

# Axis MF's equity funds in focus amid reshuffle in top deck

After a breakneck rise in assets, growth has been sputtering of late

ASHLEY COUTINHO  
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**AFTER A BREAKNECK** growth in assets, especially between 2017 and 2020, that catapulted it from a mid-sized to a large fund house in a matter of years, Axis Mutual Fund's growth has been sputtering of late.

The primary reason seems to be the underperformance of its equity schemes, which were, until 2020, on the top of the chart. For a one-year period, five of its six key equity funds have underperformed the category average returns of its peers (see table). The same is the case for a three-year period.

In the last one year ended January, assets of all its equity schemes have slid 3.9% to ₹1.45 trillion, data from primemfdatabase.com show. That's an erosion of ₹5,652 crore in absolute terms. Among the top-seven fund houses, only Axis MF and Aditya Birla Sun Life MF have seen a dip in equity assets in the last year, with the latter losing 2.4% or ₹2,330 crore in equity AUM.

Axis MF follows a quality and growth kind of approach where it tends to look at companies that can generate consistent revenue and profit growth, said experts. Fund managers do not focus so much on valuations and do not mind paying a higher price for growth. Typically, these include companies that are among the top in their sectors (Asian Paints in FMCG, Bajaj Finance and Bajaj Finserv in financials and Avenue Supermart in retail).

"This style has gone out of favour in the past two years. Several growth companies have seen their growth falter a bit in an economic cycle where interest rates are going up and there are concerns over slowing growth," said Dhaval Kapadia, director, portfolio specialist, Morningstar Investment Adviser India.

There has been a comeback of value stocks and cyclical sectors such as PSU banks, commodities, capital

## UNDERPERFORMING PEERS

Returns (%)	Category average	1-year	3-year	AUM (₹ cr)
Axis Small Cap Fund	3.4 32.1	6.04	28.3	11,462
Axis Midcap	5.8 24.7	0	20.96	18,920
Axis Bluechip Fund	1.2 19.2	-5.2	12.63	33,049
Axis Flexi Cap Fund	1.2 18.5	-6.9	13.43	10,077
Axis Growth Opportunities Fund	2.8 20.7	-3.1	22.18	8,053
Axis Long Term Equity (ELSS)	2.7 20	-9.3	10.94	28,754

NB: Scheme returns for direct growth plans

Source: Groww.in



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JINESH GOPANI,  
HEAD OF EQUITY, AXIS MF

goods and infrastructure in the last few years. PSU banks, for instance, underperformed for a long period of time. But with NPAs bottoming out and balance sheets looking cleaner, some of these stocks have got re-rated on expectations of a better growth.

Jinesh Gopani, head of equity, Axis MF, believes a combination of factors has put the quality and growth style out of favour over the past few years. The extreme polarisation in valuation of high- and low-quality stocks during the initial phase of the pandemic gave way to a runaway rally in low-quality stocks, as governments injected liquidity into the system, he said. This brought about a surge in inflation amid a pent-up demand from consumers, leading to a series of rate hikes by central banks. This impacted the quality stocks even further, given the possibility of slower

growth amid rich valuations.

"High-quality companies were impacted the most in 2022 due to these factors and the same effect is lingering in Q1 of CY2023. Given our experience, we believe that there will be turnaround in the performance once interest rate hike peaks out and the earnings surprise among the cyclical companies comes to an end. Over the long term, investors are likely to generate wealth through high-quality investing," said Gopani.

Axis MF tends to follow a similar style across its equity schemes which is not the case for most fund houses, say experts. When HDFC MF's equity schemes, for instance, were underperforming between 2017 and 2020, it was largely Prashant Jain's funds which were underperforming, and not those of its other managers, said an industry official.

"Fund houses go through periods when their schemes don't do well, or their investment styles fall out of favour, or they simply get their investment calls wrong. Sometimes it's just a cycle, and Axis MF may be going through such a phase right now. The fall in their equity assets seems to be due to recent performance issues," said Vicky Mehta, an independent analyst who tracks mutual funds.

Kapadia pins the blame on investors (and distributors) who tend to chase performance without fully understanding the risks, investment style and the reasons driving the performance. Investors typically see the one- and three-year returns, and when the performance falters, they tend to redeem. "Axis MF has a solid investment team and to their credit, they have consistently followed their own style. It's difficult to predict when the cycle will change and the quality and growth style will come back in focus; it is also a question of sentiment. One can track valuations and see if the sector or stock is overheat relative to its own history vis-a-vis other sectors," said Kapadia.

The AMC recently appointed Credit Suisse's Ashish Gupta as its chief investment officer and B Gopkumar as its new chief executive, and this may lead to a rethink in its investment strategy.

"With a new CEO and CIO on board, it will be interesting to see if the fund house's broader investment strategy undergoes a change. It will be safe to assume that the new team will be focused on improving fund performance. How they go about doing so, remains to be seen — will it be a case of making minor tweaks or effecting fundamental changes?" said Mehta. These changes may not be perceptible in the immediate future and investors would do well to monitor both fund portfolios and performance to determine if the funds continue to be apt for them, added Mehta.

Gopani, for his part, insists that the fund house plans to stick to the high quality and growth-focused investment philosophy. "Our research and understanding is that investors can make sustainable long-term wealth through high quality and growth investing."