



Axis Small Cap fund outperforms in last one year. But is that enough?

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- Going by one year's track record, the fund's outperformance looks impressive, but investors shouldn't lose sight of the fact that equities are long term vehicle of investments

In a market where small cap stocks are being thrashed badly (S&P BSE Smallcap is down nine per cent), Axis Small Cap fund has delivered a return of around 22% over the past one year ended November 13, 2019 as per the data available on Valueresearchonline.com.

Most of the funds in the small cap category are in negative territory over this period. The average return of the funds in this category is around minus two per cent over the past one year.

The fund manager of Axis Small Cap fund, Anupam Tiwari, who has been managing the fund since October 2016 says that the outperformance of the fund can be attributed to the stock selection strategy.

Our allocation in sectors such as IT, Chemicals and Financial has worked well for the fund, added Mr Tiwari.

Expanding more on the stock selection strategy, Mr Tiwari said, "We select stocks looking at four parameters — good corporate governance, quality of business, business cycle (favourable business cycle) and valuation."

We completely avoid companies with bad corporate governance and those which don't show the ability or intent to scale up the business, he added.

Mr Tiwari said, “We look for good scalable and niche businesses and prefer debt free balance sheets. According to us, in case of small caps valuations are least important factor when compared to other mentioned above. But we do try to buy stocks at reasonable price and generally hold them for long term, he added.

With 37 stocks, the portfolio of the fund looks a bit concentrated when compared to some of its peers. This may show high conviction of the fund manager but such strategy can hit the performance of a fund during a market downturn especially in case of small cap stocks.

The fund manager said we do have stock allocation limit to manage the liquidity risk that a small cap fund may face.

What should investors do?

Going by one year's track record, the fund's outperformance looks impressive, but investors shouldn't lose sight of the fact that equities are long term vehicle of investments and therefore it's important investors don't choose their equity funds based on one year performance alone. If you are investing for many years in the future, it's important to look at returns many years in the past as well. Look at historical returns and ideally analyse the returns of the fund over longer period of at least five years to see the performance of the fund across market cycles. Also, returns should also not be the only criteria while choosing funds to invest in. Portfolio attributes such as the concentration risk as well as valuations should also be looked at say experts.

Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors, said, "If an investor is choosing to invest in a fund, he or she should not look at the returns in isolation and should also look at the portfolio of the fund. The current portfolio valuations of Axis Small Cap fund is higher than its peers. If this is going to be the only small cap fund in an investor's Portfolio, it is better to add one more fund with relatively lower valuations to balance the risk."