

Axis MF suspends two fund managers, launches investigation; SEBI reviewing front-running

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Axis Asset Management Company announced on Friday that it had suspended two fund managers for "potential irregularities". The fund house said it had been conducting a suo motu investigation since February this year and had hired outside advisers for the same.

Chief trader and fund manager Viresh Joshi and deputy fund manager Deepak Agarwal have been replaced in seven fund house schemes, amid allegations of front-running and illegal gains. The Securities and Exchange Board of India (Sebi) is reportedly looking into the issue of potential irregularities in the fund house.

Joshi managed five funds, namely Axis Arbitrage Fund, Axis Banking ETF, Axis Consumption ETF, Axis Nifty ETF and Axis Technology ETF. On the other hand, Axis Consumption ETF, Axis Quant Fund and Axis Value Fund, were managed by Agarwal, according to data published by Value Research.

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Front-running is the practice of trading securities based on prior information about an upcoming trade that could affect its price movement. For this offense, Sebi generally restrains entities/individuals from buying, selling or trading in the securities market or associating with the securities market, directly or indirectly, in any way, as indicated in previous cases.

Front-running is difficult to establish because it involves a fund manager using friends or other unrelated entities to buy shares before the fund house buys them for its projects. The fund manager can use his network to buy stocks ahead of the fund house, so he can personally benefit from rising prices. Since the people buying the shares on behalf of the fund manager are not related to him, it becomes difficult to establish a direct link.

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Pranav Haldea, Managing Director of Prime Database Group, says, "It is very difficult to detect front-running cases. Therefore, if found guilty, an exemplary punishment can have a powerful deterrent effect. The full picture in terms of buyouts, exits, etc. will not be known until the disclosures for May are filed early next month.

After the change, Jinesh Gopani, Head - Equities, Axis MF, will manage Axis Technology ETF and Axis Value Fund. Fund Manager Ashish Naik will manage Axis Quant Fund, Axis Nifty ETF, Axis Consumption ETF and Axis Banking ETF.

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There is also talk of the CEO of Axis AMC being furloughed, pending investigation, but FE could not independently verify this and the fund house has remained silent on the matter.

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