

HDFC MF

Weekend Bytes

A weekly series from HDFC Mutual Fund

Choosing to Diversify within Equity through an FOF





Samaksh and Ankush have decided to discuss their diversification strategies when investing in equities over lunch:



I have started to believe that there is a need to diversify when investing in equities. Samaksh, what do you think?

Absolutely, there is a need! While there are multiple routes for the same, the basic strategy is to diversify across multiple market caps – large, mid and small caps.



Ok! But is it simple to allocate within equities? The reason I am asking this is that I am having multiple dilemmas. For example:

- Which fund to invest in?
- Which market cap segment invest in?
- Which investment style to take exposure to?
- Fund X has under-performed in last 6 months. Should I hold?

It is true that dilemmas can range from simple to complex. Hence, investing in a solution that can clear them would be suitable.



Is there an ideal solution?

A Diversified Equity All Cap Active FOF could be an ideal solution, as it can provide the investor an opportunity to create wealth in the long-term by investing in units of Domestic Equity-oriented schemes based on varied market caps.



Why choose a Diversified Equity All Cap Active FOF?

Shift thinking from “Annual” to “Decadal”

In the short-term, various news and events tend to impact different market cap segments in different manners. As we can see from the table below, category underperformance can get prolonged for an extended period of time, which can lead to various behavioural errors. Conversely, if we increase our investment horizon, there is a tendency of convergence of returns.

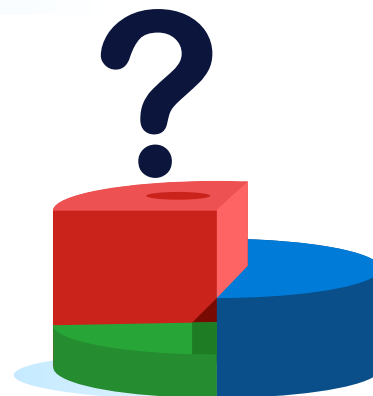


Table: **Divergence in Annual Returns, but Convergence in Decadal Returns**

Annual Returns			
FY	Largecap	Midcap	Smallcap
FY2006	65%	75%	79%
FY2007	14%	-1%	12%
FY2008	24%	21%	31%
FY2009	-37%	-49%	-55%
FY2010	85%	136%	141%
FY2011	11%	5%	1%
FY2012	-8%	-5%	-9%
FY2013	9%	4%	-5%
FY2014	20%	18%	23%
FY2015	31%	60%	63%
FY2016	-7%	-2%	-6%
FY2017	23%	37%	41%
FY2018	12%	17%	13%
FY2019	14%	-1%	-12%
FY2020	-25%	-30%	-40%
FY2021	71%	102%	119%
FY2022	21%	25%	37%
FY2023	-2%	3%	-6%
FY2024	35%	58%	64%
FY2025	6%	8%	6%

Category under-performance can continue for 3 years at a time

Decadal Returns			
FY ending	Large Cap	Mid Cap	Small Cap
FY2015	17%	17%	17%
FY2020	7%	8%	3%
FY2025	12%	17%	14%

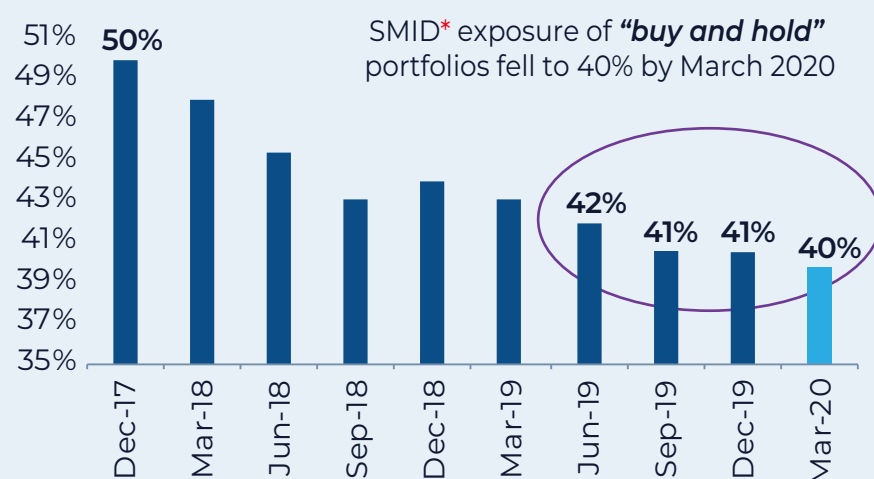
Source: Bloomberg. Large Cap = NIFTY 100 TRI; Mid Cap = NIFTY Midcap 150 TRI, Small Cap = NIFTY Smallcap 250 TRI. For FY06, starting point is April 01, 2005 instead of the previous year end, as NIFTY Midcap 150 TRI and NIFTY Smallcap 250 TRI values start from April 01, 2005 onwards. **Past performance may / may not be sustained in the future and is not a guarantee of any future returns. HDFC AMC is not indicating or guaranteeing returns on any investments.**

By choosing an Diversified Equity All Cap Active FOF, an investor can aim to reduce the behavioural errors induced by short-term investment approach and adopt a more long-term approach to investing.

Effective “Rebalancing” of your Portfolio

A Case Study: Correction in Mid and Small Caps in CY18-20 could have driven lower exposure to those segments of a “Buy and Hold” investor's portfolio

Chart: Small and Mid Cap exposure of a “Buy and Hold” Portfolio starting in January 2018, consisting of 50% Large Caps, 25% Mid Caps and 25% Small Caps



1-year Forward Return
(in %) (Period: 31-Mar-20
to 31-Mar-21)

NIFTY 100 TRI: 71%

**NIFTY Midcap 150
TRI: 102%**

**NIFTY Smallcap
250 TRI: 119%**

Source: MFI Explorer, Bloomberg. Large Cap = NIFTY 100 TRI; Mid Cap = NIFTY Midcap 150 TRI, Small Cap = NIFTY Smallcap 250 TRI. *SMID: Small and Mid Cap. **Past performance may / may not be sustained in the future and is not a guarantee of any future returns. HDFC AMC is not indicating or guaranteeing returns on any investments.**

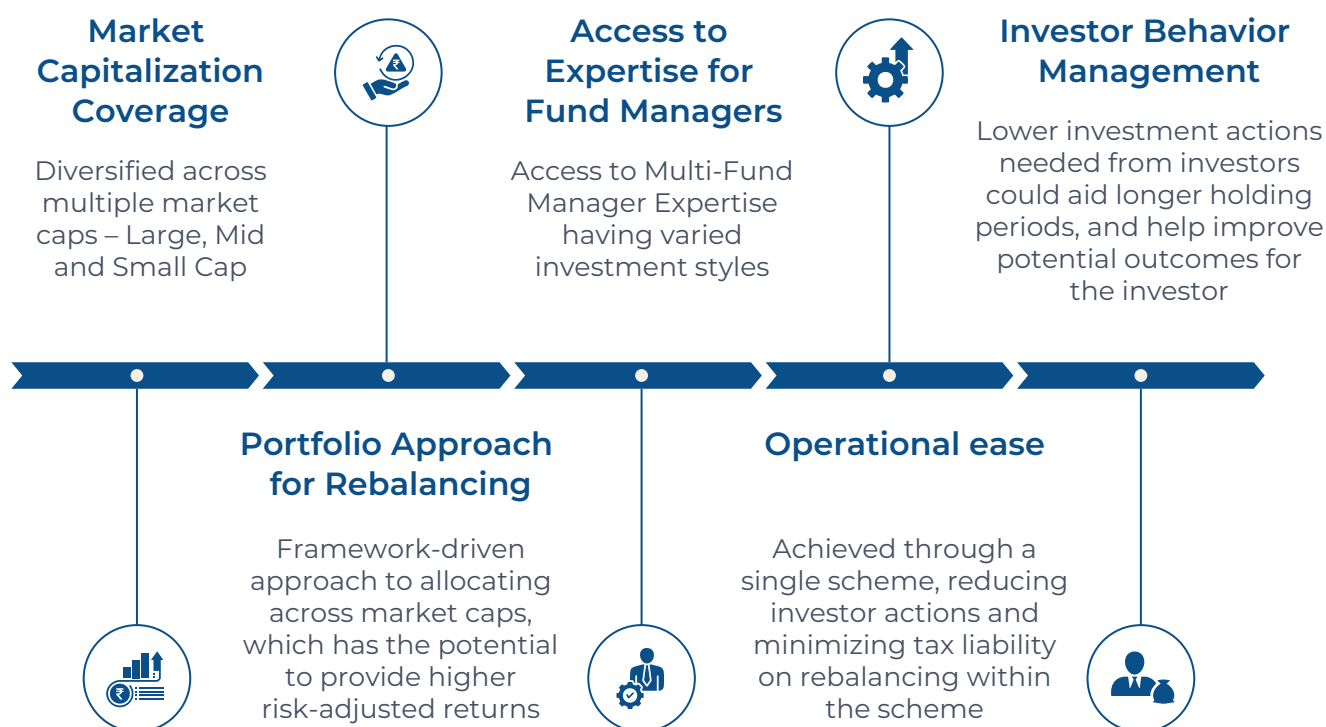
Result of such an Approach: Such a “Buy and Hold” portfolio was under-exposed to the upside in the recovery, when Small and Mid Caps outperformed Large Caps

Thus, a Diversified Equity All Cap Active FOF can use a framework-based approach to rebalance market cap allocation to manage your investments better



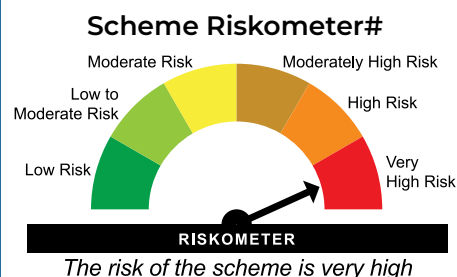
What is HDFC AMC's Solution?

HDFC Diversified Equity All Cap Active FOF: This Fund aims to invest in units of Domestic Equity-oriented schemes based on varied market caps. By doing so, it aims to provide an investor with an easy and convenient way to get all-round equity exposure via multiple market caps, Fund Managers and investment styles all in one solution.



HDFC Diversified Equity All Cap Active FOF
(An Open-ended Fund of Fund Scheme investing in units of domestic equity-oriented schemes based on varied market caps) is suitable for investors who are seeking*:

- Capital appreciation / generate income over long term
- To invest in units of Equity-oriented schemes based on varied market caps



*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made. For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com

Investors in the Scheme shall bear the recurring expenses of the Scheme in addition to the expenses of other schemes in which this Fund of Funds scheme makes investment (subject to regulatory limits).

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,
 READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**