THE HINDU Business Line

‘We won’t merge dissimilar funds’

We have always taken risk as a fund house. We tilt towards mid- and small-cap stocks and take strong bets on them. Now, we are taking more measured bets and monitoring them closely.

It hasn’t been smooth sailing for Sundaram Mutual Fund recently. Quite a few of its equity funds, including large thematic ones, have been lagging behind peers. There have been exits from its investment team as well. So what does Harsha Viji, Managing Director of Sundaram Asset Management Company, plan to do about all this? We spoke to him to find out.

Excerpts from the interview:

Many of Sundaram Mutual’s equity funds — including Sundaram Growth, Sundaram Select Focus and a few thematic funds — today figure in the bottom quartile on three- and five-year returns. What is your strategy to deal with this?

Our best known funds are in the mid- and small-cap space. Our performance today is somewhat coloured by the crash in mid- and small-cap stocks. Sundaram Select Midcap has managed a 30 per cent annualised return over the last ten years. Sundaram SMILE has done very well last year but has slipped up recently.

Thematic funds are a particular kind of beast. They allow informed investors to place a bet on a specific sector. Ultimately, their performance depends on the sector. The Entertainment Fund is in the first quartile in its category. The Rural India fund has been in the first or second quartiles. Yes, two of our thematic funds which have done very poorly are Energy Opportunities and Capex Opportunities.

When we sold these funds, we thought the sectors were taking off right then and that’s what we and all our peers were wrong about. I think there we have little room to restructure the portfolio.

We are particular about sticking to the mandate on which we sold the funds.

But there are other factors that investors look at. This is a time when foreign players such as Fidelity, despite their might, have pulled out for strategic reasons and many smaller fund houses are looking to sell too. I think this hits investors.

One of the things that investors want today is someone who stays the course. The Sundaram Finance group is committed to this business. And helped by our retail/equity investor base, we have also remained profitable in every one of the last five years. So this is a long-haul game for us and it is not acceptable if our funds don't perform.

We have a clear vision for this business. We want to get to Rs 40,000 crore in assets in three-four 3-4 years.

I think there is a realisation in the industry that investors are not able to time their entry and exit into thematic funds. A few houses have merged their schemes. Can Sundaram Mutual not do this?

I think you have to question how many of those mergers are made in investor interest.

When you put two thematic funds which are very different together, the objectives may get diluted. Investors can readily put in a redemption request in one fund and put the money into another, isn't that so?

The merger is an admission that the thematic fund was launched at the wrong time and that returns may not meet expectations.

We have merged funds too — we merged Leadership and Growth Funds. However, we will only merge funds where the themes are very similar. I think we would be betraying investors if we merge two completely dissimilar funds. We do have pending applications with SEBI to merge Capex Opportunities and Energy Opportunities.

If we put these funds together as an Infrastructure fund, we think we can create more value for the investor because the fund gets a bigger mandate.

Consistency of fund performance is also important. What are you doing to ensure that?

We have always taken risk as a fund house, in the sense that we tilt towards mid- and small-cap stocks and take strong bets on them. Now, we are monitoring those bets quite closely. In an uncertain market, rather than take gung-ho bets, we are taking more measured bets and are tracking the index more closely.

We are also not taking a short-term view on mid and small-cap stocks. Improving performance is a priority.

I think Indian investors are very smart. What they buy is not past performance, but future performance. So when I bet on a fund house, I take a call on whether they will stay the course, they have the capital, can retain talent, fix performance and so on. I think it is the same with us.

You have had a few exits from your investment team, including Satish Ramanathan leaving recently. So what are you doing about it?

These exits do not faze us and we will do what it takes to improve fund performance.

Fund managers do come and go. Look at Sundaram Select Midcap. The fund has had four fund managers over ten years and the fund has delivered a 30 per cent annualised return. We are not a house of star managers. There is a process in place and the fund house is behind every scheme. It is a very high pressure job and so some people do leave.

Equally, we are bringing in younger fund managers. We have Bharath who has been with us as an analyst for over eight-and-a-half years, as a fund manager for the last year. Shiv Chanani has prior fund management experience. We still have senior fund managers — Krishnakumar and Venkatesan. We now have a good blend of fresh blood and experience. On the debt side, we have an excellent team led by Dwijendra Srivatsava.

Any plans to hire new fund managers from outside? Is being located in Chennai a constraint to attracting good talent in this business?

Not at all. We have always found good people. We have brought in Dwijendra and Shiv Chanani from outside. If you are asking whether we plan big hires, we don't. The market conditions aren't great now and we have enough people in-house.

Are you facing redemption pressure on your funds owing to weak performance?

No. I would say the redemption pressure we are facing is the same as that the industry is facing. In the thematic funds, investors who wanted to redeem have already pulled out.

So what is your message to investors?

We have significant growth plans. We have the capability and the team to get there.

We have made a lot of investments in it. Our debt funds have delivered good returns.

Our equity fund performance today is partly clouded by the fact that we have a mid and small-cap bias. But we are committed to this business and will do what it takes to improve performance.