

MUTUAL FUNDS POINTERS

Are Your Diversified Equity Funds Truly Diversified?

The top-10 stocks of the Nifty 50 index account for nearly 53% of that index. The price movement of these stocks defines the trend of the index. Therefore, if one wanted to track the performance of the Nifty 50, all he would need to do is to invest in the index heavyweights. Mutual funds, under a rule laid down by the regulator, have to choose a benchmark index, which could be Nifty 50, S&P BSE Sensex, BSE 200 or Nifty 500. The weightage of all these indices is skewed to the top stocks. Therefore, equity schemes which are benchmarked to these indices, more often than not, have an allocation to the index heavyweights in their top-10 holdings. We analyse the top-10 holdings of actively managed mutual fund schemes, to check whether equity funds, as a whole, are discreet closet indexers or not.

Among the top five heavyweights of the Nifty 50 holdings, are: HDFC Bank (8%), HDFC Ltd (6.89%), ITC (6.82%), Infosys (6.41%) and Reliance Industries (5.43%). If we move down the list, we get stocks such as ICICI Bank, TCS, L&T, Tata Motors and Axis Bank. Alongside, we have published the list of the top-10 holdings of large-cap, multi-cap schemes.

Out of the 56 large-cap schemes, most include index heavyweights in their top-10 holdings, albeit, in different weightage. Stocks such as HDFC Bank, Infosys, ICICI Bank and Reliance Industries will be often found among the top-10 holdings of large- and multi-cap schemes.

Like the indices, most schemes, too, have a high allocation to their top-10 holdings. In the category of large-cap schemes, as many as 25 schemes (out of the 56) have an allocation of 50% or more to their top-10 stocks, most of which are present in the index. Some of these are 'focused' schemes; thus as per their investment mandate, they maintain a portfolio of around 25 stocks.

However, others, such as JPMorgan India Top 100, ICICI Prudential Top 100, DSP BlackRock Top 100 and Reliance Top 200, have over half their assets invested in just 10 stocks. Just by looking at the name of the scheme, one would assume that their portfolio would be well-diversified. However, in reality, it is far different; just these 10 stocks contribute to half their returns.

In the large-cap category, schemes with the lowest allocation to their top-10 holdings include IDFC Classic Equity, IDFC Dynamic Equity, SBI Bluechip, Birla Sun Life Frontline Equity and L&T Equity. These schemes

had a total allocation of around 33%-37% to their top-10 stocks. On an average, the large-cap equity scheme category maintained an allocation of 48% to their top-10

Most Popular Stocks in Top-10 Holding

Large-cap Funds	Number of Scheme	Average % of Net Assets
HDFC Bank	53	7.90
Infosys	51	5.41
ICICI Bank	42	4.78
Reliance Industries	34	4.34
Larsen & Toubro	32	4.60
ITC	27	4.83
IndusInd Bank	26	3.79
Maruti Suzuki India	23	4.48
Tata Motors	23	4.07
Axis Bank	23	4.42
Multi-cap Funds		
HDFC Bank	52	6.52
Infosys	39	4.56
ICICI Bank	31	4.82
IndusInd Bank	23	3.98
State Bank of India	23	4.84
Yes Bank	20	4.51
Maruti Suzuki India	19	4.23
Axis Bank	18	4.15
Tata Motors	17	4.01
Reliance Industries	16	4.01
Mid-and Small-cap Funds		
Divis Laboratories	13	3.60
Atul	11	3.41
IndusInd Bank	11	3.18
Yes Bank	10	3.56
The Ramco Cements	10	3.38
Bajaj Finance	9	3.74
Voltas	9	3.03
HPCL	8	3.00
SRF	7	4.10
Cholamandalam Inv. & Fin. Co	7	3.31