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WHAT MERGER OF FUNDS BY HDFC MF MEANS TO INVESTORS?

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HDFC Mutual Fund decided to merge three of its schemes with HDFC Large and Mid Cap Fund, which was formerly known as HDFC Growth Opportunities Fund.

The three schemes are HDFC Long Term Advantage Fund, an ELSS scheme, which was closed for subscription as part of the scheme re-categorization and rationalization exercise in 2018; and two close-ended schemes - HDFC EOF - II - 1126D May 2017 and HDFC EOF - II - 1100D June 2017, which are expected to mature on 14 January 2022 and 20 January 2022, respectively.

On what should unitholders do when the schemes invested in gets merged with other, Suvajit Ray, Head - Products, IIFL Securities said: “MF schemes merging are usually not a cause for worry for investors. The process is well-regulated and all unit holders' investments are safely taken care of in the merger process."

He added, “investors should however pay attention to the nature of the surviving scheme i.e. what is the name/category of the scheme that will remain after the merger. If they are not keen on staying invested in a different category due to already existing exposure or not preferring that category, they can consider exiting or switching into a more suitable scheme."

Investors of all the three merged HDFC schemes have been given a load-free 30-day exit window to redeem their investments if they want to. For the ELSS scheme and the - HDFC EOF - II - 1126D May 2017, the last date is January 14, 2022, while for HDFC EOF - II - 1100D June 2017, the window is open till January 20, 2022. Unitholders of HDFC Large and Mid-Cap Fund, with which other schemes are merged are also given an option to leave until January 20, 2022, despite all features of this scheme shall remain unchanged, as per HDFC MF. Investors may also choose to exit later with exit load, if any.

Fundamental attributes

All the three funds that are getting merged are significantly large-cap oriented while HDFC Large and Mid Cap also has meaningful exposure to mid-cap, as the category mandates a minimum investment of 35% each in large as well as mid cap stocks.

As per the data from Geojit Financial Services, “HDFC Large and Midcap Fund currently runs on an allocation of 52% in large cap and 42% in mid cap. But the 3 schemes listed for merger with this scheme, has higher allocation in Large caps (86%) and only nominal allocation in mid and small segment (13%)of the portfolio"

On back of larger universe for stock selection, HDFC Large and Mid-Cap fund looks to be well-diversified than the other funds. As per the data from Value Research, the portfolio exposure to the top 10 stocks and top three sectors of the fund has been 33 per cent and 45 per cent respectively. For other funds, the exposure has been more than 50 per cent.

To have a perspective on how the HDFC Large and Mid-Cap fund has fared, we looked at upside capture ratio from Morningstar.in. The ratio that shows whether a given fund has outperformed--gained more than a broad market benchmark during periods of market strength has been at 109 over the category’s of 100 (higher the better).

However, the drawdown for the fund, which measures a scheme’s percentage decline between the peak and the subsequent trough during a specific period, was higher at -30.44 per cent over the category average of -28.69 per cent during four months ending March 31, 2020.

The HDFC Large and Mid-Cap fund is being managed by Gopal Agarwal since July 16, 2020.

Prior to joining HDFC Mutual Fund he has worked with DSP Mutual Fund, Tata AMC, Mirae Asset Mutual Fund and SBI Mutual Fund among others.

HDFC Large and Mid Cap Fund

What should investors do?

One of the important points to note by investors in the schemes getting merged is the category shift. When these schemes are merged, the new scheme may have to have higher exposure in midcaps, to satisfy the scheme mandate, thus increasing the overall risk level.

Jeevan Kumar, Head of Investment Advisory at Geojit Financial Services, said “Though the risk-o-meter shows the same risk level for all these four schemes, the volatility levels vary. Hence, those who cannot shoulder higher risk in their investment, may shift to any large-cap oriented scheme. If otherwise, there is nothing wrong in staying invested in the existing scheme and accept the merger."

Pointing to volatility, Harish Sharma, Fund Manager, Motisons Shares Private Limited said “given the new changes next two quarters performance will be volatile due to major changes in mid cap and small cap balancing of these Schemes. But investor with long-term horizon can hold the units considering Gopal Agrawal, HLMF’s fund manager has good track record."

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