

VALUE FUNDS: FLEXIBLE PICKS TURN OUTPERFORMERS

While these funds are better than category average, every fund manager has his own definition of 'value'. So, study the scheme carefully before investing

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Every time a fund performs well, investors flock to it and start pumping in their money. Currently, this is true in case of funds that pick stocks based on value-investing principles.

Tata Equity P/E has seen an increase of 305.7 per cent in its assets under management (AUM) in the past year. ICICI Prudential Discovery has seen its AUM swell by 251 per cent in the same period. Of the other two open-ended value funds in existence for over a year, the AUM of UTI Master Value grew 48.3 per cent and Taurus Discovery rose by 31.4 per cent.

Among the universe of more than 250 equity-diversified funds, ICICI Prudential Discovery and UTI Master Value top the charts with 72.55 per cent and 68.5 per cent returns, respectively, in the past year.

Tata Equity has regularly beaten its benchmark over the past five years. Even the one-year return of the fund is 49.1 per cent, whereas its benchmark, the Sensex, yielded only 23.2 per cent.

Financial planners, however, say a person should independently study each of these funds before investing, as these are not purely value funds. An investor should look at their portfolio and past performance to evaluate them, just like any another equity-diversified scheme.

A value fund should pick up stocks that are cheaply avail-



VALUE CREATORS

Portfolio allocation and P/E ratio of value funds in India (as of May)*

Scheme name	Value (%)	Blend (%)	Growth (%)	Other (%)	Debt & cash (%)	P/E ratio
Birla Sun Life Pure Value Fund (closed-end)	58.05	23.81	14.19	0	3.95	16.11
Fidelity India Value Fund	35.75	22.44	26.91	7.24	7.67	20.79
ICICI Prudential Discovery	49.93	12.99	23.79	4.86	8.43	16.63
Sahara Star Value Fund	69.26	7.29	15.41	0	8.04	18.02
Tata Equity P/E Fund	44.71	30.37	12.04	0	12.88	17.11
Taurus Discovery Fund	28.07	29.8	29.06	0.48	12.59	23.66
UTI Master Value Fund	51.16	26.82	15.29	1.44	5.29	16.58

Value: P/E ratio of 0-16, Blend: P/E ratio of 16-24, Growth: P/E ratio of greater than 24

*(Portfolio of Fidelity India Value Fund as of April-end)

Source: iFAST Financial India

able. It is similar to a contrarian call but based on the valuations of a company. For example, telecom stocks in the current scenario. The holding period for these stocks can be high, as the fund manager needs to keep these in the portfolio until he feels the value is realised.

“But in the Indian context, a value fund is more like a

theme fund. The portfolio comprises of stocks that are value as well as growth,” said Malhar Majumder, a certified financial planner.

An analysis of the portfolio of the seven value funds by iFAST Financial India, based on the price-to-earnings ratio (P/E ratio), show the percentage of value stocks in a mutu-

al fund portfolio varies between 28.1-69.3 per cent. UTI Master Value Fund portfolio has 51.2 per cent value stocks, whose price-to-earnings is lower than 16. Around 26.8 per cent of stocks blend, that is, the P/E ratio of the stocks is between 16 and 24. And, 15.3 per cent are growth stocks, with P/E ratio higher than 24.

Variable judgements

Another financial planner said there is no one definition for value investing and every fund manager perceives value in his own way. For example, Fidelity India Value has Reliance Industries, Infosys Technologies, HDFC Bank, HDFC and ITC as its top five holdings. Tata Equity PE has Axis Bank, ONGC and Hindalco Industries in the top five holdings. Conventionally, investment experts do not consider these stocks as value picks.

Nitin Bajaj, portfolio manager, Fidelity India Value Fund and Fidelity India Special Situations Fund, said: “Value investing is agnostic to the size of the company. Value investing means buying a business for less than it’s intrinsic worth. When the fund decided to take positions in the stocks mentioned (above), the belief was that these businesses are worth more than what was being paid.”

Another reason for value funds holding large-caps is to have liquidity in the portfolio. S Naren, chief investment officer at ICICI Prudential Mutual Funds, said: “We keep some percentage of large-caps so that we have a liquid portfolio. Large-caps can be easily sold to meet redemptions. We also use large-caps to temporarily park the money till we narrow down on a value stock.”

Financial planners advise that a large portion of an investor’s portfolio should remain in equity diversified funds. “These funds are flexible and they do value stock picking, too,” said Majumder.