AMFI

SIP-shape

Retail investors catalysing growth of mutual funds in India

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Research

CRISIL

An S&P Global Company

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Message from AMFI

N. S. Venkatesh

Chief Executive
Association of
Mutual Funds in
India (AMFI)

Last year, the Indian mutual fund industry managed over Rs 25 trillion assets, involving 20 million investors.

Retail participation continued to improve, too. Indeed, retail assets under management have more than doubled since fiscal 2016.

Systematic investment plans (SIPs) account for a good chunk of the inflows, at over Rs 8,000 crore a month today.

SIPs have done to the mutual fund industry what the sachets did to the FMCG industry a few years back. SIPs as low as Rs 100 a month, technology-backed customer onboarding that happens in a matter of minutes, increased distribution footprint through digital distributors, and simplified product nomenclature have all helped investors select the category and build trust.

Yet, with just 11% of AUM-to-GDP ratio, acceptance and adoption of mutual funds in India has a long way to go.

Efforts are being undertaken by the industry and the regulator, Securities and Exchange Board of India (SEBI), to increase awareness of mutual funds and make them a preferred investment option for long-term wealth creation.

'Mutual Funds Sahi Hai', an investor awareness media campaign launched by AMFI under the guidance of SEBI in March 2017, has helped make mutual funds a household name. Since the start of the campaign, the industry has added over 7 million new investors. Smaller cities and towns now contribute almost 15% of the assets under management.

Digitalisation too is helping spread awareness. Indeed, 59% of all mutual fund related queries on Google India are from non-metros. With information available at fingertips, more and more first-time investors are searching for mutual funds and investing in them online.

This fact book, compiled by AMFI and CRISIL jointly, puts out the key trends of the industry. We are grateful to the CRISIL team for their help and support in preparing this fact book.

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Message from CRISIL

Amish Mehta
Chief Operating Officer and President
CRISIL Ltd.

The domestic mutual fund industry appears to have emerged stronger after the tumultuous phase it went through last year, given high volatility in the equity market and the fallout of credit events in the debt market.

The biggest positive has been a surge in retail participation through the systematic investment plan (SIP) route, mainly in equity-oriented funds. Online search trends also suggest heightened interest among individual investors to this effect.

To be sure, SIPs are an ideal route for individual investors to enter equity funds, avoiding worries of timing the market, averaging cost, and investing in a disciplined manner. These investors should, however, note that the effectiveness of SIPs optimises over the long run, helping reduce risks from volatility in the underlying market and shoring up returns.

SIP inflows augur well for the industry, too, as these instil a measure of predictability from the fund manager's point of view.

On the debt side, the industry and regulator have come together over the past year to tide over the crisis that followed the credit events. Measures such as side-pocketing, move towards full mark-to-market of debt securities and reduction of threshold caps for vulnerable pockets are a welcome change and aimed at adopting best practices.

Meanwhile, financial technology has emerged as a harbinger of growth for asset management companies, both in terms of customer acquisition and at the back-end. The front-end needs sharper focus, though. Also, the benefits of technology notwithstanding, there are overlapping risks such as consumer protection, data protection, lack of infrastructure and access, which need to be managed by the industry, especially in a developing country such as India.

CRISIL has been associated with the industry and capital markets over three decades and our analytics and solutions such as CRISIL Mutual Fund Ranking and benchmarks for debt market, widely sought as inputs for decision making. The recently launched Quantix Investment Research platform provides asset managers with pre- and post-investment research.

We are honoured to partner with AMFI again for the third annual edition of the industry fact book. I hope stakeholders will find the insights useful.

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Timelines

2017

- SEBI 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

2018

- SEBI asked fund houses to benchmark returns of equity schemes against a total return index (TRI)
- SEBI introduced categorisation and rationalisation of mutual fund schemes making it simpler for investor to understand
- LTCG of 10% without indexation introduced for equity-oriented funds for investment horizon of > 1 year, subject to capital gains of over Rs 1 lakh per assessee per year. Dividend plans of equity-oriented funds subject to a DDT of 10%, deducted at source
- Mutual fund houses asked to disclose TER for all schemes under a separate head on their websites on a daily basis
- SEBI further redefined the scope for T15/B15 cities to T30/B30 and push for higher penetration

2014

- Changed the definition of 'long term' for debt mutual funds to 36 months from 12 months for LTCG
- 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) - Digital aggregator platform by the industry, for the industry
- 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

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

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)

2009

Removal of the entry load

2019

- Industry adopt the full trail model of commission in all schemes without payment of any upfront commission. Upfronting of trail commission will be allowed only in case of inflows through SIPs for new investors to the industry (identified by PAN), up to 1% for maximum of three years.
- AMFI website starts disclosing fund industry scheme industry performance data on a daily basis.
- Additional TER of 30 bps from B-30 cities restricted to individual investors.
- TER slabs cut by 0.25% for both equity and debt schemes; the uppermost slab is pegged at 2.25% for equity funds having an AUM of up to Rs 500 crore, and 2% for other schemes. In the highest AUM slab of above Rs 50,000 crore, the TER for equity funds would be 1.05% of the scheme's AUM and 0.80% for other schemes.
- SEBI allows side-pocketing if debt assets are downgraded to below investment grade.
- SEBI puts in place a robust and stricter cybersecurity framework for mutual funds and AMCs to guard against breaches of data leak, directs AMCs to constitute a technology committee to review the cyber security and resilience framework of the mutual fund industry.
- Caps weightage of a single stock in sectoral and thematic indices, and set norms for minimum stocks an index needs to have in a bid to protect investors from risks related to portfolio concentration in ETFs and index funds.
- Industry threshold for amortisation of debt securities changed to 30 days from 60 days, proposed to move to full MTM by early next year.
- Proposed cap on sectoral limit of 25% has been brought down to 20%. The additional exposure of 15% to HFCs will be restructured as 10% to HFCs and 5% to securitised debt.
- Prescribes minimum holding of 20% in cash, receivables and government securities to improve liquidity of liquid funds
- Prescribes mandatory investment in listed securities

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
- Provided easy entry to the foreign fund managers keen to enter India

1993-2003

Robust growth and revised MF regulation from SEBI in 1996, entry of foreign funds, several mergers and acquisitions

1993

Emergence of private sector funds Franklin Templeton (erstwhile Kothari Pioneer) was the first of its kind

1987

Entry of public sector funds SBI Mutual Fund was first one followed by Canbank Mutual Fund

1964

Launch of the maiden scheme of UTI-Unit Scheme

1963

Formation of the Unit Trust of India

Systematic investment plans

Little SIPs help rake in big bucks

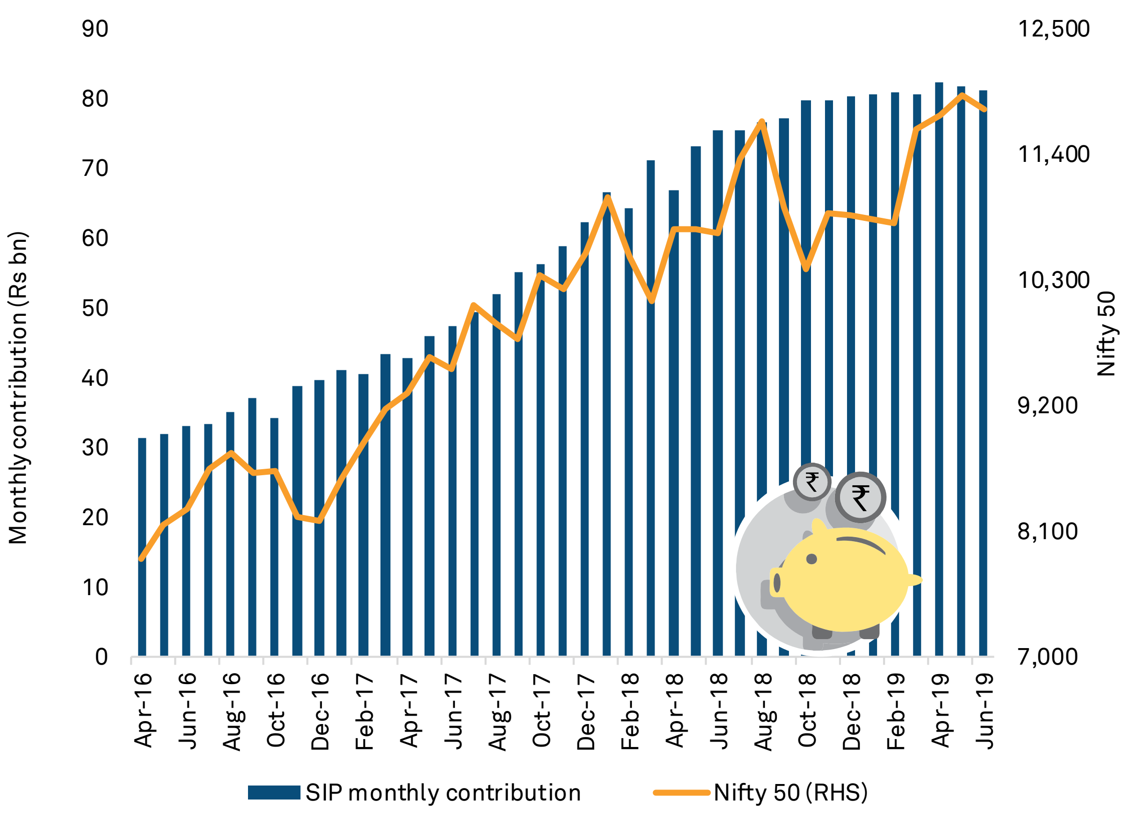
Systematic investment plans (SIPs), a term typically associated small or retail investors, has emerged as a big wave in the Indian mutual fund industry.

Between April 2016 – when the Association of Mutual Funds in India (AMFI) started disclosing monthly SIP contributions – and June 2019, the route has helped rake in a whopping ~ Rs 2.3 trillion. That is nearly 19% of the increase of ~Rs 11.9 trillion in assets under management (AUM) of the industry.

The surge has come on scores of new retail investors joining the ranks, too, as reflected in the almost 3x growth in the number of SIP accounts to 27.3 million from 10 million over this period.

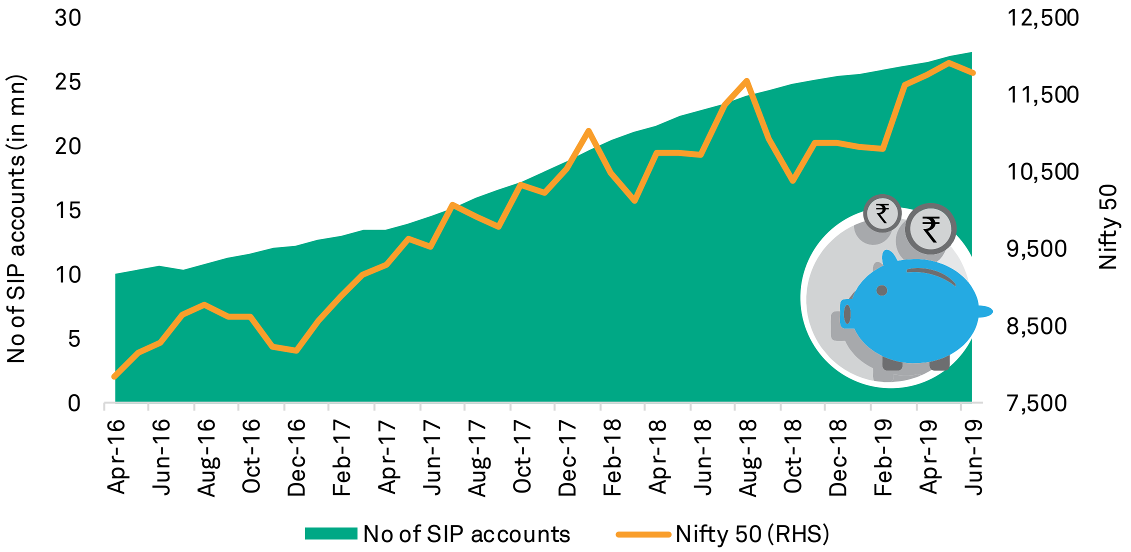
What's more, SIPs in equity-oriented mutual funds surged despite frequent bouts of market turbulence between April 2016 and June 2019, indicating the route helps investors sidestep the behavioural weakness that emerges during volatile market phases.

SIP contributions surge despite market volatility



Source: AMFI, NSE

Number of SIP accounts on a steady uptrend

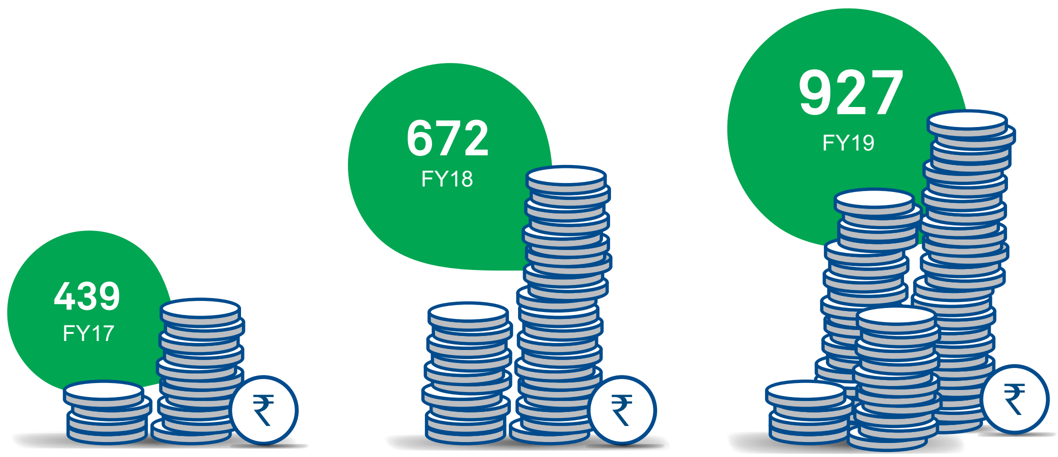


Source: AMFI, NSE

Further, there is a progressive rise in the contribution by investors through SIPs, as seen in the month-on-month and year-on-year (fiscal) rise in investments through the systematic route. While investors pumped in a moderate ~ Rs 439 billion in fiscal 2017, the contribution has more than doubled in fiscal 2019 to ~Rs 927 billion. Further, during the three months to June 2019, nearly Rs 245 billion of money came in to the industry through SIPs.

Annual contribution on the rise, too

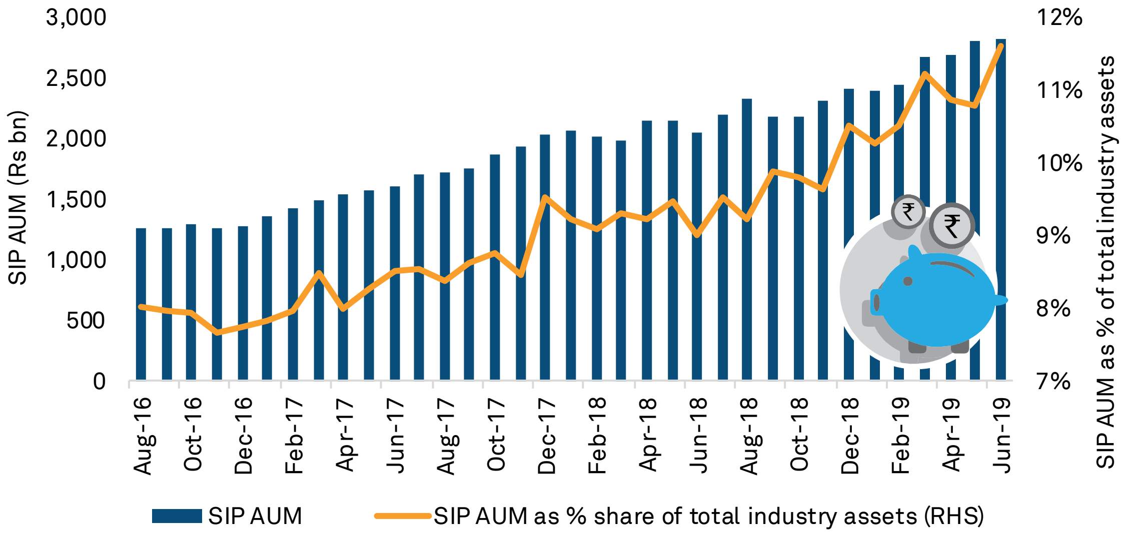
(Rs bn)



Source: AMFI

Another interesting data point of note is the rising share of contribution from SIPs to the industry's AUM from around 8% in August 2016 to 11% in March 2019, and to 12% in June 2019.

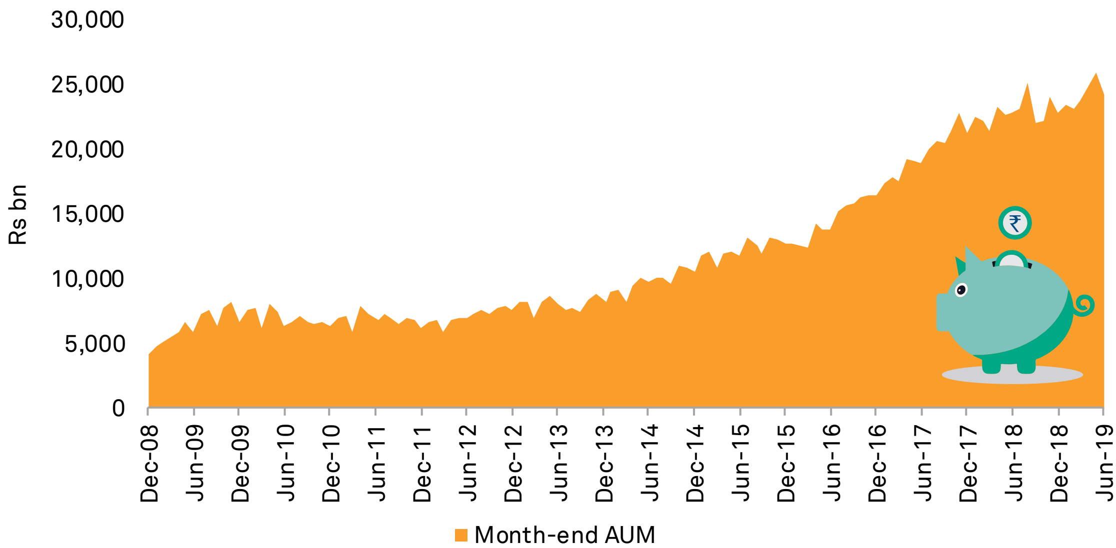
SIP AUM as a percentage of the total industry assets on the rise



Source: AMFI

The surge in SIP activity and inflows into equity-oriented mutual funds, coupled with the fund flows into liquid/ money-market segments, helped the industry reach its record-high AUM of nearly Rs 26 trillion at the end of May 2019, before closing off its high at Rs 24.25 trillion in the first half of calendar 2019.

SIPs help overall industry assets surge



Source: AMFI

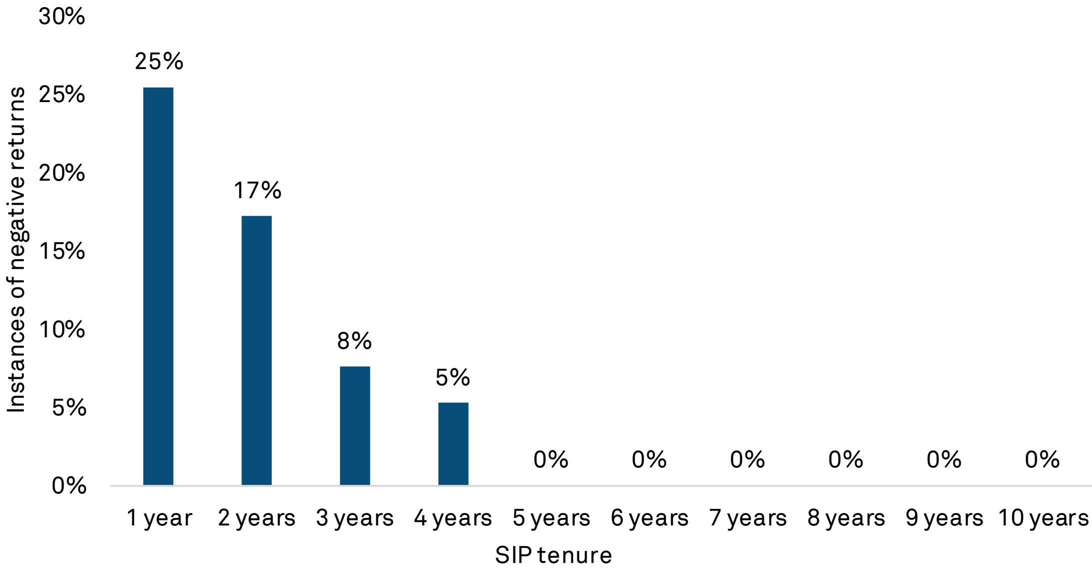
However, the 6.1% rise in the mutual fund industry's assets during the past year (up to June 2019) was the slowest in similar one-year periods since 2012, because of weak sentiment for debt mutual funds amid debt downgrades and subsequent liquidity crisis (the events that impacted debt mutual funds last year, along with the ensuing moderation by the regulator and the industry, would be taken up separately in this booklet).

Systematic investing can bear sweeter fruits over time

SIPs are long-term products and are very useful in wealth creation and risk reduction over a longer investing horizon. An analysis by CRISIL shows that the risk of getting negative returns reduces over longer investing horizons.

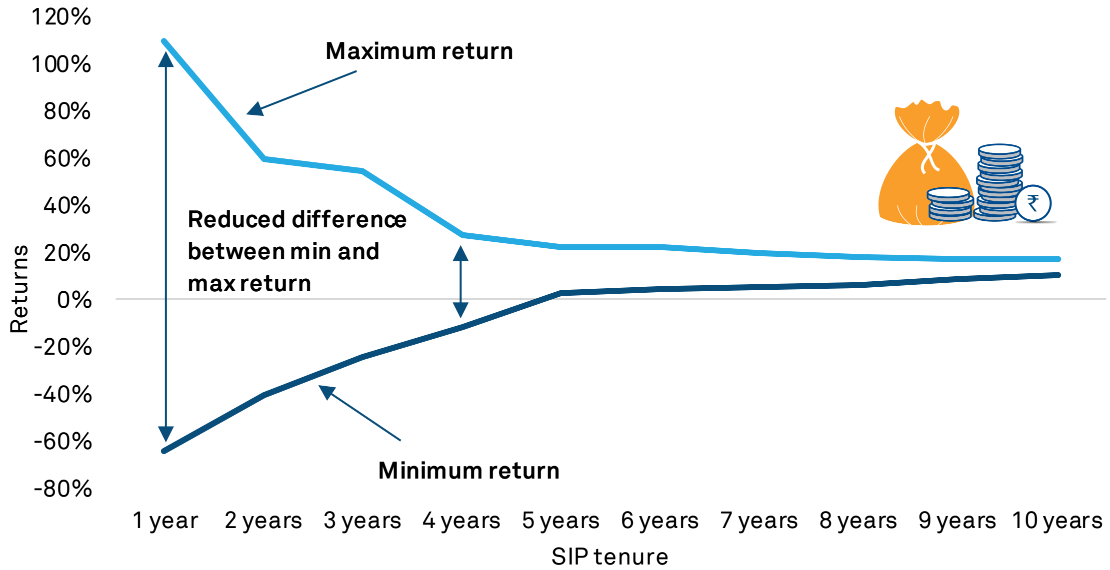
An analysis of CRISIL-AMFI Equity Fund Performance Index[1] over the past 15 years to June 2019 showed that the instances of negative returns declined as the investment horizon increased. The difference between the minimum and maximum SIP returns also narrowed with the increase in the investment horizon.

Instances of negative returns decreased with increase in SIP tenure



Source: CRISIL Research

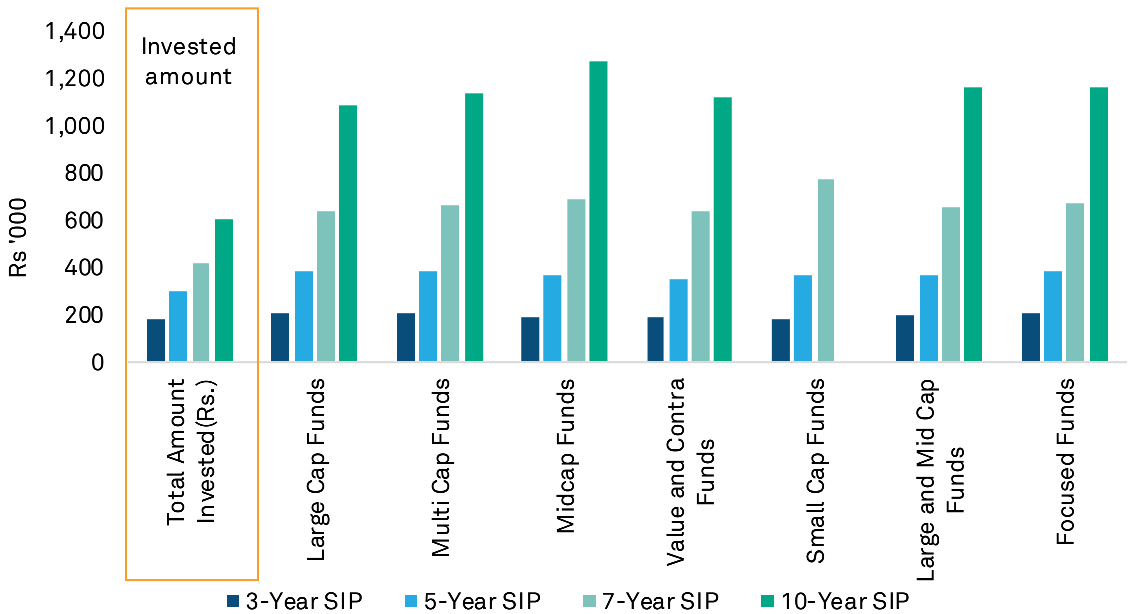
[1] Please refer to annexure for detailed definition of CRISIL-AMFI Equity Fund Performance Index



Source: CRISIL Research

Further, investing through SIP for longer tenures can significantly increase the amount of wealth creation. An analysis of various equity categories shows that returns, and the subsequent wealth creation, for investors improve, in line with the increase in the investment horizon. Finance theory calls this the compounding effect, which says that longer periods of time allow your money to multiply.

Probability of wealth augmenting increases with the rise in SIP investment periods



Source: CRISIL Research

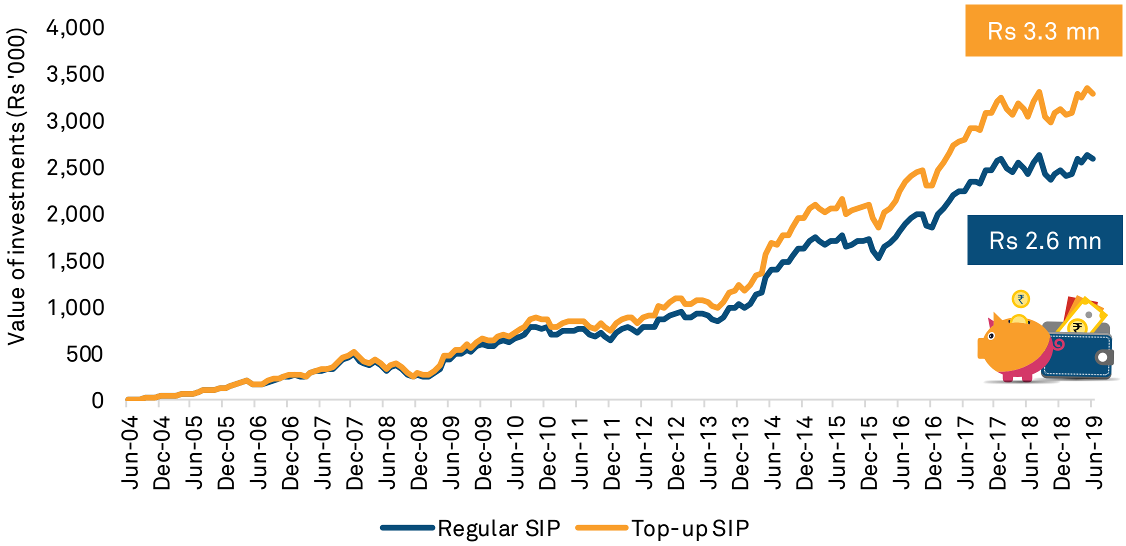
Monthly SIP contribution of Rs 5,000 has been assumed
Fund categories are represented by respective CRISIL-AMFI Fund Performance indices
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices

Top-up SIPs

Investors can benefit more by topping up their investments on a regular basis.

A comparison between a regular SIP and a top-up SIP – assuming a monthly investment of Rs 5,000 in CRISIL-AMFI Equity Fund Performance Index for 15 years to June 2019 shows that a top-up SIP (with a 5% increase in contribution every year) yields Rs 3.3 million, compared with Rs 2.6 million for a regular SIP. Top-up SIPs allow investors to increase their SIP contribution periodically, in sync with their rising incomes.

Top-up SIPs aid higher wealth creation, while being in sync with the rise in individual incomes



Source: CRISIL Research

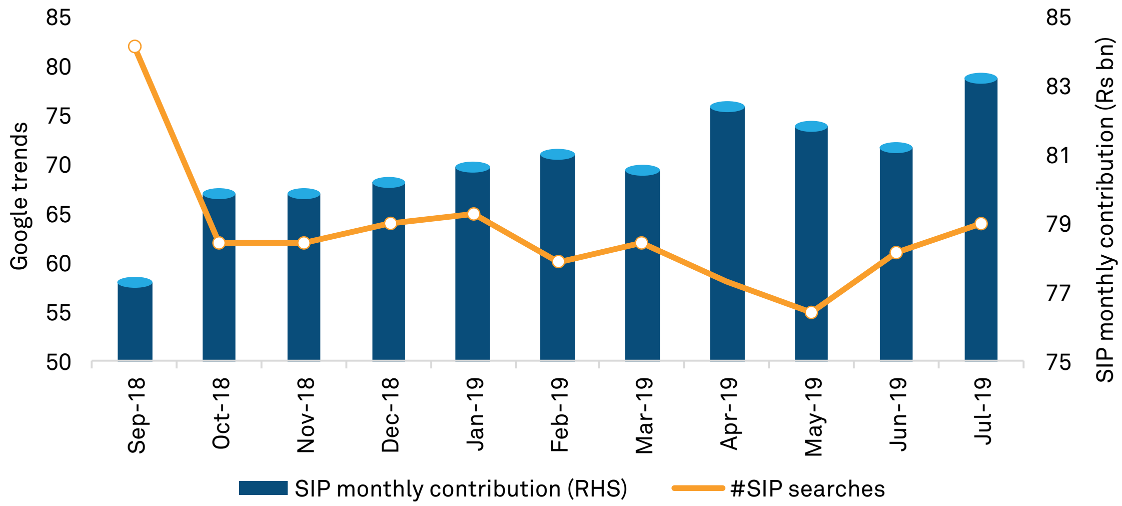
Summing up

The growing size of SIPs and the number of SIP investors showcase the mutual fund industry's efforts to inculcate the habit of disciplined investing.

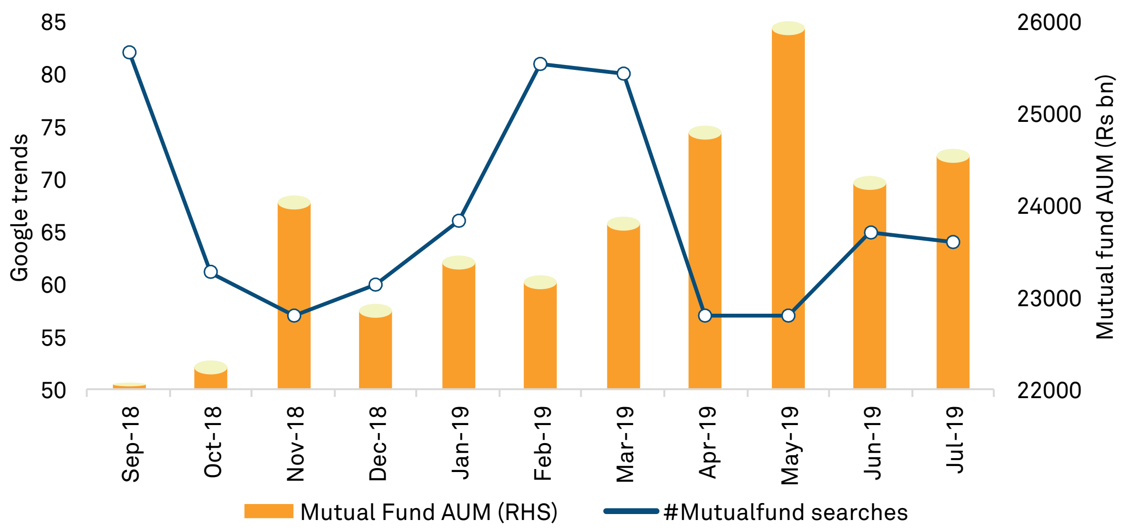
The mutual fund industry has been working hard to spread financial literacy, financial freedom and the better aspects of behavioural investing among retail investors. The growing asset base from systematic investments is a win-win for both investors and the industry, as it improves the scale of players and provides wealth-creation opportunity for investors across risk profiles and investment horizons.

Google trend analytics

SIP run-up steady even as searches come off



Growth trajectory continues despite fewer searches



Note – Search queries denotes the most popular search queries for the trend. Scoring is on a relative scale where a value of 100 is the most commonly searched query, 50 is a query searched half as often as the most popular query, and so on.

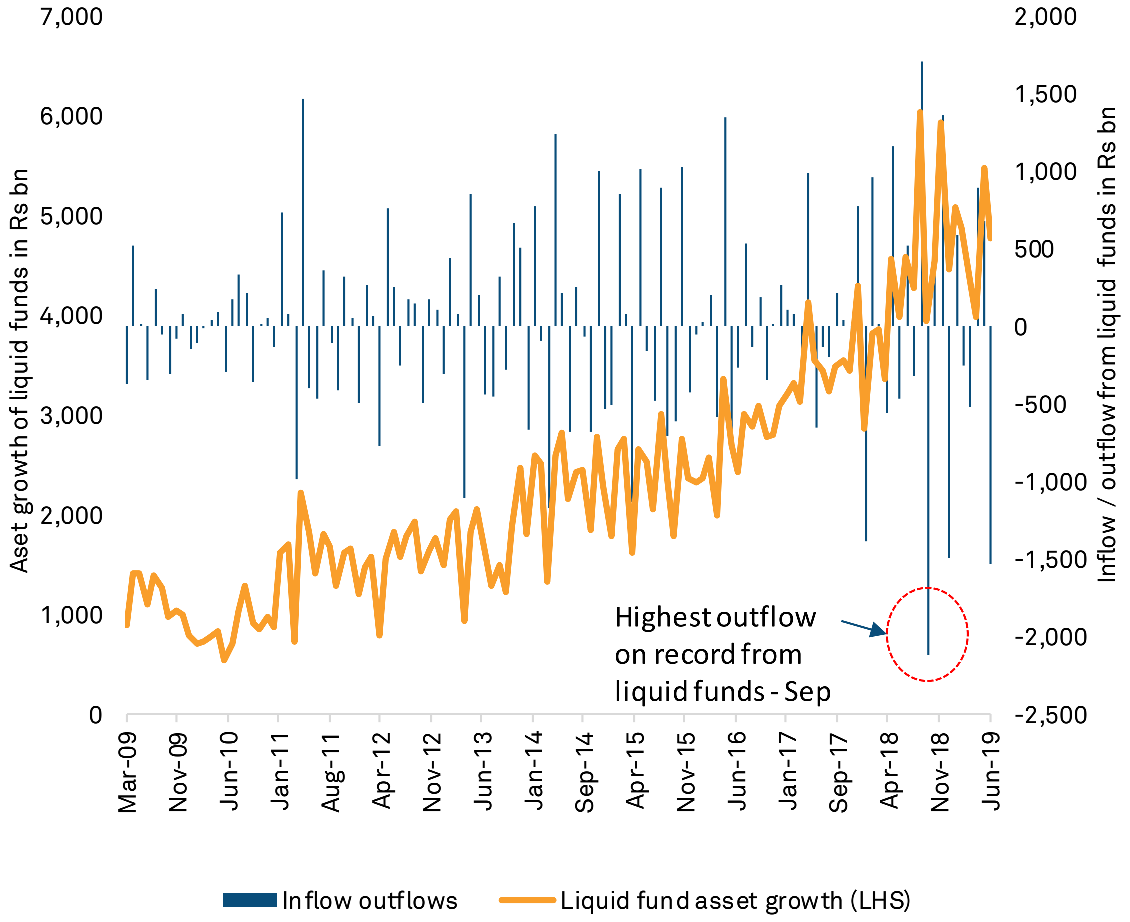
Source: Google, AMFI

Debt funds

Regulator and industry come together to tide over crisis

Debt mutual funds went through a tumulus phase last year, hit by credit worries and the ensuing liquidity crisis, even as assets under management of the mutual fund industry kept swelling. In fact, the liquidity concerns, coupled with quarterly advance tax requirements of corporates, resulted in a record outflow of Rs 2.11 trillion from the liquid funds category in September 2018.

September 2018 saw the highest ever outflow from liquid funds



Source: AMFI

The situation prompted SEBI and the industry to swing into action. In order to avert such events in future, a working group comprising representatives of AMCs, the industry and academia was constituted. The recommendations of the group were taken as input by the Mutual Fund Advisory Committee.

Key measures announced post liquidity crisis

- To start with, the regulator targeted credit events and its impact on debt mutual fund investors, especially in the wake of haircuts taken by affected schemes. It allowed debt schemes to create 'side pockets', which would allow fund managers to segregate their stressed investments from the rest of the portfolio.

What are side pockets?

Segregated portfolios, or 'side pockets' as these are popularly called, allow a fund manager to isolate the affected portion of the portfolio impacted by credit default, to ring fence the assets. This ensures good investments are not impacted.

The side-pocketed portfolio could then be divided between investors based on their investment in the original scheme. Further, the fund manager could pursue negotiations with the affected issuer to recover the monies. Thus, side pockets free up money for regular fund management in the original scheme without choking money flow for investors and investment management.

To avoid misuse of the feature by fund houses, the regulator has said that trustees of all fund houses will have to put in place a framework to disincentivize indiscriminate use of this facility.

Further, SEBI has said that side pockets must not be looked upon as a sign of encouraging undue credit risks, as any misuse of the option would be considered serious, attracting stringent action.

- To reduce the impact of the liquidity crisis in the mutual fund industry, the regulator reduced the threshold for amortisation to 30-day maturity from June 22, 2019. In addition to the reduction in threshold, it has modified the amortisation rule to 0.025% of the reference, compared with 0.10% earlier, to bring the reset price closer to the market price.

  Further, SEBI has now proposed full mark to market (MTM). This means, in future, all debt securities would have to be valued at their market price.

  The change to the reduced threshold and the future plans to full MTM is a best practice not followed even in developed markets such as the US, where the amortisation rule for money market fund restricts the weighted average maturity of the fund from exceeding 60 days since 2010, albeit down from 91 days earlier.

- Further, the regulator has brought in symmetry in terms of the haircuts taken by AMCs in case of credit events. As per the new regulation, AMCs must value the below-investment-grade securities at the price provided by valuation agencies. Until such time prices are not made available, they must be valued on the basis of indicative haircuts provided by the agencies. This follows a similar principle to that of the SEBI circular about creation of segregated portfolios in case of a credit event to ensure existing investors are insulated from new investors coming in after the event.

- Other changes effected by SEBI to de-risk debt mutual funds include:

1) **Reducing sectoral limits to housing finance companies (HFCs)**
In the lead up to the eventual defaults since the start of fiscal 2019, there were specific concerns related to liquidity in non-banking finance companies (NBFCs) and HFCs.

Mutual funds are major lenders to NBFCs as they subscribe to a significant portion of their commercial paper issuances. Conversely, the NBFC sector constitutes one of the top sectoral exposures in debt mutual funds.

Given the growing concentration risks that have come to the fore over the past year, the regulator has proposed changes in issuer and sectoral limits to HFCs in a bid to de-risk the portfolio. The cap on sectoral limit of 25% has been brought down to 20%. The additional exposure of 15% to HFCs will be restructured as 10% to HFCs and 5% to securitised debt, based on retail housing loan and affordable housing loan portfolios.

While the new regulations are aimed at reducing pitfalls from concentrated sectoral portfolios especially in vulnerable pockets, an analysis of the mutual fund industry shows that fund managers have noticeably moved away from the trend of sectoral allocation since the pre-crisis period.

Average sectoral exposures to vulnerable sectors have dipped

HFC % exposure (Liquid funds)	Jun-18	Jun-19
Average	14.64	6.66
Median	14.84	6.00
Number of funds >10%	29	7

NBFC % exposure (Liquid funds)	Jun-18	Jun-19
Average	20.28	15.22
Median	20.13	15.07
Number of funds >20%	17	10

Source: CRISIL Research

2) **Improving liquidity, reducing credit risk of liquid funds**
The regulator has proposed that liquid funds must hold at least 20% of their assets as cash, government securities (G-secs), treasury bills, or repo on G-secs, which are all considered to be highly liquid instruments.

This is aimed at providing sufficient cushion to the funds in times of heavy redemption pressure. In case of a deficit, any additional investments must go towards meeting the above requirement before investing in other assets.

Further, liquid funds are not to invest in any structured obligations (SO), also now known as credit enhancements (CE). SOs are a source of higher returns for a fund, albeit at a high credit and liquidity risk. For other debt mutual funds, too, the exposure to SO/CE papers is to be capped at 10%, with 5% cap at a single group level. Moreover, for CE papers where equity shares have been pledged, SEBI has recommended a minimum coverage of over four times.

Analysis of data shows that most liquid funds are already conforming to the mandate in cash and G-secs, and reducing their SO-rated exposure gradually.

Cash/G-secs exposures (Liquid funds)

% exposure	Jun-18	Jun-19
Average	11.36	19.11
Median	7.92	12.29
Number of funds <20%	33	25

SO-rated exposure (Liquid funds)

% exposure	Jun-18	Jun-19
Max	3.15	2.34
Average	0.82	0.42
Number of funds >0%	12	8

Source: CRISIL research

3) **Prescribing exit load**
To reduce liquidity issues, a graded exit load is to be levied on investors of liquid schemes who exit the scheme within a period of seven days. This brings in stability of cash flow for the category, aiding better investment positioning for the fund manager.

4) **Mandatory investments in only listed debt securities**
This would bring in additional transparency as complete details of the security as well as financials, profit and loss, and annual reports of issuer would be available in the public domain on a periodic basis, helping monitor risks more efficiently.

5) **Fund houses to develop early warning signals**
SEBI has indicated to mutual fund houses that an early warning mechanism must be put in place. This would bring in better monitoring by fund managers, enabling them to take appropriate actions and precautionary measures before credit risks materialise.

Summing up

The sweeping measures taken and proposed by the regulator are expected to put in place best practices in the industry. Investors must, however, note that debt mutual funds, like other mutual fund categories, are exposed to market risk. Hence, they must invest based on their risk-return profile and investment horizon.

The industry, on its part, must diligently follow the measures and aim to improve risk practices to avoid a contagion. Educating investors about various products and their risk-return profiles would also do a world of good for picking the right product match from the basket.

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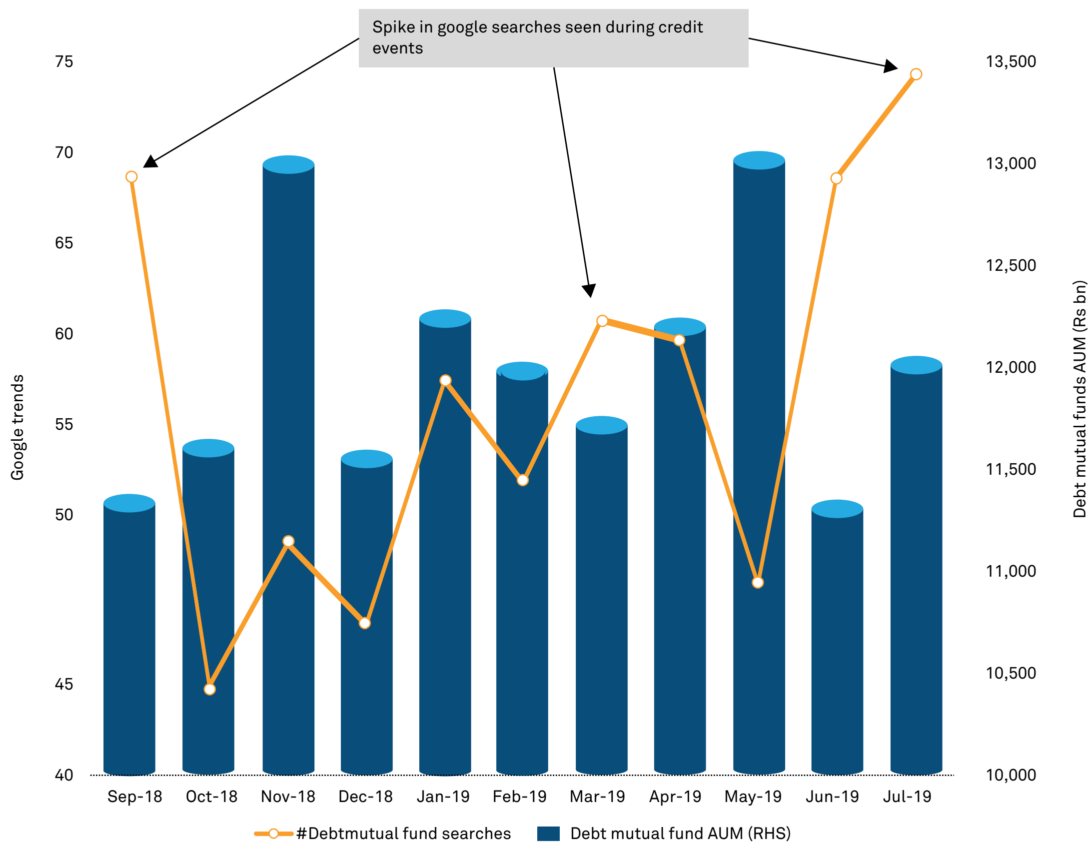
Google trend analytics

Search for debt mutual funds spiked during credit events



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Source: Google, AMFI

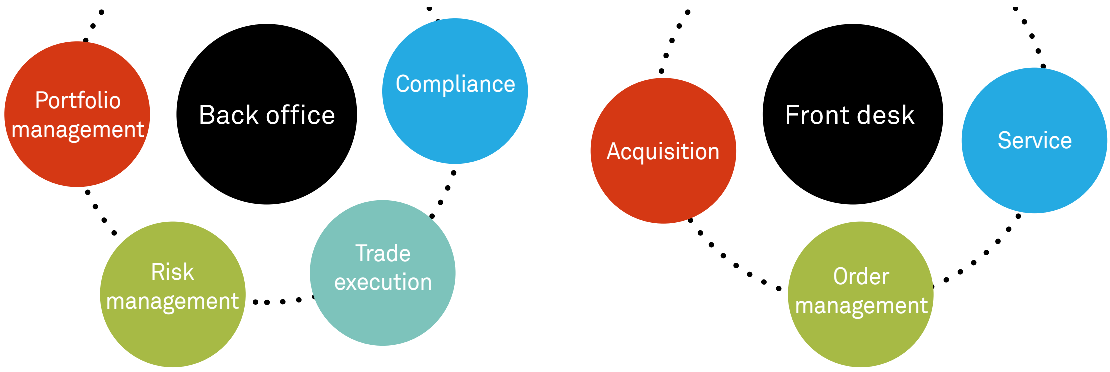
Fintech

Fintech transforming asset management

Financial technology, or fintech, has played a key role in rapid development of global financial markets in recent years, having evolved to plug gaps such as speed, cost, transparency, access and security in delivery of financial services.

In the asset management space, fintech has the opportunity to address the needs of customers, both internal (investment management) and external (clients).

Technology an ally for both internal and external customers of AMCs



Source: Inputs taken from BlackRock viewpoint – The role of technology within asset management

Role of technology in managing investments

Technology enables an asset manager to considerably improve the investment process while reducing the associated risks.

For instance, automating the investment process will boost a fund manager's efficacy in terms of time and portfolio management, aiding the overall investing strategy of the fund house. End-to-end management of investments can be completely automated, with decisions driven by aggregated data, algorithms and risk models, reducing subjectivity in investment decisions.

Technology can also play an important role in risk and compliance management with the use of automated checks and balances, and risk models. This is especially important today, given the rapid changes in risk controls enforced by the regulator to factor in changes in the market.

Thus, a cohesive technological platform that can improve the investment process, introduce effective risk controls, and maintain an audit trail of transactions can be a boon to the asset management process.

With improved risk management and the aggregation of objective performance data, fund managers can make smarter decisions.

New techniques and developments in this field include the usage of artificial intelligence (AI), machine learning (ML) and robotic process automation (RPA). Meanwhile, the use of distributed ledger technology and blockchain is being explored to simultaneously provide access to data to all parties involved, improving overall efficiency.

For investors, this digital transformation of the back office of asset management companies can bring benefits such as transparency, better risk management and deeper disclosure of data, a win-win for both the industry and the investor.

Role of technology in managing clients

Driven by fintech solutions, client management offers great potential for development.

In India, most investors still invest in traditional instruments via the brick-and-mortar route. Investor penetration in mutual funds remains low. Fintech in the client management space can boost penetration, convert a large proportion of the current investment base into recurring investments, and improve the overall customer experience of investing in the mutual funds industry.

Some of the tools used by the industry to digitally enhance the customer investment process are usage of online platforms, in-house captive mobile applications, robo-advisory platforms and possibly e-commerce platforms in future. These applications and platforms enable paperless and intuitive investor transactions, for greater industry ease of access.

Further, the use of asset allocation and algorithms to move from subjective investment decisions to objective goal-based investments is also a positive move towards financial planning, compared with the traditional goalless savings approach.

In addition, mining of customer data has been garnering a lot of traction within the asset management and financial planning space.

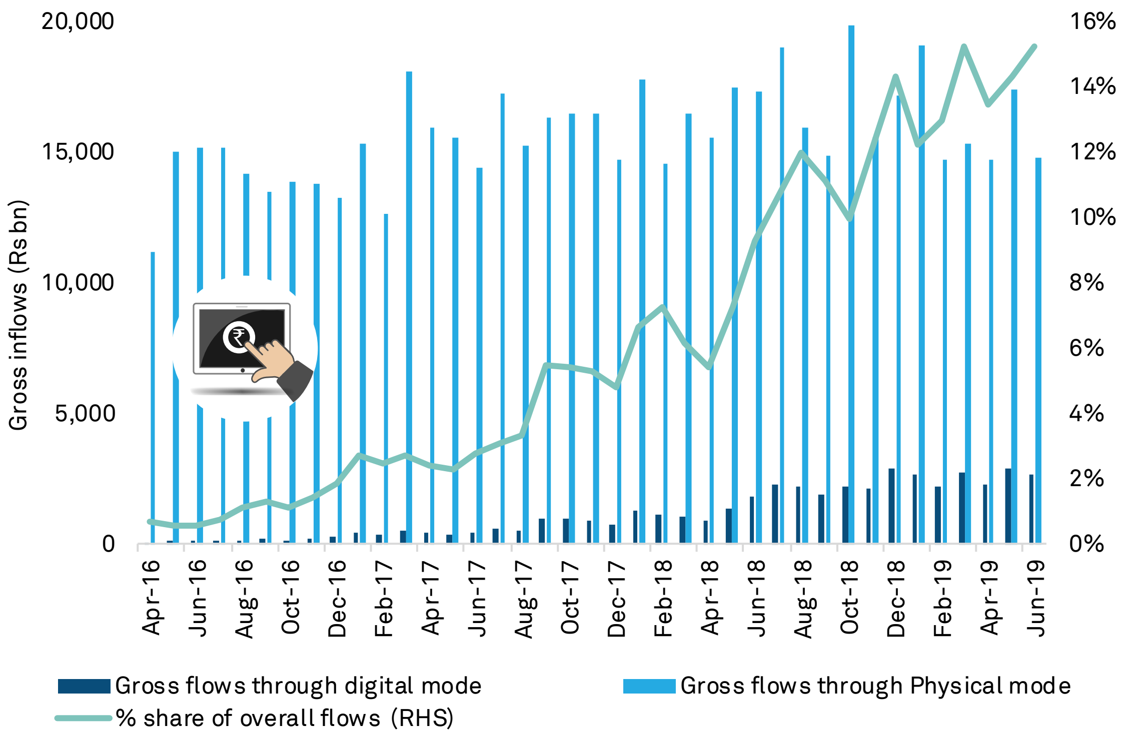
Data is king, and big data analytics allows mutual funds to statistically analyse the actions of investors through tools such as predictive analytics on customer data analysis, in order to better understand customer behaviour and improve sales.

Data analytics can be used as a resource for customer management and to aid the sales process by offering specific intelligence to field agents, including the distributor community. This data provides an insight into customer preferences, enabling the players to offer bespoke products, tailored to suit specific customer preferences, without the need to manually sift through customer interactions.

Technology-adoption paying dividends

Adoption of technology in the digital payments sphere has aided the rapid influx of digital money into the industry. The share of digital gross inflows grew from ~0.5% three years ago to nearly 1/7th of gross flows by end-fiscal 2019, given the growing smartphone and internet penetration in the hinterland. Inflows through the physical route have been gradually declining.

Digital payments continue to surge

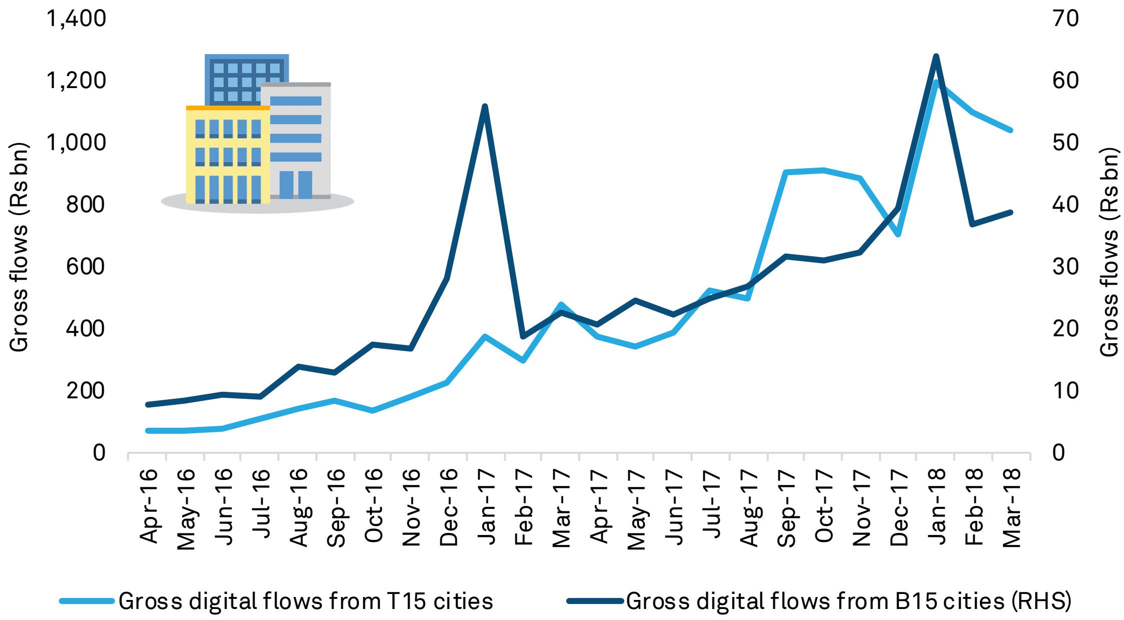


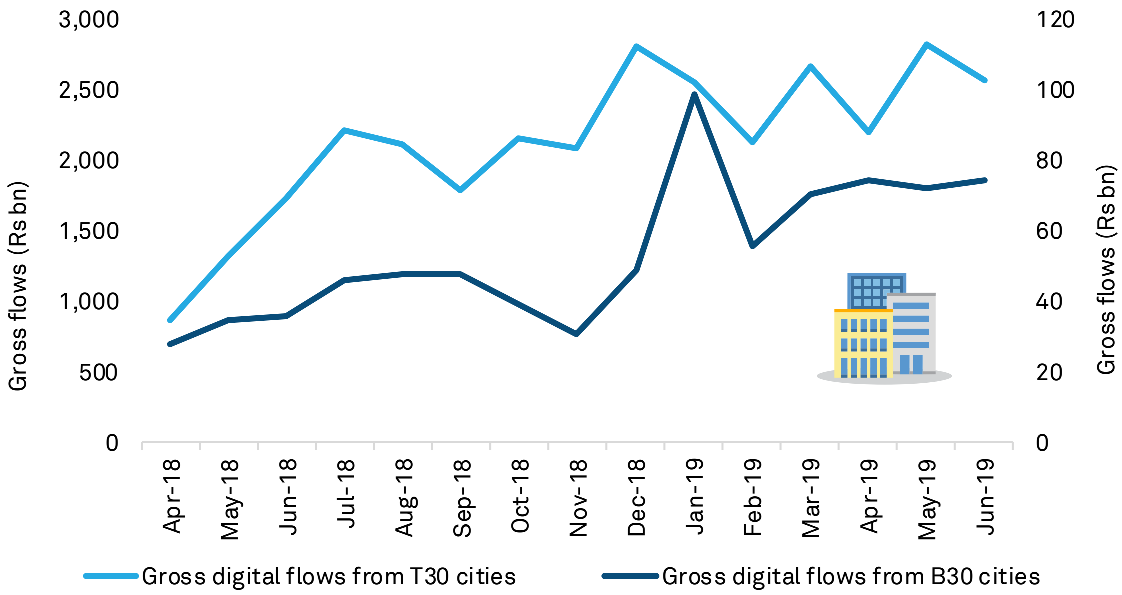
Source: AMFI

In terms of geographic penetration, the industry moved from categorisation of regions from Top 15 (T15) and beyond 15 (B15) to T30 and B30 cities, in line with the increasing penetration of the industry within the country.

Thus, the long-term trend analysis of the penetration is not comparable. However, as seen in previous years, there is an increasing trend in assimilation of the mutual fund industry in the hinterland even as higher adoption remains prevalent in T30 cities.

Rise in geographic penetration even as top cities contribute the most flows

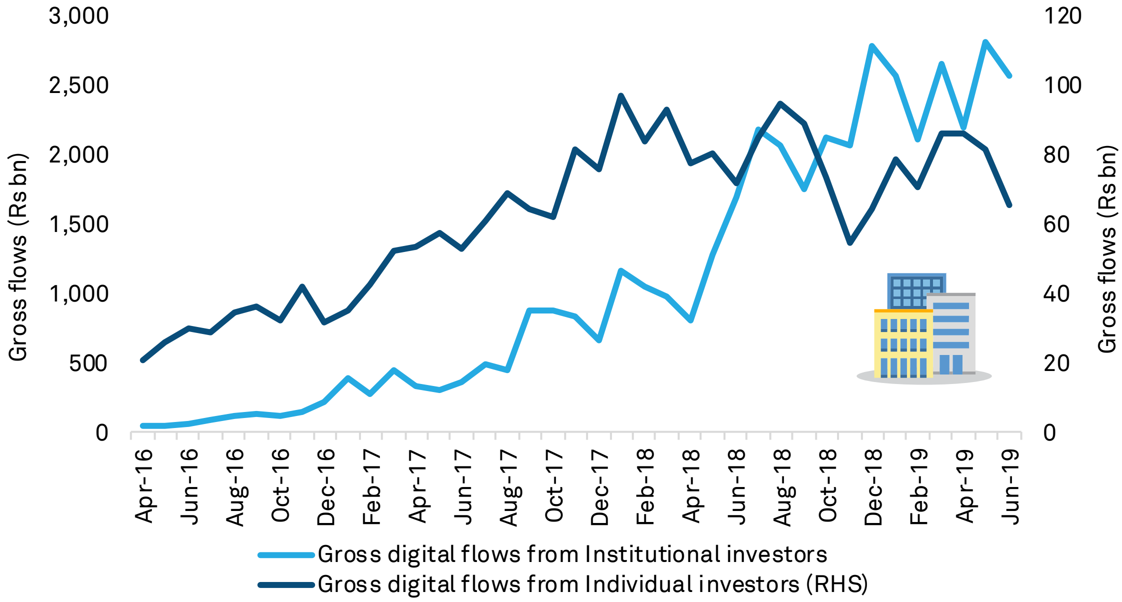




Source: AMFI

Within the investor segment, individual investors lead in terms of AUM contribution (as detailed in the annexure chapters), while institutional investors continue to lead in terms of digital money flowing into the industry.

Institutional investors continue to garner a lion's share of digital transactions



Source: AMFI

Among the factors driving these changes in geography and investor segment are the growing availability of information, and awareness and penetration of the industry across geographies/ investor segments. Given the pace of development in the digital space, the laggards are expected to catch up in years to come.

The government has also played a significant role in digitisation through its extensive efforts at financial inclusion, spreading financial awareness to the remotest parts of the country and bridging the geographical divide. The recent proposal by the government and the Reserve Bank of India (RBI) to use Aadhaar for KYC will ease digital transactions.

Further, the government and the regulators have also taken several initiatives to boost the fintech ecosystem and provide startups with new opportunities to launch competitive products.

Clearly, the role of technology can only grow, and the digital mode is the way forward for the industry, intermediaries and investors. Adoption will be a win-win for all – helping boost industry penetration while providing it with an effective medium to improve efficiency and reduce costs, the benefits of which can be passed on to investors.

But risks need to be managed

Notwithstanding the benefits of technology, there are overlapping risks that need to be managed by the mutual fund industry, especially in a developing country such as India. Some major factors that need to be considered in this respect are detailed below.

What are the risks?

Consumer protection	Transparency and electronic disclosure; product suitability and over-indebtedness; agent liability; data privacy; effective recourse mechanisms; safety of funds; cybersecurity, and digital illiteracy.
Data protection	Compromise of privacy, identity theft and harm where consumers have low levels of financial and digital capability
Discrimination	Biases inhibited with biases from underlying data, the people designing them and existing preferences prevalent in the industry
Exclusion	Unequal access, lack of infrastructure that permits enhanced analytics, lack of access to financial illiterate

Source: IMF policy paper – Fintech: The experience so far, June 2019

There are risks associated with both front and back office operations.

At the front end, it is important to ensure customer data integrity for both prospective and current clients. This is especially important for first-time customers who are yet to get comfortable with digital platforms.

At the back end, a systemic process that does not take into account changing market dynamics and displays a bias for a particular investment design or prevalent workflow could reduce the benefits of technology adoption.

Thus, it is important that the mutual funds industry adopt fintech while taking cognisance of the risks involved, and upgrade technologies as and when advancements are available.

Performance

Performance of mutual funds across categories

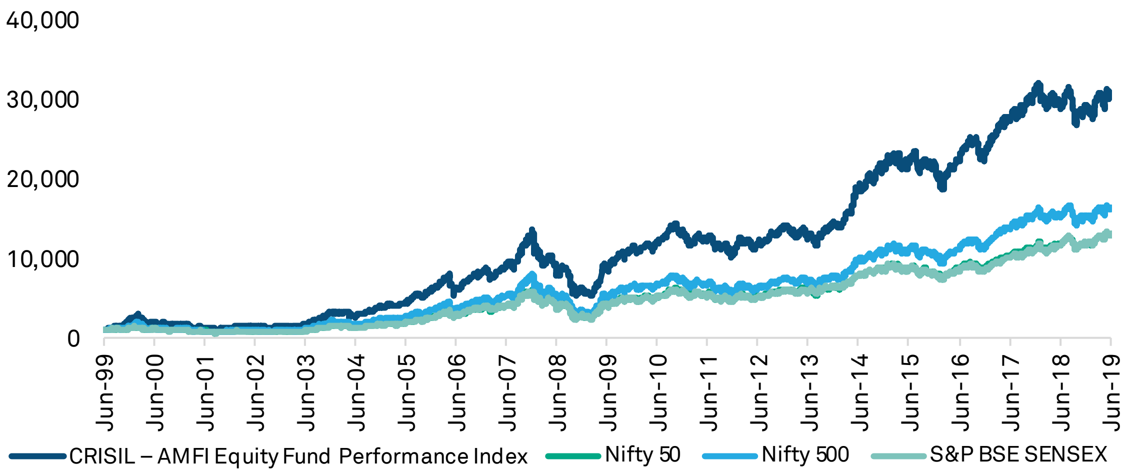
As an investment vehicle, mutual funds have the potential to give good returns and create wealth for investors in the long term. This makes them an important piece of the wealth management jigsaw.

A look at the CRISIL-AMFI Equity Fund Performance Index shows equity funds have on aggregate underperformed the broad equity markets in the past one year.

However, this is not a fair comparison. To reiterate, mutual funds are a long-term investment avenue, and hence, their performance is best analysed over the long term.

A back-of-the-envelope calculation shows that Rs 1,000 invested in this index would have grown more than 30 times to Rs 30,735 in 20 years through June 30, 2019, while a similar investment in S&P BSE Sensex or Nifty 50 would have grown to slightly more than 13 times.

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



Category/Index	CRISIL-AMFI Equity Fund Performance Index	S&P BSE Sensex	Nifty 50	Nifty 500
Growth of Rs 1,000 since June 30, 1999	30,735	13,129	13,080	16,348

Source: CRISIL Research, BSE, NSE

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices
Data as on June 28, 2019
Total returns index has been considered for S&P BSE Sensex, Nifty 50 and Nifty 500
Data since inception of Nifty 50 Total Returns Index, i.e., June 30, 1999

A comparison of the rolling returns of CRISIL-AMFI fund performance indices with their respective benchmarks across categories and intervals, over 15 years or since inception of the indices, whichever is longer, shows the fund indices have outperformed their benchmarks in all the periods analysed.

Category	Average rolling returns			
	3 years	5 years	7 years	10 years
CRISIL–AMFI Large Cap Fund Performance Index	13.85%	13.32%	12.41%	13.26%
S&P BSE Sensex	13.40%	12.64%	11.81%	12.56%
Nifty 50	13.27%	12.50%	11.66%	12.43%
CRISIL–AMFI Large and Midcap Fund Performance Index	15.17%	15.13%	14.03%	15.06%
Nifty 500	13.40%	12.69%	11.63%	12.60%
CRISIL–AMFI Multi Cap Fund Performance Index	14.86%	14.23%	13.06%	14.14%
Nifty 500	13.40%	12.69%	11.63%	12.60%
CRISIL–AMFI Midcap Fund Performance Index	15.74%	16.29%	15.18%	16.03%
Nifty Midcap 100	15.28%	15.02%	13.43%	14.88%
CRISIL–AMFI Smallcap Fund Performance Index	23.63%	25.88%	21.25%	NA
Nifty Smallcap 100	13.16%	14.48%	11.97%	NA
S&P BSE Smallcap	13.49%	15.18%	11.77%	NA
CRISIL–AMFI ELSS Fund Performance Index	14.80%	14.44%	13.39%	14.35%
Nifty 500	13.40%	12.69%	11.63%	12.60%
CRISIL–AMFI Focused Fund Performance Index	14.20%	13.67%	12.69%	13.58%
Nifty 500	12.73%	12.37%	11.37%	12.28%
CRISIL–AMFI Value and Contra Fund Performance Index	14.30%	13.81%	12.62%	13.67%
Nifty 500	13.40%	12.69%	11.63%	12.60%

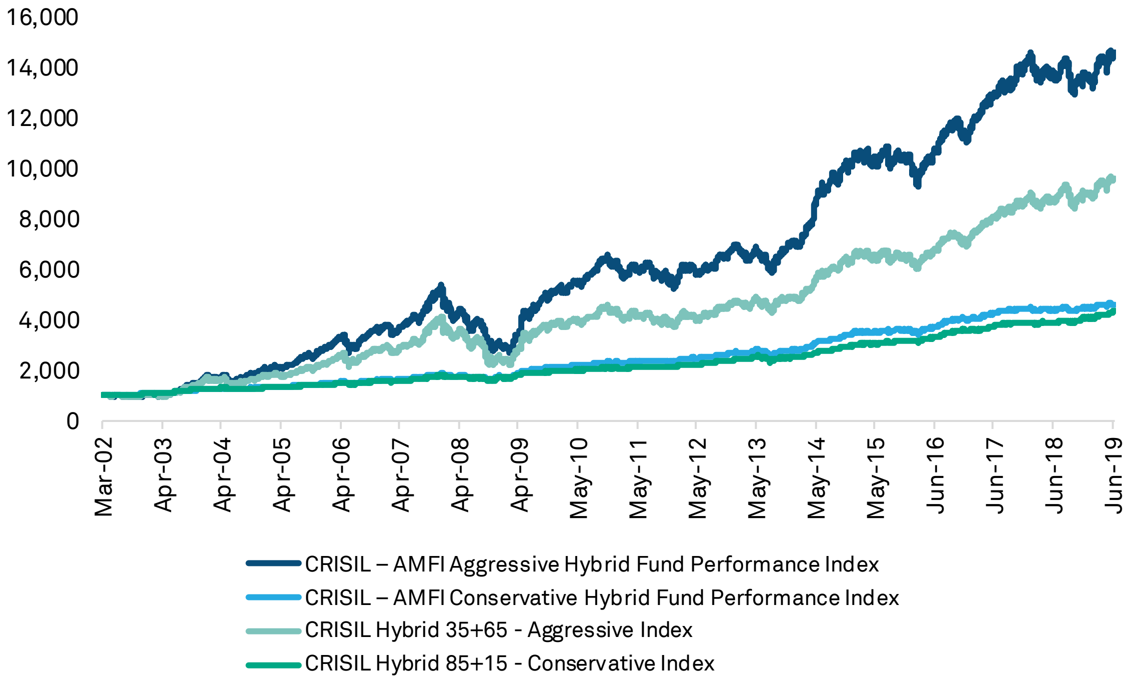
Source: CRISIL Research, BSE, NSE

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices
Total returns index has been considered for S&P BSE Sensex, Nifty 50, Nifty 500, Nifty Midcap 100, S&P BSE Smallcap, Nifty Smallcap 100
Data as on June 28, 2019
Annualised return

Hybrid

Hybrid funds are mutual funds that invest in both equity and debt securities. Some hybrid funds also invest in other asset classes such as gold, which helps in portfolio diversification.

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



Category/Index	CRISIL–AMFI Aggressive Hybrid Fund Performance Index	CRISIL Hybrid 35+65 - Aggressive Index	CRISIL–AMFI Conservative Hybrid Fund Performance Index	CRISIL Hybrid 85+15 - Conservative Index
Growth of Rs 1,000 since March 31, 2002	14,541	9,597	4,622	4,327

Source: CRISIL Research, BSE, NSE

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices
Data as on June 28, 2019
Total returns index has been considered for S&P BSE Sensex, Nifty 50 and Nifty 500
Data since inception of Nifty 50 Total Returns Index, i.e., June 30, 1999

Debt

Debt funds are an attractive choice over bank fixed deposits as they provide the benefit of indexation for a holding period of more than three years. An analysis of investment in three indices – CRISIL-AMFI Medium Duration Fund Performance Index, CRISIL-AMFI Medium to Long Duration Fund Performance Index and CRISIL–AMFI Gilt Fund Performance Index – compared with that in a three-year bank fixed deposit over 15 years through June 2019 shows the fund indices have given superior returns on a post-tax basis.

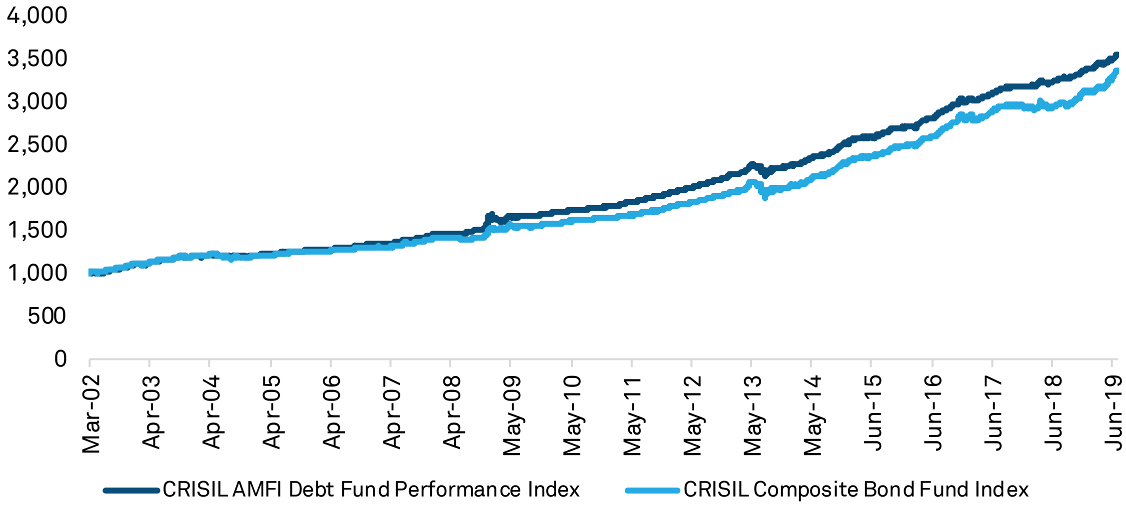
Category	15-year returns pre-tax	15-year returns post-tax
CRISIL-AMFI Medium Duration Fund Performance Index	7.29%	7.08%
CRISIL-AMFI Medium to Long Duration Fund Performance Index	7.39%	7.14%
CRISIL–AMFI Gilt Fund Performance Index	7.09%	6.83%
3-year FD	7.20%	5.14%

Source: CRISIL Research

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices
Growth in Cost Inflation Index for FY20 has been assumed to be the same as in the previous year
Returns from 3-year fixed deposit have been calculated by considering the simple average of FD rates of top three (by total deposits) public and private sector banks on a continuous basis for buckets of three years for the last 15 years
Highest tax bracket of 30% is assumed

An investment of Rs 1,000 in CRISIL Debt Fund Performance Index on March 31, 2002, would have grown to Rs 3,530, whereas the same amount invested in CRISIL Composite Bond Fund Index for the same period would have grown to Rs 3,351.

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

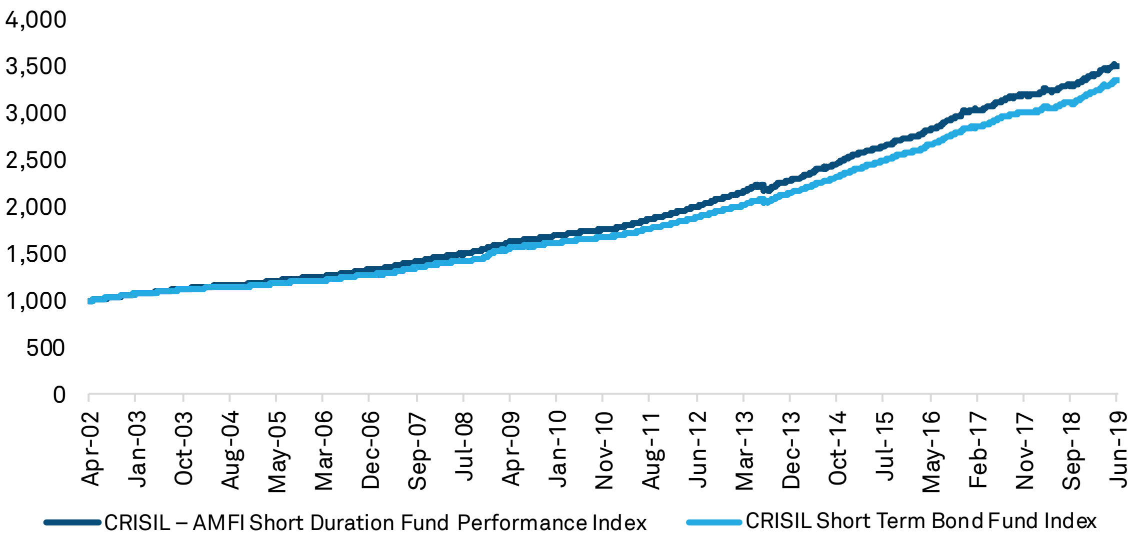


Category	CRISIL AMFI Debt Fund Performance Index	CRISIL Composite Bond Fund Index
Growth of Rs 1000 since March 31, 2002	3,530	3,351

Source: CRISIL Research

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance Indices
Data as on June 28, 2019
Data since inception of CRISIL Composite Bond Fund Index, i.e., March 31, 2002

Growth of Rs 1,000 in short term debt mutual funds versus benchmarks



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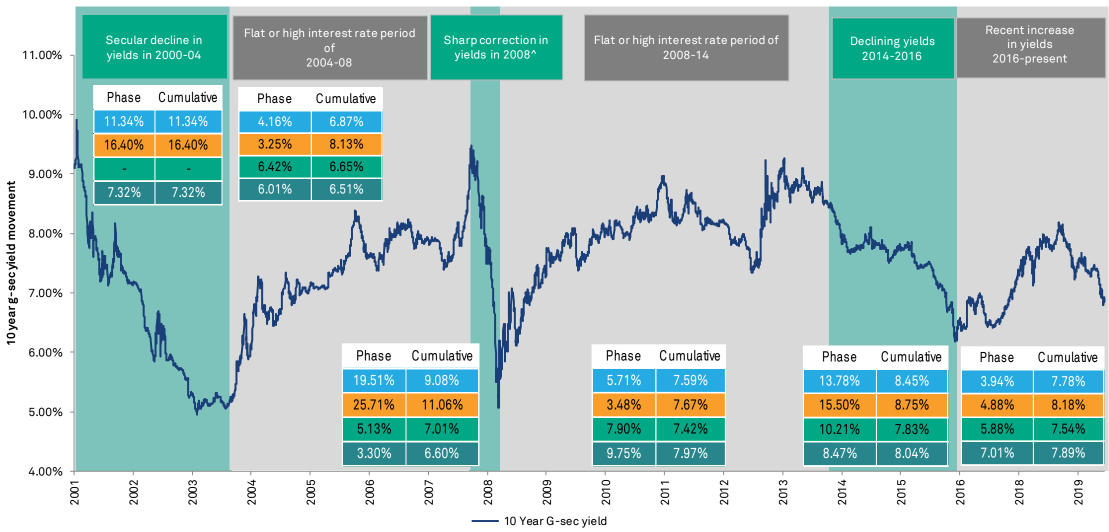
An S&P Global Company

Category/Index	CRISIL-AMFI Short Duration Fund Performance Index	CRISIL Short Term Bond Fund Index
Growth of Rs 1,000 since April 01, 2002	3,503	3,350

Source: CRISIL Research

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance indices
Data as on June 28, 2019

Market phase analysis – CRISIL-AMFI debt fund performance indices



A	Medium to Long duration funds	B	Gilt funds	C	Short duration funds	D	Bank FD

Source: CRISIL Research

Medium to long duration, gilt and short duration funds represented by CRISIL-AMFI Medium to Long Duration Fund Performance Index, CRISIL-AMFI Gilt Fund Performance Index and CRISIL-AMFI Short Duration Fund Performance Index, respectively
CRISIL-AMFI Short Duration Fund Performance Index is available from April 2002 (inception)
Banks' effective FD rates represented by three- and one-year FD rates; for period less than a year, one-year FD rate has been considered
Returns for market phase of more than one year are annualised
Cumulative returns means returns since September 01, 2001
^ Absolute returns
CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance indices
Data as on June 28, 2019

Funds with very short maturity

Funds with maturity of less than one year, too, have outperformed traditional savings bank accounts, showing these can be a viable alternative for smaller investment horizons.

Category/Index	3 months	6 months	1 year	3 years	5 years
CRISIL–AMFI Liquid Fund Performance Index	1.76%	3.55%	7.43%	7.05%	7.59%
CRISIL–AMFI Ultra Short Duration Fund Performance Index	1.55%	3.78%	7.82%	7.47%	7.92%
CRISIL–AMFI Low Duration Fund Performance Index	0.63%	2.85%	6.94%	7.14%	7.73%
CRISIL–AMFI Money Market Fund Performance Index	1.83%	3.96%	7.81%	7.29%	7.76%
Savings Bank Rate Index	0.87%	1.70%	3.49%	3.69%	3.81%

Source: CRISIL Research

CRISIL-AMFI Fund Performance indices are weighted average indices of funds ranked under respective categories in CRISIL Mutual Fund Ranking
Savings Bank Rate Index has been constructed using the average savings rate of top three (by total deposits) public and private sector banks
Please refer to annexure for detailed definition of CRISIL-AMFI Fund Performance indices and Savings Bank Rate Index
Data as on June 28, 2019
Returns for period more than one year are annualised

Other industry trends

Other industry trends

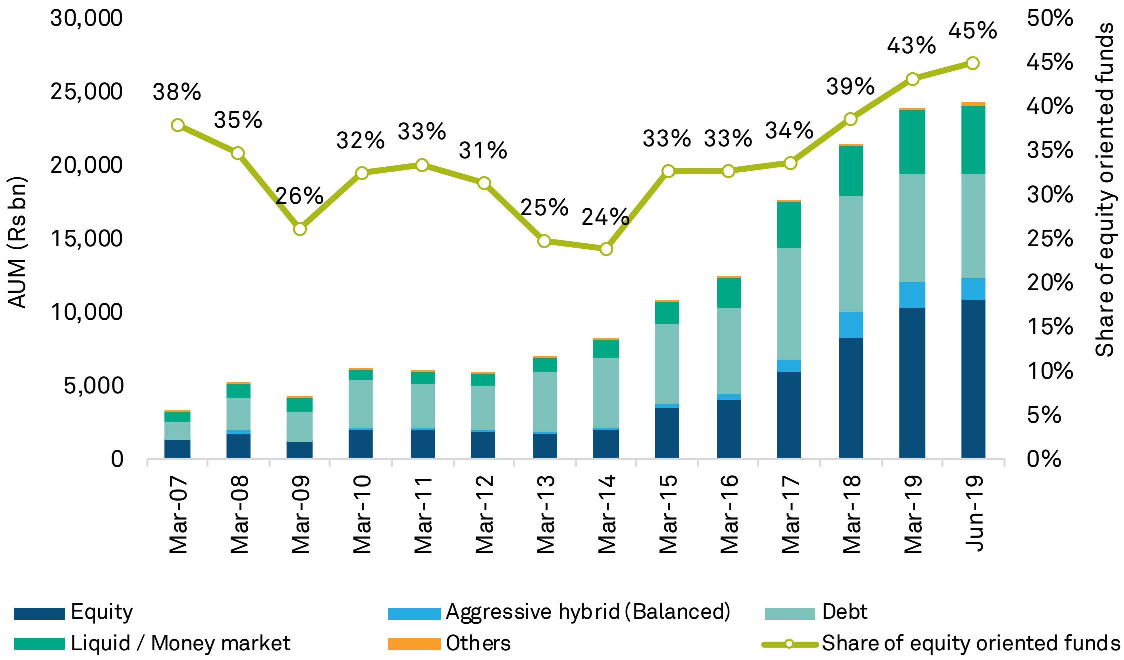
Surge in equity fund assets takes their share to 45% of AUM as of June 2019

The mutual fund industry's stellar growth has come on the back of a surge in equity-oriented funds, which saw their assets under management (AUM) log a whopping 38.6% compound annual growth rate (CAGR) between March 2014 and June 2019.

The surge took the equity-oriented mutual funds' share of industry assets to 45% as of June 2019, up sharply from 24% as of March 2014.

It also benefitted hybrid funds – especially aggressive hybrid funds (erstwhile balanced funds), which invest more than 65% in equities – whose AUM grew at ~51% CAGR during the period analysed. This compares with ~23% growth for the industry and 8% and 27%, respectively, for debt and liquid money market segments.

Equity AUM on steady uptrend



Source: AMFI

Based on month-end AUM
Categories as per June 2019 monthly AUM report have been mapped with old categories in order to maintain comparability with historical AUM
Equity includes other ETFs, arbitrage, balanced advantage, equity savings categories
Debt includes conservative hybrid funds
Others include solution oriented funds (wherever split available), gold ETFs, fund of funds - investing overseas

Equity-oriented funds have seen net inflow of ~Rs 6.3 trillion since fiscal 2015

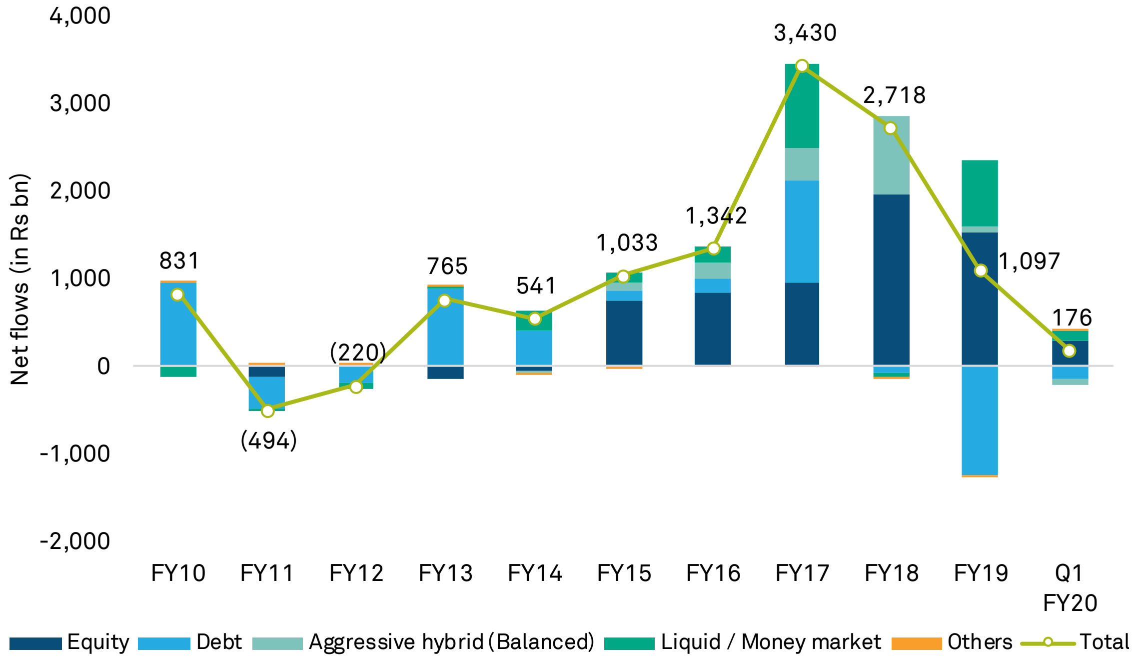
The surge in assets owes itself to robust inflows, given higher participation by individual investors, especially through the SIP route, and also a rising equity market (Nifty 50 TRI returned 12.8% CAGR between March 2014 and June 2019).

Beginning fiscal 2015, the Indian mutual fund industry witnessed sturdy inflows of Rs 9.8 trillion till the first quarter of fiscal 2020. Equity-oriented funds accounted for 64% of the net inflows, while balanced funds garnered 16%.

In the fixed-income space, debt funds witnessed net inflows from fiscal 2015 to 2017. However, there was a course reversal after that, with net outflows through Q1 fiscal 2020. Indeed, the net outflow from debt funds between fiscal 2015 and Q1 fiscal 2020 was around 28 billion.

Liquid/ money market funds, on the other hand, saw stable net inflows of Rs 2.1 trillion during the period.

Equity funds lead net flows for industry



Source: AMFI

Categories as Q1 FY 20 have been mapped with old categories in order to maintain comparability with historical AUM
Equity includes other ETFs, arbitrage, balanced advantage, equity savings categories
Debt includes conservative hybrid funds
Others include solution oriented funds (wherever split available), gold ETFs, fund of funds - investing overseas

Industry added over 44 million folios since March 2014, mostly individual investors

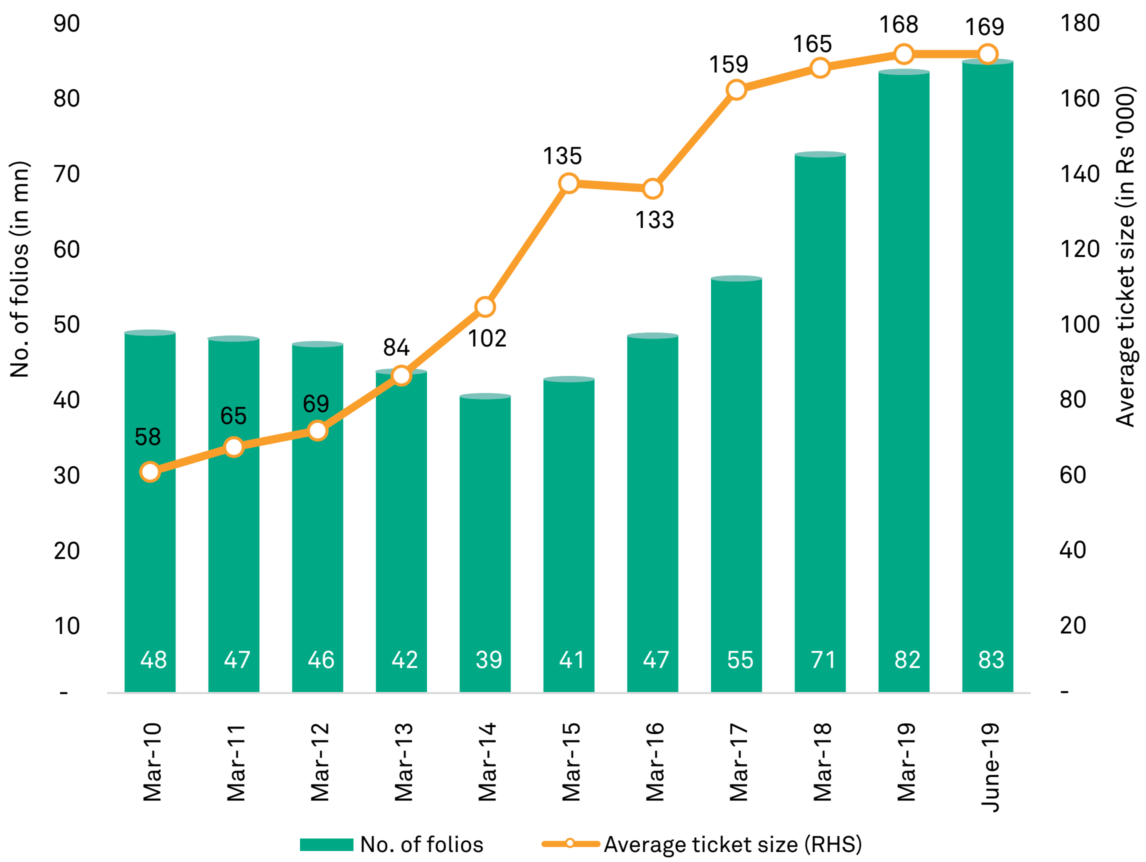
The mutual fund industry has seen growing participation from households in recent years, given growing awareness, financial inclusion, and improved access to banking channels.

The industry added 44.2 million folios between March 2014 and June 2019.

Almost the entire growth in folios came from the individual investors segment (retail & HNI), which logged a CAGR of 15.5% over this period. Their average ticket size, too, increased from ~Rs 102,000 in March 2014 to ~Rs 169,000 in June 2019.

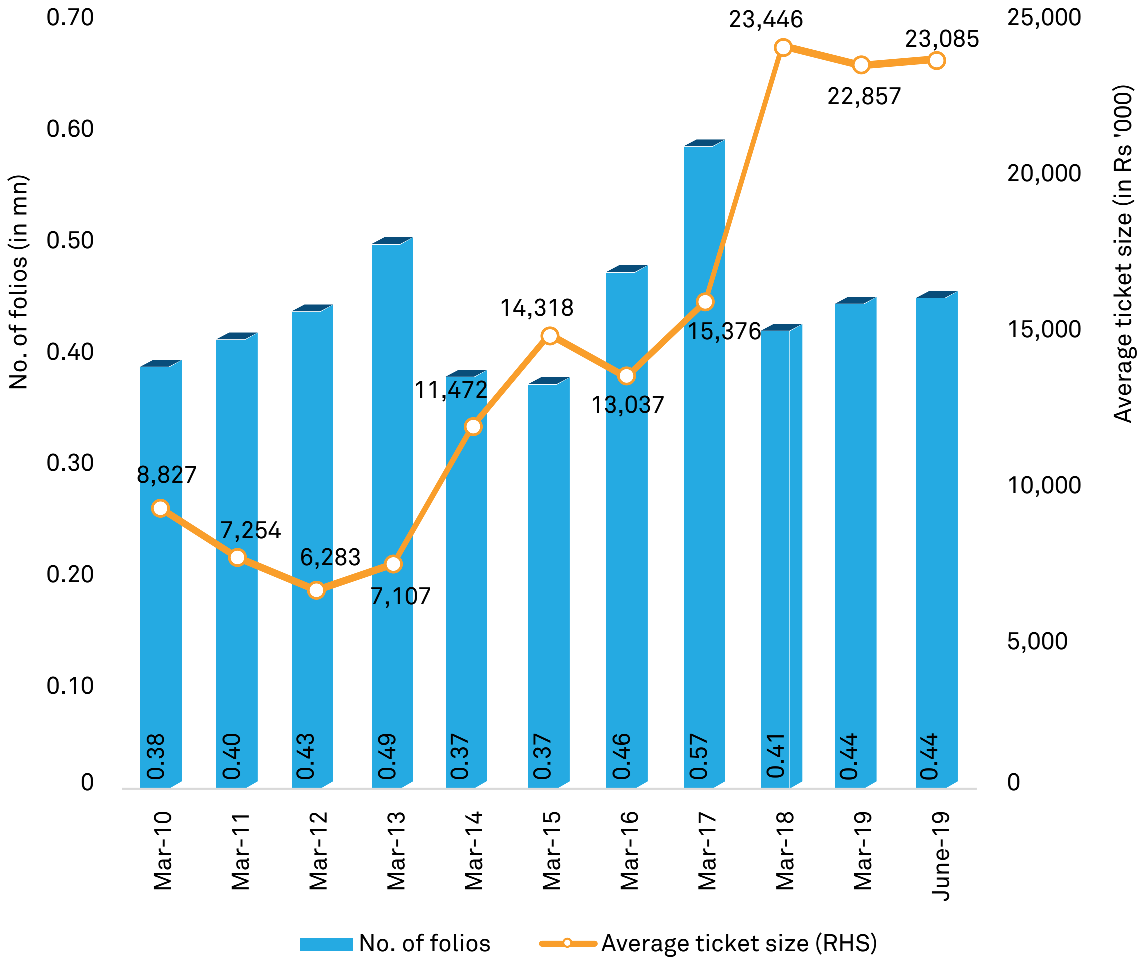
Institutional investor folios, on the other hand, saw no significant addition. However, their average ticket size more than doubled from Rs 11.5 million in March 2014 to Rs 23.1 million in June 2019.

Growing base of individual investors, with increasing ticket size



Source: AMFI

Institutional investors see average ticket size double, amid stable folio count

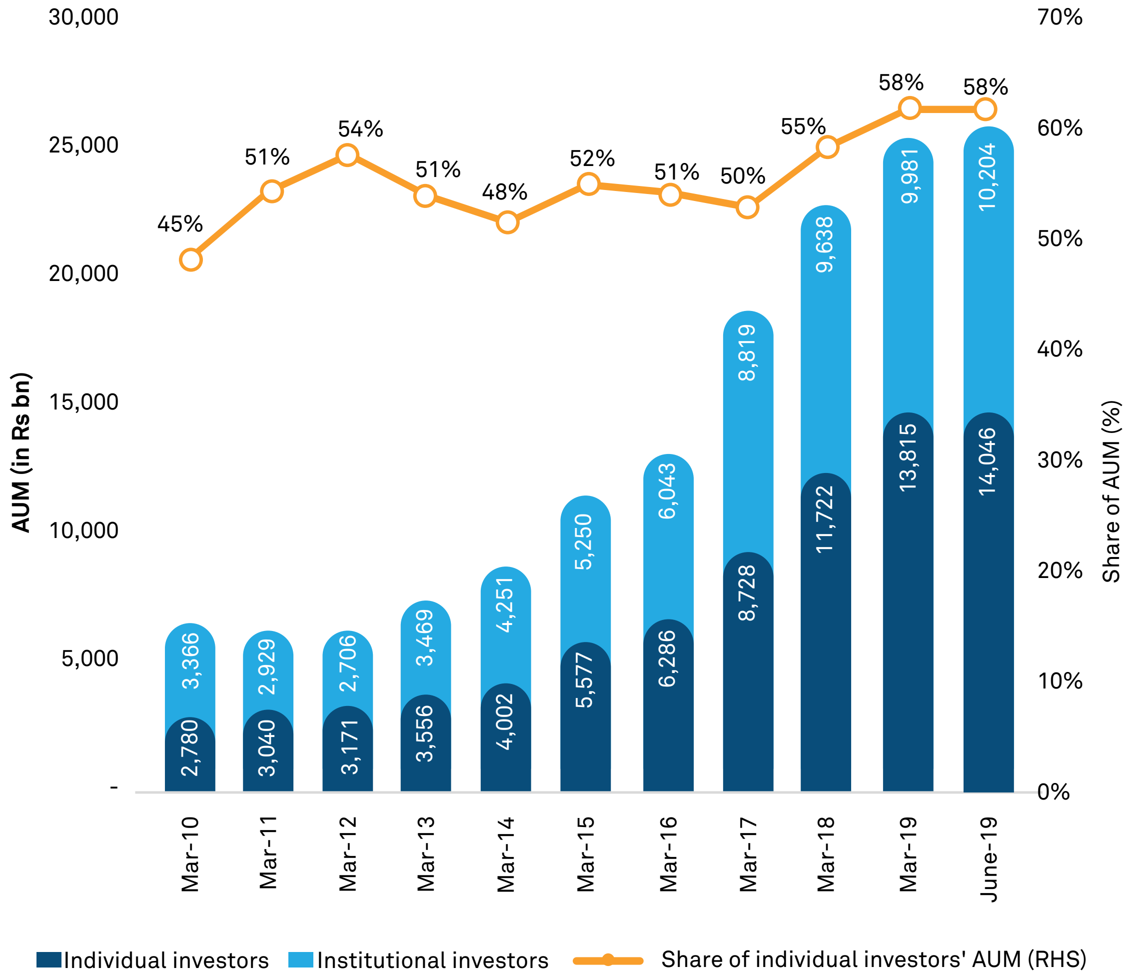


Source: AMFI

Increase in individual participation takes their share to 58% of AUM

Recent years have seen the mutual fund assets attributable to individual investors surpass those of the institutional segment. AUM of individual investors grew from Rs 4 trillion in March 2014 to Rs 14 trillion in June 2019, logging a 27% CAGR. Consequently, its share increased from 48% to 58%. AUM of institutional investors, on the other hand logged a slower 18.1% CAGR from Rs 4.3 trillion to Rs 10.2 trillion.

Individual investors now account for nearly 3/5th of industry assets

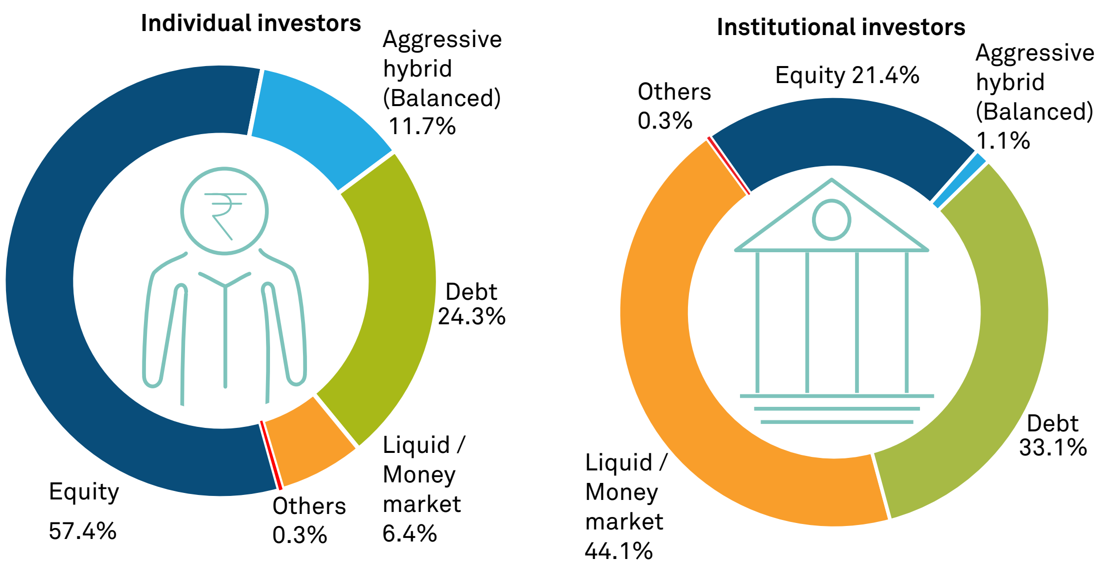


Source: AMFI
Based on month-end AUM

Individual investors invest mainly in equity funds, prefer hand-holding by distributors

As of June 2019, 57.4% of individual investors' AUM was into equity-oriented funds, whereas institutional investors mainly preferred the fixed-income segment (debt and liquid/ money market), which constituted 77.2% of their assets.

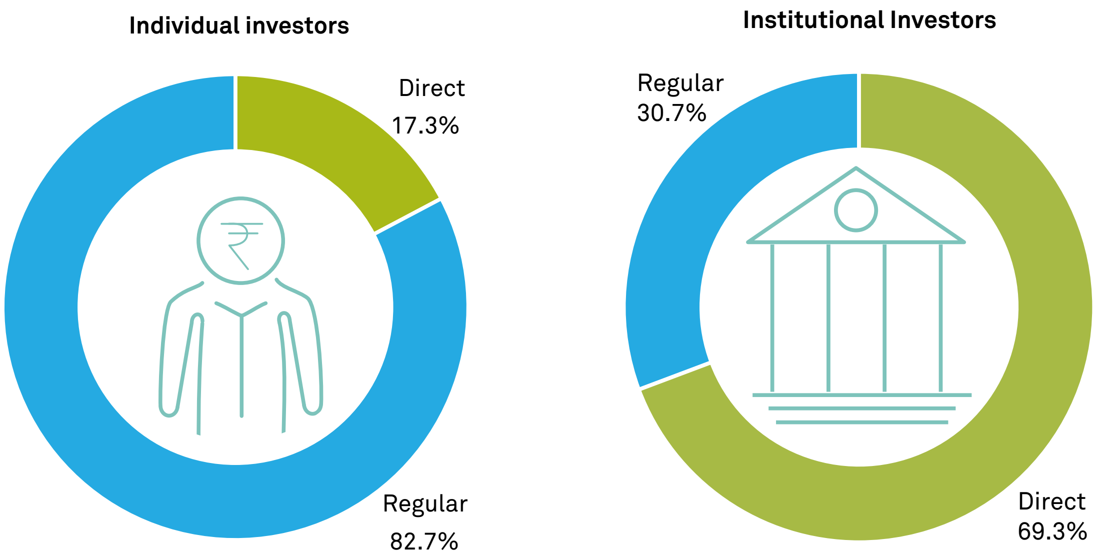
Category-wise AUM split of individual investors and institutional investors (June 2019)



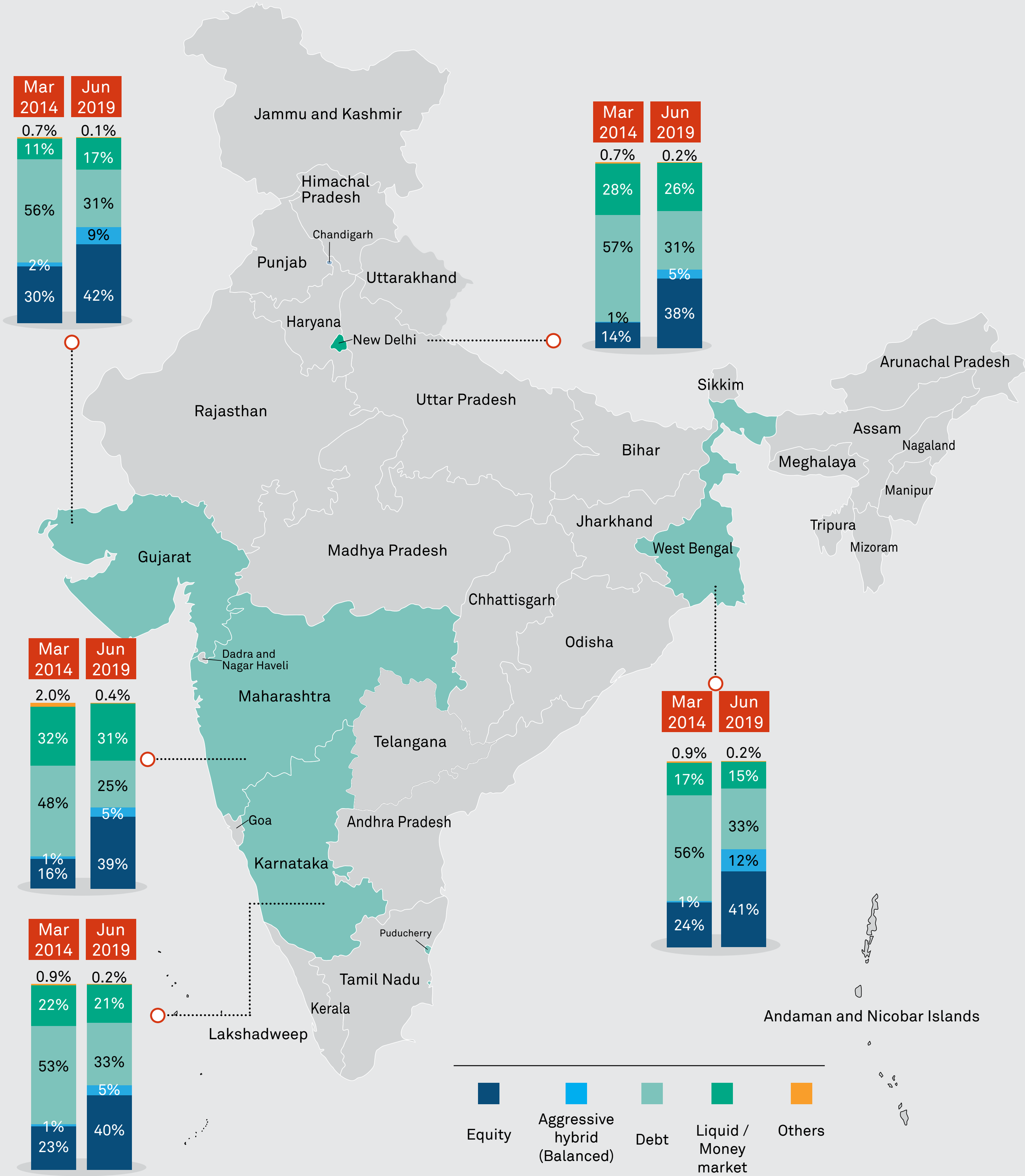
Source: AMFI
Based on monthly average AUM
Equity includes other ETFs
Others include gold ETFs and fund of funds – investing overseas

Institutional investors had over two-thirds of their mutual fund assets invested through direct plans, largely owing to greater savviness and faster adoption. Individual investors, on the other hand, invested largely through regular plans (~83% of their AUM), indicating a preference for hand-holding by distributors.

AUM split of regular and direct plans (June 2019)



Source: AMFI
Based on monthly average AUM



Source: AMFI
Based on monthly average AUM
Equity includes other ETFs
Others include gold ETFs and fund of funds – investing overseas

Top 5 states remain in lead, but smaller towns growing faster

The top 5 states continued to dominate the mutual fund industry, with around 70% share of AUM, and logging a healthy 21.5% CAGR between March 2014 and June 2019. As of June 2019, Maharashtra held lion's share (42%) of the assets, followed by other states with single-digit shares.

While the AUM of the top 5 states grew at a healthy pace of 21.5% CAGR between March 2014 and June 2019, the AUM of the remaining states (including union territories), however, grew at a faster rate of 24.4%.

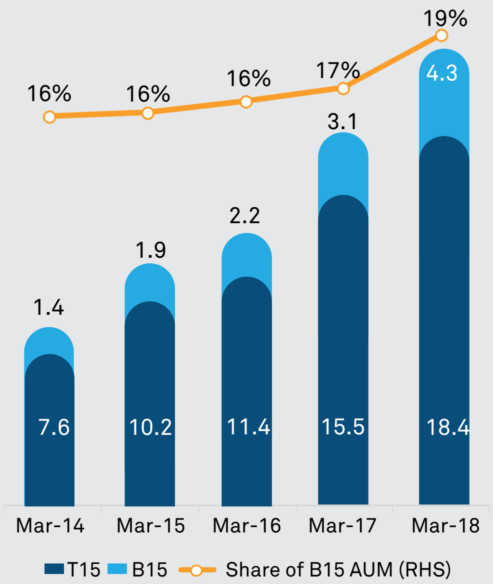
AUM share of top 5 states

State	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Jun-19
Maharashtra	47%	44%	44%	43%	41%	41%	42%
New Delhi	8%	10%	10%	10%	10%	9%	9%
Karnataka	7%	7%	7%	7%	7%	7%	7%
Gujarat	5%	6%	6%	6%	7%	7%	7%
West Bengal	5%	5%	5%	5%	5%	5%	5%
Total	72%	71%	72%	71%	70%	70%	70%

Source: AMFI Based on monthly average AUM

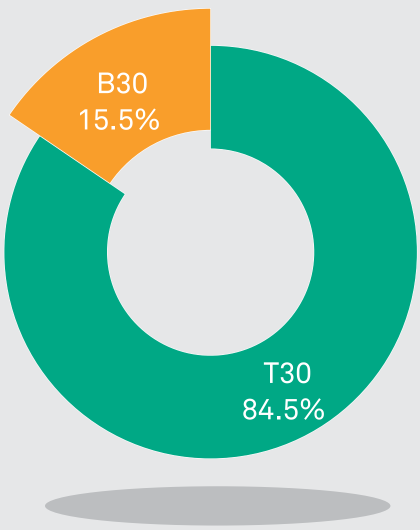
In terms of asset allocation of the top five states, the share of equity-oriented funds has increased significantly over the past five years. As of March 2014, Gujarat had the highest allocation (30%) to equities. However, the other four states have caught up since then, aligning to a more balanced asset mix.

T15 and B15 AUM – March 2014 to March 2018



Source: AMFI
Based on monthly average AUM

T30 and B30 AUM – June 2019



Source: AMFI
Based on monthly average AUM

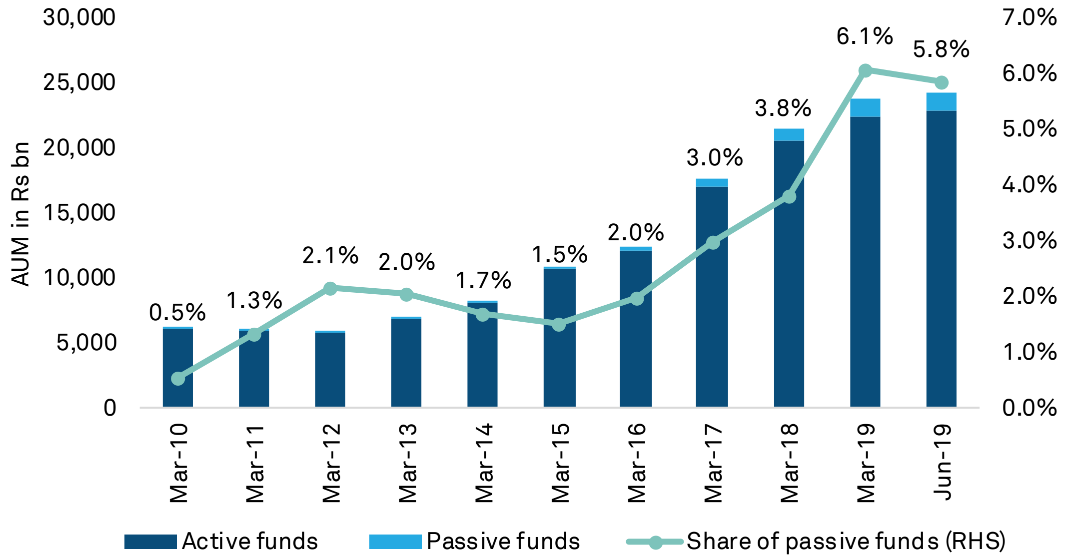
Talking of cities, majority of the mutual fund assets were held in the top 15 (T15) cities. However, boosted by the regulator's move to allow asset management companies to charge an additional 30 bps expense ratio to incentivise penetration in smaller towns (beyond top 15, or B15 cities), this segment saw rapid growth and its AUM share went up from 16% in March 2014 to 19% in March 2018.

Then, in February 2018, fund houses were allowed to charge the additional 30 bps in beyond top 30 (B30) cities instead of B15. As of June 2019, this segment accounted for 15.5% of the industry's assets, translating to Rs 4 trillion in value.

Passive funds continue to garner traction

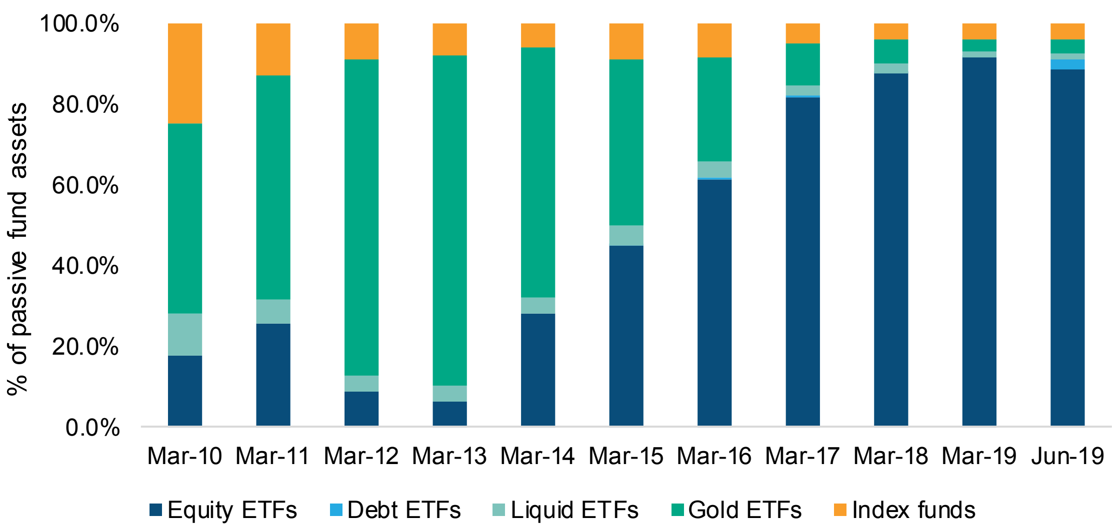
While active funds continue to dominate the Indian mutual fund industry, the passive segment has been gaining steam gradually, thanks to investments by the Employees' Provident Funds into ETFs. The share of passive funds rose to 5.8% of the total assets as of June 2019, dipping slightly from 6.1% at close of fiscal 2019. The value of passive funds' assets stood at Rs 1.4 trillion as of June 2019.

Passive funds on a steady uptrend



Source: AMFI, CRISIL Research
Passive funds include ETFs and index funds
Based on month-end AUM

Equity ETFs dominate passive funds' assets



Source: AMFI, CRISIL Research
Based on month-end AUM

Annexure

CRISIL-AMFI fund performance indices

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 consists of mutual fund schemes from large cap equity, large and midcap equity, multicap, midcap, small cap equity, focused equity and value & contra 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 large cap equity schemes
3	CRISIL-AMFI Large and Midcap Fund Performance Index	31-Mar-04	CRISIL-AMFI Large and Midcap Fund Performance Index seeks to track the performance of large and midcap cap equity schemes
4	CRISIL-AMFI Multi Cap Fund Performance Index	1-Apr-00	CRISIL-AMFI Multi Cap Fund Performance Index seeks to track the performance of multi cap equity schemes
5	CRISIL-AMFI Midcap Fund Performance Index	1-Oct-04	CRISIL-AMFI Midcap Fund Performance Index seeks to track the performance of midcap equity schemes
6	CRISIL-AMFI Smallcap Fund Performance Index	1-Apr-10	CRISIL-AMFI Smallcap Fund Performance Index seeks to track the performance of small cap equity schemes
7	CRISIL-AMFI ELSS Fund Performance Index	1-Jun-01	CRISIL-AMFI ELSS Fund Performance Index seeks to track the performance of Equity Linked Saving Scheme (ELSS)
8	CRISIL–AMFI Focused Fund Performance Index	30-Sep-04	CRISIL–AMFI Focused Fund Performance Index seeks to track the performance of focused equity schemes
9	CRISIL–AMFI Value and Contra Fund Performance Index	30-Jun-04	CRISIL–AMFI Value and Contra Fund Performance Index seeks to track the performance of value/contra schemes
10	CRISIL-AMFI Aggressive Hybrid Fund Performance Index	1-Apr-00	CRISIL-AMFI Aggressive Hybrid Fund Performance Index seeks to track the performance of aggressive hybrid funds

Sr No	Index	Inception date	Definition
11	CRISIL-AMFI Conservative Hybrid Fund Performance Index	1-Jan-02	CRISIL-AMFI Conservative Hybrid Fund Performance Index seeks to track the performance of conservative hybrid schemes
12	CRISIL-AMFI Medium Duration Fund Performance Index	31-Mar-10	CRISIL-AMFI Medium Duration Fund Performance Index seeks to track the performance of medium duration schemes
13	CRISIL-AMFI Medium to Long Duration Fund Performance Index	30-Mar-01	CRISIL-AMFI Medium to Long Duration Fund Performance Index seeks to track the performance of medium to long duration schemes
14	CRISIL-AMFI Gilt Fund Performance Index	1-Apr-00	CRISIL-AMFI Gilt Fund Performance Index seeks to track the performance of gilt schemes
15	CRISIL AMFI Debt Fund Performance Index	1-Apr-00	CRISIL AMFI Debt Fund Performance Index seeks to track the performance of the debt funds. The index consists of mutual fund schemes from medium duration, medium to long duration, gilt, dynamic bond, short duration, corporate bond, banking & PSU categories
16	CRISIL-AMFI Short Duration Fund Performance Index	1-Apr-02	CRISIL-AMFI Short Duration Fund Performance Index seeks to track the performance of short duration schemes
17	CRISIL-AMFI Liquid Fund Performance Index	1-Apr-00	CRISIL-AMFI Liquid Fund Performance Index seeks to track the performance of liquid schemes
18	CRISIL-AMFI Ultra Short Duration Fund Performance Index	1-Apr-07	CRISIL-AMFI Ultra Short Fund Performance Index seeks to track the performance of ultra-short duration schemes
19	CRISIL-AMFI Low Duration Fund Performance Index	1-Apr-07	CRISIL-AMFI Low Duration Fund Performance Index seeks to track the performance of low duration schemes
20	CRISIL–AMFI Money Market Fund Performance Index	1-Apr-00	CRISIL–AMFI Money Market Fund Performance Index seeks to track the performance of money market schemes
21	Savings Bank Rate Index	1-Apr-00	Savings Bank Rate Index has been constructed using the following savings rate for the given periods:

Notes

CRISIL
An S&P Global Company

MUTUAL FUNDS *Sahi Hai*

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CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

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