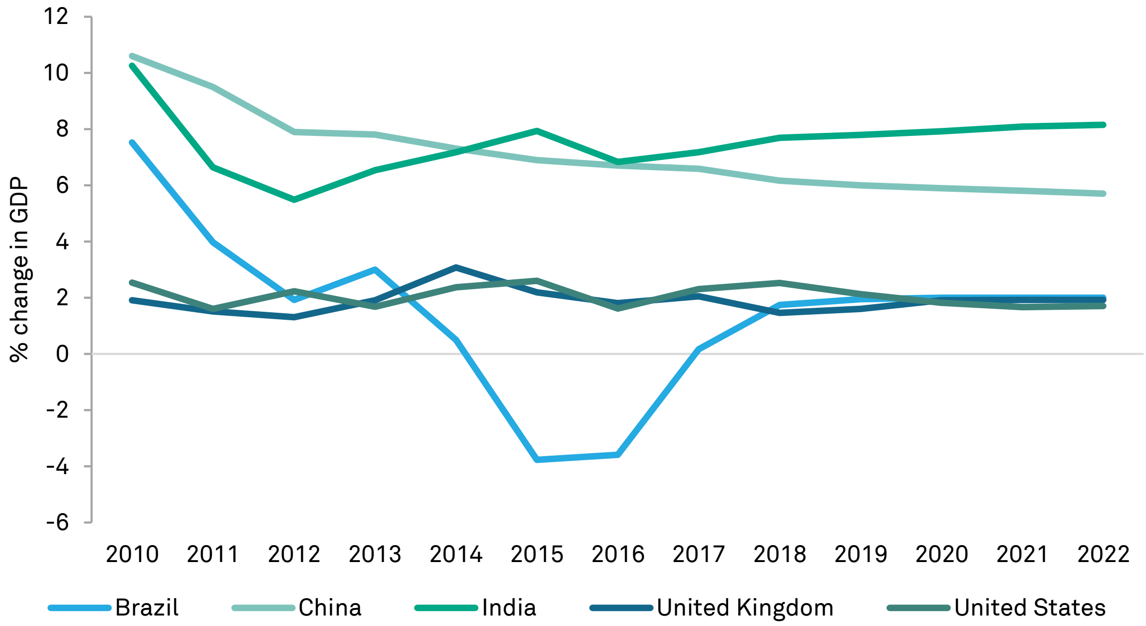
While the current proportion of investment through this route may be small, there is great potential considering the penetration of e-wallets has touched almost 200 million already. This penetration, coupled with the ability to seamlessly place an order, transfer money and piggyback on the existing KYC verification through a single window of either e-wallet or an e-tail website, should help accelerate the penetration of mutual funds. Meanwhile, another move of the regulator to allow instant access facility for up to Rs 50,000 or 90% of the folio value, whichever is lower, in liquid funds should also help. Access to mutual funds through e-wallets, coupled with the instant access facility, makes mutual funds a good alternative to keeping money idle in bank accounts. Liquid funds can emerge as a first touch point to on board investors while also helping them derive higher yield on their surplus cash. Global precedence of such a move has been positive, as seen in China. Online digital and mobile wallet players such as Alibaba, WeChat and Baidu have money market funds linked to them, thus enabling investors to generate returns on their spare money.

[5] Indian m-wallet market: Forecast 2022 conducted by ASSOCHAM jointly with research firm RNCOS

Wealth creation, inclusion opportunity for all

Political stability at the Centre and some deft manoeuvring by the government have seen India emerge as the fastest growing major economy, despite real GDP growth based on the new series coming in at 7.1% last fiscal. As per IMF estimates, the Indian economy is the sixth-largest after the US, China, Japan, Germany and the UK, and slated to grow faster than most major economies for at least five more years.

India is growing faster than most major economies

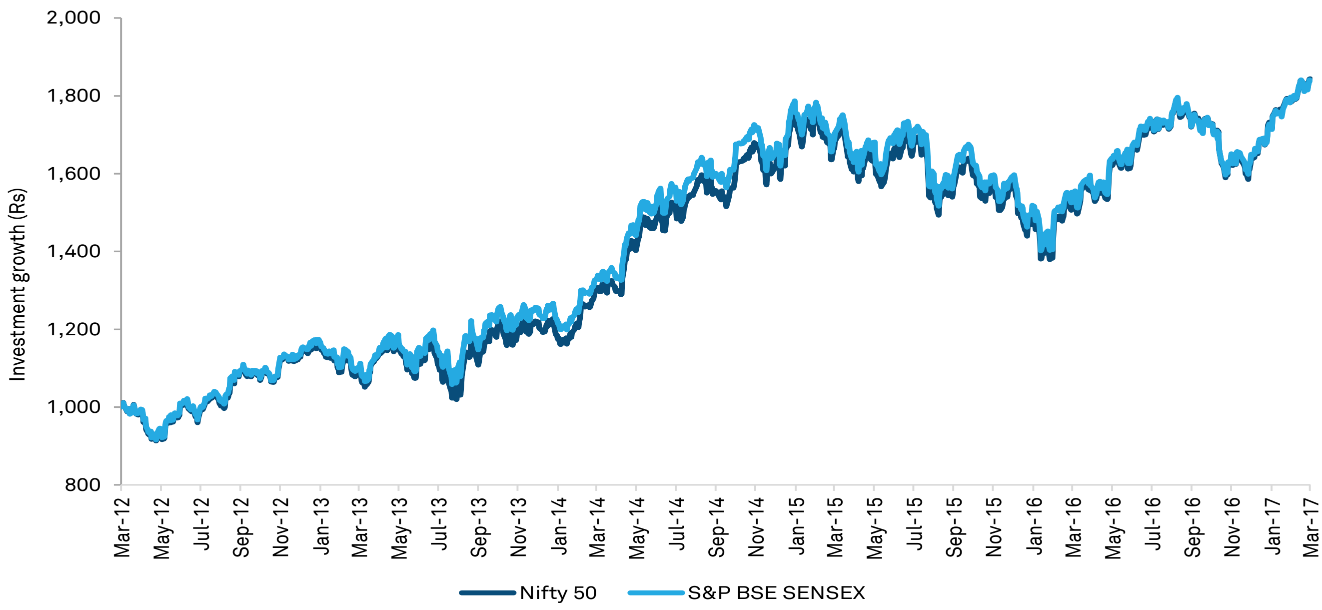


Source: International Monetary Fund (IMF) estimates

As economic growth puts more money in the hands of people, household savings are looking up, too. As per data from the Ministry of Statistics and Programme Implementation, gross financial savings have been on a secular uptrend since fiscal 2012 and breached the Rs 15 trillion mark in fiscal 2016.

With interest rates declining in sync with the Reserve Bank of India's (RBI's) monetary easing stance, the allure of traditional investment avenues such as bank fixed deposits is waning. For instance, the rate of interest offered by SBI for a one-year fixed deposit is 6.90%[6]. On the other hand, the equity markets – as represented by the benchmark indices S&P BSE Sensex and Nifty 50 – are at record highs. A quest for higher yields is, therefore, but natural, even for the most conservative, FD-only investor.

Markets have rallied in the past five years to reach all-time highs



Total returns indices have been considered for Nifty 50 and S&P BSE SENSEX

Source: NSE, BSE, CRISIL Research

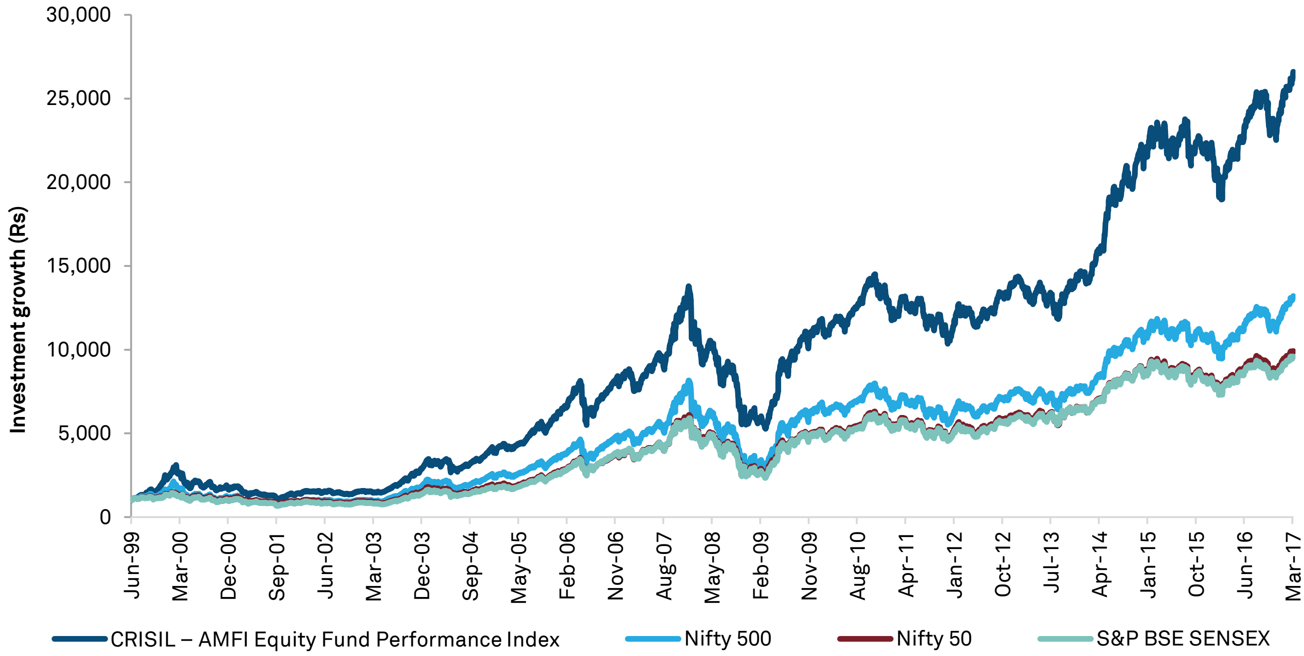
Mutual funds have emerged as a tool that allows all types of investors, irrespective of risk profile and return horizon, to participate in the financial markets and benefit from India's growth story. Here's how.

[6] https://www.sbi.co.in/portal/web/interest-rates/domestic-term-deposits-below-one-crore

Equity mutual funds as long-term wealth creators

Equity mutual funds have created wealth in multiples for investors over the long term. For example, Rs 1,000 invested in equity funds (represented by CRISIL-AMFI Equity Fund Performance Index) in 1999 would have grown 26.6 times, compared with 13.2 times, 9.9 times and 9.6 times on the Nifty 500, Nifty 50 and S&P BSE Sensex, respectively

Growth of Rs 1,000 in equity mutual funds versus benchmarks



Category / Index	CRISIL – AMFI Equity Fund Performance Index	Nifty 500	Nifty 50	S&P BSE Sensex
Growth of Rs 1,000 since June 30, 1999	26,594	13,203	9,913	9,582

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective categories in CRISIL Mutual Fund Ranking

Please refer to annexure for the detailed definitions of CRISIL-AMFI Equity Fund Performance Index

Total returns indices have been considered for Nifty 500, Nifty 50 and S&P BSE SENSEX

Data since the inception of Nifty 50 Total Returns Index, i.e. June 30, 1999

Source: CRISIL Research, NSE, BSE

Variety of equity products for various risk-return profiles

Mutual funds also provide investors with a variety of products under the equity banner to invest as per their risk-return profile and preference. Large cap funds, small and midcap funds, and diversified equity funds are the major types of equity mutual funds based on the size of the market capitalisation of the stocks used to build their portfolios.

For tax efficiency, there are the equity linked savings schemes (ELSS) which provide income tax exemption under Section 80C of the Income Tax Act. There are also sector funds, which focus on stocks belonging to a particular sector for investment.

Equity mutual funds offer reasonable returns across timeframes

Index	3-years	5-years	7-years	10-years
CRISIL – AMFI Large Cap Fund Performance Index	15.46%	14.38%	11.02%	11.74%
CRISIL – AMFI Small & Midcap Fund Performance Index	26.79%	22.47%	16.98%	15.05%
CRISIL – AMFI Diversified Equity Fund Performance Index	18.15%	15.79%	11.63%	12.53%
CRISIL – AMFI ELSS Fund Performance Index	18.90%	17.13%	12.64%	12.67%
Nifty 50	12.38%	13.00%	9.69%	10.40%
S&P BSE SENSEX	11.42%	12.95%	9.43%	10.07%
Nifty 500	16.53%	14.93%	10.45%	11.04%
Nifty Free Float Midcap 100	27.40%	18.98%	13.66%	15.02%
S&P BSE Midcap	27.37%	19.03%	12.57%	11.64%

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective category in CRISIL Mutual Fund Ranking

Please refer to annexure for the detailed definitions of CRISIL-AMFI indices

Total returns indices have been considered for Nifty 50, S&P BSE SENSEX, Nifty 500, Nifty Free Float Midcap 100 and S&P BSE Midcap

Data as on March 31, 2017

Annualised return

Source: CRISIL Research, NSE, BSE

Sector-based equity funds have fared better than benchmarks

Sector-based equity funds invest in equity instruments of a particular sector as defined in their scheme objective. In order to analyse the performance of sector funds, asset-weighted indices were constructed since the inception of the first fund within the respective category, or for the past 10 years, whichever is later. Infrastructure funds' index has been constructed since the inception of the benchmark Nifty Infrastructure.

Sector-based equity funds' performance versus respective benchmarks

Index	3-years	5-years	7-years	10-years
Banking and Financial Services category	25.04%	19.31%	15.98%	19.89%
Nifty Bank	18.93%	15.97%	12.39%	14.97%
Infrastructure category	21.11%	13.51%	6.39%	9.49%
Nifty Infrastructure	5.79%	4.29%	-1.42%	-0.01%
Information Technology category	9.31%	14.15%	11.92%	8.95%
Nifty IT Index	4.80%	10.42%	8.99%	7.52%
Pharmaceuticals category	16.66%	19.80%	16.23%	18.68%
Nifty Pharma	10.90%	15.61%	14.56%	14.35%
Fast Moving Consumer Goods category	16.43%	18.49%	20.88%	18.01%
Nifty FMCG	9.18%	15.54%	18.25%	17.40%

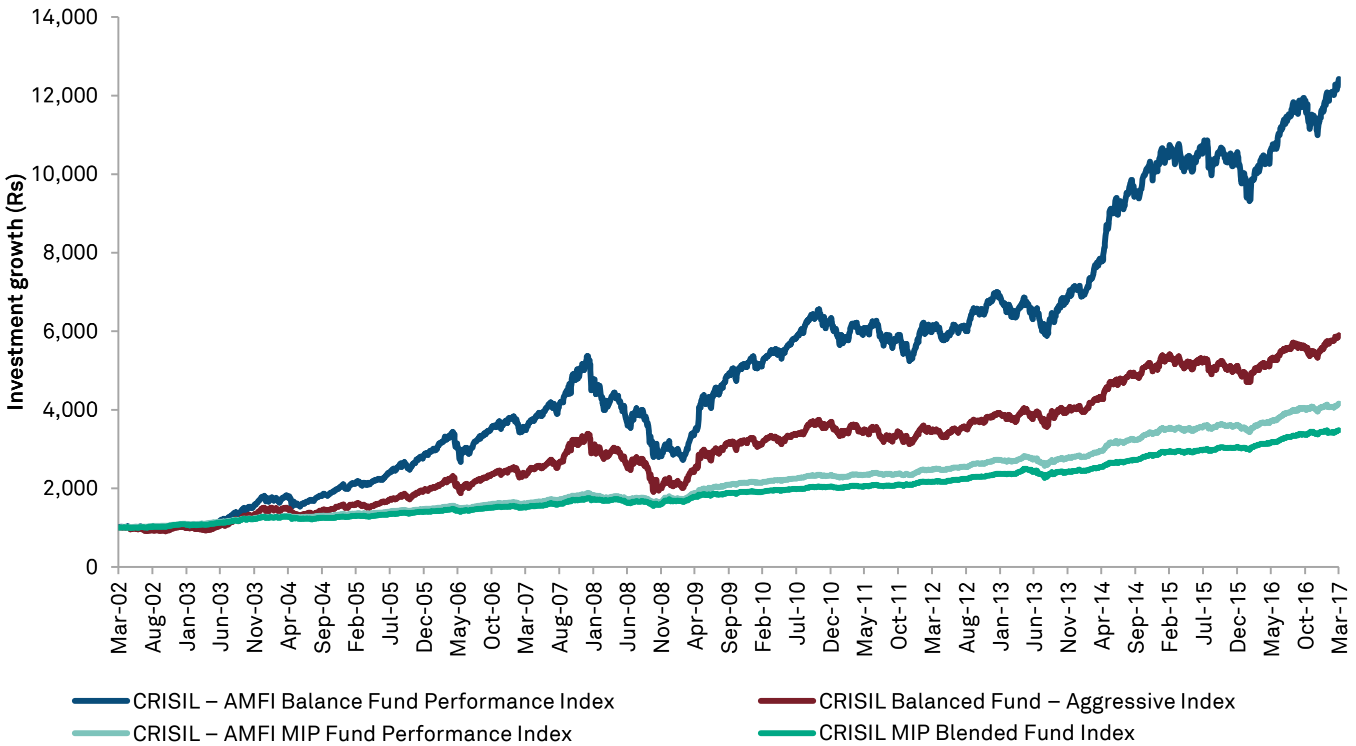
Total returns indices have been considered for Nifty Bank, Nifty Infrastructure, Nifty IT Index, Nifty Pharma and Nifty FMCG

Data as on March 31, 2017
Annualised returns
Source: CRISIL Research, NSE

Hybrid funds help simplify asset allocation

Investing in both equity and debt asset classes becomes important when building a diversified portfolio. Hybrid mutual funds provide this investment opportunity under one roof. Balanced funds and monthly income plans (MIPs) are two major types of hybrid funds. Balanced funds have a higher proportion of equity -- usually more than 65% – while MIPs have up to 30% in equity. Both the hybrid fund categories have beaten their respective benchmarks in the past 15 years.

Growth of Rs 1,000 in hybrid funds versus benchmarks



Category / Index	CRISIL – AMFI Balance Fund Performance Index	CRISIL Balanced Fund – Aggressive Index	CRISIL – AMFI MIP Fund Performance Index	CRISIL MIP Blended Fund Index
Growth of Rs 1,000 since March 31, 2002	12,419	5,896	4,160	3,484

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for the detailed definitions of CRISIL-AMFI indices

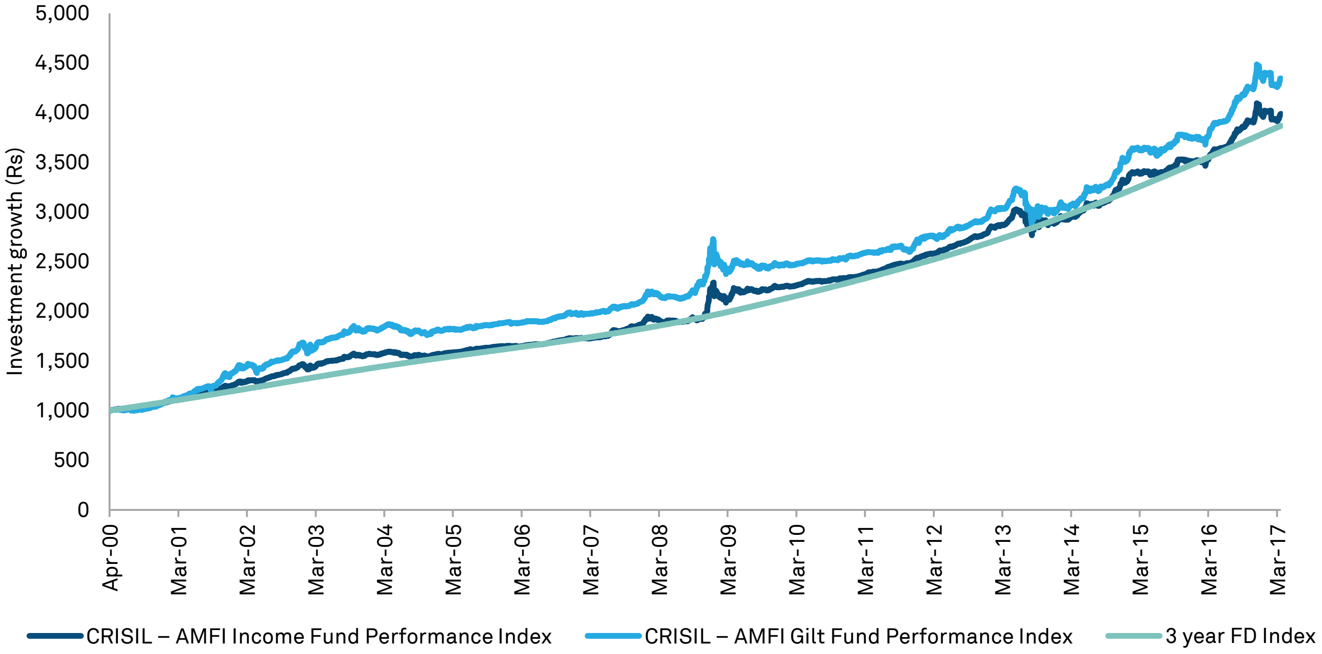
Data since the inception of CRISIL Balanced Fund – Aggressive Index and CRISIL MIP Blended Fund Index, i.e. March 31, 2002
Source: CRISIL Research

Debt funds an alternative to bank fixed deposits

Fixed income investment forms an important part of any portfolio since it carries a lower risk compared with equity.

Mutual funds offer multiple options in the fixed-income realm. These are categorised as long-term and short-term debt funds based on maturity. Of the two, long-term debt funds tend to benefit more during periods of interest rate decline, while short-term debt funds fare better during periods of rising interest rates. Additionally, debt funds provide tax benefit in the form of indexation for holding period of more than three years.

Growth of Rs 1,000 in long-term debt funds versus 3-year FD Index

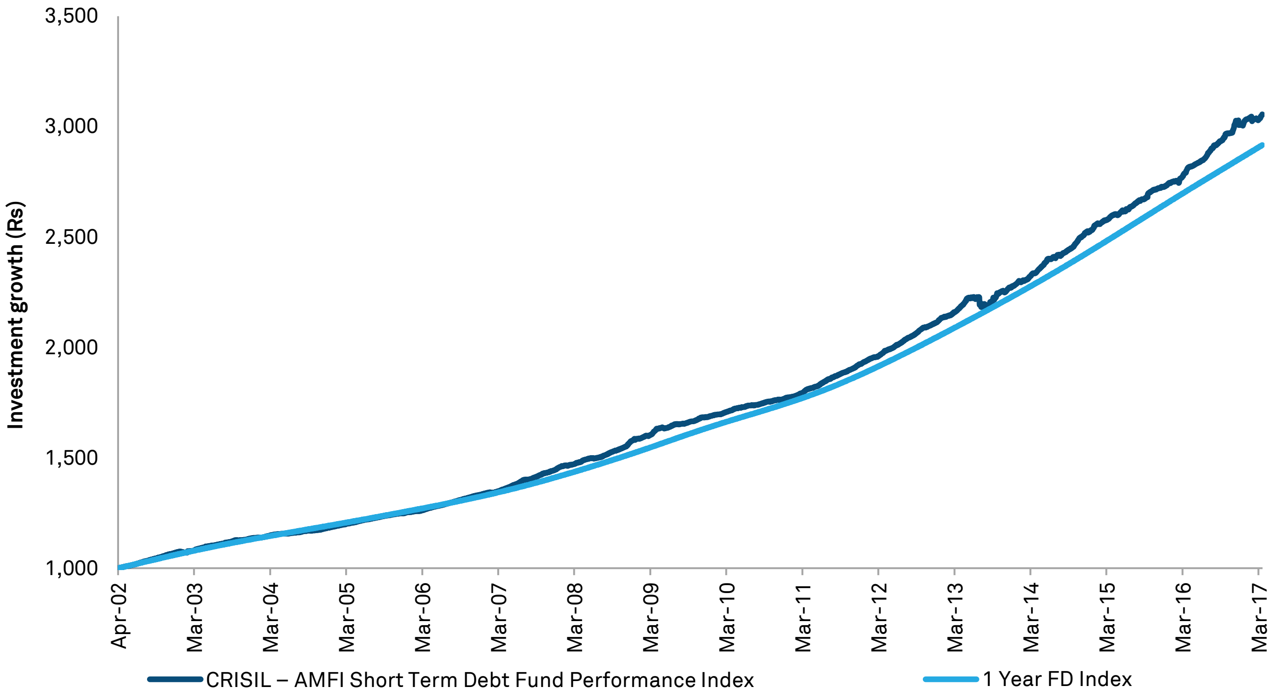


Category / Index	CRISIL – AMFI Income Fund Performance Index	CRISIL – AMFI Gilt Fund Performance Index	3-year FD Index
Growth of Rs 1000 since April 01, 2000	3988	4343	3868

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Fixed Deposit Indices have been constructed by taking simple average of FD rates of top 3 (by total deposits) public and private sector banks
Please refer to annexure for the detailed definitions of CRISIL-AMFI indices and 3-year FD Index

Source: CRISIL Research

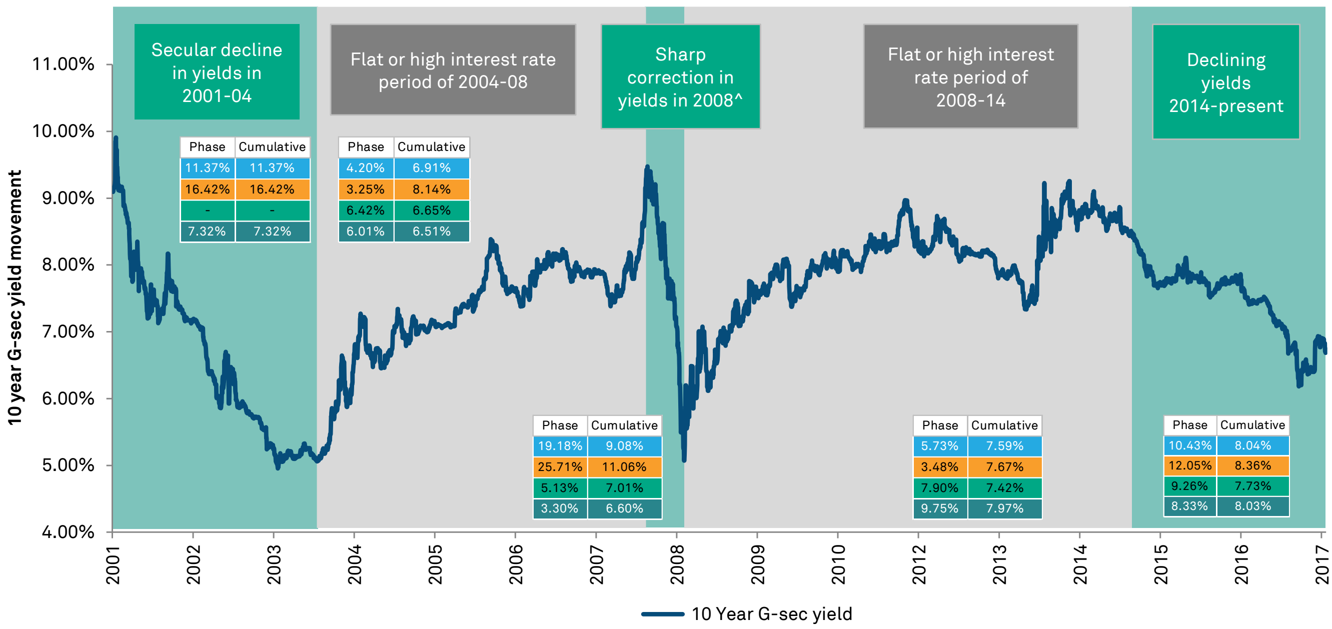
Growth of Rs 1,000 in short-term debt funds versus 1-year FD Index



Category / Index	CRISIL – AMFI Short Term Debt Fund Performance Index	1-year FD Index
Growth of Rs 1000 since April 01, 2002	3056	2916

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective category in CRISIL Mutual Fund Ranking
Fixed Deposit Indices have been constructed by taking simple average of FD rates of top 3 (by total deposits) public and private sector banks
Please refer to annexure for the detailed definitions of CRISIL-AMFI indices and 1-year FD Index
Source: CRISIL Research

Market phases analysis – CRISIL-AMFI debt fund performance indices



A	Income funds	B	Gilt funds	C	Short term debt funds	D	Banks' fixed deposit

Income, gilt and short term debt funds represented by CRISIL-AMFI Income Fund Performance Index, CRISIL-AMFI Gilt Fund Performance Index and CRISIL-AMFI Short Term Debt Fund Index respectively

CRISIL-AMFI Short Term Debt Fund Index is available from April 2002 (inception)

Banks' effective fixed deposit rates represented by 3 Year and 1 Year FD Rates, for period less than a year, 1 Year FD Rate has been considered

Returns for market phase of more than one year are annualised

^ Absolute Returns

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective category in CRISIL Mutual Fund Ranking

Please refer to annexure for the detailed definitions of CRISIL-AMFI indices

Source: CRISIL Research

Money market funds a better choice than savings bank account

Savings bank accounts are the most commonly used option to park surplus cash and to meet day-to-day liquidity. However, investors can generate more returns than the 4% that most savings bank accounts usually offer, by taking slightly more risk and investing in money market funds. These funds invest in short-term corporate debt papers, commercial papers, certificates of deposit and government treasury bills to generate better returns with a fair amount of safety.

There are two types of money market funds – liquid funds and ultra-short term debt funds. While ultra-short term debt funds usually have maturities of less than one year, liquid funds have maturities of less than 90 days. Both these categories provide liquidity to the investor. However, liquid funds are better at it since the redemption proceeds are settled within one working day. In terms of returns, these are better than the savings bank deposits as seen from the below table.

Money market funds outperform the Savings Bank Rate index

Index	1-year	3-years	5-years
CRISIL – AMFI Liquid Fund Performance Index	7.20%	8.10%	8.53%
CRISIL – AMFI Ultra Short Fund Performance Index	8.36%	8.60%	8.87%
CRISIL Liquid Fund Index	7.11%	8.04%	8.36%
Savings Bank Rate Index	4.00%	4.00%	4.00%

CRISIL-AMFI Fund Performance Indices are weighted average index of funds ranked under respective category in CRISIL Mutual Fund Ranking
Savings Bank Rate Index has been constructed using the average savings rate of top 3 (by total deposits) public and private sector banks
Please refer to annexure for the detailed definitions of CRISIL-AMFI indices and Savings Bank Rate Index
Data as on March 31, 2017
Returns for period more than one year are annualised
Source: CRISIL Research

Majority of funds outperform their stated benchmarks

A comparison of five-year trailing returns shows the number of equity-oriented schemes outperforming their stated benchmarks has increased in the past five fiscals. In fiscal 2017, 84% of the equity oriented funds outperformed their stated benchmarks.

A similar analysis for debt-oriented funds shows that the majority of these, too, have outclassed their respective benchmarks.

Category	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13
Equity-oriented schemes*					
Number of schemes	312	304	278	261	241
Schemes outperforming their stated benchmark	84%	84%	82%	66%	59%
Schemes underperforming their stated benchmark	16%	16%	18%	34%	41%
Debt-oriented schemes^					
Number of schemes	236	224	207	190	179
Schemes outperforming their stated benchmark	52%	56%	70%	67%	66%
Schemes underperforming their stated benchmark	48%	44%	30%	33%	34%

** Equity-oriented schemes include growth, balanced and ELSS categories, as classified by AMFI*
^ Debt-oriented schemes include income, gilt and floating rate categories, as classified by AMFI
Regular plans of open-ended funds, whose stated benchmark values are publicly available, have been considered for the analysis
Annualised point-to-point returns for five years have been considered for analysis as on the last day of the respective fiscal
Source: AMFI, CRISIL research

Better distribution, awareness and investor servicing the propellants

Robust distribution an imperative for sustainable growth

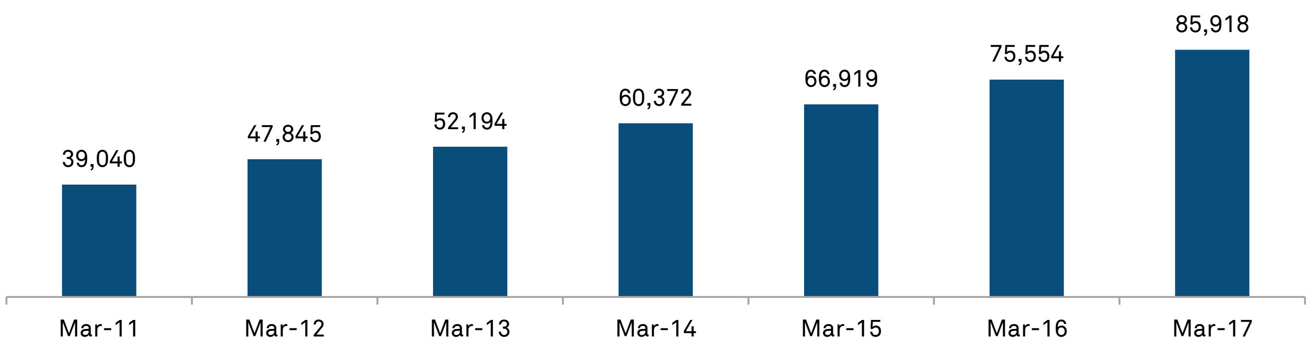
Despite the phenomenal growth seen in recent years, the share of mutual funds in overall household savings remains low. For a breakout improvement in this trend to kick in, it is imperative that distributors continue to play a pivotal role in spreading awareness about mutual fund investing and facilitating these investments as they have done since the inception of the industry.

Distributors are a key touch point for retail investors not only in B15 cities but also in the T15. From providing information to helping investors find the appropriate funds, they strive to make the whole investing process seamless and convenient for investors. They have also played a major role in the surge in SIP numbers, and in canvassing the merits of disciplined, sustained investing across market phases.

The benefits of such handholding are not lost on individual investors either. Nearly 86% of the mutual fund assets of individual investors, including retail and HNI, are in regular plans – a category dominated by distributors – while barely 14% go for direct plans. All the same, the reach of mutual fund distribution in B15 cities is below that of other financial services, such as banking and insurance. Though the number of distributors is growing and has more than doubled in the past six years to 85,918 as of March 2017, the number appears puny compared with over 2 million agents[7] the insurance industry has.

Rising wealth and growing awareness through investor education campaigns such as ‘Mutual Funds Sahi Hai’ can emerge as important tools to increase the advisor strength at work for the MF industry growth. Mutual fund distribution / advisory can emerge as a career option for the youth thus creating an employment opportunity while also channelising investor’s savings into productive investments.

Distribution base in a secular uptrend



Source: AMFI

[7] IRDAI Annual Report 2015-16

The geographic composition of the distributor base shows their services are more or less evenly distributed among the eight zones in the country, covering 10,500 places based on PIN code.

The geographic spread benefits investors, of course, but also generates employment opportunity.

Currently (as on May 31, 2017) the total number of "Feet on Street" in respect of number of mutual fund distributors stood at 190,811 comprising of 81,843 individual mutual fund distributors and 108,968 employees. AMFI sees that this number could potentially go up by five times in the next five years with suitable measures towards distribution expansion.

Region wise composition of distribution base

States covered	Distributors composition
Maharashtra, Madhya Pradesh and Chhattisgarh	31%
Rajasthan and Gujarat	16%
Delhi, Haryana, Punjab, Himachal Pradesh and Jammu & Kashmir	11%
West Bengal, Orissa and North Eastern	11%
Andhra Pradesh and Karnataka	10%
Uttar Pradesh, Uttarakhand	9%
Kerala and Tamil Nadu	8%
Bihar and Jharkhand	5%

Data as of March 2017
Source: India Post, AMFI

Along with market regulator SEBI, AMFI has strived consistently to widen the distributor base and energise the distribution system. In 2012, SEBI allowed a new cadre of distributors, including retired bank officials, school teachers, postal agents and other persons such as banking correspondents, to sell simple/performing mutual fund schemes with the objective of increasing off-take of mutual funds among retail investors.

Measures have also been taken to improve transparency in the disclosure of distributors' commission expenses and the industry is also working towards lowering the distribution cost. A stronger boost to investor education and awareness, pro-investor measures and expansion of the distribution base have helped the industry make in-roads into the hinterland, with B15 cities now accounting nearly a quarter of the industry AUM.

AMFI will be shortly introducing a completely paperless Aadhaar based On-line process for fresh Registration & Renewal of AMFI Registration Number (ARN) for MF distributors, in collaboration with NISM & CAMS.

AMFI is also evaluating the possibility of single window registration process for distributors that could eliminate the requirement of empanelling with each fund house.

On the same lines, AMFI is also evaluating introduction of a common/standardised application form to ease the transaction process for investors.

Clearly, the industry needs distributors to continue playing a big role in creating awareness about the products and boosting off-take, especially in underpenetrated regions. And a quantum leap in growth will ride on an expansion of the distribution base.

Need for continuous focus on increasing financial awareness

Though the mutual fund industry's assets are at a record high, its penetration is skewed towards a few states and the larger cities. This is because in most parts of the country, the focus is more on savings rather than investing. Lack of information about mutual funds and the perception that it is a risky product have resulted in investors preferring banks' fixed deposits and physical assets such as gold and realty.

SEBI's move directing fund houses to spend on structured investor awareness programme has definitely helped increase the reach of mutual funds among the masses. In fiscal 2017, 35 fund houses conducted 8,203 programmes in 211 cities, covering over 4 lakh participants.

AMFI's recent multi-media campaign 'Mutual Funds Sahi Hai', which aims to position mutual funds as a preferred investment option, and SEBI allowing celebrity endorsement are welcome moves to increase investor awareness. There is ample scope to increase financial awareness, especially in the untapped rural areas.

'Mutual Funds Sahi Hai' spending over time should focus on creating features for on boarding of customers through MFU or any such platform in order to help investors fulfill their needs. This could be the logical extension of the awareness campaign to meet the growing need once investors get on boarded.

Investor servicing an imperative, too

One of the important factors that have held back investors from mutual funds is the paperwork involved – filling of forms, updating KYC documents, in-person verification and tracking the investment/s, to name some. Launch of e-KYC has indeed made the onboarding of investors convenient and paperless.

With greater adoption of technology, including online platforms, mobile applications, robo-advisory, usage of e-wallets and e-commerce (proposed), investors can be assured of a seamless investment experience, whether in submitting the documents online, transacting or reviewing investments on a consolidated and real-time basis, and that too in a cost-effective way.

However, usage of technology in the hinterland is lower than in big cities. In order to capture the large untapped market, it is imperative that the industry create an environment that makes investor experience seamless and convenient.

As for measuring the impact, a critical area would be the quality of investment decisions on the platforms. The digital players can use analytics to assist users in finding the right fund match based on transactions history, monthly surplus, etc. For instance, someone who usually has Rs 20,000 balance until 20th of each month can be recommended liquid fund investment for the 20-day period during which the money lay idle. Alternatively, e-wallets and ecommerce sites can offer low-risk investment schemes for investors to get a taste of mutual funds and then lead them through the whole basket through regular channels.

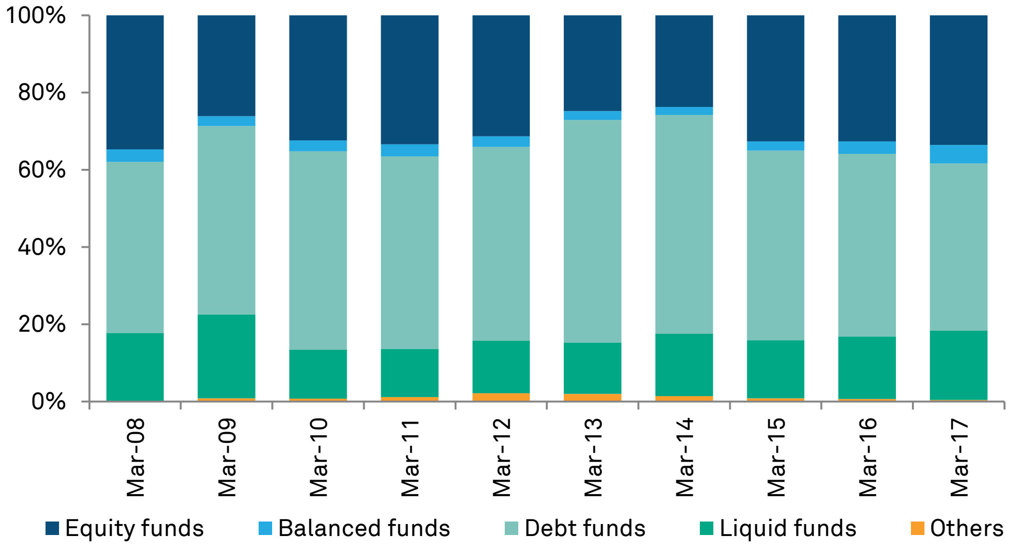
It is also important that investor education and awareness is given prominence for investments through such mediums to avoid inaccurate investment mapping with the individual's risk-return profile. Compulsory online risk profiling of the investor before any fresh investment through such platforms should be the norm.

Other **industry trends**

Industry tilted towards debt assets even as equity sees sharp rise

The Indian mutual fund industry remains tilted towards debt-oriented mutual funds (including liquid funds), accounting for over 61% of the total assets as of March 2017, though equity-oriented funds have seen a resurgence of late.

Equity fund assets pick up a tad, but debt still the flavour

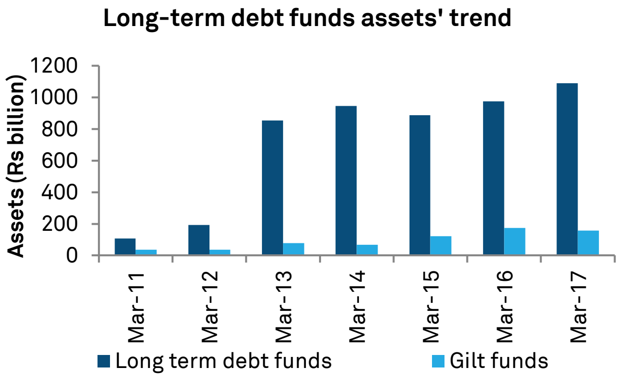


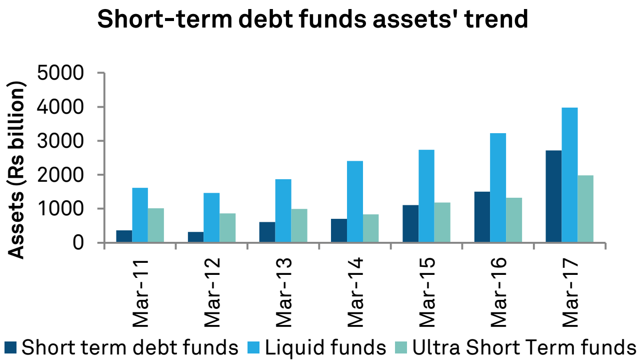
Data pertains to month-end AUM
Equity funds also include ELSS and other ETFs
Debt funds also include gilt funds
Others include gold ETFs and fund of funds investing overseas
Source: AMFI

Short-term debt-oriented funds see strong surge in assets

Assets of short-term debt funds grew 3.85 times in the past three years and 81% in the latest fiscal to their new high of Rs 2.72 trillion at the end of March 2017. Rise in assets of short-term debt funds could be because of growing investor preference for categories which are less sensitive to interest rate changes. Other categories in the short maturity debt funds – ultra-short term funds' assets rose to a new high of Rs 1.98 trillion, while liquid funds touched a new high of Rs 3.98 trillion.

Debt-oriented funds show short-end skew



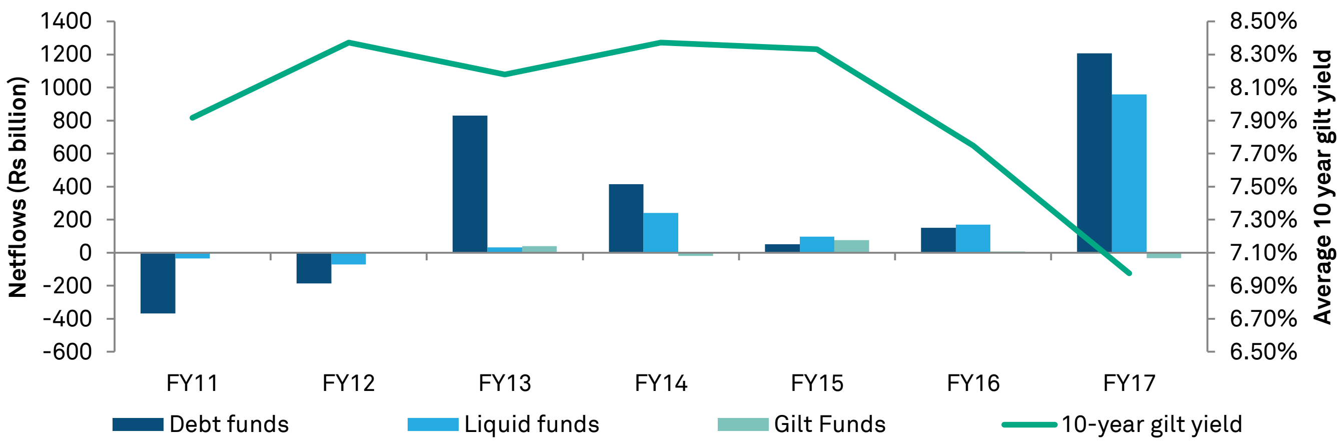


Data pertains to quarterly average AUM
Source: AMFI, CRISIL Research

Assets of long-maturity debt funds saw muted growth in fiscal 2017 amid growing expectations that the RBI's interest rate easing cycle is close to an end. In the February 2017 policy meeting, the RBI changed its policy stance to neutral from accommodative. While income funds' average AUM managed to grow 12% (lower growth vis-à-vis short maturity debt) to Rs 1.09 trillion, gilt funds' assets shrank 8.49% to Rs 158 billion.

Meanwhile, the flow data shows erratic trend among the categories. In the latest fiscal, debt funds – including income, short-term debt, fixed maturity plans and ultra-short term -- attracted record high inflows of Rs 1.21 trillion, while liquid funds saw the largest inflow of Rs 958 billion. Gilt funds, however, witnessed net outflows of Rs 33 billion following inflows in the preceding two fiscals amid expectation that interest rate easing cycle has come to an end.

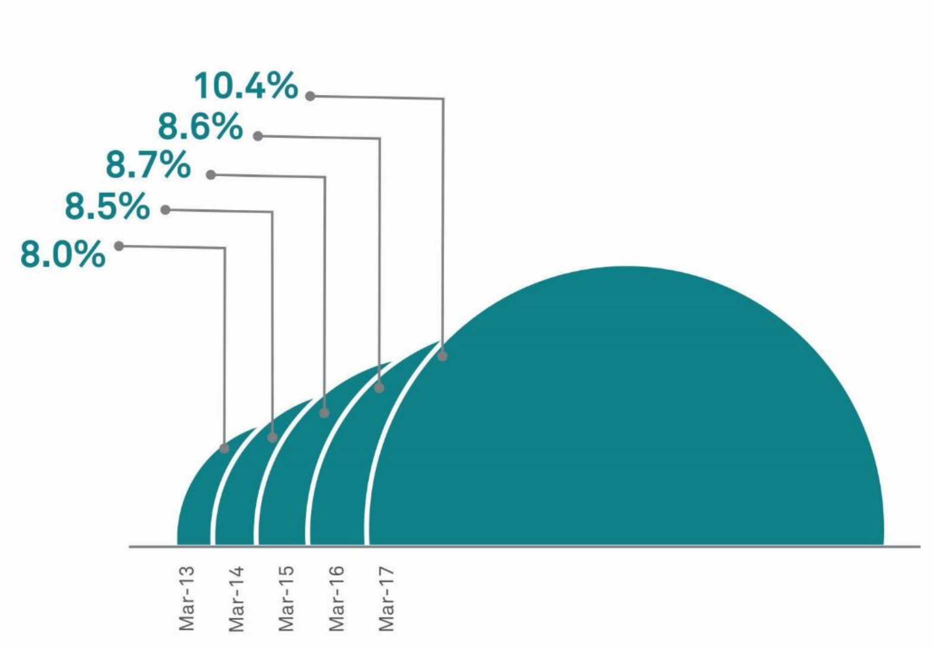
Net flows into debt-oriented funds shoot up



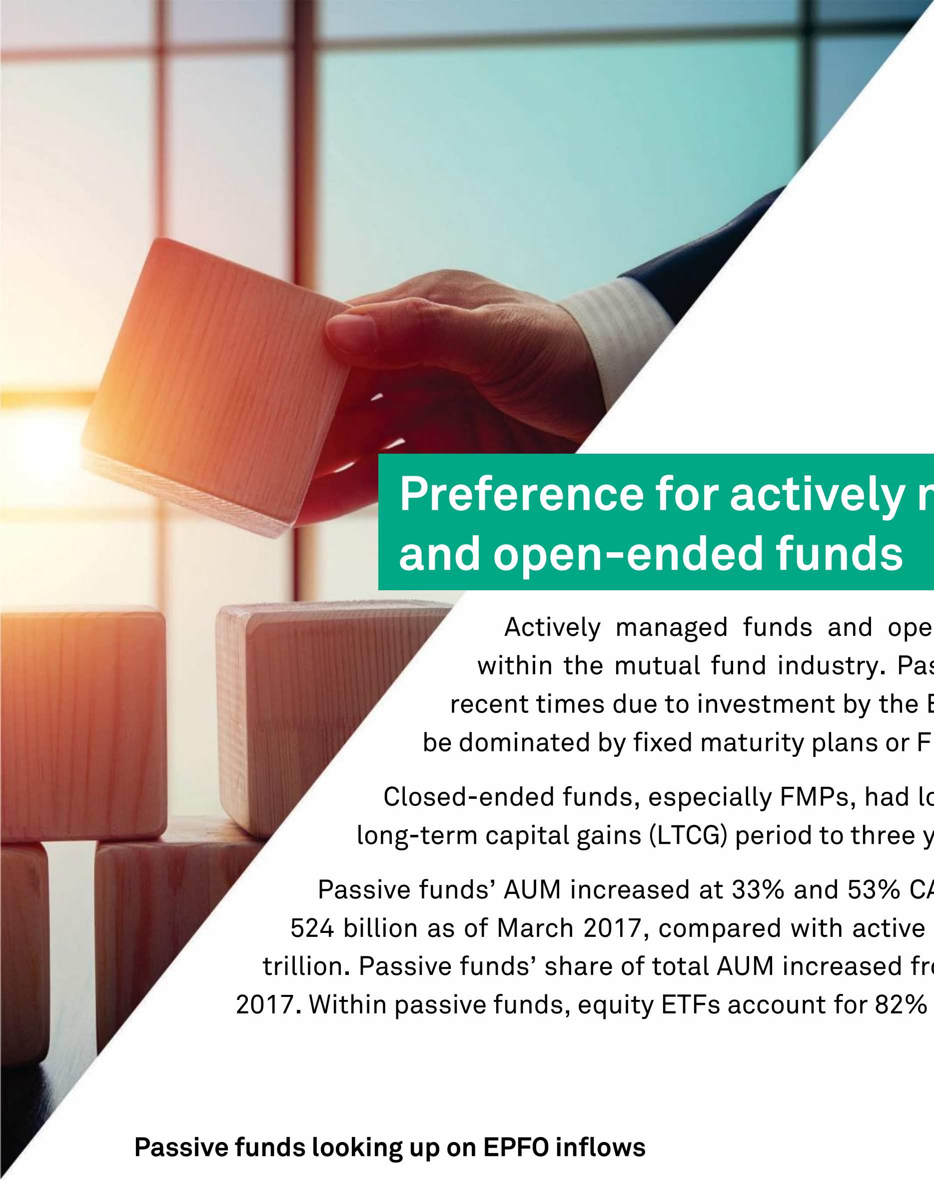
Source: AMFI, CRISIL Research

The rise in debt-oriented fund assets is reflected in their share of domestic debt market issuances in the past five years. As of March 2017, mutual funds' debt holdings accounted for a tenth of total debt issuance.

Mutual funds' share of debt issuances rising



Debt mutual funds also include gilt and liquid funds
Total debt issuance include CPs, CDs, bonds and government securities
Source: AMFI, RBI, SEBI, CCIL, CRISIL Research



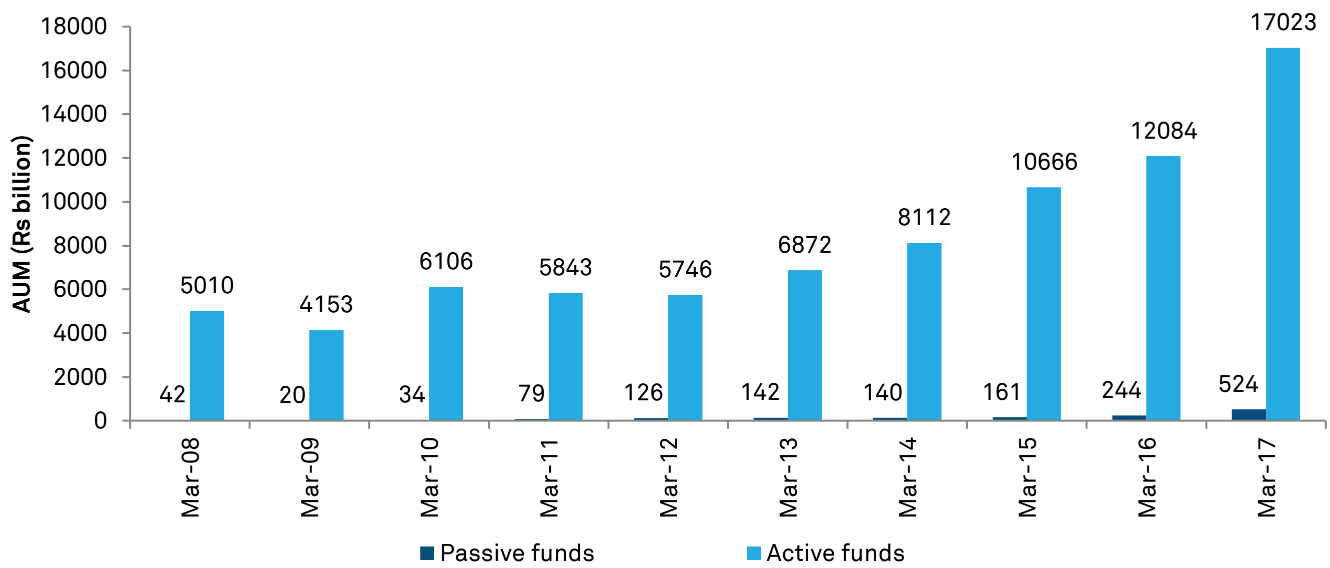
Preference for actively managed and open-ended funds

Actively managed funds and open-ended funds continued to be preferred within the mutual fund industry. Passive funds have seen some prominence in recent times due to investment by the EPFO, while closed-ended funds continue to be dominated by fixed maturity plans or FMPs.

Closed-ended funds, especially FMPs, had lost some of their sheen after the increase in long-term capital gains (LTCG) period to three years in 2014.

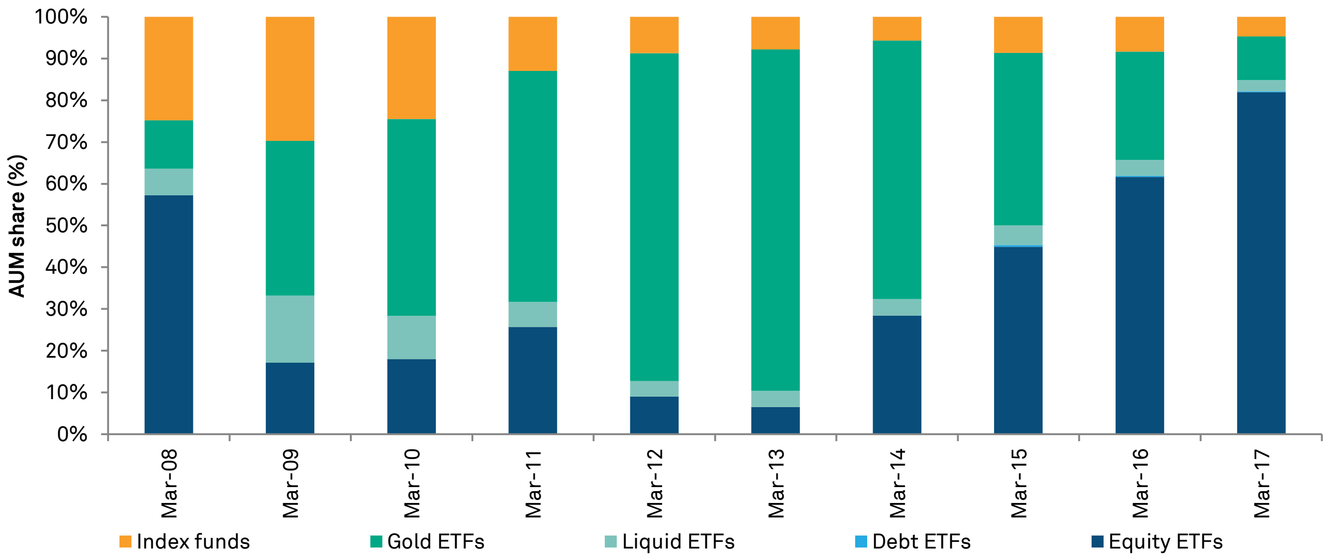
Passive funds' AUM increased at 33% and 53% CAGR in the last 5- and 10-year periods to Rs 524 billion as of March 2017, compared with active funds' 24% and 18% CAGR growth to Rs 17 trillion. Passive funds' share of total AUM increased from 0. 23% in March 2007 to 3.08% in March 2017. Within passive funds, equity ETFs account for 82% of total passive funds.

Passive funds looking up on EPFO inflows



Data pertains to month-end AUM
Passive funds include Index funds and ETFs
Source: AMFI

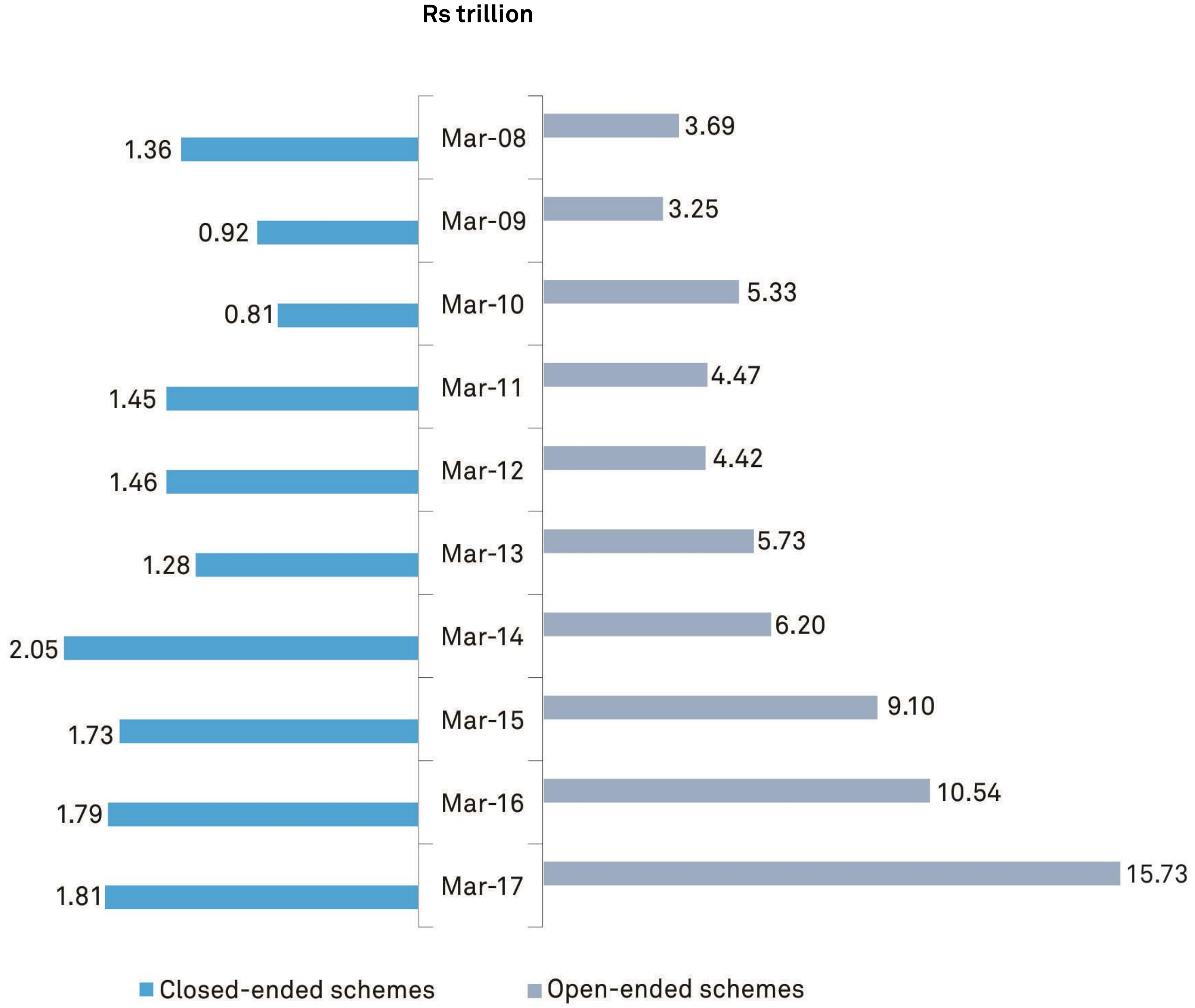
Equity ETFs lead passive funds' resurgence



Data pertains to month-end AUM
Source: AMFI, CRISIL Research

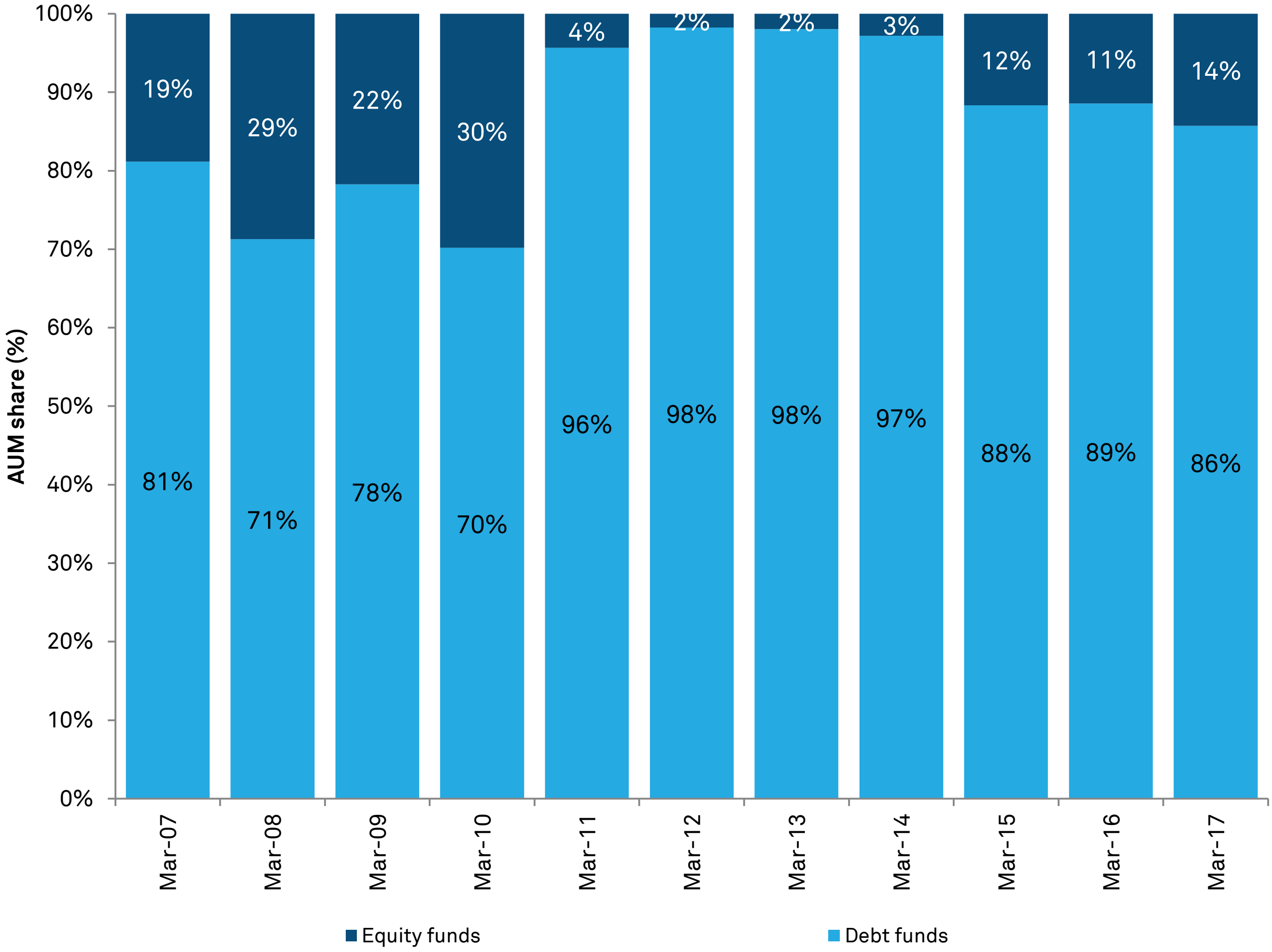
Closed-ended funds, wherein investors cannot redeem their units before the stipulated period, form 10% of the total AUM as of March 2017, down from 33% a decade ago. Composition of closed-ended funds' assets shows that debt-oriented funds (predominantly FMPs and capital protection funds) have dominated the category, but the share of equity-oriented funds has increased in the past four years.

Open-ended funds preferred by investors



Closed-ended schemes include interval funds
Data pertains to month-end AUM
Source: AMFI

Closed-ended funds continue to remain debt-heavy

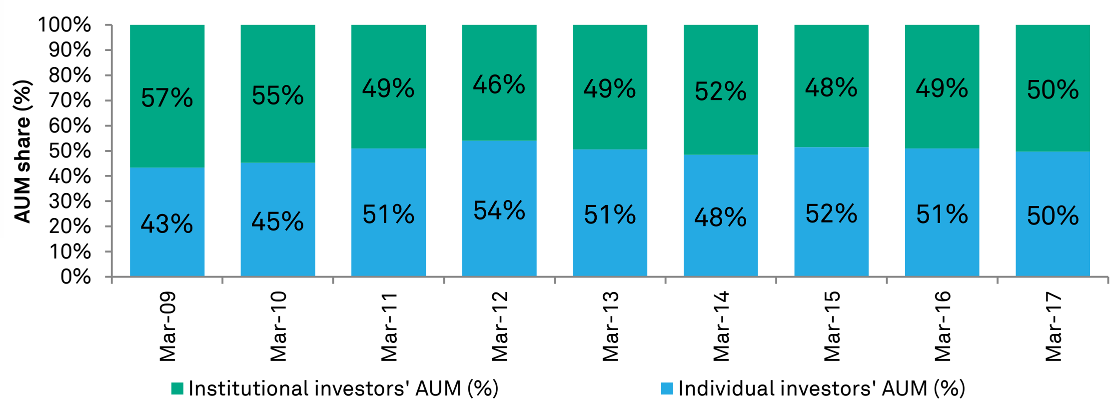


Data pertains to month-end AUM
Source: AMFI

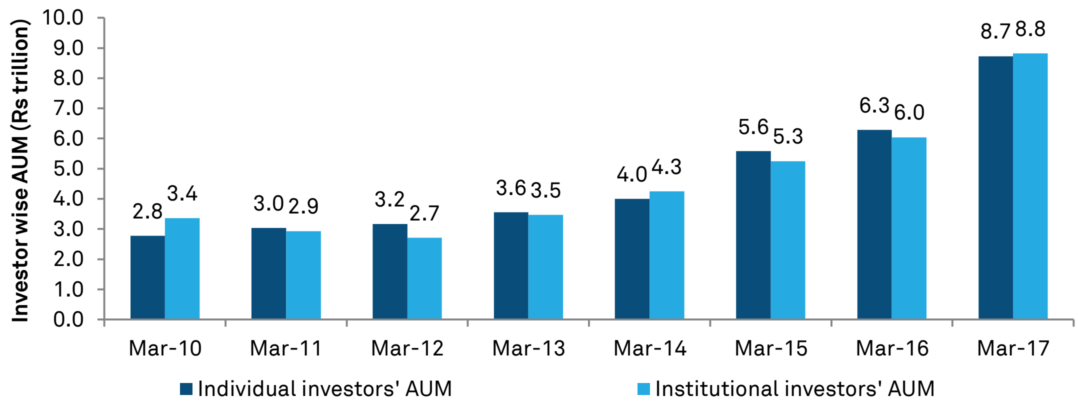
Industry split equally between individual and institutional investors

The mutual funds industry's assets are split equally between individual investors (retail + HNI) and institutional investors (corporates, banks/ financial institutions and foreign institutional investors (FIIs)/ foreign portfolio investors) at Rs 8.73 trillion and Rs 8.82 trillion, respectively, as of March 2017, with annualised growth of 22% and 27%, respectively, in five years ended March 2017.

Investor composition



Investor-wise AUM

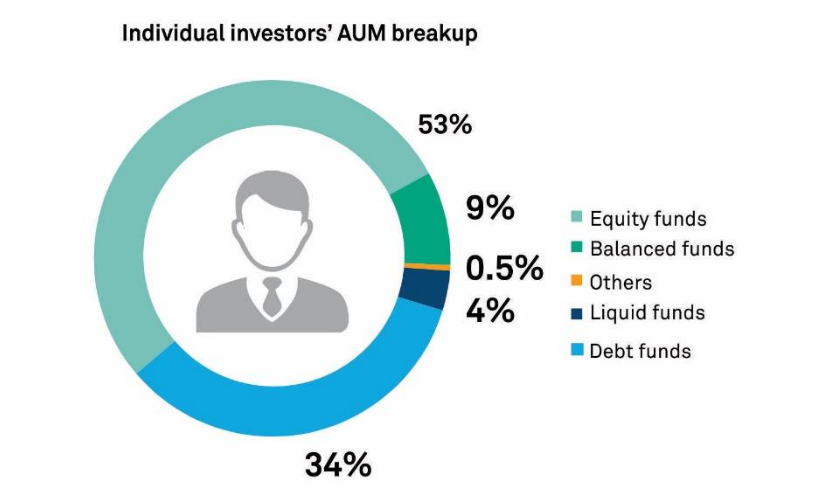


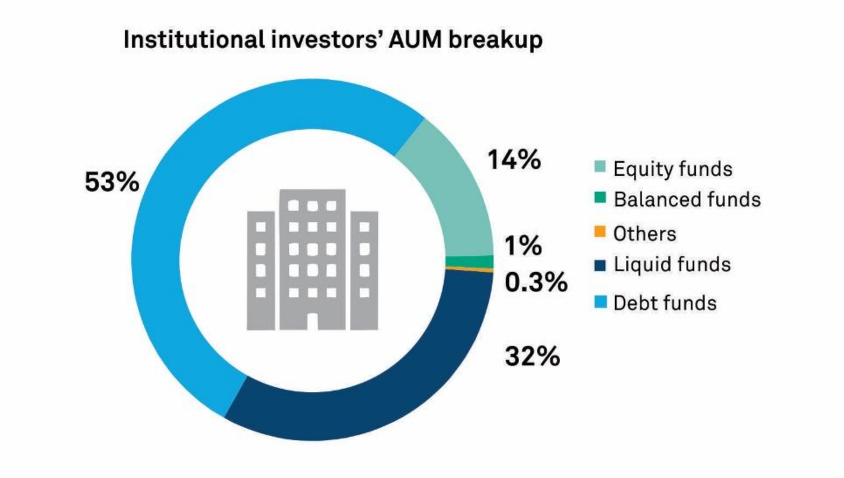
Data pertains to month-end AUM
Source: AMFI

Institutional investors skewed towards debt investments

Asset-wise composition shows that while individual investors show higher preference for equity funds, institutional investors show higher preference for debt-oriented funds. Institutional investors have invested nearly 85% of their assets in debt-oriented funds, including gilt and money market funds.

Retail investors prefer equity funds, institutions debt





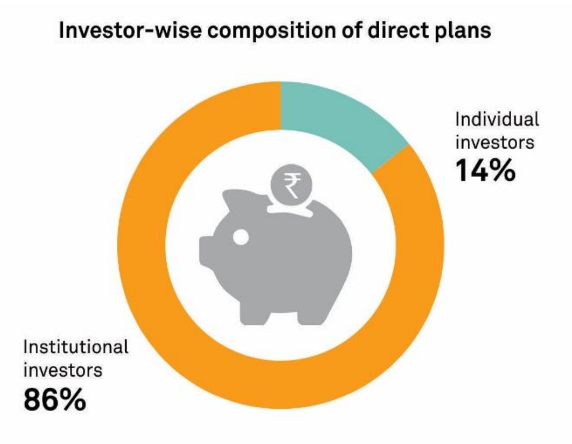
Equity funds also include ELSS and other ETFs
Debt funds also include gilt funds
Data pertains to month-end AUM as of March 2017
Others include gold ETFs and fund of funds investing overseas
Source: AMFI

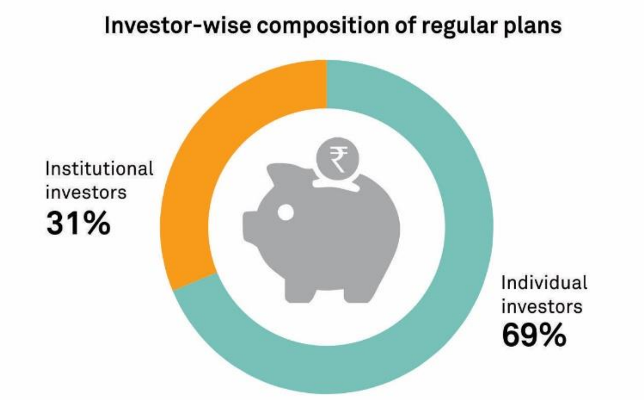
Direct plan adoption higher for institutional investors

Prior to January 2013, there was a single plan structure for all investors. Then, SEBI mandated funds houses to offer two types of plans: 1) direct plans for investors who want to directly purchase mutual funds from fund houses rather than going through the distribution channel, and 2) regular plans, or the original format of schemes, sold through the distribution channel involving national distributors, banks, independent financial advisors, aggregators and digital channels.

The direct route has seen higher preference among institutional investors, who tend to have a research team to identify the top performing funds for investment. Corporates, banks and financial institutions and FIIs, which make up institutional investors, account for 86% of total direct plans, while individual investors (retail and HNI) account for 69% of regular plans, indicating higher preference for hand-holding by distributors.

Institutional investors go direct, retail sticks to regular route

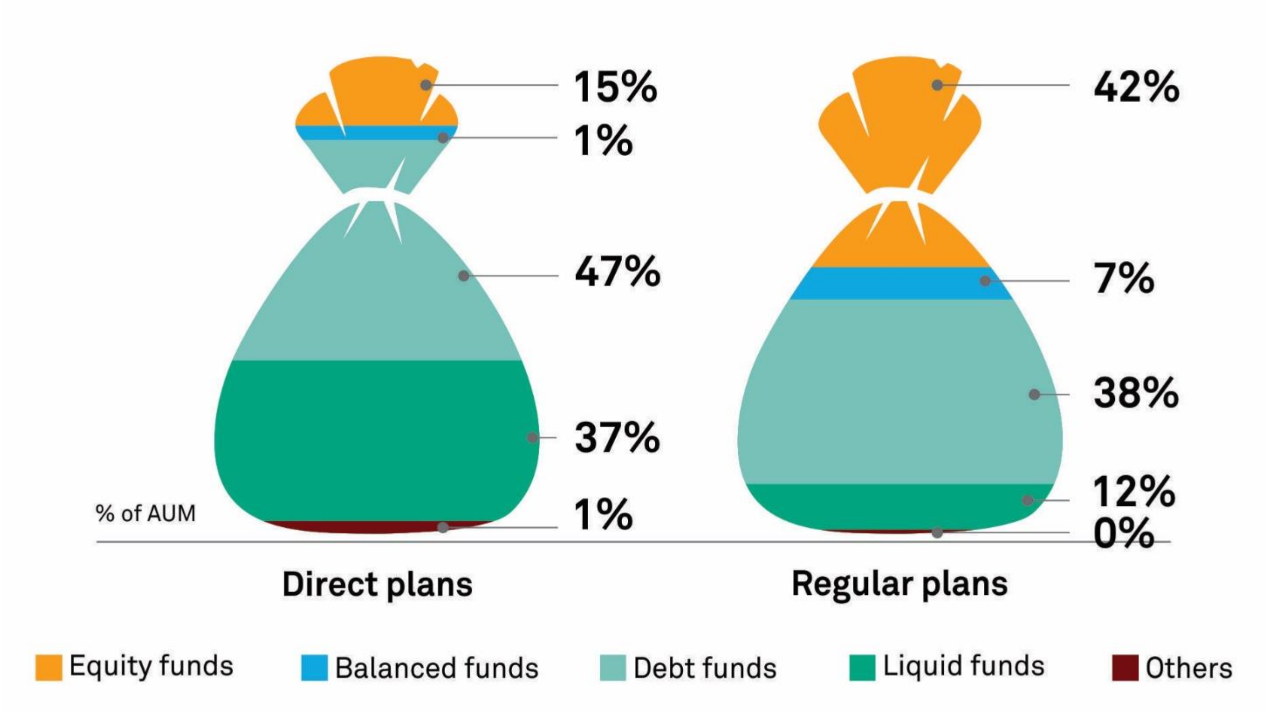




Data pertains to average monthly AUM as of March 2017
Source: AMFI

In terms of category, debt (47%) and money market funds (37%) accounted for the bulk of the direct plan assets, while equity funds accounted for only 15% as of March 2017.

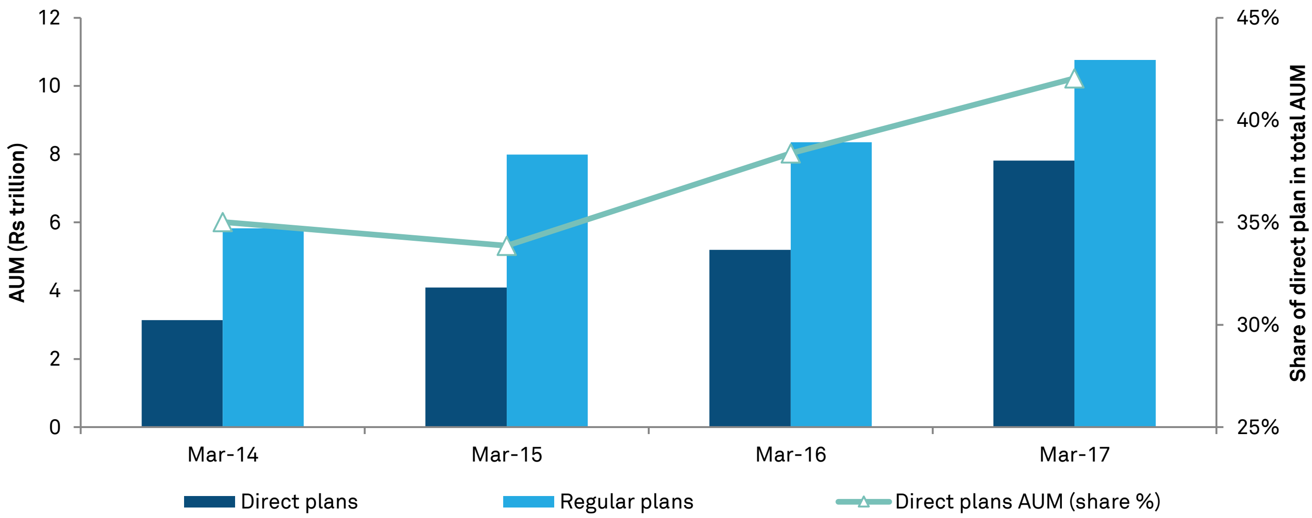
Equity drives regular plans, debt the direct ones



Data pertains to average monthly AUM as of March 2017
Equity funds also include ELSS and other ETFs
Debt funds also include gilt funds
Others include gold ETFs and fund of funds investing overseas
Source: AMFI

Direct plans' share of the industry has grown from 35% in March 2014 to 42% in March 2017. In terms of asset growth, direct plans recorded a robust growth of 36% CAGR in the past three years, compared with 23% CAGR growth in regular plan assets. Direct plan assets stand at a new high of Rs 7.81 trillion, up 50% or by Rs 2.61 trillion in the last fiscal.

Direct plans' AUM and share



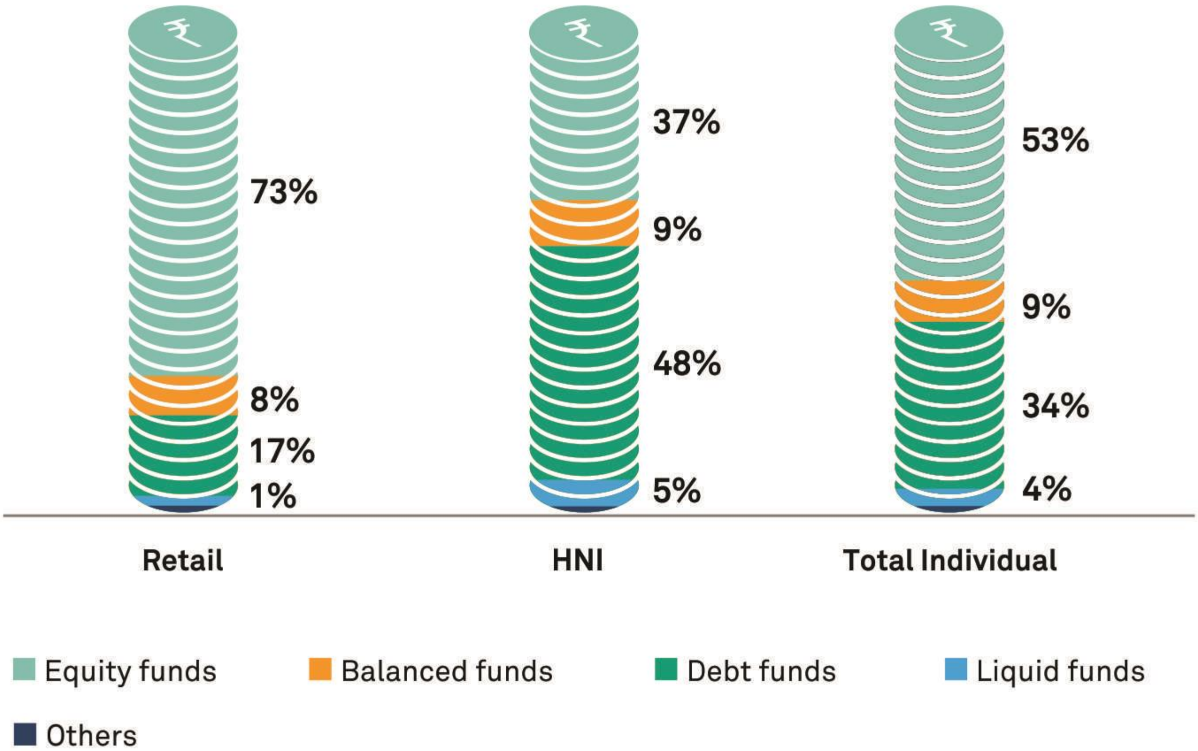
Data pertains to monthly average AUM
Source: AMFI

Individual investors prefer equity assets

A look at the asset allocation patterns shows individual investors – retail and HNI – are gung-ho on equity-oriented funds (including balanced funds), with 62% of their assets deployed in these as of March 2017, on a consolidated basis. That's up sharply from 46% in March 2014, indicating a sharp revival in confidence.

Retail investors are more bullish of the two on equity-oriented funds, with as much as 81% of their assets parked in these. In comparison, HNIs have a balanced approach, with 46% of their assets in equity and balanced funds, and 48% in debt-oriented schemes.

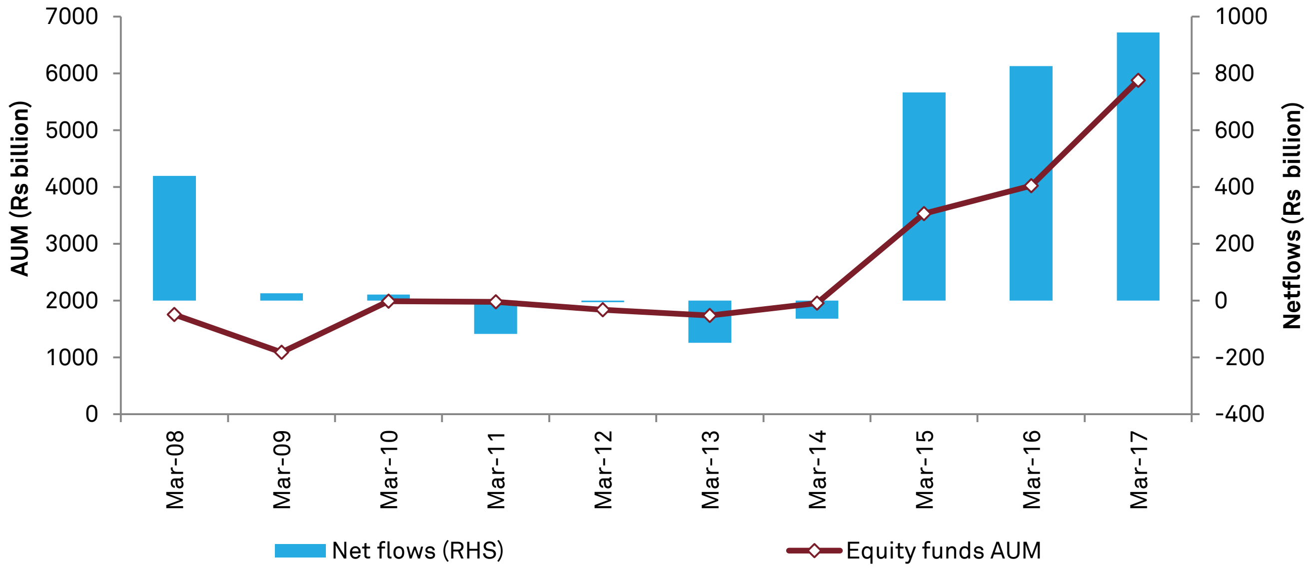
HNIs take the proverbial middle path



Data pertains to month-end AUM
Equity funds also include ELSS and other ETFs
Debt funds also include gilt funds
Others include gold ETFs and fund of funds investing overseas
Source: AMFI

Assets of equity funds have surged at a CAGR of 44% in the past three fiscals to a record Rs 5.88 trillion as of March 2017, riding on SIP-led inflows and uptrend in the equity markets. Inflows have increased progressively: Rs 733 billion in fiscal 2015, Rs 827 billion in fiscal 2016 and Rs 944 billion in fiscal 2017.

Equity funds' AUM and net flows

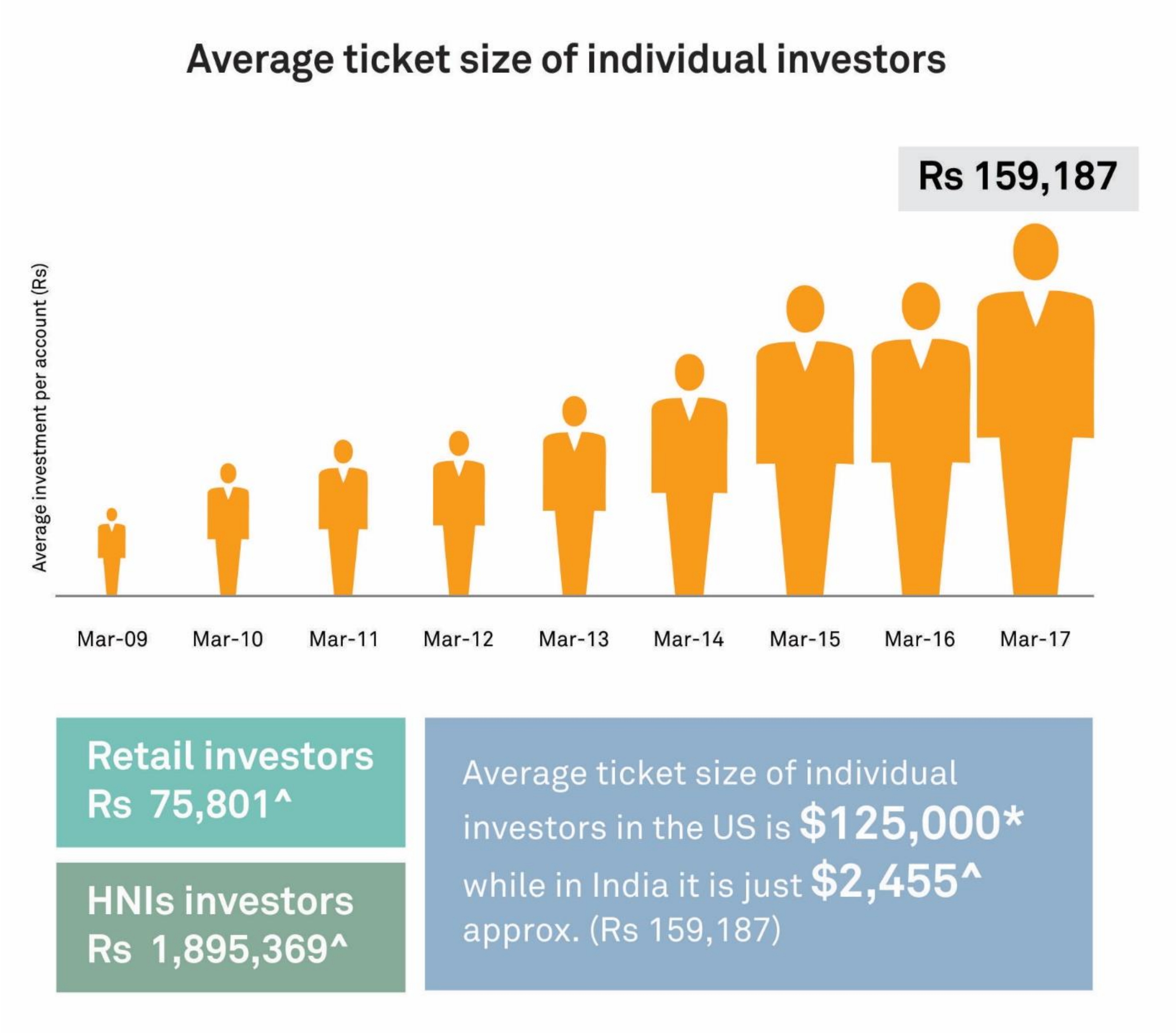


Data pertains to month-end AUM
Data pertains to total netflows for the fiscal year
Equity funds also include ELSS and other ETFs
Source: AMFI

Retail ticket size increasing

Another positive trend that has emerged among individual investors is the rising ticket size of investments. In the past eight years, the average investment of retail investors has grown four-fold from Rs 19,199 in March 2009 to Rs 75,801 in March 2017, while that of HNIs increased from Rs 1.51 million to Rs 1.90 million. For retail and HNI investors taken together, the ticket size stood at Rs 159,187 as of March 2017, showing steady growth.

However, this is just the beginning when seen in the global context. The ticket size of individual investors in India is $2,455 (Rs 159,187), a fraction of $125,000 in the US. However, it is expected to only grow from here as disposable incomes rise.



** Data pertains to December 2016*

^ Data pertains to March 2017

Ticket size is computed as assets managed for a given investor category divided by number of accounts for that category

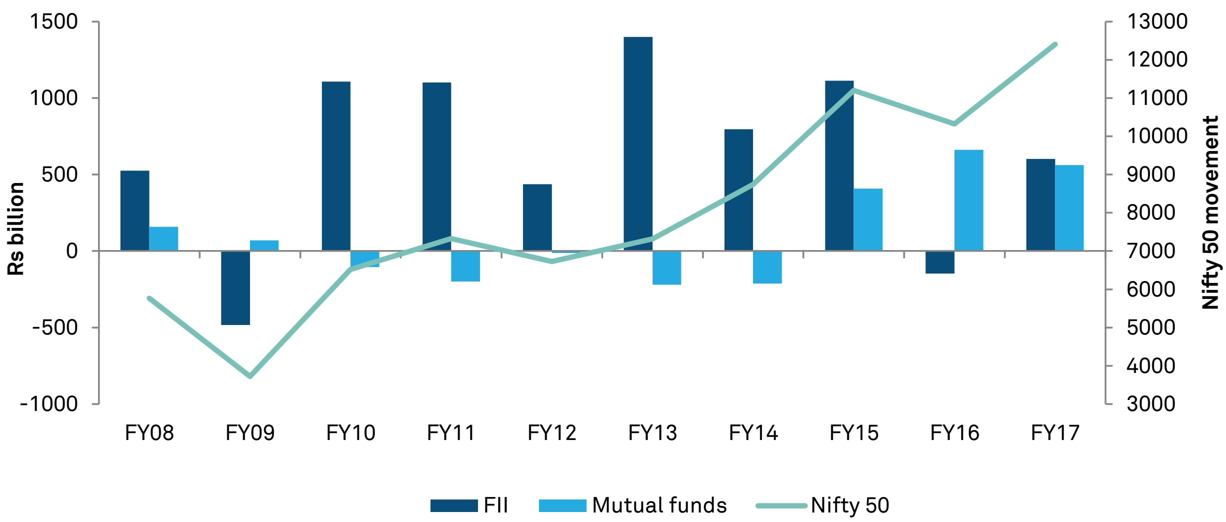
Source: AMFI, CRISIL Research, ICI

Mutual funds, the new stabilizing agent in the equity market

Historically, the Indian equity market has been driven by FIIs. However, the FII money – also dubbed hot money – has also been a major source of volatility in the market.

This has started to change of late. The strong influx of sticky, long-term money in equity mutual funds from systematic investments by retail investors has emerged as a huge stabilising factor. For instance, when FIIs sold Rs 146 billion worth of equities in FY16, mutual funds bought Rs 661 billion.

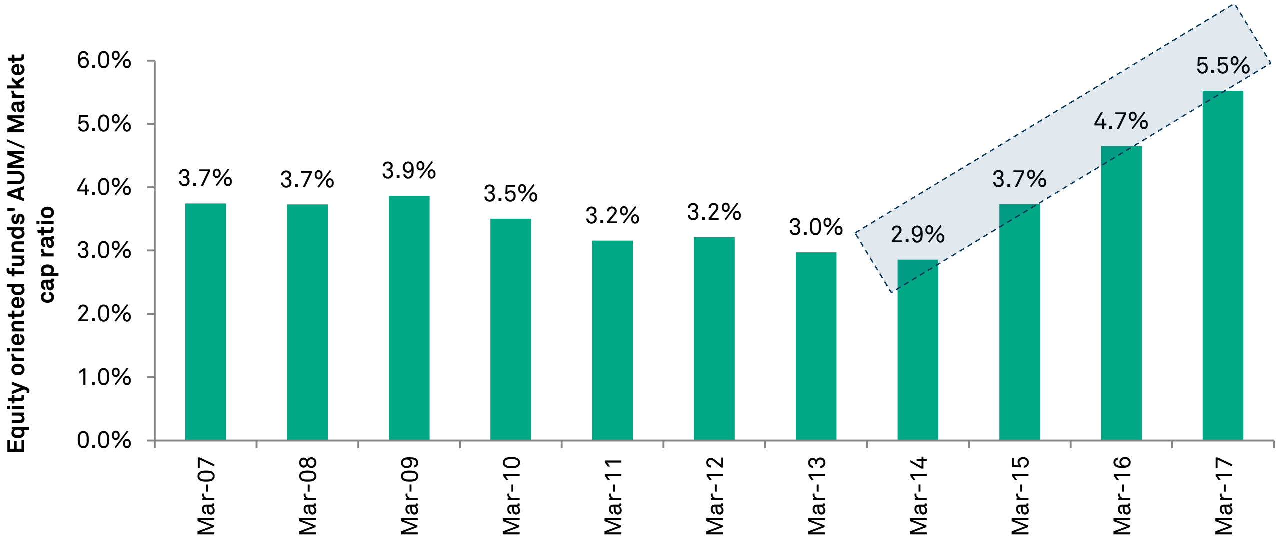
Mutual funds soaking up FIIs-led choppiness



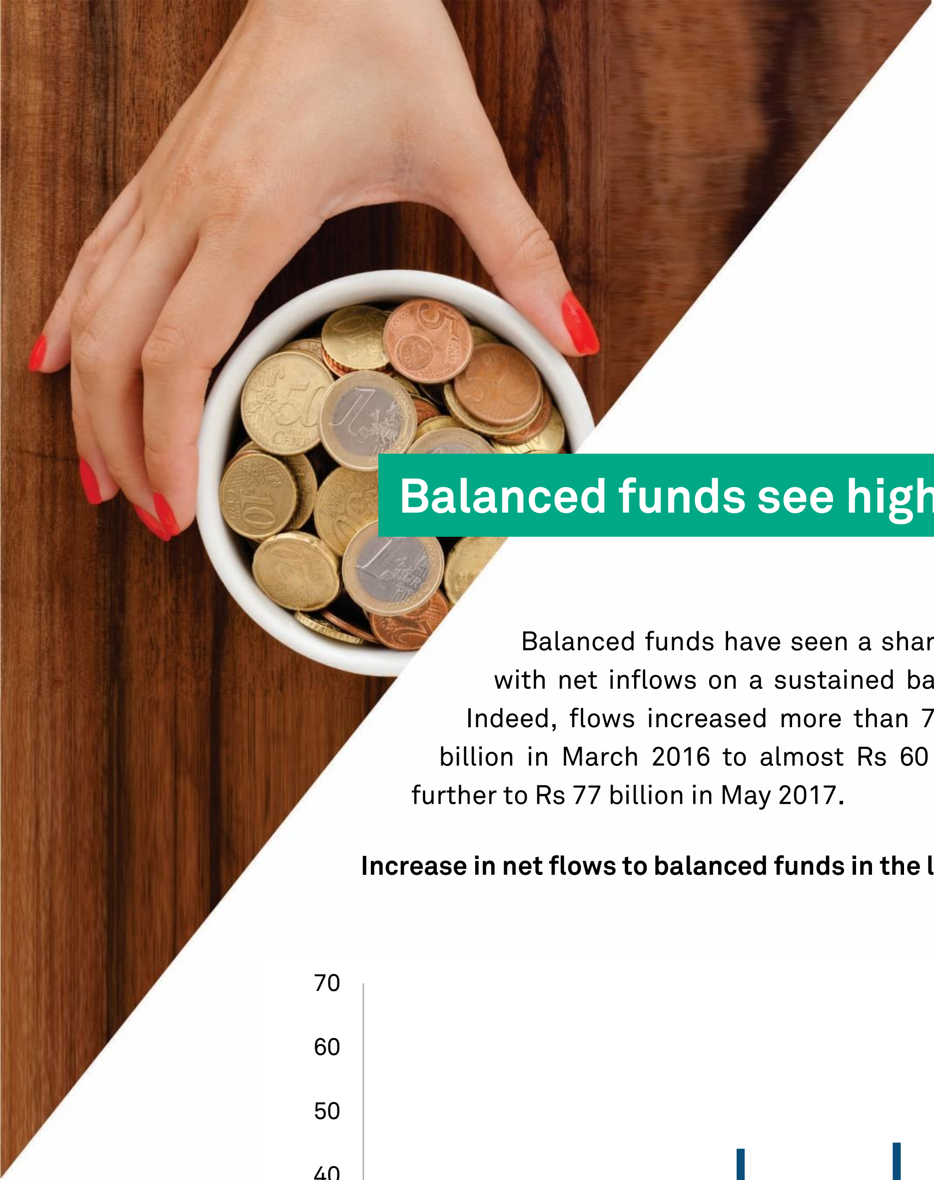
Total returns index has been considered for Nifty 50
Source: SEBI, NSDL, NSE

Mutual funds' emergence as a stabilising factor is reflected in the fact that their share of the equity market capitalisation has nearly doubled from just 2.9% at the end of March 2014 to 5.5% as of March 2017.

Mutual funds' share in equity market cap has nearly doubled in three years



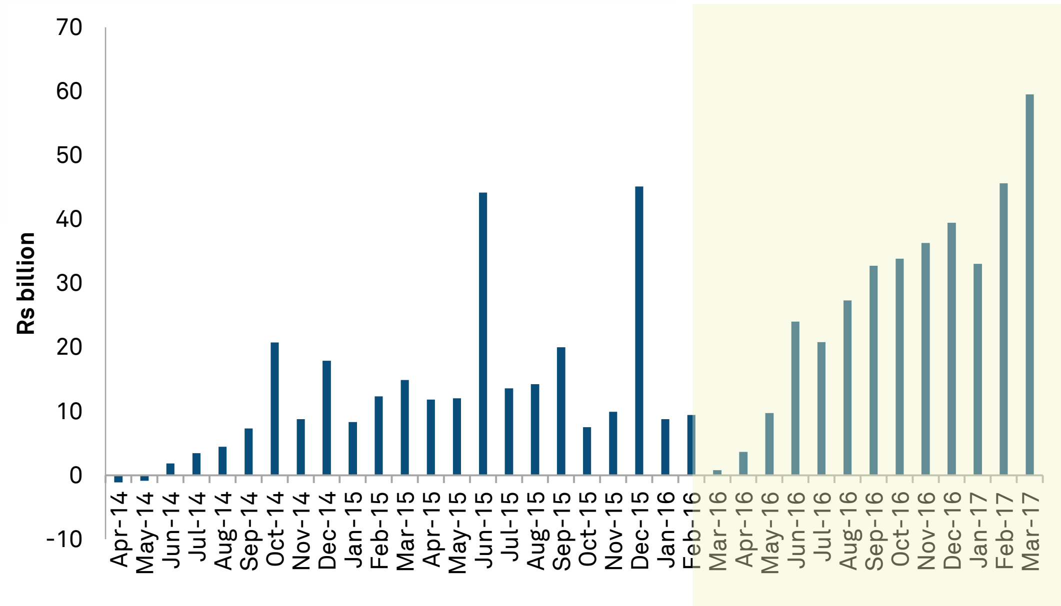
Includes equity and balanced funds
Source: AMFI, BSE, CRISIL Research



Balanced funds see high interest

Balanced funds have seen a sharp spurt in investor interest in recent years, with net inflows on a sustained basis in the 34 months through March 2017. Indeed, flows increased more than 76 times last fiscal from a meagre Rs 0.78 billion in March 2016 to almost Rs 60 billion in March 2017. This has increased further to Rs 77 billion in May 2017.

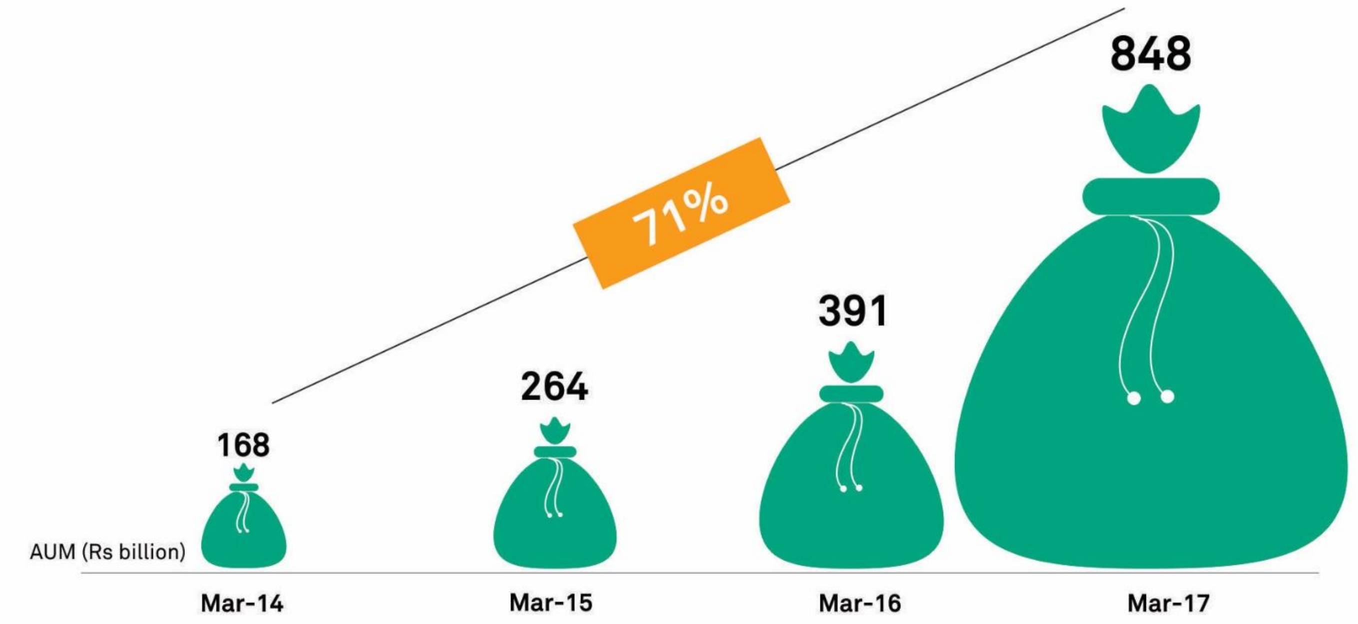
Increase in net flows to balanced funds in the last one year



Source: AMFI

The surge in flows has been accompanied by a healthy growth in AUM of balanced funds. Over the past three years, it has grown at an annualised 71% to Rs 848 billion as of March 2017. And May saw the assets at Rs 1,022 billion.

AUM of balanced category has increased at annualised rate of 71% in the last three years



Source: AMFI

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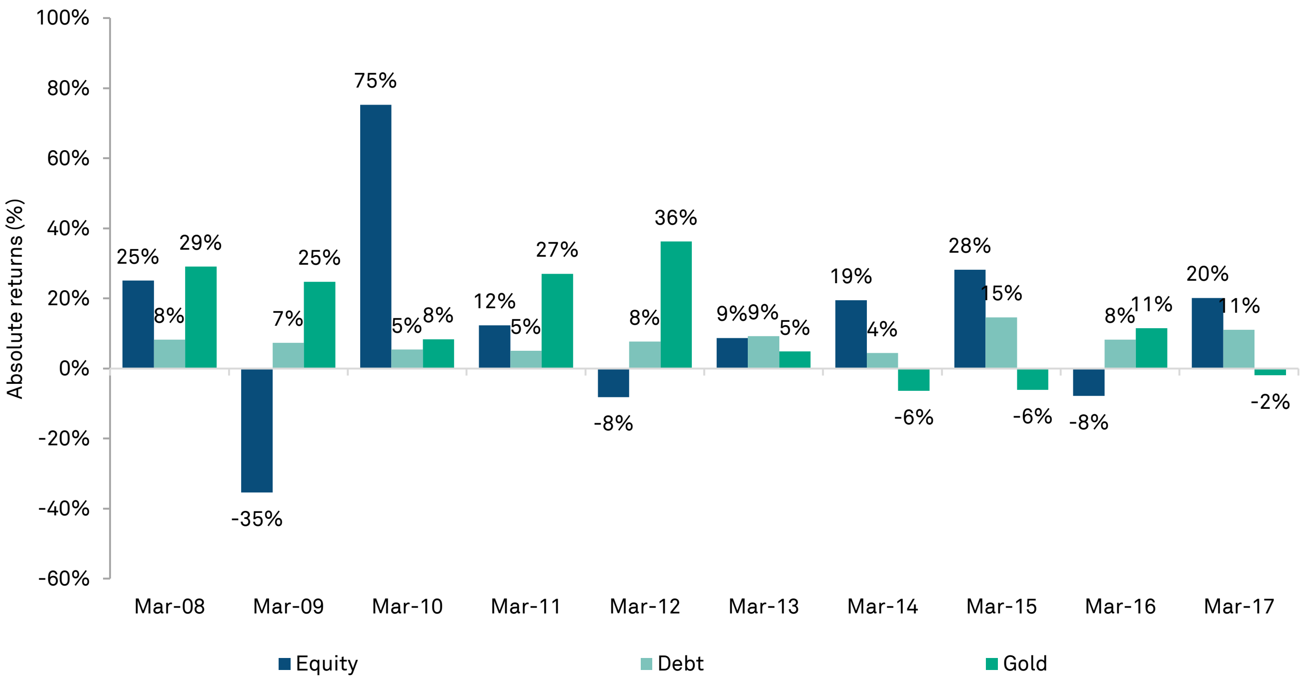
Asset allocation funds could pave the future

The increasing interest in balanced funds, the largest asset allocation category in the industry (these funds typically invest 65% to 80% in equity and 20% to 35% in fixed income securities), indicates growing interest in asset allocation funds.

The asset allocation, or portfolio diversification, approach underscores the age-old adage – "do not put all your eggs in the same basket".

Diversification is one of the most important tasks in portfolio construction since it has the potential to improvise the risk-return characteristics of any portfolio. Diversification must not only be across securities or sectors, but also across asset classes, because not all asset classes are winners or losers at the same time during any market cycle. Thus, asset allocation simply means distributing the investments across asset classes such as equity, debt and gold. The allocation to any asset class for an efficient portfolio varies according to the risk appetite of the investor.

No asset class wins all the time



Equity, debt and gold represented by Nifty 50 total returns index, CRISIL Composite Bond Fund Index and CRISIL Gold Index, respectively

Source: CRISIL Research

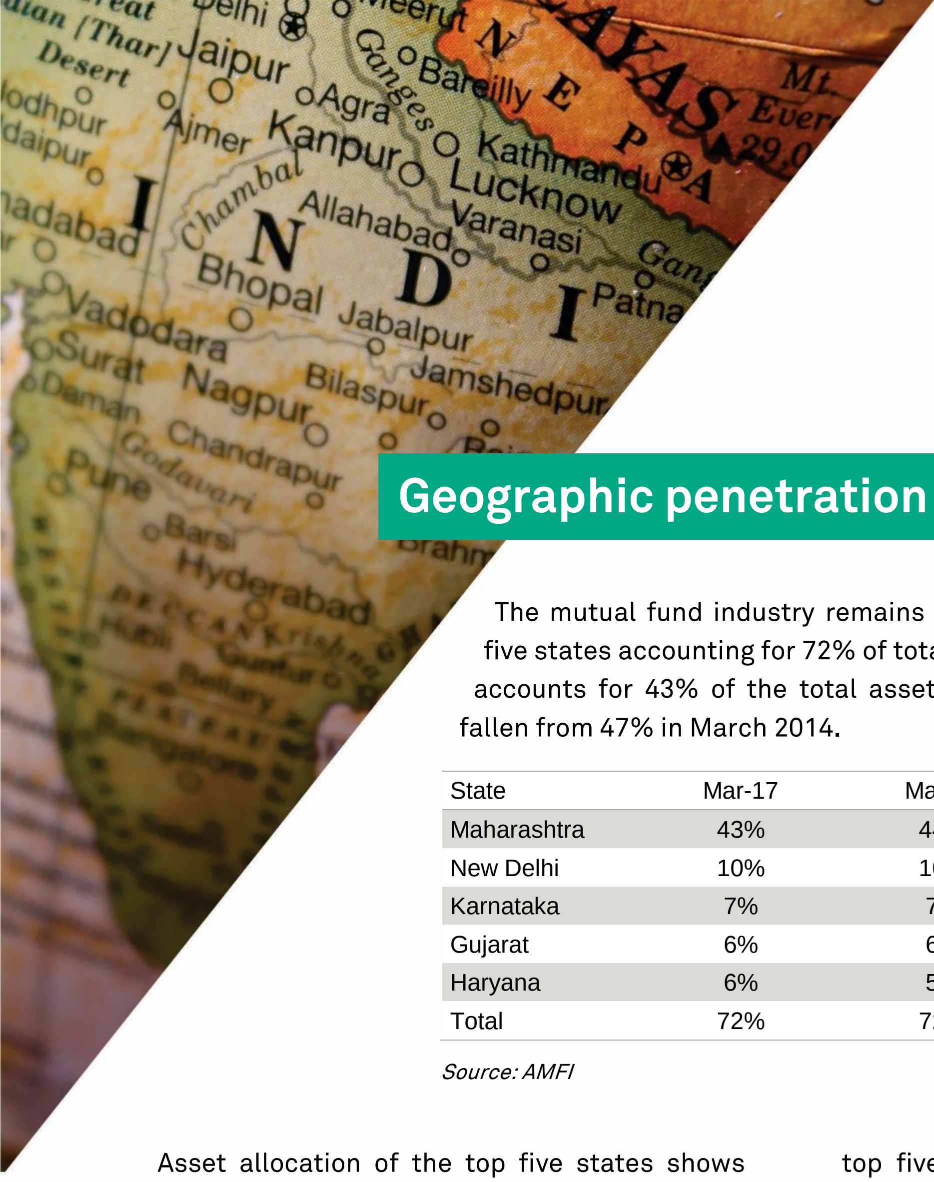
Mutual funds the missing piece in asset allocation jigsaw

Choosing the right asset class to invest in can be a complex task for the average investor. Mutual funds have simplified this complexity with the varied products they offer under the umbrella of hybrid funds, providing a way out of the maze.

In addition to balanced funds, which invest the bulk of their assets in equity, hybrid funds include MIPs, which put up to 30% in equity and the balance in debt securities. Given the mix, these two categories offer the investor a complete package for simplifying asset allocation between equity and debt.

The industry also offers some other types of asset allocation funds, which in turn invest in other equity and debt funds – this category is called fund of funds. Then there are multi-asset funds that invest not only in equity and debt, but also in gold.

Thus, the variety within hybrid funds helps the investor to choose the investment vehicle according to his/her risk appetite. The increased importance of financial planning and effective portfolio building in recent times can act as a major driver for increased interest in such funds in future, just like in balanced funds.



Geographic penetration of industry assets

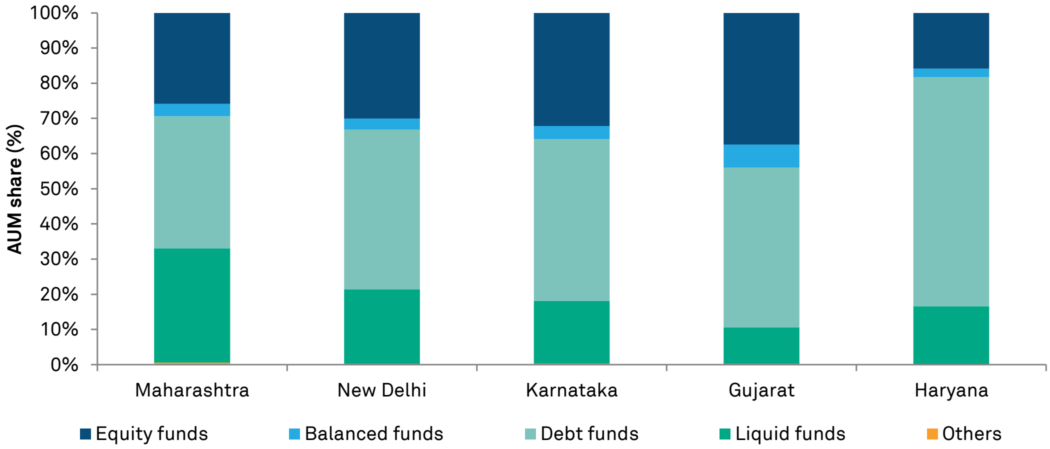
The mutual fund industry remains concentrated in a few states, with the top five states accounting for 72% of total industry AUM. Within states, Maharashtra accounts for 43% of the total assets as of March 2017, though its share has fallen from 47% in March 2014.

State	Mar-17	Mar-16	Mar-15	Mar-14
Maharashtra	43%	44%	44%	47%
New Delhi	10%	10%	10%	8%
Karnataka	7%	7%	7%	7%
Gujarat	6%	6%	6%	5%
Haryana	6%	5%	4%	5%
Total	72%	72%	71%	72%

Source: AMFI

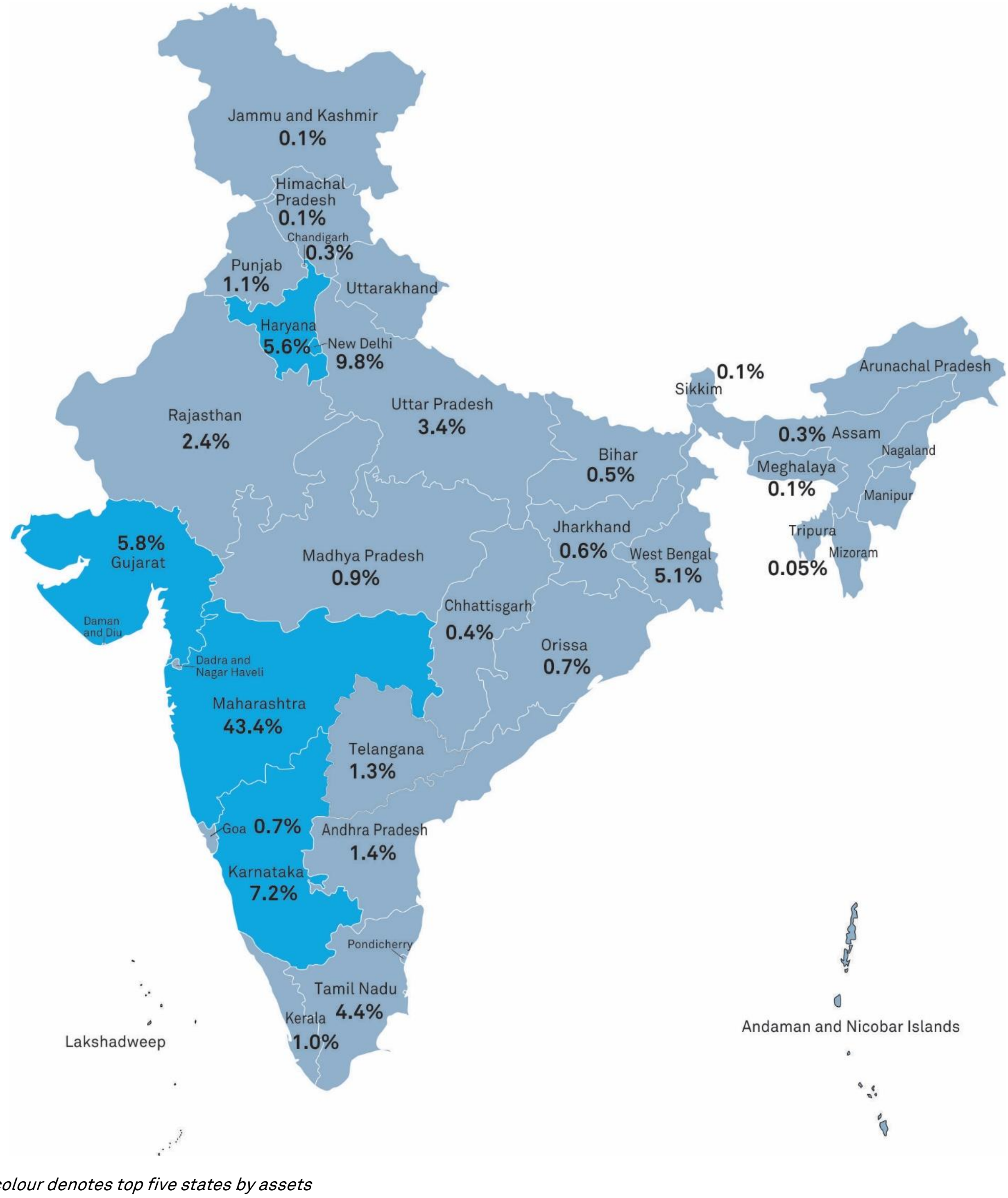
Asset allocation of the top five states shows Gujarat has higher preference for equity-oriented funds (including balanced funds), which accounts for 44% of its total assets, the highest among the top five states. Maharashtra has more balanced allocation among equity, debt and money funds, while in Haryana 65% of the assets are in debt-oriented funds.

Maharashtra most balanced in asset allocation



Data pertains to monthly average AUM
Equity funds also include ELSS and other ETFs
Debt funds also include gilt funds
Others include gold ETFs and fund of funds investing overseas
Source: AMFI, Data as of March 2017

State-wise/ union territory-wise asset distribution

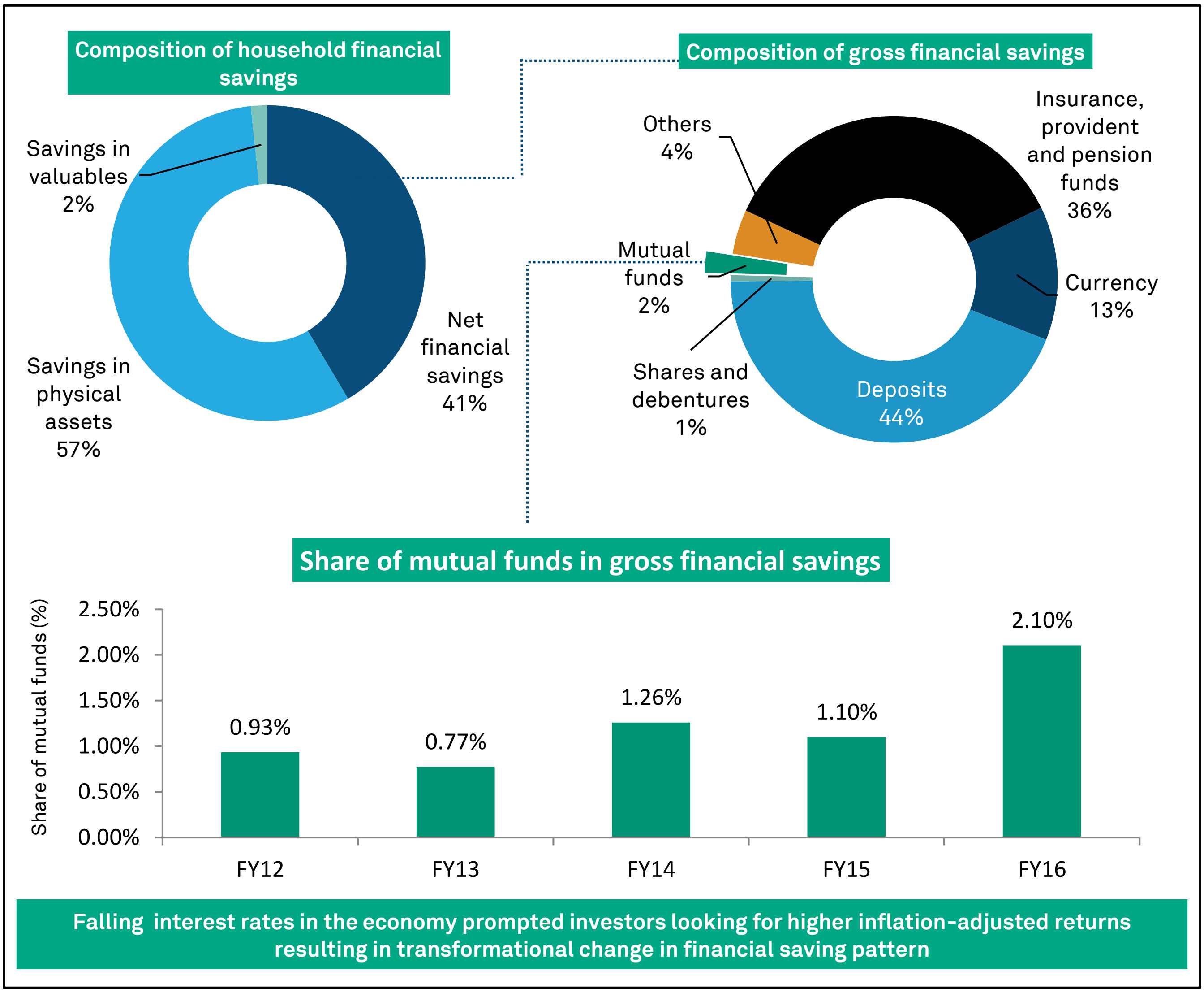


Blue colour denotes top five states by assets
Numbers below 0.05% have not been shown on the map
Source: AMFI

Mutual funds’ share of household savings

Despite India being one of the fastest growing economies and enjoying its demographic dividend, the bulk of the household savings in the country goes into traditional investment avenues such as real estate and valuables, accounting for 59%. Within financial savings, fixed deposits form the major chunk (44%) of gross financial savings. The share of savings going into market-linked products such as mutual funds is at deplorable levels.

However, Indian investors’ preference has seen a sea shift of late with the share of mutual funds in financial savings rising from 0.77% in FY13 to 2.10% in FY16, thanks to the fall in interest rates, which prompted investors to look for higher inflation-adjusted returns.



Data pertains to FY16

Source: MOSPI

Opportunity to invest in alternate investment

For a long time, mutual fund offerings were limited to traditional asset avenues such as equity, debt and cash equivalents. However, in recent years, the bouquet has widened significantly, giving investors an opportunity to tap newer products and asset classes, which would not be accessible to them given the high level of knowhow and complexity involved.

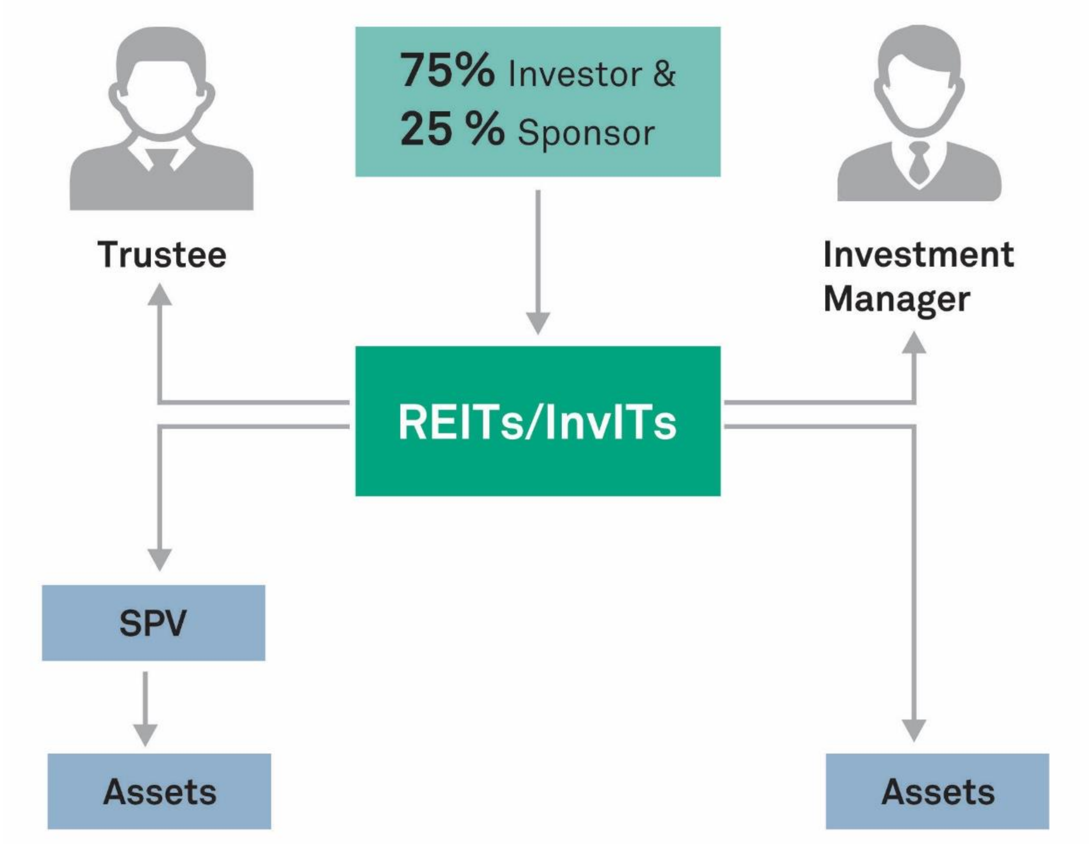
Indeed, since mutual funds are a collective investment product, a unit holder can even deploy small sums in alternate investment avenues such as real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), where the investing ticket size is high.

The secret path to REITs and InvITs

The development of infrastructure and real estate sectors and their sub-segments is the key to boosting economic growth. In a bid to give these sectors access to new sources of funds, SEBI, in August 2014, approved the introduction of REITs and InvITs – investment vehicles that pool money from investors and invest in real estate and infrastructure assets, respectively, whether directly or through a special-purpose vehicle.

REITs and InvITs are similar to mutual funds, and investors can aim for dividends and capital appreciation. These instruments distribute income from rentals, tolls and property/ infrastructure assets as dividend, and the net asset value of the units goes up when the property appreciates in value.

As per the indicative structure seen below, a sponsor sets up the REIT/InvIT, and money is pooled from the investors. Then the sponsor appoints a trustee, whose role is to oversee the functions of the REIT/InvIT. The trustee appoints an investment manager, whose function is to identify and recommend investment opportunities and to manage investments, besides ensuring reporting and disclosures to stakeholders involved. Once these steps are taken care of, a REIT or InvIT can invest directly by acquiring real estate/ infrastructure assets, or through an SPV.



Source: CRISIL Research

However, these products may be beyond the reach of retail investors for two reasons: a) the high investment ticket size and b) their complex structure. The minimum investment ticket size for an investor is Rs 2 lakh in REIT and Rs 5 lakh in InvIT.

However, SEBI has permitted mutual funds to invest up to 5% of their net asset values in alternative securities, while capping it at 10% for a single fund. Thus, a retail investor can take the mutual funds route into these products as well.

Structured debt products

Given the fall in interest rates, globally and in India, investors everywhere are in search of higher yields. That is the reason for the growing popularity of credit opportunity funds in recent years. These funds provide investors an opportunity to invest in structured debt products such as pass-through certificates and market-linked debentures, which are complex products and are; therefore; inaccessible for the average person.

At a time when interest rates on traditional avenues such as fixed deposits and other small-savings schemes are on the decline, these new innovative instruments offer a good opportunity for retail investors to diversify investments to new asset classes. In a symbiotic turn, the capital inflows from mutual funds are expected to deepen the market for these products in years to come.

MUTUAL FUNDS *Sahi Hai*

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AMFI's Investor Awareness Campaign: 'Mutual Funds Sahi Hai' – Making Mutual Funds a part of everyday conversations

A strong financial market with broad participation is essential for a developed economy. Domestic savings play a very important role to fund investments for building our economy, which otherwise must be financed with foreign capital.

In 1964, the Government of India established the country's first mutual fund, namely, Unit Trust of India with a view to encouraging saving and investment and participation in the securities market and launched the country's first mutual fund product, namely, Unit Scheme-1964 – a highly popular product in those days. Mutual Fund investments gained momentum after the Government opened up the sector to other players and also established the securities market regulator, namely, Securities & Exchange Board of India (SEBI) in 1992.

Over the years mutual funds have created both income and wealth for investors. One can see a shift with the changing demographic profile of the Indian population, with new products being launched to suit different investor needs, coupled with financial awareness and literacy initiatives for investors both by the MF industry and the regulator.

Despite the steady growth in the size of the assets managed by the Mutual Funds, the household investment in mutual funds is still miniscule, with hardly 3-4% of the GDP being invested in the category. There is thus a clear case of under-penetration of mutual funds among household sector in India. Traditionally, Indian households have preference for physical assets like gold and real assets, despite a large pool of investment opportunity in financial products. Even amongst financial products, fixed deposits and insurance products are still seen as safe and reliable, (although their income potential is often insufficient for wealth creation or even to beat the inflation). This mindset is one of the biggest stumbling blocks that makes people hesitate from investing in mutual funds.

AMFI's Financial Literacy committee, consisting of marketing and communications professionals from various mutual fund AMCs, recognised that there was an urgent need to encourage households to shift from traditional & physical savings to mutual funds and create a positive inclination towards mutual funds among people and that we needed to carry simple but effective messages that could effectively convey that mutual funds are ideal to help generate both income and long-term wealth creation and thereby transform 'saving-oriented behaviour' of the people into 'investing-oriented behaviour'.

While trying to analyse why people were shying away from mutual funds despite the same being one of the ideal investment vehicles, AMFI's communications team discovered a simple insight – that Mutual Funds do not figure in everyday social conversations amongst people – mostly because of lack of awareness and certain mindset.

With an objective to change this, AMFI under SEBI's guidance, embarked on a nationwide investor awareness and outreach program through a mass media campaign titled '**Mutual Funds Sahi Hai**' with simple, but very clear messaging through interesting advertisements in different languages through TV, digital, radio, print, cinema etc.

With everyday situations as the backdrop, the 'Mutual Funds Sahi Hai' campaign impresses on the mind of the prospective investors that mutual funds are the right option for them – 'Mutual Funds Sahi Hai' - as the tag line of the campaign says. The campaign stems from the simple, honest and everyday conversations of people - that could typically happen anywhere and between diverse kinds of people. The campaign talks about the simplicity, believability and ubiquity of mutual funds and aims to demystify mutual funds and make them a part of everyday conversation.

In the first phase, AMFI has released eight TV commercials, in eight languages, which bust various myths that common investors have about Mutual Funds. Each TV commercial has a related print and radio advertisement. The campaign is also being promoted across various leading websites and social media channels using digital display banners and content integration.

With proliferation of smart phones, the digital media has become an important part of any 360-degree media campaign. To leverage the digital media, AMFI has launched a microsite, http://www.mutualfundssahihai.com/en where investors can find detailed information about mutual funds by way of info graphics, videos and FAQs in English as well as Hindi. The microsite has a provision for investors to post their queries relating to mutual funds. In just a short span of less than 3 months since launch, we have received and replied to over 1000 queries.

In addition AMFI has also disseminated useful information for the investors on its website, https://www.amfiindia.com/ under the section "Investors' Corner" whereby one can locate the nearest mutual fund office and mutual fund distributors or even invest online in different mutual funds.

Annexure

Sr No	Index	Inception date	Definition
1	CRISIL-AMFI Equity Fund Performance Index	1-Apr-97	CRISIL-AMFI Equity Fund Performance Index seeks to track the performance of the equity funds. The index consist of mutual fund schemes from diversified equity, large cap equity and small and mid-cap equity categories
2	CRISIL-AMFI Large Cap Fund Performance Index	1-Apr-00	CRISIL-AMFI Large Cap Fund Performance Index seeks to track the performance of the large cap equity schemes
3	CRISIL-AMFI Small & Midcap Fund Performance Index	1-Oct-04	CRISIL-AMFI Small & Midcap Fund Performance Index seeks to track the performance of the small & midcap equity schemes
4	CRISIL-AMFI Diversified Equity Fund Performance Index	1-Apr-00	CRISIL-AMFI Diversified Equity Fund Performance Index seeks to track the performance of the diversified equity schemes
5	CRISIL-AMFI ELSS Fund Performance Index	1-Jun-01	CRISIL-AMFI ELSS Fund Performance Index seeks to track the performance of the Equity Linked Saving Scheme (ELSS)
6	CRISIL-AMFI Balance Fund Performance Index	1-Apr-00	CRISIL-AMFI Balanced Fund Performance Index seeks to track the performance of the balanced funds
7	CRISIL-AMFI MIP Fund Performance Index	1-Jan-02	CRISIL-AMFI MIP Fund Performance Index seeks to track the performance of the Monthly Income Plan (MIP) funds
8	CRISIL-AMFI Income Fund Performance Index	1-Apr-00	CRISIL-AMFI Income Fund Performance Index seeks to track the performance of the income funds
9	CRISIL-AMFI Gilt Fund Performance Index	1-Apr-00	CRISIL-AMFI Gilt Fund Performance Index seeks to track the performance of the gilt funds
10	CRISIL-AMFI Short Term Debt Fund Performance Index	1-Apr-02	CRISIL-AMFI Short Term Debt Fund Performance Index seeks to track the performance of the short term debt funds
11	CRISIL-AMFI Liquid Fund Performance Index	1-Apr-00	CRISIL-AMFI Liquid Fund Performance Index seeks to track the performance of the liquid funds
12	CRISIL-AMFI Ultra Short Fund Performance Index	1-Apr-07	CRISIL-AMFI Ultra Short Fund Performance Index seeks to track the performance of the ultra-short funds
13	Fixed Deposit (FD) Index (1 & 3 Years)	1-Apr-00	Fixed Deposit Indices have been constructed in the following manner: Simple average of FD rates of SBI and ICICI bank for respective maturity till December 31, 2011. Starting January 1, 2012 we have used FD rates of top 3 (by total deposits) public and private sector banks
14	Savings Bank Rate Index	1-Apr-00	Savings Bank Rate Index has been constructed using the following savings rate for the given periods: April 2000 to February 2003: 4.00% March 2003 to April 2011: 3.5% May 2011 to November 2011: 4.00% December 01, 2011 to till date : average savings rate of top 3 (by total deposits) public and private sector banks

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MUTUALFUNDS Sahi Hai

About CRISIL Limited

CRISIL is a global, agile and innovative analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

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