



Mr Waqar Naqvi, CEO, in a discussion with Hindu Business Line Views on consolidation of Mutual Fund Industry & Impact of ban on entry load

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'A few basic products are enough to drive growth'

Aarati Krishnan

Despite intermittent rounds of 'consolidation' in the Indian mutual fund industry, the relatively small Taurus Mutual Fund has remained quite resilient with one or two of its funds routinely figuring as top performers. What has helped the fund weather challenges, including the upheavals

GLOBAL VIEW

caused by the entry load ban on mutual fund products? Mr Waqar Naqvi, the fund's CEO, in a discussion with *Business Line*:

In India, the smaller fund houses are invariably expected to become part of a 'consolidation' process. But Taurus Mutual Fund, despite a not very large asset size, has survived for quite sometime. To what would you attribute this?

Quite a few things. I believe that all this talk of 'consolidation' in the mutual fund industry is like someone talking of the World War III after World War II. People will predict it,

but it may take a long while to happen. One reason why we do not see any reason for consolidation is that a small fund house does not bring large value to the table for a large one.

I also think consolidation is a misnomer. A fund's ownership may change hands. In India, ownership changes for funds have happened, not due to consolidation but due to global level decisions and such. We have seen multinationals exiting the business because they themselves saw ownership changes or were in a tight spot. The owners of this business (Taurus Mutual Fund) were not interested in selling.

Taurus itself took, over Bank of India AMC. Another strength of Taurus has been that over the last ten years, the AMC was always making profits and the same was always ploughed back into the business lending the balance sheet of the AMC an intrinsic strength. It was getting accumulated and invested in the stock markets and that has helped the business. This is a



Mr Waqar Naqvi, CEO, Taurus Mutual Fund

long-haul business, it is not a two or five year game. There are larger fund houses which have come into profits only recently.

Your product portfolio has not expanded much over a five-year period.

You have the largest fund in the world — Vanguard running only index products. Therefore, over the long-term it is my belief that there is just space for basic products in a fund house — a diversified

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large cap fund, mid-cap diversified fund, index funds and so on. So there seems to be no need to have a plethora of thematic funds. That is why Taurus has not gone berserk in launching a lot of products. We may launch a couple of other funds which I feel are separate categories — a Monthly Income Plan, for instance. We have Taurus Ethical Fund which is a Shariah Fund but covers 80-85 per cent of the market. I do not see Taurus launching funds playing on narrow themes. We recently got approval from the SEBI for an index fund.

Open end index funds in India haven't actually done too well and have had large tracking errors. What will be your differentiators for this fund?

We will just plainly replicate the Nifty, it is not an index-plus or an index enhancing fund. I think in times to come, AMC's will look at low cost products. Index funds are one such category. ETFs are the second category.

Quant funds too would be a category. While we keep walking our path of what the demands of the marketplace are today, we also need to position ourselves for the 'main roads' of the future.

Why do you think index funds in India have large tracking errors and are you taking any steps to plug this?

My offer document says that the cash in the portfolio will never be over 5 per cent; that should reduce tracking error significantly. Secondly, I feel

that if index funds that replicated the Nifty or the Sensex paid out a large dividend, the tracking error increased. We will not pay large dividends. So tracking error should be minimal. That brings me to another point. True-to-label products will gain currency. To my mind, we are true to label and we do not tilt products towards narrow themes.

What impact has Taurus Mutual Fund faced from the SEBI phase out of entry loads on products? As a smaller fund house, have you faced a greater impact from this?

People seem to expect smaller fund houses to bear the brunt of every event that happens. But Lehman Brothers was not a small investment bank! Nor was Enron a small power company. These instances tell you that it is not always smaller companies that are at the centre of every crisis.

On a more serious note, smaller fund houses did not pay commissions that were higher than the entry load they were earning. Before the

load waiver, a smaller fund house also has to shell out the same commissions as a larger one. I don't see any change in that. In fact, when schemes were allowed to pay agent commissions out of scheme accounts, larger fund houses who already had surpluses would have benefitted. Now that is not allowed. However, in every industry it is true that larger companies have advantages. That is true of mutual funds as well.

Taurus Mutual Fund manages several equity funds with relatively small assets. Is small size an advantage?

Small size may be an advantage for a mid-cap or small cap fund, but not for a large-cap, fund or a multi-cap one. I wouldn't say that small size is an advantage.

Ultimately, it boils down to the manager's ability to predict the market and also pick up the correct stocks. I have seen funds with a low cash component doing badly in this market because the stock picking wasn't great. In truth, I haven't

seen size making any difference to fund performance one way or another. I would attribute 70-80 per cent of a fund's returns to the stock selection skills of the manager.

What's your game-plan for Taurus Mutual Fund?

We are a 16-year-old fund house and one of the oldest. Our registration number with the SEBI is 0002. Yet, we have been in hibernation for many years. The last two years have been a watershed year for Taurus.

We have shifted our headquarters and revamped our logo and corporate colours. We had Rs 201 crore under management in April 2009 and have managed an over 1,000 per cent growth, on what is admittedly a low base. We have a solid team and very good processes and infrastructure. That reflects in the fact that funds such as Taurus Infrastructure, Taurus Ethical and Taurus Taxshield figure among the top performing funds. We have to keep doing what is right. I believe there is no short cut to success.

We will continuously keep you abreast of latest development and happenings at Taurus Mutual Fund through this mail service "TAURUS Talk".

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