

Avoiding a knee-jerk reaction to Axis MF issue

Abhinav Kaul | 10 May, 2022 | 13:39 AM IST

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The mutual fund (MF) sector has been rocked by fresh allegations after asset management company Axis Mutual Ltd on Friday said that two fund managers have been placed under suspension following an ongoing investigation into potential irregularities.

Mint had last week reported that the Securities and Exchange Board of India (Sebi) is examining whether fund managers at Axis Mutual Fund may have engaged in “front-running” or trading securities through their personal accounts ahead of the fund’s transactions on behalf of

unitholders.

Front running refers to the illegal practice of using non-public information or confidential information, for buying or selling securities ahead of a large order, to benefit from the subsequent predictable price movement, post the execution of the order.

The two fund managers who have been suspended are Viresh Joshi, head dealer and fund manager of five MF schemes, and Deepak Agarwal, equity research analyst and fund manager for three MF schemes.

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The reports of regulatory violations at Axis MF have come as another shock for investors recovering from the alleged irregularities at Franklin Templeton, leading to speculations that the fund house has been witnessing heavy redemptions.

Industry insiders, however, have refuted these rumors, saying that it is “business as usual” at Axis MF.

Still, financial advisors have revealed that they have been getting calls from worried investors.

“This would certainly have near-term effect for a few quarters or maybe a year or so in the form of new mobilization of fund in Axis MF, especially in the equity segment, because investors in last couple of years experienced difficulties in the debt segment at another fund house. It will not be a walk in the park for the fund house,” said Amol Joshi, founder of Plan Rupee Investment Services.

“As an industry, this is something which we clearly could have done without,” he added.

Experts, however, suggest avoiding knee-jerk reaction to the issue.

“Whatever has happened is absolutely wrong. From an investor’s perspective, I think the quality of stocks that Axis MF holds in its portfolio continues to be good. So, considering the way they have performed over the years, I don’t think anyone needs to take a knee-jerk reaction and be in a rush to redeem just because of this particular issue,” said Harshad Chetanwala, a Sebi-registered investment adviser and co-founder of MyWealthGrowth.

According to Joshi, investors redeeming after the development will expose themselves to two kinds of downsides. “One is exit load depending on when you have invested and second is the taxation, be it long term or short term. First assess your risk profile as well as schemes performance and take a call based on that rather than taking a blanket exit call,” he said.

For investors witnessing underperformance in their schemes, Vishal Dhawan, CEO and founder, Plan Ahead Wealth Advisors, suggests that the recent underperformance should not matter if investors are in for the long-term. “However, you can protect yourself from these kinds of shifts by either having a blend of growth and value fund managers or adopting passive funds which by default have such a blend.”
