FY21 had plenty of lessons for equity MF investors

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When a lockdown was imposed last year to control the spread of covid-19, businesses came to a standstill and millions of livelihoods were at stake. Amid such uncertainty, the equity markets took a beating and large-scale redemptions were seen in equity-oriented mutual funds (MFs).

From July 2020 to February 2021, we saw eight consecutive months of net outflows from equity-oriented schemes. There has been a whopping total redemption of ₹46,790 crore from such schemes since July 2020.

Investments in MFs through the SIP (systematic investment plan) mode also saw a decline. As per the Association of Mutual Funds in India (Amfi), investors put in ₹79,370 crore via SIPs in the first 10 months of FY21 as compared to ₹1 trillion in FY20.

Were these large-scale redemptions justified? Did the redemptions prove beneficial for investors? Let's have a look at what actually happened.

With sources of income being affected dramatically and the increased need for liquidity, a lot of investors exited their existing investments to support their financial needs. However, a considerable percentage of redemptions were also attributed to panic and herd mentality.

If an investor had remained invested in equity-oriented schemes, he or she would have actually made substantial returns on their portfolio in the past 12 months. From March 2020 to March 2021, schemes in the mid-cap category had average returns of 96.53%, while the average returns in the small-cap category were 117.6%. Schemes in the large-cap category had average returns of 77.7%, while schemes in the multi-cap category had average returns of 83.9% (as of 22 March).

"When investing in equity markets, your objectives, time horizon and risk appetite are very important. If you are looking to invest towards long-term goals, the market fluctuations don't matter. The market level will also not matter and you don't need to time your entry. Investing through SIP mode even in uncertain times will help you enter the market at different levels and average out your costs," said Himanshu Srivastava, associate director, Morningstar.

With most equity-oriented schemes underperforming the benchmark, investors have started veering towards low-cost passive funds like index funds. Investments in index funds have doubled in the past year. Net assets under management in index funds rose from ₹7,930 crore in February 2020 to ₹16,867 crore in February 2021, as per Amfi.

Passive funds have outperformed actively managed ones in the lockdown year. But the story is a little different over the long term, data suggests.

For the past three- and five-year time horizons, a reasonable share of actively managed funds have fared better than their passive counterparts.

Instead of rushing to switch from active funds to passive ones, Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors, asks retail investors to strike a nuanced balance between both. “Investors will benefit from taking an ‘and’ approach instead of an ‘either or’ approach. In MF categories where alpha generation is relatively difficult like large-cap schemes, investors can benefit from low-cost index schemes. For aggressive categories like mid-cap and small-cap, investors can opt for actively managed schemes that will help them generate returns over time," he said.

The very nature of equity markets is to go through ups and downs and MFs with their different categories and structured management aim to help investors attain their objectives and earn returns.

In times of adversity or otherwise, retail investors have benefited from staying invested without swaying to the market noise, and depending on professional fund managers to do their job well.