

Taurus Ethical Fund in Mutual Fund Insight

Source: Mutual Fund Insight, Editions: All India, Date: April 15 - May 14, 2011

RANDOM PICK Taurus Ethical

The ethical path

It sounds good in theory, but investors must see if the returns bring a smile to their faces

If this fund falls under the 'Equity: Mid & Small Cap' category, it is by sheer default. The fund manager does not set out to do so. His starting ground and his final selection are completely free of market cap biases. Neither does he find himself restrained by any particular sector since this is not a sector specific fund. However, when he strictly follows its investment mandate, certain sectors are bound to get eliminated in the process.

The fund's investment mandate is to follow the *shariah* based investment process. This is guided by the Islamic investment philosophy that only invests in companies based on certain screening norms. It is based on the fundamental principles of justice, transparency, common interest and public need. Due to the Islamic view on charging of interest rates and short selling, banking and financial sector stocks like brokerages are avoided. Business activities related to pork, alcohol, gambling, pornography and tobacco are also excluded.

This exclusion instantly puts the fund manager in a very tight spot. Stocks like United Breweries or ITC are

automatically eliminated from the investment universe. As far as most of the other sectors that cannot be touched are concerned, there is not as much of depth to them and hence would not give cause to be concerned. However, a glaring exclusion is Financials. Currently, if you take a look at the best performing funds, it is the banking sector funds that are calling the shots. Banking stocks are in a sweet spot. So to manage a portfolio where every single banking stock is excluded means that the fund manager has to work that much harder to get some great picks. Fund manager Sadanand Shetty agrees. "When the rally is mostly driven by banking stocks it would be more difficult to beat the Sensex, BSE 100 and even an equity diversified fund," he says. But that does not seem to perturb him. "It's not always that banking stocks perform well. Recently, during November to mid-February, due to the issues with non-banking finance companies (NBFCs), banking stocks were under performers and during this time we performed quite well," he claims.

He certainly has a point, but as long

SNAPSHOT

S&P CNX500 Shariah Index
Benchmark

₹25.99 crore
Average net assets (March 2011)

March 2009
Inception

Open ended
Fund type

Equity: Mid & Small Cap
Fund category

Not rated
Rating

2.50%
Expense ratio (March 2011)

Sadanand Shetty
Fund manager



LONG-TERM HOLDINGS

- HCL Technologies
- Thermax India
- GVK Power & Infrastructure
- Apollo Hospitals Enterprise
- Titan Industries
- Rallis India
- Exide Industries
- Mundra Port & Special Eco Zone
- Greaves Cotton

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as banking stocks rule the roost he has to bear the brunt. "Banks are high beta stocks, so I look at a cluster of companies in terms of stock movements which have similar betas, which can do well in similar markets and can match up with the banking sector performance," says Shetty.

By and large, the fund manager's universe is not terribly restricted. Shetty has around 200 stocks to make his selection from. The list is presented to him on a periodic basis and is not static. Depending on numerous parameters, companies are included or excluded from it. The problem here arises if the fund manager has already invested in a stock which is excluded in the revised list. He would have to exit at a loss or at least not at an optimal price. This would, to a large extent, explain why there are numerous stocks that are not there for long periods of time or the very noticeable movement in and out of stocks. To cite an example, Gammon India has made two appearances in the portfolio for brief periods and never invested in again. Ditto with Cipla, Dabur India, BHEL and Havell's India, just to cite a few instances. In the March 2011 portfolio, Divi's Laboratories and Dr Reddy's Laboratories have been exited from.

The fund manager tilts towards a mid-and small-cap portfolio, which is fine considering the very small asset base. This provides him with ample flexibility

How the indices stacks up

	Returns (%)		
	3-month	6-month	1-year
Nifty Shariah	-6.27	-2.17	5.43
S&P CNX 500 Shariah	-6.68	-4.06	5.12
BSE TASI Shariah	-6.32	-	-
Sensex	-5.19	-3.11	10.94
Nifty	-4.90	-3.25	11.14
Taurus Ethical	-6.84	-7.51	9.45

Returns as on March 31, 2011

to move in and out of positions. Neither does he have to worry about packing the portfolio with stocks to diversify risk. The small size of the fund allows him to get by with around 28 stocks and till date his investment universe has been a little less than 110 stocks.

Ultimately, what sells is performance. The fund may have a great unique selling proposition in terms of investment mandate, but if it does not deliver, investors will not bite the bullet. And on that front, the fund has not been a top-of-the-ladder option, but has put up a good show. In the all the months when the category has been in the negative, this fund has fallen by less than average. The fund struggled between July 2009 and September 2009, but since then has managed to beat the average monthly return pretty consistently. Even its current 1-year, 2-year and year-to-date returns put it ahead of the average. Given its restrictions, that does speak well for the fund. ■

Our View

WHY WE PICKED THIS FUND

Since the fund has yet to complete three years of existence, it cannot be ranked or appear in our recommended list of funds. Its performance history is also too short to make a judgement. Nevertheless, it was selected for 'Random Pick' simply because of its unusual investment mandate.

WHAT WE LIKE ABOUT IT

It caters to a need which no other fund does. While it does follow the Islamic way of investing, any investor who is keen on following an ethical approach to investments would also be happy to consider such an investment

WHAT WORKS AGAINST IT

The slightly restricted investment universe and the unavailability of banking stocks in its portfolio. The changing investment list can also hurt if a stock gets eliminated for not fitting the criteria forcing the fund manager to exit at a price that would hurt his investment.

Performance



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TOP SECTORS (%)

Energy	19.51
Engineering	16.68
Technology	12.62
Healthcare	8.17
Services	6.76

TOP STOCKS (%)

Infosys Tech	7.20
Reliance Ind	6.22
ONGC	5.11
Havell's India	4.98
Apollo Hospitals	4.90

Investment strategy

Taurus Ethical Fund is an actively managed, open-ended diversified equity fund. It will invest in companies which are compliant with *shariah* norms. The fund will invest in sectors relatively less impacted by global turmoil and in companies with a good business model, strong balance sheet and cash generation ability. The portfolio will be adequately diversified by investing across compliant sectors and themes to maximize returns with a focus on long-term capital appreciation. There are levels at which the investment mandate is implemented.

SECTOR-BASED SCREENING: Stocks are first screened used certain sector norms. Companies that are found to be *non-shariah* compliant are eliminated.

ACCOUNTING-BASED SCREENING: Once the subjective element, in terms of type of business, is dealt with, the next level of screening is done by studying the structure of the business. There are three aspects that are considered - Leverage compliance, receivables and cash compliance, and revenue share from *non-shariah* compliant activities.

FUND MANAGER DISCRETION: The list presented to the fund manager would form his investment universe and he would then have the flexibility to pick the stocks that he favoured.

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