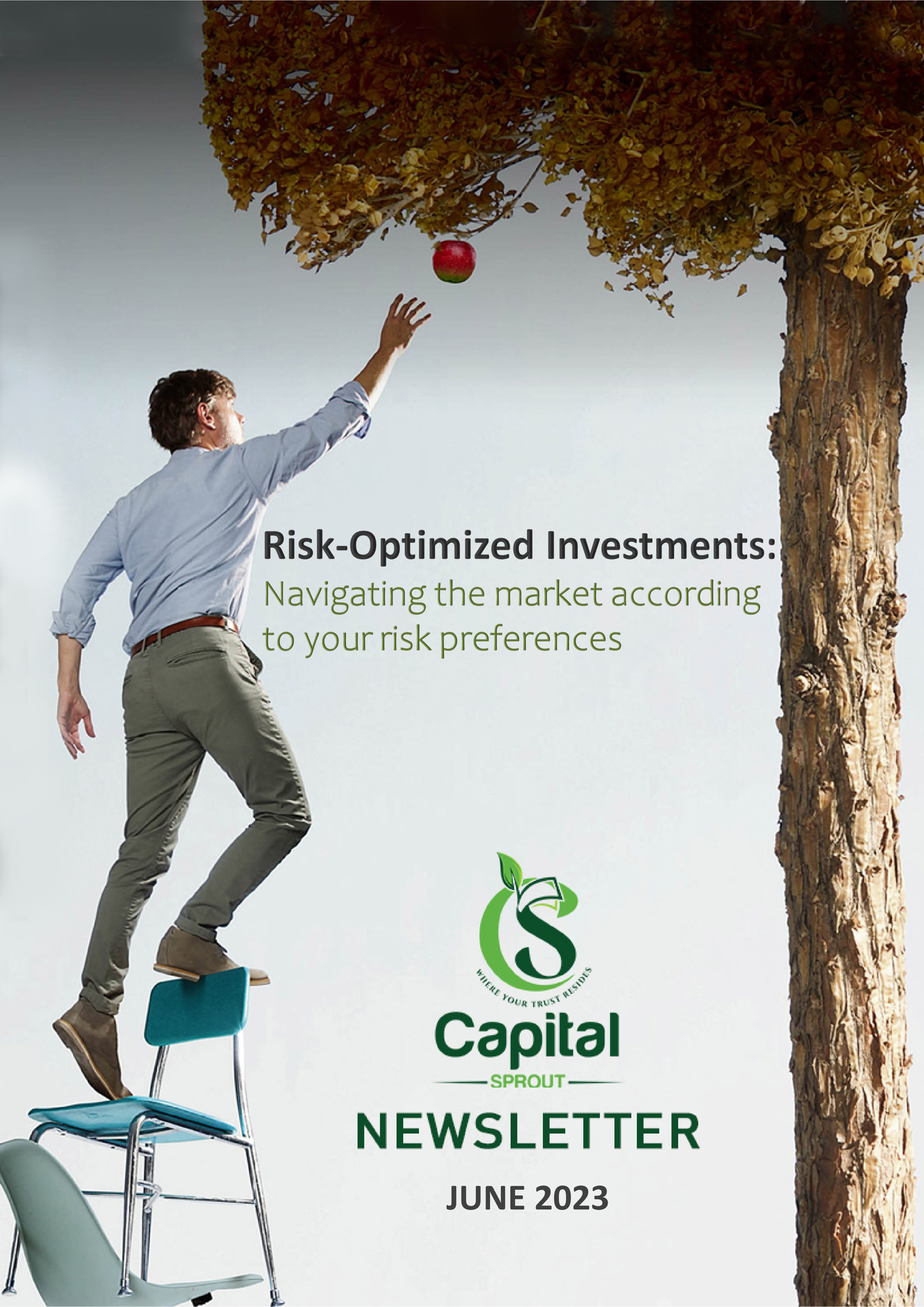


# Risk-Optimized Investments:

## Navigating the market according to your risk preferences

WHERE YOUR TRUST RESIDES

Capital SPROUT

# NEWSLETTER

**JUNE 2023**

# The Chairman's Message

Greetings from Capital Sprout!

In this month's newsletter, we'd like to talk about risk appetite as it plays a crucial role when deciding how we want to invest our hard-earned money.

As we get older, our risk appetite tends to change. When we're young and full of energy, we're ready to take on the world and dive headfirst into high-risk, high-reward investments. But as we approach retirement, we start getting more cautious. We realize we don't have all the time in the world to bounce back from losses. So, we shift gears and focus on preserving our capital and generating a steady income. We go for safer options like bonds and dividend-paying stocks. It's all about adjusting our investment choices to match our changing risk appetite and securing a comfortable financial future.

The relationship between risk and return in investing is intrinsic and vital. In the world of finance, it is widely recognized that higher potential returns come with higher levels of risk. Investors must consider their risk appetite, which is heavily influenced by investor psychology when making investment decisions. Understanding this connection is crucial for effective portfolio management and achieving investment objectives.

Through this month's issue, we would like to shed some light on the investment options available in the market and make an effort to do a comparative analysis of the following funds and how they perform as compared to various indexes.

Funds discussed in this month's newsletter:
(i) Pension plan (ii) Debt fund (iii)  Govt. Sovereign fund (iv) Conservative hybrid funds (v) Dynamic Balance funds (vi) aggressive hybrid funds (vii) Equity funds (viii) Small-cap funds

I hope readers find this bulletin useful in terms of understanding the psychology behind investment strategies according to the willingness to take risks.

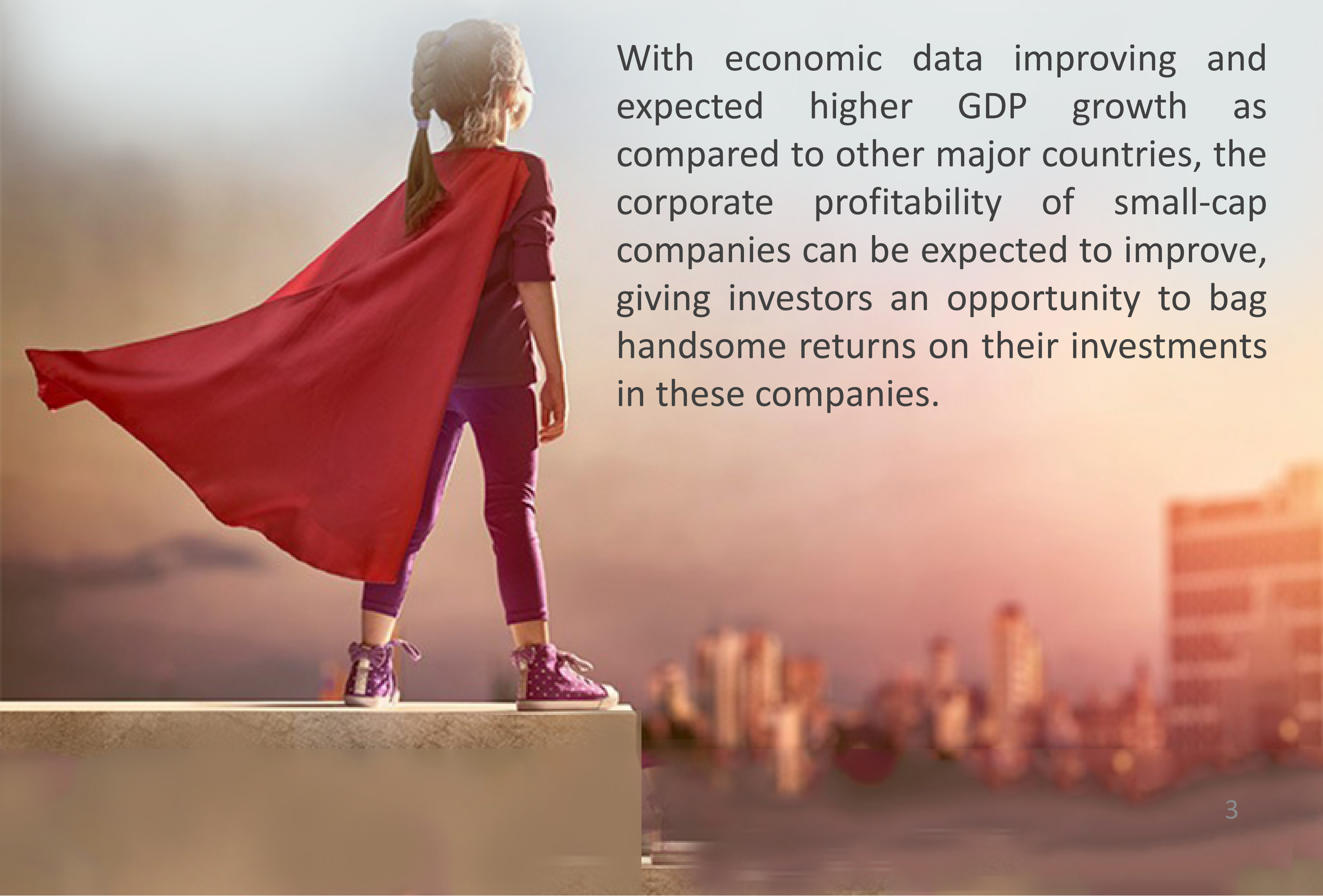
*CA DR Rajesh Khandol*

# Unveiling the vital role of Small-cap companies in an economy

India is on the path of growing exponentially as it has already eclipsed its former colonizer, the United Kingdom, as the world's fifth-largest economy, and it's projected to nick Germany's No.4 spot by 2025, according to Wall Street Journal. With the economy of major countries crashing, it seems like India is not likely to be affected by it. SMEs and MSMEs are to be thanked for the growth India is seeing as these industries are not only growth finders for themselves but also contribute to improving various economic parameters.

These sectors have been gaining significant importance due to their more than **25% contribution to the Gross Domestic Product (GDP)** of the country. The economy, as it revives and demand plays out, and the full chain across sectors will benefit, including small cap companies.

To give a perspective, there are over **4,500 small cap companies** listed on the stock exchange in India which have historically too, managed to outperform other segments and generated remarkable returns.



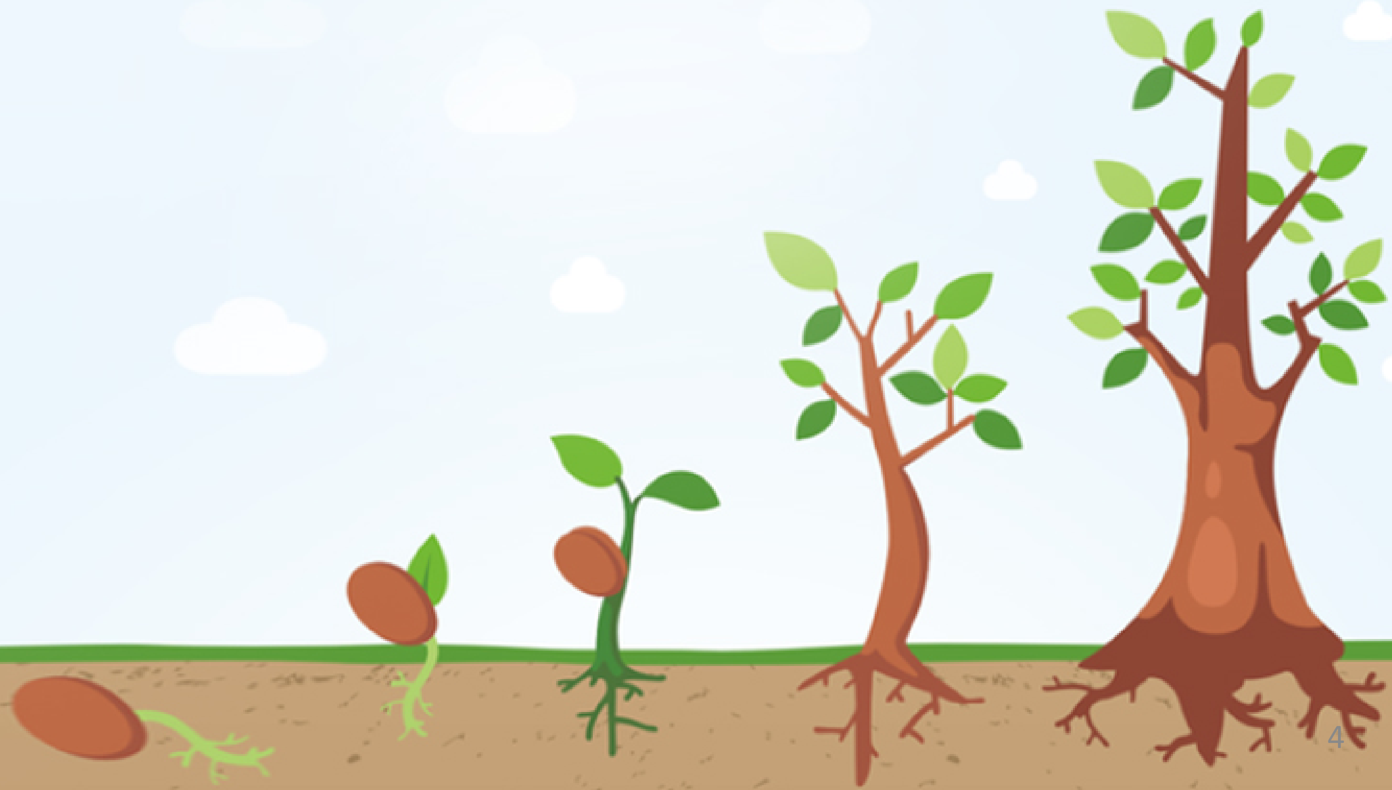
With economic data improving and expected higher GDP growth as compared to other major countries, the corporate profitability of small-cap companies can be expected to improve, giving investors an opportunity to bag handsome returns on their investments in these companies.

The companies ranked from the **251st position onwards** in terms of market capitalization are known as small-cap companies. These companies are young and seek to expand aggressively, they are more volatile and vulnerable to losses during downtime in the market.

| Performance Of Small Cap Funds | | | | | |
|---|---|---|---|---|---|
| Sr No | Name Of The Scheme | Historical CAGR Return In % | | | |
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| 1 | Nippon India Small Cap Fund | 36.55 | 45.77 | 21.47 | 28.13 |
| 2 | Axis Small Cap Fund | 26.98 | 35.77 | 22.07 | NA |
| 3 | HDFC Small Cap Fund | 41.9 | 42.56 | 17.10 | 20.35 |
| 4 | SBI Small Cap Fund | 25.10 | 35.03 | 19.18 | 26.13 |
| 5 | Kotak Small Cap Fund | 22.19 | 40.76 | 19.92 | 21.96 |
| 6 | NSE Nifty 50 TRI | 20.46 | 22.79 | 13.58 | 14.05 |

*(Performance figures as on 09-07-2023)*

From the table, we can observe that all the Small-cap funds have given higher CAGR for the period of more than 5 years.



Equity mutual funds try to generate high returns by investing in the stocks of companies across all market capitalizations. Equity mutual funds are the riskiest class of mutual funds, and hence they have the potential to provide higher returns than debt and hybrid funds.

| Performance Of Equity Funds | | | | | |
|---|---|---|---|---|---|
| **Sr No** | **Name Of The Scheme** | **Historical CAGR Return In %** | | | |
| | | **1 Year** | **3 Year** | **5 Year** | **10 Year** |
| 1 | Axis Bluechip Fund | 13.97 | 15.98 | 10.81 | 13.85 |
| 2 | Axis Growth Opportunities Fund | 21.51 | 24.67 | NA | NA |
| 3 | Parag Parikh Flexi Cap Fund | 22.16 | 25.47 | 17.87 | 18.79 |
| 4 | ICICI Pru Value Discovery Fund | 25.22 | 29.92 | 16.10 | 19.37 |
| 5 | SBI Focused Equity Fund | 16.06 | 20.82 | 13.37 | 16.66 |

*(Performance figures as on 09-07-2023)*

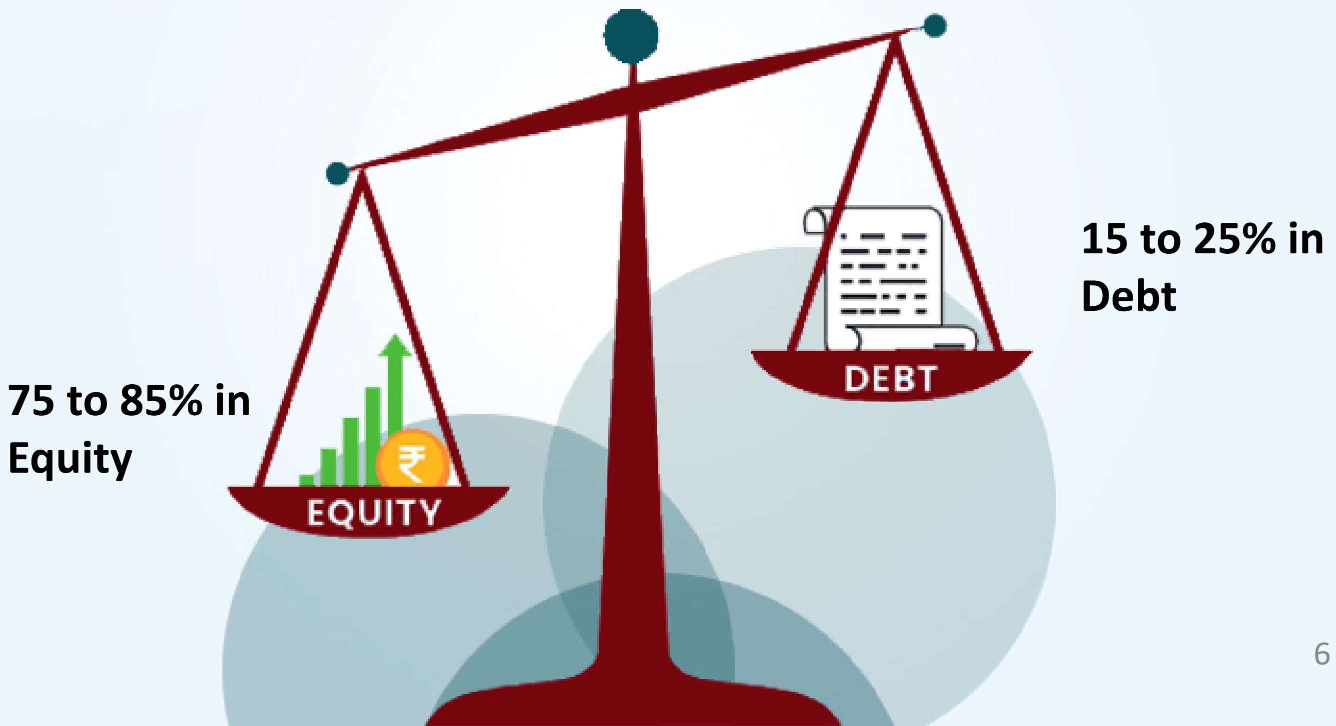
From the table, we can see that few prominent large-cap and large & mid-cap funds have given handsome returns as compared to traditional returns of Fixed deposits over the period of more than 3 years.

Hybrid funds normally work in the grey area between pure equity and pure debt funds. However, as compared to plain vanilla balanced funds, they differ in terms of asset allocation. These types of funds usually invest 75 to 85% in equity and the remaining in fixed-income securities (debt).

| Performance Of Aggressive Hybrid Funds | | | | | |
|---|---|---|---|---|---|
| Sr No | Name Of The Scheme | Historical CAGR Return In % | | | |
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| 1 | SBI Equity Hybrid Fund | 12.65 | 16.81 | 11.57 | 14.43 |
| 2 | ICICI Pru Equity & Debt Fund | 20.40 | 27.58 | 16.05 | 16.74 |
| 3 | Quant Absolute Fund | 15.64 | 32.44 | 19.52 | 18.76 |
| 4 | HDFC Hybrid Equity Fund | 21.45 | 22.42 | 12.85 | 15.88 |

*(Performance figures as on 09-07-2023)*

From the table, you can see that some of the good aggressive hybrid funds have given good returns but less as compared to equity funds over the period of 3 years. Here the downward risk in the case of a bear market is less than the equity-oriented funds.



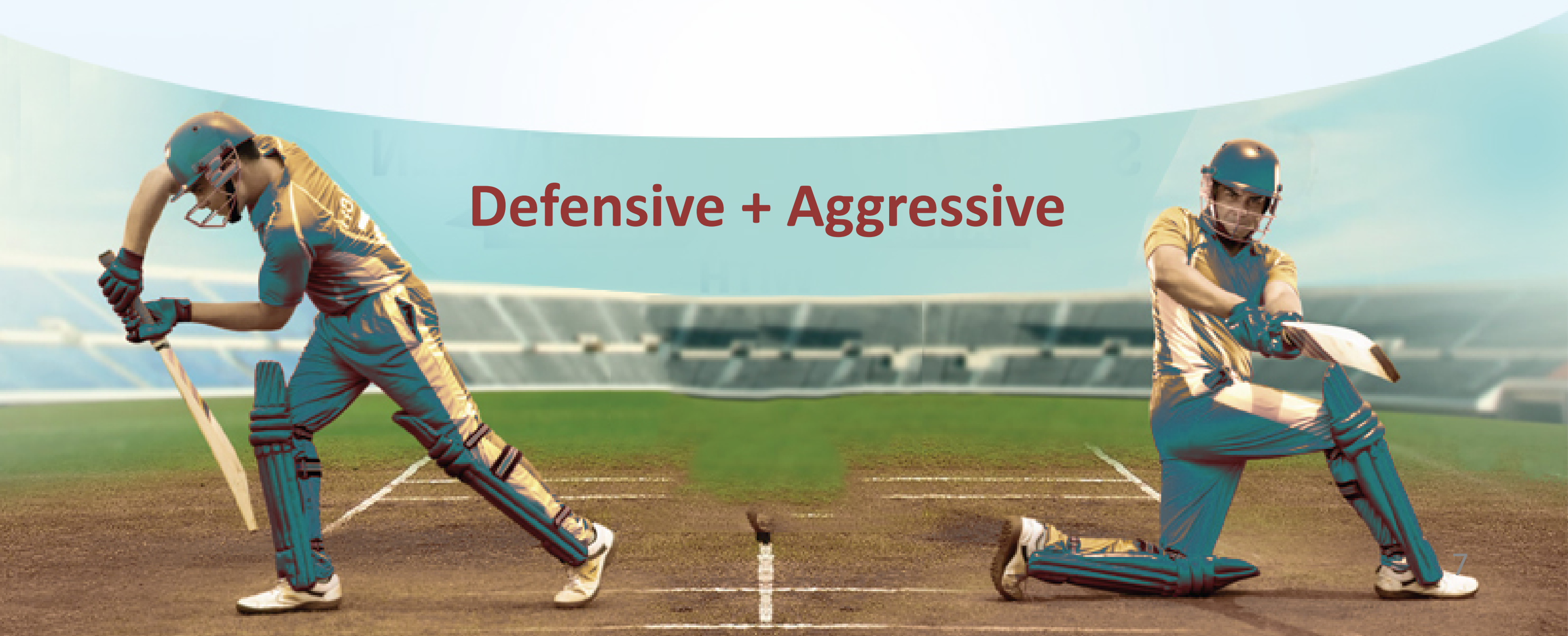
# Balance Advantage Fund

Balance Advantage funds are the types of hybrid funds that invest in both, equities and debt. These types of funds usually invest 35 to 65% in equity and the rest in fixed-income securities according to the market conditions. As the market goes through a full cycle, they offer a better mix of returns that can beat inflation in the long term by reducing the downside of equity markets.

| Performance Of Balanced Advantage Funds | | | | | |
|---|---|---|---|---|---|
| Sr No | Name Of The Scheme | Historical CAGR Return In % | | | |
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| 1 | Kotak Balanced Advantage Fund | 13.83 | 12.96 | NA | NA |
| 2 | HDFC Balanced Advantage Fund | 23.90 | 26.6 | 14.62 | 15.73 |
| 3 | Tata Balanced Advantage Fund | 13.62 | 14.50 | NA | NA |
| 4 | ICICI Pru Balanced Advantage Fund | 12.67 | 15.29 | 10.71 | 12.57 |

*(Performance figures as on 09-07-2023)*

These types of funds usually provide less returns than aggressive hybrid funds due to their diverse asset allocation. Here the downward risk in the case of a bear market is less than the aggressive hybrid funds.



# Conservative Hybrid funds

The beauty of hybrid funds is that they come in all shapes and sizes - whether you are a conservative investor or have a high-risk tolerance. These types of funds usually **invest 10 to 25% in equity** and the rest in fixed-income securities.

| Performance Of Conservative Hybrid Funds | | | | | |
|---|---|---|---|---|---|
| Sr No | Name Of The Scheme | Historical CAGR Return In % | | | |
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| 1 | Kotak Debt Hybrid Fund | 12.01 | 11.54 | 9.96 | 9.75 |
| 2 | ICICI Pru Regular Savings Fund | 9.56 | 9.62 | 8.74 | 10.14 |
| 3 | SBI Conservative Hybrid Fund | 11.56 | 12.03 | 9.43 | 9.25 |
| 4 | HDFC Hybrid Debt Fund (G) | 12.53 | 12.13 | 9.35 | 9.64 |

*(Performance figures as on 09-07-2023)*

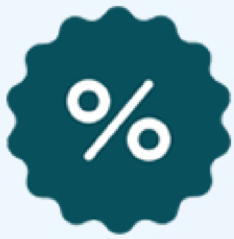
From the table, you can see that some of the good conservative hybrid funds have given good returns but less as compared to balanced advantage funds over the period of 3 years. Here the downward risk in the case of a bear market is less than the balance advantage funds.

As the name suggests, buying a debt instrument can be considered as lending money to the entity issuing the instrument. A debt fund mainly invests in fixed-interest generating securities, treasury bills, commercial paper and other money market instruments. The interest rates as well as the maturity date are pre-decided by the issuer and hence they are known as ‘fixed-income’ securities.

Returns of debt funds highly depend on the following parameters:

**Duration of the fund**

**Quality of the investment.**



**Interest rate fluctuations announced by RBI.**

It is essential to evaluate all three parameters and invest according to the investment objective.

# Gilt Funds

These funds generally invest in central and state government securities and they are also known as **'Gilt Funds'.**

These types of funds tend to be the safest option when it comes to investing. Returns of these funds tend to be more volatile as it depends on interest rate fluctuations but over a period of more than 5 years, the investor can see a better return as compare to fixed deposit.

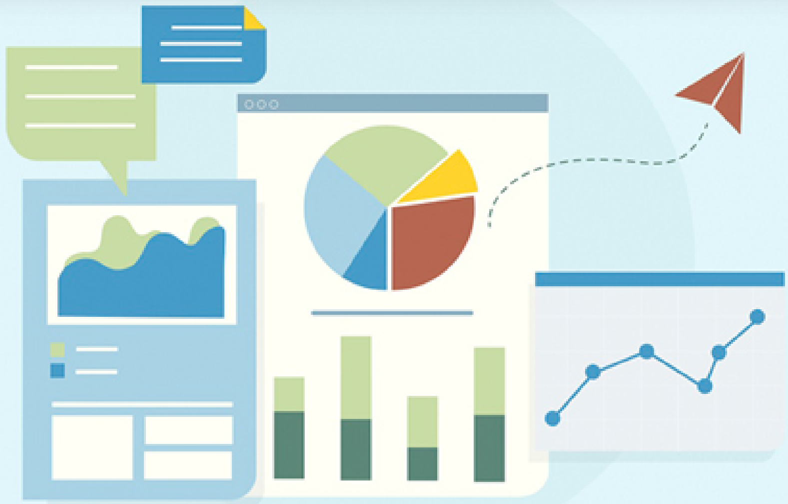
| Performance Of Sovereign / Gilt Funds | | | | | |
|---|---|---|---|---|---|
| Sr No | Name Of The Scheme | Historical CAGR Return In % | | | |
| | | 1 Year | 3 Year | 5 Year | 10 Year |
| 1 | ICICI Pru Gilt Fund | 9.05 | 4.73 | 7.97 | 7.72 |
| 2 | SBI Magnum Gilt Fund | 8.49 | 4.70 | 8.29 | 8.47 |
| 3 | HDFC Gilt Fund | 6.92 | 3.42 | 6.37 | 6.85 |
| 4 | Kotak Gilt Investment | 7.87 | 3.42 | 7.50 | 6.93 |

*(Performance figures as on 09-07-2023)*


Pension funds in India are an important financial instrument designed to facilitate retirement savings and provide individuals with a regular income during their post-employment years. These funds operate as trust-based investment vehicles, managed by professional fund managers and overseen by regulatory bodies such as the **Pension Fund Regulatory and Development Authority (PFRDA**) in India.

Some of the pension funds offered by insurance companies are also a good option as the returns are fixed and usually in parity with FDR returns. The main objective is to obtain a guaranteed regular source of income during a later stage of life.

# Synopsis Of Investment Options



| Sr. No | Particulars Of Investment | Risk | Duration | Expected CAGR % | Percentage Of Equity |
|---|---|---|---|---|---|
| 1 | Pension Fund | Nil | 5+ years | 5.5 to 6.5% | None |
| 2 | Debt Funds | Low to high risk | According to objective | 4 to 8% | None |
| 3 | Sovereign Funds | Nil | 5 years | 6 to 8% | None |
| 4 | Conservative Hybrid funds | Low-Risk | 2 years | 7 to 9% | 10 to 25% |
| 5 | Balance Advantage Funds | Low to Moderate risk | 2+ years | 8-10% | 35 to 65% |
| 6 | Aggressive Hybrid Funds | Moderate to High-Risk | 3 years | 9 to 11% | 75 to 85% |
| 7 | Equity Funds | High-Risk | 3+ years | 10 to12% | More than 90% |
| 8 | Small-cap Fund | High-Risk | 5+ years | 15-18% | Majority of the asset allocation in small-cap shares |

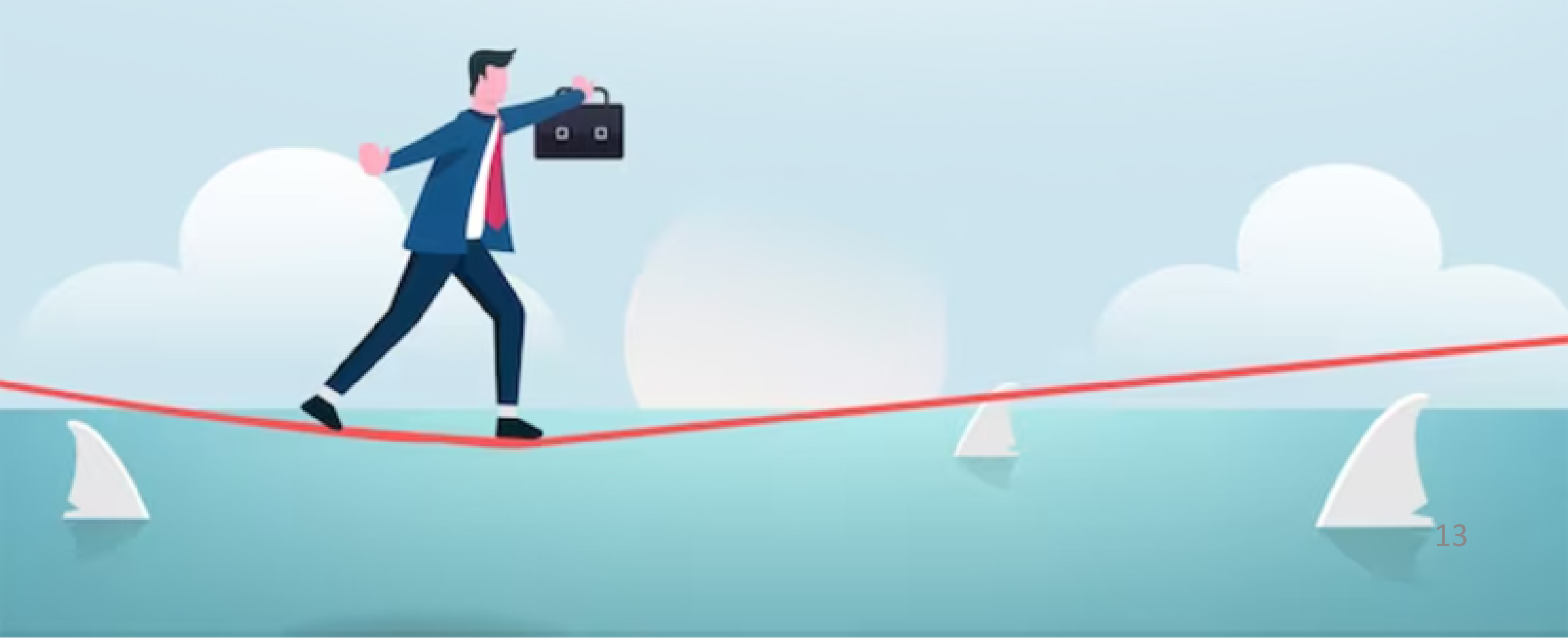
# Conclusion

Every trade had a buyer and a seller: an investor’s state of mind is paramount, however, the challenge is to strike a balance between risk and reward. When investing in markets, the willingness to embrace risk becomes essential in seeking opportunities for substantial returns.

However, it's essential to remember that walking the tightrope of investing requires skill, knowledge, and a thorough understanding of the potential risks involved. Just as tightrope walkers carefully calculate their steps and balances their movements, investors must conduct thorough research, diversify their portfolios, and make informed decisions to manage and mitigate risks effectively.

When it comes to investing, there is no one size fits all as various factors are at play such as age, financial requirements, risk appetite, investment objectives and many more. As a rational investor, one must take into consideration that our need for stable sources of income increases as compared to when we are young and open to taking risks.

Successful investors often recognize the delicate balance between risk and reward. They carefully access the potential upside against the downside, making informed decisions aligning with their financial goals and risk appetite. By navigating the market with an understanding of this relationship, investors can make strategic choices that have the potential to yield favorable returns over the long term.



# Performances

## Equity Market

| Indices | 01st June, 2023 | 30th June, 2023 | High | Low |
|---|---|---|---|---|
| BSE S&P SENSEX | 62,736.47 | 64,718.56 | 64,768.58 | 62,359.14 |
| NIFTY 50 | 18,579.40 | 18,817.40 | 18,886.60 | 18,464.55 |

## Mutual Fund

### AUM Data of Mutual Fund for the Month of June 2023

*(INR. In Lakh Crore)*

| Particulars | AUM As On 31-05-2023 | Fresh Fund Mobilize During June – 23 | Redemption During June – 23 | AUM As On 30-06-2023 |
|---|---|---|---|---|
| Total AUM of all mutual funds scheme | 44.12 | 9.46 | 9.45 | 44.13 |
| AUM of equity oriented (growth) schemes | 17.34 | 0.38 | 0.29 | 17.43 |

*Source: Association of Mutual Fund of India (AMFI)*

# Performances

## SIP Contribution

*(INR. In Crore)*

| Year | SIP Contribution | SIP AUM |
|---|---|---|
| JUNE-2023 | 14,734 | 7,93,609 |

## FII & DII Inflow/Outflow Position

FII's **buying** in the month of April 23 is 0.27 Lakh.
DII's **buying** in the month of April 23 is 0.04 Lakh.

### Inflow/Outflow position in the month of June - 2023

| FII /DII | Gross Purchase | Gross Sale | Net |
|---|---|---|---|
| FII | 2.35 Lakh | 2.08 Lakh | 0.27 Lakh |
| DII | 1.53 Lakh | 1.48 Lakh | 0.05 Lakh |